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

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CENICS Centro de Investigaciones Científicas de Ciencias Sociales
SNI Sistema Nacional de Investigación
LSE GLOBAL SOUTH UNIT
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The authors

Introduction

The changing dynamics of Panama's relations with the Peoples Republic of China ('China') has captivated the world's attention since 13 June 2017 when President Juan Carlos Valera announced a switch of diplomatic recognition to Beijing. The splash it made in headlines all over the world provoked a hasty response by the United States, caught off-guard, centred on admonitory fulminations by the US Secretary of State, Mike Pompeo, that financial entanglement with China risked plunging Panama into a debt trap. Panama's subsequent rush to negotiate a Free Trade Agreement with China, along with Beijing's commitment to build a high-speed railway across the country and other infrastructure projects, proved to be the high-water mark of cooperation, under Valera. New elections in May 2019 brought in new leadership under President Laurentino Cortizo and, with that, a reconsideration of Panama's wholesale embrace of China. With the onset of the US-China trade war and talk of a 'new Cold War', the stakes for Panama have been mounting steadily.

And yet, as this book hopes to demonstrate, links between Panama and China run deeper than recent headlines might suggest, founded on strong historical and communal ties dating back to the 19th century. There is also the budding commercial interest attested by significant Hong Kong and Chinese investment in the Panama Canal since the 1990s. Beijing shares with Panamanian officials an acute awareness of the importance of Panama and its iconic Canal as a critical hub in the global trading system. Its careful management of the diplomatic move away from Taiwan reflects a cautious approach toward what Beijing perceives as a bastion of vital US economic and security interests. The US foreign policy establishment's complacency in face of China's commercial inroads into Panama right up until the fateful switch of diplomatic relations illustrates how far from geopolitical common sense Washington officialdom had drifted. China's share of the Panama Canal trade had expanded enormously while it was becoming the world's second largest economy and largest trading nation, mirrored in its growing influence in Latin America and the Caribbean ('LAC').

For Panamanians, the shaking off of a near-total dependence on the US opened up financial, construction and trade opportunities holding both great promise and unprecedented challenges. Given that the genesis of Panama as a country and its economic development as a node in the global trading system owes much to the United States and its intervention in the region, it is important for Panama to steer a middle course between two global giants to find a most advantageous position for itself.

To understand these dynamics, the editors have commissioned academics from Panama and the United Kingdom to write chapters on key topics in Panama-China relations. The resulting book is divided into two sections. The first section, comprising three chapters, focuses on the context of Panama-China diplomacy. The first chapter, written by Prof. Chris Alden, discusses the debt trap diplomacy debate with an analytical overview of China's role in that process as it relates to the global South. Chapter Two was co-written by Luis Carlos Herrera, Markelda Montenegro and Virginia Torres-Lista to give an historical overview of Panama's relations with Taiwan as well as the People's Republic between 1903 and 2017. In the final chapter of the first section, Herrera et al. analyse the context of the battery of agreements forged between Beijing and Panama City in 2017 in the wake of their new diplomatic relations.

The second section, comprising two chapters, is about the substance of these agreements and their likely foreign policy consequences. In chapter 4, Herrera et al. analyse in detail each of the main agreements and the intentions of the two parties. The concluding chapter 5 by Alden and Prof. Álvaro Méndez undertakes a cross-country comparative analysis, particularly heeding China's development finance politics and foreign policy practices to an effort to identify both similarities and differences in its patterns of conduct within the sector and across regions. Using both primary and secondary sources, the authors provide original studies of the cases of Costa Rica, Argentina, Malaysia, and Djibouti and their complex relation to China. They find that Beijing's modus operandi across these countries features telling similarities that can help understand how it operates in the global South, including in Panama.

SECTION 1

The Context of Diplomacy between China and Panama

Chapter 1

Understanding Debt and Diplomacy: China, 'Debt Traps' and Development in the Global South

CHRIS ALDEN

China, held up as an unabashed supporter of non-conditional finance for rapid development in the Global South, is accused by the US government and other Western leaders of using massive loans to saddle developing economies with unsustainable debt, seemingly playing to Beijing's foreign policy goals. Citing examples as wide- ranging as Sri Lanka and Kenya, critics contend that unrestricted borrowing—the keystone of Chinese influence in many parts of low-income developing and emerging countries—undermines prospects for sustainable development and even is a deliberate policy tool to acquire strategic assets in these countries.

The use of development assistance in the form of loans, grants, and other forms of economic engagement with another country is characterised by International Relations scholars as 'economic statecraft'. Understanding the general use of debt as an instrument of economic statecraft, as well as its appropriation and application by China in the emblematic cases in Global South, is crucial to any assessment of its significance for Latin America and the Caribbean. This policy brief, therefore, explores the historical and contemporary context of debt-trap diplomacy, its application as part of China's economic statecraft and, finally, assesses the significance of development finance and debt for the region.

The spectacle of debt-trap diplomacy, the deliberative use of development finance to entrap economies with the aim of advancing foreign and economy policy objectives, is once again haunting the world. China, held up as an unabashed supporter of non-conditional finance for rapid development in the Global South, is accused by the US government and other Western leaders of using massive loans to saddle developing economies with unsustainable debt, seemingly playing to Beijing's foreign policy goals. Citing examples as wide-ranging as Sri Lanka and Kenya, critics contend that unrestricted borrowing—the keystone of Chinese influence in many parts of low-income developing and emerging countries—undermines the very prospects for sustainable and sovereign development that Beijing purports to support. Moreover, the cost of alleviating such debt burdens has led to, as the Sri Lankan case apparently demonstrates, Beijing's acquisition of a 99-year lease for one of the country's strategic ports.

The use of development assistance in the form of loans, grants, and other forms of economic engagement with another country is characterised by International Relations scholars as 'economic statecraft' (Norris 2016:13-14). Put another way, debt-trap diplomacy is one of a number of approaches that states employ to achieve foreign policy aims through the active application of positive and negative inducements (Matsanduno 2012). Positive inducements include financial assistance, as indicated above, as well as policies such as trade incentives and preferential market access; negative inducements focus on restricting financial flows to the target country, limiting access to markets, and other punitive economic actions falling under the heading of sanctions.

Understanding the general use of debt as an instrument of economic statecraft, as well as its appropriation and application by China in the emblematic cases in Global South, is crucial to any assessment of its significance for Latin America and the Caribbean. This policy brief, therefore, explores the historical and contemporary context of debt-trap diplomacy, its application as part of China's economic statecraft and, finally, assesses the significance of development finance and debt for the region.

I. The Debt Trap Debate in Historical Perspective

There are many cases of countries in the 19th and early 20th century, the high-water mark of European colonialism and imperialism, using debt-funded infrastructure projects to embark on rapid modernisation. For instance, the French-led design and construction of the Suez Canal—which involved the issuing of £3.3 million's worth of Egyptian bonds in 1863 on behalf of the Egyptian Khedive, as well as his commitment to provide labour and a 99-year operational lease to the French firm—took ten years to complete (Toussaint 2016). This 'build, operate and transfer' (BOT, to use today's parlance) agreement, involving a million local labourers, ran dramatically over budget and required raising additional capital, ultimately saddling the Egyptian government with massive debt. As bankruptcy loomed, the Khedive was obliged to sell the Egyptian government's shares in the Suez Canal, turning to British and French banks to meet long and short-term loan contingencies at inflated interest rates. To meet its mounting debt obligations, the Egyptian government was forced to accept unfavourable payment terms including hikes in tax revenues as imposed through the Public Debt Fund (a committee of creditors) (Toussaint 2016). As a result, from 1875 to 1885, the country endured a series of economic crises contributing to the widespread social unrest that ended with British military intervention, the overthrow of the Khedive, and Anglo-French control over public finances and key institutions.

Closer to home, many Latin American countries in this period borrowed heavily from European and later US sources to fund capital projects like railroads, canals, and port modernisation. Cyclical dependency between Latin American government borrowers and European and US banking creditors contributed to a series of crises running from 1820 through to the 1930s Great Depression (Marichal 1989). The City of London's considerable role in financing railways, modernisation of ports, and other infrastructure projects in the economies of Argentina, Brazil, and Chile in the 19th century earned the region the appellate as Britain's 'informal empire' (Gough 2014). Fluctuating commodity prices, inflationary pressures, and collapsing local currencies were among the causes of the surge in national indebtedness of which Western creditors took advantage to carve out concessions and market share in Latin America. Governing elites—'gentlemen capitalists'—and ministries played a key role shaping British imperial strategy during this period, managing expansion and ultimately staving off decline (Cain and Hopkins 2016). Nevertheless, historians still debate the extent to which Western imperialism was motivated by colonialist aspirations and imperialist intentions throughout, with some cases clearly documented as deliberative tools of market and territorial expansion; other cases, seemingly driven by patchwork of parochial interests, were disconnected from nationalist policy aspirations. Irrespective of these debates on intent, such actions nonetheless ended in favourable commercial and political concessions or outright territorial acquisition by Western powers on a global scale (Jones 1980; Marichal 1989; Dumett 2014).

During the Cold War, and after the twin oil shocks of the 1970s and subsequent collapse of commodity prices that hung over the global economy through the 1980s, the possibility of Latin American debt default loomed large. Faced with massive exposure to a number of Latin American debtor countries, the US government took a hard line on repayment on market terms, seeking to hold off default through aggressive structural reform of Latin American economies in an effort to offset or recoup losses to US commercial banks. From the mid-1980s onwards, neo-liberalist tenets linked debt repayment to 'conditionalities' imposed by Western-dominated multi-lateral institutions like the International Monetary Fund (IMF) that focused on reducing public spending and privatising state-owned assets. In some cases, donor and multi-lateral conditionalities were later extended to governance criteria like electoral democracy. To address their debt obligations, debtor countries faced an unenviable set of choices ranging from debt rescheduling, suspension of debt repayments, threats of debt default, and outright defaults. Over time, creditor countries increasingly recognized these options to be unsustainable.

The introduction of the US Treasury's Brady Plan in 1989, a managed programme of debt rescheduling coupled to fiscal measures, marked a recognition on the part of the US policymakers of the limits to this approach (Sachs 1989; Silva Dalto 2019). Innovative policies such as reducing the value of debt, collateralising debt, and repurchasing debt on secondary markets were all encouraged. Nevertheless, while the Brady Plan staved off sovereign defaults and re-established regular debt payments, it produced persistent low growth in Latin American economies. This compounded the region's decade long inability to attract foreign capital, the continuing transfer of domestic savings to service interest repayments, and the danger that all of this posed to newly established democracies (Foxley 1987: 90-94).

During this period, debt forgiveness was traditionally avoided unless it was tied to diplomatic considerations (allies or related externalities) for the implicit moral hazard it created. Towards the end of the 1990s, however, high-profile diplomacy, alongside media and social campaigns, pressured governments to embark on a wave of bilateral and multilateral debt write-offs for highly indebted poor countries (HIPC). This erasure of sovereign debt set the stage for the economic take-off experienced by low-income developing and emerging economies in the first decade of the 2000s (World Bank 2018).

II. China and Debt Financing of Development

China's position as a provider of global development finance is, alongside the booming two-way trade, the most significant and visible form of its economic engagement in Latin America and the Caribbean. The state and its institutions, under the guidance of the Chinese Communist Party (CCP), broker loans with governments and implement these debt-financed development projects principally through state-owned enterprises (SOEs). The profile of Chinese development finance, it should be noted, is focused almost exclusively on trade provisions (export credits etc.) and infrastructure or infrastructure-related projects, though this is beginning to change with its lending portfolios shifting slightly towards services (Weinland 2018). Given that the CCP's mandate to rule is inextricably tied to its ability to deliver continuous economic development and prosperity at home, the drivers of development finance are firmly aligned with achieving these overarching aims and accompanying interests (Norris 2016: 19-20).

The principal instruments for development finance are the policy banks—the China Export-Import Bank and China Development Bank (CDB)—that draw from Beijing's three trillion dollars in foreign reserves to meet their capital requirements. Preferential or concessional terms feature in some of the loans but, as pointed out by analysts, the bulk of lending is at near commercial or even commercial rates (Brautigam 2009). Furthermore, as conditionalities attached to Chinese loans require the use of Chinese firms to carry out projects, the Ministry of Commerce (MOFCOM) plays a crucial role in the tendering of contracts for construction and project-related implementation. SOEs, which provide the bulk of contracted implementation, are themselves under the oversight of the State-owned Assets Supervision Commission (an agency within the State Council). Norris contends that, despite formal state control, there is a strong degree of autonomy visible in the conduct of SOEs (Norris 2016). The Ministry of Foreign Affairs (MOFA) provides input into risk assessment for proposed projects and related diplomatic concerns in the course of negotiations and project implementation, while Sinosure, another state body, insures lending against everything from trade disruption to sovereign default. The China International Development Cooperation Agency (CIDCA), established in 2018 out of the Department of Foreign Aid in MOFCOM, is mandated to develop and coordinate aid strategy and implementation (CIDCA 2020). These organizations all operate under the auspices of the State Council, whose oversight committees ensure that processes and conduct conform with government regulations.

The creation of a host of financial institutions associated with the Belt and Road Initiative (BRI) such as the Asian Infrastructure Investment Bank (AIIB), has added complexity to the picture, but they are largely focused on Eurasia and Southeast Asia with little actual lending in Latin America to date (Mendez and Turzi 2020). The BRICS (Brazil, Russia, India, China, and South Africa) grouping's New Development Bank does operate in one Latin American member state, Brazil, but has not yet evolved to finance projects in non-member states.

Recent World Bank assessments of BRI lending found that, on average, Chinese loans to low-income developing countries (LIDCs) have a fixed interest rate with a median rate of two percent, a grace period of six years and a maturity of 20 years, while loans to emerging markets (EMs) fluctuate between 12 and 18 years with a grace period between three and five years (Bandeira and Tsiropolous 2019: 9). Overall, this tranche of loans in the first two decades of China's lending are higher than concessional rates, bordering on being commercial loans with limited flexibility. More recently, there is evidence that interest rates on loans to EMs are becoming more flexible and benchmarked to the six-month LIBOR rate.

China's position as a creditor is an unfamiliar one for Beijing and, unlike Western governments with many decades of experience in the post-WWII order, holds risks at the firm, institutional, and reputational levels. Indeed, the rapid expansion of the 'debt-trap diplomacy' discourse is testimonial to the inherent reputational dangers of being a creditor state in the development sphere. So far, Beijing's approach to debt has been cautious, with the CCP seemingly uncertain as to how to tackle this issue, while resolving payment shortfalls by clients and retaining maximum latitude for action. In managing the debt question, a number of options are available, some of which—such as debt restructuring, debt forgiveness and debt-for-equity swaps—China has already tentatively broached.

Debt restructuring is one option that Beijing has pursued to handle recipient countries' debt distress. This is reportedly the approach China has adopted towards some outstanding payments on dollar-denominated loans by oil-rich countries in Africa (Cameroon, Chad, and the Republic of Congo) and Latin America (Venezuela and Ecuador), which were compromised by the sharp fall in commodity prices, though only selective public details on these arrangements are available. As the case of Venezuela illustrates, however, loans tied to a prescribed volume of oil exports at a fixed price and sold onto Chinese SOEs are expected to be made up when market prices fall below that price by providing additional exports to the SOEs (Ezrati 2019). When Venezuela was unable to meet the additional export requirements in 2016 and 2018, Beijing was forced to extend 'forbearance arrangements' which in effect placed additional debt obligations on Venezuela linked to the price of US treasury bonds. This sort of debt refinancing is another possible means of addressing debt distress in this situation, as it provides short-term arrangements to debtor countries experiencing payment difficulties, but their success depends on the underlying economic conditions for debtor countries changing. The dilemma for China is that evidence from cases in Africa and Latin America suggests that this alone does not resolve the fundamentals involved in debt distress but rather merely prolongs it at a greater cost to both creditor and debtor countries.

Debt reduction and outright cancellations, following from the examples offered by traditional donors, are often featured as part of larger financial packages promoted by Beijing. These are, at least as applied in specific cases to date, financially insignificant but legacies of Maoist-era borrowing practices: They are of symbolic value to both countries and set the stage for a new cycle of borrowing. Debt write-offs in the current cycle, however, are less frequent and, so far, have only applied to interest-free loans representing less than 10% percent of Chinese development financing between 2010-12; grants and concessional loans in the same period consisted of 36.2 percent and 55.7 percent, respectively (State Council of China 2014). Mozambique's default in 2017 caused China, when faced with this fait accompli, to write-off four loans (Macauhub 2017). This may represent a new trend.

Other options that would potentially lower the overall cost to debtor countries—such as repayment of liabilities in renminbi—are available to Beijing as well. Linkages between development finance, investment, and unpaid debt obligations can also effectively impose restrictions on financial transfers (Machiti 2019). In Zimbabwe, a Chinese investor was unable to transfer investment funds from Chinese banks in 2019 due to an outstanding $60 million debt to Sinosure (Makichi 2019). And, most controversially, there is the possibility of debt-for-equity swaps, with the case of Sri Lanka's Hambantota port serving as the most egregious example of this, as detailed in the next section.

III. China, Sri Lanka and 'Debt-for-Equity' Swaps

In July 2017, the Sri Lankan government and CMPort (China Merchants Port Holdings Company), a state-owned Chinese company, signed an agreement granting the latter a 99-year lease of the Hambantota harbour and 15,000 acres of land in exchange for $1.2 billion (Abi-Habib 2018). The construction of the harbour, which began under then-Prime Minister Mahina Rajapaksa with the $307 million CDB loan in 2008 and further $757 million loan in 2012 (reportedly at a non-concessional 6.3 percent interest), had been undertaken by the China Harbour Engineering Company (CHEC) and Sinohyro (Abi-Habib 2018). Despite feasibility studies initially questioning the commercial value of the port, citing no significant traffic at the port or even adjacent airport, construction continued until the newly-elected government came into office (Hillman 2018). Faced with a national debt burden of $51 billion (78 percent of GDP) and little prospect for generating sufficient revenue to repay creditors, the government decided to hand over the Hambantota harbour to CMPort in a 'debt-for-equity' swap made in part to alleviate the country's overall debt burden (of which Chinese-held debt is 10.6 percent) (Central Bank of Sri Lanka 2017; Daily Financial Times). By this time, however, local communities and NGOs raised alarm that the Chinese-led special economic zone mapped out over their land as part of the 15,000-acre deal would force them to relocate and have significant environmental costs in the area (TheThirdPole.Net 2018).

Public disclosure of the Sri Lankan debt-for-equity swap touched a raw nerve across the world, giving rise to speculation as to what might happen in other countries with Chinese-funded and constructed infrastructure projects such as in Djibouti, Mombasa (Kenya) or Sihanoukville (Cambodia) (South China Morning Post 2018; Huang 2018; Cambodia Constructors Association 2019). US officials embroiled in heighted trade tensions with China were quick to capitalise on this case as an infringement on sovereignty and, hinting darkly, at an underlying strategic purpose to Chinese-funded infrastructure (Pompeo 2018). World Bank studies concluded that a third of Chinese lending in the context of the BRI is to 'debt-distressed' low-income countries (Bandeira and 2019: 10), underscoring these concerns.

Common to most if not all of the Chinese-funded large-scale infrastructure projects was the lack of transparency, provisions for tied aid to Chinese firms, as well the absence of credible environmental impact assessments and poor consultation with local communities. Some of the blame, as scholars have pointed out, rests with the local government that negotiates the terms of the loan agreement and does not insist on independent assessments or engage in local community outreach (Alden 2007; Brautigam 2009). For instance, China's proposed upgrading of Costa Rica's Moín oil refinery, which officials in the Arias government had supported, was blocked by the courts in 2014 when it was disclosed that feasibility studies were produced by a subsidiary linked to Chinese oil company interests and overstated profit margins (Ortiz 2014). Similarly, Jamaica's $1.5 billion transhipment port to be financed with Chinese-backed loans and built by CHEC was, after public announcements in 2014, shelved two years later due to lack of transparency and environmental concerns (Jamaica Observer 2016). Further afield, countries like Malaysia, once celebrated for their participation in the BRI through China's development financing of major infrastructure project, against a backdrop of deepening debt distress and corruption charges suspended and renegotiated its $20 billion infrastructure project with Beijing in October 2018 (Bandeira and Tsiropoulos 2019: 2).

Chinese diplomacy, though strident in its own official counter-reactions to Western government and media accounts, has tacitly acknowledged aspects of the 'debt-trap diplomacy' problem. First, officials were taken aback by the unexpectedly negative reaction of developing countries to the use of 'debt-for-equity' arrangements which, though long a convention of corporate banking, was greeted by policy makers and publics as posing a fundamental infringement on sovereignty. They have sought to distance themselves from such practices and vigorously denied implied 'imperialist' intent. Second, Beijing increasingly recognises that Chinese loans for infrastructure development underwritten by commodity exports at a fixed price—far from guaranteeing steady loan repayments as envisaged—have actually introduced repayment instability through the loans' links with volatile swings in commodity prices. Developing a better means of underwriting risk has to become a priority. Third, it has become increasingly obvious that unrestrained borrowing by countries with a weak capacity to repay outstanding debt burdens was placing a growing strain on the balance sheets of Chinese policy banks themselves. Stricter review, leading to a more comprehensive approach to development finance, needed to be put into place.

At the 2019 BRI Summit, China's President Xi Jinping spotlighted the necessity of addressing debt sustainability, while the Ministry of Finance published Debt Sustainability Framework for Participating Countries of the Belt and Road Initiative in English. The policy document outlines a set of standards to ensure greater debt sustainability, including macro-economic projections for potential borrowers as well as assessments of risk, impact of public investment, and debt-carrying capacity (Ministry of Finance, PRC 2019). Notably, in contrast to the IMF, these measures do not include a blanket recommendation for lending at concessional rates nor do they rule out lending to countries experiencing debt distress conditions. The Chinese policy banks also sought to respond to lending risks, with the China ExIm Bank's chair and party secretary, Hu Xiaolian, declaring that they would in the future pursue 'higher quality' investment (the term 'investment' conflating loans and FDI) (Kenderdine 2018). This meant, accordingly, that stadiums, hotels and other classic Chinese infrastructure projects might no longer receive uncritical endorsement. Finally, the Chinese government began to encourage equity investment by Chinese SOEs and companies under the 'build-operate-own-transfer' formula as a means of transferring some degree of risk to them, in that way enhancing these firms' stake in the sustainable outcomes of lending (Wang Yi 2017).

China's declarative diplomacy on debt is welcome, of course, but will need to be followed up by concrete action from Beijing. In particular, steps will need to be taken to relieve the dire economic conditions confronting low-income and emerging market countries due to high levels of debt in the wake of a sustained drop in commodity prices, the slowdown produced by the US-China trade war, and the continuing economic impact of the coronavirus outbreak on the global economy. In the near term, the existing debt burdens inherited from the lending regime Beijing pursued for the first two decades of its role as a provider of development finance should be reviewed and measures taken to ease the payment obligations as part of achieving debt sustainability. The lack transparency in China's lending not only negatively impacts national development planning but introduces new risks to borrowing for these governments as potential lenders are unable to fully assess debt exposure (with the consequent deepening of reliance on credit from China as only sources willing to lend, presumably because of their insight into non-transparent bilateral debt conditions). Moreover, it impacts creditor-debtor relations more generally, undermining traditional practices of giving multi-lateral debt 'seniority' of repayments over that of bilateral debt—as a result introducing new elements of instability into the global financial system (Reinhart 2018).

Additionally, the underlying belief of Chinese infrastructure financing is that the gains from rapid infrastructure development will in itself be sufficient to fuel high growth rates, thus enabling countries to pay their way out of debt distress, is questionable. According to Bandeira and Tsiropolous' study, out of 43 countries, only eight EMs are expected to increase growth, as a result of BRI, 'to fully compensate for the estimated increased in BRI debt financing over the period 2019-2023' (Bandeira and Tsiropolous 2019: 21). If that is the case, and a global recession seems to ever more likely in the wake of the pandemic, then debt distress will increase and with it the burdens on debtors and creditors alike.

IV. Conclusion

China is beginning to develop the framework needed for a comprehensive external debt management system, including workable debt sustainability evaluation protocols and a uniform debt restructuring mechanism for external borrowers, but it has much further to go. There have been no stipulations relating to the circumstances in which loans may be advanced or the qualifications of debtors, nor any specific rules as to when and how to apply debt relief, refinancing, rescheduling or other arrangements (Alden and Jiang 2019). Furthermore, this definitional absence produces the kind of ad hoc, non-transparent response to debt restructuring needs that puts strains on China, its debtors, and the international financial system at large.

Coordination with other creditors and some alignment with their practices—especially as debt to China represents a component of a larger debt portfolio for virtually all low-income developing and emerging market countries—seems inevitable. Chinese officials have recently sought out Western expertise, attending the Paris Club as an observer and holding informal discussions with counterparts amongst the donor community. These steps seem to presage further policy change in China's development finance policy and debt management. But at the core of any such changes is the necessity of challenging the fundamentals of Chinese lending practices to date, in particular the absence of transparency. Without embracing open lending practices, these sub-optimal outcomes will persist, as will the Global South's inherent suspicions of China's intentions. ■

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Chapter 2

The 'Two Chinas' and Panama: An historical review of Panamanian Relations with the People's Republic of China and Taiwan, 1903–2017

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This chaper offers a historical overview of Panama's ties with the "two Chinas", focusing initially on Asian migration to the Isthmus of Panama before the territory became part of New Granada (Colombia). This migration was the result of Chinese labourers being recruited to work for the Panama railway construction company from 1850-1855 and, a few decades later, for construction of the French Canal and the Panama Canal. This will be followed by an examination of the Republic of China (ROC or Taiwan) and the People's Republic of China (PRC) respective policies towards Panama.

In addition, this chatper analyses the new social, political, and economic scenarios resulting from Panama's decision to establish diplomatic relations with the People's Republic of China in June 2017. Panama's engagement with China, particularly its links with China's signature Belt and Road Initiative presents opportunities and challenges for the Central American country as it balances these with its national priorities.

1. Historical Background

Panama's relationship with China dates back to 1909 and the dying days of the Qing dynasty. In the early 20th century, the Chinese empire established a consulate general in Panama to serve Chinese immigrants living there. Following the 1911 Hsinhai (Xinhai) revolution, and the subsequent founding of the Republic of China (ROC), Panama was one of the first countries in the world to officially recognize the new Asian nation. The ROC soon after established a diplomatic office in Panama City, which was elevated to embassy level in 1954. On the other side of the world, the Government of Panama opened its embassy in China in 1933. Panama has the longest uninterrupted relations with the ROC of any country (Taiwan News, 2011).

Panama maintained diplomatic relations with the ROC even after it lost control of mainland China in 1949 and was relegated to the island of Taiwan. But June 12, 2017, when the Central American country established relations the Peoples Republic of China (PRC), marked the beginning of a new stage in Panamanian diplomacy.

1.1. Background of independence: Chinese 'coolies' a construction of railways and canals

Since the earliest days of Spanish colonialism, foreigners have sought a means of rapid and cheap inter-ocean travel to replace the lengthy and expensive option of passing around Cape Horn.

The subsequent construction of railways, the French Canal, and later the Panama Canal across the Isthmus, demanded thousands of workers. "Coolies", the pejorative 19th-century name used for workers from China and other Asian countries, were recruited to carry out the back-breaking work. In general, they were hired for a specified period of not less than eight years. They were given transportation, a salary, and accommodation, but were frequently subjected to abuse and mistreatment.

The first Chinese labourers were dispatched from Guangzhou and Hong Kong in 1847. Two British companies, Trait and Company and Syme Muir and Company, were involved in setting up this deal. By 1855 American companies, such as Boston's Sampson and Tappan, were also involved in the coolie trade, shipping labourers to countries like Brazil and Peru. (Connelly & Cornejo Bustamante, 1992).

The construction of the Panama railway in 1850-1855, and later of the ill-fated French Canal, brought substantial Chinese migration to the territory of New Granada (Colombia). According to Connelly and Cornejo Bustamante, the Qing government's official policy towards the emigration of its subjects it went through three stages: 1) from the beginning of the trade until 1859, it prohibited emigration; 2) from 1860 to 1874, it allowed emigration, distinguishing voluntary emigration and coolie trade and trying to regulate the latter; 3) from 1874 until the end of the dynasty in 1911, it banned the coolie trade and tried to protect migrants by sending diplomats and consular officials.

The trip to Panama was arduous. In 1852, for instance, 300 Chinese emigrants were shipped to Panama, with 72 dying on the crossing; in 1853, 425 Chinese embarked, 96 of whom died on the crossing; on March 30, 1854, 705 Chinese arrived on the Isthmus of Panama, with 11 having died on the journey. When the railway was completed in 1855, there were 1,262 Chinese residing the territory. When the Panama railway was completed in 1855, there were 1,262 Chinese residing in the territory; during that year, the Chinese government asked the United States to represent the interests of their subjects in the Americas, and thus New Granada (Colombia), and communicate to the Civil and Military

Chief of the State of Panama, who was the authority in the territory Panama, that the United States would represent the interests of the subjects of the Chinese Empire (Mon, 2005).

In 1879, Paris hosted the International Congress for Interoceanic Canal Studies. Delegates from 136 countries whose workers had an important role to play in the construction of a canal on the Isthmus, including China, were present. Ferdinand de Lesseps, the French diplomat and businessman who built the Suez Canal, introduced the head of various subcommittees, quickly described the roles of each, and then read the full list of delegates, asking them to stand up to make himself known. Mr. Li-Shu-Chang, first secretary of the Chinese delegation in London, received the longest applause, since attendees hoped that China would provide the largest number of workers to excavate the canal (Mccullough, 1976).

From 1882 to 1889, work on the French Canal continued, and although the workforce was not as large as expected, Chinese migration continued. Some Chinese immigrants who had tried their luck in the California gold mines returned to Panama, but not to the excavation. They instead scattered throughout the territory to establish retail stores and other small businesses. At that time, there were no known immigration restrictions.

By 1882, the Chinese presence in Panama was significant enough to found the First Society, called "Way On", to help the Chinese elderly who fell ill by placing them in hospitals or asylums. It was reorganized in 1904 and renamed the Chinese Benevolence Society in Panama (Mon, 2005).

1.2. Late Imperial China, the Republic of China, and the new Panamanian state 1903-1941

Formal relations between Panama (then part of Colombia) and Imperial China began in the late nineteenth century as result of the coolies' presence. In this era, the formation of international investigative commissions was unusual; despite that, France, Great Britain, and China established one to assess the status of coolies under the administration of Spain and its colonial government in Cuba. They found that that a quarter of a million Chinese had been sent to Cuba, Peru, and other parts of the Caribbean and Latin America between the 1840s and 1870s. More troubling were the individual testimonies, which detailed the hellish captivity in which they lived, which ultimately caused the commission to call for the coolie trade's abolition (Yun, 2008).

Following independence from Colombia in 1903, the new Panamanian government adopted the discriminatory Decree 42 of June 24 in 1909, which suspended Chinese citizenship cards, thus restricting the ability of naturalized Chinese citizens to bring their wives and children to the territory. In 1911, the country's first census identified 2,003 Chinese in the country; the authorities, however, estimated that there were probably around 7,000. Modesto Justiniani, Deputy in the National Assembly, proposed a bill seeking the expulsion of all Chinese from Panama (Guardia, 2015). President Belisario

Porras did not approve the bill, but he issued Executive Decree No. 2 of January 11, 1912, which required Chinese who came to Panama as employees of the trading houses to deposit two hundred and fifty balboas (B. 250.00) in the National Bank (*Banco del Estado*) in order to guarantee that they would vacate the country upon their contract's expiration. They were, under this decree, forced to notify provincial governors of their departure at least 48 hours in advance.

On March 24, 1913, however, Panama banned the immigration of Chinese, Turks, Syrians, and North Africans of the Turkish race, also setting guidelines for the creation and operation of associations formed by people of those origins (Tejada Mora, 2013). Law 50, required these organizations (or individuals) to register and re-register every six months after depositing $500; non-compliance with the law could lead to fines or expulsion from the country. On September 9, 1913, in defiance of the Panamanian authorities, the Chinese colony, with the support of the Chinese Chamber of Commerce and the Chinese Consul in Panama, announced that it would not register. In response, President Porras cancelled his plans to recognize the Chinese Consulate and ordered Chinese officials Samuel Sung Young (Hsiung Chung-chin) to leave the country. But after international debate, US diplomats defended the immigrants, and the Chinese community comprising 7,267 people decided to register.

By 1926, attitudes had hardened sufficiently that Panama expressly prohibited Chinese immigration. Until March 1928, a quota of ten people per year was allowed for those from prohibited nations. In 1932, Panama prohibited all entry to the country of Chinese and other races that did not have Spanish as their mother tongue (Kam Rios, 2015).

Further restrictions on Chinese immigration were imposed by Panama in 1941. Article 23 of Arnulfo Arias's Political Constitution of 1941 declared that "immigration of foreigners will be regulated by law ... they are prohibited immigration: the black race whose language is not the Castilian, the yellow race and the races originating from India, Asia Minor and North Africa". This same year, the National Assembly approved Law 24 of March 24, 1941, which declared that prohibited immigration races could not engage in commercial activities or liberal professions (some 20 Panamanian professions including medicine, nursing, dentistry, and social work) or possess commercial stocks surpassing 25 percent of the organization's capital.

Indeed, in Republic of Panama's first decade, Chinese immigrants were subjected to systematic legal and social discriminatory treatment. But over the following decades, new generations of Chinese overcame this discrimination and the community came to prosper.

2. The Panama Canal, Taiwan and China, 1971-2017

After World War II, Panama followed the US and did not recognize the Peoples Republic of China. Panama instead retained ties with the government in exile in Taiwan. In 1972, however, while the US and other countries recognized the PRC, Panama maintained relations with Taiwan, a decision from which it hoped to reap benefits (Gandásegui, 2005).

Following sustained lobbying campaign, US President Jimmy Carter agreed in 1977 returned the Panama Canal Zone to its namesake. The Torrijos-Carter Treaties established that the United States would over a 23-year period return the territory to Panama and in 1999 the occupation would end, with the orderly and total transfer of the administration to Panamanian hands. In 1999, President Mireya Moscoso's government officially took over the Canal, promising "to administer the Interoceanic Canal that was about to revert to Panama with transparency, efficiency and responsibility" (Herrera Montenegro, 2009).

The treaties signed by the United States and Panama in relation to the Panama Canal include the Torrijos-Carter Treaty and the Treaty Concerning Permanent Neutrality and Operation of the Panama Canal. It is notable that the PRC was the only UN Security Council member to not sign the Neutrality Treaty.

This joint administration process was designed to demonstrate Panama's administrative abilities and usher in a new period in the country's relations with the other countries using the Canal, despite the effects the crisis had on the world economy and international trade. This process also provided an opportunity for Panama to manage the Canal's expansion so that it could continue to be competitive as hegemonic interests, such as that of the PRC, changed.

With the constitutional reforms of 2004, however, the special regime of the Panama Canal Authority created title XIV, granting to the Panama Canal Authority (APC) the exclusive powers of administration, operation, conservation, maintenance, and modernization of the Panama Canal (Panama National Assembly, 2012). This reform aimed to limit political influence over technical decisions. The Panamanian constitution recognizes that the Canal is the nation's inalienable heritage, must be open to the peaceful and uninterrupted transit of ships from all nations, and today holds substantial global strategic value in maritime trade.

During this period, Taiwan interests in Panama were twofold. First, due to its export-oriented economy, the government intended to use the Canal as part of its global trading network. Secondly, Taiwan relied on Panama an important diplomatic linchpin in its diminishing international official standing.

Taiwanese economic involvement in Panama, while not enormous, was significant for both countries. According to the Taiwan Investment Commission, total investments in Panama stand at $1.6 million among them, those of the shipping company Evergreen Marine and the Mega International Commercial Bank stand out, with respective amounts of $850 million and $20 million (La Crítica, 2017).

In 2016, Panamanian shipments to mainland China ($35.5 million) already exceeded the value of exports to the island to Taiwan ($26.8 million). In other words, Panama's diplomatic normalization with Beijing was likely not needed to export goods to the PRC (Guevara Man, 2019).

Taiwan, on the other hand, provided economic support to Panama to reinforce international cooperation, boost investment in and loans to small fishermen, support technical assistance for the modernization of information technologies applied to agriculture, and scholarships and donations for social works.

While the PRC's Chinese involvement in Panama dates back to the 1991 Hutchinson-Whampoa investments, China's expanded trade interests in Latin America over the past two decades are a recent phenomenon, displacing traditional trading partners like the United States and Europe. In 1997 Hutchinson Ports-PPC (tied to the Hutchinson Port Holding Group, and owners of the transnational Panama Ports Company <PPC>, S.A), won the concession from the Panamanian government to manage both ports for a period of 20 years. Since securing another contract in 2016 to upgrade and expand facilities PPC, which operates a port on the Pacific and Panamanian Atlantic sides, is spending some $140 million to modernize the Balboa and Cristóbal facilities. According to the company, the Balboa port modernization program includes the construction of 350 meters of deep draft wharf and 8.4 hectares of patio to store containers equipped with three Post Panama port cranes and seven port gantry cranes with a capacity to handle 400,000 units annually (Gandásegui, 2000).

China's offered infrastructural investments have come in response to Latin American needs. China's 2008 White Paper for Latin America, outlined its economic and political intentions for the region. But Chinese firms are seen by some analysts to be relatively independent and often operate in divergence from Beijing's goals (Norris 2016). What's more, in the post-Cold War era, there is a need to overcome neighbouring countries' reluctance to involve themselves to strategic competition. Accordingly, China quells these fears by reinforcing the five principles of peaceful coexistence: mutual respect for sovereignty and territorial integrity, non-aggression, non-intervention of one country in the internal affairs of another, equality and mutual benefit, and peaceful coexistence.

In China's second white paper on Latin America, published in 2016, Beijing established its priorities in the region: energy and natural resources, infrastructure construction, agriculture, manufacturing, scientific and technological innovation, and information technologies (which is reflected in the Cooperation Plan between China and CELAC for the period 2015-2019, which sets out seven priority areas and others of implementation: policy and security, infrastructure and transportation, trade, investment and finance, agriculture, industry, science and technology, cooperation in environmental matters, cultural exchange, cooperation in other areas and its implementation) (CELAC, 2018).

3. Taiwanese and Chinese Diplomacy in Panama

Diplomacy between the "two Chinas"—the ROC and PRC—forced the two to compete for influence in Central America and consequently offer substantial donations for state infrastructure and exchange programs (academic, authorities, representatives of organizations, etc.). Beyond that there was direct efforts to influence politics through the financing of electoral campaigns of preferred political leaders (Wallace, 2018). In the case of Panama specifically, by treating Panama as a logistical and financial centre, both Taiwan and China helped develop the country while strengthening their respective presence in the region and facilitating the commercial relations of its companies.

But Panama's management of the diplomatic switch from Taipei to Beijing came as a shock to Taiwan and the US. In 2018, Joseph Wu, the general secretary of the Taiwan Presidential Office, said that ROC-Panama relations had broken down as the result of an "unfair act, which China has made possible through intimidation diplomacy, offerings and the purchase of diplomatic allies" (Vidal, 2017). Taiwan's Ministry of Foreign Affairs said that President Varela, by breaking official diplomatic relations, "had ignored the friendship between his countries and the efforts that Taiwan had made to help the general development of Panama" (Sparks, 2017). Taiwan immediately terminated all bilateral cooperation projects and withdrew its diplomatic staff and technical advisers from the country, adding that it will not participate in some ROC-PRC competition for influence. Taiwan was outraged, namely because in previous months the Panamanian deputy foreign minister had indicated that he did not foresee changes in the alliance.

Then-Panamanian President Juan Carlos Varela justified his rupturing of Panama-ROC relations by arguing that the China represents 20 percent of the world population and constitutes the second largest economy in the world, and that relations with Beijing would not prevent Taiwan from being involved in the economy.

4. Foreign and Domestic Reactions to Changing Diplomatic Ties

On October 18, 2018, Panama's long-time ally, the United States, reacted immediately and aggressively to then-Panamanian President Juan Carlos Varela decision to establish diplomatic relations the PRC. Secretary of State Mike Pompeo visited Panama soon after and in an interview with Panamanian social media warned Panama to "have wide eyes regarding China" *(El Panamá América*, 2018). The United States Embassy in Panama, meanwhile, said that Pompeo's visit was intended to reaffirm that the United States is Panama's main partner, and that Panama should, therefore, exercise caution in their relations with the PRC (Bonilla, 2018).

The Panamanian reaction to the PRC's new presence in their country was diverse—a result of the process's lacking transparency. Economists, businessmen, academics, and lawyers asked to negotiate calmly, while producers requested greater protection.

The livestock sector expressed its fear that the signed Free Trade Agreement with the European Union would fall apart, and that they would not make up these losses by exporting meat or milk to China.

China is the main user of the Colon Free Zone and the second of the Panama Canal, through which six percent of world trade passes. According to the Ministry of Commerce and Industries of Panama, "Panama mainly exports coffee, bovine hides and fishmeal to the Chinese market, while China imports high-tech products such as cell phones and televisions into our country, as well as textiles, tires, toys, slippers and shoes, among others" (Garrido, 2018).

On the other hand, Panama's Chamber of Commerce, Industries and Agriculture considered the relationship positively, saying that the country's association with the PRC will enhance Panama's competitive advantages. The body points out that "entrepreneurs expect the possibility of opening a trade agreement with a country of more than 1.3 billion people, increasing exports and imports, in addition, new investments will be attracted to Panama, especially in the technological and logistical field, to name a few" (Forbes, 2017). The Panama Hotel Association concurs.

Panama is a logistics hub, and accordingly will attract Chinese companies, banks and the award of mega works. Diplomatic relations with the PRC are now a fact; the implications of this are diverse and effect all areas of education, health, science, technology, environment, energy, maritime, migration, tourism, agribusiness, social problems, logistics, trade, economics, and politics.

And yet, the 2019 election of Laurentino Cortizo Cohen led to the pausing of these agreements. Cohen's government suspended the Free Trade Agreement negotiations with China and the rejected a plan to connect by railway the capital city with the Province of Chiriquí and possibly Costa Rica. Cohen's momentary pause allows Panamanians to better analyse their commitments and implications, thus allowing the new government to better consider the effect of its Chinese relationship on Panama's national interests.

5. Conclusion

Chinese diplomacy in the 21st century comprises commercial expansion and the consolidation of power, with Beijing seeking to ensure close ties with emerging Latin American economies through cultural diplomacy, investment and cooperation. Panama is strategically important to China in no small part because of the Central American country's raw materials and propensity to consume Chinese products and investments. Taiwan's position was increasingly untenable as Beijing sought to exert its economic and diplomatic power in the region.

The Chinese government understands Panama's strategic value to its global amibitions. Panama government's decision to adhere to the Chinese initiative of the Silk Road and enhances its role as the key nodule, thanks to the Panama Canal, linking the Pacific and Atlantic oceans. The Panama Canal is seen as an interoceanic bridge of China's New Silk Road, and, according to Chinese Minister of Overseas Affairs of China Qiu Yuanping, the PRC's agreements with Panama constituted the most important diplomatic achievement for China during the year 2017 (Yau, 2015). ■

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Chapter 3

The diplomatic context between China and Panama and their agreements

Luis Carlos Herrera
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In 2017, Panamanian President Juan Carlos Varela established official ties with the People's Republic of China (PRC), deepening such diplomacy without disclosing why, exactly, his government had broken its long-standing relations with the Republic of China (Taiwan) in favor of those with the PRC, what commitments his government had made to the PRC, and how he planned to handle the PRC's strategic interests.

China's objectives, however, are clear. Beijing knows the strategic value of relations with Panama, particularly through its multi-trillion-dollar Belt and Road Initiative (BRI). The Panamanian side, meanwhile, negotiated hastily in a process without consultation, leaving their country in a lurch. Accordingly, Panamanians now need to do the work—to evaluate Panama-PRC agreements, involve all relevant sectors, and move forward according to the country's best interests.

This study analyzes Chinese diplomacy with a focus on Latin America, as well as the content of the PRC's 47 agreements with Panama, ultimately offering a path forward for Panama.

I. INTRODUCTION

The opening of Panama-PRC relations was marked by different political, academic and cultural promotional events that, incidentally, exposing the relationship's contradictory nature. Chinese President and Chinese Communist Party (CCP) General Secretary Xi Jinping embarked on a high-profile visit to Panama, emphasising in numerous public events the relationship's commercial opportunities. Not long afterwards, a public debate erupted about the proposed location of the Chinese embassy on the banks of the Panama Canal; citizen discontent eventually forced the embassy to change locations. This gap, between political and economic opportunism and citizen perceptions, illustrates the challenges facing Panamanians seeks to ensure that relations with the PRC are in their national interest.

On 25 October 2017, the first Chinese ambassador to Panama, Wei Qiang, told reporters gathered at reception in his honour that Panama, with its advantageous position as a global, commercial "hub" in logistics, finance, maritime transport and air travel, was a natural partner for the PRC as it implements the BRI. Ambassador Wei reiterated Panama's strategic value at 7 May 2018 panel on "The new diplomatic and economic relations between the Republic of Panama and the People's Republic of China", held at the Ministry of Foreign Relations, with the participation of experts, including representatives of the London School of Economics and Political Science. The ambassador expressed that his country's interest is in promoting mutual benefit and cooperation, with Panama also serving a peculiar strategic position as a regional entry point for China (Rodríguez P, 2018).

On 11 October 2018, at the Think Tanks and Media Forum at the Parlatino headquarters in Panama, the Panamanian Deputy Minister for Foreign Affairs Nicole Wong noted that "[t]he establishment of diplomatic relations between Panama and the People's Republic of China has been one of the most important achievements in foreign policy . . . It was a strategic and successful decision thinking about the best interest of both countries", also offering twelve specific pillars for cooperation (MINREX, 2018). In economic and commercial matters the pillars incorporate elements including increasing tourists, strengthening the Panamanian merchant marine, maximizing the Panama Canal's value, promoting Panamanian air connectivity, increasing Panamanian exports to China, and promoting Panama as a financial centre (MINREX, 2018).

Li Biwei, the Vice President of the PRC's Association of Public Diplomacy, also spoke at the Forum, stressing the importance of basing relations PRC-Latin America relations on equality, mutual benefit, and common development, with Panama as a bridgehead between the two.

The Chinese representatives made clear their strategic interests, as epitomized by the 21st Century Maritime Silk Road Initiative, in which Panama is a proposed port of entry. Accordingly, Panamanians must review aspects of 'dollar diplomacy' (Foreign policy based on the use of economic power), the PRC's changing diplomacy, and the international context.

II. CONTEXT OF DOLLAR DIPLOMACY IN PANAMA

Under President William Taft, the early 20th century United States adopted 'dollar diplomacy'—seeking US dominance through the strategic use of its economic power—which Taft perhaps best epitomized by proclaiming his preference for "'dollars instead of bullets" (Lagos Suarez, 2020)

It was, however, President Theodore Roosevelt who coined the term, effectively replacing traditional American gunboat diplomacy with that of the dollar, of globalized trade and politics, in Latin America.

In Panama, the United States used dollar diplomacy was after the American occupation and construction of the Panama Canal. Washington also tried to use it elsewhere in the region, namely in Honduras and Nicaragua, where significant capital investments and loans were made to protect US interests and maintain economic and political stability. Today, developed countries continue to use dollar diplomacy as a deceptive means of coercion and domination.

Dollar diplomacy and the history of Panama are intertwined. In 1903, Panama achieved its independence and the following year, the National Assembly of Panama, approved Law 84 of June 28, 1904 that regulated the currency. In this Law, the Executive Branch of Panama is authorized to sign a Convention with the United States, based on the requirements that it established. Under these legal commitments, Panama and the United States, signed on November 13, 1904, the agreement to make the US dollar their legal tender. On the one hand, the United States agrees to maintain the parity of the Panamanian currency with the gold standard of the US dollar, while for its part, the Republic of Panama, had to maintain a deposit in a North American bank that comprised 15 percent of the nominal value. of each minting of balboas, the local currency. (Torres, 2014). Panama and the United States, accordingly on 13 November 1904 signed such an agreement to make the US dollar their currency of legal tender. The United States promised to maintain the parity of the Panamanian currency with the gold standard of the US dollar, while Panama was required to maintain a deposit in a North American bank comprising 15 percent of the nominal value of each minting of balboas, the local currency (Torres, 2014). As a consequence, the Panama has lived without a central bank but still established a successful and stable macroeconomic environment. It has the US dollar as its currency and a strong banking system, which makes economic ties and investments quite tempting. Panama, however, must remain wary of a return to predatory dollar diplomacy.

III. Chinese Soft Power

Soft power diplomacy encompasses politics, culture, economics, cultural exchange and is strengthened by the Chinese diaspora, whose strengthening of cultural and economic ties is reinforced by Chinese government policy. Beijing coupled soft power—influencing others' behaviour through these realms—with the agent strategic thinking of Sun Tzu to project a positive image of Chinese foreign policy and ultimately force the enemy to surrender without bloodshed.

In 2004, Hu Jintao assumed power in China, soon after introducing soft power to PRC discourse and, in fact, equating its importance to that of economic and military power. Chinese diplomats adopted this change, protecting an attractive and friendly image to the world to disarm fears of PRC predation and dominance.

China's 'Harmonious Society' policy, now applied to internationally as the 'Harmonious World' policy, is based on Confucian doctrine and consists of five elements: (1) a win-win strategy, (2) peaceful development, (3) respect for diversity, (4) cooperation and coordination, and (5) peaceful coexistence. Hu-supported Chinese academics and specialists developed the theory of 'ascent' or 'peaceful development', which represents

China as a non-threatening emerging power that seeks not to challenge the status quo, but to construct a 'harmonious world' in which its development is linked by win-win opportunities (Miranda Z, 2016). This image seeks to remove fear and advance political goals.

Moreover, Chinese culture is ancient, complex, and captivating, and its promotion has become a fundamental soft power tool. An example is language, disseminated through the Confucius Institutes, which aim to promote the Mandarin language, Chinese culture, and the facilitation of cultural exchanges.

IV. SETTING THE AGENDA FOR DIPLOMATIC CHANGE

In 2008, the PRC published its first document outlining Chinese policy toward Latin America and the Caribbean (LAC), setting out the objective of establishing a China-LAC partnership of comprehensive cooperation based on equality, reciprocal benefit, and joint development.

On July 17, 2014, in Brasilia, during the meeting of Chinese-Latin American and Caribbean leaders, with the assistance of Chinese President Xi Jinping, a Joint Declaration was adopted, announcing the establishment of a Forum between China and the Community of Latin American and Caribbean States (China-CELAC Forum), and the decision to hold the first ministerial meeting of the FCC in Beijing. This Forum has provided a new cooperation platform, allowing a new phase of joint and bilateral cooperation to begin, to develop in parallel and to support each other. Since 2013, Chinese leaders have also proposed important initiatives and measures to strengthen relations and cooperation in various areas with LAC. Between January 8 and 9, 2015, the First Ministerial Meeting was held in Beijing, which begins the official launch of this forum.

The 2018 China-CELAC Forum produced three key documents: the Santiago Declaration, a CELAC China Action Plan for the period 2019-2021, and a Special Declaration on the BRI. these documents are necessary knowledge, as they define China-CELAC cooperation strategies in terms of pragmatism forms and the spirit of openness and inclusion (China CELAC Forum, 2018).

The plan includes eight areas, which have been defined the PRC-Panama relations. These include:

1. Political cooperation;
2. Economic and commercial cooperation;
3. Social cooperation;
4. Cultural and humanistic cooperation;
5. International coordination;
6. Cooperation on issues of peace, security, and justice;
7. Broad bi-lateral cooperation; and
8. Tripartite cooperation.

The China-CELAC Forum agenda corresponds to the PRC's five-year national economic plans, which aim to build a prosperous and sustainable society by deepening reforms and launching with BRI to promote infrastructure construction and financial cooperation spanning three continents (Europe, Asia and Africa) and now, with its engagement with Latin America, a fourth.

2016 marked the beginning of a new Chinese diplomatic stage, with the XIII Five-Year Plan for that year through 2020 being a decisive document for both its context and its content and expectation to drive China's transition to grander global involvement. Wei Qiang, China's ambassador to Panama, made this point clear when discussing Panama and the BRI, saying: 'The exceptionally advantageous geographical position of Panama gives the isthmic country an extremely important role in international trade. China, which considers Latin America as an essential partner in the construction of the Belt and the Road, has no doubts regarding the potential that Panama has of becoming a key pivot for the natural extension of the Maritime Silk Road of the 21st Century to this region' (Wei, 2019).

China is now incorporating what some authors identify as diplomacy of the great periphery; in her political chess for Latin America, China is undoubtedly taking advantage of Panama's maritime connectivity. (Méndez & Alden, 2019). By examining the experiences of other countries in reference to Chinese strategic diplomacy, this article will offer a Panamanian path forward.

On the issue of BRI debt-trapping, China's soft power projection is clear. 'There has been no shortage of dissenting voices against the Initiative on the international stage: that it is nothing more than a geopolitical tool for China, which may well create debt traps for the countries involved', Ambassador Wei offered in rebuttal to widespread criticism. 'They are, obviously, due to a lack of objective and fair understanding of the Initiative, misunderstandings, wrong judgments or even prejudice, which prevent us from seeing that the Belt and Road is an initiative of economic cooperation, designed to support all countries" (Wei, 2019).

Amid the harsh rhetoric on both sides, the articles analyses China's objectives, strategies, plans, and agenda in Latin America, specifically in reference to Panama. Our challenge is to analyse this context and review the experiences of other nations to define Panamanian priorities moving forward.

Indeed, we are seeking to combat the widespread domestic ignorance of the impacts of Panama's agreements with China, and to ultimately debates in which Panamanians have not yet been included.

V. EVALUATING PANAMA'S AGREEMENTS WITH CHINA

China, through the BRI, seeks to use Panama as a strategic platform: to gain access to the Panama Canal, which as acts as a gateway to Latin America. Although the 47 signed Panama-PRC agreements are not binding and can be modified by the current government, we believe that any reform must set up mechanisms for public participation, in no small part because these decisions affect citizens both directly and indirectly.

Sensitive issues like agriculture, phytosanitation, energy, infrastructures, free trade, the environment, customs, and maritime affairs, must be analysed so as to include Panamanian approaches with the participation of all sectors while accounting for scientific evidence to adopt the best decisions for the sustainable development of the country.

In reference to maritime issues, specifically, decisions involving the administration, maintenance, use, construction, utilization, expansion, water use, development of ports, and any other work or construction on the banks of the Canal will require the prior authorization of the Canal Authority, based on Article 316 of the Political Constitution of the Republic of Panama (National Assembly, 2012).

Moreover, the National Assembly of Panama has power for approval or disapproval, any international treaty or agreement, as enshrined in Article 159, paragraph 2, which lists among its functions: "To approve or disapprove, before their ratification, the international treaties and conventions that the Executive Body concludes". To date, only two agreements have been submitted (National Assembly, 2012).

On its website, the Panamanian government lists the legal nature, subjects, and dates of the signed documents (https://www.mire.gob.pa/index.php/es/acuerdos-panama-china). This list includes the agreements so far approved and the two that have become law: the lease of goods for embassy headquarters and civil air transport.

According to the Panamanian constitution, International Conventions and Treaties can only enter into force if they comply with the National Assembly's legislative approval process in accordance with article 159, number 2 (National Assembly, 2012). But Panamanian authorities have spoken about Chinese agreements signed in general way, so as to exclude them from this formality; so far, only two have become law. Indeed, Panama and China have signed 23 Memorandums of Understanding (MOU) that while referring to decisions that express the will of both parties for future negotiations are not binding; most refer to issues of Development Cooperation or the Human development. Sixteen other agreements, however, are pacts or negotiations of different areas, some of which impose obligations for both parties. Three protocols establish sanitary regulations in customs matters, Exchange of Notes from the Consulate in Shanghai, and non-reimbursable cooperation funds. Another communiqué formally initiates the establishment of relations with China.

The PRC-Panama agreements reached in 2017-2018 comprise 16 areas:

1. Diplomacy;
2. The 21st Century Maritime Silk Road;
3. Merchant Marine;
4. Air Transportation;
5. Cooperation for Human Development;
6. Development Cooperation;
7. Infrastructure;
8. Electric Power;
9. Economy;
10. Agriculture;
11. Phytosanitation;
12. Banking;
13. Customs;
14. Tourism;
15. Cooperation in Economic and Commercial Zones; and
16. Science, Technology and Innovation.

Table No.1 on the following page makes known the most relevant commitments included in each agreement.

TABLE NO. 1

Commitments acquired by Panama in the agreements with China, by thematic area

AGREEMENT AREAS	COMMITMENTS
Economy	Formalized bilateral assistance to attract investment from China to Panama and facilitate the opening of the Chinese market for Panamanian exports. Panama and China have begun studying the feasibility of a free trade agreement
Economic, commercial and investment cooperation	Established a Mixed Commission led by the Ministries of Commerce of both countries to strengthen and promote bilateral cooperation economics, trade, and investment. Signed MoU for cooperation in electronic commerce.
Cooperation on economic and commercial zones	Agreed to strengthen special economic zones, prioritizing cooperation in logistics, warehousing, processing, manufacturing, industries, technology, and services. Plan to establish a framework for economic and commercial cooperation to strengthen the special economic zones.
Banking	Agreed to create a collaboration platform in economic, commercial, productivity, investment and financial affairs and establish an effective communication and information exchange mechanism. Plan to promote and finance large infrastructure projects including highways, bridges, power plants, airports, port, and logistics parks. Lay the groundwork for the establishment of a China Development Bank headquarters in Panama. MoU formalizes cooperation mechanism between Panama and the China Import-Export Bank. Both countries will encourage investment and strengthening in the areas of infrastructure, energy, logistics, the agricultural sector, among others. MoU formalizes cooperation ties between the Banco Nacional de Panamá and Bank of China.

AGREEMENT AREAS	COMMITMENTS
Development cooperation	Framework agreement by which Panama and China will promote production capacity and cooperation in areas of common interest, especially infrastructure, the service industry, industrial and economic cooperation zones, manufacturing, agriculture, and food processing. Formed a Steering Committee led by the Ministry of Economy and Finance of Panama (MEF), Panama's National Development and Reform Commission (NDRC), and China. Both countries will encourage companies and other organizations to carry out cooperative projects through direct investment, joint ventures, construction, management and transfer, project contracting, equipment supply, joint study, exchange of experiences, technology exchange, and technical support. Both countries have signed a Framework Agreement for Cooperation in Science, Technology and Innovation.
Phytosanitation	MoU signed to facilitate compliance with phytosanitary measures, according to agreements signed by both countries within the framework of the World Trade Organization. This will allow Panama to adopt measures to make its products suitable for export to the Chinese market.
Electric power	China Import-Export Bank will grant financing to Electric Transmission Company (ETESA) for the direct or indirect purchase of Chinese products and services for projects of the national energy plan. The Bank of China will support investment projects of the Government of Panama in the matters of electrical transmission, also including the potential granting of long-term facilities to finance ETESA's investment plan.

AGREEMENT AREAS	COMMITMENTS
Agriculture	Both countries have signed an MoU for the development of agriculture and livestock, allowing for the export of agricultural products from Panama to China. Includes technical cooperation and exchange of experiences on germplasm, food safety of plant and animal origin, sanitary and phytosanitary regulatory system, land use and soil nutrition, irrigation of farmland and water saving, agricultural environment and climate change, animal nutrition, diagnostic technology in the agricultural sector, protected horticulture, agricultural processing and logistics, and related areas in the form of joint research projects, technical guidance, and other activities that can increase capacity for commercialization.
Tourism	Panama receives the status of Approved Tourist Destination by China, significantly increasing the entry to Panama of Chinese tourists, the largest tourism market in the world and with the highest rate of spending.
Air Transport	Panama and China are laying foundations for the establishment of direct air routes. Both nations may include up to three destinations in each country, opening the space for the establishment of commercial and cargo flights between both countries. Both parties will be granted traffic rights to open new routes to and from Panama and China. Any designated airline may enter into cooperative marketing agreements such as the exchange of codes or blocked spaces, which will increase trade between the two countries.

AGREEMENT AREAS	COMMITMENTS
Merchant Marine	Panama will receive Most Favoured Nation status, while ships with Panamanian registration will receive benefits in ports of the People's Republic of China. This grants Panama the benefits in port rates and preferential treatment that ships of international registrations receive today, which will be applied to Panamanian-flagged ships that arrive at ports in the China. The agreement also contemplates the reciprocal recognition of the titles of the seafarers issued by Panama and China, as well as their temporary landing when they touch ports in China and Panama. Likewise, the cooperation agreement will be a vehicle for the exchange of information to improve the merchant marines of each country.
21st Century Maritime Silk Road Initiative	The two countries have reached a MoU under which Panama adheres to the Chinese 21st Century Maritime Silk Road Initiative, enhancing its role as "the great connection" with the Panama Canal and a possible railway to the western border. This MoU seeks the exchange and integration of development and planning policies, facilitation of connectivity through infrastructure construction, promotion of free trade and financial integration, and the development of people-to-people links. The initiative covers land routes and maritime routes , thereby joining the Panama Canal.

AGREEMENT AREAS	COMMITMENTS
Infrastructure (It comprises three relevant topics)	**Rail transport system** China supports the Panama-David passenger and cargo transport system initiative. This one of the priority areas of cooperation between the two countries, with the intention of contributing to geographic and commercial integration, but the current Panamanian government does not consider it a priority. **Leasing of real estate and land** The parties agreed to lease real estate and land for the location of the respective diplomatic missions. Said lease will be for a period of 70 years, laying the foundation for the permanent establishment of these diplomatic missions. **Cooperation for the financing of feasibility studies of railway projects in Panama.** Through this agreement, the Chinese Ministry of Commerce will finance a feasibility study of the passenger and cargo train that connects the capital with Chiriquí, with non-reimbursable cooperation to carry out feasibility studies of a rail system across Panama.
Customs	The Ministry of Agricultural Development of Panama (MIDA) and the General Administration of Customs of China have agreed on protocol on inspection, quarantine, and veterinary sanitary requirements for cobia and black barrel imports. Protocol on inspection, quarantine and veterinary sanitary requirements for the export of meat from Panama to China. Between MIDA and China General Administration of Customs. Protocol for the export of fresh pineapples from Panama to China reached by MIDA and China's General Administration of Customs.

AGREEMENT AREAS	COMMITMENTS
Cooperation for human development (It includes several agreements)	**Journalists Seminar** Seeks to strengthen communication on the impact of diplomatic relations between both countries, as well as the mutual promotion of their attractions and culture. More than twenty journalists will benefit from an exchange with authorities and counterparts from the PRC. **Economic and Technical Cooperation** The PRC grants non-reimbursable cooperation for the execution of development projects framed in the National Cooperation Plan for the development of human resources. **Exchange of Notes for Non-Refundable Cooperation in Educational Matters.** Panama and China are finalizing financing of the educational cooperation agreement, particularly for the strengthening and development of human resources through educational opportunities such as scholarships, seminars and other projects in technology and research. **Strengthening of Cultural Cooperation.** Agreement will strengthen cultural exchange in areas such as painting, folklore and cinema, as well as the academic exchange between researchers, professors, craftsmen and others in order to promote intellectual and cultural dialogue. In addition, it will stimulate cooperation between cultural companies, cultural industry associations, and academic institutions. **Radio and Television Cooperation** Plans for cooperation between Panama's State Radio and Television System and the PRC's State Administration of Radio and Television.

AGREEMENT AREAS	COMMITMENTS
Diplomacy	**Establishment of the Political Consultation Mechanism.** Agreement signed by the Vice President and Chancellor, Isabel de Saint Malo de Alvarado, and the Chinese Chancellor, Wang Yi, during the first visit of this Chinese diplomat to the Republic of Panama to institutionalizes the political dialogue between the two nations. The first political consultation mechanism was developed in September 2017. **Establishment of the Consulate in the City of Shanghai.** The PRC has consented to the opening of the first Panamanian Consulate in Shanghai. The document establishes that China may open a Consulate in Panama. Mutual Suppression of Visas in Diplomatic Passports, Official and Consular Services. This agreement facilitates the exchange of official visits by both parties.

Source: Own elaboration from the Agreements Signed between Panama and China.

The recommendations of various Panamanian academics and sectoral associations must be taken into account. Indeed, we must rethink how these agreements position Panama: Do we want to support a hegemonic political program such as the BRI, lest our geographical position and vocation of services to the world be deteriorated, thereby undermining our commitment to the values and principles of peace, democracy, security, sovereignty, solidarity, mutual cooperation, and respect for human rights?

Panamanian foreign policy must focus on our needs and social reality. The world is facing the effects of the COVID-19 pandemic, which we cannot ignore. We must respond to the priorities of the people, especially those living in poverty. As Dr. Herrera writes: 'The analysis of inequality must not be separated from all the peculiarities and meanings that are built in each society where factors, economic, cultural, political, social citizenship, globalization, markets, state power and democracy intervene' (Herrera M, 2010).

Of the total of 47 agreements, 30 were signed in 2017 and 17 in 2018. Moreover, the 13 June 2017 joint communiqué that established this relationship proclaimed: 'Panama recognizes a single China in the world, ... and Panama commits to stop having any official relationship or contact with Taiwan'.

On the one hand, a Memorandum of Understanding on BRI was signed on December 11, 2017, which is motivated to strengthen bilateral cooperation to jointly build the Economic Belt of the Silk Road and the Maritime Silk Road of the 21st century. by fostering closer commercial and economic ties.

Days later, on December 17, 2017, the Maritime Cooperation Agreement is signed, which operates within the framework of the Joint Development of the Maritime Silk Road of the XXI Century, where the BRI MOU is addressed, a reiteration of the issue that expresses the interest of China, which includes: state control of ports, control of maritime traffic, training and certification of seafarers, promoting and facilitating maritime transport for both parties, promoting mutual support before international organizations in proposals and initiatives that can be positive for both countries, among others. None of these have been debated by the Panamanian maritime sector, nor by unions and related sectors.

It should be noted that the Maritime MOU that is signed in 2017; When raising the issue to a Convention, it must be submitted to the National Assembly, which has to approve or disapprove international conventions, by constitutional mandate, according to article 159, numeral 3. Thus, in 2018 two agreements were presented to comply the formality; the Agreement to establish embassies in both countries, approved by the National Assembly of Panama, through Law No. 22 of March 20, 2018; and the Maritime Silk Road Agreement, approved by Law No. 24 of March 20, 2018, but none were submitted to prior consultation.

The agreement on Science, Technology and Innovation, signed in December 2018, includes 14 articles with a term of five years that is extendable in the modality of shared costs. In article 2, fifteen areas of cooperation are listed, with the possibility of others to be defined by mutual agreement. The promotion of scientific research related to the social sciences, hard sciences, technology, and innovation have not been contemplated. Most of these agreements are in areas of Chinese interest: energy, renewable energy, water resources, logistics and transport, marine resources, natural resources, rational use of energy, agriculture, health, nutrition, food security, information, and communication technology.

The Environmental Agreement, signed on December 3, 2018, includes contained 11 articles. Its term is for five years, with the potential for renewal. Within the framework of the Sustainable Development Goals one topic that draws attention is Article 2, paragraph 5, which indicates that China will offer '[s]upervision of the application of watershed ecosystem planning'. In our opinion, Panama does not need to be supervised in executing this matter.

In our opinion, Panama could benefit from training and training of human resources, but it does not need to be supervised in its institutional functions in environmental matters, the first thing is that it is not clearly defined, what such supervision involves and how it is guaranteed that it is not used for different purposes; because we are talking about drinking water sources and national development; such as hydrographic, aquatic, coastal-marine, freshwater basins, among others, so it must be analyzed from the scientific knowledge of the natural and social sciences, the implications that such a decision entails, and our responsibility as a State, to protect the environment and natural resources.

The majority of agreements, even though they are Memoranda of Understanding (MoUs) and are not legally binding, are negotiation frameworks that are automatically extended. Accordingly, authorities must analyze each one and consult the people so that these agreements are truly in line with the national interest.

Conclusions

Panama has been no stranger to dollar diplomacy. Since its first years of independent life, developed countries have used dollar diplomacy defend their economic and politial interests in Panama.

As of 13 June 2017, Panama has had relations with the PRC and recognized the existence of a single China, also committing itself to the BRI. The PRC, meanwhile, has Five-Year Plans and a strategic agenda in international politics, which it promotes through cooperation agreements, including priority issues for Latin America and the Caribbean, using the CELAC platform.

The topics included in cooperation agreements with Panama correspondent with the PRC's goal to advance its hegemonic and strategic advancement in Latin America. Indeed, the 47 agreements signed between Panama and China contemplate sensitive areas which require that all sectors affected by the issues be consulted. The government of President Laurentino Cortizo Cohen must lead on this front.

Any analysis must bear in mind that priorities have changed due to the effects of the pandemic, namely the exacerbation of extant social inequality. Indeed, the number of issues and areas covered in the agreements need wide and serious consultation to verify with the people and the key actors to reconcile these agreements with the national agenda. This is nothing less than a democratic and ethical imperative. Panama must encourage citizen participation, modify these agreements where necessary and guide future conversations by the Panamanian agenda. ■

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SECTION 2

Implications of the Agreements between China and Panama and the lessons learned from relations with other countries in Latin America and Asia

Chapter 4

Implications of the agreements between China and Panama

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Studying the implications of the bilateral agreements between the Republic of Panama and the People's Republic of China of 2017 allows us to understand the economic and political effects of Chinese diplomacy on international cooperation, economic development, and soft power under the principles of trust and mutual benefit. The objective is to theorise the possible risks of the various aspects of these agreements; expand or modify their terms, ideally, if desirable; promote all sectors' participation; and collect scientific evidence to make the agreements easier for decision-makers to evaluate. Maintaining complex, interdependent relationships with different spheres of power requires prioritising national interests and adapting them to the new global reality of the COVID-19 pandemic, which requires adjusting agreements on grounds other than the Belt and Road's specific objectives.

I. INTRODUCTION

In the process of establishing diplomatic relations, the declarations of the Chinese authorities make clear the objective of guaranteeing through the Belt Road Initiative (BRI), using Panama as a strategic platform and gateway to Latin America, and accessing the Panama Canal (Mendez & Alden, 2021).

Chinese soft power diplomacy, applied ever since 2004 by Hu Jintao and his successors, ambitiously "encompasses politics, culture, economy, cultural exchange; which is also promoted through the presence of the Chinese population in the world, which allows strengthening cultural and economic ties with greater acceptance and propagation, reinforced by the government's policy of spreading their culture" (Herrera, Montenegro, & Torres-Lista, 2019).

Panama undertook the signing of agreements with the Asian giant in an accelerated way that placed it at a disadvantage. It left a pall of doubt over whether real benefits would accrue to Panamanians, given the experience of Chinese economic statecraft by other countries. Chinese lending has been attractive to developing countries seeking new markets; they have obtained financing for large-scale projects, promotion of trade, economic stimulus, and knowledge transfer, all of them essential axes of International Development Cooperation. Some have called this strategy "debt diplomacy": readily giving loans in order to gain political not just economic influence, and thereby geostrategic power (Choque, 2020).

In what one might call good mirages of Panamanian progress give rise to unpayable indebtedness and homologous conquest facts in America. One will face a modern exchange of mirrors for precious goods. It is not an innocent principle or an exercise in charitable donation, but a strategy that assumes consistency in ethical principles creates its own influence in international relations. Soft power, reinforced by economic expansion, can decisively contribute to lending China's global prestige (Ríos Paredes, 2011).

Some cases illustrate this type of diplomacy, according to Choque (2020); e.g., since 2005 China has made loans to Venezuela and other Latin American countries for large infrastructure and energy projects, being so before 2017 Latin America indebtedness to China amounted to about US$150,000. The project financing was subject to a series of conditions, such as contracting Chinese companies for their execution, which further promoted imports of capital goods from China. The loans became vehicles of Chinese political and social influence over these countries, rendering them preferential partners for exploitation of natural resources.

Chinese power expansion has put Panama on the map because of its geostrategic position and developed international maritime trade through the Panama Canal. China's practices in the execution of agreements with other countries like Venezuela, Bolivia, Sri Lanka and others arouse suspicion in some quarters over the way 47 detailed agreements were signed on wide-ranging issues without consultation, all aimed at carrying out China's agenda of the Silk Road and the Maritime Silk Road initiatives. This paper seeks to analyse different aspects that facilitate the accurate evaluation of what these commitments in signed agreements represent for Panama beyond expressions of friendship and goodwill.

II. A critical look at the agreements between China and Panama

In 2017 and 2018 the government of Panamanian President Varela signed 47 agreements with the People's Republic of China. In 2019, the new government of President Laurentino Cortizo closed negotiations with the signing of 3 new agreements, bringing the total to 50.

Many of these agreements are predicated on sweeping promises, for example, among the objectives indicated in the economic agreement is to formalise bilateral assistance policy on the grounds that it will attract investment from China to Panama and facilitate the opening of the Chinese market to Panamanian exports. This was the Panamanian government's main justification for terminating relations with China-Taiwan and forging new connections with the People's Republic of China. In the economic, commercial, and investment areas, a joint committee chaired by the two countries' trade ministers was set up to strengthen and promote bilateral cooperation and examine the progress of various projects.

Panama already had a robust banking sector, hence China introduced into the agreements the objective of a collaboration platform on financial matters, which routinises communication and information exchange in economic, commercial, and investment matters. This was sold as a facility for financing large infrastructure projects, such as highways, bridges, power plants, airports, port facilities, logistics parks, among others. This also included the building of the China Development Bank headquarters in Panama and mechanisms of cooperation with China Exim Bank.

China is a primary driver of world trade and plays a vital role in Latin America's international financial sector (Fornes & Mendez, 2018). It is the first destination market for exports from Brazil and Chile and the second for Peru, Cuba, and Costa Rica. China is also the third most important importer of goods from Latin America and the Caribbean, with a value of 13% of total imports from the region. In turn, Latin America and the Caribbean have become a prominent destination of Chinese foreign direct investment (Rosales & Mikio, 2012).

In terms of cooperation for development, areas of common interest included the construction and operation of infrastructure; the service sector, including ship navigation; industrial and economic cooperation zones; manufacturing; agriculture and food processing; and others. Since no one in either government consulted with the affected sectors or considered the priorities of the Panamanian national sustainable development agenda, these bilateral agreements certainly reflect the interests of China, but leave the effect on the interests of Panama unclear.

A prime example is the 2018 Framework Agreement for Cooperation in Science, Technology, and Innovation, that has a shared cost modality. It contributes little to the Panamanian vision for the advancement of science, technology, innovation and research contained in the PENCYT 2019-2024, which mandates a comprehensive review to adapt such undertakings to the overall national development strategy. It should be noted additionally that the COVID-19 pandemic has since incorporated new science and research priorities into the national interest.

Phytosanitary and agricultural issues that are of strategic importance in terms of food safety ought to be subjected to public consultation and full transparency procedures before Panama commits itself to exports of food of plant or animal origin to a market as big as China, and without first adopting an agricultural policy that guarantees Panamanian food sovereignty (that is, that the people of Panama should have priority in consumption of Panamanian produce). This requires a review of customs regulations to ensure the compliance of any bilateral agreements with general health and export legislation. The previous experience of Free Trade Agreements (Mexico, State of Israel, Chile, United States) cautions prudence, because one signs agreements without first securing adequate conditions in the concerned sectors. This has made it challenging to exploit such marketing opportunities, the demands of which exceed the existing capacities of Panamanian agro-industry.

On a sensitive issue such as electrification, the bilateral agreements indicate that the Bank of China will support the Government of Panama in financing investment projects in electrical transmission, potentially including long-term credit facilities to finance the investment plan of ETESA, Panama's parastatal electricity utility, which opens the door to unsustainable indebtedness with well-known consequences that have been called the "debt trap" (Mendez & Alden, 2019).

On the positive side, the bilateral agreements on air transport, ratified in Panama by the Law of 23 on March 20, 2018, facilitates the establishment of direct air routes. With each nation choosing up to three destinations in the other. This has opened opportunities for commercial and cargo flights, but the traffic rights to be granted are linked to national security, therefore, it is essential to inform oneself on the technical position of the experts before regulating or negotiating other routes.

The Maritime Transport Agreement states that vessels with Panamanian registration are to receive privileges in Chinese ports; also, there is to be reciprocal recognition of the titles of seafarers issued by Panama and by China and their temporary disembarkation at the time of touching ports. In both nations. According to its Maritime Authority, Panama still has the largest ship registry globally, with 18% of the world's fleet. It is necessary to analyse the effects on Panama of more than 8 thousand merchant ships recognising seafarers' titles widely and what further regulation can do.

In addition, it must be borne in mind that international maritime trade does not escape the political reality of the great powers, which maintain claims on naval routes. In October 2020 international newspapers reported that US Secretary of State Mike Pompeo concluded a tour of five Asian countries by leaving a clear message that the United States opposes Chinese encroachments on the sovereign maritime territories of the nations of Southeast Asia, Asia, and the Indo-Pacific region. The US State Department also criticised China for reneging on its promises to nations concerning its territorial claims in the South China Sea, where Vietnam, the Philippines, Malaysia, Brunei, and Taiwan have as good, if not better claims to the territory. A third of all world maritime transport passes through this Sea (including ships flagged Panamanian) making it a geostrategic location. The current geopolitical scene cannot be ignored when negotiating these bilateral agreements, which may be compromising if conflict affects the relations Panama has with other countries, given its strategic position and historical relations with the United States (Mendez, 2021).

In this context, the Memorandum of Understanding (MoU) on Cooperation within the Framework of the Economic Belt of the Silk Road and the Maritime Initiative of the Silk Road of the 21st century constitutes the most relevant document for China. Panama's adherence enhances Chinese strategy in Latin America, through the Panama Canal that facilitates connectivity by its commercial and economic presence, land routes, maritime, and cultural, included in the various agreements signed.

Many people are purported to be benefitted, considering its non-reimbursable cooperation, by the Cooperation for Personal Development agreements. These agreements include training for journalists, human resources contemplated in the National Cooperation Plan (Panama Coopera), funding to the educational sector, cultural exchanges and improvements to the state Radio and Television System. But not included in these agreements is personnel in science, research and technology, and other sectors that require strengthening human resources for greater economic and technical competitiveness.

Among the first agreements signed with China were on diplomatic matters, establishing a political consultation mechanism between both countries, the Panamanian Consulate in Shanghai and China's in Panama, and the abolition of visas on passports of diplomats, services officers and consulates facilitating the exchange of official visits. Given all of the foregoing, it is imperative to consult and actually listen to the recommendations of Panamanian specialists, academics, and sectoral associations and to rethink how these agreements benefit Panama, or not. What specifically does one need from this bilateral relationship? What are the implications of supporting a hegemonic political program such as the BRI? And do the agreements promoting tourism, the supposed opening of new markets, and sustainable financing for megaprojects align strategically with national development policies? We have to define what are Panama's national priorities with more attention to strategic detail. It is the State's responsibility to safeguard the national interest in bilateral agreements, and to preserve Panama's culture, values, democracy, security, sovereignty, and respect for human rights. These are the principles that ought to be reflected in all bilateral agreements.

Table No. 1

47 Agreements signed between Panama and China 2017-2018 Government of Juan Carlos Varela.

1.	Joint Communiqué on the establishment of diplomatic relations with the People's Republic of China.
2.	Agreement on the conversion of commercial representations accredited in the other party into embassies.
3.	Agreement for the mutual suppression of visas in diplomatic, service, official and consular passports.
4.	Memorandum of Understanding on the establishment of the political consultation mechanism.
5.	Agreement on the establishment of the Consulate General of Panama in Shanghai.
6.	Framework Agreement between the Ministry of Economy and Finance of the Republic of Panama and the National Development and Reform Commission of the People's Republic of China to promote production capacity and investment cooperation.
7.	Agreement regarding the organization of a press workshop in China. (exchange of notes.)
8.	Memorandum of Understanding on strategic cooperation between the China Development Bank and the Ministry of Economy and Finance of Panama.
9.	Memorandum of understanding on cooperation mechanism between the Export-Import Bank of China and the Ministry of Economy and Finance of the Republic of Panama.
10.	Memorandum of Understanding between the Ministry of Commerce and Industry of the Republic of Panama and the Chinese Council for the Promotion of International Trade.
11.	Memorandum of Understanding on strategic cooperation between Empresa de Distribución Eléctrica, S.A. de Panamá (ETESA) and Banco de China (Bank of China Limited).
12.	Memorandum of Understanding on Strategic Cooperation between Empresa de Distribución Eléctrica, S.A. of Panama (ETESA) and the Export and Import Bank of China (CEXIM).
13.	Memorandum of Understanding on agricultural cooperation between the Ministry of Agricultural Development of the Republic of Panama and the Ministry of Agriculture of the People's Republic of China.
14.	Memorandum of Understanding between the Ministry of Agricultural Development of the Republic of Panama and the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China in the area of sanitary and phytosanitary measures.

15. Memorandum of Understanding between the government of the Republic of Panama and the government of the People's Republic of China on the establishment of the Mixed Commission for economic, commercial and investment cooperations.
16. Economic and Technical Cooperation Agreement between the government of the Republic of Panama and the government of the People's Republic of China.
17. Memorandum of Understanding for Cooperation in the field of the rail transport system between the government of the Republic of Panama and the government of the People's Republic of China.
18. Memorandum of Understanding for Cooperation in economic and commercial zones between the Ministry of Commerce and Industries of the Republic of Panama and the Ministry of Commerce of the People's Republic of China.
19. Memorandum of Understanding between the government of the Republic of Panama and the government of the People's Republic of China on cooperation in the framework of the economic belt of the Silk Road and the Maritime Silk Road of the XXI Century.
20. Memorandum of Understanding between the Ministry of Commerce and Industries of the Republic of Panama and the Ministry of Commerce of the People's Republic of China for the initiation of the joint feasibility study for a free trade agreement between Panama and China.
21. Agreement between the government of the Republic of Panama and the government of the People's Republic of China, regarding civil air transport. approved by Law No. 23 of March 20, 2018. Official Gazette No. 28492-a of March 27, 2018, which entered into force on April 4, 2018.
22. Agreement between the government of the Republic of Panama and the Government of the People's Republic of China on maritime transport. Approved by Law No. 24 of March 20, 2018. Official Gazette No. 28492-a of March 27, 2018.
23. Memorandum of Understanding between the Tourism Authority of Panama and the National Tourism Administration of the People's Republic of China on the facilitation of group trips by Chinese tourists to Panama.
24. Memorandum of Understanding on the strengthening of cultural cooperation between the National Institute of Culture (now the Ministry of Culture) of the Republic of Panama and the Ministry of Culture of the People's Republic of China.
25. Cooperation Agreement between the Ministry of Foreign Affairs of the Republic of Panama and the Ministry of Commerce of the People's Republic of China to carry out feasibility studies for railway projects in the Republic of Panama.
26. Agreement between the government of the Republic of Panama and the government of the People's Republic of China on the leasing of real estate and land for the headquarters of the embassies. Approved by Law No. 22 of March 20, 2018. Official Gazette No. 28492-a of March 27, 2018.

27. Agreement regarding non-reimbursable economic cooperation of 100, 000,000.00 yuan of renminbi provided by the People's Republic of China to finance cooperation projects in the Republic of Panama.
28. Agreement regarding the implementation of the feasibility study of the railway project from the province of Panama to the province of Chiriquí.
29. Treaty between the Republic of Panama and the People's Republic of China on extradition.
30. Agreement between the government of the Republic of Panama and the government of the People's Republic of China on educational cooperation.
31. Agreement between the government of the Republic of Panama and the government of the People's Republic of China on the granting of multiple entry visas for ordinary passport holders.
32. Framework Agreement for Cooperation in science, technology and innovation between the government of the Republic of Panama and the government of the People's Republic of China.
33. Cultural Cooperation Agreement between the government of the Republic of Panama and the government of the People's Republic of China.
34. Memorandum of Understanding between the Ministry of the Environment of the Republic of Panama and the Ministry of Ecology and Environment of the People's Republic of China.
35. Economic and Technical Cooperation Agreement between the government of the Republic of Panama and the Government of the People's Republic of China.
36. Memorandum of Understanding between the Maritime Authority of Panama and the Ministry of Transportation of the People's Republic of China on maritime cooperation.
37. Protocol on phytosanitary requirements for the export of fresh pineapples from Panama to China between the Ministry of Agricultural Development of the Republic of Panama and the general administration of customs of the People's Republic of China.
38. Protocol between the Ministry of Agricultural Development of the Republic of Panama and the General Administration of Customs of the People's Republic of China on inspection, quarantine and veterinary sanitary requirements for Cobia and Black Skipjack will be imported from the Republic of Panama to the People's Republic of China.
39. Protocol between the Ministry of Agricultural Development of the Republic of Panama and the General Administration of Customs of the People's Republic of China on inspection, quarantine and veterinary sanitary requirements for the export of meat from Panama to China.
40. Memorandum of Understanding on radio and television cooperation between the State Radio and Television System of the Republic of Panama and the State Administration of Radio and Television of the People's Republic of China.

41.	Memorandum of Understanding between the Ministry of Commerce and Industries of the Republic of Panama and the Ministry of Commerce of the People's Republic of China on cooperation in electronic commerce.
42.	Memorandum of Understanding between the Ministry of Commerce and Industries of the Republic of Panama and the Ministry of Commerce of the People's Republic of China on cooperation in trade in services.
43.	Memorandum of Understanding between the Ministry of Commerce and Industries of the Republic of Panama and the Chinese Council for the Promotion of International Trade (CCPIT) on the co-organization of the XIII China-Lac Business Summit.
44.	Exchange of Letters on cooperation in the development of human resources. (4 courses).
45.	Memorandum of Understanding between the National Bank of Panama and the Development Bank of China.
46.	Memorandum of Understanding between the National Bank of Panama and the Bank of China.
47.	Framework Agreement between the Electric Transmission Company S.A. of the Republic of Panama and China Export & Insurance Corporation.

Source: Prepared by the authors with information from the Ministry of Foreign Affairs of the Republic of Panama.

As stated by Herrera, Montenegro, and Torres Lista (2019), of the total 47 agreements, whether denominated MoU, Exchange of Notes, protocols, Agreements or Treaties, adopted without broad citizen consultation, most of them respond to the strategic interests and agenda of China.

Among the documents signed with China between 2017 and 2018, it is important to highlight the Memorandum of Understanding on BRI, of December 11, 2017, which is motivated to "strengthen bilateral cooperation to jointly build the Economic Belt of the Route of the Silk and the Maritime Silk Road of the 21st Century by fostering closer commercial and economic ties".

The plans and vision of One China is part of the international cooperation policy of the signed bilateral documents. Yet, these agreements were hastily negotiated, no publicly debated rationale is known to support the decisions, beyond promised access to a gigantic market. Panama's national vision is unknown, and that does not count the absence of many national sectors intricated in the various themes of the agreements, and the lack of consultation and transparency for the citizens of Panama concerning the political implications that the commitment to jointly build the One Belt, One Road will have for Panama.

In the Maritime Cooperation Agreement, Panama has committed itself to the Joint Development of the Maritime Silk Road of the 21st Century, which is reiterated in the bespoke BRI MoU. Becoming a manifestation of will that expresses China's interest in concretising its strategic programme, which, due to its possible implications in international politics, ought not to be implemented without the advice and the consent of the Panama Canal Authority and specialists in the maritime area.

China's keenness to sign bilateral agreements is to materialise the BRI as a reality: to obtain access to natural resources and consumer markets for its products in Latin America. In this sense, Panama must put more effort into negotiations. The implementation of the 50 signed agreements, the vision of the country, and its development policies and priorities in the current geopolitical and economic context cannot well proceed without the participation of an informed citizenry and of the strategic actors linked to the issues if Panama-China relations would result in sustainable development. This is especially critical taking into account that, after the COVID-19 pandemic, social inequalities have deepened. Human development is a priority hand in hand with economic development, thus Panama's international development cooperation policy requires consideration of this new reality.

Most of the bilateral agreements stipulate a term of five years with possibility of renewal. This aspect is essential as it would be irresponsible for the government to neglect the necessary evaluation and consultation processes, only to reach the end and be subjected to unfavourable scrutiny.

The environmental issue is vital for Panama. There is a responsibility to overcome any disadvantage, bear in mind the different public policies in force on this matter, the seas, wetlands, water sources, species protection, among others. In the environmental agreement signed with China, eleven articles were agreed-to. Supervising institutional operations in ecological matters is highlighted, related explicitly to hydrographic, aquatic, coastal-marine areas, and freshwater basins. These are essential issues for the sustainable development of the country. No previous scientific studies allow us to establish such a need, especially as one is talking about operations or operational activities directly and indirectly linked to the Canal Zone. Another implication for the environment relates to the activities and income generated around these activities (artisanal, commercial fishery, ecotourist) and their impacts on the environment and the population.

In agricultural and industrial matters, although the agreements in theory mandate access to China's markets, one encounters the reality of a sector that has not received proper government attention, so that an agro-industrial policy is lacking. There needs to be policies that would cover access to mechanisms of financing, technology issues, clear export rules, human resources preparation and training facilities, scientific laboratories, transportation systems and refrigeration, and technical sufficiency to compete with the requirements of the international market. What actual benefits can then be expected from such bilateral agreements for which the country is so unprepared?

After the first months of the COVID-19 pandemic in 2020, export to China began to be reactivated. Since June 2019, the *Carnes de Coclé* company has been among the first to export meat to China. In 2019 it approved building two plants to manufacture export beef: Unión Ganadera, SA (Ungasa), operated by Carnes de Coclé, and Fortunato Mangravita, S.A. (Tejeira, 2020). Sales of beef have earned about US$5.4 million for Panama, not a spectacular amount, however it is necessary to watch the development of these exports to make sure that they do not pre-empt the supply of meat available to Panama's inland market.

A comparative study of the Free Trade Agreements negotiated by Latin America with the People's Republic of China, India, Singapore, and Taiwan and of the FTAs of Peru and Chile, by the Inter-American Institute for Cooperation on Agriculture, points out among lessons to be learned from the two FTAs signed with China with the topic of cooperation must be taken full advantage of, not just the rules relating to commercial exchange (IICA, 2009). In negotiating the FTA in Costa Rica, for example, it became clear that one of the most significant challenges was to achieve the diversification of its export offering, that is, to bring more products to the Chinese market. This is one of the issues on which Panama must be preparing itself in this sector.

In the case of the FTA between Panama and China, despite the previous government having advanced five rounds of negotiations, the succeeding President of The Republic announced on social media the freezing of the FTA negotiations with China during the XIII China-Latin America and the Caribbean Business Summit (XIII China-LAC) in December 2019. Notwithstanding China's growing interest in expanding bilateral trade with LAC. During an international press conference, President Laurentino Cortizo Cohen promised that the government would review the agreements "carefully and cautiously" for a change (Telemetro Reporta, 2019).

The agricultural sector must participate more in the processes of negotiation and implementation of protocols. The agricultural industry is concerned that Chinese labour could enter in a massive way into these negotiations. Yet the Ministry of Commerce has assured that it is seeking to guarantee preferential treatment for Panamanian agricultural, fishing, and agro-industrial products with more significant potential (Garrido A, 2018).

Unlike Costa Rica, Panama did not open the FTA to public consultation with the different sectors of the economy (America, 2008). In statements to the newspaper *Panamá América*, Augusto Jiménez, the former President of the Association of Highlands said, "It is very worrying when the Highlands unions are not taken into account because China has a flawed phytosanitary system and Panama is very permissive. Two factors that put us in an inoperative situation". For his part, Nodier Díaz, Secretary of the Federation of Rice and Grains of Panama said, "We are concerned about the prior control that does not exist, the principle of reciprocity in governments so that the same conditions are applied, the lack of sufficient laboratories and the human team prepared for these controls, and an Aupsa that only sees products on shelves" (Castillo, 2018).

Panama's Ministry of Commerce and Industries announced on social media at the end of August 2019 that no dates had been set for new rounds of negotiations of the Free Trade Agreement that seeks to limit the exchange of agricultural goods. This means it is a partial-scope FTA, negotiations for which have been put on hold due to the COVID-19 pandemic.

Most of the agreements bear implications for Panama's sustainable development and its economic, commercial, and financial position, and its international relations. Undoubtedly, these negotiation frameworks that are automatically expanded impose on our authorities the responsibility of making further analyses and consulting all sectors involved, making information available transparently and seeking scientific evidence, to have more tools with which to protect the national interest.

China continues to indicate its interest and is waiting for the Panamanian government to resume the FTA negotiations (Hérnandez V, 2021), and maintains an interest in expanding its presence in Latin America through International Development Cooperation. These 50 agreements already signed, are a significant achievement in its political and economic strategy.

The government of President Cortizo prudently heeds various sectors when they claim and decide to pause the negotiations to analyse progress made so far. As Berjano and others point out about FTAs signed by China with Latin America, the motivations for these FTAs, even more so in the Pacific, are not only commercial in its aims but also geopolitical (Ramón Berjano, Malena, & Vellosos, 2015).

The signing of the Agreement on Plant Inspection and Quarantine, and the two Protocols for the export of aquatic and pork products, achieve a commercial opening in agricultural matters with China, despite the fact that the negotiations of the Free Trade Agreement are suspended. They were signed by Augusto Valderrama, Minister of Agricultural Development, and Rosario Turner, Minister of Health of Panama, and by China; Hu Wei, Vice Minister of the General Administration of Customs. As reported by the TVN2 news channel (TVN Noticias Channel 2, 2019).

With the signing of these protocols, previous agreements on agricultural matters are complemented, and a series of product quality requirements and veterinary sanitary standards are added by both countries. Again, the benefit to Panamanians is limited here. Other requirements on the conditions and facilities for handling, transport, storage and packaging of these products, will hardly benefit small producers if they do not have access to technology, aid and state resources, so that their exports can adjust to the agreed requirements.

The table on the next page incorporates the general contents of these agreements signed with China.

In the context of the COVID-19 pandemic, the Ministry of Agriculture together with the Ministry of Health are making progress on the implementation of these latest agreements concerning the export of pork and aquatic products. According to the Chinese ambassador to Panama, sanitary protocols for the export of products such

as coffee, beef, pineapple, fish and shrimp have been accomplished. With the pork protocols also advancing the approval process for processing plants to export to China (Cigarruista, 2020).

Table No.2.
Agreements between Panama and China- 2019.
Government of Laurentino Cortizo Cohen.

DATE	LEGAL INSTRUMENT	CONTENT
It was signed on December 10, 2019. It came into force from that date, for five years, automatically extended. It may be modified at any time by the parties. Published in the Official Digital Gazette No. 28924 of December 19, 2019.	Cooperation Agreement for Plant Inspection and Quarantine between the Ministry of Agricultural Development of the Republic of Panama and the General Administration of Customs of the People's Republic of China.	Bilateral cooperation for biosafety in-plant inspection and quarantine to facilitate and expedite commercial exchange. It includes information exchange, visits, technologies, and experiences on the subject, seminars, research, and pest prevention.
It was signed on December 10, 2019. It contains the same clauses as the Cooperation for Plant Inspection and Quarantine, mentioned above. Published in the Official Digital Gazette No. 28924 of December 19, 2019.	Protocol between the Ministry of Agricultural Development of the Republic of Panama and the General Administration of Customs on **inspection, quarantine, and veterinary sanitary requirements for aquatic** products to be imported * from the Republic of Panama to the People's Republic of China. * Correct term is export as it appears in the annex.	They refer to aquatic animal products and their products, caught in the wild or cultivated, processed / or preserved as frozen, refrigerated, dried, smoked, and other processes suitable for human consumption. Live aquatic animals and production materials are not included. The list of exported marine products is attached to the Protocol.
It was signed on December 10, 2019, under the same conditions of validity of the previous legal instruments. Published in Official Digital Gazette No. 28924 of December 19, 2019.	Protocol between the Ministry of Agricultural Development, the Ministry of Health of the Republic of Panama, and the General Administration of Customs on inspection, quarantine, and veterinary sanitary requirements for the **export of pigs** from the Republic of Panama to the People's Republic of China.	Establishes Panama's responsibilities for the quality and requirements of pork and veterinary health compliance with both Ministry of Agricultural Development (MIDA) and Ministry of Health (MINSA). It also includes complying with Chinese standards in packaging, storage, and transportation and will be accompanied by veterinary certifications in Chinese, Spanish, and English. If the General Administration of Customs of the People's Republic of China (GACC) determines that it does not comply with the Protocol, it will notify MINSA for the product's return, destruction, or disposal.

Source: Own elaboration, based on information obtained from the Ministry of Agricultural Development (MIDA). https://www.mida.gob.pa/

III. Conclusions and recommendations.

The 47 agreements between the Republic of Panama and the People's Republic of China in 2017 and 2018 and the three agreements in 2019 result from strategic diplomacy in international cooperation policy, planned under One China and the BRI, where Panama becomes China's gateway in its relations with other countries in Latin America and the Caribbean. With the conclusion of these agreements, Panama becomes part of China's regional power expansion map, contributing the strategic position of the Panama Canal and the development of its international maritime trade.

The agreements have different socio-economic implications for Panama's sustainable development, its economic, commercial, and financial position, and its international relations. Historically, Panama has maintained a thriving banking system, with the support of regional and national organisations and private companies. Yet these bilateral financial agreements strengthen the economic-financial structure of China, promoting the expansion of their banks, which aim at becoming the primary sources of financing for the Panamanian State for large-scale infrastructure and energy works. This clearly bears the risk of debt diplomacy.

The current Cortizo government has expressed an interest in reviewing the agreements signed by its predecessor and in negotiating cautiously to protect the national interests in any FTAs. This should allow new opportunities to incorporate views from sectoral representatives, specialists and academic experts.

To properly evaluate the implications of these agreements, one must study employment effects, natural resources use, economic regulation, the needs of development in science, research, and technology based on the National Strategic Plan for Science, Technology, and Innovation (PENCYT), prepare national infrastructure in agribusiness, define more clearly the country's political position in national forums on maritime issues, taking into account conflicts, and that we are governed by the principle of neutrality in the Panama Canal. One must also analyse the investments financed by Chinese capital, whether they bring real benefits for the population, sustainable development, and reflect the strategic interests of the country. Whilst also ensuring that all agreements are in line with the country's post-COVID-19 needs.

A priority is to follow a political strategy of disseminating information to the entire population for the sake of the transparency and accountability of the State's commitments in terms of International Development Cooperation with the Peoples Republic of China. ■

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Chapter 5

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

Chris Alden and Alvaro Mendez

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

I. INTRODUCTION

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

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

II. COSTA RICA

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

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

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

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

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

3 Ibid.

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

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

Stagno, however, had established excellent connections with various Chinese diplomats in his role as Ambassador and was ready to help in case Arias won. In February 2006 Arias was indeed elected President for the second time, and soon afterwards appointed Stagno as Minister of Foreign Affairs. Even before being sworn in, Arias together with Stagno set in motion their plan, approaching Beijing in an unofficial capacity, as they could not do anything official until taking office in May 2006.[5]

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

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

To cut a long story short, the negotiations were long and hard; difficult for Costa Rica for the above-mentioned reasons and difficult because China was choosing carefully how to approach the issue. It is sometimes assumed that China has to work to convert conservative policy makers in traditional Latin American states to abandon Taipei, but

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

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

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

in reality, this is a two-way process that has to be analyzed country-by-country. While Beijing was open to negotiating with Costa Rica, in other cases it has not been so open. For instance, in the case of the Dominican Republic, who switched diplomatic ties from Taipei to Beijing in late 2018, it took years to materialize. According to ex-President of the Dominican Republic Leonel Fernandez, who did the switch to the PRC in 2018, it took them several years to convince the PRC to agree, and it was not easy.[8] Panama also tried for years to convince Beijing to open the door to them, but they steadfastly refused Panama and several other nations to avoid precipitating a diplomatic crisis by stripping Taipei of all international personhood.[9] Panama was finally let in for geostrategic reasons, yet the Financial Times called it a "diplomatic victory for China".[10]

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

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

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

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

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

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

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

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

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

Costa Rican exports to China are mostly raw materials, then capital goods. Nevertheless, a significant proportion of its exports to China (more than a quarter) is, exceptionally for a Latin American country, machinery and electronic goods. China exports the same kind of goods back, but mostly consumer and capital goods.[16] Development lending has followed diplomatic recognition. In 2015 China lent US$395 million for construction of the San José to Limón Highway. That was after the US$100 million lent in 2013 to finance clean technologies like electricity, gas or hybrid-fueled in public transport, and the US$92.36 million for the Chucás Hydroelectric Project in San José built by the Chinese state-owned Sinohydro in 2010.[17] These are big projects for a country as small as Costa Rica.[18]

III. ARGENTINA

Argentina established diplomatic relations with the PRC on 19 February 1972.[19] The pendulum swings in the Argentina-China relationship may be said to track political shifts in Argentina, from Peronists to neo-liberals. Peronist politicians on the center-left found in China a partner with deep financial pockets, an appetite for risk—or certainly one which ignored the Western financial markets consensus on Argentine economic woes—and a proven capacity to build big infrastructure projects that answered both to Argentina's grandiose development ambitions and to its will to decouple from US dominance. For the neo-liberal proponents on the center-right, China's ideological predilections and the lack of transparency in loans and its suspect intentions toward Argentina, contributed to a residual hostility towards Beijing even when circumstances obliged them to deeper commercial engagement.

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

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

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

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

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

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

(Calvo, 2015). Argentina recognized China as having a market economy in 2004.[26] Argentina has signed more than 150 agreements with the PRC on subjects ranging from football to nuclear energy,[27] including a 1985 agreement on the pacific use of nuclear energy, a 1992 investment treaty, a 2013 extradition treaty; and one elevating their relationship to an "Integral Strategic Association" in 2014. Nearly all Argentina's exports to China are vegetable products, reflecting the scale of Argentine soya production for consumption in China.[28] China exports to Argentina mostly capital goods, machinery

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

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

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

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

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

25 Alex Calvo, "China and the Falklands," *The Online Journal of the China Policy Institute* (2015), https://cpianalysis.org/2015/10/29/china-and-the-falklands.

26 FMPRC, "The Argentine Government Recognizes China's Market Economy Status," (2004), http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/ldmzs_664952/gjlb_664956/3453_664968/3454_664970/t170557.shtml.

27 Ministerio de Relaciones Exteriores y Culto de la República Argentina, "Biblioteca Digital de Tratados," http://tratados.mrecic.gov.ar/busqueda.php?consulta=si&modo=c.

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

and electronics.[29] The latest quasi-agreement is Argentina's 2021 membership of the Asian Infrastructure Investment Bank (AIIB), which is not officially a Chinese entity, but it is described as "China's World Bank".[30]

Foreign direct investment from China totaled US$1.655 billion between 2010 and 2015, and US$208 million in 2015 alone.[31] As at 2014, Chinese development banks had made a total of US$15.3 billion worth of loans to Argentina, mostly in infrastructure and energy.[32] Intriguingly, China nursed Argentina through its sovereign debt default crisis in 2014 through central bank currency swaps worth US$1.3 billion as part of a loan of US$11 billion total (not included in the above figures). "Under terms of the loan agreement, Argentina can either use the funds to bolster its reserves or pay for Chinese imports with the yuan currency."[33]

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

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

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

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

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

33 Jorge Otaola and Richard Lough, "UPDATE 1-Argentina receives second currency swap from China," *Reuters*, November 17, 2014 2014.

34 Aprovechamientos hidroeléctricos del río Santa Cruz—IEASA; Andres Napoli and Maria Marta de Paola 'Argentina suspends Patagonia dams', Dialogo China 20 January 2017, Argentina suspends Patagonia dams (dialogochino.net)

35 IEASA Aprovechamientos hidroeléctricos del río Santa Cruz—IEASA

IV. MALAYSIA

Malaysia established diplomatic ties with China on 31 May 1974 after protracted negotiations between Kuala Lumpur and Beijing.[36] Despite humble beginnings, Malaysia had the strategic advantage of being one of ASEAN's five founding members in 1967.[37] Malaysia's remarkable rise from poverty to middle-income developing status in two decades has been attributed to the policies of former Prime Minister Mahathir Mohammed and his governing coalition party, *Bahrisan Nasional*, dominated by the United Malays' National Organisation (UMNO).[38] Of particular note was Mahathir's skill in mobilizing internal capital and external resources—development assistance, foreign direct investment, even security provisions—in the service of Malaysian development ambitions.[39] But the acts of his successor Najib Razak, in particular blatant corruption involving Saudi finances and Chinese mega-projects, threw the country into crisis and brought Mahathir back into national politics.

PM Razak had undertaken an ambitious development program to expand the national transport system into underserved areas of the country and to improve energy infrastructure utilizing the opportunities presented by the BRI.[40] In 2016, discussions with Chinese officials culminated in a US$13.1 billion loan to build a standard-gauge, two-track railway along the neglected east coast of peninsular Malaysia to the prosperous western environ and a gas pipeline on the island of Sabah.[41] The China Communications Construction Company (CCCC) won the contract for the East Coast Rail Link and began construction in August 2017. A Malaysian company was assigned to manage all of the operating and maintenance tasks. The pipeline contract, backed by a US$2.5 billion loan from China ExIm Bank, was won by the China Petroleum Pipeline Bureau (CPPB), a subsidiary of the state-owned China National Petroleum Corporation (CNPC). The project was to construct a 600-kilometer petroleum pipeline on the west coast of peninsular Malaysia and a 662-kilometer gas pipeline in Malaysia's State of Sabah on Borneo Island. Finally, the state invested in a major development and

36 Kazuyuki Katayama, *China's rise and Japan's Malaysia policy* (Magnolia Publishing Company, 2013).

37 T. Koh, S.L. Seah, and L.L. Chang, *50 Years Of Asean And Singapore* (World Scientific Publishing Company, 2017).

38 Walid Jumblatt Abdullah, "The Mahathir effect in Malaysia's 2018 election: the role of credible personalities in regime transitions," *Democratization* 26, no. 3 (2019); Edmund Terence Gomez, *Chinese business in Malaysia : accumulation, ascendance, accommodation* (Richmond: Curzon Press, 1999).

39 Yasuyuki Sawada and Iroyuki Yamada (2003) 'Japan's ODA and Poverty Reduction: a cross-donor comparison and a case study of Malaysia', in Hiroshisa Kohama, ed., *External Factors for Asian Development* (Singapore: Institute of Southeast Asian Studies, pp. 47-69.

40 Hong Liu and Guanie Lim, "The Political Economy of a Rising China in Southeast Asia: Malaysia's Response to the Belt and Road Initiative," *The Journal of contemporary China* 28, no. 116 (2019).

41 'Malaysia seizes China Petroleum Pipeline's RM1b funds', *Malaysian Reserve*, 15 July 2019, Malaysia seizes China Petroleum Pipeline's RM1b funds (themalaysianreserve.com)

transport hub, Bandar Malaysia, in the heart of the capital, Kuala Lumpur.[42] Spillovers from Beijing's economic statecraft to other areas even included military cooperation with joint exercises in the Straits of Malacca.[43]

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

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

The new government led by Mahathir immediately cancelled all construction projects financed by China pending a forensic audit. The new Economy Minister, Mohamed Azmin Ali, noting that the annual interest payments alone amounted to US$120 million, declared, "We cannot afford to bear this, so this project needs to be terminated without affecting our good relationship with China."[48] The contracts were

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

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

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

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

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

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

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

terminated and negotiations between Kuala Lumpur and Beijing reopened.[49] This revealed that the deal struck between Malaysia and China included a "termination clause" that would cost Malaysians a hefty US$5.3 billion if the East Coast Rail Link project was terminated.[50]

Mahathir's vow to renegotiate the "unequal treaties" with China—a historical reference to the treaties that followed on Western states' forcibly opening trade with Imperial China in the 19th century—set the tone for a contentious exchange.[51] Nevertheless, incendiary rhetoric and the egregious terms of the loans aside, the Prime Minister had to rationalize reversing his initial outright cancellation of the projects, which he explained as follows: "The government was faced with the choice to either renegotiate or pay termination costs of about RM21.78bn (US$5.3 billion), with nothing to show for it. As such, we chose to go back to the negotiation table and call for a more equitable deal."[52]

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

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49 'Malaysia seizes China Petroleum Pipeline's RM1b funds', *Malaysian Reserve*, 15 July 2019, Malaysia seizes China Petroleum Pipeline's RM1b funds (themalaysianreserve.com)

50 'Malaysia renegotiated China-backed rail project to avoid $5bn fee', *Financial Times 15* April 2019, Malaysia renegotiated China-backed rail project to avoid $5bn fee | Financial Times (ft.com)

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

52 'Malaysia renegotiated China-backed rail project to avoid $5bn fee', *Financial Times 15* April 2019, Malaysia renegotiated China-backed rail project to avoid $5bn fee | Financial Times (ft.com)

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

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

V. DJIBOUTI

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

Beijing has been anxious to find a basing arrangement in the Gulf of Aden since at least 2009, when it first deployed a naval task force to the region as part of an international effort to combat Somali piracy. A multi-national naval operation led by Western governments, but inclusive of the Russian and Indian navies, had been assembled. With 12% of global trade annually passing through the Suez Canal *en route* to European markets, Beijing recognized its own vulnerability to trade disruptions by piracy and hostage-ransoming.[57] Beijing joined the operation in late 2008, sending two frigates and a supply vessel; though unlike its naval counterparts, it notably conducted operations without the benefit of rest and rehabilitation or a refueling station.[58] In an unusual display of candor, China's Admiral Yin Zhou declared in 2009 that, to continue operations, his navy needed a basing arrangement in the region.[59] Its evacuation of 571 Chinese nationals and 225 foreigners after armed conflict erupted in Yemen in March 2015 further underscored the vulnerability of Chinese firms and citizens to regional instability, but also its evolving mission in the wake of the diminishing local piracy.[60]

China announced in May 2015 that it would build a 'logistical support facility', as it

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The cascading number of Chinese loans was crucial to Djibouti's development agenda, and after the IMF decided in 2013 to suspend negotiations with Djibouti due to its hefty debt portfolio, Beijing was the only alternative lender left.[67] Unfortunately, Guellah's government quickly accumulated more debt, with 77% of the total held by China. There was concern that, like Sri Lanka, which had to surrender its port to make up for debt defaults, it would be forced to hand over Doraleh to the Chinese. Nevertheless, despite some analysts sharply criticizing Djibouti's increased dependency on Chinese finance[68], Djibouti itself defended its actions. As Foreign Minister Mahmoud Ali Youssouf declared in an interview in 2016:

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

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

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

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

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

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

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

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

VI. Analysis and Conclusion

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

COSTA RICA

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

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

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

ARGENTINA

The case of Argentina illustrates Beijing's ability to use trade as a tool to advance its political and economic interests with a country. Argentine politicians are also fascinated with anything to do with trade, particularly if they feel they are being given the status they deserve (despite their economy being a disaster for years). In 2004 China realized this overriding motive of Argentine politicians and gave Argentina the title of "strategic partner". Ten years later, Beijing again used titles as leverage and upgraded Argentina to a "comprehensive strategic partner". This has allowed Beijing to enjoy a very profitable relationship with Argentina. As at 2020 China had become Argentina's largest trading partner, replacing Brazil which had occupied the rank for several years previous. Out of the 24 Latin American countries with diplomatic ties to Beijing, only 19 have endorsed the BRI to date. Argentina, along with Colombia, Mexico, and the Bahamas, is one of the last remaining holdouts. Although there were rumors in mid-2020 that Argentina was going to sign an MoU with Beijing to that purpose, it has not done so yet. Beijing is aware of this and in January 2021 President Xi Jinping appealed to President Alberto Fernandez to do so. In his appeal he promised to deepen the current comprehensive strategic partnership. Fernandez promoted the importance of the BRI, but has yet to agree a formal endorsement. It is expected that Beijing will continue to bring up the issue over and over until Argentina acquiesces. Argentina might be playing hard to get as leverage to obtain a better deal from Beijing, but it is hard to tell whether or not this is so. One thing for sure is that Argentina has an interesting relationship that resembles Djibouti's in going beyond trade to include security issues, as indicated by the Chinese military presence in Patagonia.

MALAYSIA

Malaysia offers a good example of how the astute exercise of local "agency" can bring about a revision of unfavorable deals negotiated with China, improving the terms for the recipient. Concurrently, it demonstrates the lack of transparency in dealings with China that complicates relations. Mahathir's harsh criticism of China's alleged "new version of colonialism" struck a nerve with other countries in the global South.[74] More

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

recently, Malaysian criticism of BRI projects as an instrument of debt-trap diplomacy also illustrates the strong agency emanating from Kuala Lumpur. Malaysia nevertheless remains deeply dependent on China, whether it likes it or not. In this case again, Beijing has used trade as an instrument to dominate the foreign policy agenda with its counterpart. As a founding member of ASEAN, Malaysia has effectively a free trade agreement with China via the FDA agreement signed in 2004 with ASEAN. This is very important for Malaysia because its economy depends on Chinese purchasing power. With a small domestic market, Malaysian entrepreneurs have to go beyond the borders to seek opportunities: China is "there to help". This is an important similarity with Costa Rica.

DJIBOUTI

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

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

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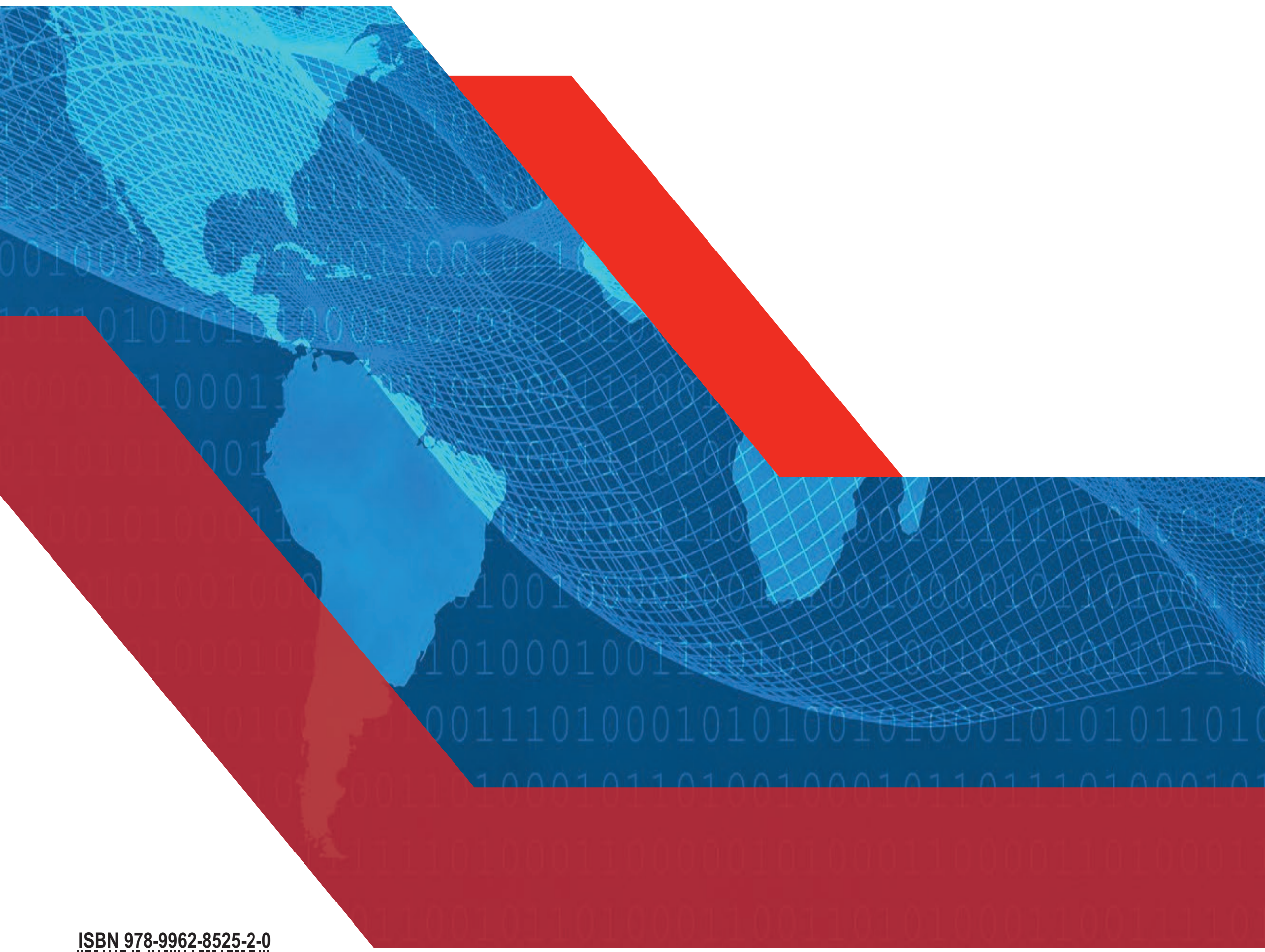

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