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Hedging bets: Southeast Asia's approach to China's aid

ANALYSIS

ALEXANDRE DAYANT
GRACE STANHOPE

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31 Bligh Street
Sydney NSW 2000

lowyinstitute.org
+61 2 8238 9000

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Key findings

- Southeast Asian states with acute development needs and constrained access to development financing — Cambodia, Laos, and Myanmar — are the most reliant on China. By contrast, lower-middle income countries with more diversified foreign relations — the Philippines and Vietnam — have become far more restrained in accepting Chinese largesse over the last decade.

- Upper-middle income countries with only moderate development needs — Indonesia, Malaysia, and Thailand — appear to be playing the field of development partners the most opportunistically and politically.

- Amid weakening demand for Chinese development financing in Southeast Asia, Beijing is recalibrating its offering, transitioning to fewer, smaller, and more targeted projects. In 2022, China implemented $3 billion in development financing in the region, a sharp drop from more than $9 billion in 2015.

- However, Southeast Asia's success in reshaping their development ties with China could be undone if Western cuts to development budgets lead to a drastic reduction in financing to the region.

Executive summary

China's official development finance (ODF) to Southeast Asia has declined markedly since 2015. Once the primary development partner for half the region in terms of annual ODF disbursements, Beijing now holds that position only in Malaysia and Laos. While legacy projects will ensure that China remains a significant development partner — potentially providing the region an additional $32 billion in financing — newer Chinese commitments are being provided on a much smaller scale, and with a different focus.

Multiple supply-side factors and domestic economic constraints are changing China's development offering to the region. However, as this paper shows, the demand side of the equation has also evolved, with Southeast Asian states having grown more confident in demanding better outcomes from Chinese funding.

Grouping the eight developing Southeast Asian states into three typologies — by their *constrained*, *restrained*, or *opportunistic* approaches towards Chinese development finance — this paper argues that regional demand for Chinese financing is not solely driven by development and infrastructure needs but also by the range of options available to each country and their ability to navigate foreign policy dynamics.

Introduction

Official development finance (ODF) is public funding from governments and international organisations aimed at driving economic and social progress in low- and middle-income countries. ODF is a catch-all term used to capture both traditional aid and other official development flows such as non-concessional loans. Combined ODF plays a major role in the economies of the eight developing states in the Association of Southeast Asian Nations (ASEAN) — Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Thailand, and Vietnam. For some, such as Cambodia and Laos, it accounts for up to 80% of domestic government development spending.[1] However, to varying degrees, these eight countries can each exercise agency over the type of support they accept.

Chinese development finance to Southeast Asia has declined sharply since its peak in 2017. Once the primary development partner for half of Southeast Asian countries, Beijing now holds that position only in Malaysia and Laos. In 2022, China implemented $3 billion in ODF in the region, a sharp drop from more than $9 billion in 2015.

This analysis explores some of the trends underlying this drop from the recipient perspective, and how different Southeast Asian states have navigated their development relationships with China to assert agency over development finance flows. The paper introduces three evidence-based typologies to categorise states' behaviour, and shows how the approach of some states has modified and evolved over time. It concludes with an assessment that envisages a much smaller role for China's infrastructure finance moving forward.

China slips down the rankings

Among the region's major development partners, none has so far experienced a decline in ODF disbursements as substantial as China's from 2015 to 2022. The World Bank and Japan made minor reductions to their Southeast Asian ODF, while the Asian Development Bank marginally increased its development funding (Figure 1).

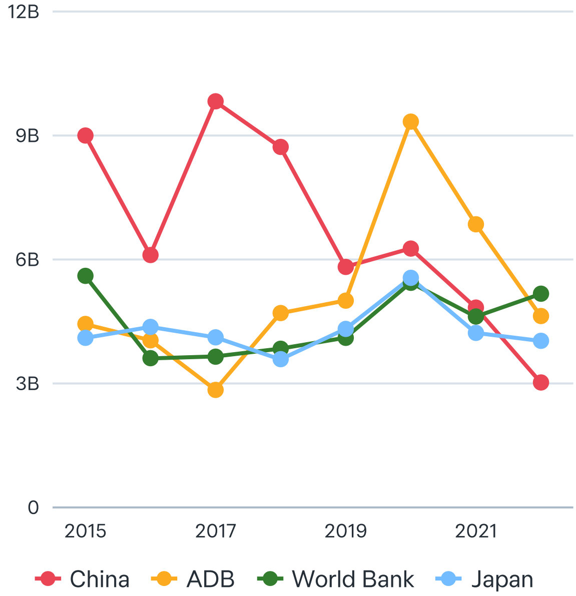
US aid to Southeast Asia also saw a slight decline between 2015 and 2022, and its future is uncertain following President Donald Trump's pause to — and potential drastic curtailing of — foreign assistance programming at the start of his second term.[2] In a worst-case scenario, that could slash aid to the region by up to 85%, though the exact extent and impact of any cuts remains unclear at the time of writing.[3]

Less well known is that China's significance as a development partner started decreasing much earlier, with Beijing's share of total annual ODF to Southeast Asia plummeting from 25% in 2015 to only 11% by 2022. This decline has seen Beijing slip from first to fourth place among development partners in the region by annual ODF disbursements, behind the World Bank, the Asian Development Bank, and Japan. However, looking at annual variation in ODF only offers a glimpse of Beijing's long-term development relationships with Southeast Asian countries. China's cumulative support to the region from 2015 to 2022 makes it the top development partner for most countries in Southeast Asia, except the Philippines, Vietnam, and Timor-Leste.

FIGURE 1

Official development finance to Southeast Asia

Spent, constant 2022 US$ billions

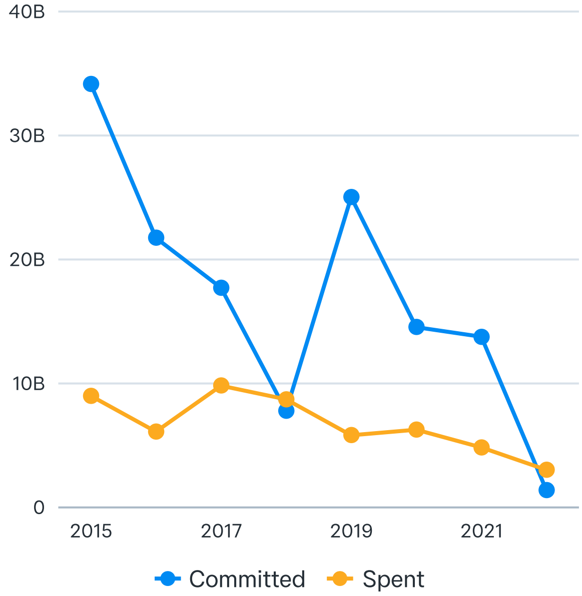


Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

FIGURE 2

Chinese ODF recalibrating in Southeast Asia

Current US$ billions



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

A similar story can be observed in China's commitments to undertake new ODF projects in the region. The Lowy Institute's Southeast Asia Aid Map records a much lower volume of Chinese commitments to development projects in 2022 than in 2015 (Figure 2).[4] More recent ODF agreements have dipped below $2 billion in 2022, marking the steepest contraction among all major development partners to the region. Cumulatively, China accounts for the largest ODF commitment of any development partner from 2015 to 2022, however those recent agreements indicate a continued but significantly reduced pipeline of upcoming development projects in the region.

The power of legacy projects

One reason for China's reticence to embark on sizeable new commitments in Southeast Asia may be Beijing's focus on completing and delivering on its existing projects and promises. Indeed, legacy projects — previously committed but only partially implemented — virtually guarantee that China will remain a significant development partner for the region.

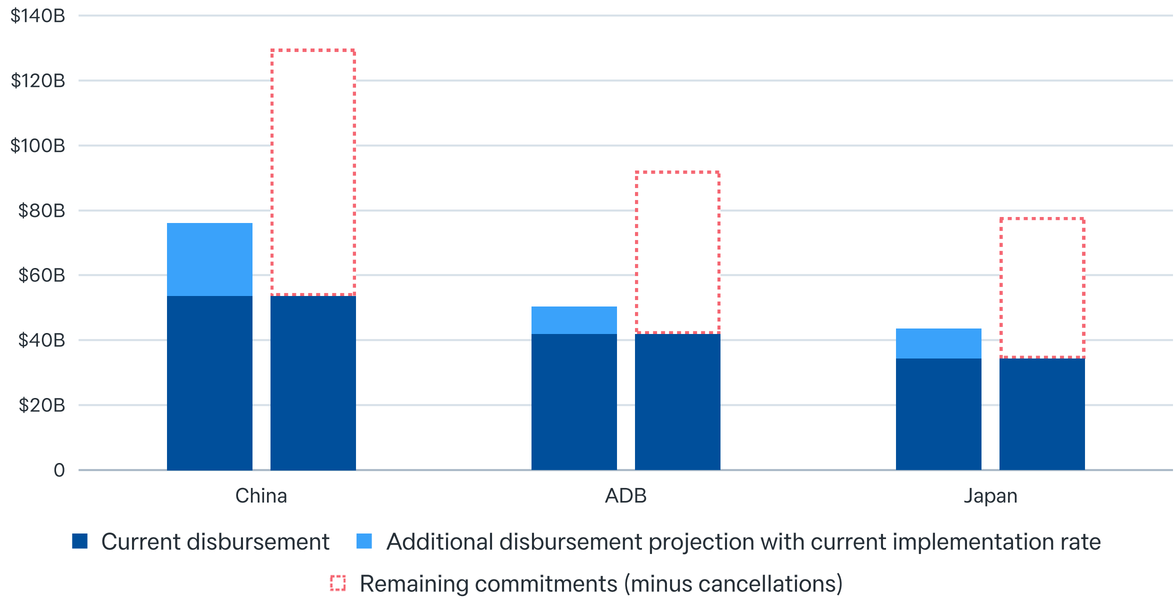
As Lowy Institute research has previously uncovered, the gap between what Beijing has promised and what it has delivered in Southeast Asia is significant, totalling more than $83 billion across various sectors, including infrastructure, health, and education. The reasons for this gap are numerous and include political instability in partner countries, weak stakeholder consultation, as well as China's near exclusive focus on financing megaprojects, which are prone to operational problems and delays.[5]

Yet, aside from a handful of cancelled or downsized projects, most seem to be proceeding. Between 2015 and 2022, China's implementation rate (the ratio of commitments made by Beijing versus actual implementation) stood at 39% across all sectors. Extrapolating this rate to Beijing's outstanding ODF commitments (minus cancellations) of $57 billion suggests a potential additional disbursement of $22 billion in Southeast Asia. Combined with China's existing disbursements, cumulative ODF disbursed from China would then reach $76 billion. This is almost as large as all commitments from the Asian Development Bank and Japan during 2015–22 combined (Figure 3). This suggests that even in a scenario where the demand for Chinese projects changes and commitments decrease, legacy projects will ensure that Beijing continues to play a significant role as an ODF provider in Southeast Asia for years to come.

FIGURE 3

ODF disbursement projections

Current 2022 US$



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

The states of play

Over the past decade, Chinese ODF — mainly through the Belt and Road Initiative (BRI), China's global infrastructure and economic development strategy — has rapidly expanded in Southeast Asia, becoming the primary component of China's development offering.[6] This is primarily attributable to Beijing's capacity to meet region-wide demand for capital and expertise in infrastructure development, but also its ability to improve intra- and inter-regional connectivity and build broader Chinese market access. Of the $54 billion of development financing spent in the region by China between 2015 and 2022, 70% has been directed at infrastructure projects. Of those, almost all were in the transport and communication sectors.

However, the demand for Chinese ODF hinges on more than the development and infrastructure needs of a country. It also depends on the range of options available to the country, and its room to manoeuvre in the foreign policy space. A state's range of options is itself a combination of several factors, ranging from geography, domestic governance, and political systems to quality of institutions and access to other development partners.

In Southeast Asia, state approaches to Chinese ODF can be delineated into three typologies: *constrained*, *restrained*, and *opportunistic*.[7]

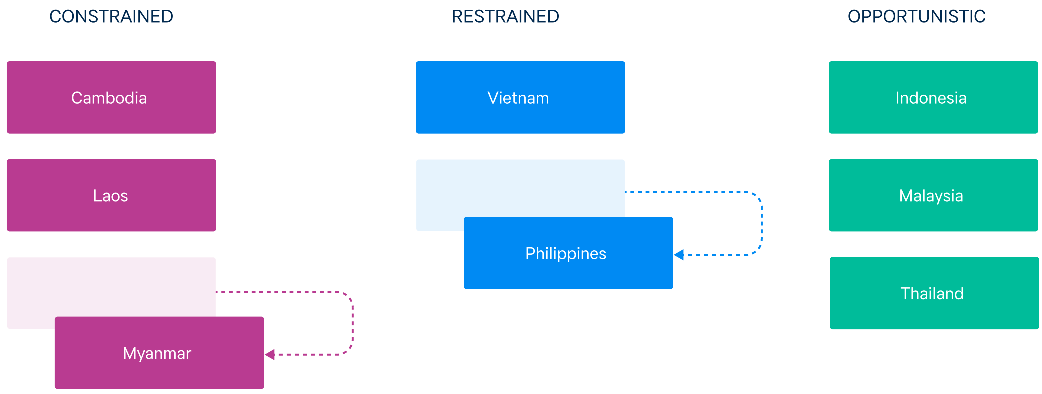
- **Constrained approaches** (exhibited by Cambodia, Laos, and Myanmar) typically apply to Least Developed Countries facing acute development challenges, with ODF levels accounting for a higher share of GDP than in any other country in the region. China is the primary development financier for these countries by a large margin, providing cumulative ODF since 2015 equivalent to more than 20% of their 2022 GDP. Beijing's engagement is extensive, with more new projects committed and deals signed in these countries than anywhere else in the region, alongside high rates of project implementation. Frequent head-of-state meetings further underscore China's involvement. The engagement of constrained states with other development options is minimal, as only one or two donors besides China contribute more than 10% to the total ODF received, indicating a heavy dependence on a restricted range of partners. Therefore, the development options of constrained states are limited and skewed towards Beijing. Low governance scores in these economies suggest limited agency in shaping Chinese-led initiatives, while pressing development needs and structural challenges play a significant role in influencing foreign policy priorities.

- **Restrained approaches** (exhibited by the Philippines and Vietnam) define the behaviour of the two lower-middle income economies in the region with substantial remaining development challenges. Their ODF as a percentage of GDP aligns with the regional average. However, they maintain distance from China's development finance by deliberately moving towards other partners. In fact, among all countries analysed, the Philippines and Vietnam have the lowest share of Chinese ODF, with far fewer new projects signed annually, reflecting their cautious approach. The successful implementation of major Chinese projects in these countries is notably low, often hindered by local and political opposition fuelled by anti-China sentiment, nationalism, protectionism, and territorial disputes. Despite this, development imperatives occasionally drive them to select a few large development projects from Beijing — so much so that just a handful typically account for more than 75% of all Chinese ODF in these countries.

- **Opportunistic approaches** (exhibited by Indonesia, Malaysia, and Thailand) appear to be the preferred modus for upper-middle income nations with dynamic economies, increasing urbanisation, and a burgeoning middle class. Their development needs are lower compared to the rest of the region. They are not heavily reliant on ODF, which accounts for less than 1% of GDP. Cumulatively, China provides the largest share of ODF to these economies, though other traditional development partners contribute almost as much. The relatively high number of new projects China commits to in these countries each year reflects these countries' interest in engaging with Beijing on development initiatives in a practical and flexible way. Their strong governance scores — the highest in the region — suggest they have the capacity to maintain autonomy and engage pragmatically with Beijing, accessing Chinese funding while retaining the ability to decline it without causing offence to Beijing.

Singapore and Brunei are high-income economies not eligible for overseas development aid. They receive very low levels of ODF and are therefore excluded from this analysis. Timor-Leste is excluded on the grounds that Chinese ODF is minimal.

The China Choice – Chinese ODF dependency matrix



Constrained

- Least Developed Countries
- China's cumulative ODF since 2015 = >20% of 2022 GDP
- China is the primary development partner
- Numerous yearly new Chinese commitments
- High implementation rate of Chinese ODF
- Frequent head-of-state meetings
- Only one other development partner contributing more than 10%
- Politically isolated from traditional partners (sanctions, coup, human rights concerns)
- Weak institutions

Restrained

- Lower-middle income
- China is not the primary development partner
- Two or more donors contributing more than 10% of total ODF
- Rare new Chinese commitments
- Few ongoing projects
- Low implementation rate of Chinese ODF
- Ring-fencing/limited integration of Chinese development financing
- Territorial disputes
- Relatively strong institutions

Opportunistic

- Upper-middle income
- Total ODF accounts for <1% of GDP
- China is not the primary development partner
- Two or more partners contribute the same amount of ODF as China
- China's cumulative ODF since 2015 = <5% of 2022 GDP
- Strong institutions

Constrained approaches: Relying on China for development

Cambodia

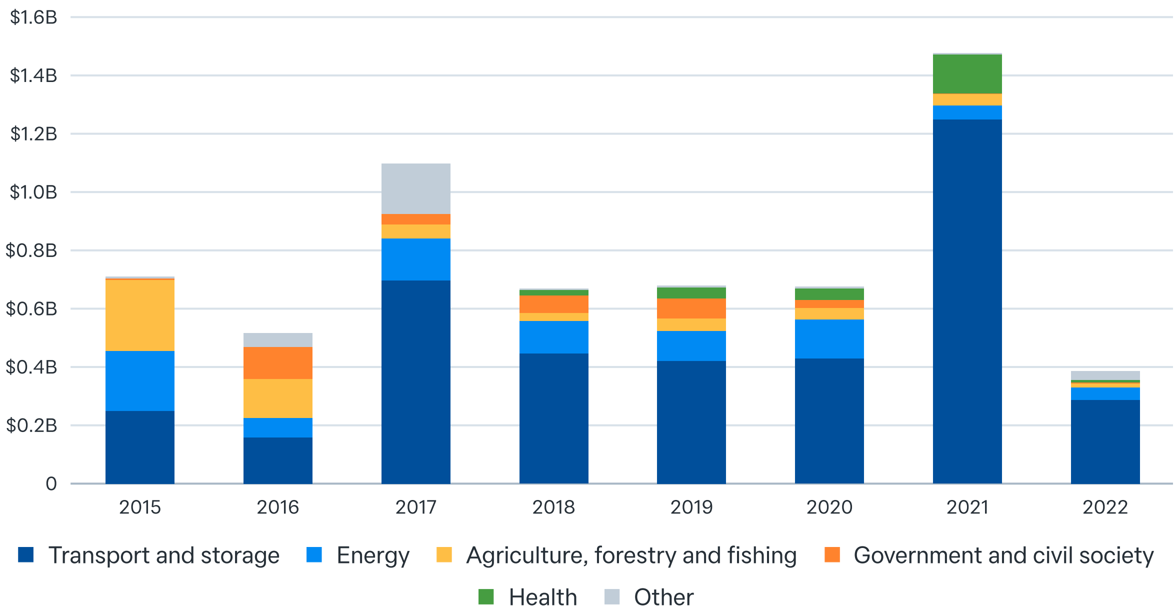
Cambodia has experienced transformative economic growth in recent decades, and is projected to graduate from Least Developed Country status by 2027.[8] Endemic informal employment, a narrow industrial base, and low value-added production are constraints on equitable and continued economic growth.[9] Corruption and malpractice in governance have presented systemic challenges and deterred traditional development partners, although Prime Minister Hun Manet's new administration intends to implement reforms.[10] The infrastructure focus of China's ODF is a natural fit for Cambodia's national development strategy, which features an explicit emphasis on roads and electricity (Figure 4).[11]

Cambodia has often been described as "band-wagoning" with China.[12] The modern relationship has been largely defined at the leadership level by former Cambodian Prime Minister Hun Sen, whose authoritarian regime has been shunned by the United States since the 1997 coup. As Cambodia's democracy has receded, Hun Sen and his son Hun Manet have strengthened ties with Beijing, deepening the relationship between the two countries.[13] Cambodia views China as a security partner, and Cambodia acts as a key leverage point in ASEAN on the contentious South China Sea territorial dispute.[14] China-Cambodia cooperation has transcended the security sphere and seen Cambodia embrace Chinese ODF.[15] China provided more than a third of all ODF to Cambodia from 2015 to 2022, equivalent to 32% of the country's 2022 GDP.

FIGURE 4

Chinese ODF to Cambodia, by sector

Spent, constant 2022 US$



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

Although the ascension of Hun Manet has been projected by some analysts to herald a softening towards the United States, the Sino–Cambodian relationship is unlikely to weaken.[16] The latest evolution of the BRI, emphasising better governance, anti-corruption, and clean technology, aligns with Cambodia's development strategy. Additionally, the United States signalled that it would impose sanctions and cut aid to Cambodia in the wake of the controversial 2023 election.[17] However, new Chinese commitments to Cambodia have dropped off in recent years, while other regional powers such as India, Japan, and South Korea have stepped up, suggesting that although Cambodia might not embark on a pivot to the West, its pool of development providers could expand.

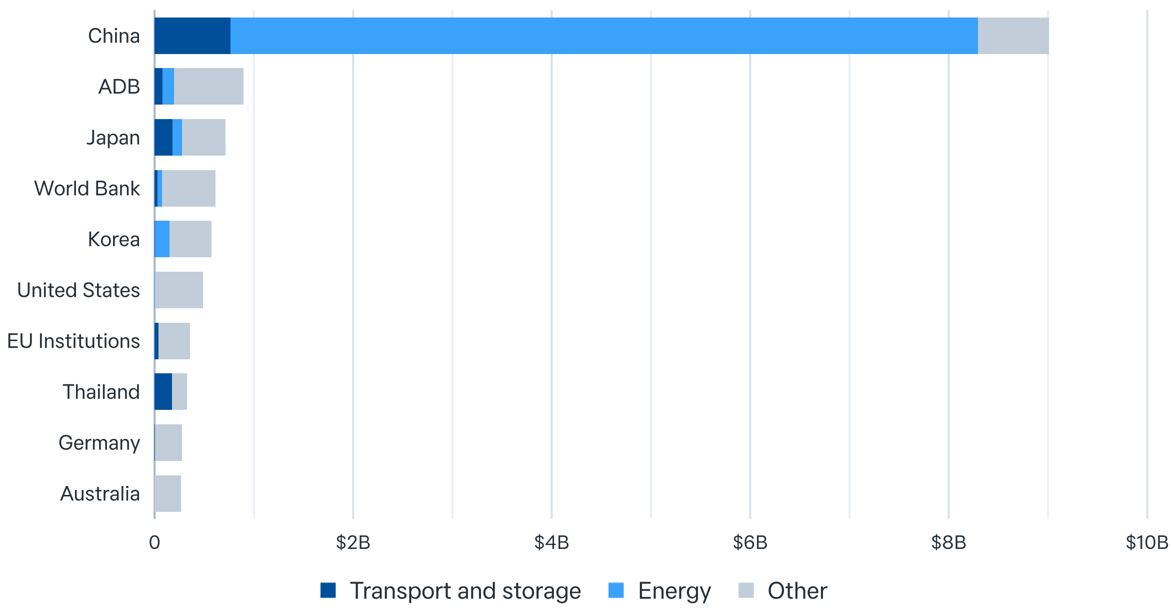
Laos

Of all Southeast Asian nations, Laos is perhaps the most dependent on China's support. Faced with acute development challenges, Laos possesses few significant alternatives and has a dramatic power asymmetry with China.

Laos' enthusiastic embrace of the BRI is driven by an appetite for large-scale development infrastructure. Laos' own conception of its development pathway emphasises its transformation from a land-locked to a land-linked country.[18] It also aspires to the position of the "battery of Southeast Asia".[19] Those ambitions neatly align with the BRI, and China has delivered numerous hydropower plants and much railway infrastructure in Laos. Indeed, the energy and transport sectors accounted for 92% of Chinese ODF spent in Laos from 2015–22.

FIGURE 5

Cumulative ODF by sector and partner in Laos, 2015–22
Spent, constant 2022 US$



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

Laos' development autonomy from Beijing is hampered by geographical proximity, its downstream position on the Mekong, and economic asymmetry, limiting Vientiane's agency. Its development prospects are further threatened by its lack of engagement with viable alternative partners. Laos' next largest development partner is the Asian Development Bank, whose expenditure is less than 10% that of China over the same period. China provides more than 60% of Laos' ODF (Figure 5). Laos aspires to graduate from Least Developed Country status by 2026, but its development is constrained by unsustainable levels of public debt, high inflation, and deteriorating living standards.[20]

China's role as Laos' development provider is also inextricably linked to its profile as primary creditor of Laos' burdensome external debt stock. Barring any meaningful Chinese debt concessions, Laos' economic crisis is likely to worsen, but the Lao prime minister seems committed to aligning his country's development path with China.[21]

Restrained approaches: Minimising dependence on China

Vietnam

Vietnam's remarkable development progress and its unique relationship with China have afforded it a high degree of agency in its engagement with China's development offerings. Vietnam maintains strong party-to-party ties with China's leadership. That link at times defies other aspects of the relationship. Territorial disputes in the South China Sea are a complicating factor, as Vietnam is an important claimant state and often uses ASEAN to escalate its grievances to the regional level.[22] Recovery of territories in the South China Sea is a pillar of domestic political legitimacy, and Vietnam's leadership is thus cautious and resistant in its dealings with China.[23]

Vietnam's cautious approach to Chinese development financing is evident in three aspects. First, China ranks as only the fifth-largest development partner for Vietnam, contributing just 11% of the country's total ODF. This makes Vietnam one of the few nations in the region where China is not among the top two development partners. Notably, Chinese ODF has sharply declined since the pandemic, falling to less than 2% of total annual ODF since 2020. Second, the number of new Chinese commitments to Vietnam is minimal — the smallest in the entire region. Third, Vietnam limits Chinese involvement by confining 84% of China's spending to the energy sector. At the same time, the country maintains a diverse range of development partners, with five donors each contributing 10% or more of its total ODF.

Divergence in Chinese and Vietnamese worldviews is likely to continue to test the ideological fraternity and institutional congruency of the world's two most successful Communist governments.[24] Hanoi's warming ties with the United States and its ongoing development cooperation with Japan, South Korea, and the multilateral development banks, combined with dramatic decreases in disbursements and new commitments from Beijing in recent years, are indicators that China will likely play a specific but minor role in Vietnam's future development.

Opportunistic approaches: Hedging development bets

Indonesia

Early in his presidency in 2014, former Indonesian President Joko Widodo highlighted his vision for economic transformation by prioritising the building and upgrading of infrastructure in the archipelago.[25] Indonesia became the largest recipient of Chinese ODF in Southeast Asia, with a yearly average of more than $3 billion between 2015 and 2017. Infrastructure projects in energy and transport accounted for 65% of Chinese development projects in the country.

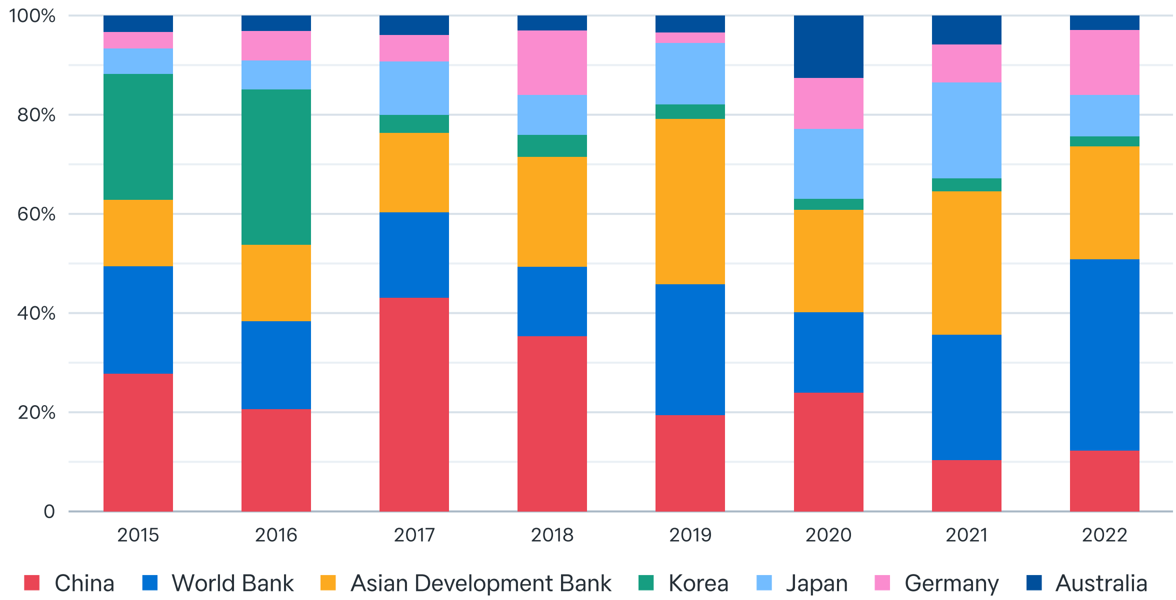
Yet, shortly after, sentiment began to turn due to labour and environmental abuses as well as delays and cost overruns in the Jakarta–Bandung high-speed rail line, a key project of Beijing's BRI. In addition, there has long been a deep undercurrent of antipathy towards China in Indonesia.[26] China's presence has ignited criticism and protests, and since 2018, Chinese ODF has declined, with yearly commitments averaging $300 million.[27]

In the meantime, traditional development partners regained their importance to Indonesia. In the energy sector, the Asian Development Bank has taken the lead, while Japan has surged ahead of China in transportation projects, notably thanks to the delivery of the Jakarta Mass Rapid Transit Project and the Patimban Port Development Project. China's share of total development finance to Indonesia surged in 2017–18 and then shrank to a mere tenth in 2022, with multilateral partners now accounting for nearly half, up from 30% in 2015 (Figure 6). Jakarta's pragmatic strategy has also seen traditional bilateral partners such as Germany and Japan bolster their engagement.

FIGURE 6

Indonesia's major partners

% total ODF, spent, constant 2022 US$



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

Malaysia

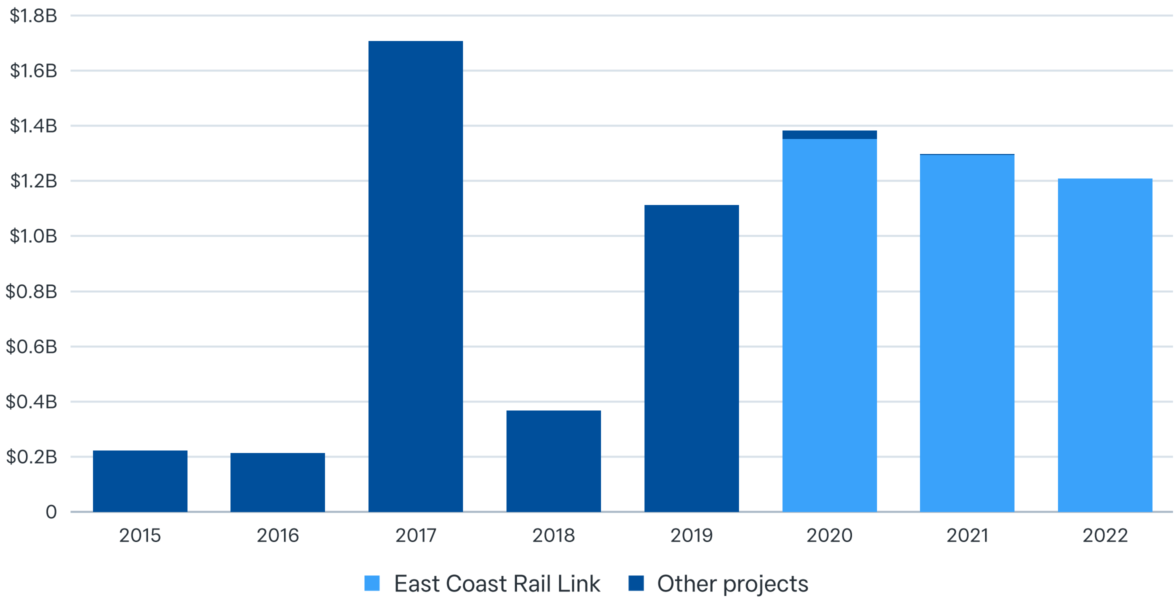
During the Xi Jinping–Najib Razak era (2013–18), China and Kuala Lumpur formed solid bonds on a foundation of historical ties and a substantial Chinese–Malaysian diaspora, with Malaysia strongly backing the BRI and Chinese ODF. But Malaysia's position on Chinese investments took a sharp turn following the 2018 election. Prime Minister Mahathir Mohamad swiftly acted on his campaign pledges, promising to review all China-related agreements, cancelling two pipeline projects, and suspending the East Coast Rail Link (ECRL), the signature Malaysia–China cooperation project.

At the time of signing, the ECRL was the largest economic and trade project between China and Malaysia, accounting for more than half of China's ODF spending in Malaysia and an astounding 99% of Chinese ODF expenditure in Malaysia documented in 2019–22 (Figure 8). Amid serious corruption allegations, the financial arrangements with China became politically contentious, leading to suspensions or renegotiations with each change of government.

FIGURE 7

Chinese ODF to Malaysia, by projects

Spent, constant 2022 US$ billions



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

While China provides the largest share of ODF to Malaysia, territorial disputes in the South China Sea have prompted Kuala Lumpur to adopt a more cautious approach towards Beijing.[28] This is evident in Malaysia's limited interest in new Chinese projects, with few ODF deals signed in recent years and a very low rate of project implementation.

Moving forward, Malaysia will probably not seek Chinese ODF for ECRL-like infrastructure megaprojects. Instead, Kuala Lumpur has welcomed the shift in investments towards "small but beautiful projects", especially green and digital projects in line with Malaysia's current priorities.[29]

Thailand

Thailand was initially among the leading supporters of the BRI. Bangkok's enthusiasm for Chinese ODF stemmed from closer ties with China after the 2014 military coup, as Beijing's commitment to non-interference became an implicit political endorsement of Thailand's military regime.[30] China accounted for 28% of all ODF to Thailand in 2015.

Yet persistent concerns about the financial viability of certain Chinese projects and fears of falling into a "debt trap" (virtually all Chinese funding to Thailand is in the form of semi- or non-concessional loans) prompted Thailand to diversify.

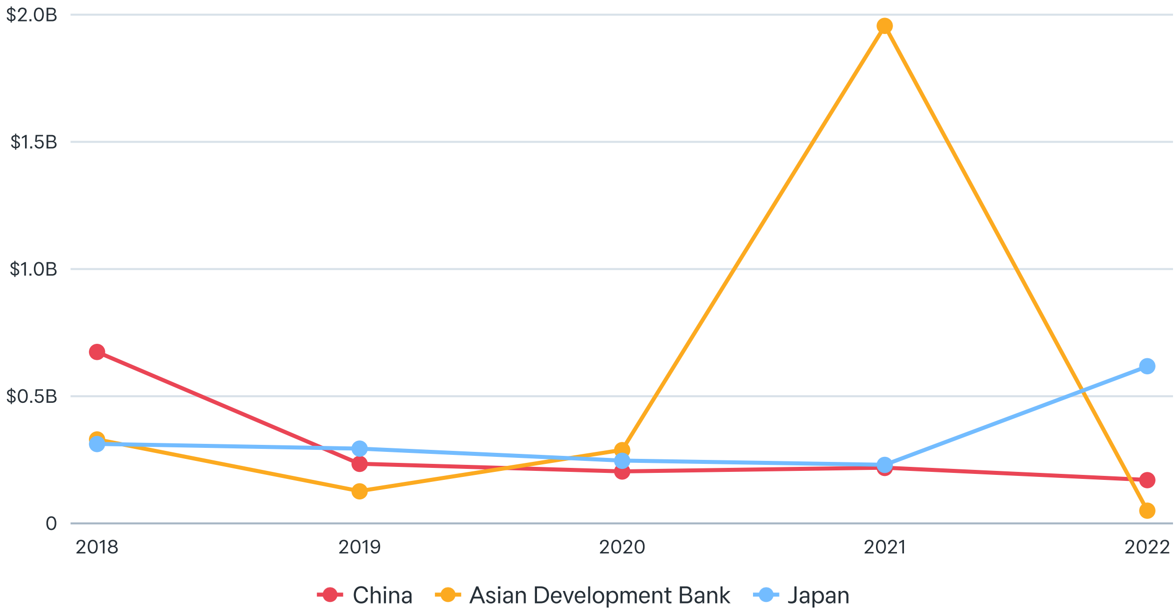
The Thai government spent years negotiating with China on the Sino–Thai high-speed rail line, partly due to domestic political considerations.[31] Ultimately, Thailand opted to reject China's loan offering and instead financed the line domestically. Nor has Thailand shown interest in any other Beijing-funded connectivity projects, underscoring its pragmatic and selective approach to engaging with Chinese development financing. To date, there are only two Chinese transport ODF commitments in Thailand recorded in the Southeast Asia Aid Map.

Since 2018, Chinese ODF in Thailand has dwindled both in significance and scale (Figure 7). Instead, traditional development partners such as the Asian Development Bank and Japan, and to a lesser extent the United States and Germany, have consolidated their positions as alternative development avenues, including in the infrastructure space. In fact, according to recent reports, newly elected Thai Prime Minister Srettha Thavisin does not view Beijing as a priority investor and is expanding outreach to other development providers.[32]

FIGURE 8

ODF to Thailand

Spent, constant 2022 US$ billions



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

While several projects are underway, Chinese ODF is projected to continue to wane. Thailand's future cooperation with China is likely to pivot around China's new Global Development Initiative (GDI), which emphasises pandemic response, food security, and the digital economy, aligning with Thailand's efforts to modernise its economy.

Special cases

The developmental and political landscape in Southeast Asia is dynamic and ever-changing. Between 2015 and 2022, the period covered in this analysis, several countries experienced government transitions — some through democratic means and others by force. These shifts have significantly influenced their engagement with China and its development financing. Myanmar and the Philippines are key examples.

Myanmar: A constrained–restrained–constrained state

The civil conflict in Myanmar has aggravated its economic and development woes and limited its options to address them. The violent coup in February 2021 distanced the administration from the West and sparked devastating economic sanctions. The ongoing conflict has reversed previous gains in poverty reduction and threatens to compound entrenched economic malaise.

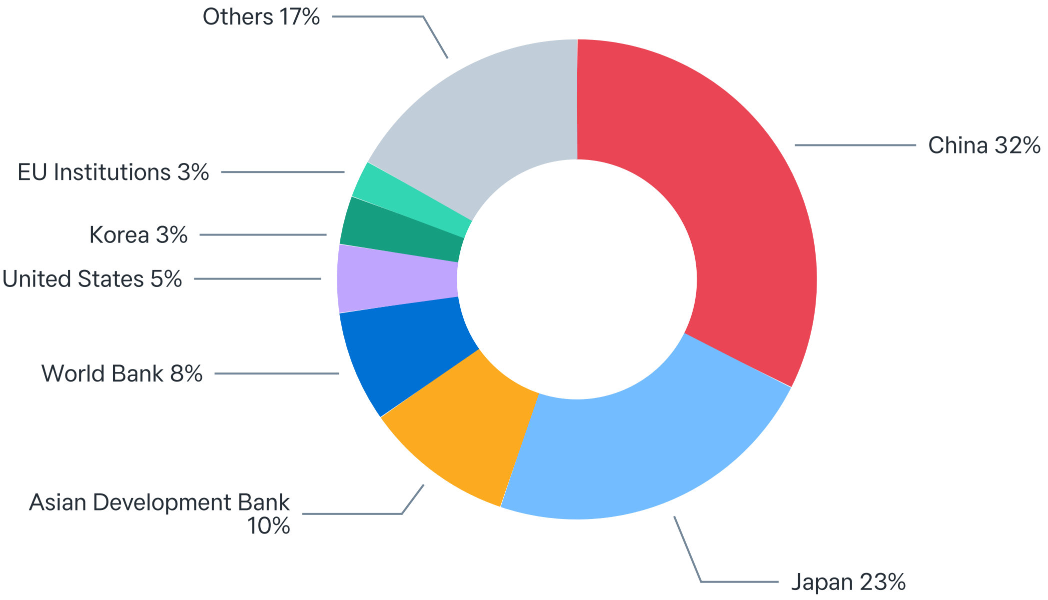
Before the 2021 coup, Myanmar's development landscape looked markedly different. In 2015, the country's aid profile resembled that of the constrained states, with low governance scores and heavy reliance on Chinese financing. This shifted in 2016, partly with the election of State Counsellor Aung San Suu Kyi's government, which brought significant governance improvements. The government renegotiated major Chinese loans, including scaling back the $7 billion Kyaukphyu Deep-Sea Port Project to $1.3 billion over debt concerns.[33] Simultaneously, Myanmar expanded partnerships with Japan and multilateral institutions such as the Asian Development Bank and World Bank. As a result, the Chinese share of overall ODF declined while contributions from other partners grew, signalling a more pragmatic approach. This progress abruptly ended in February 2021 with the military coup.

Since then, most traditional bilateral and multilateral partners have drastically reduced development activities and disbursements in Myanmar, refusing to confer legitimacy upon the military junta. The major exception is Japan, which has so far ignored calls to impose sanctions on the junta and continues to disburse ODF.[34] In this state of isolation, the regime has turned to alternative partners including Russia, India, Thailand, Cambodia, and most of all China (Figure 9). The junta seeks to derive domestic political legitimacy from the delivery of major infrastructure and economic connectivity projects in cooperation with Beijing.

Beijing's pragmatic approach to successive and conflicting administrations in Myanmar throughout decades of coups and political turmoil is driven by selfinterest — a "marriage of convenience".[35] Border security and transnational crime pose challenges to the smooth functioning of the relationship but also necessitate close cooperation. The China–Myanmar Economic Corridor provides overland access to the Indian Ocean from China, another important security incentive for China to remain a key player in Myanmar.

As a result, Chinese commitments to Naypyidaw have surged in recent years, especially in the transport sector, with the 2021 promise of two multi-billion-dollar infrastructure projects, the $8 billion Mandalay–Kyaukphyu Railway and the $1.6 billion Kyaukphyu Special Economic Zone deep-sea port. Beijing is also the primary financier of energy projects in Myanmar, including hydropower dams, gas terminals, oil pipelines, and transmission lines. Since the coup, China has accounted for 32% of all ODF committed to Myanmar, but Chinese disbursements have reduced significantly, with instability on the ground preventing safe delivery of projects.

FIGURE 9
ODF commitments to Myanmar, 2015–22
Constant 2022 US$



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

The escalation of violence across the country, especially since October 2023, has exacerbated an acute and protracted crisis.[36] The degradation of Myanmar's national institutions and policy capacity, coupled with its isolation from traditional development partners, has reduced Myanmar's ability to play an active and decisive role in its own development. Myanmar occasionally uses other small partners to balance Beijing, but must remain aligned with China for the continued provision of political, military, and economic support. With the exception of Japan, which is the only country besides China contributing more than 10% of total ODF, traditional partners are unlikely to be significant contributors. The geostrategic value of the China–Myanmar Economic Corridor and the threat of transnational crime on the border will likely provide an ongoing incentive for China to invest in the stability of Myanmar.

Information on Chinese activities in Myanmar is scarce due to a collapse of the country's public institutions and free media since the coup. The Southeast Asia Aid Map therefore likely significantly underestimates China's disbursements, especially in 2022 (the latest data available).

The Philippines: A restrained–opportunistic–restrained state

Owing to the South China Sea dispute, the Philippines has historically maintained a cautious stance towards China. Among the Southeast Asian nations analysed here, the Philippines stands out as the only country where China is not ranked among the top ten development partners, and is responsible for only 1% of total ODF to the Philippines over the 2015–22 period. But the efforts of the previous government could have led to a notably different outcome.

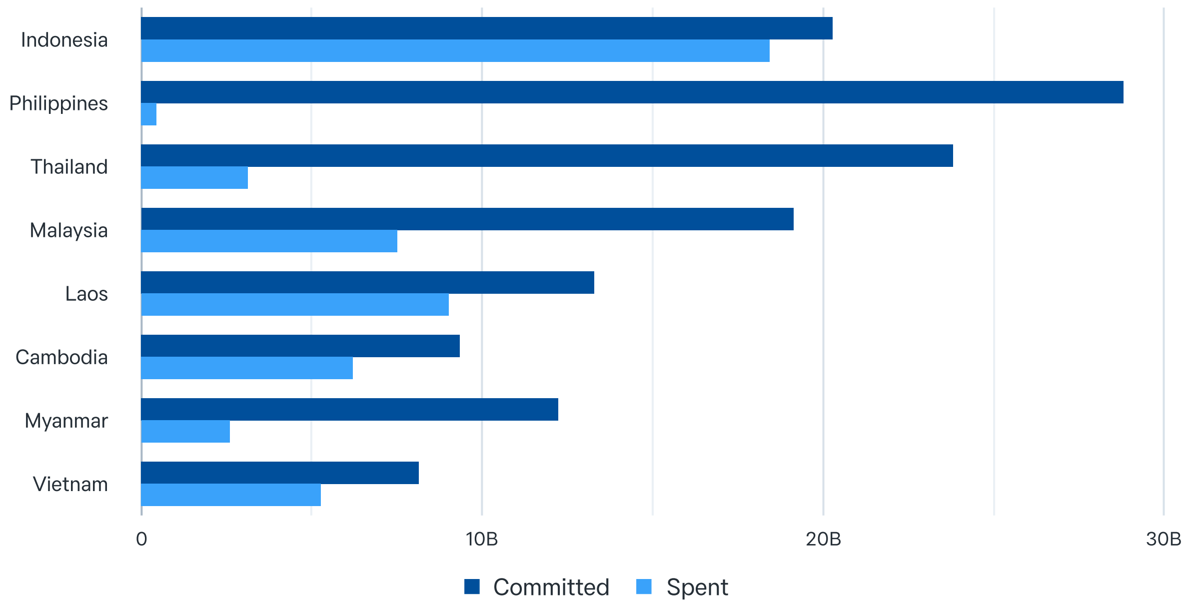
After assuming office in 2016, President Rodrigo Duterte moved substantially closer to China, aiming to leverage Chinese support for improving domestic infrastructure and promoting the Philippines' economic development. As a result, head-of-state bilateral meetings dramatically increased, and the Philippines signed more than $28 billion in ODF commitments with China, averaging $4.7 billion annually. This is more than three times larger than the sum Japan, the largest traditional bilateral partner of the Philippines, committed in the same period. Under Duterte's administration, Chinese commitments made up an average of 40% of new annual development commitments to the Philippines. If fully implemented, these commitments could have reshaped the Philippines' development landscape, aligning it more closely with the approach of the opportunistic states.

Yet, despite Duterte's efforts to assure Filipinos that these China ties would benefit the country, the public did not share their leader's positive impression.[37] As a result, several projects experienced complications, notably due to political and environmental concerns.

Persistent wariness towards Chinese investments in Philippines' society, supported by strong domestic institutions, has remained a stubborn obstacle to the implementation of Chinese ODF. This scepticism, combined with China's focus on infrastructure megaprojects, in part contributed to the Philippines having the lowest implementation rate of Chinese ODF among ASEAN nations, at 1.5%, with $29 billion worth of projects committed, for less than $1 billion implemented, between 2015 and 2022 (Figure 10).

FIGURE 10

Chinese ODF projects signed and implemented in Southeast Asia, 2015–22
Constant 2022 US$



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

Meanwhile, the Philippines continued to diversify its development partnerships to mitigate risks associated with China and maintain autonomy. Manila balanced its links to China with multiple traditional partners, spearheaded by the multilateral development banks and Japan.

The new administration led by President Ferdinand R Marcos Jr adopted a sharp shift in foreign policy that has impacted the future of the BRI in the Philippines and displayed Manila's intent to counter-balance China's ODF provision. In July 2022, the government announced that it had effectively cancelled three major railway projects in Luzon and Mindanao initiated under the previous administration.[38]

China's recalibration

Southeast Asia has become a far more challenging terrain for China's development financing activities in recent years. Beijing has had to contend with rising economic nationalism in recipient countries, escalating tensions over territorial disputes in the South China Sea (which are Beijing's doing), fast-moving domestic political debates, and heightened regional sensitivity to its debt practices and arrangements. This has led to more questioning of existing Chinese ODF projects and a creeping reluctance from recipient governments to take on more. Amid weakening demand in Southeast Asia and economic troubles at home, China is refining its ODF offering, transitioning to fewer, smaller, and more targeted projects.

The 2023 BRI forum revealed a deliberate evolution of the Initiative.[39] On the one hand, there is clear intent at the highest levels of the Chinese Communist Party to maintain the BRI as an enduring initiative. On the other, Beijing recognises that it must adapt to changing circumstances and demand signals on the ground. New funding injections and commitments to policy reforms, addressing challenges such as environmental impact, technology, artificial intelligence, and integrity and compliance, provide strong indications that Beijing remains ambitious and that the BRI, and the broader Chinese ODF package, is here to stay.

Chinese ODF will likely therefore continue to play a significant role in development financing in Southeast Asia as governments continue to search for resources to meet their development needs.[40] Projects already underway will also contribute to China remaining a significant development partner for the region, potentially delivering an additional $32 billion in financing in the years to come even without any new commitments.

Yet the Initiative will almost certainly consist of fewer, smaller, and more targeted projects, aligned with the new "small is beautiful" mantra of Chinese ODF in Southeast Asia.[41] The latest phase of the BRI has adopted a risk management and minimisation strategy, emphasising due diligence in a new Green Investment and Finance Partnership project preparation facility, as well as new initiatives aimed at strengthening integrity-and-compliance and worker safety measures.[42] A reluctance on the part of official Chinese creditors to lend with abundance to developing country governments will likely further reduce the number and size of future project commitments.[43]

With this trend comes an ancillary but impactful consequence. Smaller projects with lower financial value will attract less scrutiny than megaprojects, which rightfully receive media attention and generate public debate. The work of open-source researchers attempting to monitor Chinese ODF will thus become increasingly difficult.

An ominous outlook for Southeast Asia?

As China's ODF gained primacy in the region, development partners announced a series of BRI-like alternatives. Yet the scale and content of these initiatives pale in comparison to China's pledges, and their outlook, particularly for US and EU aid and development activities, is concerning.

Since 2015, we have seen the emergence of the G7 Partnership for Global Infrastructure and Investment (formerly the Build Back Better World program), the Blue Dot Network, the EU's Global Gateway, and the G7-led Just Energy Transition Partnerships or JETPs. A proliferation of smaller bilateral mechanisms, such as Australia's recent Southeast Asia Investment Financing Facility (SEAIFF), Japan's Partnership for Quality Infrastructure, and the UK's Clean Green Initiative, add to the mix. The scale and content of these programs differ, but each of the schemes has been slow to move forward and some have already been abandoned.

The Blue Dot Network, launched in 2018 by Australia, the United States, and Japan, has so far not been operationalised, proposed standards have not been agreed upon, and the only sign of progress is a four-project pilot program completed in 2023.[44] The Build Back Better World scheme, a G7 and US-led initiative launched in 2021, attracted just $6 million in commitments in its first year and was absorbed the following year into the 2022 G7 Partnership for Global Infrastructure and Investment, which is now active in the Philippines' Luzon Economic Corridor.[45] The UK's £3 billion Clean Green Initiative, pledged during its hosting of COP26, was also short-lived and does not appear to have survived several changes in leadership.

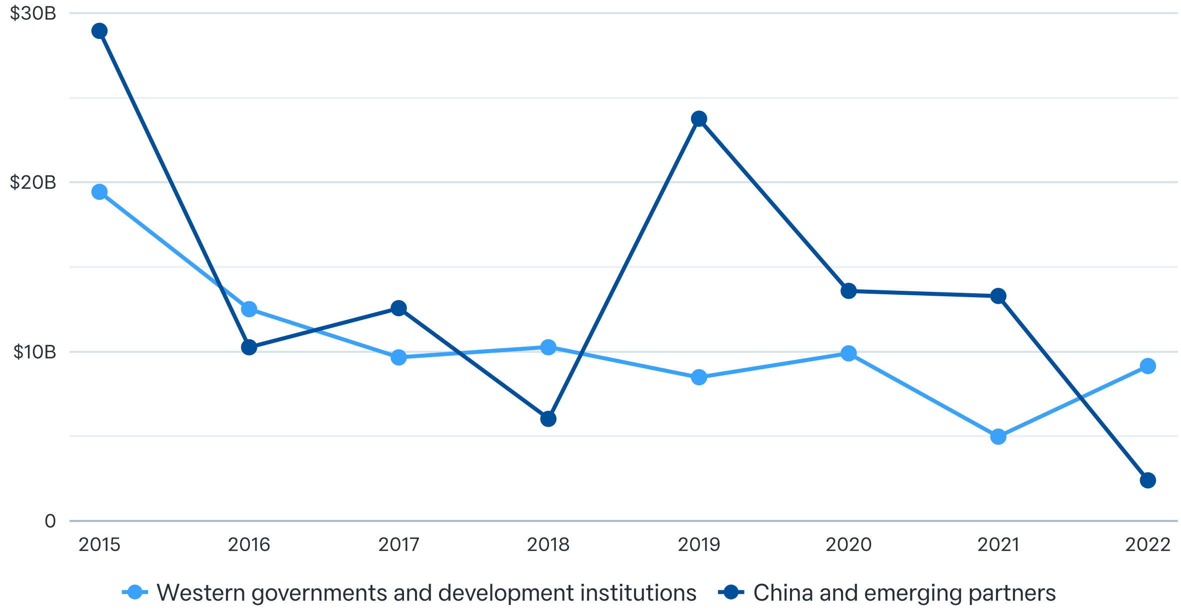
Other programs look more promising but hinge on private finance mobilisation, while the degree of paid-in public finance has generally been low. The EU's Global Gateway has established a partnership with ASEAN, offering finance at a much smaller scale than the BRI, but emphasising its difference in values through a focus on multilateralism and a "rules-based world order". Japan, the largest bilateral traditional provider of infrastructure funding to the region (21%), launched its Partnership for Quality Infrastructure in collaboration with the Asian Development Bank and the World Bank in 2015. Meanwhile, the G7's JETPs in Indonesia and Vietnam, worth $20 billion and $15 billion, respectively, are focused on large-scale energy sector decarbonisation. However, both face implementation challenges.

In sum, the West's response to China's BRI has yet to make a significant impact (Figure 11).

FIGURE 11

Commitments on infrastructure in Southeast Asia, 2015–22

Constant 2022 US$ billions



Source: Lowy Institute Southeast Asia Aid Map, 2024 edition

More concerning is the fact that Western governments are dramatically scaling back aid and development budgets. At the time of writing, the United States has frozen — and will potentially slash — most of its global aid program and has dismantled its aid agency. Europe is also under pressure to reduce overseas assistance, with budgets squeezed by slow economic growth and redirected to domestic priorities such as housing asylum seekers or dealing with the humanitarian fallout from the war in Ukraine. Japan, the largest traditional development partner in the region, reached record global levels of foreign aid in 2023 but faced a 6% cut in 2024 due to economic challenges, with little prospect for future increases.

This could have serious implications for the region. First, the new-found agency of many Southeast Asian countries to recalibrate their development ties with China may be undermined if Western aid cuts translate to a drastic reduction of ODF. Countries already reliant on Chinese development support will have even less room to explore diversifying their ties. Countries with restrained or opportunistic approaches to China will find it harder to maintain this precarious balancing act.

Second, Southeast Asia's vast infrastructure needs, estimated at $2.8 trillion by 2030, will increasingly depend on China.[46] If Beijing does not ramp up its financing, as recent trends suggest, the region's development could be jeopardised, hindering economic growth, poverty reduction, and progress on climate goals.

Third, the lack of competition could reduce some of the pressure put on China to reform the BRI to model best practices. In fact, as global development budgets shrink, remaining funding is likely to serve geopolitical interests, not necessarily the region's development needs. This will further challenge Southeast Asian countries' agency to channel development financing to their domestic development priorities.

Ultimately, these trends could diminish Southeast Asia's bargaining power and threaten its long-term sustainable development.

Conclusion

China's role in Southeast Asia's development has changed dramatically in recent years. Both push and pull factors explain this shift. Southeast Asian states are, to varying degrees, navigating the complexity of their domestic politics, development needs, economic asymmetry, geography, and the region's geopolitics to exercise agency in their acceptance of aid and development projects.

Regardless of what happens next, development finance will continue to be a tool for shaping regional dynamics. Southeast Asia's approach to Chinese aid, and China more broadly, will ultimately depend on how many options recipient states have, how well they leverage these options, and how effectively other partners respond to the region's evolving needs.

Note: All currency is quoted in US dollars (US$).

Annex 1

Chinese ODF dependency matrix

Criteria (average, 2015–22)	Cambodia	Laos	Myanmar	Philippines	Vietnam	Indonesia	Malaysia	Thailand
Income level	Lower middle	Lower middle	Lower middle	Lower middle	Lower middle	Upper middle	Upper middle	Upper middle
Least Developed Countries	Yes	Yes	Yes	No	No	No	No	No
Governance indicator (WGI)	-0.78	-0.74	-1.11	-0.32	-0.37	-0.15	0.36	-0.29
ODF % GDP	8%	9%	3%	1%	2%	1%	0%	0%
Chinese ODF as a share of total national ODF	34.58%	58.36%	12.50%	1.14%	9.31%	20.30%	72.54%	28.67%
New individual project commitments	8.75	6.57	8.71	6.14	2	5.38	4.71	2.25
ODF implementation rate	66%	68%	21%	2%	65%	91%	39%	13%
Head-of-state meetings (2015–22)	11	10	6	15	11	17	9	7
Project concentration (how many Chinese projects make up 75% of total Chinese ODF)	21	4	2	3	2	11	2	2

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Notes

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About the authors

Alexandre Dayant is a senior economist and Deputy Director of the Indo-Pacific Development Centre, a dedicated policy research centre within the Lowy Institute. The Centre is committed to producing fresh policy insights and ideas on the most pressing economic development challenges facing the Indo-Pacific region — principally focusing on the emerging and developing economies of Southeast Asia, the Pacific Islands and South Asia.

Alexandre directs both the Lowy Institute Pacific Aid Map and the Lowy Institute Southeast Asia Aid Map projects, which provide the world's most comprehensive data tracking of all official aid and other development finance flows to the Pacific Islands and Southeast Asia.

Prior to joining the Institute in 2017, Alexandre worked as a management consultant for PwC in Mexico. He has a master's degree in International and Development Economics from the Australian National University and a master's degree in Econometrics from La Sorbonne, Paris. Alexandre speaks fluent French, English and Spanish.

Grace Stanhope is a Research Associate in the Lowy Institute's Indo-Pacific Development Centre working on the Southeast Asia Aid Map, a tool that tracks and analyses foreign aid and development finance flows to Southeast Asia from 2015 onwards.

Grace joined the Lowy Institute from the Australian Strategic Policy Institute in 2023 and previously worked as a sub-editor in the Federal Parliamentary Press Gallery. She holds a Bachelor of Politics, Philosophy and Economics and a Bachelor of Development Studies from the Australian National University.

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