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How Dependent Are Emerging Economies on China's Growth?

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- China is now the top export market for many emerging countries, as its average share of exports from these economies rose from 4% in 2002 to 12% in 2022. Additionally, the growth of outbound Chinese tourism has created new forms of dependence, especially for certain Asian countries.
- Emerging economies are also financially dependent on China through commercial and sovereign loans. The main recipient sectors (energy, mining and transport) and regions (Asia and Africa for almost 60% of the loans) are in line with China's strategic priorities, particularly in terms of its supply needs. China's total outward foreign direct investment (FDI) flows remain low in relation to loans, but Chinese FDI accounts for a significant share of the FDI stock of several countries (Pakistan, Angola, South Africa and Thailand).
- China's slower medium-term growth – which the IMF has projected will fall to 4% over the next few years, down from 8% in the 2010s – will affect emerging economies through two primary channels. On the trade side, slower Chinese growth will result in (i) a decline in domestic demand and imports, and (ii) price and volume effects on commodities. On the finance side, China's slowdown will play a role in the continued push, which began in 2015, to reduce the flow of its financing (loans and FDI) to emerging economies (see Chart), and in the country's geographic and sectoral refocusing, as already reflected in the shift in the official stance regarding the Belt and Road Initiative (BRI). Asian countries and commodity-exporting countries are expected to be the most vulnerable to China's structural slowdown due to their close trade ties with Beijing.

Changes in Chinese loans and FDI to emerging economies ($bn)

Most-recent data point: 2022 for FDI, 2021 for loans.

Source: AidData, China Global Investment Tracker, Boston University Development Center.

1. Some emerging economies have become highly dependent on China for trade

China's structural economic slowdown has already begun and is expected to continue in coming years.[1] The IMF has projected an average annual growth rate of 4% between 2023 and 2027 if no significant reforms are undertaken (in contrast to a growth rate of 8% in the 2010s). This lacklustre growth is due to (i) a continuous decline in total factor productivity against a backdrop of population ageing, (ii) falling consumer and business confidence related to the lack of both social safety nets and clear signals of intent to promote the private sector, (iii) structural issues in the property market (one of the sectors driving growth) and (iv) debt-laden local governments. This slowdown is expected to affect emerging economies due to their high degree of trade and financial dependence on China.

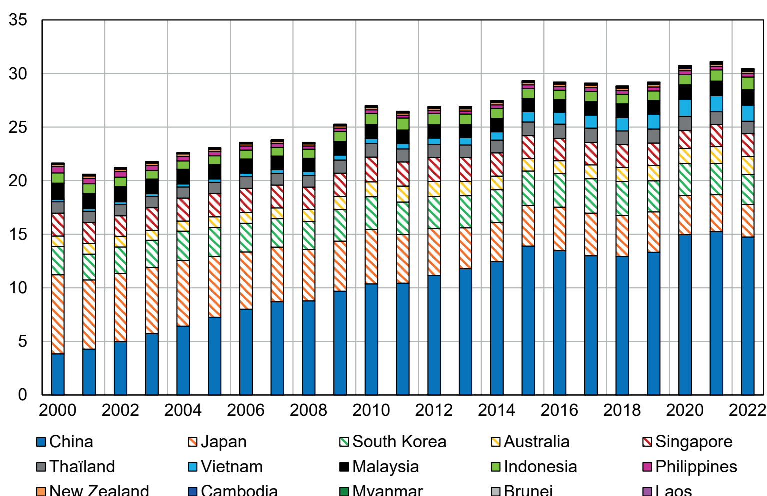
1.1 In 20 years, China has become the main trading partner of many emerging economies

China's share of global trade increased from 4.7% in 2002 to 12.7% in 2022. China has a predominant role in the commodities sector, as it is the world's largest importer of ores (accounting for more than 70% of global imports of nickel, aluminium and iron), as well as in agricultural commodities (being behind 12% of the world's grain imports and 58% of soybean imports). The country also accounts for 25% of oil and gas imports.

China is now the top trading partner of more than 120 countries and regions in the world, mostly emerging economies belonging to the Association of Southeast Asian Nations (ASEAN) and commodity exporters (e.g. Angola, Iran, Brazil, Saudi Arabia, Russia, South Africa) and, to a lesser extent, advanced economies (European Union Member States, Japan, South Korea, Australia). In 2022, shares of exports to China reached 18.7% of GDP in Angola, 14.5% in Vietnam and 11.8% in Malaysia, with intermediate goods making up most exports to China. Final consumer goods exports are limited and mainly concern Asian countries.

In the medium term, trade relations between China and other Asian countries should be strengthened, in particular thanks to the implementation of the Regional Comprehensive Economic Partnership (RCEP) Agreement, which entered into force in 2022. This agreement brings together 15 Asian countries, including China, ASEAN Member States and several advanced countries (Australia, Japan, South Korea and New Zealand), making it the world's largest free trade agreement. It covered around 30% of the world's population and global GDP,[2] and over 30% of global exports in 2022 (see Chart 1).

Chart 1: RCEP Member States' contribution to global exports (in %)



Source: IMF.

(1) X. Coeln (2022), "The Structural Economic Slowdown in Major Emerging Market Economies", *Tresor-Economics*, No. 316.

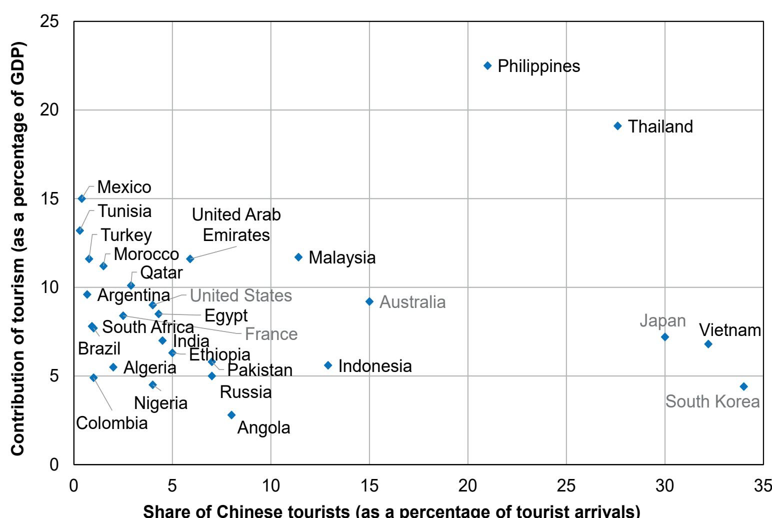
(2) The RCEP agreement aims to eliminate around 90% of customs duties on goods imported between signatories and to establish a common set of rules governing trade and intellectual property. It builds on an existing free trade agreement, the ASEAN-China Free Trade Area (ACFTA) Agreement, from 2005. The RCEP opens up a limited number of new market opportunities for China, as the country has already entered into bilateral trade agreements with all ASEAN countries except for Japan. However, by standardising rules of origin, the RCEP should allow for heightened integration of the region's value chains. Additionally, the agreement should encourage China to refocus investment towards ASEAN countries.

1.2 New forms of dependence are arising from the growth of outbound Chinese tourism

China's strong economic growth over the past decades has led to a higher standard of living in the country, in turn contributing to a rise in Chinese tourism overseas. Chinese tourists went from making up 8% of global tourists in 2010 to 16% in 2019,[3] i.e. 155 million tourists. According to the China Tourism Academy,[4] Asian destinations accounted for almost 90% of Chinese outbound travel in 2018, compared to 3.8% of Chinese travellers visiting Europe, 2.4% North America, 1.3% Oceania and 0.4% Africa.

Emerging economies most dependent on Chinese tourism are ASEAN countries (in 2019, 22% of their visitors arrived from China),[5] especially Thailand, where tourism accounted for roughly 19% of the country's GDP in 2019 with Chinese tourists representing nearly 28% of international arrivals (see Chart 2). Against this backdrop, the OECD[6] recommends that Asian countries diversify the sources of inbound tourists, such as by attracting more Indian visitors and promoting intra-ASEAN and domestic tourism. In parallel, other emerging countries are working to draw Chinese tourists, particularly Gulf states looking to diversify their economies. Although only 10% of China's population travelled overseas in 2019 according to China's National Tourism Administration (compared to 16% of the population in Japan, 30% in the United States and 45% in France), the degree of dependence on Chinese tourism could grow in coming years.

Chart 2: Value-added contribution of tourism to GDP and dependence on Chinese tourism in 2019



Source: World Travel and Tourism Council, tourism ministries of the relevant countries (2018 data regarding Chinese tourist arrivals in Brazil, Egypt, India and Morocco).

2. China plays a major role in financing emerging economies

2.1 In 20 years, China has become the main bilateral creditor of many emerging economies

Chinese financing provided to emerging and developing economies[7] has primarily come in the form of commercial and sovereign loans, which ballooned from $3bn in 2001 to $180bn at their height in 2015, before declining gradually.[8] Between 2001 and 2017 these loans were largely concentrated in sectors such as mining and industry (24%), energy (20%) and transport (12%), in line with the initial strategic priorities of the Belt and Road Initiative (BRI) launched by the Chinese government in 2013 (see Box 1). Most of these loans were issued by two major state-owned banks: the

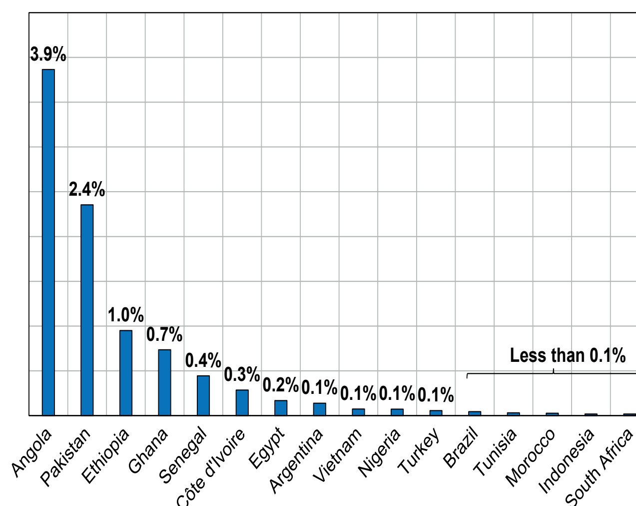
(3) According to the UN World Tourism Organization (UNWTO), Chinese tourists spent a collective $255bn on international travel in 2019. China is the leading country in terms of volume of spending and number of outbound tourists.
(4) "Annual Report on China Outbound Tourism Development", 2019.
(5) "ASEAN Statistical Yearbook", 2022.
(6) "Economic Outlook for Southeast Asia, China and India 2023", March 2023.
(7) Section 2 takes into account all emerging and developing countries (based on the IMF's classification).
(8) Based on data collected by AidData (William & Mary College), with regional trends confirmed by data from the China Africa Research Initiative (CARI) at Johns Hopkins University for Africa and from the think tank The Dialogue for Latin America.

Export-Import Bank of China (behind 43% of the loans to emerging and developing economies) and the China Development Bank (CDB, 23%), two policy banks, which mostly use private law contracts but are state owned. Some of the loans were also issued by the Industrial and Commercial Bank of China (ICBC, 11%), one of China's four major commercial banks. The main recipient countries of these loans[9] are located in Asia (30% of the loans), Africa (28%)[10] and Latin America (23%), with certain countries receiving a large share of them, such as Angola (5.3% of Chinese loans), Brazil (5.2%) and Kazakhstan (5.0%).

China has been issuing emergency rescue loans for several years, acting as a lender of last resort that finances the repayment of existing debts, general expenditure or foreign exchange reserves of borrowing countries, through swap lines from its central bank, the People's Bank of China (PBoC), and, to a lesser extent, through loans issued by state-owned banks and enterprises. Such loans reached $240bn as of 2000 (including swap lines of $170bn) in more than 20 countries, including refinanced or rescheduled instruments.[11] The recipients of these loans are already heavily indebted to Chinese financial institutions. Certain economies, such as Pakistan, Argentina and Mongolia, have repeatedly received balance of payments support from China.

Since 2015, China has been the main creditor of emerging and developing economies,[12] all financial institutions combined, and in 2023 accounted for a substantial share of several countries' external debt service (see Chart 3), including Ethiopia (42.2% of the country's external debt service is owed to China), Angola (41.6%), Pakistan (20.2%) and Ghana (16.3%), which have a particularly high external debt burden. Based on the debt-to-GDP ratios of the recipient countries, the economies most dependent on Chinese loans are Laos (with debt representing 65% of its GDP between 2000 and 2017), the Republic of Congo (53%) and Equatorial Guinea (50%).[13]

Chart 3: External debt service owed to China (as a percentage of GDP, 2022)



Source: World Bank, IMF.

2.2 China's FDI flows to emerging economies have grown sharply for 20 years

Almost half of China's FDI flows have gone to emerging economies in Asia,[14] reaching $284bn over the 2005-2022 period, compared to $149bn in Latin America, $90bn in sub-Saharan Africa, and $50bn in the Middle East and North Africa,[15] representing roughly 14.1% of FDI flows to Asia over the period, ahead of Latin America (11.4%), sub-Saharan Africa (10.6%) and the Middle East (4.4%).[16] In terms of sectors, these FDI flows have mainly covered energy (48.1%) and, to a lesser extent, metals (19.5%) and transport (8.9%). They peaked in 2018 at $54bn, with their annual amount declining since then, reflecting China's focus on streamlining its outward FDI flows and a declining risk tolerance among Chinese investors.

China is a major contributor to the FDI stock of several countries, particularly those in Asia (where it primarily invests in logistics, manufacturing and energy) and Africa (due to this region having structurally lower FDI stocks and the role some African economies play

(9) Over the 2001-2017 period, based on data collected by AidData.
(10) L. Bertrand and S. Zoghely (2021), "China's Position Among Lenders in Sub-Saharan Africa", *Tresor-Economics*, No. 292.
(11) S. Horn, B. C. Parks, C. M. Reinhart, C. Trebesch (2023), "China as an International Lender of Last Resort", *NBER, Working Paper* No. 31105.
(12) F. Morvillier, E. Perego (2023), "La Chine principal créancier mondial, une fragilité de plus pour les pays émergents et en développement", *CEPII* (in French only).
(13) "China's Belt & Road: 'Small but Beautiful'", Maybank, March 2023.
(14) Including Russia, which accounted for 12.1% of China's FDI flows to Asia over the period.
(15) Based on data collected by the China Global Investment Tracker of the American Enterprise Institute.
(16) On average, based on data provided by the China Investment Tracker and UNCTAD.

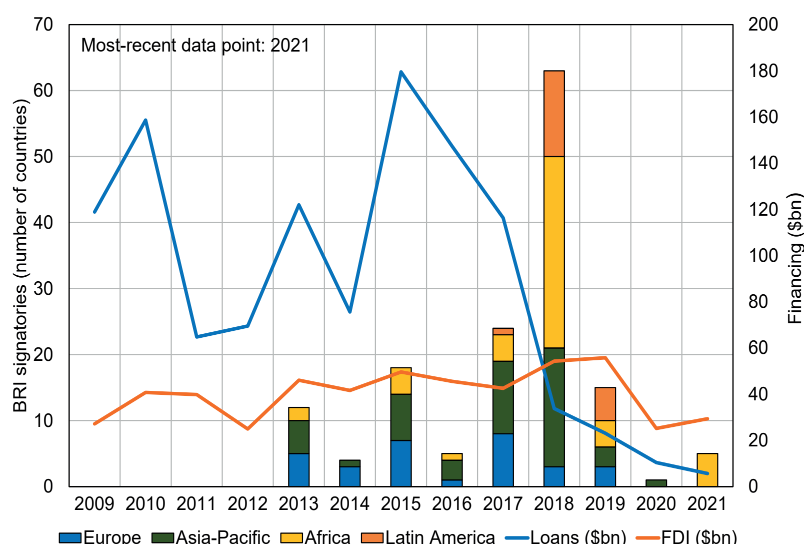
in supplying commodities to China). In 2021, China made up 24% of the FDI stock in Pakistan, reflecting investment in the China-Pakistan Economic Corridor, and 21% of the FDI stock in Angola, in connection with its huge investment in the state-owned oil and gas company Sonangol.

Box 1: China's changing Belt and Road Initiative (BRI)

After launching in 2013 and the signing of a memorandum of understanding with some 150 countries, China's Belt and Road Initiative,[a] also referred to as the New Silk Road, has undergone various changes. It appears to have adhered to its initial aim of building and operating transport, energy, industrial and digital infrastructure, but the direct links between the projects funded by Chinese financial institutions and the BRI itself are not consistently clear. While the Silk Road Fund has a total capital of $40bn, the inclusion of all Chinese financing (loans, FDI) under the BRI reveals that most of the financing pre-existed the launch of the BRI and that few BRI-specific financing schemes were created. All countries included, a peak in new BRI signatories was reached in 2018, three years after China's loans to emerging countries hit an all-time high, and the main recipients of Chinese financing are not systematically the countries that were initial BRI signatories (see Chart 4).

China's official stance on the BRI has changed in recent years, putting more of an emphasis on its political and security scope (related to other multilateral initiatives in which China is involved, such as the Shanghai Cooperation Organisation and BRICS) and gradually limiting its economic scope[b] to smaller "high-quality" projects.[c] This may point to the BRI's growing politicisation, in the absence of clear operational links with Chinese financing provided over the last decade. At the third Belt and Road Forum for International Cooperation, held on 17 and 18 October 2023, Xi Jinping announced over $100bn of new financing, with the main lenders being the Export-Import Bank of China and the CDB ($47.9bn each), and a $11bn capital injection for the Silk Road Fund, with financing likely to be focused on (i) connectivity, (ii) sustainable development and (iii) the digital economy.[d]

Chart 4: Changes in BRI signatories (in number of countries) and Chinese financing ($bn)



Source: AidData, China Global Investment Tracker, Boston University Development Center, DG Trésor calculations.

a. J. Dumond, M. Landais and P. Offret (2018), "The New Silk Road", *Tresor-Economics*, No. 229.
b. A. Garcia-Herrero (2023), "The Belt and Road Initiative Transformation Makes It a More – Not Less – Useful Tool for China", *Bruegel*.
c. K. Xie (2023), "China's Belt and Road Initiative Regains Momentum As Focus Shifts to Smaller 'High-Quality' Projects", *South China Morning Post*.
d. D. Sacks (2023), "China's Belt and Road Initiative Enters Its Second Decade: Which Leaders Went to Beijing to Celebrate with Xi Jinping?", *CFR*.

3. China's structural economic slowdown could affect some emerging economies

3.1 China's slowdown could affect emerging economies through trade and finance channels

In terms of trade, China's central role in global value chains means that a slowdown of its economy and domestic demand could cause a decline in its imports. Such a decline would affect each country differently, depending on their export structure and on the potential reconfiguration of global value chains as a result of US-China trade tensions. Lower Chinese growth could also put downward pressure on commodity prices, given China's heft in global demand. Such downward pressure could nevertheless be offset by (i) substitution effects through demand from other advanced and emerging economies, and (ii) the planned increase in renewable energy production,[17] which would strengthen global demand for so-called critical or strategic materials, such as copper, cobalt and lithium. China itself intends to move away from coal and focus on renewable energy sources and natural gas in order to achieve its aim of reaching its carbon emissions peak before 2030 and becoming carbon neutral by 2060, which would affect the relative prices of these commodities and the revenue of producer countries.

In terms of finance, the persistent sovereign debt vulnerabilities of developing countries are likely to exacerbate the slowdown seen since the mid-2010s. Between 2016 and 2022, Chinese financial institutions' annual lending to Africa fell from $30bn to less than $2bn (excluding emergency financing). The shift in priorities (e.g. the sharp increase in spending during the COVID-19 pandemic and financial bailouts of local governments and the property sector) and the efforts made to secure the repayment of outstanding loans should further dampen Chinese lenders' willingness and ability to provide new financing to developing economies. Since 2020, the amount of sovereign debt being restructured or renegotiated by China has exceeded $78bn. In this vein, in November 2020 China began taking part in the Common Framework debt relief plan (based on a joint undertaking of the G20 and the Paris Club) which aims to introduce a new model for coordinating the treatment of the sovereign debt of low-income countries in debt distress. Although Common Framework negotiations have made significant progress, including a comprehensive debt restructuring deal for Zambia, the process remains slow, as almost two years passed before an agreement was reached on Zambia's debt. Negotiations are under way with Ghana and Ethiopia, countries that officially requested a debt treatment under the Common Framework. Meanwhile, Chinese lenders continue to favour bilateral debt treatment (e.g. Suriname, Djibouti, Sri Lanka) – preferably without any loss in net present value (debt service suspension) and rarely taking the form of debt cancellation (apart from a few political announcements regarding smaller loans).

The geographic refocusing of Chinese FDI is also expected to continue, with China's FDI flows to emerging economies exceeding those to advanced economies since 2019 (see Chart on first page). Lower FDI flows appear to be accompanied by sectoral diversification in emerging economies (primarily benefiting the financial, technology and manufacturing sectors), a trend that is particularly marked in Southeast Asia, especially in Vietnam, against a backdrop of the regionalisation of value chains.[18] Asia has seen an upswing in FDI from China since 2021 (up 82.3% year on year between 2021 and 2022), a trend that looks set to continue in Vietnam and more broadly in other ASEAN countries.[19]

This refocusing is demonstrated both by the nearshoring of some value chains by Chinese companies and the growing role of several ASEAN economies in the production of intermediate goods, at a time when the Chinese government is promoting domestic, "high-quality" growth refocused on strategic, high value-added sectors. To a lesser extent, Latin American countries (particularly Bolivia, Argentina and Chili) could see a surge in Chinese investment aiming to secure its supply of critical minerals needed for the green transition, especially those used to produce electric batteries.[20]

(17) Solar and wind facilities, energy retrofitting of buildings, etc.
(18) This regionalisation also extends to advanced neighbouring economies (including South Korea, Taiwan and Japan).
(19) In its report "China Going Global Investment Index 2023", The Economist Intelligence Unit forecasted that the main destinations for Chinese FDI will be, in descending order, Singapore, Indonesia and Malaysia in 2023, versus the United States, Singapore and Hong Kong in 2013.
(20) C. Lu, R. Fabbro (2023), "China's Latin American Gold Rush Is All About Clean Energy", *Foreign Policy*.

3.2 Southeast Asian economies and commodity exporters are projected to be the most vulnerable

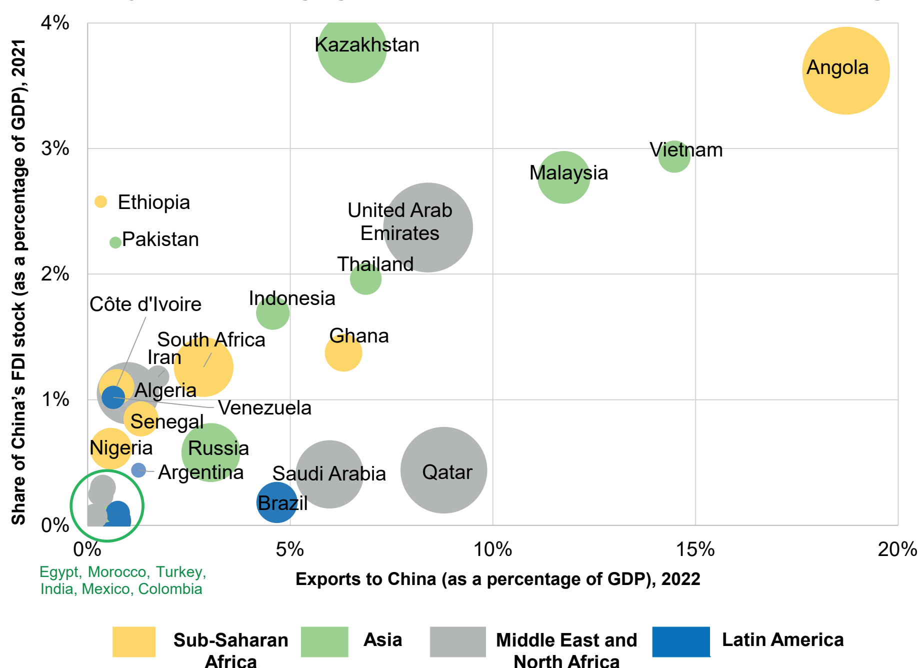
A slowdown of China's economy resulting from a shock to domestic demand could lead to a fall in the country's imports and primarily affect Asian countries and commodity-exporting countries due to their close trade ties with China[21] (see Chart 5). According to the World Bank,[22] a 1 percentage point (pp) decline in China's growth would decrease growth in the other East Asia and Pacific economies by 0.5 pp a year in the two years following the shock (taking into account bilateral trade and financial flows, including FDI).

Among countries in Asia, Malaysia and Indonesia are projected to be the hardest hit. Both of these countries have gained market share in China in recent years, especially in fossil fuels for Malaysia and in base metals (steel) for Indonesia. In 2022, their exports to China accounted for 14% and 21%, respectively, of their total exports. Malaysia would be directly affected by a fall in Chinese demand and indirectly by a decline in commodity prices (fossil fuels and minerals), as well as by higher transport costs in connection with redirecting its exports to countries further afield than China. Conversely, India is projected to be the least hard-hit Asian country given its low level of trade with China and its status as a net importer of commodities.

Several economies in sub-Saharan Africa are also projected to be affected by a slowdown in China because they are highly dependent on the country for trade and finance. Angola is expected to be the hardest hit, as its reliance on China for trade is very high (with the country accounting for 45% of Angola's trade in 2022), primarily via fossil fuel exports (which made up 94% of Angola's total exports in 2021), and it is heavily dependent on Chinese financing (particularly the oil and gas industry, a key sector of Angola's economy).

Countries in Latin America are expected to be vulnerable essentially due to being dependent on trade with China and on their commodity exports. Brazil has the highest exposure to China (with the country accounting for 27% of its exports in 2022). However, these exports mainly include soybeans, which are forecast to be less affected by a slowdown in China's economy. Countries in the Middle East, and particularly Iran, are vulnerable predominantly through their commodity exports. Lastly, countries in North Africa and the Near East are the least vulnerable, as they are scarcely dependent on China for trade or finance and with the exception of Algeria, export few commodities.

Chart 5: Summary of main emerging economies' exposure to China (as a percentage of GDP)



Sources: IMF, UNCTAD, MOFCOM.

How to read this chart: The size of the circles represents the share of commodity exports as a percentage of GDP in 2021. The colour of the circles indicates the country's geographic region. By way of illustration, in 2021 the share of commodity exports represented 41.5% of GDP in Angola, 19.1% in South Africa, 9.3% in Nigeria and 0.8% in Pakistan.

(21) OECD (2023), "Interim Report September 2023: Confronting Inflation and Low Growth", *OECD Economic Outlook.*
(22) World Bank (2022), "East Asia and the Pacific Economic Update".

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