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Will economic policy win China friends in the Global South?

The importance of trade 'rebalancing' for Beijing's strategic ambitions

Summary

- President Donald Trump's 'America first' policy agenda is bad news for emerging economies, since these countries are disproportionately reliant on trade and aid. On the face of it, the recent shift in US posture opens up an opportunity for Chinese economic diplomacy, given that gaining increased political support from the Global South could shore up Beijing's bid to present China as a responsible alternative pillar of global order.
- Yet the economic relationship between China and other emerging economies leaves much to be desired from the point of view of Beijing's trading partners in the Global South. China's trade surplus *vis-à-vis* emerging economies has widened in recent years, provoking a negative reaction from countries that find they are absorbing ever-increasing amounts of Chinese goods. The result is that the Global South is now the fastest-growing source of hostile trade policy actions directed at China.
- In terms of financial flows, too, the story is not wholly positive for emerging economies. China is now a net taker of loan capital from these countries, as their repayments to China exceed new borrowing from it. While overall outflows of foreign direct investment (FDI) from China are elevated these days, the range of countries in the Global South likely to benefit from such flows is limited.
- In the end, what will suit emerging economies best is if China becomes a greater source of demand in the global economy, and less a source of supply. The one policy most likely to deliver that outcome – and the most important message that emerging economies can deliver to Beijing – is for China to let its currency strengthen.

David Lubin

Introduction

> China will always be a member of the Global South, a reliable long-term partner of fellow developing countries, and a doer and go-getter working for the cause of global development. China will go hand in hand with fellow developing countries toward modernization.
> **Xi Jinping, November 2024**[1]

Trump's gift to Beijing?

The Donald Trump administration's embrace of an 'America first' policy agenda seems likely to hit economies in the Global South disproportionately hard.[2] So far, the main sources of potential difficulty are Washington's imposition of punitive tariffs on many trading partners; the suspension of US aid flows; and the creation of a hostile environment for developing-country citizens who might have sought opportunities to work or study in the US. Further damage might result if Washington seeks to undermine the leading international financial institutions – including the World Bank and the IMF – by using the US's voting power to restrict their activities or limit their funding.

In broad terms, any kind of restriction on aid or trade, or on the availability of financing from the official sector, plainly adds to the economic challenges of the developing world. In the language of economics textbooks, these countries are 'small, open economies' which, by definition, rely more than others on a liberal global trade regime to support domestic growth. Indeed, average GDP growth rates in developing countries have diminished in recent years in lock-step with the decline in global trade growth.[3] For the poorest members of the Global South, the threat of reduced donor support – as seen, among other developments, in the US government's termination of most USAID programmes – is especially worrisome, given that relatively low income levels make these countries more obvious recipients of aid and concessional financing.

The pressure that recent changes in US policy are exerting on emerging economies is, arguably, a diplomatic gift for Beijing. Establishing China as a political beacon in the Global South – of which China itself is, of course, a part – is key to the country's ambition to present itself as an alternative pillar of global order. Chinese official rhetoric is often at pains to declare not only Beijing's solidarity with the Global South – illustrated above in the statement by President Xi Jinping – but also China's capacity to lead by example.

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1 Ministry of Justice of the People's Republic of China (2024), 'Xi calls for building just world of common development, outlines China's actions for global development', 19 November 2024, http://en.moj.gov.cn/2024-11/19/c_1046240.htm.
2 This paper uses the term 'Global South' as a shorthand for what the IMF describes as 'emerging and developing economies'. See https://www.imf.org/en/Publications/WEO/weo-database/2023/April/groups-and-aggregates#oem. The IMF's category includes countries that are not obviously of the 'South', like Mexico; and includes countries that might seem more emerged than emerging, like Qatar. It also includes China. These aggregating terms are inevitably imprecise, but the author considers that accepting this imprecision is a price worth paying for the benefits of being able to make useful generalizations.
3 World Bank (2025), *Global Economic Prospects*, June 2025, https://openknowledge.worldbank.org/server/api/core/bitstreams/8912c157-f0e7-4d9e-b6f3-94ae0940e458/content.

This solidarity is often articulated by China as part of a commitment to an open global order which respects individual countries' autonomy. Wang Yi, China's foreign minister, emphasized this theme at a BRICS+ meeting in May 2025 with his call to 'jointly reject protectionism, oppose hegemony and bullying'.[4] A recent national security white paper, published by China's State Council, promises 'inclusive globalization'.[5] And, most recently, Xi Jinping used the occasion of the September 2025 Tianjin summit of the Shanghai Cooperation Organization to promise that 'China will readily share the opportunities of its vast market'.[6]

On the face of things, the leadership in Beijing is working hard to make the most of the opportunity that Washington has unwittingly provided to Chinese diplomatic ambitions. Since President Trump's self-proclaimed 'Liberation Day' on 2 April 2025, Xi Jinping has presided over two high-profile engagements with the developing world: a visit to Vietnam, Cambodia and Malaysia that produced 113 economic agreements with the three countries; and a May 2025 meeting in Beijing of the China–CELAC Forum, at which officials announced $9 billion in credit to the Latin American and Caribbean countries that make up the forum, and at which Xi spoke of a 'new historical starting point' in China's relations with Brazil.[7] China also committed to 'increase its imports of high-quality products from Latin American and Caribbean countries and encourage its enterprises to expand investment in that region'.[8]

China is making similar overtures to trading partners elsewhere. In September 2024 President Xi announced that China would offer zero-tariff access to its market to any least-developed country that has diplomatic relations with Beijing, including 33 African countries.[9] And in May 2025, China pledged to open its markets to more products from Pacific Island nations when it hosted a meeting of 11 of their foreign ministers.[10]

This commitment on China's part to supporting the Global South is not entirely new, of course, and long predates President Trump's return to office in early 2025. Despite all this activity, however, there remains an open question as to whether the kind of assistance on offer from Beijing will really allow China to become a more benign influence on emerging economies' prospects than it has been to date.

This paper argues that the pattern of China's engagement with emerging economies leaves a lot to be desired from the point of view of trading partners in the developing world. China's trade with emerging economies is both asymmetrical, in the sense that China's own interests seem best served by importing commodities

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4 Leahy, J. (2025), 'China's diplomatic charm offensive', *Financial Times*, 6 May 2025, https://www.ft.com/content/1f83c330-9e00-4935-b069-90341e13392a.
5 State Council Information Office of China (2025), 'China's National Security in the New Era', 12 May 2025, http://www.scio.gov.cn/zfbps/zfbps_2279/202505/t20250512_894771.html.
6 Ministry of Foreign Affairs, People's Republic of China (2025), 'Pooling the Strength of the Shanghai Cooperation Organization to Improve Global Governance', 1 September 2025, https://www.fmprc.gov.cn/mfa_eng/xw/zyxw/202509/t20250901_11699629.html.
7 Ministry of Foreign Affairs, People's Republic of China (2025), 'Xi Jinping Holds Talks with Brazilian President Luiz Inácio Lula da Silva', 13 May 2025, https://www.mfa.gov.cn/eng/xw/zyxw/202505/t20250514_11622738.html.
8 Buckley, C. (2025), 'Xi Woos Latin America With Promises of Cooperation on Technology, *New York Times*, 13 May 2025, https://www.nytimes.com/2025/05/13/world/asia/china-xi-latin-america.html.
9 Xinhua (2024), 'Xi: China to give least developed countries zero-tariff treatment', *China Daily*, 5 September 2024, https://www.chinadaily.com.cn/a/202409/05/WS66d980afa3103711928a6496.html.
10 Hille, K. and Fildes, N. (2025), 'China vows to open markets to Pacific Island nations as US retreats', *Financial Times*, 29 May 2025, https://www.ft.com/content/197ae054-9f6f-4e2a-bfd0-b1eb216daee4.

from emerging economies and selling manufactured goods to them; and unbalanced, in the sense that a growing share of China's overall trade surplus is with emerging economies.

Moreover, since China is now receiving net repayments on loans that it extended to developing countries in earlier years, the only net capital flows that such economies are receiving from China are in the form of foreign direct investment (FDI). These flows are indeed a bright spot in China's economic engagement with the Global South, given FDI's acknowledged role in driving development, even though the range of countries that can realistically attract Chinese FDI seems limited. But while Chinese FDI continues to offer potential as a source of relatively stable funding for industrial growth in emerging economies – Egypt, Indonesia, Morocco and Turkey can be considered as case studies – one problem is that at least some of these flows are part of a tariff-avoidance strategy by Beijing. This arguably exposes the recipients of Chinese FDI to the risk of additional tariffs, for example from the EU should such inflows be seen as unduly enabling exports to protected European markets.

China needs to become more of a source of demand in the global economy and less a source of supply.

Instead, this paper argues, by far the best form of economic support that Beijing can offer developing countries is to rebalance China's own trade with them. This means enacting reforms to render the Chinese economy less export-focused, and to boost domestic demand so that China becomes a more reliable importer of goods and services from the Global South. Put another way, China needs to become more of a source of demand in the global economy and less a source of supply.

It almost goes without saying that emerging economies would not be alone in benefiting from an additional source of demand if China were to alter its macroeconomic policies; plenty of advanced economies would gain too. It is also the case that emerging economies may actually benefit less than some advanced economies, since many developing countries are far from being in a position to increase manufactured exports to China or anywhere else. Nonetheless, expanding the Chinese market's role as a source of global demand seems an effective tool for Beijing to, as it were, 'put its money where its mouth is' in support of China's claims to global leadership.

For now, China's commitment to maintaining its trade surplus likely reflects a strategic choice that won't easily be shifted. For that reason, it is probably up to developing countries themselves to encourage Beijing both to adopt more expansionary macroeconomic policies at home (which would boost domestic demand) and to further liberalize China's trade regime. Plenty of Chinese economists have recently been arguing for the government to change its policy framework in ways that would boost domestic spending growth.[11] Advocates of reform contend

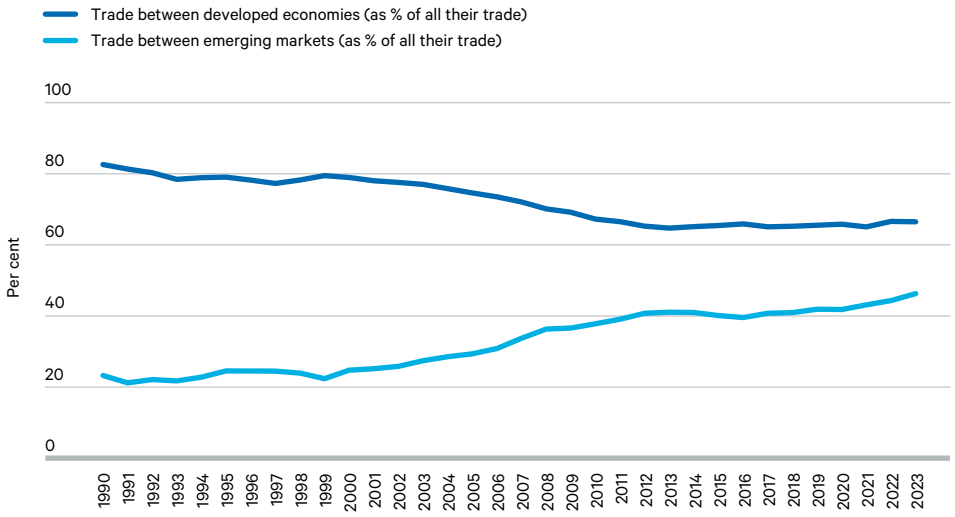
11 See, for example, Schipke, A., Huang, Y. and Guo, K. (2025), *China's Economic Trajectory: Unpacking Macroeconomic Trends and Structural Reforms*, East Asian Institute, National University of Singapore, EAI Commentary No. 93, 11 July 2025, https://research.nus.edu.sg/eai/wp-content/uploads/2025/07/EAIC-93-20250711_updated.pdf.

that this is the best way to improve the welfare of Chinese households. By extension, policies to stimulate Chinese domestic demand would also likely improve the welfare of the very countries in the Global South whose political support Beijing wishes to cultivate.

China's ambivalent role in South–South trade

The growth of intra-Global South trade is arguably the brightest spot in the entire global trade environment. In 2004, emerging economies' trade with other emerging economies accounted for a mere 9 per cent of global trade, and for 29 per cent of those economies' own trade. Almost 20 years on, these shares had risen to 20 per cent and 46 per cent respectively in 2023 (see Figure 1). Meanwhile, developed economies' trade with other developed economies has fallen. In 2004, trade between developed economies accounted for 52 per cent of all global trade, and for 76 per cent of developed economies' own trade. By 2024, though, these respective shares had fallen to 36 per cent and 66 per cent (see Figure 1). In short, what is sometimes called 'South–South trade' is increasingly where the action is.

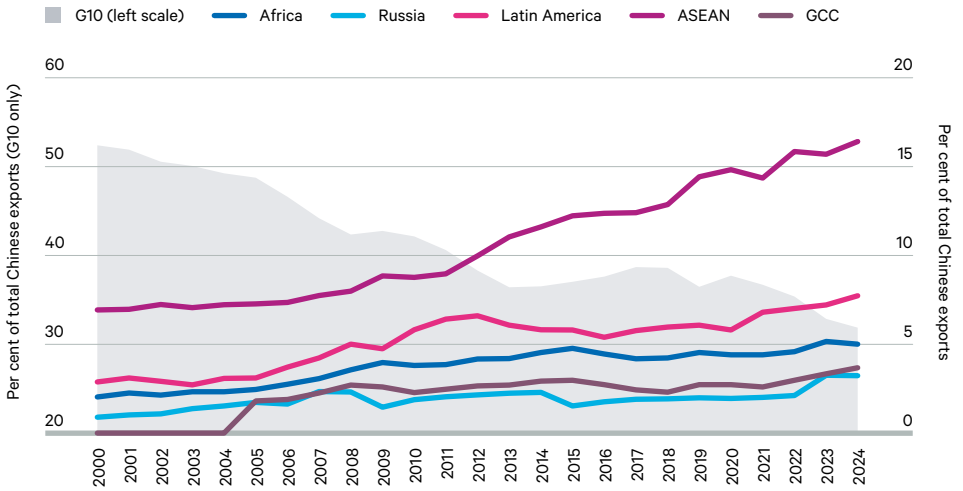
Figure 1. Trade among emerging economies has grown sharply



Source: Author's calculations from IMF (2025), International Trade in Goods Data, https://data.imf.org/en/datasets/IMF.STA:IMTS (accessed 23 Aug. 2025 via Macrobond).

At the centre of this story of economic integration within the developing world is China, whose role in South–South trade has grown significantly in the past two decades. China's exports to G10 countries have fallen as a share of the country's overall exports, from over half of the total in 2000 to less than a third in 2024 (see Figure 2). In the meantime, China's exports to developing countries have risen sharply: the Association of Southeast Asian Nations (ASEAN), for example, now accounts for 16 per cent of China's exports – more than double the share 20 years ago – while Africa and Latin America have also risen in prominence as export destinations, accounting for 5 per cent and 8 per cent of the total respectively (see Figure 2).

Figure 2. Chinese exports are increasingly destined for other emerging economies



Source: China General Administration of Customs (2025), http://english.customs.gov.cn (accessed on 23 Aug. 2025 via Macrobond).

This notable increase in the penetration of Chinese exports across the Global South reflects the impacts of three basic forces. The first is Chinese macroeconomic policy. A determined effort by the authorities, from 2020 onwards, to wean the Chinese economy off its dependence on real estate investment has undermined household confidence by weakening the property sector. Corporate confidence has similarly declined, damaged in part by an official campaign to end what the Chinese leadership describes as the 'unrestrained expansion of capital'.[12] Since Beijing has failed to deliver sufficient fiscal and monetary stimulus to offset these confidence shocks – a topic revisited below – domestic spending growth has been muted. This has encouraged Chinese firms to sell more of their goods abroad, given that little market now exists for such goods domestically; the growth of Chinese export volumes typically accelerates when domestic demand is weak.

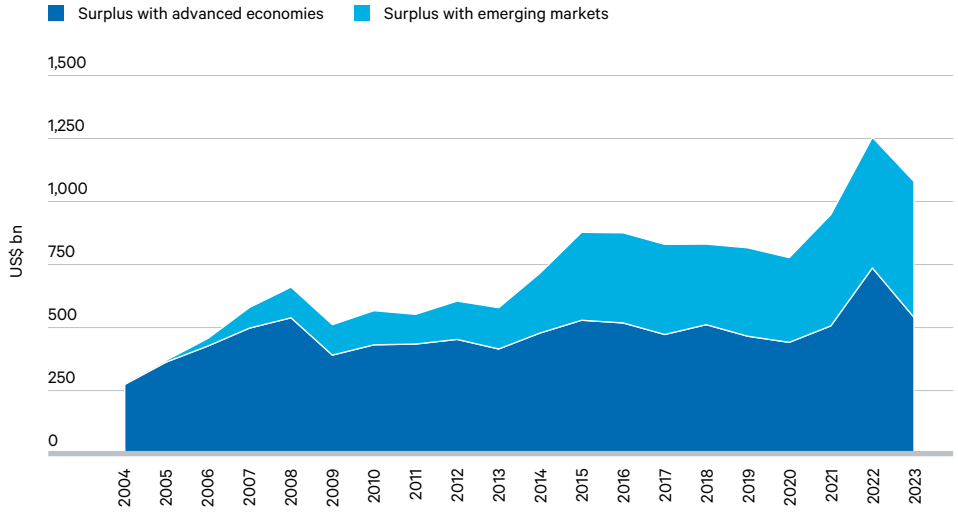
A second force behind the surge in Chinese exports to the Global South has been the rise in US protectionism, notably since the first Trump administration's imposition of tariffs on China in 2018. American tariffs have prompted Chinese firms to cultivate less protected markets away from the US, and to engage in 'tariff arbitrage': the practice of rerouting goods destined for the US through third countries (with the aim of attracting a lower tariff rate than if the goods had been shipped directly from China). For some of the so-called 'connector' countries involved, the result has been a sharp change in bilateral trade balances with both China and the US. An example is Thailand, where an increase in imports from China turned a bilateral trade deficit of $20 billion in 2018 into a deficit of $45 billion by 2024, according to Bank of Thailand data.[13] Over the same period, Thailand's trade surplus with the US rose from $13 billion to $35 billion, an increase that almost perfectly matches the rise in Thailand's deficit with China.

12 Xi, J. (2022), 'Correctly understand and grasp the major theoretical and practical issues of China's development', Qiushi, 15 May 2022, https://www.qstheory.cn/dukan/qs/2022-05/15/c_1128649331.htm?.
13 Bank of Thailand (2025). Data accessed via Macrobond, 8 September 2025.

A third force may be the changing pattern of goods demand in the developing world. In particular, rising demand for clean-energy technology among developing countries has boosted demand for Chinese products, given China's dominance as a supplier to many of the sectors involved in the energy transition. As the cost of low-carbon products falls, cleaner sources of energy have for the first time become affordable for middle-income developing countries. As a result, demand for green technology is, according to the World Bank, rising faster in middle-income countries than in rich ones.[14]

These various factors behind the surge in Chinese exports to the developing world have one clear consequence: they mean that China's trade surplus increasingly consists of a surplus with *other* emerging economies. By 2023, just under half of China's entire trade surplus was made up of surpluses with developing countries.

Figure 3. China's trade surplus is increasingly one *vis-à-vis* other emerging economies



Source: Author's calculations from IMF (2025), International Trade in Goods Data, https://data.imf.org/en/datasets/IMF.STA:IMTS (accessed on 23 Aug. 2025 via Macrobond).

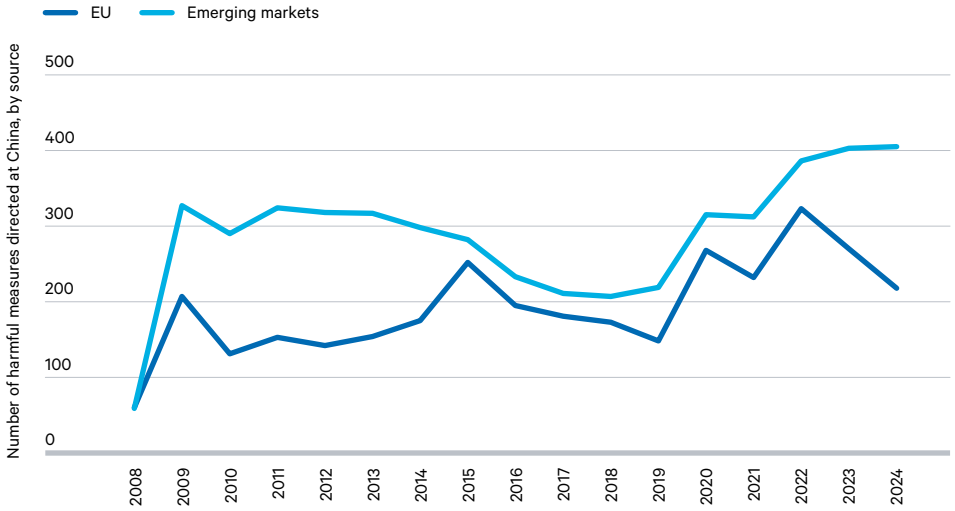
Put another way, China is increasingly a source of supply to the developing world, rather than a potentially lucrative source of demand from it. And this fact has become the basis of mounting frustration with China on the part of a growing number of emerging economies (as, indeed, has long been the case for many developed economies). That frustration is illustrated by the rapid growth of unfriendly, trade-restricting policies directed at China by governments in the developing world.

Hostile trade measures targeting China, including tariffs and non-tariff barriers, have risen sharply in number in recent years, even while the number of similar measures directed at China by the EU, for example, is now falling (see Figure 4).

14 World Bank (2024), *World Development Report 2024: The Middle-Income Trap*, https://www.worldbank.org/en/publication/wdr2024, p. 144. With thanks to Johanna Chua of Citi Research for emphasizing this point.

In 2024, according to Global Trade Alert, emerging markets were responsible for 405 such measures, whereas the EU was the source of 218. Latin America and Southeast Asia account for by far the biggest share of these hostile policies – which makes sense intuitively given that China's largest trade surpluses within the developing world are with these two regions. Data from Global Trade Alert indicate that between 2021 and 2024 Latin America and ASEAN together accounted on average for 78 per cent of China-focused trade restrictions emanating from the Global South.

Figure 4. Emerging economies' trade policies towards China are increasingly hostile



Source: Global Trade Alert (2025), https://globaltradealert.org/data-center (accessed 23 Aug. 2025).

Latin America's trade policy hostility towards China focuses heavily on the steel industry. Latin American producers have come under huge competitive stress in recent years as a result of rapid rises in Chinese imports. This is a trend most evident in Brazil. Previously, between 2017 and 2020, the country's annual steel imports from China had never exceeded $1.5 billion. However, by 2024 Brazil's steel imports from China had reached $3.9 billion, a near-threefold rise.[15] Brazil is a very large iron ore producer, and it sells this ore to China. In turn, China makes finished steel products and sells these back to Brazil at prices which Brazilian manufacturers cannot compete with. Since June 2024, the Brazilian government's response has been to apply a tariff-rate quota (TRQ) system under which steel imports above specified quotas face a 25 per cent tariff. Mexico and Colombia have also responded to sharp increases in Chinese steel imports by imposing tariffs of their own.[16]

15 Brazil Ministry of Development, Industry and Foreign Trade (2025). Data accessed via Macrobond, 8 September 2025.
16 Attwood, J., Durao, M. and Jaramillo, A. (2024), 'China's $8.5 Billion in Steel Spurs Latin America Towards Tariffs', Bloomberg, 21 May 2024, https://www.bloomberg.com/news/features/2024-05-21/latin-america-steel-tariffs-on-china-imports-show-relationship-strain.

Yet developing countries need to be careful in pursuing trade remedies like this, since China has a track record of retaliation. In 2010, for example, China effectively banned imports of Argentinian soybean oil after Buenos Aires imposed anti-dumping measures and import restrictions on Chinese products including shoes and steel pipes.[17] Retaliation of this kind has not been seen more recently, but given that it has featured in Chinese trade policy before, it may well do so again.

For Brazil specifically, an additional vulnerability arises from China's attempt to diversify its own iron ore supplies and become less dependent on producers in Brazil and Australia; together, the two countries have accounted for over 80 per cent of China's imports of iron ore in recent years. The diversification agenda has led China to seek deeper partnerships in Africa, including with Cameroon, Congo, Guinea, Liberia and Sierra Leone.[18] On balance, this reduces Brazil's negotiating leverage, since Beijing can wield the threat of accelerating China's efforts to procure alternative sources of iron ore.

Growing dissatisfaction with Beijing is compounded by the sense that China's trade relationships with emerging economies are asymmetrical.

For many, growing dissatisfaction with Beijing is compounded by the sense that China's trade relationships with emerging economies are asymmetrical: China imports commodities from them, and exports manufactured goods to them. This is partly an outcome of China's industrial strategy, which can be characterized as a simultaneous effort, on the one hand, to reduce China's reliance on the rest of the world by substituting imports with domestic production and, on the other hand, to increase the rest of the world's reliance on China by establishing the country as an export-oriented manufacturing powerhouse (*zhizao qiangguo*).[19] Both elements of this strategy mean that China's demand for emerging economies' manufactured exports is likely to stay low.

A growing share of China's imports consists instead of commodities, increasingly supplied from the developing world. A common criticism of this pattern of trade is that it leaves emerging economies struggling to increase their industrial value-added, and that it locks them into dependence on production of primary goods (i.e. commodities and raw materials), unable to convert their natural resource endowments into a meaningful base for industrial development.

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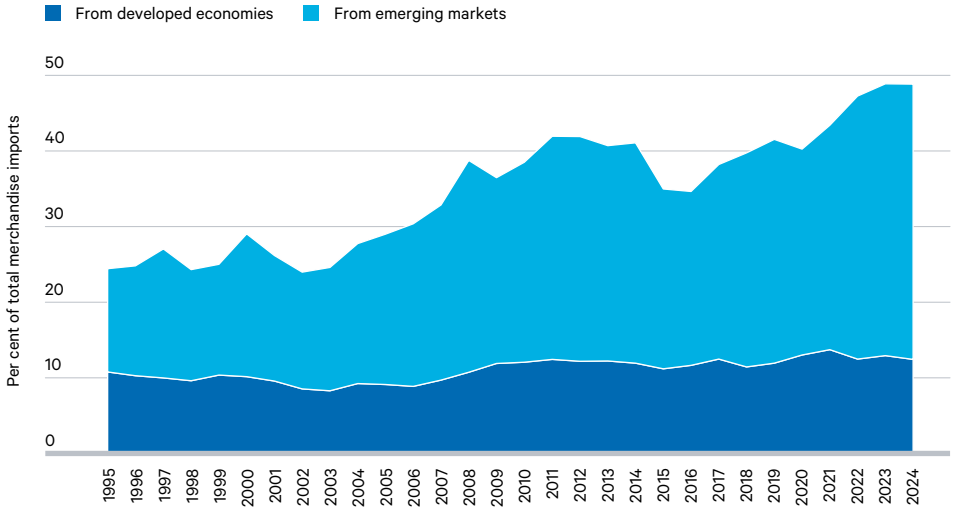
17 Bekerman, M., Dulcich, F. and Gaite, P. (2022), 'Argentina's economic relations with China and their impact on a long-term production strategy', *CEPAL Review*, N° 138, December 2022, https://repositorio.cepal.org/server/api/core/bitstreams/05ad11c1-d85b-4288-9163-e9b27e261c4e/content.
18 Nyabiage, J. (2024), 'China is planning to break its dependency on Australia and Brazil for iron ore. Africa is the key', *South China Morning Post*, 16 March 2024, https://www.scmp.com/news/china/diplomacy/article/3255471/china-planning-break-its-dependency-australia-and-brazil-iron-ore-africa-key.
19 Lubin, D. (2024), 'China's economic policy pendulum has swung towards stimulus, but keep expectations low', Chatham House Expert Comment, 14 October 2024, https://www.chathamhouse.org/2024/10/chinas-economic-policy-pendulum-has-swung-towards-stimulus-keep-expectations-low.

Figure 5. China's primary goods imports arrive increasingly from emerging economies



Source: United Nations Conference on Trade and Development (2025), 'Merchandise trade matrix, annual (analytical)', Data Hub, https://unctadstat.unctad.org/datacentre/dataviewer/US.TradeMatrix (accessed 23 Aug. 2025).

Limited Chinese capital flows and the uncertain promise of industrial upgrade

The best example of a country that has engaged in a successful effort to escape dependence on primary commodity exports is probably Indonesia. From 2009 onwards, the Indonesian authorities had started to ban the export of raw mineral ores, but only after 2014 did these restrictions really bite. Nowadays, Indonesia forbids the export of unprocessed nickel – of which the country holds nearly a quarter of global reserves – as well as of bauxite and copper ore.

These bans have been ruled unlawful by the World Trade Organization (WTO) – though Indonesia has appealed – and have attracted the opposition of the IMF. They have also generated a good deal of anger on the part of China-based smelters whose business models depended on importing unprocessed ore.[20] Notwithstanding this, Chinese FDI into Indonesia's refining industry has grown sharply, to a point where Chinese firms now control about 75 per cent of Indonesia's domestic nickel refining capacity.[21]

Since Indonesia's resource endowment also gives it a particular advantage in the manufacture of lithium batteries, the country has been able to attract investments by Chinese firms such as BYD, a carmaker, and CATL, a battery manufacturer. This has encouraged the Indonesian authorities to pursue their ambitions to establish

20 Soeriaatmadja, W. (2024), 'Indonesia defends its curbs on nickel ore exports amid EU claim of breach in international trade', *The Straits Times*, updated 15 November 2024, https://www.straitstimes.com/asia/se-asia/indonesia-defends-its-curbs-on-nickel-ore-exports-amid-eu-claim-of-breach-in-international-trade.
21 Reuters (2025), 'Chinese firms control around 75% of Indonesian nickel capacity, report finds', 5 February 2025, https://www.reuters.com/markets/commodities/chinese-firms-control-around-75-indonesian-nickel-capacity-report-finds-2025-02-05.

the country as an electric vehicle (EV) manufacturing centre; the government wants to put 2 million electric cars and 12 million electric two-wheelers on Indonesian roads by 2030.[22]

Not every developing country has Indonesia's extensive natural resource endowment, geographical position near China or large domestic market, and so to some extent this story is *sui generis*. Yet it helps to illustrate how, for developing countries, the most promising form of economic integration with China may sometimes lie in seeking to attract FDI flows from Beijing.

If there is an 'Indonesia model' of attracting Chinese FDI into a commodity-exporting economy, the countries with the most to gain from its application would logically seem to be in sub-Saharan Africa. More than 60 per cent of the region's GDP is reliant on natural resource endowments, and the energy transition is boosting global demand for minerals of which sub-Saharan Africa has abundant supply.[23] The concept of 'beneficiation' – raising the value-added of Africa's resource production by increasing the domestic refining and processing of raw ore – has long been a focus for African policymakers, and yet their rhetoric has not been matched by implementation. China may not have helped here. As one analysis puts it: 'Currently, China's investment in Africa's critical minerals sector adds little value as they [sic] primarily focus on export-oriented projects to feed plants in China.'[24]

Moreover, the transferability of the Indonesian model is potentially limited by Africa's many barriers to industrial development. Water scarcity, a lack of reliable energy supply, weak logistics, infrastructure gaps, insufficient human capital, low ease of doing business and a shortage of manufacturing know-how are all constraints to developing domestic refining capabilities or moving up the critical minerals value chain in other ways.[25] As such, banning exports of ore or other primary products is likely to be less feasible or less attractive for governments on the continent.

The fact that Indonesia lacks these constraints has enabled it to leverage ore export bans as means of catalysing FDI inflows into the economy. Since Africa generally lacks similar leverage, its strategy needs to be different: one option would be to focus more on a minerals-for-infrastructure arrangement, or what is sometimes called the 'Angola model': this would envisage China providing funding in the form of both loans and FDI to help the continent ease development constraints, albeit on terms that are less straightforwardly commercial than has been the case in, say, Indonesia.[26] However, progress towards this goal is likely to require coordinated pressure on China – and/or on competing providers of FDI – among African governments, which they so far seem reluctant to exert.[27] Overall, sub-Saharan Africa's leverage seems low.

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22 Sood, A. (2025), 'Indonesia's electric dream? A race to EV supremacy', *South China Morning Post*, 9 March 2025, https://www.scmp.com/week-asia/economics/article/3301552/indonesias-electric-dream-race-ev-supremacy.
23 Benabdallah, L. (2024), *China's Engagement in the critical minerals landscape in Africa: Potentials and challenges of tapping into the Global Energy Transition*, Africa Policy Research Institute Policy Brief, September 2024, p. 3, httsps://afripoli.org/chinas-role-in-africas-critical-minerals-landscape-challenges-and-key-opportunities.
24 Ibid., p. 6.
25 Bore, O. (2025), 'Ignoring China Won't Help African Countries Move up the Critical Minerals Value Chain', China-Global South Project, 9 June 2025, https://www.sinicapodcast.com/p/ignoring-china-wont-help-african.
26 Jureńczyk, L. (2020), 'Analysing China's "Angola Model": A Pattern for Chinese Involvement in Africa?', *Strategic Review for Southern Africa*, Vol. 42, No. 2, Nov/Dec 2020, https://upjournals.up.ac.za/index.php/strategic_review/article/view/73/619.
27 Bore (2025), 'Ignoring China Won't Help African Countries Move up the Critical Minerals Value Chain'.

If Indonesia provides an example of how industrial policy – in the form of ore export bans – can indirectly stimulate inflows of Chinese FDI, then Turkey is an example of how trade policy can achieve the same goal for certain countries. In March 2024, the Turkish government imposed a 40 per cent tariff on EVs made in China, and extended the measure in June that year to imports of all Chinese vehicles. But rather than shutting China out of the Turkish automotive sector, the policy seems to have had the opposite effect: it evidently led to, or at least accelerated, a decision by BYD in July 2024 to skirt the tariff problem altogether by building a $1 billion EV manufacturing facility in western Turkey. Turkish officials acknowledge that 'tariffs are a part of this effort' to increase inward FDI, in a process some describe as 'tariff jumping'.[28]

Turkey's ability to use trade leverage to boost inward FDI from China is critically dependent on the fact that the Turkish automotive market is already highly developed and sits on Europe's border, and that Turkey is in a customs union with the EU. Another country that ticks similar boxes is Morocco, which in addition to a free-trade agreement with the EU has the advantage of possessing vast phosphate reserves that are critical to the new generation of lithium-iron-phosphate (LFP) batteries, for which demand is growing rapidly. Partly as a result of a large inflow of Chinese FDI into the Moroccan automotive sector, Morocco has become the leading car exporter to the EU, ahead of China, Japan and India.[29] Some of China's investments in Morocco are shaping up to be very large indeed. For example, Gotion, a Chinese battery manufacturer, recently signed a $6.5 billion agreement with the French government to produce EV batteries and energy storage systems in Morocco. Energy and infrastructure are also target sectors for Chinese FDI in the country.[30]

China's outflows of FDI have been accelerating, and gross outflows have exceeded $100 billion in every year since 2010.

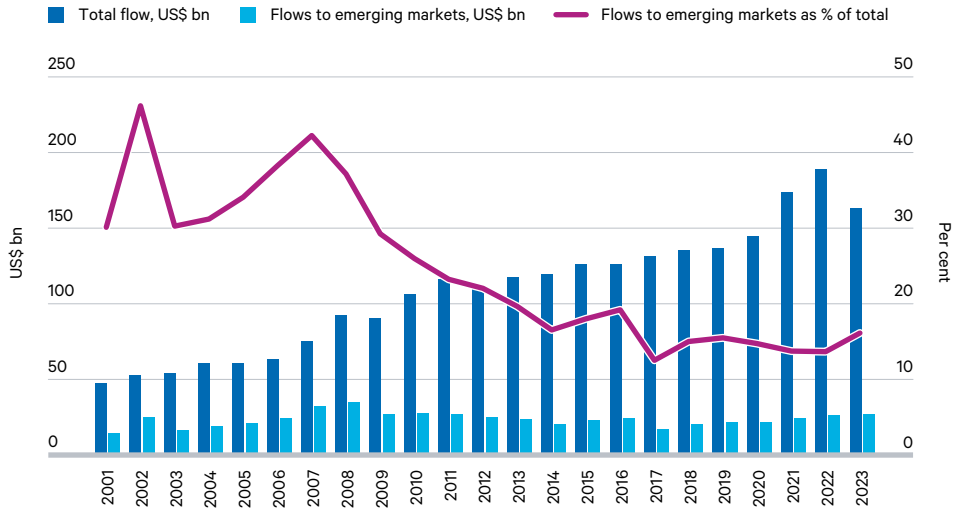
In global terms, Chinese FDI has become a meaningful source of investment capital for a number of countries in recent years. China's balance-of-payments data show that outflows of FDI have been accelerating, and gross outflows have exceeded $100 billion in every year since 2010. Meanwhile, the collapse of FDI inflows *into* China means that China has become a consistent net provider of FDI to the rest of the world since 2022.

However, emerging economies do not seem to be the main beneficiaries of this trend. China's balance-of-payments data don't tell us where exactly the FDI is flowing to, but data from China's Ministry of Commerce – which are compiled on a different methodological basis – indicate that not very much of this capital is going to countries in the Global South (see Figure 6). Excluding flows to Hong Kong,

28 Dettoni, J. (2024), 'Opinion | Are trade tariffs just a bait to win Chinese FDI?', FDi Intelligence, 22 July 2024, https://www.fdiintelligence.com/content/49e185bc-05af-5242-bcfc-e8188cc23d5c.
29 Cohen, P. (2025), 'Why China Is Investing So Much Money in Moroccan Factories', *New York Times*, 7 May 2025, https://www.nytimes.com/2025/05/07/business/china-tariffs-morocco.html.
30 Gide (2025), 'Business relations between Morocco and China: a rapidly expanding partnership', 18 March 2025, https://www.gide.com/en/news-insights/business-relations-between-morocco-and-china-a-rapidly-expanding-partnership.

emerging economies received $26 billion of Chinese outward direct investment in 2023, out of a total of $163 billion. China's flows to emerging economies haven't exceeded $30 billion since 2008. (By way of digression, it is worth adding that this weakness in Chinese direct investment flows to emerging economies is part of a global phenomenon. The World Bank observes that FDI flows to emerging economies from all sources have, in the aggregate, fallen to less than half their 2008 peak. The bank argues that such flows are 'likely to remain subdued': an unfortunate prognosis, particularly in view of the bank's analysis that a 10 per cent increase in net FDI flows to developing countries can raise GDP by 0.3 per cent after three years.[31])

Figure 6. Chinese FDI flows have risen, but not much goes to emerging economies



Source: Ministry of Commerce, People's Republic of China (2025), http://english.mofcom.gov.cn/Statistics/index.html (accessed on 23 Aug. 2025 via Macrobond).

The acceleration in the outflow of Chinese FDI in global terms likely reflects two motivations. One is that Chinese capital may be 'voting with its feet' to diversify away from a domestic economy facing headwinds; these headwinds are the result both of the collapse in property investment and of the persistent reluctance of the Chinese authorities to deliver much in the way of conventional demand stimulus through fiscal and monetary tools. Another way of explaining the scale of outflows, at least since 2018, is that they represent an effort by China to engage in a different form of the tariff arbitrage mentioned earlier. Rather than just a simple rerouting of exports through third countries, what also seems to be going on – as seen in the Turkey EV example – is a more permanent relocation of Chinese manufacturing capacity so that what are in effect Chinese goods can be sold from third countries potentially without attracting the tariffs that would apply to exports from China itself. This may help explain why China's data show an increase in outward direct investment flows to emerging markets, from $16 billion in 2017 to $26 billion in 2023.

31 World Bank Group (2025), *Global Economic Prospects, June 2025*, pp. xvii and 105, https://openknowledge.worldbank.org/server/api/core/bitstreams/8912c157-f0e7-4d9e-b6f3-94ae0940e458/content.

Chinese tariff arbitrage of this nature is usually characterized as an attempt specifically to avoid US tariffs, with Vietnam and Mexico often cited as the principal beneficiaries of the enabling investments.[32] Yet US retaliation is not the only risk here. The inflows of FDI into Turkey and Morocco described above are, at least in part, aimed at escaping tariffs on Chinese goods imposed by the EU. Just as Vietnam has attracted the unwanted attention of the US administration – with a baseline tariff rate of 20 per cent imposed in August 2025, along with a 40 per cent tariff for goods deemed to have been rerouted from China via Vietnam – there is now an increasing possibility that emerging economies on Europe's periphery which are receiving large inflows of Chinese FDI will also, in due course, face trade policy hostility from the EU as the bloc protects its own ambitions to develop EV production capacity.

The astonishing success of Chinese EV exports to Europe underlines why the EU might justifiably worry. Despite EU tariffs on Chinese EVs that are as high as 35 per cent for some carmakers, China's market share in Europe has grown uninterrupted. In April 2025, Chinese brands accounted for 4.9 per cent of European purchases of new vehicles, around double the share a year earlier.[33] And this figure refers only to products shipped from China; it does not even take into account the entry (or prospective entry) into the EU of Chinese vehicles made in Turkey or Morocco.

So, Chinese FDI flows to emerging economies are not especially large, yet still create the risk that recipient countries could become the target of hostile trade policy from the US or the EU. And that risk raises two questions. The first is whether FDI – despite its obvious potential benefits in terms of technology transfer, employment creation and low volatility – is the most valuable form of financial support China can offer emerging economies: would these countries be better off simply by borrowing, either from China or elsewhere? The second is a broader one, to do with whether emerging economies would benefit from less external financing from China, and from more direct access to China's domestic market.

On the first question, the bald fact is that FDI, albeit at rather low levels, is now the main source of Chinese financial capital reaching emerging economies, since the country has become a net taker of loan repayments from such economies in the past five years. Data from Boston University's Global Development Policy Center suggest that China's lending to emerging economies peaked in 2016, with a gross flow of $87 billion. Yet by 2019, that flow had fallen to $15 billion, and in 2021 to a mere $4 billion.[34] This very low level of new disbursements from Chinese lenders means that China is now a net taker of loan capital from emerging economies, as repayments on older loans significantly outstrip new lending. World Bank data show that by 2023, 60 emerging economies were making greater repayments to China than they were receiving in new lending. In 2024, the net flow of debt financing from China to emerging economies was a negative $34 billion (see Figure 7).[35]

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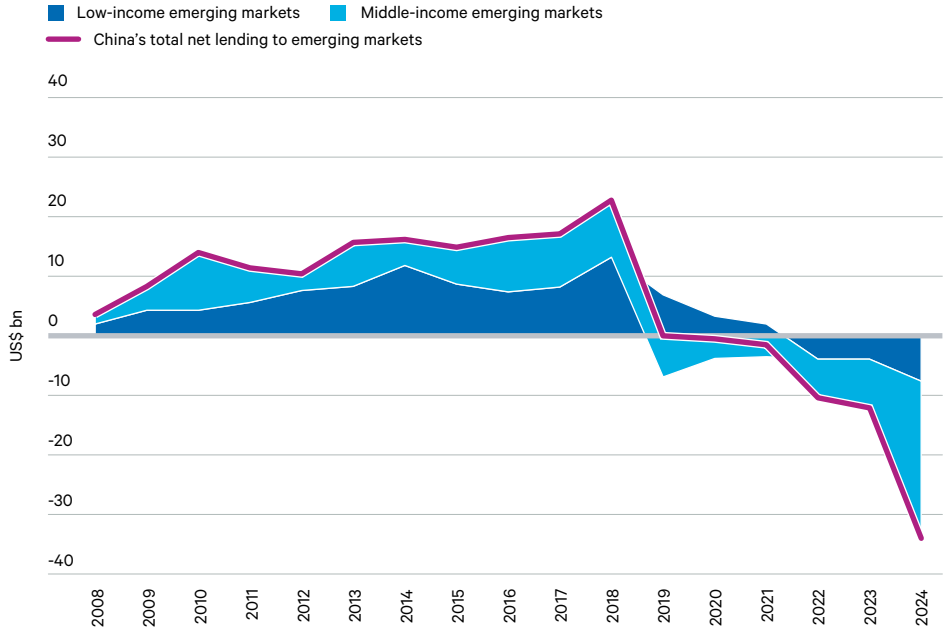
32 IMF (2024), *China's Foreign Direct Investment: Inward and Outward*, IMF Asia and Pacific Department, 30 August 2024, https://www.elibrary.imf.org/view/journals/002/2024/276/article-A004-en.xml.
33 Ewing, J. (2025), 'How Chinese Carmakers Doubled Their Share of the European Market', *New York Times*, 18 June 2025, https://www.nytimes.com/2025/06/18/business/china-byd-cars-europe.html.
34 Boston University Global Development Policy Center (2025), 'China's Overseas Development Finance Database', https://www.bu.edu/gdp/chinas-overseas-development-finance (accessed 21 Aug. 2025).
35 Duke, R. (2025), *Peak repayment: China's global lending*, Lowy Institute, May 2025, https://lowy-institute.github.io/publications/2025/DUKE-peak-repayment-china-global-lending.pdf.

Figure 7. Emerging economies are making net repayments to China



Source: Duke, R. (2025), *Peak repayment: China's global lending*, Lowy Institute, May 2025, https://lowy-institute.github.io/publications/2025/DUKE-peak-repayment-china-global-lending.pdf.

From the perspective of emerging economies themselves, the most useful aspect of China's lending relationships with them these days probably lies in the swap lines that allow the People's Bank of China (PBOC), China's central bank, to provide funding in renminbi to any of the 40 countries that have swap agreements with it in place. Although the intended use of such facilities is primarily to support countries facing acute balance-of-payments difficulties, some countries – Malaysia and Thailand, for example – have drawn on these swaps in the absence of a financial emergency.

Some $40 billion of funding to emerging economies has come from this source.[36] This is not a game-changing amount of support, and it remains the case that PBOC swap lines are, compared to emergency loans from the IMF, more expensive, of shorter duration, and available in much smaller amounts. Although swap lines can complement, or provide a bridge to, IMF lending, their use is open to the criticism that they can allow a country to get away with irresponsible policies by accessing swaps as an alternative to IMF support (with all the policy conditionality the latter implies). Turkey's use of its PBOC swap facility in 2021 arguably fitted this pattern, given the Turkish government's consistent rejection of the kind of economic policies favoured by the IMF.[37]

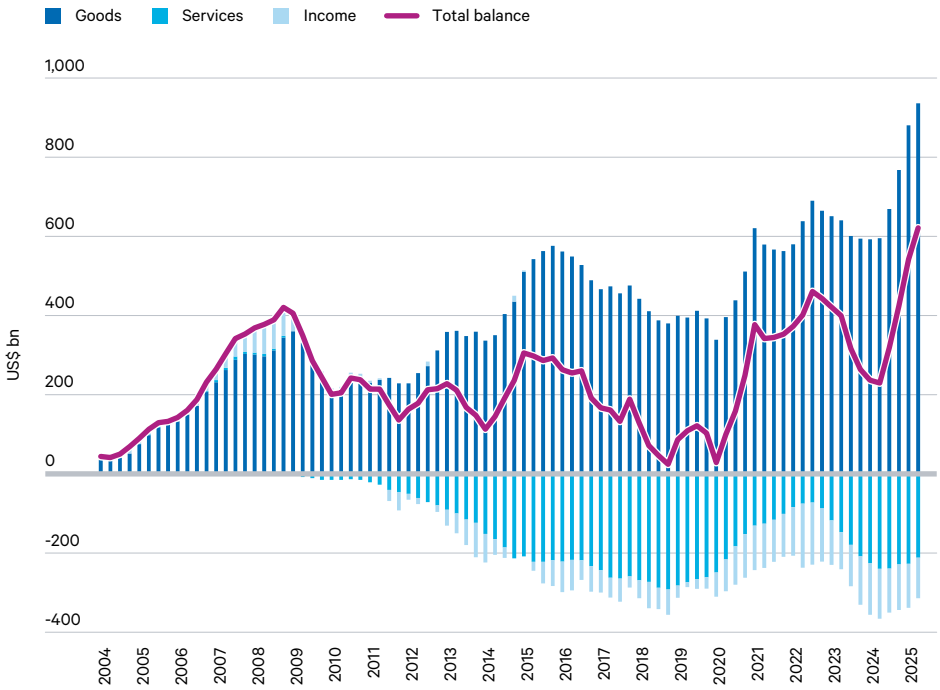
36 Watrous, J. and Paduano, S. (2025), *The Lender of First Resort? Chinese Swap Lines, the IMF and the Changing International Financial Architecture*, Boston University Global Development Policy Center, GCI Working Paper 042, April 2025, https://www.bu.edu/gdp/files/2025/04/GCI-WP-42-PBOC-Swap-Lines-FIN.pdf.
37 Ibid.

The missing piece: China as a source of demand rather than supply

As long as China remains a net recipient of loan capital from emerging economies, FDI flows (and to some extent swap lines) are likely by default to remain the dominant forms of Chinese financing to these countries. Since FDI is arguably more reliable than cross-border loans or portfolio flows as a source of capital for emerging economies – thanks to its role in the transfer of skills and technology, and to the fact that FDI can't, unlike loan or portfolio capital, turn on a dime and rush for the exits – then emerging economies should continue to welcome Chinese FDI, and indeed should lobby for more of it.

What is missing, however, is a more obvious movement towards establishing China's domestic economy as a reliable source of demand growth for other emerging economies' exports. As discussed above, China's widening trade surplus with developing countries is to some extent the flipside of its tilt towards economic self-reliance. This emphasis on self-reliance, in turn, likely reflects China's pursuit of some kind of insurance against the geopolitical risk it thinks it faces.[38] Yet if China seeks to expand its role as a diplomatic beacon for other developing countries, a set of domestic economic policies more friendly to its trading partners in the Global South will be necessary.

Figure 8. China's current account surplus remains exceptionally large



Source: State Administration of Foreign Exchange (SAFE) of China (2025), https://www.safe.gov.cn/en/DataandStatistics/index.html (accessed on 23 Aug. 2025 via Macrobond).

38 Lubin, D. (2024), 'How Geopolitics Shapes Chinese Economic Policy: An Introduction to 'Asymmetric decoupling'', National Institute of Economic and Social Research, Global Economic Outlook, Spring 2024, https://niesr.ac.uk/publications/how-geopolitics-shapes-chinese-economic-policy?type=global-economic-outlook-box-analysis.

As the Chinese authorities prepare their 15th Five-Year Plan (for 2026–30), to be unveiled in the autumn of 2025, emerging economies seeking to exploit China's ambition for closer political relations should make the case for the leadership in Beijing to adopt a domestic macroeconomic framework that gives developing countries more chance to sell goods and services to China. What's needed, in effect, is for China to sacrifice some of its large and persistent current account surplus in the service of better relations with these trading partners.

The policies needed to deliver more rapid domestic spending growth in China are well known. They include: increasing the provision of public healthcare and education, to reduce Chinese households' incentive to save; supporting domestic credit markets with additional monetary stimulus; reforming the *hukou* labour registration system to give migrant workers more confidence to spend; and lowering trade barriers for a wider set of developing countries than the low-income countries to which China offered zero-tariff access in 2024.[39]

If there is a single policy that countries in the Global South might usefully encourage China to adopt, it is to allow the renminbi to appreciate, thereby increasing the attractiveness to Chinese consumers of imported goods relative to domestically produced ones.

Yet if there is a single policy that countries in the Global South might usefully encourage China to adopt, it is to allow the renminbi to appreciate, thereby increasing the attractiveness to Chinese consumers of imported goods relative to domestically produced ones. A stronger currency would not only boost China's imports from emerging economies, of course, but would increase its imports across the board. That does not matter: the more China can play a role as a global importer overall, the more emerging economies stand to benefit, not only because of increased Chinese demand for their own goods, but also because of the increase in overall trade that is likely to result from such a move. International pressure on China to revalue its exchange rate has been picking up recently, based partly on a growing body of analysis suggesting that the renminbi is undervalued.[40] Emerging economies should make use of this momentum to add their own voices to this debate.

China will have one obvious and substantial objection to a stronger currency, namely that this is likely to intensify the deflationary pressures the economy is facing. Set against that, however, is President Xi's emphasis on the need for a 'strong currency' to support China's ambition to enhance the renminbi's global importance.[41] Indeed,

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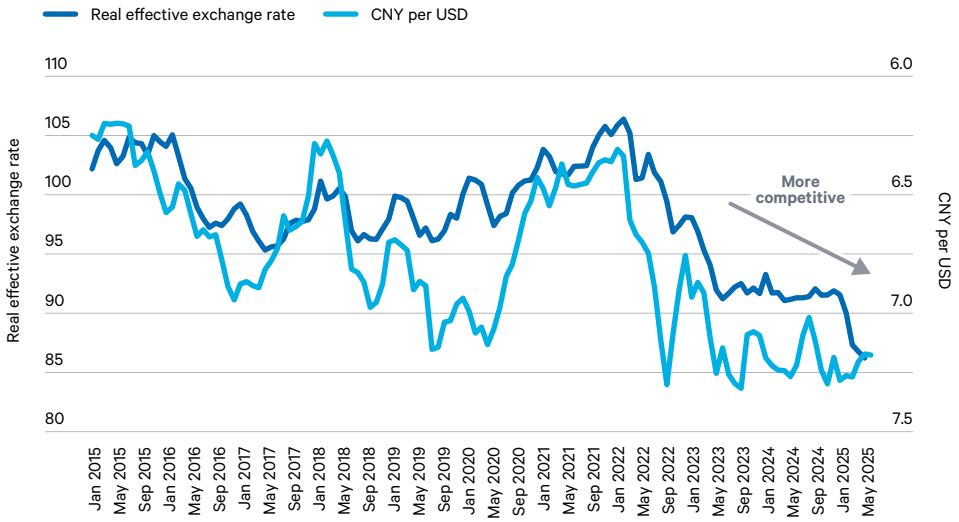
39 See footnote 9.
40 See, for example, Sobel, M. (2025), 'It's time for China to allow a large renminbi appreciation', OMFIF, 6 August 2025, https://www.omfif.org/2025/08/its-time-for-china-to-allow-large-renminbi-appreciation.
41 Bloomberg (2024), 'Xi Wants Strong Yuan in Push to Make China a "Financial Power"', Bloomberg News, 16 January 2024, https://www.bloomberg.com/news/articles/2024-01-16/xi-wants-strong-yuan-in-push-to-make-china-a-financial-power.

exchange rate movements in recent weeks offer some encouragement that this latter argument is dominating: the renminbi has been strengthening modestly, a possible harbinger of further gains.

Countries of the Global South can usefully put the case to Beijing that the international prestige of the renminbi, and indeed of China itself, would be strengthened by a further measurable appreciation of the currency. They might also argue that this is the only way in which China can take fuller advantage of the diplomatic gifts that Washington seems inadvertently to have bestowed on it. Of course, it is not only, or even primarily, developing countries whose trade balances might benefit from a stronger Chinese exchange rate: manufacturing exporters in the US and the EU could well benefit to a much greater extent than those in the developing world. But if China is seen to be responding to a plea from the Global South, rather than to pressure from trading partners in the G7, the diplomatic benefits for China could be considerable, especially if combined with a more liberal trade policy that offers advantages to emerging and developing economies.

Figure 9. China's renminbi has gained a lot of competitiveness in recent years



Sources: Bank for International Settlements (2025), 'Effective exchange rates', https://data.bis.org/topics/EER/data; and Macrobond. (Both sources accessed on 23 Aug. 2025.)

One way of interpreting the Trump administration's 'America first' tilt is that the US has declared an end to its willingness to act as the world's 'consumer of last resort'. Since that change implies a negative external shock to growth in global import demand, other large economies will presumably need to take up the slack, especially to avoid economic damage to countries of the Global South that most depend on trade. It would be unreasonable to expect China to take on this burden alone – but it does not necessarily have to do so. It could be joined by the EU, which at least can now argue that its own fiscal and monetary policies are loosening decisively; this could make Europe a more reliable source of global demand too.

Nonetheless, given China's particular ambition to gain the political support of more developing countries, the leadership in Beijing will need to implement additional policies to give real economic backing to its pro-Global South rhetoric; a stronger renminbi is likely to be the most visible and effective of such measures.

About the author

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Before joining Chatham House, he was managing director and head of emerging market economics at Citi, an American bank, where he was responsible for a team of some 30 economists in 15 locations globally. Prior to joining Citi in 2006, David spent many years as an economist at HSBC.

David has a undergraduate degree in philosophy, politics and economics from Oxford University, and a postgraduate degree from the Fletcher School of Law and Diplomacy at Tufts University.

His book, *Dance of the Trillions: Developing Countries and Global Finance* (Brookings Institution Press/Chatham House, 2018), examines what makes money flow from high-income countries to lower-income ones; what makes it flow out again; and how developing countries have sought protection against the volatility of international capital flows. The *Financial Times* selected it as one of the best economics books of 2018.

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My former colleague Johanna Chua at Citigroup wrote an essay for that bank's clients in October 2024 which influenced my thinking about these issues, as did many conversations during our years of working together. I would also like to thank Bronwen Maddox, Creon Butler and two anonymous reviewers for very helpful comments. Jake Statham, as always, provided truly expert editorial support.

Cover image: Chinese-made cars are seen at the port in Nanjing, in China's Jiangsu Province, as they wait to be loaded onto ships for export, 16 April 2025.
Photo credit: Copyright © STR/AFP/Getty Images

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