CHAPTER 3

China’s Foreign Aid and Investment Diplomacy in Northeast and Central Asia

Introduction

China extended foreign assistance to two Northeast Asian countries—North Korea and Mongolia—during the early period of its aid giving. In the case of North Korea, China provided massive help in the form of both economic and military aid (including soldiers) during the Korean War and subsequently funds for postwar reconstruction. Since then China has provided very large amounts of aid and investments to North Korea. North Korea was, and arguably still is, the largest recipient of China’s financial assistance anywhere.

Beijing’s foreign aid to both North Korea and Mongolia were originally provided under the rubric of Communist Bloc solidarity, though it hardly seems a coincidence that both were past tribute nations. Both are also border countries. In the case of North Korea, China’s security was a paramount driver in its giving foreign assistance.

In the 1960s, the Sino-Soviet dispute influenced China’s aid giving to both countries. Since North Korea did not tilt, or clearly favor the Soviet Union, China continued to give it substantial aid. Mongolia sided with Moscow, and China terminated its aid. During the latter part of period one, China also provided foreign assistance to Afghanistan, though Beijing’s motives were quite different from its aid giving to North Korea and Mongolia.

In the second phase or period of China’s foreign aid and investments, Beijing provided large amounts of financial help to North Korea, Mongolia,
and Afghanistan and also extended considerable funds to the newly independent (after the Soviet Union collapsed in 1991) countries in Central Asia. China’s aid to North Korea gave China an important bargaining chip in negotiating with the West on North Korea’s nuclear weapons, and it raised China’s status as a global power. In Outer Mongolia China sought to acquire natural resources and markets. China provided both economic and military aid to Afghanistan during the Soviet Union’s war there, ironically in cooperation with the United States. China’s relations with the Soviet Union were strained and Moscow was a major security threat to China. Using arms aid as a foreign policy “weapon” China helped render the Kremlin a momentous military defeat.

In 1991, China was given new opportunities in Central Asia when the Soviet Union collapsed. China offered aid and investment funds to former Soviet republics. In some cases the assistance helped to pursue objectives contrary to the Kremlin’s policies; often, however, China worked with Moscow and avoided conflict.

After September 11, 2001, the United States acquired bases in Central Asian countries to fight the war on terrorism in Afghanistan. China joined the fight. But Chinese leaders became concerned, even alarmed, about the expansion of US influence in the region. One of China’s main means of dealing with this problem and improving relations with Central Asian countries was by giving more aid and making larger investments there.

Assistance to the former Soviet republics, the “Stans,” also related to China’s plans to develop the Western part of China, especially Xinjiang Uighur Autonomous Region, which had not benefited so much as the rest of the country from the economic boom. The success of China’s “Western Development” plan, launched in 2000, was predicated on increasing China’s aid and investments.

In recent years, China has pledged large quantities of foreign aid and investments (hardly distinguishing between the two) to Central Asian countries for several other reasons: to enhance its domestic security, acquire energy, find natural resources, and expand its foreign markets. Doing so China has built large transportation and infrastructure projects in the area. Roads and railroads built with Chinese assistance connect Central Asia to South Asia and the Middle East and expand China’s footprint in these two regions. Pipelines bring oil and gas to China. All of this relates to China’s strategy to expand its global weight through economic means.

Worthy of special notice in China’s financial aid diplomacy in Central Asia are China’s efforts to promote a regional organization, the Shanghai Cooperation Organization. In some ways this mimics China’s efforts to promote a regional organization in Southeast Asia—ASEAN. China has