NO. 3, SEPTEMBER 30, 2022

MERICS Global China Inc. Tracker

CONTENTS

MERICS
Mercator Institute for China Studies

WHAT YOU NEED TO KNOW

To the surprise of many who expected that he would wait until after cementing his leadership for another term at the mid-October Party Congress before travelling abroad again, Xi Jinping left 'Fortress China' for the first time since January 2020. His brief trip to meet Central and South Asian leaders and his "best and bosom friend" Russia's Vladimir Putin, was centered around the Shanghai Cooperation Organization (SCO) leaders' summit in Uzbekistan's historic 'Silk Road' city of Samarkand, from September 15-16. Beijing seems intent to use the SCO to build up a bloc of partners that can help China counter its perceived US-led encirclement, and it may even have drawn other members closer to it due to the clear unease some members have shown in response to Putin's invasion of Ukraine.

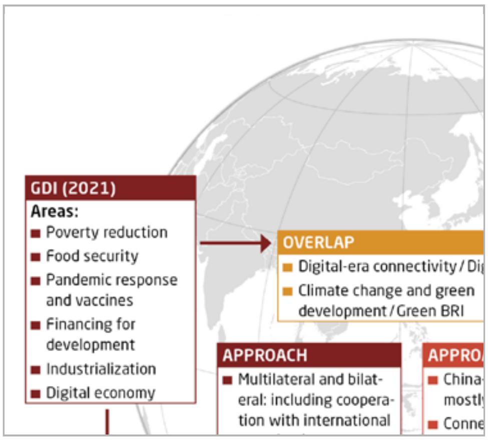
Also central to Xi's decision to attend the SCO summit in person must have been Beijing's efforts to diversify China's oil and gas suppliers. Our 'Key Player' in this edition is therefore China National Petroleum Corporation (CNPC), one of Beijing's most important actors in expanding oil and gas production abroad and building the infrastructure to carry it to China. As **Jacob Gunter** explains, SCO members, as well as non-SCO members like Turkmenistan and Myanmar, are vital sources of oil and gas for CNPC, while some other regional players are crucial for CNPC's distribution network of pipelines to get energy to market. CNPC is actively expanding operations in the Middle East, Africa, and South America as well as Central Asia. Meanwhile, it is seeking to decrease its footprint in liberal market economies like the United States, Canada, and Australia as part of Xi's turn towards a diversification strategy of minimizing risky dependencies.

Next, Xi is off to Indonesia to join the G20 Summit in mid-November, after the 20th Party Congress at which he is expected to secure a third term in power. The G20 Summit is likely to be contentious after a year of frictions between the United States, Europe and Russia over the latter's invasion of Ukraine, and between the United States and China over Taiwan. However, as **Francesca Ghiretti** argues in her 'Regional Spotlight', Indonesia's government will not simply be content for their country to act as a playing field for the great powers. Indonesia is increasingly comfortable shaping its relationships with others, and with the wider Indo-Pacific region. As a large player, Indonesia is better able than some to play China off against other actors like Japan in order to mitigate Beijing's influence. At the same time, it has resources and options to handle struggling projects within China's Belt and Road Initiative (BRI) that smaller recipients like Sri Lanka lack.

Finally, as Xi returns to the global scene, we take a fresh look at China's new Global Development Initiative (GDI) – an umbrella concept for China's development assistance programs launched a year ago. Details of the new body were sparse when it was first announced, but **Aya Adachi** has dug into the small print that has emerged since. As the initiative comes together, it is putting a strong focus on the sort of development that the BRI does not cover: poverty alleviation, food security, and public health. The program leans into China's strengths as it aims to replicate some of China's solutions to its own problems, but in other parts of the world. However, there is also considerable alignment with Beijing's interests, especially as they relate to empowering its own players in green energy and digital transition. In any case, the GDI is shaping up to be an important component in China's international toolkit - expect it to get more traction as Xi starts to take the GDI to foreign partners in person.

Top graphics in this edition

The BRI in Indonesia (see page 9).



Chinas toolkit for global engagement (see page 11).

KEY PLAYER

China National Petroleum Corporation: The state-owned behemoth at the center of Beijing's efforts to keep the "rice-bowl of energy" full

China, like the rest of the world, has deep concerns about energy security. Externally, the shock to global energy markets from Russia's invasion of Ukraine continues to roil commodity markets. At home, the heat waves and droughts affecting China's key water sources are taking out normally predictable hydropower sources, which account for roughly 16 percent of electricity production. China is generally self-sufficient in its domestic thermal coal, hydropower, and renewable sources. However, it is heavily reliant on imports of natural gas and crude oil – just under half of China's 2021 natural gas was imported, while reliance on imported crude is even higher, amounting to 72 percent of total consumption in 2021.

In October 2021, Xi himself called for greater efforts at developing energy self-reliance particularly in the oil and gas industry. As he put it, "The rice-bowl of energy must be in our own hands (能源的饭碗必须端在自己手里)". (For more on how seriously China takes self-reliance, or the 'rice bowl', see the entry on COFCO in last quarter's tracker). Since then, China's three main oil and gas champions have drastically increased their capital investments into oil and gas projects at home and abroad.

Here, we examine the China National Petroleum Corporation (CNPC), (commonly known as PetroChina, it's publicly listed arm) which is among the most active in oil and gas exploration, extraction, and transmission. Active both at home and abroad, CNPC has done well in executing Beijing's energy ambitions. However, the SOE will face hurdles in achieving state-planners' new dreams of replacing gas supplies from rivals like the US, Australia, which amount to around a third of China's natural gas imports (combined LNG and pipeline imports). In that sense, CNPC will be both useful for and reliant on Beijing's geopolitical efforts as new oil and gas fields will need to be found and tapped, then pipelines and LNG terminals set up to facilitate export to energy-hungry China.

CNPC's background

As part of the reform and opening up period, Beijing transferred the responsibilities of the Ministry of Petroleum into a series of state-owned enterprises (SOEs). After a series of attempts to get the equation right, the current constellation on oil and gas SOEs came into being in the late 1990s. All the three big players are engaged in much of the value chain of oil and natural gas – exploration and extraction, logistics, refining, petrochemicals, and marketing/distribution – each has its own focus: China National Petroleum Corporation (中国石油天然气集团有限公司) leans more towards exploration and extraction at home and abroad; China Petrochemical Corporation (中国石油化工集团公司) focuses on trading, refining, and petrochemicals; and China National Offshore Oil Corporation, or CNOOC Group (中国海洋石油总公司) mainly works in offshore exploration and extraction.

CNPC was formed in 1998 and is owned by the State-Owned Assets Supervision and Administration Commission (SASAC), a holding company under the State Council that manages China's major SOEs. It holds a wide range of subsidiaries specializing in different lines of business both in China and globally, as well as subsidiaries that are specific to certain foreign markets. For CNPC and its subsidiaries, oil and gas exploration, extraction, distribution, refining, and sales are the primary work, but CNPC also engages in equipment manufacturing, construction and engineering, and new energy work.

CNPC KEY INFO*	
Fortune Global 500 rank	4
2021 revenue	CNY 2,807 billion (~USD 435 billion)
2021 EBIT	CNY 166 billion (~USD 25.7 billion)
Assets	CNY 1,545 billion (~USD 239 billion)
Employees	1,242,245
Domestic service stations	22,684

*USD numbers are based on a 2021 average exchange rate of USD 0.155 per CNY.

Source: Fortune, CNPC 2021 Annual Report.

CNPC's role in expanding oil and gas production abroad

CNPC is a pillar of China's energy strategy, including efforts to transition away from coal and towards less polluting options, like natural gas. China is expanding its domestic and overseas access to these critical resources to meet growing demand. In 2020 while the rest of the world saw a 2.3 percent reduction in natural gas consumption due to the pandemic, China's use increased 6.9 percent. Also in 2020, China's fossil fuel production climbed overall, with a 1.7 percent increase in oil output, 1.2 percent rise in coal, and a whopping 9.0 percent for natural gas.

Beijing has made natural gas a crucial stepping stone to reach China's carbon peak by 2030 (followed by carbon neutrality by 2060). While domestic production is expanding, China has relatively small natural gas reserves compared to other major countries and will need to step up imports to keep up with demand. Unfortunately for Beijing, nearly one third of natural gas imports in 2021 were liquified natural gas (LNG) imports from Australia and the United States, both countries with which it has increasingly fraught trade relations. CNPC is not only tasked with expanding supplies of natural gas for China's energy transition, but also doing so in a way that diversifies gas supplies to mitigate reliance on unfriendly countries. CNPC is a major extractor and refiner of crude oil in the China market and abroad. Given the political need to diversify source of imports, CNPC will play an essential role in expanding production in foreign oil and gas fields, building up the pipelines and terminals to move it, as well as trading in these resources.

CNPC's oil and gas output is considerable, and increasingly focused on extraction abroad

CNPC OPERATIONS	OIL	NATURAL GAS
Sold domestically	111 million metric tons (mmt) (refined)	206 billion cubic meters (bcm)
Produced domestically	103 mmt (crude)	138 bcm
Produced abroad	76 mmt (crude)	31 bcm
FOR COMPARISON		
Saudi Aramco (produced globally)	459 mmt (crude)	95 bcm
Exxon Mobil (produced globally)	78 mmt (crude)	88 bcm

Sources: CNPC 2021 Annual Report, ExxonMobil 2021 Annual Report, Saudi Aramco 2021 Annual Report

CNPC's attempts to expand its global exploration and extraction footprint have had varying degrees of success. Its US operations and in close allies like Canada, the UK, the EU, and Australia are quite limited, less than 1/8th of CNPC's total number of global projects. CNPC and other PRC oil and gas giants like CNOOC are increasingly skeptical about investments in those markets – with CNPC citing lack of profitability from some assets, and CNOOC reportedly facing growing US political and regulatory pressure and being forced out of US financial markets. However, the diversification away from 'western' projects is long-standing. In the last decade, CNPC has only made three investments into 'western' projects: One oil project and one gas project in Canada, and an LNG terminal in Cyprus. Instead, CNPC is heavily focused on China's partners in the global south, especially in China's neighborhood and along the BRI. Such projects not only suit Beijing's efforts to diversify oil and gas suppliers, but also serve its growing push for south-south cooperation.

Key roles for CNPC in pipelines, ports and oil and gas trade

CNPC is a heavyweight player in domestic production, refining, and sales of oil and natural gas. But it is also a key connector with foreign energy sources. As China's own oil and natural gas resources are insufficient, much of the demand must be met with foreign supplies through gas or oil pipelines, or through port terminals that can accept crude oil or LNG.

Beijing has directed diplomatic efforts to establish energy ties with countries in China's neighborhood, in conjunction with CNPC and its subsidiaries' expertise and industrial capacity. This takes several primary forms:

- CNPC generally partners with a local oil and gas company to build pipelines from resource-rich regions to China's border. For example, the Kazakhstan-China Pipeline connects Kazakhstan's oilfields as far as the Caspian to a border town in China, which is 50/50 owned by CNPC and KazTransOil JSC (a Kazakh state-owned energy player) and was jointly constructed and managed by them through a JV. CNPC plays only a limited role in the exploration and extraction from Kazakhstan's oil and gas fields. Instead, it focuses on a supporting role in niche areas of operations, plus its large role in the country's pipelines, including those that connect to the rich gas-fields of Turkmenistan, where CNPC is heavily involved in extraction.

- CNPC has taken a different approach to dealing with its Russian counterparts. For instance, the Power of Siberia pipeline, which is often thought of as a pipeline that runs down through China, but is in fact a combination of the Gazprom-built and maintained Power of Siberia, the CNPC-built and maintained Eastern Russia-China Natural Gas Pipeline, plus a short jointly-built and maintained section that connects the two pipelines at the border. Again, CNPC plays a very limited role in the oil and gas fields fed through this pipeline, though it does effectively control the whole route once it enters China's borders.

- The China-Myanmar gas and oil pipelines are a textbook example of a BRI project with a developing country. They connect Myanmar's west coast to China's border town of Ruili. Less than 10 percent of the crude and 20 percent of the natural gas running through the pipelines goes to the Myanmar market. The oil and gas pipelines are owned by joint ventures – the oil pipeline is split between Southeast Asia Pipeline Company (SAPC, a subsidiary of CNPC) and Myanmar Oil and Gas Enterprise (MOGE), while the gas pipeline is owned by a consortium including SAPC, MOGE, and four other entities. SAPC, and hence CNPC, has a 50.9 percent controlling share of both JVs. The project was financed by the China Development Bank and nearly all of the work was handled by CNPC and its subsidiaries, making the project much more one-sided than those in Russia or Kazakhstan.

- CNPC engages in pipeline and terminal projects that do not necessarily connect resources to China. One example is the ongoing development of a pipeline in Niger that will run through Benin to the coast to facilitate crude exports. Some may well end up in China, but this is not the stated purpose. Similarly, CNPC subsidiary China Petroleum Pipeline Engineering Co. (a subsidiary of CNPC) led the development of a new marine pipeline in Bangladesh to allow large tankers with a deep draft to offload crude into Bangladesh for the first time.

The future of CNPC

CNPC will continue to play a central role in achieving Beijing's energy security and diversification goals in the short to medium term. However, beyond the current barriers it faces in an increasingly complex geopolitical environment beyond China's borders, the oil and gas giant will also have to reconcile its position in a world that endeavors to decarbonize. CNPC has a small presence in the green and low-carbon side of energy, and has stated intentions to expand further into new energy. However, in comparison to the comprehensive and ongoing green transition plans that can be found in the annual reports of many of the world's largest oil and gas firms that see where regulatory and market forces are blowing, CNPC gives a very limited impression of how it intends to change. Instead, much of the investment in renewables in China is coming from other SOEs and private firms. In that sense, it may not be geopolitics that proves to be the national champion's stumbling block, but rather market forces that are leaving it behind.

REGIONAL SPOTLIGHT
Indonesia: Keeping the BRI running

Indonesia will host the G20 summit in Bali in November, most likely with Xi present as he has resumed international visits. Indonesia has a close relationship with China and Presidents Joko Widodo and Xi seem to share a warm personal relationship. Nonetheless, Indonesia manages to maintain a more well-balanced economic relationship with China than many other middle income/developing countries. One of the reasons for that lies in the traditionally close ties to Japan and thus the availability of Japanese investment and financing as an alternative to Chinese capital. Indonesia has been able to use this to its own advantage by hedging one against the other.

The other reason is the size of Indonesia's economy. As the world's 17th largest economy, Indonesia has options that smaller economies lack when manage its economic ties with China and with Belt and Road (BRI) projects. Furthermore, despite the overall positive relationship with China, Indonesia and its people carry concerns regarding Beijing, specifically over expansionary claims in the South China Sea. More broadly, Indonesian public opinion displays comparatively negative public views of China fed by a multiple factors: negative reactions towards low-skilled Chinese immigrants displacing local jobs; the difficulties Indonesian businesses face in penetrating the China's market; the asymmetrical benefits of trade and investment in China which flow mostly to Indonesians of Chinese descent over other ethnic groups (for a more detailed account of Indonesia's perceptions of China, see MERICS' Global Views).

However, the many contentious issues within public opinion have not hindered engagement or prevented the two countries from building pragmatic economic ties. Trade volume is large and Indonesia's trade deficit with China is relatively small compared to the size of bilateral trade.

Both China and Indonesia are members of the Regional Comprehensive Economic Partnership (RCEP), so the outlook for Indonesia-China trade and overall economic ties is positive, likely to grow and become more complex as the two become part of a regional union.

Indonesia's economy is strong enough to fund troubled BRI projects

Indonesia's GDP bounced back from the difficulties of the pandemic, growing 3.69 percent in 2021. It is expected to grow at 5.1 percent in 2022 and 5.3 percent in 2023 due to improved consumer confidence and trade conditions, according to the World Bank.

The story of the BRI in Indonesia differs from concerns about debt refinancing, restructuring and debt forgiveness in other developing countries. The BRI's potential relative success or at least lesser degree of failure in Indonesia shows the extent to which the BRI can develop differently according to local conditions, leading to different outcomes – yet still marked by pitfalls that are typical of many BRI projects worldwide. Indonesia's sheer economy of scale means that the country can also endure struggling or failed projects in a way that Sri Lanka, for example, could not as in the case of the Bandung-Jakarta highspeed railway.

In 2016, Indonesia and China inaugurated what can be seen as the BRI's flagship project in the country, the Bandung-Jakarta highspeed railway, which has yet to be completed amid delays linked to the Covid-19 pandemic and difficulties in acquiring land for construction. Completion is now set for 2023, rather than 2018 The hope is that Xi himself will inaugurate the project alongside Widodo. But Widodo does not want to wait that long to strengthen its relationship with Xi so he is planning a visit of the works with Xi during the G20 summit and a trial run of the Tegalluar-Kopo track, according to Indonesian news agencies. The completion date is not the only thing to have changed: the project's estimated costs also been surpassed. The initial budget was estimated around 6.07 billion USD and new estimates range between 8.6 billion USD and 11 billion USD. The Indonesian government stepped in after China Development Bank, the rail line's main financer, communicated it would not cover the extra costs. Via an executive order, Widodo ensured that the government will pay for the extra construction costs, funds Widodo initially promised would not be used. However, it remains unclear how much state funds will actually be used for the project.

The Belt and Road Initiative in Indonesia

Main China-backed infrastructural BRI projects in Indonesia

1 Dairi Prima Mineral Zinc Mine, *North Sumatra*
2 Batang Toru Hydropower Project, *Batang Toru*
3 Weda Bay Industrial Park, *North Maluku*
4 Jakarta-Bandung High Speed Rail Project, *train line from Jakarta to Bandung*
5 Tanjung Jati A Power Station, *Cirebon*
6 Probolinggo-Banyuwangi Toll Road
7 Morowali Industrial Park, *Morowali Regency, Central Sulawesi*

Source: MERICS

Although the decision to use state funds on the Bandung-Jakarta high speed railway attracted intense public criticism, the fact that Indonesia was able to do so is a sign of how its position differs from smaller economies. Other BRI countries, faced with such a refusal, would not have had the option to use state funds. Elsewhere, such a scenario would have to be met by more active involvement from China's banks, consisting of a new loan, or help to find additional investors – failure to do so would mean the project's failure. For example, in August, China has pledged to forgive the debt of 17 African countries for a total of 33 projects and has renegotiated the debt with Zambia, together with international creditors.

Indonesian companies have also done well out of the BRI, which is another aspect of Indonesia's relatively successful approach to the BRI. The active participation of Indonesian partners has incentivized both deal-making and completion of BRI projects. Most of the projects that Indonesia has contracted under the BRI banner include collaborations with Indonesian companies. This is true of the Jakarta-Bandung high speed rail project, the Batang Toru hydropower plant, the Morowali Industrial Park and the Dairi Prima Mineral Zinc Mine, among others.

Indonesia's BRI projects show problems linked to environment, workforce and relevance

However, none of this means that Indonesian BRI projects are trouble free in other areas. They suffer from the same problems seen on BRI projects worldwide: questionable environmental impact assessments; the use of predominantly Chinese workers; and poor design and delivery that can undermine their benefits. The Batang Toru Hydropower, Dairi Prima Zinc Mine, Weda Bay Industrial Park and Morowali Industrial Park projects are all mired in lawsuits over their environmental impact.

Second, the use of mainland Chinese workers has sparked resentment as Indonesia already has an issue with illegal immigrants from China. The flagship Jakarta-Bandung high speed railway project has been criticized for false feasibility assessments (a widespread problem) and a design that fails to connect to other public transport networks, so travelers are likely to be stuck in the usual traffic of the area before their costly journeys.

Indonesia's approach to the BRI is therefore far from a recipe for complete success, but it does show that how receiving country engage with the BRI may make a difference. Indonesia's availability of alternative investments, economic performance (by itself and as part of regional agreements such as ASEAN and RCEP), and the active involvement of local enterprises are playing a determining role in shaping the BRI in the country.

The GDI: Bridging the gap in China's global engagement

Xi unveiled China's Global Development Initiative (GDI) in a virtual address to the UN General Assembly in September 2021, at a time when Covid pandemic had eroded years of progress and created new challenges to achieve the UN Sustainable Development Goals by 2030. One year on, what has become of the GDI?

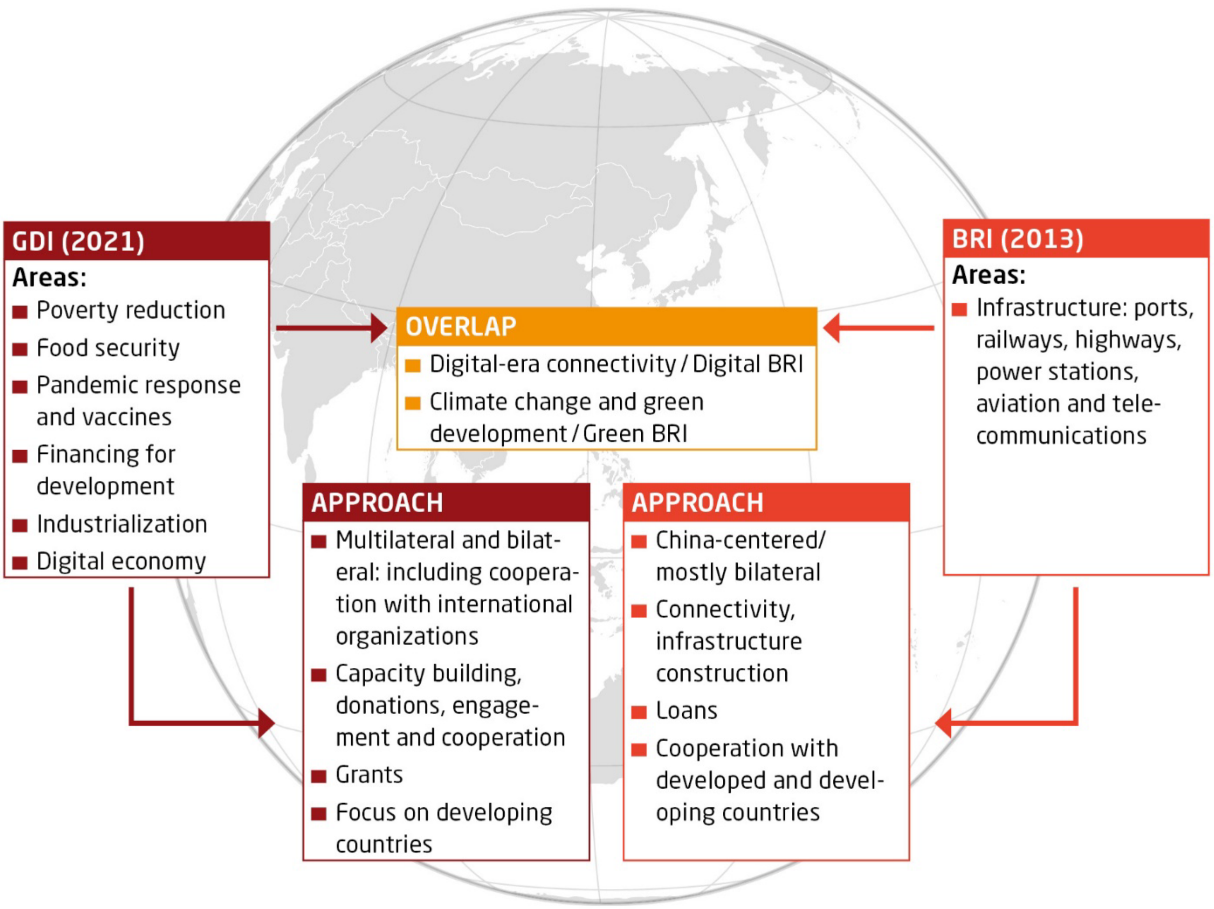
The GDI is slowly coming together and becoming more targeted

Xi announced 32 deliverables as part of the initiative during the High-Level Dialogue on Global Development on the sidelines of the BRICS Summit in June. The list is broad, covering different forms of engagement and capacity building measures. In terms of funding, the list includes pledges linked to individual projects but details remain scattered and there is no total spending plan laid out. It promises 50 million USD to the China-FAO South-South Cooperation Trust Fund and a further 1 billion USD to China's Global Development and South-South Cooperation Fund on top of the current 3 billion USD commitment. For now, that makes the GDI comparatively small in relation to China's broader investment and construction overseas. China is estimated to have invested in 13,427 projects worth 843 billion USD, making the GDI a minor affair, though some projects pre-dating the initiative could potentially be relabeled as part of the GDI in the future – just as many projects were tagged under the BRI only after the strategy was announced.

The GDI is set to reframe and rebrand China's development activities around the world. In contrast to the BRI which had been criticized for being a China-centered ambition, the GDI includes Chinese support of multilateral platforms, such as the UN Food and Agriculture Organization (FAO), UN Industrial Development Organization (UNIDO) and South-South cooperation, in addition to bilateral cooperation. Despite this difference, the strategic thinking underlying the GDI resembles the BRI's framework for linking multiple projects - in some cases already existing activities - to a larger Chinese South-South cooperation narrative of "jointly foster(ing) a new era of global development featuring benefits for all, balance, coordination, inclusiveness, win-win cooperation and common prosperity."

China expands its toolkit for global engagement

Complementary coverage and approaches of the China's Global Development Initiative (GDI) and the Belt and Road Initiative (BRI)



Source: Based on official announcements of the Ministry of Foreign Affairs of the PRC

The GDI aligns with Beijing's strengths and strategic interests

China frames the GDI as a way to help global economic and social development after the setbacks caused by Covid-19 and to accelerate momentum on the UN 2030 Sustainable

Development agenda. The GDI includes the priority areas of "poverty reduction, food security, pandemic response and vaccines, financing for development, climate change and green development, industrialization, digital economy, and digital-era connectivity." These are areas in which Beijing has achieved its own domestic successes, and where development aid with partners suits China's interests.

China's leadership has frequently pointed to the success in China's own development model – indeed, a standard riposte to human rights critics has often been that China has lifted millions out of poverty. Deliverables 1, 2 and 4 consist of capacity building measures for sharing know-how in poverty reduction. On food security, the GDI deliverables 6 to 9 aim to transfer skills in food production, self-sufficiency and sustainable farming. As China has reached 95 percent self-sufficiency in grain production, China's agricultural achievements will add credibility to its efforts on food security through the GDI.

In other areas, the GDI is more directly aligned with China's own strategic interests. For example, plans to establish the Global Clean Energy Cooperation Partnership (deliverable 16) and found an International Coalition for Energy Transitions. This could help boost demand for clean energy companies in China and the government's push to dominate global renewable energy boom. Similarly, improving information technology and telecommunications technology capacity in developing countries (deliverable 22) aligns with Beijing's interest in finding Huawei more customers especially since the G7 and many EU members have excluded Huawei products from their networks.

The GDI is timely as it complements the shortcomings of the BRI, especially in tackling pandemic-related issues. Chinese investments in BRI countries have stalled since the outbreak of Covid-19. Meanwhile, the G7 announced its pledge 600 billion USD in infrastructure funding as part of the Build Back Better World. Faced with competition, and the BRI losing steam, China may have needed to balance its global engagement efforts. The GDI offers grants and capacity building aimed at socio-economic challenges to tackle the consequences. The combined impact of the BRI and GDI offers a powerful package to promote Chinese interests, rules and norms. They also act as joint pillars of China's broader effort to make friends in the global south to pursue its diplomatic rivalry with the United States.

Xi is preparing a global come back ahead of the Party Congress with the GDI an integral part of future strategy

The GDI, introduced as a high-level concept with much fanfare, is now starting to take shape and gather support, though it remains short on details and implementation. China has managed to get support from more than 100 countries and international organizations, and more than 50 countries have joined the UN Group of Friends of the GDI. As yet, the GDI has received little attention among OECD countries but, as with the BRI, we can expect to see China laying out the specifics to bring the initiative to life. In his recent visit to Samarkand Uzbekistan on September 15-16, Xi used the Shanghai Cooperation Organization Summit as a platform to promote the GDI. Now that Xi has started to travel abroad again, the GDI will be one of the key initiatives that he and the Chinese diplomats preparing his visits will try to get support for.

GLOBAL CHINA INC. UPDATES

China Inc.'s political and diplomatic developments

China shifts some financing with BRI partners towards short-term and emergency lending

According to Aid Data, China has shifted at least some of its BRI financing priorities away from infrastructure projects and towards issuing emergency loans to ease foreign currency shortages since 2018. China has "pivoted in in a significant way away from project lending and toward balance of payment lending, doing emergency rescue lending" the author says. For example, Chinese state-owned banks have lent 21.9 billion USD and 3.8 billion USD to Pakistan and Sri Lanka since 2018. While considerable sums, they come in the context of the hundreds of billions in BRI financing over the last decade.

Mounting debt related to the BRI

China announced waivers for 23 interest-free loans that reached maturity by the end of 2021 for 17 unspecified African countries. A policy brief by the Boston University Global Development Center estimated Chinas interest-free loan forgiveness to Africa could amount to between 45 million USD and 619 million USD, comprising a modest share of China's lending to Africa. China's debt forgiveness in Africa is not new. Between 2005-2022 the researchers of the brief identified ten instances of China's interest-free loans debt cancellation announcements for African countries at United Nations high-level meetings and the Forum on China-Africa Cooperation (FOCAC).

Digital, Health, and Technology

Huawei's artificial intelligence alliance in Mexico

The Ministry of Foreign Affairs of Mexico, the National Autonomous University of Mexico and Huawei jointly established an artificial intelligence alliance in Mexico City, on August 2nd, to strengthen the training of digital technology talents and to "support the use of artificial intelligence to solve social problems."

Kuwait recognizes HUAWEI CLOUD as its cloud service provider

HUAWEI CLOUD was officially licensed by the Ministry of Communications and Information Technology Supervision of Kuwait as a nationally recognized cloud service provider. This license means that HUAWEI CLOUD is now able to offer its cloud services in the market. The Ministry is pursuing a "Cloud First" approach to support Kuwait's 2035 national goal of sustainable economic development, making the country an appealing target market for Huawei.

Energy, Resources, and Commodities

Chinese companies help Brazil build "electric" highway

Chinese companies helped construct transmission lines using Ultra High-voltage (UHV) technology to solve the problem of uneven geographic distribution of electricity generation and consumption in Brazil, completing the second phase spanning 2550 km. The transmission project will deliver electricity from the second largest hydropower station in Brazil to the southeast of the country. The project was launched in February 2014, as a joint venture between State Grid Corporation of China and Brazil's National Electricity Company (with the Chinese side accounting for 51 percent of the shares).

Sinopec and Saudi Aramco strengthen cooperation

Sinopec and Saudi Aramco signed a memorandum of cooperation in Saudi Arabia. Collaboration between the two companies existing joint ventures including Fujian Refining and Petrochemical Company (FREP) and Sinopec Senmei (Fujian) Petroleum Company (SSPC) in China, and Yanbu Aramco Sinopec Refining Company (YASREF) in Saudi Arabia. The memorandum includes potential collaborations across all lines of business from traditional oil and gas extraction and refining to material supply and equipment manufacturing, and even to new technologies like carbon capture, hydrogen energy and other areas.

Vale Indonesia launches nickel projects with Chinese firms

The mining giant Vale's Indonesian unit is embarking on three nickel processing projects in Sulawesi worth a combined 8.6 billion USD with partners including Chinese battery materials producer Zhejiang Huayou Cobalt, Tisco and Shanding Xinhai Technology and others. Indonesia is the world's largest producer of nickel, a key ingredient in EV batteries. The government is pursuing an ambitious program to encourage production of batteries and finished vehicles by foreign manufacturers and position the country as a key player in the global EV industry.

Manufacturing and Construction

Chinese EV-related investments in Hungary on the rise

Chinese battery manufacturer CATL kicked off its Hungarian factory project, signing its pre-purchase agreement in Debrecon on September 5. It is the largest greenfield investment in Hungary's history at 7.34 billion EUR. NIO, the Chinese EV maker, also opened its first overseas factory in Hungary. It is set to mainly be used to produce battery swapping stations that provide battery replacement services for electric vehicles as an alternative to charging stations. It will become the European manufacturing center, service center and R&D center for NIO products. Both Chinese investments received subsidies from Hungary.

SVOLT confirms second battery cell plant in Germany

Chinese global high-tech company SVOLT confirmed it is building an additional battery cell plant in Lauchhammer, Brandenburg. The second plant was purchased to make up for delayed construction SVOLT is facing in Saarland. BASF which had entered a partnership with SVOLT for battery materials and recycling in 2021, is also building a pilot plant nearby. Production in Saarland will start in 2028 while the site in Brandenburg is expected to begin assembly by February 2024.

BYD's plans to set up production in Thailand

China's electric vehicle (EV) maker BYD announced it would set up a facility in Thailand to produce 150,000 passenger cars per year starting in 2024. BYD signed a purchase agreement for 96 hectares of land in the eastern province of Rayong for the plant and plans to use the site for selling 10,000 units in Thailand, with the remainder planned for export to the rest to Southeast Asian and European countries.

Lusail Stadium – main venue for the 2022 Qatar World Cup

The Lusail Stadium near Doha, the main venue for the 2022 Qatar World Cup, constructed by China Railway Construction, was inaugurated on September 9th. The stadium began construction in April 2017, and will be the venue for the World Cup Final in December 2022.

Trade and Finance

Chinese automotive giants launch new models in Europe, global markets

MG, an auto brand owned by SAIC, launched 10,000 units of the new model simultaneously in nearly 20 European countries and China. MG Motors has been accepting reservations for the model across Europe since August. The model aims to compete with equivalent VW models, which it is also cheaper. Meanwhile, SAIC announced plans to launch the MG4 Electric in other countries and regions such as Australia, New Zealand, the Middle East and South America next year with the plan to act sell in more than 80 countries around the world.

Chinese brand cars in Russia ranked second for the first time

A total of 8,642 new cars from Chinese brands were sold in the Russian market in July 2022, accounting for 24.3 percent of the total Russian market according to data released in August by Autostat. In July, Chinese brands surpassed Korean brands which made up a share of 21.2 percent for the first time to become the second largest brand in the Russian auto market after Russian local brands (30.9 percent). The data show that the share of Chinese brand cars in the Russian market has increased in the past three months.

Transport and Logistics

Delay in Germany's decision on COSCO's investment in Hamburg Port terminal

Amidst disagreements within the German government over COSCO's bid for shares in Hamburg Port, the deadline for approving or rejecting the investment has been extended to the end of the year. COSCO set out to take a 35 percent stake in the Tollerort container terminal one year ago, after which anti-trust review began. The port of Hamburg has warned the German government against blocking the deal, while the German coalition is divided – with one side expressing concern over China's presence in critical infrastructure as well as competition risks and the other side focusing on the economic benefits of the investment and the danger of setting a precedent.

COSCO's quest to become the biggest shipping company

China's state-owned shipping giant COSCO Group announced it will spend 4.9 billion USD to expand its fleet. COSCO had 512 vessels in its fleet at the end of June, amounting to a carrying capacity of 2.92 million twenty-foot equivalent units. If it does not scrap any ships, the investment would boost capacity by roughly 20 percent. Pandemic-induced demand for stay-at-home consumption and the restriction of Russian airspace due to the Ukraine war have spiked demand for overseas shipping. COSCO Shipping Holdings reported that net profits last year ballooned ninefold, giving them the resources to make such a large investment.

CIMC abandons deal with Maersk

China International Marine Containers (CIMC) pulled out from plans to acquire Danish Maersk's one billion USD refrigerated container manufacturer after parties found out the US Department of Justice was planning to block the deal. US authorities had planned to take action because the deal would have generated excessive market concentration, leading to entities linked to the Chinese government in control of the vast majority of refrigerated container supply and potentially driving up the costs. Germany's competition regulator was also considering blocking the transaction.

MERICS Membership

The MERICS Global China Inc. Tracker is part of the publication portfolio for MERICS Members. For more information about the MERICS Membership program and privileged access to our research and expertise, please contact

Bernhard Bartsch
Director External Relations, MERICS
membership@merics.de

YOUR CONTACT FOR THIS ISSUE

Aya Adachi, Analyst, MERICS
aya.adachi@merics.de

Francesca Ghiretti, Analyst, MERICS
francesca.ghiretti@merics.de

Jacob Gunter, Senior Analyst, MERICS
jacob.gunter@merics.de

EDITORS

Bernhard Bartsch
Director External Relations, MERICS
bernhard.bartsch@merics.de

Mary Hannock
Freelance editor

GRAPHICS

Alexandra Hinrichs
Graphic Designer, MERICS

PUBLISHER

MERICS | Mercator Institute for China Studies
Klosterstraße 64
10179 Berlin
Tel.: +49 30 3440 999 0
Mail: info@merics.de
www.merics.org