

12 China as a development actor in Southeast Asia

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China has emerged as a key development partner for Southeast Asia. In this chapter, how China's position has evolved over the past two decades is examined, and what that means for Sweden going forward with new aid and trade policies. The chapter shows how China has emphasised economic cooperation and prioritised infrastructure funding as the basis for development. China has simultaneously become the leading trade partner for Southeast Asia, and Chinese companies have begun to invest more as well. Sweden, as a much smaller donor, trade partner and investor, cannot compete with China but can provide development support in targeted sectors and aim for synergies between aid and trade.

Introduction

In this chapter, the aim is to examine China as a development actor in Southeast Asia, the strong position that China has achieved while simultaneously being a recipient of ODA and a donor. I will discuss what that means for Sweden, as Sweden reorients its aid and aims to align aid, trade, and other foreign policy priorities such as security more closely. China has had a very different approach to development in Southeast Asia than Sweden with an emphasis on economic cooperation rather than a traditional donor focus on broad-based poverty reduction. The focus is on the past 20 years since this is the time period when China emerged as a significant development actor globally.

China has become the largest development funder (debt and aid) globally in absolute terms while the United States until 2024 was the largest provider of aid or official development assistance (ODA). Between 2000 and 2021, China provided USD 1.4 trillion in development finance globally, 85% of which were loans. The United States provided USD 771 billion and 85% were in the form of aid. Other OECD member countries combined provided USD 2.2 trillion and about 90% of this was aid (Custer, Burgess, & Sritharan, 2025).

In Southeast Asia, Japan long dominated as provider of ODA and funder of infrastructure and was the most important trading partner and investor. In 2009, China emerged as the main trading partner for all ASEAN countries ahead of Japan, the United States, and the European Union. In addition, China, through its Belt and Road Initiative (BRI), became the largest funder of infrastructure and energy projects in ASEAN. In the past few years, Chinese firms have also begun to invest more in Southeast Asian economies. China has thus emerged as a significant development actor and development partner.

Southeast Asia is dominated by middle-income emerging economies that have largely graduated from basic ODA but do receive targeted grants and can borrow at concessional rates from multilateral development banks as well as bilaterally for development-oriented pro-

jects. The Philippines and Vietnam are lower-middle-income countries while Indonesia, Malaysia, and Thailand are upper-middle-income countries which receive limited or no grant funding but receive substantial amounts of debt funding for projects that are not commercially viable. Myanmar, Laos, Cambodia, and Timor-Leste on the other hand are low-income countries where aid continues to be important but other concessional flows have also increased.

Sweden has a long history of providing aid to Southeast Asia but as these countries have experienced rapid growth and higher per capita incomes, Sweden's engagement and support shifted from bilateral to regional programs except for Myanmar (which currently receives only humanitarian assistance) and Cambodia until the end of 2024. The regional strategy for Asia is being phased out and it is not yet clear what the priorities will be in Southeast Asia. However, future engagement will have to take China's actions in the region into account as China has become a vital economic partner for Southeast Asian countries.

China's engagement with Southeast Asia

China's long history of foreign aid changed in the late 1990s as the Chinese economy grew rapidly and became far more integrated in the global economy. The so-called Going Out policy presented in 1999 was prompted by surplus capacity in a number of sectors as well as rapid accumulation of foreign exchange reserves that could be deployed in other countries. In addition, engagement in other countries could help secure access to key resources needed for industrial development. While no formal aid policy was communicated then, scholars interpreted the Going Out policy as one reason for the shift in China's policy and strategy vis-à-vis developing countries (e.g., Copper, 2016; Bräutigam, 2011). The 2011 White Paper on China's Foreign Aid stated that aid should focus on support for self-development and be about mutual economic cooperation. The paper explicitly said that China would refrain from conditionalities related to domestic policies, would not interfere in internal affairs, and not

seek political gains for itself. Resources could be in the form of grants, interest-free loans, or concessional loans. The first two were provided from government finances while the Export-Import Bank of China provided concessional loans. On a cumulative basis, 61% of the projects were devoted to economic infrastructure and 33% funding was allocated to Asia.

In the 2014 slightly revised White Paper, cooperation with ASEAN was highlighted as part of the provision of foreign assistance. The latest White Paper from 2021 is more comprehensive and includes the Belt and Road Initiative as a platform for development cooperation. This paper also says that helping countries reach the sustainable development goals in Agenda 2030 is another key theme. Furthermore, aid for trade was promoted as part of support for economic development. Chinese aid is recipient driven meaning that borrowing countries request funding for development projects and if deemed feasible and viable these may be funded by Chinese agencies and implemented by Chinese firms.

The White Paper provided data on foreign aid (including grants, interest-free loans, and concessional loans) but data on the non-concessional loans such as loans to BRI projects were not included. This lack of comprehensive data on broadly defined development cooperation makes it difficult to fully analyze the extent of China's development cooperation. The AidData database is the most comprehensive source on China's development projects and includes aid projects and debt-financed projects. Since there is no comprehensive list of BRI projects it is not possible to separate them in the data on loans.

During the Asian financial crisis in 1997–98, China contributed USD 1 billion to the IMF-led support program in Thailand, on par with bilateral support from Australia but far less than the Japanese bilateral contribution. This bilateral support signaled a shift in China's position as it was still a low-income country but had large enough foreign reserves that it could lend money to a middle-income country. At the time, China was the largest recipient of ODA in absolute

terms and continued to be a recipient while becoming a substantial donor. The financial support was the first step toward closer relations with ASEAN. In 2000, China became part of the ASEAN plus 3 (Japan, Korea, and China) grouping that continued to collaborate with ASEAN countries and has since held regular meetings and developed closer relations.

In 2003, the China–ASEAN strategic partnership was announced, and it became formalized with a trade agreement for goods in 2005 and services in 2007. Trade with Southeast Asian economies began to increase in the mid-1990s albeit slowly. With the rapid industrialization in China as well as the newly industrializing countries in Southeast Asia, a similar economic structure emerged as the low-income countries had with exports of basic consumer goods and textiles. There was thus limited scope for trade. Gradually, industrial production networks spread out across Southeast Asia and China which increased trade and economic integration in the region.

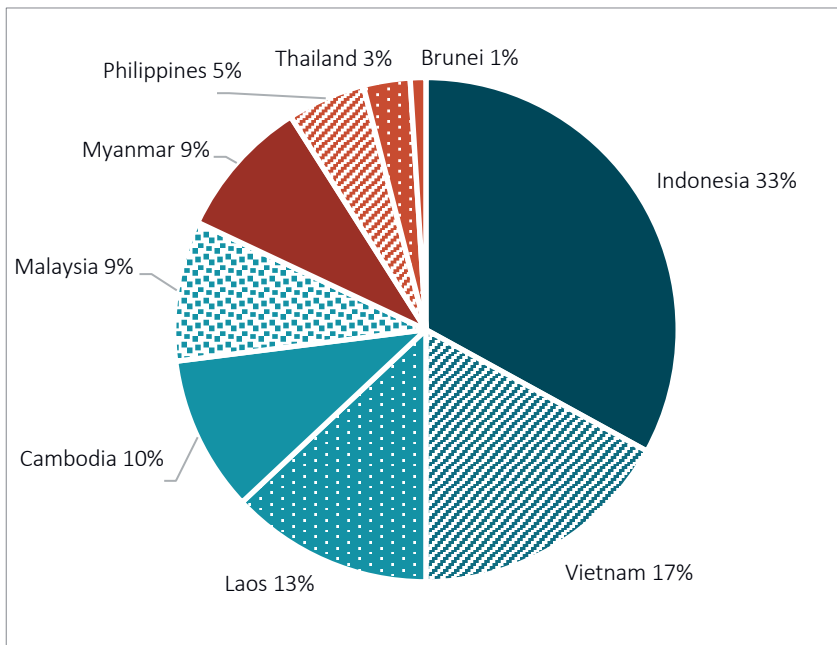
Development funds from China increased following the global financial crisis in 2008–09 as China had a significant surplus to lend and invest even though China still received significant ODA flows and was a major borrower in multilateral development banks. Another increase followed the start of the Belt and Road Initiative in 2013 with substantial funds lent for primarily infrastructure. A shift appears to have taken place with commitments going down from 2015. By 2025 a new informal policy seemed to be in place with a focus on smaller projects in Southeast Asia (Tan, 2024). While fewer BRI projects are announced, other investments and more trade have solidified China's position as a development actor and economic partner in Southeast Asia.

Aid and development

Over the period 2000 to 2023, committed development finance to Southeast Asia amounted to USD 170 billion. Indonesia was the largest recipient with USD 55 billion or 33% of total, followed by Vietnam with USD 29 billion and Laos with USD 21 billion (see

Figure 1.). Of the USD 170 billion, 84% were in the form of debt, 10% aid, and 6% of the funding is categorized as “vague.” The numbers illustrate Beijing’s thinking about supporting development of self-reliance. Loans are expected to be managed well since they must be repaid. Loans finance primarily three sectors, namely 1) industry, mining, and construction, 2) energy, and 3) transportation (figure 2). These are sectors where the projects are expected to support industrialization and economic growth and thus generate returns that will be used to repay the loans. China’s aid projects are small-scale and focus on health, education, and government. The number of aid projects far outnumber loan projects, but the size and scale of the loan-financed projects are much larger.

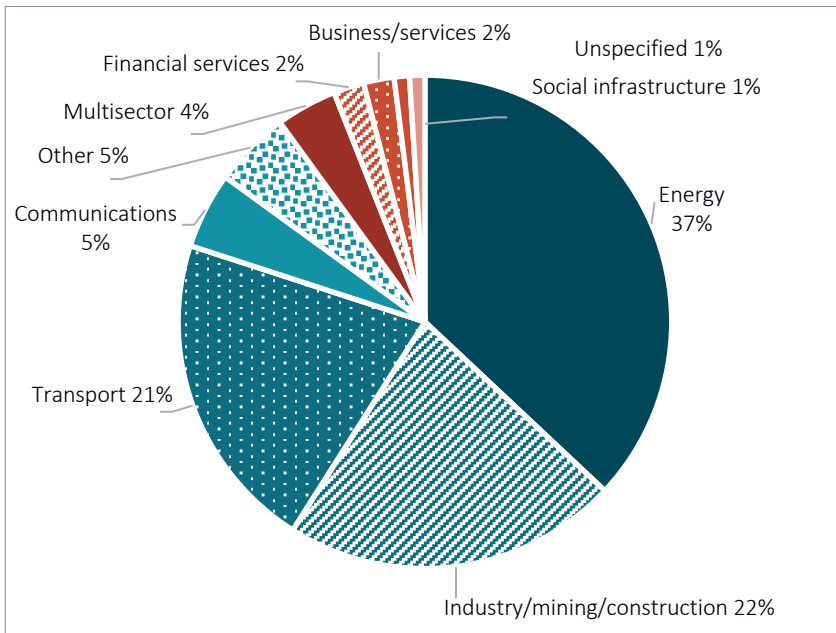
Figure 1. Shares of China’s development funding by country, 2000–2021



Source: www.AidData.org

Indonesia mainly received loans as grants only make up USD 187 million of the total. The loans are primarily for energy, transportation, industry, and mining. These include funding for coal-fired power plants, mines to develop extraction of ores, aluminum plants, roads and railways, and telecom projects. China has also lent to local banks for on-lending and to the state-owned energy company PLN for corporate purposes. Most of the aid funding was disbursed in early 2005 in response to the earthquake and tsunami which devastated Banda Aceh in northern Sumatra. More emergency aid was delivered during the COVID-19 pandemic. Other aid has been directed toward health clinics and education. Overall, the funding pattern reflects China's development philosophy. Indonesia with around 285 million inhabitants and a GDP per capita of USD 5000 received USD 55 billion. This can be contrasted with Laos with barely 8 million inhabitants and a GDP per capita of USD 2100 that received USD 21 billion over the same time period.

Figure 2. Funding to different sectors, 2000–2021



Source: www.AidData.org

In Laos, more than half of the funds have gone to energy projects, specifically to hydropower plants along the Mekong River. The second largest sector is transportation and here the north–south highway from Kunming to Bangkok via Laos is one major project and a high-speed railway between Kunming and Vientiane another. There are plans to extend the railway through Thailand and Malaysia with Singapore as the final destination. Laos, even though it has lower per capita income than Indonesia, received 77% of funding as loans and the remainder as aid and vague finance. Aid projects included health sector projects like COVID-19 vaccines and hospital upgrades.

Laos is a highly indebted country with external debt equivalent to 90% of GDP and half of this is owed to China. An analysis by Barney et al. (2025) showed that non-concessional loans from Chinese banks account for the largest part of the debt. The heavily loan-financed energy sector is highly indebted and has difficulty servicing the loans. The Laotian government has chosen to sell some state assets to get funds for debt servicing. Barney et al. dismiss the notion that Laos is a case of the so-called “debt-trap diplomacy” arguing that the government made informed decisions.

The debt-trap argument holds that Beijing deliberately imposes hard conditions that will benefit Beijing in case of repayment difficulties. This view suggests that borrowers have limited agency which Barney et al. does not accept. The only study of actual loan agreements (Gelpern et al., 2023) showed that for their sample the Chinese state-owned banks used a mix of terms from standard commercial loans and official loans to gain leverage and secure repayment. Novel clauses sought to protect lenders against changes in law or policy. Gelpern et al. note that these clauses do facilitate lending to high-risk projects and countries, but also make the loans harder to restructure if needed.

In Laos, the railroad from Kunming to Vientiane is owned by a jointventure between Chinese and Laotian firms and notionally financed by debt and equity. However, the equity part from Laos is funded with loans from Chinese banks. This type of lending is re-

ferred to as “hidden debt” since the borrower is a company rather than the state and is not recorded in international debt statistics. This contributes to the opacity of lending data.

The funding to Cambodia, another low-income country, follows the same pattern with an emphasis on loans for transportation including the Siem Reap international airport, expressways, and extensive support for the Sihanoukville economic zone. Aid-funded projects also include very concessional loans to transportation, in addition to a number of projects for health, education, and landmine clearing.

Close to 60% of all development funding to Laos comes from China and for Cambodia it is almost 35%, which make these two more reliant on China than Indonesia or Vietnam. Even if funding in absolute terms is substantial for Indonesia and Vietnam the amounts are small in relation to GDP. These countries also have more options to fund development projects. Dayant and Stanhope (2025) refer to this as the first two are constrained in their approach to China with fewer options, whereas the latter are more opportunistic and can choose among funding agencies.

Since 2015, development funding commitments have trended downward, and disbursements fallen far short of commitments. There are numerous reasons for lagging disbursements ranging from procurement delays to implementation issues with permits and in some cases, borrowers have canceled projects.

Trade, investment, and development

While development funding is decreasing, economic integration through trade and investment is increasing. China became ASEAN’s main trading partner in 2009 surpassing Japan and the U.S. Total trade between China and ASEAN increased from USD 8 billion in 1991 to USD 684.6 billion in 2020. By 2023, 19% of ASEAN’s exports went to China and 29% of imports originated there, meaning that ASEAN as a whole runs a trade deficit with China as do individual countries. China is thus the largest source of imports for

Southeast Asian countries and that development is linked to economic developments over the past few decades that have seen production networks expand across Southeast Asia and China. The increase in U.S. tariffs on Chinese goods in 2018 and the supply disruptions caused by the COVID-19 pandemic prompted Western multinationals to diversify their production and suppliers in Asia. This so-called China-plus-one strategy not only led to multinationals redirecting some of their planned investments from China to Southeast Asian countries, but it also prompted Chinese companies to invest in Southeast Asian countries and establish production in particular in Vietnam and Malaysia. These investments meant further economic integration across Southeast Asia and China.

The Belt and Road Initiative

The Belt and Road Initiative is significant for Southeast Asia where initially key corridors were identified—from China through Myanmar to the Indian Ocean, from China through Laos and Thailand to the Gulf of Thailand, and through Vietnam. The BRI action plan from 2015 did not present the initiative as a development initiative and it was not until the 2021 development cooperation White Paper that it was discussed as part of China's development cooperation. Since BRI's inception numerous projects have been referred to as BRI projects although neither Beijing nor individual capitals have produced any definitive lists of these projects. However, the emphasis on connectivity projects that can support trade fits well with the general development agenda in Southeast Asia. In the years before the BRI was launched, a major study from the Asian Development Bank had pointed to the massive need for infrastructure in Asia and that the financing needs were larger than the development banks could meet (ADB, 2009). Infrastructure projects like ports, highways, telecom, and energy can generate substantial returns and some can be deemed too commercial for traditional development funding but not sufficiently commercial for commercial funding. The BRI's early identification of power plants, roads, ports, and railways filled a niche where capitals welcomed additional funding. In addition,

China could deploy funds and surplus capacity comparatively quickly to the BRI projects and they were presented as win–win.

There is a debate among scholars whether there is a grand strategy behind BRI or not. In 2009, Yuan summarized the discussions around a “Chinese Marshall Plan” which built on a continuation of the Going Out strategy but added that by providing more loans to developing countries right after the Global Financial Crisis, China could deploy surplus resources, stimulate demand abroad, and gain strategic influence (Yuan, 2009). Challenging the grand strategy narrative, Ye (2020) discussed the different interpretations, but argued that they failed to consider the internal fragmentation among different ministries and government agencies, their rationales for the BRI and their varying ability to control banks and companies. However, the 2023 BRI White Paper referred to the BRI as a “key pillar of the global community of shared future” and brought together the BRI and other policy initiatives, effectively signaling global ambitions.

There is a downward trend from 2015 in committed funding as well as disbursed amounts. This probably reflects slower growth in China, effects from the pandemic, and a shift in government priorities as well as shifts in recipient countries in response to political changes as well as spending priorities for projects connected to BRI projects. Some countries, like the Philippines, have objected to only Chinese contractors and predominantly Chinese labor in the projects. Malaysia suspended the construction of the East Coast rail link in 2018 with then Prime Minister Mahathir referring to BRI as “colonialism” with the debt buildup leading to dependency on China (Lublin, 2018). The project was subsequently restarted under a new government.

Frechen (2019) contrasted Cambodia’s close relations and increased dependence on Chinese funding for critical infrastructure under the BRI with Cambodia almost becoming a client state with Vietnam’s more ambiguous position. In addition to complex relations historically, Vietnam opposes China’s territorial claims and actions in the South China Sea and balances that with increasing economic integration and funding for development projects particularly in infrastructure.

By contrast, in Indonesia, former President Widodo (2014–24) prioritized infrastructure development and BRI projects fit into that plan. Japan which had been the main donor and funded infrastructure, financed a feasibility study for a high-speed rail between Jakarta and Bandung and expected to fund the railway as well. However, China offered better financial terms and won the contract. The project suffered delays and cost overruns and after two years of operation has yet to generate enough return to service the debt. In October 2025, discussions began about rescheduling the debt incurred for the railway (South China Morning Post, October 23, 2025). Comments about a debt trap were dismissed as Indonesia's external debt is low. While the financing for this project may need to be restructured there is no general concern about the current debt.

The BRI has certainly become a major part of China's development cooperation in Southeast Asia but seems to have peaked. Repayments for the first projects are increasing but some debts may also need to be rescheduled. There is still a significant need for infrastructure so China will most likely continue to lend.

Aid for trade

The Aid for trade concept was launched in Doha in 2005. It relates to aid for infrastructure, productive capacity building, trade policy and rules, and trade-related adjustment (e.g., costs associated with complying with rules and regulations) in recipient countries. The modalities include funding for infrastructure and direct financial support to companies (loans or equity investments). Technical assistance is used for capacity building for rules, regulations, and adjustment. Aid for trade support is appealing to donors as it suggests that tangible results can be seen with increased exports from developing countries, enhanced capacity, and hopefully a virtuous circle of more investments, continued capacity building, and corporate growth. Studies summarized in an EBA 2024 report show correlation between aid for trade support and export growth, but it is difficult to establish causality (Kokko & Tingvall, 2024). The relationship be-

tween hard infrastructure and export growth is comparatively easier to establish than causality between technical assistance for capacity building among companies and government agencies.

As Kokko and Tingvall point out, aid for trade works best for middle-income countries as this is where there tend to be more exporting companies and more exporters to be. In low-income countries there tend to be fewer firms that have the inclination or the capacity to produce for exports. If they do export, the exports are usually directed to neighboring countries rather than mature economies. Thus, economic links between donor and recipient are not strengthened, at least not in the short run. With a longer-term perspective, low-income countries would most likely benefit from capacity building and funding for infrastructure and for companies.

China discussed aid for trade in the 2014 White Paper and the type of funding that China has provided to Southeast Asia has been geared toward all types of infrastructure that will support mining, transportation, and industrial development that can facilitate trade. Funding directly to companies is harder to identify but loans from China's Ex-Im Bank to local banks for on-lending fall into this category. Granular data on the borrowers in the AidData database confirm a pattern of lending to power plants, electricity grids, national roads, and factory construction. The support to the Special economic zone in Sihanoukville in Cambodia is a good example of support aimed to facilitate and encourage export-oriented industrial production. In addition, China supports a number of projects related to trade policies and regulation. These range from training and equipment for inspection of containers in the Philippines to credits for trade finance in Indonesia. Studies on China's aid for trade exist for Africa but somewhat surprisingly not for Southeast Asia. Studies on aid for trade to Southeast Asia in general show a correlation between projects for capacity building and exports but authors note the difficulty in establishing causality (Lee & Oh, 2022).

China in Asian institutions

In Southeast Asia, the Asian Development Bank (ADB) has since its founding in 1966 been the leading multilateral development bank. Japan and the U.S. are the largest shareholders with 12.7% each of the votes (ADB website). China joined in 1986 and currently has 5.4% of the votes. These three countries have individual seats on the executive board whereas Sweden is part of a constituency with Canada, Ireland, the Netherlands, and the Nordic Countries. Sweden alone has 0.6% of votes. ADB used to be perceived as mainly funding infrastructure following Japan's ODA policies but around 2000 it broadened its portfolio and began to devote more resources to social infrastructure as well (ADB, 2016). China still borrows from ADB for development projects.

In 2016, China founded the Asian Infrastructure Investment Bank which as the name suggests is devoted to infrastructure funding. It was the first multilateral development bank founded by a non-OECD member. China is the largest shareholder with 26.5% of the votes (AIIB website). The second largest shareholder is India with 7% of the votes and the third largest is Germany with 3.3% of the votes. China consequently has a decisive role in decision-making in the bank and is also a borrower. Sweden is a member but has only 0.7% of the votes. When the bank was started, references were made to the infrastructure needs identified by the ADB and it was pointed out that existing multilateral development banks could not meet those needs. Hence, the need for AIIB. Seven Southeast Asian countries are members and have borrowed from the bank, mainly for water, transportation, and urban development.

ASEAN is not an international organization on par with the development banks, but it is at the core of economic cooperation and integration in Southeast Asia, as well as in East Asia. ASEAN as a whole has a trade agreement with China. In addition to external trade, ASEAN also hosts fora like the ASEAN Regional Forum, East Asia Summit, and ASEAN Defence Ministers' Meeting Plus where China participates. The ASEAN community or the country

currently chairing ASEAN sets the agenda for these meetings to ensure that the topics are in ASEAN's interest. ASEAN plus 3 includes China, Japan, and Korea and is primarily important for economic and financial cooperation. This cooperation is not for development purposes but is a tool for economic surveillance through AMRO (ASEAN plus 3 economic research office) and financial support that can be activated to avert, or deal with, a financial crisis.

Sweden as a development actor in Southeast Asia

Sweden has a long history in supporting development projects in Southeast Asia. Vietnam and Laos were key partner countries for bilateral ODA until 2007 and 2013 respectively (www.openaid.se). Humanitarian assistance was provided to Cambodia after 1979, while regular ODA only began in the 1990s. Bilateral assistance was phased out in 2024 even though certain humanitarian projects were set to continue under the regional strategy for Asia. In July 2025, the government decided to phase out the regional cooperation with Asia and redirect those resources to Ukraine (Government of Sweden, 2025a). Myanmar continues to receive humanitarian assistance. After many years as a development partner in Southeast Asia, Sweden's role is set to change.

The development strategy presented in December 2023 has eight thematic priorities and the first is job creation, trade, and education. This theme correlates with the International Trade Strategy also presented in December 2023 which aims to bring trade and investments closer as well as closer to the development policies seeking to reinforce outcomes (Government of Sweden, 2023a, 2023b). The trade strategy specifically lists Asia as important.

Sweden's ODA largely consists of grants, technical assistance, and some very concessional funding, but country programming has been central to the mix of sectors and instruments used. In addition, Swedfund has also provided funding to catalyze private sector devel-

opment and invested directly in companies or indirectly through dedicated investment funds. The investments are made with the aim of catalyzing development and supporting local companies and they are made on commercial terms. In Southeast Asia, Swedfund has invested in broad equity funds and specialized energy funds, as well as provided funding to small-and medium-sized companies in Cambodia, Laos, and Vietnam.

Sweden's aid for trade support has hitherto mainly been directed to Africa and Eastern Europe. However, with the emphasis on Asia in the international trade strategy there could be scope for more aid for trade. The EU concluded a trade agreement with Indonesia in September 2025 and is negotiating with Malaysia, the Philippines, and Thailand. These are all middle-income economies where there should be potential to increase trade with Sweden. Hence, technical assistance to capacity building about the agreements among government agencies and companies could be one area for future support.

In August 2025 a new financing instrument was made available through the Swedish Export Credit Guarantee Board which opens up the possibility of combining aid funding with export credit guarantees for sustainability projects in low-income and lower-middle-income countries. This instrument adds to the aid for trade tools and could be used for some countries in Southeast Asia.

In December 2025, the government announced new commitments to fund vaccines, and efforts to control and combat HIV/aids, malaria, and tuberculosis globally (Government of Sweden, 2025b). This funding is also needed in Southeast Asia as U.S. funding has been cut.

In addition, Sweden has increased its focus on the Indo-Pacific region as a whole and the emphasis on maritime security and freedom of navigation plays a role here. It is vital for global trade that the trade routes through the Malacca Strait and South China Sea remain open. Sweden may opt to follow Japan's example and provide

official security assistance but that is outside of traditional ODA as the primary purpose is not development but security.

Challenges ahead

China has emerged as a formidable regional power in Southeast Asia and has overtaken Japan's role as main creditor and trading partner but not yet as investor or as trusted partner in world affairs. China is now on par with Japan in terms of development funding and like Japan, China's aid policy is about economic cooperation with a strong emphasis on infrastructure and win-win approach. The policy of non-interference in domestic affairs is in line with ASEAN's own principle of non-interference. While not all development projects proceed smoothly, China has a very strong position as a key development partner.

The region-wide opinion survey, *The State of Southeast Asia: 2024* (Seah et al., 2025), showed that China is viewed as the most influential economic power and the most politically and strategically influential, ahead of the U.S., Japan, and the European Union. The EU is trusted to respect the rule of law but falls behind China and the U.S. in terms of support for free trade. Respondents were concerned about territorial claims and aggressive actions from China in the South China Sea and if asked to choose between China and the United States, 50.5% of respondents would choose the U.S. A slight majority of respondents feel that ASEAN should respond to the rivalry between the U.S. and China with more own resilience and unity. Overall, the survey illustrates quite well China's strong position and role in the regional economy but that there is some tension in the relationship between China and Southeast Asia.

The Southeast Asia influence index prepared by the Lowy institute in Australia shows a similar view. China is a leading but not dominant economic partner. The U.S. is the second most important partner, but its influence varies from limited in Laos to strong in the Philippines. Japan has a multidimensional presence and is the third most

important partner. ASEAN is more important for Southeast Asia than any external partner. It is worthwhile to note that the EU does not feature in this study, but individual European countries do.

One challenge for the EU comes across in these surveys, it is viewed positively but is rather distant. Bilateral relations may be very good and have a long history but in terms of development cooperation, China and Japan matter the most for infrastructure finance. The opening of the AIIB meant more development banks that offer funding for infrastructure for Southeast Asia. The withdrawal of USAID will leave a gap in support for democracy, civil society, and health projects. European countries are cutting ODA budgets and are unlikely to fill that gap. Their reductions also mean that there will be less funds for projects related to climate change where Western donors have dominated funding.

Overall, there is still a need for development funding in Southeast Asia even if it varies across countries, and with cutbacks there will likely be less bilateral funding going forward. Even if commitments from China have decreased, repayments from ongoing projects will contribute funding resources in the coming years and China will remain an important development partner.

Sweden has traditionally provided aid rather than loans and has emphasized projects aimed at poverty reduction rather than economic infrastructure. Sweden has also promoted projects to develop civil society and democracy. In many ways, Sweden's support has been the opposite of China's. Sweden is a much smaller development actor in Asia, and also a minor trading partner and investor, and cannot compete with China. Aligning aid, trade, and security more closely and using all financing instruments available could open new areas of development cooperation, in targeted sectors and countries.

Recommendations for policymakers

Sweden cannot compete with China in terms of financial resources or impact but can nevertheless deliver development support in line with the new strategies for aid, trade, and security as noted above.

- Continue Swedfund's targeted investments in lower-middle-income countries to help catalyze local small and medium-sized enterprises development. It is a niche that fits with support for private sector development and growth, as well as potentially contributing to trade.
- Utilize the trade agreements with Southeast Asian countries and build economic ties. Technical assistance can be provided for capacity building for government officials and industry associations to implement the agreements.
- Utilize the new instruments for export credit guarantees for sustainability projects in low-income and lower-middle-income countries to align aid and trade and support projects to mitigate climate change.
- Continue to support regional efforts to control malaria, tuberculosis, and provide vaccines.
- Consider following Japan's example with official security assistance.

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