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Contemporary Chinese Political Economy and Strategic Relations: An International Journal (CCPS) is an academic journal published by the Institute of China and Asia-Pacific Studies, National Sun Yat-sen University, Taiwan, focusing on the Chinese polity, economy, and society; and the interrelationship between sociopolitical and socioeconomic factors that influence political, economic, and social outcomes in contemporary Mainland China and Taiwan, as well as Hong Kong and Macau, and their politico-economic and strategic relations with other regions and countries.

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Multilevel Strategic Adaptations to China's Global Integration

The global political economy is on a structural transformation, transitioning from a United States (US)-centric paradigm toward a fragmented, multipolar reality. This Volume 12 issue 1 of *Contemporary Chinese Political Economy and Strategic Relations* continues the journal's systematic exploration of these shifts, building directly upon the theoretical foundations established in our previous issues.

In Volume 11, No. 1 (2025), we introduced the Strategic-Relational Approach[1] (SRA) to examine how the Indo-Pacific's "strategically selective" structures privilege certain regional responses while constraining others. Volume 11, No. 2 (2025), expanded this into Perceptual Geo-economics, probing how China's economic strategies and media narratives co-produce influence[2]. This current issue integrates these perspectives into a unified framework of **Multilevel Strategic Agency**, exploring how states, subnational provinces, and private firms exercise "strategic activism" to navigate the constraints of major-power rivalry.

Thematic Continuity: From Structure to Agency

While our previous issues focused on broad regional dynamics and cognitive infrastructures, this volume anchors these arguments into the tangible strategies of diverse actors.

Building on the SRA framework, Dang Minh Duc et al. and Amna Khalid & Bakri Mat analyse how Southeast Asian nations navigate the "sharp power" of China's infrastructure expansion and the "soft power" of the European Union's (EU) sustainable development initiatives. Vietnam and the Philippines, specifically, are shown utilising defensive realism to balance calibrated diplomacy with military modernization.

Parallel to our previous issue on perceptual geo-economics, Lucy Anning investigates how China's digital expansion in West Africa reshapes local digital economies. This highlights the dual nature of China's "Digital Silk Road." That is by empowering local small-scale enterprises while simultaneously creating new forms of technological dependence.

Shifting to the internal and corporate dimensions of strategic agency, Jiandong Shi demonstrates how Chinese firms are "re-embedding" in Europe to mitigate the risks of US-China trade tensions. Complementing this topic, HongYing Li provides a compelling case of subnational agency, showing how the "marginalised" province of Guizhou actively sought integration into the Belt and Road Initiative (BRI) despite being initially excluded from the national plan.

Theoretical Synthesis

The articles collectively argue that agency is not merely a reaction to external pressure but a proactive effort to create "strategic space". Whether it is a firm diversifying its global portfolio or a marginalised province engaging in "subnational diplomacy," the common thread is the pursuit of autonomy within a highly constrained global environment. By connecting these multilevel strategies to the broader structural shifts analysed in our earlier issues, Volume 12, Issue 1 (2026) provides a comprehensive map of the evolving global order, one where the interplay between structural selectivity and strategic agency remains the defining dialectic of our time.

The five featured articles in this issue illustrate how diverse actors navigate the "strategically selective" terrain of contemporary global relations.

National and Regional Geo-strategies

The first two articles explore how sovereign states in Southeast Asia manage the structural pressures of major-power competition through calibrated strategic responses.

"*Vietnam's Strategic Balancing in China-EU Competition in the Mekong Subregion*" by Dang Minh Duc, Nguyen Bich Thuan, and Vu Thanh Ha analyse the Greater Mekong Subregion (GMS) as a "confluence point" where China's "sharp power" (focused on infrastructure like the Lancang-Mekong Cooperation) meets the EU's "soft power" (centred on governance and the "Global Gateway" strategy). They argue that while China dominates trade and infrastructure, the EU positions itself as a value-based partner, forcing downstream countries like Vietnam to balance these distinct developmental models to protect national interests such as water and food security.

Amna Khalid and Bakri Mat employed defensive realism in their paper, "*Vietnam and the Philippines' Strategic Responses to China's Maritime Assertiveness in South China Sea (2014-2025)*," to compare the maritime strategies of Vietnam and the Philippines from 2014 to 2025. Their findings highlight a divergence in agency: Vietnam emphasises "calibrated diplomacy" and military modernization within its "Four Nos" defence policy, whereas the Philippines increasingly relies on alliance partnerships (particularly with the US) and legal advocacy to counter China's maritime assertiveness. They argue that regional stability depends on these states' ability to strengthen resilience through "minilateral" cooperation and international law.

Digital Integration and Subnational Agency

The subsequent articles shift the focus to the transformative power of technology and the proactive role of subnational entities. "*The Digital Silk Road in West Africa: Empowerment, Dependence, and the Agency of Small-Scale Enterprises*," written by Lucy Anning, investigates the impact of China's digital expansion, noting that over 70 per cent of West Africa's telecom infrastructure is now linked to Chinese firms like Huawei and ZTE. Her findings show that while this integration empowers small-scale enterprises by providing affordable connectivity and e-commerce access, it simultaneously creates risks of technological dependence and data privacy concerns. She argues that sustainable digital development in the region requires balancing these external investments with robust local capacity-building and legal frameworks.

HongYing Li provides a unique look at internal Chinese dynamics by examining Guizhou—a province originally "marginalised" or unmentioned in the central government's 2015 Belt and Road Initiative (BRI) blueprint, in his paper "*Subnational Agency and the BRI: Guizhou's Strategic Activism from the Periphery*". Li argues that Guizhou did not passively accept this status but exercised "strategic activism" to create its own development opportunities. The finding that Guizhou successfully integrated into the BRI through positive central-local interaction suggests that provincial agency can effectively reshape national strategies from the bottom up.

Corporate Adaptation to Trade Frictions

The final article, "*The Impact of US-China Trade Tensions on Chinese Firms' Investment in Europe*," addresses the agency of the firm in response to global institutional shocks. Jiandong Shi empirically examines how US-China trade tensions have driven Chinese firms to reconfigure their international footprints toward Europe. Using data from 2004 to 2024, Shi finds that trade frictions act as an "exogenous shock" that significantly increases the likelihood of Chinese investment in the European market—a strategy he terms "market transfer".

Notably, this shift is most pronounced among private, high-tech, and export-oriented firms, demonstrating how corporate actors proactively hedge against geopolitical risks by "re-embedding" themselves in more stable institutional environments.

Through these diverse studies, this issue demonstrates that regardless of their scale—whether a nation-state, a marginalised province, or a high-tech corporation, actors are increasingly utilising Strategic Agency to navigate and reshape the global order in their favour.

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1. Strategic-Relational Approach rejects the view of the state as a neutral or monolithic actor, instead conceptualising it as a strategically selective field. It emphasises the interplay between structural contexts (constraints, institutional legacies, and systemic pressures) and strategic agency (actors' choices and maneuvers).
2. CCPS Volume 11, Issue 2 (2025) looks into the interplay of the foundations of perceptual geoeconomics—trade realignment, media framing, and public perception, to understand the transformation of global power relations.

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Vietnam's Strategic Balancing in China-EU Competition in the Mekong Subregion

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Abstract

The Greater Mekong Subregion (GMS) has recently emerged as a new focal point of geostrategic competition between China and the European Union (EU). China has expanded its influence through the Lancang-Mekong Cooperation initiative and large-scale infrastructure projects, whereas the EU has prioritized sustainable development cooperation, the promotion of good governance, and human rights. This article analyzes the divergence between China's "hard power" approach and the EU's "soft power" strategy, and assesses their impacts on downstream countries, including Laos, Cambodia, Vietnam, Thailand, and Myanmar. This article evaluates the strategies and approaches of both China and the EU in the GMS and their Implications for Vietnam's National Interests and Regional Positioning.

Keywords: *China-EU competition, geostrategy, sustainable development, Great Mekong Subregion*

1. Introduction

The Greater Mekong Subregion (GMS), home to over 240 million people, constitutes a significant market and labor force (Jensen et al., 2023). It has increasingly become a driving force for economic growth and regional connectivity. Geographically, the GMS serves as a strategic land bridge linking China, Southeast Asia, and the Indian Ocean. The region is evolving into a confluence point of various geopolitical initiatives, including China's Belt and Road Initiative (BRI), the Mekong–United States (US) Partnership, and the Lancang–Mekong Cooperation (LMC). While the GMS is endowed with abundant water resources and natural assets, it simultaneously faces considerable challenges related to economic development, infrastructure gaps, environmental degradation, and sustainable development imperatives.

The Mekong Subregion has emerged as a new hotspot of geostrategic competition among major powers. In particular, the rivalry between the European Union (EU) and China in this region is multifaceted and complex, presenting both opportunities and challenges. China, leveraging its growing economic might and the BRI, has established itself as a dominant actor in infrastructure development and trade integration in the GMS. Meanwhile, the EU has recently intensified its efforts in regional engagement through connectivity and sustainable development mechanisms, notably via its Global Gateway strategy and the 2021 Indo-Pacific Strategy. The EU's approach emphasizes higher governance standards and value-based cooperation, positioning itself as a reliable and long-term development partner.

Vietnam, as a key downstream country of the Mekong River basin, benefits from development cooperation initiatives but also faces significant vulnerabilities—particularly in water security and food security in the Mekong Delta. This article analyzes the strategic approaches and geostrategic rivalry between China and the EU in the GMS, with a focus on the implications for Vietnam. The study employs a qualitative methodology based on the synthesis and analysis of academic literature, international reports, and publicly available

data from reputable sources such as the Asian Development Bank (ADB), the World Bank (WB), the Center for Strategic and International Studies (CSIS), authoritative media outlets, and official documents from both the EU and China.

2. Methodological and Theoretical Framework of Geostrategic Competition and the Role of Major Powers in the Mekong Subregion

Conceptually, this article understands geostrategic competition as a multidimensional process through which major powers deploy material capabilities, institutional mechanisms, and normative influence to shape political, economic, and governance outcomes in strategically significant regions. In the Greater Mekong Subregion, this competition is manifested through the interaction of "hard power", "soft power", and development-oriented strategies embedded in regional cooperation frameworks. Hard power, particularly in its geo-economic dimension, primarily refers to material leverage, including infrastructure investment and control over critical resources, while soft power operates through norms, governance standards, and development assistance. These dimensions are closely linked through the development–security nexus, whereby development initiatives serve broader strategic objectives. Building on this framework, the article employs the concept of strategic hedging to examine how Vietnam diversifies external partnerships and preserves strategic autonomy.

Geostrategic competition refers to the contest for influence and strategic interests in a region of critical geopolitical importance. The Mekong Subregion constitutes a pivotal theater within the emerging "Indo-Pacific" strategy, where major powers—including the United States, China, the EU, Japan, and India—seek to enhance economic, political, and security linkages with subregional countries. China, as the upstream power along the Mekong River, advocates a development-security nexus model, promoting "security through development" by investing in infrastructure and reinforcing bilateral cooperation to expand its strategic influence (Gong, 2023). Conversely, the EU emphasizes sustainable development, green technologies, digitalization, and resilient connectivity, aiming to diversify its partnerships and reduce overreliance on China (Delegation

of the European Union to Vietnam, 2022). Subregional institutions such as the Mekong River Commission (MRC) and the Lancang–Mekong Cooperation mechanism to initiated by China in 2016 have become platforms through which major powers project both political and economic influence in the region. Vietnam, as a downstream nation, must grasp the theoretical dynamics of this power competition to effectively position its bilateral and multilateral engagement strategies—leveraging opportunities while mitigating potential vulnerabilities. According to the "development-security leverage" theory, Vietnam can utilize foreign investment to promote economic growth while safeguarding its policy independence, avoiding debt traps or overdependence on any single external actor (Jensen et al., 2023).

Methodologically, the study adopts a qualitative, comparative, and policy-oriented case study approach, drawing on policy documents, institutional reports, and secondary literature to assess the implications of EU–China competition for Vietnam's national interests and regional positioning.

3. Strategic Importance of the Greater Mekong Subregion

The GMS, comprising the five lower Mekong countries—Vietnam, Laos, Cambodia, Thailand, and Myanmar—is situated on the Indochinese Peninsula, bordered upstream by China (where the Mekong is known as the Lancang River) and flowing into the South China Sea through Vietnam's Mekong Delta. With a population exceeding 240 million, the GMS represents a significant market and labor force (Jensen et al., 2023), and has emerged as a dynamic zone of economic growth and regional connectivity. Strategically located between Southeast Asia and the Indian Ocean, the subregion serves as a critical land bridge linking China with continental Southeast Asia and the broader Indo-Pacific region[1].

The GMS holds growing geostrategic and economic significance. Economically, the region is endowed with abundant natural resources—including fertile agricultural land, vast hydropower potential, and rich freshwater fisheries—making it vital for regional food security and energy supply. The Mekong River acts

as the region's lifeline, supporting the livelihoods of millions and facilitating inland trade and integration through road, rail, and river corridors. Over the past decade, GMS economies have maintained robust growth, with increasing economic interlinkages fostered by initiatives such as China's BRI, as well as alternative strategies proposed by Japan, India, South Korea, the United States, and the EU.

Geopolitically, the Mekong Subregion has become a focal point of renewed interest and engagement by multiple great powers. Long overlooked, the lower Mekong has re-emerged in the Indo-Pacific strategies of the US and its allies, while China has simultaneously expanded its presence to reinforce historical ties and upstream control (Jensen et al., 2023). Countries such as Japan, South Korea, India, Australia, and the EU have also enhanced investment and cooperation in the region (SEI, 2022). The Mekong's proximity to critical maritime routes, adjacency to China, and its direct impact on mainland Southeast Asia's political stability make it a contested arena where power projection, connectivity, and resource security converge.

Nevertheless, the region also faces multidimensional challenges. Politically, institutional differences among countries and instability in some have hampered coherent subregional cooperation. Disputes over sovereignty and transboundary water governance to particularly between downstream states and China to underscore the need for institutionalized dialogue. Economically, despite growth, disparities persist. Infrastructure deficits, reliance on external financing, especially from China, and public debt accumulation have raised concerns over fiscal sustainability and dependency (Figiaconi, 2020). Integration into global trade via agreements like Regional Comprehensive Economic Partnership (RCEP) or EU Free Trade Agreements (FTAs) to demands governance and competitiveness reforms, without which countries risk stagnation.

Environmental challenges are most pressing. The Mekong is among the world's most stressed river systems due to extensive upstream and downstream dam construction and the effects of climate change. China's 12 dams on the Lancang River, along with dozens more on tributaries and by Laos and Cambodia, have significantly reduced sediment flow and altered water levels in

Vietnam's Mekong Delta (Ha, 2022). Studies suggest that Chinese dams—particularly Jinghong and Nuozhadu—can store up to 50 percent of the basin's available water, leading to dry-season droughts and wet-season flooding downstream. Sediment flow to the delta has declined by roughly 30 percent, potentially dropping by 97 percent if planned dams are completed (Dung, 2025). This severely impacts soil fertility, accelerates erosion, deepens salinity intrusion, and threatens fishery yields. Vietnam estimates that it could lose up to 30 percent of its inland fisheries catch by 2040 *(ibid.)*. Climate-induced extreme weather has compounded these threats, increasing the frequency of droughts and floods, with devastating consequences for food security and millions of rural livelihoods.

4. China's Strategy in the Greater Mekong Subregion

To consolidate its leadership role in the GMS, China launched the LMC initiative in 2016. This multilateral mechanism, led by China, includes itself as the upstream country and five downstream states: Cambodia, Laos, Myanmar, Thailand, and Vietnam. Initially proposed by Premier Li Keqiang in 2014, the LMC quickly materialized with its first foreign ministers' meeting in 2015 and the inaugural summit in Sanya, China in 2016 (Ha, 2022). Officially, the LMC aims to promote socio-economic development, reduce development gaps, and support sustainable development in the region. It focuses on five priority areas: infrastructure connectivity, energy cooperation, cross-border economic collaboration, water resource management, and poverty reduction. With the slogan "Shared River, Shared Future," China seeks to position the LMC as a comprehensive cooperation platform, gradually replacing Western- or ASEAN-led frameworks.

Substantively, the LMC reflects China's more proactive "hydro-diplomacy" approach to the Mekong. Previously only a dialogue partner of the MRC and often criticized for its lack of transparency in dam operations, China now leverages the LMC to establish its own rules of engagement and maintain central authority. The LMC adopts a "hub-and-spoke" model revolving around China, with its Secretariat housed in Beijing under the Ministry of Foreign Affairs. In

addition, China established a LMC Special Fund worth USD 300 million to offer grants and concessional loans to member states. By 2021, the fund had supported over 500 small-scale projects in sectors such as agriculture, healthcare, poverty alleviation, and environmental protection (Ha, 2022). Notably, disbursement decisions are made bilaterally between China and each country, allowing China to selectively gain political favor and influence.

China has also set up regional centers in water cooperation, environmental research, and capacity building under the LMC framework, often located in China, attracting young professionals and officials from GMS countries to promote China's development perspective *(ibid.)*. The LMC embodies what has been described as "Chinese-style multilateralism," which emphasizes sovereignty over transboundary resources, prioritizes economic development over environmental standards, and avoids contentious political issues such as the negative impacts of hydropower dams.

Through the LMC, China projects itself both as a generous development partner and a regional norm-setter, counterbalancing the influence of US-led and EU-backed initiatives. It strategically uses the LMC to legitimize its upstream dominance and retain control over water flows while simultaneously winning the goodwill of neighboring countries via economic cooperation.

Beyond institutional frameworks, China extends its influence in the GMS through major infrastructure, energy, and investment projects as part of the Belt and Road Initiative (BRI). In Laos, China financed the USD 5.9 billion high-speed China–Laos railway, inaugurated in late 2021, connecting Vientiane with Kunming. China also invests heavily in roads, special economic zones (SEZs), and telecommunications in Laos, effectively transforming the country into a key land link in China's continental corridor.

In Cambodia, China is the largest investor and aid provider, funding high-profile projects such as the Phnom Penh–Sihanoukville Expressway, the Lower Sesan 2 hydropower plant (400 MW), and the Sihanoukville SEZ. In Myanmar, China pushes forward the China–Myanmar Economic Corridor (CMEC), including infrastructure such as the Kyaukpyu deep-sea port, the China–Myanmar oil and

gas pipeline (completed in 2017), and planned high-speed rail links from Yunnan to Yangon.

China's regional ambitions extend beyond economics to security presence. Following the 2011 killing of 13 Chinese sailors on the Mekong, China initiated joint riverine patrols with Laos, Myanmar, and Thailand. However, Thailand remains cautious and refuses to allow armed Chinese vessels deep into its territory, fearing strategic encroachment (Seth et al., 2021). China is also suspected of assisting in the construction of a naval facility at Ream port in Cambodia, which, if confirmed, would mark its first permanent military presence in Southeast Asia—raising serious concerns among the US and its allies (Jensen et al., 2023).

In summary, China's strategy in the GMS combines economic power and institutional presence to entrench long-term influence. It finances large-scale infrastructure projects and dominates hydropower development in Laos and Cambodia (Dung, 2025), while leveraging platforms like the LMC to shape rules in its favor. While China has secured deep influence in countries such as Laos and Cambodia, its expanding presence is met with skepticism in others like Vietnam and Thailand. This growing Chinese footprint has prompted strategic rivals—including the US, Japan, and increasingly the EU—to devise counterbalancing strategies for influence in the subregion.

5. The EU's Strategy in the Greater Mekong Subregion

The EU has long been interested in supporting the development of Southeast Asian countries, but it is only in recent years that the EU has formulated a clear strategy for the Mekong subregion. A key turning point was the elevation of EU–ASEAN relations to a Strategic Partnership in 2020, paving the way for deeper cooperation on regional issues (EC, 2024). Within this framework, the EU is committed to integrating its support for the Mekong subregion into its broader policy with Southeast Asia, viewing the subregion as vital for ensuring stability and sustainable development for both ASEAN and the Indo-Pacific at large.

Although the EU is not a proximate power like China, its contribution to development aid in the Mekong region ranks among the highest. Over the years, the EU and its member states—particularly Germany and France—have been leading partners in supporting the Mekong River Commission (MRC), an intergovernmental body comprising the four lower Mekong countries (Laos, Cambodia, Thailand, and Vietnam) specializing in water resource management. The EU views the MRC as a crucial institution that promotes regional cooperation and rule-based governance in the Mekong basin (Sơn, 2022). It has provided EUR 5 million in funding for the MRC (2016–2022) to strengthen integrated water resource management and promote sustainable development in the lower basin (Sơn, 2022). In addition, the EU and member states such as Germany frequently offer technical support and share river basin management experiences, drawing from European models like the Danube and Rhine rivers (GIZ, 2025). This commitment reflects the EU's desire for greater transparency and mutual consultation among Mekong countries on major projects—an approach notably absent in China's Lancang–Mekong Cooperation (LMC).

Beyond ASEAN- and MRC-focused projects, the EU also implements direct cooperation programs with individual Mekong countries. In December 2021, the EU adopted a Multiannual Indicative Programme for development cooperation (2021–2027) with Cambodia, Laos, Vietnam, and Thailand, focusing on priority areas such as governance and the rule of law, green and inclusive development, education and vocational training, and regional integration (Sơn, 2022). The EU also actively uses trade agreements as instruments of regional engagement: it signed Free Trade Agreements (FTAs) with Vietnam (in force since 2020) and Singapore, is renegotiating with Thailand, and envisions a future ASEAN-wide FTA. Through trade and investment, the EU aims to stimulate sustainable economic growth in Mekong countries while reducing their dependency on China's market.

In 2021, the EU launched its Strategy for Cooperation in the Indo-Pacific and the Global Gateway initiative, signifying a strategic shift toward this emerging region (Sơn, 2022). The Indo-Pacific Strategy underscores a comprehensive EU presence in regional economic and security affairs, while the Global Gateway - mobilizing EUR 300 billion worldwide - aims to deliver high-quality, sustainable

infrastructure as an alternative to China's Belt and Road Initiative (BRI) (Okano-Heijmans, 2023). The Mekong subregion has been identified as a priority area for these strategies due to its strategic significance and challenges such as climate change, water security, and post-COVID recovery that demand international solutions (SEI, 2022). Notably, the EU held its first "EU–Mekong Cooperation Forum" in Hanoi in October 2021, gathering EU ambassadors in the subregion and regional officials to discuss new cooperation orientations. At the forum, EU representatives expressed their intent to enhance ties with the Mekong, support public–private investment in green growth, and ensure equitable post-pandemic recovery (Sơn, 2022). This demonstrates the EU's growing strategic awareness of the Mekong's role within the Indo-Pacific geopolitical landscape, moving beyond previous aid-centric approaches.

In contrast to China's infrastructure-heavy model, the EU emphasizes comprehensive and sustainable development cooperation, with a strong focus on human rights, good governance, and environmental protection. In the Mekong subregion, the EU has funded numerous programs aimed at strengthening institutional capacity, promoting the rule of law, and supporting vulnerable groups. On human rights and governance, the EU has implemented tools such as the Justice Initiative in Vietnam and Myanmar, and supported legislative and civil society institutions in Cambodia and Laos. It has also incorporated human rights conditions into trade relations—for example, through the "Everything But Arms" (EBA) mechanism for Least Developed Countries. In the case of Cambodia, due to concerns over human rights violations, the EU partially withdrew EBA preferences in August 2020, reinstating a 20 percent tariff on Cambodian exports to the EU (Turton, 2020). Although this move strained EU–Cambodia relations, the EU reiterated its commitment to linking economic development with human rights and democratic progress. Similarly, following the 2021 military coup in Myanmar, the EU suspended all direct financial assistance to the junta and imposed personal sanctions on military leaders (EC, 2024). EU High Representative Josep Borrell openly criticized China and Russia for obstructing international responses to Myanmar, highlighting the EU's value-based stance even amid geostrategic rivalry (Abnett, 2021).

On sustainability and the environment, the EU has supported projects at both regional and national levels. For instance, it allocated resources for conserving the Tonle Sap ecosystem in Cambodia—the largest freshwater lake in Southeast Asia—through biodiversity protection and sustainable livelihoods for local fishers (EC, 2021). In Laos and Myanmar, the EU (alongside Germany) backed the "Transboundary Water Cooperation" initiative to improve joint river basin management in the subregion (Greatermekongsubregion, 2018). Under the ASEAN cooperation framework, the EU implemented the ASEAN Regional Integration Support from the EU Plus (ARISE Plus) project to enhance sustainable connectivity and trade, benefiting the Mekong through improved cross-border infrastructure and agricultural safety standards. The EU is also a key partner in helping Mekong countries address climate change. It supports programs like the "Sustainable Use of Peatlands and Haze Mitigation in ASEAN" (SUPA) to protect upstream forests, the WeCARE project on climate-smart agriculture, and multiple grants to the Green Climate Fund in Vietnam.

In the education and cultural sectors, the EU aims to enhance soft power and people-to-people linkages. Each year, the EU provides Erasmus+ scholarships for students from the Mekong countries to study in Europe and assists regional universities in improving their training quality. European cultural centers from France, Germany, and the UK (a member before Brexit) remain active in teaching European languages and organizing cultural exchanges. The EU believes that people-to-people cooperation and human capacity building contribute to long-term development and foster goodwill among Mekong societies—areas in which China has been less engaged. Notably, in 2021, the EU initiated the European Green Deal for ASEAN, prioritizing the Mekong for projects in renewable energy, sustainable cities, and circular economy. The EU encourages European businesses to invest "green" in the Mekong—such as solar and wind energy development (e.g., a French company investing in offshore wind farms in Vietnam). The message is clear: economic development does not have to come at the cost of the environment or society, and the EU stands ready to support a sustainable development path that differs from growth-at-all-costs models.

Nevertheless, the EU is also aware of the limitations of its approach. Linking aid to human rights conditions may sometimes diminish EU influence when local governments react negatively—e.g., Cambodia "pivoting" toward China. EU development programs often lack the immediate political leverage of large-scale Chinese infrastructure projects. For example, local people tend to notice roads and bridges built by China more than governance workshops funded by the EU. Moreover, the EU's financial scale in the Mekong remains modest. Total European aid to the four MRC countries amounts to only a few hundred million euros over seven years, whereas China has pledged billions of dollars for BRI projects. This presents a challenge for the EU in competing for influence, as China is willing to provide substantial aid and financial loans to the Mekong countries.

6. Approaches of the EU and China in the Greater Mekong Subregion

The geostrategic competition between the EU and China in the GMS is expected to continue and intensify in the near future. This competition is not entirely direct but rather interwoven with localized cooperation, reflecting broader global rivalry between the two powers.

On the EU side, the implementation of its Indo-Pacific strategy underscores growing attention to the Mekong Subregion, which has been elevated on the EU's policy agenda. While the EU cannot rival China in financial terms, it aims to deepen cooperation with like-minded partners such as the US, Japan, Australia, and India to support development and engagement in the region. The EU is expected to play a more active role in multilateral mechanisms such as the Mekong–US Partnership (MUSP) and the Mekong–Japan initiative to increase its indirect influence. It may also utilize the Global Gateway Strategy to finance "model" infrastructure projects in the Mekong to assert its presence—for example, a bridge connecting Thailand and Laos built to European standards or a power transmission line linking Vietnam and Cambodia. Should these projects be realized, the EU would not only create a visible counterweight to China's BRI but also promote its "no-debt-trap, environmentally-friendly" development model.

There is also potential for selective cooperation between the EU and China. Despite underlying competition, both sides may identify common ground in technical and non-political areas. For instance, given their mutual concern over climate change, they could jointly fund a study on flood impacts in the Mekong region. The EU has already supported the Mekong Delta Plan in Vietnam, while China promotes the Lancang–Mekong Environmental Cooperation. Such small-scale collaboration, though limited, sends a positive signal and yields tangible benefits for the region.

The EU's strategy in the GMS faces inherent limitations but also opens unique opportunities based on Europe's strengths. The EU cannot compete on equal footing with China in terms of infrastructure investment volume. Even the ambitious Global Gateway, aiming to mobilize €300 billion globally over six years, pales in comparison to China's BRI investments, which total hundreds of billions in Southeast Asia alone (Alicia, 2023). Moreover, the EU's funding disbursement tends to be slow and is accompanied by strict procedural and transparency requirements, which may frustrate some developing countries. For example, Thailand spent years negotiating with the EU over a Bangkok metro project (due to tendering and environmental issues), while it took only months to secure a loan from China for a high-speed rail line. Mekong countries sometimes prioritize speed and scale, making Chinese offers more attractive than those from the EU. Similarly, the EU's strong criticism of Myanmar's military regime or Cambodia's human rights record may have inadvertently pushed these countries closer to China and further away from the EU (Nikkei Asian Review, 2020).

Nonetheless, the EU possesses several opportunities and advantages in engaging the GMS. First, the EU's reputation for sustainable development and good governance is highly regarded. Many in the Mekong admire the EU model, which balances economic growth with social welfare and rule of law. As a result, EU-funded projects in education, health, and the environment, though less visible, generate long-term trust and goodwill. For example, farmers and fishers in Vietnam's Mekong Delta have benefitted from EU- and Germany-funded climate-adaptive water management projects and value the practical support provided by European experts in addressing salinity intrusion. Such community-

level impacts are a comparative strength of the EU over China's large-scale infrastructure projects.

Second, the EU does not carry the historical baggage or hegemonic ambitions that China does in Southeast Asia, and is thus perceived as a neutral and less threatening partner. Its presence does not trigger sovereignty concerns or perceptions of political imposition. This enables the EU to play the role of a "trusted intermediary" on regional issues. For example, it could fund joint research on the environmental impacts of Mekong river projects without arousing suspicion. The EU is also a member of the Friends of the Mekong—a group that includes Australia, Japan, the US, the World Bank, and the MRC—working to coordinate aid. The EU's presence in this group promotes a multilateral approach that respects ASEAN's role, making it more acceptable to Mekong countries than US–China rivalry.

Third, the EU can leverage its technological expertise and regulatory standards to assist Mekong countries in transitioning to higher-quality development. These countries currently face a strategic choice: continue resource-intensive growth (e.g., hydropower dams, mining, deforestation) or shift to greener, more innovative models. The EU is a global leader in renewable energy, high-tech agriculture, urban management, and digital transformation. By focusing investment in these areas through technical and financial assistance packages (combining ODA and European private capital), the EU can offer concrete, distinctive benefits. For example, the EU is considering a major investment in a smart grid system connecting Laos, Vietnam, and Cambodia, which would optimize electricity sharing and reduce the need for new dams. If realized, this project would protect the environment and enhance regional economic integration to a win-win outcome that would elevate the EU's influence.

Fourth, geostrategic competition with China provides an opportunity for the EU to assert its role. Previously, the EU's foreign policy in Southeast Asia was relatively muted, but China's rise has spurred it to act more cohesively to safeguard its interests and values. The GMS is a testing ground for coordination between EU member states and the European Commission, which are

increasingly cooperating on joint initiatives in the region (L.B., 2022). If the EU can capitalize on this opportunity, it could simultaneously support developing countries and enhance its strategic voice in regional order.

In essence, the EU approaches the Mekong with a "soft power" strategy that emphasizes sustainable development and a rules-based order. Despite limited resources and political clout compared to China, the EU is gradually asserting its presence through practical contributions and normative influence. It prioritizes institutional, human, and regulatory support over "hard" infrastructure—focusing on governance reform, capacity building, fair trade, and sustainable development. The EU also upholds multilateralism and shared rules. Thus, EU–China competition in the Mekong manifests as a clash of models: the EU's comprehensive sustainable development versus China's rapid infrastructure-driven growth.

Meanwhile, China will certainly not scale back its presence in this vital upstream basin. On the contrary, it is likely to double down on LMC, increase capital for the LMC Special Fund, and pressure countries to expedite stalled BRI projects (e.g., the second phase of the Laos–Thailand railway and Kyaukpyu port). China also seeks to institutionalize its upstream dominance, potentially through bilateral water-sharing agreements (on its terms). Its goal is to lock in the economic linkage of Laos, Cambodia, and Myanmar with itself while neutralizing external efforts to influence water decisions. Thus, China is expected to ramp up "soft competition" with the EU—for instance, by enhancing green diplomacy (e.g., dry-season water releases or riverbank tree planting) to win public favor, while refusing to cede control over joint governance. It may also intensify engagement with Thailand under LMC to isolate Vietnam's critical voice in the MRC.

China's approach largely relies on "hard power" - economic might and, to some extent, military strength - to exert influence over GMS countries. It mobilizes vast capital, state-owned enterprises, and rapid construction capacity to implement strategic infrastructure projects (roads, dams, railways, ports). It also leverages upstream political control (e.g., water flow regulation) as bargaining power. China's top-down, state-centric model involves direct government-to-

government dealings, major agreements, and minimal attention to transparency or community consultation. This allows China to deliver rapid, tangible results—e.g., completing a bridge or disbursing hundreds of millions in loans—thereby building influence among national elites. However, this approach risks dependency and negative spillovers: debt dependency, policy alignment (recipients find it hard to oppose China), and environmental or social harm due to insufficient sustainability assessments. China seems willing to accept these consequences in pursuit of its strategic interests—consistent with a pragmatic great power logic.

Looking ahead, EU–China geostrategic competition in the Mekong will persist and intensify, echoing their broader global rivalry. Yet, the Mekong's unique context may shape a competitive relationship marked by localized cooperation. China will not reduce its presence in the vital river basin on its doorstep. Instead, it is poised to expand LMC, inject more funds into the LMC Fund, and push forward incomplete BRI projects (e.g., Laos–Thailand railway phase two, Kyaukpyu port). It also aims to formalize its upstream position through bilateral water-sharing agreements. China's objective is to deepen its economic entanglement with Laos, Cambodia, and Myanmar while sidelining external influence over water governance. Therefore, one can anticipate intensified "soft competition" with the EU—such as green diplomacy efforts (e.g., dry-season water releases or tree planting) to gain public favor, while avoiding joint governance concessions. China might also pull Thailand further into LMC to marginalize Vietnam's dissenting voice within the MRC.

On the EU side, the tilt toward the Indo-Pacific is now unmistakable, and attention to the Mekong will likely increase rather than decline. The EU may not match China financially, but it will strengthen ties with like-minded partners (the US, Japan, Australia, India). It could play a greater role in multilateral frameworks such as MUSP or Mekong–Japan to amplify indirect influence. The EU may also use the Global Gateway to fund "model" infrastructure projects in the Mekong—like a bridge between Thailand and Laos built to European standards or a Vietnam–Cambodia transmission line. These initiatives would leave a visible mark to rival BRI while promoting a "no-debt, no-environmental-harm" approach.

Selective EU–China cooperation is also possible, especially on non-political, technical issues such as joint research on flood impacts (e.g., EU's Mekong Delta Plan and China's Lancang–Mekong Environmental Co-op). Though limited, such cooperation would signal goodwill and benefit the region directly.

A critical factor shaping future prospects is the overall EU–China relationship. If tensions worsen over issues like Taiwan, Xinjiang human rights, or the Ukraine conflict, Mekong cooperation will become even more difficult. In a worst-case scenario, the region could become a "proxy battlefield," with the EU aligning with the US and Japan to "contain" China's influence, while China uses Cambodia and Laos as "outposts" to obstruct Western engagement. In such a case, forums like ASEAN or the MRC risk deep division along bloc lines. However, this outcome is unlikely in full, as the EU differs from the US in favoring engagement and cooperation with China where possible. The EU is more likely to maintain a dual approach—competing and dialoguing with China in Asia. In the Mekong, this may manifest as a delicate balance: opposing harmful behaviors (e.g., water opacity, militarization) while encouraging China to contribute positively (e.g., joint vaccine funding or disaster relief). Ultimately, the EU seeks to uphold an open, rules-based multilateral order in which even China must abide—rather than aiming to exclude China entirely, which would be unrealistic.

7. Perspectives and Approaches of Vietnam and Mekong Subregion Countries amid the Intensifying Geostrategic Competition between China and the EU

The strategic competition between the EU and China has exerted multidimensional impacts on the countries of the GMS. Laos and Cambodia—two nations most closely aligned with China—may reap substantial economic benefits from Chinese capital flows and infrastructure projects. However, they simultaneously face the risk of being caught in the crossfire of major power rivalry. EU support for institutional reform and governance transparency in these countries may enhance their autonomy and reduce overdependence on China. The geostrategic contest between the EU and China in the GMS has yielded

notable implications in three key areas: regional security, economic dynamics, and environmental sustainability.

In terms of security, the overlapping presence of multiple major powers has both stabilizing and destabilizing effects. On the positive side, it may help deter direct conflict. However, it also raises concerns over potential militarization and geopolitical fragmentation. China's increased military footprint—indirectly manifested through river patrols and logistical outposts—could destabilize the security balance in mainland Southeast Asia. Should China establish a military base in Cambodia, it would undermine the longstanding neutrality of the Indochinese Peninsula since the Cold War, prompting countermeasures from the United States and its allies, including possibly heightened military activities in Thailand or Vietnam. This could turn the region into a strategic battleground akin to the South China Sea.

However, the EU's involvement as a moderate power has, to some extent, helped mitigate rising tensions. The EU advocates for multilateral mechanisms and confidence-building measures, encouraging peaceful dialogue over armed confrontation (Mekong–US Partnership, 2021). For instance, the EU supports ASEAN's central role and endorses the ASEAN Outlook on the Indo-Pacific (AOIP) initiative, which promotes an inclusive regional architecture without military alliances. As a result, Mekong countries have thus far avoided entanglement in formal military blocs, while maintaining flexible security cooperation with multiple actors.

In short, the security implications are twofold: the risk of escalating influence competition—especially if China establishes military facilities or if Myanmar becomes a satellite state of China—is counterbalanced by the potential for strategic restraint and equilibrium. This is due to the increased involvement and oversight by the EU, the US, Japan, and South Korea, which collectively act as a moderating force.

While Vietnam occupies a relatively advantageous position among Mekong countries in terms of institutional capacity and diplomatic experience, its policy choices are nevertheless shaped by a range of domestic constraints. These include coordination challenges among government agencies, uneven

implementation capacity at the local level, budgetary limitations, and the need to balance economic development priorities with environmental protection. Acknowledging these constraints is essential for assessing Vietnam's strategic options in a realistic and analytically balanced manner.

Vietnam, in particular, may leverage the EU's growing attention to the region to further enhance maritime security cooperation in the South China Sea, especially through multilateral platforms such as ASEAN and ASEM. However, the scope and pace of such engagement are likely to be constrained by Vietnam's commitment to maintaining strategic balance, avoiding overt alignment, and managing sensitivities in its relationship with China. The strategic competition between China and the West in the Mekong has further incentivized major powers to support ASEAN cohesion, thereby providing Vietnam with an opportunity to strengthen its leadership role in regional cooperation. Moreover, Chinese investment in Vietnam—if prudently managed—could be converted into dual-purpose economic–security partnerships, contributing to broader defense collaboration.

China may increase political pressure on Vietnam through water resource negotiations if Vietnam becomes more actively involved in EU- or US-led initiatives in the region. In particular, the issue of hydropower dams on the Mekong River poses a serious threat to food security in Vietnam's Mekong Delta. For years, Vietnam has consistently called for greater transparency in hydrological data and information sharing on dam operations by China in order to safeguard the interests of downstream countries (Linh, 2023). According to recent research, Vietnam is considered the "best-positioned" country to raise water security concerns, as the Mekong Delta is both densely populated and highly dependent on the river (Phanachet, 2025). However, Vietnam has remained cautious in addressing the issue, aiming to preserve diplomatic balance with China. As a result, many of its actions have been symbolic rather than assertively enforced. A similar water crisis during the 2023 dry season in Vietnam highlighted the vulnerability of the country's water supply and agricultural livelihoods if China continues to manipulate upstream dam flows.

On economic matters, the involvement of both the EU and China has provided substantial resources, stimulating subregional growth while simultaneously exposing structural vulnerabilities. On the positive side, Chinese investment flows have significantly improved infrastructure—a long-standing bottleneck—and boosted intraregional trade. In 2024, trade volume between China and Mekong countries reached approximately USD 389.68 billion, an increase from 2023. Vietnam remains China's largest trading partner in the region, accounting for a significant share of total bilateral trade (Jensen et al., 2023), thereby facilitating deeper integration of these countries into regional supply chains.

Simultaneously, the EU's market access and support for quality improvement have helped countries such as Vietnam diversify export destinations, reducing overreliance on China. EU investments in manufacturing and service sectors in Vietnam and Thailand have also created jobs and facilitated high-tech transfers. However, there are also downsides, notably the increased risk of debt traps and financial instability among weaker economies. Laos and Cambodia have accumulated substantial debt from China, and their external balances remain heavily skewed. For instance, in 2019, 25 percent of Cambodia's exports were dependent on the EU market, while 40 percent of Laos's public debt was held by China (Turton, 2020). Any major disruptions—such as the EU withdrawing EBA trade preferences or China tightening lending during economic downturns—could push these countries into crisis.

Additionally, domestic inequality tends to worsen: Chinese projects often disproportionately benefit a small elite (e.g., officials, contractors) rather than the broader population, while EU-funded initiatives may be hampered by weak or unwilling local governments. For example, prior to the military coup in Myanmar, the EU had invested significantly in healthcare and education, but the benefits had yet to fully materialize before instability erupted. In contrast, Chinese projects created economic bubbles concentrated around military elites. In sum, while the overall economic impact is one of growth, it is accompanied by macroeconomic risks and challenges to social equity. If managed effectively, the opportunities provided by both the EU and China could serve as a springboard for

development. However, poor governance may lead these countries into a state of dual dependency—simultaneously indebted to China and excluded from Western economic preferences.

Meanwhile, the economic relationship between Vietnam and the EU has benefited from the EU's increasing engagement in the region. The EU–Vietnam Free Trade Agreement (EVFTA) has facilitated Vietnam's exports of agricultural products, seafood, and industrial goods to the EU, opening access to a vast European market. The EU also actively encourages direct investment from European enterprises into Vietnam in key sectors such as high technology, renewable energy, and green infrastructure, thereby diversifying Vietnam's capital sources.

At the same time, the surge in Chinese investment could also support Vietnam's economic development. Chinese foreign direct investment (FDI) has been concentrated in sectors such as manufacturing, energy, and supporting industries, contributing to the growth of Vietnam's electric vehicle and electronics industries. For instance, Chinese conglomerates like BYD and Geely are currently investing in manufacturing facilities in Vietnam (Linh, 2025).

However, the intensifying economic and trade competition places pressure on Vietnam's domestic industries. Vietnamese enterprises face challenges from low-cost Chinese goods in the domestic market and fierce competition in export markets. Moreover, the massive influx of Chinese investment must be carefully managed to avoid excessive dependence or falling into debt traps—particularly if Vietnam were to take on large infrastructure loans financed by China. The EU, by contrast, prioritizes high environmental and labor standards; thus, if Vietnam lags in production reforms, its access to European markets could be at risk.

On environmental matters, the impacts thus far have largely been negative due to the unsustainable nature of rapid development projects, although the EU is actively working to mitigate and reverse this trend. China's construction of hydropower dams and river dredging projects has caused severe consequences: sediment loss, erosion, declining fish populations, and threats to the Mekong River's ecological balance (Phan Xuan Dung, 2025). The unplanned expansion of

urban and industrial zones—such as the Sihanoukville special economic zone in Cambodia—has also led to pollution and deforestation.

Although the EU and other international partners have consistently issued warnings and offered technical assistance, improvements have been slow compared to the pace of environmental degradation. Nevertheless, there are emerging signs of positive change. Thanks to advocacy from the Mekong River Commission (MRC) and international donors, Cambodia in 2020 declared a 10-year moratorium on new dam construction on the Mekong mainstream (Phan Xuan Dung, 2025)—a landmark decision to protect fish ecosystems. The presence of the EU, the US, and Japan—as providers of data and alternative energy solutions—played a key role in influencing Cambodia's decision.

EU-funded reforestation and nature conservation programs have also contributed to the partial restoration of local ecosystems. For example, mangrove reforestation initiatives in Vietnam's Mekong Delta have shown some success. Overall, the environmental balance remains tilted toward the negative due to overwhelming development pressures. However, a trend toward sustainable cooperation is taking shape, driven in part by the EU and the broader international community.

If Mekong countries begin to recognize the long-term value of environmental preservation—an area where the EU is helping quantify impacts and raise awareness—they are more likely to revise policy priorities. Only then will the environmental benefits of international engagement become more clearly visible. For Vietnam, the EU's approach—focused on climate change, water resources, and sustainable development—provides new resources and knowledge for environmental management. For example, the EU and the World Bank (WB) have supported efforts to improve coastal dike systems, promote climate-smart agriculture, and develop adaptive livelihood models in the Mekong Delta (WB, 2021). Initiatives such as the Lancang–Mekong Cooperation (LMC) hydrological monitoring program and renewable energy projects have enhanced Vietnam's scientific and technical infrastructure. Vietnam also has the opportunity to learn from the EU's experiences in building a circular economy, promoting clean energy, and advancing sustainable agriculture (Linh, 2023).

The environmental impact of Chinese activities is particularly alarming: upstream hydropower dams have altered water flow regimes, threatened biodiversity, and caused erosion in downstream areas. According to Vietnam's Ministry of Agriculture and Rural Development, the Mekong Delta is losing approximately 500 hectares of land per year due to coastal erosion and increasing salinity (WB, 2021). In 2023, China's water impoundment operations, combined with the El Niño phenomenon, led to severe water shortages during the rainy season (Linh, 2023). This mounting pressure presents a critical challenge to food security and the livelihoods of farmers in the delta. Moreover, the environmental governance approaches of China and the EU differ significantly. China tends to lack transparency in impact assessments, whereas EU projects are closely tied to strict environmental and social safeguards. Vietnam must navigate these conflicting interests skillfully, balancing the imperatives of infrastructure development with environmental protection.

Inevitably, the parallel presence of EU and Chinese strategies in the Mekong gives rise to conflicting interests due to their divergent goals. First and foremost is the clash over river governance norms. The EU and its international partners advocate for a cross-border, transparent, and rules-based approach to managing the Mekong Basin, as evidenced by their support for the Mekong River Commission (MRC) and their call for China to comply with the 1997 UN Convention on the Law of the Non-Navigational Uses of International Watercourses (Ha, 2022). In contrast, China maintains an absolutist upstream sovereignty stance and only engages in voluntary cooperation through the LMC, which it controls, while evading international legal obligations *(ibid.)*.

These opposing approaches have led the EU to issue indirect criticisms of China's lack of water transparency through statements at forums such as Friends of the Mekong or ASEAN, while China has systematically excluded the EU from LMC mechanisms. As a result, EU and Chinese initiatives in this domain often lack coordination and may even cancel each other out. For instance, China shares hydrological data with the MRC, but only through its own LMC Water Center, bypassing MRC protocols—an attempt to "circumvent" standards favored by the West *(ibid.)*.

Conflicts of interest are also evident in trade and investment, especially concerning social standards. The EU seeks to use trade as leverage to elevate governance norms (as in the case of EBA in Cambodia), while China imposes no political conditions on its investments. As a result, some governments have responded harshly to EU criticism of human rights, willingly forfeiting EU benefits in exchange for unconditional Chinese support (Turton, 2020).

The GMS countries are not passive "pawns" in the geopolitical rivalry between major powers. On the contrary, they play a significant role in shaping the balance of influence between the EU and China. Their policy decisions and strategic choices will determine whether this competition generates opportunities or risks for the region.

First, these countries pursue a "diversification and balancing" (hedging) strategy to avoid excessive dependence on any single actor. As discussed, most Mekong states welcome both Chinese investment and Western aid, participate in both the LMC and the MRC, and sign FTAs with both China and the EU. This tightrope-walking strategy demands diplomatic agility and political acumen from national leaders. ASEAN serves as a vital instrument in helping these countries maintain regional balance. Through ASEAN, Mekong countries uphold a baseline level of unity and adhere to the principle of "non-alignment." For instance, the 2020 ASEAN Outlook on the Indo-Pacific (AOIP) emphasized cooperation with all partners, thus providing a framework for welcoming initiatives from both China and the EU in the subregion (Mekong–US Partnership, 2021). ASEAN's diplomatic finesse enables smaller states to avoid direct confrontation: they can justify collaboration with the EU as being aligned with ASEAN priorities—and vice versa. Therefore, ASEAN's collective strength is a crucial asset for Mekong countries to balance great power influence.

Second, these countries actively shape cooperation in ways that maximize national benefit. They may "pair benefits" from China and the EU—for example, using Chinese capital to build dams while leveraging EU expertise to mitigate environmental harm. Or they may use access to the EU market as leverage to negotiate better technology transfer from China. To achieve this, they must strengthen negotiation capacities and develop clear national strategies.

Vietnam is often cited as a model in this regard: it has its own Mekong Cooperation Strategy, which mobilizes maximum international support for the Mekong Delta while conducting careful negotiations with China on flood data sharing. As a result, in 2020, China agreed for the first time to share year-round dam operation data with the MRC (Dung, 2025)—a testament to how small states can influence great power behavior by skillfully utilizing multilateral leverage.

Third, the role of Mekong countries is reflected in their regional coalition-building to amplify their collective voice. Individually, these countries risk being overshadowed by China or overlooked by the EU. However, as a united lower Mekong bloc with common interests, they can negotiate more effectively as a group. The MRC serves as a core platform for this, strongly supported by the EU. While China is not an MRC member, the unified demands of the four lower Mekong countries (e.g., on coordinated reservoir operations) carry more weight than fragmented voices. In practice, these countries have tried to align their positions - for example, jointly requesting China to release more water during the 2019 drought or opposing rock-blasting projects in the river (both Thailand and Cambodia expressed opposition). Intra-regional coordination is also promoted through mechanisms such as ACMECS (Ayeyarwady–Chao Phraya–Mekong Economic Cooperation Strategy), led by Thailand, to jointly manage infrastructure projects. If Mekong countries use ACMECS to determine which projects should be funded by China versus the EU, they can avoid duplication and policy incoherence. For instance, they should not allow both China and the EU to finance parallel transport corridors, but rather assign complementary roles based on a shared regional plan. This is an area in which subregional countries must assert leadership.

Fourth, public opinion and civil society in the Mekong states also play a crucial role. Citizens, businesses, and social organizations will ultimately evaluate the effectiveness of external influences. Whichever development model earns public support is likely to prevail in the long run. Consequently, governments must listen to domestic constituencies when adjusting the balance of cooperation. In recent years, many social voices in the Mekong have called for greater transparency and environmental protection to values more aligned with the EU.

Even in China-friendly countries like Laos and Cambodia, youth groups and journalists have spoken out against the negative impacts of Chinese projects. As a result, Mekong governments often seek to balance the competing interests of groups benefiting from either EU or Chinese engagement.

In sum, Mekong countries are the primary agents determining the outcome of geopolitical competition. If they act in unity and with foresight, they can convert rivalry into complementary cooperation. Conversely, if they remain divided or passive, the region risks becoming a geopolitical chessboard reminiscent of the Cold War. For Vietnam, this requires a sustained policy of "diversification and multilateralization" in foreign partnerships: strengthening traditional ties with China while expanding engagement with the EU, the US, and Japan. It is essential to operationalize cooperation with the EU at the governmental level - for example, through regular policy dialogues, facilitating EU business investment in Vietnam, and mobilizing funding from the EU's Global Gateway program, especially for clean energy projects.

At the same time, Vietnam must steadfastly protect its national interests. This includes publicly disclosing data and commissioning independent research on the environmental impacts of the Mekong hydropower system, and proposing joint monitoring mechanisms with international participation to mitigate political risks. Vietnam should proactively enhance its role in subregional frameworks such as the MRC and LMC to defend shared interests like water data transparency and green development. Vietnam's proposal at the 8th MLC Summit to "complete the Water Resources Cooperation Action Plan 2023–2027 and expand hydrological data sharing and dam operation transparency" is a step in the right direction. Continued close coordination with Laos, Cambodia, and Thailand is necessary to promote sustainable joint development and present a unified voice vis-à-vis China. Vietnam should capitalize on the advantages of the EVFTA to promote exports to the EU, while simultaneously upgrading technology and enhancing the quality of agricultural and aquatic products to meet green standards.

It is increasingly important for Vietnam to diversify import markets for high-technology equipment and advanced technologies from the EU and other partners in order to reduce potential overdependence on less transparent

sources of capital. However, progress in this area will depend on Vietnam's ability to upgrade domestic industrial standards, meet stringent regulatory requirements, and enhance absorptive capacity for advanced technologies.

In particular, Vietnam may further develop coastal protection projects and sediment nourishment initiatives in the Mekong Delta in order to mitigate erosion and salinization. Simultaneously, it is necessary to strengthen hydrological forecasting capabilities and invest in independent monitoring stations at estuarine regions to enable timely responses to sudden fluctuations caused by upstream hydropower activities. Vietnam should cooperate with the EU and international organizations (such as the ADB and the WB) to learn from resilient agricultural development models and seek support for circular bioeconomy technology and green production.

It is also vital to further develop the quality of human resources in digital technology and smart agriculture, in line with Vietnam's proposal for the development of "foundational technologies, digital economy, and smart agriculture" under the MLC framework. Furthermore, public education and mass communication should be enhanced to provide knowledge on geopolitical competition dynamics, enabling communities and businesses to proactively adapt. Through the coordinated implementation of these measures, Vietnam can take advantage of investment and business opportunities, improve its environmental performance and international standing, while also mitigating risks related to water security, political dependency, and unfavorable competition.

Overall, Vietnam is neither a passive recipient nor an unconstrained actor in the geostrategic competition between the EU and China. Its strategic agency is exercised through calibrated hedging, selective engagement, and multilateral diplomacy. While Vietnam possesses significant opportunities to shape outcomes in the Mekong Subregion, its choices are conditioned by domestic institutional capacity, implementation constraints, and the need to manage asymmetric power relations. Recognizing these limitations enhances the analytical realism of this study and underscores that effective strategic positioning requires not only external balancing but also sustained internal governance reform.

8. Conclusion

The strategic competition between the EU and China in the GMS represents not only a contest between different development models but also a deeper clash of strategic interests and governance logics. While China seeks to consolidate its great-power interests through resource control, infrastructure-driven connectivity, and the establishment of strategic footholds, the EU emphasizes international law, universal values, and rules-based cooperation. These fundamentally divergent priorities make comprehensive reconciliation unlikely. As a result, the responses of local governments and societies in the Mekong are shaped largely by pragmatic assessments of which external actor offers more tangible benefits with fewer perceived risks. At present, China appears to hold an advantage in short-term economic influence, whereas the EU is gradually building longer-term impact by cultivating normative appeal and winning the "hearts and minds" of local populations, particularly younger generations.

The geopolitical rivalry between China and the EU in the Mekong Subregion provides a vivid illustration of the evolving regional order in mainland Southeast Asia within the broader Indo-Pacific context. As an adjacent great power, China has leveraged its economic scale and upstream position to expand its influence through large-scale infrastructure projects and China-led cooperation frameworks. By contrast, despite its geographical distance, the EU has mobilized soft power resources to enhance its presence by promoting sustainable development, the rule of law, and multilateral cooperation, thereby positioning itself as a normative counterweight to China's more state-centric approach. The interaction between these strategies has produced a multilayered competitive landscape encompassing economic, political, environmental, social, and cultural dimensions.

This strategic rivalry has had profound implications for regional security, economic development, and environmental sustainability. It has heightened non-traditional security risks—particularly related to water governance, food security, and ecological degradation—while also creating political pressures that may encourage excessive alignment with one external actor. At the same time,

competition between the EU and China has generated new incentives for Mekong countries to reassess development strategies, diversify partnerships, and strengthen awareness of national interests. The subregion thus stands at a critical crossroads: it may harness external competition to promote more balanced and resilient development, or it may become increasingly vulnerable to strategic contention and fragmented regional cohesion.

From a broader analytical perspective, this study contributes to debates on Chinese political economy by demonstrating how development-oriented engagement in the Mekong is closely intertwined with strategic, political, and security objectives. It also advances discussions on regional order by highlighting the Greater Mekong Subregion as a key arena where development governance and power politics intersect in mainland Southeast Asia. Finally, the article underscores the role of middle powers, particularly for Vietnam to illustrating how strategic hedging and selective engagement can enhance agency and preserve strategic autonomy amid intensifying great-power competition. Ultimately, the future of the Mekong Subregion will depend on the capacity of all actors to transform strategic rivalry into pragmatic cooperation that prioritizes sustainable development, national sovereignty, and the long-term well-being of the river and its communities.

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Notes

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1. The Mekong Subregion, combined with China's Yunnan and Guangxi provinces, is referred to as the Greater Mekong Subregion (GMS)

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Vietnam and the Philippines' Strategic Responses to China's Maritime Assertiveness in South China Sea (2014-2025)

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Abstract

This article examines how Vietnam and the Philippines have managed China's maritime assertiveness in the South China Sea between 2014 and 2025. Using defensive realism and qualitative comparative analysis, this study examines how each state has combined diplomatic, deterrence, alliance, and legal strategies to safeguard sovereignty while avoiding escalation. The study finds that Vietnam emphasises calibrated diplomacy, military modernisation, and multilateralism, whereas the Philippines relies on alliance partnerships, legal advocacy, and asymmetric upgrades. Both confront structural constraints, including limited naval capabilities, economic dependence on China, ASEAN's consensus rule, and Vietnam's "Four Nos" defence policy. The article argues that realistic policy options lie in minilateral coast guard cooperation, information sharing, law-of-the-sea advocacy, and selective technological investments, which together strengthen resilience and advance a more stable maritime order.

Keywords: *South China Sea, Naval Strategy, Vietnam, Philippines, China's Maritime Expansion*

1. Introduction

The South China Sea, a crucial Sea Line of Communication (SLOC) for global trade and maritime security, has become a focal point of regional tension due to overlapping territorial claims by countries, including China, Vietnam, the Philippines, Brunei, Malaysia, and Taiwan (Teo, 2018). China's growing naval expansion, backed by its stance on maritime rights in the region, has posed significant challenges to the sovereignty and economic interests of these countries (Centre for Preventive Action, 2024; Nathan, 2023).

Among the most directly affected nations, Vietnam and the Philippines have adopted distinct strategies to counter China's naval advancements. Understanding these strategies is crucial to comprehending the dynamics of the South China Sea dispute and its broader implications for regional stability. China's increasingly expansive policy, including ramming Philippine vessels, using water cannons, deploying military-grade lasers, and puncturing rubber boats with knives, has escalated risks to levels not seen in the past decade (Ratcliffe, 2024).

Moreover, the South China Sea conflict has expanded from sea to air, increasing the risk of military confrontation between China and the Philippines. The Philippines has repeatedly dispatched military aircraft to the Spratly Islands and Macclesfield Bank, which China claims as its sovereign territory. China has warned that if the Philippines insists on carrying out "air invasions," it will take corresponding measures, and the consequences could be more serious than sea collisions (Lim, 2024). The situation has been marked by direct confrontations at sea. In July 2024, Vietnam protested the deployment of a Chinese navy hospital ship near the Paracel Islands, reaffirming its claim to the territory. This incident reflects Vietnam's firm stance on its sovereignty, despite its otherwise cooperative relationship with China (Walker, 2024a). Due to these aggravating tensions, Vietnam and the Philippines are strengthening their defence cooperation and deepening collaboration on maritime issues. The two countries signed "letters of intent" to enhance their maritime and disaster response engagements. They also agreed to resolve disagreements peacefully and within the framework of

international law. An official security agreement is expected to be signed by the end of 2024 (Walker, 2024b).

Vietnam and the Philippines have adopted divergent strategies in response to China's growing naval presence in the South China Sea. Their approaches, influenced by historical factors, national objectives, and geopolitical realities, have manifested in distinct military, diplomatic, and legal measures. This comparative analysis examines the strategies of Vietnam and the Philippines, assess their effectiveness in protecting national interests, and evaluate the implications of their contrasting approaches for regional stability. By employing a qualitative and comparative methodology, the study aims to provide a comprehensive understanding of the strategic behaviours and limitations these nations encounter while navigating the complexities of the South China Sea dispute.

Therefore, this study delves on these main questions: 1. How and why did Vietnam and the Philippines combine diplomatic, deterrence, alliances, and legal strategies to manage China's maritime assertiveness between 2014 and 2024; and 2. which combinations most effectively produced restraint without uncontrolled escalation? The analysis is conducted through a structured and focused comparison that applies a common question set across four dimensions: diplomacy, deterrence, alliances, and legal strategy. A comparative framework enables side-by-side assessment and avoids narrative drift. The scope is confined to state policy instruments in the maritime and adjacent air domains. It does not extend to domestic legitimacy or broader economic welfare, except where these factors directly influence strategic choices.

2. Research Methodology

This study adopted a qualitative research methodology to conduct a comparative analysis of Vietnam's and the Philippines' strategies in countering China's maritime expansion in the South China Sea. Grounded in the theoretical framework of defensive realism, the research explored the motivations, actions, and challenges faced by these two Southeast Asian nations in responding to

China's assertive behaviour. Qualitative research is well-suited for exploring complex social phenomena and understanding the context-specific challenges of maritime strategies (Creswell, 2018; Patton, 2002). The methodology was designed to provide an in-depth understanding of the strategic behaviours and limitations these nations encounter while navigating complex maritime disputes.

The research relied primarily on secondary data collected from academic journals, policy papers, government reports, and various defence-related think tanks. Case study methodology, as outlined by Yin (2017), was instrumental in examining specific instances of military confrontations, diplomatic negotiations, and grey-zone tactics. By incorporating the latest data on military expenditures, diplomatic engagements, and regional cooperation efforts, the study ensured a comprehensive and current analysis.

A comparative approach was employed to examine the similarities and differences in Vietnam's and the Philippines' strategies. This approach facilitated a nuanced understanding of how context-specific variables shape state behaviour in contested regions (Ragin, 1989; Collier, 1991). The analysis focused on several key dimensions, including military modernisation, diplomatic strategies, economic pressures, and the challenges and limitations of their approaches. Military modernisation was assessed through an evaluation of defence enhancements, naval acquisitions, technological upgrades, and budgetary constraints. Diplomatic strategies were analysed by examining bilateral and multilateral engagements, legal advocacy, and alliance-building efforts. The study also assessed the impact of economic interdependence with China on each nation's strategic decision-making while identifying internal and external factors that hinder the effectiveness of their strategies.

The application of defensive realism provided a theoretical lens to contextualise the actions of Vietnam and the Philippines within an anarchic international system. As defensive realism posits, states operate under an anarchic international system where their security-driven actions often create unintended threats to others (Waltz, 1979; Mearsheimer, 2001). Through the principles of security dilemmas, balancing, and buck-passing, the study examined how these states prioritise sovereignty and survival while seeking to avoid direct

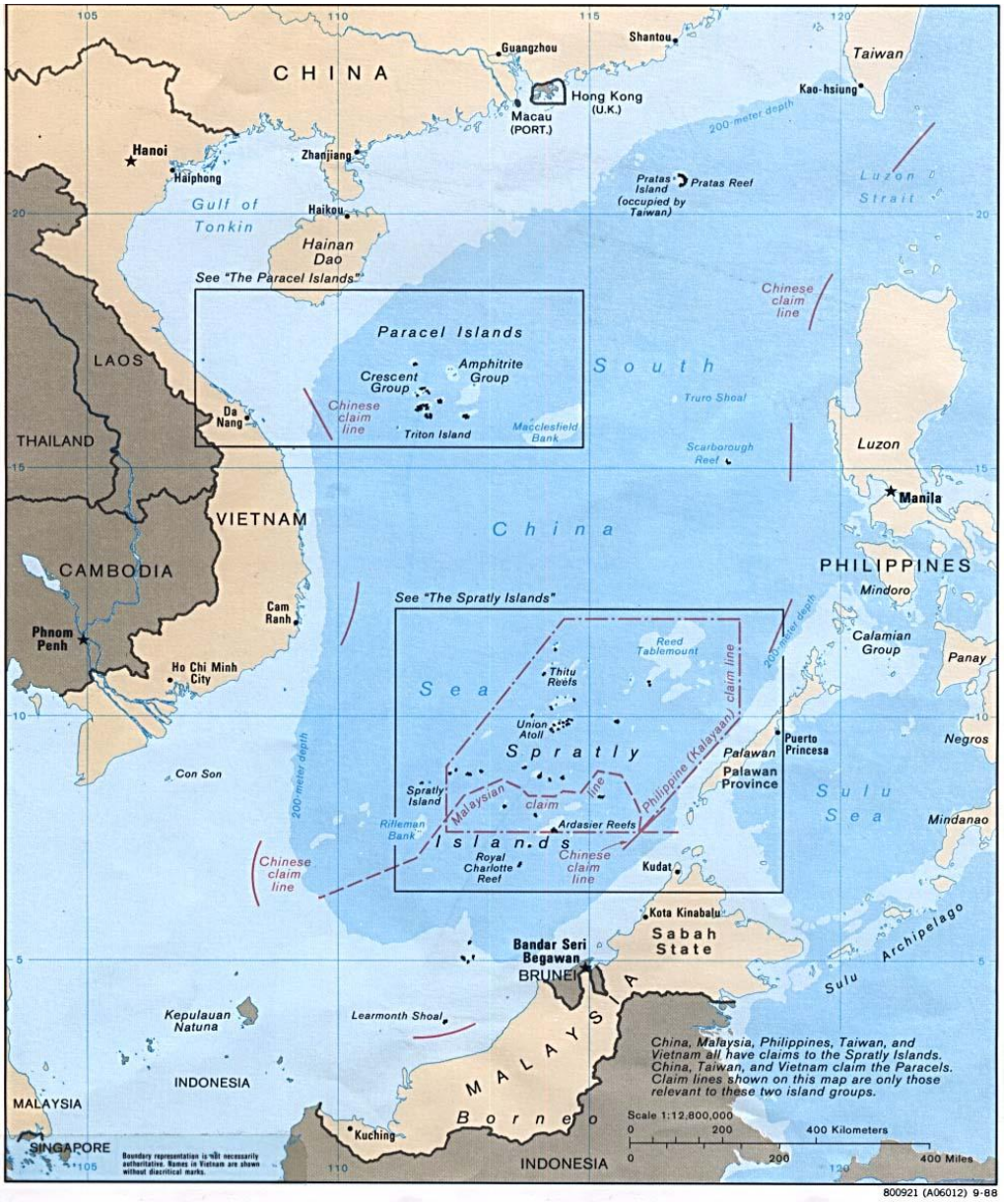
escalation with China. This framework facilitated a deeper understanding of how each country navigates the pressures of great-power competition in a highly contested maritime domain.

The analysis was conducted through content analysis and case study comparisons, synthesising and interpreting existing literature and reports to identify patterns in strategic behaviour. Content analysis, as emphasised by Krippendorff (2013), allowed for the systematic examination of data to uncover thematic trends and insights. Specific instances of military confrontations, diplomatic negotiations, and grey-zone tactics were examined to draw comparative insights. Policy implications were also explored, assessing the effectiveness of current strategies and identifying areas where improvements might be necessary to counter China's maritime ambitions more effectively.

A qualitative and comparative methodology is particularly suitable for this research as it allows for a nuanced understanding of the complex geopolitical interactions in the South China Sea. By focusing on Vietnam and the Philippines, the study provides a microcosm for examining the broader implications of China's maritime assertiveness in Southeast Asia. This approach also facilitated the exploration of context-specific challenges, such as resource constraints and internal governance issues, which are critical to the success of maritime strategies.

While the analysis is rigorous, the study acknowledges certain limitations. Reliance on secondary data may constrain the breadth of the findings, as the analysis is dependent on the availability and reliability of existing sources. This reliance on secondary data is a recognised limitation in qualitative research, as highlighted by Flick (2022) and Bryman (2016). Additionally, the findings specific to Vietnam and the Philippines may not fully capture the diversity of responses among other ASEAN nations. Despite these limitations, the study offered robust and meaningful insights into the evolving dynamics of the South China Sea dispute through careful triangulation of data and focused comparative analysis.

Figure 1: South China Sea Islands



Source: *The Perry-Castañeda Library (PCL) Map Collection, University of Texas Library, 2021*

3. Theoretical Framework: Defensive Realism and its Application to Vietnam and the Philippines

Defensive realism, a subset of structural realism, offers a valuable framework to analyse Vietnam's and the Philippines' strategic responses to China's maritime assertiveness in the South China Sea. Rooted in the principle that states operate in an anarchic international system, defensive realism posits that the primary goal of states is to ensure survival and security, rather than the unchecked accumulation of power (Waltz, 1979). This pursuit of security, however, often creates a security dilemma, wherein one state's efforts to bolster its safety inadvertently threaten others, triggering countermeasures and escalating tensions (Jervis, 1978; Herz, 1950).

In the South China Sea context, China's militarisation of artificial islands and expansive maritime claims epitomise the dynamics of the security dilemma. For Vietnam and the Philippines, these actions also challenge their sovereignty and jeopardise regional stability. Defensive realism underscores how both nations have responded by adopting balancing strategies, including military modernisation, alliance-building, and legal mechanisms to counterbalance China's growing influence while avoiding direct confrontation.

3.1 Core Concepts of Defensive Realism

The security dilemma is central to defensive realism, highlighting how states' defensive measures, such as military buildups, are often perceived as offensive by others, leading to a cycle of mistrust (Herz, 1950). Both Vietnam and the Philippines exemplify this dynamic as they enhance their military capabilities and deepen alliances to counter China's naval expansion. To mitigate threats, states employ balancing strategies, which include both internal measures, such as military modernisation and external approaches, such as forming alliances (Waltz, 1979). Vietnam and the Philippines employ a combination of these strategies, with Vietnam leaning on regional multilateralism and the Philippines prioritising alliances with major powers. Buck-passing is another notable principle, wherein

states shift the burden of countering threats to external actors to conserve resources (Mearsheimer, 2001). Both Vietnam and the Philippines exhibit this behaviour by leveraging alliances with the United States and other regional partners to enhance their deterrence capabilities.

Liberal institutionalism posits that regimes and interdependence decrease the likelihood of conflict by providing information, fostering reciprocity, and establishing enforcement mechanisms (Keohane, 1984; Keohane & Martin, 1995). This perspective helps explain Vietnam's and the Philippines' repeated use of ASEAN and United Nations platforms, Manila's emphasis on "assertive transparency," and recurring advocacy for a binding Code of Conduct in the South China Sea (Buszynski, 2012; Wei, 2025). Yet, the institutional payoffs have been limited due to a pronounced power asymmetry and a weak enforcement capacity. This is precisely the environment in which defensive realism anticipates that states will resort to complex balancing and denial to protect core interests (Waltz, 1979; Glaser, 1994).

Constructivism, by contrast, highlights the roles of norms, identity, and threat perception (Wendt, 1992; Katzenstein, 1996). Vietnam's strategic culture of self-reliance and non-alignment, codified in the "Four Nos" defence policy, predisposes it towards calibrated hedging (Sang, 2022). The Philippines, shaped by its legalist orientation and alliance identity, has normalised the use of lawfare and public diplomacy to signal resolve (Heydarian, 2019; Baviera & Arugay, 2021). These insights clarify why the two states diverge in their responses even under similar material constraints.

Defensive realism nonetheless provides the most appropriate core framework for analysis. The South China Sea is characterised by recurrent security dilemmas, persistent grey-zone coercion below the threshold of open conflict, and costly signalling around disputed reefs and shoals (Jervis, 1978; Sarjito, 2024). The central policy challenge is how smaller states can generate credible denial and restraint under an anarchic and asymmetric order. Defensive realism focuses on these mechanisms, including balancing, buck-passing, and anti-access/area denial strategies (Mearsheimer, 2001; Taliaferro, 2000), while remaining compatible with institutional and normative approaches. Liberal-institutionalist

and constructivist perspectives, therefore, serve as auxiliary lenses that explain institutional venues and identity-driven variance. However, defensive realism remains the most effective framework for analysing Vietnam's and the Philippines' strategic choices.

3.2 Application of Defensive Realism in the South China Sea

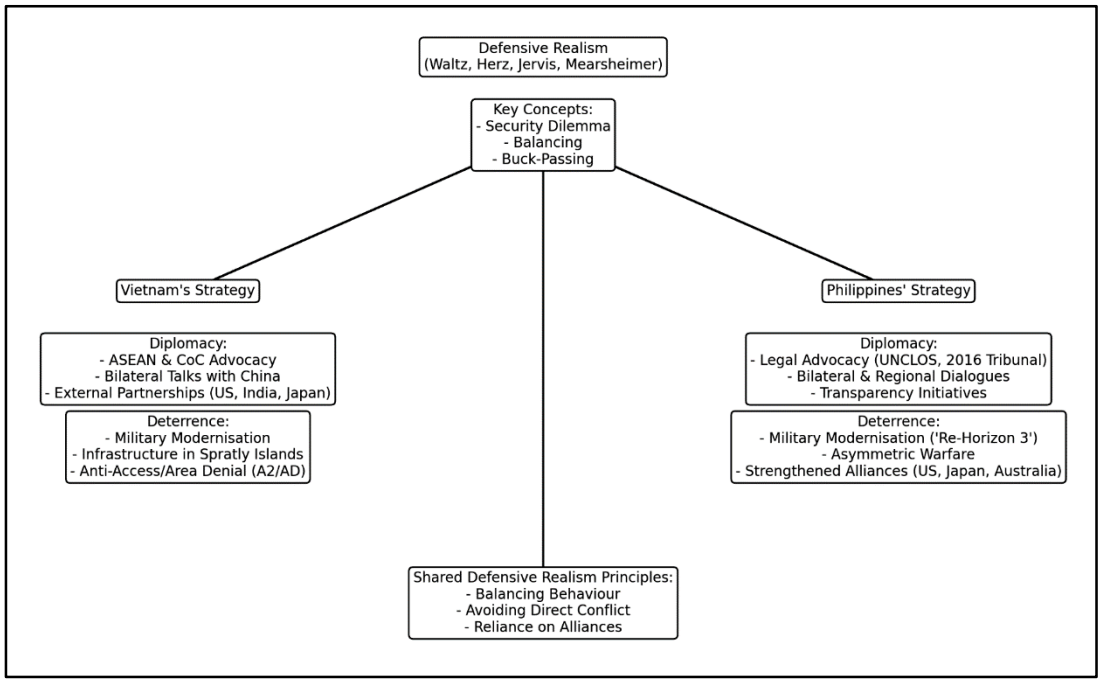
In applying defensive realism to the South China Sea dispute, Vietnam and the Philippines pursue distinct yet overlapping strategies to navigate the challenges posed by China's assertiveness. Vietnam adopts a strategy of diplomatic multilateralism through platforms like ASEAN while simultaneously modernising its military to deter aggression (Thayer, 2017). Conversely, the Philippines combines legal advocacy, such as invoking the 2016 Arbitral Tribunal ruling, with alliances and military upgrades to bolster its position. Both nations also emphasise regional cooperation and international partnerships to counterbalance China's dominance (International Crisis Group, 2021). These strategies reflect the principles of defensive realism, which maintain stability through collective mechanisms while avoiding unnecessary escalation.

Defensive realism provides a robust theoretical framework to analyse the strategies of Vietnam and the Philippines in the South China Sea. Through military modernisation with strategic alliances and regional diplomacy, both nations exemplify the principles of defensive realism. Their nuanced approaches, shaped by the imperatives of sovereignty and regional stability, underscore the adaptability of smaller states in managing great-power competition. Through their defensive realist strategies, Vietnam and the Philippines not only counter China's assertiveness but also contribute to a more stable and rules-based maritime order in Southeast Asia.

The application of defensive realism to the South China Sea dispute offers critical insights into China's strategic behaviour, particularly its maritime ambitions. As defensive realism posits, states operate under an anarchic international system where their security-driven actions often create unintended threats to others. China's military buildup, including the militarisation of artificial islands and the

assertion of its expansive territorial claims through the "nine-dash line," exemplifies how efforts to enhance its security and influence have triggered regional security dilemmas. This theoretical lens helps contextualise China's actions as both a response to perceived threats and a strategy to dominate critical maritime routes, shaping the responses of affected states such as Vietnam and the Philippines.

Figure 2: Conceptual Framework: Defensive Realism



4. China's Maritime Ambitions in the South China Sea

narratives and legal frameworks spanning several centuries. At the heart of these claims lies the "nine-dash line," first proposed by the Republic of China in 1947 and later endorsed by the People's Republic of China (PRC). This demarcation encompasses a vast area of the South China Sea, including the Spratly and

Paracel Islands—territories also claimed by several Southeast Asian nations, such as Vietnam, the Philippines, Malaysia, and Brunei.

China contends that its sovereignty over these islands and waters has been upheld for over two millennia, citing ancient maritime activities, cartographic records, and administrative documents as evidence. However, these claims are strongly contested, as neighbouring states possess their own historical ties to the region and have engaged in fishing and navigation there long before the formalisation of modern territorial boundaries (Zhang, 2023; Wood, 2021).

In recent years, China has escalated its activities in the South China Sea through significant developments. Between 2014 and 2016, it rapidly constructed artificial islands in the region, equipping some with military infrastructure, including airstrips and radar systems. This strategy is widely seen as a means of consolidating territorial claims and expanding military influence (Sadler & Lapporte, 2024; Lee, 2023). Furthermore, China has conducted numerous military exercises in the South China Sea, often alongside Russia, underscoring its ambitions to project power and deepen its military partnerships. A key example is the 2024 joint naval exercises with the Russian Navy, which illustrated the strengthening of military ties between the two states (Mahadzir, 2024). Additionally, confrontations between China's coast guard and maritime militia with vessels from the Philippines and Vietnam, particularly in disputed areas such as the Second Thomas Shoal and Scarborough Shoal, have raised concerns about a potential escalation of armed conflict in the region (Zhang, 2023).

China's ongoing naval expansion has exacerbated tensions with Southeast Asian nations, notably the Philippines and Vietnam. Both countries are increasingly concerned about the militarisation of artificial islands and assertive maritime activities that jeopardise their sovereignty and economic interests (Strangio, 2024b). In response, they have enhanced maritime cooperation, engaging in joint coast guard exercises and establishing direct communication channels to manage incidents and foster trust (Sang, 2024). These developments form part of a broader geopolitical contest, with major powers such as the United States asserting their presence in the region through military exercises and alliances aimed at counterbalancing China's growing influence (Yi, 2024).

Despite a shared commitment to resolving disputes through international law, the potential for conflict persists, as miscalculations in these volatile interactions could lead to broader confrontations. For both the Philippines and Vietnam, the strategic challenge lies in addressing immediate threats posed by China while managing their bilateral relations, particularly in the context of overlapping claims and mutual concerns over sovereignty (Nguyen, 2024).

5. Strategic Adaptations of Vietnam and the Philippines in the South China Sea

The strategic responses of Vietnam and the Philippines to China's naval advancements in the South China Sea have evolved significantly over the years, shaped by their unique historical trajectories and geopolitical realities.

5.1 Vietnam's Strategic Adaptations

Vietnam's strategy has deep historical roots, shaped by centuries of territorial conflicts and the legacy of Chinese dominance. Vietnam's resistance against Chinese control of the Paracel and Spratly Islands dates to the 19th century, with its roots reinforced during the colonial period when France asserted control over the territories. Following independence, Vietnam's confrontation with China intensified during the 1974 Battle of the Paracel Islands, which marked a significant turning point (Shoji, 2016).

Diplomatically, Vietnam adopted a dual strategy of engaging China through bilateral talks while leveraging regional platforms, such as ASEAN, to push for multilateral solutions. The early 2000s saw Vietnam strengthening its ties with external powers, particularly the United States, as part of a hedging strategy against Chinese aggression (Nguyen, 2023). This cautious balancing act remains a cornerstone of Vietnam's modern approach.

5.2 The Philippines' Strategic Adaptations

The Philippines' strategy has been heavily influenced by its colonial history under Spanish, American, and Japanese rule. Post-independence, the Philippines maintained close ties with the United States, which played a pivotal role in shaping its maritime strategy. The landmark case of the 2016 Arbitral Tribunal ruling, which invalidated China's expansive nine-dash line claims, marked a significant milestone in the Philippines' legal and diplomatic strategy (Dutton, 2020).

Under President Rodrigo Duterte, the Philippines adopted a more conciliatory stance towards China, emphasising economic cooperation over maritime disputes. However, this approach shifted significantly under President Ferdinand Marcos Jr., who prioritised military modernisation and strengthened alliances with the United States, Japan, and Australia to counterbalance China's growing influence (Rabena, 2024).

Table 1. Timeline of China's Naval Expansion and Strategic Responses by Vietnam and the Philippines (2014–2024)

Year	China's naval/ grey-zone moves	Vietnam's response	The Philippines' response
2014	Begins large-scale island-building in the Spratly Islands; HYSY-981 oil-rig standoff near the Paracels.	Deploys coastguard and fisheries vessels to confront the rig; sustained protests.	Continues UNCLOS arbitration case filed in 2013 (Permanent Court of Arbitration, 2016).
2015	Expands land reclamation; installs runways and military infrastructure.	Steps up modernisation (including the ongoing Kilo-class submarine programme, signed 2009; deliveries started 2014).	Engages ASEAN and other international bodies to diplomatically address China's actions (Castro, 2020).
2016	Permanent Court of Arbitration rules in favour of the Philippines, rejecting the nine-dash line.	Backs UNCLOS-consistent language; continues outpost upgrades; Kilo deliveries ongoing.	Despite a legal victory, President Duterte seeks economic rapprochement with China.

Table 1 *(cont'd.)*. Timeline of China's Naval Expansion and Strategic Responses by Vietnam and the Philippines (2014–2024)

Year	China's naval/ grey-zone moves	Vietnam's response	The Philippines' response
2017	Live-fire exercises and PLA presence near the Spratly Islands.	Deepens ties with Japan and India, maintaining a steady asymmetric focus.	Major US-Philippines exercises were scaled down under Duterte (Balikatan continued a narrower scale) rather than expanded.
2018	Chinese coastguard and maritime militia harassment of regional fishers persists.	Expands defence links, including with Russia; maintains coastal denial (Bastion/Kh-35, ISR).	Builds coastguard capacity with Japanese support; escalates diplomatic protests.
2019	China swarms Thitu (Pag-asa) Island, disrupting Philippine works (Heydarian, 2019).	Fortifies features it already occupies; increases engagement with the US (Reuters, 2020).	Manila has filed numerous diplomatic protests; there are no routine joint patrols with the US at this stage.
2020	Creates new administrative districts (Paracels, Spratly Islands).	Issues formal protests; urges a stronger ASEAN stance.	Rejects Chinese claims and begins to rebuild US ties in late 2020/21.
2021	Militia massing around Whitsun Reef; wider harassment continues (Chang & Beech, 2023).	Incremental coastal-defence and ISR upgrades.	US-Philippines exercises and patrol tempo begin to climb again.
2022	Large-scale PLA(N) and coastguard drills and patrols.	Joins drills with the US and Australia; quiet capability gains.	Marcos Jr. elected; Enhanced Defence Cooperation Agreement (EDCA) implementation accelerates.
2023	The Chinese coastguard and militia block resupply missions to Second Thomas Shoal, using water cannons repeatedly.	Expands technological cooperation (e.g. with India) and ISR in the Spratlys.	Ramps up "assertive transparency;" upgrades EDCA (four new sites announced).
2024	Intensifies air and sea patrols around disputed features; repeated water-cannon confrontations.	Conducts naval and coastguard exercises; reinforces UNCLOS language at ASEAN and the UN.	Steps up joint patrols and exercises with the US; the Japan-Philippines Reciprocal Access Agreement (RAA) was signed on July 8, 2024; further incidents are publicised.
2025	Maintains coercive patrols and presence; allied attention increases across the region.	Reaffirms the "Four Nos;" deepens but avoids formal alliances (Japan, India, US); prioritises ISR and asymmetric denial.	US-Philippines joint maritime drills intensify (mid-2025); Japan-Philippines RAA enters into force September 11 2025; EDCA build-out continues.

6. Diplomatic Strategies of Vietnam in the South China Sea

Vietnam's strategic responses to China's maritime ambitions in the South China Sea exemplify a nuanced approach that blends diplomacy and deterrence. By integrating multilateral engagement, international law, and bilateral diplomacy, Vietnam seeks to safeguard its sovereignty while navigating the challenges posed by an assertive regional power. These diplomatic strategies reflect not only Vietnam's immediate security concerns but also its broader objective of maintaining regional stability.

As a proactive member of ASEAN, Vietnam has consistently advocated for a legally binding Code of Conduct (CoC) to manage disputes in the South China Sea. The CoC demonstrates Vietnam's commitment to regional solutions, as evidenced during its 2020 ASEAN chairmanship when it prioritised discussions on maritime security (Dutton, 2020; Nguyen, 2023). Vietnam's multilateral initiatives underscore its commitment to collective mechanisms for addressing unilateral actions and reducing tensions in the region (Thu, 2020).

Bilateral diplomacy with China forms another critical pillar of Vietnam's strategy. Despite ongoing disputes, Vietnam has engaged in high-level dialogues, such as the "3+3 strategic dialogue" initiated in 2024, which focuses on defence, diplomacy, and public security. While these discussions aim to stabilise relations, they fall short of resolving fundamental territorial disagreements (Mishra & Prajapati, 2024). The 2011 agreement on principles guiding the resolution of sea-related issues underscores a shared emphasis on cooperative conflict resolution, even though substantial progress remains elusive (Wu, 2024). These bilateral efforts allow Vietnam to manage tensions while avoiding outright confrontation.

Vietnam's diplomacy also extends beyond the regional sphere to the global stage. Invoking the United Nations Convention on the Law of the Sea (UNCLOS), Vietnam consistently challenges China's expansive "nine-dash line" claims. Through international forums, Vietnam highlights its adherence to global legal norms, strengthening its international standing (RFA, 2024a). Additionally, Vietnam balances its relationships with major powers, such as the United States,

by adopting a hedging strategy. This approach avoids overt alignment while counterbalancing China's growing influence (Mishra & Prajapati, 2024).

6.1 Deterrence Measures Adopted by Vietnam

In parallel with its diplomatic endeavours, Vietnam has pursued a robust deterrence strategy focused on military modernisation and strategic infrastructure development. The acquisition of advanced weaponry, including six Kilo-class submarines and Su-30MK2 maritime strike aircraft from Russia, underscores Vietnam's commitment to enhancing its anti-access/area denial (A2/AD) capabilities (Torode, 2014). These platforms enable Vietnam to project power within its exclusive economic zone (EEZ), reinforcing its sovereignty and deterring potential aggressors (Grossman, 2024).

Vietnam's activities in the Spratly Islands further illustrate its deterrence strategy. Significant land reclamation efforts have expanded Vietnam's holdings by over 2,360 acres as of mid-2024, enabling the construction of harbours, airstrips, and radar systems. These facilities enhance Vietnam's ability to monitor activities in contested waters and bolster its defensive posture (Chen, 2024). The development of infrastructure capable of accommodating larger aircraft represents a calculated response to China's militarisation of the region (RFA, 2024b).

To strengthen its security framework, Vietnam has fortified alliances with key regional and global powers. Strategic partnerships with India, Japan, and Russia provide Vietnam with access to advanced technologies and military resources, reducing reliance on any single ally (Zeberlein, 2024). These alliances reflect Vietnam's recognition of the importance of collective resistance to China's maritime assertiveness, offering a diversified approach to maintaining its deterrence capabilities.

By integrating military modernisation with strategic partnerships, Vietnam demonstrates a readiness to defend its claims while managing the complexities of its regional position. Its dual approach of diplomacy and deterrence enables

Vietnam to navigate an increasingly contested maritime domain, striking a balance between sovereignty concerns and regional stability.

7. Diplomatic Strategies of the Philippines in the South China Sea

The Philippines' approach to diplomacy in the South China Sea has been shaped by evolving leadership priorities and the challenges posed by China's assertiveness. Under President Rodrigo Duterte, the Philippines sought to de-escalate tensions by emphasising economic engagement with China, sidelining the 2016 Arbitral Tribunal ruling to secure investments and infrastructure projects under Beijing's Belt and Road Initiative (Heydarian, 2019). This policy marked a departure from prior confrontational stances and reflected an attempt to balance economic benefits with concerns about sovereignty. However, the Marcos Jr. administration has recalibrated this strategy, influencing the 2016 ruling to assert the Philippines' legal and territorial claims while simultaneously seeking broader international support.

Manila has employed multiple diplomatic tools to address Chinese assertiveness. The established Bilateral Consultation Mechanism with China serves as a platform to manage tensions and build confidence, though its effectiveness remains limited in addressing core disputes (Strangio, 2024a). In parallel, the Track 1.5 Manila Dialogue, which involved Filipino and Chinese participants alongside international scholars, underscores the Philippines' commitment to fostering dialogue while ensuring regional attention remains focused on the complexities of the South China Sea (Donnellon-May & Gill, 2024).

The Philippines has actively participated in regional forums, notably ASEAN, to advocate for adherence to international law and the adoption of a Code of Conduct (CoC). ASEAN provides a crucial platform for Manila to amplify its calls for collective security measures, particularly against unilateral actions in disputed waters (Rabena, 2024). Additionally, the Philippines has emphasised the importance of UNCLOS and the 2016 Arbitral Award, using these legal frameworks as diplomatic leverage to challenge China's expansive claims and rally international backing (CAN, 2025).

Manila's strategy has also included "assertive transparency"—a public diplomacy initiative aimed at highlighting China's actions in disputed waters. By publicising incidents, such as ramming and water cannon attacks, the Philippines aims to reinforce its legal rights and shape international opinion against China's tactics (Kit & Ng, 2025). Beyond ASEAN, the Philippines has deepened alliances with traditional and emerging partners, including the United States and Japan, to counterbalance China's growing influence. These relationships offer not only material support but also an avenue for strengthening the rules-based order in the region (Venzon & Calonzo, 2024).

7.1. Deterrence Measures Adopted by the Philippines

In response to escalating tensions in the South China Sea, the Philippines has pursued a robust deterrence strategy centred on military modernisation, asymmetric measures, and strengthened alliances. The "Re-Horizon 3" programme, with a $35 billion investment, underpins Manila's military enhancements. This initiative prioritises the acquisition of advanced naval platforms, including frigates, corvettes, and coastal defence missile systems such as BrahMos, which bolsters the country's ability to patrol its waters and respond effectively to Chinese incursions (Lariosa, 2024). Additionally, the acquisition of Wonhae-class Offshore Patrol Vessels (OPVs), missile corvettes, fast attack interdiction boats, and S-70 Black Hawk helicopters further strengthens the Philippines' maritime patrol and response capabilities (APDR, 2025).

The construction of infrastructure on Thitu Island, including enhanced military installations, reflects Manila's commitment to asserting its presence in the Spratly Islands. These efforts signal the Philippines' intent to reinforce its territorial claims, even under the shadow of China's superior conventional forces (Lim, 2024). Similarly, joint military exercises with key allies, particularly the Balikatan drills with the United States, underscore the Philippines' resolve to strengthen operational readiness. Beyond bilateral engagements, trilateral security partnerships with Japan and the USA were initiated in January 2025, adding a

multilateral dimension to Manila's deterrence strategy, enhancing its ability to counterbalance China (Gutierrez, 2025).

The Philippines has adopted innovative measures to offset China's advantages, such as exploring asymmetric warfare strategies. These include the use of drones, fast attack boats, and anti-ship missiles to counter China's superior naval capabilities. Investments in the coast guard and paramilitary forces have also been prioritised to respond to China's grey-zone tactics, such as non-lethal confrontations and harassment in disputed waters (Wu, 2024). These measures enable Manila to project a credible deterrent despite resource constraints.

Further strengthening its alliance with the United States has been a cornerstone of the Philippines' deterrence strategy. Joint maritime patrols, support in resupplying Philippine detachments, and the deployment of US assets have helped to counter Chinese aggression in contested areas (Larus & Rice, 2024; Taffer, 2024). Manila has also sought to integrate itself into broader regional frameworks such as the Quad, aiming to leverage coordinated maritime security efforts with India, Australia, and Japan (Curtis, Wright and Schochet, 2025). Such collaborations reinforce the Philippines' position in the South China Sea while presenting a united front against Beijing's ambitions.

Through these diplomatic and deterrence strategies, the Philippines balances the challenges of addressing China's assertiveness while navigating its economic and security imperatives. By combining legal advocacy, regional diplomacy, military modernisation, and innovative defence measures, Manila has crafted a multi-pronged response to safeguard its sovereignty and contribute to regional stability. However, the sustainability of these strategies hinges on continued international support and effective coordination with its allies.

8. Factors Influencing the Effectiveness of Vietnam and the Philippines' Strategies in Countering China's Maritime Expansion

The ability of Vietnam and the Philippines to effectively counter China's maritime expansion is constrained by a range of interconnected factors, including internal maritime disputes, limited naval capabilities, China's grey-zone tactics, diplomatic

and economic pressures, and the challenge of balancing relations with Beijing. These challenges not only limit the effectiveness of their individual strategies but also complicate their efforts to form a cohesive partnership in addressing Chinese assertiveness

8.1 Maritime Disputes and Internal Tensions

Vietnam and the Philippines, despite sharing a common interest in countering China's dominance in the South China Sea, are hindered by internal tensions stemming from overlapping territorial claims. For instance, Vietnam's protest the Philippines' placement of navigational buoys in the Spratly Islands highlights the potential for discord between the two nations, even as they align strategically against a larger adversary (Tien & Danh, 2023). Historical disputes over specific maritime features in the Spratly and Paracel Islands, combined with differing interpretations of maritime boundaries under the United Nations Convention on the Law of the Sea (UNCLOS), have further complicated bilateral relations. These disagreements not only weaken their ability to present a united front but also provide China with opportunities to exploit divisions through targeted diplomacy and economic incentives, undermining their collective deterrence efforts.

China's divide-and-rule strategy has capitalised on these internal disputes by fostering bilateral tensions among ASEAN members, effectively diluting the effectiveness of multilateral initiatives aimed at addressing its maritime ambitions. Moreover, these unresolved tensions have limited the scope of joint initiatives, such as coordinated coast guard operations or collaborative resource management, which could otherwise strengthen their collective stance against China's assertiveness (Daily Tribune, 2024).

To overcome these challenges, Vietnam and the Philippines must prioritise mechanisms for resolving disputes through bilateral agreements or ASEAN-mediated frameworks that manage overlapping claims without undermining their broader strategic alignment. Establishing shared resource management schemes or neutral conflict-resolution platforms could pave the way for increased cooperation. By addressing internal divisions, both nations can bolster their ability

to counterbalance China's actions and contribute to a more unified and effective ASEAN response.

8.2 China's Grey Zone Tactics and Limited Naval Capabilities of Vietnam and the Philippines

The stark disparity in naval capabilities between China and the two Southeast Asian states further limits their ability to counter Chinese aggression effectively. While Vietnam possesses more advanced naval assets, its cautious deployment of these capabilities constrains its ability to confront China decisively (Shoji, 2016). Vietnam has allocated USD 8.5 billion to its defence budget by 2027, with USD 1.8 billion earmarked explicitly for naval acquisitions between 2023 and 2027. These funds are intended to support the procurement of frigates, patrol vessels, and other essential equipment to bolster maritime capabilities (Global Data, 2022). However, as a developing nation, Vietnam faces persistent financial constraints that hinder its ability to modernise its fleet and develop advanced maritime surveillance systems. These shortfalls have resulted in gaps in Vietnam's maritime domain awareness, leaving parts of its extensive coastline vulnerable to threats such as illegal fishing, smuggling, and other illicit activities (Anh, 2024). Furthermore, overlapping responsibilities among maritime security agencies create coordination challenges, reducing the efficiency of responses to sovereignty infringements and other maritime threats (Dung & Son, 2023).

Similarly, the Philippines' defence modernisation efforts under the "Re-Horizon 3" programme also face budgetary constraints. While the programme prioritises upgrades such as frigates and corvettes, its reliance on external assistance and second-hand acquisitions from allies underscores the limitations imposed by inadequate financial resources (Lariosa, 2024). These fiscal barriers inhibit both nations' capacity to fully address the maritime security challenges posed by

China's assertiveness in the South China Sea. The Philippines has also struggled to modernise its maritime infrastructure, exacerbating its vulnerabilities in managing territorial waters and responding effectively to China's grey-zone tactics (Castro, 2022). Moreover, institutional fragmentation among maritime security agencies hampers the Philippines' ability to counter China's presence comprehensively, further complicating its strategic responses.

In addition to financial constraints, investment in marine science and technology remains underdeveloped in both Vietnam and the Philippines. Vietnam, for instance, faces limitations in marine resource surveys, a lack of capacity for producing essential marine equipment like ships and ports, and a shortage of Research and Development (R&D) personnel in marine economic fields (Huong et al., 2020). Similarly, the Philippines has underinvested in its maritime infrastructure, leaving gaps in its ability to secure its territorial waters against illicit activities and grey-zone tactics. These challenges highlight the structural and resource-based limitations that hinder both nations' ability to effectively counterbalance China's overwhelming power projection in the South China Sea.

8.3 Diplomatic and Economic Pressures

China's economic and diplomatic leverage significantly undermines the strategic cohesion between Vietnam and the Philippines, further complicating their efforts to counter its maritime ambitions. As the largest trading partner for both nations, China wields substantial influence that discourages aggressive posturing and exacerbates divisions within ASEAN. Vietnam's opposition to China's maritime assertiveness is tempered by its reliance on Chinese imports, which play a crucial role in its manufacturing supply chain (Tran, 2024). Similarly, the Philippines benefits from Chinese investments under initiatives like the Belt and Road but faces constraints in taking a confrontational

stance due to its economic ties (China Briefing, 2024). These dependencies not only dilute the collective deterrence capacity of Vietnam and the Philippines but also create divergent priorities that China can exploit to weaken any unified regional opposition.

9. Comparative Analysis of Vietnam and the Philippines: Strategies and Defence Capabilities

The comparative analysis of Vietnam and the Philippines reveals stark contrasts in their strategic responses to China's maritime assertiveness. While both nations share a common objective of safeguarding sovereignty and countering aggression in the South China Sea, their approaches diverge due to differences in military strength, resource allocation, and strategic alliances. Vietnam prioritises military modernisation, leveraging its larger defence budget to acquire advanced naval equipment. This focus underscores Vietnam's reliance on deterrence and hard power to assert its maritime claims. Conversely, the Philippines, constrained by a smaller defence budget, places greater emphasis on strengthening alliances with major powers, such as the United States, and adopting a more assertive diplomatic posture, particularly through the advocacy of international law and arbitration rulings. These differing strategies reflect not only the unique geopolitical realities faced by each nation but also the complementary potential of their combined efforts. Aligning their strengths—Vietnam's military modernisation and the Philippines' robust alliance networks—could serve as a strategic counterbalance to China's growing influence in the region. The following table provides a detailed comparison of their military and strategic capabilities, offering insights into their shared challenges and divergent approaches. The following table compares the strategic priorities of Vietnam and the Philippines, with a focus on military, diplomatic, and legal dimensions.

Table 2. Thematic Comparison of Vietnam and the Philippines' Responses to China's Maritime Assertiveness (2014–2025)

Dimension	Vietnam	Philippines	Implication
Military modernisation	Continued investment in coastal defence missiles, UAV surveillance, and submarine upgrades; expanding ISR in the Spratly Islands	Horizon 3 acquisitions proceeding (frigates, BrahMos missiles, UAVs); new OPVs arriving in 2025 under South Korea/Japan deals	Vietnam consolidates A2/AD; the Philippines accelerates modernisation with allied support
Diplomatic approach	Maintains ASEAN-first diplomacy; cautious dialogue with China; 2025 ASEAN meetings reaffirm "Four Nos"	Public diplomacy and "assertive transparency" continue; Marcos Jr deepens exposure of Chinese coercive tactics	Vietnam maintains manoeuvre space; the Philippines builds international legitimacy
Alliances and partnerships	Strengthened strategic ties with India and Japan in 2025; avoids formal alliance commitments	Treaty ally of the US; new trilateral maritime drills with US-Japan-Australia in 2025; closer coordination with Quad-plus	Vietnam maintains hedging; the Philippines leverages minilateral frameworks
Foreign military presence	Consistently rejects foreign basing in line with "Four Nos"	Expanded US access to EDCA sites confirmed in 2025; discussions of Japanese security cooperation broaden	Shows Vietnam's autonomy vs the Philippines' acceptance of extended deterrence
Legal strategy	Continues to rely on UNCLOS framing; avoids fresh litigation but raises concerns in UN forums	Sustains reliance on the 2016 ruling; "assertive transparency" escalates with new 2025 Coast Guard incident releases	The Philippines maximises lawfare; Vietnam retains flexibility
Grey-zone response	Expands maritime militia monitoring; avoids high-profile confrontations	Coast Guard protagonism heightened in 2025, documenting collisions and water-cannon incidents; joint patrols with the US and Japan	Divergent tactics but potential complementarity in information-sharing
Economic exposure to China	Still dependent on Chinese supply chains; seeking diversification through RCEP and Japanese/Korean investment	Belt and Road-linked projects reduced; still dependent on the Chinese market for select sectors	Economic ties constrain escalation options for both
Hard constraints	"Four Nos" reaffirmed in 2025 defence dialogue; prevents bloc politics or basing	Defence budget under pressure; domestic debate on dependence on US security guarantees	Cooperation is feasible only in areas that fit institutional and fiscal limits

Table 3 provides quantitative data on the defence capabilities of both nations, offering further insight into their resource allocation and operational potential.

Table 3. Comparative Defence Capabilities of Vietnam and the Philippines

Category	Vietnam	Philippines
Power Index Rank	23 of 145	41 of 145
Total Population	105,758,975	118,277,063
Available Manpower	54,994,667	50,859,137
Fit-for-Service	45,053,323	41,751,803
Reaching Military Age Annually	1,797,903	2,128,987
Active Personnel	600,000	150,000
Reserve Personnel	5,000,000	1,200,000
Paramilitary Forces	250,000	35,000
Defence Budget	$8,594,000,000	$4,380,000,000
External Debt	$110,000,000,000	$90,200,000,000
Foreign Reserve	$97,955,500,000	$103,742,000,000
Purchasing Power	$1,354,000,000,000	$1,138,000,000,000
Total Aircraft	246	202
Fighter Aircraft	41	0
Dedicated Attack	32	25
Transports	9	26
Trainers	60	23
Special-Mission	3	8
Aerial Tankers	0	0
Helicopters	101	122
Attack Helicopters	0	2
Tank Strength	1,374	10
Armoured Vehicles	11,912	11,878
Self-Propelled Artillery	40	12
Towed Artillery	535	294
Mobile Rocket Projectors	474	0
Fleet Strength	110	113
Submarines	9	0
Frigates	9	2
Corvettes	16	1
Patrol Vessels	35	58
Mine Warfare	8	0
Merchant Marine	1,973	2,203
Ports & Terminals	16	70
Square Land Area	331,210 kmÂ²	300,000 kmÂ²
Coastline	3,444 km	36,289 km

Source: *Global Fire Power, 2025*

The comparative analysis of Vietnam and the Philippines' defence capabilities highlights significant disparities in their military potential and resource allocation, reflecting differing strategic priorities and geopolitical challenges. Vietnam demonstrates greater military strength with a higher number of active personnel, extensive paramilitary forces, and multiple naval assets. These capabilities highlight Vietnam's focus on deterrence through military modernisation and its reliance on hard power to counter maritime threats. In contrast, the Philippines exhibits notable strengths in logistics, including a larger number of ports and terminals, as well as a more extensive coastline, which aligns with its emphasis on maritime patrol and economic security. However, its limited naval and air power—evidenced by the absence of submarines and fighter aircraft highlights a reliance on external alliances, particularly with the United States, to balance China's assertiveness. Financially, Vietnam allocates a larger budget to defence, enabling significant investments in modernising its arsenal, while the Philippines' comparatively smaller budget reflects its resource constraints and prioritisation of external partnerships. This disparity underscores the importance of bilateral cooperation and regional alignment within ASEAN in mitigating the asymmetries in their individual capabilities. The analysis reveals that while both nations are committed to safeguarding their sovereignty, their contrasting strengths and weaknesses necessitate complementary strategies to enhance collective resilience against external threats in the South China Sea.

10. Conclusion

The South China Sea remains one of the most contested maritime domains, where Vietnam and the Philippines have sought to balance diplomacy and deterrence against China's assertiveness. This study has shown that while Vietnam emphasises calibrated diplomacy, military modernisation and multilateral engagement, the Philippines pursues a more assertive strategy anchored in alliances, legal advocacy, and asymmetric modernisation. Both approaches are shaped by historical experience and geopolitical realities; however, structural factors limit their effectiveness. Limited naval capabilities, economic dependence on China,

ASEAN's consensus rule and Vietnam's "Four Nos" defence policy restrict the range of feasible options. These constraints highlight the need for pragmatic rather than ambitious solutions.

Realistic policy options, therefore, lie in strengthening minilateral cooperation and building resilience within existing limits. A shared maritime domain awareness network between Vietnam and the Philippines, linked with Japanese, American and Australian partners, would improve real-time monitoring and reduce vulnerability to grey-zone coercion. Joint coast guard operations in search and rescue and fisheries protection, supported by transparent communication protocols, would reinforce presence without escalating tensions. Coordinated lawfare and disciplined narratives, in which the Philippines sustains tribunal-based advocacy while Vietnam uses UNCLOS-consistent language, would maximise diplomatic leverage. Selective asymmetric denial investments, including coastal missile systems, UAVs and enhanced ISR, can offset naval gaps while avoiding reliance on foreign basing. Finally, direct hotlines, agreed rules of behaviour, and harmonised disengagement procedures would provide workable crisis-management tools, in contrast to the limited prospects of UN mediation or a formal ASEAN defence coalition.

By combining these measures, Vietnam and the Philippines can reinforce their sovereignty and strategic autonomy while advancing a stable and rules-based maritime order. Their complementary strengths, with Vietnam's calibrated multilateralism and the Philippines' alliance-oriented assertiveness, provide scope for convergence as long as recommendations remain grounded in political and institutional realities.

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Notes

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The Digital Silk Road in West Africa: Empowerment, Dependence, and the Agency of Small-Scale Enterprises

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Abstract

China's digital expansion has rapidly reshaped Africa's technological landscape, with over 70 per cent of West Africa's telecom infrastructure now linked to Chinese firms such as Huawei and ZTE. This growing integration is redefining regional digital economies, particularly among small-scale enterprises that depend on affordable connectivity and emerging e-commerce ecosystems. Yet, beneath these advancements lie critical concerns over data privacy, technological dependence, and uneven digital inclusivity, underscoring the urgent need to assess how China's digital influence both empowers and complicates West Africa's pursuit of sustainable digital economic development. Given this rational, this study explores the impact of China's digital expansion on West Africa's digital economic development, focusing on small-scale enterprises. Employing a mixed methods approach encapsulated in qualitative interviews and quantitative structural equation modelling (SEM), to examine the specific contributions of China's digital engagement. The findings reveal China plays a significant role in shaping digital economic development, from supplying technology to active involvement in digital markets. Key adoption factors included cost, education, literacy levels, gender, functionality, and flexibility of technology applications. However, challenges such as trust issues in e-commerce, internet accessibility, infrastructure costs, and security concerns were prominent. Policy recommendations emphasize fostering

knowledge spill overs, reducing digital transition costs, and enhancing trust through robust legal frameworks. Future research should address industry-specific digital technology applications for comprehensive insights.

Keywords: *Digital Economy, Technology Adoption, Small and Medium Enterprises, China's Digital Expansion, West Africa*

1. Introduction

The digital economy is redefining global trade, governance, and societal interaction, with China emerging as a key player in this transformation. Over recent decades, China has extended its digital influence across Africa, with West Africa becoming a focal point for investments stemming from its strategic regional connectivity, expanding youthful tech-savvy population, and rapidly liberalizing ICT policies. Coupled with elite-driven political goodwill, affordable market entry, and resource-based digital corridors, these factors create a conducive ecosystem where China's Digital Silk Road ambitions seamlessly integrate with Africa's modernization aspirations. This engagement has facilitated regional integration into the global digital economy, spurring economic growth through enhanced connectivity, entrepreneurship, and digital financial inclusion (Wang, Jiang and Khaskheli, 2024).

In the assertion of Del-Valle-Soto et al. (2024), China's investments in mobile networks, fibre optics, and data centres have significantly expanded internet access in West Africa, empowering underserved regions with connectivity and innovation. This has enabled businesses to access global markets and fuelled the rise of digital platforms, transforming sectors such as agriculture, healthcare, and finance. Technologies like 4G and 5G, deployed by firms such as Huawei and ZTE, have further accelerated this digitalization, creating opportunities for efficiency and economic inclusion (Omonijo and Zhang, 2024).

Chinese tech giants like Alibaba and Tencent have introduced artificial intelligence (AI)-driven solutions and cloud computing capabilities, enhancing operational scalability for local businesses and governments. These advancements have improved competitiveness and supported the digital economy's growth in West Africa (Qin et al., 2025). Additionally, financial services have undergone a profound transformation, with mobile payment systems, supported by Alipay and local partners, expanding financial inclusion in underserved areas and unlocking avenues for entrepreneurship and trade (Zhang et al., 2024).

Despite these achievements, challenges persist. Limited broadband access in rural areas exacerbates the digital divide, and over-reliance on Chinese digital infrastructure raises concerns about sovereignty and data security. These issues underscore the need for balancing external investments with local capacity-building to ensure sustainable growth (African Union Commission, 2021). Moreover, critics highlight risks associated with governance, technological dependence, and data security, which necessitate careful policy interventions (Ige, Kupa and Ilori, 2024; Al Kez et al., 2024). However, the positive impacts are undeniable, as China's investments have boosted economic opportunities, improved market access, and established West Africa as a growing hub for digital innovation. These developments have enhanced the region's global competitiveness and contributed to its economic transformation (Dong, Zheng and Tang, 2024).

This study investigates the influence of China's digital expansion on West Africa's economic development, analysing the opportunities and challenges of this integration. By exploring the economic, technological, and policy dimensions, it aims to provide a comprehensive understanding of how Chinese investments shape the region's digital ecosystem. The research employs a mixed methods approach, incorporating qualitative interviews and quantitative structural equation modelling (SEM), to examine the specific contributions of China's digital engagement.

The findings bridge critical gaps in existing literature, offering actionable insights for policymakers, enterprises, and investors alike. By highlighting strategies for maximizing benefits while mitigating risks, the study seeks to suggest a balanced approach to navigating West Africa's digital transformation, ensuring sustainable growth and equitable development.

1.1 Overview of China's Digital Expansion and Integration in Africa's Digital Economy

China's digital expansion has been pivotal in shaping Africa's digital economy, particularly in West Africa, where its investments and technological integration have significantly influenced economic development (Arnold, 2024). Leveraging its robust digital infrastructure and thriving technology sector, China has cultivated strong partnerships with African nations, accelerating their digitization journey (Heeks et al., 2024). Through substantial investments in information and communication technology (ICT) infrastructure, training programs, and digital skills development, China has enhanced access to reliable and affordable digital services, enabling African businesses to compete effectively in global markets (Horvey et al., 2024; Hinane El-Kadi, 2024). This transformation has fostered profitability and connectivity for local enterprises (Mlambo et al., 2024).

China's initiatives, such as the "Digital Silk Road", have further promoted digital integration across Africa by enhancing connectivity and optimizing the use of advanced technologies (Rolf and Schindler, 2023). The introduction of diverse digital payment systems has also been instrumental in fostering financial inclusion and economic efficiency (Chinoda and Kapingura, 2024). Moreover, China's leadership in cutting-edge innovations like artificial intelligence (AI) has brought transformative opportunities to the region. Chinese companies have actively developed AI infrastructure, positioning West Africa to harness the benefits of automation and data-driven decision-making (Tapo et al., 2024; Chang, 2023).

Investments in telecommunications infrastructure by Chinese firms like Huawei and ZTE have significantly improved internet connectivity, enabling widespread access to digital services. The deployment of 4G and 5G networks has catalysed technological progress across various sectors (Huang, Gao and Gao, 2023). Complementing these advancements, the establishment of data centres and provision of cloud computing services by tech giants such as Alibaba and Tencent have supported local businesses in their digital transformation. China's digital integration in West Africa has thus emerged as a driving force, facilitating economic progress and technological empowerment while paving the way for sustainable development. The table below highlights some key areas by which China has influenced Africa's digital development.

Table 1. Key areas China has influenced Africa's digital development*

Key Areas (Variable)	Variable Description	Sources
Infrastructure Development	The Chinese government and companies have invested in infrastructure development in Africa, including building fiber optic networks and providing support for 4G/5G networks in some countries. This has enabled African countries to access and use digital technologies in various sectors, including agriculture, health, finance, and education. This has also facilitated e-commerce and digital trade in Africa.	Elaluf-Calderwood, 2024, July; Tang et al., 2024; Uctu and Şahbaz, 2024
Digital Education	China has also invested in digital education in Africa. In 2015, the Chinese government launched the China-Africa Joint Research and Exchange Programme, which aimed to improve science and technology education and research capacity in African countries. China has also provided scholarships for African students to study in China, including in fields related to digital technologies such as computer science and information technology. By 2018, over 81,562 African students were studying in China, a nearly 770 per cent rise since 1996 which was driven by China's scholarship expansion from 18,000 in 2012 to 50,000. Notably, about 40 per cent of these scholarships supported applied sciences, engineering, and digital technology disciplines such as computer science and information technology, reinforcing China's role in shaping Africa's digital talent pipeline.	Legrouri, 2025; Ramontja et al., 2024

Table 1 (cont'd). Key areas China has influenced Africa's digital development*

Key Areas (Variable)	Variable Description	Sources
Investment	China has invested in various African tech start-ups, particularly in the fintech sector. In 2020, Ant Group, the parent company of Alipay, announced that it had signed agreements with several African mobile payment providers to leverage their digital platforms. This has helped to drive financial inclusion in Africa and provided access to financial services for millions of people who previously had limited access.	Olanrele, 2025; Emuron, van der Nest and Coffie, 2024; Mashamba and Gani, 2024
Digital Partnership	China has established digital partnerships with African countries to promote digital cooperation and exchange. For example, the Belt and Road Digital Economy International Cooperation Initiative, launched in 2019, aims to deepen digital cooperation and collaboration between China and African countries.	Xiaoyu, 2024; Arnold, 2024; Carver, 2024
E-commerce	Chinese e-commerce giant, Alibaba, has also made inroads into the African market through its subsidiary AliExpress. African small business owners, farmers, and traders have been able to use the platform to sell their products to customers across the world.	Morepje et al., 2024; Mkansi Mugurusi and Akenroye, 2024, October

*Author's compilation from the review of literature

1.2 China's Digital Expansion and Integration and its Influence on West Africa's Digital Economy

China's influence given digital expansion and integration have had more than a positive influence on Africa's digital economy, thereby enabling greater access to digital technologies, promoting e-commerce, driving financial inclusion, and fostering digital cooperation between China and African countries. Chinese digital expansion is profoundly transforming West Africa's digital economy, driven by substantial investments and infrastructure projects (Shi and Wei, 2024). Through enhanced internet access, new mobile networks, and e-commerce opportunities, China is accelerating the region's digital transformation and integrating it more closely with the global economy (Cai et al., 2024). This digital revolution has spurred increased mobile phone ownership, fostering innovative business models and more efficient trade systems (Zreik, 2025).

Moreover, Chinese tech giants like Tencent and Alibaba are pioneering digital financial services, including mobile payments, digital

banking, and microloans, which enhance financial inclusion and broaden access to capital for entrepreneurs and citizens alike (Shi and Wei, 2024). These developments are not only creating new financial opportunities but are also reshaping the region's economic landscape. Moreover, the rise of China-backed digital media is revolutionizing how information is consumed and shared. Social media platforms and streaming services are inspiring a new generation of tech-savvy West African consumers, opening channels for engagement and fostering digital literacy. Thus, China's influence is not merely infrastructural; it is economic and cultural, ushering in a new era of growth and prosperity. As Chinese firms deepen their investments, West Africa's digital economy is poised to become a powerful driver of regional development, redefining its economic trajectory and connectivity to global markets (Brühl, 2024).

2. Literature Review and Framework

The rapid expansion of digital technologies in recent years has transformed the way people live, work, and interact with each other (Wanof, 2023). This transformation has not only affected developed economies but also emerging markets, including those in West Africa (Xia, Baghaie and Sajadi, 2024). China's investments in Africa's digital infrastructure and services have been significant, with Chinese companies playing a leading role in the construction of fibre-optic networks and the provision of mobile and internet services. According to a report by McKinsey and Company, Chinese companies have built or contributed to the building of more than two-thirds of sub-Saharan Africa's fibre-optic networks (Afolabi, 2023). Additionally, Chinese companies such as Huawei and ZTE have been instrumental in providing affordable smartphones and mobile internet services to millions of Africans (Javaid et al., 2024).

2.1 China's Digital Expansion

In the context of this study, China's digital expansion refers to the increasing involvement and investment of Chinese companies and the Chinese government

in digital technologies, products, and services in foreign countries. This expansion is seen as part of China's broad initiative, which aims to build digital infrastructure, promote e-commerce and digital trade, and enhance digital connectivity between China and other countries, particularly those in Africa (He, 2024). China's digital expansion has been driven by its desire to expand its economic influence globally, as well as its recognition of the growing importance of digital technologies in the global economy (Heeks et al., 2024; He, Song and Ouyang, 2024). On the other hand, its digital integration describes how China incorporates digital technologies, products, and services into developing countries' digital ecosystems. For instance, Chinese companies have been investing in and partnering with West African tech start-ups to gain access to new markets, technologies, and talent (Feng, and Qi, 2024). This integration has been driven by China's recognition of the importance of international collaboration and the need to learn from other countries and regions.

2.2 Drivers of the Integration of China's Digital Expansion

China's digital expansion is driven by a vast consumer market, a skilled workforce, and strategic government policies prioritizing digital development as a pillar of economic growth (World Bank Group, 2016; Amankwah-Amoah, and Lu, 2024). Initiatives like "Internet Plus" and "Made in China 2025" aim to integrate digital technology into traditional industries, fostering innovation and entrepreneurship to fuel economic transformation (Tan, 2024). Prominent companies such as Huawei, Alibaba, Tencent, and Baidu have spearheaded this transformation, reshaping sectors like retail and communication through advanced e-commerce platforms and social media innovations (Tan et al., 2024).

Globally, China's digital integration enhances its economic influence. The Belt and Road Initiative exemplifies this by exporting digital expertise and infrastructure to regions including Asia, Africa, and Latin America, making Chinese digital firms pivotal players in these markets (Rojo, 2024). This expansion has been especially impactful in West Africa, where Chinese

companies drive digital economic activities, reflecting their integral role in global digital transformation (Jiang, 2024).

China's digital economy, marked by the fusion of digital technology and the real economy, has established itself as a cornerstone of the modern global economic framework. This integration accelerates the construction of innovative governance models and economic systems (Wang, Childerhouse and Abareshi, 2024). In 2019, China and the United States led global information technology development, contributing over 40 per cent of the global market.

The growth trajectory of China's digital economy underscores its significance. From 1.57 billion yuan in 2003 to 39.2 billion yuan in 2020, its contribution to GDP rose from 10.3 per cent to 38.6 per cent during the same period, signalling the sector's expanding role in driving national economic growth (Fambo and Ge, 2024). In 2020 alone, the digital economy grew by 3.3 billion yuan, equivalent to a 2.4 per cent GDP increase from the previous year. China's thriving digital sector exemplifies its transformative impact on the global economy, with innovative policies and industry leaders shaping the future of digital economies in both domestic and international landscapes, particularly in emerging regions like West Africa (Al-Zoubi, 2024).

2.3 Digital Economic Development and China's Integration into West African Markets

Digital economic development undoubtedly, leverages technology, particularly digital innovations, to drive economic growth, job creation, and societal prosperity (Wang, Li and Khaskheli, 2024). With the digital economy growing at 10 percent annually, outpacing global economic growth, it has become a critical engine for innovation and development worldwide. China's longstanding relationship with Africa, encompassing trade, diplomacy, and economic assistance, has expanded into the digital realm. This partnership is characterized by significant Chinese investments in Africa's ICT sector, including cellular networks, fibre-optic cables, AI, big data, and e-commerce (de Kluiver and Neethling, 2025). In West Africa, China has

emerged as a dominant player, with companies like Alibaba supporting local platforms such as Jumia, fostering digital economic growth (Soulé, 2025). These efforts have enhanced broadband access, mobile technology, and e-commerce, creating opportunities for businesses to connect regionally and globally (Lewis, 2024).

A noteworthy impact of China's digital investments is the proliferation of financial inclusion. Platforms like Alipay, in partnership with West African firms such as Flutterwave and Cellulant, are addressing the region's banking gaps by offering mobile payment solutions (Mohamed, 2022). This integration is unlocking new avenues for businesses and individuals, bolstering regional economic prospects.

Despite some research on China-Africa relations, existing studies often overlook the specific impacts of China's digital investments in West Africa. Addressing this gap, the literature review underscores the need for a focused analysis of China's digital influence in the region (Feliciano-Cestero et al., 2023). By synthesizing theoretical and empirical findings, it lays the groundwork for understanding the nuanced dynamics of digital integration in emerging markets like West Africa.

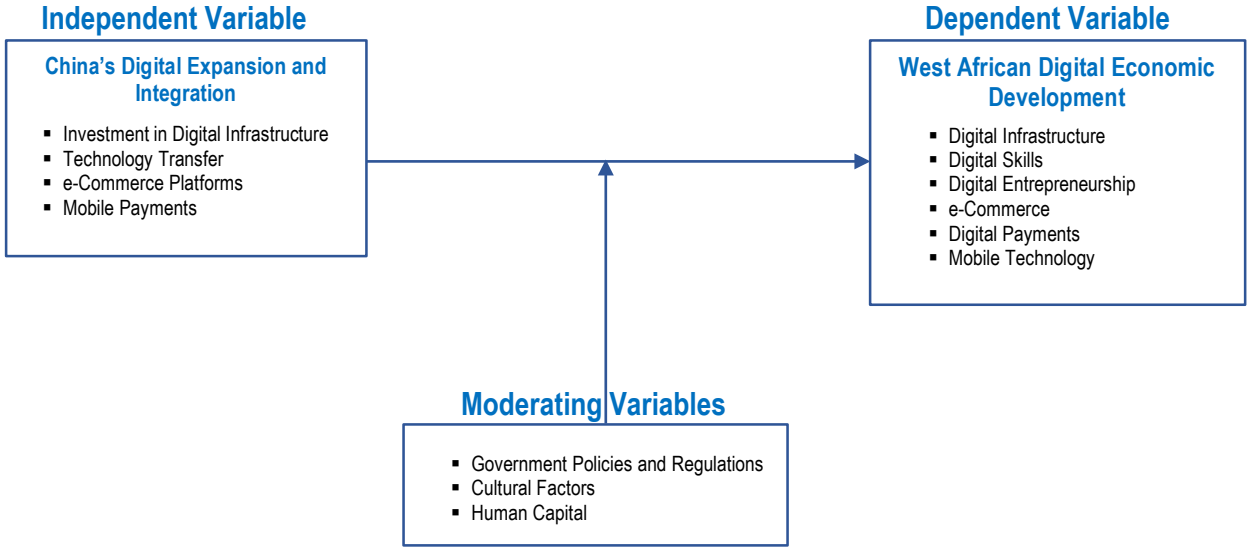
2.4 Conceptual Framework

The study quantitatively and qualitatively analysed China's digital expansion and integration on West Africa's digital economic development. Key factors that are strongly associated to influence China's digital expansion and integration in West Africa's digital economic development by highlighting the dependent (West African digital economic development which is measured by digital infrastructure, digital skills, digital entrepreneurship, e-commerce, digital payments, and mobile technology), independent (China's digital expansion and integration which is also measured by investment in digital infrastructure, knowledge and skills transfer, e-commerce platforms and mobile payments) and complementing

moderating (government policies and regulations, cultural factors and human capital) variables.

In a broader sense, these determinants will be juxtaposed with their role in the overall economic growth agenda of the economies of choice as displayed in Figure 1.

Figure 1: Conceptual Framework for China's Digital Expansion and Integration on West Africa's Digital Economic Development



3. Methodology

For this study on the impact of China's digital integration and expansion on West Africa's digital economic development, a mixed method research technique is applied. Data was gathered for the study at a single point in time, making it cross-sectional in nature. This study's design is appropriate because it enables investigation into the experiences and viewpoints of

digital economic development in determining the impact of China's digital expansion and integration in West Africa as of 2023.

3.1 Data and Method

The study employed a mixed-method approach, combining qualitative and quantitative data to examine China's digital integration and its influence on business and economic development in West Africa. Data were collected from four countries: Benin, Nigeria, Mali, and Ghana. The sample included 80 survey respondents and 10 interview participants, selected using a non-probability sampling method that combined convenience and snowball techniques. Convenience sampling ensured accessibility, while snowball sampling expanded participation through referrals, enabling the inclusion of individuals with relevant experiences as digital entrepreneurs. In this regard, all respondents for both surveys and interviews served as instrumental informants for this study. Qualitative data were obtained through semi-structured interviews, guided by the study's objectives. These interviews explored China's influence, drivers of digital economy participation, and associated challenges and opportunities. Each interview, lasting approximately 200 minutes, was recorded, transcribed, and thematically analysed. Complementing this, a structured survey gathered quantitative data using a Google Form questionnaire. The questionnaire was divided into four sections covering demographics, China's impact, challenges, and solutions, ensuring a robust analysis aligned with the research objectives.

Data collection instruments were carefully designed to maximize reliability and efficiency. The questionnaire employed email authentication to prevent duplicate entries, and was distributed via email and WhatsApp for broad accessibility. This integrated method ensured diverse and rich data, reflecting the perspectives of digital entrepreneurs while adhering to the study's time and budget constraints. This approach provided a comprehensive understanding of China's role in shaping West Africa's digital economy.

3.2 Reliability and Validity

The study integrates qualitative and quantitative data to examine digital entrepreneurship in selected West African countries, offering recommendations to enhance global digital competitiveness and economic growth. Rigorous methodologies, including semi-structured interviews, document analysis, content analysis, and thematic analysis, ensure the reliability and validity of findings (Leon et al., 2023). By capturing detailed perspectives on international competitiveness and economic development, the research provides valuable insights into fostering entrepreneurship (Ishtiaq, 2019). Careful participant selection and appropriate data collection methods further bolster the study's accuracy, paving the way for actionable strategies to advance digital innovation across the region.

3.3 Data Analysis

Both qualitative and quantitative data analyses were used to establish the data analysis methodologies for this project. Content analysis and thematic analysis were used for the qualitative data gathered through in-depth semi-structured interviews and document analysis. While thematic analysis involves identifying and categorizing the experiences and perspectives of how China's digital expansion has influenced integration into West Africa's digital economic development given digital entrepreneurs among the chosen West African countries, content analysis focuses on finding patterns, themes, and trends in the data.

Survey data was also collected to augment the data from the interviews. The data obtained from the survey using questionnaires were evaluated using inferential statistics to draw conclusions about the population. The SEM was used to explore the factors that influence the adoption or decision to participate in the digital economy of West African countries.

3.4 Ethical Considerations

The study adhered to strict ethical standards to ensure participants' rights, dignity, and well-being were upheld. Participants provided informed consent after understanding the study's objectives, methods, and their rights, including the freedom to withdraw at any time. Anonymity and confidentiality were guaranteed, with safeguards to prevent identifying participants in reports or publications, ensuring privacy and comfort in sharing their experiences (Creswell, 2014).

Cultural sensitivity was integral, respecting norms and beliefs across West African countries while addressing power dynamics with respect and dignity. Measures were in place to mitigate emotional discomfort, offering counseling or support resources if needed. The researchers prioritized the ethical use of findings, ensuring no harm to participants or their communities.

4. Findings and Analysis

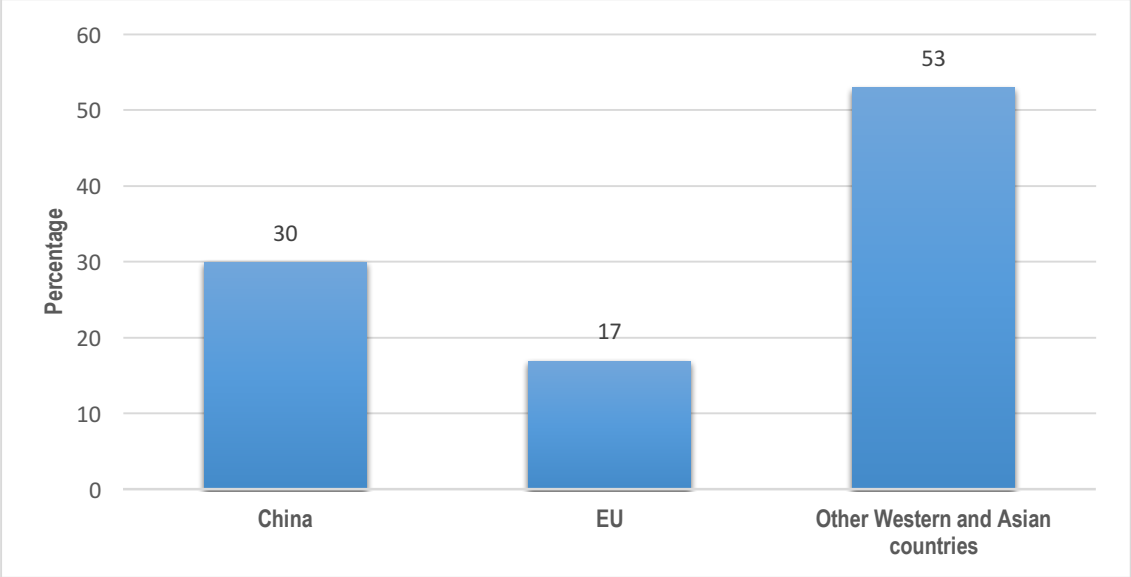
4.1. Nature and Extent of China's influence in West Africa digital economy

The study's first objective was to determine the extent of China's influence on the digital economies in West Africa. This was to help us have a comprehensive view of the role of China and its impact on the economies of choice under this study. We measured the influence and the nature of Chinese digital expansion in West Africa's digital economies space in two ways. First, from the perceptive opinion of the respondents, and second, the source of digital technology used by business owners thus various entrepreneurs of which survey data for the analysis below is sourced from respondents from google form (for instance, internet connection devices, phones, among others).

The source of technology used among the four selected African countries originated from the other Western and Asian countries with 53 per cent of all the business owners interviewed. China constitutes a high power

in the digital economy space of West Africa with about 30 per cent technology share. This has led to an ever-growing impact on the Chinese economy across the globe. This is supported by the general sentiment of analysis, of which 93 per cent of the business owners felt China is an immensely powerful player in the digital space and the digital economy of African economies. This finding is supported by Su, Tao and Wang, (2024) whose study findings revealed that China has massive influence in Africa's e-commerce and fintech. China's digital expansion and integration influence is also seen in the mobile technology businesspersons' use in the selected study area of which data is also sourced from google form questionnaire data.

Figure 2. Origin of technology used by businesses

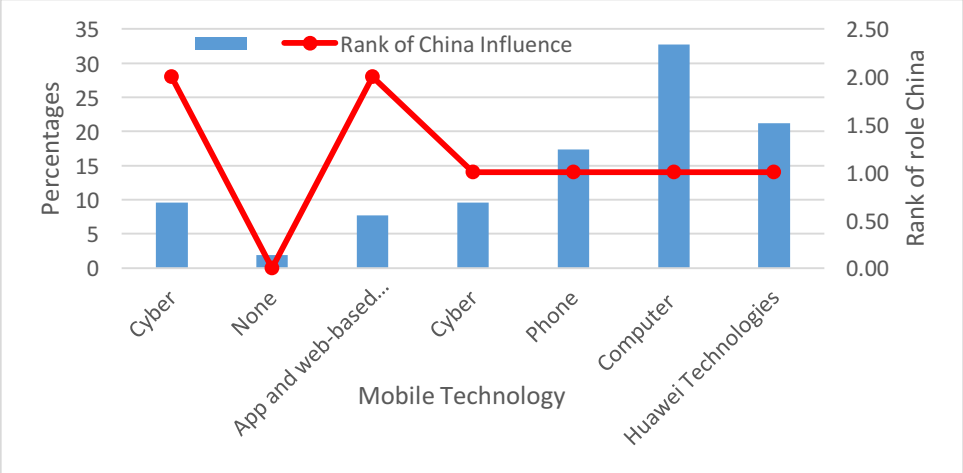


The results indicate that Chinese technology (Huawei Technology) plays a significant role in the digital space in West African countries as it ranked first on China's role or influence in the realm of digital expansion. Regarding computers and mobile phones, China is considered the major

player among business operators in West Africa. The result in Figure 3 further deepens the earlier results from the sentimental analysis of China's role in the African economies. This is no surprise as China has strived to achieve greater dominance in trade relations with Africa than the rest of the world.

To ensure an in-depth understanding of the nature and depth of the Chinese influence on digital expansion, the researchers conducted an interview on the power of China in the digital economy of selected West African economies captured under the study. The results of keywords extracted using the sentimental analysis reveal a general leaning of seeing China as a powerful player in the digital space of the West African economy. The results reveal than business owners and participants of the digital economy space see China as a dominant player. Using natural language processing, the results reveal that Chinese influence in the digital space in West Africa is gradually increasing, as shown in the figure below. The sentiment for rapid growth is about 0.75 out of a positive score of 1. It must be said that the general feeling or sentiment of China in the tech and digital space is positive.

Figure 3. Mobile technology used and ranking on China's influence



As mentioned by one of the respondents: "*Very powerful in my opinion because it's Huawei that control almost the whole telecommunication sector in the West African, making great impact I the economy of African countries.*"

Similarly, "*…most technological gadgets that are used in commercial transactions and other activities that help businesses are produced in China.*"

Thus, China is dominant in the West African (with emphasis on the selected economies of choice for the purpose of this study) digital economy space contributing to e-commerce, and providing technologies that allow for digital expansion and infrastructure development in West African economies.

Table 2. Sentiment around keywords on China's influence

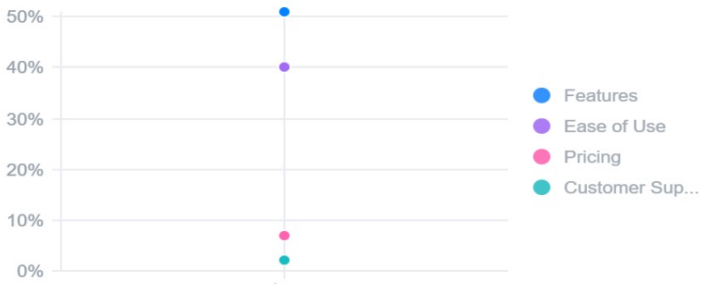
Detected Themes	Magnitude	Sentiment Score
Very Powerful	1.00	+1.000
Rapid Growth	0.99	+0.746
Great Impact	1.00	+0.730
Very Strong	0.94	+0.679
Control Almost Single	0.95	+0.613
Been Significant	0.75	+0.575
Every Household in Africa	0.60	+0.532
Everything in Africa	0.62	+0.528

4.2 Factors that affect the adoption of the digital economy

It is believed that positive sentiment affects the use and participation of any product or service that is available on the market. In the same view, this study examined businesses' sentiments toward using digital technologies. The results indicate a strong positive outlook on the ease of use of digital technologies and their features. Both ease of use and features of digital technologies scored above 90 percent on positive sentiment. Interestingly, the features and ease of use among the business community could affect

future adoption or participation in the digital economy space. Price or cost of implications ranked third among the four key factors identified from the responses received. The results support Kim's (2018) assertion that perceived ease of use and usefulness affect the adoption of digital platforms.

Figure 4. Percentage rank of factor based on sentiment



Most of the organisations that participate in the digital economy do so due to their ability to enhance the accounting systems of the organisation and operating systems. One key reason for adopting modern digital platforms, thus participating in the digital economy, is flexibility in operation and efficiency, ease of attracting business and being enterprising. Other minor factors included growth motives, digital inclusion, customer experience, and operating costs. Khuntia et al. (2024) point out the impact of digital transformation on the flexibility of an organisation whereas this flexibility improves the organisation's competitiveness. The reasons shown in the word cloud (see figure 6) are interconnected. For instance, improved accounting results to increase profitability. Ordinarily, digital transformation affects the systems and operations of an organisation, leads to efficiency, and creates more opportunities.

Figure 5. Reasons for adopting digital technology in business

4.3 Factors that affect the adoption of the digital economy

The SEM models use the partial least models on the determinant of participation in the digital economy. The results in Table 3 indicate a direct relationship between foreign investment and digital use. A business with foreign partners is more likely to have a parallel digital service, or part of reaching customers is done through a website or payment platforms. Thus, foreign ownership enhances business participation in the digital economy in West African economies. It was observed that males are more inclined to participate in digital use in their business than females. Education is found to be positively related to digital economy participation among selected West African economies. It was found that an increase in education by a year leads to an increase in digital economic participation by 0.15 percent. The results imply a positive association between years of education and digital economy participation. This result is intuitively accurate since an educated person is more likely to be exposed to digital technologies, understand how to use them and apply them to benefit business performance.

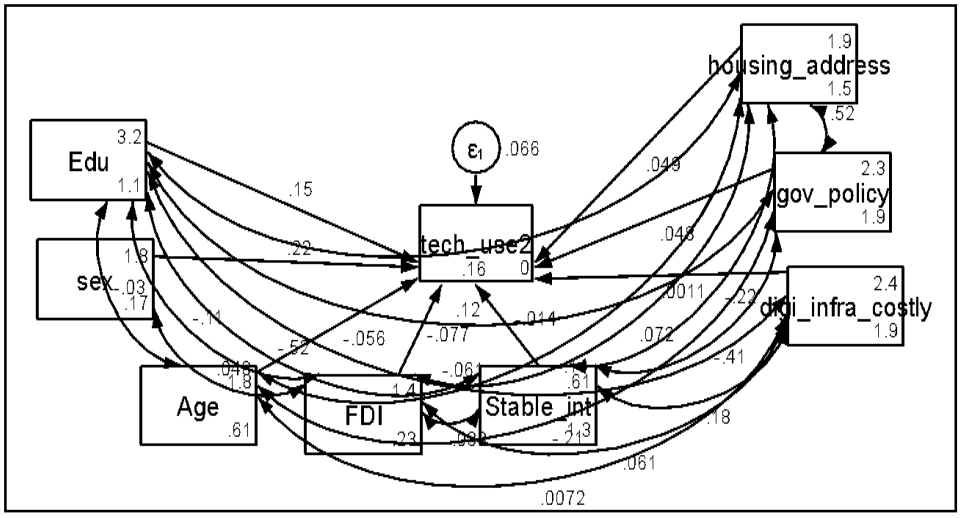
Another factor that was found to be statistically significant in the adoption of the digital economy is government policy. It was found that

government policy is important in influencing the behaviour of businesses in participating in the digital economy in the selected West African economies. Obviously, a favourable policy will lead to the expansion of the digital economy.

Table 3. Results of the SEM Analysis

Variable	β	err.	z	P>z
FDI	0.07711	0.025348	3.04	0.002
Sex	0.223187	0.039676	5.63	0.00
Age	-0.05632	0.027248	-2.07	0.039
Education	0.153816	0.017174	8.96	0.00
Stable interest	-0.0144	0.043946	-0.33	0.743
Digital infra cost	0.001082	0.012161	0.09	0.929
Government policy	0.047711	0.016494	2.89	0.004
Housing address	0.048895	0.018796	2.6	0.009

Figure 6. SEM model for factors that affect technology use



4.3 Challenges

The burgeoning digital economy globally cannot be said to be void of challenges. Commercial users of digital technologies face challenges related to the cost of digital technologies, trust and acceptance of digital technologies due to the low literacy levels among the selected West African economies.

The Table below presents the challenges that were outlined faced by businesses in the digital economy space. The first challenge was the lack of trust among customers for digitally operated businesses among the selected West African economies. In these ratings, the respondents were asked to rate the challenges facing digital economic participation. The ratings ranged from one to five; a rate of five represents that the statement does not relate to the challenges faced in the digital economy space in the selected West African economies. Out of those who have rated five, the mean response for lack of trust of e-services in the digital economy space of West African economies is neutral. The mean of 2.69 suggests some level of indifference to a lack of trust in e-businesses. The test of means shows a statistically significant mean for the lack of trust in e-services. This result defies the existing narratives in academic literature. For instance, Naatu, Naatu and Nassè (2025) pointed out the role of trust as one of the key factors in the future of e-commerce in Ghana.

Data privacy, or privacy, is seen as a major concern in the digital economy space in West Africa. This is corroborated by the results presented in Table 4.2.2. The Table shows a meaning of 2, implying that on average, data privacy is seen as a challenge. Privacy has been proven by numerous studies as a key driver (Alzaidi and Agag, 2022; Amofah and Chai, 2022). This implies that the digital economy in Africa would be affected due to the challenge with privacy or data privacy in the digital space of West African Economies. This is because digital privacy, or data privacy, concerns security and information protection. If this is not guaranteed, this may lead to dwindling or unsustainable growth in the digital economy space in the future.

Table 4. Challenges Faced by Business in the Digital Economy in West Africa

Items	Obs	Mean	Std. dev.	Min	Max	p-value
Lack of trust in e-services	80	2.698413	1.303035	1	5	0.00
digital literacy	80	2.492063	1.424135	1	5	0.00
Stable internet	80	2.238095	1.37623	1	5	0.00
Digital infrastructure	80	2.396825	1.397459	1	5	0.00
Government policy	80	2.253968	1.390849	1	5	0.00
Challenge regulation	80	1.951613	1.220419	1	5	0.00
Data privacy	80	2.032787	1.237837	1	5	0.00
Housing address	80	1.920635	1.222129	1	5	0.00

Stable internet connectivity drives the digital economy across the globe. Therefore, unstable internet connectivity will pose a challenge in the development of the digital economy in the ECOWAS region. The response from the data strongly indicates internet connectivity as a challenge among the selected ECOWAS member countries with a mean score of 2.2. The World Bank (2021) alluded same as it identified low network coverage and quality as one of the challenges facing digital access in the West African region.

One of the main challenges found from the results is the regulation gap. The average ranking of the regulation gap was found below 2 (1.9) and statistically significant at less than one percent. The results imply that businesses in the digital economy see regulation as a threat or challenge in the West African region. Indeed, one of the threats to digital economy, as pointed out by the U.S. Chamber of Commerce, is the unpredictable nature of regulations in Africa.

4.4 Solutions and Opportunities

The solutions to the challenges identified in the study were sought out through an interview section with the businesses from the selected West African economies. The results were grouped under the following three themes: issues on legal and regulatory, infrastructure and cost, and education and promotion.

Legal and Regulatory Issues and Policy. Generally, there is a lack of regulations that govern the digital economy space or at their infancy stage. However, the digital economy is rapidly evolving, and the page of regulations must be commensurate with the rapid changes. Respondent businesses acknowledge the need for regulatory frameworks for the operation of digital economy. As pointed out by a key informant, "there is the need for a strong data governance law to regulate what information can be shared." Issues related to privacy are the major concerns among the business community. In addressing this, it was pointed out that there is the "need for industry-government/lawmakers' joint efforts to come together to bring out workable and applicable laws and frameworks to govern the digital space among selected economies in West Africa."

On the policy level, one respondent put it like this: "Government should give attention to the promotion of digital economy by setting up institutions that would research better ways of doing e-commerce in the ECOWAS region." Thus, there is the need for academia and business players to be supported to find a better way of addressing the existing challenges in the digital economy space. The understanding of the dynamics of the security treats, privacy, and other concerns may be obtained by a conscious collaboration led by government.

Infrastructure and Cost-Related Issues. According to the World Bank, digital economy thrives on four pillars. One of the four is digital infrastructure. Infrastructure for digital economy at an affordable rate is considered key to the participant of the research. A participant of the study said, "Government should provide subsidy to support small and medium enterprises (SMEs) to have access to internet service for the digital economy". Another participant suggested that there is a need for the development of critical infrastructure for digital economic transformation to take place. In other words, the provision of data warehousing, cloud computing services, stable internet, among others, are necessary for digital transformation.

Education and Training/promotion Issues. One obvious solution to the existing challenges in the adoption and participation in the digital economy in West Africa is education, training and promotion of digital technologies. All SME

owners interviewed were unanimous about the role of education and training on digital economies. Once owners and entrepreneurs are trained in digital technology usage, it is easy for them to participate in the digital economy space. Making educational programs on digital economies available to SME.

Governments and Public Perception of China's Digital Infrastructure. In Benin, Nigeria, Mali, and Ghana, governments largely perceive China's digital infrastructure drive as a transformative lever for economic diversification and governance efficiency. Initiatives such as Nigeria's *National Digital Economy Policy (2020–2030)* and Ghana's *Smart Governance Framework* reflect alignment with China's Digital Silk Road vision. Public reception, however, reveals nuanced contrasts, while over 68 per cent of urban dwellers commend improved connectivity and digital inclusion, scepticism persists regarding data privacy and technological dependence. In Benin and Mali, state actors welcome digital investments as catalysts for institutional modernization, yet civil society warns of sovereignty erosion. This duality illustrates Africa's delicate balance between opportunity and autonomy in the digital age.

5. Conclusion and Recommendations

This study explored China's influence on the digital economy in selected West African economies, highlighting key challenges and opportunities. Using a mixed methods design, data were collected from 80 SME owners, and advanced models analysed factors driving the adoption of digital technologies. Findings revealed China's significant role in shaping digital economic development, from supplying technology to active involvement in digital markets. Key adoption factors included cost, education, literacy levels, gender, functionality, and flexibility of technology applications. However, challenges such as trust issues in e-commerce, internet accessibility, infrastructure costs, and security concerns were prominent.

The findings underscore the need for trust-building in digital activities through robust legal frameworks and cybersecurity protocols. Governments should foster SME training on digital technologies, reduce internet access costs,

and lower platform usage fees to ease participation in the digital economy. Partnerships between governments, fintech players, and Chinese stakeholders could facilitate technological and managerial spill overs, benefiting SMEs. Strengthening national cybersecurity and privacy frameworks would attract foreign investment, enhance trust, and mitigate fraudulent activities, laying a foundation for sustained growth.

Policy recommendations emphasize leveraging China's dominant role in digital development to create mutually beneficial frameworks between China and West African governments. Strategies include enhancing diplomacy and fostering environments that promote training, collaboration, and the adoption of digital technologies. Addressing infrastructure challenges and ensuring equitable access to the digital economy remain critical for maximizing economic potential in the region.

Although the study provides valuable insights, it lacked sector-specific analysis. Future research should examine industrial diversity and sector-specific challenges to deepen understanding. Expanding the sample size and exploring the conditions necessary for technology adoption would inform policymakers of the minimum requirements for advancing digital integration. This approach would support strategic decision-making, ensuring that digital economies in West Africa achieve inclusive and sustainable growth.

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Notes

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Subnational Agency and the BRI: Guizhou's Strategic Activism from the Periphery

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Abstract

This study examines how the provinces unmentioned in the Belt and Road Initiative (BRI) in its initial stage respond to their marginalized position. Using Guizhou as a case study, this article shows that Guizhou did not passively accept this position, but actively sought integration into the BRI by creating development opportunities and strategic space. These efforts received positive feedback from the central government and resulted in tangible economic gains. The study concludes that exclusion from the original BRI national plan does not necessarily deprive provinces of development opportunities. Instead, outcomes depend on provincial strategic activism and the resulting positive central-local interaction. These findings contribute to a deeper understanding of the implementation and practice of China's national strategy and foreign policy.

Keywords: *China's subnational diplomacy, Belt and Road Initiative, China's foreign relations, China's central-local interaction*

1. Introduction

China's Belt and Road Initiative (BRI), proposed in 2013, is an important strategy that aims to create a new development pattern focused on domestic and international dual circulation through interconnection with countries along the

BRI. However, it cannot be successfully implemented without the active participation of China's provinces. Therefore, in March 2015, China's National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce jointly issued the Vision and Actions for Promoting the Silk Road Economic Belt (SREB) and the 21st Century Maritime Silk Road (MSR) (henceforth referred to as the Vision and Plan document) to mobilize provinces in support of the initiative.

Many border and coastal provinces were included in the BRI blueprint and given important strategic positioning. For instance, Xinjiang was expected to utilize its unique geographical advantages to become a key gateway to the west, building the core area of the SREB, while Fujian was designated to form the core area of the MSR. On the other hand, Guangxi was to become a significant gateway connecting the MSR and the SREB, while Yunnan was to focus on economic cooperation in the Greater Mekong subregion, becoming a center that radiates toward South Asia and Southeast Asia (Ministry of Foreign Affairs of the People's Republic of China, 2015).

Although some provinces were not explicitly mentioned in the BRI, their representative cities were designated as important "node cities," including Chengdu, Chongqing, Changsha, Zhengzhou, Nanchang, Hefei, Qingdao, and Yantai. However, four provinces were not referenced in the national plan, namely Hebei, Shanxi, Jiangsu, and Guizhou. This raises an important question: did these provinces passively accept their marginal position, or did they actively seek to create opportunities for development within the national strategy? Thus, this paper examines how such provinces, with Guizhou as a representative case, responded to their marginalized position. Through this perspective, this article contributes not only to a deeper understanding of provincial activism within China's unitary political system, but also to new insights into the implementation and practice of China's national strategy and foreign policy.

Additionally, it should be clarified that, in this article, "marginalization" specifically refers to the situation faced by these provinces that were not mentioned or granted significant strategic positioning in the Vision and Plan document, particularly inland provinces. These provinces did not receive similar

policy and financial support from the central government as those given to border or coastal provinces under the BRI framework. Furthermore, "activism" refers to the agency exercised by these marginalized provinces to reposition themselves as active participants within the BRI. Accordingly, positive central-local interaction is understood as the policy feedback generated when local strategies align with central priorities, including verbal recognition, and policy and financial support. Conversely, misalignment is reflected in negative dynamics such as limited recognition and weaker policy responses.

This article is divided into five main parts. It begins with a literature review of the role of Chinese provinces in foreign relations and the BRI. Next, it justifies why Guizhou was chosen as a case study over the other three unmentioned provinces in the BRI blueprint. Subsequently, the strategies Guizhou utilized in response to its marginalized position are discussed, along with the outcomes on Guizhou's activism. Finally, the main findings and the article's contributions to both policy practice and the literature on Chinese subnational diplomacy are summarized, while discussing the applicability of the Guizhou experience to other marginalized provinces.

2. A Review of Provinces in China's Foreign Policy and the BRI

Chinese provinces' participation in foreign affairs stemmed from the reform and opening up that began in 1978. With the transfer of financial and managerial autonomy from the central to provincial governments, the provinces obtained an institutional guarantee to participate in foreign affairs, thus enhancing their enthusiasm and initiative. An asymmetric decentralization process, in which the coastal provinces started earlier while other domestic provinces lagged behind, enabled the eastern coastal provinces to take the lead in the internationalization of the local economy and the participation in foreign affairs (Chen, 2016). As a result, these eastern coastal provinces, including Guangdong (Goodman & Feng, 1994), Fujian (Long, 1994), Shanghai (Lampton, 2001; Zhu, 2016) and Shandong (Kim, 2007), have drawn the attention of scholars.

From the 1990s to around 2010, the provinces' participation in foreign affairs entered a rapidly developing phase. As the reform and opening up continued to progress, China's strategic focus began to move from initially the coastal provinces to the central and western areas, providing an opportunity for inland provinces and border regions to participate in foreign cooperation. Moreover, during this stage, a series of important subregional cooperation mechanisms, such as the Tumen subregion cooperation and the Greater Mekong subregion cooperation, were gradually built and improved.

This prompted the border provinces from northeast, northwest, and southwest China to participate in the regional cooperation to varying degrees. They actively participated in foreign affairs, effectively cooperated with China's overall diplomatic work, and became important participants, executors, and promoters of China's foreign affairs, demonstrating an elevated level of enthusiasm. For example, Yunnan and Guangxi have actively "gone global," becoming important players in China's participation in neighboring subregional cooperation. Thus, these border provinces, such as Yunnan (Colin, 2013; Summers, 2012, 2013), Guangxi (Li, 2014), and Xinjiang (Clarke, 2003; Mackerras & Clarke, 2009), have also attracted much scholarly attention.

China's proposal of the BRI in 2013 has provided new opportunities and impetus for their provinces' international participation. In order to promote the BRI, the central government has employed a more proactive opening strategy, fully utilizing the comparative advantages of different regions, and giving a clear strategic division of labor to the northwest, southwest, northeast, and coastal provinces. This naturally requires provinces to utilize their external affairs functions and promote foreign exchanges and cooperation.

Nevertheless, many provinces rely on their own geographical advantages to formulate local plans to serve the overall plan of the BRI. Therefore, Summers (2016) believes that the BRI is rooted at the subnational level of government, making it necessary to analyze it from a network perspective that takes into account the relationships between the national and provincial governments, the government and enterprises, and domestic and foreign countries.

Additionally, the continued promotion of the BRI has transformed the relationship between the central government and provinces to a certain extent, with the former placing greater expectations on the latter's international participation (Wang, 2017), resulting in more strategic and significant subnational diplomacy. This has also led to a boom in scholars focusing on the Chinese provinces' roles in the BRI (Li, 2019; Liu & Song, 2021; Mackerras, 2015; Mierzejewski, 2020, 2021; Summers, 2021; Tubilewicz, 2017; Wong, 2018).

Some scholars have also focused on the competition and cooperation among provinces as they actively promote the BRI for their local benefit. Mierzejewski (2021) argues that the BRI has brought provinces up to the international stage in terms of domestic competition. Chen et al. (2017) and Gong (2021) point out that cooperation among local provinces is essential for promoting the BRI, particularly in the development of cross-provincial infrastructure connectivity, which requires the collective coordination of multiple provinces, as demonstrated by the New International Land-Sea Trade Corridor (ILSTC) (Li & Yang, 2024).

However, whether focusing on the role of provinces or the relationship among them, current research has mainly centered on coastal and border provinces that are strategically positioned under the BRI, as well as relatively developed inland provinces, such as Chengdu and Chongqing in western China. There is little research on the provinces unmentioned in the BRI blueprint, particularly how they cope with and respond to their marginalized position. This article aims to fill this gap by examining whether marginalized provinces respond negatively or positively to their exclusion from the BRI national plan, and if positively, what strategies they employ to pursue opportunities for local development.

3. Case Selection

In this article, Guizhou Province was selected as the case study because it is more representative of marginalized inland provinces lacking geographical

advantages under the BRI than Jiangsu, Hebei, and Shanxi. To clarify this choice, a brief comparison with the other three unmentioned provinces is necessary.

In 2015, Jiangsu was second only to Guangdong in the total Gross Domestic Product (GDP) ranking of China's provinces, and its infrastructure, such as sea and land connectivity, is relatively complete. Additionally, as one of the eastern coastline provinces, its trade and economic cooperation with neighboring nations is rather developed. Although it was not given a strategic position, it has nevertheless become an important participant in the BRI development. On the other hand, with the Beijing-Tianjin-Hebei Development Outline proposed by the central government in 2015, Hebei was positioned to depend on this strategic plan to solve its development issues, rather than relying on the short coastline for development opportunities (Gov.cn, 2015). As for Shanxi, due to the fact that its leadership group has just undergone adjustments and changes in recent years, its development trend still needs to be further clarified.

Guizhou is the only western province unmentioned in the BRI plan. From a geographical viewpoint, Guizhou is not along the coast, the river, or the border. It is indeed not along the main routes of the BRI. After Chongqing, the New Silk Road travels northward through the five northwestern provinces into Central Asia, while the 21st Century MSR mainly involves the coastal provinces. Guizhou is consequently located neither close to the SREB nor the MSR (see Figure 1). However, in terms of economic development potential, although the total GDP of Guizhou in 2015 was far less than that of Sichuan, Chongqing, Guangxi, and Yunnan, it was higher than that of Xinjiang, Qinghai, Gansu, and Tibet. This shows that its level of economic development is not the lowest among China's western provinces. Moreover, Guizhou has gradually formed its own advantageous industries, with a good momentum for development. The basic economic conditions are in place in favor of the BRI integration. Hence, the activism of the Guizhou provincial government could make all the difference, with the key being changing its disadvantaged geographical situation into a new positioning within the BRI.

Therefore, Guizhou was selected for study as a province that may not have geographical advantages but has development potential. This study examines

Guizhou's response to its marginalized position within the BRI, and the extent of its activism for development opportunities. This will not only provide insights for other Chinese inland provinces with no obvious comparative advantages to actively integrate into the BRI, but also expand understanding on the implementation of China's national strategies and foreign policies within its unitary political system.

Figure 1. Map of China's provinces

Note: *Official map released by the Ministry of Natural Resources of the People's Republic of China*

4. Guizhou's Strategies for BRI Integration

Before the BRI blueprint was officially issued in 2015, Guizhou had actively sought the opportunity to be integrated into the national plan. On March 5, 2015, at the National People's Congress, Guizhou's officials advocated building an economic channel and promote the construction of key development platforms (The proposal from a member, 2015). However, this failed to attract the central

government's attention. Then, on March 28, Guizhou ultimately became the only western Chinese province that was not included in the BRI blueprint.

The think tank scholar Zhu Keli points out that, based solely on the contents of the BRI plan, Guizhou seemed to be excluded, which was understandable as Guizhou is indeed not strategically located in relation to the BRI. However, from the perspective of national strategic spillover, Guizhou had potential because the provinces and economic zones around it were included in the BRI national planning. Therefore, the premise of Guizhou's turnaround is that it must demonstrate initiative in its own industrial development and in promoting regional economic cooperation (Li & Song, 2015).

Guizhou's provincial governor at that time, Miner Chen, also emphasized that Guizhou should cultivate new growth points in the opening-up, and actively take part in the implementation of national strategies such as the BRI and the construction of the Yangtze River Economic Belt (YREB). By accelerating the construction of external channels, open ports, and comprehensive bonded zones, Guizhou would aim to become a new highland for the open economy in the western inland region (Li & Song, 2015). This indicates that Guizhou did not passively accept its marginalization under the 2015 BRI blueprint, but instead actively sought opportunities and development space to integrate into the BRI (Shuanglong Airport Economic Zone Media Convergence Center, 2024).

4.1 Constructing Traffic Channels

Guizhou's focus on constructing comprehensive traffic channels represents a deliberate exercise of provincial agency to overcome its initial marginalization. Recognizing its latent geographical position as the closest hinterland corridor between the starting points of the SREB (Chongqing) and the 21st Century MSR (Beibu Gulf/Guangzhou), Guizhou proactively formulated the strategic concept of opening up towards the border, the

river, and the sea (Zhou, 2019). This was not merely an infrastructure plan but a conscious effort to redefine its spatial identity from a disadvantaged inland province to an indispensable land-sea logistics hub within the International Land-Sea Trade Corridor (ILSTC). The subsequent developmental efforts were all directed towards materializing this strategic vision.

The concrete initiatives highlight this strategic alignment. By 2022, Guizhou had established 25 expressway corridors radiating toward all major national economic regions, and built a national high-speed rail hub connecting major regions. These projects systematically dismantled internal and external geographic barriers. Crucially, Guizhou complemented these arteries with innovative logistics nodes that demonstrated strategic entrepreneurship. The construction of China's first comprehensive bonded international dry port in Guiyang was a masterstroke, solving the lack of port functions by creating an inland hub that linked the ILSTC with the China-Europe Railway Express. Similarly, the pioneering "one bureau, four centers" aviation complex was designed to amplify the spillover effects of its international aviation hub, promoting integrated passenger and cargo development (Guizhou Provincial Development and Reform Commission, 2021). Each project simultaneously enhanced local connectivity and forged specific, tangible links between the SREB and MSR networks.

Consequently, Guizhou transformed from a passive, landlocked hinterland into an active connective node—a critical intersection for the China-Europe Railway Express and the China-Laos Railway within the BRI's western corridor. In short, Guizhou did not wait for its role to be assigned; it actively constructed the traffic channels that gave it a new and indispensable "spatial coordinate" within the BRI framework (Figure 2). This demonstrable initiative and strategic blueprint formed a critical foundation for garnering subsequent central recognition and support.

Figure 2. Map of the new international land-sea trade corridor

Source: Li and Yang (2024)

4.2 Developing the Big Data Industry

Guizhou also made a strategic pivot to the big data industry, transforming latent natural advantages, such as stable geological structure, cool climate, and abundant energy, into a cornerstone for its integration into the BRI. This move represented a deliberate act of strategic positioning. By daring to pioneer breakthroughs in cross-field integration and multi-sector applications, Guizhou actively created an ecosystem that attracted societal and corporate participation. Its leadership in establishing foundational institutions, such as the first National Big Data Comprehensive Pilot Zone, the Guiyang Gui'an Big Data Industry Development Cluster, and the world's first big data exchange demonstrates a top-down, government-led model of industrial innovation designed to claim first-mover advantage in a nationally strategic field (Liu et al., 2017).

This concentrated effort to build a nationwide and globally serving big data industrial cluster has yielded transformative results (The State Council of the People's Republic of China, 2022). Guizhou's digital economy growth, which has led the nation for eight consecutive years, is a direct outcome of this agency (Fei,

2024). More importantly, it has fundamentally reshaped Guizhou's developmental trajectory and external perception. The industry has made Guizhou a hotspot for investment, talent, and industrial development, enabling it to carve out a unique developmental path distinct from both eastern and other western provinces. This successful self-reinvention enhanced the province's profile and provided a tangible, high-value proposition to central planners.

Consequently, the big data industry evolved from a local initiative into Guizhou's pivotal gateway to the BRI. It provided the foundation for Guizhou to actively align with and contribute to the national Digital Silk Road (DSR) agenda. Initiatives such as exploring a DSR trade port, promoting the "Eastern Data and Western Computing" project, and building critical computing infrastructure are no longer passive responses but proactive bids to supply essential digital public goods for international cooperation.

The presence of global and national leaders, such as Huawei Cloud, China Power Guiyang Institute, and Guizhou Baishan Cloud, which have expanded their services worldwide from this base, validates Guizhou's success as a digital hub. By fostering these enterprises and committing to further digital transformation, Guizhou is no longer just participating in the DSR; it is actively shaping a segment of it, thereby securing an indispensable role within the broader BRI framework through demonstrated competence and strategic foresight.

4.3 Actively Integrating into Internal Regional Cooperation

As an international cooperation initiative, the BRI requires not only local provinces' international engagement, but also enhanced interprovincial connectivity and cooperation; Guizhou accomplished this with a deliberate strategy of multi-directional regional embeddedness. Recognizing that meaningful participation requires robust internal connectivity, Guizhou leveraged its position amidst the BRI key nodes to construct a multi-layered cooperative network with neighboring provinces, thereby expanding its developmental agency and strategic relevance.

To the south, Guizhou's activism is evident in its drive to become a functional extension of major economic engines. Its participation in the ILSTC and infrastructure projects like the Guinan High-Speed Railway with Guangxi were foundational steps. More strategically, its investigation of policy models commonly described as "Greater Bay Area Headquarters + Guizhou Base" and "Greater Bay Area Research + Guizhou Manufacturing", represents an agentive move to institutionalize a complementary relationship with the Guangdong-Hong Kong-Macao Greater Bay Area, actively crafting a role within a national growth pole (The State Council of the People's Republic of China, 2022).

To the east, Guizhou's integration into the Yangtze River Economic Belt (YREB) transcends passive industrial transfer. By coupling ecological stewardship in the upper Yangtze with targeted industry attraction, securing over 2,000 projects worth 100 billion RMB since 2021, Guizhou practiced strategic selectivity. It attracted industries (e.g., advanced manufacturing, big data) that aligned with its own developmental goals, thereby sharing the YREB's dividends, while amplifying its own status in national regional strategies.

To the north, cooperation with the Chengdu-Chongqing Economic Circle (CCEC) showcases how local initiative intersects with central endorsement. Guizhou's push for connectivity, materialized in projects like the Chengdu-Chongqing-Guizhou Circular High-speed Railway, created tangible linkages (Ministry of Foreign Affairs of the People's Republic of China, 2016). This groundwork was subsequently recognized and elevated by central policy, as seen in the 2022 State Council Opinions that explicitly encouraged Guizhou-CCEC collaboration (The State Council of the People's Republic of China, 2022), illustrating how provincial action can shape and justify higher-level support.

To the west, the partnership with Yunnan highlights Guizhou's agency in leveraging a neighbor's international gateway status. As early as September 2013, a framework agreement was signed by Guizhou and Yunnan to strengthen their collaboration in the areas of industry, transportation, environmental protection, and opening up to the outside world. And the opening of the Yunnan-Guizhou-Lancang-Mekong Line of the international freight train in December 2023 was an important breakthrough in deepening the cooperation between Guizhou

and Yunnan. This freight train was strategically utilized by Guizhou to directly access Southeast Asian markets, driving local industry and transforming its geographic position from an inland province to an international conduit (The inaugural international freight train, 2023).

In summary, Guizhou's regional engagement was a calculated exercise in network-building agency. By systematically integrating itself into the development frameworks of all surrounding key regions, Guizhou did not just seek connections, but also it made itself a connective node within China's domestic economic geography. This comprehensive internal integration strengthened its hand, providing a credible platform and enhanced standing from which to engage the broader BRI.

4.4 Building Platforms for Foreign Exchanges

Guizhou established and sustained flagship events such as the Guizhou China-ASEAN Education Exchange Week, the Guiyang International Forum on Ecological Civilization, and the China International Big Data Industry Expo, Guizhou did not merely create venues for dialogue, but it actively built dedicated stages to demonstrate its evolving identity as an ecological pioneer, a digital innovator, and an educational hub.

These platforms were not created in a vacuum, and each emerged from Guizhou's sustained local exploration and accumulation of expertise in corresponding fields. This conscious transformation of endogenous resource advantages into institutionalized platforms for opening-up reflects a sophisticated form of provincial activism. For instance, after four years of provincial-level forums, the elevation of the ecological forum to an international stature in 2013 signals how local practice, when demonstrably successful and aligned with national priorities, can garner central endorsement and be scaled into a nationally recognized instrument of soft power.

Similarly, the Big Data Expo grew from a local initiative into the world's first and foremost industry benchmark, illustrating how Guizhou leveraged its first-mover advantage in big data to claim leadership in a globally relevant field.

These platforms collectively served as strategic tools: they systematized cooperation with the BRI countries in ecology, education, and technology, while also raising Guizhou's profile to become a must-visit destination for international delegations. Ultimately, this portfolio of self-established platforms underscores a key argument: through deliberate institutional entrepreneurship, Guizhou has not only broadened its channels for openness but has fundamentally reshaped its own standing from a peripheral participant to an acknowledged convener and node within the BRI's international network.

5. Outcome of Guizhou's Positive BRI Integration

While this study highlights Guizhou's proactive agency as a critical driver of its integration into the BRI and subsequent development, it is important to contextualize this agency within a broader analytical framework. The observable outcomes, such as enhanced central support and improved economic performance, are likely the result of a confluence of factors, rather than stemming from provincial activism alone. This success was fundamentally enabled and amplified by a strategic convergence with overarching national priorities during the same period.

Specifically, Guizhou's push for infrastructure integration and inter-regional cooperation aligned closely with the national imperative for coordinated regional development. This was central to China's goal of building a moderately prosperous society in all respects by 2020, which required the uplift of underdeveloped regions. Simultaneously, its decisive pivot to the big data industry astutely capitalized on the national strategic push for *informatization* and digital transformation. Therefore, Guizhou's activism proved effective precisely because it skillfully aligned with these higher-level strategic priorities and structural shifts. This synergy transformed provincial initiatives from local appeals into compelling cases for central endorsement, thereby strengthening the positive central-local interaction, as observed in this case.

5.1 Recognition and Support from the Central Government

The series of recognitions and strategic endorsements Guizhou received from the central government constitutes a direct, iterative response to its demonstrated provincial agency, effectively formalizing a cycle of positive central-local interaction. This process began with high-level rhetorical validation. For instance, at the 2016 Guizhou Global Promotion Conference, Foreign Minister Wang Yi declared that Guizhou was becoming a new force in the national opening-up by relying on its BRI connective line (Hu, 2019). This statement did not inspire Guizhou's geographical strategy but legitimized and amplified the spatial identity the province had already been actively constructing through its infrastructure campaigns.

Subsequently, this recognition was institutionalized through concrete policy designations that systematically codified Guizhou's local endeavors into nationally sanctioned frameworks. In 2017, the State Council listed the China-ASEAN Education Exchange Week as an important platform for people-to-people ties under the BRI (Luo, 2017). This was followed by the National Development and Reform Commission's Master Plan for the New Land-Sea Corridor in 2019, which enshrined Guiyang as an indispensable node of the national corridor connecting the SREB and MSR (The State Council of the People's Republic of China, 2016). This planning document formally ratified the very logistical role Guizhou had been striving to materialize, illustrating how local strategic vision can become embedded in national spatial policy.

Beyond recognition, the central government provided enabling frameworks that both rewarded past activism and empowered future agency. The 2016 approval to establish the Guizhou Inland Open Economic Pilot Zone was pivotal. Its guiding document explicitly tasked Guizhou with exploring new paths for inland provinces in the opening-up and ecological-economic integration (The State Council of the People's Republic of China, 2016), thereby translating Guizhou's localized efforts into a state-endorsed experimental role.

Concurrent approvals as a national big data pilot zone and an ecological civilization pilot zone further provided the policy toolkit and legitimacy for Guizhou

to deepen its chosen niche specializations. Then, in January 2022, the State Council issued a document encouraging Guizhou to forge a new development path in the new era, and positioning Guizhou as a "new highland for the inland open economy" and a "digital economy development innovation zone" (The State Council of the People's Republic of China, 2022).

This positive central-local interaction is even more pronounced in the arrangements of key cadres. The central government's deployment of leading cadres with specific backgrounds to Guizhou represents a form of targeted capacity building that is highly aligned with the province's autonomously chosen industrial development direction. Taking Chen Gang as an example, his work experience in Beijing's Zhongguancun science hub was a precise match for Guizhou's strategic choice to develop its big data industry. After assuming his post, he swiftly facilitated the establishment of the Zhongguancun Guiyang Science Park and organized industry promotion conferences in Beijing, directly accelerating the implementation of the local strategy (Zhou, 2017).

Such personnel deployments are not coincidental but considered strategic by the central government to support pivotal provincial agendas. Similarly, top officials such as Zhao Kezhi and Miner Chen, with their rich experience in eastern coastal provinces, leveraged their personal networks, such as their close ties with Alibaba, to bring crucial external resources and visibility to Guizhou's big data industry (Sohu, 2017). As a result, Alibaba's strategic cooperation with the Guizhou provincial government in big data has also led other globally renowned companies to settle in Guiyang and establish core data centers, promoting the continuous convergence of data resources from all over the world to Guiyang. Jack Ma has also repeatedly expressed his appreciation and recognition of Guizhou, further enhancing the visibility of Guizhou's big data development (Sohu, 2017).

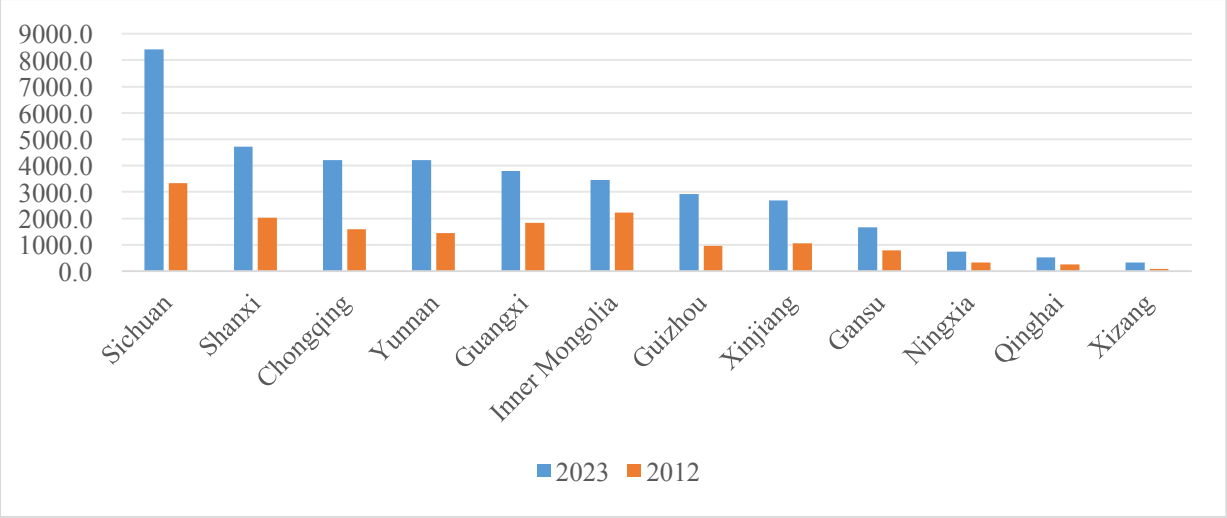
Therefore, from the strategic designation as the new highland for the inland open economy to the meticulous configuration of its leadership team, these measures collectively constitute a virtuous cycle of reinforcement: provincial agency-central recognition-resource feedback-capacity enhancement. Through its activism, Guizhou provided feasible local solutions and pilot

experiences for major national strategies, such as coordinated regional development and the DSR. The central government, in turn, acknowledged, upgraded, and integrated these solutions into the national narrative through policy authorization and personnel support. This process profoundly demonstrates that, within China's developmental governance, sustained local activism that is aligned with national strategy serves as the core mechanism through which a region reshapes its position within the national framework and secures central support.

5.2 Economic Achievements of the BRI Integration

Through its proactive strategies to integrate into the BRI, Guizhou not only enhanced its openness but also translated its efforts into measurable and superior economic performance, thereby validating the efficacy of its approach and strengthening its case for continued central support. Among the western provinces, Guizhou's GDP ranking rose from 9th in 2012 to 7th in 2023, steadily closing the gap with provinces like Inner Mongolia and Guangxi.

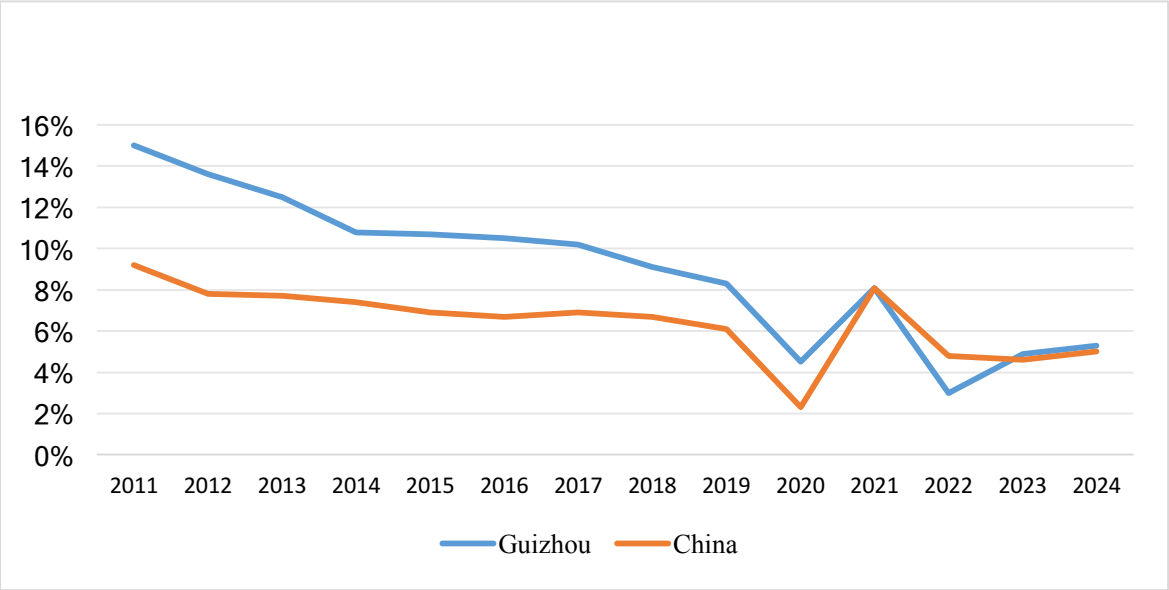
Figure 3. Comparison of GDP of Chinese western provinces and cities in 2012 and 2023 (US 100 million)



Source: China Statistical Yearbook (2013-2024)

This relative advancement is a direct outcome of leveraging its strategically crafted position as a BRI connective node and its dual focus on outward and inward connectivity. Consequently, before the COVID-19 pandemic, Guizhou's GDP growth rate consistently surpassed the national average, ranking among the highest nationwide (Guizhou's GDP growth rate, 2021). This is a clear indicator that its localized initiatives were generating competitive returns within the national framework.

Figure 4. Comparison of GDP growth rate between Guizhou and China (2011-2024)

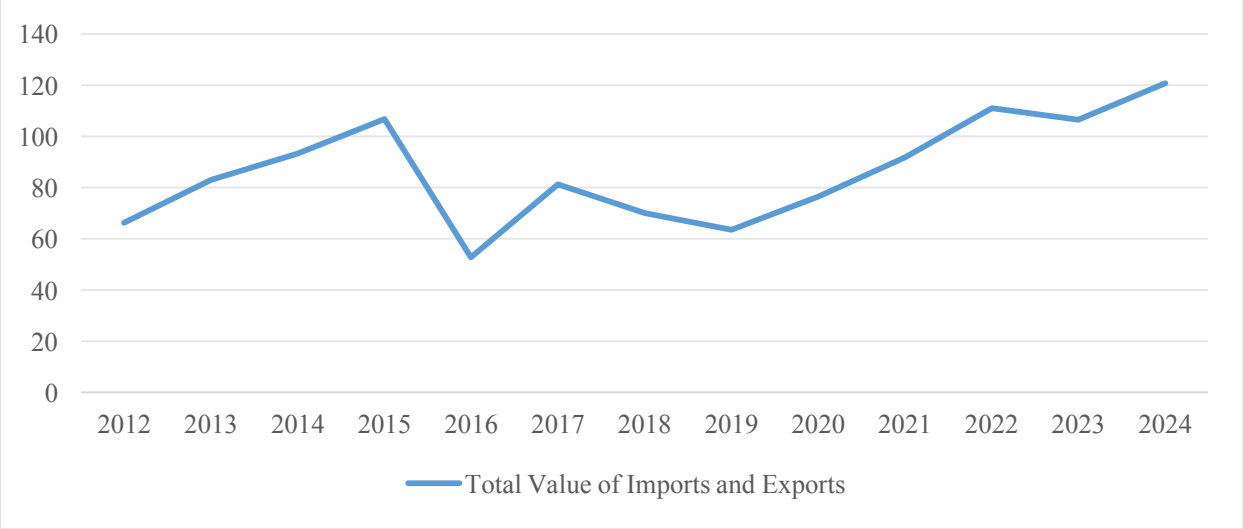


Source: Guizhou Provincial Bureau of Statistics, Guizhou Statistical Yearbook (2012-2024), and China Statistical Yearbook (2012-2024)

The materialization of its infrastructure vision, particularly in linking the SREB and the MSR, has directly catalyzed a structural shift in Guizhou's economy, evidenced by robust foreign trade growth. Since 2019, Guizhou's import and export trade has expanded rapidly, with a striking 13.5 percent year-on-year increase in 2024 (Figure 5), far exceeding the national growth rate of 5 percent (The State Council Information Office of the People's Republic of China, 2025;

Guizhou Provincial Bureau of Statistics, 2025b). This performance is not merely quantitative but qualitative, marked by a continuous optimization of its trade structure. The 77.4 percent surge in exports of high-value products, such as lithium batteries, electric vehicles, and solar cells, demonstrates how Guizhou's earlier bet on big data and advanced manufacturing is now paying off in global markets, aligning with, and contributing to national industrial upgrading priorities ("Guizhou Province's exports", 2025).

Figure 5. Total import and export volume of Guizhou Province from 2012 to 2024 (US 100 million)



Source: Guizhou Provincial Bureau of Statistics

Furthermore, the rapid expansion of Guizhou's foreign trade geography vividly illustrates the province's success in operationalizing its BRI connectivity. A range of "Made in Guizhou" products are reaching new international markets for the first time, directly utilizing the corridors it helped build. In 2024, Guizhou enterprises independently exported potatoes to Vietnam through Pingxiang Port in Guangxi, while cold-rolled aluminum products were exported to the Middle East. New energy buses were exported to Laos, while gastrodia wine from Bijie City in the province was exported to Russia. Furthermore, the energy and mineral

manufacturing products of Liupanshui City were exported to Laos through Mohan Port in Yunnan (Guizhou's foreign trade made solid progress, 2025a). These diverse, targeted exports are not random successes but the direct fruition of Guizhou's multi-directional logistical integration and platform diplomacy. In short, the vigorous development of Guizhou's trade with the BRI countries serves as tangible, empirical proof that its proactive agency has effectively redefined its economic trajectory and solidified its role within the broader BRI framework.

6. Conclusion

This study examined how initially marginalized provinces within the BRI can actively reshape their developmental trajectories, as demonstrated by the case of Guizhou. The findings reveal a dynamic and proactive form of local agency, whereby Guizhou articulated and implemented a multi-faceted strategy for integration.

This included constructing traffic channels to reposition itself as a logistical hub linking the Silk Road Economic Belt and the 21st Century Maritime Silk Road; specializing in the big data industry to become a key node in the DSR; pursuing internal integration with major regional cooperation mechanisms such as the Yangtze River Economic Belt and the Greater Bay Area; and establishing practical international platforms for exchange. This concerted local activism triggered a positive central-local interaction, ultimately receiving recognition and policy support from the central government.

Consequently, Guizhou's experience demonstrates that initial exclusion from a grand national strategy can be overcome through deliberate local activism, transforming geographical disadvantages into connective advantages and fostering a distinctive development path. Thus, it offers a transferable strategic framework for other underdeveloped inland provinces in China, highlighting the potential of local agency to navigate and leverage national policy frameworks for local development.

The emphasis on infrastructure-led integration, especially prioritizing cross-regional traffic channels, is a universally relevant lesson for landlocked provinces

seeking to overcome geographical isolation. Similarly, the leapfrogging into a niche high-tech sector (big data) demonstrates how underdeveloped provinces can exploit latent advantages to cultivate new economic identities, a strategy that is applicable to provinces with resource potentials.

However, the replicability of Guizhou's success depends on several contextual factors. They include the level of aligned national policy support, the presence of unique local assets (like Guizhou's climate for data centers), and the province's capacity to integrate with existing economic hubs. Therefore, while the strategic framework provides a successful model, its effectiveness hinges on careful adaptation to local conditions and the capacity to leverage unique provincial assets within the national policy landscape.

This study is conducive to a deeper understanding of the implementation and practice of China's national strategy and foreign policy. It has shown that even provinces marginalized in blueprints like the BRI are not permanently excluded by the central government. Provinces possess and can exercise significant agency to actively strive for local development. As the Guizhou case illustrates, marginalized provinces can successfully carve out opportunities and space within grand national strategies, provided their local policies and initiatives demonstrably align with the central government's overarching developmental philosophy and strategic direction. Thus, it refines existing understanding of China's policy implementation, highlighting the co-constitutive role of proactive localities in defining the pathways of national strategies.

Moreover, this study contributes to the scholarly debates on Chinese political economy and subnational diplomacy. Within China's unitary political system, significant policy flexibility and space for local initiative can be actively carved out by subnational actors themselves. The findings challenge simplistic portrayals of passive local compliance, instead revealing a more dynamic process of central-local interaction. Guizhou's experience underscores that grand national strategies like the BRI are not merely implemented through top-down directives, but are substantively shaped and interpreted from below. The province's success in securing central recognition was predicated on its ability to

strategically align its local initiatives with broader national priorities, thereby presenting itself as a credible and valuable partner in achieving those goals.

Notes

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Impact of US-China Trade Tensions on Chinese Firms' Investment in Europe

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Abstract

The escalation of United States (US)-China trade tensions has heightened uncertainty within global supply chains and prompted Chinese companies to reassess and reconfigure their international investment strategies. Based on panel data from Chinese enterprises spanning 2004 to 2024, this study employs a Logit fixed-effects model to empirically examine whether trade frictions have accelerated Chinese firms' investments in European countries. The findings reveal that trade tensions significantly increase the likelihood of Chinese firms investing in Europe. Notably, this effect is more pronounced among private enterprises, high-tech firms, export-oriented companies, and those located in the eastern coastal regions. The results suggest that Chinese companies are actively pursuing market diversification and risk mitigation through cross-border investments, reflecting the profound influence of institutional conflicts between nations on the internationalisation pathways of Chinese enterprises.

Keywords: *US-China trade tensions, Chinese enterprises, foreign direct investment, Europe, global value chains*

1. Introduction

The vehement surge of trade dispute between the United States (US) and China has taken place globally since 2018 and finally came to a confirmation in April 2025 by the White House concerning the application of tariffs in China products totalling 145 per cent. This is something that has resulted in one of the most significant international economic tussles in our 21st century. High tariffs, technological blockade measures and investment restrictions, the said trade confrontation has made the restructuring of global supply chains an irreversible trend. It is against this context that the tactics of the Chinese firms to internationalise have had to change in a major way. This is especially even in the face of increasingly proliferating stories of so-called "decoupling" and "reduction of risks" coupled with rising geopolitical uncertainties, which have seen the diminution of the long-regnant US-centric overseas investment paradigm. Europe on the other hand has been a key alternative, and this is because of the stable environment of institutions as well as the fact that the market is exceptionally large and thus more and more Chinese capital has been attracted to it.

At the same time, the global value chain configuration is also experiencing dramatic changes. The move to regionalisation and multipolarity has become more enhanced and a preference in firms is no more shifting towards the attachment of a singular market, but varied global portfolio, thus making them stronger in adapting to things when faced by macroeconomic shocks. Interestingly, there has been a significant spurt in the direct investments of Chinese companies in Europe, particularly in the emerging strategic sectors like the electric cars, battery, green power and manufacturing digitalised industries. Chinese companies are working with a faster pace to localise services and production in them thus creating a regional re-embedding strategy focusing on the European Union. The given phenomenon triggers an extremely important and scholarly-rich question: Is the US-China trade friction one of the driving factors that make Chinese companies even more likely to start making more direct investments in Europe? Moreover, do these effects vary across different enterprise characteristics, industry sectors, geographic regions, or ownership structures?

This study aims to systematically evaluate the influence of US-China trade tensions on Chinese firms' outward direct investment (ODI) in Europe, with a focus on the heterogeneity of effects at the firm level. Building upon existing literature, the study seeks to address two notable gaps: first, the paucity of empirical research specifically examining European destinations in the context of US-China trade disputes; second, the lack of systematic evidence on strategic differences among several types of Chinese enterprises navigating toward Europe. While prior scholars such as Horst (1972), Helpman (1984), and Blonigen (2002) have highlighted the potential "stimulating effects" of trade barriers on firms' overseas investments, these studies predominantly focus on capital flows among developed nations and insufficiently explore how emerging markets adjust their global strategies under trade friction pressures. Recent studies—such as Goulard (2020), who analysed the spill-over effects of US-China trade tensions on the EU; García-Herrero et al. (2020), who examined structural shifts in EU-China investment relations; and Ding et al. (2022), who investigated how Chinese firms strategically respond to external frictions—offer valuable insights that inform and enrich the foundation of the analysis in this paper.

2. Literature Review

Most existing literature examines the impact of trade tensions on outward FDI from two primary perspectives: tariffs and non-tariff barriers. However, whether escalating trade tensions serve as a catalyst for increased corporate outward FDI remains a contentious issue within academia. Some scholars argue that heightened trade frictions directly incentivise firms to expand their overseas investments. According to the Heckscher-Ohlin factor endowment theory, cross-border capital flows are influenced by tariff barriers or high transportation costs. Research indicates that, in industries with capital-intensive import sectors, imposing prohibitive tariffs or substantial additional charges tends to elevate the prices of imported goods. This, in turn, raises the returns for domestic export-oriented industries that heavily rely on specific factors, thereby stimulating international investment until factor price equalisation is achieved between

trading partners. Early theories on outward FDI, such as Horst (1972), posit that firms engage in foreign investments as a means to circumvent trade barriers. Today, although traditional trade restrictions like tariffs have gradually diminished due to active multilateral negotiations, non-tariff barriers—particularly anti-dumping cases—continue to proliferate. Helpman (1984) contended that firms pursue overseas investments to open new markets beyond domestic borders, thereby alleviating the adverse effects of trade barriers. Empirical evidence from Japanese firms' responses to US anti-dumping sanctions supports this view, "illustrating how trade barriers such as tariffs and anti-dumping measures have historically spurred Japanese firms to invest abroad," especially in countries with substantial market sizes. For example, analyses of Japanese manufacturing firms' overseas investments reveal that when host countries possess large markets, trade frictions can significantly motivate firms to undertake outward FDI as a means of overcoming barriers (Barrell, 1999). Furthermore, Haaland and Wooten (1998), utilizing oligopoly models, "empirically demonstrate that anti-dumping measures in importing countries induce foreign firms to invest directly in those markets to evade trade restrictions". Similarly, Blonigen (2002) finds that anti-dumping actions in the US substantially stimulate EU firms to increase their investments in the US market. When anti-dumping measures raise export costs for exporting firms, and these costs surpass the costs associated with establishing foreign production, firms are more likely to respond with outward FDI.

Institutional economics helps to get useful knowledge on how firms move to alter their international investment approaches in light of external shocks like trade controversies. North (1990) believed that the influence of the institutions is great in the formation of economic behaviour and choices in decision making because they change incentives and transaction costs of the firms. Specifically, the variation in institutional set ups, including the level of transparency in the regulatory regime, the consistency and predictability in policy formulation and the willingness to allow foreign investors, also has dramatic impact on the choice of location by multinational corporations (Acemoglu et al., 2005). Considering the uncertainty in institutional context that has been influenced by the US-China trade tensions, the Chinese enterprises will most likely shift their investment in areas that

have sound institutional conditions as a way of diversifying against the risks of policy unpredictability. The comparatively transparent regulatory environment and developed market institutions that can be found in Europe in this regard can then serve as a more predictable alternative and, therefore, potentially have a higher amount of Chinese direct investment inflows.

Geoeconomically, it is possible to explain the changing trends of Chinese investments additionally based on the concept that Blackwill and Harris (2016) present by stating that the modern international affairs are getting more and more influenced by economic power and investment preferences. With the rising geopolitical tension, nations and businesses tactically employ the economic means to wring economic and political benefits like foreign direct investments. Therefore, the fact that Europe is an ally as well as a competitor to the US economically brings in distinct dynamics that can be favourable to the Chinese companies that are interested in gaining strategic advantage by investing in specific areas. It is a geoeconomic incentive that supplements economic factors and can help understand the importance of strategic actions to geopolitical shocks.

In addition, the GVC restructuring lens advanced by Gereffi and Fernandez-Stark (2011) states that external shocks such as war of trades are forcing companies to re-evaluate their lead positions in the global production networks and thus, they strategically locate and shift their investments. The supply chains that are currently in position are likely to be distraught under the connotation of trade tension by larger economies, which prompts the firm to diversify their production bases in a bid to achieve stability, efficiency, and competitive advantage. An environment with a high level of advanced infrastructure, highly skilled labour & workforce, and an environment that encompasses technology systems, particularly in Europe, offers the Chinese firms that are mostly dependent on high-tech inputs and advanced manufacturing an excellent position to integrate into highly advanced parts of the global value chains, which further supports the notion of changing the strategic orientation of such firms into European markets.

On the other hand, there is a group of researchers that say that the escalation of trade tensions fails to stimulate outward FDI. For instance, Belderbos (2004) argues that companies that attempt to resist trade barriers often employ two primary strategies, namely constructing factories in the country that enforces such barriers or constructing factories in third nations that is not affected by barriers. Some researchers question the universality of the hypothesis that trade frictions invariably induce outward FDI. Smith (1987), for instance, posits that trade tensions do not necessarily lead to increased foreign investments. Firms engaged in international trade may choose to expand their overseas operations to mitigate trade barriers, and this behaviour could benefit all exporting firms within the same market. Due to externalities and varying firm-specific conditions, not all firms respond uniformly to trade barriers with outward FDI. Factors such as the host country's business environment, transportation costs, import tariffs, and the firm's transferability of cost advantages play crucial roles. For example, when the host country's economic growth leads to increased domestic demand, especially in sectors competing with imported substitutes, this can result in higher import volumes, potentially causing trade deficits. Such deficits might prompt the host country to seek protectionist measures, including anti-dumping investigations, particularly if the domestic industries face significant competition from foreign firms. As noted by Zaijunping and Guo Xiaojing (2011), trade imbalances between China and its trading partners often lead to stricter trade remedies, which raise Chinese exporters' costs. When trade friction targets Chinese labour-intensive industries, firms face limited options for circumventing barriers—either withdrawing from the market or investing in countries with lower labour costs to evade anti-dumping measures. Zhang Xiangwei and Long Xiaoning (2018) further highlight that China has experienced a higher volume and broader scope of trade frictions with developed countries compared to other emerging economies. Data from the World Trade Organisation (WTO) indicate that over the past two decades, the majority of trade sanctions against China originated from advanced economies, accounting for roughly 25 per cent of all trade disputes faced by China globally. Moreover, the average number of anti-dumping investigations initiated against Chinese exporters surpasses that of other developing nations, often resulting in

substantial tariffs imposed on Chinese exports. In summary, while some scholars support the view that trade tensions serve as a stimulus for outward FDI—particularly through mechanisms like market-seeking motives and barrier evasion—others emphasise that such relationships are conditional and influenced by a complex interplay of firm-specific, industry, and country factors. The debate remains active, reflecting the nuanced realities of international trade and investment dynamics in an increasingly complex global economic environment.

3. Theoretical Mechanisms Linking US-China Trade Tensions and Chinese ODI in Europe

3.1 Relationship Between ODI and International Trade

The relationship between overseas investment and merchandise trade fundamentally reflects the ongoing movement of factors and goods across national borders, highlighting a close interconnection. Several typologies delineate the relationship between international trade and outward FDI: substitution, complementarity, and compensatory investment.

First, trade and overseas investment can act as substitutes. Based on Mundell's (1957) classical international trade theory, which examines the linkage between commodity trade and the cross-border flow of production factors, "empirical and theoretical studies suggest that product trade and foreign investment can substitute for each other". Within the "neoclassical trade" framework, the assumption is made that the movement of production resources across borders occurs without cost. Under these conditions, imposing prohibitive tariffs that hinder free trade between countries causes disparities in the prices and returns of production factors domestically. Consequently, this leads to cross-border flows of production factors. As these factors move across borders, the differences in their prices and returns tend to diminish, eventually equalizing across countries and resulting in similar product prices. Further, research indicates that restrictions on merchandise trade will stimulate international investment activities, serving as an alternative mechanism to mitigate trade friction referred to as tariff-induced investment.

Second, trade and outward FDI can also exhibit a complementary relationship. Markusen (1983), modifying classical models, assumes that countries differ in their production techniques. His findings show that product trade and foreign direct investment are mutually reinforcing. In this model, countries possess identical production resources, but due to technological differences, each specialises in producing different comparative advantage goods. International trade fosters increased production of these comparative advantage products, leading to divergent factor remuneration rates across countries. When factors are allowed to move freely, they tend to flow toward countries offering higher returns, further enhancing comparative advantages. Consequently, both countries expand their production and export their comparative advantage goods, while importing goods in which they are comparatively less efficient. This transfer of production factors across borders amplifies the scale of international trade. Markusen (1985), incorporating additional complexities such as differences in production technology, market distortions, monopoly structures, taxation, and external economies of scale, confirms that product trade and FDI maintain a mutually reinforcing relationship.

Third, there exists a compensatory relationship between trade and outward FDI, especially from a political economy perspective. Trade frictions often induce outward investment as a mechanism to reduce or mitigate tensions. Such investments can serve as substitutes for merchandise trade, potentially easing trade barriers, and alleviating trade tensions. Bhagwati et al. (1987) analyses this dynamic within a two-country, two-factor, two-good model, focusing on government interventions in compensatory outward investments. Similarly, Dinopoulos et al. (1986) explore how firms' foreign investments can help mitigate potential trade barriers, "considering the impact on welfare in both the home and host countries". Two primary forms of compensatory FDI are identified: first, governments encouraging domestic firms to invest abroad to reduce trade deficits and pre-empt protectionist measures; second, firms in oligopolistic markets undertaking overseas investments to counteract foreign competitors' market share and curb import penetration, thereby diminishing the likelihood of trade protection.

3.2 Mechanisms Through Which US-China Trade Tensions Affect Chinese ODI in Europe

Trade tensions tend to elevate the costs for domestic exporters. When these increased costs surpass the expenses associated with establishing foreign operations, firms, driven by profit maximisation motives, are more inclined to pursue outward FDI. Multinational corporations (MNCs) often undertake overseas investments to alleviate the pressures stemming from trade friction. Specifically, increases in the effective and nominal tariffs in the importing country can incentivise firms to expand abroad to circumvent these barriers (Horst, 1987). However, the feasibility of using outward FDI as a strategic response hinge on certain conditions. It depends on the host country's market environment, transportation costs, actual tariff levels, and the firm's relative competitive advantages within the host country (Campa et al., 1998). When a host country's economic growth boosts domestic demand, especially in sectors competing with imports, the probability of MNCs deploying overseas investments to counteract trade frictions rises—particularly if the domestic import-substituting industries weaken their competitiveness.

The impact of US-China trade tensions on Chinese outward FDI towards Europe include: first, trade frictions significantly increase the likelihood of Chinese firms investing in European markets; second, given the substitutive relationship between trade and FDI, restrictions on free trade heighten cross-border movement of production factors, leading to an increase in overseas investments aimed at circumventing trade barriers; third, trade frictions raise the prices of goods traded between China and the US, reducing bilateral trade volumes; and concurrently, China's trade volume with other partners increases. Consequently, China may respond by expanding FDI in other countries to produce goods for export to the US, thereby offsetting the adverse effects of trade barriers. This investment transfer effect results in a decline in China's direct investments in the US while boosting investments in other nations. Fourth, there are tensions in trade, which relate to growth in trade movements amidst China and other nations. The

complementary relationship existing between international trade and outward FDI together with the improvement in the growth of trade with third countries ensures that the Chinese outward investment increases in those regions. Comprehensively, the US-China trade tensions play the role of a stimulus in refocusing global investment plans of Chinese companies with specific emphasis in transferring investment to other markets, e.g., in Europe, in order to reduce the exposure to risk and to leverage emerging opportunities.

The recent years saw some alterations of the European Union investment policies that have been of immense value in informing the Chinese firms on the aspects of investing in the region. However, most importantly, the actualisation of a single FDI Screening Regulation in the EU, which was fully implemented in October 2020, has resulted in an increased level of scrutiny of prospective investments into the EU in the area of crucial infrastructure, high-tech capabilities, and national security-related considerations. This rule carries considerable implications of the Chinese investors considering that the EU is getting concerned about technology transfer and the economic vulnerability to foreign state-owned corporations. Germany, France, and Italy are amongst other countries that have stepped up their national screening levels, which are an indication of the increased geopolitical wariness of the EU to Chinese investments.

Nevertheless, these increased policy limitations have also seen different reactions among member countries, which has ensconced a subtler environment with ambiguity. Countries of Central and Eastern Europe such as Hungary or Poland that have the economic development as the primary goal of their activity are generally maintaining a relatively hospitable approach and are actively trying to attract Chinese investments with provisions of incentives and favourable local policies. Therefore, the Chinese firms are positioning themselves quite well to change emphasis of investment in a jurisdiction in the EU, preferring territories that are politically open, those that have good conditions in terms of regulations, as well as economically beneficial, thus illustrating flexibility and strategic capability to adapt to changing EU policy environments.

Besides, it is vital to note that there is much institutional variation across Europe itself which determines the locational decisions of Chinese firms and their

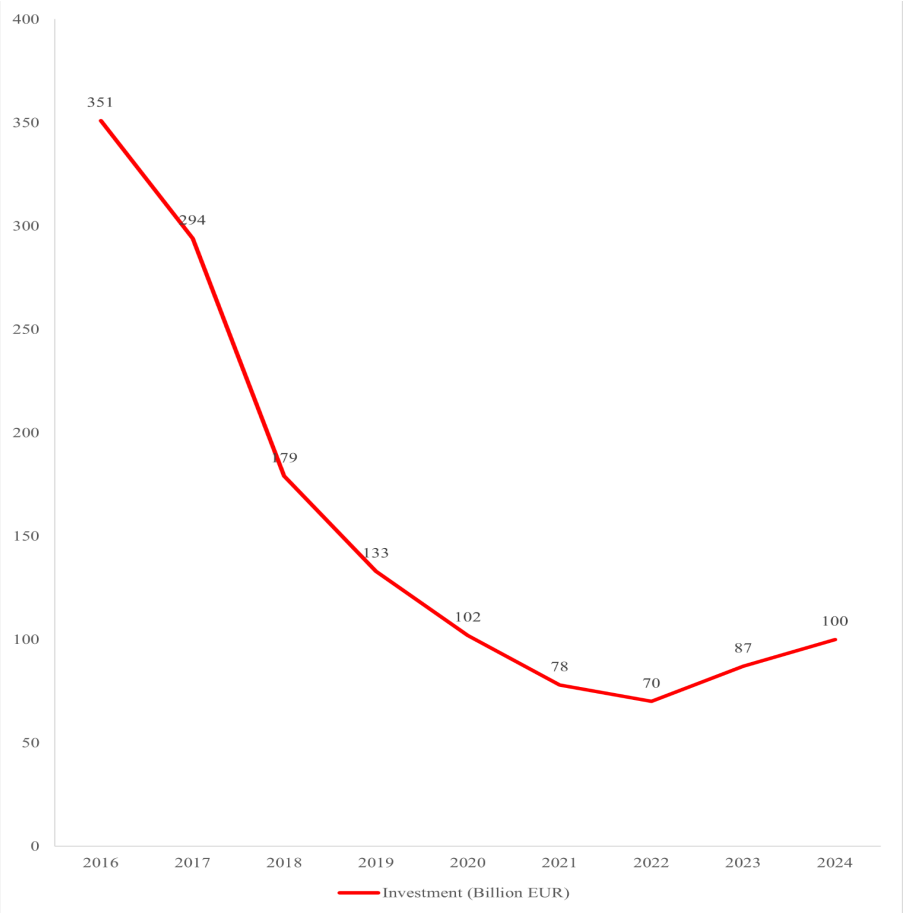
strategic investment patterns. Although the Western European economies from the major countries, like Germany and France, provide advanced industrial ecosystem, high degree of regulation and developed consumer markets, which are above the interests of technology-intensive firms, they have developed, on the other hand, strict investment screening procedures representing the aggravated political nepotism. Conversely, Central and Eastern European (CEE) countries such as Hungary, Poland, and Czech Republic offer relatively more strategic regulatory environment, friendly government policies towards investment and cheaper costs of operations, and can thus be used as an entry gateway into the Russian market. To illustrate these proactive policies, the example of Hungary and its policies toward major investments (generous investment subsidies, streamlined administrative procedures, etc.) should be given since it has always been under big Chinese investments like electric cars and electronics manufacturing. As a result, these intra-European disparities matter to form a complete picture of the investment relocation caused by US-China trade disputes because Chinese firms are pursuing opportunity against regulatory costs across a variety of economies in the European single marketplace.

4. Overview of Changes in Chinese ODI Towards the European Union

The Chinese outbound investment environment has been dramatically changed since the emergence of the US-China trade clash in the year 2018. With the increased export controls on high-tech items, significant tariff increases, and the growth of geopolitical uncertainties occurring especially in the last few years, the investment of Chinese companies in the US has been extremely blocked. Many export-oriented companies have been compelled to adjust their global strategic layouts to mitigate risks. In this context, the EU has gradually emerged as a strategic alternative, demonstrating its substitutional and strategic value within China's broader "re-globalisation" trajectory. In 2024, China's direct investment in the EU and the UK reached €10 billion", representing a 47 per cent year-on-year increase. This marks a remarkable rebound, the first since 2016, signalling the end

of a seven-year decline and highlighting renewed corporate confidence in the EU's relatively stable institutional environment.

Figure 1. China's direct investment in the EU (2016-2024)

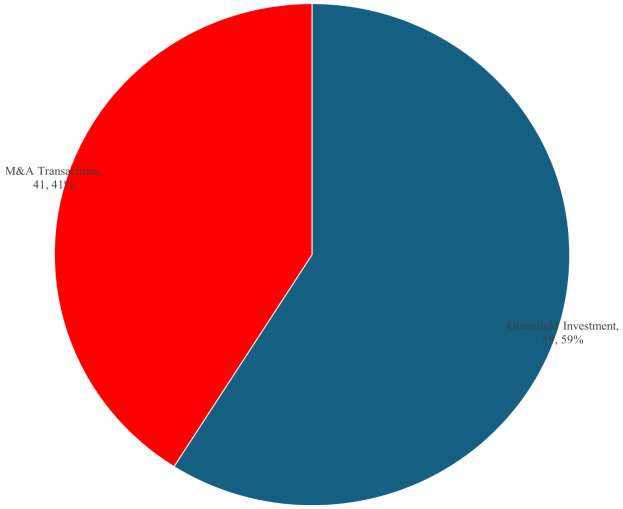


Source: Rhodium Group, MERICS, and the Go Global Navigator

In terms of investment modalities, Chinese outbound investment in Europe exhibits a dual structure characterised by greenfield investments leading the rebound and a resurgence of Mergers & Acquisitions (M&A) activity. In 2024, greenfield projects accounted for €5.9 billion, constituting 59 per cent of total Chinese investment in Europe, serving as the primary driver of the recovery. These investments are concentrated primarily in strategic emerging sectors such as

electric vehicles, batteries, clean energy, and digital manufacturing, reflecting Chinese firms' strategic intent to develop autonomous industrial chains and achieve localised operations in international markets. For example, CATL's new giga-factory in Thuringia, Germany, and BYD's vehicle manufacturing base in Hungary are capital-intensive projects with clear long-term strategic significance, also fostering deep integration into regional supply chains. Meanwhile, M&A activity has also begun to rebound, with total acquisitions reaching €4.1 billion in 2024, an increase of over 114 per cent. Cases such as Tencent's acquisition of Polish game developer Techland and Haier's purchase of Carrier Benelux's cold chain assets exemplify Chinese firms' active resource integration across key sectors within the EU, illustrating a restored sense of confidence and a strategic push to expand brand and technological influence.

Figure 2. Structure of Chinese Direct Investment in the EU (2024)

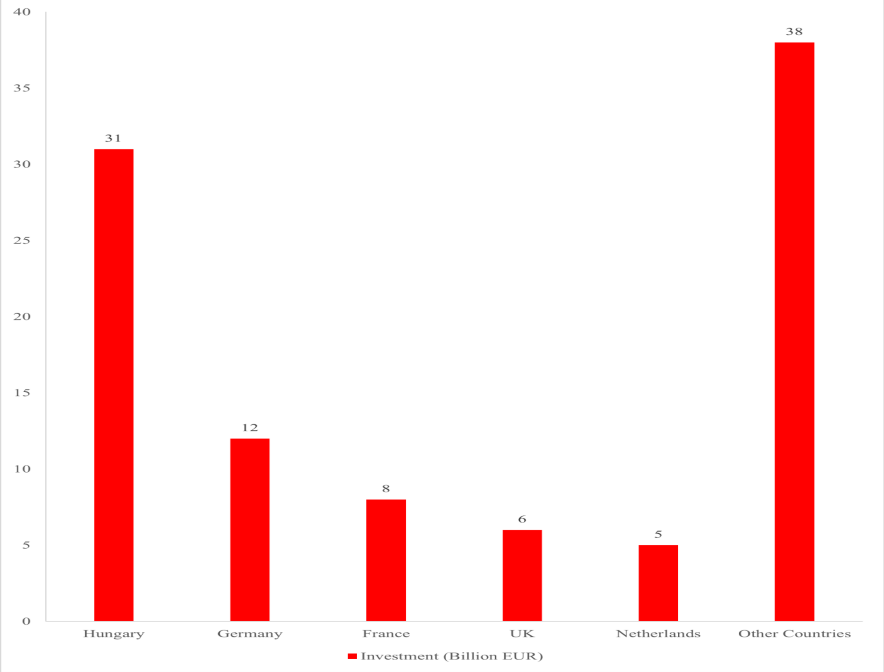


Source: King & Wood Mallesons and the Go Global Navigator

Geographically, the structure of Chinese outward investment into Europe is undergoing notable shifts. In 2024, Hungary emerged as the leading recipient with €3.1 billion, accounting for 31 per cent of China's total EU investments—significantly surpassing Germany (€1.2 billion), France (€0.8 billion), and the UK (€0.6 billion) combined. This trend indicates a decline in traditional investment

destinations, which are increasingly constrained by prohibitive costs and stricter foreign investment reviews. Conversely, emerging Central and Eastern European countries such as Hungary, Poland, and the Czech Republic are rapidly gaining prominence. Hungary, in particular, has become a focal point in the electric vehicle supply chain, with firms like CATL, BYD, and Xingwangda establishing substantial operations, with total investments exceeding €10 billion. These countries benefit from relatively lower regulatory barriers, favourable policies, and advantageous access to the EU market, positioning them as new strategic hubs for Chinese capital in Europe.

Figure 3. Country Distribution of Chinese Investment in Europe (2024)

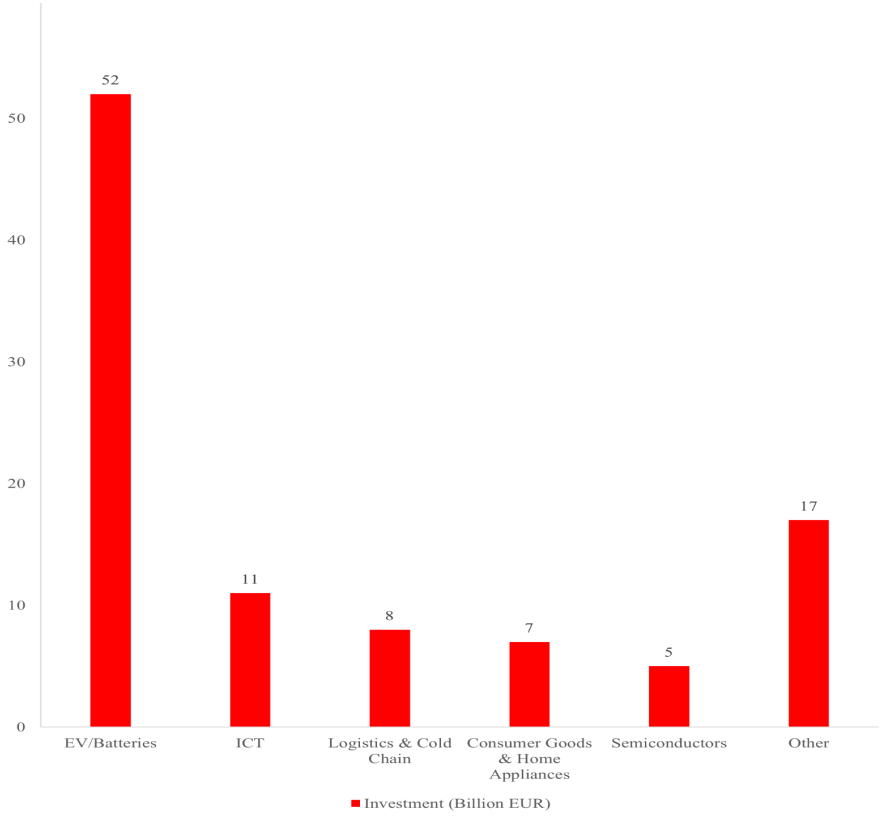


Source: King & Wood Mallesons, Rhodium Group, and the Go Global Navigator

In terms of industrial sectors, Chinese investment in Europe in 2024 remains highly concentrated in electric vehicle and battery manufacturing, with total investments reaching €5.2 billion, representing 52 per cent of overall Chinese investment in the region. Notably, greenfield projects dominate this sector,

accounting for 83 per cent, underscoring the commitment to long-term, localised production. Other significant areas include information and communication technology (€1.1 billion), logistics and cold chain infrastructure (€0.8 billion), consumer goods (€0.7 billion), and semiconductors (€0.5 billion), reflecting a trend toward diversified and technologically advanced investment portfolios.

Figure 4. Sectoral Breakdown of Chinese Investment in the EU (2024)



Source: King & Wood Mallesons and the Go Global Navigator

Overall, the evolution of Chinese outbound investment in Europe is characterised by three distinct features: first, a shift from traditional manufacturing toward high value-added sectors such as electric vehicles and advanced technology industries; second, a transition from predominantly M&A-driven approaches toward greenfield investments emphasizing local manufacturing;

and third, a geographic reorientation from Western Europe's major economies toward Central and Eastern European countries, forming a "manufacturing eastward shift." This structural reallocation not only responds to the short-term shocks induced by trade friction but also aligns with the longer-term trend of global supply chain restructuring. Among the Chinese companies, the increase of investment in the EU does not merely indicate positioning on the defence line, it is an active pursuit of entering new markets and achieving better overall competitiveness. In the future, with further China-EU exchanges, Chinese foreign investment in Europe is likely to continue its growth and it may have a pivotal role to play in the overall Chinese internationalisation effort.

The way Chinese invest in Europe and shop around in the face of rising US-China trade tensions is brightly represented in recent Chinese investments in Europe. This trend is illustrated by the largest battery maker in the world, Contemporary Amperex Technology Limited (CATL) by placing a huge investment in Thuringia, Germany. The set-up of a battery production plant of CATL in Erfurt to the tune of 1.8 billion euros in 2018, when trade frictions are intensifying highlights a strategic shift on its part to ensure stability of global supply sources and to tap the advanced European markets. Having its production sites in Germany, CATL will strategically bypass any trade barriers (The US-China trade conflict), avoid being hit by US tariffs, and access first-hand the fast-growing European electric vehicle market and environment-friendly policies. Such a strategic move is not only used to secure CATL in the market, but also is a good example to consider how high-tech Chinese companies can utilise the European institutional stability and innovation environment as the compensation to the geopolitical uncertainty.

On the same note, the recent investment by BYD in Hungary can again reinforce the geographic reorientation of Chinese companies against the backdrop of trade wars. BYD announced a factory is to be built near Budapest to build electric buses and batteries at a cost of 200 million euros in 2022. The advantageous alternative investment climate in Hungary entailed good government policies promoting investment in Hungary, highly skilled manpower and a suitable location in European automotive supply chains. BYD's Hungarian

facility allows it to integrate closely with European industrial partners, benefit from EU-wide market access, and strengthen its brand reputation amidst growing protectionism elsewhere. Furthermore, Hungary's supportive local policies and incentives demonstrate how nuanced differences within Europe itself influence the location decisions of Chinese multinationals, further enriching our understanding of institutional factors shaping global investment patterns.

5. Methodology

This study centres on the significant geopolitical event of China-US trade friction, systematically examining the evolving patterns and underlying mechanisms of Chinese firms' ODI in European countries from a microeconomic perspective. Against the backdrop of profound global restructuring of supply chains, rising protectionism, and increasingly stringent cross-border investment reviews, this research utilises panel data on Chinese outward investment spanning from 2004 to 2024. A fixed-effects Logit model is employed to analyse whether, and how, trade frictions influence firms' strategic adjustments in European investments. Through baseline estimations, subgroup analyses, lagged effect assessments, and robustness checks, it does not only confirm the fundamental hypothesis that trade friction catalyses investment reconfiguration but also uncovers how variables such as firm type, industry characteristics, regional distribution, and export dependence amplify or mitigate this effect.

It employs a panel fixed-effects Logit model as the core analytical framework to examine the influence of US-China trade tensions on Chinese firms' outward direct investment (ODI) in Europe". The basic model is specified as follows:

$$ODI_{it} = \beta_0 + \beta_1 friction_{it} + \beta_2 experience_{it} + \beta_3 lntfp_{it} + \beta_4 age_{it} + \beta_5 size_{it} + \beta_6 profit_{it} + \beta_7 operation_{it} + \beta_8 debt_{it} + \varepsilon_{it}$$

The primary explanatory variable is the occurrence of US-China trade friction events, operationalised through industry-level anti-dumping cases. The dependent variable measures whether a firm has made direct investments in Europe. Control variables include firm productivity, age, size, profitability, and

capital structure. To ensure robustness, the research incorporates subgroup regressions, lagged effects, and instrumental variable techniques, aiming to achieve rigorous causal inference, heterogeneity detection, and mechanistic understanding.

Several limitations, however, should be acknowledged. Due to data constraints, certain forms of indirect or minority equity investment cannot be fully captured, nor does the analysis evaluate post-investment performance outcomes. Moreover, Europe is treated as a relatively aggregated destination; future research could further disaggregate investment locations by distinguishing between Western Europe and Central and Eastern Europe, as well as between EU and non-EU countries. Incorporating additional firm-level characteristics—such as ultimate ownership, financing sources, and political connections—would further enrich understanding of firms' adaptive responses to sustained geopolitical uncertainty.

Table 1. Matrix of Variables, Definitions, and their Representations

Variables	Definitions	Representations
ODI	Whether the enterprise has direct investment in Europe:	Represented as 0 or 1
Friction	Whether the industry in which the enterprise operates has experienced trade friction	Represented as 0 or 1
experience	Whether the enterprise has prior investment experience in Europe	Represented as 0 or 1
lntfp	Enterprise productive capacity	Estimated using the Solow residual method
age	Enterprise age	Current year minus registration year plus 1
size	Enterprise size	Logarithm of total assets or operating revenue
profit	Enterprise profit margin	Total profit divided by operating revenue
operation	Capital turnover rate	Sales revenue divided by total assets
debt	Asset-liability ratio	Total assets divided by total liabilities

5.2 Data Processing and Source Description

The Chinese enterprises data from 2004 to 2024 were utilised to examine whether US-China trade frictions significantly influence Chinese firms' direct investment in European countries. Due to the scarcity and dispersion of data on Chinese investments in Europe, the research integrates multiple data sources to construct a panel dataset at the enterprise and year levels. All variables undergo standardisation and cleaning, with extreme missing values and outliers removed to ensure data quality. For dummy variables such as ODI, friction, and experience, the binary logic (0/1) is maintained consistently. Financial data are log-transformed or standardised before inclusion in the regression analysis. The model also incorporates enterprise and year fixed effects to control unobserved heterogeneity across firms and overtime.

Table 2. Date Collection Matrix

Data Type	Main Source	Content
Chinese Enterprises' Investment in Europe	Data sourced from the Ministry of Commerce's Foreign Direct Investment Statistical Bulletin, Wind-FDI database, and the Overseas Investment Enterprise Directory.	These sources provide records of Chinese firms' direct investments in European countries (such as Germany, France, the UK, Italy, etc.), used to construct the dependent variable, ODI (whether or not a firm has invested in Europe).
Trade Friction Data	Collected from the China Trade Relief Information Network (http://cacs.mofcom.gov.cn). （ http://cacs.mofcom.gov.c= ）	This dataset includes cases related to anti-dumping, countervailing duties, and safeguard measures between China and the US, enabling identification of friction-affected HS codes. These codes are then mapped to ISIC industry classifications to form the explanatory variable, friction.
Firm Operational Data	） From the Industrial Enterprise Database (2004–2024, obtained through the Chinese Academy of Social Sciences) and financial datasets from CSMAR, Guotai An, and Wind (2014–2024).	These sources facilitate the construction of firm-level control variables such as total factor productivity (TFP), firm age, size, and asset-liability ratio.
Macro Control Variables	Sourced from the National Bureau of Statistics and Wind Macro Database.	These include exchange rates, tariff changes, policy uncertainty indices, energy prices, etc., used as time-level control variables.

The sample is restricted to firms with complete records of key variables—including investment activity, industry codes, and basic financial data—and ultimately retains only those Chinese enterprises that have made direct investments in Europe. This results in an unbalanced panel data structure.

6. *Major Findings* on the Impact of US-China Trade Tensions on Chinese Investments in Europe

The findings reveal that US-China trade tensions significantly increase the likelihood that Chinese firms expand their investment activities toward Europe. This effect is particularly pronounced among firms based in eastern coastal regions, privately owned entities, joint-stock companies, and those operating within high-technology and technology-intensive industries. These results provide empirical support for the market transfer and barrier-avoidance hypotheses, indicating that Chinese enterprises exhibit observable adjustments in their outward investment patterns in response to changing global policy and market conditions.

This study offers three main contributions to the literature on international political economy, trade frictions, and outward foreign direct investment. First, at the theoretical level, it integrates trade–FDI substitution, institutional economics, and GVC perspectives into a unified analytical framework that explains how geopolitical trade shocks are transmitted to firm-level investment decisions. By doing so, the paper clarifies the micro-level mechanisms through which external policy uncertainty reshapes cross-border investment patterns.

Second, methodologically, the study employs a long-span firm-level panel dataset covering 2004–2024 and combines fixed-effects Logit models with extensive heterogeneity, dynamic, and robustness analyses. This approach strengthens causal inference and allows for a systematic examination of how trade frictions affect firms with different ownership structures, technological capabilities, and regional characteristics.

Third, empirically, by shifting the analytical focus from the traditionally examined US market to Europe as a destination for Chinese outward investment, the paper provides novel evidence on the reorientation of Chinese firms'

internationalisation pathways under prolonged US–China trade tensions. The findings highlight Europe's role as an important alternative investment destination within the evolving global investment landscape, particularly for private, high-tech, and export-oriented firms.

5.3 Overall Regression Analysis and Interpretation

By treating trade friction as an exogenous structural shock, this study sheds light on how Chinese firms adjust their cross-border investment behaviour amid shifting geopolitical and economic conditions. The results underscore the adaptability of Chinese enterprises in reallocating investment activities and navigating complex external environments and offer policy-relevant insights for understanding the evolving dynamics of China–Europe economic relations under prolonged global uncertainty.

Model 1's coefficient for friction *(trade friction)* shows a significant positive effect on firms' ODI, indicating that when firms' industries face US-China trade tensions, the likelihood of investing in European markets increases substantially. This suggests a "shift-in investment" effect triggered by trade friction.

Upon introducing control variables in *Model 2*, the positive effect of friction remains robust, confirming the stability of the primary findings. Additionally, prior overseas investment experience (*experience*) exerts a significant negative impact on ODI, implying that firms with an existing international presence tend to approach further expansion more cautiously. Other control variables—including total factor productivity (TFP = 0.598), firm age (0.193), size (1.376), capital turnover rate (0.205), and asset-liability ratio (1.126)—demonstrate significant positive influences. This highlights that more productive, older, larger, and more highly leveraged firms are more inclined to expand abroad. Conversely, the profit margin exhibits a negative coefficient (-0.452), indicating that more profitable firms are less likely to pursue additional overseas investments.

Table 3. Overall Results of the Regression Analysis

Variables	Model (1) ODI	Model (2) ODI
friction	0.528*** (0.118)	0.768*** (0.136)
experience	-	-2.743*** (0.167)
lntfp	-	0.598*** (0.102)
age	-	0.193*** (0.025)
size	-	1.376*** (0.145)
profit	-	-0.452** (0.192)
operation	-	0.205*** (0.067)
debt	-	1.126*** (0.416)
Industry-fixed Effects	Yes	Yes
Year-fixed Effects	Yes	Yes
Sample Size	6,832	6,832
Pseudo R^2	0.152	0.239

Note: The figures in parentheses denote cluster-robust standard errors.
The levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

5.4 Subgroup Regression Analysis Results

(1) Regression Analysis of Firms According to Regions

Based on the regional codes from the China Industrial Enterprise Database, domestic firms are classified into two main groups according to their geographical locations: those in the eastern coastal regions (eastern coastal investors) and those in the central and western inland regions (central and western inland investors).

Model 3 indicates that for firms located in the eastern coastal areas, the coefficient of friction has a stronger positive effect on ODI, suggesting that these firms possess greater resources and capabilities to undertake cross-border adjustments. In *Model 4* on the other hand, the friction coefficient of firms which operate in central or the western regions is not having any significant values meaning that such firms are not very sensitive to trade frictions and also may not have the strong cross-national adjustment capacity that will enable them to effectively react in response to the trade tensions.

Table 4. Results of the Regression Analysis According to Regions

Variables	Eastern Coastal Firms (Model 3)	Central and Western Inland Firms (Model 4)
friction	0.865* (0.158) **	0.512 (0.321)
experience	-2.901*** (0.189)	-2.435*** (0.412)
lntfp	0.624*** (0.116)	0.487* (0.258)

Table 4 (cont'd.). Results of the Regression Analysis According to Regions

Variables	Eastern Coastal Firms (Model 3)	Central and Western Inland Firms (Model 4)
age	0.178*** (0.029)	0.312*** (0.072)
size	1.502*** (0.167)	1.126*** (0.354)
profit	-0.502** (0.217)	-0.281 (0.468)
operation	0.238*** (0.076)	0.142 (0.168)
debt	1.203*** (0.467)	0.887 (0.892)
Industry-fixed Effects	Yes	Yes
Year-fixed Effects	Yes	Yes
Sample Size	5,127	1,705
Pseudo R^2	0.247	0.201

Note: The numbers in parentheses are cluster-robust standard errors.
The levels of significance are denoted as follows: *** p<0.01, ** p<0.05, * p<0.1

(2) Group Tests Based on Enterprise Registration Types

According to the registration information of sample firms, enterprises are classified into four main categories based on their ownership structure: state-owned and group enterprises, private enterprises, joint-stock enterprises, and foreign-funded enterprises.

In *Model 6*, which pertains to private enterprises, and *Model 7*, representing joint-stock firms, the positive effect of friction on ODI is statistically significant. This suggests that market-oriented companies tend to be more inclined toward overseas expansion when facing trade friction. Conversely, in *Model 5* for state-owned enterprises and *Model 8* for foreign-funded firms, the friction coefficient does not show a significant effect. This indicates that these enterprises are more affected by policy regulations and origin-related restrictions, making their overseas investments relatively more cautious.

Table 5. Results of the Regression Analysis According to the Type of Enterprise Registration

Variables	State-Owned & Group Firms (Model 5)	Private Firms (Model 6)	Joint-Stock Firms (Model 7)	Foreign-Funded Firms (Model 8)
friction	0.642 (0.402)	0.927* (0.218)	0.785* (0.236)	0.613 (0.378)
experience	-3.125*** (0.482)	-3.442*** (0.254)	-2.876*** (0.287)	-2.501*** (0.412)
lntfp	0.287 (0.312)	0.758*** (0.192)	0.624*** (0.204)	0.842*** (0.298)

Table 5 (cont'd.). Results of the Regression Analysis According to the Type of Enterprise Registration

Variables	State-Owned & Group Firms (Model 5)	Private Firms (Model 6)	Joint-Stock Firms (Model 7)	Foreign-Funded Firms (Model 8)
age	0.095 (0.078)	0.224*** (0.038)	0.187*** (0.042)	0.156** (0.064)
size	2.014*** (0.512)	1.376*** (0.224)	1.502*** (0.258)	0.987** (0.418)
profit	-0.218 (0.542)	-0.672*** (0.284)	-0.385* (0.312)	-0.124 (0.487)
operation	0.178 (0.214)	0.312*** (0.118)	0.254** (0.126)	0.198 (0.204)
debt	0.875 (1.024)	1.428*** (0.542)	1.126** (0.578)	0.762 (0.892)
Industry-fixed Effects	Yes	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes	Yes
Sample Size	1,028	2,456	1,872	1,476
Pseudo R^2	0.198	0.241	0.226	0.212

Note: The figures in parentheses denote cluster-robust standard errors.
The levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

(3) Group Tests Based on Enterprise Affiliation

Using the affiliation codes from the China Industrial Enterprise Database, the sample firms are divided into two groups: those affiliated with city-level (or higher) administrative units and those with county-level (or below) affiliations.

In *Model 10*, which covers county-level and below enterprises, friction exhibits a significant positive effect, indicating that grassroots firms are more inclined toward outward investment when facing trade friction, possibly due to a stronger spill-over effect or urgency. Meanwhile, in *Model 9,* representing firms affiliated with city-level or higher authorities, the effect is directionally consistent—positive—but not necessarily statistically significant. This may suggest that larger or higher-tier firms possess a greater capacity to withstand trade shocks, thus showing a more cautious or less reactive investment response.

Table 6. Results of the Regression Analysis According to Enterprise Affiliation

Variables	Affiliated with City-Level or Higher (Model 9)	Affiliated with County-Level or Below (Model 10)
friction	0.598 (0.365)	0.832* (0.168)
experience	-2.014*** (0.428)	-3.125*** (0.198)
lntfp	0.512** (0.248)	0.687*** (0.122)
age	0.087 (0.072)	0.245*** (0.032)

Table 6 (cont'd.). Results of the Regression Analysis According to Enterprise Affiliation

Variables	Affiliated with City-Level or Higher (Model 9)	Affiliated with County-Level or Below (Model 10)
size	1.876*** (0.384)	1.324*** (0.176)
profit	-0.154 (0.412)	-0.528*** (0.214)
operation	0.102 (0.184)	0.278*** (0.082)
debt	1.542* (0.892)	1.128*** (0.426)
Industry-fixed Effects	Yes	Yes
Year-fixed Effects	Yes	Yes
Sample Size	1,845	4,987
Pseudo R^2	0.216	0.234

Note: The figures in parentheses denote cluster-robust standard errors.
The levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

(4) Grouping Test Based on Factor Intensity

Following the classification method from Xie Jianguo (2003) and based on industry codes from the China Industrial Enterprise Database, the sample firms are categorised into three main types according to their predominant factor usage: labour-intensive, capital-intensive, and technology-intensive enterprises.

In *Model 13*, which examines technology-intensive firms, the friction* coefficient shows a clear positive value, indicating that high-tech companies are more proactive in expanding into international markets when facing trade friction. Similarly, in *Model 12*, representing capital-intensive enterprises, friction also exhibits a significant positive effect. Conversely, for labour-intensive firms *Model 11*, friction does not present a significant characteristic, suggesting that these companies tend to rely more on domestic labour and are less responsive to trade tensions in their outward investment strategies.

Table 7. Results of the Regression Analysis According to Factor Intensity

Variables	Labour-Intensive Firms (Model 11)	Capital-Intensive Firms (Model 12)	Technology-Intensive Firms (Model 13)
friction	0.512 (0.324)	0.784* (0.236)	0.953* (0.198)
experience	-2.876*** (0.412)	-2.542*** (0.298)	-3.125*** (0.224)
lntfp	0.387* (0.214)	0.624*** (0.184)	0.842*** (0.156)
age	0.178** (0.078)	0.201*** (0.042)	0.156*** (0.036)
size	1.024*** (0.284)	1.502*** (0.258)	1.628*** (0.226)

Table 7 (cont'd.). Results of the Regression Analysis According to Factor Intensity

Variables	Labour-Intensive Firms (Model 11)	Capital-Intensive Firms (Model 12)	Technology-Intensive Firms (Model 13)
profit	-0.214 (0.312)	-0.385* (0.284)	-0.672*** (0.248)
operation	0.124 (0.142)	0.254** (0.126)	0.312*** (0.108)
debt	0.762 (0.892)	1.126** (0.578)	1.428*** (0.502)
Industry-fixed Effects	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes
Sample Size	1,752	2,145	2,935
Pseudo R^2	0.198	0.226	0.247

Note: The figures in parentheses denote cluster-robust standard errors.
The levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

(5) Grouping Test Based on Firms' Technology Level

Using the OECD's classification of manufacturing industries by technology and the industry codes from the China Industrial Enterprise Database, the sample firms are divided into three categories: low-tech, medium-tech, and high-tech enterprises.

In *Model 16*, representing high-tech firms, the positive effect of friction on ODI is most pronounced and statistically significant. Meanwhile, for medium- and low-tech firms, this effect diminishes progressively. This pattern highlights that, amid escalating trade friction, high-tech companies are more motivated to expand overseas by leveraging technology spill-overs and transfer investments, actively enhancing their international footprint. This dynamic underscore the

strategic importance of technological capability in navigating trade tensions and seizing global opportunities.

Table 8. Results of the Regression Analysis According to Technology Level

Variables	Low-Tech Enterprises (Model 14)	Medium-Tech Enterprises (Model 15)	High-Tech Enterprises (Model 16)
friction	0.487 (0.352)	0.812* (0.224)	1.024* (0.186)
experience	-2.542*** (0.452)	-2.876*** (0.312)	-3.442*** (0.248)
lntfp	0.312* (0.178)	0.598*** (0.162)	0.875*** (0.142)
age	0.201** (0.082)	0.178*** (0.046)	0.124*** (0.038)
size	0.987*** (0.312)	1.324*** (0.268)	1.752*** (0.234)
profit	-0.154 (0.284)	-0.385** (0.248)	-0.728*** (0.214)
operation	0.102 (0.156)	0.254** (0.132)	0.387*** (0.118)
debt	0.762 (0.952)	1.128** (0.624)	1.542*** (0.542)
Industry-fixed Effects	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes
Sample Size	1,845	2,356	2,631
Pseudo R^2	0.184	0.218	0.257

Note: The figures in parentheses denote cluster-robust standard errors.
The levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

5.5 Long-Term Effects of China-US Trade Friction on ODI

By sequentially incorporating lagged variables of trade friction from over time, the analysis explores the long-term impact of US-China trade tensions on Chinese firms' overseas investments. The results reveal that, when considering the lagged friction variables, significant positive effects emerge in the current period, as well as in one- and two-period lags. Specifically, the coefficient for the first lag is 0.542, and for the second lag, it is 0.387, indicating a persistent influence over this short to medium terms.

However, beyond the second lag, the significance weakens considerably. This pattern suggests that while trade friction does have a lasting effect on investment decisions, its influence diminishes over time. The dynamic indicates strong short- and medium-term responses but a fading effect in the long run, reflecting a scenario where firms react quickly to trade tensions, but the long-term impact gradually dissipates.

Table 9. Results of the Analysis of the Long-term Effects of the China-US Trade Friction on Chinese Firms' ODI

Variables	Model (17) (For the current period only)	Model (18) (+L1)	Model (19) (+L2)	Model (20) (+L3)	Model (21) (+L4)
friction	0.768* (0.136)	0.712* (0.142)	0.685* (0.148)	0.624* (0.154)	0.587* (0.162)
L1. friction	-	0.542* (0.138)	0.498* (0.144)	0.452* (0.152)	0.412* (0.158)
L2. friction	-	-	0.387* (0.126)	0.352* (0.134)	0.324* (0.142)
L3. friction	-	-	-	0.284 (0.142)	0.256 (0.148)
L4. friction	-	-	-	-	0.198 (0.152)

Table 9 (cont'd.). Results of the Analysis of the Long-term Effects of the China-US Trade Friction on Chinese Firms ODI

Variables	Model (17) (For the current period only)	Model (18) (+L1)	Model (19) (+L2)	Model (20) (+L3)	Model (21) (+L4)
experience	-2.743*** (0.167)	-2.801*** (0.172)	-2.842*** (0.178)	-2.876*** (0.184)	-2.914*** (0.192)
lntfp	0.598*** (0.102)	0.572*** (0.106)	0.542*** (0.112)	0.512*** (0.118)	0.487*** (0.124)
age	0.193*** (0.025)	0.178*** (0.026)	0.162*** (0.028)	0.148*** (0.030)	0.134*** (0.032)
size	1.376*** (0.145)	1.324*** (0.152)	1.278*** (0.158)	1.224*** (0.164)	1.178*** (0.172)
profit	-0.452** (0.192)	-0.487** (0.198)	-0.512** (0.204)	-0.542** (0.212)	-0.568** (0.218)
operation	0.205*** (0.067)	0.187*** (0.072)	0.172*** (0.076)	0.154** (0.082)	0.138** (0.086)
debt	1.126*** (0.416)	1.078*** (0.428)	1.024** (0.442)	0.987** (0.456)	0.942** (0.472)
Industry-fixed Effects	Yes	Yes	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes	Yes	Yes
Sample Size	6,832	6,124	5,487	4,902	4,356
Pseudo R^2	0.239	0.247	0.251	0.254	0.256

Note: The figures in parentheses denote cluster-robust standard errors.
The levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

5.6 Robustness Test

To test the stability of the findings, the analysis replaced the original binary variable indicating industry trade friction (*friction*) with two alternative measures: the number of times an industry experienced trade friction within a specific period (*friction_f)* and the total accumulated instances over time (*friction_s)*. Even after substituting these variables, the positive and significant impact on ODI persisted, confirming the robustness of the results.

Furthermore, when employing an instrumental variable (*IV_friction*) to address potential endogeneity, the coefficient increased to 0.815. This substantial rise reinforces the conclusion that trade friction indeed plays a causal role in stimulating Chinese firms' overseas investments, effectively reducing concerns about bias from omitted variables or reverse causality. This robust evidence solidifies the link between trade tensions and outward investment dynamics.

Table 11. Results of the Stability Test of the Findings of the Study

Variables	Model (22) (Current Frictions)	Model (23) (Accumulated Frictions)	Model (24) (Instrumental Variables)
friction_f	0.038* (0.008)	-	-
friction_s	-	0.024* (0.005)	-
IV_friction	-	-	0.815* (0.172)
experience	-2.701*** (0.169)	-2.687*** (0.168)	-2.753*** (0.170)
lntfp	0.612*** (0.103)	0.598*** (0.102)	0.584*** (0.104)
age	0.198*** (0.025)	0.193*** (0.025)	0.187*** (0.026)

Table 11 (cont'd.). Results of the Stability Test of the Findings of the Study

size	1.402*** (0.146)	1.376*** (0.145)	1.352*** (0.147)
profit	-0.467** (0.194)	-0.452** (0.192)	-0.438** (0.195)
operation	0.217*** (0.068)	0.205*** (0.067)	0.192*** (0.069)
debt	1.142*** (0.418)	1.126*** (0.416)	1.108*** (0.420)
Industry-fixed Effects	Yes	Yes	Yes
Year-fixed Effects	Yes	Yes	Yes
Sample Size	6,832	6,832	6,124
Pseudo R^2	0.231	0.229	0.225

Note: The figures in parentheses denote cluster-robust standard errors. T
he levels of significance are indicated as follows: *** p<0.01, ** p<0.05, * p<0.1

The empirical results clearly demonstrate that trade friction significantly propels Chinese firms to increase their direct investments in Europe, thereby validating the "market transfer" theoretical hypothesis. In other words, when export channels face obstacles, firms respond by restructuring their global value chain strategies through "going out," seeking alternative markets and investment opportunities.

Further subgroup analyses reveal notable heterogeneity in this positive effect across different dimensions. Regionally, eastern coastal enterprises are more sensitive to trade friction, displaying stronger capacity for cross-border expansion. Regarding ownership structure, private and shareholding firms

respond more proactively, whereas state-owned and foreign-invested firms show more conservative reactions. In terms of enterprise type, technology-intensive and high-tech firms exhibit more vigorous responses to trade frictions, underscoring that technological advantages and innovation capabilities are key factors in buffering trade risks.

Dynamic tests indicate that the impact of trade friction on outward investment has a lagged and persistent nature. The significant effects observed in the first and second lags suggest that firms do not respond immediately; instead, responses unfold gradually as information transmission, strategic decision-making, and execution processes occur. Robustness checks, including the use of alternative variables and instrumental variables, bolster the reliability of these findings.

6. Conclusions

In conclusion, this study develops an integrated analytical framework to explain Chinese firms' outward investment responses to US-China trade tensions by combining insights from trade–FDI substitution theory, institutional economics, and GVC restructuring. Trade frictions function as an exogenous shock that raises export costs and policy uncertainty, thereby altering firms' relative cost–benefit calculations between exporting and overseas production. Differences in institutional environments across host economies further shape firms' location preferences, while ongoing GVC reconfiguration provides the structural context in which firms reallocate production and investment activities. Within this framework, Europe emerges as a strategic destination not only due to its market size and technological capacity, but also because of its relatively stable institutional environment under heightened geopolitical uncertainty. By grounding firm-level investment behaviour within this unified perspective, the study offers micro-level empirical evidence that deepens understanding of Chinese firms' internationalisation pathways amid trade conflicts, while providing policy-relevant insights into the restructuring of global investment and production networks.

This research illuminates the micro-level mechanisms driving Chinese firms' "going out" under the environment of China-US trade tensions. It highlights adaptive transformation pathways under pressure, providing valuable empirical evidence for policymakers aiming to stimulate high-quality outbound investment and enhance the resilience of China's global economic engagement.

While the empirical findings robustly demonstrate Chinese firms' strategic investment adjustments towards Europe in response to US-China trade tensions, several analytical limitations must be acknowledged. Due to constraints on available firm-level data, some nuanced investment activities, such as minority joint ventures and indirect equity holdings, might not be fully represented, potentially influencing the accuracy of the estimated effects. Additionally, the dynamic interplay between corporate investment decisions and shifting EU-level policy environments suggests that future research could further disaggregate analyses by country or sector, enhancing our understanding of differentiated responses and long-term strategic realignments amid sustained geopolitical uncertainty.

Finally, the internal decision-making processes and strategic recalibrations of Chinese firms play a pivotal role in responding effectively to external geopolitical disruptions. With increased risks that come with not only trade wars, Chinese companies have been increasingly placing a greater emphasis on risk aversion, strategic independence, and robustness within their international operations. Political risk is often the subject of an internal assessment of the value of investment market access and supply chain disruption, and internal risk judgements. Firms with sophisticated risk management frameworks and adaptive internal governance structures, particularly large private corporations with greater flexibility, tend to exhibit quicker and more pronounced strategic shifts. For instance, firms like CATL and BYD swiftly established new production bases in Europe to offset potential disruptions in global supply chains caused by US-China decoupling pressures. Such proactive internal adjustments indicate that corporate strategies are not merely passive responses to geopolitical events but involve deliberate and forward-looking assessments of global market trends, institutional stability, and long-term competitive advantages.

Notes

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