

Crafting Payoffs? Explaining the Effectiveness of China's Economic Statecraft*

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Abstract

Economic statecraft – the use of economic tools to pursue political goals – is an important foreign policy strategy, and has been an increasingly important tool for China. Focusing on Southeast Asia and the South China Sea disputes, this paper develops and tests a theory on the determinants of the effectiveness of China's economic statecraft, specifically positive inducements, which are understudied relative to sanctions. I distinguish between two types of economic inducements: instrumental carrots, in which economic benefits are targeted toward top political leaders in exchange for desired political outcomes, and societal engagement, which provides broader economic benefits to societal interest groups and the general public. My theory explains how statecraft's effectiveness is mediated by the level of public accountability in the target country. Specifically, China's use of economic statecraft, in particular instrumental carrots, is more likely to succeed in targets with low public accountability, but has limited political effectiveness in targets with high public accountability, where it leads to public backlash against China. I present comparative case studies of Cambodia, the Philippines, and Myanmar. To further test the micro-level mechanisms of public accountability, I conduct a survey experiment in the Philippines, showing how instrumental carrots result in public disapproval of Chinese aid and investment. My findings have important theoretical and policy implications for understanding the role of economic instruments in national security policy as well as strategies of China's foreign policy.

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Introduction

Economic statecraft is an increasingly important diplomatic tool for China. It has been employed more often as China has become more integral in the regional and global economies. From China's foreign direct investment in Africa and Latin America to its 'One Belt One Road' initiative spanning from Central to Southeast Asia, China's growing economic presence has sparked fears of Chinese hegemony and political coercion of countries dependent on its trade and investment. Policymakers and scholars are concerned over Beijing's use of economic capabilities to persuade, punish, or "buy over" countries to support China's foreign policy interests. Despite the topic's strategic importance and widespread popular discussion, there has been little systematic, comparative analysis of the economic statecraft strategies employed by the Chinese government, and the conditions under which they succeed or fail. Although Beijing has provided extensive investment and aid to countries in Southeast Asia, these inducements have not prevented tensions from flaring up over key security issues in the South China Sea.

I investigate the varying effectiveness of China's economic statecraft, in the context of Southeast Asia and the South China Sea disputes, using evidence from field interviews and secondary source data. Most existing literature has focused on punishments via economic sanctions. (Drezner, 1999; Pape, 1997; Fuchs and Klann, 2013) Economic inducements, on the other hand, entail the provision of economic benefits or incentives to a target country, such as increased trade, investment, or foreign aid. Examining the domestic politics of the target countries, I seek to explain the conditions under which China's economic presence can actually translate into political influence.

My theory explains how statecraft's effectiveness is mediated by the level of public accountability in the target country. The political effectiveness of China's economic statecraft is limited when the target has high public accountability – when societal actors have the ability to acquire information and punish political leaders. The Chinese government has largely employed instrumental carrots that work through crony state-business linkages, benefiting a pivotal group of politically-connected elites, while its sanctions punish a broader segment of the population. This produces results mainly in countries with low public accountability. Because Beijing by and large has not engaged in broader persuasion or tried to generate long-term structural changes, its

economic statecraft has proved vulnerable to public opinion backlash and sudden shifts in domestic political leadership. I present case comparisons of the Philippines, Cambodia, and Myanmar, leveraging within-country and cross-national variation, while using evidence from field interviews and other primary and secondary sources.

As China becomes more prominent on the international stage, it will have to decide how to reconcile the tension between strategic reassurance – using economics as soft power – and employing statecraft for its political goals – using economics as a hard form of power. I make new theoretical contributions by examining the effectiveness of various strategies of China's economic statecraft. My research helps to address an important question in political science and foreign policy: the conditions under which material capabilities can translate into actual political influence. In addition, my findings help policymakers to understand the mechanisms by which China can or cannot alter other countries' foreign policy behavior, as well as policy levers with which they can shape China's foreign policy choices. Thus far, evidence suggests that the largely instrumental nature of China's economic statecraft in Southeast Asia has limited its political effectiveness.

Setting the Stage: China's Economic Statecraft

There is no direct equivalent term in Chinese for the phrase “economic statecraft.” The closest term is “economic diplomacy” – *jingji waijiao*, or 经济外交 (Norris, 2016: 20). Economic diplomacy has been used by Chinese scholars to mean two things: first, the use of diplomacy to achieve economic goals and benefits; and second (more directly related to the notion of statecraft), the use of economic means in pursuit of political objectives (Li and Sun, 2014). I focus on the latter definition, more in line with conventional notions of statecraft.

Economic statecraft has long been an important component of China's foreign policy. During the Cold War, the Chinese government distributed foreign aid as part of its geopolitical strategy against the Soviet Union and the United States. For example, even as it was a poor country struggling to recover from the aftermath of the Cultural Revolution, China upped its economic and military aid to North Vietnam to help it fight the Vietnam War in the early 1970s (Zhang, 2014). China's previously extensive aid programs toward North Korea, Mongolia, and Albania, seeking

to gain their support against the Soviets, have even been criticized by some for pursuing geopolitical objectives at the expense of the country's own economic development and citizen wellbeing (Zhou, 2003).

Growing from the need to counter international economic sanctions during the Cold War, Beijing's economic diplomacy often adopted a "wedge strategy." Beijing actively expanded bilateral economic ties with U.S. allies (*gege jipo*, or breaking one at a time), and awarded economic inducements to selected countries in Asia and Africa in an effort to cultivate influence and form a bloc against the United States and the Soviet Union, as well as prevent Japanese support for Taiwan. Beijing also used economic inducements to peel away Japanese and European support for sanctions after the 1989 Tiananmen Square incident. (Zhang, 2014)

In addition, Beijing has used its economic leverage to punish and coerce target countries when inducements proved ineffective at achieving political objectives. The Chinese government cut off aid to Vietnam as punishment for its invasion of Cambodia in the late 1970s, and canceled Airbus contracts after French leaders met with the Dalai Lama (Yan, 2012). When tensions flared over disputed features in the East and South China Seas in recent years, China also restricted rare earth exports to Japan and banana imports from the Philippines.

Today, Chinese scholars regard China's economic diplomacy as transitioning into a new phase. Having been largely "integrative" and "participatory" in the past few decades, China is now ready to take on a "leadership" role – pushing its own economic initiatives and setting forth new principles (Li and Sun, 2014). The 2008 financial crisis is seen as a key turning point in increasing Beijing's confidence and influence, and the Chinese government sees renewed efforts at economic diplomacy as important in countering the U.S. rebalance to Asia and a worsening regional security environment in the last few years.

Observations of China's growing economic clout and global presence, particularly the unconditional and less-than-transparent nature of its aid and investment, have fed into the narrative of a rising China seeking to use its power to persuade or coerce countries to support its foreign policy objectives, override U.S. and Western interests, and even create an alternative international order or an anti-Western bloc. For example, a think tank report asserts "China often uses its de-

velopment and investment policies to gain access to resources or achieve favorable diplomatic outcomes.” (Kalathil, 2012) The authoritarian nature of the Chinese regime and the prominence of state-owned enterprises (SOEs) in China, in which the state has close links and even control over major commercial actors, arguably make it easier for Beijing to exercise economic statecraft (Davis, Fuchs and Johnson, 2014; Fuchs and Klann, 2013). This adds to concerns over sinister, strategic goals behind Chinese economic activities abroad, particularly those in energy, resource, and technologically-sensitive sectors.

Nonetheless, evidence of such Chinese strategies has been largely anecdotal and fanned by media reports. For example, some alternative accounts suggest that claims of Beijing grabbing land, food, and fossil fuels in Africa and Latin America to ensure its own resource security are overblown (Brautigam, 2015). The success of China’s infrastructure-for-oil deals varies from country to country (Alves, 2013). In the East Asian context, China has not been able to fundamentally exploit economic interdependence as a source of coercive power, because disrupting bilateral economic ties also impose too high costs on Chinese interests (Lim, 2016).

Existing Theories of Economic Statecraft

Tools of economic statecraft can be classified into three main categories: trade, investment, and aid. In addition, these tools can be used in two different approaches: negative – applying coercive pressure – or positive – providing incentives. Negative economic sanctions involve the sender state’s withdrawal of economic benefits from the target, such as by restricting imports from that country, reducing exports to that country, or reducing foreign direct investment into that country. Inflicting economic pain pressures the target to change its foreign policy, or political behavior more broadly, to suit the sender’s preferences. In contrast, positive economic inducements involve “the provision or promise of economic benefits to induce changes in the behavior of a target state” (Mastanduno, 2000: 303). This can entail increased bilateral trade or investment, or greater flows of foreign aid to the target.

Hirschman (1945) discusses how asymmetrical trade relations endows one country with more coercive power over the other because the latter will be more vulnerable to and more hurt by an

interruption of trade. This method of economic coercion could “become an alternative to war” and “an effective weapon in the struggle for power” between sovereign states (Hirschman, 1945: 15-17). Building on this idea, political science and IR scholarship has largely focused on punitive sanctions as the dominant approach to economic statecraft (Baldwin, 1971, 1985; Pape, 1997; Drezner, 1999).¹ Most studies of China’s economic statecraft have similarly focused on the potential coercive effects of trade dependence on China, such as import or export restrictions (Fuchs and Klann, 2013; Davis, Fuchs and Johnson, 2014). This paper focuses on positive inducements, which are a key component of China’s economic statecraft, but remain understudied.

Others have discussed the broader spillover effects of economic interdependence (or dependence) on political and security outcomes – for instance, whether countries that have closer trade relations with China more likely to support China’s positions on human rights and other issues (Flores-Macias and Kreps, 2013; Kastner, 2014). This builds on a strand of literature on the broader linkages between economic interdependence and international security, that has also tended to focus on war as the outcome variable (Papayoanou, 1999; Mansfield and Pollins, 2001, 2003). However, in contrast to more passive, unintended effects, I consider the specific effects of China’s deliberate attempts to exercise economic statecraft in pursuit of a political goal, and look at the impact on interstate relations beyond war.

The logics of economic inducements

Inducements, or positive sanctions, can be defined as actual or promised improvements in the target state’s value position, relative to its baseline of expectations about its future position at the time that the sender state begins its inducement attempt (Baldwin, 1971: 23). Case study work has shown that economic inducements have been employed by a range of countries, including the United States and West Germany (Long, 1996; Copeland, 1999; Davis, 1999; Abdelal and Kirshner, 2000; Skålnes, 2000; Newnham, 2002).

Economic inducements more broadly can create what Hirschman calls an “influence effect,” in which vested economic interests form a “commercial fifth column” that “exert a powerful influence in favor of a ‘friendly’ attitude toward the state to the imports of which they owe their exist-

¹For a criticism of this trend, see Baldwin (1971).

tence. These interest groups are therefore valuable sources of support for a sender state seeking to exercise economic statecraft toward that target country. (Hirschman, 1945: 26-29). By strengthening and mobilizing certain interest groups within the target country, inducements help to create domestic political coalitions that alter and reshape the target country's preferences and interests in favor of the sender state. This is similar to how domestic coalitions and sectoral interests shape – whether by constraining or promoting – a country's foreign policy and grand strategy (Solingen, 1998; Narizny, 2007; Davis, 2009). Governments often prefer to promote a structural transformation of interests, as this can alter the preferences of target states in the long run, without having to resort to overt threats or coercion that often elicit counterproductive reactions from the target (Kirshner, 1997).

When does economic statecraft work?

Yet, economic power may not always easily translate into actual influence over policy outcomes, and its effectiveness can be circumscribed by a number of factors. For example, Goh (2014) argues that despite China's apparent economic power, it has been less able to modify opposing policy preferences of Southeast Asian countries, but only able to persuade those targets who were already developing aligned interests. During the Cold War, several of Beijing's attempts to build political alliances via economic inducements eventually fell apart, whether with larger powers, the Soviet Union, or smaller states such as Albania, North Vietnam, and Mongolia. (Zhang, 2014)

Some have argued that the effectiveness of inducements depends on the relative domestic clout of internationalist economic interests (Kastner, 2007; Papayoanou and Kastner, 2000), or the interaction between international strategic threats and domestic state capacity (Blanchard and Ripsman, 2013). More recent work has attempted to examine the micro-level interactions between state and business actors in the sender state, and how that affects the actual implementation of economic statecraft. Focusing on China, Norris (2016) examines how supply-side factors – namely, state control of commercial actors – affect the successful implementation of economic statecraft. Turning to the demand side, Lim (2016) examines how the nature of a country's economy and its position in transnational production networks affect asymmetrical costs of exit and hence vulnerability to economic coercion.

However, existing literature has not fully considered the domestic political picture in target countries, which I argue is an important condition in determining the effectiveness of economic statecraft, by China or other countries. The impact of statecraft, and hence its success, will be mediated by economic and political structures within the target, in particular the level of public accountability. How accountable, transparent, and responsive political elites have to be to the citizenry ultimately affects the filtering of economic inducements to produce political outcomes. This theory highlights the role of public opinion and institutions in influencing the varying effectiveness of China's economic statecraft across different target countries.

The Effectiveness of China's Economic Statecraft

In this section, I present a theory on how the effectiveness of China's economic statecraft is influenced by the interaction of two independent variables: (a) the type of inducement strategy; and (b) the level of public accountability in the target country. I define an economic statecraft policy to be effective if it achieves a desired change in the target state's behavior to align more closely with China's stated interests, regarding a certain foreign policy issue of concern to China. This change would not have occurred without China's provision of economic inducements.

Building on [Mastanduno \(2000: 303-304\)](#), I categorize strategies of economic statecraft along two possible mechanisms of influence. First, inducements can be *instrumental*, in which the sender state targets its benefits toward top political leaders, with the aim of buying over existing interests in support of China's policy preferences. These carrots tend to link the provision of economic benefits to specific conditions and political outcomes, such as a desired change in some policy of the target state. Alternatively, inducements can be *societal*, in which the sender state provides economic benefits more broadly to key interest groups and the general public. This changes underlying economic relations and alters the balance of domestic political interests in favor of China's policy positions.

These two strategies of economic inducements can produce varying results across political systems. For economic statecraft to be effective, mere Chinese economic presence in a target country does not ensure a corresponding increase in political clout. The effects of such economic capabili-

ties are first mediated by the target country's domestic economic and political institutions. To generate the desired political outcomes, those who receive economic benefits from China – whether top political elites, business and interest groups, or the general public (Lobell and Ripsman, 2016) – must also have “pivotal” political power to act according to Chinese preferences, or the ability and desire to influence those holding political power and ultimately change the country's foreign policy behavior. This ensures that garnering the support of these domestic groups can alter the balance of political interests in the target country so as to produce the desired political outcomes.

As scholars have noted, there is often a wide variation within democracies and within autocracies of how the state interacts with and manages societal and economic actors (Geddes, 1999), which can affect foreign policy outcomes (Weeks, 2008). I argue below that examining the nature of public accountability – often related to but not entirely correlated with regime type – sheds better light on the microfoundations and mechanisms translating economic capabilities into political influence in the target country.

The role of public accountability

My theory explains how statecraft's effectiveness is mediated by the nature of public accountability in the target country. This is defined as the presence of robust societal institutions, such as the media, civil society, and public opinion. In an environment of high public accountability, these societal institutions can demand *transparency* – via the freedom and ability to access information, and exercise *oversight* – via the ability to punish political incumbents and elites when they do not adhere to desired regulatory standards separating business and government, such as through the ballot box or legislative proceedings that remove political incumbents from power. The concept of accountability is distinct from the nature of state-business relations in a country. For example, a country can have a crony capitalist system, with cozy state-business linkages, yet face high public accountability through third-party societal actors.

In a country with high accountability, greater transparency and availability of information allows oversight by the media, public, and civil society. As a result, economic carrots that constitute below-the-table transactions, such as bribes or foreign political donations, are likely to be uncovered and criticized. While such carrots may work in the short-term on changing the policy stances

of individual politicians, they tend to elicit public backlash and criticism from the political opposition. This reduces opportunities for – and the legitimacy of – direct rent-seeking by political leaders.

Australia is an example of a country with high public accountability. In fall 2016, some Australian legislators were found to have accepted money from politically-connected Chinese individuals and organizations, including to cover personal debt; in exchange, they called for Canberra to refrain from involvement in the South China Sea disputes and respect China's position. However, Australia's high level of public accountability soon generated a public opinion backlash and attenuated any short-term political benefits for Beijing. Political, media, and public criticism soon pressured at least one politician to resign and backtrack from ties with China, as well as sparked a review process of Chinese donor influence.² Details of which politicians were found to be linked to China's payroll were easily published and accessed. Chinese businesses and individuals, many with links to the government, donated over A\$5.5 million to the two major Australian political parties between 2013 and 2015, constituting the largest source of foreign-linked donations.³

Thus, in the presence of high institutionalized accountability, successful economic statecraft requires a more societal strategy that benefits broader commercial and public interests. This entails not just enticements to business actors according to regulatory procedures, but also transforming public opinion and building a positive image of China. This creates broader, deeper vested interests in maintaining a positive relationship with China, forming a domestic political coalition that lobbies for supporting China's policy preferences and alters the balance of political interests in the target in favor of China. In the longer run, and more subtly, the target could even reconfigure and transform its national interests to accord more closely with those of China. An example is Japan's interest in normalizing diplomatic relations with Mainland China in the 1970s, due to China's economic enticements that shifted domestic business interests and public opinion in favor of the Mainland.

²Peter Hartcher, "Riding the red dragon express not a good look," *Sydney Morning Herald*, September 3, 2016; Editorial, "China's Influence-Peddling in Australia," *Wall Street Journal*, September 14, 2016; "Sam Dastyari-linked political donor resigns from Bob Carr institute after major review," *Australian Financial Review*, September 21, 2016.

³Chris Uhlmann, Andrew Greene and Stephanie Anderson, "Chinese donors to Australian political parties: who gave how much," August 21, 2016.

In contrast, in a system with low public accountability, the sender state can rely on providing instrumental carrots to top leaders as well as crony, politically-connected business actors who control large portions of the economy and also have key political sway over the policymaking process. Carrots promising specific benefits in exchange for a desired political outcome are more easily agreed upon and executed by the crony political-business elite, likely in a non-public and non-transparent manner. Rents such as kickbacks or bribes will reach political leaders more quickly and directly, without the ability for public opinion, media, or societal institutions to exercise due oversight and punishment. On the flip side, in a system with low accountability, there are fewer opportunities for societal engagement to successfully reconfigure domestic economic and political interests, since a small circle of political elites maintain dominant control. This makes instrumental carrots an easier and more efficient strategy for China to buy political influence and achieve specific, immediate policy outcomes.

At the same time, the success of instrumental carrots requires stable domestic political relations, as China concentrates its resources on certain pivotal and politically connected actors. Thus, carrots are also vulnerable to domestic political shifts over time, for example if a new leader comes into power, or the relative balance of power shifts away from previously targeted political factions / power blocs. This shift can be especially detrimental to Beijing's statecraft strategy when new political leadership rises to power on the basis of opposition to existing crony relations with China, leading to demands for greater public accountability. This limits the sustainability of instrumental carrots as a long-term strategy. Below, I illustrate the importance of domestic political shifts using the case of Myanmar.

Table 1 summarizes my theoretical expectations based on the above two independent variables: the type of inducement and the levels of public accountability. Focusing on China's instrumental statecraft strategies in this paper, I test the following hypotheses: **(H1a)** Instrumental carrots are more efficient in target countries with low public accountability, **(H1b)** but will backfire when the system has high public accountability.

	Low Accountability	High Accountability
Instrumental Carrots	Effective <i>Cases: Cambodia; Myanmar under military junta</i>	Ineffective <i>Cases: The Philippines; Myan- mar post-junta</i>
Societal Engagement	Ineffective	Effective

Table 1: Theoretical Predictions of Statecraft Effectiveness

Economic statecraft in the South China Sea context

Studying economic statecraft in the context of the South China Sea issue presents a number of advantages. First, economic statecraft is likely a useful policy tool on this issue, particularly as claimants including China have largely avoided an overt militarization of the disputes. Economic instruments can similarly operate in this “grey zone” of non-militarized tactics, since it is less likely to directly provoke the use of physical and military retaliation. Second, by comparing outcomes across target countries on the same, salient foreign policy issue – territorial disputes in the South China Sea – I can better identify variation in the effectiveness of Chinese statecraft strategies.

Although past studies of economic statecraft have used voting patterns in the UN General Assembly as a proxy of foreign policy similarity, this only captures weak preferences and broad convergence over issues that, more often than not, have low stakes or low costs for most of the countries involved. In addition, this measure does not capture possible variation in political alignment across a number of issues. For example, [Flores-Macias and Kreps \(2013\)](#) use UN voting on human rights, an issue of great political sensitivity for China, but this still may or may not be of national strategic interest for other countries. Looking specifically at the degree of policy alignment on South China Sea disputes, between China and the respective Southeast Asian countries, represents a high stakes, high salience issue for both China and the target state. This provides a hard test for the implementation and effectiveness of economic statecraft, helping to address the perhaps more interesting question of when and how such strategies can be used in key strategic contexts.

Case Outlines: Does China's economic statecraft work?

I argue that the political effectiveness of China's economic statecraft has been limited because its inducements work by benefiting a select group of elites, while its sanctions punish a broader segment of the population. Because China does not engage in broader persuasion or generate long-term structural changes, its economic statecraft strategy has proved vulnerable to public opinion backlash and – because of this lack of broader support – shifts in domestic political leadership. To investigate the above hypotheses on statecraft effectiveness, I present case studies of three Southeast Asian countries, using evidence from field interviews and other primary and secondary sources. I choose Cambodia as a case of low accountability, the Philippines as a case of a high accountability, and Myanmar as a case of within-country variation in public accountability. Figures 1 and 2 show the accountability scores and percentile ranks of these countries as measured in the World Bank Worldwide Governance Indicators database.

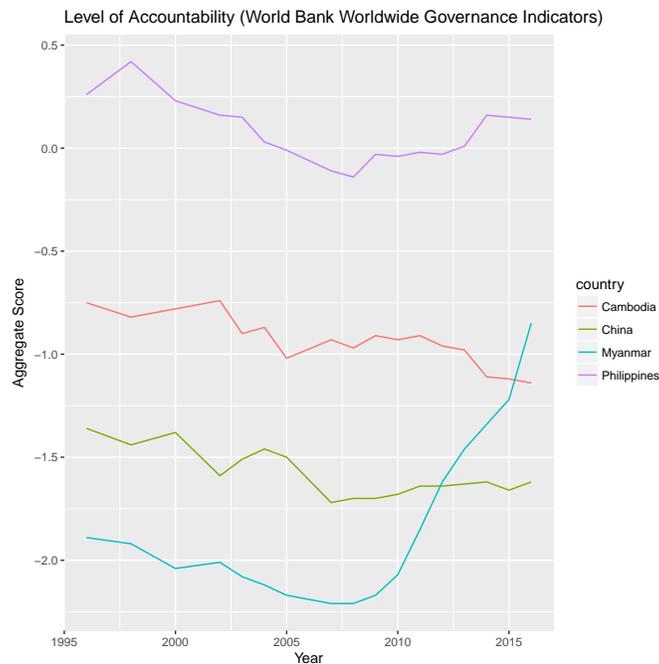


Figure 1: Country aggregate accountability scores. Data source: Worldwide Governance Indicators, World Bank

First, to test Hypothesis H1a, I discuss Cambodia as a case of low accountability and the correspondingly high efficacy of China's economic carrots. I show how Chinese carrots have worked

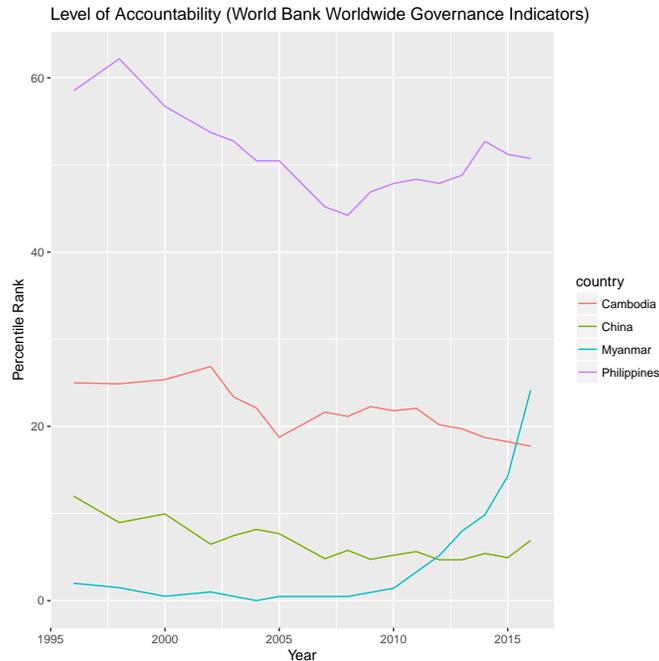


Figure 2: Country accountability percentile rank. Data source: Worldwide Governance Indicators, World Bank

through crony state-business linkages in Cambodia, concentrated around Prime Minister Hun Sen, which has directly translated into desired political outcomes for Beijing. This is illustrated by evidence of a spike in Chinese aid at opportune moments, and Cambodia’s resulting willingness to support China’s position on the South China Sea and oppose others. This includes a particularly notable incident in the run-up to 2012, when Cambodia held the ASEAN chairmanship and Beijing dramatically increased economic inducements to Phnom Penh. Moreover, an absence of public accountability mechanisms have prevented public and societal actors from punishing Prime Minister Hun Sen.

Next, to test Hypothesis H1b, I show how the openness and accountability of the Philippine system – with a free press, competitive elections, and civil society – caused China’s instrumental carrots in the mid-2000s to backfire. The Philippine president and other top officials were found to have cozy relationships with Chinese SOEs, receiving bribes and kickbacks for major Chinese-led investment projects. In return, Philippine leaders had agreed to reverse positions on the South China Sea and signed cooperative agreements that undermined national sovereignty and previous

official positions. Because Chinese economic inducements benefited only a corrupt elite patronage network with ties to the president, this generated severe public opinion backlash and political opposition, ultimately forcing the cancellation of these economic deals.

In the case study of Myanmar, also to test Hypothesis H1b, I use the political transition from military junta to democratically-elected government to show how the effectiveness of China's economic statecraft is dependent on stable political relations and hence vulnerable to changes in domestic political leadership. Because they engender public backlash, particularly as the Chinese government has mostly relied on crony and corrupt instrumental carrots, this ultimately leads to changes in domestic political leadership that is no longer favorable to Chinese interests. Similar to the Philippine case, studying within-country variation better controls for other factors at play. Under the previous military junta, instrumental carrots served to benefit military cronies directly via non-transparent economic deals. However, the transition to a more democratic form of government makes these direct, personalized state-to-state agreements less feasible. It has also negatively affected bilateral relations between Myanmar and China, and led to changes in Myanmar's public management of its South China Sea position.

Cash for Comment: How China Bought Over Cambodia

Cambodia is perhaps the archetypal case of Chinese influence in Southeast Asia. While Cambodia may be a relatively small and impoverished country, even relative to its neighbors, ASEAN's institutional norm of consensus allows Phnom Penh – with Chinese backing – to effectively wield veto power over the organization's statements and positions.

The current Sino-Cambodian relationship grew from instrumental and transactional foundations. China was the patron of the Pol Pot regime and Khmer Rouge, in opposition to Hun Sen's origins as part of the Vietnam-backed People's Republic of Kampuchea (PRK). However, as Hun Sen rose in prominence and eventually seized power in a coup, which led to international sanctions, Beijing exploited the opportunity and became Cambodia's primary source of economic and military assistance. (Ciorciari, 2015)

Prime Minister Hun Sen and his cronies maintain tight control over lucrative sectors of Cam-

bodia's economy, from natural resources and trading to construction and industrial parks. Apart from the private sector, Hun Sen and his extensive web of relatives – by blood and marriage – also control key components of the domestic political machinery and state apparatus, from the military and police to the media and civil society.⁴ Both politics and business operate through personalized patronage networks. Business elites get concessional benefits and licenses as well as government positions, and they in turn channel funds to the ruling coalition and security forces. Funds also flow to officials through bribes and kickbacks, and as patronage in advance of elections. (Ciorciari, 2015) The Cambodian leadership under Hun Sen has also brutally suppressed political opposition figures and intimidated voters, preventing fair and competitive elections (McCargo, 2005), limiting public accountability. Ahead of local and national elections in 2017 and 2018, the Cambodian government has slammed opposition figures with numerous lawsuits and passed measures that could dissolve the main opposition party, causing the top opposition leader, Sam Rainsy, to preemptively resign.⁵

Large-scale Chinese investment projects, in sectors such as natural resources, energy, transportation, and textiles, are subject to few institutional checks. Contracts are non-transparent and directly involve dealings between Chinese businesses and Cambodian political elites. Land grabs and growing socioeconomic and environmental costs have generated discontent, but opposition activists have often faced violent and life-threatening responses by the state.⁶ (Ciorciari, 2015) When other international donors are reluctant to provide aid due to human rights concerns, China easily makes up more than the difference. Chinese aid also tends to directly benefit Cambodian political elites, in the form of expensive political buildings and infrastructure. Overall, Cambodia's system has low accountability, inhibiting public and societal actors from punishing Hun Sen or enforcing oversight over Chinese economic carrots.

If Beijing uses instrumental economic carrots to buy over Cambodia's political acquiescence, an observable implication would be large increases in Chinese economic inducements to Cambodia (a non-dissenter state), such as aid flows or major investment project announcements, that occur

⁴For a detailed investigation, see "Hostile Takeover: The Corporate Empire of Cambodia's Ruling Family," Global Witness, July 2016.

⁵Julia Wallace, "Top Opposition Leader in Cambodia Resigns as Election Nears," *New York Times*, February 12, 2017.

⁶See also "How China bought its way into Cambodia," *Financial Times*, September 8, 2016.

in the run-up to politically salient events, such as ASEAN summit meetings. The 2012 ASEAN Annual Ministerial Meeting (AMM), hosted by Cambodia as the ASEAN Chair that year, was a particularly notable case. That meeting marked the first time a joint communique failed to be issued by the foreign ministers, due to consistent Cambodian opposition to mention of Scarborough Shoal and EEZ disputes in the South China Sea.

Based on leaked records and statements to the press, the consensus among foreign and even Chinese observers was that Beijing had bought Cambodia over and pressured its leaders to prevent a joint ASEAN position and advocate instead Chinese preferences for bilateral management of the SCS disputes. In a breach of protocol, the Cambodians apparently consulted with their Chinese counterparts in the midst of ASEAN discussions over the wording of the joint communique, and China had demanded that reference to the South China Sea be removed.⁷ The Cambodian Foreign Minister said that he would be scolded by his superiors if he agreed to the joint statement, while Hun Sen falsely claimed that he had secured agreement from both Xi Jinping and Aquino on the SCS issue.⁸

Figures 3 and 4 show significant spikes in Chinese official development aid (ODA) to Cambodia in 2011 and 2012, suggesting a strong relationship between Chinese money and Cambodia's stance during the ASEAN AMM in July 2012. This corresponds with observations that there was a "straight up monetary" deal to provide economic benefits to Cambodia in exchange for not accepting specific language on the South China Sea.⁹ A parallel incident occurred during the July 2016 ASEAN summit, when Cambodia blocked any mention of the recent international tribunal ruling that had criticized China's position. Beijing pledged \$600 million in aid to Phnom Penh just before the summit, and announced soon after the ASEAN meeting that it would build a \$16 million National Assembly Hall in the Cambodian capital.¹⁰ Thus, the Cambodia case – exemplifying low public accountability – shows how instrumental Chinese carrots can efficiently produce political results for Beijing in the context of ASEAN and the South China Sea disputes.

⁷For a detailed analysis of what occurred at the meeting, see [Thayer \(2012\)](#)

⁸Interview, former senior member of Presidential Management Staff under Aquino, July 29, 2016.

⁹Interview, senior U.S. diplomat working in Southeast Asia, January 2017.

¹⁰"How China bought its way into Cambodia," *Financial Times*, September 8, 2016.

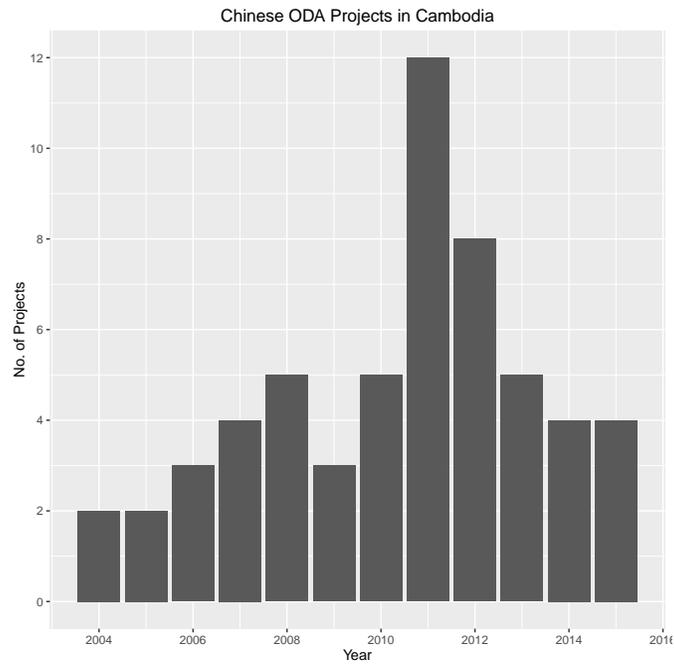


Figure 3: No. of Chinese ODA projects in Cambodia. Data source: odacambodia.com

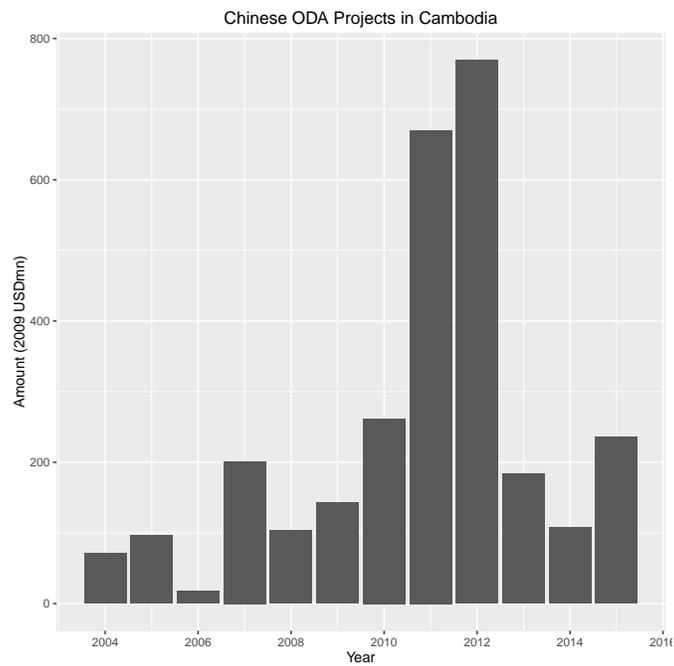


Figure 4: Amount of Chinese ODA flows to Cambodia. Data source: odacambodia.com

Holding Cronies Accountable: Philippine Backlash against Chinese Carrots

In the 2000s, the Gloria Arroyo administration was an eager recipient of economic incentives offered by Beijing, leading to a boom in trade and investment ties. Beijing ramped up its inducements, including major infrastructure deals in exchange for more concessional positions on the South China Sea. However, China's carrots ultimately backfired and failed because the deals were agreed upon outside of the proper legal and institutional channels, and hence seen as covert and unlawful in the Philippine society. While Philippine politics and its economy may be based on crony patronage networks, the presence of broader accountability mechanisms, including a free press, an active political opposition due to competitive elections, and civil society, ensures that these societal actors are able to intercede in the process and outcomes of China's economic statecraft. Because there is public accountability, Philippine political leaders have to take into account public opinion.

Economic and political relations were very positive in the early 2000s. IMF figures show that bilateral trade grew from US\$1.77 billion in 2001 to US\$5.3 billion in 2003, and then US\$8.29 billion in 2006 (Storey, 2008). The total value of bilateral goods trade grew from US\$9.4 billion in 2003 to over US\$30 billion in 2007 (U.S.-China Economic and Security Review Commission, 2015), with the Philippines enjoying a healthy trade surplus with China, unlike most other ASEAN countries. This was also accompanied by positive political and diplomatic ties, with the signing of numerous Memorandums of Understanding (MOUs) ranging over twenty sectors. This ranged from defense cooperation and military assistance to agriculture, tourism, infrastructure, as well as investment and finance. For example, between 2001 and 2007, the two countries signed 9, 14, and 19 bilateral agreements on infrastructure, trade/investment/finance, and agriculture respectively.¹¹

Beijing's generosity in investments and loans was remarkable, particularly in building up the Philippines' rundown infrastructure. The scale of funding inflows, sometimes described as official development assistance (ODA), has been estimated in the media at between US\$1.8 and US\$8 billion. In contrast to Japan, China was seen to rapidly approve concessional loans without the

¹¹Embassy of the Philippines in Beijing, "List of Ph-Ch Bilateral Agreements," Republic of the Philippines, May 15, 2014, accessed on Jan 5, 2015 at <http://beijingpe.dfa.gov.ph/index.php/list-of-bilateral-agreements>.

need for cumbersome “strings” in the form of accountability and governance standards.

Major projects included railway lines and a government broadband network. In 2003, China agreed to provide US\$400 million via the China Export-Import Bank for the US\$503 million, 20-mile long North Luzon Railway, or NorthRail. Subsequently, it agreed to another loan covering 95 percent of costs for the upgrading and extension of South Luzon Railway, adding up to US\$932 million. In addition, a US\$329.5 million deal signed in 2007 involved the development of the National Broadband Network (NBN), meant to establish an e-government presence throughout the country by linking 2,295 national offices and 23,549 village and municipal offices. China provided a twenty-year loan at 3 percent interest per annum, conditional on a Chinese company being appointed as the exclusive supplier and provider. (Storey, 2008)

Arguably even more significant was the Joint Marine Seismic Undertaking (JMSU), an agreement initiated in September 2004 between Chinese and Philippine national oil companies, and later joined by Vietnam, to conduct a joint survey in the South China Sea, although details of the text and geographical coverage remained secret. Taking effect on July 1, 2005, the seismic survey contract was awarded to a subsidiary of CNOOC (International Crisis Group, 2012; Storey, 2008).

During this period, Beijing saw a willing – even pliable – partner in the Arroyo government, who was responsive to economic inducements and Chinese policy preferences. This made carrots more attractive and mutually beneficial. The large number and value of economic agreements made during that period is even more striking and unprecedented when contrasted with historical trends in the bilateral economic relationship – even relative to other ASEAN countries, the Philippines has remained largely peripheral (for economic reasons) for Chinese trade, investment, and aid (Clemente, 2016).

However, in 2008, it was reported that the Philippines had made controversial political concessions under the JMSU signed with Beijing (and Hanoi). First, a sixth of the designated area was in fact in Philippine territorial waters unclaimed by China or Vietnam, pointing to an unnecessary compromise on sovereignty. Second, the Arroyo government had undercut ASEAN efforts to address the South China Sea disputes as a multilateral issue by choosing to deal with China bilaterally without consulting its Southeast Asian neighbors (Wain, 2008). Both Wain and a Philip-

pine journalist, Ricky Carandang, have charged that Arroyo agreed to the JMSU in exchange for promises of Chinese economic inducements, as reflected in the subsequent surge of Chinese investment and loan projects (Baviera, 2015). As an illustration, in 2006 the Chinese government unexpectedly offered \$2 billion of aid loans from its Export-Import Bank per year until 2010, easily dwarfing the \$200 million offered separately by the World Bank and Asian Development Bank, and a \$1 billion loan under negotiation with Japan.¹²

Evidence suggests that government bodies that would have normally handed such foreign and security policy issues, including the Department of Foreign Affairs, National Security Council, and even the Department of Energy, were sidelined during the JMSU negotiations. In fact, DFA bureaucrats had recommended against proceeding with the agreement. Two key individuals were involved in pushing the JMSU deal: the Speaker of the House of Representatives, Jose de Venecia Jr., who was a key political ally of Arroyo, had helped broaden international linkages with the Chinese Communist Party, and was linked with domestic oil interests; and the president of the Philippine National Oil Company Eduardo Manalac, who also had close links with Chinese oil companies. De Venecia apparently even gave commitments to his Chinese counterparts without consulting his Philippine policy colleagues. (Baviera, 2012, 2015)

The JMSU incident sparked domestic furor, with political opponents challenging the constitutionality of the agreement, and criticizing the lack of government transparency on the terms of the agreement. The JMSU expired in June 2008 and was not renewed. (Baviera, 2012; International Crisis Group, 2012; Storey, 2008) Political opposition and public criticism over a perceived selling-out of Philippine sovereignty and national security interests put a stop to the JMSU arrangements. Thus, accountability caused China's carrots to backfire.

A similar backlash unfolded against the February 2007 Chinese-financed NBN deal. Reviews suggested that the project was hugely overpriced and should have cost only \$50 million instead of the \$329.5 million contract, and that a domestic telecommunication company could have built the same service. The project was also converted into a government-to-government agreement that bypassed the usual bidding and procurement process, with the contract being handed to ZTE, a

¹²Jane Perlez, "China competes with West in aid to its neighbors," *International Herald Tribune*, September 18, 2006.

state-owned Chinese telecommunications company. The NBN project was allegedly brokered by Benjamin Abalos, chairman of the Philippines' Commission on Elections, who had cozy ties with ZTE. He extracted bribes from ZTE in the name of the president and her political allies, and offered bribes to Philippine government authorities including the NEDA secretary. This amounted to \$41 million in "advances." During the process, President Arroyo also played golf with ZTE executives and was present during the signing of the contract. When a whistle-blower revealed the ongoing corruption, political pressure and public criticism forced Arroyo to cancel the contract that year. The scandal led to public hearings and a Senate Committee investigation. (Baviera, 2015)

Parallel irregularities were found in the NorthRail project. This had in fact originally been a Japanese-financed project that was stalled because the Japanese government was hesitant to ignore civil society opposition over local resettlement (Trinidad, 2016).¹³ However, China did not have similar reservations. The project had two phases comprising a 2004 \$400 million component (which subsequently underwent arbitration) and 2007 \$600 million component (which was never started), and was contracted out to the Chinese SOE China National Machinery and Equipment Corp Group (CNMEG), now known as Sinomach. The deal also involved Jose de Venecia, who boasted of "convincing two Chinese presidents, two Chinese Prime Ministers, two Speakers of Parliament, and three Chinese Ambassadors to the Philippines for China to undertake the project." (Baviera, 2012) In 2006, a group led by an activist lawyer filed a lawsuit arguing that the deal had violated Philippine law on government procurement (Trinidad, 2016). The project was also considered overpriced, with the dubious honor of being the world's most expensive railway by unit distance. CNMEC increased the costs from \$421 million to \$594 million in 2009, while the contract was found to have questionable provisions skewed in the firm's financial favor, which also did not take responsibility for the necessary pre-operational and development procedures. When the project was terminated under Aquino, CNMEC then overbilled the Philippine government by \$129 million for completed work. After renegotiating the loan repayment with China, the Aquino government later revived the much-needed development project in early 2016, with a Japan ODA grant that had more favorable loan terms.¹⁴

¹³Interview, National Economic and Development Authority, Manila, July 28, 2016

¹⁴"Northrail contractor got paid \$129M more," *Rappler*, September 11, 2013; Fidel Jimenez, "RP's Northrail project

Thus, China's economic inducements did not have a lasting effect. Carrots were able to work in the short term because of corruption and alliances with powerful political and business actors (Baviera, 2015). However, there was a political blowback once these problems were discovered. While Chinese aid tends to operate through less transparent, more informal procedures (including the use of bribes and kickbacks), this comes into tension with Philippine institutions and rules governing aid that adhere to traditional DAC standards, such as transparency and competitive bidding (Trinidad, 2016). Seeing the Philippines as a weak and poor actor, Beijing had thought that such infrastructure and financing deals would be sufficient to buy political cooperation and accommodation from Manila – leading to an unpleasant shock.¹⁵ The relatively open and accountable nature of the Philippines political and legal system meant that economic carrots were less able to permanently buy off government and business elites, due to the pressures of public opinion, a free media, as well as active civil society and political opposition. The presence of public accountability ensures that these societal actors in the Philippines are able to enforce the requisite standards, ensure that economic relations do not undermine national security interests, and punish political leaders for violating these standards.

Since 2016: Carrots Anew for Duterte

With Rodrigo Duterte assuming office in June 2016, Beijing seized an opportunity to recalibrate the bilateral relationship, adjusting both its political rhetoric and economic statecraft. Duterte has a personal history of dislike for the United States, as reflected in his public statements, and has declared himself as “pro-Filipino.” He is seen to be charting a more neutral or balanced foreign policy, and seeking more “low-profile” and “cooperative dialogue” (as preferred by China) instead of escalatory public rhetoric over the South China Sea issue.¹⁶ As president, Duterte announced a “separation” from the United States and a “springtime” in relations with China. Suggesting a shift in approach, Beijing's official statements after tribunal ruling adopted international legal language and indicated a willingness to open negotiations and use a “provisional arrangement of

could be world's costliest railway - Drilon,” *GMA News*, July 19, 2008; “PH renegotiates Northrail loan with China,” *Rappler*, September 23, 2012; Miguel Camus, “PH, Japan seal P97-B commuter rail project,” *Philippine Daily Inquirer*, January 29, 2016.

¹⁵Interview, Tina Clemente, Manila, July 26, 2016.

¹⁶Interview, Shanghai, July 19, 2016.

a practical nature” to settle disputes.¹⁷

While there were no new Chinese loans under Aquino since the NBN deal was scrapped, and exchanges had essentially chilled after the project scandals broke, the Duterte administration has seen significantly more discussions of economic cooperation. According to Philippine officials, the Chinese embassy is now “warmer,” and China’s economic minister discussed potential rail and bridge projects during a July 2016 visit.¹⁸ During Duterte’s visit to Beijing in October 2016, the two countries signed \$24 billion worth of deals, including \$15 billion for investment projects, across a broad range of industries, and \$9 billion in credit facilities. The president was also accompanied by a large business delegation eager for more Chinese financing, joint ventures, and economic cooperation, suggesting pent-up demand.¹⁹ China also removed the previous travel advisory and restrictions on the import of tropical fruits.²⁰ Although these carrots are not expected to peel Manila completely away from the U.S. alliance, Beijing aims to cultivate a more neutral and cooperative Philippines.²¹ In December 2016, after tensions with the U.S. over Duterte’s domestic drug war, the Chinese ambassador to Manila offered \$14 million in military aid, including small arms and fast boats.²² In late January 2017, a cabinet-level delegation from the Philippines finalized \$3.7 billion worth of economic cooperation agreements, covering the fields of infrastructure, transportation, telecommunications, railways, irrigation, and living standards.²³

There remain concerns in some quarters, including the foreign and defense policy establishments, the political opposition, and even among some of the public, that Manila is now leaning too closely toward China and compromising on Philippine sovereignty interests in the South China Sea.²⁴ Duterte has indicated that the tribunal decision would “take a back seat,” and the two countries have agreed to resume talks on the South China Sea and increase maritime cooperation.²⁵ As

¹⁷Interview, Chito Sta Romana, former journalist and now Philippine ambassador to China, July 29, 2016.

¹⁸Interview, National Economic and Development Authority, Manila, July 28, 2016.

¹⁹“The Philippine pivot: Duterte readies huge business delegation for Beijing visit,” Reuters, October 11, 2016; “Philippines, China sign \$24-B deals,” *Philippine Star*, October 22, 2016.

²⁰“Rodrigo Duterte and Xi Jinping Agree to Reopen South China Sea Talks,” *New York Times*, October 20, 2016.

²¹“China under no illusion PH will pivot away from US,” *Inquirer*, October 23, 2016.

²²“China offers \$14 million arms package to the Philippines: Manila’s defense minister,” Reuters, December 20, 2016.

²³“China, the Philippines confirm cooperation programs worth 3.7 billion USD,” Xinhua, January 23, 2017.

²⁴Richard Javad Heydarian, “Duterte is under pressure to end the Philippines-China honeymoon,” National Interest, April 13, 2017; Interview, former Aquino presidential staff member, July 29, 2016.

²⁵“Rodrigo Duterte and Xi Jinping Agree to Reopen South China Sea Talks,” *New York Times*, October 20, 2016.

ASEAN chair in 2017, the Philippines has not capitalized on momentum from the arbitration decision nor criticized Chinese actions, with Duterte saying Manila could not pressure China and that dialogue was the only way forward.²⁶ The two countries started bilateral talks on the South China Sea, with Beijing agreeing not to newly occupy disputed features under a new “modus vivendi.” In addition, discussions are ongoing on a joint venture to exploit energy resources in the South China Sea, with high-level Philippine officials stating that any deal would follow Philippine law and not compromise on national territory.²⁷

China’s instrumental carrots may still operate based on relationships with crony actors in the Philippines. For example, Beijing reportedly reached out to certain presidential candidates in the 2016 electoral race known to be corrupt. In particular, Jejomar Binay previously declared that “China has money, we need capital,” and promoted a “joint venture” between the Philippines and China to develop resources in the South China Sea.²⁸ To reassure domestic skeptics and mollify public opinion, there appear to be more stringent, regularized, and transparent procedures for Chinese financing in the Philippines. After the project scandals, some efforts were made to increase transparency in the review and procurement process. The Philippine government now decides on the specific contractor, chosen from a list nominated by the Chinese embassy in Manila. Decisions on financing will now have a new layer of bureaucratic mandate and be handled jointly by NEDA, allowing for more holistic review.²⁹ In November 2016, NEDA approved a new set of guidelines specifically focused on improving transparency and coordination when processing Chinese investment and aid activities. The Investment Coordination Committee (ICC) of NEDA is to act as a clearing house for China-assisted projects. Manila has requested that China accredit qualified companies, which would then be screened and selected by the Philippine government.³⁰ This effort to improve regulatory oversight comes amid concerns that many of Beijing’s newly

²⁶Javier Hernandez, “After Trump’s Phone Call to Philippines Leader, China’s President Calls Him,” *New York Times*, May 3, 2017.

²⁷“Philippines says China agrees on no new expansion in South China Sea,” *Reuters*, August 15, 2017; “Philippines weighs China Energy Deal in Disputed South China Sea,” *Bloomberg*, August 15, 2017.

²⁸Interview, senior Aquino administration official, July 2016; Paterno Esmaguél II, “Binay: ‘China has money, we need capital,’” *Rappler*, April 14, 2015.

²⁹Interview, National Economic and Development Authority, Manila, July 28, 2016

³⁰“NEDA Board approves Availment Guidelines for Chinese support for proposed PHL investments,” Department of Finance, November 15, 2016; “NEDA-ICC to act as clearing house for China investments,” *Philippine Star*, November 19, 2016.

pledged investments involve 'tainted' Chinese firms.³¹

Chinese ODA has remained (and historically been) low compared to other traditional donors such as Japan, the World Bank, and the Asian Development Bank.³² But the Philippines remains eager for Chinese financing and investment. As one official put it, China remains an important source of financial and technical assistance, both because of its resources and its political efficiency – Beijing makes rapid commitments and faces less constraints on social issues (such as resettlement). This is why Chinese money remains welcome, even if aid remains tied and loans do not offer as concessional interest rates as those from Japan or South Korea: “China is in the best position to help us [in economic development], so we have to follow the terms and conditions that the donor country prefers.”³³ It will be interesting to see how China’s new carrots play out under Duterte, and whether they will be effective in promoting political accommodation over South China Sea issues.

Uprooted Carrots: Vulnerability to Changing Political Winds in Myanmar

During military junta rule in Myanmar, China was widely seen as the former’s major backer, and political ties were intertwined with the large amounts of Chinese aid and investment flowing into Myanmar’s underdeveloped economy. However, the unexpected political transition to a more democratic form of government has amplified backlash against Chinese carrots and made Naypyidaw a less steadfast political ally, including on issues such as the South China Sea. While Beijing could previously push through economic deals to its benefit by rewarding corrupt, crony actors, such non-transparent arrangements are now less feasible, and (negative) public opinion becomes a more powerful political voice. As a result, China’s use of carrots is less able to translate directly into desired political outcomes. This emphasizes the vulnerability of instrumental carrots – that seek to buy over selected crony actors as opposed to fundamentally influencing national interests – when there are domestic political shifts in the target country that alter the pivotal groups in power.

³¹ Aaron Lozada, “‘Tainted’ Chinese firms eye new projects in Philippines,” ABS-CBN News, October 26, 2016.

³² See NEDA reports

³³ Interview, National Economic and Development Authority, Manila, July 28, 2016

When the State Peace and Development Council/State Law and Order Restoration Council (SPDC/SLORC, the official name of the military government) seized power and refused to acknowledge the National League for Democracy (NLD) victory, led by Aung San Suu Kyi, in the 1990 general election, Myanmar faced international censure and isolation. Years of economic sanctions left China as the dominant source of trade, investment, and technical assistance. A long, complicated history of political ups-and-downs meant that the junta had no intention of turning Myanmar into a client or satellite state of China, but the lack of alternate strategic options greatly limited their ability to pursue a non-aligned, neutral foreign policy. This created an ‘implicit bargain’ in which China provided much-needed economic and political support, in exchange for favorable access to Myanmar’s natural resources and strategic location (Chow and Easley, 2015; Goh and Steinberg, 2016).

Myanmar’s domestic political transition has altered the economic and political landscape for China. While the military remains a powerful actor and Myanmar’s economic structure remains dominated by the same cronies, these connections that China built are now less pivotal in terms of direct political influence. Aung San Suu Kyi and the NLD is now the pivotal group in power and formulating policy. Decision-making has been highly centralized and concentrated in the hands of ASSK, who built up a ‘defensive wall’ (understandably after years of house arrest and oppression) and does not always heed her advisers,³⁴ and she is not immediately as favorable toward China as her military predecessors. Furthermore, the greater attention to public accountability and transparent review amidst growing anti-Chinese sentiment suggests that Chinese investment projects must meet higher standards of public benefits. The Chinese “thought they had sewn it [political influence] up” using their traditional methods of bribing cronies,³⁵ but this generated scarce public sympathy, leading to ineffective carrots once domestic political changes occurred.

Aung San Suu Kyi faces a hard balancing act in managing relations with China. While eager to broaden ties with other countries and conscious of widespread anti-Chinese public sentiment, the Burmese government needs help from China on the peace process and border issues, which

³⁴Interviews in Yangon, Australian businessman with ties to NLD central executive committee, January 4, 2017; senior manager at KBZ bank, January 14, 2017.

³⁵Interview, U.S. diplomat based in Yangon, January 3, 2017.

are key policy priorities.³⁶ In addition, as often lobbied by economic and business actors in Myanmar, China remains an important source of trade and investment, because “they have money and are less concerned about ethical stuff;” Aung San Suu Kyi reportedly realized the importance of the China-Myanmar relationship during her August 2016 visit to Beijing, which also included business delegations from both sides.³⁷ To maintain domestic legitimacy, Naypyidaw will have to spur greater economic growth, which likely requires a role for China.³⁸ As a retired senior Burmese diplomat put it, “we are neighbors and cannot run away from each other; China is a big country, so we must be friendly and cooperative.”³⁹ There is also a widespread perception that Beijing is using the ethnic armed groups as a trump card to exert pressure on the Burmese government. Although the NLD campaigned on anti-China rhetoric and issues such as canceling the Myitsone dam project, since assuming office Aung San Suu Kyi has been more cautious, instead setting up a commission to evaluate the project, a move interpreted as “buying time.”⁴⁰

After being caught flat-footed by the domestic political transition in Myanmar, the Chinese government has scrambled to build connections with various political actors, trying to figure out who to work with. It has aggressively courted the new NLD government, with the Chinese foreign minister being the first to visit, followed by several delegation exchanges. Beijing has also reached out to NGOs and democracy activists, while continuing to hedge by maintaining contacts with former military government figures, including Than Shwe.⁴¹ (Myoe, 2015) Chinese leaders are apparently still talking to the former junta regarding the Myitsone dam, as even the current civilian government does not have a copy of the project contract.⁴² Perhaps a reflection of an effort to redefine the nature of Myanmar-China interactions, Chinese journalists have also been directed to focus more on social and cultural reporting instead of economic and political issues.⁴³ However, the jury is still out on how effective China’s political outreach has been, with some reporting that

³⁶ Interview, retired senior Burmese diplomat, Yangon, January 13, 2017.

³⁷ Interview, senior manager at KBZ bank, Yangon, January 14, 2017.

³⁸ Interview, Australian diplomat based in Yangon, January 5, 2017.

³⁹ Interview, retired senior Burmese diplomat, Yangon, January 13, 2017.

⁴⁰ Interview, professor at Yangon University, Yangon, January 13, 2017.

⁴¹ Interviews, U.S. and Australian diplomats based in Yangon, January 3 and 5, 2017.

⁴² Interview, senior manager at KBZ Bank, Yangon, January 14, 2017.

⁴³ Interview, Chinese journalist based in Yangon, January 14, 2017.

Chinese delegates often adopted a patronizing tone and lectured their Burmese counterparts.⁴⁴ While Chinese firms, including state-owned enterprises, have taken some steps (or claimed to) toward social responsibility and public relations initiatives (Sun, 2012a), skepticism remains about their sincerity and whether they will actually change their way of operating.⁴⁵ For example, as part of the pipeline process for two smaller-scale Chinese hydropower projects in Kachin state, the Yunnan SOE involved has preemptively sought out NGOs and CSOs, offering them shares in the project, and engaged foreign environmental agencies to provide the cover of approval.⁴⁶

The domestic political changes in Myanmar have also produced a shift in the country's approach to the South China Sea issue. Traditionally, even if the Myanmar government did not explicitly support the Chinese government's position, it kept silent on the issue. This facilitated Beijing's strategy of dividing ASEAN and preventing a multilateral consensus on handling disputes in the South China Sea. China's consistent financial and political support for the military regime – as Myanmar's main shield from international opprobrium – created pressure on the junta government to accord with Chinese interests, both domestically and internationally (Sun, 2012a).⁴⁷ Beijing expected Myanmar to "reciprocate" and support Chinese positions in ASEAN, including China's bilateral negotiations formula for resolving the South China Sea disputes – as directly told to Myanmar officials prior to the 2011 ASEAN Regional Forum (Sun, 2012b: 82). However, the situation shifted with Myanmar's political transition.

When Myanmar was the ASEAN chair in 2014, the transition government under Thein Sein managed to avoid a repeat of the 2012 fiasco under Cambodian chairmanship. According to observers, the Chinese government exerted aggressive diplomatic pressure and made strong demarches in the run-up to ASEAN meetings summit, suggesting that bilateral relations would be harmed (with an implicit threat of economic repercussions in the background) if the ASEAN statement did not accord with Chinese interests. However, this was less successful than in Cambodia. The Myanmar government by and large handled the SCS issue smoothly, in a neutral and bal-

⁴⁴ Interview, Australian diplomat based in Yangon, January 5, 2017.

⁴⁵ Interviews in Yangon with U.S. diplomat based in Yangon, January 3, 2017; well-connected former journalist and member of China-Myanmar Friendship Association, January 7, 2017; professor at Yangon University, January 13, 2017.

⁴⁶ Interview, senior manager at KBZ Bank, Yangon, January 14, 2017.

⁴⁷ Interviews with retired senior Burmese diplomat and Yangon University academic, January 13, 2017.

anced manner.⁴⁸ During the May 2014 summit, ASEAN issued a statement expressing “serious concerns” over ongoing tensions in the South China Sea.⁴⁹ Moreover, and in a significant shift from its traditional silence on SCS issues, when the PCA tribunal ruling was announced in July 2016, Myanmar issued a public statement that expressed support for “rule of law” and calling for all parties to “exercise restraint...and to refrain from threats or use of force.”⁵⁰ This was especially notable as not every ASEAN country issued an individual statement.⁵¹

The instrumental nature of China’s carrots has ultimately limited their ability to shape political outcomes in Myanmar over the longer term, and in fact rendered them more vulnerable to changes in domestic political leadership. Because it was previously more efficient to work directly with the repressive ruling junta, major Chinese investment projects were geared toward benefiting Chinese interests and corrupt Myanmar elites, without providing any socioeconomic or developmental benefits to local populations, while often leading to human displacement and environmental degradation. Crony ties are particularly rampant in extractive industries such as jade, mining, and logging, primarily driven by Chinese demand and Chinese actors.⁵² As a result, Beijing as well as Chinese firms believed that they could ignore negative public opinion, relying instead on bribes and “government relations” as the main “lubricant” for Chinese economic projects (Sun, 2012b). Combined with widespread unethical practices of Chinese individuals, and the poor quality of Chinese-made products, there is a broad, deep-rooted dislike for China in Myanmar society.⁵³ Beijing’s support for the previous military junta has also been regarded as inhibiting meaningful progress in democratic governance (Myoe, 2015). A Burmese diplomat observed that China has acted mostly for itself, suggesting that it should be more generous and model its ODA policy after that of Japan.⁵⁴

⁴⁸Interviews, U.S. and Australian diplomats based in Yangon, January 3 and 5, 2017.

⁴⁹“At Myanmar’s first ASEAN Summit, alarm over China sea spat,” AFP, May 12, 2014, accessed February 4, 2017 at <http://www.mmtimes.com/index.php/national-news/nay-pyi-taw/10325-at-myanmar-s-first-asean-summit-alarm-over-china-sea-spat.html>

⁵⁰“Myanmar’s statement on the Award of the Arbitral Tribunal on the South China Sea under Annexure VII of UNCLOS,” Ministry of Foreign Affairs, Nay Pyi Taw, July 13, 2016, accessed February 4, 2017 at <http://www.president-office.gov.mm/en/?q=issues/foreign-policy/id-6479>; see also Nyan Lynn Aung, “Myanmar wades in to South China Sea ruling with a balancing act,” *Myanmar Times*, July 19, 2016.

⁵¹Interview, retired senior Burmese diplomat, Yangon, January 13, 2017.

⁵²See e.g. “Jade: Myanmar’s ‘Big State Secret,’” *Global Witness*, October 2015.

⁵³Interview, Yangon University professor, Yangon, January 13, 2017.

⁵⁴Interview, retired senior Burmese diplomat, Yangon, January 13, 2017.

As a result, once the crony ruling coalition in Myanmar left power, there remained little state or societal support for Chinese presence and interests. China's existing tools of economic statecraft were no longer effective in producing a foreign policy aligned with Chinese preferences. While the domestic political shift in Myanmar may not be entirely exogenous to relations with China,⁵⁵ it also suggests that the blunt tool of China's instrumental carrots itself sowed the seeds of its own demise. This emphasizes how limited instrumental carrots are in reach and sustainability. China is still very keen on continuing investment projects in the country, with some stating that the Chinese government had essentially given key commercial actors in Myanmar a "blank check" and an indefinite amount of money for projects via the AIIB.⁵⁶ At the same time, explicit government-to-government favors, such as agreements made directly with certain Myanmar ministers, are no longer par for the course.⁵⁷ Chinese firms have had to compete with commercial actors from other countries – including Japan, South Korea, and Singapore – especially for major infrastructure projects. Thus, any continued Chinese economic presence is far less likely to translate into broader political influence in Myanmar.

Economic Inducements and Public Opinion: A Survey Experiment in the Philippines

This section presents results from an August 2017 survey experiment in the Philippines on how different characteristics of China's economic inducements influence public opinion in the target country. I identify two main dimensions of inducement strategies: (i) *conditionality* – whether the provided inducements are linked to certain political demands from China; and (ii) *beneficiaries* – whether the inducement benefits are targeted to a small group of political and business elites, or to the broader population. I investigate whether Chinese inducement strategies that are more conditional or that benefit a small group of political and business elites are more likely to produce public backlash. This backlash could manifest in one or both of two ways: public attitudes toward China and Chinese policies; and public attitudes toward the target country government. This backfiring effect reduces the political effectiveness of China's economic inducements.

⁵⁵One reason that the military junta decided to cede power was to engage other international actors and reduce economic and political reliance on China (e.g., [Myoe, 2015](#); [Chow and Easley, 2016](#)).

⁵⁶Interview, senior manager at KBZ Bank, Yangon, January 14, 2017.

⁵⁷Interview, professor at Yangon University, January 13, 2017.

I test two sets of hypotheses on when economic inducements create a backfire effect:

(H12a) Imposing conditionality on economic inducements worsens public attitudes toward China. (H2b) Imposing conditionality on economic inducements decreases approval ratings of the target government and makes voters more likely to vote against political incumbents.

(H3a) Targeting the economic benefits of inducements to a small group of political and business elites worsens public attitudes toward China. (H3b) Targeting the economic benefits of inducements to a small group of political and business elites decreases approval ratings of the target government and makes voters more likely to vote against political incumbents.

The Philippines presents an interesting and important country case to test these hypotheses. The Philippines is an active dispute claimant against China in the South China Sea. Beijing's use of economic inducements has also been a salient debate for the public as well as political leaders. While the online population in the Philippines will tend to be disproportionately urban and middle-class, this represents an important and vocal constituency in Philippine electoral politics.

Data Collection

The sample of N=695 was drawn using a Qualtrics online panel. Qualtrics panel providers email respondents with a link to take the survey. Aside from age restrictions (over 18), consent to participate, and a gender quota to ensure relatively even representation, no other eligibility based on demographic factors is considered.

Data quality was ensured through several steps. First Qualtrics automatically blocks repeat IP addresses, ensuring that each respondent is unique. Additionally, the survey includes an "attention filter" question: all respondents who did not pass the filter were automatically dropped from the survey. Finally, at the data cleaning stage, all respondents who answered the survey at a total speed averaging less than 184 seconds (one-third the median response time during a soft launch) were dropped. These last two steps were designed to ensure respondent quality and done before before analysis. All reported results include the above data cleaning steps.

Experimental Design

I used a 2x2 factorial design, with a total of 4 treatment populations. Each population received two primes: (i) either a conditional or non-conditional prime; and (ii) either an elite or non-elite prime. This allowed me to separately and jointly test the influence of the two dimensions of interest: conditionality and target beneficiary. T0, the baseline population, received non-conditional and non-elite primes. T1 received conditional and non-elite primes, while T2 received non-conditional and elite primes.

T3 received both conditional and elite primes, representing the interaction effect between conditionality and target beneficiary. I would expect that an economic inducement that imposes conditionality and also benefits only the elites of the target country – which I term *instrumental* – would further heighten public backlash as citizens see political elites as selling out national security and public interests for their own private benefits.

The four treatments, T0-T3, are presented in the table below. The total number of respondents were randomly assigned across the four treatment populations.

As part of the experimental design, a number of demographic and outcome variables in the survey were identical to question wordings from the Asian Barometer Survey, a regular series of cross-national surveys of the public in various Asian countries, including the Philippines (questions cover topics such as political and economic governance, social trust and interactions, and international relations). In particular, I used identical wording to a question asking respondents about their views on China and its influence. Aligning with selected variables and replication of the relevant outcome questions allows comparison of my survey results and sample with the larger-scale Asian Barometer survey.

Dependent Variables

I investigated two main effects that inducements may have on public opinion: (i) Attitudes toward China - respondents were asked to evaluate how positive or negative Chinese influence in their country is, and whether the Philippines should seek more investment and aid from China; and (ii) Attitudes toward the Philippine government - respondents were asked to rate their approval of

T0: Baseline (non-conditional + non-elite primes)	<p>China has signed several deals to increase the amount of Chinese aid and investment projects in the Philippines by \$15 billion dollars over the coming year. The Chinese government has not imposed any conditions or expectations on the Philippines in exchange for this aid and investment.</p> <p>The increased aid and investment flows will improve the Philippines' infrastructure and public services, by building railways, roads, factories, schools, and hospitals. This will boost economic growth rates at the national and local levels, provide more jobs for surrounding communities, and improve education and healthcare for the population.</p>
T1: Conditional-ity (conditional + non-elite primes)	<p>China has signed several deals to increase the amount of Chinese aid and investment projects in the Philippines by \$15 billion dollars over the coming year. The Chinese government has also imposed specific conditions that in exchange for these deals, the Philippines must allow China to conduct maritime patrols and build more structures on disputed features in the South China Sea, including Scarborough Shoal.</p> <p>The increased aid and investment flows will improve the Philippines' infrastructure and public services, by building railways, roads, factories, schools, and hospitals. This will boost economic growth rates at the national and local levels, provide more jobs for surrounding communities, and improve education and healthcare for the population.</p>
T2: Elite (non-conditional + elite primes)	<p>China has signed several deals to increase the amount of Chinese aid and investment projects in the Philippines by \$15 billion dollars over the coming year. The Chinese government has not imposed any conditions or expectations on the Philippines in exchange for this aid and investment.</p> <p>The increased aid and investment flows will improve the Philippines' infrastructure, by building roads and railways. There is little public information available about the projects. The deals were quickly sealed after some private meetings between senior Philippine political leaders, senior Chinese government representatives, and the heads of the Chinese companies. Reports suggest that these top Filipino politicians received personal favors from Chinese firms.</p>
T3: Instrumental (conditional + elite primes)	<p>China has signed several deals to increase the amount of Chinese aid and investment projects in the Philippines by \$15 billion dollars over the coming year. The Chinese government has also imposed specific conditions that in exchange for these deals, the Philippines must allow China to conduct maritime patrols and build more structures on disputed features in the South China Sea, including Scarborough Shoal.</p> <p>The increased aid and investment flows will improve the Philippines' infrastructure, by building roads and railways. There is little public information available about the projects. The deals were quickly sealed after some private meetings between senior Philippine political leaders, senior Chinese government representatives, and the heads of the Chinese companies. Reports suggest that these top Filipino politicians received personal favors from Chinese firms.</p>

Table 2: Survey primes for the four treatment populations T0-T3

the current Philippine president, and how likely they were to vote for him in the next presidential election. The exact wording of these four main survey questions is presented below:

- Generally speaking, the influence China has on your country is? (question wording identical to Asian Barometer survey; 1-6 Likert Scale + additional option "Decline to answer")
- To what extent do you agree or disagree with the following statement: The Philippines should seek more investment and aid from China. (1-5 Likert Scale)
- Do you approve or disapprove of the current Philippine president Rodrigo Duterte? (1-5 Likert Scale)
- How likely are you to vote for President Rodrigo Duterte if he re-runs for office in the next presidential election? (1-5 Likert Scale)

Open-ended Questions

Additionally, at the end of the survey, respondents were asked to answer two open-ended questions about their perceptions of Chinese aid and investment in the Philippines, and about the Philippine government's handling of foreign policy toward China. This helps to elucidate the causal mechanisms linking the treatments to changes in public attitudes toward China and toward the Philippine government. The exact wording of the two open-ended questions is presented below:

- What are your perceptions of Chinese aid and investment in the Philippines?
- How would you evaluate the Philippine government's handling of foreign policy toward China?

Results

The survey experiment results show that both conditional and elite-based inducements from China cause public opinion about China's influence to become significantly more negative. As seen in Figure 5, conditionality leads to considerable public backlash, increasing negative public perceptions of China by over 0.25 points on a 1-6 Likert Scale. A combination of conditional

and elite primes produces the greatest negative effect, substantively and significantly (almost 0.5 points more negative on the same scale). Pooling the treatments to compare those receiving the conditional prime with those receiving the elite prime, we obtain similar significant results (Figure 6). In addition, conditionality seems to have a greater negative effect than elite-based inducements.

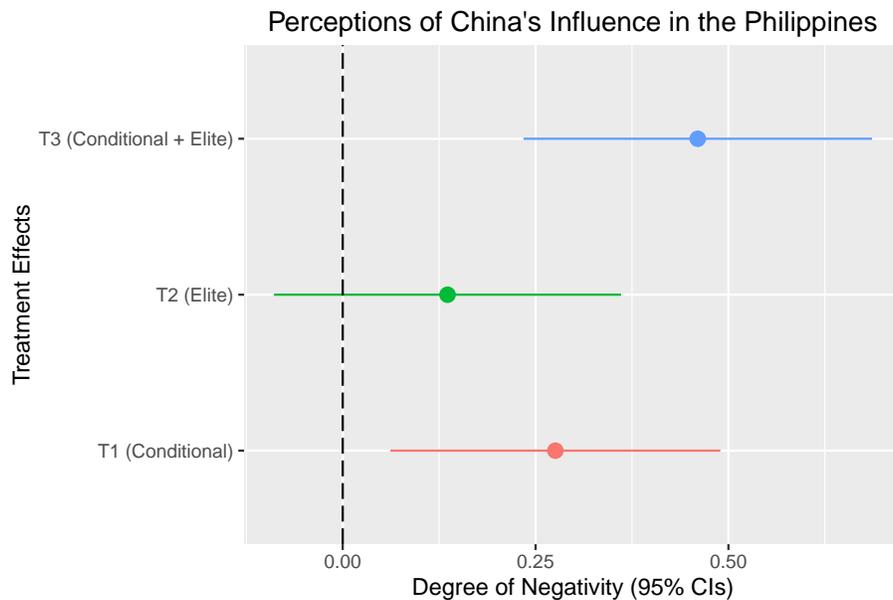


Figure 5: Treatment Effects on Public Perceptions of China's Influence in the Philippines

Interestingly, however, there were mixed and less significant results on public receptiveness to Chinese financing as well as domestic political support for Philippine leaders. Neither conditionality nor elite-based treatments had a strong effect on respondents' approval of the current Philippine government nor their likelihood of voting again for the Philippine president. (See Figures A9, A10, A11 and A12.)

This (preliminary) finding suggests that public dissatisfaction and disapproval of China may not necessarily translate into strong disapproval or punishment of the Philippines' political leadership. This could reflect Duterte's currently overwhelming popularity due to other domestic reasons; public eagerness for more peaceful relations with China; or an ongoing tension between skepticism of China on national security grounds and a desire for easy Chinese money and aid as a boon for the Philippines. My field interviews have also pointed to continued interest in closer

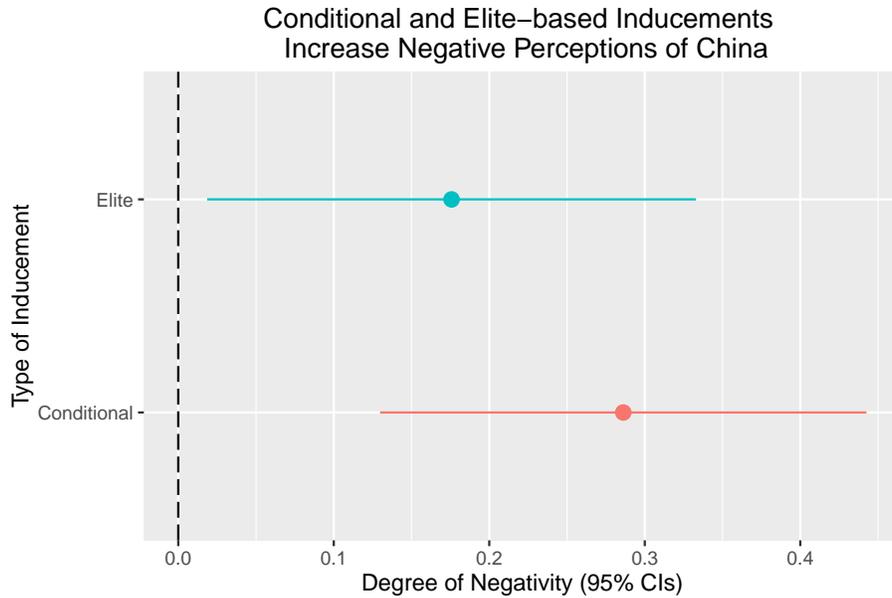


Figure 6: Effect of Pooled Conditional vs. Elite-based Inducements on Public Perceptions of China’s Influence

economic and political ties with China, even as some quarters remain wary of compromising too much.

To better understand the salient issues in Philippine public opinion toward China and Philippine-China relations, I manually coded responses to the two open-ended questions in the survey. For the first question, on perceptions of Chinese aid and investment in the Philippines, I coded the valence of each response (positive or negative), making separate categories for those who had broadly good/bad perceptions of Chinese financing and those who specifically mentioned economic or political dimensions. In addition, I coded for topics such as sovereignty, conditionality, transparency, and mutuality of benefits. The results are presented in Figure 7. There was a general consensus on the economic benefits that Chinese aid and investment brought to the Philippines, particularly in terms of employment, infrastructure, and overall growth and development (mentioned by almost 30% of respondents).

At the same time, a substantial number of respondents had mixed or negative feelings about Chinese financing. Commonly, responses would acknowledge the economic benefits but discuss political challenges. Many raised – unprompted by the question – concerns that the Philippines

was compromising on its national security and sovereignty, in particular the territorial disputes with China in the South China Sea. Such security issues were brought up by around 14% of respondents. Moreover, almost 17% of respondents remarked or expressed worry that Chinese aid and investment carried political conditions and expectations, notably that the Philippines would give up its sovereignty claims in the South China Sea. Many were suspicious of Chinese intentions and described China as having a "hidden agenda" or ulterior motives, with some using the phrase "utang na loob," which can be translated as having a debt of gratitude or deep obligation to repay a favor. Several respondents also felt that China was making use of and exploiting the Philippines, and that Chinese aid and investment would serve to benefit China more than the Philippines.

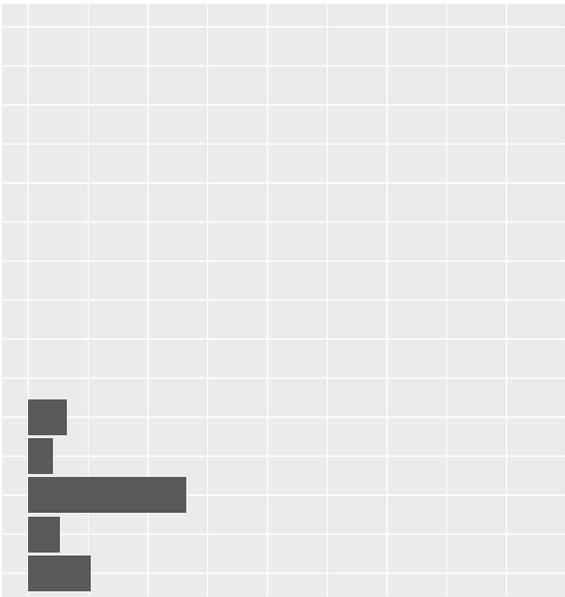


Figure 7: Open-ended responses: Philippine perceptions of Chinese aid and investment

The second question asked respondents to evaluate the Philippine government’s foreign policy toward China. Again, responses were coded for valence (positive, negative, or mixed), as well as for specific topics and themes as shown in Figure 8. Responses were almost evenly split between positive and negative, about 30% of respondents for each category, and 10% of responses having mixed evaluations. Some (8%) expressed support for President Duterte and trust in his foreign policy regardless of his decisions. Around 10% of respondents were in favor of improved political

relations with China, including using more diplomatic and peaceful means, with 3% suggesting that the Philippines had little choice given that China was powerful and rich.

Almost 10% of responses raised concerns over bilateral security issues (the territorial disputes), and around 13% of respondents criticized the Philippine government as too weak in its foreign policy toward China. Finally, a few respondents also mentioned the lack of transparency, self-interested or corrupt officials, and fears of conditions imposed by China. These findings indicate that despite a relatively high level of support for the Duterte administration and more peaceful relations with China, there are major divisions among Filipinos on how to deal with China, and significant worries persist that the Philippine government is being too weak in its foreign policy, in particular over sovereignty disputes. This points to the continued salience of national security issues and the likelihood of a public opinion backlash should Duterte be seen as compromising on Philippine sovereignty with China.

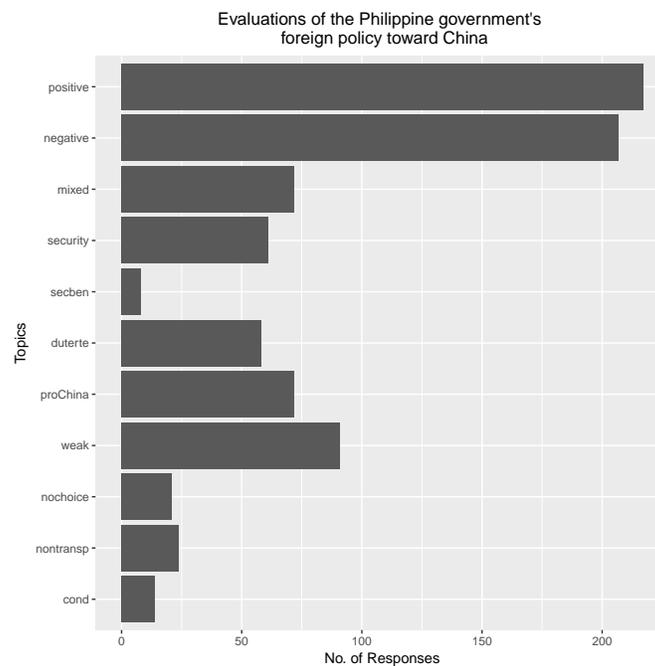


Figure 8: Open-ended responses: Evaluations of the Philippine government’s handling of foreign policy toward China

Overall, the open-ended responses point to a public recognition of the tensions between economic and political implications of Chinese aid and investment, particularly concerns over Chinese-

imposed conditions and sovereignty compromises, and a criticism of the Philippine government's weak foreign policy toward Beijing. The following quote from one response highlights the importance of public accountability (and the potential backlash against conditionality) in determining public perceptions of China:

As long as China is forthcoming with their expectations from the Philippine government as to what we should give in exchange for their aid, then I see nothing wrong with accepting Chinese investment. Anyway, they have been almost single-handedly strengthening Philippine economy by way of Chinese businesses booming in the country. Why not take it a step further and get them to invest more in the country, right? For as long as there is a clear delineation between economic investment and not political investment because I wouldn't want to see my country bowing too low to China's beck and call and sacrificing our sovereignty for financial aid.

It seems a bit shady in that the government is not transparent in telling Filipinos what's going on. All we ever hear in the news is "China invests here, China invests there", without laying down to the people how those deals came about. To me, it also felt like the media tried to paint a picture of this government's alliance with China as a whimsical move by the President to spite the US. I know it's so much more than that. If only the government would let Pinoys know to what expense all these financial aid is coming from then I would feel a bit at ease.

Conclusion

This paper's findings show that the effectiveness of any country's economic statecraft (China or otherwise) is strongly dependent on the domestic political conditions of the target country, and in particular the level of public accountability. China's statecraft strategy has by and large involved instrumental carrots and has been overwhelmingly focused on providing economic benefits to top political leaders and surrounding elites in the target country. This elite-based strategy has yielded quick political dividends, particularly in countries with low public accountability, where elites have greater incentive and ability to translate that into political outcomes. However, the use of instrumental carrots to benefit political cronies backfires in countries with high public accountability

and is also vulnerable to domestic political shifts in the target country. This could have implications even for countries such as Cambodia – should the ruling leader fall out of power, Chinese carrots are not guaranteed to continue generating political influence. Even Chinese analysts have acknowledged that a great power can provide economic benefits but may not always see desired results.⁵⁸

Overall, my research suggests China's economic statecraft has not been as effective as Western observers fear. Arguably, China's foreign policy is still in the early stages of a learning curve. While Beijing has so far found it easier and more efficient to directly provide instrumental carrots to political elites, it has perhaps started to realize that such a strategy is neither necessarily resilient to domestic political shifts nor sustainable in the longer run in a broader range of countries. For China or any other country seeking to exercise economic statecraft, a careful consideration of the target's domestic politics and public accountability will have strong implications for the attainment of desired political outcomes.

⁵⁸Interview, Southeast Asia analyst at Shanghai Academy of Social Sciences, Shanghai, July 20, 2016.

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Crafting Payoffs

Appendix

Audrye Wong



Figure A9: Treatment Effects on Approval Ratings of the Philippine Government

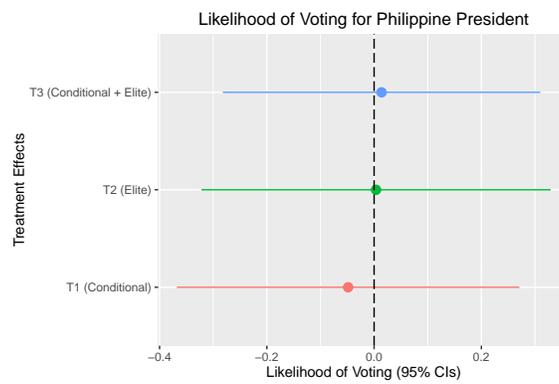


Figure A10: Treatment Effects on Likelihood of Voting Again for the Philippine President

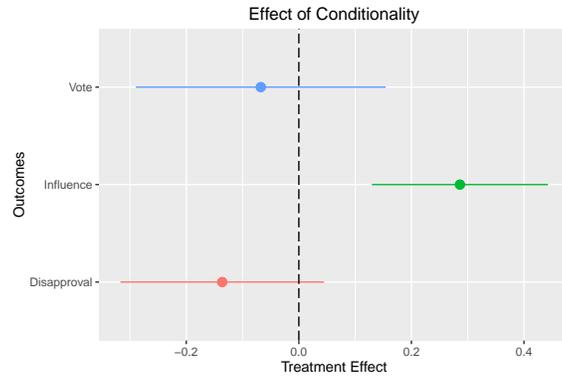


Figure A11: Effect of Conditional Inducements on Public Opinion Outcomes

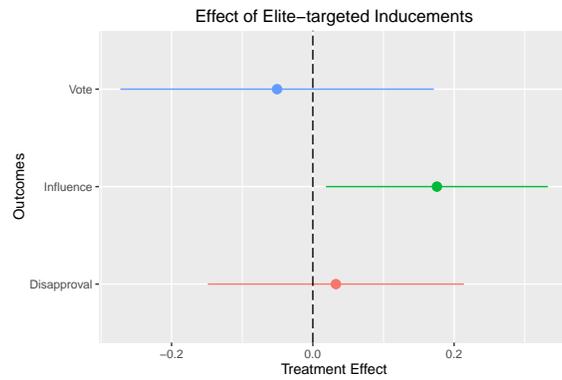


Figure A12: Effect of Elite-based Inducements on Public Opinion Outcomes

A1 Full Text of Survey Instrument

Consent to Participate in Survey

This survey is about your attitudes towards different contemporary issues. It is part of an academic research project. Academic researchers are conducting the survey and they will be the only people who see your anonymous results.

Your participation is completely voluntary. If you agree to participate, you will answer some questions about yourself and your attitudes towards different policies. The questions should take about 10 minutes to answer. If you complete the survey, you will receive a small payment.

Your participation in this study will be confidential. Your personal identity will never be linked to your survey responses, so please answer as honestly as you can.

By clicking on the arrow below, you are agreeing to participate.

-I consent to participate.

-I do not consent to participate.

[If consent is given]

Thank you for participating in this survey. If you have any questions or concerns regarding your participation you may contact: aywresearch[at]yahoo.com

A. Demographics

First, please answer some questions about your personal background.

What year were you born in?

(open-ended variable)

Where do you currently live?

National Capital Region 1 City of Manila 2 City of Mandaluyong 3 City of Marikina 4 City of Pasig 5 Quezon City 6 City of San Juan 7 Caloocan City 8 City of Malabon 9 City of Navotas 10 City of Valenzuela 11 City of Las Pinas 12 City of Makati 13 City of Muntinlupa 14 City of Paranaque 15 Pasay City 16 Taguig City 17 Municipality of Pateros Cordillera Administrative Region 18 Abra 19 Apayao 20 Benguet 21 Baguio City 22 Ifugao 23 Kalinga 24 Mountain Province Ilocos Region 25 Ilocos Norte 26 Ilocos Sur 27 La Union 28 Pangasinan Cagayan Valley 29 Batanes 30 Cagayan 31 Isabela 32 Nueva Vizcaya 33 Quirino Central Luzon 34 Aurora 35 Bataan 36 Bulacan 37 Nueva Ecija 38 Pampanga 39 Angeles City 40 Tarlac 41 Zambales 42 Olongapo City Calabarzon 43 Batangas 44 Cavite 45 Laguna 46 Quezon 47 Lucena City 48 Rizal Mimaropa 49 Marinduque 50 Occidental Mindoro 51 Oriental Mindoro 52 Palawan 53 Puerto Princesa City 54 Romblon Bicol Region 55 Albay 56 Camarines Norte 57 Camarines Sur 58 Catanduanes 59 Masbate 60 Sorsogon Western Visayas 61 Aklan 62 Antique 63 Capiz 64 Guimaras 65 Iloilo 66 Iloilo City (Capital) 67 Negros Occidental 68 Bacolod City (Capital) Central Visayas 69 Bohol 70 Cebu 71 Cebu City (Capital) 72 Lapu-Lapu City (Opon) 73 Mandaue City 74 Siquijor 75 Negros Oriental Eastern Visayas 76 Biliran 77 Eastern Samar 78 Leyte 79 Tacloban City 80 Northern Samar 81 Samar (Western) 82 Southern Leyte Zamboanga Peninsula 83 Zamboanga del Norte 84 Zamboanga del Sur 85 Zamboanga City 86 Zamboanga Sibugay 87 City of Isabela Northern Mindanao 88 Bukidnon 89 Camiguin 90 Lanao del Norte 91 Iligan City 92 Misamis Occidental 93 Misamis Orietnal 94 Cagayan de Oro City Davao Region 95 Compostela Velley 96 Davao del Norte (Davao) 97 Davao del Sur 98 Davao

City 99 Davao Oriental SOCCSKSARGEN 100 Cotabato 101 Sarangani 102 South Cotabato 103 General Santos City (Dadiangas) 104 Sultan Kudarat 105 Cotabato City Caraga 106 Agusan del Norte 107 Butuan City 108 Agusan del Sur 109 Dinagat Islands 110 Surigao del Norte 111 Surigao del Sur Autonomous Region in Muslim Mindanao (ARMM) 112 Basilan 113 Lanao del Sur 114 Maguindanao 115 Sulu 116 Tawi-tawi

What gender do you identify with?

- 1 Male
- 2 Female
- 3 Other

What is your marital status?

- 1 Single/Never married
- 2 Married
- 3 Living-in as married
- 4 Widowed
- 5 Separated / Married but separated /not living with legal spouse
- 6 Divorced

Do you have children?

- 1 Yes
- 2 No

Are you a Filipino citizen?

- 1 Yes
- 2 No

Which ethnic group do you identify with?

- 1 Filipino (Pinoy)
- 2 Chinese Filipino (Tsinoy)
- 3 Other

What is your highest level of education?

- 1 No formal education
- 2 Incomplete primary/elementary
- 3 Complete primary/elementary
- 4 Incomplete secondary/high school: technical/vocational type
- 5 Complete secondary/high school: technical/vocational type
- 6 Incomplete secondary/high school
- 7 Complete secondary/high school
- 8 Some university education
- 9 University education completed
- 10 Masters degree
- 11 Doctoral or professional degree

What is your current employment status? Choose one:

- 1 Employed
- 2 Self-employed
- 3 Currently unemployed
- 4 Student
- 5 Retired
- 6 Homemaker

What industry sector do/did you work in?

Agriculture 1 Agriculture, hunting, and forestry 2 Fishing Industry 3 Mining and quarrying 4 Manufacturing 5 Electricity, gas, steam and air-conditioning supply 6 Water supply. sewerage, waste management and remediation activities 7 Construction Services 8 Wholesale and retail trade; repair of motor vehicles and motorcycles 9 Transportation and storage 10 Accommodation and food service activities 11 Information and communication 12 Financial and insurance activities 13 Real estate activities 14 Professional, scientific and technical activities 15 Administrative and support service activities 16 Public administration and defense; compulsory social security 17 Education 18 Human health and social work activities 19 Arts, entertainment and recreation 20 Other service activities 21 Homemaker 22 Activities of extraterritorial organizations and bodies 23 Unemployed / student / retired

How much, in pesos, (approximately) was your household income last month?
(insert blank) pesos

Which candidate did you vote for in the 2016 presidential election?

1 Rodrigo Duterte 2 Mar Roxas 3 Grace Poe 4 Jejomar Binay 5 Miriam Defensor Santiago 6 Other / Did not Vote

(Attention filter)

About how often would you say that you take surveys? This is a question designed to test your attention while completing this survey, please select the option 'Rarely' to continue.

- 1 Very often
- 2 Sometimes
- 3 Occasionally
- 4 Rarely
- 5 Almost never
- 6 Don't know / don't answer

Randomized Vignettes

[All respondents randomly receive one of the following four vignettes.]
Please read the following carefully. You will then be asked questions.

T0: China has signed several deals to increase the amount of Chinese aid and investment projects in the Philippines by \$15 billion dollars over the coming year. The Chinese government has not imposed any conditions or expectations on the Philippines in exchange for this aid and investment. The increased aid and investment flows will improve the Philippines' infrastructure

and public services, by building railways, roads, factories, schools, and hospitals. This will boost economic growth rates at the national and local levels, provide more jobs for surrounding communities, and improve education and healthcare for the population.

T1: China has signed several deals to increase the amount of Chinese aid and investment projects in the Philippines by \$15 billion dollars over the coming year. The Chinese government has also imposed specific conditions that in exchange for these deals, the Philippines must allow China to conduct maritime patrols and build more structures on disputed features in the South China Sea, including Scarborough Shoal. The increased aid and investment flows will improve the Philippines' infrastructure and public services, by building railways, roads, factories, schools, and hospitals. This will boost economic growth rates at the national and local levels, provide more jobs for surrounding communities, and improve education and healthcare for the population.

T2: China has signed several deals to increase the amount of Chinese aid and investment projects in the Philippines by \$15 billion dollars over the coming year. The Chinese government has not imposed any conditions or expectations on the Philippines in exchange for this aid and investment. The increased aid and investment flows will improve the Philippines' infrastructure, by building roads and railways. There is little public information available about the projects. The deals were quickly sealed after some private meetings between senior Philippine political leaders, senior Chinese government representatives, and the heads of the Chinese companies. Reports suggest that these top Filipino politicians received personal favors from Chinese firms.

T3: China has signed several deals to increase the amount of Chinese aid and investment projects in the Philippines by \$15 billion dollars over the coming year. The Chinese government has also imposed specific conditions that in exchange for these deals, the Philippines must allow China to conduct maritime patrols and build more structures on disputed features in the South China Sea, including Scarborough Shoal. The increased aid and investment flows will improve the Philippines' infrastructure, by building roads and railways. There is little public information available about the projects. The deals were quickly sealed after some private meetings between senior Philippine political leaders, senior Chinese government representatives, and the heads of the Chinese companies. Reports suggest that these top Filipino politicians received personal favors from Chinese firms.

Outcome variables [* = questions taken from Asian Barometer Survey]

*Generally speaking, the influence China has on your country is?

- 1 Very positive
- 2 Positive
- 3 Somewhat positive
- 4 Somewhat Negative
- 5 Negative
- 6 Very negative
- 9 Decline to answer

To what extent do you agree or disagree with the following statement: The Philippines should seek more investment and aid from China.

- 1 Strongly agree
- 2 Somewhat agree

- 3 Neither agree nor disagree
- 4 Somewhat disagree
- 5 Strongly disagree

Do you approve or disapprove of the current Philippine president Rodrigo Duterte?

- 1 Strongly approve
- 2 Somewhat approve
- 3 Neither approve nor disapprove
- 4 Somewhat disapprove
- 5 Strongly disapprove

How likely are you to vote for President Rodrigo Duterte if he re-runs for office in the next presidential election?

- 1 Highly likely
- 2 Somewhat likely
- 3 Neither likely nor unlikely
- 4 Somewhat unlikely
- 5 Highly unlikely

To what extent do you agree or disagree with the following statement: China's aid and investments provide important economic benefits for your country.

- 1 Strongly agree
- 2 Somewhat agree
- 3 Neither agree nor disagree
- 4 Somewhat disagree
- 5 Strongly disagree

To what extent do you agree or disagree with the following statement: China's aid and investments provide important political benefits for your country.

- 1 Strongly agree
- 2 Somewhat agree
- 3 Neither agree nor disagree
- 4 Somewhat disagree
- 5 Strongly disagree

To what extent do you agree or disagree with the following statement: China's aid and investments are beneficial for you and your community.

- 1 Strongly agree
- 2 Somewhat agree
- 3 Neither agree nor disagree
- 4 Somewhat disagree
- 5 Strongly disagree

*Which country should be a model for your own country's future development?

- 1 United States

- 2 China
- 3 India
- 4 Japan
- 5 Singapore
- 6 Other (please name)
- 7 Your country should follow its own model
- 9 Decline to answer

*Does China do more good or harm to the region?

- 1 Much more good than harm
- 2 Somewhat more good than harm
- 3 Somewhat more ham than good
- 4 Much more harm than good
- 9 Decline to answer

What are your perceptions of Chinese aid and investment in the Philippines?
(open-ended response)

How would you evaluate the Philippine government's handling of foreign policy toward China?
(open-ended response)

Post-vignette information check

Based on the information provided earlier, has China imposed conditions on its economic aid and investment to the Philippines?

- 1 Yes
- 2 No

Based on the information provided earlier, does China help to build schools and hospitals to improve education and healthcare for the Filipino people?

- 1 Yes
- 2 No

Concluding note for survey

Thank you for your participation.

The information, events, and people described in the survey are fictional and not meant to represent any specific case of Chinese aid or investment project in the Philippines. Any resemblance to events or people in real life is purely coincidental.