

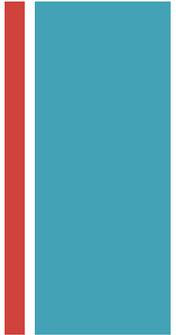
# CRAFTING PAYOFFS?

EXPLAINING THE EFFECTIVENESS OF  
CHINA'S ECONOMIC STATECRAFT

Audrye Wong  
Princeton University

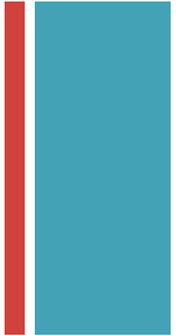
November 18, 2017

# CHINA'S ECONOMIC STATECRAFT



- **Economic statecraft: use of economic tools to pursue political goals**
  - Tools: trade, investment, aid
  - Positive (inducements) vs. negative (sanctions)
- **Important aspect of China's foreign policy**
- **Puzzle:** common narrative of China's economic hegemony and influence, but we see varied success (and many limitations) in actual political influence – what are the underlying conditions for effectiveness?
- **Existing literature:** broader economic interdependence, sanctions, lack of emphasis on domestic political conditions of the target country → I argue that statecraft effectiveness is mediated by the level of public accountability in the target

# CONDITIONS OF EFFECTIVENESS



## ■ Type of inducement strategy

- Instrumental: provision of economic benefits linked to specific conditions and political outcomes; buy over top political elites
- Societal: economic benefits provided more broadly to general public and business/interest groups – alters balance of domestic political interests

## ■ Level of public accountability in target country

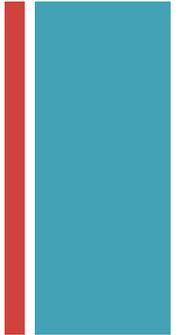
- Robust societal institutions: media, civil society, public opinion
- Transparency – ability to access information
- Oversight – ability to punish political incumbents/elites

# HYPOTHESES

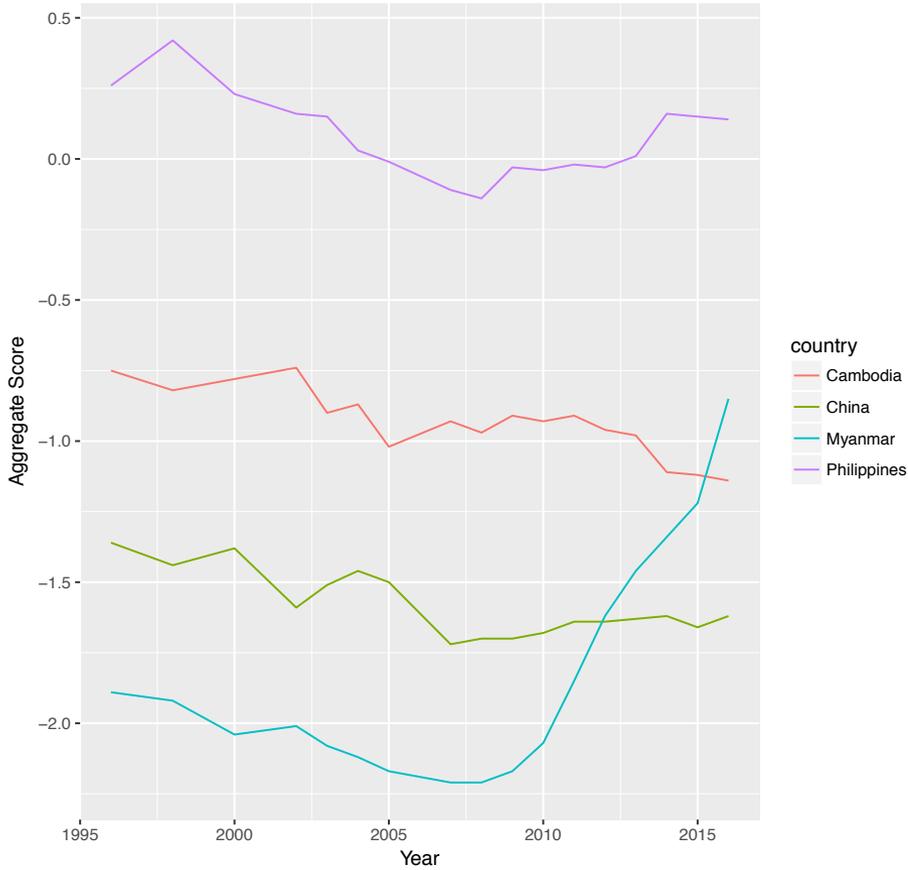
	Low Accountability	High Accountability
<b>Instrumental Carrots</b>	Effective <i>Cases: Cambodia; Myanmar under military junta</i>	Ineffective <i>Cases: The Philippines; Myan- mar post-junta</i>
<b>Societal Engagement</b>	Ineffective	Effective

- **(H1a)** Instrumental carrots are more efficient in target countries with low public accountability, **(H1b)** but will backfire when there is high public accountability

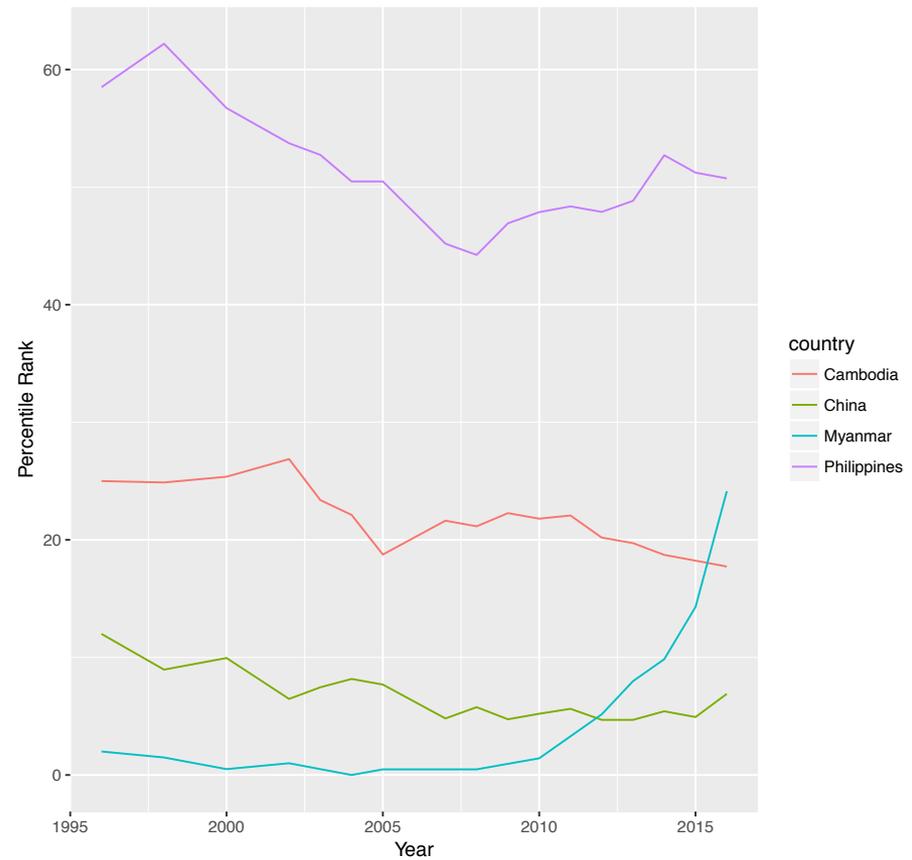
# VARIATION IN ACCOUNTABILITY



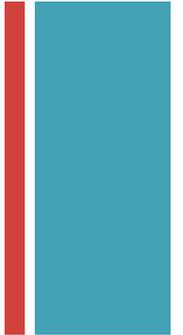
Level of Accountability (World Bank Worldwide Governance Indicators)



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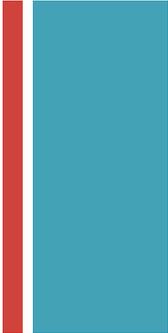


# CASH FOR COMMENT: CAMBODIA

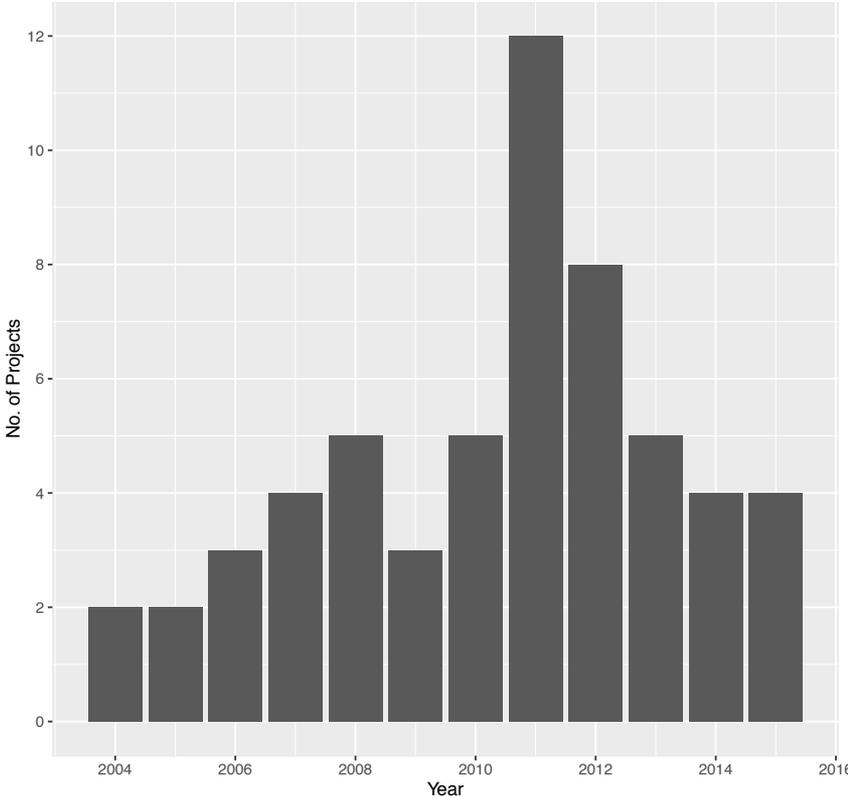


- **Low public accountability:** lack of free and fair elections, suppression of political opposition
- → **High efficacy** of China's instrumental carrots
- PM Hun Sen + crony state-business linkages: aid and investment dealings between Chinese businesses and Cambodian elites
- 2012 ASEAN AMM chaired by Cambodia: failure to issue joint communiqué, Cambodia's close consultation with Beijing and insistence on Chinese position re South China Sea

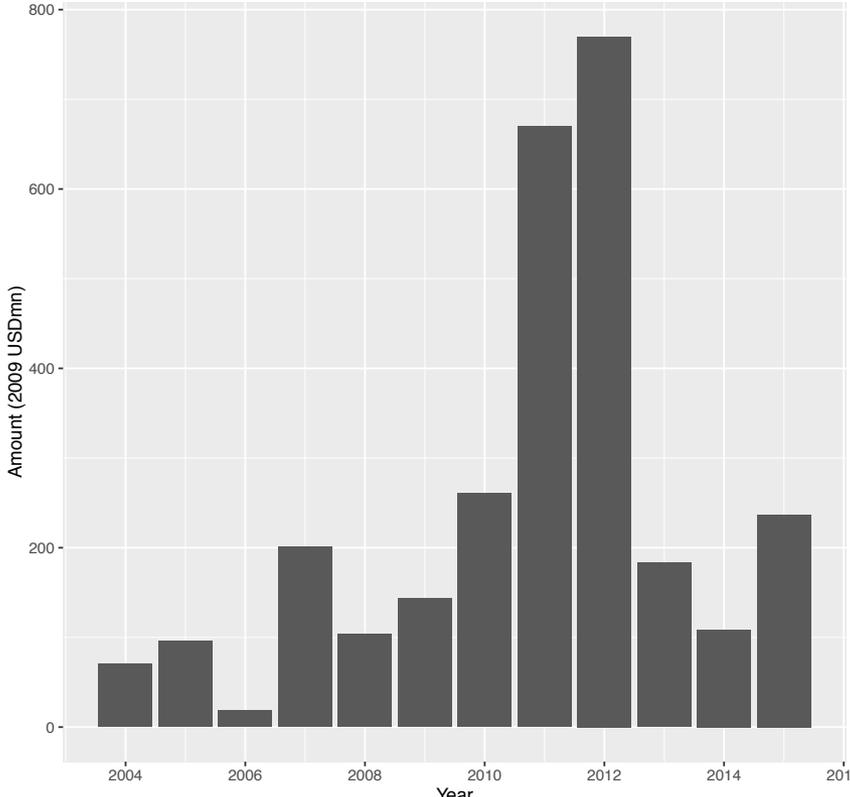
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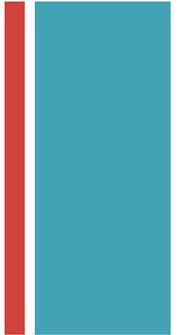
Chinese ODA Projects in Cambodia



Chinese ODA Projects in Cambodia

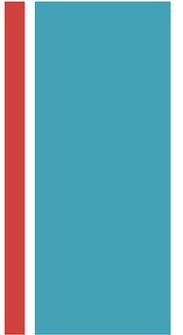


# HOLDING CRONIES ACCOUNTABLE: PHILIPPINE BACKLASH AGAINST CHINA'S CARROTS



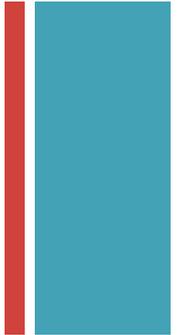
- **High public accountability** → **carrots backfired** because they did not pass through proper legal and institutional procedures
- **Joint Marine Seismic Understanding (JMSU)** signed under Arroyo – controversial political concessions in exchange for economic inducements
- NorthRail and NBN projects: **irregularities, corruption** – bribes and kickbacks to Arroyo and cronies
- Scandals led to **public backlash and political blowback**: free media, competitive elections, active civil society, public opinion

# UPROOTED CARROTS: CHANGING POLITICAL WINDS IN MYANMAR



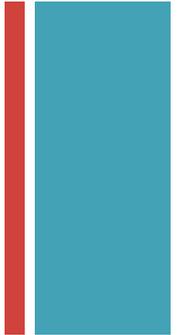
- **Domestic political transition from junta to NLD**
  - Under the junta: effective instrumental carrots – previous investment projects capitalized on crony military and business actors, ignored local needs
  - Under NLD: fewer govt-to-govt favors, greater emphasis on public accountability and transparent review – responding to public anti-China sentiment
  - → **limited sustainability** of instrumental carrots: sow the seeds of own demise
- **Beijing's changing strategy and attempts to reach out to new groups:** NLD, NGOs etc, while hedging by maintaining contacts with former junta figures
  - Chinese firms seek to preempt public opposition e.g. on hydropower projects by co-opting NGOs, engaging foreign environmental agencies
- **Shifts in South China Sea position – more publicly vocal**
  - 2014 ASEAN chairmanship: resisted Chinese diplomatic pressure
  - 2016 tribunal ruling: issued public statement expressing support for “rule of law” and calling all parties to “refrain from threats or use of force”

# CHINA'S INDUCEMENTS AND PUBLIC OPINION: A SURVEY EXPERIMENT IN THE PHILIPPINES



- Two characteristics of economic inducements
  - **Conditionality:** are economic benefits linked to political demands?
  - **Target beneficiaries:** are economic benefits targeted to a small group of political and business elites vs. to the broader population?
- How do these characteristics influence public opinion?
- **Attitudes toward China**
  - (i) Views of Chinese influence in the Philippines
  - (ii) Attitudes toward receiving more Chinese financing
- **Support for the Philippine government**
  - (i) Approval ratings
  - (ii) Future voting in presidential election

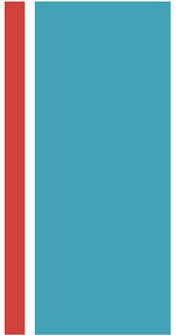
# SURVEY EXPERIMENT DESIGN



- Qualtrics online survey, N=695, August 2017
- **2x2 factorial design**: 4 treatment populations, each population receives two primes
- **T0**: non-conditional and non-elite primes (baseline)
- **T1**: conditional + non-elite primes
- **T2**: non-conditional + elite primes
- **T3**: conditional + elite primes

# TREATMENT PRIMES

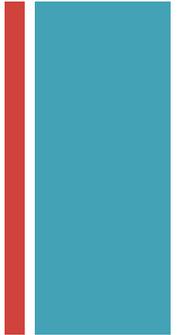
## (CONDITIONAL VS. NON-CONDITIONAL)



- **Non-conditional:** 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.
- **Conditional:** 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.

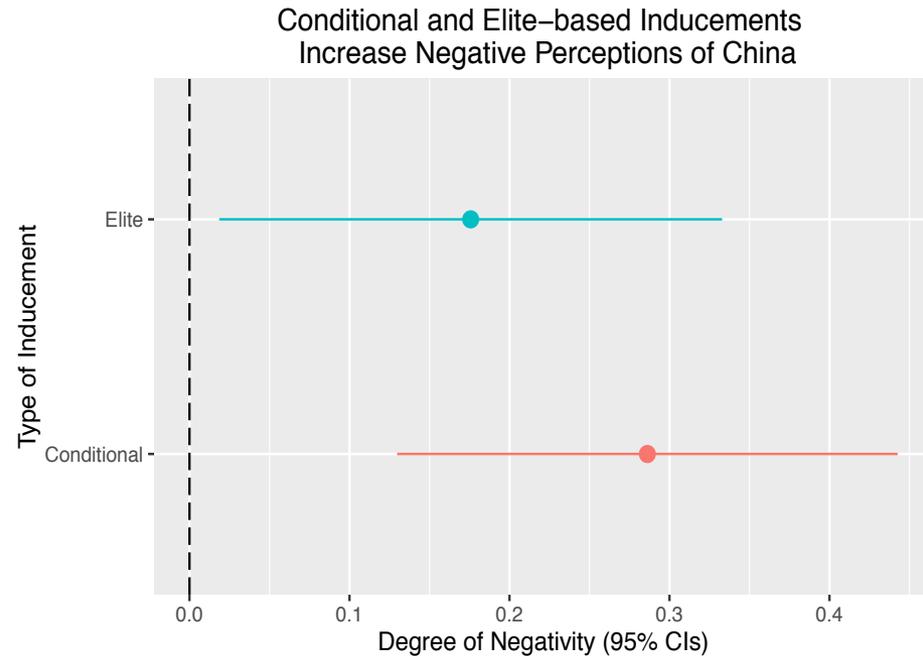
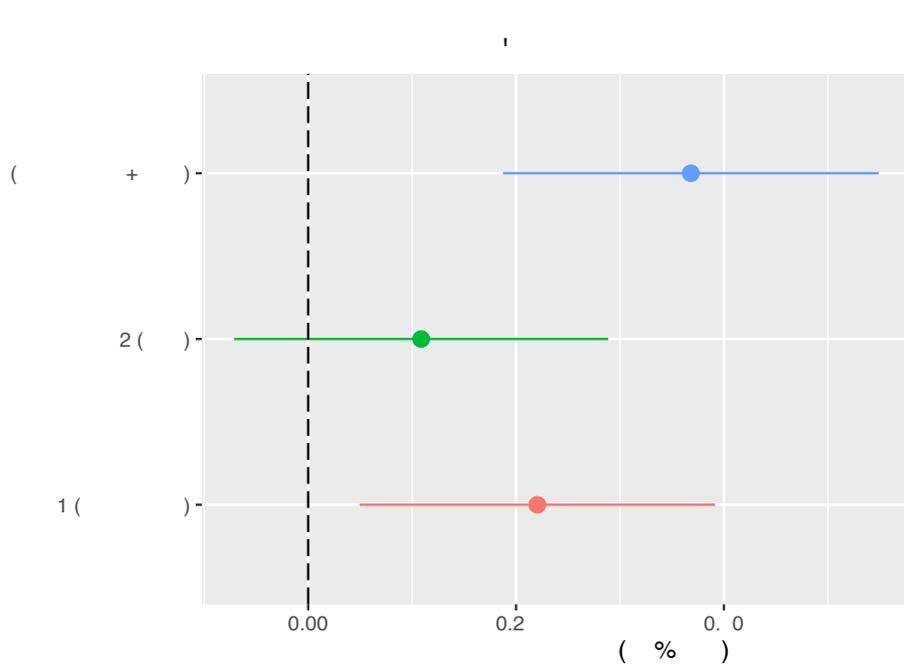
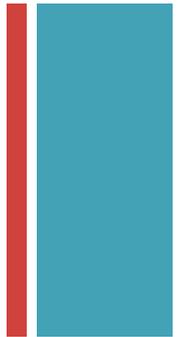
# TREATMENT PRIMES

## (ELITE VS. NON-ELITE)



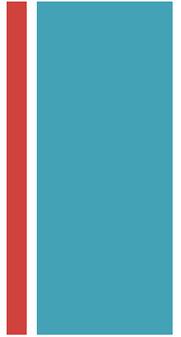
- **Non-elite:** The increased aid and investment flows will improve the Philippines' infrastructure and public services, by building railways, roads, factories, schools, and hospitals. This will boost economic growth rates at the national and local levels, provide more jobs for surrounding communities, and improve education and healthcare for the population.
- **Elite:** 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.

# PUBLIC OPINION ABOUT CHINA'S INFLUENCE IN THE PHILIPPINES BECOMES MORE NEGATIVE

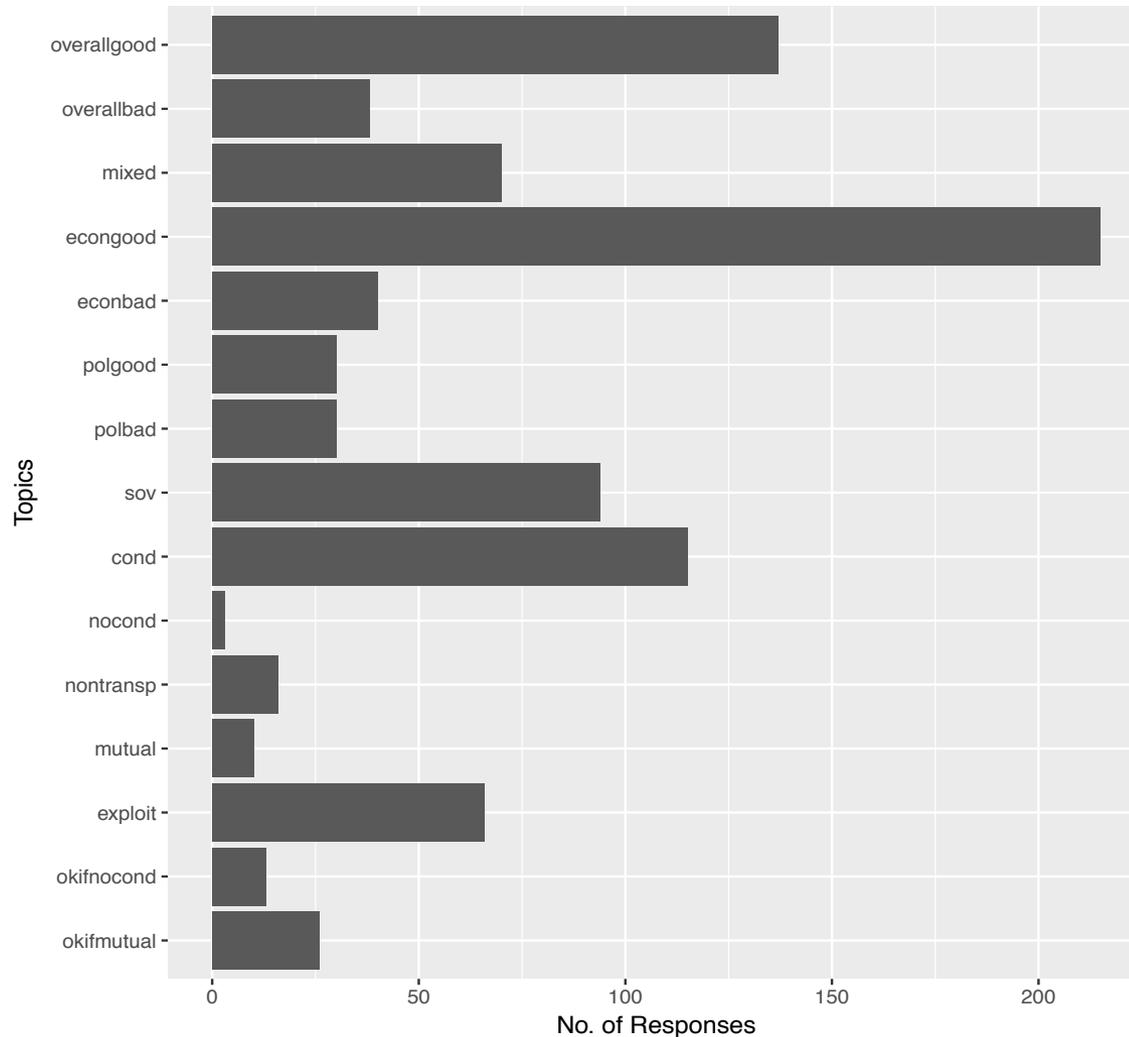


- Conditionality produces more public backlash than elite-based inducements
- Unclear results on government approval results and future voting
  - Reflects Duterte's current overwhelming popularity due to other reasons, voters' domestic policy priorities?

# OPEN-ENDED RESPONSES: PERCEPTIONS OF CHINESE AID/INVESTMENT



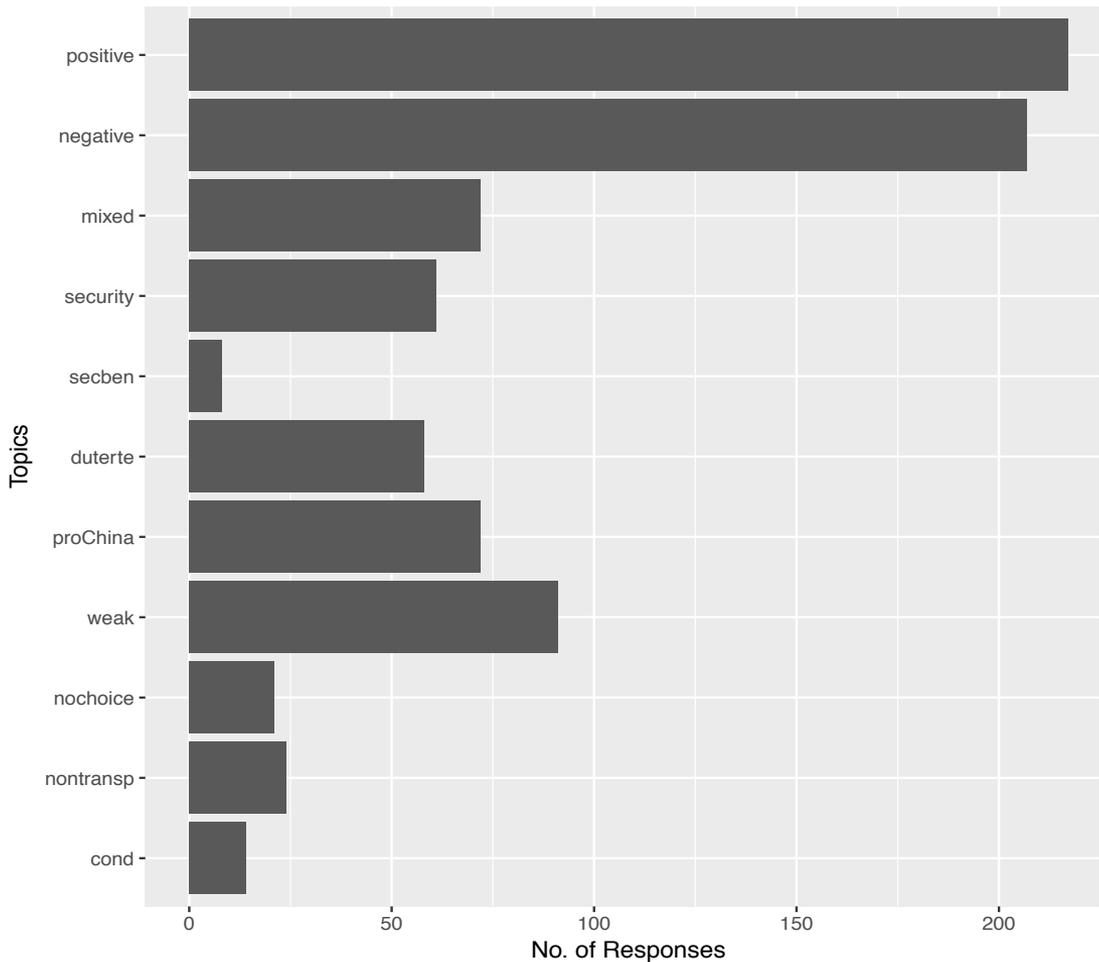
Perceptions of Chinese aid and investment in the Philippines



- Broad support for economic benefits (30%)
- Concerns over sovereignty compromises (14%), political conditionality (17%), exploitation (~10%)
- “hidden agenda”; “utang na loob”

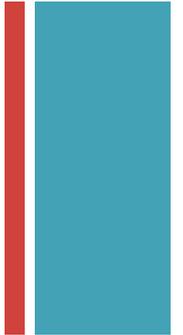
# OPEN-ENDED RESPONSES: EVALUATIONS OF PHILIPPINE FOREIGN POLICY TOWARD CHINA

Evaluations of the Philippine government's foreign policy toward China



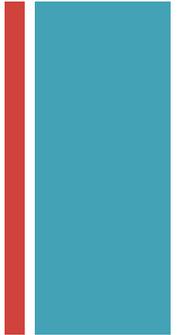
- Major divisions in public opinion
- Similar concerns over security issues and territorial disputes (10%)
- Criticism of the Philippine government's weak foreign policy toward China (13%)
- Support for improved political relations with China, including more diplomatic and peaceful means (10%)

# SAMPLE OPEN-ENDED RESPONSE



- “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



- Limited effectiveness of China's economic statecraft
- Instrumental carrots focused on benefiting a select group of elites
- May yield quick political dividends in countries with low public accountability
- But vulnerable to public backlash and domestic political shifts
- Inducements lack broader persuasion and do not produce longer-term transformations
- Public accountability of the target country as an important condition of statecraft effectiveness