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**CHINA'S LARGESSE: WHY CHINA IS GENEROUS  
WITH FOREIGN AID**

by

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December 2017

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**CHINA'S LARGESSE: WHY CHINA IS GENEROUS WITH FOREIGN AID**

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Submitted in partial fulfillment of the  
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## **ABSTRACT**

What has China gained from its foreign aid and investment activity? Does the instrument China chooses reveal its political motive? Does Chinese economic statecraft present a challenge to U.S. national interest? To answer these questions, this thesis examines the history of Communist China's foreign policy in Cambodia and in Kenya since 1956 and 1964, respectively. China has delivered aid to, made investments in, and traded with both states, but the interests China has pursued, and the vigor with which it has pursued them, are different in each. In Cambodia, China has a rich and continuing record of intrusive political influence and military engagement. In Kenya, China's purchase of political influence under Mao has cooled considerably to become today's arm's-length trade and development relationship. This thesis concludes that Chinese economic statecraft buys political influence in Cambodia but not in Kenya, where aid is developmental and investment is driven by business opportunity. From both realist and liberal perspectives, China's economic statecraft presents a challenge to the interests of the United States.

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## LIST OF ACRONYMS AND ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CCP	Chinese Communist Party
DAC	Development Assistance Committee
EEZ	exclusive economic zone
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GRUNK	Royal Government of the National Union of Kampuchea
IMF	International Monetary Fund
KANU	Kenya African National Union
KMT	Kuomintang
MCC	Millennium Challenge Corporation
MRC	Mekong River Commission
OBOR	One Belt, One Road
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
OOF	other official flows
PLA	People's Liberation Army
PRC	People's Republic of China
ROC	Republic of China
SOE	state-owned enterprise
UN	United Nations
UNCLOS	United Nations Convention on the Law of the Sea
U.S.	United States

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# I. INTRODUCTION

## A. MAJOR RESEARCH QUESTIONS AND FINDINGS

China commits foreign aid and investments to recipient states all over the globe, but the recipients of that aid and the types of financing China extends to them are diverse. Among those recipients are Cambodia and Kenya, which are developmentally similar but different in terms of their cultures, politics, and geographical proximity to China. This thesis asks, with Cambodia and Kenya as case studies, what has China achieved, and what does it hope to achieve, by giving foreign aid? Does China's choice of financing indicate the interests it wants to pursue? Does China's pursuit of national interests with foreign aid present a challenge to U.S. national interests?

This thesis finds that China's economic engagement in Cambodia and Kenya indicate two distinct economic statecraft strategies. China has delivered aid to, made investments in, and traded with both states, but the interests China has pursued, and the vigor with which it has pursued them, are different in each. In Cambodia, China has a rich and continuing record of intrusive political influence and military engagement. In Kenya, China's purchase of political influence under Mao has cooled considerably to become today's arms-length trade and development relationship. This thesis concludes that Chinese economic statecraft buys political influence in Cambodia but not in Kenya, where aid is developmental and investment is driven by business opportunity. From both realist and liberal perspectives, China's economic statecraft presents a challenge to the interests of the United States.

## B. SIGNIFICANCE OF THE RESEARCH QUESTION

China has a long history of economic statecraft. Nearly every year since the inception of the People's Republic, China has contributed aid to a long list of geographically, politically, and economically diverse states.<sup>1</sup> Since 1978, China's economic reforms and opening policy have yielded dramatic economic growth, and

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<sup>1</sup> John F. Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II: History and Practice in Asia, 1950–Present* (London: Palgrave MacMillan, 2016), 142.

growing along with the economy are increasingly generous pledges of aid. Particularly since the turn of the twenty-first century, China has devoted a great deal of effort into offering loans, grants, military exchanges, and preferential trade arrangements with 93 recipient states across the globe.<sup>2</sup>

The Sino-Cambodian relationship (and the aid that may support it) appears to be particularly strong, despite distinct political systems, noncontiguous borders, and absence of common ethnic and cultural backgrounds. Despite their differences, China and Cambodia may share common concerns about security and development in Southeast Asia, the course of ASEAN (Association of Southeast Asian Nations) policy, and other regional interests. China's relationship with Kenya, on the other hand, appears to stretch across a much greater geographical, cultural, and political distance. Kenya and Cambodia are similar countries in many respects, but China may have very different goals in each. The similarity of Kenya and Cambodia, the dissimilarity of their relationship with China, and the common element of Chinese aid that flows to each make them good cases to begin answering the fundamental research question: What does China get from its foreign aid program?

Whether aid is altruistic, self-serving, mutually beneficial, or motivated by private interests, foreign aid must have a purpose. China's purposes are not always clear, leading Western policy makers to watch China's twenty-first-century rise with various levels of admiration and alarm. The growth of China's economy, the growth and diversification of its foreign aid efforts, and the opacity of China's intentions and effects all magnify China's potential as a geopolitical rival to the United States and warrant further study: Does China's aid present a problem for U.S. interests?

### **C. LITERATURE REVIEW**

The existing literature contains a substantial amount of research on Chinese foreign aid. This body of work can very generally be analyzed through two lenses: first, foreign aid's beneficial or deleterious effects on recipient states' public health,

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<sup>2</sup> Charles Wolf, Jr., Xiao Wang, and Eric Warner, *China's Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations, and Implications* (Santa Monica: RAND Corporation report, 2013), 59, [http://www.rand.org/pubs/research\\_reports/RR118.html](http://www.rand.org/pubs/research_reports/RR118.html).

governance, and infrastructure; and second, foreign aid's use in the pursuit of Chinese national interests and the degree of concern the United States should have about it.

## 1. Aid Outcomes

Considerable debate exists about whether aid from China helps a recipient state or hurts it. This debate focuses on the experience of the recipient state and generally hinges on the effects of aid conditionality. The instruments that China uses in its foreign aid programs, the terms used to describe them, and their effects are subtly different from those of the West. This section outlines the structure of Western and Chinese aid, the conditions imposed in each approach, and the existing literature evaluating their effectiveness.

Western aid uses the clearly defined methods of the Development Assistance Committee (DAC), an arm of the Organization for Economic Cooperation and Development (OECD), which differ from China's accounting methods in important ways. Western aid, including that from the International Monetary Fund (IMF), the World Bank, and individual donor nations such as the United States, generally conforms to the OECD-DAC model of conditional assistance: Foreign aid is a narrowly defined, formal mechanism for the purpose of economic development and stable governance in the recipient state.<sup>3</sup> Official developmental assistance (ODA) is one standard that OECD-DAC members apply to foreign aid. In order for foreign aid to qualify as ODA, foreign aid must meet a number of requirements:

Official development assistance is defined as those flows to countries and territories on the DAC List of ODA Recipients... and to multilateral development institutions which are:

- i. provided by official agencies, including state and local governments, or by their executive agencies; and
- ii. each transaction of which:
  - a) is administered with the promotion of the *economic development and welfare* of developing countries as its main objective; and

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<sup>3</sup> "Is It ODA?," Organization of Economic Cooperation and Development, November 2008, <https://www.oecd.org/dac/stats/34086975.pdf>.

- b) is concessional in character and conveys a *grant element* of at least 25 per cent (calculated at a rate of discount of 10 per cent).<sup>4</sup>

Foreign aid from OECD members frequently does not meet those concessional requirements, in which case aid is considered “other official flows” (OOF). Examples include military aid that does not contribute to the recipient’s economic development, market-rate loans that do not carry concessional grant elements, and export credits extended to the patron’s firms rather than eligible recipient state agencies.<sup>5</sup> Both ODA and OOF are important foreign aid mechanisms, but they are accounted for separately. ODA and OOF transactions alike are published by the OECD for its member countries.

Western aid, and U.S. aid in particular, generally comes with additional conditions: Recipient states must satisfy certain standards of transparency and governance and must maintain sustainable budget deficits in order to qualify for aid. These standards are a central tenet of the Millennium Challenge Corporation (MCC), one of the United States’ foreign aid arms. The MCC requires its recipient states to commit to “good governance, economic freedom, and investments in their citizens.”<sup>6</sup> Western aid imposes a prescriptive model of “correct” governance (which Chinese aid does not). Widely accepted by the Western aid community, the work of Craig Burnside and David Dollar is influential to this approach. They suggest developmental aid is most effective when given to countries with good fiscal, monetary, and trade policies. Aid recipient states with poor governance and economic institutions are likely to gain little from aid.<sup>7</sup> Western aid, with ODA’s restrictions and liberal conditionality, is generally transparent and formalized.<sup>8</sup>

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<sup>4</sup> Ibid. Emphasis added.

<sup>5</sup> “Other Official Flows (OOF),” OECD, 2016, <https://data.oecd.org/drf/other-official-flows-oof.htm>.

<sup>6</sup> “About MCC,” Millennium Challenge Corporation, accessed August 24, 2016, <https://www.mcc.gov/about>.

<sup>7</sup> Craig Burnside and David Dollar, “Aid, Policies, and Growth,” *The American Economic Review* 90, no. 4 (September, 2000): 864.

<sup>8</sup> “Development Finance Data,” Organization of Economic Cooperation and Development, accessed August 24, 2016, <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/>.

Chinese aid, in contrast, is less transparent and more loosely defined. The foreign aid mechanisms that modern China has established are similar in function to OECD-DAC aid but do not follow the same definitions. China gives aid with a wider selection of vehicles, including grants, concessional loans, preferential financing for Chinese infrastructure firms, and subsidized export credits.<sup>9</sup> Some of the aid China extends would qualify as ODA, were it an OECD-DAC member: Debt relief, grants, zero-interest loans, and concessional loans are among China's assistance portfolio. China also uses instruments that would qualify as OOF, such as military aid and commercial market rate loans from state banks. Further, China employs strategic lines of credit to its state-owned enterprises (SOEs) operating abroad. Because of the close relationships between the People's Republic of China (PRC) and its SOEs, China can carry out foreign aid-like activity using instruments the West would not consider foreign aid at all.<sup>10</sup>

Every aspect of China's aid programs is subtly different from its Western analogues. Because of a fundamental belief in sovereignty and noninterference in internal affairs, China generally does not impose political reform goals on recipients as a condition for receiving aid. Since China has elected not to align its definitions or reform requirements with the West, the literature generally categorizes China as an "emerging donor" along with other non-DAC-affiliated states.

There are two other important differences between OECD-DAC aid and Chinese aid. First, China has distinctly different preferences for its aid instruments.<sup>11</sup> Whereas OECD-DAC countries have a historic preference for ODA, Chinese aid primarily comes in OOF-like vehicles such as commercial-rate loans to recipient states otherwise too risky to obtain such loans, loans to Chinese export firms, and strategic lines of credit to

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<sup>9</sup> Thomas J. Christensen, *The China Challenge: Shaping the Choices of a Rising Power* (New York: W. W. Norton, 2015), 78; Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford: Oxford University, 2009), 297.

<sup>10</sup> Deborah Brautigam, "Chinese Development Aid in Africa: What, Where, Why, and How Much?" in *Rising China: Global Challenges and Opportunities*, ed. Jane Golley and Ligang Song (Canberra: Australian National University, 2011), 205–7.

<sup>11</sup> China's preference for OOF-like aid dates to the 1980s under the reforms begun by Deng Xiaoping, but has especially been its *modus operandi* since the turn of the 21st century. Previously, under Mao Zedong, China preferred outright grants for their ideological value. Aid under Mao is discussed in Chapters II and III of this thesis.

Chinese firms operating abroad.<sup>12</sup> Second, China does not consistently publish its foreign aid, support for foreign-operating firms, or foreign direct investment (FDI) to the same extent as its OECD counterparts. Despite the breadth of China's aid program, research into Chinese foreign aid is complicated by the chronic opacity of Chinese state affairs. This opacity requires the researcher to infer China's activity, interests, and intent from spotty open source data. These data include aggregated research from scholars like John Copper, who compiled a nearly year-by-year accounting of Chinese aid delivery; from reports from recipient countries celebrating Chinese support; and from the public statements of China itself.<sup>13</sup> None of these sources is a wholly reliable or complete account.

Some scholars find that contrary to Burnside and Dollar's findings, unconditional aid does not necessarily lead to inefficiency or corrosive governance. In *The Dragon's Gift*, Deborah Brautigam notes that, "China does not claim to know what Africa must do to develop. China has argued that it was wrong to impose political and economic conditionality in exchange for aid, and that countries should be free to find their own pathway out of poverty."<sup>14</sup> The pathway that China offers is frequently paved with construction projects: Brautigam argues that since China prefers to fund tangible projects selected by recipient states rather than offer fungible (and embezzleable) monetary support, Chinese aid does not exacerbate corruption or human rights abuses.<sup>15</sup> Ngaire Woods defends China's respect for sovereignty and lack of conditionality as an attractive arrangement for recipient states. She finds that aid from emerging donors, including China, does not necessarily result in poor aid outcomes (including health, environmental, and corruption concerns) and that emerging donors do not deliberately attempt to overturn existing systems or subvert norms.<sup>16</sup> Stephen Kaplan notes that unconditional

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<sup>12</sup> Brautigam, "Chinese Development Aid in Africa," 206–7.

<sup>13</sup> Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*.

<sup>14</sup> Brautigam, *Dragon's Gift*, 308.

<sup>15</sup> *Ibid.*, 284–87, 292–97.

<sup>16</sup> Ngaire Woods, "Whose Aid? Whose Influence? China, Emerging Donors and the Silent Revolution in Development Assistance," *International Affairs (Royal Institute of International Affairs 1944-)* 84, no. 6 (November 1, 2008): 1205–1221, doi:10.1111/j.1468-2346.2008.00765.x.

Chinese funding represents patient capital that allows the recipient states to manage their finances as they see fit, but that the type of funding (that is, state-to-state vs. private firm funding) influences the manner in which recipient states invest their new funds.<sup>17</sup> Responding to concerns that aid fragmentation (that is, redundant and uncoordinated aid efforts from multiple donors) is poor practice, Jin Sato et al. point out that simultaneous (and even redundant) activity of DAC and emerging donors need not be a bad state of affairs; they find that “emerging donors are offering recipients a choice, thereby activating healthy competition among donors.”<sup>18</sup>

Other scholars are more concerned about the development and reform outcomes of unconditional aid, regardless of the manner in which China delivers it. Moisés Naím describes Chinese aid as “rogue,” citing a Chinese railway project in Nigeria that displaced the World Bank’s effort to reform Nigeria’s “notoriously corrupt and inefficient” government.<sup>19</sup> Naazneen Barma and Ely Ratner describe the challenge that Chinese aid poses to Western reform efforts: “China’s foreign assistance and private investments arrive free of ‘good governance’ conditionality, thereby undermining the very mechanisms through which the United States has sought to advance liberal practices around the globe.”<sup>20</sup> Sophie Richardson notes that China’s respect for sovereignty and pursuit of economic development over civil rights leads it to support human rights abusers.<sup>21</sup> In Cambodia’s case, Sophal Ear agrees, “Cambodia is on the cusp of proclaiming ‘We don’t care about your aid’ to Western donors as it falls under the

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<sup>17</sup> Kaplan’s first case is Venezuela, which receives direct state-to-state funding from China, the patient nature of which allows it to increase its deficit spending and economic intervention. His second case is Brazil, the constitution of which limits state-to-state funding in favor of private funding, leading Brazil to remain more fiscally disciplined than Venezuela. Stephen B. Kaplan, “Banking Unconditionally: The Political Economy of Chinese Finance in Latin America,” *Review of International Political Economy* (September 1, 2016), doi:10.1080/09692290.2016.1216005.

<sup>18</sup> Jin Sato, Hiroaki Shiga, Takaaki Kobayashi, and Hisahiro Kondoh, “‘Emerging Donors’ from a Recipient Perspective: An Institutional Analysis of Foreign Aid in Cambodia,” *World Development* 39, no. 12 (December, 2011): 2091–2104, doi:10.1016/j.worlddev.2011.04.014.

<sup>19</sup> Moisés Naím, “Rogue Aid,” *Foreign Policy* 159 (March/April 2007): 95–96, <https://search.proquest.com/docview/224026979/fulltext/46D468FC0F324C68PQ/1?accountid=12702>.

<sup>20</sup> Naazneen Barma and Ely Ratner, “China’s Illiberal Challenge,” *Democracy Journal* (Fall 2006): 63.

<sup>21</sup> Sophie Richardson, “Challenges for a ‘Responsible Power,’” Human Rights Watch, accessed August 24, 2016, <https://www.hrw.org/legacy/wr2k8/china/china.pdf>.

influence of China and other lenders who have no interest in upholding human rights or democratic values.”<sup>22</sup>

The aid outcome debate focuses on the experience of the recipient state. Advocates for China’s emerging aid programs argue that China can and should join the international community on its own terms. On the other hand, skeptics argue that China’s respect for sovereignty leads Chinese aid to dilute or displace Western efforts to spur development and reform with conditional aid.

## **2. Policy Objectives**

Scholars also debate whether Chinese aid presents a policy challenge to the United States and the West. As opposed to the aid outcomes discussed above, which reflect the recipient state’s experience, policy objectives are the donor state’s purpose in giving aid. Whether Chinese aid challenges the international order or conflicts with U.S. priorities hinges on its effect on China’s priorities, goals, and effectiveness at achieving them.

The spectrum of the policy objective debate is similar to the aid outcome debate: Characterizations of Chinese aid range between benevolence and malevolence. Thomas Christensen argues that Chinese aid has no sinister element: China’s failure to integrate into the Western foreign aid paradigm is not deliberate subversion. Instead, China’s novel aid system presents an opportunity for engagement, which Christensen admits is difficult with a bureaucracy as Byzantine as China’s. Further, he sees little evidence of China buying influence as a self-serving goal.<sup>23</sup> Joshua Kurlantzick grants that gaining influence is one of China’s goals, but interprets this pursuit as an essentially benign exercise in building soft power and goodwill for common benefit.<sup>24</sup> Using aid to secure preferential rights for resource extraction is another accusation of self-interest leveled at China, an interpretation that Brautigam rejects. She notes that securing resources from Africa

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<sup>22</sup> Sophal Ear, *Aid Dependence in Cambodia* (New York: Columbia University, 2013), 134.

<sup>23</sup> Thomas J. Christensen, *The China Challenge: Shaping the Choices of a Rising Power* (New York: W. W. Norton, 2015), 74–81, 160–162.

<sup>24</sup> Joshua Kurlantzick, *Charm Offensive: How China’s Soft Power Is Transforming the World* (New Haven: Yale University, 2008).

appears not to be a driving motivator behind aid delivery, and that mutual benefit through business relationships is more important to China than resource extraction.<sup>25</sup>

Barma and Ratner are substantially more skeptical. Beyond the potential for reform derailment and inefficiency noted above, they theorize that China's unconditional aid and respect for sovereignty represent a new ideology that directly challenges the liberal order that has dominated the world since the end of the Cold War.<sup>26</sup> Sebastian Strangio sees the same landscape in Cambodia, writing "Beijing's global New Deal... seems almost tailor-made for Cambodia's Prime Minister Hun Sen, a strongman autocrat who chafes at Western pressure to enact democratic reforms."<sup>27</sup> Chinese aid, Strangio argues, draws Phnom Penh into Beijing's orbit, resulting in Cambodian deference to Chinese issues like the pacification of Uighurs (twenty of whom Cambodia deported to China) and the isolation of Taiwan (with which Hun Sen forbids his provincial officials to interact).<sup>28</sup>

China's spread of its own worldview may not be a new phenomenon. Copper traces evidence of China's original foreign aid victory: The diplomatic isolation of Taiwan. Shortly after its establishment, and despite its abject poverty, China began to gather support for its sovereignty over Taiwan with distribution of aid. Cambodia was an early beneficiary of China's aid campaign to isolate Taiwan.<sup>29</sup> This trend continues as China draws small United Nations (UN) member states into its sphere of influence.<sup>30</sup> Brautigam, too, traces the checkbook diplomacy contest between China and Taiwan.<sup>31</sup>

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<sup>25</sup> Brautigam, *Dragon's Gift*, 277–81.

<sup>26</sup> Barma and Ratner, "China's Illiberal Challenge."

<sup>27</sup> Sebastian Strangio, "China's Aid Emboldens Cambodia," *Yale Global Online*, accessed May 16, 2012, <http://yaleglobal.yale.edu/content/chinas-aid-emboldens-cambodia>.

<sup>28</sup> *Ibid.*

<sup>29</sup> Copper, *China's Foreign Aid*, 149–50.

<sup>30</sup> Shannon Tiezzi, "Why Taiwan's Allies are Flocking to Beijing," *The Diplomat*, November 19, 2013, <http://thediplomat.com/2013/11/why-taiwans-allies-are-flocking-to-beijing/>; Lucy Hornby and Luc Cohen, "No Ties? No Problem as China Courts Taiwan's Remaining Allies," Reuters, 6 August 2013, <http://www.reuters.com/article/us-china-centralamerica-idUSBRE97514C20130806>.

<sup>31</sup> Brautigam, *Dragon's Gift*, 34, 67–68, 165.

### **3. International Relations**

International relations theory can shed light on how and why foreign aid can be used to pursue national interests. In *The Origins of Alliances*, Stephen Walt describes foreign aid as one form of balancing behavior. However, he argues that aid is not a critically important lever, because even vulnerable and dependent client states have significant freedom of action. Additionally, promises of aid are eclipsed by the balance of threat. Generally, foreign aid is less important than other realist factors; when it is important, it is a result of alliances, not the cause of them.<sup>32</sup> Hans Morgenthau is less dismissive in his discussion of foreign aid as a political tool. He traces the evolution of outright bribery into six modern, distinct flavors of foreign aid, including military, prestige, and developmental aid. In order for aid to be effective, he argues, the type of aid delivered must be matched with the donor's and recipient's situation. For example, long-term developmental aid may not prop up a dictator, whereas a useless but highly visible prestige project may keep his regime in power.<sup>33</sup>

This section has surveyed literature in three debates: The aid outcomes from China's foreign aid programs, the policy objectives that China pursues with foreign aid, and the value of foreign aid in international relations theory. This literature informs this thesis's approach to the analysis of China's use of foreign aid to pursue national interests.

#### **D. POTENTIAL EXPLANATIONS AND HYPOTHESES**

This thesis tests the primary hypothesis that China employs foreign aid to influence recipient states' political behavior to serve China's interests and that China's expansion of influence conflicts with U.S. national interests. As part of this, an intermediate hypothesis is that the financial mechanisms it wields may indicate something about Chinese intentions for that aid. In other words, adversarial Chinese expansion of soft power might be distinguishable from benign development activity by its

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<sup>32</sup> Stephen M. Walt, *The Origins of Alliances* (Ithaca, NY: Cornell University, 1990).

<sup>33</sup> Hans Morgenthau, "A Political Theory of Foreign Aid," *The American Political Science Review* 56, no. 2 (June, 1962): 301–309, doi:10.2307/1952366.

choices of aid instrument (such as cash, infrastructure projects, prestige projects, or military support).

These hypotheses assume that China has an interest in expanding its regional influence. The United States’ interest would be to maintain worldwide influence, including in Asia. This could create a zero-sum environment in which China’s increase in influence comes at a cost of other parties’ influence (United States, UN, ASEAN, or otherwise). China might then employ foreign aid to increase its influence at the United States’ expense. Further, the manner in which China delivers aid to buy influence would be qualitatively, observably different from financing for other purposes, such as development or mutually beneficial business relationships.

This thesis tests its hypotheses in two cases: Kenya and Cambodia. In Kenya, the author expects to find that China’s single biggest historic foreign policy concern was Kenya’s affirmation of the One China Policy and recognition of the PRC, and that the aid instruments used in building support for the One China Policy in the 1960s would be distinct from those supporting subsequent development-oriented aid activity there. In Cambodia, the author expects that China has bought influence and pursued a richer, more diverse array of issues with aid, and that the types of aid sent to Cambodia to build China’s influence will be similar across cases of Chinese influence purchase, such as One China Policy support, ASEAN influence, or South China Sea activity. The hypotheses to be tested are summarized in Table 1.

Table 1. Hypotheses Across Cases

	<b>Primary</b>	<b>Intermediate</b>
	China buys influence at U.S. expense	Aid instrument can indicate intent
<b>Cambodia</b>	China has bought influence consistently since the 1950s	China employs a consistent set of aid instruments
<b>Kenya</b>	China bought influence in 1964, but not in present day	China employed distinct aid instruments in the 1960s vs. present day

If validated by evidence, the practical value of the primary hypothesis (that Chinese aid buys international influence at America's expense) is that U.S. policy makers could better understand, anticipate, and counteract China's expansion of soft power. The value of the intermediate hypothesis (that China's choice of aid instrument correlates with the political objective) would be greater discrimination of China's soft power expansion from China's development or business programs. So to speak, this discrimination would allow U.S. analysts to distinguish threatening wheat from benign chaff.

In the null case of the primary hypothesis, the evidence would show that China does not employ foreign aid and investment to buy regional influence (or, more weakly, the evidence may show that an observer cannot determine whether Chinese aid buys influence at all). In one possible null case, evidence may show that China employs aid and investment in accordance with its narrow economic interests, and perhaps secondarily is influenced by economic interdependence arguments and participation in intergovernmental organizations. In Chinese terms, this null case could suggest that Chinese aid and investment genuinely follows the Five Principles of Peaceful Coexistence, including mutual non-interference, equality and cooperation for mutual benefit, and peaceful co-existence. In this case, China's foreign aid campaigns, trade deals, and investment activity would innocently support China's own economic development at no cost to U.S. national interests.

In the null case of the intermediate hypothesis, China's choice of aid instrument would correlate poorly (or not at all) with the aid's apparent political objective. The consequence of this null case would be that U.S. policy makers would be unable to distinguish what type of aid China prefers when buying influence vs. encouraging development.

The underlying logic of the argument is this: Chinese aid is a problem for the United States if and only if 1) China's goals conflict with Western goals *and* China achieves those goals by employing aid, *or* 2) Chinese aid displaces Western aid *and* Chinese aid outcomes are poorer than Western outcomes. Proposition 1, in other words, is the hypothesis that China pursues, with foreign aid, policies with that conflict with

Washington. The hypothesis in this section primarily follows this line of argument. Proposition 2 is the debate that Chinese aid leaves a recipient state worse off than DAC aid; elements of this proposition, including outcomes and reforms such as public health, infrastructure, or transparency, are addressed as a secondary matter.

To validate the hypothesis that Chinese interests conflict with those of the United States, this thesis need not show that China *deliberately* disrupts American interests. Malicious intent is one way in which national interests can threaten each other, but so too is incidental misalignment. To determine deliberate, adversarial, anti-American intent behind China's pursuit of interests would be highly speculative because of the opacity of Chinese statecraft. As an example, Beijing may deliberately wield foreign aid to seduce a country away from U.S. alignment, but it may also influence that country's behavior in a way that only incidentally conflicts with the United States. In either case, there would be erosion of Western influence. Speculation about China's actual intent is unnecessary because the logic of the argument only requires conflict of interest, whether that conflict is intentional or incidental. It would be sufficient to show that Chinese policies conflict with American interests by unintended consequence. Thus, this thesis avoids using phrases like "the threat of Chinese aid" that assume or imply *mens rea*.

## **E. RESEARCH DESIGN**

This thesis examines how and why China gives foreign aid. Because China's aid program is so complex (aid, loans, direct investment, and commercial subsidies to 93 countries), limiting the scope of study is required. This study focuses on a comparison of Chinese activity in Kenya and Cambodia.

Kenya is one case because it had one major foreign policy interaction that dwarfed other Chinese concerns there: The affirmation of the One China Policy. Since the 1950s, the PRC has waged a campaign to gain bilateral diplomatic recognition with every country it could and to gain multilateral recognition in the United Nations and other international organizations, all in the service of asserting itself as the single government of China, isolating the Republic of China (ROC), and relegating Taiwan to Chinese provincial status. China conducted this campaign in large part with bilateral foreign aid to

gain individual states' recognition. The PRC essentially achieved this goal by 2008, when ROC President Chen Shui-ban left office and Ma Ying-jeou, Chen's successor, sought rapprochement with the PRC in the cross-Strait dollar diplomacy battle.<sup>34</sup>

One target of the PRC's campaign was Kenya, which in 1964, along with a range of other African states, formally recognized the PRC and broke ties with the ROC.<sup>35</sup> With that recognition, China's state-to-state mission in Kenya was complete. Since 1964, China has imposed no further conditions on aid to Kenya beyond continuing the latter's One China Policy support.<sup>36</sup> China has remained active in Kenya, but the nature of its activity has been largely investment by Chinese firms rather than direct state-to-state aid.<sup>37</sup>

Cambodia is the other case. Cambodia was also among China's original foreign aid beneficiaries. It is one of China's closest friends in ASEAN and shares the Mekong River, which is both a major natural resource and a potential point of conflict for both countries.

## **1. Similarities between Cambodia and Kenya: History, Economy, and Resources**

### ***a. Colonial Backgrounds***

Cambodia and Kenya share similar backgrounds as former European colonies. Each was an underdeveloped agricultural outpost of a European empire until gaining independence, by negotiation and by violence, respectively, in the post-World War II demise of imperialism. With respect to anti-imperialist sentiment and revolutionary ideology, China is likely to have viewed Cambodia and Kenya as historically similar.

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<sup>34</sup> Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*, 168–69.

<sup>35</sup> *Ibid.*, 151.

<sup>36</sup> Joseph Onjala *A Scoping Study on China-Africa Economic Relations: The Case of Kenya*, (Nairobi: African Economic Research Consortium, March 4, 2008), 41, [https://www.researchgate.net/profile/Joseph\\_Onjala/publication/239732019\\_A\\_Scoping\\_Study\\_on\\_China-Africa\\_Economic\\_Relations\\_The\\_Case\\_of\\_Kenya\\_Revised\\_Final\\_Report/links/0deec51c27bde2ac11000000.pdf](https://www.researchgate.net/profile/Joseph_Onjala/publication/239732019_A_Scoping_Study_on_China-Africa_Economic_Relations_The_Case_of_Kenya_Revised_Final_Report/links/0deec51c27bde2ac11000000.pdf).

<sup>37</sup> *Ibid.*, 21, 38.

Cambodia was a part of French Indochina from 1887 to 1954, during which time France expended little effort to develop Cambodia beyond its agricultural economy. What infrastructure the French did build supported plantation operations and rubber, rice, and corn exports.<sup>38</sup> Colonial authorities did little to improve literacy rates or quality of life for Cambodians, whose main interaction with colonial authority was burdensome taxation.<sup>39</sup> Between 1947 and 1953, Norodom Sihanouk negotiated Cambodia's independence in a series of treaties and diplomatic visits to Paris.<sup>40</sup> Sihanouk held a number of leadership positions, including Prime Minister and King of Cambodia.

Kenya was a British colony from 1885 to 1963, during which time the British built Kenya as an agricultural center, with corresponding road and railway projects to support trade from inland (including from Uganda) to the coast. The Crown's policy expropriated the best farmland for white settlers. Local protests against these policies peaked in the Mau Mau Rebellion of the 1950s, when Jomo Kenyatta and other leaders led an armed resistance movement against colonial rule.<sup>41</sup> In response to that pressure, Britain allowed Kenya increasing autonomy until finally granting independence as a commonwealth nation in 1963–64. Kenyatta became Kenya's first president.

Although both countries shared similar backgrounds as agrarian colonies, their political evolutions as independent states followed distinct paths. Cambodia endured a turbulent series of dictatorships against the backdrop of warfare against both domestic guerillas and external adversaries.<sup>42</sup> Sihanouk acted as king, prime minister, and head of state until his overthrow and exile in 1970. Between 1970 and 1989, regional war enveloped Cambodia and contributed to political chaos there, most notably the Khmer Rouge's atrocities of the late 1970s and the Vietnamese occupation of the 1980s.<sup>43</sup>

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<sup>38</sup> Russell Ross, ed., *Cambodia: A Country Study* (Washington, DC: Federal Research Division, Library of Congress, 1987), 19–20, <https://www.loc.gov/item/89600150/?q=cambodia>.

<sup>39</sup> *Ibid.*, 20.

<sup>40</sup> Ross, ed., *Cambodia: A Country Study*, 23–25.

<sup>41</sup> *Country Profile: Kenya* (Washington, DC: Federal Research Division, Library of Congress, June 2007), 2, <https://www.loc.gov/r/r/frd/cs/profiles/Kenya.pdf>.

<sup>42</sup> Ross, ed., *Cambodia: A Country Study*, 26, 43–44.

<sup>43</sup> Peter M. Worthing, "Strange Bedfellows: China and Cambodia since 1949," *American Asian Review* 18, no. 3 (Fall 2000): 20–26, 62–65, Proquest (211389313).

Hun Sen, Cambodia's current dictator, rose to power in the 1980s and has controlled the country in a time of relative peace.

Kenya's post-colonial government was also authoritarian. An armed rebellion in the 1950s led to Kenya's emancipation from the British Empire. Kenya's ostensibly democratic government evolved into an autocracy under Kenyatta.<sup>44</sup> Unlike in Cambodia, leftist factions failed to establish a foothold for communism, and Kenyatta maintained the power of his right-wing regime. Shortly after independence, Kenya's rejection of communism contributed to a freeze in Sino-Kenyan relations that lasted until the 1980s.<sup>45</sup>

**b. Economies**

Cambodia and Kenya have similar economies, although Cambodia has recently shown better growth of income and industrial productivity. Data is scarce prior to the 1990s, especially for Cambodia. Insofar as data can show, Cambodia and Kenya are both low-income agricultural states with limited industrial productivity.

Cambodia has shown signs of growth and development in the past two and a half decades. From 1993 to 2015, Cambodia's gross domestic product (GDP) grew from \$3.1 billion to \$15.9 billion, with an average annual growth rate of around 7.5 percent. GDP per capita climbed from \$315 to \$1,020 during that period at an annual rate of 5.5 percent.<sup>46</sup> Agriculture has given way to light industry, driven largely by increased garment production, while services have remained static.<sup>47</sup> Cambodia's exports include low-value-added products like garments, timber, and rubber.<sup>48</sup>

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<sup>44</sup> *Country Profile: Kenya*, 2–4.

<sup>45</sup> Charles Hornsby, *Kenya: A History since Independence* (London: I. B. Taurus & Co, 2012), 151, 158, 177–78.

<sup>46</sup> Gapminder World, accessed September 9, 2016, <https://www.gapminder.org/world/>.

<sup>47</sup> Sophal Ear, *Aid Dependence in Cambodia* (New York: Columbia University, 2013), 58–86; Gapminder World, accessed September 9, 2016, <https://www.gapminder.org/world/>.

<sup>48</sup> "Cambodia," CIA World Factbook, updated 12 January 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>.

Kenya has maintained slower GDP growth during the same period. From 1993 to 2015, Kenya's GDP grew from \$22 billion to \$52.2 billion, with an average annual growth rate of around 4 percent. That GDP growth appears to have been largely a function of population growth; GDP per capita climbed from \$851 to \$1,130 at only 1.3 percent annually during that period.<sup>49</sup> Kenya's economic sectors have remained nearly static at around 30 percent agriculture, 20 percent industry, and 50 percent service.<sup>50</sup> Like Cambodia, Kenya's main exports are low-value-added commodities, including sisal, coffee beans, tea, and hides.<sup>51</sup>

GDP, economic sector divisions, and other economic indicators are difficult to compare before the 1990s. In his study of ASEAN growth, Khorshed Chowdhury finds that Cambodia's per capita GDP from 1987 to 2001 grew at 2.17 percent annually, while Gapminder shows Kenya's per capita GDP growth rate to be 1.8 percent over the same period. Each source grants that their data may not be reliable. Chowdhury's data for Cambodia only begins at 1984.<sup>52</sup> The World Bank's data for Cambodia has similar problems, suffering from large data gaps for GDP between 1974 and 1993 and gross national income per capita before 1995.<sup>53</sup> Cambodia's violence and upheaval have obscured decades of its economic history.

### *c. Natural Resources*

Neither Cambodia nor Kenya are major natural resource exporters. In each country, rents from natural resources as a percentage of GDP almost entirely comprise forestry rents and have been similar for decades (accounting for 4 percent and 3 percent of Cambodian and Kenyan GDP, respectively).<sup>54</sup> Because neither country is a major

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<sup>49</sup> Gapminder World, accessed September 9, 2016, <https://www.gapminder.org/world/>.

<sup>50</sup> Gapminder World.

<sup>51</sup> Joseph Onjala, "The Impact of China-Africa Trade Relations: The Case of Kenya," *AERC Collaborative Research China-Africa Project 5* (November 2010), 2.

<sup>52</sup> Khorshed Chowdhury, "What's Happening to Per Capita GDP in the ASEAN Countries? An Analysis of Convergence, 1960–2001," *Applied Econometrics and International Development* 5, no. 3 (2005): 51, <http://www.usc.es/economet/reviews/aeid533.pdf>; Gapminder World, accessed September 9, 2016, <https://www.gapminder.org/world/>.

<sup>53</sup> "Cambodia," The World Bank, 2017, <https://data.worldbank.org/country/cambodia>.

<sup>54</sup> Index Mundi, accessed September 9, 2016, <http://www.indexmundi.com/facts/indicators>.

source of resources like petrochemicals or precious minerals, which frequently generate geopolitical action, China is likely to have similar foreign policies toward Cambodia and Kenya with respect to resource extraction.

## **2. Differences between Cambodia and Kenya: Geographic, Political, and Cultural Proximity to China**

China has more reasons to exert its influence in Cambodia than in Kenya. As a Southeast Asian state, Cambodia's geographic proximity to China means the two have more frequent political interactions as well.<sup>55</sup> By virtue of their being regional neighbors, China and Cambodia both are affected by a number of foreign policy issues, including ASEAN decisions, South China Sea usage, ASEAN-China Free Trade Area membership, Mekong River development and, during the Cold War, regional great power politics. East Africa also has its share of regional political problems, but China has much less at stake in their outcomes.

Geographic proximity also leads to cultural similarity. The Khmer Empire was a tributary vassal of ancient China as early as the third century, and Cambodian Buddhism incorporates elements of Confucianism, one of China's foundational philosophies.<sup>56</sup> In the 1960s and 1970s, ethnic Chinese were Cambodia's largest minority. That population suffered badly under the Khmer Rouge, and today, 2.5 percent of Cambodia is ethnically Chinese.<sup>57</sup> If there is a cultural component to foreign policy and the degree to which states cooperate with or oppose one another, that component would be more pronounced between China and Cambodia than between China and Kenya.

Because Cambodia and Kenya are in many ways similar states but distinct in the distance of their orbits around Beijing, Chinese aid to each country should yield insights about how and why China employs aid and investment. If China predominantly uses

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<sup>55</sup> Proximity does not imply affinity, of course; rather, proximate states have more intersections of interests and more opportunities for both cooperation and conflict, *ceteris paribus*.

<sup>56</sup> "Chinese Tributary States," Global Security, accessed 29 August 2017, <http://www.globalsecurity.org/military/world/china/history-tributary-states.htm>; Ross, ed., *Cambodia: A Country Study*, 122.

<sup>57</sup> Sigfrido Burgos and Sophal Ear, "China's Strategic Interests in Cambodia," *Asian Survey* 50, no. 3 (May/June 2010), 616–17.

foreign aid to buy influence and pursue narrow national interests, one would expect to find more aid to be delivered to Cambodia, a state whose foreign policy issues have much greater overlap with Chinese concerns compared to Kenya's. Conversely, if China predominantly uses aid to spur development or business relationships, one would expect to find aid delivered to Cambodia and Kenya according to their developmental need or trade partnership potential. An examination of the history of the PRC's support of each country should yield insights about where China's aid priorities lie.

## **F. CONCLUSION**

This thesis asks three questions: What has China achieved, and what does it hope to achieve, with its economic statecraft? Do China's choices of aid instrument indicate its political intent? And does Chinese aid present a challenge to the United States and its interests? To answer these questions, this thesis examines China's aid and investment activity in Cambodia and Kenya since their independence from colonial rule. Chapter II examines China's complex pursuit of its own interests in Cambodia since 1949. Chapter III examines China's sporadic relationship with Kenya since 1964. Chapter IV examines the U.S. interests that may be challenged by China's economic statecraft, evaluate this thesis's hypotheses, and draw conclusions from China's behavior in its interaction with Cambodia and Kenya.

In examining China's foreign aid activity, comparing across diverse sources can aid analysis. The chronic opacity of China's state activity (not to mention the language barrier of original Chinese sources) requires an appeal to the broader literature, including reported connections between Chinese aid and recipient state actions. The argument is couched in reinterpretation of existing literature with an emphasis on what it means for Cambodia, Kenya, China, the United States, and the world.

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## II. CHINA'S INTERESTS IN CAMBODIA

What interests does China pursue in Cambodia?<sup>58</sup> This chapter examines the China-Cambodia dyad in the issue-areas of One China Policy support, Cold War politics, South China Sea maritime claims, and Mekong development disputes. These issues are a representative set of interests that China has had in Cambodia since 1949. Further, these dyadic interests reflect Chinese national interests writ large. They span major periods for the People's Republic: its inception as a new state, its involvement in Cold War great power politics in the 1960s and 1970s, its post-Mao shift from revolutionary ideology to pragmatic development, and its ambition as a world power. They reflect the core issues of Chinese sovereignty and status in the South China Sea. In each case, this chapter outlines the issue, introduce China's engagement with Cambodia to pursue its interest, and frame China's interest in terms of international relations theory. This chapter argues that Chinese aid to Cambodia played an important role in building international support for Chinese sovereignty over Taiwan, hedging against Soviet and Vietnamese expansion during the Cold War, advancing Chinese claims in the South China Sea, and softening resistance to Mekong River dam projects.

### A. PURSUIT OF ONE CHINA

Of China's foreign policy concerns, building international support for the legitimate sovereignty of the PRC over all of China, including Taiwan, is among the most important. Foreign aid is one tool that the PRC uses to gather and maintain that international support. In 1956, Cambodia became the first state whose diplomatic recognition China courted with aid.

China's policy of reunification with Taiwan is codified in, among other places, a white paper called "The Taiwan Question and the Reunification of China."<sup>59</sup> Published in

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<sup>58</sup> This thesis refers to Cambodia both by that name and by the particular names it adopted as it changed regimes. Cambodia's many names, for reference: Kingdom of Cambodia (1953–1970), Khmer Republic (1970–1975), Democratic Kampuchea (1975–1979), People's Republic of Kampuchea (1979–1989), the State of Cambodia (1989–1993), and the Kingdom of Cambodia again (1993–present).

<sup>59</sup> "The Taiwan Question and Reunification of China," Taiwan Affairs Office & Information Office, State Council, People's Republic of China, August 1993, <http://china.org.cn/e-white/taiwan/index.htm>.

1993, it outlines the PRC's view of the modern cross-strait situation and its intentions. This document defines Taiwan as having been a part of China since antiquity, briefly expropriated but rightfully repatriated to China—the one true China, with the Chinese Communist Party (CCP) administering the only rightful sovereign government—after World War II. China's white paper goes on to reiterate China's intent to resolve the Taiwan question peacefully, but emphasizes China's frustration with the Kuomintang's (KMT) flight from China, its periodic flirtation with Taiwanese independence, the intervention and partiality of the United States, and U.S. disruption of peaceful negotiation of Taiwan's return to the Chinese fold. The One China policy remains the official policy of the People's Republic. For several decades after the KMT's retreat, it was also the policy of the ROC that there was but one China and the KMT was its rightful government. The Taiwan Question remains unresolved as the last remaining artifact of China's century of humiliation. Aside from several crises in the Taiwan Strait, China's approach to reunification has been largely peaceful and diplomatic.

That diplomatic approach hinged on internationally isolating the ROC by insisting on states' diplomatic recognition of the People's Republic, one state at a time. In 1954, Chinese Foreign Minister Zhou Enlai attended the Afro-Asian Conference in Bandung, Indonesia. In attendance were 29 states representing over 1.5 billion people; absent were the United States and the Soviet Union. In the next decade, China would extend diplomatic overtures to many of them. The Bandung Conference helped Zhou and the PRC realize the enormous potential of numerous small allies in a world otherwise dominated by bipolar great power politics.<sup>60</sup> These overtures occurred in two phases: First, from 1956 to 1971, the PRC pursued the support of enough states to secure the China seat in the United Nations General Assembly from the ROC; next, from 1972 to 2008, China continued to foster growing community of states that recognized the PRC's sovereignty over Taiwan.

The first of those alliances to bear fruit was with Cambodia. In 1956, shortly after the PRC had abandoned near terms efforts to reunify with Taiwan by force, China put the

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<sup>60</sup> J. H. Kalicki, *The Pattern of Sino-American Crises: Political-Military Interactions in the 1950s* (London: Cambridge University, 1975), 161–62.

lessons it learned in Bandung to use. It began extending diplomatic overtures to states in which it had no obvious national interest. The first volley in that checkbook diplomacy campaign was China's overture to Cambodia. In 1956, China issued a \$22.5 million non-repayable grant to Cambodia.<sup>61</sup> China followed up on its first grant in 1958 and 1960 with additional pledges of \$5.6 million and \$26.5 million in aid to Cambodia, respectively, along with dozens of construction projects for a radio tower, rail lines, factories, hospitals, and other infrastructure.<sup>62</sup> Despite China's poverty at the time, Mao strongly preferred grants as foreign aid instruments, since they offered a much friendlier public relations appearance than market rate, subsidized, or even interest-free loans.<sup>63</sup> The amount of pledged aid actually delivered is unclear, but any aid at all was generous when China was beset by its own profound difficulties during the Great Leap Forward.<sup>64</sup>

That series of aid flows to Cambodia in the mid-1950s was the first round in a foreign aid campaign that was expensive for both the People's Republic and for Taiwan, which attempted the same checkbook diplomacy strategy for the same reason. In 1958, Cambodia severed ties to the ROC and recognized the PRC. Two years later, Cambodia voiced support for the PRC's assumption of China's seat at the UN. Dozens more states followed suit, and in 1971, the UN expelled the ROC and admitted the PRC as the voice of China.<sup>65</sup> This was the first shift in a cascade of abandonment of Taiwan that lasted for five more decades. Because both Chinese governments demanded diplomatic recognition exclusive of the other, Cambodia's shift of recognition from Taiwan to China was the first of many zero-sum victories for the legitimacy of the People's Republic. During the ensuing five decades, China and Taiwan would continue the struggle China began in Cambodia, bilaterally courting small states to entice their acceptance of the One China policy. China's checkbook diplomacy campaign was a success. In the end, China remains

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<sup>61</sup> Foreign aid figures are given in nominal U.S. dollars. Copper, *China's Foreign Aid and Investment Diplomacy*, Vol. II, 16, 149.

<sup>62</sup> Wolfgang Bartke, *China's Economic Aid* (New York: Holmes & Meier, 1975), 96–101.

<sup>63</sup> John F. Copper, *China's Foreign Aid* (Lexington, MA: Lexington, 1976), 46.

<sup>64</sup> Copper, *China's Foreign Aid and Investment Diplomacy*, Vol. II, 17.

<sup>65</sup> UN General Assembly, Resolution 2758, Restoration of the Lawful Rights of the People's Republic of China in the United Nations. Twenty-Sixth Session (25 October 1971), <https://documents-dds-ny.un.org/doc/RESOLUTION/GEN/NR0/327/74/IMG/NR032774.pdf?OpenElement>.

divided, but the People's Republic is otherwise in an indisputably better diplomatic position: It holds China's seat in the United Nations and has received the diplomatic recognition of almost every state on earth.<sup>66</sup>

Foreign aid was not solely responsible for China's international recognition, of course. The Cold War was another major factor in China's success. China's two greatest coups were assuming their seat at the UN and winning rapprochement with and the recognition of the United States. The opinion of the latter was swayed by China's value in the Cold War, not by grants.<sup>67</sup> However, 56 non-Communist Bloc countries shifted their recognition from Taiwan to China even before China won its UN seat, and Chinese foreign aid was a major factor in those successes.

China's checkbook diplomacy campaign to isolate Taiwan serves both realist and constructed national interests. China's reunification with Taiwan appears at first blush to be a realist concern: A larger state seeking to coerce a smaller rival in order to expand its territory and industrial capacity, only to be thwarted by a hegemonic offshore balancer.<sup>68</sup> More illustrative, though, is the constructed symbolism of Taiwan as a painful reminder of national humiliation. Zheng Wang argues that the CCP reinforces a narrative of chosen trauma that defines the people's identity, and that the resulting nationalism is a key element of CCP legitimacy.<sup>69</sup> China's trauma was its fall from glory, and its mission (and one *raison d'être* of the CCP) is to restore itself as the Middle Kingdom. That restoration requires being whole. China's motives for reunification, and its bilateral pursuit of foreign support, are not merely material or realist but also deeply nationalist.

In summary, beginning with aid to Cambodia in 1956, China pursued an aggressive checkbook diplomacy campaign designed to draw support away from the ROC and build the legitimacy of the People's Republic. For the most part, this aid's only

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<sup>66</sup> Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*, 165–69.

<sup>67</sup> Rebecca E. Karl, *Mao Zedong and China in the Twentieth-Century World: A Concise History* (Durham: Duke University, 2010), 149–153.

<sup>68</sup> John J. Mearsheimer, *The Tragedy of Great Power Politics*, updated ed. (New York: Norton, 2014), 2, 375–76.

<sup>69</sup> Zheng Wang, *Never Forget National Humiliation: Historical Memory in Chinese Politics and Foreign Relations* (New York: Columbia University, 2014), 131–32.

explicit condition was that the recipient diplomatically recognize China and support its One China Policy. Although larger forces were at play, including U.S. recognition of China as a Cold War confederate, Chinese foreign aid was a major factor in gathering international support.

## **B. CAMBODIA AS A COLD WAR COUNTERWEIGHT**

The Sino-Soviet Split was a major driver of Southeast Asian politics during the Cold War. Between the mid-1950s and the early 1960s, China's ideology and politics had diverged from that of the Soviet Union, turning China's greatest ally into its greatest security threat.<sup>70</sup> China worried intensely about Soviet involvement in Southeast Asian politics. It also worried about Soviet-supported Vietnamese aspirations of regional hegemony and communist unity. Toward the end of the Vietnam War, the Soviet Union had replaced China as North Vietnam's greatest benefactor.<sup>71</sup> New Cold War alignments formed in Asia in the 1970s, particularly after China's rapprochement with the United States in 1972 and Vietnam's Treaty of Friendship and Cooperation with the Soviet Union in 1978. China's greatest concerns in the region were Soviet encirclement and Vietnamese expansion.<sup>72</sup> One of China's responses to this encirclement was its relationship with Cambodia.

Cambodia's and China's interests in Cold War non-alignment and sovereignty paralleled each other in the mid-twentieth century. Norodom Sihanouk, at various times Cambodia's king, prince, prime minister, and head of state, carried out a struggle for Cambodian independence, first from French rule and then from Vietnamese occupation.<sup>73</sup>

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<sup>70</sup> Chen Jian, *Mao's China and the Cold War* (Chapel Hill: University of North Carolina, 2001), 49–84.

<sup>71</sup> Chinese aid to North Vietnam was substantial during the Vietnam War, including a \$158 million loan in 1961 and MiG aircraft and other military equipment after 1964. Between 1971 and 1975, aid to North Vietnam consumed some 6–7 percent of China's annual expenditure. Despite this aid, China remained wary of the possibility of North Vietnamese dominance in Southeast Asia, as well as of Soviet influence there: Soviet aid to North Vietnam dwarfed China's. Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*, 4–5; Sophie Richardson, *China, Cambodia and the Five Principles of Peaceful Coexistence* (New York: Columbia, 2010), 88–89.

<sup>72</sup> Peter M. Worthing, "Strange Bedfellows: China and Cambodia since 1949," *American Asian Review* 18, no. 3 (Fall 2000): 58–59, Proquest (211389313).

<sup>73</sup> Worthing, "Strange Bedfellows," 22–26.

Mao, an outspoken critic of Western imperialism and Soviet revisionism, had led China to independence and advocated for the sovereignty of non-aligned states.<sup>74</sup> China's support of sovereignty appealed to Sihanouk, who would increasingly look northward for political support.<sup>75</sup>

Lon Nol, prime minister and once Sihanouk's closest friend in the Cambodian army, staged a coup in 1970 while Sihanouk was traveling abroad. The Khmer Republic was established, and Sihanouk established the Royal Government of the National Union of Kampuchea (GRUNK), his government in exile in Beijing. GRUNK and the Khmer Rouge, formerly domestic rivals, became allies of convenience in opposition to Khmer Republic.<sup>76</sup> Between 1970 and 1975, the Khmer Republic defended itself from a domestic communist insurgency supported by North Vietnam on one hand and by GRUNK and China on the other.

China hosted Sihanouk's government in exile while supporting the Cambodian insurgency. That insurgency restored a China-friendly Democratic Kampuchea in 1975, but it did not create a perfect alignment of interests. The Khmer Rouge and China never, at any point, had much affection for each other; the Khmer Rouge were more inclined toward North Vietnam and the Soviet Union than toward China or Sihanouk himself, which created tension when the Khmer Rouge, Sihanouk, and China found themselves supporting each other.<sup>77</sup> Vietnam helped cement their mutual support when it began initiating border clashes in 1977 and finally invaded Kampuchea in December 1978.<sup>78</sup>

Chinese aid continued to play a large part in its regional diplomacy. Between 1966 and 1968, China pledged some \$77 million in grants and military support to the Kingdom of Cambodia. While in exile in Beijing, GRUNK received some \$30 million in

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<sup>74</sup> "Agreement between the Republic of India and the People's Republic of China on Trade and Intercourse between Tibet Region of China and India," *Treaty Series* vol. 299, United Nations, 3 June 1954, <https://treaties.un.org/doc/publication/unts/volume%20299/v299.pdf>; Richardson, *China, Cambodia and the Five Principles of Peaceful Coexistence*, 32.

<sup>75</sup> Worthing, "Strange Bedfellows," 55–56.

<sup>76</sup> Ross, ed., *Cambodia: A Country Study*, 26, 43–44.

<sup>77</sup> Bartke, *China's Economic Aid*, 96.

<sup>78</sup> Worthing, "Strange Bedfellows," 62–65.

aid, some of which may have flowed to Cambodian areas controlled by the Khmer Rouge. China ceased all aid activity to Lon Nol's Khmer Republic. In 1975, after the Khmer Rouge assumed power, China pledged an unprecedented \$1 billion interest-free loan to Cambodia, now called Democratic Kampuchea, and an additional \$20 million as a gift.<sup>79</sup> Beijing also pledged military gifts in kind to the new regime, including patrol boats, vehicles, artillery pieces, and small arms.<sup>80</sup> As with all Chinese aid, it is unclear how much pledged aid China actually delivered.

In 1975, Vietnam became hostile to the Khmer Rouge whose insurgency it had supported. Vietnam and Cambodia clashed at their border, while Vietnam established ties with communist Laos. China became wary of Southeast Asian unification under Vietnam.<sup>81</sup> At about the same time China offered its \$1 billion loan to Democratic Kampuchea, China suspended its grants to Vietnam. Two years later, China suspended its loans to Vietnam as well, leaving Vietnam to become a wholly dependent Soviet client state.

Chinese aid to Cambodia and to Vietnam during the Cold War is difficult to measure and compare accurately. The literature offers data in several forms. Copper and Bartke, the most detailed data sets available, examine individual pledges of aid and the context in which they were extended. By their estimate, the sum of China's line item spending in Cambodia between 1956 and 1977 is \$1.4 billion.<sup>82</sup> This is a low estimate, because in addition to discrete grants and loans, China also offered in-kind military aid and technical assistance whose monetary value is difficult to measure.

In comparison, between 1949 and 1977, China extended some \$576 million in discrete grants and loans to Vietnam, but China's true expenditure was much higher: Including military expenditure, Copper estimates China spent between \$1.5 and

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<sup>79</sup> Bartke, *China's Economic Aid*, 96; Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*, 17–19.

<sup>80</sup> Richardson, *China, Cambodia, and the Five Principles of Peaceful Coexistence*, 87.

<sup>81</sup> Womack, "Asymmetry and Systemic Misperception: China, Vietnam and Cambodia during the 1970s," *The Journal of Strategic Studies* 26, no. 2 (June 2003): 112–17.

<sup>82</sup> Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*, 16–22; Bartke, *China's Economic Aid*, 95–101.

\$3.5 billion supporting Vietnam during the Vietnam War.<sup>83</sup> An estimate from Chinese sources places that figure as high as \$20 billion.<sup>84</sup> Regardless of monetary value, data through the 1970s show a crescendo of aid to Cambodia and a reduction, then cessation, of aid to Vietnam as it reunified and expanded its regional power.

In addition to financial assistance to GRUNK and the Khmer Rouge, China took direct military action to support Cambodia and contain Vietnam. In February and March 1979, only a month after Vietnam's invasion of Cambodia, China responded by attacking Vietnam. China's attack was limited, intended to punish Vietnam for its aggression.<sup>85</sup> Its results were mixed: In four weeks of combat, the People's Liberation Army (PLA) suffered between 20,000 and 45,000 casualties, and the Vietnamese army between 44,000 and 50,000. The PLA withdrew in March, having punished its neighbor but little more. China's lackluster military operation may have cost Vietnam, but not dearly.<sup>86</sup> Vietnam's occupation of Cambodia continued for a decade.

Vietnam's post-unification expenses were substantial, due in no small part to the high cost of maintaining its People's Republic of Kampuchea regime while it was bled dry by a Chinese-supported insurgency there. By the time Communist Party of the Soviet Union General Secretary Mikhail Gorbachev normalized Sino-Soviet relations in 1989, a bankrupt Vietnam became unable to continue its occupation westward and departed Kampuchea entirely, leaving behind the State of Cambodia as an independent country.<sup>87</sup>

China's foreign aid activity toward Cambodia illustrates China's geopolitical interests in Southeast Asia during the 1960s and 1970s. In the 1960s, Beijing used foreign aid to strengthen its relationship with Cambodia, as a complement to China's support for North Vietnam. From 1970 to 1975, China maintained its relationship with Sihanouk and

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<sup>83</sup> Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*, 2–6;

<sup>84</sup> Chu Hao, "Enduring Ties," *Beijing Review*, 2 January 2014, [http://www.bjreview.com.cn/print/txt/2010-01/09/content\\_239110.htm](http://www.bjreview.com.cn/print/txt/2010-01/09/content_239110.htm), quoted in Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*, 6.

<sup>85</sup> Worthing, "Strange Bedfellows," 65.

<sup>86</sup> Harlan W. Jencks, "China's 'Punitive' War on Vietnam: A Military Assessment," *Asian Survey* 19, no. 8 (August 1979): 811–13, <http://www.jstor.org/stable/2643723>.

<sup>87</sup> Richardson, *China, Cambodia, and the Five Principles of Peaceful Coexistence*, 70.

with the Khmer Rouge as they tried to regain power, and aid followed; China and Vietnam found themselves supporting Cambodian communist resistance together. After 1975, when Vietnamese policy became sharply hostile toward Democratic Kampuchea, Chinese aid supported Cambodia as a bulwark against Vietnamese expansion and Soviet influence. Chinese aid appears to comport with realist Cold War balancing behavior.

### C. PURSUIT OF SOVEREIGNTY IN THE SOUTH CHINA SEA

The South China Sea is the site of a thick tangle of conflicting national interests. Around the Sea's periphery are seven states with overlapping maritime claims, including assertions of control over hundreds of rocks, islets, and reefs. Among those claimant states is China, which claims sovereignty over the Paracel Islands, Spratly Islands, Scarborough Shoal and other features, against the objections and competing claims of Vietnam, the Philippines, Taiwan, Brunei, and Malaysia.<sup>88</sup> In addition to its claims of sovereignty over individual features, China's broadest and most famous claim in the South China Sea is to an ambiguous claim to the waters within its self-proclaimed "Nine Dash Line," which encompasses most of the Sea. China defends its claims based on a liberal interpretation of the 1982 United Nations Convention on the Law of the Sea (UNCLOS), which standardizes maritime zones of control: By this agreement, coastal states have extensive sovereignty rights in a 12-nautical-mile territorial sea around their baselines and have natural resource exploitation rights within their 200-nautical-mile exclusive economic zones (EEZs).<sup>89</sup> China's reinterpretation of definitional standards and the historical claim it believes supersedes UN treaty lead China to make sweeping claims in the Sea.

China's claims are not the only excessive assertion of maritime control, but they are the broadest. The PRC's interpretation of the UNCLOS incorporates excessive claims like expanded coastal baselines, demands for prior permission for foreign naval operations within its EEZ, and its broad and vaguely historical claim of sovereignty

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<sup>88</sup> Wu Xinbo and Michael Green, "Regional Security Roles and Challenges," in *Debating China*, ed. Nina Hachigian (Oxford: Oxford University, 2014), 204.

<sup>89</sup> *United Nations Convention on the Law of the Sea*, 1982, [http://www.un.org/depts/los/convention\\_agreements/texts/unclos/unclos\\_e.pdf](http://www.un.org/depts/los/convention_agreements/texts/unclos/unclos_e.pdf).

within the Nine Dash Line. There is no clear consensus within China, however, about what those claims to sovereignty entail. In a 2009 letter to the UN Commission on Limits of the Continental Shelf, China wrote that

China has indisputable sovereignty over the islands in the South China Sea and the adjacent waters and enjoys sovereign rights and jurisdiction over the relevant waters as well as the seabed and subsoil thereof. The above position is consistently held by the Chinese Government and is widely known by the international community.<sup>90</sup>

China's statement and others like it leave unclear what those "adjacent" or "relevant" waters are and what sovereignty over them might mean. The language suggests neither appeal to nor a refutation of UNCLOS standardization. Other Chinese agencies publish ambiguous terms like "traditional boundary line," "traditional maritime boundary," or "historic rights that the PRC enjoys," without clarification about what those lines, boundaries, and rights are.<sup>91</sup> Despite China's assertion of indisputability, there appears to be no clear internal consensus within the PRC about exactly what the Nine Dash Line means.

On the South China Sea specifically, as well as on a broader set of issues, ASEAN's diplomatic forum presents a challenge to China, which generally prefers to engage bilaterally with states much smaller than itself. In order to wield bilateral leverage against a multilateral institution, China exerts influence by proxy. Cambodia is China's closest friend and most pliable client in ASEAN, and despite having no claim of its own in the South China Sea, Cambodia advocates for Chinese interests there. An example of Cambodia's proxy advocacy was the role it played in a 2012 dispute between China and the Philippines. In April of that year, Chinese vessels at anchor near Scarborough Shoal entered a tense standoff with vessels from the Philippine Navy after refusing to consent to inspection and resisting subsequent arrest for poaching. The Philippines regarded

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<sup>90</sup> Mark E. Rosen, "Challenges to Public Order and the Seas," CNA China Studies, March 2014, [https://www.cna.org/CNA\\_files/PDF/DPP-2013-U-006302-1Rev.pdf](https://www.cna.org/CNA_files/PDF/DPP-2013-U-006302-1Rev.pdf), 10.

<sup>91</sup> M. Taylor Fravel, "China's Strategy in the South China Sea," *Contemporary Southeast Asia* 33, no. 3 (2011), 294-95.

inspection as their privilege within what they claimed as their own EEZ; the Chinese vessels felt the same about their right to refuse arrest within the Nine Dash Line.<sup>92</sup>

In July 2012, Cambodia hosted a meeting of ASEAN foreign ministers in Phnom Penh. On the agenda was management of South China Sea tensions. Vietnam and the Philippines both moved to include mention of China's claims in the South China Sea, China's dispute with the Philippines over Scarborough Shoal, and the China-Philippines naval standoff in the meeting's communiqué. In Carlyle Thayer's detailed account of that meeting, he notes that Philippine Foreign Minister Albert del Rosario wanted to record the ministers' discussion of "the situation in the Scarborough Shoal and... serious concern over such developments in the area, particularly those provisions in the UNCLOS related to Exclusive Economic Zones and continental shelves," referring to claims to the shoal.<sup>93</sup> Ministers from Vietnam, Indonesia, Brunei, and Singapore also recommended that the communiqué refer directly to South China Sea disputes.<sup>94</sup>

Cambodian Foreign Minister Hor Namhong, representing the Cambodian chair and tasked with drafting the joint communique, consistently rejected any mention of South China Seas disputes in general and the Scarborough Shoals standoff in particular.<sup>95</sup> Not only did the meeting not record the Philippines' outrage, but for the first time in 45 years of ministerial meetings, no communiqué was issued at all.<sup>96</sup>

Thayer attributes the failure of the meeting to issue a communiqué to the chair's apparently obstinate refusal to print one.<sup>97</sup> Hor Namhong argued that it was not ASEAN's place to arbitrate a bilateral dispute, that there was no consensus on the

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<sup>92</sup> "Scarborough Shoal Standoff: A Timeline," Global Nation, Inquirer.net, 9 May 2012, <https://globalnation.inquirer.net/36003/scarborough-shoal-standoff-a-historical-timeline>.

<sup>93</sup> Carlyle A. Thayer, "ASEAN's Code of Conduct in the South China Sea: A Litmus Test for Community-Building," *The Asia-Pacific Journal: Japan Focus* vol. 10, issue 34, no. 4 (August 2012): 14, <http://apjjf.org/-Carlyle-A--Thayer/3813/article.pdf>.

<sup>94</sup> *Ibid.*, 6–10.

<sup>95</sup> *Ibid.*, 13.

<sup>96</sup> "Chinese Checkers: Asian Maritime Diplomacy," *The Economist*, 21 July 2012, Proquest (1027555047).

<sup>97</sup> Thayer, "ASEAN's Code of Conduct," 17.

subject, and that no communiqué ought to be issued without consensus.<sup>98</sup> However, Cambodia was apparently the only vocal dissent. With no South China Sea maritime claims of its own, why would Cambodia choose this issue as a reason to scuttle its own meeting?

Chinese foreign aid and investment preceded Cambodia's advocacy of Chinese interests. Chinese aid dominated Cambodia's aid receipts in the several years prior to Phnom Penh's ASEAN summit. Between 1997 and 2012, China extended some \$10 billion in aid and investment to Cambodia, which nearly matched the \$12 billion Cambodia received from all other donors during that time.<sup>99</sup> In 2011 alone, China provided \$1.9 billion in aid and investment, including a \$39.6 million grant and \$31.7 million concessional loan.<sup>100</sup> In comparison, Japan, Cambodia's largest individual donor in the OECD, contributed between \$116 and \$139 million per year at the time.<sup>101</sup>

In April 2012, Chinese President Hu Jintao and Premier Wen Jiabao each made visits to Phnom Penh, and each meeting led to new trade agreements. That September, after that summer's ASEAN conventions, China extended \$523 million in loans and grants to Cambodia, explicitly to maintain "friendly relations with ASEAN."<sup>102</sup> Further, in the days after the ministerial meeting in Phnom Penh, Xinhua quoted Chinese Foreign Minister Yang Jiechi as thanking Cambodia's prime minister for "supporting China's core interests."<sup>103</sup> Cambodian Ministry of Economy official Aun Porn Moniroth celebrated that "the Chinese government also voiced high appreciation for the part played

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<sup>98</sup> Thayer, "ASEAN's Code of Conduct," 11–13.

<sup>99</sup> Kheang Un, "Cambodia in 2012: Beyond the Crossroads?" *Asian Survey* 53, no. 1 (January/February 2013): 147, <http://www.jstor.org/stable/10.1525/as.2013.53.1.142>.

<sup>100</sup> Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*, 21–22.

<sup>101</sup> Sophal Ear, *Aid Dependence in Cambodia: How Foreign Assistance Undermines Democracy* (New York: Columbia University, 2013), 97; "Interactive summary charts for total DAC, DAC and non-DAC members," OECD, updated 20 December 2016, <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm>.

<sup>102</sup> Un, "Cambodia in 2012," 148.

<sup>103</sup> Jane Perlez, "Asian Leaders at Regional Meeting Fail to Resolve Disputes over South China Sea," *New York Times*, 13 July 2012, sec. A.

by Cambodia as the chair of ASEAN to maintain good cooperation between China and ASEAN.”<sup>104</sup>

In summary, by delivering decades of generous foreign aid, China appears to have exerted influence on ASEAN through Cambodia to support China’s interests in the South China Sea. Cambodia, whose position as chair in 2012 permitted it to prevent 2012’s joint communiqué, was widely criticized, in Asia and elsewhere, as being subservient to China’s interests.<sup>105</sup>

#### **D. PURSUIT OF DEVELOPMENT ON THE MEKONG RIVER**

The Mekong River originates in the mountains of Yunnan Province, China, and flows south past Myanmar, between Thailand and Laos, through Cambodia, and into the Mekong Delta in southern Vietnam. The river is an enormously valuable resource along its entire length: In the north, deep gorges make valuable sites for hydroelectric dams, while downstream, the Mekong supports irrigation for a population of some 60 million people.<sup>106</sup> In Cambodia, the Mekong feeds Tonle Sap, the largest lake in Southeast Asia and the single largest source of protein for the Cambodian population.<sup>107</sup>

As they do everywhere else in the world, infrastructure development and ecological preservation find themselves at loggerheads. On the one hand, a region growing in both population and in economic strength has an insatiable appetite for energy.<sup>108</sup> Hydroelectric power is set to become a major source of energy in the Mekong

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<sup>104</sup> “Cambodia’s ASEAN Help Leads to Chinese Aid,” *China Post*, Sept. 5, 2012, quoted in John D. Ciorciari, “China and Cambodia: Patron and Client?” (IPC Working Paper Series Number 121, International Policy Center, Gerald R. Ford School of Public Policy, University of Michigan, Ann Arbor, MI, 14 June 2013), 4, <https://pdfs.semanticscholar.org/22c1/5ad7e67139f1be207a9b8386f63c46e6cce7.pdf>.

<sup>105</sup> Kishore, “Is China Losing the Diplomatic Plot?” Project Syndicate, 26 July 2012, <https://www.project-syndicate.org/commentary/is-china-losing-the-diplomatic-plot>; Ciorciari, “China and Cambodia: Patron and Client?” 35; Thayer, “ASEAN’s Code of Conduct,” 16–17.

<sup>106</sup> “Mekong Basin,” Mekong River Commission, accessed 7 December 2016, <http://www.mrcmekong.org/mekong-basin/>.

<sup>107</sup> Juha Sarkkula et al., “Hydropower in the Mekong Region: What Are the Likely Impacts upon Fisheries?” in *Contested Waterscapes in the Mekong Region: Hydropower, Livelihoods, and Governance*, ed. François Molle et al. (London: Earthscan, 2009), 233.

<sup>108</sup> David Biggs et al., “The Delta Machine: Water Management in the Vietnamese Mekong Delta in Historical and Contemporary Perspectives,” in *Contested Waterscapes in the Mekong Region: Hydropower, Livelihoods, and Governance*, ed. François Molle et al. (London: Earthscan, 2009), 211.

Basin, which is dotted with dozens of potential dam sites for hydroelectric and irrigation services. China's stretch of the Mekong already has a half a dozen major hydroelectric dams. China, Laos, Thailand, and Cambodia are planning to build dozens more along the lower length of the river.<sup>109</sup> On the other hand, dammed rivers suffer in a variety of ways. In Cambodia, in particular, hydroelectric projects upstream have substantial negative effects on the critical annual flood that feeds Tonle Sap, the quality of the lake's water, the supply of sediments and nutrients that feed the Cambodian basin ecosystem, and the health of migratory fish on which Cambodia's impoverished population depends.<sup>110</sup>

Phnom Penh is aware of the development-ecology tradeoff. In February 2003, Prime Minister Hun Sen spoke with alarm about Chinese dams on the Mekong and the possibility of damage to Tonle Sap and its fisheries. At a time when China was the only state building dams on the Mekong, Hun Sen said "the upstream countries' projects in the Mekong River, namely the continued dam construction... have become a major concern for downstream countries including Cambodia."<sup>111</sup> In 2007, Phnom Penh also established the Tonle Sap Basin Authority, a domestic bureau charged with monitoring lake activity. In 2012, one of Cambodia's official protests halted the construction of Xayaburi Dam, a Thai-owned dam in Laos, arguing for further study of its impact to river health.<sup>112</sup> Cambodia is demonstrably willing to challenge other states on their obstructions of the Mekong. Does Cambodia object to Chinese and Southeast Asian dams consistently?

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<sup>109</sup> "The Proliferation of Dams along the Mekong River," *The Economist*, 16 February 2016, <http://www.economist.com/blogs/graphicdetail/2016/02/daily-chart-11>; Carl Middleton, et al., "Old and New Hydropower Players in the Mekong Region: Agendas and Strategies," in *Contested Waterscapes*, 26–41.

<sup>110</sup> Sarkkula et al., "Hydropower in the Mekong Region," 233–34; Kurlantzick, *Charm Offensive*, 164–65.

<sup>111</sup> Milton Osborne, *The Mekong: River Under Threat* (New South Wales: Lowy Institute for International Policy, 2009), 40.

<sup>112</sup> Zakariya Tin, "Cambodia Warns Laos Over Mekong Dam," *Radio Free Asia*, 25 April 2012, <http://www.rfa.org/english/news/cambodia/dam-04192012143244.html>; "Laos Halts Xayaburi Dam Work," *Asia Times*, 11 May 2012, [http://www.atimes.com/atimes/Southeast\\_Asia/NE11Ae02.html](http://www.atimes.com/atimes/Southeast_Asia/NE11Ae02.html).

China's interest in hydroelectric development along the Mekong is threefold: First, dams serve China's own energy needs in Yunnan. Second, dam projects are an attractive business opportunity for Chinese engineering and construction firms operating both domestically and abroad.<sup>113</sup> Third, China has a genuine interest in economic development and prosperity in Southeast Asia, which presents a rapidly growing set of trading partners.<sup>114</sup> Thus, China's interest in Mekong River development is an intersection of the realist pursuit of resources and the liberal goal of economic interdependence and cooperation for mutual benefit.

Thailand, Laos, Vietnam, and Cambodia all have similar developmental and economic interests in hydroelectric development. The difference between China and its partner nations is the enormous diplomatic and economic pressure it can exert in order to support its own projects. Foreign aid is one element of that pressure. Chinese aid to Cambodia slowed in the 1990s, but increased substantially around 2002, beginning with the forgiveness of \$200 million of Cambodian debt. Between 2002 and 2014, China extended some \$22.7 billion in investment capital, loans, and grants to Cambodia, including an \$11.2 billion investment announcement in 2013 for Chinese mining and railway investments there.<sup>115</sup> Compared to the \$8.6 billion in OECD aid during that period, Chinese financing was, by a wide margin, Cambodia's largest single revenue source.<sup>116</sup> OECD ODA to Cambodia is summarized in Figure 1.

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<sup>113</sup> Chietigj Bajpae, "Asia's Coming Water Wars," *The Asia-Pacific Journal: Japan Focus* 4, issue 8, no. 0 (August 2006): 2, <http://apjpf.org/-Chietigj-Bajpae/2207/article.html>.

<sup>114</sup> Richardson, *China, Cambodia and the Five Principles of Peaceful Coexistence*, 194.

<sup>115</sup> Copper, *China's Foreign Aid and Investment Diplomacy, Vol. II*, 20–22.

<sup>116</sup> "Net official development assistance and official aid received (current US\$)," World Bank, accessed 3 May 2017, <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD?contextual=default&locations=KH>.

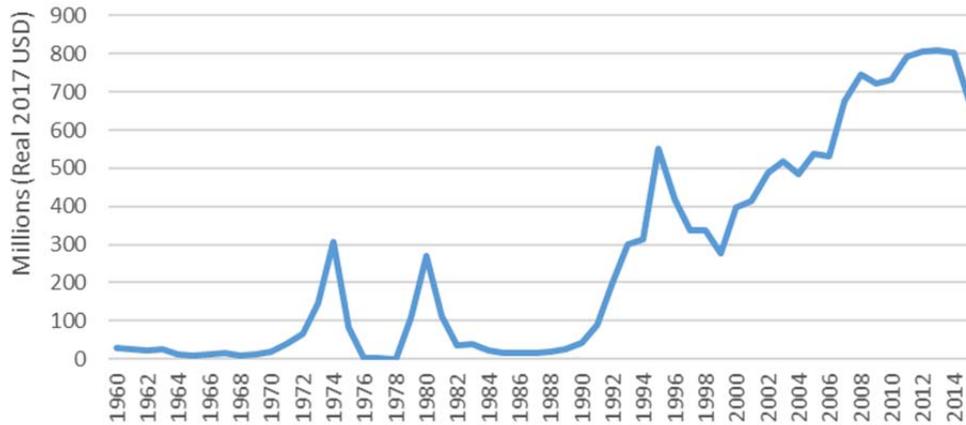


Figure 1. OECD Annual ODA to Cambodia, 1960–2015.<sup>117</sup>

Some of that aid may have directly addressed Mekong development: Joshua Kurlantzick writes about the particular relationship China shares with its Mekong neighbors, whose objections to development projects have been placated by Chinese pressure or largesse. “Every time Cambodians complain privately to the Chinese about the Mekong River,” Kurlantzick writes, “a Chinese delegation visits countries in Southeast Asia, offers promises of aid, emphasizes how popular China has become, and makes promises to uphold environmental standards.”<sup>118</sup>

Since 2003, the Cambodian government has offered no further objections to Chinese dams. In a 2010 press event, Hun Sen deflected the environmental impacts of Upper Mekong dam projects. “Don’t be too extreme of an environmentalist,” he warned reporters, “and don’t say that because of the hydroelectricity there is no water in the lower part of the Mekong. That would be a mistake.”<sup>119</sup>

In addition to aid-bought influence, Cambodia also acts in self-interest toward dams from which it will benefit, even at ecological expense. The Don Sahong Dam, under construction by Malaysian firm Mega First Corporation Berhad, lies just inside

<sup>117</sup> “Net Official Development Assistance and Official Aid Received (Current US\$), The World Bank, accessed 1 September 2017, <https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?contextual=default&locations=KH-KE>.

<sup>118</sup> Kurlantzick, *Charm Offensive*, 141.

<sup>119</sup> Thomas Miller and Cheang Sokha, “Hun Sen Denies China Dam Impacts,” *The Phnom Penh Post*, 17 November 2010, <http://www.phnompenhpost.com/national/hun-sen-denies-china-dam-impacts>.

Laos on the Laos-Cambodia border. Don Sahong would provide 256 megawatts of power to Laos and Cambodia. In 2015, Hun Sen dismissed the possibility of the Don Sahong Dam's construction as being too environmentally harmful.<sup>120</sup> In 2016, in an about face that he has not explained to the public, Hun Sen extended his support to the dam.<sup>121</sup> Cambodia's resistance to the Xayaburi Dam (which, north of Thailand, will yield no benefit to Cambodia) but endorsement of dams in China and on the Cambodian border, suggest Phnom Penh's acquiescence to hydroelectric development is for sale: in the former case, for Chinese aid, and in the latter, for inexpensive Laotian electricity.

China declines to join the Mekong River Commission (MRC), an organization whose major responsibility is to coordinate the river's development and mediate disputes. Instead, China prefers to engage bilaterally, where it can focus its diplomatic weight on a single small neighbor rather than a balancing coalition. China's use of foreign aid and absence from the MRC echoes China's approach to ASEAN and its preference to act through bilateral negotiation.

In summary, Chinese aid appears to soften Cambodian resistance to Mekong dams. Hun Sen was once a vocal advocate for Mekong and Tonle Sap environmental health. Just after the turn of the century, at about the same time Chinese aid to Cambodia dramatically increased, Hun Sen changed his rhetoric to support Chinese Mekong hydroelectric projects and denied their negative environmental impact. His support is not limited to Chinese dams, but also extends to the Dan Sahong Dam, a potential source of electricity for rural Cambodia. On the other hand, Cambodia continues to protest the more distant Malaysian-owned Xayaburi Dam, hundreds of miles upriver on the Laos-Thai border. Thus, Hun Sen's interest appears to include the prospect of inexpensive Laotian hydroelectric power as well as continued Chinese foreign aid.

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<sup>120</sup> T. Mohan, "Hun Sen Dismisses Reports on Don Sahong Dam Construction," *Khmer Times*, 12 July 2015, <http://www.khmertimeskh.com/news/13211/hun-sen-dismisses-reports-on-don-sahong-dam-construction/>.

<sup>121</sup> Milton Osborne, "Laos: Playing to Win in Mekong Hydropower Game," *The Interpreter*, 9 December 2016, <https://www.lowyinstitute.org/the-interpreter/laos-playing-win-mekong-hydropower-game>; Supalak Ganjanakhundee, "Will Hun Sen's Visit Unblock Mekong Dam Diplomacy?" *The Nation*, 11 Jan 2017, <https://www.pressreader.com/thailand/the-nation/20170111/281745564074146>.

From Beijing's perspective, Phnom Penh's support for Chinese dams appears to be one objective of Chinese aid.

## **E. CONCLUSION**

This chapter has demonstrated that China's interests in Cambodia are a microcosm of its national interests writ large. China's inaugural attempt to buy support for the One China Policy was in Cambodia, and Cambodia was a major theater of China's bitter feuds with the Soviet Union and Vietnam. Since Mao's death, Cambodia has been involved in China's development of regional power as a beneficiary of largesse, a proponent of China's maritime claims, and a victim of ecological harm. At every point, China has successfully employed foreign aid as a tool for pursuing its interests in Cambodia. China's aid projects and the major foreign policy campaigns they have supported are summarized in Table 2.

Table 2. Chinese Aid and FDI in Cambodia, 1956–2014

Year	Amount (nominal millions USD)	Type	Major projects and goals	Chinese foreign policy objective
1956	22.5	Grant	Development plan. Support for One China Policy.	1956–present: Political influence and One China Policy
1958	5.6	Grant	Bolster anti-imperialist image	
1960	26.5	Grant	Prevent Cambodia from joining SEATO	
1966	43	Grant	Possibly undelivered because of Cultural Revolution	
	30.8	Grant		1960s–1989: Cold War power politics of Soviet encirclement and Vietnamese expansion
1972	30	Grant	Aid to GRUNK in exile*	
1975	1,000	Loan, interest free	Contrast: China ended grants and loans to VNM in 1975 and 1977, respectively	
	20	Grant		
		Military equipment	Four patrol boats, 4,000 tons of weapons, 1,300 vehicles, artillery pieces, rice, agricultural equipment †	
1976		Grant and construction projects		
1977	200	Grant and construction projects		
1978		Construction and military		
1979–89		Military aid	Support for Cambodian resistance against Vietnam	
2002	200	Debt cancellation		
2003		Aid, FDI	Military training and equipment; Yunnan-sea railway ‡	
2004	60	Loan	Patrol boats, landing craft, floating dock	
2005	448	FDI	Including a \$280 million dam	
2006	600	Aid, loans	Bridges	
2007	601	Aid		
	91.5	Aid	Via Consultative Group for Cambodia	
2008	1,000	Aid	Dam projects	
2009	1,200	Aid	Coincided with Uighur return	
2010	1,600	Aid, FDI		2010s: South China Sea claims
2011	39.6	Grant		
	31.7	Loan	SCS dispute mediation preference, allegedly	
	1,900	Aid		
2012	523	Grant, loans	Explicitly to maintain friendly relations with ASEAN	
		Trade agreements	Meetings with Pres Hu Jintao and Premier Wen Jiabao; each resulted in new trade agreements §	
2013	1,670	FDI	Oil refinery	
	11,200	FDI	Iron mining, rail	
	195	Loan	Military helicopters, military academy	
2014	700	Loan	Annual loan promise	

Sources: All data derived from Copper, China's Foreign Aid and Investment Diplomacy, Vol. II unless otherwise noted.

\* Bartke, China's Economic Aid, 96.

† Richardson, China, Cambodia and the Five Principles of Peaceful Coexistence, 87.

‡ Michael Vatikiotis, "A Too-Friendly Embrace," Far Eastern Economic Review 167, no. 24 (2004): 21.

§ Kheang, "Cambodia in 2012," 148.

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### III. CHINA'S AID IN KENYA

The PRC and the Republic of Kenya established diplomatic relations in 1963, marking the beginning of a turbulent bilateral relationship. What dynamics have guided China's relationship with Kenya, and what benefits has China derived from its aid program there? This chapter outlines relevant events in Chinese political history, China's history of economic engagement in Kenya, and the current state of Sino-Kenyan affairs.

In outlining this relationship, this chapter also considers criticism leveled at China for its political interference, resource exploitation, and unfair labor practices. To what extent does Kenya's case support or contradict that criticism?

The Sino-Kenyan relationship has been volatile, as the analytical narrative of this chapter shows. Mao Zedong's communist ideology opened Sino-Kenyan diplomacy and the split between Jaramogi Oginga Odinga's and Jomo Kenyatta's nearly ended it. Deng Xiaoping's and Daniel arap Moi's national transitions to prioritizing development saved it, leading to a beneficial but imperfect trade and investment relationship. However, both during the Cold War and in the modern era, China has gained little from its engagement in Kenya: China's Cold War efforts failed, and while its modern aid, trade, and investment are small but growing, they have resulted in little political payoff. Kenya now offers a case of Chinese economic engagement with little evidence of a natural resource grab or *quid pro quo* political influence.

#### A. AID IN THE 1960S: ONE CHINA, REVOLUTION, AND COLD WAR POLITICS

In the 1960s, China devoted a great deal of attention and aid to Africa. China had several goals: among them, the isolation of Taiwan, support for national revolutions, and competition with the Soviet Union and West for influence.

Kenya was one of China's first aid recipients in Africa. The 1960s saw widespread African emancipation from European empires, including Kenya's independence in 1963. Once independent, Kenya almost immediately established diplomatic ties with China. In May 1964, Beijing offered Nairobi a \$2.8 million cash

grant and a \$15 million interest-free loan.<sup>122</sup> This aid was consistent with other Chinese aid to African states: Central African Republic, Guinea, Ghana, Mali, and the Republic of Congo also established relations with China at about the same time, and were rewarded with some \$47 million in aid in total.<sup>123</sup>

Analysts differ about the motivation behind China's original round of aid. Wolfgang Bartke and John Copper draw a direct line between Kenya's diplomatic recognition of China and the aid China extended in apparent gratitude a few months later.<sup>124</sup> In contrast, African politics historian Charles Hornsby argues China's aid was support for socialist revolution. In his survey of Kenyan history, Hornsby notes that Kenyan Vice President and outspoken leftist Jaramogi Oginga Odinga traveled to Beijing in May 1964. There he gave a speech that supported communist revolution in Africa, after which Beijing extended its \$17.8 million in aid as well as offering a promise of Chinese military assistance.<sup>125</sup> In either case, China's aid appeared to have a basis in China's kinship either to Kenya as a non-aligned state or as a potential communist ally.

Some of Beijing's intentions can be inferred from its activities in other areas of policy throughout Africa. Elsewhere in Africa, Beijing's aid supported communist revolutions within individual states. Chinese communist ideology supported socialist revolution wherever the proletariat appeared ready to revolt, including African rebellions.<sup>126</sup> One PLA statement at the time celebrated that "the embryo of national revolution in these [African] countries will become a genuine people's revolution, give rise to Marxists, form political parties of proletariats and go toward the Socialist Revolution."<sup>127</sup> China devoted military assistance to communist revolutionary elements

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<sup>122</sup> Copper, *China's Foreign Aid and Investment Diplomacy*, Vol. II, 108.

<sup>123</sup> *Ibid.*, 151.

<sup>124</sup> Bartke, *China's Economic Aid*, 125; John F. Copper, *China's Foreign Aid and Investment Diplomacy*, Vol. III: *Strategy Beyond Asia and Challenges to the United States and the International Order* (London: Palgrave MacMillan, 2016), 23.

<sup>125</sup> Charles Hornsby, *Kenya: A History since Independence* (London: I. B. Taurus & Co, 2012), 105–6.

<sup>126</sup> J. D. Armstrong, *Revolutionary Diplomacy: Chinese Foreign Policy and the United Front Doctrine* (Berkeley, CA: University of California, 1977), 214–36.

<sup>127</sup> Armstrong, *Revolutionary Diplomacy*, 215–16.

in a half a dozen African states.<sup>128</sup> Two of those cases, Congo and Somalia, relate to Kenya's case. In the case of Congo, Chinese aid to Kenya helped China's shipments of arms reach land-locked Congolese revolutionaries. In the case of Somalia, aid to Kenya may have eased Kenya's fears about Beijing's military aid to Somalia's communist regime, with which Kenya had ongoing and occasionally violent tension.<sup>129</sup> Thus, Africa in the 1960s was a complex patchwork of revolutionary movements. In Kenya itself, China offered assistance to leftist elements but failed two challenges, discussed further below: Financially, China was outspent by its rivals, and ideologically, Kenya's ascendant right-wing faction rejected communist influence and support.

Amid the many mid-century African revolutions, aid was a tool of Cold War great power competition in Africa. During the Cold War and after the Sino-Soviet Split, the West, the Soviet Union, and China competed for influence in Africa. China framed this competition as being between U.S. imperialism and Soviet revisionism against a united front of national liberation movements.<sup>130</sup> One *Beijing Review* article from 1970 decried both the United States' "frenzied efforts to obstruct the armed struggle of the African people" and Soviet guidance to African peoples to "sit and wait for the elimination of colonialism through the United Nations."<sup>131</sup> Aid supported China's influence among African leftist revolutionaries as they fought both West-affiliated right-wing governments, as in Congo, and Soviet-affiliated leftist movements, as in Angola and Zimbabwe.<sup>132</sup>

In terms of larger Cold War politics, China was at a substantial disadvantage and its foreign aid had mixed results. Chinese foreign aid to Kenya paled in comparison to aid

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<sup>128</sup> Alan Hutchinson, *China's African Revolution* (Ann Arbor, MI: University of Michigan, 1975), 111, 124, 247.

<sup>129</sup> Copper, *China's Foreign Aid and Investment Diplomacy, Vol. III*, 23.

<sup>130</sup> Robert A. Scalopino, "Sino-Soviet Competition in Africa," *Foreign Affairs* 42, no. 4 (July 1964): 642, <http://www.jstor.org/stable/20029719>.

<sup>131</sup> *Beijing Review*, 27 February 1970, quoted in Steven F. Jackson, "China's Third World Foreign Policy: The Case of Angola and Mozambique, 1961-93," *The China Quarterly*, no. 142 (June 1995): 395, <http://www.jstor.org/stable/655421>.

<sup>132</sup> George T. Yu, "Africa in Chinese Foreign Policy," *Asian Survey* 28, no. 8 (August 1988): 851, <http://www.jstor.org/stable/2644590>.

it received from other powers: At approximately the same time that China extended its \$17.8 million offer to Kenya, the Soviet Union offered \$44 million. The United Kingdom, still engaged in Kenya as a former colonial power, sent \$300 million to Kenya in 1963 after Kenya's independence.<sup>133</sup> China could not outspend its competitors. Because of the overwhelming presence of aid from other sources, Chinese aid not only had limited effect because of the crowded aid environment—Kenya may never have drawn money at all from China's loan.<sup>134</sup>

Ultimately, Chinese aid to Kenya in the 1960s accomplished little. Aid may have helped solidify Kenya's diplomatic recognition of China, but other objectives remained unmet. Beijing may have intended aid to inspire Kenyan support in advance of the Second Afro-Asian Conference, scheduled for 1965, but that conference never occurred.<sup>135</sup> Communist political elements in Kenya never established a firm base of power. China's shipments of weapons through Kenya to Congo had little effect: Mobutu Sese Seko's regime assumed power in 1965 and established ties to the West, despite Chinese arms that flowed through Kenya to Congolese leftist rebels.<sup>136</sup> Most tellingly, aid to Kenya failed to create a mutually beneficial bilateral relationship. Kenya soon entirely ceased cooperation with China, despite China's offers of aid.

## **B. FREEZE AND THAW, 1965–80**

In addition to being outspent by the United Kingdom, China also lost an ideological battle in Kenya. China and Kenya had scarcely traded diplomats in 1963 before their relationship went sour. The Kenya African National Union (KANU), the ruling party at the time, had split into left- and right-wing factions. The left wing of KANU, led by Vice President Oginga Odinga, tried to build national enthusiasm for

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<sup>133</sup> Copper, *China's Foreign Aid*, 109.

<sup>134</sup> Copper, *China's Foreign Aid and Investment Diplomacy, Vol. III*, 23–24.

<sup>135</sup> Copper, *China's Foreign Aid*, 109.

<sup>136</sup> Thomas Turner, "Government and Politics," in *Zaire: A Country Study*, ed. Sandra W. Meditz and Tim Merrill (Washington, DC: Library of Congress, 1994), 260–62.

Chinese revolutionary thought.<sup>137</sup> The right, led by President Jomo Kenyatta with British support, bristled at revolutionary comparisons: Chinese statesman Zhou Enlai's praise in 1964 of Africa's "excellent revolutionary situation" was anathema to Kenyatta, who had already waged his revolution some ten years prior to Zhou's visit.<sup>138</sup>

More than being an advocate for Kenyan socialism, Odinga also actively sought both Soviet and Chinese assistance. In April 1965, a Soviet freighter loaded with small arms and heavy weapons docked at Mombasa. In a tense standoff, Kenyatta and his British confederates inspected and turned away this shipment, apparently with the suspicion that the weapons' customers would ultimately be communist separatists in Odinga's political camp.<sup>139</sup> The same year, the government made a separate discovery of Chinese weapons in the hands of Kenyan dissidents.<sup>140</sup> The British suspected that Odinga also received some \$150,000 of Chinese funding to support leftist activities in 1965.<sup>141</sup>

Kenyatta and his right wing created enough resistance to leftist opposition within KANU to discredit Odinga and derail Sino-Kenyan relations for a decade. Kenya and China lodged protests against each other as Kenya expelled Chinese diplomats and journalists (along with their Soviet counterparts). Formal diplomatic ties remained in place, but the dyad exchanged no delegations whatsoever between 1965 and 1970, and the 1970s saw very little interaction between the two countries.<sup>142</sup> "Before Chinese economic aid had really begun," Wolfgang Bartke writes, "it became bogged down in an atmosphere of distrust" that lasted until 1980.<sup>143</sup> Kenya's right wing did not only reject

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<sup>137</sup> Michael Chege, "Economic Relations Between Kenya and China, 1963–2007," in *U.S. and Chinese Engagement in Africa*, ed. Jennifer Cooke (Washington, DC: Center for Strategic and International Studies, July 2008), 15.

<sup>138</sup> *Ibid.*, 16.

<sup>139</sup> Hornsby, *Kenya*, 151.

<sup>140</sup> Bartke, *China's Economic Aid*, 125.

<sup>141</sup> Hornsby, *Kenya*, 158.

<sup>142</sup> Hornsby, *Kenya*, 177–78.

<sup>143</sup> *Ibid.*, 125.

Chinese support: It also rejected the Soviet Union, to which Kenyatta turned a cold shoulder for decades.<sup>144</sup>

The thawing of Sino-Kenyan relations in the 1980s correlates with leadership changes in both countries. In China, Mao died in 1976 and Deng Xiaoping became China's de facto leader in 1978 (although he never held office as head of state himself). Also in 1978, Daniel arap Moi succeeded Kenyatta as Kenya's president. Despite Moi's outspoken opposition to communist influence, he had much less enmity toward communism than had his predecessor. China, too, was a much different communist power under Deng. Deng and Moi were both pragmatic statesmen: the former with respect to damping the ideological insanity of the Cultural Revolution, and the latter with respect to inviting foreign support for Kenyan infrastructure and industrial projects.<sup>145</sup>

Leadership visits in the 1980s suggest considerable easing of tensions. In 1980, Moi visited Beijing, and in 1983, State Council Premier Zhao Ziyang visited Nairobi. A slow cascade of confidence-building measures, friendship communiques, and leadership visits ensued, followed by renewed trade and economic engagement.<sup>146</sup> High-level state visits led to a treaty in which China offered aid in the form of educational and technical assistance as well as a Chinese-built stadium in Nairobi. Moi visited Beijing again in 1988.<sup>147</sup> Trade was slower to respond to political change, but in 1993, bilateral trade began sharply to increase.

### C. CHINA'S ECONOMIC STATECRAFT IN MODERN KENYA

Today, China's interactions with Kenya are chiefly commercial rather than ideological. Beijing's aid commitments during Mao's tenure had transparent political or ideological motives. What motives might have driven China's economic engagement in

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<sup>144</sup> "Weekly Summary Special Report: Soviet Policy in Africa South of the Sahara," Central Intelligence Agency, 28 February 1969, <https://www.cia.gov/library/readingroom/docs/CIA-RDP79-00927A006900050003-1.pdf>, 7; Paul Henze, *The Horn of Africa: From War to Peace* (Basingstoke, UK: Macmillan, 1991), 128.

<sup>145</sup> Chege, "Economic Relations," 17; Joseph Onjala, "The Impact of China-Africa Trade Relations: The Case of Kenya," *AERC Collaborative Research China-Africa Project 5* (November 2010), 2.

<sup>146</sup> Chege, "Economic Relations," 16.

<sup>147</sup> Hornsby, *Kenya*, 371, 418.

Kenya after tensions eased? What criticism has Beijing drawn from analysts suspicious of China's activity, and is that criticism warranted? Because aid alone renders an incomplete picture of China's economic engagement in Kenya, the following sections cover aid, trade, and investment as avenues of China's economic statecraft. These sections also discuss trade and investment practices that critics have unfairly described as being unjust.

## **1. Aid**

With the exception of a single \$108 million grant for Nairobi road construction in 2000, aid from China had a low volume until 2005, and then expanded rapidly (see Table 3 at the end of this chapter). In 2002 and 2003, China delivered \$6.7 million and \$6.2 million of aid, respectively. In 2005, that figure jumped to \$175 million.<sup>148</sup> Chinese aid activity jumped again in 2013 with China's engagement in Kenya's standard gauge railway, which received 90 percent of its \$3.6 billion funding in a loan from China's EXIM Bank.<sup>149</sup> Aid to Kenya follows the same guidelines that China applies elsewhere: Aid disbursements are almost entirely project-based, rather than being fungible budgetary assistance to a given level of government.<sup>150</sup> When selecting projects to fund, China generally follows Kenyan demand signals. Those projects have included road construction, utilities infrastructure development, and technical training missions.<sup>151</sup> Aside from the mechanism of financing (that is, concessional loans and grants vs. investment activity), aid and investment appear to follow similar guidelines and have similar benefits to the host country.

## **2. Trade**

China represents a small but growing segment of Kenya's trade and a driver of Kenya's overall trade imbalance. In absolute terms, Kenya's imports from China grew from some \$26 million in 1992 to \$2.1 billion in 2006; most of that growth came in the

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<sup>148</sup> "Tracking Chinese Development Finance," AidData, accessed 2 July 2017, <http://aiddata.org/china>.

<sup>149</sup> Sanghi and Johnson, "Deal or No Deal," 23.

<sup>150</sup> Onjala, *Scoping Study*, 35.

<sup>151</sup> *Ibid.*, 36.

twenty-first century. In that same period, Kenya’s exports to China grew from almost nothing to around \$49 million.<sup>152</sup> That growth suggests enormous expansion of Sino-Kenyan trade, but Chinese trade is still a relatively small part of Kenya’s overall activity. Between 1979 and 1994, Kenya’s exports to China averaged 0.43 percent of Kenya’s overall exports. That proportion grew slightly to 0.63 percent between 1995 and 2004. Kenya’s imports from China doubled from 1.42 percent to 2.85 percent in the same periods—a growing share, but still not a large portion of Kenya’s overall trade. These trends, summarized in Figure 2, indicate a growing bilateral trade relationship and growing trade surplus for China.<sup>153</sup>

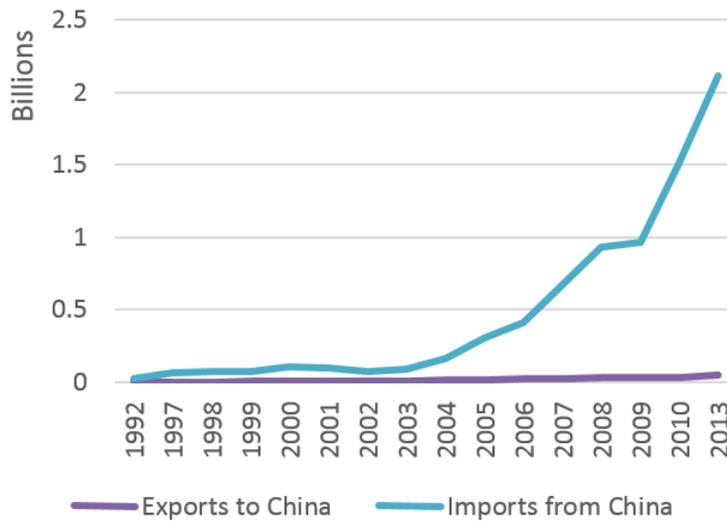


Figure 2. Sino-Kenyan Trade (1992–2013)<sup>154</sup>

China’s trade surplus with Kenya may not be a deliberate goal of China’s trade strategy. In a white paper published in 2011, the Information Office of the State Council of China acknowledges that China’s strength in manufacturing results in strong consumer and industrial goods sales and an overall trade surplus. This trade surplus has negative unintended consequences that pose challenges for Beijing’s trade policy. Trade surplus in

<sup>152</sup> “UN Comtrade Database,” United Nations, accessed 29 March 2017, <https://comtrade.un.org/data/>.

<sup>153</sup> Onjala, *Scoping Study*, 24–25.

<sup>154</sup> “UN Comtrade Database.”

manufactured goods leads to “more trade frictions between China and its trading partners, as well as persistent pressure on the Renmenbi to appreciate.”<sup>155</sup> The State Council has implemented measures to promote balanced trade and “curb overheated surplus growth,” including expanding domestic demand, encouraging imports through tax incentives, and switching from a pegged currency to a managed floating Renmenbi.<sup>156</sup> China has also taken specific measures to improve its trade balance with Kenya. In 2006, during their bilateral Economic and Trade Committee meeting, each party discussed paths to equitable trade. China also established a fund encouraging imports of basic Kenyan goods like coffee beans, sisal (a commodity fiber), and tea.<sup>157</sup> By implementing reforms to temper its trade surplus of manufactured goods, Beijing hopes to ameliorate frictions with its trading partners and maintain macroeconomic control over its currency.<sup>158</sup>

For Kenya’s part, analysts disagree on whether there is a negative effect on Kenya from its trade deficit with China. Joseph Onjala notes the import/export patterns above with alarm. The bulk of Kenya’s trade is with the European Union (EU), whereas trade with China and with the United States is a smaller segment of Kenya’s trade (see Figure 3).<sup>159</sup> However, Onjala argues that the trajectory of Sino-Kenyan trade indicates China’s increasing importance as a trade partner and determiner of Kenyan economic health. The rapidly increasing trade imbalance will continue to favor China.<sup>160</sup> As the figure also illustrates, as Kenya has become more trade-dependent on China, it has reduced its trade dependence on the EU and U.S. since about 2000.

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<sup>155</sup> “China’s Foreign Trade,” Information Office of the State Council, People’s Republic of China, December 2011, [http://english.gov.cn/archive/white\\_paper/2014/08/23/content\\_281474983043184.htm](http://english.gov.cn/archive/white_paper/2014/08/23/content_281474983043184.htm).

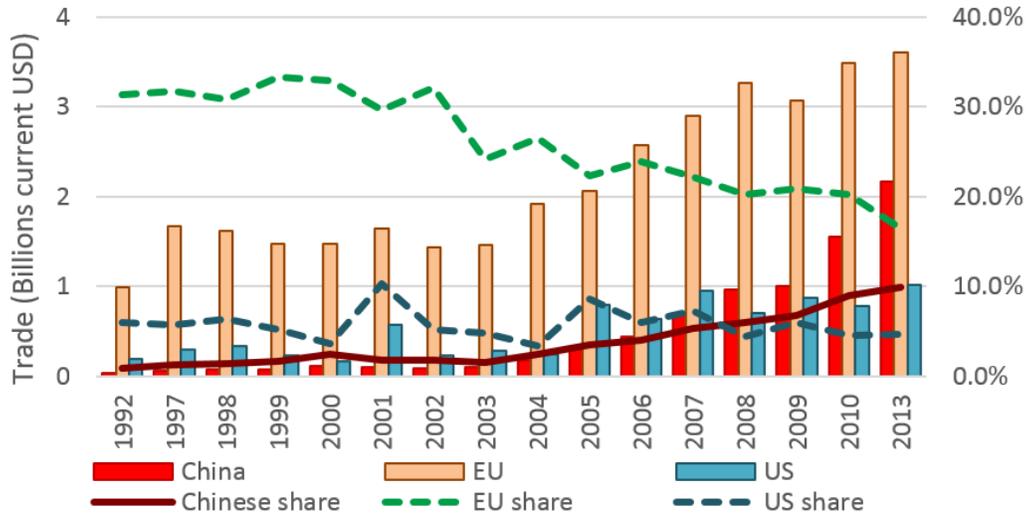
<sup>156</sup> Ibid.

<sup>157</sup> Joseph Onjala, “China’s Comparative Trade, Aid and Investment Behavior in Kenya vis-à-vis India and the European Union (EU),” in *Strengthening the Civil Society Perspective: China’s African Impact*, ed. Stephen Marks (2009), 84–85.

<sup>158</sup> “China’s Foreign Trade.”

<sup>159</sup> Ibid.

<sup>160</sup> Onjala, *Scoping Study*, 26–29.



On the left axis, Kenya’s trade volume (imports plus exports) with the EU, China, and the United States. On the right, the percentage of Kenyan trade done with the EU, China, and the United States. European and U.S. shares of Kenyan trade have declined, while Chinese trade began small but has climbed since 2004.

Figure 3. Kenyan Trade Volume (China, EU, U.S.) and Shares of Kenyan Trade, 1997–2013<sup>161</sup>

Echoing Robert Solow’s quip that “I have a chronic deficit with my barber, who doesn’t buy a darned thing from me,”<sup>162</sup> Apurva Sanghi and Dylan Johnson temper their alarm by noting that bilateral trade is not representative of the health of a national economy—the overall trade balance is what matters. Kenya does have a net overall trade deficit, but Sanghi and Johnson argue that a bilateral deficit need not damn a particular bilateral trade relationship. The Sino-Kenyan trade balance is a small element of Kenya’s broader trade problem, not a unique cause of it.<sup>163</sup> Further, they argue that Kenya’s deficit is a mixed blessing rather than an unambiguous evil. Shoes and clothing imports,

<sup>161</sup> “UN Comtrade Database.”

<sup>162</sup> Peter Passell, “Economic Watch; Big Trade Deficit With Japan: Some Think It’s No Problem,” *The New York Times*, 15 February 1994, <http://www.nytimes.com/1994/02/15/business/economic-watch-big-trade-deficit-with-japan-some-think-it-s-no-problem.html>.

<sup>163</sup> Apurva Sanghi and Dylan Johnson, “Deal or No Deal: Strictly Business for China in Kenya?” (Policy Research Working Paper 7614, The World Bank, March 2016), 3.

for example, benefit Kenyan consumers and resellers, even while they stifle Kenya's domestic textile and clothing industries (which account for a fifth of Kenya's formal employment).<sup>164</sup>

### 3. Foreign Direct Investment

Chinese investment is another major facet of the Sino-Kenyan economic relationship. Kenya actively seeks FDI. Measures to increase FDI include Kenya's investment deregulation in 1995, prior to which FDI required Central Bank of Kenya approval, and the Investment Promotion Act of 2004, which reduced limits on foreign ownership of Kenyan businesses.<sup>165</sup> Prior to 2000, China invested almost nothing in Kenya. Between 2000 and 2005, Chinese FDI to Kenya amounted to \$32 million, which represented 7.2 percent of Kenya's \$446 million in total FDI in that period. For the most part, China's FDI came through Chinese state-owned manufacturing enterprises.<sup>166</sup> The acceleration of China's FDI in Kenya is consistent with its investment activity worldwide: The total volume of China's investments was low until the turn of the twenty-first century, when Beijing began translating its domestic economic success into international investment.<sup>167</sup>

China does not appear to benefit disproportionately from the labor employed at Kenyan projects. Rather than employing expatriate Chinese laborers, Chinese projects have almost entirely used local labor. Between 2000 and 2006, for example, nearly 5,000 of the 5,300 jobs generated by Chinese projects in Kenya went to Kenyans.<sup>168</sup> Despite a high proportion of local employment, Chinese FDI in Africa has endured criticism for "sending hordes of their own laborers," as Deborah Brautigam notes, to staff Chinese projects.<sup>169</sup> China's labor export record in Africa is mixed, but China has generally only

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<sup>164</sup> Ibid., 10–11.

<sup>165</sup> Onjala, *Scoping Study*, 11.

<sup>166</sup> Ibid., 12–14.

<sup>167</sup> Wolf et al., *China's Foreign Aid and Government-Sponsored Investment Activities*, 19.

<sup>168</sup> Onjala, *Scoping Study*, 14–19.

<sup>169</sup> "Diplomacy Through Aid," *Time Magazine*, October 18, 1968, quoted in Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford: Oxford University, 2009), 154.

shipped its own labor forces when faced with a lack of skilled labor. In post-civil war Angola, for example, Chinese firms employed some eight Chinese laborers for every Angolan. However, China's reputation for shipping its own labor is increasingly undeserved as China finds more skilled labor *in situ* (and as, in some cases, African states begin to require local employment as a condition of foreign investment).<sup>170</sup>

Resource exploration is another major driver of Chinese investment in sub-Saharan Africa (and of criticism thereof). Along with labor practices, Chinese investment raises international concerns about resource grabs.<sup>171</sup> China's energy requirements are growing rapidly, and so might its motivation to secure resources abroad.<sup>172</sup> As one World Bank report noted, "most Chinese government funded projects in sub-Saharan Africa are ultimately aimed at securing a flow of sub-Saharan Africa's natural resources for export to China."<sup>173</sup> David Brown argues that China's aid and investment priorities have shifted from politics to energy and market access, beginning with Deng Xiaoping's assumption of national power in 1978 and continuing with China's transition to net oil importer in 1995 and admission to the World Trade Organization in 2001.<sup>174</sup> In some cases, natural resource access is an integral part of Chinese engagement. Angola, the Democratic Republic of Congo, and Equatorial Guinea repaid EXIM Bank loans with oil.<sup>175</sup> Loan repayment is not limited to oil: Ghana repaid a loan for hydroelectric infrastructure with cocoa bean exports, and Tanzania did the same with cashew nuts, illustrating China's willingness to secure loans with non-strategic resources.<sup>176</sup> Furthermore, the infrastructure

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<sup>170</sup> Brautigam, *The Dragon's Gift*, 154–157.

<sup>171</sup> One *Economist* article even levied both concerns in the same breath: "Though China is certainly building a lot of infrastructure—presumably to help it procure all the natural resources its firms are gobbling up—it often brings in its own people to do the work." "Oil, Politics and Corruption," *The Economist* 388, 18 September 2008, <http://www.economist.com/node/12080765>.

<sup>172</sup> Brautigam, *Dragon's Gift*, 277; Erica S. Downs, "The Chinese Energy Security Debate," *The China Quarterly*, no. 177 (March 2004), 21–41.

<sup>173</sup> Vivien Foster et al., *Building Bridges: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa* (Washington, DC: The World Bank, 2009), 84.

<sup>174</sup> David E. Brown, *Africa's Booming Oil and Natural Gas Exploration and Production: National Security Implications for the United States and China* (Carlisle Barracks, PA: U.S. Army War College, 2013), 18–29.

<sup>175</sup> Brautigam, *Dragon's Gift*, 279.

<sup>176</sup> Sanghi and Johnson, "Deal or No Deal," 20.

projects in which China invests capital, including those backed by resources, are diverse. Some, like a proposed railway and port for Gabon's iron ore, support the export of natural resources to China. Many others do not: Railroads in Angola do not support the extraction of its offshore oil, nor do hospitals help move Congolese ore.<sup>177</sup>

In addition to resource and market access, and despite China's shift from ideology to entrepreneurship, the isolation of Taiwan remains a key factor in Chinese investments allocation in Africa. Brautigam argues that China devotes aid and FDI to every sub-Saharan state with which it has diplomatic relations, whether resource-rich or -poor. Burkina Faso, Swaziland, and until 2008, Malawi were the only sub-Saharan states to recognize the Republic of China and were the only ones that did not receive aid of any kind from the PRC. African support of the PRC's One China Policy remains a key determiner of Chinese aid and investment.<sup>178</sup>

In Kenya, resource exploration and exploitation does not motivate Chinese investment. Kenya is resource poor. It does not export oil or gas and has no major mineral deposits. What rents it does collect from natural resources come from forestry rents and have accounted for only 3 percent to 5 percent of GDP for the past two decades.<sup>179</sup> Kenya's potential as an oil producer garnered international attention in the 2000s, including from twelve Western oil firms, but exploration by state-owned enterprise China National Offshore Oil Corporation between 2006 and 2010 resulted in inconclusive results and no further Chinese exploration.<sup>180</sup>

As in the rest of sub-Saharan Africa, China's investment activity in Kenya is diverse and project-based. Sanghi and Johnson note the range of Chinese investment interests there, where "manufacturing and service sectors attract a number of small and medium enterprises, and construction draws larger companies."<sup>181</sup> Recent large-scale projects conducted by Chinese firms include road construction (\$27.1 million by China

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<sup>177</sup> Brautigam, *Dragon's Gift*, 277–281.

<sup>178</sup> Ibid.

<sup>179</sup> Index Mundi, accessed September 9, 2016, <http://www.indexmundi.com/facts/indicators>.

<sup>180</sup> Brown, *Africa's Booming Oil*, 70, 168–73.

<sup>181</sup> Sanghi and Johnson, "Deal or No Deal," 2.

Wu Yi Co.), 378 miles of standard gauge railway between Nairobi and Mombasa (\$3.6 billion by the China Road and Bridge Corporation, funded largely by a loan from EXIM Bank), and port improvements at Lamu Island (\$467 million by the China Communications Construction Company).<sup>182</sup> Chinese state-owned enterprises hold contracts to work on those large projects, but small firms also operate in Kenya: Some 400 Chinese companies, many of which are privately owned, conduct business in Kenya's communications, automotive parts manufacturing, and hospitality service sectors.<sup>183</sup>

In sum, China has a diverse portfolio of project-based investment and business activity in Kenya. Evidence, including Kenya's poor natural resource endowment and large degree of local labor employment at Chinese projects, suggests criticism of resource exploitation and parasitic labor practices are unfounded in this case.

#### **D. CONCLUSION**

What has China gotten from its aid to Kenya? Not very much. Particularly in the 1960s, Kenya was a minor but stark failure of Chinese foreign policy. In the modern era, Kenya is a small but growing partner for Chinese trade and investment.

What else can China's engagement in Kenya tell us about Chinese foreign policy? China's relationship with Kenya illustrates a key inflection point in Chinese political history: The shift from the Maoist ideology of the 1950s through 1970s to the reform and opening up of the 1980s through the present. Before the 1980s, Chinese aid generally promoted international kinship, whether by support for peaceful nonalignment or for violent nationalist revolution. Thereafter, once Deng's economic reforms became one of the Middle Kingdom's new guiding principles, Chinese aid, investment, and trade appear to promote economic gain. Kenya presents a clear case of this shift for two reasons. First, the diplomatic breakdown between 1965 and 1980 makes the distinction between Chinese strategies more clear than would a continuously evolving relationship. Second, the Sino-Kenyan relationship is unencumbered by a number of complicating factors that would make analysis more ambiguous: There is little evidence of a resource grab narrative,

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<sup>182</sup> Ibid., 23.

<sup>183</sup> Ibid., 24–25.

regional hegemony aspirations, or patron-client expectations, any of which would have made China's engagement there less clearly a case of win-win economic exchange.

In short, Kenya's case contains within itself its own comparison over time: China once treated Kenya as a political battleground and now treats it as a trading partner. In international relations terms, China engaged with Cold War Kenya as a venue for realist great power competition, but now engages with modern Kenya in the spirit of interdependence, mutual economic benefit, and cooperation.

As with any comparative case, Cold War Kenya and modern Kenya also have similarities. As African states emerged from colonialism, China interacted with all of them. That multitude of relationships meant China's efforts in Africa were being pulled in 54 slightly different directions. Neither in the Cold War nor in the modern period was Kenya a decisive battleground for China's African engagement. That means China could afford to be outspent, and outspent it was: Kenya received much more support from the West and from the Soviet Union while China attempted to gather Cold War friends. Today, China's economic engagement with Kenya is small, and is still dwarfed by regional and EU trade, other states' FDI, and Western ODA.<sup>184</sup>

In conclusion, mutual economic benefit appears to underpin China's foreign policy in Kenya today, with little apparent evidence of major transgressions of sovereignty in the modern era. Under Mao, every Chinese effort had ideological meaning: The Great Leap Forward and the Cultural Revolution at home, along with evangelism for the Five Principles of Peaceful Coexistence and non-aligned solidarity abroad, supported revolutionary ideals. Under Deng, ideology gave way to pragmatism, and investment and trade joined grant aid in Beijing's foreign policy toolbox. Initially, Kenya had a mixed response to China's overtures; Kenyatta's suspicion dominated Oginga Odinga's communist enthusiasm. Sino-Kenyan relations remained frozen until Moi thawed them, opening the door for foreign investment. Trade and investment increased, for better or for worse. Modern China, whose only outright demand is support for the PRC's legitimacy in One China, appears to avoid extensive political intervention

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<sup>184</sup> Onjala, *Scoping Study*, 24–25, 38; Onjala, "China's Comparative Trade," 74.

and focuses on the economic merits of its engagement in Kenya. Major projects funded by Chinese aid and FDI are summarized in Table 3. The OECD’s contributions of ODA to Kenya are shown in Figure 4.

Table 3. Chinese Aid and FDI in Kenya, 1964–2013<sup>185</sup>

Year	Amount (nominal millions USD)	Major projects	Chinese foreign policy objective
1964	17.8	Grant and interest-free loan. An estimated \$500,000 of \$4 million delivered	1964–65: Revolutionary support; One China Policy
1964	Arms	Military aid. Destination ambiguous; intended recipients may have been rebels in Kenya or elsewhere	
1974	0.5	Chinese Red Cross Donation	
2000	108	Nairobi road construction grant	1990s–present: Trade and development; One China Policy
2001	32.7	Kipsigak-Serem-Shamakhokho Road construction, debt cancellation	
2002	6.7	Construction, agriculture	
2003	6.2	Gambogi-Serem Road, Kipsigak-Shamkhokho Road construction	
2004	9.2	Kasarani Sports Complex, maize processing infrastructure	
2005	174.8	Telecommunications and power infrastructure	
2006	148.8	Government and housing	
2007	282.9	Power and road infrastructure, Kasarani Sports Complex	
2008	117.8	Refugee resettlement, Nairobi-Thika Road construction,	
2009	352.1	Hospital, famine relief, telecommunications infrastructure	
2010	190.7	Lamu Port, roads, and rail; geothermal wells; inter-bank loans	
2011	165.8	Hospitals, roads, housing, famine relief	
2012	404.4	Surveillance, telecommunications, power infrastructure	
2013	5,407.6	Standard Gauge Railway, power infrastructure	

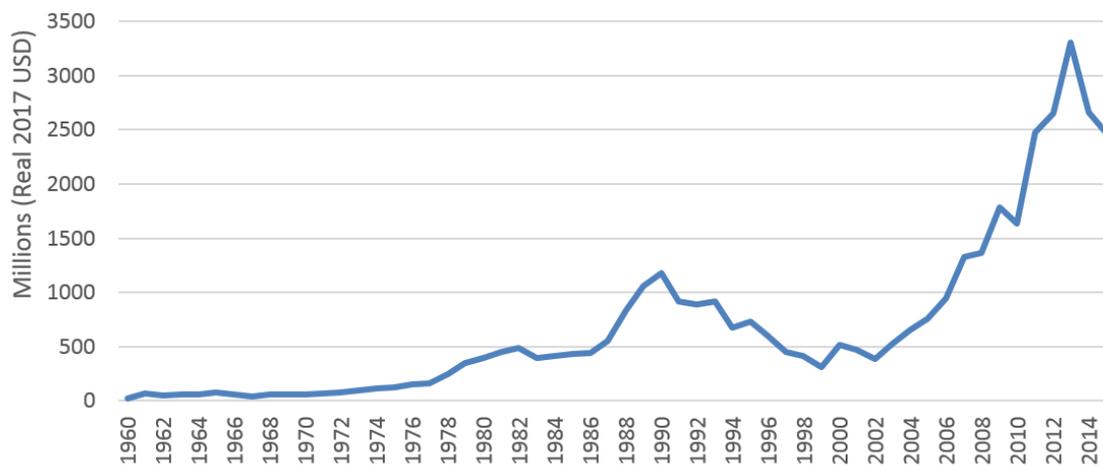


Figure 4. OECD Annual ODA to Kenya, 1960–2015<sup>186</sup>

<sup>185</sup> “Tracking Chinese Development Finance,” AidData, accessed 2 July 2017, <http://china.aiddata.org/projects>; Onjala, *Scoping Study*, 34–36.

## IV. CONCLUSION

This thesis has examined China's engagement with Cambodia and with Kenya since the founding of the People's Republic. In Cambodia, China has a rich history of political influence: There, China has built international political recognition while isolating Taiwan, challenged Soviet encirclement and Vietnamese expansion, supported communist revolution, pursued massive infrastructure projects, and rallied support for its contentious maritime claims. In pursuing each of these interests, China has used aid and investment as tools of economic statecraft. China's engagement in Kenya also began with aggressive pursuit of narrow interests, but since the 1980s, Sino-Kenyan relations have been decidedly more arms-length. China has extended aid, investment, and trade deals to Kenya with little evidence of the direct political manipulation one sees in Cambodia.

The first section of this chapter introduces the U.S. national interests that China's economic statecraft may challenge. Nowhere does the United States fully, explicitly delineate its national interests, nor do political analysts agree on what they might be. To evaluate the potential challenge presented by Chinese economic statecraft, this chapter considers both realist and liberal formulations of U.S. interest and draw conclusions based on each. The realist might be alarmed at both political influence in Cambodia and enrichment in Kenya, whereas the liberal might decry Chinese degradation of liberal institutions in Cambodia but be hopeful at economic interdependence with Kenya.

Both realist and liberal formulations of U.S. national interest validate the hypotheses that Chinese foreign aid and investment have, in at least one case, bought political influence and that this engagement presents a substantial challenge for the United States to address, although the two national interest formulations presented lead to very different characterizations of that challenge. The second section of this chapter evaluates this thesis's hypotheses.

The third section of this chapter suggests avenues for further research, including the expansion of cases to determine whether China is predominantly intrusive or

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<sup>186</sup> "Net Official Development Assistance and Official Aid Received (Current US\$)."

conservative, the characterization of whether China is a regional or a global power, the economic considerations of aid recipients, the degree to which Chinese aid and investment chase natural resources, and the extent of Kenya's involvement in One Belt, One Road (OBOR).

## **A. THREAT TO U.S. NATIONAL INTEREST**

In Chapters II and III, this thesis explored the interests China pursues in Cambodia and Kenya with foreign aid. Does Chinese economic statecraft challenge U.S. interests? This section constructs U.S. national interests from the perspective of realism, which holds that states defend their interests in an anarchic system, and liberalism, which holds that institutions, international organizations, and economic engagement can moderate state interaction. This section then argues that realist analysis finds much more to fear in Chinese economic statecraft than liberal analysis does.

### **1. Formulation of U.S. National Interest: Realism**

To define U.S. national interest in realist terms, President Theodore Roosevelt's approach is seminal. "No other president," writes Henry Kissinger in his comparison of Roosevelt and Wilson, "defined America's world role so completely in terms of national interest, or identified the national interest so comprehensively with the balance of power."<sup>187</sup> Roosevelt dismissed international organizations, institutions, and treaties as "scraps of paper without any backing in efficient force" in an anarchic world.<sup>188</sup> Instead, he believed that the balance of power was the key driver of international relations. He also believed power conferred justice in a state's control of its sphere of influence, as with his defense of the Monroe Doctrine<sup>189</sup> as well as his acceptance of Japan's occupation of Korea in 1908.<sup>190</sup> His chief criterion for intervening in other states' conflicts was not injustice but the threat of upsetting the balance of power. Germany's

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<sup>187</sup> Henry Kissinger, *Diplomacy* (New York: Simon & Schuster, 1994), 39.

<sup>188</sup> *Ibid.*, 40.

<sup>189</sup> Walter Millis, ed, *American Military Thought* (New York: Bobbs-Merrill, 1966) 263–64.

<sup>190</sup> Kissinger, *Diplomacy*, 41.

invasion of Belgium in 1914 worried him not because of its illegality but because Germany might come knocking on North America's door next.<sup>191</sup>

Roosevelt might therefore consider the United States' chief national interest to be its control over its sphere of influence and the management of other powers' control over theirs. In his era, the United States' sphere of influence began to expand beyond the Pacific and Atlantic Oceans that insulated it from foreign powers. Today, Roosevelt might consider the entire world to be a sphere of U.S. influence worth protecting.

Roosevelt's balance of power calculus revolved around military might, which subsequent realist theory retained as a fundamental state asset. John Mearsheimer's formulation of offensive realism theorizes what Roosevelt knew from instinct. Mearsheimer posits that states will use their power to ensure their survival in an anarchic world. In Mearsheimer's calculus, as with Roosevelt's, a state's military power is the only true guarantor of survival. Mearsheimer argues that in order to guarantee its survival, a great power will insatiably pursue regional hegemony and attempt to deny regional hegemony to others.<sup>192</sup> Further, he included two key contributors to military strength. First, he describes economic strength as a critical basis of military power. In *The Tragedy of Great Power Politics*, Mearsheimer uses the term "latent power" to describe the resources a state can mobilize to build military strength. He describes the two pillars of latent power: population, from which a state recruits an army, and wealth, which a state uses to train, equip, and deploy that army.<sup>193</sup> Second, Mearsheimer argues that a state may employ diplomatic strategies like balancing and buck-passing to augment its own military capacity.<sup>194</sup>

Thus, from an offensive realist perspective rooted in Roosevelt's political tradition, the United States has among its most important national interests these three ends: to maintain regional hegemony, to deny regional hegemony to others, and to maximize the United States' economic and diplomatic power relative to its competitors.

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<sup>191</sup> Kissinger, *Diplomacy*, 42.

<sup>192</sup> Mearsheimer, *Tragedy of Great Power Politics*, 168–69, 367.

<sup>193</sup> *Ibid.*, 60–67.

<sup>194</sup> *Ibid.*, 140–67.

## 2. Formulation of U.S. National Interest: Liberalism

President Woodrow Wilson believed that democracy, peace, and American values to be ends in themselves and that the United States should be the righteous champion of those ends. He celebrated U.S. leadership in his first annual address in 1913, saying,

More and more readily each decade do the nations manifest their willingness to bind themselves by solemn treaty to the processes of peace, the processes of frankness and fair concession. So far the United States has stood at the front of such negotiations.<sup>195</sup>

The means Wilson advocated to pursue those ends included peaceful avenues like international arbitration as well as force against aggressors. He valued liberalism but was by no means a pacifist, saying that “we insist upon security in prosecuting our self-chosen lines of national development... We demand it also for others.”<sup>196</sup> He argued that the United States had a fundamental national interest in the defense of liberal values everywhere. Defending that interest led the United States into World War I and guided Wilson’s pathway out of it: His Fourteen Points relied significantly on engendering international goodwill, establishing international organizations, and defending free trade.<sup>197</sup>

Wilson entrenched liberalism as a national interest, and subsequent theorists made liberalism rigorous. In *Triangulating Peace: Democracy, Interdependence, and International Organizations*, Bruce Russett and John R. Oneal provide statistical evidence that supports what Wilson held on faith. They provide evidence that democracies rarely fight one another, and that economic interdependence and international organizations can have powerful mediating effects that reduce the likelihood of interstate conflict.<sup>198</sup>

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<sup>195</sup> Woodrow Wilson, “First Annual Message,” The American Presidency Project, University of California, Santa Barbara, 2 December 1913, <http://www.presidency.ucsb.edu/ws/?pid=29554>.

<sup>196</sup> Kissinger, *Diplomacy*, 47.

<sup>197</sup> Woodrow Wilson, “Fourteen Points,” The Avalon Project, Yale University, 8 January 1918, [http://avalon.law.yale.edu/20th\\_century/wilson14.asp](http://avalon.law.yale.edu/20th_century/wilson14.asp).

<sup>198</sup> Bruce Russett and John R. Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: W. W. Norton & Company, 2001), 122, 154, 171.

Wilson postulated that the United States has a duty to pursue global peace. Russett and Oneal argue that economic and diplomatic engagement can make peace more likely. A liberal perspective that incorporates both Wilson's liberal faith and Russett and Oneal's evidence suggests a national interest that competes with the realist's conclusion: The United States should have an interest in supporting economic and diplomatic engagement, peace, and liberal values everywhere, whether the United States benefits directly or not.

### **3. U.S. National Interest and China's Economic Engagement**

This thesis does not arbitrate between competing realist and liberal systems. Both philosophies remain relevant because current theory and actual U.S. policy have shades of each, and neither entirely captures the United States' complex motives. In a paper describing group decision-making dynamics, Jean Garrison discusses how different starting principles lead to different formulations of national interest: Realist, constructivist, and decision-making approaches yield different national interest priorities and different policy outcomes.<sup>199</sup> Graham Allison and Robert Blackwill, lead authors for a report from the Commission on America's National Interests, describe modern discussion of national interest as "dissensus": Neither foreign policy scholars nor the public at large agree on what U.S. national interests are.<sup>200</sup> Allison and Blackwill suggest that placing interests in a hierarchy is a useful way to create a single set of policies while using multiple philosophical starting points.<sup>201</sup> Because different perspectives lead to different conclusions, this section considers the threat to U.S. national interests posed by China's economic engagement with Cambodia and Kenya through the two lenses of realism and liberalism. Each lens yields a different estimation of the problem.

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<sup>199</sup> Jean Garrison, "Constructing the 'National Interest' in U.S.–China Policy Making: How Foreign Policy Decision Groups Define and Signal Policy Choices," *Foreign Policy Analysis* 3 (2007): 105–6, doi:10.1111/j.1743-8594.2007.00043.x.

<sup>200</sup> Graham T. Allison and Robert Blackwill, *America's National Interests*, The Commission on America's National Interests, 2000, 13.

<sup>201</sup> *Ibid.*, 14–18.

*a. Realist Lens*

Realist formulation of national interest leads a policy maker to defend at least three interests: to maintain the United States' regional hegemony, to curb China's hegemonic aspirations, and to limit the growth of China's wealth and diplomatic reach relative to the United States'. The cases of Cambodia and Kenya do not present a test of the first interest, since neither lies within the Western Hemisphere, the United States' home region,<sup>202</sup> but they do stand as test cases for the second and third interests.

Through a realist lens, China's economic engagement in Cambodia transparently suggests an effort to establish regional hegemony. The People's Republic has a long history of influencing Cambodia's behavior. Cambodia was one of China's first non-communist bloc diplomatic partners and subscribers to Beijing's One China Policy, which wrested international clout from Taiwan, China's ostensibly wayward territory. Cambodia was a major battlefield during China's resistance to Soviet encirclement and Vietnamese expansion during the Cold War, an overt defense of its regional security interest. When China needed a friend in ASEAN to support China's grand sovereignty claims in the South China Sea (or to suppress opposition to those claims, at least), Cambodia heeded the call. When Chinese hydropower projects on the Upper Mekong threatened the health of its downstream neighbors, Cambodian objections to river development evaporated. Beijing employs an array of tools to support its interests, but in all of these instances, the economic statecraft of foreign aid and investment appear to be a central element of Chinese strategy. Economic engagement is a tool for China's realist expansion of regional power in Southeast Asia, which impinges on the United States' interest in preventing China's regional hegemony.

China may have great power goals in Kenya, but its ambition there is more subtle. In the Cold War, Kenya was an arena of Sino-Soviet competition, nascent communist revolution, and One China Policy persuasion. As it did in Cambodia, China used aid to further those interests (although China largely failed). Unlike in Cambodia, China's behavior changed substantially in the 1980s. Since the thawing of Sino-Kenyan relations

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<sup>202</sup> Mearsheimer, *The Tragedy of Great Power Politics*, 40.

in the 1980s, China's engagement in Kenya has been economic rather than ideological or geopolitical. Aside from the ubiquitous One China requirement, Beijing does not appear ask Nairobi for *quid pro quo* political favors. Instead, China looks to Kenya as a trading partner and investment venue. One reason China cultivates this relationship is for realist economic self-interest. When Beijing develops trading partners and expands its foreign investment portfolio, it gathers wealth, increases its latent power, and supports its capacity to use military force to pursue other interests. Further, Chinese aid programs build China's soft power and rapport with Kenya, even if China does not yet wield its influence for specific political effects. Though modest and peaceful in itself, China's economic and diplomatic engagement in Kenya is an element of China's growing stature as a great power and, from a realist perspective, presents a strategic challenge to U.S. interests abroad.

**b. *Liberal Lens***

Using a liberal lens to interpret China's economic statecraft in Cambodia and Kenya yields very different conclusions. In Cambodia, China's engagement is complex and its outcomes are ambiguous *vis-à-vis* liberal U.S. interests in peace and stability. In their empirical analysis of conditions leading to peace or war, Russett and Oneal include the effects of states' power aspirations, levels of democracy, and economic interdependence. They find that a rising power preoccupied with security concerns contributes to regional instability and increases the likelihood of regional conflict.<sup>203</sup> This finding agrees with the offensive realist's wariness of an aspiring hegemon like China. The suppression of democracy also increases the likelihood of two states fighting.<sup>204</sup> Democracy suppression is a charge frequently leveled at China. Papers by Moisés Naím and by Naazneen Barma and Ely Ratner argue that, in general, the aid Beijing offers without political condition makes it an attractive source of revenue for despots, eroding the reform efforts that underpin Western aid packages.<sup>205</sup> Sophal Ear argues that this is

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<sup>203</sup> Russett and Oneal, *Triangulating Peace*, 189–91.

<sup>204</sup> *Ibid.*, 109–10, 122–24.

<sup>205</sup> Naím, "Rogue Aid," 95–96; Barma and Ratner, "China's Illiberal Challenge," 63.

particularly the case in Cambodia, where Chinese aid supports Hun Sen's illiberal government and discourages human rights reforms.<sup>206</sup>

Chinese aid to Cambodia contributes to a bleak situation for liberal values, but a positive aspect may exist: China's economic engagement has its benefits. In addition to democracy and institutional ties, Russett and Oneal credit economic engagement as contributing significantly to peace. China's development of Mekong River development, despite its ecological hazards, has a genuine developmental motive. Wider access to electricity leads to wider prosperity, which in turn contributes to more trade, economic exchange, and peace. Further, although Chinese trade deals have been instrumental tools to increase Beijing's influence in ASEAN,<sup>207</sup> those deals nonetheless deepened China's economic interdependence with Cambodia. "The benefits of trade may not be symmetrical and may favor the side with the stronger economic power in the market," Russett and Oneal argue, "but trade is always *to some degree* a mutually beneficial interaction."<sup>208</sup> Thus, from a liberal perspective, Cambodia is an ambiguous case: A U.S. policy-maker might be alarmed at Chinese aid's suppression of democracy, reform, and human rights, but may find at least some relief in the stability conferred by increased Sino-Cambodian economic interdependence.

China's aid to Kenya is a clearer case of beneficial economic interdependence. As discussed in Chapter III, there is little evidence in Kenya of China hoarding foreign natural resources, exporting overwhelming labor forces, or interfering with political reforms or outcomes. With the notable exception of diplomatic recognition and support of the One China Policy, Beijing does not extract political favors from Nairobi. Instead, China's activity in Kenya revolves around trade, developmental investment, and project-based aid. China recognizes that some elements of its economic engagement may have problems, like its persistent trade imbalance, and has published its acknowledgement and

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<sup>206</sup> Ear, *Aid Dependence in Cambodia*, 134.

<sup>207</sup> Kheang, "Cambodia in 2012," 148.

<sup>208</sup> Russett and Oneal, *Triangulating Peace*, 129. Emphasis added.

corrective efforts.<sup>209</sup> China's acknowledgement of trade issues supports Thomas Christensen's argument that China is learning how to conduct international engagement as it matures and grows wealthier. Rather than posing a challenge to the United States, China instead presents an opportunity for Washington to incorporate Beijing into the international economic community. Christensen argues that China's relative inexperience in foreign aid offers the West an opportunity for international cooperation. He also argues that Chinese investment bodies like the Asian Infrastructure Investment Bank have the potential to mitigate China's internal corruption and to operate alongside Western organizations like the World Bank and the IMF.<sup>210</sup> China's engagement in Kenya appears to be an example of the Chinese economic statecraft in which Christensen sees the potential for genuine international benefit.

In sum, interpreting China's activity in Cambodia and Kenya through the lenses of realism and liberalism yields two different impressions. On one hand, the realist would interpret China's manipulation of Cambodia and enrichment in Kenya as part of China's attempt to gather latent power, support military development, and achieve regional Asian hegemony, which would directly challenge U.S. national security. On the other hand, the liberal would interpret China's support of Cambodia's autocracy, abuse of human rights, and disregard for water security as a challenge to U.S. liberal interests, but would have hope that at least Chinese engagement would support regional peace. In Kenya, the liberal would see development in Africa, improvement of poverty in China, and opportunity for Sino-American diplomatic engagement as China's economic statecraft matures.

This thesis does not argue that evidence supports liberalism over realism or vice versa. Rather, these two schools of thought are presented as complementary ways to evaluate this thesis's hypotheses. Further, these formulations are not exhaustive. Other realist and liberal approaches may lead to slightly different formulations, and other schools of thought not mentioned—constructivism, individual psychology, and so on—

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<sup>209</sup> "China's Foreign Trade," Information Office of the State Council, People's Republic of China. December 2011, [http://english.gov.cn/archive/white\\_paper/2014/08/23/content\\_281474983043184.htm](http://english.gov.cn/archive/white_paper/2014/08/23/content_281474983043184.htm).

<sup>210</sup> Thomas Christensen, lecture, Naval Postgraduate School, 4 Aug 2016.

may yield radically different conclusions. In this chapter, the two derivations of realist and liberal interests serve as two rubrics by which an analyst might gauge Chinese aid's threat to the United States.

## **B. HYPOTHESIS VALIDATION**

The evidence presented in Chapter II, Chapter III, and the first section of this chapter is sufficient to evaluate this thesis's hypotheses. The cases of Chinese aid to Cambodia and Kenya validate the hypotheses that China buys international influence with its economic statecraft and that Chinese engagement presents a challenge to U.S. national interests. Evidence in these two cases does not, however, validate the hypothesis that the type of economic engagement by itself reveals China's strategic intent.

### **1. China Buys Influence with Foreign Aid and Investment**

Evidence validates the hypothesis that China employs foreign aid and investment to influence recipient states' political behavior to serve China's interests. In Cambodia, this thesis uses four cases to support this argument. In 1956, Cambodia became the first of many states to receive Chinese aid in exchange for diplomatic ties with Beijing and isolation of Taipei. In the 1960s and 1970s, China employed foreign aid to defend itself against Soviet and Vietnamese geopolitical threats with some \$1.4 billion in grants, loans, and military aid to Cambodia, while also suspending its aid to Vietnam. China contributed around \$10 billion to Cambodia between 1997 and 2012, which encouraged Phnom Penh to support Beijing's South China Sea claims while Cambodia sat as ASEAN's chair. Finally, Chinese aid in the past decade has softened Cambodian resistance to China's development of hydropower on the Mekong River. Thus, there exists a case in which China buys influence with aid and investment.

This hypothesis does not stipulate that all Chinese economic engagement supports narrow national interests in all cases, however. In the 1960s, China's activity in Kenya was similar to its activity in Cambodia: Foreign aid fostered kinship between nonaligned states and supported nationalist revolutionary movements, both of which were fundamental Chinese interests at the time. Since the resumption of Sino-Kenyan relations in the 1980s and 1990s, Chinese aid and investment in Kenya has resulted in apparently

little direct benefit to narrow Chinese national interests (except for continued support for the One China Policy). Nevertheless, Kenya is not a counterexample that invalidates the hypothesis. Instead, Kenya is an example of how Chinese aid and investment can have value beyond merely purchasing a client's fealty. There exists a case in Cambodia in which Chinese aid directly buys political influence, but there also exists a case in Kenya in which aid and investment appear to be genuinely developmental. Delivery of Chinese aid is not a sufficient condition to determine an intent to manipulate a client state.

## **2. China's Expansion of Influence Conflicts with U.S. Interests**

Evidence also validates the hypothesis that Chinese economic statecraft challenges U.S. national interests. Which interests China challenges depends on the analyst's perspective: From a realist standpoint, Chinese aid to Cambodia and Kenya increase China's economic, diplomatic, and military might, which increases China's capability as a global power to challenge the United States. From a liberal standpoint, China's aid has widespread deleterious consequences like suppression of democratic norms, erosion of Western reform efforts, human rights abuses, and ecological harm. These effects do not appear in both cases: China's economic statecraft appears to cause more harm to liberal institutions in Cambodia, where aid pursues primarily political ends, than in Kenya, where aid and investment have a predominantly developmental aspect.

These illiberal effects also may not be deliberate. This hypothesis does not require that China deliberately undermine U.S. interests; it requires only that Chinese and U.S. interests conflict. It is possible that China's grand strategy involves preventing the spread of democracy and liberal values. It is also possible that, as an unintended consequence of the Five Principles of Peaceful Coexistence, China's respect for recipients' sovereignty makes its unconditional aid particularly attractive to illiberal regimes. Although those possibilities would each call for different U.S. responses, proving China's intent to undermine the United States is beyond the scope of this thesis. In any case, China's economic statecraft presents a problem for the United States.

### 3. Choice of Financial Mechanism Reveals China's Intent

Evidence does not support the hypothesis that the type of financial mechanism Beijing employs in the modern era correlates with the political effect of aid or the political purpose behind its employment. If the evidence could validate this hypothesis, then knowing the type of instrument—investment, grant, loan, or subsidy—would allow U.S. strategists to focus their analysis on aid flows that obviously have political motives and ignore those that do not. Differentiating political from developmental aid, however, is not possible based on the type of financing alone.

During the Cold War, this analysis would have been trivially easy: Aid to Cambodia and Kenya alike was homogenous in both form and function. In form, China generally preferred grants, because Mao believed grants had a friendlier, more authentically communist public relations appearance than even interest-free loans.<sup>211</sup> China's monetary aid to Cambodia in the 1950s through the 1970s were almost entirely grants, as was its brief series of flows to Kenya in 1964 and 1974. In function, the explicit purpose of China's foreign aid program was to encourage solidarity in the non-aligned movement and provide support to revolutions. An analyst in the Cold War would not have needed to distinguish developmental from political foreign aid.

In the modern era, however, China's objectives for foreign aid and the vehicles it employs are more diverse. The type of vehicle and the apparent purpose behind its use no longer correlate well: China uses a wide variety of trade deals, investment activities, and aid flows to accomplish both developmental and political goals. In Cambodia, Chinese aid and investment may simultaneously accomplish both developmental and political goals, as with the grants, loans, and trade agreements established in 2012 that coincided with, and probably contributed to, Cambodia's advocacy for Chinese maritime claims. Chinese activity in Kenya also comes in grant, loan, investment, and trade forms, but has little apparent political motive. The conclusion from this analysis is that the purpose behind Chinese economic statecraft is not evident *a priori* from the type of engagement

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<sup>211</sup> Copper, *China's Foreign Aid*, 46.

alone; rather, the purpose of China's engagement is only evident *a posteriori* when its political or economic effects become apparent.

## **C. FURTHER RESEARCH**

Research conducted in support of this thesis uncovers several avenues for further research: Expansion of this thesis's analysis into more recipient states in more regions, characterization of China as a regional or a global power, a supply and demand model of illiberal foreign aid, inconsistent correlation of Chinese aid and recipient natural capital, and Kenya's inclusion in OBOR.

### **1. Broader Scope**

With an  $n$  of 2, this thesis has an exceedingly small sample size. A small-sample study presents the opportunity to validate existential hypotheses: That there exists at least one case in which evidence validates a hypothesis. In this study, evidence in Cambodia shows that China, in at least that case, buys diplomatic influence. Conversely, evidence in Kenya shows that China, in at least that case, pursues apparently developmental ends. The limitation of such a small sample is that the evidence presented makes no suggestion about which paradigm is more common than which. Further research across more cases is needed to determine which case is the rule and which is the exception: Is China a manipulator with developmental side projects, or is it a developer that occasionally meddles in political influence?

Increasing the sample size may involve additional cases in Southeast Asia and Africa. A larger sample may also involve casting a wider geographic net to determine whether, for example, China conducts economic engagement similarly in Africa and Latin America, or in Southeast Asia and Central Asia. Further, additional research is warranted in Europe. China does not have much history of either asserting its will or encouraging development in Europe, but China's recent overtures to Greece (and

Greece's subsequent political concessions to China) may be prelude to increasing Chinese involvement in the First World.<sup>212</sup>

## 2. Characterizing China as a Regional or Global Power

A larger sample size would also lead to a new research question: Is China a regional or a global power? The comparison in this thesis of China's extensive involvement in Cambodia's affairs, but relatively arms-length engagement in Kenya's, suggests China's power may be limited to its own region.

Evidence presented in Chapter II supports characterizing China as a regional power. Definitions of regional power status differ: John Ikenberry et al. and Luis Schenoni argue that a state becomes a regional power by controlling a preponderance of a region's material wealth and by having the capacity to use it.<sup>213</sup> David Shambaugh considers China's "growing economic and military power, expanding political influence, distinctive diplomatic voice, and increasing involvement in regional multilateral institutions" as elements of China's regional power, but he also warns of the folly of analyzing China's rise through any single realist or liberal rubric.<sup>214</sup> China is likely to meet any scholarly definition of an important regional actor in East Asia (alongside other significant regional actors like South Korea or Japan), even if it falls short of unipole or regional hegemon status. Cambodia's case supports this characterization. Evidence in Chapter II shows that the People's Republic has exerted over six decades of continuous effort to win Cambodia's support, influence Cambodia's politics, and employ Cambodia as an instrument of Chinese foreign policy. China's engagement in Cambodia serves China's regional strategic goals, including maintenance of stable borders and domestic

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<sup>212</sup> Jason Horowitz and Liz Alderman, "Chastised by E.U., a Resentful Greece Embraces China's Cash and Interests," *The New York Times*, 26 August 2017, <https://www.nytimes.com/2017/08/26/world/europe/greece-china-piraeus-alexis-tsipras.html>.

<sup>213</sup> G. John Ikenberry, Michael Mastanduno, and William C. Wohlforth, "Unipolarity, State Behavior, and Systemic Consequences," *World Politics* 61, no. 1 (January 2009): 4, doi:10.1017/S004388710900001X; Luis Leandro Schenoni, "Subsystemic Unipolarities? Power Distribution and State Behaviour in South America and Southern Africa," *Strategic Analysis* 41, no. 1 (2017): 74, doi:10.1080/09700161.2016.1249179.

<sup>214</sup> David Shambaugh, "China Engages Asia: Reshaping the Regional Order," *International Security* 29, no. 3 (Winter 2004/05): 99.

development. Further research is required to determine whether China conducts itself similarly with other Southeast Asian neighbors.

Evidence introduced in Chapter III does not support characterizing China as a global power. Two defining features of a global power are having interests worldwide and wielding the capacity, whether diplomatic, economic, or military, to defend them. The United States, by any measure a global power, is committed to the mutual defense of treaty allies in Europe, Latin America, and Asia, to unimpeded trade on the high seas, and to maintenance of the global economic order, among other global concerns. In the defense of those interests, the United States maintains diplomatic ties and a credible military presence nearly everywhere on Earth.<sup>215</sup> For the time being, China appears to have neither the global interests nor the reach that would make it a global power. Evidence in Kenya supports this conclusion: Although Chinese economic engagement has expanded to include Kenya, China's diplomatic pressure there is scarce and its military capability is absent.

In short, China's diversity of activity in Cambodia, and its comparatively one-dimensional engagement in Kenya, paint a picture of China as a primarily regional actor. A broader array of data points may support this hypothesis.

### **3. China's Intent and the Supply and Demand of Foreign Aid**

This thesis does not attempt to determine whether China deliberately challenges the Western economic order or merely acts independently of it. The literature review in Chapter I discusses criticism of Chinese aid as a challenge to Western economic influence. In particular, Barma and Ratner characterize China as direct challenger to Western economic influence. Is it possible that instead of overthrowing Western interstate financial systems, China merely offers a better foreign aid product?

Traditional, private loan markets can be modeled as products with supply-demand curves, as in Figure 5. The quantity axis is the amount of money available to the loan market, while the price axis is the interest rate charged by lenders. The supply curve is

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<sup>215</sup> "U.S. Collective Defense Arrangements," U.S. Department of State, accessed 1 September 2017, <https://www.state.gov/s/l/treaty/collectivedefense/>.

positive when savers incur an opportunity cost when lending saved money. The demand curve is negative because lower interest rates increase the amount of money a recipient could usefully borrow. The intersection of these two curves gives the equilibrium quantity of money available for loans and the equilibrium interest rate charged by lenders.<sup>216</sup>

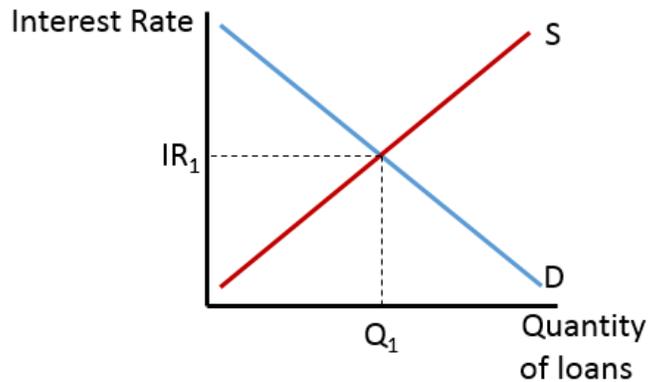


Figure 5. Typical Loan Supply-Demand Curves

Foreign aid can be modeled by the same curves with an added analogy (as in Figure 6): Instead of the price axis representing interest rates, it represents the sum of interest rate plus the conditionality of a loan. For a given interest rate, loans with exceptionally onerous conditions (like abdication of power, for example) result in zero demand; conversely, loans with few conditions are more attractive to recipient states wishing to maintain their sovereignty. As with traditional loans, interest rate remains a factor in the price of aid: High interest rates are a burden for the recipient, while low (or zero) rates ease repayment. Essentially, the price of a loan is a function of both the financial cost and the regime's surrendering of autonomy. The sum price is interest rate plus conditions, or  $IR+C$ .

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<sup>216</sup> “The Loanable Funds Market: Graphical Explanation,” Muddy Water Macro, accessed May 31, 2016, <https://muddywatermacro.wustl.edu/loanable-funds-graphical-explanation>.

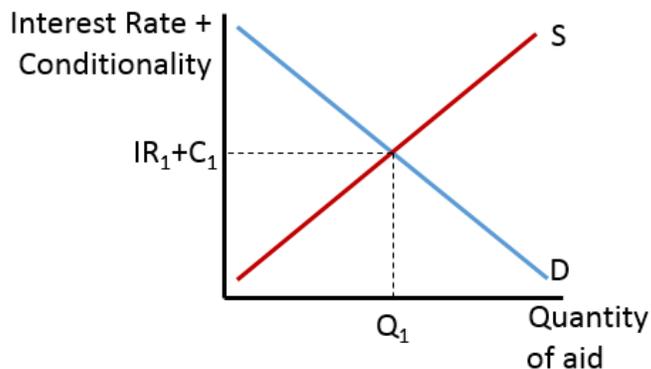


Figure 6. Foreign Aid Supply-Demand Curves

Two qualities of Chinese foreign aid help its re-interpretation in a supply/demand model. First, Chinese aid is generally unconditional with respect to liberal standards of governance. China attaches no demands for autocrats to relax or for kleptocrats to straighten up.<sup>217</sup> In supply and demand terms, an artificially low price expressed in  $IR+C$  would create a shortage of foreign aid among the shady regimes who want for it. Second, Chinese aid is new and is expanding rapidly. Its volume has increased significantly since its rejuvenation around the turn of the twenty-first century.

The result of these two qualities (decreased  $IR+C$  and increased supply) result in the supply-demand curves in Figure 7. Western aid, such as that from the United States or from the IMF, carries a certain interest rate and a certain list of conditions. The donor organizations have a supply curve of aid they are prepared to deliver,  $S_1$ , and the recipient states have a demand curve of aid they seek,  $D$ . Assuming a fair international aid environment, the intersection of  $S_1$  and  $D$  results in  $IR_1+C_1$ , which is the combination of interest rates and liberal conditions that the international community believes is reasonable.

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<sup>217</sup> Barma and Ratner, “China’s Illiberal Challenge,” 63.

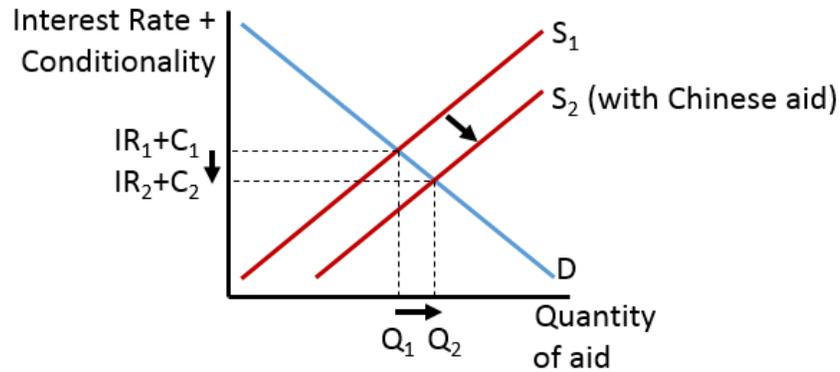


Figure 7. Shifts in Foreign Aid Costs

Beginning in 2001, China began its modern unconditional foreign aid campaign. This rapid increase in pledged foreign aid shifts the supply curve rightward to  $S_2$ , which shifts the equilibrium cost of aid receipt downward to  $IR_2 + C_2$ . Western aid, whose price remains  $IR_1 + C_1$ , is suddenly less attractive to the autocracies that yearn for less burdensome capital. In other words, China's foreign aid is undercutting the West with a better product at a cheaper price.

One policy consequence of this model is that if the West intends to use foreign aid conditionality as a diplomatic tool, it must compete on interest rates. This is possible with the choice of foreign aid vehicle. For a given recipient state, if China extends a loan with interest rate  $IR_{China}$  and few conditions, the West's best competitive hope for influence is to extend a competing loan such that  $IR_{West} \ll IR_{China}$ , resulting in a favorable final price tag (that is,  $IR_{West} + C_{West} < IR_{China} + C_{China}$ ). In other words, the Western lender must offer autocrats exceedingly low financial prices to overcome the burden of conditionality. If China offers concessional loans, the West must offer zero-interest loans. If China offers a 0 percent interest rate, then the West must offer grants. If China offers grants, then the West is simply out of luck and should pursue other avenues of diplomatic pressure.

Even if this model holds explanatory power, it is unlikely by itself to explain a state's decisions when accepting foreign assistance. In addition to the narrow financial and political cost of a loan, a recipient state may consider a host of other factors. The recipient may have broader political goals and thus accept onerous conditions in order to foster important bilateral ties. The recipient may also consider concessions of autonomy

to be a desired element of an aid package, rather than a cost: A ruler who wants reform but lacks the expertise to effect it might welcome intrusive IMF or World Bank requirements. The costs and benefits of a loan may be eclipsed by other unrelated factors.

The degree to which conditionality contributes to the cost of a loan is uncertain. It is also uncertain how heavily states weigh cost-benefit calculus relative to other political or strategic considerations. Further research is required to determine the explanatory power of this model as a U.S. policy tool and an alternative to characterizing China as a deliberate challenger to the West's liberal economic order.

#### **4. Do Chinese Aid and FDI Chase Natural Resources?**

Deborah Brautigam argues that while China is interested in secure sources of natural resources to support its development, China disburses aid evenly across African recipients, regardless of their natural resource wealth. She goes on to argue that “resources matter, but China’s ‘mutual benefit’ approach is about generating *business*,”<sup>218</sup> and that characterizations of China as an insatiable resource glutton are unfounded.<sup>219</sup> Brautigam makes this argument specifically with respect to China’s ODA-like grant and concessionary loan distribution across Sub-Saharan Africa. Because of the opacity veiling China’s aid, this thesis is unable to substantiate or refute Brautigam’s specific claim without broader research. FDI data, however, is more readily available. Does Chinese FDI pursue natural resources? Does it behave similarly in Africa and in Southeast Asia?

In Africa, Chinese FDI correlates positively with host countries’ natural resource endowments, whereas in Southeast Asia, it does not. Two data sets support this observation: First, the UN Conference on Trade and Development, which aggregates FDI flows and stocks for 206 countries, including China.<sup>220</sup> Second, the Inclusive Wealth Report published by the UN University International Human Dimensions Programme and

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<sup>218</sup> Brautigam, *The Dragon’s Gift*, 279. Emphasis in the original quote.

<sup>219</sup> *Ibid.*, 277–81.

<sup>220</sup> “Bilateral FDI Statistics,” UN Conference on Trade and Development, United Nations, 2014, <http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>.

UN Environment Programme, which quantifies the natural capital endowments of 140 countries.<sup>221</sup> Correlating these two data sets yields different results in each region. In Africa, Chinese FDI stocks and hosts' natural capital correlate as being directly proportional ( $r = 0.72$ ). African countries with larger natural resource endowments commonly draw more Chinese investment (see Figure 8). Among ASEAN members, however, FDI and natural capital are approximately *inversely* proportional (correlated weakly at  $r = -0.34$ ), which suggests Chinese investment there is natural resource-agnostic (see Figure 9). Adding a third data set, recipient countries' GDP, paints the same picture. African GDP correlates ( $r = 0.87$ ) with Chinese FDI, but ASEAN states' GDP does not correlate with Chinese FDI at all ( $r = -0.03$ ).<sup>222</sup> Data are summarized in Figures 10 and 11.

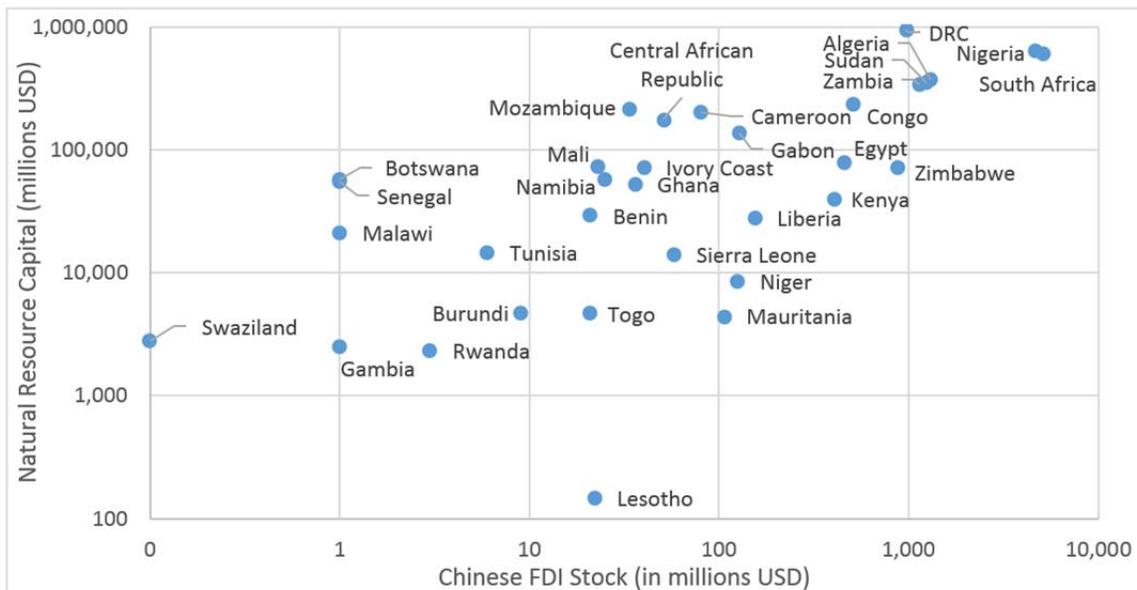


Figure 8. Chinese FDI Stock vs. Natural Resource Capital in Africa

<sup>221</sup> *Inclusive Wealth Report 2014* (Cambridge: Cambridge University, 2014), 244–251.

<sup>222</sup> “GDP by Country | Statistics from IMF, 1980–2021,” Knoema, accessed 1 September 2017, <https://knoema.com/tbocwag/gdp-by-country-statistics-from-imf-1980-2021>.

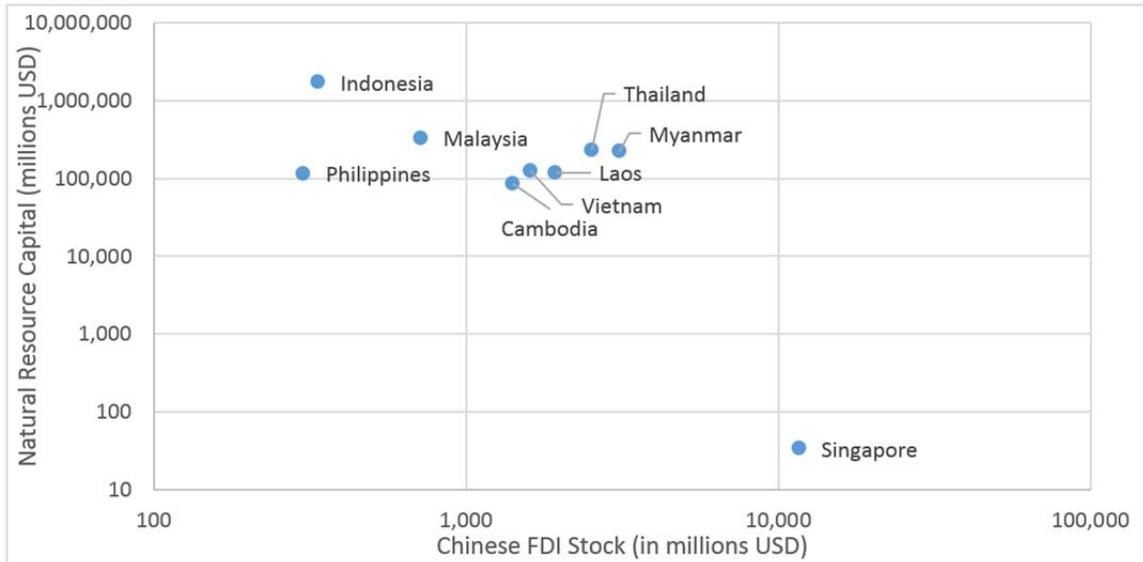


Figure 9. Chinese FDI Stock vs. Natural Resource Capital in ASEAN

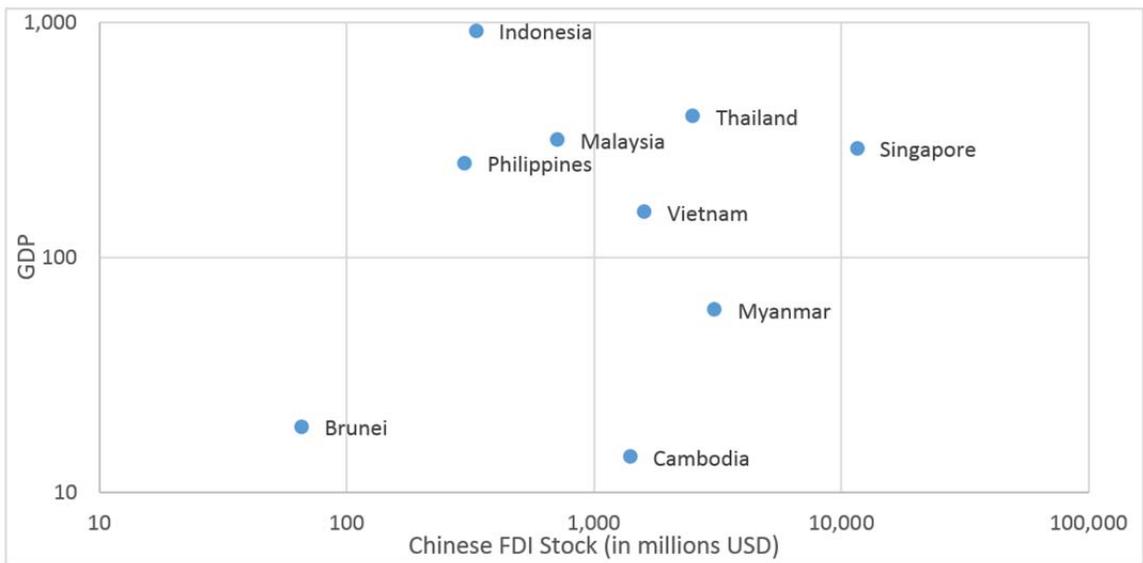


Figure 10. Chinese FDI vs. GDP in ASEAN

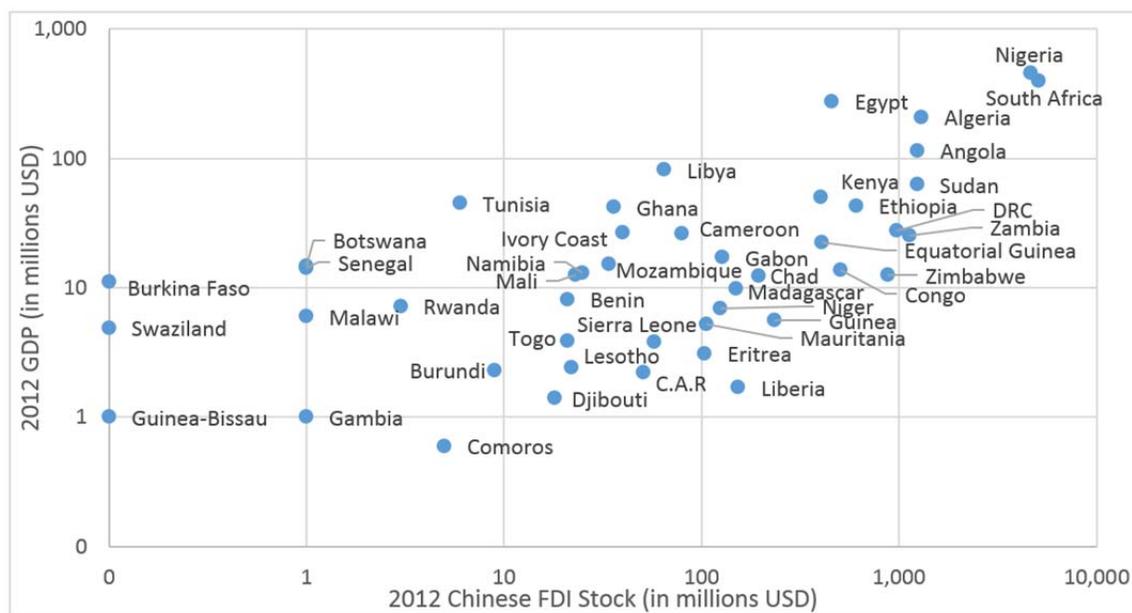


Figure 11. Chinese FDI Stock vs. GDP in Africa

These data suggest that China invests its capital differently in different regions. In Africa, host country wealth and natural resources appear to attract Chinese investment, which is an unsurprising result. In Southeast Asia, Chinese investment appears to be motivated by factors other than hosts' economic strength or exploitable resources. Data presented are insufficient to draw clear causal relationships, but they align with the broad findings of the case studies presented here. These results raise several questions: Does China preferentially pursue sources of natural resources in Africa? If economic and resource wealth do not drive Chinese FDI in Southeast Asia, what does? Does China have political, rather than economic, motives for its economic statecraft in its own region? Finally, would this analysis yield the same conclusions if applied to Chinese foreign aid (that is, grants and concessional loans) instead of FDI?

## 5. Is Kenya a Part of OBOR?

Further research in Kenya may uncover a serious challenge to this thesis's conclusions. Chapter III explored China's activity in Kenya, but conspicuously absent was analysis of China's OBOR initiatives. Is China's activity in Kenya preparation for OBOR's implementation? If so, what might that activity mean for U.S. interests?

OBOR is an ambitious constellation of trade relationships and transportation infrastructure projects recently launched by President Xi Jinping. China's goal will be eventually to connect Europe, Central Asia, China, Southeast Asia, India, Eastern Africa, and the Middle East in a series of interlocking ports, highways, railways, and pipelines. China stands to benefit handsomely by the increased volume of goods traded along OBOR, as do the 60 or so countries through which OBOR will pass. One of those countries may be Kenya, whose ports and Mombasa and Lamu, highways to Nairobi, and standard-gauge railways may yet become valuable components of China's trading network.

Peter Ferdinand notes that OBOR is likely to have geopolitical effects. OBOR may signal China's willingness to compete with the United States in global economics and indicate a long-term effort to become a global, not just regional, power.<sup>223</sup> Ferdinand also argues that this project is as risky as it is ambitious. Its success depends on participants' enduring enthusiasm for China's new system as well as the specific development of such a system. OBOR will require widespread acceptance of China's vision of "how the global community might move, or be induced to move, towards the better global order that it both advocates and expects."<sup>224</sup> If participants attrite, OBOR could become a political tragedy for Xi and the CCP. China's reliance on a shared vision may explain why cultural outreach, Chinese language training, and ostensibly selfless development projects may all be merely instruments in OBOR's success.

Other analysts point to constructivist elements of OBOR. Tim Winter notes that China draws historical comparisons between OBOR and the old Silk Road, dynastic China's overland trade routes. Winter writes that "the Silk Road is a story of peaceful trade, and a rich history of religious and harmonious cultural exchange. The Belt and Road seeks to directly build on this legacy."<sup>225</sup> Li Mingjiang presents a different

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<sup>223</sup> Peter Ferdinand, "Westward Ho—The China Dream and 'One Belt, One Road': Chinese Foreign Policy under Xi Jinping," *International Affairs* 92, no. 4 (July 2016): 941–957, doi:10.1111/1468-2346.12660. 953–54.

<sup>224</sup> *Ibid.*, 956.

<sup>225</sup> Tim Winter, "One Belt, One Road, One Heritage: Cultural Diplomacy and the Silk Road," *The Diplomat*, 29 March 2016, <http://thediplomat.com/2016/03/one-belt-one-road-one-heritage-cultural-diplomacy-and-the-silk-road/>.

perspective, writing that OBOR is “a reflection of the emerging consensus in the Chinese foreign policy community that Beijing now needs to significantly shift from the ‘low-profile’ international strategy to actively strive for more accomplishments.”<sup>226</sup> In other words, Winter and Li argue that OBOR has constructed value: More than just a power play or a development strategy, OBOR represents the cultural stature that China once held and could soon regain. For the United States policy analyst, this constructivist interpretation may suggest that instead of blindly resisting China’s rise, the United States might be able to understand and engage with the cultural motivation behind China’s adventures.

Further research into OBOR in Kenya and elsewhere is required. This thesis depends chiefly on the political outcomes of China’s economic effort, not merely its supposed intent. Because OBOR is so new, its effects on participant countries and on the United States have not yet become apparent. If Kenya becomes an active OBOR participant, one conclusion of this thesis—that Chinese activity in Kenya is chiefly developmental and scarcely political—may require reexamination. In Kenya, the degree to which China invests for development’s sake, and the degree to which China invests in infrastructure and goodwill to support its narrower OBOR interest, remain to be seen.

#### **D. CONCLUSION**

This thesis has explored China’s economic statecraft of foreign aid, investment, and trade activity. It has asked three questions: What has China gained from its generosity? What does China’s choice of financial vehicle say about the intent behind its delivery? And should the United States be concerned about China’s economic engagement? In answering these questions, this thesis has outlined sixty years of Sino-Cambodian and Sino-Kenyan political history. This thesis concludes that in Cambodia’s case, China has derived a great deal of direct political benefit from its aid and investment there but substantially less obvious benefit from engaging Kenya.

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<sup>226</sup> Li Mingjiang, “China’s ‘One Belt, One Road’ Initiative: New Round of Opening Up,” RSIS Commentaries, Nanyang Technological University, 11 March 2015, <http://hdl.handle.net/10220/39874>.

The different tenors of Sino-Cambodian and Sino-Kenyan relations indicate China has the capacity to form completely different economic and political policies for different foreign partners. This capacity should be no surprise, since a state applying one-size-fits-all foreign policy would show grotesque mismanagement indeed. Comparing the cases of China-as-manipulator in Cambodia and China-as-partner in Kenya results in a cautionary tale for analysts. Assigning China as uniformly having one or the other role in the world will inevitably lead the analyst to miss the bigger picture: Sometimes China acts as a geopolitical threat, and sometimes it acts as an emerging power worth engaging, and determining which role China assumes should be part and parcel of creating U.S. foreign policies in response.

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