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**MONTEREY, CALIFORNIA**

## **THESIS**

**WITH STRINGS ATTACHED: CHINA'S ECONOMIC  
POLICY IN THE SOUTH CHINA SEA**

by

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June 2016

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**WITH STRINGS ATTACHED: CHINA'S ECONOMIC POLICY IN THE SOUTH  
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## **ABSTRACT**

How has China used economic policy to create leverage in its relationships with its Asian neighbors? Through comparative case studies of China's political and economic relationship with the Philippines and its political and economic relationship with Cambodia, this thesis supports the notion that China uses cooperative economic policy to entice political support from its poorer, lesser developed neighbors while using coercive economic policy to extract political concessions from its more advanced, emerging neighbors. In short, China uses coercive economic policy to extract concessions from Manila while it uses cooperative economic policy to woo Cambodian support in the same disputes.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

ASEAN	Association of Southeast Asian Nations
CIA	Central Intelligence Agency
COMET	Connecting the Mekong through Education and Training Project
DAC	Domestic Assistance Committee
E3	expanded economic engagement initiative
EV71	enterovirus 71
GDP	gross domestic product
GNI	gross national income
HDI	human development index
LMI	Lower Mekong Initiative
ODA	official development assistance
ODF	official development finance
OECD	Organization for Economic Cooperation and Development
PLA	People's Liberation Army
PLA-N	People's Liberation Army-Navy
PPP	purchasing power parity
SFB	Supporting Forestry and Biodiversity Project
SMI	Sustainable Mekong Initiative
TPP	Trans Pacific Partnership
UNCLOS	United Nations Convention on the Law of the Sea
WITS	World Integrated Trade Solution

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# **I. INTRODUCTION**

## **A. BACKGROUND**

How has China used economic policy to create leverage in its relationships with its Asian neighbors? China's rise and its global ambitions make up a popular narrative among policymakers and scholars.<sup>1</sup> The argument goes that China's global ambitions are inextricably linked to its economic policy in the South China Sea. In short, China's global ambitions rely on regional peace and prosperity as dictated by Beijing; such regional peace facilitates a stable environment for the exchange of resources that China depends on for further growth. To reach this aim, China uses different political levers to encourage policy concessions from its neighbors. One of the levers it routinely uses is economic policy.<sup>2</sup> Yet, when viewed with more nuance, China seems to use categorically different economic policies with its different neighbors, using coercive policy with its more developed neighbors and cooperative policy with its less developed neighbors. By studying the economic policy that China employs with its Asian neighbors, I hope to better understand the tactics it employs globally to advance its global ambitions. This thesis presents comparative case studies of China's economic relationship with the Philippines and Cambodia, concluding with a chapter on the global implications of my findings. This introductory chapter reviews the literature on China's economic policies, details my research question, explains my hypothesis and research design, and introduces the economic background of the Philippines and Cambodia cases that serve as the empirical material upon which this thesis is based.

## **B. LITERATURE REVIEW: GLOBAL AMBITIONS**

The topic of China's global ambitions is popular in both academic and public spheres, with significant literature in both. If China is to continue its remarkable economic success, built on eight percent annual GDP growth on average since the early 1980s, it

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<sup>1</sup> Toshi Yoshihara and James R. Holmes, *Red Star Over the Pacific: China's Rise and the Challenge to U.S. Maritime Strategy* (Annapolis, MD: Naval Institute Press, 2010), 11.

<sup>2</sup> Joshua Kurlantzick, *Charm Offensive: How China's Soft Power Is Transforming the World* (New Haven, CT: Yale University Press, 2007), 84.

must secure a steady, uninterrupted source of natural resources.<sup>3</sup> China depends on the import of a large portion of the resources used to fuel its economy: it imports a majority of its timber, platinum, aluminum, iron ore, and copper. Perhaps though, most critical to China's continued growth is its import of oil.<sup>4</sup> China is already the world's largest buyer of oil, and the country's continued growth will exacerbate the demand moving forward.<sup>5</sup> From 1995–2005, Chinese consumption of oil doubled to 6.8 million barrels per day.<sup>6</sup> Chinese recognize the importance of the commodity to China's continued success. While serving as Premier of the People's Republic, Wen Jiabao acknowledged that his country faced a "growing dependence on imports of some important minerals from foreign countries."<sup>7</sup> In 2003 in fact, China surpassed Japan as the world's second-largest consumer of oil.<sup>8</sup> In 2004, China's oil consumption increased by 16 percent year over year while Chinese output only increased by 2 percent over that same period, highlighting China's inability to find a domestic solution to its growing oil demand.<sup>9</sup>

China's efforts at securing these valuable resources have taken them to the corners of the earth, making it a country with global ambitions.<sup>10</sup> China has focused much of its efforts in Africa, Latin America, and the Middle East.<sup>11</sup> From 2008–2011, the Export-Import Bank of China announced that it spent \$20 billion in investment in Africa.<sup>12</sup> In Latin America, China has emerged as a major source of Foreign Direct Investment.<sup>13</sup> This

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3 Kurlantzick, *Charm Offensive*, 86.

4 Ibid., 40–1.

5 Clifford Krauss and Keith Bradsher, "China's Global Ambitions, With Loans and Strings Attached," *New York Times*, July 24, 2015, <http://www.nytimes.com>.

6 Ian Taylor, "China's Oil Diplomacy in Africa," *International Affairs* 82, no. 5 (2006): 942, doi: 10.1111.

7 Kurlantzick, *Charm Offensive*, 41.

8 Taylor, "China's Oil Diplomacy in Africa."

9 Ibid.

10 Kurlantzick, *Charm Offensive*, 5.

11 Ibid., 11.

12 Serge Michel, "When China Met Africa," *Foreign Policy* 166 (2008): 41, <http://www.jstor.org/stable/25462292>.

13 Kevin P. Gallagher and Roberto Porzecanski, "China Matters: China's Economic Impact in Latin America," *Latin American Research Review* 43, no. 1 (2008): 188, <http://www.jstor.org/stable/20488114>.

increase has been a positive one from an economic standpoint in Latin American countries that are strapped for cash as China's efforts in the region have "contributed to lowering the cost of capital for Latin American and the Caribbean net debtors."<sup>14</sup> In the Middle East, China focuses on purchasing equity stakes, pumping cash into the region.<sup>15</sup> In Iran in 2004, China signed a memorandum of understanding with the Islamic Republic that would allow a Chinese state owned enterprise to develop Iran's largest undeveloped oil field "in exchange for agreeing to buy 10 million tons of Iranian liquefied natural gas annually for 25 years."<sup>16</sup> In these regions, China has promised aid and investment to countries that are desperate for it. In exchange, China secures long-term deals that put a lock on those countries' resources for Chinese use.<sup>17</sup> In Africa, China gains access to resources such as oil, copper, uranium, cobalt, and timber.<sup>18</sup> In Latin America, China receives iron ore, copper, oil and leather.<sup>19</sup> In the Middle East, China has built a trade network that will provide it with a supply of oil for the foreseeable future.<sup>20</sup>

### **1. Economic Interdependence**

Regarding China's global ambitions, policymakers and academics rely on two dominant schools of thought in an attempt to explain Chinese policy: economic interdependence and realism. Some economic interdependency theorists argue that China's focus is actually on impacting regional affairs in the South and East China Seas, using its global reach to secure resources toward that aim.<sup>21</sup> These scholars argue that the Chinese threat to American global hegemony is overinflated, citing the challenges that the Chinese economy will face in the coming decades, claiming that they will pose serious obstacles to China moving forward. Joseph Nye argues that China is faced with

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14 Gallagher and Porzecanski, "China Matters," 189.

15 Steve A. Yetiv and Chunlong Lu, "China, Global Energy, and the Middle East," *Middle East Journal* 61, no. 2 (2007): 205, <http://www.jstor.org/stable/4330385>.

16 Yetiv and Chunlong Lu, "China, Global Energy, and the Middle East," 205.

17 Kurlantzick, *Charm Offensive*, 11; and Krauss and Bradsher, "China's Global Ambitions."

18 Serge Michel, "When China Met Africa," 41.

19 Gallagher and Porzecanski, "China Matters," 190.

20 Yetiv and Chunlong Lu, "China, Global Energy, and the Middle East," 205.

21 Joseph S. Nye, Jr., "China's Rise Doesn't Mean War," *Foreign Policy* 184 (2011): 66.

headwinds of poverty, inequality, and demographic issues.<sup>22</sup> Coupled with a slowing growth rate, he writes that China's rise is much more benign. After all, he claims, "Not every power's rise leads to war."<sup>23</sup>

Other scholars who subscribe to economic interdependency theory attest that deeply integrated economic interconnectedness in the region has created a stable regional system where Asian countries look to China as the leader.<sup>24</sup> These scholars argue that in this context, China's rise is aimed at securing its role as the regional hegemon. In the East China Sea for example, an area considered "a powder keg of nationalism and shifting geopolitics," many argue that major players in the region have avoided armed conflict due to the devastating economic implications that such conflict would have on each.<sup>25</sup>

Some subscribers to economic interdependency theory take a different stance, arguing that the effects of economic interdependency are limited. Benjamin Goldsmith, for example, cautions that such ties are only responsible for regional peace and are not applicable to non-Asian dyads.<sup>26</sup> Despite this split, economic interdependency theorists subscribe to the same general argument: that high levels of economic interconnectedness will reduce the potential of armed conflict due to the devastating economic implications for all parties.

## **2. Realism**

Proponents of realism subscribe to a different view of international relations and therefore different thoughts regarding China's actions in the global arena. Realists argue that the international system, anarchic in nature, is in a constant security struggle where each state attempts to take advantage of other states and where war is always a

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22 Nye, "China's Rise Doesn't Mean War," 66.

23 Ibid., 66.

24 Benjamin B. E. Goldsmith, "A Liberal Peace in Asia?," *Journal of Peace Research* 44, no. 1 (2007): 19, doi: 10.1177/0022343307072427.

25 Paul O'Shea, "How Economic, Strategic, and Domestic Factors Shape Patterns of Conflict and Cooperation in the East China Sea Dispute," *Asian Survey* 55, no. 3 (2015): 570, <http://www.jstor.org/stable/10.1525/as.2015.55.3.548>.

26 Goldsmith, "A Liberal Peace in Asia?," 19.

possibility.<sup>27</sup> This view provides an alternative narrative in explaining China's global ambitions and actions on the international stage compared to that provided by economic interdependency theorists. Many realists argue that in an anarchic international system, China is incentivized to maximize its strength. As a counter, the United States and other powers will balance against China, resulting in a standoff a la the Cold War with the potential to escalate into a hegemonic war.<sup>28</sup>

As with economic interdependency theorists, there exists a split in scholarship in the realist school. Other realists take a subtler stance on the implications of China's rise. Charles Glaser, for example, argues that "conflict is not predetermined" between the United States and China. He suggests that the potential sources of conflict are not provided by the international system, which he claims are relatively weak and ineffectual, but on secondary regional disputes that are unique to East Asia. This view means that the navigation of these complex regional issues is more critical in preventing a war than is the traditional realist view of power accumulation and subsequent balancing.<sup>29</sup>

### **3. Regional Ambitions**

Returning to China's requirement for resources to fuel its economy, some scholars argue that the country must establish a regional peace to facilitate the maritime exchange of those resources that China has accumulated in the global market. The argument is that such a regional peace creates a structure that facilitates the transfer of the resources that China needs to continue to fuel its economy.<sup>30</sup> As such transfer is accomplished predominantly via maritime trade, the importance of a regional peace is highlighted in this argument as regional conflicts and border disputes are destabilizing affairs that make maritime trade difficult while also carrying the potential for a downward spiral into a

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27 John J. Mearsheimer, "The False Promise of International Institutions," *International Security* 19, no. 3 (1995): 9, <http://www.jstor.org/stable/2539078>.

28 Charles Glaser, "Will China's Rise Lead to War? Why Realism Does Not Mean Pessimism," 81.

29 Glaser, "Will China's Rise Lead to War?," 81

30 M. Taylor Fravel, "Growing Competition in the South China Sea," in *The Long Littoral Project: South China Sea*, 42-60, CNA Analysis and Solutions, March 2013.

broader war.<sup>31</sup> Such instability would be economically devastating to the Asian continent and the world at large as more than \$5 trillion of maritime trade passes through the region each year via container ship.<sup>32</sup>

Admiral Alfred Thayer Mahan wrote that the “starting point and foundation” of sea power is “the necessity to secure commerce, by political measures conducive to military, or naval strength.”<sup>33</sup> In their 2010 book, *Red Star Over the Pacific: China’s Rise and Challenge to U.S.*, Toshi Yoshihara and James Holmes wrote, “Ensuring the physical freedom of movement across the maritime commons is central to economic and military endeavors that the Chinese regime considers crucial to the nation’s economic vitality and prestige.”<sup>34</sup> In Yves-Heng Lim’s 2014 book, *China’s Naval Power: An Offensive Realist Approach*, Lim argues that “the primary objective of a regional hegemony will be to prevent the formation of an adverse coalition between distant great powers and local opponents. This could be achieved by fielding a naval force devoted to sea denial missions.”<sup>35</sup>

Recent evidence supports these claims regarding China’s regional aims and maritime strategy. Recognizing the importance of dictating a peace with its neighbors in the South China Sea (SCS) region as the regional hegemon, China set out on a mission to dictate a peace on China’s terms with its neighbors in the 1990s through the use of hard power, particularly through the use of the People’s Liberation Army-Navy (PLA-N). China took hardline approaches with its SCS neighbors during this period, sending destroyers to disputed territories in the Spratly Islands while fiercely arguing for its neighbors to abandon their alliances with the United States.<sup>36</sup>

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31 Fravel, “Growing Competition,” 37.

32 Ibid., 41.

33 Yoshihara and Holmes, *Red Star over the Pacific*, 11.

34 Ibid.

35 Eric Grove, Book Review, “China’s Naval Power: An Offensive Realist Approach,” 84.

36 Eric Hyer, “The South China Sea Disputes: Implications of China’s Earlier Territorial Settlements,” *Pacific Affairs* 68, no. 1 (1995): 34–54.

#### 4. Failures of Hard Power and the Turn to Soft Power

These hard power tactics failed, and China's neighbors bristled at Beijing's stance. This failure drove a wedge between China and its neighbors in the region, driving some of those neighbors into a more integrated alliance with the United States while also creating a narrative that warned of China's aggressive international behavior.<sup>37</sup> Chinese leaders recognized the failure of this policy and attempted to change the narrative, coining the phrase "Peaceful Rise."<sup>38</sup> In a 2004 speech outlining the country's new strategy, Chinese Prime Minister Wen Jiabao said that China's rise "will not come at the cost of any other country, will not stand in the way of any other country, nor pose a threat to any other country."<sup>39</sup> Since China lacked the hard power necessary to dictate a regional peace, Chinese leadership had to find an alternative to enact its will.

As China's foray into the use of hard power in the 1990s demonstrated, it did not possess the requisite tools to alter other states' actions. When hard power is inadequate, soft power becomes appropriate. Nye defines soft power as "getting others to want the outcomes that you want," and he explains that it "co-opts people rather than coerces them."<sup>40</sup> The distinction then between hard power and soft power is that hard power uses what Nye calls command power, which is a state's ability to change the actions of other states, while soft power uses co-optive power, which is a state's ability to change the desires of other states.<sup>41</sup> States have many tools at their disposal in how they will wield soft power. Gregory Holyk writes, "The sources of this attraction are culture, political values, and foreign policies."<sup>42</sup> Holyk continues in his article to quantify Chinese soft power, concluding that its soft power is best demonstrated in five areas: economic

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<sup>37</sup> Kurlantzick, *Charm Offensive*, 38.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Joseph S. Nye Jr., *Soft Power: The Means to Success in World Politics* (New York: Perseus Books, 2004), 5.

<sup>41</sup> Ibid., 7.

<sup>42</sup> Gregory G. Holyk, "Paper Tigers? Chinese Soft Power in East Asia," *Political Science Quarterly* 126, no. 2 (2011): 223.

factors, human capital, shared cultural norms, foreign policy, and diplomacy.<sup>43</sup> Yiwei Wang wrote that diplomacy is the main tool by which China exerts its soft power, citing a 2007 piece written by Joshua Cooper Ramo in which he declared, “China’s greatest strategic threat today is its national image.”<sup>44</sup>

Scholars debate the tools by which China exerts its soft power. One of the more prominent theories in literature today is China’s use of economic soft power. The aforementioned Chinese investment in Latin America, Africa, and the Middle East that are aimed at securing global resources fit into this model. In his book *Charm Offensive*, Joshua Kurlantzick wrote, “over the past decade, Beijing has begun to use aid, trade, investment, and the allure of China’s economic model, which combines growth with state control, to charm other nations.”<sup>45</sup> China’s economic power is such that it has the clout to force other nation’s hand of action through coercion, and many states now fear Chinese economic power more than its military might.<sup>46</sup> China maintains record trade surpluses with nearly each of its trading partners, boasts a savings rate of more than 40 percent, and its manufacturing might is well documented.<sup>47</sup> Smaller countries in the global economy fear the possibility of their “markets being swamped by cheap Chinese goods, companies ruined by China absorbing investment that would have gone elsewhere, workers laid off by competition from China’s massive labor force.”<sup>48</sup> If China were to tap into this fear though, it would not be utilizing soft power. The softness of China’s economic power comes from the allure of the Chinese economic model to other states’ leaders who hope to realize similar growth in their own countries by implementing similar aspects of the Chinese model without surrendering control. As China seeks to realize this goal, it creates a set of “win-win economics” by which other countries will benefit by China’s continued rise through the creation of a larger Chinese consumer market for other

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43 Holyk, “Paper Tigers?,” 224.

44 Yiwei Wang, “Public Diplomacy and the Rise of Chinese Soft Power,” *Annals of the American Academy of Political and Social Science* 616 (2008): 257, <http://www.jstor.org/stable/25098003>.

45 Kurlantzick, *Charm Offensive*, 84.

46 Ibid., 86.

47 Ibid.

48 Ibid.



countries' manufactured goods.<sup>49</sup> Kurlantzick argues that an example of this strategy is Beijing's creation of a 2004 conference on "Economic Diplomacy Toward Developing Countries."<sup>50</sup>

What have been the effects of this strategy? Shaun Breslin wrote in his 2005 piece on "Rethinking China's Global Economic Role," "Increasing the attraction of China as a low-cost production platform to produce exports to external markets has resulted in job losses elsewhere, distorted and perhaps even undermined the developmental strategies of other states, and led to a reconfiguration of the East Asian political economy."<sup>51</sup> As the Chinese economy has grown by leaps and bounds over the past several decades it has commanded an ever-increasing share of global FDI, "leaving its once-glittering neighbors—Thailand, South Korea, Singapore—with crumbs."<sup>52</sup> An overtly coercive foreign policy that took advantage of this information would run counter to the publicized Chinese intentions concerning their peaceful rise. As Jiang Zemin said, "We should...establish a publicity capacity to exert an influence on world opinion that is as strong as China's international standing."<sup>53</sup> With this in mind, China focused its efforts on enticing its regional neighbors; the past decade witnessed high levels of investment from Chinese state-owned companies into Cambodia, Burma, Laos, Thailand, and Vietnam at the bequest of Beijing.<sup>54</sup> China has also used free trade deals and trade concessions to entice other states, and its efforts have been particularly aggressive in Southeast Asia. In 2001, China proposed a free trade zone with ten Southeast Asian countries while offering an "Early Harvest Package" which would reduce duties on Southeast Asian agricultural products.<sup>55</sup> Beyond these bilateral and multilateral economic deals, China has become more involved in the regional economic institutions and

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49 Ibid., 87.

50 Ibid.

51 Shaun Breslin, "Power and Production: Rethinking China's Global Economic Role," *Review of International Studies* 31, no. 4 (2005): 736, <http://www.jstor.org/stable/40072118>.

52 Breslin, "Power and Production," 750.

53 Kurlantzick, *Charm Offensive*, 39.

54 Ibid., 91.

55 Ibid., 95.

initiatives since the 1990s as witnessed with the ASEAN-China Free Trade Act and the Treaty of Amity and Cooperation in Southeast Asia.<sup>56</sup> Scholars who argue China's utilization of soft power suggest that these arrangements exemplify China's strategy of creating win-win economics in the region. The argument is that instead of leaving its poorer neighbors to slip into financial ruin through China's continued dominance of shares of extra-regional FDI, it has attempted to create some semblance of shared wealth and prosperity in the region to advance its goals of regional hegemony while convincing its neighbors and the world of the benefits to its peaceful rise. These efforts have had quantifiable impacts. In 1991, trade between China and Southeast Asia totaled \$7.9 billion; by 2002 the trade between the two totaled \$39.5 billion—an average annual increase of 20 percent.<sup>57</sup> Additionally, China has offered “mutual benefit loans” to select countries in the region. These loans are large lines of credit at below-market rates over long periods of time to fund public works projects in the targeted countries.<sup>58</sup>

## **5. Coercion or Cooperation?**

Despite the existing literature that highlights the use of Chinese economic soft power, the question remains: is China creating a system of shared economic success, a zero-sum economic system, or is it using both systems in different bilateral relationships? The implications of the answer to this question would explain whether China's economic policies are cooperative or coercive and when it employs those different strategies. While leaders in Beijing use language to assert that China's rise is peaceful and that it is indeed trying to create a win-win economic system with the countries that it woos with its charm offensive, is that really its economic goal? The answer is complicated as language used by leaders and economic data alone cannot answer the question. In his 2012 article, “China's Potential for Economic Coercion in the South China Sea Disputes,” Madhu

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56 Zhang Yunling and Tang Shiping, “China's Regional Strategy,” in *Power Shift*, edited by David Shambaugh (Berkeley, CA: University of California Press, 2005), 52.

57 Ramkishan Rajan, “Emergence of China as an Economic Soft Power: What Does It Imply for South-East Asia?,” *Economic and Political Weekly* 38, no. 26 (2003): 2639 <http://www.jstor.org/stable/4413726>.

58 Deborah Brautigam and Tang Xiaoyang, “Economic Statecraft in China's New Overseas Special Economic Zones: Soft Power, Business or Resource Security,” *International Affairs* 88, no. 4 (2012): 799.

Sudan Ravindran attests to the difficulty of determining Beijing's true intent. He explains that China's "intention to impose sanctions was never officially acknowledged, and sometimes even explicitly denied."<sup>59</sup> In this environment, the targets of what is potentially coercive Chinese economic policy are left to deduce whether or not China is using coercive economic policy after sudden economic or trade policy changes. In these cases, what really matters is not Chinese signaling or intentions, but the perceptions of those affected by such changes.<sup>60</sup> Similarly, in his 2013 article on Chinese Economic Statecraft, James Reilly explained that China opaquely clouds the instances of its use of coercive policy. By clouding these instances, Beijing minimizes the damage to its peaceful rise narrative, maintains political flexibility, and limits political backlash.<sup>61</sup> In this environment, it becomes more obvious that China uses different instances of economic policy to achieve its objectives. Reilly writes that we do not witness a grand Chinese economic strategy, but rather a "selective application of economic incentives and punishments designed to augment Beijing's diplomacy" in a case by case basis.<sup>62</sup> The question then, is when does China use coercive vice cooperative economic policy and how can we identify each?

**a. Cooperative Economic Policy**

Reilly continues, "Given China's economic heft, a minor shift in China's trade, aid, or investment can have a massive effect on a smaller economy."<sup>63</sup> This statement epitomizes China's use of cooperative economic policy. An important part of China's mission to prop up its image as a benevolent power is its distribution of preferential trade agreements and foreign aid.<sup>64</sup> It is relatively easy to discern when China elects to use this

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<sup>59</sup> Madhu Sudan Ravindran, "China's Potential for Economic Coercion in the South China Sea Disputes: A Comparative Study of the Philippines and Vietnam," *Journal of Current Southeast Asian Affairs* 3 (2012): 108.

<sup>60</sup> Ravindran, "China's Potential for Economic Coercion," 108.

<sup>61</sup> James Reilly, "China's Economic Statecraft: Turning Wealth into Power," Lowy Institute for International Policy (November 2013): 8.

<sup>62</sup> Reilly, "China's Economic Statecraft," 2.

<sup>63</sup> Ibid.

<sup>64</sup> Ibid.

policy. In an effort to make the developing world aware of its benevolence, these instances will be afforded much publicity. In these cases, China will extend unconditional benefits toward its target with hopes that “sustained economic engagement will eventually produce a political transformation and desirable changes in target behavior.”<sup>65</sup> Reilly reminds us that toward these goals, we should expect to see China extend carrots such as infrastructure projects and other grandiose construction projects as such projects satisfy domestic demands of the target while also easing challenges associated with resource extraction.<sup>66</sup>

This leads to a discussion of when we should expect to see China’s use of cooperative economic policy. Reilly explains that we will see these instances when China is dealing with smaller, lesser developed countries. In these cases, China can get the largest return on its investment as small extensions of concessionary economic policy have a huge impact on smaller, lesser developed nations.<sup>67</sup>

***b. Coercive Economic Policy***

In his article, “The Hidden Hand of Economic Coercion,” Daniel Drezner defines economic coercion as “the threat or act by a sender government or governments to disrupt economic exchange with the target state, unless the target acquiesces to an articulated demand.”<sup>68</sup> Meanwhile, in his article, “China’s Potential for Economic Coercion in the SCS Disputes,” Madhu Sudan Ravindran defines economic coercion as “the deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations.” T. Clifton Morgan writes that sanctions are governmental interactions where the sender uses its domestic actors to increase barriers to economic exchange via its

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65 Michael Mastanduno, “Economic Statecraft, Interdependence, and National Security: Agendas for Research,” *Security Studies* 9, no. 1–2 (1999): 288–316.

66 Reilly, “China’s Economic Statecraft,” 5.

67 Reilly, “China’s Economic Statecraft,” 9.

68 Daniel W. Drezner, “The Hidden Hand of Economic Coercion,” *International Organization* 57, no. 3 (2003): 643.

domestic corporations.<sup>69</sup> These complimentary definitions neatly frame what we will look for as evidence of instances of coercive Chinese economic policy.

In China's case specifically, Reilly clearly defines what Chinese coercive policy will look like and how we can discern when Beijing wields it. First, Reilly explains that economic coercion has a fundamental place in the history of the People's Republic. He writes that since its inception in 1949, PRC "leaders have provided aid or refused trade in support of broader strategic and ideological objectives."<sup>70</sup> Despite China's aims in support of a strategic objective, Zhao Kejin of Tsinghua University opines that "China's economic advantage has not yet been translated into strategic advantage."<sup>71</sup> If China is to use its economic clout coercively toward a strategic advantage, Reilly writes that we should expect to see a specific set of tools: "limiting investments, imposing trade restrictions, freezing financial assets, punishing or rewarding foreign corporation, and shifting foreign currency holdings."<sup>72</sup>

Reilly provides several specific examples of coercive economic tools that China has used in the past. In the 2012 clash with Japan over the Senkaku Islands, China tightened inspections of Japanese imports while discouraging Chinese tourists from visiting Japan.<sup>73</sup> Such actions were never explicitly identified by China as responses to Japanese policy, but the veiled nature of the actions combined with their timing suggests that this episode was an example where China employed coercive policy.

The 2012 conflict with Japan leads into a discussion of when we should expect to see Beijing's use of coercive economic policy. Remembering that we expect to see the use of benevolent, cooperative policy with smaller, less developed countries, Reilly reminds us that the inverse is also true; we should expect to see coercive economic policy used when Beijing clashes with more developed nations—as it did with Japan in 2012.

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69 T. Clifton Morgan and Navin A. Bapat, "Imposing Sanctions: States, Firms, and Economic Coercion," *International Studies Review* 5, no. 4 (December 2003): 65–6.

70 Reilly, "China's Economic Statecraft," 3.

71 Ibid.

72 Ibid.

73 Ibid., 9.

The existing literature has provided a clear view of how and when China wields both coercive and cooperative economic policy. When dealing with poorer and lesser developed countries, we should expect Beijing to employ a cooperative economic policy marked by the unconditional extension of aid packages. Conversely, when embroiled in a political debate with more developed states that are economically emerging, we should expect to see China use coercive economic policy. Instances of the use of this policy will be concealed by Beijing, but we should expect to see vague and veiled threats, increased barriers to economic exchange, and threats or actual withdrawal of trade. I turn now to describing the research design for this project, focusing on case selection and a description of the Philippines and Cambodia cases, which serve as the empirical basis for examining how China exerts economic leverage in Southeast Asia.

### **C. RESEARCH QUESTION**

How has China used economic policy to create leverage in its relationships with its Asian neighbors? In order to answer this question, this thesis examines the degree to which China uses coercive or cooperative economic policies in the region by placing its individual policies on a spectrum of coercion. Specifically, I use comparative case studies of China's economic strategies with the Philippines and Cambodia to identify patterns in how China uses economic leverage to achieve its goals.

### **D. HYPOTHESIS**

As the largest regional economy, China possesses a strong ability to influence its regional neighbors' policy decisions. This influence is a very real source of power. China uses this power in different ways with different countries, at times using coercive economic policy and using cooperative, win-win economics in other instances. The fact is that when it comes to regional politics, China usually achieves its objectives. This thesis demonstrates how Beijing uses economic tools to achieve those objectives. I hypothesize that when China is dealing with poorer, underdeveloped countries—like Cambodia—it seeks to prop up its image as a benevolent power through the use of a win-win economic system. Meanwhile, when dealing with more economically advanced emerging countries that have an ongoing dispute with China—such as the Philippines—it uses coercive

economic policy. China uses these different strategies to either achieve specific concessions in a conflict—such as is the case with the Philippines—or to gain broader regional support—as it does in its relationship with Cambodia. A comparative study of China’s bilateral relations with each country serves as an avenue through which we can better understand Chinese economic policy and strategy.

## **E. RESEARCH DESIGN**

My research incorporates a broad swath of economic data to identify Chinese economic policy, demonstrating instances when China created a system of economic incentive through a win-win system and when China created a zero-sum system. These economic data sources are integrated into case studies that deliver recent historical narratives of China’s bilateral political relationship with the two countries. Assuming that China usually achieves its regional goals and focusing on the method by which it achieves them, I argue that such victories are either at the expense of another country or operate through a set of mutually beneficial interests. In this way, as the two case studies illustrate, Chinese economic policy and strategy can be identified as either coercive or cooperative.

This thesis presents two comparative case studies of China’s economic relations and policy with both the Philippines and Cambodia. These two countries are in different economic strata—the Philippines ranked 40th in global 2014 gross domestic product (GDP) data while Cambodia came in at 115th—and are at different stages developmentally.<sup>74</sup> Additionally, Chinese relations with Cambodia and the Philippines are markedly different. The Philippines is involved in a very public territorial dispute with China while Cambodia has regularly been a supporter of Beijing’s interests in this and similar disputes.<sup>75</sup>

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<sup>74</sup> “Gross Domestic Product 2014,” The World Bank, April 11, 2016, <http://databank.worldbank.org/data/download/GDP.pdf>.

<sup>75</sup> Prashanth Parameswaran, “Cambodia: A New South China Sea Mediator Between China and Asean?,” *The Diplomat*, July 28, 2015, <http://thediplomat.com/2015/07/cambodia-a-new-south-china-sea-mediator-between-china-and-asean>.

Before developing timelines for my two case studies, I must explain why the selection of the Philippines and Cambodia is appropriate. Table 1 displays three major economic and development indicators for the 10 members of the Association of Southeast Asian Nations (ASEAN), ranked from richest to poorest. Those indices include gross domestic product (GDP) per capita, gross national income (GNI) per capita, and the United Nations' human development index (HDI). GDP is an appropriate benchmark of economic development; it is the measure of a country's total economic output within its borders and is widely accepted as a measure of a country's wealth and buying power. GNI is another widely-used metric of economic development. GNI is the sum of GDP plus the value of goods and services generated overseas by that nation's citizens. GNI is another widely-accepted benchmark of economic development since it includes both the value of goods and services produced within a country's borders and the wealth generated by its citizens abroad. Finally, HDI is defined as "a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living."<sup>76</sup> The U.N. explains that it created the index to stress that "people and their capabilities" should be considered in addition to economic metrics when evaluating a country's developmental status.<sup>77</sup>

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<sup>76</sup> "Human Development Index (HDI)," United Nations Development Programme, Accessed May 7, 2016, <http://hdr.undp.org/en/content/human-development-index-hdi>

<sup>77</sup> "Human Development Index (HDI)," United Nations Development Programme."



Table 1. 2014 ASEAN Data

State	GDP (per capita), USD <sup>78</sup>	GNI (per capita), PPP <sup>79</sup>	HDI <sup>80</sup>
Singapore	\$56,284.60	80,270	0.912
Brunei	\$40,979.60	72,190	0.856
Malaysia	\$11,307.10	24,770	0.779
Thailand	\$5,977.40	14,870	0.726
Indonesia	\$3,491.90	10,190	0.684
Philippines	\$2,872.50	8,450	0.668
Vietnam	\$2,052.30	5,350	0.666
Laos	\$1,793.50	5,060	0.575
Myanmar	\$1,203.80	See note <sup>a</sup>	0.536
Cambodia	\$1,094.60	3,080	0.555

<sup>a</sup> Data was not available at time of publication

I endeavored to select two countries to contrast China’s employed economic policy—one further along the economic and development spectrum and one further behind. I compiled economic and development data for all 10 ASEAN members, planning to pick one that was further developed and one that was lesser developed. Cambodia serves as an excellent subject for the cooperative case study due to its lagging economic statistics and its publicly positive relationship with China. By contrast, the Philippines has had very public, ongoing territorial disputes with China in the South China Sea. While it is in the lower half of the ASEAN members on an economic and development scale, a closer examination of the data revealed that the Philippines is sufficiently further along the spectrum of development and separated far enough from Cambodia to serve as a contrast. The following passages offer a more detailed contrast of the economic picture in the two countries.

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78 “GDP Per Capita (Current US\$),” The World Bank, accessed March 28, 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.

79 “GDP Per Capita (Current US\$),” The World Bank, accessed March 28, 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.

80 *Human Development Report 2015: Work for Human Development*, United Nations Development Programme (New York: United Nations Development Programme, 2015), 208–211.

## **F. ECONOMIC PROFILE: THE PHILIPPINES**

Empirical economic data paints a fairly consistent picture: while still considered an emerging economy, the Philippines is sufficiently further along the spectrum of development when compared to Cambodia and is therefore a worthy subject of a study that considers China's use of coercive economic policy. In conducting this brief analysis, I recognize the benefits and drawbacks of a bevy of economic indicators. While GDP is a popular benchmark of economic development, it fails to take into account human development. Meanwhile, more development-focused indices such as the Human Development Index fall under criticism as they seek to compress a complex analysis into an output represented by a simple number that arbitrarily assigns weights to different developmental factors.<sup>81</sup> Recognizing these limitations, I sought to incorporate as wide a range of economic indices as practical. In this analysis, I will incorporate data from the following indices: GDP purchasing power parity (PPP), GDP PPP per capita, gross national income (GNI), and human development index (HDI). In each of these indices, the Philippines is portrayed as further developed than Cambodia, serving as a useful analytical comparison.

### **1. Economic Data**

GDP data demonstrates the Philippines' status as an advanced emerging economy. According to the World Bank's GDP Atlas method data, the Philippines ranks in the top fifth of all global economies at \$284.7 billion.<sup>82</sup> If adjusting for PPP, the Philippines ranks 28th internationally at 690.9 billion international dollars.<sup>83</sup> Due to the country's burgeoning population, adjusting GDP PPP per capita lowers the Philippines international ranking to 152nd at 7,500 international dollars per person.<sup>84</sup> The World

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<sup>81</sup> International Human Dimensions Programme on Global Environmental Change, "Why Do We Need Inclusive Wealth," accessed March 12, 2016, <http://inclusivewealthindex.org/inclusive-wealth#the-better-indicator>.

<sup>82</sup> "Gross Domestic Product 2014," The World Bank, April 11, 2016, <http://databank.worldbank.org/data/download/GDP.pdf>.

<sup>83</sup> "Gross Domestic Product 2014, PPP," The World Bank, April 11, 2016, [http://databank.worldbank.org/data/download/GDP\\_PPP.pdf](http://databank.worldbank.org/data/download/GDP_PPP.pdf).

<sup>84</sup> "The World Factbook," Central Intelligence Agency, Accessed March 20, 2016, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html>.

Bank's 2014 Gross National Income Atlas method data ranks the Philippines 34th internationally at \$347.5 billion.<sup>85</sup> The economic data since 1989 paints a fairly consistent picture: the Philippines is drastically further along the economic development spectrum than Cambodia. According to World Bank data since 1989, Philippine GDP was never ranked lower than 34th and since 2004 has never been ranked below 30th.<sup>86</sup>

## **2. Developmental Data**

The United Nations Human Development Index (HDI) offers a different picture of Philippine development, ranking the country 115th internationally.<sup>87</sup> When considering the Philippines' HDI data though, it becomes apparent that the country is on a steady upward trajectory of development. While the most recent 2014 data ranks the Philippines 115th in HDI, the United Nations classifies it as a Medium Development country.<sup>88</sup> From 1980 to 2012, the Philippines' HDI composite index increased from .561 to .654, an increase of 17 percent with an annual average increase of 0.5 percent. The available data is clear: from an economic perspective and from a human development perspective, the Philippines is further developed than Cambodia and therefore serves as an appropriate subject for my study on coercive Chinese economic policy. To demonstrate the contrast, I offer a similar analysis of Cambodia's economic and development data.

## **G. ECONOMIC PROFILE: CAMBODIA**

In its summary of the Cambodian economy, the U.S. Central Intelligence Agency (CIA) wrote in the World Fact Book, "Cambodia remains one of the poorest countries in Asia and long-term economic development remains a daunting challenge, inhibited by endemic corruption, limited human resources, high income inequality, and poor job prospects."<sup>89</sup> A snapshot of Cambodia's current development status is similarly

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<sup>85</sup> "Gross National Income per Capita 2014, Atlas Method and PPP," The World Bank, April 11, 2016, <http://databank.worldbank.org/data/download/GNIPC.pdf>.

<sup>86</sup> "Gross Domestic Product 2014."

<sup>87</sup> "Philippines," United Nations Development Programme, Accessed March 10, 2016, <http://hdr.undp.org/en/countries/profiles/PHL>.

<sup>88</sup> "Philippines."

<sup>89</sup> "The World Factbook."

revealing. The CIA continued in its analysis, “As of 2012, approximately 2.66 million people live on less than \$1.20 per day, and 37 percent of Cambodian children under the age of 5 suffer from chronic malnutrition.... The population lacks education and productive skills, particularly in the impoverished countryside, which also lacks basic infrastructure.”<sup>90</sup> A brief overview of economic and development data makes it clearly obvious that Cambodia is a laggard in development and economic factors and therefore serves as a good subject for my second case study on China’s use of cooperative economic systems to woo policy concessions from lesser developed countries.

Similar to my economic analysis of the Philippines, I sought to increase the accuracy of my analysis by including a wide-range of economic indicators. In this analysis, I incorporate data from the same indices: GDP, GDP PPP, GDP PPP per capita, GNI, and HDI. In each of these indices, Cambodia is portrayed as a lesser developed nation compared to the Philippines, making the country a good subject for my case study on cooperative Chinese economic policy.

## **1. Economic Data**

In Cambodia’s case, GDP data demonstrates Cambodia’s trailing status in the global economy. According to the World Bank’s 2014 GDP Atlas method data, Cambodia ranks 116th of 194 national economies with a GDP of USD \$16.78 billion.<sup>91</sup> When adjusting for PPP, Cambodia ranks 103rd of 187 national economies at 50.01 billion international dollars according to the World Bank’s 2014 statistics.<sup>92</sup> When considering GDP PPP per capita data, Cambodia ranks 144th of 185 countries at 3,263 international dollars.<sup>93</sup> Additionally, the World Bank’s 2014 GNI Atlas method data ranks Cambodia 184th in its index at USD \$1,020, and if adjusting for PPP, Cambodia

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<sup>90</sup> Ibid.

<sup>91</sup> “Gross Domestic Product 2014.”

<sup>92</sup> “Gross Domestic Product 2014, PPP.”

<sup>93</sup> “GDP Per Capita, PPP (Current International \$),” The World Bank, accessed March 28, 2016, [http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?order=wbapi\\_data\\_value\\_2014+wbapi\\_data\\_value+wbapi\\_data\\_value-last&sort=desc](http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?order=wbapi_data_value_2014+wbapi_data_value+wbapi_data_value-last&sort=desc).

ranks 177th at 3,130 international dollars.<sup>94</sup> The economic data is fairly clear: Cambodia is in the lower tier of national economies.

## **2. Developmental Data**

Since a significant portion of my research is dependent on the developmental status of the countries that China interacts with, I again refer to the United Nations Human Development Project data regarding the developmental status of Cambodia. While Cambodia is portrayed as making developmental progress in this data, its overall HDI in 2014 is only 0.555, ranking it 143rd of 188 countries and territories.<sup>95</sup> While classified as a medium development country, Cambodia's average HDI of 0.555 is well below the average data of 0.630 for other medium development countries.<sup>96</sup> More importantly, Cambodia's HDI data considerably lags behind the 0.710 average HDI of other Pacific Asian countries and the 0.696 average of the other ten ASEAN states.<sup>97</sup> In summation, even though Cambodia is classified as a medium developed country, it significantly lags behind other medium developed nations, its East Asian neighbors, and its ASEAN partners. This data coupled with the various economic indices paints clear picture regarding Cambodian development: Cambodia is a lesser developed country and will therefore serve as an appropriate example in my case study on cooperative Chinese economic policy.

In the following chapters, I examine the validity of my hypothesis concerning the ways in which China exerts economic leverage by examining China's relationship with the Philippines and Cambodia.

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<sup>94</sup> "Gross National Income per Capita 2014, Atlas Method and PPP."

<sup>95</sup> United Nations Development Programme, "Human Development Report 2015: Cambodia" (New York: United Nations Development Programme, 2015), 2.

<sup>96</sup> "Human Development Report 2015: Cambodia," 4.

<sup>97</sup> Ibid.

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## **II. THE PHILIPPINES: A PICTURE OF COERCION**

### **A. FRAMING**

In order to understand how China uses economic policy to create political leverage with its more developed neighbors, we need to examine how aggressive or cooperative its economic policies are when dealing with these more developed nations. In this case study, I will seek to establish a pattern of changes in China's economic policy when responding to actions by the Philippines that could be perceived as provocative, arguing that such is indicative of China's broader economic policy when dealing with emerging countries. I propose that when China is dealing with more economically advanced developing countries—such as the Philippines—it uses coercive economic policy to create leverage in international disputes. In my characterization of the Chinese economic relationship with the Philippines, I will focus on three specific levers that China relies on in its extortion of the Philippines: bilateral trade, overt governmental economic sanctions, and Chinese aid flows to the Philippines.

#### **1. Bilateral Trade: Framing the Argument**

The Philippines maintains a substantial trading relationship with China. As of January 2016, China was the largest source of Philippine imports. In January, the total value of Philippine payments to the People's Republic totaled \$1.22 billion.<sup>98</sup> This represented an increase of 38.1 percent from the \$866.27 million total value of imports recorded in January 2015.<sup>99</sup> The total value of Philippine exports is not as tilted toward China, though. In January 2016, Philippine exports to China only totaled \$405.65 million, ranking it as the fourth largest importer of Philippine exports. In this regard, China only accounts for 9.1 percent of total Philippine exports, ranking it behind Japan (20.2 percent at \$939.17 million), the United States (15 percent at \$697.33 million), and Hong Kong

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<sup>98</sup> Lisa Grace S. Bersales, "External Trade Performance: January 2016," Philippine Statistics Authority, March 23, 2016, <http://www.census.gov.ph/content/external-trade-performance-january-2016>.

<sup>99</sup> Bersales, "External Trade."

(12.3 percent at \$574.85 million).<sup>100</sup> Since the Philippines has other more important trade partners, it may be somewhat insulated from any Chinese coercive pressure through trade. As a result, China is forced to use more heavy-handed coercive methods when Beijing seeks policy concessions from Manila. Nevertheless, there do appear suspicious instances during periods of Sino-Philippine conflict when Chinese import of Philippine products fell off dramatically. In this next passage, I will review some of those instances.

In order to demonstrate that China uses economic coercion to enact political concessions when dealing with more developed countries, I used the World Bank's World Integrated Trade Solution (WITS) to calculate the annual trade deficit between the Philippines and China from 1998 onward. I chose 1998 as the first year of my study so as to avoid any irregular patterns in the data caused by the 1997 Asian Financial Crisis.

China veils its economic policy, very rarely publicly acknowledging economic sanctions and the targets of such action. In his 2012 article, "China's Potential for Economic Coercion in the South China Sea Disputes," Madhu Sudan Ravindran attests to the difficulty of determining Beijing's true intent. He explains that China's "intention to impose sanctions was never officially acknowledged, and sometimes even explicitly denied."<sup>101</sup> In this environment, the targets of what is potentially coercive Chinese economic policy are left to deduce whether or not China is using coercive economic policy after sudden economic or trade policy changes. This is exactly what I set out to determine by examining anomalies in the year-to-year trade balance between the Philippines and China. I sought to gather economic data and compare it to a bilateral geopolitical timeline, looking for cues that China is using economic coercion in its bilateral trade relationship with the Philippines.

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100 Lisa Grace S. Bersales, "Merchandise Exports Performance: December 2015," Philippine Statistics Authority, February 10, 2016, <http://www.census.gov.ph/content/merchandise-export-performance-december-2015>.

101 Madhu Sudan Ravindran, "China's Potential for Economic Coercion in the South China Sea Disputes: A Comparative Study of the Philippines and Vietnam," *Journal of Current Southeast Asian Affairs* 3 (2012): 108.



## 2. Import Restrictions

Using the World Bank's WITS databank, I calculated Philippine exports to China and imports from China. From this data, I derived the trade imbalance and the annual delta for each category. That data is compiled in Table 2.

Table 2. Chinese-Philippine Bilateral Trade

Year	GDP Growth	PHL Imports From CHN	PHL Exports to CHN	Exports Delta (%)	Imbalance	Delta (%)
1998	-0.60%	\$1,326,307,710.00	\$343,660,450.00		-\$982,647,260.00	
1999	3.10%	\$1,112,008,830.00	\$574,791,680.00	0.67	-\$537,217,150.00	-0.45
2000	4.40%	\$875,458,600.00	\$663,290,260.00	0.15	-\$212,168,340.00	-0.61
2001	2.90%	\$1,074,344,630.00	\$792,756,340.00	0.20	-\$281,588,290.00	0.33
2002	3.60%	\$1,351,978,920.00	\$1,355,825,250.00	0.71	\$3,846,330.00	-1.01
2003	5%	\$1,950,662,870.00	\$2,144,647,040.00	0.58	\$193,984,170.00	49.43
2004	6.70%	\$2,816,821,590.00	\$2,653,036,300.00	0.24	-\$163,785,290.00	-1.84
2005	4.80%	\$3,134,145,290.00	\$4,076,995,780.00	0.54	\$942,850,490.00	-6.76
2006	5.20%	\$3,869,393,240.00	\$4,627,660,380.00	0.14	\$758,267,140.00	-0.20
2007	6.60%	\$4,232,894,630.00	\$5,749,864,120.00	0.24	\$1,516,969,490.00	1.00
2008	4.20%	\$4,561,087,160.00	\$5,469,185,930.00	-0.05	\$908,098,770.00	-0.40
2009	1.10%	\$4,060,394,090.00	\$2,933,923,480.00	-0.46	-\$1,126,470,610.00	-2.24
2010	7.60%	\$4,954,295,250.00	\$5,724,466,520.00	0.95	\$770,171,270.00	-1.68
2011	3.70%	\$6,504,582,500.00	\$6,102,252,270.00	0.07	-\$402,330,230.00	-1.52
2012	6.70%	\$7,136,409,950.00	\$6,159,105,790.00	0.01	-\$977,304,160.00	1.43
2013	7.10%	\$8,554,076,970.00	\$6,582,556,740.00	0.07	-\$1,971,520,230.00	1.02
2014	6.10%	\$10,283,720,910.00	\$8,033,653,090.00	0.22	-\$2,250,067,820.00	0.14

In this data, three years stood out as anomalies. In 2008, Philippine exports to China declined for the first time over the period of my study. In 2009, Philippine exports to China fell even further, representing the largest decrease over the period of my study (-46 percent). This year represents the third largest trade imbalance the Philippines had with China over my study. Finally, 2012 stands out as a year of flat export growth to China. While Philippine exports to China grew steadily over the course of my study—except for the years of negative growth mentioned previously—exports in 2012 remained stagnant when compared to 2011, growing only 1 percent. With this economic data in hand, my goal became to establish a bilateral geopolitical timeline that provides insight to the anomalies in the economic data of 2008, 2009, and 2012. Understanding that China

veils its coercive economic policy, it is impossible to directly link changes in trade data directly with Chinese intervention. As a result, the data and the timeline that follow should be considered in the creation of a contextual framework of the Chinese-Philippine economic relationship and not as an indictment of coercive Chinese economic policy.

## **B. TIMELINE**

In this timeline, I included primary and secondary sources to establish a bilateral, geopolitical timeline that would provide potential explanations to the outliers I established in my preceding research. The timeline that follows is comprised of seminal events in the Chinese-Philippine relationship.

### **1. The Years 2008–2009: Conflict in the South China Sea**

Recent territorial conflict in the South China Sea between the Philippines and China has been well documented, making a detailed summary unnecessary here. David Scott provides an excellent history in his 2009 article, “Conflict Irresolution in the South China Sea,” and Bill Hayton’s 2014 book *The South China Sea: The Struggle for Power in Asia* is perhaps the most exhaustive history of the subject. Today’s conflict is rooted in the Chinese experimentation with hard power in the 1990s. During this period, China set out on a mission to dictate a peace predicated on Beijing’s terms through the use of hard power, particularly through the use of the People’s Liberation Army-Navy. China took hardline approaches with its SCS neighbors during this period, sending destroyers to disputed territories in the Spratly Islands in clashes with the Philippines over territorial sovereignty.<sup>102</sup> During this decade, the PLA took on construction projects of observational and logistical structures on contested maritime structures such as Mischief Reef. Viewed as an affront to Philippine sovereignty, the Philippines responded by arresting Chinese fishermen encroaching on Philippine territorial claims.<sup>103</sup> These skirmishes continued until 1995 when both countries agreed to a code of conduct to

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<sup>102</sup> Eric Hyer, “The South China Sea Disputes: Implications of China’s Earlier Territorial Settlements,” *Pacific Affairs* 68, no. 1 (1995): 34–54.

<sup>103</sup> Ian James Storey, “Creeping Assertiveness: China, the Philippines, and the South China Sea Dispute,” *Contemporary Southeast Asia* 21, no. 1 (1999): 97.

prevent similar future incidents and to increase bilateral cooperation and exploitation in and of the region.<sup>104</sup>

The code of conduct did little to dispel the bilateral tension in the region; each country continued to posture against the other with different levels of assertiveness over the next decade. In 2004, ASEAN and China agreed to a Declaration of Conduct of Parties in an attempt to decrease tension and increase cooperation in the region.<sup>105</sup> According to the press release, “Under the DOC, cooperation activities may include: marine environmental protection, marine scientific research, safety of navigation and communication at sea, search and rescue operation, and combating transnational crime.”<sup>106</sup> Under this framework, Vietnam, the Philippines, and China agreed to a joint venture in oil exploration.<sup>107</sup> This arrangement precipitated domestic unrest in the Philippines as the venture deviated from ASEAN’s stance of negotiating with China over SCS issues in a multilateral arena. Additionally, this arrangement made sizeable territorial concessions to China as one-sixth of the water to be surveyed was territory claimed by the Philippines, outside the Exclusive Economic Zones of both Vietnam and China.<sup>108</sup>

Political opponents of President Arroyo’s administration quickly advanced a bill that would strictly define Philippine territory based on the United Nations Convention on the Law of the Sea (UNCLOS) guidelines governing archipelago nations. The bill passed and was signed into law in 2009. The Chinese embassy was quick to protest the signing of Republic Act 9522, saying “The Chinese embassy hereby expresses strong opposition and solemn protest and reiterates that Huangyan Island and Nansha Islands have always been part of Chinese territory and that the People’s Republic of China has indisputable

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104 Storey, “Creeping Assertiveness,” 97.

105 Ian James Storey, “Conflict in the South China Sea: China’s Relations with Vietnam and the Philippines,” *The Asia-Pacific Journal* 6, no. 4 (2008): 3.

106 ASEAN, “ASEAN-China Senior Officials Meeting on the Implementation of the Declaration on the Conduct of Parties in the South China Sea,” December 7, 2004, [http://www.asean.org/?static\\_post=asean-china-senior-officials-meeting-on-the-implementation-of-the-declaration-on-the-conduct-of-parties-in-the-south-china-sea-kuala-lumpur-7-december-2004](http://www.asean.org/?static_post=asean-china-senior-officials-meeting-on-the-implementation-of-the-declaration-on-the-conduct-of-parties-in-the-south-china-sea-kuala-lumpur-7-december-2004).

107 Storey, “Conflict in the South China Sea,” 3.

108 Ibid.

sovereignty over these islands and their adjacent waters.”<sup>109</sup> This protest kept with the status quo of measured Chinese verbal protests in the past. Where this event breaks in history though, is the Chinese economic response. For the first time in this study, Chinese imports of Philippine goods fell by 5 percent in 2008 before falling off 46 percent in 2009—the year the bill was signed into law.<sup>110</sup> This episode marks a distinct shift in Chinese policy. While relying on hard power in the 1990s, China seemed willing to use economic coercion in an attempt to force Manila’s hand.

## **2. The 2010 Nobel Prize**

While the 2008–2009 incident demonstrates Beijing’s willingness to use economic coercion to force policy concessions from Manila, the 2010 Nobel Prize award to Chinese dissident Liu Xiaobo demonstrates that Beijing complements its coercive economic punishment with coercive economic carrots when dealing with more advanced emerging nations like the Philippines.

In December 2008, Liu Xiaobo co-authored a collaborative critique of China’s political system known as Charter 08.<sup>111</sup> Authored by many Chinese intellectuals and dissidents, Charter 08 called for sweeping political reforms in China including legislative democracy and a new Chinese constitution.<sup>112</sup> The CCP instantly pressured the authors to remove their signatures, but Liu faced a tougher fate. Having been involved in human rights and political protests since the 1980s, the party decided to make an example of Liu. In December 2008, Liu was arrested, charged with subversion, and sentenced to an 11-year jail sentence in Jinzhou.<sup>113</sup> In 2010 the Norwegian Nobel Committee awarded the Nobel Peace Prize to Liu Xiaobo. In an October press release, the committee announced,

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109 Congress of the Philippines Republic Act No. 9522, March 10, 2009, [http://www.lawphil.net/statutes/repacts/ra2009/ra\\_9522\\_2009.html](http://www.lawphil.net/statutes/repacts/ra2009/ra_9522_2009.html).

110 Paolo Romero and Pia Lee-Brago, “GMA Signs Baselines Bill into Law, Triggers China Protest,” *Philippine Star*, March 12, 2009, <http://www.philstar.com/headlines/447409/gma-signs-baselines-bill-law-triggers-china-protest>; Storey, “Conflict in the South China Sea,” 3.

111 Michael Bristow, “Charter 08: A Call for Change in China,” BBC, December 9, 2010, <http://www.bbc.com/news/world-asia-pacific-11955763>.

112 Bristow, “Charter 08.”

113 Jonathan Watts, “Chinese Human Rights Activist Liu Xiaobo Sentenced to 11 Years in Jail,” *The Guardian*, December 25, 2009, <http://www.theguardian.com/world/2009/dec/25/china-jails-liu-xiaobo>.

“Through the severe punishment meted out to him, Liu has become the foremost symbol of this wide-ranging struggle for human rights in China.”<sup>114</sup> In the release, the committee lauded China’s economic advances, but critiqued the regime’s political oppression, arguing “China’s new status must entail increased responsibility.”<sup>115</sup>

The award and the political critique infuriated Beijing. Before the committee publicly announced the award, China privately warned Norway that the award would threaten a bilateral trade deal.<sup>116</sup> After the award was made public, China attempted to prevent individual countries from attending the ceremony. In a memo to every diplomatic mission stationed in Oslo, the Chinese diplomatic mission warned each to not “do anything against Chinese interests.”<sup>117</sup> Likewise, Chinese Vice-Foreign Minister Cui Tiankai publicly warned that any country in attendance of the Nobel ceremony would “have to bear the consequences.”<sup>118</sup> China’s coercive strategy was successful; of the 65 invited countries, only 44 sent delegates compared to the 100 percent attendance rate in 2009 when American President Barack Obama received the award.<sup>119</sup> The Philippines was one of those countries that decided against sending representation to the ceremony.<sup>120</sup> With memories fresh of the Chinese willingness to use exploitative economics in 2008 and 2009, the Philippines yielded to Beijing’s pressure. Beijing reciprocated with an economic carrot: Philippine exports to China increased from USD \$2.9 billion in 2009 to USD \$5.7 billion in 2010—an increase of 95 percent, the largest year-over-year increase of my study.

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114 The Norwegian Nobel Committee, “The Nobel Peace Prize for 2010,” October 8, 2010, [http://www.nobelprize.org/nobel\\_prizes/peace/laureates/2010/press.html](http://www.nobelprize.org/nobel_prizes/peace/laureates/2010/press.html).

115 Nobel, “Peace Prize.”

116 James Reilly, “China’s Unilateral Sanctions,” *The Washington Quarterly* 35, no. 4 (2012): 128.

117 Reilly, “Unilateral Sanctions,” 128.

118 Ibid.

119 Ibid.

120 Ibid.

### 3. The 2012 Scarborough Shoal Incident

The final example I will use to demonstrate Chinese coercive economic policy when dealing with emerging nations is the 2012 Philippine-Chinese conflict over Scarborough Shoal. Relations between China and the Philippines remained tense after the 2009 signing of the Philippine Baseline Act and built from that point. In 2011, the Philippines officially recognized the South China Sea as the West Philippine Sea.<sup>121</sup> In 2011 at Reed Bank, China responded by dispatching a Chinese Marine Surveillance craft to intercept a Philippine seismic survey vessel in contested waters.<sup>122</sup> These back and forth challenges continued until events boiled over in the Scarborough Shoal incident, providing China another opportunity to use coercive economics.

In April 2012, a Philippine Navy surveillance aircraft spotted Chinese fishers docked at Scarborough Shoal—a maritime feature claimed by the Philippines and contested by China and Taiwan—the navy sortied a naval vessel to investigate. A standoff ensued when the Philippine naval vessel was intercepted by a Chinese Maritime Surveillance Vessel that shielded the fishing vessels.<sup>123</sup> After a brief standoff, the Philippines withdrew the naval vessel and replaced it with a less-equipped coast guard cutter in an attempt to deescalate the situation. China increased the size of its force in the standoff by dispatching several Fisheries Law Enforcement vessels. After weeks of standoff, China decided to dislodge the standoff through economic policy. In May, a banana shipment from the Philippines to China was rejected for failing to meet a new set of more stringent phytosanitary requirements. In the same month, Chinese travel agencies began suspending all travel arrangements to the Philippines.<sup>124</sup>

It appears that the major changes in the trade data from 2008, 2010, and 2012 neatly coincide with periods when China was responding to major provocations by the

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121 Madhu Sudan Ravindran, “China’s Potential for Economic Coercion in the South China Sea Disputes: A Comparative Study of the Philippines and Vietnam,” *Journal of Current Southeast Asian Affairs* 31, no. 3 (2012): 111.

122 Ravindran, “China’s Potential,” 112.

123 Ibid., 109.

124 China never admitted that these targeted measures were taken in response to the conflict with the Philippines, but it clearly was and matches the pattern of veiled Chinese policy.

Philippines or rewarding it for support. I recognize the risk of overstating the Chinese government's implied impact on trade patterns, since import and export patterns in a global economy are subject to a wide range of complicated global and bilateral economic factors. There were obviously strong global economic currents at work from 2008–2012 that wreaked havoc on other nations' trade trends. Nevertheless, the bilateral trade picture is important to consider when exploring China's economic policy. In his article, "China's Potential for Economic Coercion in the SCS Disputes," Madhu Sudan Ravindran defines economic coercion as "the deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations," making bilateral trade an important aspect to consider.<sup>125</sup> In that same article, Ravindran asserts that in the wake of veiled Chinese economic policy, states are left to wonder if sudden macroeconomic shifts are the result of clashes with China. Thus, the Philippines is left to deduce whether or not some of these downturns in Chinese import of Philippine products is a result of the Philippine's clashes with China in the early 2000s. Without a clear response from Beijing, it remains difficult to credit or disprove the idea that the two are related. One thing is certain: in many of these instances, the Philippines responded by making policy concessions to China. Ravindran reminds us that the Philippine response to such instances—and thereby its implied perception of them—is the most important consideration in this discussion.

Fortunately, we can also tie these specific periods of conflict between the Philippines and China to specific, overt government actions on behalf of China against the Philippine economy. While it is problematic to generally tie bilateral trade trends to overt government actions—especially in China's case when it so closely guards and veils its policy intentions—due to the impact of global economic trends, overt economic government actions taken by Beijing against Manila make the coercion argument easier to make.

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<sup>125</sup> Ravindran, "China's Potential," 106.

## C. OVERT GOVERNMENT ACTIONS

In the following passages, I will examine two other economic levers China uses in its coercive economic relationship with the Philippines: overt government sanctions and the distribution of economic aid.

### 1. Banana Embargo

Banana is the most important fruit crop for the large Philippine agricultural sector. In 2011, the Philippine agricultural sector made up more than one-fifth of the Philippine economy, employing approximately one-third of the entire country's workforce.<sup>126</sup> Specifically, banana is the Philippines second largest agricultural export; in 2012, the Philippines produced 9 million metric tons of the crop.<sup>127</sup> China is the largest buyer of Philippine bananas.<sup>128</sup> According to Stephen Antig, president of the Philippine Banana Growers and Exporters Association, of the 75 million boxes of bananas that Philippine companies export each year, more than half are bought by China.<sup>129</sup> China is a critical market for Philippine banana. Conversely, Philippine banana shipments are not as critical to China. In 2012, Chinese imports of Philippine banana accounted for just 0.02 percent of all Chinese imports and 12 percent of all fruit imports, representing low opportunity cost for China and high potential for exploitation.<sup>130</sup> Banana exporters were shocked over the sudden increased inspection requirement imposed by China as the industry has always taken careful steps to protect the country's most important export crop.<sup>131</sup> The banana embargo is estimated to have cost the Philippine economy USD \$23 million.<sup>132</sup> In 2011, the Philippine government reported proceeds from banana export to be \$472.38

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126 Reilly, "Unilateral Sanctions," 129.

127 Ravindran, "China's Potential," 117.

128 Reilly, "Unilateral Sanctions," 129.

129 Dennis Jay Santos, "Banana Exports to be Hit by Scarborough Dispute – Industry Inside," *Philippine Daily Inquirer*, May 3, 2012, <http://business.inquirer.net/57081/banana-exports-to-be-hit-by-scarborough-dispute--industry-insider>.

130 Ravindran, "China's Potential," 117.

131 Santos, "Banana Exports."

132 Ravindran, "China's Potential," 118.



million.<sup>133</sup> The banana fiasco extended to other Philippine fruit shipments bound for China. Since China claimed that the rejection was due to phytosanitary concerns and violations, it decided to slow inspections of other Philippine fruit exports such as papayas, mangoes, coconuts, and pineapples for closer inspection.<sup>134</sup>

## **2. Tourism Restriction**

Similar to Philippine banana exports, Chinese tourism in the Philippines is a large industry—Chinese tourists accounted for about 10 percent of all tours in the Philippines—that is ripe for exploitation. In May 2012, the BBC reported that the state-owned China Travel Service admitted to reporters that all trips to the Philippines had been suspended from April to May 2012 because of an order from the National Tourism Administration citing “strong anti-China sentiment” in the Philippines. Tourism in the Philippines was responsible for USD \$3.1 billion that year—nearly 2 percent of 2012 Philippine GDP—and provided 778,000 jobs to Filipinos.<sup>135</sup> The cancellation of Chinese tours to the Philippines over this short two-month period is estimated to have cost the Philippine economy USD \$1 million.<sup>136</sup>

## **3. Broader Economic Impact**

Accompanying the tour restrictions and fruit embargo during the standoff over the Scarborough Shoal, we also witnessed a specific drawdown in Chinese imports of Philippine goods, indicating not only microeconomic sanctions but also broader macroeconomic sanctions. In 2012, China imported USD \$6.16 billion of Philippine goods compared to USD \$6.10 billion the year prior—representing growth of only one percent year over year, the lowest growth period during my study.

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133 National Statistics Office, “Foreign Trade Statistics of the Philippines: 2011,” July 9, 2012, <http://www.census.gov.ph/old/data/sectordata/sr12721tx.html>.

134 Bonnie S. Glaser, “China’s Coercive Economic Diplomacy: A New and Worrying Trend,” CSIS PacNet 46 (2012), <http://csis.org/publication/chinas-coercive-economic-diplomacy-new-and-worrying-trend>.

135 Ravindran, “China’s Potential,” 118.

136 Ibid.

#### D. CHINESE AID TO THE PHILIPPINES

Tracking Chinese aid extended to the Philippines is an important part of understanding China's coercive economic policy toward the Philippines. Unlike trade linkages that are subject to broader global economic currents, aid flows are more overt and subject to direct government action. For this characterization, I took a similar methodological approach to my characterization of Chinese aid flows to Cambodia. I used AidData's open database for international development to quantify Chinese aid flows. I then used the Information Office of the State Council's 2014 white paper as well as Grimm et al's work to qualify China's aid flows to the Philippines—complete projects, goods and materials, technical cooperation, Chinese medical teams working abroad, emergency humanitarian aid, overseas volunteer programs, and debt relief.<sup>137</sup>

After parsing AidData's database with these specific modes of Chinese aid, I was able to assign a total value of Chinese aid extended toward the Philippines. From 2000–2012, I estimated total Chinese delivered aid to the Philippines to be \$588.6 million compared to \$1.06 billion delivered to Cambodia over the same time period.<sup>138</sup> As a large, populous, lower-middle income country that is so geographically close to China, we should expect to see greater flows of Chinese aid to the Philippines. Similar to an examination of total trade balances, it is difficult to tie sweeping generalities of total value of aid flows to coercive governmental economic policy. However,—similar to my study of specific periods of retardation of Chinese import of Philippine products—there appear to be specific periods when China tightly restricted its flow of aid to the Philippines. Those periods coincide with the aforementioned periods of conflict between Manila and Beijing, adding to the evidence of Chinese coercive economic policy.

A closer examination of Chinese aid flows to the Philippines renders a useful observation: China seems to have restricted aid flows to the Philippines whenever it was involved in a dispute with the Philippines. Specifically, China's humanitarian aid lent to

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137 Sven Grimm et al., "Transparency of Chinese Aid: An Analysis of the Published Information on Chinese External Financial Flows," *Centre for Chinese Studies*, August 2011, 9–11.

138 Charles Wolf Jr., Xiao Wang, and Eric Warner, *China's Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations, and Implications* (Santa Monica, CA: RAND Institute, 2013), 43.

the Philippines during Super Typhoon Yolanda in 2013 raised eyebrows as it appears to be tied to China's clash with the Philippines the year prior. In November 2013 category five typhoon Yolanda tore through the Philippines, becoming the deadliest storm in Philippine history. Yolanda was responsible for the death of 6,300 Filipinos and damages amounting to PhP 89.6 billion, approximately \$2.1 billion in 2011 figures.<sup>139</sup> The international community was quick to rush to Manila's aid. Australia pledged \$28 million in cash and materials. The United States pledged \$37 million in cash and materials while dispatching military assets in a HADR mission named Operation Damayan; Japan also pledged \$10 million toward the relief efforts. The Swedish corporation Ikea even pledged \$2.7 million through a customer-match campaign.<sup>140</sup> China's initial pledge of support totaled an embarrassingly meager \$100,000. After wide-spread international criticism, China supplemented its original \$100,000 donation with a separate \$100,000 contribution from the Chinese Red Cross and \$1.4 million in supplies such as tents and blankets. In total, China contributed \$1.6 million.<sup>141</sup><sup>142</sup> The snub is believed to be a result of China's clash with the Philippines over the Scarborough Shoal in 2012; but as is the case with China's use of other exploitative economic levers, Beijing never admitted that its withholding of aid was the result of its dispute with the Philippines—serving as further evidence of China's veiled, coercive economic policy.<sup>143</sup>

## **E. CIRCUMSTANTIAL**

In each of the aforementioned scenarios, China did not overtly express any economic policy changes as a result of conflict with the Philippines. This coincides with the prevailing idea that China veils its economic policy, leaving countries to deduce

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139 Republic of the Philippines National Disaster Risk Education and Management Council, "Updates RE the Effects of Typhoon 'YOLANDA' (HAIYAN)," April 17, 2014, [http://www.ndrrmc.gov.ph/attachments/article/1329/Update\\_on\\_Effects\\_Typhoon\\_YOLANDA\\_\(Haiyan\)\\_17APR2014.pdf](http://www.ndrrmc.gov.ph/attachments/article/1329/Update_on_Effects_Typhoon_YOLANDA_(Haiyan)_17APR2014.pdf).

140 Jane Perlez, "China Increases Aid to Philippines," *New York Times*, November 15, 2013, [http://www.nytimes.com/2013/11/15/world/asia/chinese-aid-to-philippines.html?\\_r=0](http://www.nytimes.com/2013/11/15/world/asia/chinese-aid-to-philippines.html?_r=0).

141 Perlez, "China Increases Aid."

142 Associated Press, "Typhoon Haiyan: China Gives Less Aid to Philippines than Ikea," *The Guardian*, November 14, 2013, <http://www.theguardian.com/world/2013/nov/14/typhoon-haiyan-china-aid-philippines-ikea>.

143 Daniel Baltrusaitis, "China's Revealing Typhoon Haiyan Response," *The Diplomat*, November 14, 2013, <http://thediplomat.com/2013/11/chinas-revealing-typhoon-haiyan-response/>.

whether changes in trade pattern or development assistance cash flows are the result of a political conflict with China. As noted earlier, Ravindran defines economic coercion as “the deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations.”<sup>144</sup> I have used the preceding scenarios to demonstrate instances when Beijing appears to deliberately withdraw trade and finance relations, but there are many other circumstantial economic factors that Manila must consider before taking political action at home or abroad. Each of these factors represents a method by which Beijing extorts and influences the Philippines. I will address some of these factors here.

### **1. Large Volume Buyers**

Part of the power that China wields over emerging countries like the Philippines exists simply because in a global market, large volume buyers hold extortion potential over small volume sellers. Ravindran wrote that when considering the variables associated with economic sanctions, we should consider “cost imposed on the target, trade linkages between the target and the sender, relative economic size, economic health and political stability of the target, the type of sanctions used, and cost to the sender.”<sup>145</sup> Together, these pieces of information paint the picture that the Philippines is ripe for political exploitation from China’s political economy. Whether or not China actually uses this lever is irrelevant. A large portion of Chinese foreign policy is based on veiling its threat and simply eliciting political responses because it holds the economic upper hand. In this section, I will further analyze the Philippine-Chinese economic relationship to demonstrate such.

Large volume buyers have substantial influence over small volume sellers; the Philippine-Chinese economic relationship is the epitome of this dynamic.<sup>146</sup> Chinese exports to the Philippines are meager when compared to the total of Chinese exports, but

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<sup>144</sup> Ravindran, “China’s Potential,” 106.

<sup>145</sup> Ibid.

<sup>146</sup> Anders S. Corr and Priscilla A. Tacujan, “Chinese Political and Economic Influence in the Philippines: Implications for Alliances and the South China Sea Dispute,” *Journal of Political Risk* 1, no. 3 (2013): 10.

China accounts for a large portion of Philippine exports.<sup>147</sup> Bilateral economic ties between the Philippines and China have blossomed over the years, and by 2012 China became the Philippines third-largest trading partner.<sup>148</sup> Bilateral trade between the two grew from USD \$874 million in 1995 to USD \$2.7 billion in 2002 to USD \$12.6 billion in 2011.<sup>149</sup> This trade is unbalanced and that imbalance has been exacerbated as the total value of trade has increased. In 2011, Philippine exports as a percentage of GDP totaled 49.68 percent, Philippine trade with China as a percentage of GDP totaled 5.6 percent, Philippine trade with China as a percentage of total trade totaled 11.28 percent, and Philippine exports to China as a percentage of total exports equated to 12.7 percent.<sup>150</sup> When comparing this data to Chinese exports to the Philippines, we get a sense of the trade imbalance and the potential for exploitation becomes apparent. In 2011, Chinese total trade with the Philippines as a percentage of total trade amounted to just 0.89 percent; Chinese exports to the Philippines as a percentage of total exports totaled merely 0.75 percent; Chinese imports from the Philippines as a as percentage of total imports amounted to 1.03 percent; and Chinese FDI to the Philippines as a percentage of total outgoing FDI amounted to 0.3 percent.<sup>151</sup>

As demonstrated with the trade linkage data, close economic ties with China are absolutely critical to the Philippine economy but the inverse is not necessarily true. During a period of slow economic growth in 2011, Chinese foreign direct investment was absolutely indispensable to the Philippines. In the first half of 2011, USD \$33 million of Chinese investments propped up the Philippine economy during an economic downturn. Similarly, Philippine President Aquino's administration negotiated contracts with four Chinese mining companies in that same year that will bring USD \$14 billion in investment to the Philippines by 2016.<sup>152</sup> China holds the position of power in its

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147 Corr and Tacujan, "Political and Economic Influence," 10.

148 Ravindran, "China's Potential," 110.

149 Ibid.

150 Ibid., 115.

151 Ibid.

152 Ibid., 111.

bilateral economic relationship with the Philippines, and the Philippines must consider this fact when making policy decisions.

## **2. Wealthy Ethnic Chinese in the Philippines**

Ethnic Chinese have a large presence in the Philippines. Filipinos with Chinese ancestry—Sangleys—make up roughly 25 percent of the population while 2 million Filipinos with pure Chinese ancestry make up 2.5 percent of the population.<sup>153</sup> Sangleys occupy many positions of political and economic significance in the Philippines, and Beijing could attempt to influence Manila’s policy decisions through some of these positions.

The Philippines’ richest family is headed by Mr. Henry Sy. Sy moved to the Philippines from China 1936 and has established an economic empire since then. His family was worth USD \$13.2 billion in 2013, building a 30 percent stake in the National Grid Corporation of the Philippines. China holds a 40 percent stake in the company. Additionally, the Sy family owns a majority share of the China Banking Corporation—the fourth largest Philippine bank—and owns the real estate company SM Prime that makes roughly 10 percent of its profits from construction contracts in China.<sup>154</sup> There are several wealthy, high profile ethnic Chinese in the Philippines that could be used by China to influence Philippine politics. While we have not witnessed such extortion to date, the prevailing thought in academics and politics is that there is exploitation potential in these relationships.<sup>155</sup>

## **F. ANALYSIS**

This chapter has offered empirical evidence on three specific levers that China uses to extort policy concessions from the Philippines: trade balances, overt governmental economic sanctions, and aid restriction. There have been situations where specific Chinese economic policy seems to be tied to conflict with the Philippines—such

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<sup>153</sup> Corr and Tacujan, “Political and Economic Influence,” 10.

<sup>154</sup> Ibid., 12.

<sup>155</sup> Ibid., 13–4.

as economic sanctions after the 2012 conflict with the Philippines over the Scarborough Shoal. Moreover, China clearly holds the economic upper hand in its bilateral economic relationship with the Philippines. China uses both of these means to extort favorable policy decisions in the Philippines, but it rarely admits such actions explicitly. When it does—like its veiled threats during the 2010 Nobel award—the threats remain vague. While vague, China’s attempts at economic exploitation seem to be effective when dealing with emerging nations such as the Philippines. In 2010, China’s threats prevented 21 countries from attending the award ceremony for the Nobel Peace Prize—including the Philippines. Additionally, China’s fruit embargo and tourism restrictions seem to have dislodged its stand off with the Philippines over the Scarborough Shoal in 2012. After weeks of standoff, in June 2012 the Philippines agreed to a mutual withdrawal of all vessels in the contested lagoon. Days later, Chinese fishers returned to the lagoon and PLA-N vessels took up positions to block the entrance of the lagoon.<sup>156</sup> Chinese occupancy remains the status quo today.

China’s use of economic coercion is targeted, calculated, and opaque. In this environment, the targets of what is potentially coercive Chinese economic policy are left to deduce whether or not China is using coercive economic policy after sudden economic or trade policy changes. In these cases, what really matters is not Chinese signaling or intentions, but the perceptions of those affected by such changes.<sup>157</sup> I have established a pattern for Chinese economic coercion when dealing with more advanced developing countries such as the Philippines: vague threats, targeted sanctions at the microeconomic level, and broader import restrictions at the macroeconomic level. Together, these three prongs make a compelling argument: that China uses coercive economic policies to extort political concessions from developed countries. In 2015, the Philippines petitioned the Permanent Court of Arbitration to examine and rule on China’s nine-dash line claims in the South China Sea; the court ruled that it holds jurisdiction and is currently arbitrating

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<sup>156</sup> Glaser, “China’s Coercive Economic Diplomacy.”

<sup>157</sup> Ravindran, “China’s Potential,” 108.

the case.<sup>158</sup> This type of petition is indicative of the type of provocation that has historically elicited a coercive economic response from Beijing. It will be important to watch for China's economic response in future study over the coming years.

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158 James Kraska, "A Legal Analysis of the Philippine-China Arbitration Ruling," *The Diplomat*, November 2, 2015, <http://thediplomat.com/2015/11/a-legal-analysis-of-the-philippine-china-arbitration-ruling/>.



### **III. CAMBODIA: A PICTURE OF COOPERATION**

#### **A. INTRODUCTION**

With an understanding of how China uses coercive economic policy to elicit policy concessions from more advanced developing nations such as the Philippines, my study shifted to understanding how China uses cooperative economic policy when dealing with lesser developed countries like Cambodia. I hypothesize that when China is dealing with poorer, underdeveloped countries—such as Cambodia—it seeks to prop up its image as a benevolent power through the use of win-win economics. This chapter characterizes China’s economic relationship with Cambodia as cooperative, arguing that this relationship exemplifies China’s relationship with lesser developed countries. In that effort, I will define the methods by which China delivers aid to Cambodia thereby demonstrating China’s cooperative economic policy aimed at creating a win-win economic system and the policy concessions it receives in response.

#### **B. BILATERAL TRADE: FRAMING THE ARGUMENT**

Bilateral trade between Cambodia and China has dramatically increased; in 2012, total trade between the two nations totaled \$2.35 billion, making China Cambodia’s largest trading partner.<sup>159</sup> While Philippine trade seems to be diverse, Cambodian trade is much more reliant on China. The implication here is that China does not need to use such coercive economic levers that it uses with more developed nations. The result is a Chinese economic policy that is built on rewarding policy concessions with economic carrots. Extension of Chinese aid is the tool used by Beijing in this regard. Such a policy is successful for two reasons: it plays into China’s narrative as a benevolent power that rewards favorable domestic and international policy decisions in lesser developed nations; and Chinese aid is especially coveted by developing nations. In the following passages, I will detail how China qualifies its aid packages before I quantify the total value of Chinese aid extended to Cambodia and the policy concessions that Phnom Penh grants to Beijing as a result.

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<sup>159</sup> United Nations, “Comtrade Database,” accessed March 21, 2016, <http://comtrade.un.org/data/>.

### C. DEFINING AID

A discussion on levels of Chinese aid must be prefaced by a definition of Chinese aid. Establishing such a definition presents several challenges, most significant of which is a notable difference when comparing the Organization for Economic Cooperation and Development's Development Assistance Committee's (OECD-DAC) definition of aid to the Chinese definition. The OECD-DAC has two categories for aid: Official Development Assistance (ODA) and Official Development Finance (ODF). The OECD defines ODA as "grants or loans to countries and territories...which are: a) undertaken by the official sector; b) with promotion of economic development and welfare as the main objective; c) at concessional financial terms."<sup>160</sup> The OECD-DAC specifically mentions that grants and loans "for military purposes are excluded."<sup>161</sup> It defines ODF as bilateral ODA, grants, concessional and non-concessional developmental lending, and other financial flows "which have too low a grant element to qualify as ODA."<sup>162</sup>

The PRC does not provide as clear a definition of what it considers to constitute aid. In a 2014 white paper, the PRC's Information Office of the State Council classified Chinese aid as either a grant, an interest-free loan, or a concessional loan. It explains that grants are issued to "help recipients build small or medium-sized social welfare projects, and to fund human resources development cooperation, technical cooperation, material assistance and emergency humanitarian aid."<sup>163</sup> The Information Office explains that interest-free loans are granted "to help recipient countries construct public facilities and launch projects to improve people's livelihood."<sup>164</sup> Finally, the office explains that concessional loans are generally granted to "help recipient countries undertake

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<sup>160</sup> OECD-DAC, "DAC Glossary of Key Terms," OECD, accessed September 18, 2015, [http://www.chicagomanualofstyle.org/16/ch14/ch14\\_sec245.html](http://www.chicagomanualofstyle.org/16/ch14/ch14_sec245.html).

<sup>161</sup> OECD-DAC, "DAC Glossary of Key Terms."

<sup>162</sup> Ibid.

<sup>163</sup> PRC's Information Office of the State Council, "China's Foreign Aid," Xinhua News Agency, July 2014, [http://news.xinhuanet.com/english/china/2014-07/10/c\\_133474011.htm](http://news.xinhuanet.com/english/china/2014-07/10/c_133474011.htm).

<sup>164</sup> PRC's Information Office of the State Council, "China's Foreign Aid."

manufacturing projects and large and medium-sized infrastructure projects with economic and social benefit.”<sup>165</sup>

These explanations are a clear break from the specific definitions used by the OECD-DAC. While the OECD-DAC uses specific language to define what does and does not constitute aid, the PRC’s Information Office makes broad, sweeping remarks to explain the cases in which it distributes aid. This leads to a broader discussion on the difficulty of interpreting Chinese aid data. In their analysis of the published information of Chinese external financial flows, Sven Grimm, Rachel Rank, Matthew McDonald, and Elizabeth Schickerling wrote, “the official Chinese understanding of what constitutes aid differs from OECD-DAC definitions for reporting.”<sup>166</sup> This presents a problem in determining the type of data to collect for my research. In addition, the destinations and volume of Chinese aid is typically shrouded in secrecy. By Grimm et al’s account, “Aid figures are still a sensitive issue in China, as in other countries, but more so in China because of cultural traditions and philosophy.” Free aid faces philosophical and domestic pressures in the PRC as much developmental assistance is still needed in the PRC while free handouts are philosophically complicated by the claimed “mutual benefit” of South-South cooperation.<sup>167</sup> As a result, the CCP shrouds the location and volume of its aid programs in secrecy, making such data more difficult to interpret and contributing to suspicion among OECD-DAC nations.

Regardless, I still need to classify the differences in these two organizations’ reporting methods and explain which data I will use for this research. Perhaps the starkest difference between the two agencies is the classification of military aid. The OECD-DAC does not include such data in its aid figures; the PRC does.<sup>168</sup> Such different reporting requirements make comparison of data difficult and a careful explanation for the selection of data in any comparative study necessary. Going forward, I will use the PRC’s

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<sup>165</sup> Ibid.

<sup>166</sup> Sven Grimm et al., “Transparency of Chinese Aid: An Analysis of the Published Information on Chinese External Financial Flows,” Centre for Chinese Studies (2011): 4.

<sup>167</sup> Grimm et al., “Transparency of Chinese Aid,” 4.

<sup>168</sup> Ibid., 7.

definition of aid to quantify and qualify my research. Understanding that such broad, loose, and sweeping definitions as used by the Information Office present challenges in the quantification of data, I still believe it the best lens through which to understand and explain destinations and volumes of Chinese aid. After consulting both the PRC's white paper on its foreign aid and a report on the same by Grimm et al., I decided to use the following modalities to define Chinese aid: complete projects, goods and materials, technical cooperation, Chinese medical teams working abroad, emergency humanitarian aid, overseas volunteer programs, and debt relief.<sup>169</sup> Each of these eight modalities falls into one of three categories that the PRC uses to classify its aid—grants, interest free loans, and concessional loans. Moving forward, I will attempt to use these classifications and modalities to quantify flows of Chinese aid to Cambodia.

#### **D. MODALITIES OF AID**

Using these eight modalities of Chinese aid, I searched primary news sources for instances of extension of Chinese aid to Cambodia to both provide context to my study and to assist in assigning a figure to the total value of such during the period of my study. The following passages provide examples of those extensions.

##### **1. Introduction**

“Flush with nearly a trillion dollars in hard currency reserves and eager for stable friends in Southeast Asia, China is making big loans for big projects to countries that used to be the sole preserve of the World Bank, the Asian Development Bank, the United States and Japan,” wrote Jane Perlez in her *New York Times* article of 2006.<sup>170</sup> It has been well documented that Chinese aid is claimed to come without “imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently [choose] their own paths and models of development.”<sup>171</sup> Such strings-free aid packages are enticing to LDCs, and Chinese aid to

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<sup>169</sup> Ibid., 9–11.

<sup>170</sup> Jane Perlez, “China Competes with West in Aid to Its Neighbors,” *New York Times*, September 18, 2006, <http://www.nytimes.com>.

<sup>171</sup> PRC's Information Office of the State Council, “China's Foreign Aid.”

such countries in the region has increased as a result. In this case study, I will examine the economic relationship and quantity of aid traveling to Phnom Penh from Beijing using the aforementioned modalities and categories. I will then attempt to quantify total aid from Beijing to China. Finally, I will describe the impact that Chinese aid has on its relationship with Cambodia.

## **2. Complete Projects**

Chinese aid in the form of complete projects is defined as any project that is planned, completed, and financed overseas with Chinese assistance.<sup>172</sup> In spring 2006, Chinese Prime Minister Wen Jiabao and Cambodian Prime Minister Hun Sen announced a \$600 million joint modernization project in Phnom Penh that would consist of two bridges, a hydropower plant, and a fiber-optic network. This project was touted as being strings-free, and is significant for Cambodia.<sup>173</sup> Together with other promised Chinese-funded hydroelectric dams along the Mekong River inside of Cambodian territory, these projects will triple Cambodia's energy output to 4,000 megawatts by 2020.<sup>174</sup> China has also funded financing and labor for several government buildings in Cambodia, including the Senate headquarters in 1999 and the Council of Ministers building—a \$39 million grant to Cambodia in 2005.<sup>175</sup> As another example of Chinese aid to Cambodia in this modality, in 2012 China announced that Wen Jiabao and Hun Sen agreed on a \$2 billion Chinese project in the coastal city of Kep. The project was centered on an industrial park that would house a steel mill, a power plant, a seaport, and other supporting infrastructure.<sup>176</sup> Accompanying the \$2 billion project, the two countries announced that

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<sup>172</sup> Grimm et al., "Transparency of Chinese Aid," 9.

<sup>173</sup> Perlez, "China Competes with West."

<sup>174</sup> Sigfrido Burgos and Sophal Ear, "China's Strategic Interests in Cambodia: Influence and Resources," *Asian Survey* 50, no. 3 (2010): 622.

<sup>175</sup> AidData, "Funding for 'Project of New Council of Ministers Building of the Kingdom of Cambodia,'" Accessed September 18, 2015, <http://china.aiddata.org/projects/35662>.

<sup>176</sup> Julia Cassiau, "The Figure of the Week," *Le Petit Journal*, March 4, 2012, <http://www.lepetitjournal.com>.

China had agreed to extend a \$500 million loan to Cambodia for the development of needed irrigation systems and other infrastructure improvements in the country.<sup>177</sup>

### **3. Goods and Materials**

The goods and materials portion of Chinese aid are usually linked to joint project ventures, which benefits Chinese companies as well as aid recipients.<sup>178</sup> In 2005, the Xinhua News Agency announced a donation of “1,500 extension meters of ZB200 beret steel bridges, four bulldozers, four graders, six road rollers, one vibratory road roller and their spare parts” to Cambodia totaling USD \$10.1 million.<sup>179</sup> Likewise in May 2015, the Xinhua News Agency announced the donation of vehicles and spare parts for a Cambodian training program in auto repair. The agency reported that the PRC donated 44 different types of vehicles, “20 elevators, 4 kitchen trailers, spare parts, and materials for an automotive workshop” as reported by Cambodia’s Deputy Prime Minister, Tea Banh.<sup>180</sup> On June 5, 2013 Chinese Ambassador to Cambodia Pan Guangxue and Cambodian Minister of Agriculture, Forestry, and Fisheries signed a handover certificate in Phnom Penh for a donation of agricultural goods. The supplies included a delivery of tractors and plows to the Cambodian port of Sihanoukville.<sup>181</sup>

### **4. Technical Cooperation**

In its white paper, the PRC’s Information Office claims that “China shares its experience and technology with other developing countries through human resources and technical cooperation, as well as through volunteer service, to help other developing countries build their own professional teams and enhance their capacity for independent development.”<sup>182</sup> There are several examples of such aid from China to Cambodia. In

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<sup>177</sup> Cassiau, “The Figure of the Week.”

<sup>178</sup> Grimm et al., “Transparency of Chinese Aid,” 10.

<sup>179</sup> Xinhua News Agency, “China Offers Cambodia Aid in Improving Infrastructure,” August 23, 2005, <http://www.china.org.cn/english/international/139373.htm>.

<sup>180</sup> Xinhua News Agency, “China Provides Vehicles, Spare Parts to Cambodia for Auto-Workshop,” May 23, 2015, [http://news.xinhuanet.com/english/2015-05/23/c\\_134264051.htm](http://news.xinhuanet.com/english/2015-05/23/c_134264051.htm).

<sup>181</sup> Xinhua News Agency, “China Provides Vehicles, Spare Parts to Cambodia for Auto-Workshop,” May 23, 2015, [http://news.xinhuanet.com/english/2015-05/23/c\\_134264051.htm](http://news.xinhuanet.com/english/2015-05/23/c_134264051.htm).

<sup>182</sup> PRC’s Information Office of the State Council, “China’s Foreign Aid.”

2005, Chinese Ambassador to Cambodia Hu Qianwen signed an agreement with Cambodian Foreign Minister Hor Namhong at the Cambodian Ministry of Foreign Affairs with the Cambodian Prime Minister Hun Sen in attendance. In the agreement, China pledged to provide technical experts in assisting the Cambodian Finance Ministry while also promising a \$6.25 billion grant and \$6.25 billion interest-free loan.<sup>183</sup> At the ceremony, Hor thanked the CCP for its continued support of Cambodia, saying “the new assistance is another testimony to the growing excellent relationship and cooperation between Cambodia and China.”<sup>184</sup>

Additionally, in 2005 Chinese Vice-Premier Zeng Peiyan and Cambodian Minister of Urbanization and Construction Im Chhun Lim announced that China would share technical expertise in city planning and construction toward the goal of housing system reform in Cambodia. The announcement was accompanied by a blanket pledge of Chinese technical and administrative experts to conduct personnel training in Cambodia to assist with Cambodian development.<sup>185</sup>

## **5. Chinese Medical Teams Working Abroad**

According to the Information Office’s white paper, in 2014 “China dispatched 55 teams composed of 3,600 medical personnel to 54 countries to provide stationed or touring medical services, treating nearly seven million patients.”<sup>186</sup> The white paper is vague on specifics, but references that from 2003 onward, China dispatched medical teams “to provide free surgery for patients with eye diseases in the DPRK, Cambodia, Bangladesh, Vietnam, Pakistan and other Asian countries..”<sup>187</sup> A search through state news archives and other aid databases reveals several other examples. In 2005, for example, China dispatched a medical team to Cambodia to assist in the treatment of an

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183 Xinhua News Agency, “China Provides Aid to Cambodia,” December 29, 2005, <http://www.china.org.cn/english/international/153558.htm>.

184 Xinhua News Agency, “China Provides Aid.”

185 Xinhua News Agency, “China Ready to Share Urban Construction Experience with Cambodia,” May 26, 2005, [http://en.people.cn/200505/26/eng20050526\\_186863.html](http://en.people.cn/200505/26/eng20050526_186863.html).

186 PRC’s Information Office of the State Council, “China’s Foreign Aid.”

187 PRC’s Information Office of the State Council, “China’s Foreign Aid.”

outbreak of Enterovirus 71 (EV71)—an intestinal virus that is infamous for its connection to neurological disorders in children.<sup>188</sup> The four-person medical team consisted of experts from the Chinese Center for Disease Control and Prevention as well as Beijing’s Children’s Hospital. The medical team established a base for operations in Phnom Penh in July 2005 and agreed to assist Cambodian health officials with the analysis and treatment of the virus and those it infected.<sup>189</sup>

## **6. Emergency Humanitarian Aid**

The PRC’s 2011 official policy paper on China’s foreign aid provided fairly clear parameters for its extension of aid for humanitarian relief purposes. It stated, “Emergency humanitarian aid is provided when a country or region suffers a severe natural or humanitarian disaster. In such cases, China provides materials, or cash for emergency relief or dispatches relief personnel...to reduce losses of life and property in disaster-stricken areas.”<sup>190</sup> The 2014 iteration of the same document goes on to claim that from 2010–2012, the PRC “extended 1.5 billion yuan worth of materials and cash assistance in emergency humanitarian aid to more than 30 countries.”<sup>191</sup> Cambodia has been an especially major benefactor of this modality of aid. In December 2000, Chinese Ambassador Ning Fukui announced in a ceremony with Cambodian Foreign Minister Hor Namhong that China would donate flood relief goods worth 5 million yuan.<sup>192</sup> Similarly, in October 2011, China donated medicine, mosquito nets, blankets, towels, medical supplies and equipment and other miscellaneous flood-relief goods to Cambodia in response to wide-spread flooding that year. The goods delivery was one of several deliveries in that same month totaling 50 million yuan.<sup>193</sup> During the exchange ceremony

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188 Xinhua News Agency, “China Sends Medical Team to Treat Epidemic in Cambodia,” July 13, 2012, [http://news.xinhuanet.com/english/china/2012-07/13/c\\_131712143.htm](http://news.xinhuanet.com/english/china/2012-07/13/c_131712143.htm).

189 Xinhua News Agency, “China Sends Medical Team.”

190 Grimm et al., “Transparency of Chinese Aid,” 10.

191 PRC’s Information Office of the State Council, “China’s Foreign Aid.”

192 AidData, “China Will Donate 5m Yuan of Relief Goods to Cambodia,” accessed September 18, 2015, <http://china.aiddata.org/projects/32078>.

193 Xinhua News Agency, “First Batch of China’s Flood Relief Materials Arrive in Cambodia,” October 15, 2011, [http://news.xinhuanet.com/english2010/china/2011-10/15/c\\_131193330.htm](http://news.xinhuanet.com/english2010/china/2011-10/15/c_131193330.htm).



in Phnom Penh, Cambodian Vice President of the National Committee for Disaster Management Nhim Vanda said, “China is the largest relief aid donor to Cambodia.... On behalf of the government of Cambodia and Cambodian people, I would like to express sincere thanks to the government of China...and I wish the friendship and cooperation between Cambodia and China to be stronger and to last forever.”<sup>194</sup> During a similar ceremony in 2014, China again delivered relief goods to Cambodia for the relief of flood victims after devastating floods in the Mekong River Valley between August and October 2013 that killed 168 people and caused \$1 billion in damages across the region according to the Cambodian National Committee for Disaster Management.<sup>195</sup> After the \$1 million donation of relief goods, Cambodian Red Cross President—the wife of Prime Minister Hun Sen—said, “China is Cambodia’s elder brother and always helps Cambodia in all difficult times.... The Cambodian people will have never forgotten this humanitarian assistance.”<sup>196</sup>

## **7. Overseas Volunteer Programs**

Not much detail is given in the Information Office’s white paper regarding the overseas volunteer program. The 2011 iteration revealed that the program is used in “education, medical, and health care and some other social sectors.”<sup>197</sup> “By the end of 2009,” the report claimed, “China had dispatched to 19 developing countries...some 405 young volunteers.”<sup>198</sup> In Cambodia, these volunteer efforts are intensely focused on the promotion of Chinese culture and language in Cambodia. Starting in 2010 and continuing ever since, China’s Office of Chinese Language Council International has sent volunteer teachers to “build the quality of Chinese language education in Cambodia.”<sup>199</sup> In 2011, China dispatched 58 volunteers to teach in 22 Chinese schools throughout Cambodia.

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<sup>194</sup> Xinhua News Agency, “First Batch of Flood Relief.”

<sup>195</sup> Xinhua News Agency, “China’s Humanitarian Aid Eases Hardships for Vulnerable People in Cambodia January 10, 2014, [http://news.xinhuanet.com/english/china/2014-01/10/c\\_133034716.htm](http://news.xinhuanet.com/english/china/2014-01/10/c_133034716.htm).

<sup>196</sup> Xinhua News Agency, “China’s Humanitarian Aid for Cambodia.”

<sup>197</sup> Grimm et al., “Transparency of Chinese Aid,” 10.

<sup>198</sup> Ibid.

<sup>199</sup> Xinhua News Agency, “Chinese Language Going Popular: Cambodia’s Chinese Association,” August 9, 2011, [http://www.asean-china-center.org/english/2011-08/09/c\\_131037416.htm](http://www.asean-china-center.org/english/2011-08/09/c_131037416.htm).

Along with boosting the quality of Chinese linguistic and cultural education in Cambodia, the program focuses on improving “traditional friendship ties between Chinese and Cambodians,” stated Wei Ning, an official of Consular Affairs at the Chinese Embassy in Phnom Penh.<sup>200</sup>

## **8. Debt Relief**

In the 2014 report on China’s foreign aid, the PRC’s Information Office wrote that during 2014, “China relieved nine LDCs and heavily indebted poor countries...from 16 mature interest-free loans totaling 1.42 billion Yuan.”<sup>201</sup> Cambodia has been the recipient of such debt forgiveness in the past. In 2010, Cambodia’s Minister of Finance Keat Chhon and China’s Chairman of the Standing Committee for the National People’s Congress Wu Bangguo signed an agreement that forgave a \$200 million debt owed by Cambodia to China.<sup>202</sup> Similarly, in 2002 Beijing announced that it was set to forgive all debt owed by Cambodia. While neither Beijing nor Phnom Penh elaborated on the size of the debt that was forgiven, the Phnom Penh Post estimated at the time that Cambodia’s debt to China was in excess of \$210 million.<sup>203</sup>

## **E. TOTALING CHINESE AID TO CAMBODIA**

While it is one thing to find examples where China extended aid packages and programs to Cambodia, it is more difficult to put a total dollar value on all such packages and programs extended to Cambodia over a specific interval. Due to the aforementioned domestic and ideological pressures and complications, the PRC rarely releases specific values on the aid it extends, let alone cumulative data on the sum of aid projects. After consulting several databases, I decided that AidData’s open database for international development to be of the most utility for my research. According to the organization’s website, “AidData collects, curates, and publishes data on more than \$5.5 trillion dollars

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200 Xinhua News Agency, “Chinese Language Going Popular.”

201 PRC’s Information Office of the State Council, “China’s Foreign Aid.”

202 Cambodia Express News, “China to Cancel \$200 million debt owed by Cambodia,” November 3, 2010, <http://www.cen.com.kh/local/01912152>.

203 News24, “China Writes Off Cambodia’s Debt,” November 2, 2002, <http://www.news24.com/xArchive/Archive/China-writes-off-Cambodias-debt-20021102>.

in development finance from 90 bilateral and multilateral agencies at the project level.”<sup>204</sup> In an effort to “improve development outcomes by making development finance data more accessible and actionable,” the organization makes its database of more than one million development finance activities that totals more than \$40 trillion searchable and accessible to the public. The organization began as a partnership of three different academic institutions—The College of William and Mary, Development Gateway, and Brigham Young University—and is committed to making raw data available, facilitating the analysis of the data for academics and policymakers alike.

After settling on the database I filtered the search results by instances of Chinese aid extensions to Cambodia. Each individual result had independent sources validating the entry, and in each instance possible, the organization attached a dollar figure to each entry in terms of 2009 U.S. dollars. I checked each entry and validated each reference to the best of my capability, adding up the total value of all entries from 2000–2012. This was the extent of the organization’s database and I decided to use the largest sample size in an attempt to increase the accuracy of my data. After going through the database and totaling the data, I came up with a figure of \$21,207,222,093.92 that represents the sum of pledged Chinese aid to Cambodia from 2000–2012. There does exist a significant gap between Chinese pledged aid and delivered aid, especially in East Asia. In a 2013 report on China’s foreign aid by Charles Wolf Jr., Xiao Wang, and Eric Warner, they detail that between 2001–2011, Chinese delivered aid to East Asia—a region they classify as including Cambodia—only matched pledged aid at a 5 percent rate.<sup>205</sup> The chief reason for this discrepancy was the allocation of the aid. Chinese pledged aid in the region during the time period was dominated by large infrastructure and natural resource extraction projects. Such grandiose projects are slow developing, provide ample windows for the actual delivery of the pledged aid, provide many opportunities for renegotiation of aid, and are occasionally abandoned.<sup>206</sup>

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204 AidData, “Our Story,” accessed September 18, 2015, <http://aiddata.org/our-story>.

205 Charles Wolf Jr., Xiao Wang, and Eric Warner, “China’s Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations, and Implications” National Defense Research Institute (2013): 43.

206 Wolf, Wang, and Warner, “China’s Foreign Aid,” 44.

I used the general 5 percent rate at which pledged aid was delivered to East Asian countries from China to parse the data from AidData, as it proved too difficult to identify which of the projects were delayed, abandoned, or had reentered negotiation. I recognize that this sweeping generalization is not the most accurate solution, but I believe the results to be sufficient for my study.

After applying the 5 percent limiter to the sum of \$21.2 billion Chinese pledged aid to Cambodia from 2000–2012, I arrived at my estimated figure of total aid delivered to Cambodia from China during the same period— \$1,060,361,104.70 in 2009 USD. After arriving at this total, I had to adjust for inflation from 2009 to 2015. To do so, I used the following equation:

$$Rp = Hp * (CPI_{Historical} / CPI_{Current})$$

In this equation, Rp is the real price after inflation and Hp is the historical price. I used the U.S. Bureau of Labor statistics for the 2009 average CPI of 214.537 and the unadjusted annual average for 2015 CPI of 236.525.<sup>207</sup> With this methodology, I calculated the estimated value of all Chinese aid delivered to Cambodia from 2000–2012 to be \$961,787,085.17 after inflation. It is clear that financial aid flow from China to Cambodia is steadily increasing, and the trajectory of the Chinese-Cambodian relationship seems to mirror the trajectory of increased financial aid flow from Beijing to Phnom Penh. Having explained the trajectory of increased financial aid flow, I will next detail the trajectory of the relationship between China and Cambodia.

## **F. THE IMPACT OF CHINESE AID ON CAMBODIAN RELATIONS**

In short, the Chinese-Cambodian relationship is on a steady rise. To exemplify this, I focus on examining both the general trajectory of this relationship and China's specific aims at building Cambodian support in China's territorial disputes with other ASEAN nations in the South China Sea.

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207 U.S. Bureau of Labor Statistics, "CPI Detailed Report Data for June 2009," June 2010, <http://www.bls.gov/cpi/cpid09av.pdf>; U.S Bureau of Labor Statistics, "CPI Detailed Report Data for June 2015," <http://www.bls.gov/cpi/cpid1506.pdf> 73; <http://www.bls.gov/cpi/cpid1512.pdf>, 5.

## 1. General Trajectory

Historically, China's relationship with Cambodia has been based on mistrust as a result of China's support for the communist Khmer Rouge government during the 1970s.<sup>208</sup> In more recent times, though, the two countries have upgraded the title of their bilateral relationship to a "Comprehensive Strategic Partnership of Cooperation."<sup>209</sup> The two countries have increased their economic cooperation as a result. Trade has increased between the two nations—jumping to \$3.3 billion in 2013 from \$2.35 billion in 2012—and both countries have pledged to increase their trade to a target of \$5 billion by 2017.<sup>210</sup> The cooperation between the two countries has recently expanded into the defense sphere. In 2012, China pledged a \$17 million grant to Cambodia for the building of military hospitals and professional military education establishments for the Royal Cambodian Armed Forces.<sup>211</sup> In 2013 Cambodia used one of its Chinese loans to purchase 12 Harbin Z-9 helicopters, and in 2014 Cambodia received a donation of 26 trucks and military uniforms from China.<sup>212</sup> In May 2015 China delivered 44 military vehicles ranging from forklifts to mobile rocket launchers to Cambodia.<sup>213</sup>

The military relationship between the two countries has evolved beyond the Chinese supply of military equipment to Cambodia. Recent events support that claim. In July 2015 a delegation consisting of 23 high-ranking Cambodian defense officials arrived in Beijing for a five-day conference. Despite both countries' best efforts to downplay the significance of the visit, analysts noted that the highest ranking officers from each branch of the Royal Cambodian Armed Forces was in attendance.<sup>214</sup> Phnom Penh and Beijing refused to disclose the nature of the visit besides labeling it an effort to "further enhance

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208 Cheunboran Chanborey, "Cambodia's Strategic China Alignment," *The Diplomat*, July 8, 2015, <http://thediplomat.com/2015/07/cambodias-strategic-china-alignment>.

209 Chanborey, "Cambodia's Strategic Alignment."

210 Ibid.

211 Ibid.

212 Prashanth Parameswaran, "China Just Gave Cambodia's Military a Boost," *The Diplomat*, May 27, 2015, <http://thediplomat.com/2015/05/china-just-gave-cambodias-military-a-boost>.

213 Parameswaran, "China Just Gave."

214 Prashanth Parameswaran, "Why is a Big Cambodia Military Delegation in China," *The Diplomat*, July 10, 2015, <http://thediplomat.com/2015/07/why-is-a-big-cambodia-military-delegation-in-china>.

bilateral ties and cooperation,” but the ongoing border dispute between Cambodia and Vietnam have led many to speculate the true meaning of the visit.<sup>215</sup> Chinese-Cambodian relations have grown to such depth that they are now considered to be one of China’s key partners in Southeast Asia. With this in mind, analysts raised their collective eyebrows in July 2015 when Cambodian Foreign Minister Hor Namhong suggested that Cambodia could serve as a mediator in the growing dispute between China and several ASEAN states regarding territorial claims in the South China Sea.<sup>216</sup>

## **2. Buying Support in the South China Sea Disputes**

The 2012 ASEAN summit was marred by controversy. The revolving chairmanship of the summit rested with Cambodia for the year, and ASEAN members’ South China Sea disputes with China was on the top of many national agendas. One of the top priorities of the summit was to agree to a legally binding code of conduct. ASEAN was unable to reach that consensus, failing to even establish a joint communique for the first time in the organization’s history.<sup>217</sup> Since ASEAN requires consensus before any major policy decisions or the publication of joint statements, Cambodia was solely able to block both the Code of Conduct and the joint communique.<sup>218</sup> At the center of the discord is the issue of dispute resolution between China and other ASEAN states. States with a dispute with China—namely the Philippines and Vietnam—want to address these issues multilaterally in an international forum. China, preferring to wield its influence over individual states, demands that disputes be resolved bilaterally.

By contrast, the support for ASEAN multilateral negotiation is overwhelming. Philippine President Aquino spoke for the majority after the summit in 2012: “Not to be flippant about it, if you cross your national borders then it becomes an international situation. And if the solution will come through the international tribunal of the laws of

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215 Parameswaran, “Why is a Big Cambodia.”

216 Prashanth Parameswaran, “Cambodia: A New South China Sea Mediator Between China and ASEAN,” *The Diplomat*, July 28, 2015, <http://thediplomat.com/2015/07/cambodia-a-new-south-china-sea-mediator-between-china-and-asean>.

217 Mong Palatino, “Cambodia’s Hun Sen Wants a South China Sea Apology,” *The Diplomat*, February 12, 2016, <http://thediplomat.com/2016/02/cambodias-hun-sen-wants-a-south-china-sea-apology/>.

218 Palatino, “Hun Send Wants Apology.”

the sea, that makes it another a new entity... Our position has always been that a multilateral problem does not lend itself to a solution on a bilateral basis.”<sup>219</sup> Cambodia is the only ASEAN member that dissents from this view. Cambodia’s viewpoint is that ASEAN is not the place to air territorial disputes, and that such disputes should be handled bilaterally between China and the other disputing parties. At the summit in 2012, Cambodian Foreign Affairs Secretary of State Soeung Rathchavy said, “Territorial claims in the South China Sea must be settled with countries involved... ASEAN can’t settle this dispute. We are not a legal institution.”<sup>220</sup> As a country without a stake in the ongoing territorial disputes, this position seemed curious at best. Analysts were quick to cite Chinese aid as the reason for Cambodia’s peculiar position. In an interview with Cambodia daily, Pavin Chachavalpongpun, an associate professor at Kyoto University’s Center for Southeast Asian Studies said, “Cambodia’s foreign relations have been held hostage by its intimate ties with China and this limits its own foreign policy choices, thus causing a negative impact on its international image.”<sup>221</sup>

The controversy did not end after this debacle in July. In November 2012, Chinese Premier Wen Jiabao joined a closed-door meeting with the ten other ASEAN prime ministers to further discuss ASEAN’s role in territorial disputes. After the meeting, Cambodian Prime Minister Hun Sen emerged claiming that ASEAN had reached consensus that the South China Sea disputes would not be “internationalized.”<sup>222</sup> China was quick to publicly agree with this statement. Qin Gang, a spokesman for the Chinese delegation at the meeting publicly stated, “I have to say the ASEAN countries have reached a consensus—have reached a common position—which has been expressed by Prime Minister Hun Sen on behalf of ASEAN.”<sup>223</sup> Yet such a consensus was never

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219 Jane Perlez, “China Stalls Move to Quell Asia Disputes over Territory,” *New York Times*, November 19, 2012, <http://www.nytimes.com/2012/11/20/world/asia/china-and-cambodia-stall-move-to- quell-disputes-in-southeast-asia.html>.

220 Prak Chan Thul, “Cambodia Says ASEAN Should Stay out of South China Sea Fracas,” Reuters, May 7, 2015, <http://www.reuters.com/article/us-southchinasea-cambodia-idUSKBN0NS0WV20150507>.

221 Colin Meyn, “Asean Unity Tested Under Cambodia’s Watch,” *The Cambodian Daily*, November 23, 2012, <https://www.cambodiadaily.com/summits/asean-unity-tested-under-cambodias-watch-6272/>.

222 Perlez, “China Stalls.”

223 Ibid.

reached, and the Philippines and Vietnam were quick to voice their objection and frustration. President Aquino again spoke for the opposition. He said, “We don’t think there is a consensus... We stated that we deserve the right to protect our national interests.”<sup>224</sup> The issue stands unresolved. Because of Cambodia’s objection, a decision on ASEAN’s role in these disputes remains undecided as consensus among the ASEAN states is required before such a decision can be made.<sup>225</sup>

Considering Cambodia’s stance against “internationalizing” the South China Sea disputes, comments from Cambodian foreign minister Hor Namhong were especially peculiar in July 2015 when he offered his country’s assistance in mediating the disputes between China and other SCS claimants. In an interview with *Voice of America*, he said, “Cambodia wants to mediate in order to reduce the tense atmosphere between ASEAN and China because we discern that no solution can be found without talking to each other.”<sup>226</sup> This marks a clear shift in Cambodia’s position on the SCS disputes, and is even more peculiar considering that Hor Namhong presided over the failed ASEAN summit in 2012.<sup>227</sup> Despite the country’s shift in policy at this juncture, this position would benefit China just as much as Cambodia’s previous position. A weak mediator in such a dispute would be unable to stem Chinese demands; such a position would be difficult for even a more robust ASEAN member. Furthermore, it seems unreasonable to assume that such negotiations would be fruitful for claimants other than China since Cambodia seems so close in its relationship with the PRC.<sup>228</sup>

ASEAN’s role in this dispute remains in the forefront of policymaking challenges today. In January, U.S. Secretary of State John Kerry met with Cambodian Prime Minister Hun Sen, urging his regime to take a more vigorous stance with other ASEAN

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<sup>224</sup> Ibid.

<sup>225</sup> Mark McDonald, “Indecision and Infighting: That’s the ASEAN Way,” New York Times (blog) November 20, 2012, [http://rendezvous.blogs.nytimes.com/2012/11/20/indecision-and-infighting-thats-the-asean-way/?\\_r=0](http://rendezvous.blogs.nytimes.com/2012/11/20/indecision-and-infighting-thats-the-asean-way/?_r=0).

<sup>226</sup> Prashanth Parameswaran, “Cambodia: A New South China Sea Mediator between China and ASEAN,” *The Diplomat*, July 28, 2015, <http://thediplomat.com/2015/07/cambodia-a-new-south-china-sea-mediator-between-china-and-asean/>.

<sup>227</sup> Parameswaran, “A New Mediator.”

<sup>228</sup> Ibid.



states against Chinese territorial encroachments.<sup>229</sup> Cambodian Minister of Foreign Affairs Hor Namhong announced that Cambodia's stance on the issue remains unchanged. Cambodia stands by its position that states with territorial disputes with China should seek to resolve those disputes bilaterally.<sup>230</sup>

The highest levels of Chinese aid to Cambodia were seen from 2011–2012, when Cambodia appeared to push Beijing's agenda within ASEAN. The year 2011 pledged aid to Cambodia from China was ten times greater than that from the United States to Cambodia.<sup>231</sup> Returning to the total sum of Chinese aid to Cambodia from 2000–2012 and comparing the portion of that aid that was promised from 2011–2012 is startling. From 2000–2012, Beijing pledged \$21,207,222,093.92 to Cambodia according to data I compiled from AidData.<sup>232</sup> During the two-year span from 2011–2012, China pledged \$4,058,449,391.95 in aid—approximately 20 percent of the total aid pledged to Cambodia over the entire twelve-year period of my study.

## **G. ANALYSIS AND CONCLUSION**

Through this case study, I have demonstrated that China is using a cooperative economic strategy—specifically aid packages—to encourage Cambodia to take up China's position in Cambodia's sphere of influence. In this specific case, it appears that China looked to shore up support in an organization where it had very little. ASEAN nations were united against aggressive Chinese territorial expansion in the South China Sea. After clashes with China the year prior, the Philippines was motivated to address the issues in an international forum where it would be most insulated from China's overbearing clout. It had the support of all other nations in developing a legal code of conduct, but Cambodia—motivated by Chinese aid—blocked the effort, resulting in a stalemate that remains unresolved today. In this cloudy state, China has pursued

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229 David Brunnstrom and Prak Chan Thul, "Kerry Fails to Sway Cambodian Leaders on South China Sea," Reuters, January 26, 2016, <http://www.reuters.com/article/us-cambodia-usa-kerry-idUSKCN0V4104>.

230 Brunnstrom and Thul, "Kerry Fails."

231 Bonnie S. Glaser, "China's Coercive Economic Diplomacy: A New and Worrying Trend," CSIS PacNet 46 (2012), <http://csis.org/publication/chinas-coercive-economic-diplomacy-new-and-worrying-trend>.

232 AidData, "Search Projects," Accessed September 18, 2015, <http://china.aiddata.org/projects>.

aggressive land reclamation projects in the South China Sea. It is clear that Cambodia's stonewalling of the other ASEAN states allowed China to pursue its territorial ambitions, and it appears that Cambodia was willing to do so because of China's extension of aid packages. This provides us with a general template of Chinese economic policy: when dealing with lesser developed countries, China appears to use cooperative economic policy to elicit policy concessions.

## **IV. CONCLUSION AND IMPLICATIONS**

### **A. REVIEW OF FINDINGS**

This thesis has endeavored to answer the following question: How has China used economic policy to create leverage its relationships with its Asian neighbors? I hypothesized that China uses cooperative economic policy to woo policy concessions from its poorer, lesser developed neighbors while using coercive economic policy to extract similar concessions from its more advanced, emerging neighbors.

Two of China's neighbors served as case studies on China's economic policy: Cambodia and the Philippines. In Cambodia, I discovered that China uses cooperative economic policy embodied by the extension of generous aid packages to Phnom Penh. The sustained extension of these aid packages have seriously impacted the Cambodian-Chinese relationship. While the two countries were once suspicious rivals, today they are close allies. China uses this relationship to influence Cambodia's actions in ASEAN. Cambodia has taken countless stances against the majority position of ASEAN nations that calls for multilateral resistance against China's territorial encroachments in the South China Sea. With Cambodia acting as a Chinese proxy in the forum, ASEAN has been unable to approve any multilateral measures against China as the organization's structure requires consensus among its members before such action.

In the Philippines, China's economic policy has been more covertly coercive. China has used targeted economic measures against Manila at critical junctures that correspond to periods of intense territorial disputes between the two countries. China's arbitrary use of increases in phytosanitary standards dealt a blow to the critical Philippine banana export crop, its use of tourism restrictions had a deleterious impact to the Philippine tour industry, and its parsimonious use of aid after Typhoon Yolanda in the Philippines after the clash over the Scarborough Shoal are all patented examples of coercive economic policy that China has used in the past with its more developed neighbors.

Through my research on China's relationship with these two countries, I proved my hypothesis to be correct and consistent with a popular thought today: that China uses both coercive and cooperative economic policy to achieve its regional objectives. Such findings are only as beneficial as their application, though. While it is helpful to understand Chinese patterns of economic policy, it is of more utility to use those patterns to guide American policy. In the coming passages I will suggest some implications of this research as they relate to American foreign policy, arguing that the United States must maintain multilateral engagement with ASEAN while strengthening bilateral relationships with the countries that are subject to Chinese coercive policy. Through this dedicated two-prong approach, both perfectly aligned with the Obama Administration's rebalance to the Asia Pacific region, the United States can seek to minimize Beijing's coercive influence in the region. As Elizabeth Economy wrote in her 2004 article, "U.S. policy cannot drive change in China by itself, but it can help provide the most supportive international context in which such change will thrive."<sup>233</sup>

## **B. MAINTAIN MULTILATERAL ENGAGEMENT WITH ASEAN**

A critical component of China's strategy in the territorial disputes in the South China Sea with the ASEAN claimants is its adamant insistence on bilateral resolution. In such a framework, Beijing can best wield its economic power over its smaller neighbors in bilateral negotiations. The United States can counter this strategy by strengthening its multilateral engagement with ASEAN. This engagement has been a priority of American foreign policy since 2009. The following is a timeline that demonstrates the United States' concerted efforts to become more deeply integrated with ASEAN.

In 2009, then U.S. Secretary of State Hilary Clinton signed the Treaty on Amity and Cooperation with ASEAN, tying the United States to ASEAN's goal of peace and prosperity for Southeast Asia.<sup>234</sup> In a press conference in Thailand, Clinton declared, "The United States is back in Southeast Asia.... President Obama and I believe this

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<sup>233</sup> Elizabeth Economy, "Don't Break the Engagement," *Foreign Affairs* 83, no. 3 (2004): 98.

<sup>234</sup> John R. Crook, "United States Accedes to ASEAN Amity Treaty as Sole Executive Agreement," *The American Journal of International Law* 103, no. 4 (2009): 741.

region is vital to global progress, peace and prosperity, and we are fully engaged with our ASEAN partners on the wide range of challenges confronting us.”<sup>235</sup>

In 2010, the United States hosted the second U.S-ASEAN Leaders Meeting in New York, where the two announced the appointment of the first resident American ambassador to ASEAN in Jakarta.<sup>236</sup> With this announcement, the United States became the first non-Asian nation to have a permanent ambassador recognized by ASEAN.<sup>237</sup> In a joint statement after the summit, ASEAN acknowledged the “United States’ firm commitment to continue to strengthen comprehensive relations with ASEAN.”<sup>238</sup> Additionally, the two “agreed to further deepen our current partnership in order to provide the framework for continued growth in ASEAN-U.S. relations.”<sup>239</sup> It was at this meeting that the two bodies committed to elevating their relationship to a level of strategic partnership.

In 2012 at the fourth ASEAN-U.S. Leaders’ Meeting in Phnom Penh, ASEAN welcomed continued American engagement with ASEAN, agreeing to upgrade the Leaders’ Meeting to an annual ASEAN-U.S. Summit.<sup>240</sup> In the joint statement, ASEAN trumpeted the United States increased economic engagement with ASEAN nations, highlighting the fact that trade between ASEAN and the United States increased 9.2 percent from the previous year while FDI jumped 11.2 percent over the same time span.<sup>241</sup> The United States and ASEAN announced the launch of the U.S.-ASEAN Expanded Economic Engagement initiative (E3), described as “a framework for

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<sup>235</sup> Dean Yates and Arshad Mohammed, “U.S. Signs ASEAN Treaty, Boosts Engagement,” Reuters, July 22, 2009, <http://www.reuters.com/article/us-asean-usa-idUSTRE56L11920090722>.

<sup>236</sup> The White House Office of the Press Secretary, “Joint Statement of the 2ND U.S.- ASEAN Leaders Meeting,” news release, September 24, 2010, <https://www.whitehouse.gov/the-press-office/2010/09/24/joint-statement-2nd-us-asean-leaders-meeting>.

<sup>237</sup> The White House, “Joint Statement.”

<sup>238</sup> Ibid.

<sup>239</sup> Ibid.

<sup>240</sup> The White House Office of the Press Secretary, “Joint Statement of the 4th ASEAN-U.S. Leaders’ Meeting,” news release, November 20, 2012, <https://www.whitehouse.gov/the-press-office/2012/11/20/joint-statement-4th-asean-us-leaders-meeting>.

<sup>241</sup> The White House, “Joint Statement.”

economic cooperation designed to expand trade and investment ties between the United States and ASEAN.”<sup>242</sup>

In 2013, the United States reported promising returns of the initial efforts of the E3 initiative including continued work toward a U.S.-ASEAN trade facilitation agreement, the hosting of an Economic Ministers Road Show in the United States that brought ASEAN economic ministers and American government and business leaders to discuss ways to further develop economic ties, and the exchange of best practices and standards between ASEAN nations and the United States.<sup>243</sup>

In November 2015, the Obama administration announced its crowning achievement in the deepening of U.S.-ASEAN ties: the elevation of their relationship to the level of strategic partnership. U.S. Secretary of State for East Asian and Pacific Affairs Daniel Russel stated at a press conference, “We’re now ready to take our relationship with ASEAN to the next level.”<sup>244</sup> While some were quick to dismiss the announcement as insignificant, the elevation of relations is important for two main reasons. First, it marks a shift in U.S.-ASEAN relations. While all efforts before were built on strengthening U.S.-ASEAN ties, as strategic partners the two would now work toward overlapping interests “on regional, global, and international issues.”<sup>245</sup> In the joint statement announcing the elevation of relations, the two reaffirmed “the importance of maintaining peace and stability, ensuring maritime security and safety, and freedom of navigation including in and over-flight above the South China Sea.”<sup>246</sup> The statement went on to reaffirm the United States and ASEAN’s commitment to UNCLOS, the Declaration of the Conduct of Parties in the South China Sea, and the resolution of

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242 U.S. Department of State Office of the Spokesperson, “The U.S.-ASEAN Expanded Economic Engagement (E3) Initiative,” news release, October 9, 2013, <http://www.state.gov/r/pa/prs/ps/2013/10/215235.htm>.

243 U.S. Department of State, “E3.”

244 Prashanth Parameswaran, “US, ASEAN to Ink New Strategic Partnership,” *The Diplomat*, November 20, 2015, <http://thediplomat.com/2015/11/us-asean-to-ink-new-strategic-partnership/>.

245 Parameswaran, “New Strategic Partnership.”

246 The White House Office of the Press Secretary, “Joint Statement on the ASEAN-U.S. Strategic Partnership,” press release, November 21, 2015, <https://www.whitehouse.gov/the-press-office/2015/11/21/joint-statement-asean-us-strategic-partnership>.

disputes in accordance with international institutions of law in a clear swipe at China.<sup>247</sup> In short, the elevation of relations enabled the United States and ASEAN to shift from strengthening their relationship to tackling the joint concern of Chinese aggressiveness in the South China Sea. Second, the elevation was considered an opportunity to codify progress in the relationship to that point. The Obama administration recognized the progress it had made in strengthening this relationship and wanted to lock in those returns as the American president neared the end of his second term. With the elevation of relations, the U.S.-ASEAN relationship took on a more permanent status, making it expected that the two would continue to look for ways to strengthen their relationship and increase cooperation.<sup>248</sup>

In February 2016, President Obama hosted ASEAN leaders and the ASEAN Secretary-General for a summit in Rancho Mirage, California at the Sunnylands Ranch. This summit represented the first-ever standalone session of ASEAN leaders in the United States.<sup>249</sup> The significance reaffirmed the Obama administration's commitment to ASEAN while again signaling the importance of that relationship to his successor as his time in office neared an end. In the joint Sunnylands Declaration at the conclusion of the summit, the United States and ASEAN reaffirmed "the key principles that will guide our cooperation going forward."<sup>250</sup> The seventeen points that followed were centered around a singular objective: a "joint commitment to a rules-based order in the Asia-Pacific which is central to preserving regional peace, prosperity and progress."<sup>251</sup> Such a commitment is a direct challenge to China's assertiveness in the region; the fact that three of the seventeen points that followed in the declaration concerned maritime security attests to that point.

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247 The White House, "Strategic Partnership."

248 Parameswaran, "New Strategic Partnership."

249 Prashanth Parameswaran, "Why the US-ASEAN Sunnylands Summit Matters," *The Diplomat*, February 11, 2016, <http://thediplomat.com/2016/02/why-the-us-asean-sunnylands-summit-matters/>.

250 The White House Office of the Press Secretary, "Joint Statement of the U.S.-ASEAN Special Leaders' Summit: Sunnylands Declaration," press release, February 16, 2016, <https://www.whitehouse.gov/the-press-office/2016/02/16/joint-statement-us-asean-special-leaders-summit-sunnylands-declaration>.

251 Prashanth Parameswaran, "What Did the US-ASEAN Sunnylands Summit Achieve," *The Diplomat*, February 18, 2016, <http://thediplomat.com/2016/02/what-did-the-us-asean-sunnylands-summit-achieve/>.

The declaration also signaled the United States attempt to supplant Beijing's economic grip on the region—a tool I demonstrated that it wields to coerce policy concessions from its neighbors. Toward this effort, the Sunnylands Declaration announced the establishment of the U.S.-ASEAN Connect initiative, a government initiative that will coordinate economic interaction and engagement between the United States and ASEAN members in three existing hubs: Jakarta, Bangkok, and Singapore.<sup>252</sup> At a press conference at the conclusion of the summit, President Obama announced the four pillars of the new initiative: Business Connect, Energy Connect, Innovation Connect, and Policy Connect.<sup>253</sup> James Carouso, the U.S. State Department's Director of Maritime Southeast Asia Affairs, explained the initiative as a central hub around which American actors can coordinate and market business to Southeast Asia as a direct alternative to China.<sup>254</sup>

At the same press conference, President Obama announced the creation of various U.S.-ASEAN workshops that will help ASEAN states gain transparency regarding the Trans Pacific Partnership (TPP) and will assist with reforms if individual states decide to pursue ascension.<sup>255</sup> The importance of this initiative cannot be overstated. TPP is regarded largely as an East Asian initiative that largely excludes Southeast Asia, giving China room to exert its influence in the subregion. As of now, only four of ten ASEAN states are involved in TPP negotiations—Brunei, Malaysia, Singapore and Vietnam—but three others have indicated interest in joining the agreement—Indonesia, the Philippines, and Thailand. At the press conference, Obama pledged the United States' dedication to ASEAN in this regard: "We've launched a new effort to help all ASEAN countries

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252 Parameswaran, "What Did the Summit Achieve."

253 Prashanth Parameswaran, "Obama Unveils New ASEAN Economic Initiative at Sunnylands Summit," *The Diplomat*, February 18, 2016, <http://thediplomat.com/2016/02/obama-unveils-new-asean-economic-initiative-at-sunnylands-summit/>.

254 Prashanth Parameswaran, "US Mulls New Asia Infrastructure Facility to Rival Regional Players," *The Diplomat*, June 17, 2015, <http://thediplomat.com/2015/06/us-mulls-new-asia-infrastructure-facility-to-rival-regional-players/>.

255 Parameswaran, "Obama Unveils New Initiative."



understand the key elements of TPP, as well as the reforms that could eventually lead to them joining.”<sup>256</sup>

Through a deepening multilateral integration with ASEAN, the Obama administration has taken two significant steps to undermining China’s coercive economic influence in the region. First, it has buttressed the principle of multilateral interaction with ASEAN in an environment where China seeks to maximize its influence by demanding bilateral dispute negotiation and resolution. Second, through economic engagement, the administration has provided an economic alternative to ASEAN states, supplanting China’s economic grip on the region. These initiatives are still new, so time will only tell if these initiatives will be successful. In that context, it is critical that the next administration elected must maintain its multilateral engagement with ASEAN.

## **C. IMPROVING BILATERAL RELATIONS**

While the United States must support ASEAN by engaging with it on a multilateral level, it remains important for the United States to continue to strengthen its bilateral relationships with individual nations within ASEAN. Particularly, the United States must exercise this opportunity when observing Chinese attempts of economic coercion. In this specific case, the United States appears to have recognized this opportunity, taking concerted steps to strengthen ties with both the Philippines and Cambodia, thereby undermining China’s coercive economic influence.

### **1. Engaging the Philippines**

While the United States has maintained a close relationship with the Philippines since the 1950s, the United States has demonstrated an interest in further strengthening that relationship in 2016. In April 2016, the United States committed 5,000 troops for Balikatan, a week-long bilateral training exercise in the Philippines that included a simulated amphibious assault and defense against a simulated assault on an oil rig. U.S. Defense Secretary Ash Carter visited the Philippines during Balikatan to observe the

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<sup>256</sup> Ibid.

drills.<sup>257</sup> At a press conference during the event, Secretary Carter made a series of announcements that demonstrated the United States' resolve to strengthen bilateral ties during a period when the Philippines faces coercive pressure from China. First, Carter announced the grant of \$42 million in surveillance equipment to the Philippine Armed Forces to "help it track maritime activity and guard its borders amid rising tensions in the South China Sea."<sup>258</sup> Second, Secretary Carter announced a five-year, \$425 million security deal that pledged \$120 million of American military assistance to Manila in 2016 alone—the largest amount of pledged American military aid to the Philippines since 2000.<sup>259</sup>

Finally, Carter announced the establishment of an "enhanced military alliance" between the United States and the Philippines. As part of the enhanced alliance, the United States pledged to increase the number of joint maritime patrols in the South China Sea, the forward deployment of American military aircraft at Clark Air Base, and the establishment of joint air patrols to supplement maritime patrols. Also, a part of this enhancement was a \$42 million grant to improve infrastructure at five locations in the Philippines.<sup>260</sup> Wrapping up the conference, Secretary Carter issued a relatively strong rebuke to China, tying ramped up American support of the Philippines directly to Beijing's provocations: "There's no question that there's concern in the region about China's behavior.... The U.S. values peaceful resolving of disputes. The U.S. values freedom of navigation. Countries that don't stand for those things will be isolated. That is self-isolation, not isolation by us."<sup>261</sup>

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257 Keith Johnson and Dan de Luce, "Fishing Disputes Could Spark a South China Sea Crisis," *Foreign Policy*, April 7, 2016, [http://foreignpolicy.com/2016/04/07/fishing-disputes-could-spark-a-south-china-sea-crisis/?utm\\_content=buffer78837&utm\\_medium=social&utm\\_source=twitter.com&utm\\_campaign=buffer](http://foreignpolicy.com/2016/04/07/fishing-disputes-could-spark-a-south-china-sea-crisis/?utm_content=buffer78837&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer).

258 Manuel Mogato, "U.S. to give Philippines Eye in Sky to Track South China Sea Activity," *Reuters*, April 18, 2016, <http://www.reuters.com/article/us-southchinasea-china-philippines-usa-idUSKCN0XF1GC>.

259 Mogato, "U.S. to give Philippines."

260 Bex Wright, "U.S.-Philippines Enhance Military Alliance, China Unhappy," *CNN*, April 15, 2016, <http://www.cnn.com/2016/04/14/politics/ash-carter-philippines-south-china-sea/>.

261 Wright, "U.S.-Philippines Enhance."

China's coercive attempts at extortion with the Philippines has presented the United States with an opportunity to reaffirm its commitment to the Philippines. By enhancing its security alliance with the Philippines, the United States has taken steps to bolster the Philippines thereby decreasing its reliance on China and diminishing Beijing's coercive potential.

## **2. Engaging Cambodia**

China demonstrated its influence over Cambodian politics during the summer of 2015 when Cambodia took up China's position in the ASEAN fight over addressing Chinese territorial assertiveness. In the months that followed, the United States made a considerable effort to engage Phnom Penh in an effort to increase bilateral relations. In a January 2016 trip to Cambodia, U.S. Secretary of State John Kerry championed the deep Cambodian-U.S. relationship. At a press conference, Kerry stated, "I think it's quite remarkable that the United States is, in fact, Cambodia's largest export market even though we have half the world between our countries.... And we will continue to explore ways to deepen our trade and investment relationship."<sup>262</sup> Kerry's trumpeting of the United States role as Cambodia's largest export market can be seen as a direct challenge to Beijing's grip on Cambodia as a proxy in ASEAN that results from China's economic investments in the country. As I have demonstrated, China's grip on Cambodia is obvious. In the face of such observations, the United States should seek to increase bilateral relations with Cambodia in an attempt to undermine China's economic influence over the country that it uses to extort policy decisions that advance its regional interests. It seems that the United States has recognized this as it has devoted considerable time and resources to increase interaction with Cambodia in an attempt to strengthen bilateral ties.

### ***a. 2012: Supporting Forestry and Biodiversity***

The United States has increased aid programs to Cambodia during Obama's administration. In 2012 the United States announced the Supporting Forestry and Biodiversity Project (SFB), a \$20 million initiative aimed to provide assistance to

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<sup>262</sup> Elise Labott, "In Cambodia, John Kerry Balances Trade Ties with Warning on Human Rights," CNN, January 26, 2016, <http://www.cnn.com/2016/01/26/asia/kerry-cambodia-human-rights/>.

Cambodia as it works to protect Cambodia's deciduous forests that are vital to its economic prosperity—it is estimated that roughly 70 percent of Cambodians rely on agriculture and forestry for sustenance.<sup>263</sup> Through SFB, the United States pledged to assist Cambodia as it fights to limit deforestation and promote biodiversity through a series of initiatives that will “improve the effectiveness of government and other key natural resource managers to sustainably manage forests.”<sup>264</sup> In April 2016, American ambassador William Heidt joined Cambodian Environmental Minister Say Sam Al for an aerial tour of Cambodia's more troubled forests. During Heidt's visit, he pledged American satellite resources to Cambodia as Phnom Penh continues to fight illegal logging and rubber harvesting activities.<sup>265</sup> Heidt also pledged continued American support to help Phnom Penh coordinate and focus its efforts.<sup>266</sup>

***b. 2013: Connecting the Mekong through Education and Training***

As part of the 2013 Young Southeast Asian Leaders Initiative, the United States launched the Connecting the Mekong through Education and Training (COMET) project. This five-year, \$12.3 million initiative was created to improve the quality of the workforce in Cambodia and its Mekong neighbors by devoting resources to improve education across all levels from primary to post-secondary education.<sup>267</sup>

***c. 2016: Sustainable Mekong Initiative***

In March 2016, the United States announced a recommitment to the Sustainable Mekong Initiative (SMI). SMI is a four-year initiative designed to support Cambodia and other Mekong River nations through infrastructure development and construction by

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<sup>263</sup> “Supporting Forestry and Biodiversity,” Winrock International, Accessed April 2, 2016, <http://www.winrock.org/project/supporting-forestry-and-biodiversity>.

<sup>264</sup> “Supporting Forestry and Biodiversity.”

<sup>265</sup> Zsombor Peter and Sek Odom, “After Helicopter Ride, U.S. and Government Commit to Save Forest,” *The Cambodia Daily*, April 19, 2016, <https://www.cambodiadaily.com/news/after-helicopter-ride-us-and-government-commit-to-save-forest-111456/>.

<sup>266</sup> Peter and Odom, “After Helicopter Ride.”

<sup>267</sup> “International Development: Connecting the Mekong through Education and Training (COMET),” Education Development Center, Accessed April 15, 2016, <http://idd.edc.org/projects/connecting-mekong-through-education-and-training-comet>.

providing Cambodia with “rapidly deployable technical assistance from the U.S. Government’s premier scientists and engineers.”<sup>268</sup> A key component of SMI is the Lower Mekong Initiative (LMI). LMI was launched in 2009, but was brought under the auspices of SMI in 2016. LMI is designed to increase technical exchange between the Mekong River nations across six pillars of development: agriculture development, telecommunication connectivity, education development, energy security, environment protection, and health promotion.<sup>269</sup> Since its creation, the United States has devoted more than \$100 million to support LMI infrastructure and initiatives, while bilaterally donating \$285 million in 2015 to LMI countries as they make advances in the six pillars.<sup>270</sup>

#### **D. MAINTAINING RELEVANCE**

As China continues to coercively wield its economic muscle in the region, the United States must maintain regional relevance. The United States seems to be doing so successfully through the Obama administration’s attempts to strengthen both its multilateral relationship with ASEAN and its bilateral ties wherever attempts of Chinese economic coercion are witnessed. Through its work with ASEAN over the past eight years, the current administration seems to be signaling to future administrations the significance of the region to American foreign policy. In short, the United States needs to maintain the engagement in an effort to challenge China’s coercive economic diplomacy. As a participant in ASEAN Plus forums, China maintains veto power in such forums and it is wont to use that power. In November 2015, the ASEAN Defense Ministers Meeting Plus ended without a joint declaration that decried China’s assertiveness in the South China Sea despite overwhelming support because Beijing wielded its veto power.<sup>271</sup> In

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<sup>268</sup> “Sustainable Mekong,” USAID, March 29, 2016, <https://www.usaid.gov/asia-regional/sustainable-mekong>.

<sup>269</sup> “The Lower Mekong Initiative (LMI),” Lower Mekong Initiative, Accessed April 2, 2016, <http://lowermekong.org/about/lower-mekong-initiative-lmi>.

<sup>270</sup> “Lower Mekong Initiative FAQ’s,” U.S. Department of State, Accessed April 3, 2016, <http://www.state.gov/p/eap/mekong/faq/>.

<sup>271</sup> Ben Schreer and Sheryn Lee, “The Importance of the Joint Statement on the US-ASEAN Strategic Partnership,” *The Diplomat*, November 26, 2015, <http://thediplomat.com/2015/11/the-importance-of-the-joint-statement-on-the-us-asean-strategic-partnership/>.

addition to its veto power, the People's Republic recognizes its economic clout and its ability to use it in a coercive nature. In 2009, a think tank working with the PRC's Ministry of State Security came to this conclusion: "Given the fact that our nation has increasing economic power, we should prudently use economic sanctions against those countries that undermine world peace and threaten our country's national interests."<sup>272</sup>

## **E. CONCLUDING REMARKS: AT A CROSSROADS**

The United States finds itself at a crossroads with the coming election season. Current initiatives that I have described will need time to develop before we can determine their effectiveness as challenges to Chinese coercive economic policy. In an environment where leading candidates are suggesting a return to isolationism and a withdrawal from Asia, it is a real concern that the next American presidential administration might break off the engagement that has been meticulously constructed over the past decade. With numerous demands emerging to divert the attention of American foreign policy between the Islamic State, Russia's resurgence, and worrying global economic trends, it would be easy for the United States to shed multilateral work in the region and opt for bilateral negotiations and deals. Such an approach would be devastating as it would vindicate China's bilateral approach in the region. Amidst the backdrop of Chinese coercive economic policy, there can only be the check of an increased American presence through multilateral channels such as ASEAN coupled with targeted attempts at improving bilateral relationships when witnessing Chinese attempts of coercive economic policy.

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<sup>272</sup> Eric B. Lorber and Peter Feaver, "The Coming Wave of Sanctions," *Foreign Policy*, December 3, 2015, <http://foreignpolicy.com/2015/12/03/the-coming-wave-of-sanctions/>.

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