

Influence for Sale? China's Trade, Investment and Assistance Policies in Southeast Asia

By Shanthi Kalathil

China invests several billion dollars per year in Southeast Asia to bolster its regional influence and advance its strategic interests. Although this investment has improved relations with Vietnam and other Southeast Asian neighbors in some ways, China's well-documented charm offensive¹ has proved less effective than is commonly perceived. China's development projects have often alienated local populations, and its nationalistic rhetoric over the South China Sea has increasingly strained its relations with other South China Sea claimants.

A Decade of Charm – and Cash

China's foreign policy emphasizes its "peaceful rise," nonconfrontational discourse and a moderate tone in the South China Sea region. As a result, trade, investment and official development assistance (ODA) are important elements of China's foreign policy with key regional states.²

A 2011 Chinese white paper on foreign aid – groundbreaking in its own way for publicly discussing Chinese ODA policies and data – states that the purpose of China's foreign aid is to consolidate friendly relations and economic and trade cooperation with other developing countries, promote South-South cooperation and contribute "to the common development of mankind." According to the white paper, China provided \$39 billion in aid to foreign countries by the end of 2009, including \$16.6 billion in grants, \$11.6 billion in interest-free loans and \$11.19 billion in concessional loans. Turnkey projects accounted for 40 percent of this total. The white paper also notes that 123 developing countries receive regular aid, including 30 in Asia and 51 in Africa. Together, Asia and Africa receive roughly 80 percent of China's foreign assistance.³

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Although the white paper does not break the data down by country, the Congressional Research Service estimates that the amount of trade, investment and ODA directed toward Southeast Asia – in particular via infrastructure financing – has grown substantially in recent years and that China is one of the largest sources of economic assistance, defined broadly, in Southeast Asia.⁴ A Chinese foreign ministry paper, issued to coincide with the November 2011 summit of the Association of Southeast Asian Nations (ASEAN) in Bali, stressed the rapid growth in China-ASEAN trade, averaging more than 20 percent annual growth since 1991, as well as growth in two-way investment to nearly \$80 billion. The 2010 Chinese-ASEAN

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Free Trade Area, which provides zero-tariff treatment for over 90 percent of products exchanged between China and ASEAN, has helped cement trade relations.⁵

China has particularly cultivated economic relations with states neighboring the South China Sea. In Vietnam, a major trading partner, China has helped develop railway construction, hydro-power development and ship-building facilities. In the Philippines, China has invested in infrastructure, energy, agriculture and mining. One report cited

China as the third largest source of bilateral ODA to the Philippines in 2006, after Japan and the United Kingdom, while another called the Philippines the largest recipient of Chinese loans in Southeast Asia, totaling \$2 billion in commitments in 2007.⁶ In November 2011, China and Brunei signed four Memoranda of Understanding covering forestry, energy, commercial oil and gas sector cooperation and the establishment of “sister cities.”⁷ Although precise figures are difficult to find, some analysts believe that China is the primary supplier of economic assistance to Burma, Cambodia and Laos, financing a number of energy-related, infrastructure, agricultural and other high-profile development projects in these countries.⁸

In Southeast Asia, as elsewhere, Chinese foreign assistance and investment diverge from internationally accepted norms emphasizing good governance, transparency and conditionality. Whereas mainstream global development practice tends to establish conditions for assistance or loans, such as requiring the recipient country to establish market-opening or good-governance policies, China’s overarching development policy hews to “noninterference” in the countries that receive its investment and ODA. The recent white

paper on foreign aid notes that “China never uses foreign aid as a means to interfere in recipient countries’ internal affairs or seek political privileges for itself.”⁹ In practice, however, China often uses its development and investment policies to gain access to resources or achieve favorable diplomatic outcomes.

Nonetheless, China’s approach to development is attractive to governments that chafe at requirements for good governance or other stipulations from bilateral and multilateral donors. The Chinese principle of noninterference resonates strongly within the countries of ASEAN – an organization that holds dear such principles as mutual noninterference and cooperation. Thus, over the past decade, China’s self-interested but nonconditional aid approach has appeared particularly attractive to many Southeast Asian governments, if not always to the local communities most directly affected by specific projects.

Does Chinese Investment Translate Into Influence?

China hopes that these regional investments will translate into influence in two ways: by improving domestic goodwill and cooperation and by helping to achieve favorable outcomes for China in South China Sea disputes. Yet developments over the past few years suggest that Chinese influence in both of these areas remains limited.

DOMESTIC INFLUENCE IN NEIGHBORING STATES

By using its development assistance too nakedly for self-interested outcomes, Chinese leaders have failed to engender the goodwill they thought they were creating in partner countries. China visibly uses its capital and development assistance overseas to obtain access to natural resources, energy and other strategic interests, sometimes to the detriment of the ostensible beneficiaries of its aid and investment. This approach to bilateral aid and investment lies well outside the evolving framework of global norms guiding such assistance, which stress local ownership of projects, involvement and empowerment of local civil society and transparency around project development as well as wider donor development policy.

Examples from Vietnam and the Philippines illustrate this dynamic. In Vietnam, which contains the world’s third-largest reserves of bauxite, a deal with a subsidiary of a state-owned Chinese mining group met with furious opposition from a variety of groups, including war heroes, monks and environmental activists. Although nationalistic sentiment fueled some of the opposition, the environmental impact and the nature of China’s approach toward mining in Vietnam – bringing in thousands of laborers from China – were key concerns.¹⁰

In the Philippines, China granted a \$500 million loan to build a rail line linking Clark with Manila, which was heralded at the time as a

prime example of economic cooperation between the two countries. However, the rail line was mired in controversy when critics claimed corruption and foul play. “While American and European companies have to comply with anticorruption principles, the Chinese I should say are completely ignoring these tools of transparency and accountability. And that is what [is] worrisome,” a lawyer advising the Philippine Congress said in 2009.¹¹ The rail project, which was eventually suspended over corruption claims, has recently been revived by the Philippine government after China agreed to modify the funding terms and design.

A more recent anecdote from Burma is even more striking. China has long counted Burma as a solid ally, particularly when it comes to welcoming investments designed to satisfy China’s ever-burgeoning demand for energy. Yet the Burmese leadership abruptly halted a large Chinese hydropower project in September 2011. The project foundered partly on the belief that it served mainly to funnel electricity to China’s eastern cities, rather than to benefit local populations. Moreover, the project was perceived to be nontransparent and noninclusive of the views and interests of local populations and Burmese civil society, which had protested it and other Chinese dam projects.¹² That such concerns could contribute, even partly, to Burma’s shelving an important project by its chief benefactor is astonishing.

TENSIONS IN THE SOUTH CHINA SEA

It is difficult to demonstrate that Chinese trade, investment and assistance have led directly to specific benefits for China in the South China Sea. However, over the past decade, China’s Southeast Asian investment and development approach has coincided with a “conscious dampening of outstanding regional disputes.”¹³

The South China Sea is claimed in some fashion (either by asserting sovereignty claims to islands or land features or by asserting maritime rights) by China, Taiwan, Vietnam, the Philippines, Malaysia, Indonesia and Brunei. The 1990s saw heightened tension and flare-ups between China and its maritime neighbors over disputed territory. This was followed by a period of relative calm, marked by China’s signing of the Declaration on the Conduct of Parties in the South China Sea in 2002. China’s leadership heralded this act as signaling the country’s willingness to resolve disputes within a cooperative framework.

However, the situation has deteriorated recently as China has returned to more bellicose rhetoric and increasingly assertive actions, setting its regional trading and investment partners on edge. In 2011, Chinese maritime surveillance ships adopted a more aggressive stance than

they had previously, reportedly harassing other nations' vessels in disputed waters in at least three separate incidents.¹⁴ Chinese publications intended for overseas audiences have also adopted a more nationalist line, as noted with alarm by regional analysts. "The Beijing-based *Global Times* published an abrasive editorial warning claimants in the South China Sea to prepare for 'the sounds of cannons'... China must learn to tread and speak more softly," wrote one analyst in *The Jakarta Post*.¹⁵ Other countries have also reacted negatively to China's rhetoric and action, and some have responded with nationalistic rhetoric and action of their own.

From April to June 2012, the Philippines and China engaged in a tense standoff near Scarborough Shoal – prompting widespread protests in the Philippines – before both sides withdrew their ships in order to de-escalate the situation. Soon thereafter, a Chinese frigate ran aground in the same waters, nearly drawing the Philippine navy into a new standoff before the ship was refloated and returned home.¹⁶ During these incidents, Beijing tried to use its economic leverage to get Manila to back down and to deter it from challenging Chinese ships in the future. The Chinese cancelled tours, slowed agricultural imports and created general uncertainty about future bilateral relations, which had a chilling effect on trade and investment. Yet it is not clear that these Chinese actions affected Philippine policy in any significant way, which demonstrates some of the limits of the Chinese investment strategy.¹⁷

Conclusion

Against the backdrop of China's efforts to secure trade deals, build up investments and blanket the region with development assistance, it is striking how little China's regional soft-power strategy has cushioned the country from negative diplomatic and security disputes by its neighbors. Two explanations are possible. First, hard security interests, particularly those inextricably linked to core national identity, trump the economic interests of China's South China Sea neighbors. Second, although China has touted its willingness to operate outside the bounds of global development norms as an asset for recipients of bilateral aid, this very nonconformity may have lessened the intended positive impact of its assistance over the long term. If China is perceived by the recipients of its aid as caring solely about its own strategic aims, the goodwill generated by its assistance and investment may prove fleeting when short-term diplomatic or security disputes arise.

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ENDNOTES

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