

Dividing ASEAN and Conquering the South China Sea

China's Financial Power Projection

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Introduction

The Rise of China in the South China Sea

Background

China is surrounded. To its north lies Russia, with whom it shares the world's sixth longest border as well as the distinction of bordering fourteen countries, more than any other. To its west and southwest, it shares a nearly equally long border with India, like China a historically great and currently re-rising Asian power. Its southeast and east coasts are demarcated by seas with islands claimed by many neighboring states. In addition, there is a powerful US military presence on land, air, and sea in the Pacific as well as in East and Southeast Asia, viewed by many Chinese as an effort to contain China's rise. The number of countries on China's borders increased considerably with the collapse of the Soviet Union in 1991; the long stretch of northern and western China that once bordered just the USSR and its Mongolian satellite state now touches not only Russia and Mongolia to the north, but also Kazakhstan, Kyrgyzstan, and Tajikistan to the west. With the notable exceptions of its boundaries with India and Bhutan, however, China has resolved its mainland border disputes.¹ This is due to the negotiations and compromise that China engaged in with its new neighbors following the collapse of the Soviet Union in 1991. These negotiations were aimed at resolving leftover Sino-Soviet border disputes, which had led to violent skirmishes involving fatalities on both sides in 1969. China has not only negotiated extensively over territorial sovereignty, but also compromised, in the case of Kazakhstan, for example, giving up slightly more of the disputed territory than it received.

China's willingness to negotiate and compromise over its western land border stands in stark contrast to its dogmatic refusal to negotiate the sovereignty of its disputed maritime claims. These claims include the Diaoyu/Senkaku islands in the East China Sea, claimed also by Taiwan (the Republic of China or ROC) and Japan, and all of the islands in two chains in the South China Sea: the Paracels and Spratlys. Because according to its constitution the ROC is "China," the Taiwanese government makes similar claims to all

Figure 1 China and its neighbors

Source: http://d-maps.com/carte.php?num_car=4641&lang=en.

of these islands in the South China Sea. Along with the People's Republic of China (PRC or "China") and the ROC, Vietnam claims all of the Parcel and Spratly islands, while Malaysia, the Philippines, and Brunei claim various Spratly islands. With the exception of Brunei, each of these rival claimants also occupies more than one of the Spratlys, while China has controlled all of the chain of islands to the north since defeating the South Vietnamese in the Battle of the Parcel Islands in 1974. With the exception of the two "Chinas," all of the rival claimants are members of the Association of Southeast Asian Nations (ASEAN), which also includes Myanmar, Thailand, Cambodia, Laos, Singapore, and Indonesia.

China bases its sovereignty claims in the region, commonly referred to as the "nine dash line" used by the government to demarcate claim maps, on historical records that the government asserts prove that Chinese discovered the islands during the Han dynasty, roughly two millennia ago. The PRC government further claims that its political jurisdiction over the region dates to the Yuan dynasty, approximately 750 years ago, and was only interrupted by Japanese occupation during the Second Sino-Japanese War, or World War II.² China dates its claim to the Paracels to the Northern Song dynasty, roughly a millennia ago.³ The PRC's stance is summed up in a 2014 position

Figure 2 ASEAN member states



Source: http://d-maps.com/carte.php?num_car=5269&lang=en.

paper issued by the Ministry of Foreign Affairs in response to an attempt by the Philippines to bring its claims in the Spratlys before the Permanent Court of Arbitration at The Hague under the United Nations Convention on the Law of the Sea (UNCLOS):

China has indisputable sovereignty over the South China Sea Islands (the Dongsha Islands, the Xisha Islands, the Zhongsha Islands and the Nansha Islands) and the adjacent waters. Chinese activities in the South China Sea date back to over 2,000 years ago. China was the first country to discover, name, explore and exploit the resources of the South China Sea Islands and the first to continuously exercise sovereign powers over them.⁴ [parentheses in original]

Dongsha, meaning “East Sand” (or “Eastern Beach”), is the Mandarin language name for the Pratas Islands or Pratas Archipelago (*Dongsha Qundao*), which lies between Taiwan and the PRC’s Hainan Island, and is the northernmost chain in the South China Sea. It is mostly an atoll, from an aerial view strongly resembling the Ring Nebula—with Pratas Island on the westernmost part of the ring. The ROC government on Taiwan, whose airstrip and military installations take up much of the island, is the only rival claimant to the PRC and has effectively controlled Pratas, which it firmly claims “is not a rock,” since the surrender of the Japanese following World War II.⁵

The more than thirty islands comprising the Paracels are called *Xisha* (west sand) in Mandarin. A group of mostly submerged features, but including the hotly disputed Scarborough Shoal/Huangyan Island, between the Paracels and the Philippines are called *Zhongsha* (middle sand); the several hundred islands, reefs, and other features known in English as the Spratlys are *Nansha* (southern sand).⁶ The Japanese claimed the Spratlys in 1939 and annexed the Paracels as part of Taiwan Province in 1941. Perhaps fortunately, given the already complex competing territorial claims in the region today, Chapter 2, Article 2, Section F of the Treaty of San Francisco between the Allied powers and Japan unambiguously states: “Japan renounces all right, title and claim to the Spratly Islands and to the Parcel Islands.”⁷

While China claims sovereignty since ancient times over these islands, the current Chinese state, the People’s Republic of China ruled by the Chinese Communist Party (CCP) has only existed since 1949. The PRC set up the Administration Office for the Xisha, Zhongsha, and Nansha Islands a decade after the state’s founding, in 1959. In 1988, China established Hainan Province to include not just the relatively large and heavily settled island of Hainan, but also the Xisha, Zhongsha, and Nansha chains.⁸ In the same year, PRC troops pushed Vietnamese forces off of Johnson Reef in the Spratlys.⁹ In June 2012, China established a “city” comprising mostly water, technically a municipal level government, in Hainan Province: “to administer about two

million square kilometers of islands, coastal areas, and territorial waters in the South China Sea."¹⁰

In 2015, Chinese ambassador to Australia, Ma Zhaoxu, pithily summarized the Chinese position regarding its claims: "Before the 1970s, no country had ever disputed China's sovereignty over the islands. However, since the 1970s, some coastal countries have illegally occupied some of China's islands and reefs. This is the crux and root of the South China Sea disputes between China and other countries."¹¹ However, it should be noted that prior to the PRC's acceptance into the United Nations in 1971, the China whose sovereignty was allegedly undisputed was that of the ROC. The ROC government on Taiwan's official stance on the sovereignty of the disputed islands in the South China Sea is straightforward:

Whether from the perspectives of history, geography, or international law, the Nansha (Spratly) Islands, Shisha (Paracel) Islands, Chungsha Islands (Macclesfield Bank), and Tungsha (Pratas) Islands, as well as their surrounding waters, are an inherent part of ROC territory and waters. As the ROC enjoys all rights to these island groups and their surrounding waters in accordance with international law, the ROC government does not recognize any claim to sovereignty over, or occupation of, these areas by other countries, irrespective of the reasons put forward or methods used for such claim or occupation.¹²

Nevertheless, other than its occupation of Pratas, the largest island in the South China Sea, since 1946 and Taiping (Itu Aba), the largest of the Spratlys (if one ignores reclamation projects), beginning in the same year, for several decades Taiwan did not make significant efforts to assert its sovereignty, although both islands include airports and military installations. In fact, in 2000 it replaced marines on Taiping Island with the Coast Guard, emphasizing anti-piracy, marine rescue, and ecological conservation missions over defense.¹³ However, rising tensions in the region led Taiwan in 2015 to announce military aircraft patrols in the South China Sea.¹⁴ But Taiwan's actions in the region have been relatively benign. This is undoubtedly due to the uncertainty regarding the ROC government's own sovereignty over the island of Taiwan as well as Taiwan's international isolation, which discourages the ROC government from enacting policies or taking actions that would be opposed by or isolate it even further from its neighbors. The PRC government, on the other hand, appears to have made a strategic calculation to put aside a regional diplomatic approach emphasizing China's soft power and its peaceful rise in favor of much more active, assertive and, at times, aggressive regional policies.

Figure 3 Competing South China Sea territorial claims

Source: "Challenging Beijing in the South China Sea," *Voice of America*, July 31, 2012, US State Department public domain map, accessed September 26, 2016, <http://blogs.voanews.com/state-department-news/2012/07/31/challenging-beijing-in-the-south-china-sea>.

China's Sovereignty over the Sea

When the CCP's People's Liberation Army (PLA) expelled the bulk of the ROC's Nationalist (KMT) troops from the mainland in 1949, the defeated Nationalists fled to several islands to the east and south, the largest of which, of course, was Taiwan, which had been administered by the ROC since the Japanese surrender in 1945. The PLA and the CCP successfully secured sovereignty over more than 20 islands off the southeast coast of Zhejiang and Fujian Provinces, such as Dachen and Haitan, between 1950 and 1955.

However, several islands near the Chinese coast and in the Taiwan Strait, such as Jinmen (Quemoy) just a few miles from the mainland city of Xiamen in the PRC's Fujian Province, are still controlled and administered by the ROC.¹⁵ The PRC first dipped its foot in the waters of the South China Sea to assert sovereignty claims when 100,000 People's Liberation Army troops crossed from the mainland and removed the KMT from Hainan Island in 1950, a year after PLA troops failed to oust KMT forces from Jinmen, which would have allowed the CCP and its PLA troops to take a first step toward Taiwan. KMT troops also evacuated Woody Island in the Paracels, known now for China's long airstrip, at this time.¹⁶

It is worth emphasizing here that ROC control of Jinmen, Matsu, and the Penghu Islands (in the middle of the Taiwan Strait), stand as lasting symbols of the inability of the CCP to establish sovereignty over Taiwan and, in particular, the lack of PLA military power projection. However, it is also worth mentioning that at some point during their Cold War struggle, both Mao Zedong and Chiang Kai-shek appeared to realize that ROC control of islands between Taiwan and the mainland were a link between the two that neither wanted to sever, as both dreamed of a single, unified China. China's attempts to secure sovereignty in the South China Sea, and particularly efforts to create new islands through dredging and then to build airstrips on them, is partially an attempt to project power regionally, allowing an increasingly powerful PRC (and PLA) finally to assert sovereignty over territories that it has, until now, been unable to. Although these maritime territorial claims are distinct, geographically, politically, historically, and internationally from the PRC claim to Taiwan, they are not unrelated to that all-important sovereignty dispute.

Following the civil war, PRC efforts to assert sovereignty beyond the mainland took a backseat to Cold War geopolitics, with the wars in Korea and Vietnam giving the United States a primary role in the region, which included stationing nuclear weapons in both Taiwan and the Philippines. China's relations with Vietnam remained tense even after the Communist victory there in 1975, culminating in the Sino-Vietnamese border war in 1979. That conflict saw the PRC attempt to punish the Vietnamese regime for having removed the Chinese-backed Khmer Rouge from Phnom Penh in 1979, the same year that Deng Xiaoping's transformational economic reforms began in China. At times, during the initial decades of this reform period until about the turn of the century, China forcefully pursued its claims in the South China Sea, particularly against Vietnam and the Philippines. However, just as pursuing Chinese sovereignty took a back seat to geopolitics during much of the Mao era, it took a back seat to economic development during Deng's "reform and opening" (*gaige kaifang*) era; China normalized many

of its diplomatic relations, most significantly with the United States, also in 1979, a pivotal year for China at home, regionally, and globally.

Following early reforms in the agricultural sector at the end of the 1970s and into the 1980s, industrialization and manufacturing in China were partially fueled by imports of capital, technology, and ideas resulting in the export of manufactured goods. In other words, China joined the global economy. And it required a peaceful environment in which to pursue development. But even more than globalization, China engaged in what might be called "regionalization," with massive inflows of capital from Japan in the form of aid and foreign direct investment (FDI) and, importantly, FDI from "Greater China," with investors from Hong Kong and Taiwan, who faced fewer linguistic and cultural hurdles than other "foreign" investors, moving labor-intensive manufacturing to the mainland Chinese coast. It was no coincidence that in 1980, Deng Xiaoping, with the guidance of reformers like Hu Yaobang and Zhao Ziyang, had chosen the cities of Zhuhai, bordering the then Portuguese enclave of Macao; Shenzhen, bordering Hong Kong; and Shantou and Xiamen, across the Taiwan Strait from the ROC; as China's first four Special Economic Zones (SEZs). Overseas Chinese from Malaysia, Indonesia, and other countries in the region, in what is sometimes referred to as the "bamboo network," also invested in the mainland economy. Meanwhile, China began importing petroleum from the Middle East through the South China Sea in 1983. With the exception of the Johnson South Reef naval battle with Vietnam in 1988, China's policies in the region, like those of Taiwan, became relatively benign and grew even more cooperative as the Chinese government began to implement its "Go Out" (*zou chu qu*) policies, pushing Chinese firms to invest abroad, especially in Asia and Africa, at the turn of this century.

Somewhat paradoxically, the fundamental need for a stable regional environment as the PRC implemented its "Go Out" strategy, saw China becoming more peaceful as it became more powerful. In the early years following its founding, the PRC fairly frequently used engagement in interstate conflict as a foreign and domestic policy tool (to create enthusiasm for Mao's various mobilization campaigns, in the latter case, for example), despite its guiding foreign policy philosophy of the Five Principles of Peaceful Coexistence. Chinese Premier Zhou Enlai and Indian Prime Minister Jawaharlal Nehru announced the Principles, the first two of which are "mutual respect for each other's territorial integrity and sovereignty" and "mutual non-aggression," in India in 1954. But the Chinese quickly found that these were sometimes mutually necessary to ignore. In fact, relations with India quickly deteriorated, especially following the Dalai Lama's exodus from Tibet to India in 1959 leading to the 1962 Sino-Indian War. Relations with key Communist neighbors also worsened as China attempted to become both a leader of

global communism and a regional military power; 1969 saw the Sino-USSR border skirmishes and 1979 witnessed the Sino-Vietnamese War, each of these three (including the 1962 war) were border conflicts and, in the first two cases, fundamentally over territory. On the sea, the year 1974 witnessed conflict with the Republic of Vietnam over the Crescent group in the Paracels, while 1988 saw a battle with the Socialist Republic of Vietnam over Johnson Reef in the Spratlys. While there were no military battles, the Chinese did use military forces to secure Mischief Reef, claimed by the Philippines, in 1995.¹⁷

Nearly bookending all of these instances of the use of military power by the Chinese were the First and Third Taiwan Strait Crises in 1954–1955 and 1994–1995. The first crisis saw PRC forces take the offshore islands of Dachen and Yijiangshan, while the ROC held onto Jinmen (Quemoy) and Matsu. This was followed by another crisis in 1958 in which the PRC conducted a massive bombing campaign of Jinmen. The third crisis was comprised of a series of missile tests near Taiwan aimed at influencing both the leadership and voters, as Taiwanese President Lee Teng-hui gradually shifted away from the long-time Nationalist Party's (KMT) one-China stance, and Taiwanese voters went to the polls for the first time to elect their president. Prior to all of this, of course, came the PRC's most significant and first major military campaign: fighting for the North Koreans against US, South Korean, and UN troops beginning in late 1950.

Despite a half century of the use of military conflict as a foreign policy instrument, with the economic rise of China and the associated "Go Out" policies, the first decade of the new century saw China take a more peaceful and cooperative regional stance, with a somewhat more sophisticated soft power approach to influencing states replacing the use of hard power. For example, rather than attempting to intimidate Taiwanese voters by launching missiles toward the island, China aimed to influence interest groups in Taiwan by giving them a stake in Sino-Taiwanese economic cooperation, such as trade preferences for agricultural goods from southern Taiwan, a traditional stronghold of the pro-independence Democratic Progressive Party (DPP).

In Southeast Asia, China's more cooperative approach secured the Declaration on the Conduct of Parties in the South China Sea (DOC) signed by the foreign ministers of China and the member states of ASEAN at the Eighth ASEAN Summit in Phnom Penh in November 2002 in which:

The Parties concerned undertake to resolve their territorial and jurisdictional disputes by peaceful means, *without resorting to the threat or use of force*, through friendly consultations and negotiations by sovereign states directly concerned, in accordance with universally recognized principles of international law, *including the 1982 UN Convention on the Law of the Sea*;

The Parties undertake to exercise self-restraint in the conduct of activities that would complicate or escalate disputes and affect peace and stability including, among others, *refraining from action of inhabiting on the presently uninhabited islands, reefs, shoals, cays, and other features* and to handle their differences in a constructive manner . . . Pending the peaceful settlement of territorial and jurisdictional disputes, the Parties concerned undertake to intensify efforts to seek ways, in the spirit of cooperation and understanding, to build trust and confidence between and among them.¹⁸ [emphasis added]

China further cooperated with the governments of the Philippines and Vietnam in establishing the 2004 Joint Marine Seismic Undertaking (JMSU) in which national oil companies from each state would jointly explore for resources in the waters claimed by the Philippines. In addition, in 2006, Chinese Premier Wen Jiabao told Brunei's Sultan Hassanla Bolkiah that the two countries should jointly develop resources in the South China Sea, stating that China's policy is "shelving disputes and seeking joint exploitation."¹⁹ Regional peace, stability, and cooperation, particularly near China's booming coast and in the important waterways of the South China Sea, appeared to be in China's self-interest as it sought to follow Deng Xiaoping's dictum to "*hide our capacities and bide our time*; be good at maintaining a low profile; and never claim leadership" (emphasis added).²⁰

The Emperor's Flashy New Clothes

Apparently China's current leadership, with Xi Jinping at the helm, now believes that the country's position has been secured, capacities should be flaunted, and it is time for the PRC to take a leadership role regionally, and, to a lesser extent, globally. China is shedding Deng's old, dull, wait-and-see strategy representing the past (or, perhaps, a transition to the future) and donning Xi's new, confident foreign policy. But in this case, the emperor's new clothes are visible to everyone and, in the eyes of some, represent a threat to regional stability. As part of this more assertive foreign policy, China has begun to press its maritime claims more aggressively. Unlike many of its resolved land border disputes, China is asserting these claims in terms that leave little room for compromise with those with competing claims; there are audience costs both domestically and internationally to any leader who makes strong sovereignty claims and then backs down, especially in increasingly nationalistic China. And the Chinese Communist Party leadership appears to be using maintaining and pursuing Chinese territorial sovereignty as an alternative source of legitimacy to economic development, in case that pillar holding up the Party's right to rule should ever weaken and collapse.

The hyper-successful pursuit of development has justified Communist Party rule since Deng Xiaoping tossed aside the ideologies of Marxism and its Maoism variant not long after Mao's death, which sounded the death knell for the Cultural Revolution in 1976. As economic growth inevitably slows, the Party appears to be shifting a bit of the weight of legitimacy from the development to the nationalism pillar. There is a general misconception that China's need to develop oil and gas resources may be directly fueling the country's assertive policies towards its South China Sea claims. It is important to note, however, that the region is much more important as a conduit for imports of oil and gas to China from other regions than it is for its own oil and gas reserves, or even the potential future development of hydrocarbon resources. The US Energy Information Agency (EIA) estimates that, while the entire region does contain significant deposits of hydrocarbons, these are mostly along undisputed regions near countries' coasts and not near the contested islands: "EIA estimates the region around the Spratly Islands to have virtually no proved or probable oil reserves." The Agency does allow that there may be "significant deposits of undiscovered hydrocarbons" up to about five billion barrels of oil. As for the Paracels, the EIA states: "The Paracel Island territory does not have significant discovered conventional oil and gas fields and thus has no proved or probable reserves. Geologic evidence suggests the area does not have significant potential in terms of conventional hydrocarbons."²¹ However, it goes without mentioning, but nevertheless is worth doing so, that the South China Sea is abundant in fish.

China's position on its maritime claims appeared to harden considerably in 2010, when it was reported that Chinese officials had referred to the South China Sea as one of the state's "core interests" (*hexin liyi*), placing it on a par with Chinese claims to Tibet and Taiwan.²² In fact, at the ASEAN Regional Forum meeting in Hanoi, Vietnam, the same year, US Secretary of State Hillary Clinton responded to this supposed change in Chinese policy by stating: "The United States . . . has a *national interest* in freedom of navigation, open access to Asia's maritime commons, and respect for international law in the South China Sea" (emphasis added).²³ While the PRC terming the South China Sea a "core national interest" was widely reported, Michael Swaine at the Carnegie Endowment for International Peace finds no evidence in official PRC documents or the state-controlled media of the region being termed a core interest. He goes on: "In fact, when given the opportunity to clarify the official record on this issue, Chinese officials have avoided doing so."²⁴ However, this failure to do so could also be viewed as a means of not appearing to backtrack, given the government's use of sovereignty as a pillar of legitimacy and both the international, and, more importantly, the domestic audience costs of backing down or of being perceived as having backed down. As Professor Zhu Feng from Peking University stated:

“It’s not Chinese policy to declare the South China Sea as a core interest. But the problem is that a public denial will be some sort of chicken action on the part of Chinese leaders. So the government also doesn’t want to inflame the Chinese people.”²⁵

Despite its increasingly assertive behavior in pursuing its claims to all of the islands and other geographic features in the South China Sea, including turning several of those features into islands through dredging, and its efforts to prevent ASEAN states from negotiating multilaterally with China over rival claims, Chinese Foreign Minister Wang Yi has stated that his country is willing to negotiate:

Here is China’s basic proposition: we seek to peacefully resolve disputes through negotiation and consultation on the basis of respecting historical facts and in accordance with international law, including the *United Nations Convention on the Law of the Sea* (UNCLOS). This position will not change. Through friendly consultations, China and ASEAN countries have developed a full set of mechanisms to properly handle the South China Sea issue. First, the issue shall be resolved through a dual-track approach, which means specific disputes should be addressed peacefully *by parties directly concerned* through consultation and negotiation. This is stipulated in Article 4 of the DOC, and it is also a joint commitment by China and the 10 ASEAN countries. The dual-track approach also means that peace and stability in the South China Sea shall be jointly upheld by China and ASEAN countries. I would like everyone to know that China and ASEAN are fully capable of maintaining peace in this body of water.²⁶ [emphasis added]

It is important to note that while Wang mentions the “mechanisms” developed by China and ASEAN, discussed in the next chapter, the Chinese do not support multilateral negotiations with the ASEAN member states collectively over these disputes; thus he refers to “specific” disputes and the “parties directly concerned.” The PRC government more explicitly states: “With regard to disputes concerning territorial sovereignty and maritime rights, China has always maintained that they should be peacefully resolved through negotiations *between the countries directly concerned*” (emphasis added).²⁷ This stance precludes multilateral negotiations between China and ASEAN as well as the involvement of other regional and global powers, most notably the United States. As Defense Minister Chang Wanquan stated following a meeting with the US secretary of defense and other defense ministers, including those from the ASEAN member states: “These disputes should be resolved by the countries directly concerned . . . We oppose any attempt to internationalize or complicate the disputes.”²⁸

The priority the Chinese government gives to these disputes is evident in the first ever White Paper on China’s Military Strategy, released in May of 2015 by the PRC Ministry of Defense; it made direct reference to the conflict in just the fourth paragraph of the first of six sections, “National Security”:

On the issues concerning China's territorial sovereignty and maritime rights and interests, some of its offshore neighbors take provocative actions and reinforce their military presence on China's reefs and islands that they have illegally occupied. Some external countries are also busy meddling in South China Sea affairs; a tiny few maintain constant close-in air and sea surveillance and reconnaissance against China. It is thus a long-standing task for China to safeguard its maritime rights and interests.²⁹

China's words and actions suggest its preference ordering for strategies to support these territorial claims is unilateral, followed by bilateral, and, lastly, multilateral. Ideally, from the PRC's point of view, the Chinese could take unilateral actions like they have in the South China Sea and ignore the responses of other states. Given the strong reaction of states both in and outside of the region, however, China then prefers bilateral to multilateral negotiations. This is quite evident by China's rejection of the matter being brought up in a number of multilateral forums, from the United Nations Permanent Court of Arbitration to the 2015 ASEAN Defense Ministers Meeting Plus.³⁰ China's negotiating stance is unequivocal; its sovereignty over the South China Sea is not negotiable and rival claimants must address their concerns in bilateral negotiations with the PRC. Just as the PRC is willing to negotiate with the ROC on a range of issues regarding the political status of Taiwan as long as the ROC government first accepts Chinese sovereignty over Taiwan, China is willing to discuss the South China Sea with any individual claimant, but its claim of sovereignty over the South China Sea is not negotiable with any single state, let alone group of states.

Much of this book examines these Chinese efforts to secure sovereignty without compromise. In order to do so successfully, China must use its continually expanding diplomatic, military, and, especially, economic power to influence rival claimants. Chinese efforts to secure claims over rivals in the South China Sea are complicated both by the number of rival claimants and the fact that all (with the exception of Taiwan) are ASEAN member states. China seeks, therefore, a negotiating position of relative strength, which it can best achieve through bilateral, rather than multilateral negotiations. While Chinese power by nearly any measure is much greater than that of any single rival claimant, ASEAN stands as a multilateral institution through which these weaker states can balance against China's relative power in negotiations. China, therefore, pursues a divide and conquer strategy against ASEAN member states in order to prevent them from acting collectively on this issue through this multilateral forum. Chinese efforts are aimed at preventing the consensus among ASEAN member states that is at the heart of the "ASEAN Way."

Two Tales

This book tells two tales. One is the story of China's efforts to divide ASEAN in pursuit of its territorial claims in the South China Sea, which I argue is likely to be successful. The second is the broader story of how China's government uses foreign economic policies (particularly aid, loans, and foreign direct investment) to influence foreign governments in developing states. I show that the degree of China's success in doing so is largely a function of regime type. Through comparative case studies of China's relations with ASEAN members Cambodia and the Philippines, I demonstrate how domestic politics in these states leads to varying preferences regarding bilateral relations with China that make effective collective action by ASEAN regarding the South China Sea unlikely. I also show how Chinese foreign economic policies toward ASEAN states exacerbate the tensions within ASEAN, thereby allowing China to pursue its policies in the region unilaterally and bilaterally, as it prefers, rather than multilaterally.

However, the case studies also show the limits of China's influence. Despite similarities in politics in Cambodia and the Philippines (high corruption, family dominance, and the importance of informal institutions), authoritarian institutions in the former provide a vehicle through which China can influence Cambodia's leaders. In contrast, the relatively democratic and transparent institutions of the Philippines, despite being far from a democratic ideal type, mean that politics is played by a different set of rules, one in which opponents to the leadership's policies have voice and avenues, such as courts and the media, through which to oppose these policies, in this case, closer bilateral ties to China. In short, I show that while informal institutions dominate in both states, formal institutions matter in the manner by which they constrain the choices of the executive political leadership.

While these two comparative case studies provide variation cross-nationally in my key independent (or, more accurately, intervening) variable of regime type, the third case study, that of Myanmar, provides variation over time. In less than a decade Myanmar's political institutions have evolved from those of a strongly authoritarian military regime under the State Peace and Development Council (SPDC) toward a still quite imperfect but more liberal and democratic regime. It is therefore a very useful test case for my key hypothesis that the political institutions comprising regime type intervene between Chinese foreign economic policies, such as aid and loans, aimed at influencing foreign state governments and the actual influence attained. This case study shows that concomitant with that evolution in political institutions has been a deterioration in bilateral relations. Opponents to the former Burmese military government's close ties to China's government now have avenues to oppose those ties and related policies that China had previously

influenced the junta to enact. These avenues include not only the ability to elect their representatives in multiparty elections but also a burgeoning civil society and greater press freedom. Thus the case of Myanmar offers strong support for my key hypothesis that political institutions in China's bilateral partner are an intervening variable that either enhances (more authoritarian) or constrains (more democratic) China's ability to use its foreign economic policies to influence that state's government.

China appears to have a comparative advantage in influencing the governments of developing authoritarian states, by shaping the incentives facing the leadership through these bilateral foreign economic policies, particularly foreign aid, loans, and investment. The strategy is successful because these funds expand the resources available to autocrats to maintain the support of the relatively small ruling coalition in authoritarian states and to fund patron-client networks. In addition, deals between the Chinese and authoritarian foreign state governments are opaque, while those negatively impacted have little "voice" with which to oppose them. China's strategy runs into more difficulties, however, when it is faced with the much larger ruling coalition, the opposition legislators, the interest groups, the free media, and the civil society allowed by democratic institutions.

Case Selection

It should be clear from the previous section, that the cases of China's relations with Cambodia, the Philippines, and Myanmar were chosen because they offer variation in both the key explanatory variable, regime type, and the dependent variable, Chinese influence. Of these countries, however, only one, the Philippines, is a claimant in the South China Sea. A reader might expect that all of the case studies in a book titled *Dividing ASEAN and Conquering the South China Sea* would examine rival claimants. However, neither Cambodia nor Myanmar makes territorial claims in the South China Sea, nor are they likely to have maritime disputes with China in the near future. This raises the question of "Why include case studies of non-claimants?"

The answer is straightforward. This book is not solely about the South China Sea territorial disputes; it also analyzes ASEAN multilateralism and, more broadly, China's foreign relations, particularly its use of foreign economic policies to influence the governments of developing states. Although it is a question worthy of further research, the main focus of the book is not how rival territorial claims in the South China Sea impact bilateral relations between the claimants; this book has several other purposes. The first is to provide the relevant historical background on rival South China Sea claims, as well as other maritime disputes among ASEAN states, along with information as to how they have attempted, often successfully, to

resolve those disputes. The second is to offer both theoretical and substantive explanations for ASEAN's weak multilateralism. The third is to explain how China uses its foreign economic policies to influence foreign governments in developing states on issues crucial to the domestic legitimacy of the Chinese Communist Party, including sovereignty issues but also economic development concerns, such as facilitating Chinese state-owned firms' investments abroad. The fourth is to show how the degree of influence that China gains over foreign state governments using these policies is a function of regime type (the degree to which the country's political institutions are authoritarian or democratic) in those states. Lastly, the book provides evidence that this pattern is true beyond the case studies in the book and, therefore, partially constrains China's financial power projection globally.

The two main research questions I seek to answer here are, "Why has ASEAN failed to act collectively to negotiate with China over rival South China Sea claims?" and "How is China attempting to project its financial power abroad?" Given the goals above and these research questions, it is both unnecessary and inappropriate to limit my case studies to South China Sea claimants. As I explain in greater detail in the next chapter, because ASEAN is an institution that operates on consensus, in order to prevent collective action, China must only influence a single ASEAN member state to defect from ASEAN cooperation. If ASEAN is to cooperate on the issue, the states that have the most extreme views in the organization will have to agree. Until very recently, these have been Cambodia and the Philippines; this, alone, makes them appropriate cases for answering the first question. In addition, it is, undoubtedly (all else equal), easier for China to influence ASEAN members without rival claims, such as Cambodia, Laos, and Myanmar, to support the bilateral approach to resolving the disputes favored by Beijing. Nevertheless, other non-claimants in ASEAN, including Indonesia, Singapore, and Thailand, have supported a multilateral approach to the disputes (see Chapter 3). And, importantly, the Burmese government's position has shifted along with the evolution in Myanmar's political institutions. Whether an ASEAN member is a claimant does not determine its stance on how to resolve the South China Sea disputes.

The Philippines is a useful case to examine, not because it is a South China Sea claimant, but because it is a democratic regime within ASEAN; there is little evidence to suggest that improving Sino-Philippine ties during the Arroyo administration were doomed due to conflicting South China Sea claims (unlike Sino-Vietnamese ties for which the South China Sea issue has long been central). As a contrasting case, Cambodia is appropriate because it is an authoritarian regime, ruled for decades by the same leader, Hun Sen, who has taken a strong stance on the South China Sea dispute despite the fact that Cambodia has little direct interest in it. In terms of case selection,

there is no better state for testing my hypotheses than Myanmar, because the regime has evolved from strongly authoritarian toward more democratic (a state that “backslid” in the other direction would also be useful). Myanmar is not, has not been, and will very likely never be a South China Sea claimant. Nevertheless, its relations with China and, relatedly, its stance on the South China Sea disputes have changed. Logically, therefore, the fact that Myanmar is not a claimant cannot be a *variable* impacting its evolving relations with China; it does not *vary*.

Equally important is the availability of relevant data; the Chinese government made a determined effort to improve bilateral relations and enhance its influence over the government of the Philippines in the first decade of the new century (and appears to be doing so again). Chapter 7 shows how that effort largely failed due to the Philippines’ democratic institutions, which provided avenues for opposition and gave voice to those opposing closer bilateral ties with China. It might be useful to compare that case to Chinese ties with the only other truly democratic member of ASEAN, Indonesia, which, like Cambodia, is not a South China Sea claimant. Yet, despite not being a claimant, there has been friction between the Chinese and Indonesians over the extent of China’s claims, as they inch toward Indonesia, so Indonesia cannot be viewed as a truly neutral party. Chapter 3 makes clear that Indonesia increasingly views Chinese expansionism in the South China Sea as a potential threat. Equally important is the fact that China’s push to use foreign economic policies to improve bilateral ties and gain influence over Indonesia’s government (particularly through its recent “Maritime Silk Road” infrastructure investments) are relatively nascent. It is only since 2015 that China has entered the list of the top ten investors in Indonesia as the PRC’s Belt and Road initiative has taken off; as a percentage of both GDP and overall FDI, China’s investment in Indonesia is low.³¹ Nevertheless, the data to date support the theory I present in Chapter 4; the Indonesia Investment Coordinating Board estimates that only 7% (US\$1.8 billion out of \$24.27 billion) of planned Chinese investments in Indonesia between 2005 and 2014 have come to fruition.³² On the other hand, for more than a decade in Cambodia, during the Arroyo era in the Philippines, and while Myanmar was under the rule of the SPDC, China was a top source of foreign funding, including loans and investment, for each government. To date, Sino-Indonesian ties offer relatively little relevant data compared to ties with Cambodia, the Philippines, and Myanmar, all of which have been the subject of relatively strong efforts by China to expand its influence as it has pushed its firms to “go out” since the turn of the new century.

Other than the Philippines, China’s rival claimants in the South China Sea are also inappropriate cases to test the theory I present in Chapter 4. Taiwan, of course, is not a member of ASEAN and other fundamental

sovereignty issues dominate Mainland-Taiwan relations. Oil-rich Brunei is one of the wealthiest countries in the world and therefore not susceptible to the influence of Chinese finance. Malaysians are also much wealthier than Chinese, on average, with per capita incomes nearly three times higher; Malaysia, therefore, also has not been reliant on Chinese aid and loans to the same extent as less developed states in the region, although with China's Belt and Road initiative, it will likely become a recipient of more Chinese capital in the near future. It is also a semi-democratic regime, neither firmly democratic nor clearly authoritarian by several measures, and therefore does not provide useful cross-national variation in regime type relative to the other cases. Vietnam is strongly authoritarian but bilateral relations with China are constrained by a long history as regional rivals and, therefore, it is also not a useful case in determining the impact of regime type on China's foreign relations. In addition, despite the strong similarities in the regimes, as China's closest neighbor among the rival claimants, Vietnam's sovereignty has been most impacted by the dispute. Vietnam is the one case among China's rival claimants in the South China Sea in which the dispute clearly is the key factor preventing closer bilateral relations. If, at some point in the future, China begins to assert its sovereignty over islands currently occupied by Malaysia or the Philippines through military force, as it has in the past against Vietnam, the issue would certainly dominate China's bilateral relations with those countries, as well. My claim is that regime type strongly impacts China's ability to influence developing state governments, but it is certainly not deterministic.

To summarize in social science terms, the political institutions constituting regime type are the key independent variable (the major factor affecting the "dependent variable": Chinese influence) under study here. I, therefore, have selected the cases to achieve both cross-national and over-time variation in both these independent and dependent variables, as well as to gather sufficient data regarding China's bilateral relations with those states and, particularly, China's efforts to use aid, loans, and investment to influence those state's governments. The dichotomous variable of whether a state is a South China Sea claimant does not explain variation in Chinese influence over time. While being a South China Sea claimant does vary cross-nationally, it does not vary over time. If it did, it would be a much more useful variable to study as one could assess, for example, the degree to which relations with China improved and Chinese influence expanded once a state had given up its South China Sea claim, or whether relations deteriorated once a state had become a rival claimant. But, for now, and likely well into the future, that is simply a counterfactual conditional that provides little analytical leverage for better answering the research questions of this book.

To somewhat simplify the above discussion of case selection in terms of social science, I have used the term “independent variable” above. However, as I have alluded, the political institutions comprising regime type are more accurately termed an “intervening variable,” as they intervene between Chinese foreign policies and the outcomes achieved by those policies. In other words, while a state’s foreign policies are designed to achieve certain goals (both domestic and international), the response of the other states’ leaders impacts the extent to which those goals are achieved. And political institutions greatly shape the context in which those leaders make decisions. Therefore, I argue, the political institutions in China’s bilateral partner either enhance or decrease the likelihood that China will be able to influence that state’s leaders (a key goal of foreign policy, especially for major powers). Political institutions in the bilateral partner thereby intervene between Chinese foreign policies designed to influence foreign governments and the degree of that influence; thus, regime type either enhances or mitigates Chinese power abroad.

The Rest of the Book

In order to begin telling the two tales and answering the two research questions mentioned in the two previous sections, in the next chapter, I lay the groundwork for understanding the dynamics within ASEAN and between ASEAN and China through an examination of both the history of ASEAN and theories on multilateralism. I focus on divisions among member states that inhibit collective action and theories that provide insight into why ASEAN has thus far failed to pursue a multilateral approach to resolving the crisis in the South China Sea. In Chapter 3, I examine cooperation of ASEAN member states in settling other maritime territorial disputes and briefly analyze the positions and politics of each of the ASEAN member states on the South China Sea issue. While only four member states have territorial claims that conflict with Chinese claims, all of the states have a broad interest in freedom of navigation and peace in the region. In addition, several of the non-claimant states appear to be seeking a broader leadership role within ASEAN and the region and, therefore, have a quite direct interest in ASEAN’s approach to the dispute.

Chapter 4 analyzes the means by which China converts its economic power, specifically its financial power, into influence abroad. Through a simple, stylized model, the “aid game,” I show how China attempts to use its “no strings attached” foreign economic policies, including aid, loans, and FDI, to influence foreign state leaders, in effect, buying influence. I also present hypotheses regarding the impact of domestic political institutions in the bilateral partner on China’s ability to gain that influence.

Chapter 5 provides a comparative case study of politics and political institutions in two ASEAN member states: Cambodia and the Philippines. These cases were chosen because these two members have stood at the extremes regarding relations with China and whether ASEAN should work collectively to negotiate with China over South China Sea claims; the Philippines sought a more cooperative and assertive approach from ASEAN, while Cambodia has acted as a proxy for China on the issue, using its membership as a veto to prevent an ASEAN consensus regarding the South China Sea disputes. Both formal and informal political institutions play a role in whether each regime adopts a pro- or anti-China stance. But, in the end, to prevent ASEAN from acting collectively, all China needs is one “defector” (in game theory terms): one state unwilling to cooperate with the others. Cambodia has been that state.

In Chapters 6 and 7, building on the comparative case studies of political institutions in the previous chapter, I examine China’s bilateral diplomatic and economic relations with Cambodia and the Philippines, respectively. Sino-Cambodian relations have long been strong, whether Cambodia was led by King Sihanouk, Pol Pot, or Hun Sen. On the other hand, with the exception of the Arroyo era in the first decade of this century and, thus far, the early Duterte administration, Sino-Philippine relations have been strained, even as China’s economic power and regional influence have grown. Related to these strains have been close US-Philippine relations, particularly in the Marcos era during the Cold War. However, those relations had less to do with regime type and more to do with geopolitics. Under the most recent Aquino administration, US-Philippine military relations grew close once again as China seemingly pushed the Philippines back into the arms of its former colonial master. Aquino’s successor, Rodrigo Duterte, however, appears to have no desire to be held in the tight embrace of the United States nor to be constrained by democratic institutions, offering an opening for improved Sino-Philippine relations. While history and the particularistic preferences of leaders certainly matter, I detail the importance of regime type, and specifically the incentives faced by political actors within political institutions, as it relates to China’s ability to influence each state’s leaders. Democratic constraints on Duterte’s executive leadership will likely limit how close he can pull the Philippines toward China.

In Chapter 8, I examine the evolution of Sino-Burmese relations to determine the impact of changes in the political institutions comprising regime type in Myanmar on China’s influence over the Burmese government. As I have already mentioned, the case of Myanmar is particularly important because it provides variation *over time* in the key variable of regime type. This brief but dramatic evolution of the Burmese regime from the military-controlled State Peace and Development Council from 1988 to 2011 to multiparty elections in

2015, in which the main opposition National League for Democracy (NLD) won supermajorities in both houses, has seen Aung San Suu Kyi emerge from nearly two decades under various forms of arrest to become the *de facto* leader of the country in her position as State Counsellor. Along with changes in electoral and government institutions has come a rapid expansion of civil society. All of these changes have strongly impacted Sino-Burmese relations; along with this shift away from authoritarianism has come a concomitant loss of Chinese influence over the Burmese government as legislative, media, and civil society opposition to the previous military regime's deep ties with China have been unleashed. The delays and cancelations of major Chinese investment projects by the Burmese government would have been nearly unthinkable during the rule of the SPDC.

I conclude by summarizing the two tales the book tells: the specific story of China's efforts to divide ASEAN and conquer the South China Sea as well as the broader narrative of China's efforts to influence developing states through its foreign economic policies. Because of the inherent differences within ASEAN, differences in history, culture, geography, and, especially political institutions, as well as the intrinsic difficulties of effective multilateralism and collective action, ASEAN will be unlikely to come together to force China to the negotiating table, as long as China wishes to resist taking a seat. However, China's efforts to influence states in the region and globally have not always been successful, as the case studies of the Philippines and Myanmar illustrate. China has advantages in influencing developing state, authoritarian governments but faces more and higher hurdles in its efforts to influence developing state governments operating in relatively democratic institutions. Thus potential evolution of political institutions toward democracy is a form of long-term political risk facing Chinese efforts to influence developing state governments. Lastly, I use the book's analytical framework to consider the current limits to China's economic power projection globally; a brief comparative analysis of China's bilateral relations in Latin America suggests that my findings on the PRC's relations with developing states in ASEAN are generalizable to China's relations with developing states globally.

Notes

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Dividing ASEAN and the Limits to China's Influence Abroad

Introduction: The Impact of Institutions

History, geography, culture, and, most important, political and economic institutions cause government preferences in Cambodia, the Philippines, and Myanmar toward relations with China to diverge. Chapter 7 shows how Chinese attempts to use foreign economic policies to influence the Philippines over the long term have failed thus far. On the other hand, China counts Hun Sen's government in Cambodia as one of its closest partners and a key proponent within ASEAN for China's stance on the South China Sea territorial disputes. As Chapter 6 demonstrates, the Chinese have used foreign economic policies to gain influence over the Cambodian government on matters vital to the survival of the Chinese Communist Party (CCP), namely sovereignty and economic development, both of which are related to Chinese nationalism, the glue that holds China together.¹ It has relied on its influence over Hun Sen's regime to secure the repatriation of Uyghur refugees it considers terrorists, to alter Cambodian support for a Japanese seat on the UN Security Council, and, most relevant here, to prevent ASEAN states from acting collectively to negotiate competing maritime claims with China, given the PRC's strong preference for bilateral, rather than multilateral or international, negotiations on the issue. Until the second half of 2011, the PRC could also rely on Myanmar's support on these same issues.

In Cambodia, the Philippines, and Myanmar, informal political and economic institutions trump formal institutions, and corruption is rampant. Nevertheless, as the case studies of China's relations with those three countries also show, when it comes to the ability of the Chinese government to influence foreign states, the formal institutions comprising regime type matter. These institutions not only structure the incentives for political leaders' decision making, they also either create or restrict the political space in which domestic opponents of government policies, whether in other branches of government, the media, or civil society, can act. They, therefore, accommodate or constrain the executive leaderships' ability to

unilaterally implement its preferred policy preferences. To put it colloquially, Cambodia's formal institutions, like those during the rule of the SLORC/SPDC in Myanmar, allow leaders to get away with a lot more undetected than those in the Philippines do. Political pluralism is alive and thriving in the Philippines, is beginning to blossom in Myanmar, but has been suffocated in Cambodia. In the latter country, Hun Sen has maintained his grip on power, as do many dictators, by reacting to dissent through repression rather than responsiveness.

The case studies of Cambodia and the Philippines, in Chapters 6 and 7, respectively, allow for a comparative, cross-country analysis of the impact of political institutions in the partner state on China's influence. This analysis offers a great deal of support for the theories and hypotheses presented in Chapter 4. Sino-Myanmar relations, analyzed in the previous chapter, offer an especially useful test case for my claims. This is because over the past half-decade the Burmese political regime has moved from a single-party military government with heavy repression of the political opposition, the press, and civil society, to a somewhat more liberal and democratic regime, most evident in the tremendous success of the National League for Democracy (NLD) in securing supermajorities in both houses of the legislature in the 2015 general election. Thus, the case of Myanmar offers over-time variation in a key factor (an "independent" or, more accurately "intervening" variable) that I opine affects China's ability to influence governments in developing states: the political institutions comprising regime type; these institutions intervene between China's foreign economic policies and the influence those policies gain for the government of the PRC. While far from comprising a truly liberal and democratic regime (particularly given the constitutionally mandated role of the military in government and the decades-long, violent separatist movements in many parts of the country), the political institutions in Myanmar have quickly evolved in recent years, as have relations between Myanmar and its former patron, China. Chapter 8 shows that as Myanmar's political institutions have evolved toward democracy, relations with China have deteriorated, as opponents to those relations now have more freedom with which, and more outlets through which, to oppose Chinese funded projects in Myanmar, which often negatively impact the local peoples and their environments.

More generally, the degree to which political institutions constrain the executive leadership is a key variable in determining the ability of the Chinese government to use its foreign economic policies, particularly aid, loans, and foreign direct investment (FDI), to influence foreign governments. However, it is, of course, not the only relevant variable in determining China's ability to divide and conquer ASEAN (which should be clear from the opening line of this chapter). As discussed in Chapter 2, rather dramatic

cultural and societal differences, in addition to geographic and economic variation, also divide the members of ASEAN and influence member states' relations with China, just as the long and deep historical animosity between China and Vietnam to a great extent outweighs their commonalities in regime type. Nevertheless, an analysis of China's efforts to influence ASEAN states shows that China is more successful among the more authoritarian members of the multilateral institution, such as Laos and Cambodia (and, previously, Myanmar). In support of this claim, in the next section, I analyze the response of China and various ASEAN member states to the Permanent Court of Arbitration decision on the case brought by the Philippines against China's claims and actions in the South China Sea.

Following an examination of that case, a brief survey of China's relations with countries in Latin America, which offer both cross-national and over time variation in regime type, will show that my thesis is more generally applicable; where democratic institutions allow for opponents of government policies to voice and act on their opposition, the Chinese government has found it much more difficult to influence foreign state leaders. All of this suggests that, given continuing differences in regime type among ASEAN states, China will likely succeed in dividing ASEAN on issues the regime considers vital. But more broadly, it suggests that democratic political institutions in its bilateral partner place limits on China's ability to use its foreign economic policies to gain influence over governments of developing states. Therefore, it further suggests that if China wishes to maximize its projection of power, its foreign economic policies must evolve.

Dividing ASEAN by Regime Type

In a meeting during the ASEAN Regional Forum in 2012, Chinese Foreign Minister Yang Jiechi told Cambodian Prime Minister Hun Sen: "The Chinese side appreciates the long-standing, firm support of Cambodia for China on issues that concern China's core interests. China wants to enhance practical cooperation with Cambodia, supports Cambodia in playing an important role in international and regional issues, and will work with Cambodia to push forward the bilateral ties."² An anonymous ASEAN member foreign ministry official reported that at the AMM that year, Cambodian officials were seeking Chinese approval for the text of the communiqué. An ASEAN diplomat similarly complained about discussions of regional issues at the United Nations: "The Chinese would learn what we discussed through the Cambodian . . . This hurts regional solidarity."³

In the run up to the decision by the Permanent Court of Arbitration at The Hague on the case instituted by the Philippines against China's claims and activities in the South China Sea, Chinese Foreign Minister Wang Yi visited

Brunei, Cambodia, and then Laos. At the final stop in his authoritarian tour came convincing evidence that China relies on autocratic governments to support its foreign policy preferences and direct evidence of Chinese efforts to divide ASEAN on the issue; Foreign Minister Wang announced that China and the three non-democratic regimes had agreed to a “four-point consensus” on the South China Sea:

1. Disputes over some Nansha islands and reefs are not an issue between China and the Association of Southeast Asian Nations (ASEAN), and should not affect China-ASEAN relations.
2. The right enjoyed by sovereign states to choose on [*sic*] their own ways to solve disputes in line with the international law should be respected, and an imposition of unilateral will on others is opposed . . .
3. Disputes over territorial and maritime rights and interests should be resolved through dialogues and consultations by parties directly concerned under Article 4 of the Declaration on the Conduct of Parties in the South China Sea (DOC).
4. China and ASEAN countries are able to jointly maintain peace and stability in the South China Sea through cooperation. Countries outside the region should play a constructive role rather than the other way round.⁴

The “four-point consensus” made it clear that the close political, diplomatic, and, especially, economic ties between these authoritarian governments have given the Chinese important leverage in their efforts to prevent multilateral negotiations on the South China Sea dispute.

The Ruling by the Permanent Court of Arbitration

For a moment in June 2016, following a meeting between the ASEAN foreign ministers and Chinese Foreign Minister Chen Yi in Kunming China, it appeared that the ASEAN members finally had come together to release a statement of ASEAN unity regarding the South China Sea. It stated:

We expressed our serious concerns over recent and ongoing developments, which have eroded trust and confidence, increased tensions and which may have the potential to undermine peace, security and stability in the South China Sea.

We emphasized the importance of non-militarization and self-restraint in the conduct of all activities, including land reclamation, which may raise tensions in the South China Sea.

We stressed the importance of maintaining peace, security, stability, safety and freedom of navigation in and overflight above the South China Sea, in accordance with universally recognized principles of international law including the 1982 United Nations Convention on the Law of the Sea (UNCLOS).⁵

Almost immediately after the statement was released to the press, however, the Malaysian Ministry of Foreign Affairs announced it would have to be rescinded and amended. Nevertheless, no further statement was issued.⁶ This, of course echoed the failure of the foreign ministers to issue a joint communiqué at the 45th ASEAN Ministerial Meeting, the story of which began Chapter 2. As the respected Hong Kong newspaper *South China Morning Post* reported: “The incident was seen as another example of ASEAN’s inability to present a united front to China as it ramps up its presence in the waterway.”⁷

In the weeks before the decision of the tribunal at the Permanent Court of Arbitration, Cambodian leader Hun Sen announced he would not support the verdict. Xinhua, the official Chinese news agency, reported: “Hun Sen said on Monday (June 20, 2016) that the country will not support an arbitral tribunal’s upcoming decision over the South China Sea issue and called on all parties concerned in the disputes to resolve their differences through bilateral negotiations.”⁸ Hun Sen did not specifically use the term “bilateral negotiations,” but China’s official state media repeatedly paraphrased his statements using that term. On June 22, the ruling Cambodian People’s Party announced: “Cambodia has played a good role in mediating the South China Sea issues in order to maintain solidarity and harmony in ASEAN-China relations. Moreover, the South China Sea issues are not the [*sic*] issues between ASEAN and China.”⁹ In a speech on June 28, 2016, the 65th anniversary of the CPP’s founding as the Kampuchean People’s Revolutionary Party, Hun Sen stated: “The CPP does not support—and more so is against—any declaration by ASEAN to support the decision of the Permanent Court of Arbitration in relation to the South China Sea disputes.”

Speaking at a graduation ceremony in Phnom Penh shortly before the decision, the prime minister said that the tribunal’s upcoming decision was “politically motivated” and Cambodia would not support it: “It seems that there is a badly [*sic*] political conspiracy between some countries and the arbitral tribunal because the decision is not yet delivered, but they have launched a movement to seek support for the tribunal’s upcoming decision.” Apparently referring to pressure from the United States, Xinhua reported: “Hun Sen said that the country’s ambassador to Cambodia proposed to him that the Association of Southeast Asian Nations (ASEAN) should have one voice or statement in support of the arbitral tribunal’s decision, which will be issued in the upcoming period.” In response, Hun Sen announced: “I would like to declare Cambodia’s stance that Cambodia will not issue any joint statement in support of the arbitral tribunal’s decision. Cambodia will have its own statement.” This was further evidence of the lack of ASEAN unity and the breakdown of the ASEAN Way when it comes to the South China Sea disputes. The Chinese state news agency added that “[t]he Cambodian leader also called on all parties directly concerned in the disputes to resolve

their differences through bilateral negotiations based on international law and the Declaration on the Conduct of Parties in the South China Sea (DOC).” That is, precisely, the position of the Chinese government. Hun Sen’s actual statement was: “I appeal to countries concerned in the disputes to negotiate with each other . . . ASEAN cannot measure land for any sides.”¹⁰

On July 12, 2016, the tribunal announced its decision regarding the case brought by the Philippines under Annex VII to the United Nations Convention on the Law of the Sea (UNCLOS) “with respect to the dispute with China over the maritime jurisdiction of the Philippines in the West Philippine Sea.” The decision was strongly in favor of the Philippines. Although China refused to participate in the arbitration, the tribunal responded to a number of points made publicly by the Chinese government, particularly regarding the legality of the arbitration, and the decision rejected each claim.

Specifically, the Tribunal’s decision on “the Merits of the Philippines’ Claims” included the following sections:

a. The ‘Nine-Dash Line’ and China’s Claim to Historic Rights in the Maritime Areas of the South China Sea

There was no evidence that China had historically exercised exclusive control over the waters of the South China Sea . . . there was no legal basis for China to claim historic rights to resources, in excess of the rights provided for by the Convention, within the sea areas falling within the ‘nine-dash line’.

b. The Status of Features in the South China Sea

Under . . . the Convention, features that are above water at high tide generate an entitlement to at least a 12 nautical mile territorial sea . . . The Tribunal noted that many of the reefs in the South China Sea have been heavily modified by recent land reclamation and construction and recalled that the Convention classifies features on the basis of their natural condition. The Tribunal agreed with the Philippines that Scarborough Shoal, Johnson Reef, Cuarteron Reef, and Fiery Cross Reef are high-tide features and that Subi Reef, Hughes Reef, Mischief Reef, and Second Thomas Shoal were submerged at high tide in their natural condition . . . (and) all of the high-tide features in the Spratly Islands (including, for example, Itu Aba, Thitu, West York Island, Spratly Island, North-East Cay, South-West Cay) are legally “rocks” that do not generate an exclusive economic zone or continental shelf.

c. Chinese Activities in the South China Sea

Having found that Mischief Reef, Second Thomas Shoal and Reed Bank are submerged at high tide, form part of the exclusive economic zone and continental shelf of the Philippines, and are not overlapped by any possible entitlement of China, the Tribunal concluded that the Convention is clear in allocating sovereign rights to the Philippines with respect to sea areas in its exclusive economic zone . . . (and) that China had violated the Philippines’ sovereign rights with respect to its exclusive economic zone and continental shelf.

. . . China had violated its duty to respect . . . the traditional fishing rights of Philippine fishermen . . . China's recent large scale land reclamation and construction of artificial islands at seven features in the Spratly Islands has caused severe harm to the coral reef environment and that China has violated its obligation under Articles 192 and 194 of the Convention . . .

d. Aggravation of the Dispute between the Parties:

. . . China has (a) built a large artificial island on Mischief Reef, a low-tide elevation located in the exclusive economic zone of the Philippines; (b) caused permanent, irreparable harm to the coral reef ecosystem and (c) permanently destroyed evidence of the natural condition of the features in question . . . China had violated its obligations to refrain from aggravating or extending the Parties' disputes during the pendency of the settlement process.¹¹

China, unsurprisingly, rejected the findings as it had said it would since the Philippines instituted the case. Following the ruling, Chinese President Xi Jinping bluntly stated: "China's territorial sovereignty and marine rights in the South China Sea will not be affected by the so-called Philippines South China Sea ruling in any way."¹²

The PRC also quickly announced the support of both Laos and Cambodia for its position, although, interestingly, neither state's government immediately made a similar formal statement.¹³ The Chinese state news agency reported that Lao Prime Minister Thongloun Sisoulith told PRC Premier Li Keqiang at the 11th Asia-Europe Meeting in Ulan Bator, Mongolia: "that Laos supports China's stance on the South China Sea arbitration case unilaterally initiated by the former Philippine government." The news agency further reported the incentives offered by China: "Li said the two countries should propel the comprehensive construction of a bilateral railway project, strengthen cooperation in production capacity and investment, and build more demonstrative projects in such areas as infrastructure, electric power and energy."¹⁴

Cambodia's official statement very clearly reflected the preferences of the Chinese: "Cambodia views that this arbitration case is to settle the dispute brought by the Philippines against China, and this proceeding is not related with all of the ASEAN Member States . . . Therefore, Cambodia will not join in expressing any common position on the verdict of the Permanent Court of Arbitration that will render its decision on the dispute between the Philippines and China." With that, China successfully divided ASEAN. Three days after the ruling, on July 15, 2016, Hun Sen announced a new three-year aid package from the Chinese government worth about \$600 million.

There were multiple reports in June that the joint statement by ASEAN had been thwarted by Cambodia, Laos, and Myanmar, although Myanmar's government made no announcement in support for the PRC's position, nor

has the PRC announced Myanmar's support for its position. The day after the ruling, Myanmar issued an official statement:

Myanmar has taken note of the Award made by the Arbitral Tribunal under Annex VII to the 1982 United Nations Convention on the Law of the Sea (UNCLOS) on 12 July 2016. We are now studying the impact of the Award and its possible repercussions within our region and beyond. Although Myanmar is not a claimant state, we attach great importance to developments in the South China Sea. We have been consistent in calling for and supporting all endeavors to promote a peaceful resolution of disputes through friendly consultations and negotiations, in accordance with universally recognized principles of international law including the 1982 UNCLOS. Myanmar urges all parties to exercise restraint with regard to activities that could increase tension and to refrain from threats or use of force. As a member of rules-based ASEAN, Myanmar is committed to the principle of rule of law in the conduct of foreign relations throughout the international community. Myanmar will continue to work with ASEAN Member States and China for the full and effective implementation, based on consensus, of the Declaration on the Conduct of Parties in the South China Sea (DOC) and the early conclusion of the Code of Conduct in the South China Sea (COC).¹⁵

Unlike the statements from Cambodia and the support for China's position from Laos reported by Chinese state media, Myanmar's position echoes that of most members of ASEAN, rather than that of China, particularly the emphases on "rule of law" and UNCLOS. It is authoritarian Cambodia that has been China's most vocal proponent within ASEAN of China's foreign policy preferences, with Chinese influence over Hun Sen's government gained through long-term bilateral economic ties. Next I turn to another region of the world, Latin America, to ascertain whether China's attempts to influence governments through its foreign economic policies are similarly enhanced or constrained by the regime type of its bilateral partners in the region.

Testing the Theory in Latin America

The pattern of successful Chinese relations with more authoritarian developing states, and the difficulties it has faced in more democratic countries, is evident beyond Southeast Asia in developing states in Africa and Latin America. In this section, I briefly examine cases in Latin America. I have chosen this region, first, because China's growing ties with states in the region, in contrast to the massive "China in Africa" literature, is relatively understudied.¹⁶ In addition, the region provides a number of cases that vary by regime type not only cross-nationally but also over time; however, unlike the case of Myanmar, the variation has been away from democracy toward authoritarianism. These cases provide further evidence that less liberal

and democratic institutions provide avenues for China to project its financial power globally, while more liberal and democratic institutions serve to mitigate Chinese influence. They also point to the potential for China's government to gain influence over that of the Philippines should that state backslide toward authoritarianism under the presidency of Rodrigo Duterte. As in Southeast Asia, the major tool China uses to influence Latin American states are its foreign economic policies, including trade. As I argue at the beginning of Chapter 4, however, it is through the provision of immediately available finance from aid, loans, and investment that China gains the greatest impact on authoritarian developing states.

Unlike Southeast Asia, in which democratic institutions are rare, according to Polity IV, most of the political institutions in South American states are democratic. At the democratic end of the regime type continuum from 10 to -10, are Chile and Uruguay with scores of 10, while both Venezuela and Ecuador fell out of the democracy category in the past decade with the rise of Chavez and Correa, by 2010 having dropped from high scores of 9 to -3 and 5 respectively, with those 6 and above considered democracies.¹⁷ Unfortunately, Polity IV data lag by several years. Another oft-used but more frequently updated measure of regime type, Freedom House, ranks both countries as "Partly Free" with the press in both countries "not free."¹⁸ Just as my theory predicts increasing constraints on Myanmar's relations with China and, therefore, on China's influence over Myanmar's government, as the Burmese regime liberalized and democratized; it suggests that shifts toward authoritarianism by these democratically elected leaders would open the door to closer ties with China and greater Chinese influence on their governments.

Chinese Capital in Latin America

Given China's rising economic might and its efforts to use it to project greater financial power abroad, it is no surprise that the Chinese presence in Latin America has substantially increased over the past decade, particularly as more developed states were recovering from the global economic crisis. According to the Inter-American Dialogue, China loaned \$7 billion to Latin American governments in 2012, doubled that in 2013, and nearly doubled that figure to \$29 billion in 2015, greater than the total from the World Bank and Inter-American Development Bank for the same year. Venezuela and Ecuador have been the recipients of the largest number of Chinese loans in the past decade, 17 and 11, respectively, while Venezuela has been by far the recipient of the greatest amount of Chinese bank lending with those 17 loans totaling \$65 billion. In the half decade beginning in 2007 alone, the China Development Bank loaned Venezuela \$23 billion, nearly a quarter of its

global lending.¹⁹ In comparison, democratic Brazil's much larger economy (and population) has received just \$21.8 billion, while Ecuador's 11 loans totaling \$15.2 billion nearly equal the \$15.3 billion received by democratic, debt-addicted Argentina, despite the fact that Ecuador's economy is only one-fifth the size of Argentina's. Venezuela, Brazil, Ecuador, and Argentina received 95% of total Chinese loans to Latin America from 2007 to 2015.²⁰

China in Venezuela and Ecuador

The rise of the Chavismo (or Bolivarian) leftist-populist political ideology in South America began with the election of Hugo Chavez in Venezuela in 1998. Following constitutional changes, Chavez won the majoritarian electoral system's runoff in 2000 with nearly 60% of the vote. Subsequent to these victories, Chavez consolidated political power in the executive branch and maneuvered to remove presidential term limits, allowing him to remain in office until his death in 2013.²¹ Reflecting the Chavismo ideology, the Chavez government announced in 2007 that the country would leave the IMF and the World Bank, despite having used oil revenues to pay off its debt to the institutions a half decade early.²² Another radical move by the Chavez government was the expropriation of the assets of foreign firms, a once common occurrence that had become so uncommon that a popular article in the political economy literature was titled "The Demise of Expropriation as an Instrument of LDC Policy."²³

Having snubbed both international lending institutions and the Western states dominating them, as well as multinational firms from the same countries, Chavez turned to China for access to finance. As Venezuela's lender of last resort, China increased its leverage over the Venezuelan regime. Erica Downs from the Brookings Institution notes: "The Chinese have the upper hand . . . the China Development Bank sees this country that's thumbed their nose at the IMF, and if they borrowed from the IMF and had to be subjected to IMF conditionality, *the regime would fall*" (italics added).²⁴ This quote from Downs concisely supports my assertion that Chinese funding, unlike conditional funding from Western states and international organizations, enhances the political survival of authoritarian leaders by increasing the resources needed for the regime to remain in power, rather than calling for potentially politically lethal reforms. For example, Chinese funding along with other oil revenues allowed the Chavez government to increase government spending by about one-third in the run up to his reelection for a third term in 2012.²⁵ As Henrique Capriles, who opposed Chavez in that presidential election, stated in a press conference that year: "There's no doubt we're going to need China—they are an economic powerhouse . . . But many of the agreements the government has signed involve political loyalties that don't

interest us."²⁶ The influence Chinese finance gained over the Venezuelan government is clear from Chavez's 2009 pronouncement that "Venezuela's oil is at the service of China."²⁷

Despite Western media reports in 2016 that China would turn off the financing spout for the Venezuelan government due to the government's economic mismanagement and inability to meet its side of the loans-for-oil ("Fondo Chino") agreements with China, the two countries signed a \$2.2 billion dollar oil deal in late 2016 and twenty-two agreements in early 2017 worth \$2.7 billion.²⁸ It is notable that these major recent investments by China are to improve infrastructure in the petroleum sector and guarantee that China can continue to receive Venezuelan oil, which it currently imports at a rate of about 800,000 barrels per day, despite rising political risk. As Mei Xinyu at the PRC Ministry of Commerce stated: "The political situation takes a back seat to the importance of oil production. Even if the opposition party takes power in the future, they'll still need Chinese loans to pump out oil."²⁹ This is further empirical evidence for my claim that Chinese funding aims to help China's state owned enterprises overcome political risk in developing states. My theory, however, would predict that, should a democratically elected opposition party take power, within a more liberalized political environment, greater opposition to Chinese funded projects will be unleashed.

Chavez's ideology and methods, such as centralization of power within the executive branch and constitutional changes, such as the abolition of term limits, have had their most profound impact, outside of Venezuela, in Ecuador under President Rafael Correa. Correa adopted a similar leftist-populist political philosophy, which was dependent on his oil-for-loans strategy in relations with China, while tightening control over political institutions. After winning the election in late 2006 with 57% of the vote, Correa significantly weakened Ecuador's democratic institutions, particularly the checks on the executive from the legislature and the courts, including the sacking of nine Supreme Court justices.³⁰ A clear indication of Correa's shift toward authoritarianism is the fact that in the first half of 2017 he was still in office, following election victories in 2006, 2009, and 2013. In April 2017, his vice president, Lenín Moreno won a run-off election, although the candidate from the right, Guillermo Lasso, contested the results. Moreno, too, will likely continue government borrowing from China, which reached \$17 billion between 2010 and his election in 2017. Moreno is well aware of a major advantage of securing Chinese finance, stating: "China has given us credit without asking major questions."³¹

The shift in political institutions in Ecuador under Correa was paralleled by a concomitant snubbing of international financial institutions. Despite (at the time) high petroleum prices providing the revenues necessary to service

the government's foreign debt, beginning in 2008 Correa chose to default on the "immoral" and "illegal" foreign borrowing of his predecessor.³² However, the global financial crisis and falling oil prices left Correa with a need to borrow from an international financial system in which his government's commitments were no longer seen as credible. As Kim and O'Neill show, democratic institutions, through the transparency they provide regarding a government's ability to pay, allow countries to reenter global credit markets even after defaulting, as evidenced by Ecuador's earlier 1999 default.³³ But under Correa, Ecuador was no longer a democracy. Lacking credible commitment to reenter traditional global credit markets, Correa turned to China for financing; Chinese capital flooded into Ecuador. In 2009, PetroChina loaned Petroecuador \$1 billion, Sinohydro began the \$2.2 billion Coca Codo Sinclair hydroelectric project, and in 2012, CRCC-Tongguan gave Correa's government \$100 million for rights to exploit the Mirador Copper Mine, promising \$1.4 billion in further investment over the next half decade. At the beginning of 2015, Correa's government requested \$7.5 billion more from the Chinese to cover the government's budget deficit and to pay for Chinese imports.³⁴ The flip-side to democratic transitions closing off avenues of Chinese influence is authoritarian backsliding opening the gates.

The rise in Chinese financing in Ecuador paralleled the rise of Correa's domestic state control. According to Human Rights Watch: "The administration of President Rafael Correa has expanded state control over media and civil society and abused its power to harass, intimidate, and punish critics . . . Other continuing concerns include limited judicial independence."³⁵ But Ecuador is not Laos or even Cambodia. Although it is not a fully democratic state, the level of oppression and control is not as high as in states like Cambodia, where Chinese state-owned firms frequently invest successfully. Chinese investments in Ecuador, therefore, have been subject to more effective opposition from locals affected and NGOs, but have not been subject to the judicial oversight or legislative opposition seen in the Philippines.

NGOs and other opposition groups successfully pushed the government to postpone for a year approval of a joint venture between China Railway Construction Corporation and Tongling Nonferrous Metals Group to open the \$1.4 billion El Mirador open-cast copper mine. After the Ecuadorian government announced the contract would be signed in two days, protesters surrounded the Chinese embassy. Just as in Cambodia, mining projects in Ecuador are required to complete an Environmental Impact Assessment (EIA) before a permit can be issued; in the Ecuador case, unlike many in Cambodia, the EIA was completed, but, similar to cases in Cambodia, the permit had yet to be issued prior to the two sides signing the deal.³⁶

China and the Big Latin American Democracies

In contrast to the billions of dollars in Chinese loans to authoritarian states in Southeast Asia and South America, democratic Mexico has received just \$1 billion in Chinese loans; the largest proposed Chinese project there, a \$3.75 billion high speed rail project awarded in a BOT contract to China Railway Construction Corporation (CRCC) and its Mexican partners with close ties to the ruling PRI, was canceled just days later by Mexican President Enrique Peña Nieto.³⁷ In announcing the cancelation, Communications and Transportation Minister Gerardo Ruiz Esparza stated: "This is the decision of the president and the essential point is more transparency and clarity, so there is no doubt about the project." The Mexican case stands in stark contrast to those in Cambodia or in Myanmar under the SPDC, in which securing the support of politically-connected stakeholders and the ruling party through opaque deals guaranteed approval and protection for major investments by Chinese SOEs. In democratic Mexico, the project was canceled by the president due to the Chinese company's partnership with domestic firms *despite* those firms' close ties to the president and his party.³⁸

In democratic Argentina, opposition leader Mauricio Macri was elected after campaigning to review the previous administration's mega-deals with China, and possibly canceling deals "lacking transparency" or "secret."³⁹ However, like Ecuador, Argentina is a "serial defaulter," and has welcomed Chinese finance. Nevertheless, soon after taking office Macri fulfilled another campaign promise by bringing Argentina back into international bond markets, reaching a \$4.7 billion deal with international creditors on the country's sovereign debt and issuing bonds for the first time since the country's 2001 default. Macri, to the right of former President Kristina Fernandez de Kirchner, will likely balance relations even further to the West; even without this balancing, Argentina's government has never reached the type of dependent relationship with China that the more authoritarian governments of Venezuela and Ecuador have.

China's economic relations with Brazil have been dominated by trade more than finance; Brazil has the resources China needs. In fact, Chinese demand has meant a shift (in percentage terms) from primary products comprising only 30% of Brazil's exports in 2004 to nearly half by 2013.⁴⁰ Despite rapidly expanding Brazilian commodity exports to China, Chinese foreign direct investment in Brazil is dwarfed by that of the United States. The recent economic slowdown in China and the corresponding drop in Brazil's commodity exports along with the political turmoil in 2016 in Brazil, including the impeachment of President Dilma Rousseff, have delayed progress on China's South American "dream" project of a coast-to-coast railroad across the continent. As Margaret Myers, director of the China-Latin America

program at the Inter-American Dialogue stated regarding the delays: "Any new administration introduces a degree of uncertainty to the project."⁴¹

This is an important point regarding differences in regime type: while there are authoritarian regimes that experience frequent government turnover, democracies, by definition, always do. Also by definition, only authoritarian regimes can have the same leadership for any length of time much beyond a decade. Changes of government occur frequently in democracies, even those with parliamentary systems, which may keep the same leader but, nevertheless, see frequent changes in governing coalitions. Stable autocratic governments such as those helmed by Hun Sen in Cambodia or Nursultan Nazarbayev in Kazakhstan can last decades. Leaders elected democratically in presidential systems, such as Chavez and Correa, who remain in office for a decade or more do so because they remove many of the democratic constraints on the executive that had existed in their countries' institutions prior to their elections. Whether Duterte might attempt to take a similar path to political longevity in the Philippines, a road paved by Ferdinand Marcos but eventually blocked by popular protest, remains to be seen.

In short, the pattern of Chinese loans and investment in South America is similar to that in Asia; China and its state-owned firms appear to be less deterred by factors found to deter foreign investment, such as weak rule of law, high corruption, and political risk. As David Dollar, former World Bank country director for China writes in his summary of China's investment in Latin America: "China is a major investor in the better-governed countries that are the largest recipients of FDI globally, including Brazil. But China does appear to be indifferent to governance environments to the extent that it is making major investments in weak-governance environments where other investors fear to tread."⁴² In Chapter 4, I presented a theory of how China's foreign aid and loans to authoritarian governments help the PRC expand its influence abroad, partially in order to secure protection in precisely such poor investment environments. The case studies of Cambodia and Myanmar provide empirical evidence for this hypothesis. Latin America further illustrates the ability of China's state-owned firms, with the support of the Chinese state, to go where other foreign investors "fear to tread" while the Chinese government projects its financial power globally. Further supporting one of my hypotheses in Chapter 4 (and findings elsewhere) that the benefits to its firms of Chinese government influence over foreign state governments in poor investment environments are largely limited to China's *state-owned* enterprises, Dollar writes: "many Chinese private firms are looking to invest abroad in a wide range of sectors, and those investments are heading to the United States, other advanced economies, and emerging markets with relatively good governance."⁴³ Private Chinese firms must find

other methods to overcome weak rule of law, high levels of corruption, and political risk, or avoid such investment environments entirely, whether in Latin America, Africa, or even closer to home in Asia.⁴⁴

Conclusion: Chinese Financial Power Projection and ASEAN Multilateralism

In July 2012, when ASEAN member states for the first time failed to issue a joint communiqué following the annual Ministers Meeting, held that year in Phnom Penh, the failure was due to Cambodian insistence, reportedly after consulting with the Chinese, that no mention be made of the Scarborough Shoal incident with the Philippines nor individual member states' EEZs in the South China Sea. Those issues had been included in a draft version created by a four-member committee selected by the Meeting chair, Cambodian Foreign Minister Hor Namhong, including one member each from the Philippines and Vietnam.⁴⁵ A similar disagreement during the Ministers Meeting in Vientiane in July 2016 nearly derailed the joint communiqué for the second time, following an initial announcement that the South China Sea disputes would be addressed; instead, a communiqué was issued making no mention of the territorial disputes. Since consensus is an essential element of the "ASEAN Way," one defector from the agreement was enough to prevent any mention of the dispute. And once again, Cambodia had supported China's position. As Chapter 6 demonstrates, it is Cambodia's non-democratic political institutions that provide the avenues by which China is able to gain such tremendous long-term influence over Hun Sen's government.

The strong contrasts in Sino-Cambodian relations and Sino-Philippine relations, analyzed in Chapters 6 and 7, along with the analysis of China's evolving relationship with Myanmar in Chapter 8, illuminate the important role played by regime type in enhancing or constraining China's ability to use its financial power to influence developing state governments. The brief overview above of China's relations with several Latin American states supports the generalization of my main hypothesis: regime type acts as an intervening variable between Chinese foreign economic policies and the influence those policies gain over developing state governments; authoritarian institutions facilitate Chinese influence, while democratic institutions inhibit that influence. As long as ASEAN includes developing authoritarian states, China will have greater opportunities to influence ASEAN decision making by influencing individual member governments. China's massive and expanding economic power gives it some influence over even the most powerful states, but the degree to which it is able to influence foreign governments is fundamentally a function of the level of economic development

of the foreign state and the political institutions within which the foreign state's politicians act, in other words, the regime type—the rules by which the political game is played.

The flip side of the fact that authoritarian political institutions provide avenues through which the Chinese government can gain influence over developing state governments is that democratic institutions constrain China's ability to influence those governments. Just as political reforms in Myanmar have led to a rise in opposition to Chinese investment projects there and weakening ties between China and one of its traditionally staunchest regional partners,⁴⁶ the expansion of democracy in Cambodia would allow groups opposed to Chinese projects greater voice. This would likely lead to weakening bilateral ties with China, as the government would need to respond to the demands of the wider electorate rather than to the ruling coalition within the limited selectorate, which currently greatly benefits from Sino-Cambodian economic relations. If that happened, Cambodian and Philippine foreign policy preferences might begin to converge, suggesting ASEAN eventually could act collectively to push China to engage in a multilateral approach to resolving the crisis in the South China Sea. But by then it may be too late, given China's aggressive pursuit of its claims. Much less likely, but not out of the question given the country's low level of development and high inequality, as well as a relatively recent era of authoritarianism and the unpredictability of Rodrigo Duterte, would be a reversion toward authoritarianism in the Philippines. Given the constitutionally mandated role of the military in Burmese political institutions, as well as the fact that democratic institutions in Myanmar are not yet truly institutionalized, that state is also a candidate for future authoritarian backsliding. In any case, regime change seems highly unlikely for the foreseeable future in China's fellow Communist Party-ruled state, Laos, which should see its economic and diplomatic relations with China continue to strengthen. For the foreseeable future, it seems that there will be at least one pro-China authoritarian spoiler preventing ASEAN consensus on the South China Sea dispute.

Nevertheless, while the literature on democratization suggests it comes in waves and that backsliding toward authoritarianism is common, particularly in less economically-developed countries with high inequality, such as Myanmar and the Philippines,⁴⁷ the long-term global trend of states becoming and remaining democratic is undeniable; the number of democratic states has risen consistently since the end of World War II.⁴⁸ It, therefore, stands to reason that for China to successfully project its power globally, it will need to become more adept at influencing democratic regimes, both in order to influence such states today and to influence the likely increasing number in the future. That means rather than simply buying the support of key leaders in the government, China will need to engage in more sophisticated bilateral

politics, such as providing interest groups, and even government opponents within democratic states (who, in a true democracy are always within reach of power), with incentives to support Chinese policies. The PRC's evolving bilateral relations with Taiwan, at least during the first decade of the century, reflected an evolution toward this type of more sophisticated and nuanced foreign policy. In addition, China may find that its support of authoritarian regimes backfires in the long-run as, eventually, many of these regimes likely will transition to democracy, leaving a bitter taste in the mouths of the opposition and the citizenry, who may view the Chinese as having propped up otherwise tenuous dictatorships with financial resources.

Despite this logic, it appears that foreign policy flexibility will not be forthcoming when it comes to China's willingness to negotiate competing sovereignty claims. The Chinese government's willingness to do so, over its South China Sea claims just as with Taiwan, is subject to the rival claimant first accepting Chinese sovereignty over the area in dispute. This is, of course, a non-starter for any state seriously attempting to protect what it believes to be its sovereignty; it assumes the outcome of the negotiations before they have begun. China has only been willing to set aside pursuit of its claims temporarily for the sake of short-term cooperation, and appears to be much less willing to take even that step than it was in the first decade of the new century (although Duterte's less assertive stance in pursuit of the Philippines' claims than his predecessor Aquino's may increase the likelihood of agreement on joint development projects, as under Arroyo). But these periods of cooperation only serve to reinforce China's claims over the entire region as time appears to be on China's side in the dispute. By ignoring the constraints to activities in the South China Sea outlined in the DOC for a decade and a half, China now has positioned itself to support a COC that would prevent other claimants from doing the same in the future.

There are two likely reasons for Chinese inflexibility on its territorial claims. First, China sees itself as regaining its historical role as the major power in East and Southeast Asia; that requires power projection and a break in the US-led containment stranglehold running from Japan, through Korea, Taiwan, and the Philippines. Second, upholding Chinese sovereignty has long been a fundamental claim to legitimacy by the Chinese Communist Party, since Mao declared in 1949 that China had "stood up." Nationalist inspiring sovereignty claims will become an even more important pillar of legitimacy for the Party as the stunning economic growth the country has experienced since "Reform and Opening" began at the end of the 1970s inevitably slows.

Although throughout this book I make what is fundamentally an institutionalist argument, institutions are what political actors make of them. And some institutions are more institutionalized than others. It is difficult

to imagine an authoritarian-leaning Donald Trump successfully making changes to deeply imbedded American institutions that prevent him from pursuing his policy preferences uninhibited by constraints from Congress, the courts, and civil society. It is less difficult to imagine Rodrigo Duterte undermining formal constraints on the executive which have only been in place for a few decades in the Philippines. On the other hand, a less authoritarian minded Cambodian leader could lead a more liberal and democratic Cambodia without a drastic upheaval in the formal political institutions by simply loosening executive control of the other branches of government, appointing a more neutral National Election Commission, ending restrictions on NGOs, and allowing greater freedom of speech. Philippine President Rodrigo Duterte appears to be leading his country down the reverse path. According to the latest information from Freedom House: "The Philippines received a downward trend arrow due to the thousands of extrajudicial killings carried out as part of newly elected president Rodrigo Duterte's war on drugs, as well as assassinations and threats against civil society activists."⁴⁹ Time will tell just how institutionalized Philippine political institutions are.

In addition to explaining the impact of regime type on China's efforts to project power through its foreign economic policies, this book emphasizes the general weakness of ASEAN multilateralism, or the ASEAN Way, when it comes to issues over which the members have specific interests that cause differing policy preferences. I refer again to Ruggie's definition of multilateralism provided in the second chapter: "an institutional form which coordinates relations among three or more states on the basis of 'generalized' principles of conduct—that is, principles which specify appropriate conduct for a class of actions, *without regard to the particularistic interests of the parties* or the strategic exigencies that may exist in any specific occurrence" (emphasis added).⁵⁰ While ASEAN states have particularistic interests when it comes to the South China Sea—some members are territorial claimants while others are not—China has created additional particularistic interests for some ASEAN states, such as Cambodia and Laos, as well as Myanmar in the past. It has done so by providing finance in the form of aid, loans, and investment, in return for the support of those governments on issues deemed vital to the continuing rule of the Chinese Communist Party, namely China's continued economic development and its sovereignty claims, both within and outside the borders of the area currently controlled by the PRC. China can both create and exploit the particularistic interests of ASEAN member states, which highlights the relative weakness of ASEAN multilateralism. Since China's ability to incentivize the defection of ASEAN member governments away from collective action is partially a function of regime type, as long as ASEAN includes authoritarian regimes, China's influence will

inhibit ASEAN collective action on the South China Sea disputes. If these are also developing states, which by definition are capital scarce, potential Chinese influence through capital outflows is further enhanced. Even if there is convergence toward democracy among all the ASEAN members, which is certainly unlikely in the foreseeable future, as I stated above, consensus may come too late. As noted scholar on the South China Sea dispute, Carlyle Thayer stated following the 2017 ASEAN Summit in Manila: “the reality is that ASEAN is gradually accepting that the South China Sea has become China’s lake.”⁵¹

Multilateralism and internationalization thus far have failed. This appears to be what has informed Rodrigo Duterte’s pragmatic approach to bilateral ties with China; ASEAN has been ineffective, China has ignored the PCA ruling, and the US has taken no direct action. As he stated in March 2017, “We cannot stop China . . . Even the Americans could not stop them.”⁵² Or perhaps he thinks the US could have, but was simply unwilling; a few weeks later, Duterte bluntly asked the US ambassador about the lack of an effective American response to Chinese construction activities: “Why did you not send the armada of the 7th Fleet . . . tell them right on their face, stop it?”⁵³ Somewhat ironically, it was the decision by the Philippines to oust the US Navy from Subic Bay in 1992 that opened the door for China to occupy and begin building on Mischief Reef, only 120 miles away, thus beginning its construction work in the Spratlys and triggering the bilateral dispute with the Philippines in the South China Sea.

The United States, of course, looms large in any regional power struggle (military or economic) in the Asia-Pacific region. But it seems doubtful that America would risk World War III over what are essentially, with a few exceptions, rocks in the South China Sea. In any case, China’s strategy over its maritime claims, while quite successful in expanding Chinese control in the South China Sea, has been fundamentally conservative. The Chinese literally push the boundaries of their claims and then discern whether the response is strong enough to inhibit further assertiveness. Thus, little by little, the Chinese assert their territorial claims in the South China Sea, knowing ASEAN cannot effectively respond and that the US and other global powers are unlikely to risk any serious conflict (whether military, diplomatic, or economic) over each little push of the boundaries. With each little push, however, China expands its effective sovereignty and, having divided ASEAN, conquers the South China Sea.

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