

Reaping What You Sow: Public Accountability and The Effectiveness of China's Economic Statecraft*

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Abstract

China's increasing propensity to wield economic statecraft – the use of economic tools in pursuit of political goals – has received increasing attention from scholars and policymakers. When is economic statecraft effective in achieving geopolitical objectives? This article examines the use of positive inducements, which have been understudied relative to sanctions. Narratives commonly assume that China is successful at using subversive carrots to buy over political leaders, by providing economic benefits that work outside of established political processes and violate expected political standards. I argue that the effectiveness of economic statecraft is conditional on the level of public accountability in the target country. Subversive carrots succeed in countries with low public accountability, but have limited political effectiveness in high accountability countries, where they lead to public backlash against China. Drawing on field interviews, I examine three Southeast Asian countries with varied levels of public accountability – Cambodia, the Philippines, and Myanmar. My findings highlight the importance of domestic political conditions in target countries, contribute to understanding the conditions under which economic capabilities can be translated into political influence, and help policymakers evaluate the geopolitical impacts of China's overseas economic activities.

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Introduction

Economic statecraft is an increasingly important foreign policy tool for a rising China. It has been employed more often as China has wielded more clout in the Asia-Pacific region and in the global economy. From foreign investment in Africa and Latin America to its ambitious Belt and Road Initiative spanning from Central to Southeast Asia, China's expanding economic presence has sparked concerns among policymakers and scholars over Beijing's growing geopolitical influence. Implicit in many analyses is the assumption that China's economic capabilities have enabled Beijing to persuade, punish, or buy over countries to support China's foreign policy interests.

However, the empirical record points to a mixed record of success. Although Beijing has provided extensive investment and aid to countries in Southeast Asia, this has not prevented tensions from flaring up over sovereignty disputes in the South China Sea. Countries such as Malaysia, Sri Lanka, and Pakistan are also pushing back against China's economic presence. What determines the political effectiveness of economic statecraft?

Most existing literature has focused on punishments via economic sanctions. Economic inducements, on the other hand, have been relatively understudied. They entail the provision of economic benefits or incentives to a target country, such as increased trade, investment, or foreign aid. Focusing on positive inducements, I argue that the effectiveness of economic statecraft is conditional on the level of public accountability in the target country.

Public accountability is defined as the presence of robust societal institutions, such as the media, civil society, and public opinion. In an environment of high public accountability, these societal institutions can demand transparency – via the freedom and ability to access information; and exercise oversight – via the ability to impose domestic political costs on political leaders and elites for policy decisions regarding the sender state. In short, under high public accountability, political elites view themselves as being constrained by, and needing to respond to, public opinion, thus limiting policy maneuverability.

I examine the important case of China as a sender of economic statecraft. In particular, Beijing has tended to offer what I term “subversive carrots,” providing economic benefits that work outside of established political processes and violate expected political standards. I show that the use of subversive carrots succeeds in low accountability countries, but is ineffective in targets with high public accountability, where it leads to public backlash against China.

Drawing on field interviews with current and former government officials, diplomats, journalists, and scholars, I examine three Southeast Asian countries with varying levels of public accountability – Cambodia, the Philip-

pines, and Myanmar. Cambodia's low accountability environment allowed Beijing to buy over political elites and achieve its foreign policy goals. However, in the Philippines, high public accountability led to major backlash against China's subversive carrots. In Myanmar, changes in public accountability due to the domestic political transition reduced the political payoffs of subversive carrots.

Economic interdependence and integration has limited the scope of military solutions in international relations, while opening up new avenues for the manipulation of economic relations for geopolitical purposes. As China becomes more prominent on the international stage, it will have to decide how to reconcile the tensions between strategic reassurance – using economics as soft power – and employing statecraft for its political goals – using economics as a hard form of power. While this article focuses on China, the theoretical framework can be similarly applied to other countries seeking to wield economic statecraft.

My research helps to address an important question in international security and foreign policy: the conditions under which material capabilities can translate into actual political influence. I make new theoretical contributions by examining the conditions required for economic statecraft to be effective, in particular the role of domestic political institutions and processes in target countries. In addition, my findings help policymakers to understand the ways through which states can or cannot use economic tools to alter other countries' foreign policy behavior, and to better assess the geopolitical impacts of China's overseas economic activities. My findings highlight the importance of domestic political conditions in target countries, contribute to understanding the conditions under which economic capabilities can be translated into political influence, and help policymakers evaluate the geopolitical impacts of China's overseas economic activities.

This article proceeds as follows. After discussing the existing literature on economic statecraft, I present a theoretical framework highlighting the role of public accountability in target countries in determining the effectiveness of economic statecraft. I then compare China's use of subversive carrots across three country case studies – Cambodia, the Philippines, and Myanmar – showing how differing levels of public accountability led to differing political outcomes. In the conclusion, I discuss the theoretical and policy implications for understanding the impacts of China's economic statecraft and its expanding economic presence.

Existing Theories of Economic Statecraft

There are many tools of economic statecraft, such as trade, investment, aid, or monetary policy. These tools can be used in two different approaches: a negative approach – through the application of coercive pressure – or a positive approach – through the provision of incentives. Negative economic sanctions involve the sender state’s withdrawal of economic benefits from the target, such as restricting imports from that country, reducing exports to that country, or reducing foreign direct investment into that country. Inflicting economic pain pressures the target to change its foreign policy to suit the sender’s preferences. In contrast, positive economic inducements involve “the provision or promise of economic benefits to induce changes in the behavior of a target state”.¹ This can include increased bilateral trade or investment, or greater flows of foreign aid to the target.

Hirschman² discusses how asymmetrical trade relations endows one country with more coercive power over the other, because the latter will be more vulnerable to an interruption of trade. This method of economic coercion could “become an alternative to war” and “an effective weapon in the struggle for power” between sovereign states.³ Building on this idea, political science and IR scholarship has largely focused on punitive sanctions as the dominant approach to economic statecraft.⁴⁵

However, economic inducements have been employed by a broad range of countries, including the United States and West Germany.⁶ Beyond providing potential coercive leverage, enhancing a target country’s gains from

1. Michael Mastanduno, “Economic Statecraft, Interdependence, and National Security: Agendas for Research,” in *Power and the Purse - Economic Statecraft, Interdependence, and National Security*, ed. Jean-Marc F Blanchard, Edward D Mansfield, and Norrin M Ripsman (London: Frank Cass, 2000), 303.

2. Albert O Hirschman, *National Power and the Structure of Foreign Trade*, vol. 105 (Berkeley, Los Angeles, London: Univ of California Press, 1945).

3. *Ibid.*, 15-17.

4. David A Baldwin, “The Power of Positive Sanctions,” *World Politics* 24, no. 01 (1971): 19–38; David Allen Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985); Robert A Pape, “Why Economic Sanctions Do Not Work,” *International Security* 22, no. 2 (1997): 90–136; Daniel W Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations*, 65 (Cambridge, UK: Cambridge University Press, 1999).

5. For a criticism of this trend, see Baldwin, “[The Power of Positive Sanctions](#)”; David A Baldwin, *Power and international relations: A conceptual approach* (Princeton University Press, 2016).

6. William J Long, “Trade and Technology Incentives and Bilateral Cooperation,” *International Studies Quarterly* 40, no. 1 (1996): 77–106; Dale C Copeland, “Trade Expectations and the Outbreak of Peace: Détente 1970–74 and the End of the Cold War 1985–91,” *Security Studies* 9, nos. 1-2 (1999): 15–58; Patricia Annette Davis, *The Art of Economic Persuasion: Positive Incentives and German Economic Diplomacy* (Ann Arbor, MI: University of Michigan Press, 1999); Rawi Abdelal and Jonathan Kirshner, “Strategy, Economic Relations, and the Definition of National Interests,” in *Power and the Purse - Economic Statecraft, Interdependence, and National Security*, ed. Jean-Marc F Blanchard, Edward D Mansfield, and Norrin M Ripsman (London: Frank Cass, 2000), 119–156; Lars S Skålnes, *Politics, Markets, and Grand Strategy: Foreign Economic Policies as Strategic Instruments* (Ann Arbor, MI: University of Michigan Press, 2000); Randall E Newnham, *Deutsche Mark Diplomacy: Positive Economic Sanctions in German-Russian Relations* (University Park, PA: Pennsylvania State University Press, 2002).

deeper economic exchanges can serve as a direct means of influence.⁷ Although positive inducements are a key component of economic statecraft, there are few theoretical frameworks to understand their success or failure.

China has also received increasing attention as a source of economic statecraft. Scholars have examined the domestic drivers of Beijing's ability to wield economic statecraft.⁸ Other studies have focused on the potential coercive effects of trade dependence on China, such as import or export restrictions,⁹ and whether economic interdependence with China makes countries more likely to support Beijing's positions on political and security issues.¹⁰ This leaves open the question of China's use of economic inducements and when they are effective at achieving political outcomes.

When does economic statecraft work?

Economic capabilities may not always easily translate into actual influence over policy outcomes. Despite its economic power, China has had limited success in prevailing over opposed policy preferences of Southeast Asian countries.¹¹ During the Cold War, several of Beijing's attempts to build political alliances via economic inducements eventually fell apart, whether with larger powers, the Soviet Union, or smaller states such as Albania, North Vietnam, and Mongolia.¹² In the contemporary Asia-Pacific context, China has not been able to fundamentally exploit economic interdependence as a source of coercive power, because in many cases disrupting bilateral economic ties also impose too high costs on Chinese interests.¹³

There has been a longstanding debate on the effectiveness of economic statecraft, especially sanctions.¹⁴ Building on initial discussions of whether sanctions work, the debate has increasingly focused on understanding when and how sanctions work, and pinpointing specific mechanisms and conditions for success.¹⁵ Research has con-

7. Baldwin, *Economic Statecraft*, 213.

8. William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca, NY: Cornell University Press, 2016).

9. Andreas Fuchs and Nils-Hendrik Klann, "Paying a Visit: The Dalai Lama Effect on International Trade," *Journal of International Economics* 91, no. 1 (2013): 164–177; Christina Davis, Andreas Fuchs, and Kristina Johnson, "State Control and the Effects of Foreign Relations on Bilateral Trade," *University of Heidelberg Department of Economics Discussion Paper Series*, no. 576 (2014).

10. Gustavo A Flores-Macias and Sarah E Kreps, "The Foreign Policy Consequences of Trade: China's Commercial Relations with Africa and Latin America, 1992–2006," *The Journal of Politics* 75, no. 02 (2013): 357–371; Scott L Kastner, "Buying Influence? Assessing the Political Effects of China's International Trade," *Journal of Conflict Resolution* 60, no. 6 (2014): 980–1007.

11. Evelyn Goh, "The Modes of China's Influence: Cases from Southeast Asia," *Asian Survey* 54, no. 5 (2014): 825–848.

12. Shu Guang Zhang, *Beijing's Economic Statecraft During the Cold War, 1949–1991* (Washington, DC: Woodrow Wilson Center Press / Johns Hopkins University Press, 2014).

13. Darren J. Lim, "Coercive Economic Diplomacy: Power, Interdependence and Statecraft in Asia," chap. 1 (Introduction) (Unpublished manuscript, 2016).

14. Pape, "Why Economic Sanctions Do Not Work"; David A Baldwin and Robert A Pape, "Evaluating Economic Sanctions," *International Security* 23, no. 2 (1998): 189–198.

15. Baldwin, *Economic Statecraft*; Jonathan Kirshner, "The Microfoundations of Economic Sanctions," *Security Studies* 6, no. 3 (1997):

sidered the role of international or structural factors.¹⁶ Other scholarship has examined supply-side factors in the sender state, such as state control of commercial actors¹⁷ and domestic institutional structures.¹⁸ Turning to the domestic political picture in target countries, scholars have looked at regime type,¹⁹ state capacity,²⁰ domestic institutions and actors,²¹ and regime instability.²²

In this paper, I examine the specific characteristics of the target's domestic political processes in determining the effectiveness of economic statecraft. The political impact of economic statecraft, and hence its success, will be mediated by political constraints faced by elites in the target country, in particular the level of public accountability. How accountable, transparent, and responsive political elites have to be to the citizenry ultimately affects the political outcomes of economic inducements. This theory highlights the role of public opinion and domestic political institutions in influencing the varying effectiveness of economic statecraft across different target countries.

Theory: Public Accountability and The Effectiveness of Economic Statecraft

Measuring the effectiveness of economic statecraft, especially across a large number of countries, can be challenging.²³ I refer to countries exercising economic statecraft as sender states, and countries on the receiving end as target states. In evaluating the outcomes of economic statecraft, issue context also matters. The sender state can have

32–64; David A Baldwin, “The Sanctions Debate and the Logic of Choice,” *International Security* 24, no. 3 (1999): 80–107; David M Rowe, *Manipulating the Market: Understanding Economic Sanctions, Institutional Change, and the Political Unity of White Rhodesia* (University of Michigan Press, 2001); Jonathan Kirshner, “Review Essay: Economic Sanctions: The State of the Art,” *Security Studies* 11, no. 4 (2002): 160–179.

16. Daniel W Drezner, “The Trouble with Carrots: Transaction Costs, Conflict Expectations, and Economic Inducements,” *Security Studies* 9, nos. 1–2 (1999): 188–218; Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations*; Adrian U-Jin Ang and Dursun Peksen, “When do Economic Sanctions Work? Asymmetric Perceptions, Issue Salience, and Outcomes,” *Political Research Quarterly* 60, no. 1 (2007): 135–145; David Cortright and George Lopez, eds., *Smart Sanctions* (New York, NY: Rowman / Littlefield, 2002); Bryan Early, *Busted Sanctions: Explaining Why Economic Sanctions Fail* (Stanford, CA: Stanford University Press, 2015); Lim, “Coercive Economic Diplomacy: Power, Interdependence and Statecraft in Asia.”

17. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*.

18. Davis, *The Art of Economic Persuasion: Positive Incentives and German Economic Diplomacy*.

19. Risa A Brooks, “Sanctions and Regime Type: What Works, and When?,” *Security Studies* 11, no. 4 (2002): 1–50; Miles Kahler and Scott L Kastner, “Strategic Uses of Economic Interdependence: Engagement Policies on the Korean Peninsula and Across the Taiwan Strait,” *Journal of Peace Research* 43, no. 5 (2006): 523–541.

20. Jean-Marc F Blanchard and Norrin M Ripsman, *Economic Statecraft and Foreign Policy: Sanctions, Incentives, and Target State Calculations* (London and New York: Routledge, 2013).

21. Kahler and Kastner, “Strategic Uses of Economic Interdependence: Engagement Policies on the Korean Peninsula and Across the Taiwan Strait”; Scott L Kastner, “When do Conflicting Political Relations Affect International Trade?,” *Journal of Conflict Resolution* 51, no. 4 (2007): 664–688; Paul Papayoanou and Scott Kastner, “Sleeping with the (Potential) Enemy: Assessing the U.S. Policy of Engagement with China,” in *Power and the Purse - Economic Statecraft, Interdependence, and National Security*, ed. Jean-Marc F Blanchard, Edward D Mansfield, and Norrin M Ripsman (London: Frank Cass, 2000), 157–187.

22. Miroslav Nincic, *The logic of positive engagement* (Cornell University Press, 2011).

23. Baldwin, “The Sanctions Debate and the Logic of Choice”; David A Baldwin, “Success and Failure in Foreign Policy,” *Annual Review of Political Science* 3, no. 1 (2000): 167–182; Baldwin, *Power and international relations: A conceptual approach*.

goals of varying difficulty - for example, policy change on an issue that involves the target's key national interests would be more difficult than maintaining neutrality in a less vested target country. Structural factors such as trade dependence, existing alliance relationships, or the availability of alternate sources of inducements, can influence the target state's policy calculations.

While this article focuses on the outcomes of economic statecraft, the assessment and employment of economic statecraft can be a messy process. First, firms are not always agents of the state. For instance, commercial motives may differ from strategic goals, or the business methods of firms may not be explicitly endorsed by the government. Second, given the multiplicity of actors and goals involved in overseas economic activities, even authoritarian governments are not always unitary strategic actors in foreign policy.²⁴ Third, diffuse or structural economic interdependence could also be seen as a form of economic statecraft, and is often cited as a reason for countries' growing reluctance to provoke major economic powers. Fear of losing business or eagerness to court new sources of investment and financing has certainly shaped how countries respond to the actions of sender states such as the United States and China.

Keeping these factors in mind, my theoretical framework highlights the important role of the target country's domestic political conditions in shaping how economic inducements are received and processed into political outcomes. I argue that this provides a parsimonious explanation for the trends we are seeing in the exercise of economic statecraft today. For example, countries traditionally seen to be structurally close with China, such as Pakistan and Sri Lanka, are increasingly grappling with public skepticism over proffered investment projects.

For tractability, I focus on cases where the sender state had specific goals in mind and where economic inducements had a strong element of intentionality. However, the framework of public accountability could apply similarly to situations of diffuse economic statecraft, or when economic inducements are not driven by the state. For example, China's overseas economic activities, even if not primarily driven by political reasons, has produced externalities that elicit public attention and response, which has long-lasting repercussions on the reputation and perceptions of China's economic statecraft.

I define effectiveness as the attainment of the sender state's policy goals i.e. when economic statecraft achieves a desired change in the target state's behavior to align more closely with the sender's foreign policy preferences. This change would not have occurred without the sender's provision of economic inducements. A government policy

24. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*; Audrye Wong, "More than Peripheral: How Provinces Influence China's Foreign Policy," *China Quarterly* 235 (September 2018).

change by the target country, in alignment with the sender's intentions, would be the most direct and obvious example of a political outcome. In addition, public statements by political leaders reflect changes in elite attitudes, with resulting implications for foreign policy. Finally, the valence of public opinion regarding the sender state and policy cooperation serves as an intermediary mechanism, reflecting success or failure, particularly in high accountability countries where elites have to respond to public sentiment.

China's strategy of subversive carrots

Previous works have broadly differentiated economic inducements into two categories: instrumental political conditionality, and broader structural engagement.²⁵ The literature on economic statecraft has discussed how structural engagement promotes vested interests in continued economic and political cooperation. These interest groups form a "commercial fifth column" that "exert a powerful influence in favor of a 'friendly' attitude toward the state to the imports of which they owe their existence".²⁶ By strengthening and mobilizing certain interest groups within the target country, inducements create domestic political coalitions that reshape the target country's preferences in favor of cooperative relations with the sender state.²⁷ This is similar to how domestic coalitions and sectoral interests shape a country's foreign policy and grand strategy.²⁸

On the other hand, China today has more often sought to use economic statecraft to buy over political leaders. In particular, Beijing tends to offer inducements in ways that undermine political processes and institutions. I call these *subversive carrots*, in which the benefits provided by the sender state violate political and institutional standards such as transparency and rule of law. Subversive carrots thus operate outside of – and actively undermine – usual political processes. For example, they can entail the use of corruption (e.g. bribes or kickbacks) or non-transparent economic incentives through covert proxies, with the aim of buying over political leaders' support for the sender state's policy preferences. Such carrots could also bypass institutional procedures, such as competitive bidding processes or regulatory approval. Subversive carrots tend to be transactional in nature, whereby the

25. Mastanduno, "Economic Statecraft, Interdependence, and National Security: Agendas for Research"; Newnham, *Deutsche Mark Diplomacy: Positive Economic Sanctions in German-Russian Relations*; Nincic, *The logic of positive engagement*.

26. Hirschman, *National Power and the Structure of Foreign Trade*, 29.

27. Jonathan Kirshner, *Currency and Coercion: the Political Economy of International Monetary Power* (Princeton, NJ: Princeton University Press, 1997); Kahler and Kastner, "Strategic Uses of Economic Interdependence: Engagement Policies on the Korean Peninsula and Across the Taiwan Strait."

28. Etel Solingen, *Regional Orders at Century's Dawn: Global and Domestic Influences on Grand Strategy* (Princeton, NJ: Princeton University Press, 1998); Kevin Narizny, *The Political Economy of Grand Strategy* (Ithaca and London: Cornell University Press, 2007); Christina L Davis, "Linkage Diplomacy: Economic and Security Bargaining in the Anglo-Japanese Alliance, 1902–23," *International Security* 33, no. 3 (2009): 143–179.

provision of economic benefits comes with expectations for specific political outcomes, such as a public statement aligning with the sender's interests or a desired policy change of the target state. Indeed, research has suggested that Chinese aid in Africa has increased local corruption rather than boosting short-term local economic activities.²⁹

Despite the apparent ease and rapidity at which China has gone through the backdoor and bought over political leaders with large-scale investment and infrastructure projects, I argue that its economic statecraft is not as successful as commonly assumed. In particular, the level of public accountability in target countries can facilitate or constrain the political effectiveness of subversive carrots.

The role of public accountability

The sender's mere economic presence in a target country does not ensure a corresponding increase in political clout. The effects of such economic capabilities are first mediated by the target country's domestic economic and political institutions. I argue below that the level of public accountability in the target country is an important condition for when economic inducements, and in particular subversive carrots, succeed.

While high public accountability may be correlated with the presence of a liberal democracy, regime type encompasses a broad range of attributes. The variable of public accountability provides a more precise explanation for the mechanisms by which economic inducements can be translated into political influence in the target country. In addition, there is often a wide variation within democracies and within autocracies of how the state interacts with and manages societal and economic actors,³⁰ as well as the domestic political incentives shaping how politicians respond to citizenry demands, with implications for foreign policy outcomes.³¹ Public accountability influences the outcome of economic inducements by shaping how they interact with domestic political processes in the target country.

My theory explains how the effectiveness of economic statecraft is conditional on the nature of public accountability in the target country. Public accountability is defined as the presence of robust societal institutions, such as the media, civil society, and public opinion. In an environment of high public accountability, these societal institutions can ensure *transparency* – via the freedom and ability to access information; and exercise *oversight* – via

29. IsakssonKotsadam2018.

30. Barbara Geddes, "What Do We Know About Democratization After Twenty Years?," *Annual Review of Political Science* 2, no. 1 (1999): 115–144.

31. Jessica L Weeks, "Autocratic Audience Costs: Regime Type and Signaling Resolve," *International Organization* 62, no. 01 (2008): 35–64; Vipin Narang and Paul Staniland, "Democratic Accountability and Foreign Security Policy: Theory and Evidence from India," *Security Studies*, 2018, 1–38.

the ability to impose domestic political costs on political leaders and elites for policy decisions regarding the sender state. In short, under situations of high public accountability, political elites view themselves as being constrained by and needing to respond to public opinion, thus limiting government policy maneuverability. While public accountability can be considered to vary on a spectrum, for simplicity I discuss below the two ideal types of high and low accountability systems.

High public accountability

In a country with high public accountability, greater transparency and availability of information allows oversight by the media, public, and civil society. Research has pointed to the role of press freedom and citizen information in curbing political corruption.³² As a result, subversive carrots that constitute below-the-table transactions and operate outside accepted political processes and institutions, such as bribes or covert political campaign financing, are likely to be uncovered and criticized. High public accountability enables visibility and transparency about the policy decisions and actions of political leaders. Via media coverage and open political debate, the public is exposed to information about backdoor deals with the sender state. As a result, while such carrots may work in the short-term on changing the policy stances of individual politicians, they tend to elicit public backlash and widespread criticism from the political opposition.

In addition, high public accountability provides oversight via public pressure and institutional constraints on political leaders. The presence of domestic political costs thus reduces opportunities for – and the legitimacy of – direct rent-seeking by political leaders, and constrains policy decisions regarding the sender state. For example, negative public opinion forces politicians to back away from closer cooperation with the sender. As a result, we observe negative impacts on public perceptions of and foreign policy cooperation toward the sender state.

The backlash mechanism of high public accountability means that there may be a time lag between the offering of the inducement through backdoor means and the subsequent political fallout after the public becomes aware. Information about subversive carrots can be uncovered through journalistic investigations, government leaks and whistleblowers, or civil society activism. Open societal debate further mobilizes negative public opinion. In countries with electoral cycles, this means that the contentious issues of subversive carrots can become campaign issues used by the political opposition against the sitting government, or even by figures within the ruling party against

32. Aymo Brunetti and Beatrice Weder, “A free press is bad news for corruption,” *Journal of Public Economics* 87, no. 7 (2003): 1801–1824; Alicia Adsera, Carles Boix, and Mark Payne, “Are you being served? Political accountability and quality of government,” *The Journal of Law, Economics, and Organization* 19, no. 2 (2003): 445–490.

the incumbent leader. Thus, while subversive carrots may sometimes appear to be successful in buying certain individuals off in the short run, the nature of electoral cycles and public information in a high accountability system causes eventual political blowback in the medium and long term.

Low public accountability

In contrast, in a country with low public accountability, the sender state can rely on providing subversive carrots to top political leaders as well as crony, politically-connected business actors who control large portions of the economy and also have key political sway over the policymaking process. Carrots promising specific benefits in exchange for a desired political outcome are more easily agreed upon and executed by the political-business elite, likely in a non-public and non-transparent manner. Rents such as kickbacks or bribes will reach political leaders more quickly and directly, without the ability for public opinion, media, or societal institutions to acquire sufficient information or exercise due oversight and punishment (and any critical voices can be easily suppressed). That is, political leaders calling the shots on foreign policy toward China face far fewer constraints in operating outside political norms and institutions.

At the same time, subversive carrots are dependent on internal political stability in the target country. Subversive carrots can be vulnerable to domestic political shifts over time, for example if a new leader comes into power, or the relative balance of power shifts away from previously targeted political factions. This shift can be especially detrimental to Beijing's statecraft strategy when new political leadership rises to power on the basis of opposition to existing crony relations with China, leading to demands for greater public accountability. This limits the sustainability of subversive carrots as a long-term strategy.

Figure 1 shows the differing effectiveness of subversive carrots in high versus low public accountability systems. Table 1 summarizes my theoretical expectations based on the level of public accountability.

Economic Statecraft: The Case of China

China presents a theoretically and empirically important case for understanding the conditions under which economic capabilities can be translated into geopolitical influence. The size of China's economy, its high degree of global economic integration, the expansion of its overseas economic activities, and its growing role in international and regional institutions point to its significant material capabilities as a major power. As a 'rising' power of in-

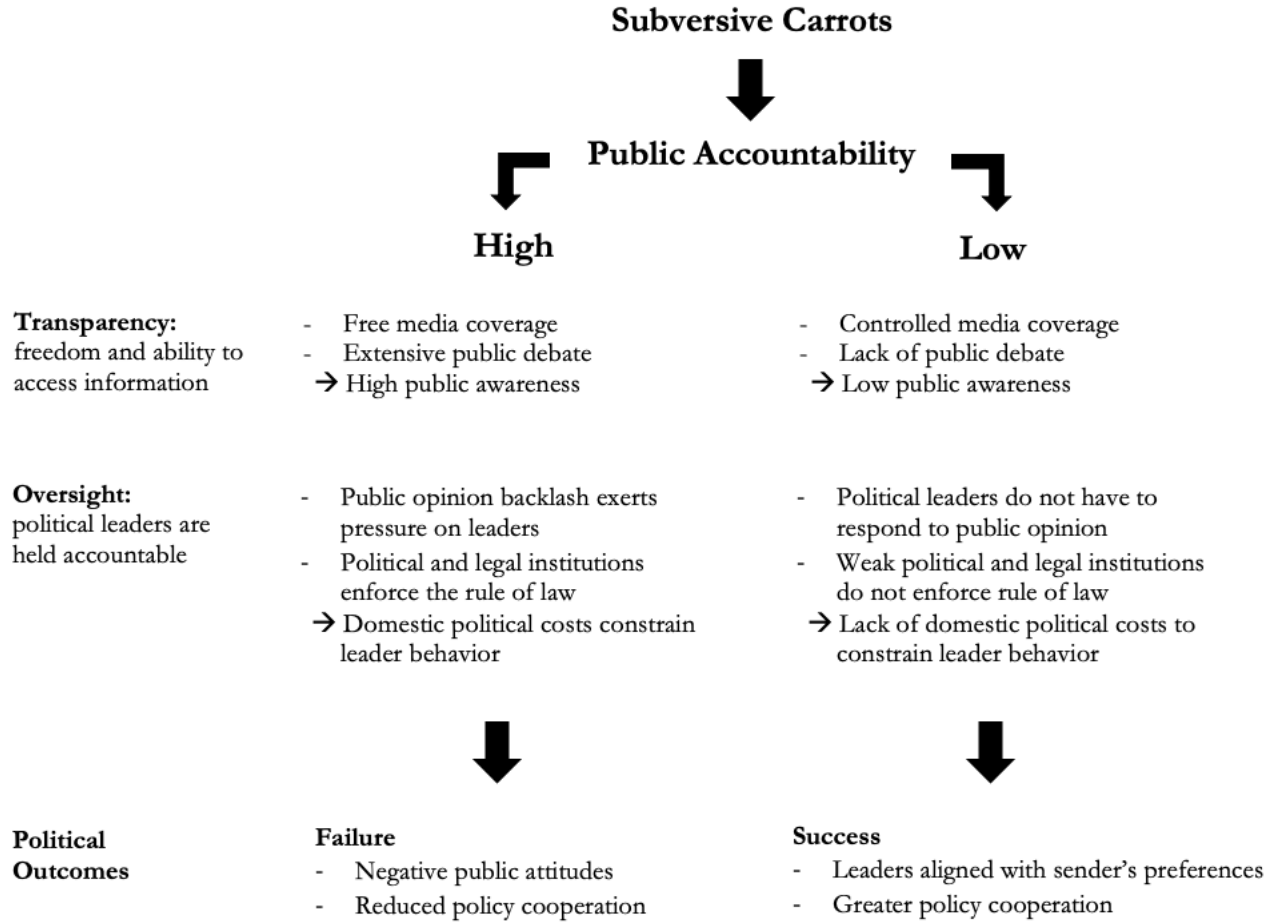


Figure 1: How public accountability shapes the political effectiveness of subversive carrots

	Low Accountability	High Accountability
Subversive Carrots	Effective <i>Case: Cambodia</i>	Ineffective <i>Case: the Philippines</i>
	<i>Case: Myanmar →</i>	

Table 1: Theoretical Predictions of Economic Statecraft Effectiveness

creasing economic and political importance, Beijing's grand strategy and its interactions with other countries are key in refining theoretical frameworks to explain great power rivalry, power transition, and the nature of international order. China also exercises economic statecraft on a wide range of states, both developing and developed, and authoritarian and democratic. Beijing has made state-linked investments and acquisitions in places as far-ranging as Greece, Czech Republic, Zimbabwe, and Venezuela. This underscores the importance of understanding the outcomes of China's economic statecraft across different domestic political systems.

Economic statecraft has long been an important component of China's foreign policy. During the Cold War, the Chinese government distributed foreign aid as part of its geopolitical strategy against the Soviet Union and the United States. For example, even as it was a poor country struggling to recover from the aftermath of the Cultural Revolution, China upped its economic and military aid to North Vietnam to help it fight the Vietnam War in the early 1970s.³³ China's previously extensive aid programs toward North Korea, Mongolia, and Albania, seeking to gain their support against the Soviets, have even been criticized by some for pursuing geopolitical objectives at the expense of the country's own economic development and citizen wellbeing.³⁴

Growing from the need to counter international economic sanctions during the Cold War, Beijing's economic diplomacy often adopted a "wedge strategy." Beijing actively expanded bilateral economic ties with U.S. allies (*gege jipo*, or breaking one at a time), and awarded economic inducements to selected countries in Asia and Africa in an effort to cultivate influence and form a bloc against the United States and the Soviet Union, as well as prevent Japanese support for Taiwan. Beijing also used economic inducements to peel away Japanese and European support for sanctions after the 1989 Tiananmen Square incident.³⁵

In addition, Beijing has used its economic leverage to punish and coerce target countries when inducements proved ineffective at achieving political objectives. The Chinese government cut off aid to Vietnam as punishment for its invasion of Cambodia in the late 1970s, and canceled Airbus contracts after French leaders met with the Dalai Lama.³⁶ When tensions flared over disputed features in the East and South China Seas in 2010 and 2012 respectively, China restricted rare earth exports to Japan and banana imports from the Philippines.

Today, Chinese scholars regard China's economic diplomacy as transitioning into a new phase. Having been

33. Zhang, *Beijing's Economic Statecraft During the Cold War, 1949-1991*.

34. Yongsheng Zhou, "Jingji waijiao mianlin de jiyu he tiaozhan - jingji waijiao gainian yanjiu (Opportunities and Challenges facing Economic Diplomacy - Analyzing the Concept of Economic Diplomacy)," *Shijie jingji yu zhengzhi*, no. 7 (2003): 39-44.

35. Zhang, *Beijing's Economic Statecraft During the Cold War, 1949-1991*.

36. Liang Yan, "Zhongguo duiwai jingji zhicai: mubiao yu zhengce yiti (China's Foreign Economic Sanctions: Objectives and Policy Debates)," *Waijiao pinglun*, no. 6 (2012): 16-29.

largely “integrative” and “participatory” in the past few decades, China is now ready to take on a “leadership” role – pushing its own economic initiatives and setting forth new principles.³⁷ The 2008 financial crisis is seen as a key turning point in increasing Beijing’s confidence and influence, and the Chinese government sees renewed efforts at economic diplomacy as important in countering the U.S. rebalance to Asia and a worsening regional security environment in the last few years.

Observations of China’s growing economic clout and global presence, particularly the unconditional and less-than-transparent nature of its aid and investment, have fed into the narrative of a rising China seeking to use its power to persuade or coerce countries to support its foreign policy objectives, override U.S. and Western interests, and even create an alternative international order or an anti-Western bloc. For example, a think tank report asserts “China often uses its development and investment policies to gain access to resources or achieve favorable diplomatic outcomes.”³⁸ The authoritarian nature of the Chinese regime and the prominence of state-owned enterprises (SOEs) in China, in which the state has close links and even control over major commercial actors, arguably make it easier for Beijing to exercise economic statecraft,³⁹ although this does not always eliminate principal-agent problems.⁴⁰ The strong degree of state-directed economic activity adds to concerns over sinister, strategic goals behind Chinese economic activities abroad, particularly those in energy, resource, and technologically-sensitive sectors.

Most reports assume that large-scale Chinese aid and investment inevitably produces political influence for Beijing in those recipient countries. However, alternative accounts suggest that claims of Beijing grabbing land, food, and fossil fuels in Africa and Latin America to ensure its own resource security are overblown.⁴¹ The success of China’s infrastructure-for-oil deals varies from country to country.⁴² Public accountability provides a framework to better understand conditions for the effectiveness of economic statecraft.

37. Wei Li and Yi Sun, “Lijie zhongguo jingji waijiao (Understanding China’s Economic Diplomacy),” *Waijiao pinglun*, no. 4 (2014): 1–24.

38. Shanthi Kalathil, “Influence for Sale? China’s Trade, Investment and Assistance Policies in Southeast Asia,” *East and South China Seas Bulletin* 4 (2012).

39. Davis, Fuchs, and Johnson, “State Control and the Effects of Foreign Relations on Bilateral Trade”; Fuchs and Klann, “Paying a Visit: The Dalai Lama Effect on International Trade.”

40. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*.

41. Deborah Brautigam, *Will Africa Feed China?* (Oxford University Press, 2015).

42. Ana Cristina Alves, “Chinese Economic Statecraft: A Comparative Study of China’s Oil-backed Loans in Angola and Brazil,” *Journal of Current Chinese Affairs* 42, no. 1 (2013): 99–130.

Research Design: Case Selection

I present case studies of three Southeast Asian countries, using evidence from field interviews and other primary and secondary sources. Southeast Asia presents an important context to study the use of economic statecraft. Close to China's geographic periphery, countries in this region face significant economic and political-security tradeoffs, and economic statecraft often has important geopolitical consequences for China and for the target countries involved.

To test the predicted outcomes of China's subversive carrots, I select country cases with different values of public accountability: Cambodia serves as a case of low accountability, the Philippines as a case of high accountability, and Myanmar as a case of within-country variation in public accountability.

For comparison with the success of subversive carrots in low accountability Cambodia, the Philippines serves as a most similar but high accountability case in Southeast Asia. Figures 2 and 3 provide an illustration of accountability levels in Southeast Asia, as measured by the World Bank Worldwide Governance Indicators (WGI) and the Varieties of Democracy (V-Dem) project. The World Bank defines 'Voice and Accountability' as "the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media."⁴³ V-Dem defines accountability as "constraints on the government's use of political power through requirements for justification for its actions and potential sanctions," including through elections, institutional checks and balances, and civil society and media.⁴⁴

Of the plausibly higher accountability countries in the region, Indonesia has much lower trade dependence on China (and a history of violent tensions with ethnic Chinese) and Singapore is much more economically developed. Malaysia is also significantly wealthier than the Philippines (its GDP per capita is well over thrice that of the Philippines), it is only just starting to see backlash unfold against China's recent investment projects, and its history of ethnic tensions also remains a potential confounder.

In contrast, the Philippines – in addition to being one of the higher ranked countries for public accountability across both measures – is a lower middle income country, as is Cambodia, has a reasonably high degree of economic interdependence with China, and does not have the same legacy of widespread racial tensions with Chinese populations as Indonesia and Malaysia do.

43. The WGI dataset measures six dimensions of governance using six aggregate indicators, based on over 30 data sources from surveys of households and firms, non-governmental organizations, public sector organizations, and commercial business information providers. More information on methodology and data here: <http://info.worldbank.org/governance/wgi/index.aspx>

44. See <https://www.v-dem.net/en/> for more information on the dataset and codebook.

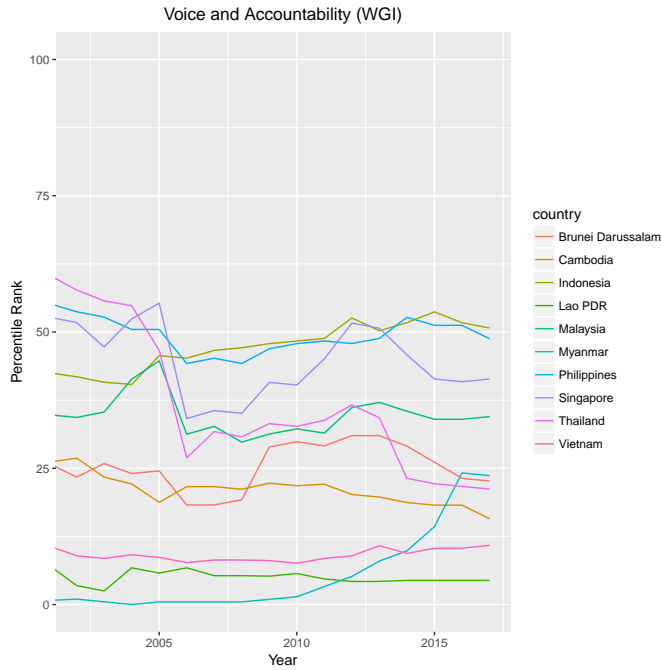


Figure 2: Accountability in Southeast Asian countries, measured by the World Bank Worldwide Governance Indicators. Higher ranked = more accountable.

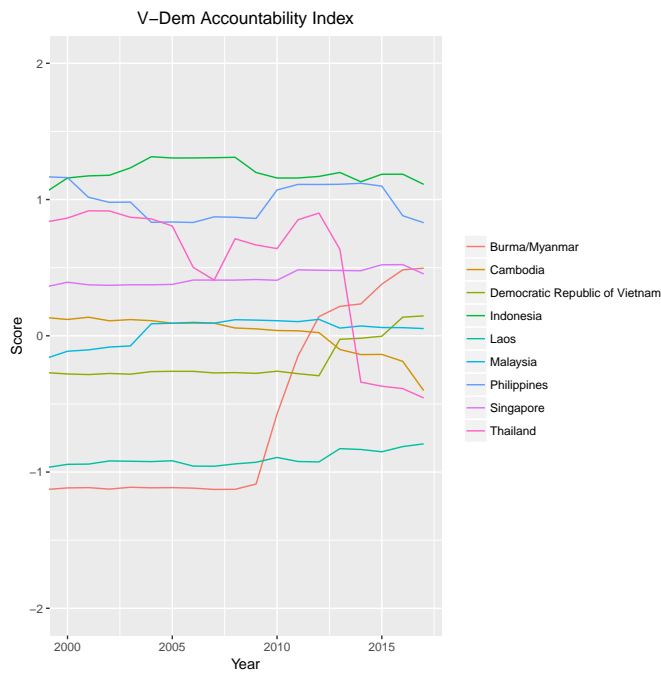


Figure 3: Accountability in Southeast Asian countries, measured by the Varieties of Democracy project. Higher ranked = more accountable.

Furthermore, I leverage within-country variation in public accountability in Myanmar to explain changes in the outcomes of subversive carrots. This shift in accountability resulted from the domestic political transition from a military junta to a more democratically-elected form of government. Examining changes in accountability in a single country allows me to better control for national and international-level factors that could influence the effectiveness of economic statecraft.

Figure 4 summarizes the accountability ranks of these three country cases – Cambodia, the Philippines, and Myanmar – as measured by the World Bank.

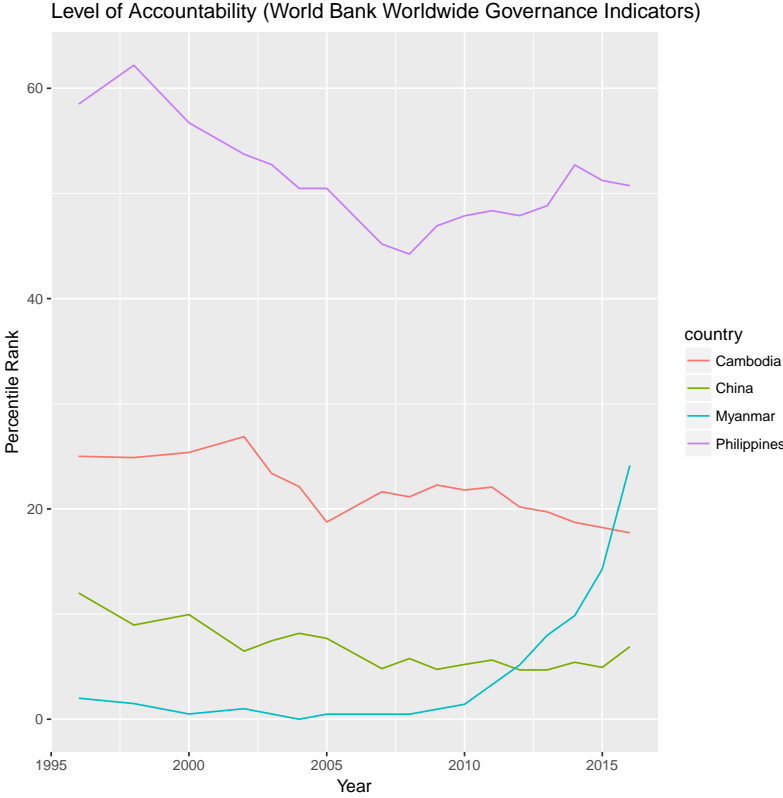


Figure 4: Country accountability percentile rank. Data source: Worldwide Governance Indicators, World Bank

Case Outlines

First, I investigate Cambodia as a case of low accountability and the correspondingly high efficacy of China’s subversive carrots. Beijing used subversive carrots that worked through crony state-business linkages in Cambodia and brought direct benefits to Cambodian elites, including the powerful prime minister. This has directly translated into desired political payoffs for Beijing. Data shows evidence of a spike in Chinese aid at opportune moments,

resulting in Cambodia's willingness to support China's position on the South China Sea in defiance of other Southeast Asian countries, particularly when Cambodia held the ASEAN⁴⁵ chairmanship in 2012. An absence of public accountability mechanisms have prevented public and societal actors from punishing Cambodian leaders for their policy behavior.

Next, I show how the high public accountability of the Philippine system – with a free press, competitive elections, and civil society – caused China's subversive carrots in the mid-2000s to backfire. The Philippine president and other top officials received bribes and kickbacks for major Chinese-led investment projects. In return, Philippine leaders agreed to reverse positions on the South China Sea and signed cooperative agreements that undermined national sovereignty and previous official positions. Because China's economic inducements undermined established political processes in the Philippines, this generated severe public opinion backlash and political opposition, ultimately forcing the cancellation of these economic deals.

Finally, I examine the political transition in Myanmar from military junta to a more democratically-elected (albeit imperfect) government, to show how changes in public accountability affect the success of China's subversive carrots. Under the previous military junta, subversive carrots served to benefit military cronies directly via non-transparent economic deals. However, the transition to a government that was also more responsive to negative public opinion toward China reduced the efficacy of subversive carrots and led to changes in Myanmar's public management of its South China Sea position.

Cash for Comment: Success of Subversive Carrots in Cambodia

Cambodia, a country with low public accountability, presents a case of how Beijing has used subversive carrots to further its foreign policy goals in Southeast Asia. While Cambodia may be a relatively small and impoverished country, even relative to its neighbors, ASEAN's institutional norm of consensus allows Phnom Penh – with Chinese backing – to effectively wield veto power over the organization's statements and positions.

The current Sino-Cambodian relationship grew from instrumental foundations. China was the patron of the Pol Pot regime and Khmer Rouge, in opposition to Hun Sen's origins as part of the Vietnam-backed People's Republic of Kampuchea (PRK). However, as Hun Sen rose in prominence and eventually seized power in a coup, which led to international sanctions, Beijing exploited the opportunity and became Cambodia's primary source of

45. Association for Southeast Asian Nations, a regional organization composed of ten Southeast Asian countries.

economic and military assistance.⁴⁶

There is little transparency and little oversight in Cambodia's political system. Prime Minister Hun Sen and his cronies maintain tight control over lucrative sectors of Cambodia's economy, from natural resources and trading to construction and industrial parks. Apart from the private sector, Hun Sen and his extensive web of relatives – by blood and marriage – also control key components of the domestic political machinery and state apparatus, from the military and police to the media and civil society.⁴⁷ Both politics and business operate through personalized patronage networks. Business elites get concessional benefits and licenses as well as government positions, and they in turn channel funds to the ruling coalition and security forces. Funds flow to officials through bribes and kickbacks, and as patronage in advance of elections.⁴⁸

Ruling Cambodia elites also face few domestic political costs for their actions. Hun Sen has brutally suppressed political opposition figures and intimidated voters, preventing fair and competitive elections.⁴⁹ Ahead of local and national elections in 2017 and 2018, the Cambodian government slammed opposition figures with numerous lawsuits and passed measures that could dissolve the main opposition party, causing the top opposition leader, Sam Rainsy, to preemptively resign.⁵⁰

Large-scale Chinese investment projects, in sectors such as natural resources, energy, transportation, and textiles, are subject to few institutional checks. Contracts are non-transparent and directly involve dealings between Chinese businesses and Cambodian political elites. Land grabs, human displacement, and environmental degradation have generated discontent, but opposition activists have often faced violent and life-threatening responses by the state.⁵¹ White elephant projects are common, and foreign aid and development loans are often siphoned off as “plain brown paper bags full of cash”.⁵² The public and other societal actors have little ability to enforce oversight over China's subversive carrots or impose political costs on Hun Sen despite widespread dissatisfaction.

46. John D. Ciorciari, “A Chinese model for patron-client relations? The Sino-Cambodian partnership,” *International Relations of the Asia-Pacific* 15 (2015): 245–278.

47. For a detailed investigation, see “Hostile Takeover: The Corporate Empire of Cambodia's Ruling Family,” Global Witness, July 2016.

48. Ciorciari, “A Chinese model for patron-client relations? The Sino-Cambodian partnership.”

49. Duncan McCargo, “Cambodia: Getting Away with Authoritarianism?,” *Journal of Democracy* 16, no. 4 (2005): 98–112.

50. Julia Wallace, “Top Opposition Leader in Cambodia Resigns as Election Nears,” *New York Times*, February 12, 2017.

51. See also “How China bought its way into Cambodia,” *Financial Times*, September 8, 2016.

52. Ciorciari, “A Chinese model for patron-client relations? The Sino-Cambodian partnership.”

53. Sebastian Strangio, *Hun Sen's Cambodia* (Yale University Press, 2014).

How Chinese Cash Produced Cambodian Comment

Cambodia’s low accountability environment has facilitated Beijing’s use of subversive carrots to buy political support for China’s foreign policy interests. Data on aid inflows into Cambodia show significant spikes in Chinese official development aid (ODA) to Cambodia in 2011 and 2012 (Figures 5 and 6). Not coincidentally, in 2012, Cambodia assumed the chairmanship of ASEAN, the regional organization comprising the ten Southeast Asian countries.

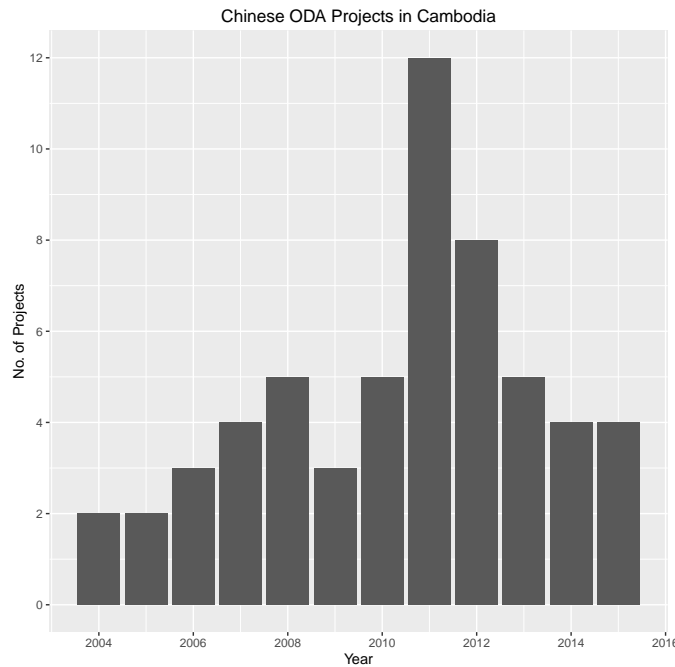


Figure 5: No. of Chinese ODA projects in Cambodia. Data source: odacambodia.com

Evidence shows a strong relationship between Chinese money and Cambodia’s policy stance during the ASEAN Annual Ministerial Meeting (AMM) in July 2012. That meeting marked the first time in ASEAN’s history that a joint communique was not issued. This unprecedented failure was attributed to consistent Cambodian opposition to any mention of sovereignty disputes in the South China Sea, in line with Beijing’s foreign policy goals. During my interview with a senior U.S. diplomat based in a Southeast Asian country, he described a “straight up monetary” deal to provide economic benefits to Cambodia in exchange for not accepting specific language on the South China Sea.⁵⁴

Based on field interviews and leaked media reports, the consensus among foreign and even Chinese observers

54. Interview, senior U.S. diplomat based in Southeast Asia, January 2017.

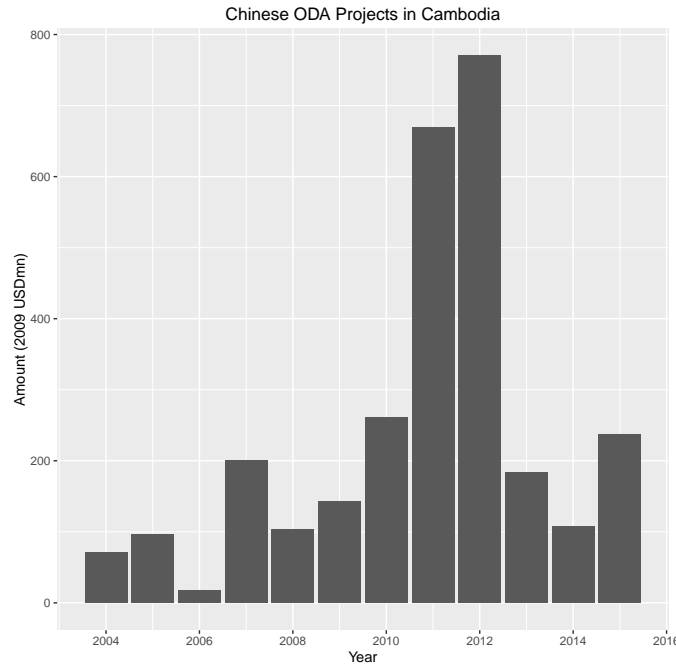


Figure 6: Amount of Chinese ODA flows to Cambodia. Data source: odacambodia.com

was that Beijing had bought Cambodia over. China’s goals were to prevent a joint ASEAN position and advocate bilateral management of the South China Sea disputes. In a serious breach of protocol, Cambodian delegates consulted with their Chinese counterparts during internal ASEAN discussions over the wording of the joint communique. China had demanded that any references to the South China Sea disputes be removed.⁵⁵ The Cambodian Foreign Minister said that he would be scolded by his superiors if he agreed to the joint statement, while Hun Sen falsely claimed that he had secured agreement from both Xi Jinping and Philippine president Aquino on the SCS issue.⁵⁶

A parallel incident occurred during the July 2016 ASEAN summit, when Cambodia blocked any mention of the recent international tribunal ruling that had criticized China’s position. Beijing pledged \$600 million in aid to Phnom Penh just before the summit, and announced soon after the ASEAN meeting that it would build a \$16 million National Assembly Hall in the Cambodian capital.⁵⁷ A parallel incident occurred during the July 2016 ASEAN summit, when Cambodia blocked any mention of the recent international tribunal ruling that had criticized China’s

55. For a detailed analysis of what occurred at the meeting, see Carlyle Thayer, “ASEAN’s Code of Conduct in the South China Sea: A Litmus Test for Community-Building?,” *Asia-Pacific Journal* 10, no. 34 (2012)

56. Interview, former senior member of Presidential Management Staff under Aquino, July 29, 2016.

57. “How China bought its way into Cambodia,” *Financial Times*, September 8, 2016.

position. Beijing pledged \$600 million in aid to Phnom Penh just before the summit, and announced soon after the ASEAN meeting that it would build a \$16 million National Assembly Hall in the Cambodian capital.⁵⁸ The low public accountability environment in Cambodia has allowed ruling elites to accept subversive carrots without facing domestic political costs. Despite local resentment against China's economic presence, Cambodian citizens have consistently lacked oversight mechanisms to punish the prime minister for his policy choices.⁵⁹

China's subversive carrots and Cambodia's actions have had major implications for foreign policy issues in the region. Although Cambodia is not a dispute claimant in the South China Sea, its actions are not costless. Its foreign policy behavior has damaged relations with Southeast Asian neighbors and severely harmed its reputation in the region. While ASEAN used to be seen as a way for Southeast Asian countries to jointly amplify their policy voice vis-a-vis Beijing, the organization has arguably suffered deepening divisions and greater incoherence, particularly on managing the South China Sea disputes. This has strengthened Beijing's position, enabling a consolidation of its presence in the South China Sea and preventing a resolution of the disputes counter to its foreign policy interests. Thus, the Cambodia case – exemplifying low public accountability – shows how the use of subversive carrots can efficiently produce political payoffs for Beijing.

The Accountability Backlash: Failure of Subversive Carrots in the Philippines

In the 2000s, under the administration of President Gloria Arroyo, Beijing offered subversive carrots to the Philippines, including major infrastructure deals in exchange for more concessional positions on the South China Sea. However, because these deals were agreed upon outside of the proper legal and institutional channels, China's carrots ultimately backfired under the Philippines' high public accountability environment.

While corruption and patronage networks may be common in Philippine politics, the presence of broader accountability mechanisms, including a free press, civil society, active political opposition, and open competitive elections, ensures that societal actors are able to acquire information about subversive carrots and exercise oversight of political leaders. Philippine media has had a reputation for being free, and has played a role in ousting former presidents.⁶⁰ Under conditions of high accountability, public opinion backlash and political criticism imposed

58. "How China bought its way into Cambodia," *Financial Times*, September 8, 2016.

59. Andrew Nachemson, "Chinese investment in Cambodia is bringing Phnom Penh closer to Beijing – and further from the EU," *South China Morning Post*, May 1, 2019, <https://www.scmp.com/news/asia/southeast-asia/article/3008451/chinese-investment-cambodia-bringing-phnom-penh-closer>.

60. Sascha M. Gallardo and Aileen S.P. Baviera, "Filipino Media and Public Opinion on the Philippines-China Disputes in the South

domestic costs on Philippine leaders, thus acting as an important mechanism to constrain elite behavior and policy choices.

Beijing's generosity in investments and loans was remarkable, particularly in building up the Philippines' underdeveloped infrastructure. This was all the more striking and unprecedented when contrasted with historical trends in the bilateral economic relationship. Even relative to other ASEAN countries, the Philippines has remained largely peripheral (for economic reasons) for Chinese trade, investment, and aid.⁶¹

Major projects included railway lines and a government broadband network. In 2003, China agreed to provide US\$400 million via the China Export-Import Bank for the US\$503 million, 20-mile long North Luzon Railway, or NorthRail. Subsequently, it agreed to another loan covering 95 percent of costs for the upgrading and extension of South Luzon Railway, adding up to US\$932 million. In addition, a US\$329.5 million deal signed in 2007 involved the development of the National Broadband Network (NBN), meant to establish an e-government presence throughout the country by linking 2,295 national offices and 23,549 village and municipal offices. China provided a twenty-year loan at 3 percent interest per annum, conditional on a Chinese company being appointed as the exclusive supplier and provider.⁶²

The subversive nature of China's carrots

However, these carrots were offered in a subversive nature. The Chinese-financed infrastructure projects bypassed competitive bidding procedures, were vastly overpriced, and involved corrupt bribes and kickbacks. For example, the NBN deal was converted into a government-to-government agreement that bypassed the usual competitive bidding process. The contract was then handed to ZTE, a state-owned Chinese telecommunications company. Government reviews later found that the contract had ballooned from US\$130 million to US\$330 million. The NBN project was allegedly brokered by Benjamin Abalos, chairman of the Philippines' Commission on Elections, who had cozy ties with ZTE. He extracted 'commissions' from ZTE in the name of the president and her political allies, which inflated the contract price, and offered bribes to Philippine government figures, including the director-general of the National Economic and Development Authority (NEDA), the agency overseeing major infrastructure

China Sea: A Preliminary Analysis," *4th International Workshop on "The South China Sea: Cooperation for Regional Security and Development, Ho Chi Minh City, Vietnam, 18-21 November 2012*, 2012.

61. Tina S. Clemente, "Understanding the Economic Diplomacy between the Philippines and China," *International Journal of China Studies* 7, no. 2 (2016): 215-233.

62. Ian Storey, "Conflict in the South China Sea: China's Relations with Vietnam and the Philippines," *Asia-Pacific Journal: Japan Focus* 6, no. 4 (2008).

development projects. This amounted to \$41 million in “advances,” including \$30 million to aid the administration in the upcoming 2007 elections.⁶³ The president’s husband was also improperly involved in the process of securing the deal, while President Arroyo herself played golf with ZTE executives and attended the signing of the contract despite being aware of its corrupt nature.⁶⁴

Parallel irregularities were found in the NorthRail project. This had in fact originally been a Japanese-financed project that was stalled because the Japanese government was hesitant to ignore civil society opposition over local resettlement.⁶⁵⁶⁶ However, China did not have similar reservations. The project had two phases comprising a 2004 \$400 million component (which subsequently underwent arbitration) and 2007 \$600 million component (which was never started), and was contracted out to the Chinese SOE China National Machinery and Equipment Corp Group (CNMEG), now known as Sinomach. The deal involved the Speaker of the House of Representatives, Jose de Venecia Jr., who boasted of “convincing two Chinese presidents, two Chinese Prime Ministers, two Speakers of Parliament, and three Chinese Ambassadors to the Philippines for China to undertake the project.”⁶⁷ The project was also massively overpriced, with the dubious honor of being the world’s most expensive railway by unit distance.⁶⁸ Driven by de Venecia and other politicians from Central Luzon province, which stood to benefit from the project, NorthRail was found to have skipped over regulatory procedures. CNMEG conducted its own feasibility study, the project lacked qualified engineers, and the supply contract failed to specify required technical details and quality standards. It did include a 30% upfront payment in the financing terms, raising suspicions of political corruption.⁶⁹

In tandem with accepting China’s subversive carrots, Philippine leaders also altered policies on the South China Sea disputes. Manila and Beijing (later joined by Hanoi) signed the Joint Marine Seismic Undertaking (JMSU) in March 2005. The JMSU was a resource exploration agreement that permitted a Chinese national oil company to

63. Aileen Baviera, “The Domestic Mediations of China’s Influence in the Philippines,” in *Rising China’s Influence in Developing Asia*, ed. Evelyn Goh (Oxford University Press, 2015).

64. “JDV confirms visit to China with Arroyos,” *Rappler*, January 24, 2012; Leila B. Salaverria, “De Venecia: Abalos presence in China golf big surprise,” *Philippine Daily Inquirer*, January 25, 2012.

65. Dennis D. Trinidad, “Institutional Mismatch and Chinese Aid in the Philippines: Challenges and Implications,” *Asian Perspective* 40 (2016): 299–328.

66. Interview, National Economic and Development Authority, Manila, July 28, 2016

67. Landingin2010; Aileen S.P. Baviera, “The Influence of Domestic Politics on Philippine Foreign Policy: The case of Philippines-China relations since 2004,” *RSIS Working Paper*, no. 241 (2012).

68. “Northrail contractor got paid \$129M more,” *Rappler*, September 11, 2013; Fidel Jimenez, “RP’s Northrail project could be world’s costliest railway - Drilon,” *GMA News*, July 19, 2008; “PH renegotiates Northrail loan with China,” *Rappler*, September 23, 2012; Miguel Camus, “PH, Japan seal P97-B commuter rail project,” *Philippine Daily Inquirer*, January 29, 2016.

69. Landingin2010.

conduct a joint survey in the South China Sea.⁷⁰

However, in 2008, it was reported that the signing of the JMSU undermined existing legal and institutional procedures, and involved controversial policy concessions. A sixth of the designated area was in fact in Philippine territorial waters unclaimed by China or Vietnam, pointing to an unnecessary compromise on sovereignty. In addition, the Arroyo government had undercut ASEAN efforts to address the South China Sea disputes as a multilateral issue by choosing to deal with China bilaterally without consulting its Southeast Asian neighbors.⁷¹

Crucially, the JMSU violated the Philippine constitution. By law, the Philippine government is required to maintain “full control” over the exploration, development, and utilization of natural resources in Philippine territory (including the exclusive economic zone), and any joint ventures must involve corporations whose capital is least 60 percent owned by Filipino citizens.⁷²

Moreover, the JMSU subverted established political processes and institutional procedures in the Philippines. Both foreign and Filipino journalists have charged that Arroyo agreed to the JMSU in exchange for an influx of corrupt Chinese financing.⁷³ As an illustration, in 2006 the Chinese government unexpectedly offered \$2 billion of aid loans from its Export-Import Bank per year until 2010, easily dwarfing the \$200 million offered separately by the World Bank and Asian Development Bank, and a \$1 billion loan under negotiation with Japan.⁷⁵

The agreement was pushed forward by two key political figures. The House Speaker, Jose de Venecia Jr., was again an important player and a key political ally of Arroyo. He also had very cozy ties with the Chinese government. De Venecia had helped to broaden international linkages with the Chinese Communist Party, and was linked with domestic oil interests (reportedly, his website previously proclaimed himself as a ‘believer in informal diplomacy and the role of parliament in back-channel conflict resolution’). Another political player was the president of the Philippine National Oil Company, Eduardo Manalac, who had close links with Chinese oil companies.

De Venecia apparently made commitments to his Chinese counterparts without consulting his Philippine policy colleagues.⁷⁶ According to a senior career bureaucrat, and corroborated by others present, at a Christmas party

70. International Crisis Group, “Stirring Up the South China Sea (II): Regional Responses,” *Asia Report*, no. 229 (2012); Storey, “Conflict in the South China Sea: China’s Relations with Vietnam and the Philippines.”

71. Barry Wain, “Manila’s Bungle in the South China Sea,” *Far Eastern Economic Review* 171, no. 1 (2008): 45.

72. Attorney Neri Javier Colmenares, “Spratlys deal unconstitutional: Joint Marine Seismic Undertaking void,” *GMA News*, March 17, 2008.

73. Baviera, “The Domestic Mediations of China’s Influence in the Philippines.”

74. Miriam Grace A. Go, “Arroyo gov’t pleasing China since Day 1,” *ABS-CBN News*, March 14, 2008.

75. Jane Perlez, “China competes with West in aid to its neighbors,” *International Herald Tribune*, September 18, 2006.

76. Baviera, “The Influence of Domestic Politics on Philippine Foreign Policy: The case of Philippines-China relations since 2004”; Baviera, “The Domestic Mediations of China’s Influence in the Philippines.”

in 2005, de Venecia declared that if Manila did not sign the JMSU, China would not give promised loans.⁷⁷ In other words, Philippine leaders' interests in extracting rents left them willing to make policy concessions to China. Although Congress should have been informed of any deal with a foreign government, interviews with Philippine lawmakers confirmed that the deal did not go through the proper legal proceedings.⁷⁸

Furthermore, government bodies that would have normally handled such foreign and security policy issues, including the Department of Foreign Affairs, National Security Council, and even the Department of Energy, were sidelined during the JMSU negotiations. In fact, DFA bureaucrats had recommended against proceeding with the agreement, because it would violate the 2002 ASEAN Declaration of Conduct as well as the constitutional provision reserving resource exploitation rights in the Philippine EEZ to Filipino nationals.⁷⁹ Thus, China provided economic inducements in ways that undermined established political institutions and processes: regulatory processes and bureaucratic actors were sidelined; agreements were non-transparent and kept secret from Congress and the public; and constitutional requirements were violated.

Public Backlash: Transparency and Oversight

China's subversive carrots sparked strong public and political backlash in the Philippines. Public accountability mechanisms, in the form of transparency and oversight, imposed political costs on Philippine leaders for their policy decisions, and led to the cancelation of these Chinese-financed infrastructure projects. Moreover, evidence shows that the backlash was primarily against the violation of political processes and institutions in the Philippines, including the extensive corruption and the bypassing of required regulatory procedures.

Informational transparency – the first component of public accountability – was a key mechanism facilitating public backlash. An active free press and an environment of open, even raucous political debate in the Philippines meant that information on China's subversive carrots could be revealed to the public, and that these issues could be discussed freely. This led to public and political backlash. In addition, public accountability facilitated oversight of Philippine leaders, who faced domestic political costs for accepting subversive carrots. They had to reverse their policy choices in response to public pressure, and further faced oversight and punishment through political and legal institutions. This ultimately led to the failure of China's subversive carrots.

Media reporting was instrumental in revealing information about these corrupt deals. A few days after the

77. Interview, Filipino journalist, December 4, 2017.

78. Interview, Filipino journalist, December 4, 2017.

79. Baviera, "The Domestic Mediations of China's Influence in the Philippines," 112.

NBN-ZTE deal was signed in April 2007, a Philippine journalist broke the news about an “unnamed Comelec official” who played a role in approving the project. A Philippine lawmaker subsequently identified Abalos, the election commission chairman, as the individual in question.⁸⁰

In addition, media coverage, public debate, and subsequent political oversight centered on the corrupt, subversive nature of China’s economic inducements along with the implicated political figures.⁸¹ Public debate also challenged the constitutionality of the JMSU, and criticized the lack of transparency on the agreement’s terms.⁸²

For example, the National Union of Peoples’ Lawyers criticized the JMSU for violating the Philippine Constitution, called for public scrutiny of all agreements, and “urge[d] the people to assert their right to demand accountability.”⁸³ A range of prominent political and economic actors openly criticized the corruption underlying Chinese-financed infrastructure projects. Former senior government officials slammed the Arroyo administration for undermining transparency and democratic processes, describing a “widespread clamor for truth and accountability.”⁸⁴ A major business association issued a statement saying “we must see to it that those who are revealed to have broken the law, no matter how high up, must be made to account for their transgression.”⁸⁵

Furthermore, the Philippine government launched an extended investigation process, which was well-covered by the media. A Senate probe was re-launched regarding irregularities in the Northrail project.⁸⁶ The Senate also formed four working groups and held thirteen public hearings regarding the NBN-ZTE project between September 2007 and September 2008. The investigative process served to inform the public about intricate details of the case as well as to exercise oversight over the elites involved.

Key witnesses were called to testify during these hearings. A rival bidder for the ZTE contract claimed that the president’s husband had told him to “back off” from the project and that Abalos had promised US\$70 million in kickbacks to the First Gentleman. In addition, the NEDA director-general (and Secretary for Socioeconomic Planning) testified that Abalos, the election commission chairman, had offered him US\$3.7 million to approve the ZTE

80. “Timeline: Exposing the ZTE Overprice,” *ABS-CBN News*, November 24, 2008.

81. “Ripe for reckoning,” *Philippine Daily Inquirer*, March 15, 2012.

82. Baviera, “The Influence of Domestic Politics on Philippine Foreign Policy: The case of Philippines-China relations since 2004”; International Crisis Group, “Stirring Up the South China Sea (II): Regional Responses”; Storey, “Conflict in the South China Sea: China’s Relations with Vietnam and the Philippines.”

83. Atty. Neri Javier Colmen, “Spratlys deal unconstitutional: Joint Marine Seismic Undertaking void,” March 17, 2008.

84. James Konstanin Galvez, “Critics blink on resign call: Look beyond resignation, former Cabinet officials say,” *Manila Times*, March 14, 2008; Efren L. Danao, “Lacson pursues broadband paper trail,” *Manila Times*, March 15, 2008.

85. Carlos H. Conde, “Business groups join fray in Philippine corruption scandal,” *New York Times*, November 7, 2008.

86. Fel V. Maragay, “Senate probe of JdV’s role in railway deal gains steam,” *Manila Standard*, November 19, 2007.

contract, and that he had informed President Arroyo about the bribe.⁸⁷ A NEDA consultant for the NBN-ZTE project further pinpointed Arroyo and her husband as “masterminds behind the NBN-ZTE crime” and described how promised kickbacks had inflated the price of the contract.⁸⁸

Despite knowing about potential irregularities, and soon after her husband had undergone a major heart surgery operation, Arroyo proceeded with a 12-hour trip to China to be present at the signing of the agreement. According to Senate witness testimonies, the PRC ambassador to Manila had written a letter requesting her “personal attention to coordinate,” and that ZTE officials had asked for Arroyo’s presence as a precondition for releasing US\$30 million in kickbacks to aid administration candidates in the 2007 legislative elections. In addition, documents showed that the president had given special authority to two Cabinet members to sign the NBN-ZTE deal and another MOU with ZTE.⁸⁹

The Senate investigation produced a 200-page report by the Committee on Accountability of Public Officers and Investigations.⁹⁰ The report explicitly identified the implicated political figures and listed the national laws that they had violated.⁹¹ It also criticized Chinese companies for undermining political institutions and processes. “It is also worth mentioning that ZTE should be warned in the manner that it conducts its business in the Philippines. While we welcome foreign investment, we only welcome investors who are willing to abide with the laws of the Philippines and will not foment graft and corruption in government. ZTE should be mindful of its dealings with government officials and must act above suspicion that it is involved in any form of bribery.”⁹²

Similarly, the NorthRail project faced legal and political consequences. In 2006, a group led by an activist lawyer filed a lawsuit arguing that the deal had violated Philippine law on government procurement.⁹³ The Supreme Court turned down a petition by the Chinese SOE involved, NCNMEG, to halt legal proceedings, while a lower court ruled that the deal did not meet exemptions from procurement law.⁹⁴ The project was later terminated under the next president, Benigno Aquino III. After renegotiating the loan repayment with China, the Aquino government later revived the much-needed development project in early 2016, with a Japan ODA grant that had more favorable

87. “Timeline: Exposing the ZTE Overprice,” *ABS-CBN News*, November 24, 2008.

88. “What went before: NBN-ZTE deal,” *Philippine Daily Inquirer*, January 12, 2008.

89. Tony Bergonia, “Arroyo not just witness at NBN-ZTE deal signing,” *Philippine Daily Inquirer*, March 6, 2008.

90. “NBN-ZTE Scandal,” Republic of the Philippines Senate Blue Ribbon Committee Report No. 743, November 11, 2009.

91. Republic of the Philippines Senate Blue Ribbon Committee Report No. 743, see e.g. p.2-3

92. Republic of the Philippines Senate Blue Ribbon Committee Report No. 743, p.125.

93. Trinidad, “[Institutional Mismatch and Chinese Aid in the Philippines: Challenges and Implications.](#)”

94. Landingin2010.

loan terms.⁹⁵

As a result of the scandals, public opinion became much more negative toward China and toward the Philippine president. Figures 7 and 8 respectively show a sharp dip in public trust of China and approval ratings of President Arroyo around the time of the ZTE-NBN and JMSU scandals. Activists even launched a ‘AB-ZTE-FG’ protest ringtone to “let our call for truth and transparency ring across the country.”⁹⁶

In addition, several anti-government rallies were held in Manila and other cities protesting Arroyo’s corruption, demanding greater transparency and accountability, and calling for her resignation. The Chinese-financed project scandals were seen as another spark for dissatisfaction and a symbol of the administration’s entrenched corruption and fraud. Some media outlets even described the case as having “grown to such proportion as to create a huge protest almost approximating the previous EDSA temblors,” the latter a reference to past anti-regime popular movements.⁹⁷ The movement saw the participation of a diverse number of actors, including politicians, business groups, religious organizations, civil society activists, university students, lawyer groups, and leftist political groups.⁹⁸ In the words of the national bar association’s president, “President Arroyo has committed another series of illegal and unconstitutional acts with her approval of the ZTE contract despite knowledge of the corruption that accompanied the transaction and the cover-up that ensued...We demand that all officials involved in the corruption that accompanied the ZTE contract and the other violations of our constitutional rights be held accountable.”⁹⁹

Political pressure and public criticism forced President Arroyo not only to cancel the NBN-ZTE deal but also to suspend other Chinese-financed infrastructure projects and set up a special committee to review these projects.¹⁰⁰ This included a US\$1 billion dam construction deal to increase the drinking water supply in Metro Manila.¹⁰¹ The JMSU was also allowed to lapse in June 2008. Philippine observers attribute this to public pressure and media coverage of the issue.¹⁰² In May 2008, Philippine legislators had filed a petition with the Supreme Court to nullify the JMSU on the basis that it violated the Constitution.¹⁰³ In February 2010, Manila passed the Archipelago Baseline

95. Miguel Camus, “PH, Japan seal P97-B commuter rail project,” *Philippine Daily Inquirer*, January 29, 2016.

96. “Consumer protest group launches new ringtone: AB-ZTE-FG!” *Philippine Star*, September 25, 2007.

97. “EDITORIAL: The response to the bishops,” *Manila Times*, February 28, 2008.

98. James Mananghaya and Jaime Laude, “‘Fellowship of the streets’ ” *Philippine Star*, February 29, 2008; “Rallies for truth and Arroyo resignation end peacefully,” *ABS-CBN News*, March 1, 2008.

99. James Mananghaya and Jaime Laude, “‘Fellowship of the streets’ ” *Philippine Star*, February 29, 2008.

100. Aurea Calica, “Grand infrastructure projects pose corruption risks,” *Philippine Star*, September 27, 2009; Raissa Robles, “Arroyo freezes US\$2.45b projects funded by Beijing after ZTE scandal,” *South China Morning Post*, October 6, 2007.

101. Landingin2010.

102. Interview, Filipino journalist, December 4, 2017.

103. Tetch Torres, “SC asked to quash South China Sea tripartite deal,” *Philippine Daily Inquirer*, May 21, 2008; Buena Bernal, “SC asked: Void expired PH-China offshore oil exploration pact,” *Rappler*, May 29, 2014.

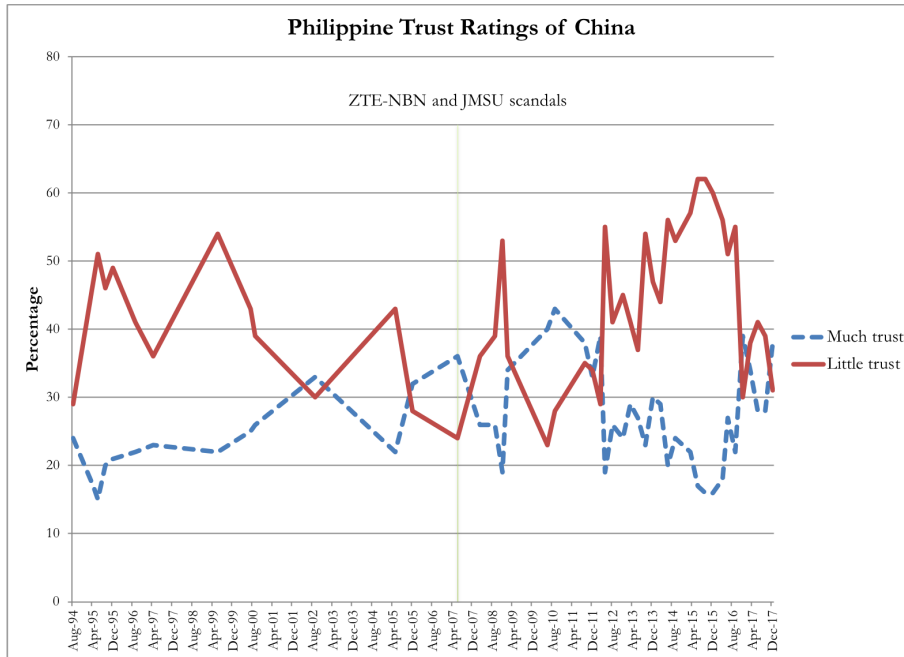


Figure 7: Philippine trust ratings of China. Data from Social Weather Survey, a public opinion polling institute in the Philippines.

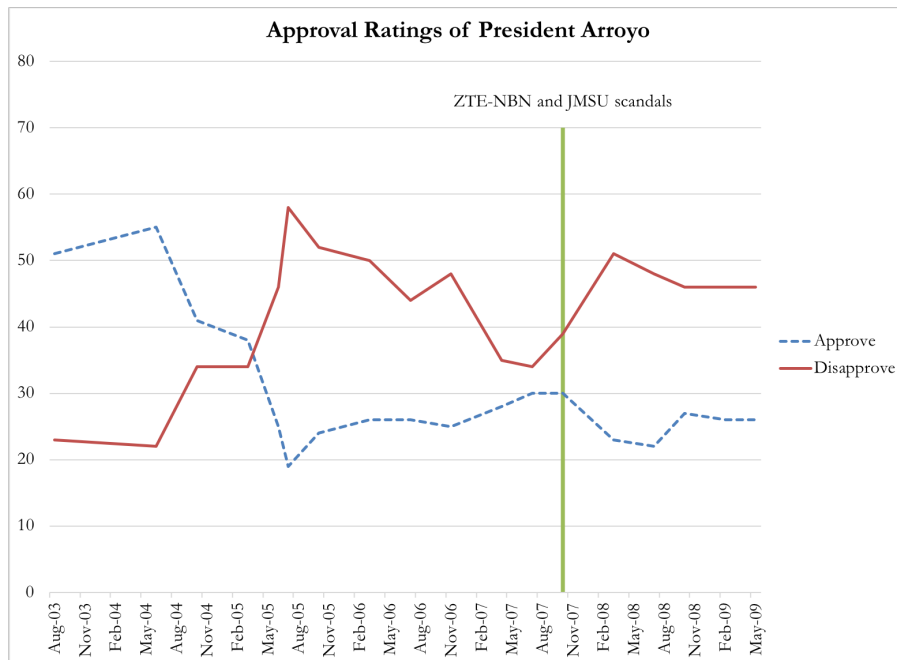


Figure 8: Philippine public approval ratings of President Gloria Arroyo. Data from Pulse Asia, a public opinion polling institute in the Philippines.

Act, which set forth Philippine sovereignty boundaries and “restricted the Philippine government from entering into future JMSU-like agreements without going through due process and transparency.”¹⁰⁴

Additionally, implicated Philippine elites faced legal punishment and political consequences. In the wake of the Senate hearings, the electoral commission chairman who had accepted Chinese bribes, Benjamin Abalos, resigned from his position.¹⁰⁵ He was subsequently charged and tried in court by government prosecutors.¹⁰⁶ The director-general of the National Economic Development Authority (NEDA), which oversees major infrastructure development projects, was also found guilty of misconduct.¹⁰⁷ A number of impeachment complaints and plunder cases were filed against Arroyo in connection with the NBN-ZTE project.¹⁰⁸ In late 2011, the Office of the Ombudsman charged Arroyo with graft and indicted her for playing golf and having lunch with ZTE officials while the deal was being evaluated by the Philippine government; her husband also faced bribery charges.¹⁰⁹

The strongly-worded Senate Committee Report criticized these political figures as “scavengers and predators ready to feast on the carrions of their preys,” and described the NBN-ZTE scandal as “a story of how people in high places...took advantage of their relationships...to cajole the Executive into entering a national broadband contract that would obtain something our country did not need, and which is manifestly disadvantageous to the Filipino people.” The report concluded that “everyone in this story stands accountable to the Filipino nation.”¹¹⁰

Seeing the Philippines as a weak and poor actor, Beijing had thought that such infrastructure and financing deals would be sufficient to buy political cooperation and accommodation from Manila – leading to an unpleasant shock.¹¹¹ However, the tendency of Chinese aid to operate through less transparent, more informal procedures (including the use of bribes and kickbacks) came into tension with Philippine institutions and rules governing aid that adhere to traditional DAC standards, such as transparency and competitive bidding.¹¹² As a result, China’s subversive carrots met with significant political blowback once they were discovered to have circumvented and

104. Ernest Z. Bower, “The JMSU: A Tale of Bilateralism and Secrecy in the South China Sea,” *CSIS Southeast Asia from the Corner of 18th & K Streets* 1, no. 23 (July 2010).

105. Carlos H. Conde, “Benjamin Abalos, Filipino elections official, resigns in a scandal that may threaten Arroyo,” *New York Times*, October 1, 2007.

106. “Abalos conviction in NBN-ZTE case sought,” *Rappler*, April 14, 2014. He was later acquitted.

107. Buena Bernal, “CA affirms guilty verdict on Neri in NBN-ZTE deal,” *Rappler*, May 12, 2014.

108. Ruben D. Manahan IV, “GMA faces sixth plunder case over \$330-million broadband deal,” *Manila Times*, September 9, 2011; “What went before: NBN-ZTE deal,” *Philippine Daily Inquirer*, January 12, 2018.

109. “Former Philippine president’s husband arrested on bribery charges,” *Associated Press*, March 13, 2012; “What went before: NBN-ZTE deal,” *Philippine Daily Inquirer*, January 12, 2018.

110. “NBN-ZTE Scandal,” Republic of the Philippines Senate Blue Ribbon Committee Report No. 743, November 11, 2009.

111. Interview, Tina Clemente, Manila, July 26, 2016.

112. Trinidad, “[Institutional Mismatch and Chinese Aid in the Philippines: Challenges and Implications.](#)”

undermined political processes and institutions in the Philippines.

This underlines the importance of public accountability. In the Philippines, a free press, open political system, and legal institutions were able to ensure transparency and oversight. This resulted in major public backlash against China's use of subversive carrots. By imposing domestic political costs on Philippine leaders, accountability mechanisms played an important role in constraining elite behavior. Elites had to respond to public opinion and faced constraints from institutional enforcement and the rule of law. Domestic actors and institutions in the Philippines were able to enforce the requisite standards and punish political leaders for violating these standards. As a result, China's subversive carrots backfired and failed in changing the Philippines' foreign policy.

Alternative Explanations

A low degree of economic interdependence with China is an unlikely alternative explanation. As seen in Figure 9, the Philippines' trade with China as a proportion of GDP was actually very high during the case study period, even relative to most other Southeast Asian countries. This reflected the Arroyo administration's emphasis on economic cooperation with Beijing.

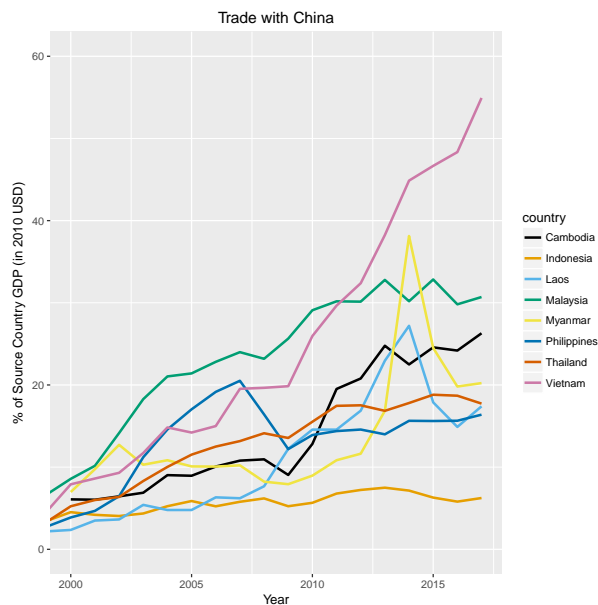


Figure 9: Southeast Asian countries' trade with China as a proportion of GDP.

Another potential rival explanation for the backlash is that the Philippines is a dispute claimant in the South China Sea, making it more difficult for Beijing to change Manila's foreign policy. While the existence of territorial

disputes certainly exacerbated negative perceptions toward China, my research points to the importance of public accountability institutions in explaining the nature of the Philippines' response to China's subversive carrots. First, during the case study period in the mid 2000s, economic and political relations between the two countries had been on the upswing. Beijing was seen as a largely cooperative actor who was becoming more amenable toward multilateral security engagement; in 2002, China and ASEAN signed a much-anticipated Declaration on the Conduct of Parties in the South China Sea.¹¹³ Territorial disputes were not as salient an issue for the Philippine public, especially compared to the period after 2012, when there was a physical standoff between the two countries over Scarborough Shoal.

Second, as shown in the above analysis, much of the public and political criticism of the Chinese-financed infrastructure projects centered on the presence of corruption implicating the Philippine president and other political elites, as well as the unconstitutional nature of the JMSU agreement. Public demonstrations over these corruption scandals called for the resignation of the president, as opposed to being about anti-China rhetoric.¹¹⁴ This supports the theoretical mechanisms of public accountability, which highlights the political costs of procedural violation, when leaders accept carrots that circumvent established political processes and institutions.

Third, there have been successful instances of Chinese-financed projects in the Philippines, which would not be expected if ongoing security disputes were the main driver of public backlash. Other projects complying with Philippine regulations have made progress. A waterworks improvement project, initially suspended after the NBN-ZTE scandal, was successfully completed after both countries incorporated a limited contractor bidding process that complied with the Philippines' procurement law, in contrast to the scandal-ridden infrastructure projects that had been scrapped.¹¹⁵ And soon after the NBN-ZTE deal was canceled, a consortium involving China's national power grid operator, State Grid, won an auction bid to manage the Philippines' electricity grid.¹¹⁶ State Grid recently announced plans to install solar panel system for communities in a largely agricultural Philippine province whose administrative jurisdiction includes a former U.S. naval base (now a special economic zone) and the disputed Scarborough Shoal.¹¹⁷

Additionally, my field interviews with government officials and scholars in Manila highlight a continued am-

113. Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs*, 2003.

114. Carmel Crimmins, "Thousands gather in Manila for anti-Arroyo protest," *Reuters*, February 29, 2008.

115. Roel Landingin, "Angat aqueduct: rare success in China-funded infra projects in PH," *Rappler*, July 16, 2012.

116. Roel Landingin and Richard McGregor, "China State Grid group wins Philippine auction," *Financial Times*, December 12, 2007.

117. "China's State Grid to provide solar power for Zambales," *Philippine Daily Inquirer*, February 15, 2019.

bivalence in public attitudes toward China. Despite concerns over sovereignty disputes, there remains plenty of eagerness for Chinese investment and aid. Given a desire for economic growth and infrastructure development, Beijing is seen as a major potential source of help. And as discussed in the following section, apparent interest in Chinese financing under the current Philippine president suggests that ongoing territorial disputes are not the predominant explanation for public backlash against China. In fact, public demands for greater transparency and government efforts to improve regulatory standards underline the mechanisms of public accountability in circumscribing any use of subversive carrots. Public backlash is not simply about anti-China sentiment, but about renegotiating the transparency and oversight of economic inducements.

Whither the Philippines under Duterte?

After the new Philippine president Rodrigo Duterte assumed office in June 2016, Beijing seized an opportunity to recalibrate the bilateral relationship, adjusting both its political rhetoric and economic statecraft. As president, Duterte announced a “separation” from the United States and a “springtime” in relations with China. Beijing’s official statements started to adopt international legal language, indicating a willingness to open negotiations and use a “provisional arrangement of a practical nature” to settle disputes.¹¹⁸

China has also renewed its offers of economic inducements. During Duterte’s visit to Beijing in October 2016, the two countries signed \$24 billion worth of deals, including \$15 million for investment projects, across a broad range of industries, and \$9 billion in credit facilities. In late January 2017, a cabinet-level delegation from the Philippines finalized \$3.7 billion worth of economic cooperation agreements, covering the fields of infrastructure, transportation, telecommunications, railways, irrigation, and living standards.¹¹⁹

Despite the declared optimism, infrastructure projects have been slow in moving forward, pointing to political caution on both sides as well as ongoing difficulties in resolving the terms and conditions of these agreements. Public accountability mechanisms in the Philippines have served to constrain leader behavior and policy decisions. Civil society groups have criticized the efficacy of infrastructure projects such as the proposed four-lane China Friendship Bridge in Manila, and Filipino public sentiment remains ambivalent toward China, with demand for “greater transparency and fairness around China’s transactions with the Philippines”.¹²⁰ Philippine observers, even those

118. Interview, Chito Sta. Romana, former journalist and now Philippine ambassador to China, July 29, 2016.

119. “China, the Philippines confirm cooperation programs worth 3.7 billion USD,” Xinhua, January 23, 2017.

120. Samantha Custer et al., “Ties That Bind: Quantifying China’s public diplomacy and its “good neighbor” effect,” *AidData at William & Mary*, June 2018, 26,28.

supportive of cooperative relations with Beijing, have called for Chinese companies to “respect Philippine laws and regulations” and avoid “short-cuts by bribing Philippine officials.”¹²¹ *South China Morning Post*, May 12, 2017. My interviews with Philippine analysts suggest that public memory of past scandals would entrench political backlash should any deals be found to be illegal.¹²²

Domestic political institutions have also continued to hold political leaders accountable. Referencing the project scandals under Arroyo, Philippine senators have called for a review of the deals signed with China, specifically emphasizing the importance of transparency and accountability.¹²³ The Senate Minority Leader publicly stated that “it is imperative that we scrutinize these new deals to assess whether the agreements are consistent with the Constitution and our laws...We are prepared to go to court on this.”¹²⁴ The Finance Secretary took pains to emphasize that the Duterte administration had learned lessons from the Arroyo’s administration’s “scandalous mismanagement of Chinese financing.”¹²⁵ Newly announced Chinese-financed projects continue to face scrutiny by Philippine lawmakers.¹²⁶

Furthermore, to reassure domestic skeptics and mollify public opinion, the Philippine government has institutionalized more stringent, regularized, and transparent procedures for Chinese financing. These efforts include greater transparency in the review and procurement process. The Philippine government now decides on the specific contractor, chosen from a list nominated by the Chinese embassy in Manila. Decisions on financing now has a new layer of bureaucratic mandate and be handled jointly by NEDA, allowing for more holistic review.¹²⁷ In November 2016, NEDA approved a new set of guidelines specifically focused on improving transparency and coordination when processing Chinese investment and aid activities. The Investment Coordination Committee (ICC) of NEDA acts as a clearing house for China-assisted projects. Manila has requested that China accredit qualified companies, which would then be screened and selected by the Philippine government.¹²⁸ This effort to improve regulatory oversight comes amid concerns that many of Beijing’s newly pledged investments involve ‘tainted’ Chinese firms.¹²⁹

121. Kristin Huang, “Duterte’s dilapidated hometown to get makeover with China’s ‘Belt and Road’ investment,”

122. Interview, Aileen Baviera, professor at University of the Philippines Diliman, December 2, 2017.

123. Paolo Romero, “Senate to review deals with China,” *Philippine Star*, November 22, 2018.

124. Cecille Suerte Felipe, “Franklin Drilon seeks review of 29 Philippines-China deals,” *The Philippine Star*, November 23, 2018.

125. “Dominguez on dealings with Chinese loans: We learned from past ‘mismanagement’,” *The Philippine Star*, December 6, 2018.

126. “DOF: China loan deal vetted vs graft,” *Philippine Daily Inquirer*, March 1, 2019.

127. Interview, National Economic and Development Authority, Manila, July 28, 2016

128. “NEDA Board approves Availment Guidelines for Chinese support for proposed PHL investments,” Department of Finance, November 15, 2016; “NEDA-ICC to act as clearing house for China investments,” *Philippine Star*, November 19, 2016.

129. Aaron Lozada, “‘Tainted’ Chinese firms eye new projects in Philippines,” ABS-CBN News, October 26, 2016.

Moreover, Philippine policy over the South China Sea disputes has remained fundamentally unchanged. The Duterte administration sent a high-level official delegation, led by the Defense Secretary and including Philippine military chiefs, to the disputed Spratly Islands, and started construction activities to repair structures on these islands.¹³⁰ Neither of these actions had been undertaken by recent Philippine governments. Philippine pilots have continued to patrol disputed areas in the South China Sea, despite intensified Chinese radio warnings.¹³¹ Duterte himself has threatened war with China should 'red lines' be crossed, such as the unilateral extraction of natural resources in the South China Sea.¹³² He has also criticized Beijing's construction of artificial islands and its efforts to claim the surrounding airspace and waters.¹³³

At the same time, there are uncertainties ahead for existing public accountability mechanisms in the Philippines and how they will continue to circumscribe the effectiveness of China's subversive carrots. Duterte has floated talk of declaring a revolutionary government, which would essentially override any constitutional barriers and leave little to hamper China-Philippine deals.¹³⁴ Moreover, the media has also been "cowed," with major (critical) outlets such as the *Inquirer* and *Rappler* being sold to Duterte's political allies or facing attempts to buy out original investors.¹³⁵ Members of the Duterte administration find it difficult to openly challenge the status quo due to the president's authoritarian governing style.¹³⁶ Changes in democratic checks and balances, including Duterte's consolidation of power, could affect the outcomes of China's subversive carrots, and shift the dynamics of Philippines foreign policy toward China and the United States.¹³⁷

130. Lucio Blanco Pitlo III, "Duterte's Underappreciated Foreign Policy Gains," *PacNet No. 51*, Pacific Forum, July 25, 2018.

131. Patricia Lourdes Viray, "Philippine pilots continue to fly, disregard Chinese warnings – Palace," *PhilStar*, August 13, 2018, <https://www.philstar.com/headlines/2018/08/13/1842192/philippine-pilots-continue-fly-disregard-chinese-warnings-palace>.

132. "Philippine President Rodrigo Duterte will go to war with China if it crosses 'red lines' and claims disputed resources, foreign ministry warns," Associated Press, May 29, 2018, <https://www.scmp.com/news/china/diplomacy-defence/article/2148204/philippines-rodrigo-duterte-will-go-war-china-if-it>.

133. "Duterte: China should temper its behavior in disputed waters," Associated Press, August 14, 2018.

134. Interview, Filipino journalist, December 4, 2017.

135. Interview, Filipino journalist, December 4, 2017; Martin Petty and Karen Lema, "Philippines' Duterte blasts news site Rappler, but denies stifling media," Reuters, January 16, 2018, <https://www.reuters.com/article/us-philippines-media/philippines-duterte-blasts-news-site-rappler-but-denies-stifling-media-idUSKBN1F50HL>; Purple Chrystyl Romero, "Philippines' Duterte: From War on Drugs to War on Media?" *South China Morning Post*, January 20, 2018, <https://www.scmp.com/week-asia/politics/article/2129536/philippines-duterte-war-drugs-war-media>.

136. Custer et al., "Ties That Bind: Quantifying China's public diplomacy and its "good neighbor" effect," 25.

137. Richard Javad Heydarian, "Tragedy of Small Power Politics: Duterte and the Shifting Sands of Philippine Foreign Policy," *Asian Security* 13, no. 3 (2017): 220–236.

Uprooted Carrots: Political Transition in Myanmar

During military junta rule in Myanmar, China was widely seen as the country's major backer. Political ties were intertwined with the large amounts of Chinese aid and investment flowing into Myanmar's underdeveloped economy. However, the unexpected political transition to a more democratic form of government has increased the role of public accountability, amplified public backlash against subversive carrots, and made Myanmar a less steadfast political ally, including on issues such as the South China Sea.

Although Myanmar is still far from being a fully accountable system, domestic political changes have altered the payoffs of economic statecraft. While Beijing could previously push through economic deals to its benefit by rewarding corrupt, crony actors, such non-transparent arrangements have now become less feasible, and (negative) public opinion has become a more important constraint on elites. As a result, China's use of subversive carrots has been less successful in achieving desired political outcomes.

Myanmar faced international censure and isolation after the 1990 general election, when the military government (officially known as the State Peace and Development Council/State Law and Order Restoration Council) seized power and refused to acknowledge the National League for Democracy (NLD) victory, led by Aung San Suu Kyi. Years of economic sanctions left China as the dominant source of trade, investment, and technical assistance. A long, complicated history of political ups-and-downs meant that the junta had no intention of turning Myanmar into a client or satellite state of China, but the lack of alternate strategic options greatly limited their ability to pursue a non-aligned, neutral foreign policy. This created an 'implicit bargain' in which China provided much-needed economic and political support, in exchange for favorable access to Myanmar's natural resources and strategic location.¹³⁸

Under the military junta, major Chinese investment projects were geared toward benefiting Chinese interests and corrupt Burmese elites. These projects did not bring socioeconomic or developmental benefits to local populations, and often led to human displacement and environmental degradation. Crony ties were particularly rampant in extractive industries such as jade, mining, and logging, primarily driven by Chinese actors.¹³⁹ As a result, Beijing and Chinese firms believed that they could ignore negative public opinion, relying instead on bribes and "govern-

138. Jonathan T. Chow and Leif-Eric Easley, "Persuading Pariahs: Myanmar's Strategic Decision to Pursue Reform and Opening," *Pacific Affairs* 89, no. 3 (2016): 521–542; Evelyn Goh and David I. Steinberg, "Myanmar's Management of China's Influence: From Mutual Benefit to Mutual Dependence," in *Rising China's Influence in Developing Asia*, ed. Evelyn Goh (Oxford University Press, 2016).

139. See e.g. "Jade: Myanmar's 'Big State Secret,'" Global Witness, October 2015.

ment relations” as the main “lubricant” for Chinese economic projects.¹⁴⁰ Combined with widespread unethical practices of Chinese individuals, and the poor quality of Chinese-made products, this has created a broad, deep-rooted dislike for China in Myanmar society.¹⁴¹ A recent survey experiment in Myanmar found strongly negative public perceptions of, and bias against, Chinese investments compared to Japanese investments, even when firms displayed similar behavior.¹⁴² A retired Burmese diplomat observed that China has acted mostly for itself and suggested that it have a more generous aid policy modeled after that of Japan.¹⁴³

Myanmar’s domestic political transition altered the economic and political landscape for China. The Chinese “thought they had sewn it [political influence] up” using their traditional methods of bribing cronies,¹⁴⁴ but the use of such subversive carrots became less effective under a government that was more responsive to public opinion. A transition government came into power in 2010, and the NLD participated in parliamentary elections in 2012, subsequently winning office in the 2015 general elections. While the military remains a powerful actor, the NLD became the pivotal group in power, and its leader Aung San Suu Kyi is not immediately as favorable toward China as her military predecessors.¹⁴⁵ The government’s greater attention to public opinion and transparent review, in response to widespread anti-Chinese sentiment, suggests that Chinese investment projects must meet higher standards. For example, a controversial \$3.6 billion dam has been suspended since 2011. This was due to effective mobilization by civil society actors under a more accountable government that proved sensitive to domestic political pressure.¹⁴⁶ Public pressure has continued to constrain elite actions in Myanmar. In the run-up to the second Belt and Road Forum in April 2019, hundreds of civil society leaders gathered in Yangon to announce a “one dollar campaign” that would raise funds to compensate China for canceling the Myitsone dam project by collecting \$1 from every citizen.¹⁴⁷

In tandem with the increased public accountability was a shift in Myanmar’s approach to the South China Sea issue. Traditionally, the Burmese government maintained strategic silence over the issue, facilitating Beijing’s

140. Yun Sun, “China’s Strategic Misjudgement on Myanmar,” *Journal of Current Southeast Asian Affairs* 31, no. 1 (2012): 73–96.

141. Interview, Yangon University professor, Yangon, January 13, 2017.

142. Ying Yao and Youyi Zhang, “Public perception of Chinese investment in Myanmar and its political consequences: A survey experimental approach,” *International Growth Centre Policy Brief*, no. 53421 (2018).

143. Interview, retired senior Burmese diplomat, Yangon, January 13, 2017.

144. Interview, U.S. diplomat based in Yangon, January 3, 2017.

145. Interviews in Yangon, Australian businessman with ties to NLD central executive committee, January 4, 2017; senior manager at KBZ bank, January 14, 2017.

146. Debby Sze Wan Chan, “Asymmetric bargaining between Myanmar and China in the Myitsone Dam controversy: social opposition akin to David’s stone against Goliath,” *The Pacific Review* 30, no. 5 (2017): 674–691.

147. Thomas Kean, “Belt and Road forum marks subtle shift in China-Myanmar ties,” *Frontier Myanmar*, May 8, 2019, <https://frontiermyanmar.net/en/belt-and-road-forum-marks-subtle-shift-in-china-myanmar-ties>.

strategy of dividing ASEAN and preventing a multilateral consensus on handling disputes in the South China Sea. China's consistent financial and political support for the military regime – as Myanmar's main shield from international opprobrium – created pressure on the junta government to accord with Chinese interests, both domestically and internationally.¹⁴⁸¹⁴⁹ Beijing expected Myanmar to “reciprocate” and support Chinese positions in ASEAN, including China's bilateral negotiations formula for resolving the South China Sea disputes – as directly told to Myanmar officials prior to the 2011 ASEAN Regional Forum.¹⁵⁰

However, the situation changed with Myanmar's political transition. According to observers, the Chinese government exerted aggressive diplomatic pressure and made strong demarches in the run-up to the May 2014 ASEAN summit, suggesting that bilateral relations would be harmed (with an implicit threat of economic repercussions in the background) if the joint statement did not accord with Chinese interests.¹⁵¹ However, Myanmar's leaders successfully resisted Chinese pressure, and handled the SCS issue in a neutral and balanced manner.¹⁵² Under Myanmar's chairmanship, the organization issued a statement expressing “serious concerns” over ongoing tensions in the South China Sea.¹⁵³ This shows that the political payoffs of China's subversive carrots decreased after Myanmar saw an increase in public accountability.

In a significant shift from its traditional silence on SCS issues, when an international arbitration tribunal announced its ruling on the Philippine's South China Sea case in July 2016, Myanmar issued a public statement that expressed support for “rule of law,” calling for all parties to “exercise restraint...and to refrain from threats or use of force.”¹⁵⁴ In an interview, a former senior Burmese diplomat remarked that the Myanmar government's behavior was especially notable, given that not every ASEAN country issued an individual statement.¹⁵⁵

Of course, the NLD government is far from being fully democratic and accountable. Ethnic violence, weak governance institutions, and oppressive laws remain. And Myanmar has not become completely antagonistic in its

148. Yun Sun, “China and the Changing Myanmar,” *Journal of Current Southeast Asian Affairs* 31, no. 4 (2012): 51–77.

149. Interviews with retired senior Burmese diplomat and Yangon University academic, January 13, 2017.

150. Sun, “China's Strategic Misjudgement on Myanmar,” 82.

151. Interview, Australian diplomat based in Yangon, January 5, 2017.

152. Interviews, U.S. and Australian diplomats based in Yangon, January 3 and 5, 2017.

153. “At Myanmar's first ASEAN Summit, alarm over China sea spat,” AFP, May 12, 2014, accessed February 4, 2017 at <http://www.mmtimes.com/index.php/national-news/nay-pyi-taw/10325-at-myanmar-s-first-asean-summit-alarm-over-china-sea-spat.html>

154. “Myanmar's statement on the Award of the Arbitral Tribunal on the South China Sea under Annexure VII of UNCLOS,” Ministry of Foreign Affairs, Nay Pyi Taw, July 13, 2016, accessed February 4, 2017 at <http://www.president-office.gov.mm/en/?q=issues/foreign-policy/id-6479>; see also Nyan Lynn Aung, “Myanmar wades in to South China Sea ruling with a balancing act,” *Myanmar Times*, July 19, 2016.

155. Interview, retired senior Burmese diplomat, Yangon, January 13, 2017.

foreign policy toward China. Aung San Suu Kyi faces a hard balancing act in managing bilateral relations. While eager to broaden ties with other countries and conscious of widespread anti-Chinese public sentiment, the Burmese government needs help from China on the peace process and border issues, which are key policy priorities.¹⁵⁶ To maintain domestic legitimacy, Naypyidaw will have to spur greater economic growth, which likely requires cooperation with Beijing.¹⁵⁷ As a retired senior Burmese diplomat put it, “we are neighbors and cannot run away from each other; China is a big country, so we must be friendly and cooperative.”¹⁵⁸ Facing international isolation due to the Rohingya crisis, the Myanmar government also has fewer foreign policy options.

Nonetheless, subversive carrots from China, such as explicit government-to-government favors or direct agreements with government ministers, are no longer par for the course.¹⁵⁹ Chinese firms have had to compete with commercial actors from other countries – including Japan, South Korea, and Singapore – especially for major infrastructure projects. After being caught flat-footed by the domestic political transition in Myanmar, Beijing has shifted away from purely using subversive carrots and started to engage with a broader range of political and societal actors in Myanmar. The Chinese government aggressively courted the new NLD government, with the Chinese foreign minister being the first to visit. It has reached out to NGOs and democracy activists, while continuing to maintain contacts with former military government figures.¹⁶⁰ Chinese firms have also taken steps toward social responsibility and public relations initiatives.¹⁶¹ For example, a Chinese state-owned enterprise involved in building two hydropower projects in the northern part of Myanmar preemptively sought out NGOs and CSOs, offering them shares in the project, and hired foreign environmental agencies for project approval.¹⁶² While in Beijing for the Belt and Road Forum in April 2019, Aung San Suu Kyi emphasized that BRI projects should be in line with Myanmar’s national development plans, should be economically viable as well as socially and environmentally responsible, and “most importantly, the projects must win the confidence and support of local people.” The greater role of public opinion in constraining elite behavior in Myanmar has decreased the effectiveness of China’s subversive carrots, and pushed Beijing to adhere to domestic political processes and institutions.

156. Interview, retired senior Burmese diplomat, Yangon, January 13, 2017.

157. Interview, Australian diplomat based in Yangon, January 5, 2017.

158. Interview, retired senior Burmese diplomat, Yangon, January 13, 2017.

159. Interview, professor at Yangon University, January 13, 2017.

160. Interviews, U.S. and Australian diplomats based in Yangon, January 3 and 5, 2017.

161. Sun, “[China and the Changing Myanmar](#).”

162. Interview, senior manager at KBZ Bank, Yangon, January 14, 2017.

Conclusion

The effectiveness of subversive carrots is strongly dependent on the level of public accountability in the target country. China's economic statecraft strategy, not least in Southeast Asia, has by and large involved subversive carrots. Beijing has overwhelmingly focused on providing economic benefits to top political leaders and elites in the target country in ways that circumvent political processes. Such a strategy of subversive carrots has yielded quick political dividends in countries with low public accountability, where elites have greater incentive and ability to translate that into political outcomes. This is evident in Cambodia, seen to be firmly in China's pocket.

However, the use of subversive carrots backfires in countries with high public accountability. This paper examines the Philippines, but there are several parallel cases elsewhere. Negative public sentiment toward Beijing's subversive carrots – and the accompanying corruption and procedural lapses – in countries such as Malaysia, Sri Lanka, and the Maldives have resulted in Chinese investments becoming an electoral issue, leading to political incumbents losing office. Moreover, the case of Myanmar underlines how subversive carrots have limited sustainability and are vulnerable to domestic political shifts in target countries. Chinese analysts have acknowledged that a great power can provide economic benefits but may not always see desired results.¹⁶³

Given that backlash has occurred in a number of countries often perceived as politically cozy with or economically dependent on Beijing, this underscores the importance of public opinion and accountability mechanisms in circumscribing the effectiveness of subversive carrots. China has also fumbled in trying to apply its subversive carrot strategy to more developed democracies. In Australia, the use of political donations through Chinese businessmen acting as a proxy for the Chinese government to alter legislator statements on the South China Sea created fierce public and political backlash.

This research provides a framework to understand the conditions under which economic capabilities can be translated into political influence, as well as to assess the differing geopolitical impacts of China's overseas economic activities. My findings show that China's economic statecraft has not been as effective as many observers assume. Success and failure can vary significantly by country. The domestic politics of recipient countries matter. Arguably, China's foreign policy is still on a learning curve. While Beijing has so far found it easier and more efficient to directly provide subversive carrots to political elites, it has perhaps started to realize that such a strategy may not be effective in the longer run across a broader range of countries. For China or any other country seeking to exercise economic

163. Interview, Southeast Asia analyst at Shanghai Academy of Social Sciences, Shanghai, July 20, 2016.

statecraft, a careful consideration of the target's domestic politics and level of public accountability will have crucial implications for attaining desired political outcomes.

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