

China's Unraveling Engagement Strategy

The growing consensus among Chinese analysts, both in China and the West, that elements of China's contemporary foreign policy have been self-defeating¹ is important but limited in two significant ways. First, it focuses on China's most divisive policy stances—such as its expansive territorial claims, disruptive diplomacy in the Association of Southeast Asian Nations (ASEAN), or growing use of unilateral economic sanctions. This focus on controversial policies, while important, ignores less litigious policies which are also now contributing to regional instability. Second, analysts who look at China's foreign policy largely confine their work to China's relations with large or medium powers—such as Japan, India, Vietnam, or the Philippines—or with regional organizations such as ASEAN. This focus ignores China's relations with smaller, developing states—such as Cambodia, Laos, Mongolia, or Myanmar—which are, in many ways, the building blocks of China's periphery security.

This article argues that what for years has been seen as the core of China's most stable relations—namely, economic exchanges with small and developing states on its periphery—has now become a source of China's self-defeating contemporary foreign policy. Far from assuring goodwill toward China on its periphery, Beijing's reliance on economic ties to advance its relations with developing states in Asia can be counterproductive. Where economic exchange with China results in negative consequences within the developing state, for example, governments and societies have started to push back against Beijing's presence. As China shows little inclination to fundamentally alter its economics-first approach to its state relations, this aspect of foreign engagement is unraveling.

The self-defeating pattern of economic interaction between China and small states in Asia is remarkably uniform despite the variation of political, economic, and social structures among the small states themselves. Chinese businesses, whether state-owned or private, first establish economic ties with the small state through trade, investment, overseas development aid (ODA), and loans. Their economic activity in

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Beijing's reliance on economic ties to advance neighborly relations is becoming counterproductive.

the small state then results in negative outcomes such as environmental degradation, exploitation of resources, or overdependence on China for trade.

This pattern of economic involvement translates into instability both internally in the small state and externally between China and the small state. Internally, small states experience instability resulting from state–society tensions. As these negative aspects of China's economic presence grow, society starts to pressure the state to take a firmer stand against China. Because it is often not in politicians' best interest to pursue policies that limit China's economic

involvement in their state, they resist and tensions ensue. But when small states *do* enact policies designed to limit China's economic influence—such as Mongolia's 2012 Strategic Entities Foreign Investment Law that sought to limit Chinese state-owned enterprises' ownership of and operation in the country's key mining sites—tension with China occurs. External instability also occurs when the small state opts for greater cooperation with other foreign actors, such as the United States, to balance China's presence. Internal and external instability can occur either singularly or together.

Risks include environmental degradation, exploitation of resources, or overdependence on China.

For China, the end result of both types of instability is the same: a less secure periphery. China's reliance on economic ties with these states to advance its greater interests, together with its inability or unwillingness to mitigate the negative effects of its economic presence, is therefore a self-defeating foreign policy.

This article will demonstrate this process by examining China's relations with four small Asian states—Mongolia, Cambodia, Laos, and Myanmar. All four states are relevant in that they are geographically close to China, have extensive economic linkages with it, and are all states China views as essential to maintaining

a stable environment on its periphery. Any deterioration in relations for China is, therefore, unintentional.

China's Economic Strategy

Since China's reform and opening in the late 1970s, it has relied on economic exchange to drive its interaction with small states in Asia. The four key foreign policy concepts that outline this approach are "South–South Cooperation" (*nan-nan hezuo*), the "Go Out Strategy" (*zou chuqu zhanlue*), the "Good Neighbor Policy" (*mulin youhao*), and the "New Security Concept" (*xin anquan guan*).

The post-reform and opening iteration of China's South–South Cooperation outlines China's approach to relations with states that are developing and disadvantaged through globalization. China is an "energetic proponent and supporter" of South–South relations, and believes that cooperation "boasts a broad prospect and gigantic

potentiality.”² The National Committee of the Chinese People’s Consultative Conference identifies China’s role in South–South Cooperation as “unifying, leading, and coordinating” South–South economic relations by providing investment and aid.³

China’s Good Neighbor Policy, as initiated by Jiang Zemin, also highlights the centrality of economic exchange to good state relations. Specifically, the concept stresses “win-win” (or mutually beneficial) economic exchange, economic partnership, mutual development, and expanding trade as means of deepening China’s relations with its periphery states. China reaffirmed its adherence to its Good Neighbor Policy of economic exchange in 2012, in an 18th National Party Congress report that called for continuing and expanding economic cooperation with periphery states to ensure regional stability.⁴

The Go Out Strategy, first initiated in 1991, is China’s way of encouraging its enterprises to invest overseas. Li Lihui, the President of the Bank of China, described it as being the principal means through which China uses globalization to expand exports, grow China’s industry, secure access to overseas resources, and affect technology transfers.⁵ Ma Zhongpu, chief analyst for the China Commercial Affairs Web, agrees with Li—Chinese firms use the Go Out Strategy as a guideline to secure access to mineral resources and foreign markets in China’s “near” and “distant” abroad, while using investment and labor to help foreign states achieve their own economic goals.

In contrast to South–South Relations, the Good Neighbor Policy, and the Go Out Strategy, the New Security Concept, first introduced in 1996, links economics directly to security. The Concept holds that, in the post-Cold War world, nations can increase their security through diplomatic and economic interaction, rather than through Cold War-style confrontation and antagonism. The Ministry of Foreign Affairs argues that economic interdependence is an integral component of regional security, and that China will push for greater regional economic cooperation to ensure the development of such security.⁶ The economic approach to security outlined in the New Security Concept is more relevant to developing than developed states, as it identifies underdevelopment as a source of both domestic and regional instability. A 2011 White paper on the New Security Concept published by the State Council notes that China must specifically support small states within the Concept’s guiding rubric so as to create a favorable security environment in Asia.⁷

Through observation of these key foreign policy concepts, it is clear that China views itself as a benevolent actor toward small states in Asia. As Yang Jiang of the Copenhagen Business School points out, Beijing truly sees its economic relations with developing states in Asia in line with “great power style” (*daguo fengfan*), or with China acting as a regional “benign hegemon.”⁸ Closer examination of China’s economic relations with small states on its periphery, however, challenges this self-perception.

There is growing doubt among Chinese analysts, for example, about the success of Beijing’s Good Neighbor Policy. Zhu Feng of Beijing University argues that China has alienated many small states in Asia because of its myopic focus on commerce and disregard for issues such as human rights, rule of law, and environmental protection.⁹ The win-win nature of China’s Go Out Strategy has also been challenged with reports of pushback occurring at both the state and society levels. Zhang Xizhen of Beijing University notes that much of the rising resentment against Chinese investment in developing countries comes from Beijing’s unwillingness to regulate the same industries

it pushes to “go out.”¹⁰ Chen Fengying, Director of the World Economy Institute of the Chinese Institute of Contemporary International Relations (CICIR), notes that the negative outcomes of Chinese economic activity abroad, such as environmental degradation or tensions between Chinese workers and local communities, have contributed to insecurity in small and developing states.¹¹

Is regional economic interdependence a source of stability?

Scholars have also directly challenged China’s claim that regional economic interdependence is a source of stability, drawing into question the economic rationale behind the New Security Concept. Michael Yahuda of the London School of Economics argues that economic interdependence between China and small states in Asia has not led to greater stability, as historical and contemporary political issues remain the defining characteristics of such relations.¹² Daniel Drezner of Tufts University further dispels the myth of economic interdependence leading to peace in Asia, noting that China has used economic statecraft to achieve foreign policy goals against developing states in Asia in the past.¹³ Salient examples of such statecraft are China’s use of its hard currency reserves to encourage developing states to stop recognizing Taiwan, and China’s decision to increase barriers for import of fruit from the Philippines in 2012 in response to tensions between the two states over sovereignty of the Scarborough Shoal. Jia Qingguo of Peking University argues that economic interdependence cannot ensure good relations between China and small states if the small states are uncertain about China’s foreign policy intentions, which many clearly are.¹⁴

Four Neighbors

The Chinese Ministry of Commerce (MOFCOM) identifies Mongolia, Cambodia, Laos, and Myanmar as target nations for investment and trade in its “Guidance Catalogue on Countries and Industries for Overseas Development.”¹⁵ MOFCOM identifies several specific industries as key for investment and development, such as logging (Laos, Myanmar, and Cambodia), oil and natural gas (Myanmar), commodities (Mongolia), and textile manufacturing (Cambodia and Mongolia). While it is possible to view MOFCOM’s investment priorities as entirely commercially driven, doing so ignores the larger picture. Not only is MOFCOM responsible for foreign policy related to trade, but its policies directly support China’s larger foreign policy agenda, like advancing South–South Cooperation, the Good Neighbor Policy, the Go Out Strategy, and the New Security Concept.¹⁶

Reaching Out

China’s presence in these four states is represented by Chinese state-owned enterprises (SOEs), Chinese semi-private companies (ostensibly private firms with known government ties), and Chinese private companies. While all three company types operate with a degree of autonomy and can respond to commercial logic, MOFCOM does maintain control over their activities through semi-official trade organizations. This oversight, together with the priority that China places on good relations with developing

periphery states, suggests a degree of government coordination across the Chinese business entities that operate in these states. It is not, therefore, inaccurate to equate these diverse business entities with “official Chinese” economic activity in the state. The remainder of this article will do so for clarity and continuity.

China has used several different methods to expand its economic presence in Mongolia, Cambodia, Laos, and Myanmar. These include foreign direct investment (FDI), trade, overseas development aid, and loans. Chinese FDI is substantial—it is the largest provider of FDI to Mongolia, Cambodia, and Myanmar, and the second-largest to Laos (following Vietnam). In all four countries, Chinese FDI has increased exponentially each year for the last decade. China's FDI to Mongolia, for example, accounts for more than 50 percent of all FDI into the country (\$596.7 million in 2010). To put this number into perspective, the second- and third-largest providers—Canada and the Netherlands—provided just 8 and 6 percent in 2010, respectively.¹⁷ In Cambodia, China's FDI has grown from \$717 million in 2006 to \$1.1 billion in 2010. In all, since 1994, China has provided \$8.9 billion in FDI to Cambodia, more than double the amount of second-ranked FDI provider, South Korea.¹⁸ Similarly, China is the largest provider of FDI to Myanmar by far: from \$20 million in 2004 to just under \$2 billion in 2010 (an increase of 9,542%).¹⁹ And it is still increasing: in 2010 alone, China pledged \$20 billion in FDI to Myanmar in approved projects.²⁰ While China is “only” the second-largest provider of FDI to Laos with more than \$3.3 billion in FDI invested in 551 projects since 1988, it is also moving aggressively to increase its investment.²¹

In analyzing trade, China is the largest partner for three of the states, with the exception again of Laos. China receives more than 90 percent of Mongolia's exports while providing 32 percent of its total imports.²² In 2011, China surpassed Russia as Mongolia's largest source of imports, a trend suggesting even greater trade ties between the two states in the future. China is also Cambodia's largest trading partner, accounting for just over 32 percent of all Cambodia's trade. The second-ranked United States, in contrast, accounts for 20 percent. A notable trend in Sino-Cambodian trade relations is its growth, which jumped 73.4 percent between 2010 and 2011.²³ While Laos is the exception of the four states in that its most important trade partner is not China but Thailand, 34 percent of Laos' exports went to China in 2010, up from 2.9 percent in 2001, and China provides 23 percent of Laos' imports.²⁴ China is Myanmar's most important trading partner, providing it with 65 percent of its total imports and receiving 16 percent of its total exports in 2010. As with Mongolia, Cambodia, and Laos, the percentage of China's trade with Myanmar is growing, from just 4.1 percent of total exports in 2001 to 16 percent in 2010, and 39 percent of total imports in 2001 to 65 percent in 2010.²⁵

China also has a large stake in overseas development aid (ODA) and loans. While Chinese ODA to the four countries is not as significant as ODA from states such as Japan or the United States, taken together with FDI and trade, it constitutes a trifecta of exchange that translates into Chinese dominance. Moreover, as with FDI and trade, Chinese intra-regional ODA is increasing as aid from OECD countries is shrinking.²⁶ China's approach to ODA is also appealing for many states—it is less conditional than OECD-originating aid. In many instances, the only condition that China applies to its aid is that it be used for infrastructure development and employ Chinese businesses. For

small states like Mongolia, Cambodia, Laos, and Myanmar, such conditions are in line with their internal development strategies.

Neither is China's aid to developing Asian states insignificant. In 2010, Chinese President Hu Jintao announced that China had given \$1.7 billion in aid since 2001 to developing Asian states including Mongolia, Cambodia, Laos, and Myanmar.²⁷ This aid excludes Chinese loans, which have been significant in recent years. In 2010, for example, China agreed to loan Myanmar \$2.4 billion.²⁸ In 2011, China offered Mongolia a \$500 million loan, and in 2012 offered Cambodia \$436 million.²⁹ In 2012, China offered Laos a massive \$7 billion loan to build a Laos–China high-speed rail line. The Laotian Parliament approved the project in 2012 with an unspecified start or completion date.³⁰

Pushing Back

While economic exchange with China has improved economic growth in all four states, it has not occurred without cost. Evidence that the societies in these small states have

China's reliance on economic exchange is the source of state–society and state–state tensions.

come to view aspects of Chinese economic activity in their countries as negative has grown in tandem with China's expanding economic presence within the respective state. Whether in Mongolia or Cambodia, Laos or Myanmar, concern over China's economic activities is on the rise. In contrast to the rationale informing China's foreign policy strategies, and to international relations theories such as liberalism, it is clear that economic exchange between China and the four states is not contributing to improved relations.

Rather, China's reliance on economic exchange—and its failure to control the negative aspects of this exchange—is the source of state–society and state–state tensions in all four states.

Of the states examined here, no two are entirely alike in their relations to China. Of the four, social and state backlash against China is most acute in Mongolia. Whereas concern over China's economic activity in Cambodia, Laos, and Myanmar is mostly expressed through protests, rhetoric, and the occasional policy, such concerns have become institutionalized in Mongolia.

A 2011 media survey conducted by the Press Institute of Mongolia, a Mongolian-based NGO, concluded that negative portrayals of China in Mongolia have risen in conjunction with China's increased economic involvement in the country since 1990.³¹ The survey specifically identifies China's environmentally damaging economic activities, its perceived exploitation of Mongolia's resources, the untrustworthiness of Chinese as economic partners, and the country's growing dependency on trade with China as variables driving this deterioration. This souring of relations is mirrored in the country's Sant Maral Foundation's public opinion polls, which show a steady decrease in desirability for partnership with China among the Mongolian public.³² Anti-Chinese groups in Mongolia have also gained greater public support in Mongolia by tying their vitriol to Chinese agency in development issues, such as pollution and unemployment, and social issues such as immigration.

The Mongolian government has reacted to the Mongolian public's concern by enacting legislation designed to limit China's economic involvement in the country. The 2010 National Security Concept's revision, for example, restricts the amount of FDI Mongolia receives from any one nation to one-third of Mongolia's total, and the 2012 Strategic Entities Foreign Investment Law limits state-owned companies from holding shares in key strategic mineral deposits (largely aimed at China).³³ The Mongolian government has specifically sought to limit Chinese SOEs, such as Shenhua and Chalco, from operating in its more high-profile mining sites.

In Cambodia, opposition to China's economic footprint is also rising. Protests in Phnom Penh (and places such as Botum Sakor and Koh Kong) against perceived Chinese involvement in land grabs, environmental degradation, and political corruption have grown in frequency since 2009.³⁴ Rural residents, in particular, are concerned about the negative effect Chinese business activities have on their sustainable livelihoods and traditional cultures.³⁵ So, too, have prominent Cambodian academics spoken out against the long-term consequences of economic cooperation with China and the negative effect China's economic activity has on Cambodia's political development.³⁶

In contrast with Mongolia, however, fear of China's negative economic influence has not translated into direct government action. Cambodia remains beholden to China politically, a relationship highlighted in China's successful manipulation of Cambodia to shelve discussion of the South China Sea at the 2012 ASEAN summit. This division between public and state sentiments toward China is a source of domestic tension, evidenced in protests where groups treat Chinese and state exploitation as synonymous.

While Laos is arguably the most firmly entrenched state of the four in China's sphere of influence, opposition to China's economic presence in the state ironically primarily comes from Laotian politicians, not society. This is not to say that Laotians have not securitized China's economic activity, only that they remain limited in their ability to protest and, as such, are underrepresented within the state as a force for change.³⁷

While Laos maintains close relations with China, lawmakers have started to push back against China's economic involvement in the country's mining, gambling, railway, and hydro-electric industries.³⁸ The political rationale behind these instances includes concern over China's environmentally damaging mining practices, the violence and social disruption resulting from gambling, the excessive interests rates on Chinese loans, and food and water security issues. While it would be an exaggeration to suggest present day conditions have negatively affected Sino-Laotian relations, it is not inappropriate to suggest that concerns over China's economic activity contribute to the Laotian government's desire to diversify its economic partners. This could contribute to recent overtures between Vientiane and Washington.

Myanmar offers the most compelling evidence to support this article's claim: economic dependency leads to social backlash, which in turn forces a change in state policy toward China to the detriment of China's overall relations. Over the past year, Myanmar has undergone a sea-change in political orientation, spurred at least in part by

Economic dependency leads to social backlash, which in turn forces a change in state policy.

desire to limit China's economic influence over the country's domestic institutions. A key development in this regard was Yangon's suspension of a Chinese license to develop the country's Myitson Dam, in September 2011, on the grounds it was environmentally damaging and socially disrupting.³⁹ Since this time, the government has expanded relations with Western states, most notably the United States, and become more attuned to public recriminations against disruptive Chinese economic activity. Following a clash between police and protesters outside a Chinese-run copper mine in November 2012, for example, the government apologized for its excessive use of force and promised to address the environmental and social issues around the project.⁴⁰

When Strengths Become a Weakness

While all four states examined here are in different stages of dealing with the negative aspects of economic relations with China, it is clear in each instance that a change is taking place. For Mongolia, concern over China's economic presence has spread from society to the state, with Ulaanbaatar enacting legislation to curtail the country's economic dependency on China. China's damaging activities in Cambodia have not forced a change in Phnom Penh's political alignment, although they have contributed to instability between the state and Cambodian society. Laotian policymakers' concerns over China's negative economic influence drive the state's desire for more diverse partnership. And social reaction to China's environmentally and socially damaging economic activity in Myanmar has helped push the country's tentative political reform and opening.

Whereas Chinese economic involvement in developing states in Asia was once seen as a source of growing Chinese influence or Chinese "soft power," it is now questionable in the four states examined above whether the economic benefits are sufficient to outweigh the social, environmental, and political costs. If these issues continue in tandem with increased economic linkages between China and the four states examined here—a trend evident in past development—it is likely that future relations could be more unstable.

The implications for China are serious. Far from ensuring good relations with small and developing states in Asia, China's reliance on economic tools to drive relations is counter-productive. Failure to address the negative outcomes of its economic policies could see China trapped in a self-perpetuating cycle of deteriorating relations with states that are central to its regional and periphery security. Such a breakdown in relations could mean that states long-considered firmly in China's sphere of influence could break with Beijing or become more susceptible to external influence. Myanmar is again a prime example of this potential, as fear of China's economic footprint spurred a domestic change in the country that culminated with U.S. President Barak Obama's visit in 2012. Many in China see this development as a strategic loss for China in terms of its regional influence and unfettered access to Myanmar's domestic resources and market.

To arrest this momentum, China will come under pressure to address the negative components of its economic exchanges with small states in Asia. One place to start would be to simply follow the "win-win" prescription to economic exchange it has so clearly laid out in its various foreign policy concepts. Rather than allowing Chinese-based companies to engage in environmentally damaging, exploitative, and politically

destabilizing economic activity, Beijing may actively monitor these companies' engagement more frequently to break the state-society cycle that has erupted on China's periphery. Doing so would help Beijing regain its influence and soft power in the states on its borders. Failure to do so would lead to more of the same: a foreign policy approach that is inherently self-defeating.

Notes

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