Abstract: This paper examines the political economy of China's foreign relations with nearby developing states along the Silk Road Economic Belt and the 21st-century Maritime Silk Road, known together as the One Road, One Belt (OBOR) initiative. Much of the infrastructure supporting this new Silk Road will be built by China’s state owned enterprises (SOEs) and funded by Chinese state banks, as the PRC continues to expand its global influence through economic power projection. More generally, this qualitative comparative study analyzes efforts by the Chinese government to influence developing state governments to support policies essential to the legitimacy of the Chinese Communist Party (CCP), most important, China’s “Go Out” policies promoting the internationalization of Chinese firms (and, therefore, continued economic development in China), but also Chinese sovereignty claims. A range of cases in stops along the Belt and Road nearest China show that regime type -the degree to which a state is comprised of authoritarian or democratic institutions- is a key independent variable in determining the extent to which China is able to influence foreign governments. While authoritarian institutions in a bilateral partner provide opportunities for China to influence the government by expanding the resources available for it to retain power, even imperfect democratic institutions offer voice to opponents of Chinese policies and provide incentives for politicians to reject the financial resources China provides, which often benefit a narrow set of political and economic actors in order to gain the support of voters and a broader range of interest groups.
**Introduction: “As close as lips and teeth”**

On September 7, 2013 during a speech at Kazakhstan’s Nazarbayev University (named in honor of the last Soviet leader and the only president independent Kazakhstan has had), Chinese President Xi Jinping proposed a “Silk Road Economic Belt” linking China with the countries of Central Asia, just as its eponym, the Silk Road had beginning in the Han Dynasty two millennia ago. Xi, in the middle of his first trip to Central Asia as China’s leader, identified five steps to “gradually form overall regional cooperation” including to:

2. “Open up the transportation channel from the Pacific to the Baltic Sea and to gradually form a transportation network that connects East Asia, West Asia, and South Asia.”
3. “Promote trade…and investment facilitation (emphasis added).”¹

Less than a month later, on October 2, 2013 in a speech before the Indonesian parliament at the start of his first tour of Southeast Asia as China’s president, Xi, as he had in Kazakhstan, laid out the context of two millennia of relations “as early as the Han Dynasty” between the people of China and those in what is now known as Indonesia. He then praised China’s much more recent decade of “strategic partnership” with the Association of Southeast Asian Nations (ASEAN). Having laid out the historical context, he made the main announcement:

“Southeast Asia has since ancient times been an important hub along the ancient Maritime Silk Road...China will strengthen maritime cooperation with ASEAN countries to make good use of the China-ASEAN Maritime Cooperation Fund set up by the Chinese government and vigorously develop maritime partnership in a joint effort to build the Maritime Silk Road of the 21st century.”

Xi suggested that to allow “ASEAN countries to benefit more from China’s development” China would “strive to expand two-way trade (with ASEAN) to one trillion US dollars by 2020” and establish an “Asian infrastructure investment bank that would give priority to ASEAN countries’ needs.” Using precisely the same words he had used to describe China’s relationship with Kazakhstan, he stated, “China and ASEAN countries are as close as lips and teeth.”
With those two speeches, Xi had pronounced China’s Silk Road Economic Belt and the 21st-century Maritime Silk Road (sīchóu zhī lù jīngjìdài hé èrshíyī shìjì hǎishàng sīchóu zhī lù), the One Belt, One Road (OBOR) strategy, or as it is called by the government of the People’s Republic of China (PRC), the Belt and Road Initiative. The historical roots of the initiative, of course, are in the Silk Road, which wound from the ancient Chinese capital of Xi’an through Central Asia, the Middle East and Mediterranean Europe, as well as the early 15th century voyages of the great Chinese Muslim Admiral Zheng He through Southeast Asia, to India, the Persian Gulf, the Red Sea and as far as the Northeast coast of Africa.

The extensive areas to be included in OBOR are identified in the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road issued by the PRC’s National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce on March 28, 2015:

“The Silk Road Economic Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean. The 21st-Century Maritime Silk Road is designed to go from China’s coast to Europe through the South China Sea and the Indian Ocean in one route, and from China’s coast through the South China Sea to the South Pacific in the other.”

According to the World Bank, sixty-five countries with their 60% of the world’s inhabitants creating 40% of global gross domestic product (GDP) eventually could comprise OBOR.

At the core of the initiative is China’s capital abundance and efforts to export capital in the form of investment and loans abroad, with the PRC government proposing to push as much as $1 trillion out of China through OBOR. Included in this funding is a New Silk Road Fund of $40 billion, a role for the new Asia Infrastructure Investment Bank (AIIB) and its bankers $100 billion deep pockets, and, most significantly, as much as $900 billion from the China Development Bank, under China’s State Council, the highest executive body in the PRC government. Chinese capital will help finance the various types of connectivity at the core of the initiative, funding necessary infrastructure improvements to create networks of roads, rail, ports, and communications facilitating investment, trade and other forms of cooperation.
Late-globalizing China in Late-developing States

It is evident from the fact that China is now being accused of having similar policies and goals to those of European states during the Age of Imperialism, that the Chinese state and Chinese firms are latecomers to globalization; Western states and multinational corporations (MNCs) have had a significant head start in promoting flows of goods, services and capital across borders. This latecomer status is one reason that Chinese firms often invest in less than ideal environments, even former and current “pariah” states and failed states, such as North Korea, Myanmar, Sudan and Iraq. Such investment environments are often abundant in characteristics usually found to deter foreign direct investment (FDI), including high levels of political risk and corruption, and weak rule of law; the easy, low-risk investments were made long ago by MNCs from early-industrializing states. Strong correlations among these characteristics, a country’s natural resource endowment (particularly economic reliance on a single resource), and stifled political and economic development mean that many of the states in which Chinese firms are investing are developing states with non-democratic governments. Moreover, Chinese firms may actually be advantaged in investing in these types of environments, given similarities to China’s political economy in the past (low levels of economic development, weak rule of law) and currently (authoritarian governance, high corruption). Therefore, many of the states along the Belt and Road present not only difficulties but also opportunities for Chinese firms seeking to expand abroad. Policies of the Chinese state, particularly bilateral relations in support of these firms, including foreign aid and loans to the host state government, attempt to overcome the difficulties and make the most of the opportunities by gaining the support of foreign state leaders in order to promote and protect China’s outward FDI and Chinese development, more generally. These policies also aim to support an additional key concern of Chinese Communist Party (CCP) leaders: China’s sovereignty claims, whether on the mainland, over Taiwan or in the South China Sea.

In this paper, I examine Chinese efforts to influence nearby developing Asian states, the initial notches in the Belt and and stops along the Road. My main assertion is that it is through the provision of finance in the form of foreign aid, loans and investments that China secures its most direct influence over foreign state leaders. Thus, the key OBOR foreign policy tool, like that of the “Go Out” strategy from which it has evolved, is Chinese investment.
abroad and the lending provided by Chinese state policy banks for those investments. Unlike trade agreements, the benefits of which are long-term and dispersed, Chinese capital outflows to developing states quickly expand the resources available to foreign state leaders, both enhancing their ability to retain power and providing the Chinese government with a degree of influence over foreign governments’ decision-making. These resources include capital but also business and rent-seeking opportunities that the recipient state leader can distribute to supporters.

Below I analyze several cases providing both cross-national and over-time variation in my key explanatory variable: regime type. These cases include China’s political-economic relations with authoritarian Kazakhstan, Cambodia and Laos; democratic Philippines, and transitioning Myanmar. These comparative case studies show that the political institutions comprising regime type intervene between efforts by the Chinese state, its firms, and banks to influence developing state leaders, either enhancing (authoritarian institutions) or constraining (democratic institutions) China’s ability to transform its economic power into influence abroad. This suggests that the focus of OBOR, as well as its most successful junctures, will be the authoritarian states along the Belt and Road.

**Chinese Influence and Foreign State Political Institutions**

The opaque and so called “no strings attached” nature of China’s financial assistance makes it particularly suitable for authoritarian leaders, as it lacks the conditions for economic and political reforms, often attached to “Western” aid, that might threaten an authoritarian leader’s political survival. These resources help secure the support of a relatively small winning coalition for the authoritarian leader among what Shirk and Bueno de Mesquita refer to as the “selectorate”, at its most basic those who have a say in choosing who a leader is and whether she retains power. Authoritarian political institutions limit the influence of those outside the selectorate, including the private media, civil society groups, and ordinary citizens, who might oppose agreements made by the host government with China. On the other hand, even imperfect democratic institutions offer voice to opponents of Chinese investments and provide incentives for politicians to reject the financial resources China provides, which often benefit a narrow set of political and economic actors, in order to gain the support of voters within the broader electorate and the broader range of the interest groups they form. This increases the likelihood of opposition within the government to
Chinese firms’ investments, particularly the major investments by China’s state owned enterprises (SOEs) and funded by Chinese banks that require forced relocation of locals or exploit natural resources, which tend to give rise to the greatest anti-Chinese, nationalist sentiment in the host state. Through these institutional mechanisms, Chinese influence on governments in developing, authoritarian states is enhanced and in developing, democratic states is mitigated.

In the next section, I analyze China’s use of foreign economic policies to influence several states to its west and south along the Belt and Road. These cases show that China is not always able to convert its tremendous economic power into influence over other states. I define influence here as “the ability of State A to persuade State B to align its policies more closely to the preferences of State A.” Being an influential state requires State A to be both able and willing to use its power; however, that ability to exert influence also depends on factors in State B, many of which, such as weak rule of law and a lack of transparency, are highly correlated with regime type.

For State A to influence State B it can structure incentives facing State B’s leadership through a range of methods, from negative economic and military coercion to positive economic and diplomatic support. The tools State A, China in this case, has to shape incentives include, therefore, its military, diplomatic and economic power. Here the focus is on the latter, as China’s power is relatively greater in this realm and the Chinese government appears less hesitant to use this tool than military coercion. Indications of influence over another state include convincing that state’s government to maintain the status quo (when it prefers an alternative), deterring it from taking actions it otherwise would, and persuading it to change policies.

Kazakhstan: The First Notch in the Belt

As in many other states in China’s neighborhood, in Kazakhstan formal state institutions have less impact on politics than do informal institutions, such as patrimonialism and patron-clientilism. And as in the Philippines and Cambodia (discussed below), at the center of these informal institutions is the family, in this case, a somewhat different kinship network: the clan. In Kazakhstan today, the three major clans are The Great Horde or “Senior” or “Elder” Zhuz (Uly Zhuz), the Middle Horde (Orta Zhuz), and the mostly rural Small Horde or “Young Zhuz” (Kishi Zhuz). It is the former group from which many Kazakh political elites
come, most importantly President Nursultan Nazarbayev. Clans have long been a key institution of politics in Central Asia and are fundamental to political development in Kazakhstan. But in rapidly developing Kazakhstan, economic interests now tend to outweigh clan interests.\textsuperscript{10} And just as political connections to Hun Sen and his family are vital to secure economic interests in Cambodia, Nazarbayev and his family are central to the Kazakh political economy. Therefore, gaining the support of the Nazarbayev “clan” is key to gaining approval for, and protection of, foreign investments in Kazakhstan.

China had already firmly established strong bilateral economic ties with this first notch on the Silk Road Economic Belt, prior to Xi’s OBOR announcement. Two decades ago, the China National Petroleum Company (CNPC) entered Kazakhstan to acquire a 60\% stake in the Kazakh firm AktobeMunaiGas. Despite high corruption, weak rule of law and political risk, CNPC and other major Chinese SOEs have successfully invested in Kazakhstan by making key members of the Nazarbayev-led government, such as Nazarbayev’s son-in-law and former KazManaiGas Chair Timur Kulibayev, stakeholders in its investments. Initially when entering Kazakhstan, CNPC simply bought off such gatekeepers in the Kazakh political economy; strong evidence suggests that Kulibayev received a $166 million bribe from CNPC for the approval of their acquisition of KazMunaiGas.\textsuperscript{11} However, the Chinese strategy has evolved from buying off key government gatekeepers, who (with the exception of Nazarbayev) have seen their power ebb and flow, to utilizing a more sophisticated tactic: making Kazakh state institutions, such as the state petroleum monopoly KazMunaiGas, stakeholders in the long-term success of major Chinese investments. For example, to secure Kazakh support for its 2005 purchase of PetroKazakhstan, CNPC transferred 1/3\textsuperscript{rd} of its shares to KazMunaiGaz, the Kazakh state oil company. In 2009, the two state owned firms jointly purchased MangistauMunaiGas for $2.6 billion, with CNPC providing the financing for the Kazakh state oil company to purchase its 50\% +1 shares. China thus secures approval and protection for investments by its SOEs in a climate in which the succession following the rule of Nazarbayev is uncertain, creating substantial political risk for investments with high sunk costs and low mobility, such as resource extraction projects.\textsuperscript{12}

In many ways OBOR is simply a rebranding of policies that were already being implemented in places like Kazakhstan. Nevertheless, since the announcement of the Belt and Road in 2013, Sino-Kazakh relations have only grown closer. In Nazarbayev’s November
2014 State of the Nation Address, he proclaimed the Nurly Zhol ("Bright Road") policy aimed at providing a counter-cyclical stimulus as the price of its key exports, oil and gas, fell and at “continuing structural reforms in our economy.” But most fundamentally it is a massive transportation infrastructure plan. First on the list of these efforts was road construction from “Western China to Western Europe,” which fit nicely into China’s Belt and Road infrastructure plan. This segment of a new Silk Road will start at the Sino-Kazakh border town of Khorgos, a Tang Dynasty (619-907 AD) era Silk Road transit point just across from China’s Horgos land port, a free trade zone and central hub of the new Belt; travel 300 miles to Almaty, the former political capital and still the economic hub of Kazakhstan; and follow Kazakhstan’s southern border to Aktobe, in the heart of Kazakhstan’s oil region and home to the original phase of the CNPC-funded export pipeline to China. Rail links through Horgos will also begin to connect China by rail to the Middle East and Western Europe. Kazakhstan is thus crucial to the transportation linkages at the heart of OBOR.

Therefore it is unsurprising that during Nazarbayev’s 2015 visit to Beijing, he and Xi signed agreements for 45 joint projects worth a reported $23 billion. Among them was an agreement between the national rail firm Kazakhstan Temir Zholy (KTZ) and the Jiangsu Province government for a “dry port,” a special trade and economic zone at Khorgos and a “logistics zone” in the port city of Lianyungang, the eastern terminus for the “Eurasian Land Bridge” of the Silk Road Economic Belt, which could provide ocean access to land-locked Kazakhstan.

In a sign of both the economic rebalancing of power that has taken place in Central Asia since the turn of the century as well as the strength of Sino-Kazakh bilateral ties, which makes defection by the Kazakh government on a major investment agreement with a Chinese SOE very unlikely, in 2015 Sinopec, like CNPC one of China’s three state owned oil giants, agreed to purchase Russian independent firm Lukoil’s 50% stake in Caspian Investments Resources for $1 billion. Sinopec had purchased the other 50% in 2010. Although Chinese SOEs are, to some extent, competitors with each other, they are also part of “China Inc,” presenting a united front along with the rest of the Chinese state of aid, loans and investment to the Nazarbayev regime. Any defection by the Kazakh government against a major Chinese state investment project could threaten future cooperation of the Chinese state and, therefore, future resources with which Nazarbayev retains power. Thus, China’s
state-owned (and, therefore, state-backed) firms successfully overcome Kazakhstan’s problematic investment environment.

Despite the fact that the Belt seems to be tightening around Kazakhstan, there has long been a distrust of China and Chinese among Kazakhs; while conducting research there I frequently heard vague concerns that millions of Chinese could someday cross the border into sparsely-populated Kazakhstan. And unlike Kazakh-Russian ties, tremendous cultural differences separate Kazakhs and Chinese. As Dmitriy Frolovskiy writes:

> many Kazakhs are experiencing reasonable fears about Chinese 'help,' and those fears are turning into daily Sinophobia. For instance, recently Chinese firms were nearly allowed to rent land plots in the country, as changes were proposed to the National Land Code. The proposed legislation, however, sparked protests and even the resignation of the minister of agriculture and economy. According to the Eurasian Development Bank, only one in six Kazakhs perceives China as a “friendly nation.” In effect, Kazakhstan currently remains a nation on the crossroads, as it wants to extract economic benefits from China but fears the possible costs.18

Yet China is fundamental to providing Kazakhstan with the infrastructure needed to overcome the fact that it is the most land-locked country on earth. In addition, Nazarbayev continues to pursue a “multi-vector” foreign policy, a clever balancing of Russia, China and the Western powers; otherwise Kazakhstan post-Nazarbayev risks being absorbed by an expansionist Russia, especially given Russian President Putin’s comment on Kazakhstan’s Constitution Day in 2014 that after Nazarbayev was gone, Kazakhs would be part of “the greater Russian world.”19

Europe and North America are also essential targets of Kazakhstan’s multi-vector strategy to overcome the tremendous asymmetries it faces in its neighborhood (in terms of its military, its economy, and its population size). Despite the tremendous amount of Chinese investment that has flowed into Kazakhstan over the past decade, particularly from 2009-2014, in the past few years Kazakhstan has received far more FDI from the United States and Europe than from China or Russia. In 2015-16 combined, Kazakhstan received just under $1.5 billion each in FDI from China and Russia but nearly $6.2 billion from the USA. The top three investors were the Netherlands, the United States and Switzerland.20 Pushed by the fall in oil prices, Nazarbayev in recent years has sought to diversify Kazakhstan’s economy into
greater agriculture and manufacturing production as well as to secure more diversified FDI, beyond the oil and gas sector. Nazarbayev thereby remains a strong partner for China while balancing Sino-Kazakh relations against those with Russia as well as the Western Europe/North America. Cambodia’s Hun Sen, on the other hand, appears to have put all his foreign policy eggs in a “Made in China” basket.

Cambodia: China’s Key Stop on the Road

In Cambodia, shown on a National Development and Reform Commission map as the first stop on the Maritime Silk Road, weak rule of law, corruption and political risk inhibit foreign direct investment. But Chinese firms do not appear to be deterred; Cambodia received $9.6 billion in Chinese FDI from 1994-2013. China once again topped the sources of FDI in Cambodia in 2016 with $511 million out of a total of $2.5 billion, more than twice that of the next highest investor on the list, Vietnam. Total US FDI in Cambodia through 2015 was a mere $85 million. Unlike in Kazakhstan, substantial numbers of private Chinese firms have entered Cambodia’s poor investment in Cambodia’s major export industry, garment manufacturing. That sector is dominated by domestic and foreign ethnic Chinese, whose cultural and linguistic ties help this group overcome collective action problems and successfully lobby the Cambodian government through the Garment Manufacturers Association in Cambodia (GMAC). Equally important, investments in Cambodia by private firms in the garment sector are highly mobile; sewing machines can be easily moved to neighboring states should Hun Sen’s government enact policies detrimental to firms in this industry.

On the other hand, Chinese SOEs who dominate Cambodia’s hydropower sector, have some of the most “specific” (immobile) and costly assets, which cannot simply be picked up and moved out of the country. And the most controversial state funded Chinese investments in Cambodia have been those requiring land concessions. Concessions provide revenues to the Cambodian government but are often in environmentally sensitive areas and require the relocation of citizens. Such projects include not just hydropower projects but also agriculture and real estate developments. China and its firms overcome opposition to these investments in Cambodia and secure approval and protection for them by gaining the support of Hun Sen’s government through the provision of aid and loans. Increasingly, Chinese firms investing in hydropower or Cambodia’s land and resource sector, and therefore requiring
land concessions, rely on joint ventures with a Cambodian stakeholder with close ties to the Prime Minister, such as ethnic Chinese Cambodian Senator Lau Meng Khin and President of the Cambodian Chamber of Commerce Kith Meng, in order to secure approval for, and long-term protection of, sizable investments requiring sizable land concessions.

Strongly related to Chinese inflows of FDI to Cambodia are the inflows of Chinese aid and loans that have expanded rapidly in the past decade, often funding major projects by Chinese SOEs and which appear to be a necessary condition for successfully investing in Cambodia’s hydropower sector; China provided $2.85 billion in aid and loans from 1992 to 2014, compared to about $2 billion from its traditionally largest donor, Japan. But it is not just the amount of Chinese funding that has provided influence over Hun Sen’s regime, it is also the “no strings attached” nature of that funding; Hun Sen has frequently praised China’s financing approach relative to Western donors and international organizations: “Normally, Chinese aid comes...without attaching any condition such as telling us to do this or that before they provide (the aid to) us.” But the statements and actions of Hun Sen’s government on issues vital to the political survival of the Chinese Communist Party, indicate that there are implicit conditions to Chinese lending: support for Chinese firms in Cambodia and support for Chinese sovereignty claims, whether on the mainland, on Taiwan or in the South China Sea.

Chinese Hydropower Projects in Cambodia

There are currently six hydropower dams, costing over $1.6 billion, operating in Cambodia, with nine more under construction and nearly fifty others proposed or in planning stages. All of those in operation thus far have been built by Chinese state owned enterprises with at least partial funding from Chinese state policy banks. Despite the fact that they will help Cambodia develop from a country with some of the highest electricity rates in the world to an energy exporter, the industry has been the target of a variety of opposition politicians, international organizations, and local and international NGOs. At the center of the target for much of the criticism is China.

Because of the extreme risk Chinese hydropower firms confront in Cambodia, given the specificity (lack of mobility) of their assets and the controversial nature of the projects (many of these dams are located in protected forests and cause massive flooding affecting local livelihoods), they seek and receive formal risk guarantees from the Cambodian
This legislation is designed to protect these investments from political risk; according to Minister of Industry, Mines and Energy Suy Sem: “In case of any political incident that causes these operations to suffer losses, the government will be responsible.” Generally, these three-step BOT agreements are for the Chinese firm to build the project and then operate it for a set number of years (usually three to four decades), during which the Cambodian government guarantees payment for the potential output from the project, regardless of whether Cambodia’s state power company, Electricite du Cambodge, actually purchases the output. Eventually, the projects are transferred to the Cambodian government. Thus the Chinese firm is protected from losses on the project, regardless of whether they are due to economic or political factors. Hun Sen has specifically pushed his rubber stamp National Assembly to pass such legislation.

The latest dams to begin operating in Cambodia are the Stung Tatay and the Russei Chrum Krom projects, which went online in June 2013 and January 2015, respectively. The construction and operation of Russei Chrum Krom are under the China Huadian Corporation, a “mega central enterprise” overseen by China’s State-owned Assets Supervision and Administration Commission of China’s State Council, the highest executive body in the government. The 338 megawatt project, the largest in Cambodia to date, cost $495 million with funding from China’s Exim Bank. Operation of the project is predicted to provide the Cambodian government with approximately $12.5 million in taxes annually under the 35 year BOT agreement. The projects have met with opposition from locals whose livelihoods would be negatively affected, as well as domestic and international NGOs expressing concerns about the environment, population displacement, and the lack of transparency in the deals.

Prior to Cambodia’s watershed 2013 elections, Hun Sen’s government had been very unresponsive to the demands of hydropower opponents. Following the near-loss of the ruling Cambodian Peoples’ Party (CPP) in 2013, the government became somewhat more responsive to both voters and the political opposition. Emblematic of the heretofore unseen oversight of the National Assembly regarding these investments was the testimony in June 2014 of Minister of Mines and Energy Suy Sem before the parliament, which questioned him regarding population displacement and environmental concerns about the Sesan 2 project. This was particularly unprecedented as the project is backed by China, one of its SOEs and
the EXIM bank, as well as a politically connected powerful local businessman, Kith Meng, whose Royal Group was in a joint venture with Hydrolancang International Energy Co., Ltd, based in Kunming, China and a 51% shareholder, to build and operate the dam. It was the first instance of a member of the cabinet being brought before the Assembly to defend a government policy.

In a further concession to hydropower opposition, Hun Sen announced the delay until after the 2018 election of the construction by Sinohydro, the largest hydropower firm in the world, of the Chhay Areng hydropower project in Koh Kong province. In 2014, villagers had blocked the road to prevent Sinohydro’s progress on the dam, and military police intervened when villagers protested at Sinohydro’s local headquarters.\textsuperscript{40} Opponents, including local human rights groups and opposition politicians, claimed the project would flood protected forests, force the removal of approximately 1500 villagers from their homes, and threaten endangered species.\textsuperscript{41}

July 2014 to June 2015 might be called the “year of accountability” in Cambodia. But this brief flirtation with political pluralism was brought to an end as it appeared more and more likely that Hun Sen’s regime could face a serious threat to their rule in the 2018 elections. A July 2014 compromise had seen the previously exiled long-time opposition leader Sam Rainsy given a seat in the National Assembly, and as head of the Cambodia National Rescue Party (CNRP), made the official opposition leader. But Hun Sen and the CPP quickly chaffed at the newly invigorated parliamentary opposition and by the end of 2015 had used a series of defamation charges to force key members of the CNRP, including Rainsy, to flee in exile abroad.

Along with this quick backsliding toward authoritarianism by Hun Sen’s regime has come even closer relations with China, including Belt and Road investments but also military and diplomatic cooperation. Reciprocal state visits by Xi Jinping and Hun Sen have led to a wide range of agreements to cooperate economically, militarily and diplomatically. Thirty-one agreements were signed during Xi’s October 2016 visit. Xi also canceled $89 million in debt and agreed to give $14 million in military aid. Overall, in 2016 China promised $600 million in aid to Cambodia over the coming three years. Most notable perhaps, were the first joint naval exercises, Golden Dragon, soon followed by Cambodia’s cancellation in 2017 of the long running Angkor Sentinel exercises with the USA. In addition, Cambodia has played
a crucial role acting as a proxy for China within ASEAN thereby preventing collective action by the multilateral organization on the South China Sea issue.

The Reliable Neighbor to the South: Laos

The shared experience as part of French colonial Indochina and object of subsequent military actions by the United States, along with the ruling Lao People’s Revolutionary Party (LDRP) and Communist Party of Vietnam’s common origins in the Indochinese Communist Party, have forged strong links between Laos and neighboring Vietnam. In fact, during the Cold War, the LDRP warned of China’s “great power hegemonism.” With the economic rise of China on its northern border, however, Laos has become what Ian Storey refers to as the rope in a “tug of war” between Vietnam and China. The 1997 Asian financial crisis, which devastated Southeast Asian economies but which allowed China to flex its economic muscle, perhaps for the first time, by choosing not to devalue the renminbi as regional currencies collapsed against the dollar, left Laos looking to its expanding economic ties with its fast developing neighbor to the north. Since then, trade and investment ties between the poorest member of ASEAN and the economic giant on its border have expanded rapidly.

While Chinese “aid” (grants and loans) to Laos is still only a fraction of that from OECD countries and international organizations, it is an expanding portion as Chinese aid increases and that from other sources begins to dry up. Storey notes that Western state “donor fatigue” and the lack of conditions for reforms attached to Chinese aid-giving should make Laos increasingly reliant on financial ties to the PRC, and the personal ties among Party revolutionaries that have been the glue holding together Laos-Vietnam relations, will diminish as those leaders are being replaced by a new generation, thus weakening the historically strong ties. Inevitably, the magnet that is the Chinese economy is pulling Laos away from Vietnam and provide increasing leverage for China on issues of vital concern, such as supporting major Chinese investments in Laos and supporting Chinese territorial claims in the South China Sea.

From 1989 until 2014, China had gross investments in Laos of $5.4 billion, the largest of any state and equal to about 40% of total FDI in Laos, which was nearly all from its neighbors. Thailand had provided $4.5 billion and Vietnam, $3.1 billion. China, has not dominated FDI in Laos the way it has in Cambodia; in 2015, the value of “approved investment projects” from both Vietnam and Malaysia were approximately five times as
great as from China, according to Lao government statistics.\textsuperscript{45} And anti-Chinese sentiment, partially due to Chinese migration and ownership of banana plantations in the north near the Chinese border, has increased to the extent that even the Lao one-party-state has had to respond; due to the environmental pollution provincial governments are refusing to renew contracts for these banana plantations.\textsuperscript{46} But, the few protests and the government action in these cases are the exceptions that prove the rule: the Laotian government has granted Chinese SOEs approval for a range of projects that some argue are exploiting the resources of Laos and opponents are often dealt with harshly. The Lao one-party state leaves little room for opposition to government approved projects by members of civil society groups; Sombath Somphone, Director of the Participatory Development Training Center, disappeared in December 2011 and, despite reports he was being held by police, the government has yet to offer his family any information on their missing relative.\textsuperscript{47}

The major OBOR-related project that has expanded the Chinese presence across Laos is a segment of the Trans Asian Railway through Laos to Thailand funded by a $7.2 billion Chinese loan, equaling nearly 60\% of the annual GDP of Laos. This segment of the “Iron Silk Road” is crucial, given the problems China has faced constructing rail links through Burma, discussed in detail below, since that government began to reform and liberalize in 2011.\textsuperscript{48} In return for the massive loan, Chinese firms received concessions to exploit minerals, timber and agricultural resources for export back to China.\textsuperscript{49} The Laos segment of the project has been opposed by a wide-range of international organizations, including the United Nations Development Program, the Asian Development Bank, the World Bank and the IMF, due to both financial and environmental impacts. Despite the negative assessment of the project, reportedly it was approved due to the strong support of ethnic Chinese Deputy Prime Minister Somsavat Lengsavad.\textsuperscript{50} Party General Secretary Choummaly Sayasone has also been cited for his support of Chinese investment projects in Laos. The retirement of both officials in 2016 may have some impact on future Sino-Lao relations.\textsuperscript{51}

Despite domestic and international opposition to the project, the \textit{NY Times} reported a Chinese SOE head in Vientiane suggested it will be implemented because former Chinese President Hu Jintao “Made the decisions two to three years ago,” while a diplomat in the Laotian capital pithily stated, “The Chinese will have their way.”\textsuperscript{52} A return to negotiations in 2015 on the project focused not on opponents’ concerns but on the financing terms, with the
Laotian government securing an interest rate lower than original agreements 3% and a price tag for the project about $1 billion less than the original $7 billion. China’s influence in Laos was evident when Chinese Foreign Minister Wang Yi arrived in Vientiane as the last stop on his Southeast Asia tour of authoritarian regimes that also included Brunei and Cambodia, seeking support for China’s stance on the South China Sea territorial disputes prior to the ruling of the international tribunal at the Court of Arbitration on the Philippines case against China. Wang Yi later announced a “four point consensus” agreed to by the regimes that included each of China’s key preferences on the issue, most notably that only the parties directly concerned should be involved in negotiations on the issue; China has strongly opposed multilateral and international solutions to the dispute.

**Summary: Chinese Influence over Authoritarian Regimes along the Belt and Road**

Many of the states along the Belt and Road closest to China are led by governments operating in authoritarian political institutions. It appears that China has a comparative advantage in promoting and gaining protection for investments by its state owned enterprises in these relatively poor investment environments. The cases of Kazakhstan, Cambodia and Laos show how Chinese foreign aid and loans provide influence over authoritarian government leaders, securing protection for major investments by Chinese SOEs – investments necessary for China’s continued economic development, a key pillar of the Chinese Communist Party’s legitimacy. But the influence of Chinese finance is not limited to host country economic policies. In addition China’s bilateral relations with these states secure influence on other issues vital to the continued legitimacy of the CCP and its leadership, namely sovereignty issues. With each major investment, as if reading from a script provided by China’s Ministry of Foreign Affairs, the host state leader repeats the “One China” mantra and disavows the idea of “one-China, one-Taiwan” or “two-Chinas.” In Hun Sen’s case, support for the One China policy even led to the extreme measure in 1997 of closing (and, since, refusing to reopen) the Taipei Economic and Culture Office (TECO), which acts as a defacto embassy and consulate for the ROC government in more than fifty states and territories, including the PRC territories of Hong Kong and Macau. In addition, at the behest of the PRC, Hun Sen’s regime deported 20 Muslim Uighur asylum seekers from China’s restive Xinjiang Province back to the PRC in 2009 while their asylum applications were being considered by the U.N. Refugee Agency. Within days Xi Jinping promised the Cambodian
regime $1 billion in new Chinese investment. In addition to the capital Kazakhstan receives from China, Nazarbayav has his own reasons to oppose what he calls “three evils of modern times — separatism, extremism and terrorism,” a quote clearly aimed at Kazakhstan’s Uyghur population. Finally, Cambodia and Laos have been the strongest proponents for China’s South China Sea claims within ASEAN, with Cambodia often acting as a proxy for China’s preference to address the issue through bilateral negotiations with rival claimants, rather than multilaterally through ASEAN, which would give rival claimants greater bargaining power.

It is important to note here, however, that Vietnam, whose sovereignty claims have been most severely impacted by China’s assertiveness in the South China Sea has actively pursued improving ties with the United States. Given centuries-old animosities between Chinese and Vietnamese as well as more recent conflicts, such as the 1979 border war following the Vietnamese occupation of Phnom Penh and the naval battle over Johnson Reef in the Spratly Islands in 1988, China’s relations with the regime that most resembles its own are the worst in the region. Somewhat ironically, therefore, the regime that most closely mirrors China’s own is not likely to be a major stop along the Belt and Road. The regime type of its bilateral partner is a key variable impacting China’s foreign relations, but it is not the only factor.

**One of these Regimes is not like the Others: The Philippines**

Official maps of OBOR initially released by state organs in the PRC bypassed the Philippines. This is somewhat intriguing given the historical role of Manila as the hub of the galleon trade at the center of early Chinese globalization, bringing Chinese goods to Europe from the mid-16th to the early 19th centuries. In other ways, however, it is less surprising. The Manila galleons headed east to the New World, overland across Mexico and then goods were shipped to Europe (thus the Mexican silver dollar became a dominant currency in China); the Belt and Road head west. But there are other more contemporary reasons Manila was not included as a stop on the Road: the contentious Spratly Islands territorial dispute between China and the Philippines (as well as several other members of ASEAN), anti-Chinese sentiment in the Philippines, and, perhaps most important, China’s difficult experience earlier in the new century in attempting to influence democratic Philippines
using the same methods it has used successfully to influence the governments of Kazakhstan, Cambodia, Laos and other authoritarian regimes.

PRC relations with the Philippines have rarely been close. During the Cold War, the Philippines was a staunch US ally and home to Clark Airbase and Subic Bay, the largest US air and naval bases, respectively, outside of the United States. Philippine dictator Ferdinand Marcos made only a single state visit to the PRC during his more than two decades as president, despite warming Sino-US relations beginning with Nixon’s visit to China in 1972. The end of the Cold War might have seen closer relations between an economically rising China and an authoritarian partner in the Philippines. But the assassination of Marcos’s chief rival, Benigno Aquino, upon his return to Manila from exile in the US, sparked the People Power (or “EDSA”) revolution, led by the widowed Corazon Aquino, who took the office of the presidency from Marcos in 1986. Since that time, the Philippines has experienced regular democratic transitions of power with the executive limited to a single six year term, although former President (and current Manila mayor) Joseph Estrada had his term cut short by popular protests that became known as the second EDSA Revolution. It was under his successor, President Gloria Macapagal-Arroyo, that Sino-Philippine relations briefly flourished. It is also that period that should serve as a cautionary tale to the current Xi and Duterte governments as they appear to be following a path similar to that that Hu and Arroyo stumbled on a decade ago.

In stark contrast to every other leader of the Philippines in the half century prior to 2017, who each made only one state visit to the PRC, Arroyo visited China ten times during her decade in office. Her decision in 2004 to remove the 51 Filipinos in Iraq as part of the “Coalition of the Willing” following the kidnapping of a Filipino truck driver there fractured relations with the Bush administration. The tiny Philippine humanitarian contingent was practically unimportant but held symbolic importance for the US-dominated coalition. China quickly used this opening to improve Sino-Philippine ties and step in to use its economic statecraft to garner some influence over a long-time US ally. The Joint Statement issued following Chinese President Hu Jintao’s visit to Manila to celebrate three decades of diplomatic relations in April 2005, included a determination, much like OBOR, to “enhance infrastructure cooperation,” and stated, “the two sides maintained that their effective cooperation on the North Rail project has become a new symbol of China-Philippine
friendship and cooperation. Ironically, it is the failure of China’s North Rail investment that best symbolizes the decline of this brief period of intense Sino-Philippine cooperation.

The project, and other major Chinese investments in the Philippines, illustrate the role of political institutions in constraining China’s efforts to influence developing, democratic states. Like many developing states, the Philippines has high levels of corruption and informal networks often dominate the political economy. However, unlike the cases of Kazakhstan, Cambodia and Laos above, formal political institutions allow for checks on the executive leadership from the legislature and courts, relatively free and fair elections for political offices, and a thriving civil society and media. Although far from a democratic ideal type, the Philippines is pluralistic, with multiple family dynasties, exemplified by the Marcoses and Aquinos, battling for power across the islands, as opposed to the dominance of the families of Nursultan Nazarbayev and Hun Sen in Kazakhstan and Cambodia, respectively, or the dominance of the Communist Party in Laos.

**Northrail: A Symbol of China-Philippines Relations**

NorthRail was to connect Clark International Airport – former home of Clark Airbase – to Manila. The agreement for the project, signed by Arroyo during her December 2003 state visit to Beijing, included $400 million in funding from China’s EXIM bank and construction by China National Machinery and Equipment Corporation (Sinomach), a state owned enterprise (SOE). Despite the promising start, the project was beset by charges of corruption and a lack of transparency, as well as massive cost overruns, and was never completed. The rising local opposition to the project and, particularly a Philippine Supreme Court ruling that overturned a key contract due to a lack of competitive bidding, led the EXIM Bank to cancel its loan in September 2012, as well as a further promised loan of $500 million.

The North Rail case illuminates how democratic (broadly defined) institutions both provide transparency to the types of deals that China regularly makes behind closed doors with authoritarian regimes and prevents the executive from single-handedly approving and completing them. The media exposed details of the project, the legislative opposition debated them, and the courts independently ruled on the legality of the deal. Operating within the context of democratic institutions allowed all of these actors to provide greater transparency to the agreement and place constraints on the decisions of the executive. It is
for these reasons that the Philippines receives a Polity IV regime type score of 6 out of a potential 7 for executive constraints, “the extent to which the head (of government)...must take into account the preferences of others when making decisions,” compared to a 4 for Cambodia, a 3 for Laos, and a 2 for Kazakhstan. The legislature even later brought impeachment charges against Arroyo, who is currently indicted on a range of charges.60

The subsequent $329.5 million National Broadband Network project to be built by Zhong Xing Telecommunications Equipment International Investment Ltd (ZTE) and also funded by China’s EXIM Bank, was a similarly opaque deal that met a similar fate. Once again, the legislature, judiciary and media played key roles in bringing to light details of the project and bringing it to a halt. Rep. Carlos Padilla accused the then Chairman of the Commission on Elections (Comelec) Benjamin Abalos of acting illegally as ZTE’s broker.61 Arroyo’s husband Jose Miguel Arroyo was also accused, and later indicted, for acting as the political sponsor for ZTE. The Supreme Court halted the project with a restraining order and, eventually, President Arroyo canceled the project altogether. She, her husband, and Abalos all eventually faced charges relating to the case, including graft and obstruction of justice.62

These and other cases in the Philippines (such as the cancelation of a $3.8 billion agricultural development project by Jilin Fuhua Agricultural Science and Technology Development Co. Ltd., a Chinese provincial owned enterprise, due to the opposition by Filipino farmers and Catholic bishops) demonstrate the role that political and public opposition operating within democratic institutions can bring to Chinese financed projects. They can affect the success of these Chinese projects in ways that could not occur within more authoritarian institutions, such as those in the cases above, in which there are few formal checks and balances and limited press freedom. The key point is that an independent legislature and judiciary, the media, and civil society halted projects that the executive leadership strongly supported; it is inconceivable to imagine a major project supported by Nazarbayev being stopped by the courts or legislature and nearly equally unimaginable to witness either branch halting a project supported by Hun Sen in Cambodia.

Despite her ten visits and more than 65 bilateral agreements with China during her term, by the time Gloria Arroyo left office on June 30, 2010, her efforts to improve Sino-Philippine relations had dramatically failed. China had withdrawn its firms and financing for the Northrail and National Broadband Network projects, and Arroyo, under popular
pressure, had suspended several projects funded by the Chinese. She had gone so far as to create a China Projects Oversight Panel to review Chinese funded investments in the Philippines. Her successor, Benigno Aquino III paid one state visit to China during his term in office and assertively pursued the Philippines’ South China Sea claims. Chinese flows of aid and FDI to the Philippines dried up; in 2015 Chinese FDI in the Philippines was a dismal $570 thousand compared to $447 million in Kazakhstan and $860 million in Cambodia.

The 2016 election of Rodrigo Duterte, stung by Obama administration criticism of his human rights abuses, provided a split in US-Philippines relations and an opening to China similar to that of Arroyo’s withdrawal of Philippine troops from Iraq. The Xi administration quickly added Manila to the Maritime Silk Road. At the Belt and Road Forum in Beijing in 2017, President Rodrigo Duterte’s representative Jose de Venecia Jr, who is acting as the president’s envoy to the government in Beijing, suggested that the South China Sea could become a “zone of friendship” and suggested that the Joint Seismic Undertaking (JMSU) which had initially appeared to be a major framework for cooperation in the South China Sea during the early years of the Arroyo administration but collapsed along with other efforts at Sino-Philippine cooperation, served as a precedent. It was de Venecia, then Speaker of the House, who had negotiated the Northrail deal, despite a ban on the Speaker’s involvement in such negotiations. It is clear from warming Sino-Philippine relations given Duterte’s pivot away from the USA that China’s government once again has an opportunity to improve ties with the Philippines and fundamentally change the balance of power in the South China Sea. It will succeed in improving ties under one of two conditions: either it develops a more sophisticated strategy in influencing democratic governments by providing benefits from cooperation beyond those to a few gate keepers, such as de Venecia, to a broader range of interest groups and the electorate in the Philippines; or if Duterte continues his creeping authoritarianism, exemplified by his administration’s human rights abuses and declaration of martial law on Mindanao, to extend his term in office beyond the six years mandated by the constitution.

Political Risk along the Belt and Road: Myanmar

So far, I have compared cases of variation in regime type cross-nationally to analyze the impact of host country political institutions on the ability of China to use finance to influence governments in potential stops along the Belt and Road. As it has gradually
liberalized and democratized politically, Myanmar, also referred to as Burma, provides a case of variation over time in the key explanatory variable of regime type. It is, therefore, an excellent test case for my hypothesis that political institutions, reflected in regime type, are a key intervening variable between Chinese foreign economic policies providing aid, loans and FDI, and the influence those foreign policies gain over the recipient state government.

Following a brief democratic period after the establishment of Burma as an independent state in 1948, a coup by Ne Win in 1962 led to a half century of a deeply authoritarian military dictatorship in Myanmar. Ne Win resigned in 1988 following the pro-democracy protests beginning a year earlier and culminating in the 8888 Uprising, which led to the founding of the opposition National League for Democracy (NLD) party, chaired by Aung San Suu Kyi. Despite winning 82% of the seats in the 1990 election, the military regime refused to recognize the results, and Aung San Suu Kyi was held under house arrest for much of the next two decades.

Ne Win's resignation constituted a relatively minor change in the government, those running the institutions of the state, not a change in regime type; General Than Shwe succeeded Ne Win as leader in 1992, as the military continued to rule, first through the State Law and Order Restoration Council (SLORC) from 1988 to 1997 and then the State Peace and Development Council (SPDC) until 2011. Fundamental reform of Burmese political institutions began after Than Shwe's protégé, Thein Sein, who had been prime minister since 2007, was elected president by the military-dominated parliament, a position he held until the end of March 2016. By maneuvering to remove hardliners from the government, Thein Sein was able to pursue important political reforms and liberalization, including the release of opposition party political prisoners and the loosening of the government's tight grip on the media and civil society. The reforms culminated in the 2015 election, which saw the NLD win supermajorities in both houses of the legislature (despite 25% of the seats being constitutionally set aside for the military), which then jointly selected Htin Kyaw, a close associate of Aung San Suu Kyi and Burma's first leader without a military background since the 1962 coup, as president. The new government created the office of State Counselor from which the NLD leader could rule the country given the constitutional provision, clearly aimed at her, that denies those with a foreign spouse or children the right to run for president.
Sino-Burmese Ties

Under the SLORC and the SPDC, relations with China (with a few exceptions, such as during Mao’s Cultural Revolution) were so close that they were termed “Pauk-Phaw,” meaning kin or brothers.\textsuperscript{66} It is somewhat ironic that the PRC government translates this as “blood brothers” given the fact that it was violent crackdowns by both regimes against pro-democracy student-begun demonstrations in 1988 (Myanmar) and 1989 (China) that led to the international isolation that brought the two regimes even closer.\textsuperscript{67} Ostracized by the West, they turned toward each other, and ties flourished as each faced international sanctions. Chinese aid and development assistance became a lifeline to the Burmese government, which first isolated itself and later was isolated by international sanctions.\textsuperscript{68}

China’s hands-off approach to Myanmar’s domestic politics reflected the third of the PRC’s Five Principles of Peaceful Coexistence, “noninterference in each other’s internal affairs,” as well as China’s “no strings attached” aid policies.\textsuperscript{69} As then Vice President Xi Jinping stated during Vice Chairman of the SPDC Maung Aye’s 2009 visit to Beijing: “Only the people and the government of Myanmar can solve the internal affairs of Myanmar, and foreign countries should not interfere in internal affairs of Myanmar and should not impose sanctions against Myanmar.”\textsuperscript{70} Increasingly close relations were symbolized by arms agreements through which China provided Myanmar’s military regime with $2 billion worth of weapons and ammunition in the first half of the 1990s.\textsuperscript{71} Chinese state owned enterprises moved into Myanmar after the turn of the century, particularly in the oil and gas sector. These investments exemplify both the non-conditional nature of China’s foreign economic policies and the necessity and willingness of these Chinese oil giants to go not only where oil is, but where it is available, even when they confront high political risk, weak rule of law, high levels of corruption and even international condemnation.\textsuperscript{72}

As in Cambodia, Chinese state owned enterprises, backed by agreements made at the highest levels of government, invested in a series of domestically unpopular projects in Myanmar, many of which required the relocation of those with little voice under the military regime. However, while addressing political risk by gaining influence over an authoritarian government may be an effective short-term strategy, it can exacerbate long-term political risk for state-funded foreign investments; as in other states, Chinese financing is seen by many of those outside the ruling coalition as propping up their unresponsive government.
Miao Lu, Executive Secretary General of the Center for China and Globalization, a think tank based in Beijing, identifies political risk as one of the key problems facing Chinese firms along the Belt and Road. He writes:

One set of risks stems from the complicated political situation prevailing across large stretches of overland and maritime covered by One Belt, One Road. Myanmar is a case in point. Chinese investment in the country fell from $407 million in the 2012 fiscal year to just $46 million in the 2013 fiscal year, a drop of nearly 90 percent. This plunge was caused by rising anti-Chinese sentiment and opposition to key projects in Myanmar, notably the $3.6 billion Myitsone dam in the northern part of the country.73

Chinese funded projects became the target of opposition in the media, civil society and the legislature once the Burmese regime began to liberalize. Myitsone is just one of several examples of Chinese investment projects that the post-junta government postponed or canceled due to pressures that the military regime had successfully suppressed.

The Myitsone Hydropower Project

Like Cambodia, Myanmar frequently has suffered blackouts and shortages of electricity, a problem that both governments have attempted to address with hydroelectric projects funded by Chinese state banks and built by Chinese state firms. Six Chinese projects alone beginning in the decade starting in 1996 comprised a third of the country’s power generation. Eighteen more Chinese projects were agreed to or are under construction by provincial or central Chinese SOEs.74 The Myitsone Dam was to be just one of eight in the Upstream Ayeyawady Confluence Basin Hydropower (UACBH) under the China Power Investment Corporation (CPIC). Opponents to the project ranged from environmentalists to ethnic separatist groups, and opposition ranged from protests to a 2010 grenade attack. Nevertheless, the military regime continued to support the project and suppress opposition to it.

That all changed in 2011 when Thein Sein won election to the presidency after stepping down from his role as one of the top five generals in the junta a year earlier. By the end of September in that year, he had halted progress on a number of projects that had been agreed to by the military regime and announced the postponement of the dam in terms clearly invoking Myanmar’s evolving political institutions:75
Being the government elected by the people, it upholds the aspiration and wishes of the people... It is also responsible to solve the problems that worry the public. Therefore, the government will suspend the Myitsone dam project during its tenure.

The reaction of CIPIC to opposition against the project reflects the changing investment environment under liberalization. As one report put it, “China Power Investment Corporation, made a belated move to win over the Burmese by citing the positive benefits of the hydropower dam project, such as free power supply, technology transfer, increased revenue and job creation.” As noted above, the range of actors who must benefit, or at least not suffer, from foreign investment projects expands in democratic states; no longer is it enough to gain the support of the leadership and/or the relative few in the winning coalition the leader needs to retain power.

**Kunming-Kyaukphyu Railway Line**

More detrimental to the Belt and Road Initiative’s efforts to link China to the areas to its West, however, was the cancellation of a planned rail line, “the missing link” between Ruli, China, in Yunnan province on the Burmese border, and the Bay of Bengal on Myanmar’s west coast. In April 2011, U Thein Swe, Managing Director of Myanma Railways, and Zhao Deyi, Chairman of China Railway International signed a memorandum of understanding (MOU) for the project, which was to be completed in three years. The rail line would be part of the “Iron Silk Road” linking major Chinese ports and cities to those to its South and the East. As with other major Chinese funded infrastructure agreements, China would provide funding and transfer ownership of the project to Burma’s government after fifty years through a BOT contract. With the MOU expiring in 2013, a one-year extension was signed on July 18, 2013, which also expired. An additional addendum was then signed in April 2014. In July 2014, the Burmese government announced that the $20 billion Kunming-Kyaukphyu rail link would not go forward, after no progress had been made on the bilateral MOU. Railway Minister Myint Wai stated that there were “no plans to implement the project, and the (agreement) has expired so we will not carry on the project, in accordance with the public’s demand” (emphasis added).

While other controversial Chinese investment projects in Myanmar, such as the Kyaukphyu-Kunming oil and gas pipelines and the Letpadaung Copper Mine have not been
canceled, many have been subject to delays, as the more liberal and democratic institutions within which opponents to these projects are operating have given them avenues for voice. Unlike in Cambodia, the political opposition in Myanmar has successfully taken power and quickly engaged in legislative oversight of Chinese investment projects; Aung San Suu Kyi herself chaired the committee that eventually gave the Letpadaung Copper Mine the green light. The NLD leader was confronted by angry crowds when she later visited the region. Protests against the project have also occurred at the Chinese embassy in the capital.

Despite the fact that the pipelines are also now operational, with liberalization the government has been confronted with new types of opposition to the projects. For example, in April 2014, the Arakan National Conference was held in Kyaukphyu and delegates demanded a 50% share of revenues in their region from the pipeline project for Rakhine State. Other civil society groups, such as Watch the Oil and Sky Youth, also participated in this first-ever conference of its type in Rakhine. But the partial reforms thus far in Myanmar are far from addressing the concerns of several long-running ethnic separatist groups. For example, ethnic Shan rebels killed two at the Myanma Oil and Gas Enterprise compound near the border with China in May 2013. In addition, while there have been reforms at the center, Myanmar is still in many ways a failed state (the state lacks sovereignty over much of its territory) in which the reforms have had limited impact outside of major urban areas. As Mai Amm Ngeal of the Ta’ang Students and Youth Organization (TSYO), in the Ta’aan ethnic minority region of Shan State near Yunnan Province, stated:

Even though the international community believes that the government has implemented political reforms, it doesn’t mean those reforms have reached ethnic areas...Especially not where there is increased militarization along the Shwe Pipeline, increased fighting between the Burmese Army and ethnic armed groups, and negative consequences for the people living in these areas.

As the pipelines cross the entire Burmese state, they have been subject to protests across the country. Protestors have cited a range of the common complaints against such massive infrastructure projects including inadequate compensation for displaced peoples, threats to traditional livelihoods, and environmental damage, as well as concerns that the contract negotiated by the former military government should be renegotiated. Among the rationale for the pipelines by the Chinese scholars who originally proposed the idea were
“the history, current status, and future prospect of Myanmar-China relations would guarantee the security of the pipeline” (emphasis added).” But this rationale ignores both the complexity of the impacts of political institutions on the incentives facing government leaders in Myanmar as well as the fact that a government cannot guarantee security if it is not sovereign.

High political risk is always problematic for investors, particularly foreign investors; uncertainty about who will govern in the future means that a state’s current commitments to foreign investors (ranging from levels of taxation on the project to commitments not to confiscate the foreign companies’ assets) may not be credible; the current government may not be in power during the duration of the MNCs operation in the host state. China’s bilateral relations are a key means for Chinese firms to overcome risk in less than ideal investment environments, but they are an imperfect strategy and ineffective in addressing the long-term risks often faced by foreign firms investing in expensive, long-term, immobile investments, such as hydropower and other infrastructure projects. It is particularly problematic if foreign investors face not only potential change in government but actual change in regime type, which could lead to a governing coalition with radically different policy preferences. The fundamental political risk problem for China’s foreign investments, and its foreign relations more generally, is potential regime change, from non-democratic to democratic institutions which give voice to opponents of a domestic government’s pro-China policies.

Conclusion: The Rules of the Game on the Belt and Road

Liberalization and reform expanded the set of relevant political actors in Burma beyond the military junta with whom the Chinese had long negotiated. These actors included NLD politicians, the media, civil society groups and private firms. As Chinese Professor Bi Shihong at the School of International Studies at Yunnan University put it: “[T]he rules of the game have changed...Chinese enterprises are used to dealing more with Myanmese authorities instead of its private firms and nongovernmental organizations and thus urgently need to learn the real needs and desires of the locals.” The “rules of the game,” of course, is the pithy definition that Nobel Laureate Douglas North has given to the concept of institutions.

As noted above, leaders in democracies must be responsive to a wider segment of the population; the leadership must form a winning coalition among the broader electorate,
while authoritarian leaders can retain power by retaining the support of a much smaller portion of the smaller selectorate. In addition, more liberal political institutions, such as greater press freedom and other freedoms of speech, assembly, and associational autonomy, provide voice and avenues of dissent to opponents of government policies, while that opposition is much more easily silenced in non-liberal regimes.

While China has a comparative advantage in influencing authoritarian state governments, it has proven somewhat clumsy in dealing with developing democratic states and, particularly, addressing the concerns of non-state actors. In many developing states, informal institutions, such as family and ethnic networks, dominate both politics and economics. Nevertheless, formal institutions matter when it comes to the ability of the Chinese government to project power and gain influence. Authoritarian governments are able to harness the resources of the Chinese state to insure continued support of key elites, they are able to oppress opposition to Chinese investments, and they are able to suppress information about the deals made with the Chinese state and its firms.

Democratic institutions, on the other hand, facilitate legislative and judicial checks on executive branch decision-making, such as foreign investment and loan deals; they allow for the media to provide information to the public about the agreements; and they allow for the public to form associations opposing government policies, legally protest agreements that they believe bring them harm, and vote to remove from office leaders who do not adequately respond to their concerns. In short, political institutions either provide or restrict the political space in which domestic government opponents, whether in other branches of government, the media, or civil society, can act. They, therefore, either facilitate or constrain the executive leaderships’ ability to unilaterally implement its preferred foreign policy preferences. To put it colloquially: Cambodia’s formal institutions allow leaders to get away with a lot more undetected than those in the Philippines do.

Because of this, China’s new Silk Road Economic Belt and the 21st-century Maritime Silk Road initiative may rely on authoritarian states as key notches on the Belt and important stops along the Road. Chinese firms are beginning to address social concerns in some host states but will need to find more creative and nuanced ways of influencing democratic state governments by, for example, providing incentives for interest groups to support China’s policy preferences and by providing benefits, such as employment, for a wider range of host
country citizens. This will require changes in China’s investment strategies, such as decreasing the common practice of importing Chinese workers for construction projects abroad, addressing environmental concerns, and being willing to make lending and investment agreements with foreign governments more transparent. The case of the Philippines shows the difficulties China faces influencing the government in a pluralistic environment. The case of Burma demonstrates the weakness in China’s “Go Out” political strategy; it is only effective as long as its bilateral partner’s political institutions do not democratically develop. It is, thus, an ineffective strategy for addressing long-term political risk confronting major Chinese investments abroad.

In many ways, Chinese firms and Chinese banks are advantaged when deals remain opaque. Chinese firms face few domestic constraints, such as the US Foreign Corrupt Practices Act, in their dealings abroad. And as Li Ruogu, former EXIM Bank president has stated about the lack of transparency in the banks agreements: “In China we have a saying: if the water is too clear, you don’t catch any fish.”92 When opponents of these agreements have “voice” within domestic political institutions, there is a greater likelihood that their opposition will be effective in both bringing details to light and halting the projects. And by halting the projects, and the funding that comes with them, they prevent China’s government from using one of its most effective foreign policy tools, its economic resources, and constrain China’s ability to project its power abroad.

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12 Cite me.
CNPC plans to build a plant for the production of large-diameter pipes for the oil and gas industry of Kazakhstan. In addition, CNPC intends to construct the high school of choreography in the city of Astana…. This project was initiated by President Nursultan Nazarbayev."  

After meeting with Nazarbayev during the visit, CNPC Chairman Wang Yilin announced: "CNPC plans to build a plant for the production of large-diameter pipes for the oil and gas industry of Kazakhstan. In addition, CNPC intends to construct the high school of choreography in the city of Astana…. This project was initiated by President Nursultan Nazarbayev."

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