



AALBORG UNIVERSITET

# China's Periphery Development with Laos & Cambodia

*How China's Investments Are Reshaping the Regional Balance*



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## **Précis**

Laos and Cambodia are dealing with low levels of social and economic standards interlaced with an absence of infrastructure development. China proclaims to have a mutually beneficial solution with its Belt and Road Initiative (BRI) alongside other liberal instruments to construct and boost their connectivity which in turn, by a so-called domino effect, will stimulate the advancement of underdeveloped areas. The BRI is a dynamic foreign policy doctrine imposed on small and middle-nation states in China's periphery that has the potential to shape the regional environment. China is momentarily the only nation-state stepping forward for the development of Southeast Asia with large sums of foreign direct investment while the U.S., after the inauguration of Donald Trump, is retreating from multilateralism and its global position.

Commander-in-chief Xi Jinping, the core of Chinese politics, has hailed the BRI and its affiliates as a win-win initiative, with no hidden strategic agenda. Criticism towards the periphery development of China is waived away, declaring that the Western scholars maintain a neo-realist and 'Cold War' mentality.

This research provides a new point of view on the periphery development of China in Laos and Cambodia by the use of a multi-theoretical framework of neo-liberalism and neo-realism. Creating a foundation for the use of Western and Eastern - primarily Chinese- sources to explain the motive by putting the national development projects in a regional perspective. The analysis showed that on the bases of examining the characteristics of China-funded development projects in Laos and Cambodia the central core is not driven by a win-win prosperity concept that is affirmed by the Chinese Communist Party (CCP) in its policy documents. The case studies displayed that four policy points can define China's reasoning:

- I: The securing of greater influence in the region
- II: Attaining natural resources and access to energy sources
- III: Strengthening of the bargaining position on regional disputes
- IV: Forming of a sub-regional group with Southeast Asian nations for economic cooperation

Researchers from Western and non-government affiliated Chinese organisations showcase that Beijing is gaining access to strategic points of interest in Laos and Cambodia both on the fields of economics and politics without agitating the status quo in the region.

The development projects are characterised by limited transparency, unequal benefits, strong CCP presence and potential debt burdens for the host nations.

Laos and Cambodia are dealing with a double-edged sword; both depend on FDI for infrastructure development and its ruler performance legitimacy. While the same FDI can turn them into strategic support states, thus they need to balance the scale of the geopolitical ambition of its investor with the arisen economic opportunities. The offer of a lucrative path of development makes nation-states, in reality, trade their short-term gains for long-term dependency.

Liberal institutionalism revealed that multilateralism coupled with China's development diplomacy consolidates the position of the Middle Kingdom while it is steadily enlarging its political leverage. Neo-realism and complex interdependence provided insight into the fact that China is using its economic influence, in Laos and Cambodia, to contribute to its impending military objectives in the region. China's periphery – infrastructure- development projects generate political influence while it is stealthily upgrading its military capabilities, on the path to becoming a regional hegemon. Beijing understands that where the economic power goes, political power will follow.

**Keywords:** Infrastructure Development, Multilateralism, Belt and Road Initiative, Periphery Diplomacy, Institutionalism



**Preface**

This research is done as a master's thesis for the study Development and International Relations at Aalborg University. The research was conducted from the period of 1 February 2018 up until 31 May 2018.

In short, there is a worldwide need for infrastructure development to generate economic prosperity in underdeveloped regions. The Asian Development Bank (ADB) has estimated that, by the current economic growth rates, there is a need of an additional \$1.7 trillion per year for the infrastructure development of the Asia-Pacific region alone. Amounting to a significant gap in funding, and this is where the BRI comes into place with the Asia Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB).

The BRI is extensively researched from an international relations perspective and is seen by scholars as a tool for China to enlarge its economic and political power, not only in the region but the world. China's pro-active periphery diplomacy is, according to President Xi Jinping, to facilitate economic prosperity by win-win development projects to increase the infrastructure connectivity in the region. This research aims to explore the Chinese motive behind the development projects in Laos and Cambodia by the use of a multi-theoretical framework. It places the development projects of Beijing, inside the periphery, into a grander scheme of actions to clarify Chinese ambitions and goals.

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Martijn Bomas

## Acronyms

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
BRIC	Brazil, Russia, India and China
CCP	China Communist Party
CGD	Centre for Global Development
CRA	Contingent Reserve Arrangement
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSP	Generalised System of Preference
HDR	Human Development Reports
IMF	International Monetary Fund
IOR	Indian Ocean Region
IR	International Relations
LMC	Lancang-Mekong Cooperation
MDG	Millennium Development Goals
NBC	National Bank of Cambodia
NDB	New Development Bank
NDI	National Democratic Institute
PRC	People's Republic of China
ROC	Republic of China
SDG	Sustainable Development Goals
TPP	Trans-Pacific Partnership
UN	United Nations
WTO	World Trade Organisation

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## Chapter I: Introduction

China as the de facto production warehouse of the 21st century gained significant economic influence in the last decade. Resulting in that the Middle Kingdom is now one of the top investors and plays a significant role in the infrastructure development financing in Southeast Asian projects, especially the mainland countries including Laos and Cambodia (Sun, 2017). Chinese infrastructure financing is growing endorsed under the words of peaceful development and mutually beneficial relations. China's foreign policy changed under the control of President Xi Jinping towards Southeast Asia, creating a unique bond. Politically, the consolidation of good relations with Southeast Asian countries is an essential component of China's periphery diplomacy (Sun, 2017). China is using the BRI and its associated institutional tools to increase its regional presence were within this framework foremostly connectivity a central position occupies.

The centrepiece of Chinese foreign development and investment is the Belt and Road Initiative launched by President Xi Jinping in October 2013 during the start of his ascendancy. Analyst and scholars have hailed it as either a comprehensive win-win strategy or a geopolitical and diplomatic offensive, firming its grip on the Southeast Asia region with development projects. Years after the introduction of the BRI by President Xi Jinping scholars have scepticism around whether this is part of China's emergence as the next world power, to which naturally some countries are going to be less welcoming (Sneader, p. 4).

With the BRI, China has control of one of the largest regional collaboration platforms in the world; the question arises how Beijing will manage its development projects. The macro perspective on the Chinese development investments is well documented and recorded; this research will focus on the national and regional impact of the individual projects under Chinese control in Laos and Cambodia. A multi-theoretical framework of realism and liberalism gives a unique observation on Chinese development and its regional ambition. China's economic growth and rising military power, with many states, have outstripped many U.S. policymaker's predictions a decade ago and left them wondering about the implication of China's rise for global security and what remains of the world order (Kurlantzick, 2018).

This research will examine development projects realised by the Chinese government in Laos and Cambodia. What is the motive behind the construction of infrastructure development projects, mutual benefit or is there a hidden strategic agenda?

### 1.1 Research Question

This research sets out to explore the development activity of China in Laos and Cambodia. It puts the rise of China in context with its increased presence in the region resulting in an overview of foremost the political policies regarding its presence in both nations.

The following research question will be used to assess this:

*“What is the Chinese motive behind the construction of development projects in Laos and Cambodia?”*

The focal point of this research are the development projects constructed by the Middle Kingdom. Development, nonetheless, is a wide-ranging word with various understandings in the eyes of the reader; hence it will be thoroughly assessed to provide a clear understanding of the history and context. The progression of development since World War II will be discussed, with the various perspectives and theories alongside it. Sequentially bringing a foundation of understanding to the complexity of development what is used as a tool to understand the Chinese decision-making process. Moreover, the title states China's periphery development, the terminology chapter will provide boundaries to its meaning and a definition under the scope of this research. The aim of this research is not to provide a quantitative record of developmental projects, but rather to construct and understand the Chinese decision-making process and its related policies.

## Chapter II: Literature Review

The following chapter reviews the existing literature surrounding the regional activity of China in Southeast Asia specifically on Laos & Cambodia. Large-scale debates are surrounding the increased presence and activity of China in the Asian region. Especially the introduction of the BRI in 2013, which launched a new perspective for scholars viewing the engagements of Beijing on the world stage.

2017 marked the year that China established its first overseas military base in Djibouti and revealed its home-grown aircraft carrier, slowly challenging the military supremacy of the U.S. in the region. Sequentially, causing scholars to analyse and question the spreading economic and political influence. In short, two main perspectives are looking at the rise of Beijing. These are the “Pro-China” scholars, who emphasise the mutual benefit and peaceful rise and the “China-critics” who find the increased activity of the Middle Kingdom concerning. The general outcome is that the Chinese scholars are defending the so-called peaceful rise of their nation, while predominantly the American experts are increasingly more sceptic. The Chinese Foreign Ministry rejected findings that Beijing is playing a geopolitical game and stated that they are promoting common development through infrastructure without maintaining a hidden agenda.

The Centre for Global Development (CGD) Policy paper of March 2018 provides an overview from a U.S. perspective. The U.S. non-profit think tank works towards reducing the global poverty and inequality, and its latest paper has a critical look towards China's global trade plan. It states that: China's massive plan to pump hundreds of billions of dollars into ports, rail lines and other projects across Asia, Europe and Africa could pile debt problems onto smaller countries (CGD Policy Paper, 2018, p. 1). The paper assesses the likelihood of debt problems in 68 of the BRI participating nations and points out eight particular ones that have an increased risk of debt distress based on the projects. The Lao People's Democratic Republic is one of these nations and is considered one of the poorest countries in Southeast Asia. The report gives an insight into the BRI from a western perspective; while the overall theme is not negative, it does point out critical aspects. It would be unlikely that the initiative will avoid any instances of debt problems among its participating countries. Additionally, it states that China's behaviour as a creditor has not been subject to the disciplines and

standards that other major sovereign and multilateral creditors have adopted collectively (CGD Policy Paper, 2018, p. 20).

On the other side of the spectrum, we have Chinese scholars, such as the Shanghai Institute for International Studies. In the paper 'Assessment and Prospect of China-Laos Development Cooperation', we find primarily positive claims on the bases of their relationship and BRI projects. As a significant source of influential aid and development for Laos, and the Shanghai Institute states that it is recommended that the two countries should strengthen development cooperation and increase exchange and sharing of experience in sustainable development (Development cooperation, 2016, p. 69). The recommendations focus around the strengthening of the ties between both nation-states and avoids any negative output that is circulating around China's relationship with its periphery. The study, therefore, lacks reflection towards Chinese development diplomacy and the possible shortcomings for participating nations.

To provide an unbiased answer to the research question its necessary to look at the insights from a Western and Eastern, foremost Chinese, perspective. Analysis from mainland China are nevertheless under the control of China's media laws, with little to no criticism towards its foreign policies. *“Under the current regime, there is much greater control over the press than we have seen previously”* states political commentator Deng Yuwen.

The CCP has long made use of the media within mainland China as a political tool to influence the population. Under the rule of President Xi Jinping, the media has been melded more in the political machine than ever. They are a central component in the cultivation of Xi's image and the backing of his policies, securing his and the party's hold on power (Ping, 2018). The tight control on media makes it hard for mainland Chinese to evaluate the foreign maintained policies of the CCP critically. Official, authoritative and quasi-authoritative sources from mainland China are all extensively positive about the periphery diplomacy of Beijing. Non-government affiliated sources provide a small insight into the development project from a Chinese perspective without the guiding hand of the CCP and its censorship.

Scholars like Phou Sambath fall under the China-critics who are proclaiming that Beijing has an increasingly more dominant position in Laos and Cambodia. According to Sambath, China exercises greater control over Cambodia to continue to promote its national strategy of



building regional alliances to counter U.S. influence and to strengthen its security in Southeast Asia. The general sceptics encounter the friction point that nations under the cooperating of the BRI initiative soon or later fall under the control of China due to its outstanding debt and lack of repayment methods. Sambath states that *“Cambodia should be aware that it mainly depends on China for economic aid and military aid and so on to run the country, this would ruin the democracy and human rights which has just grown in Cambodia”* (Sambath, 2017, p.10).

We see the notion from the China-critics that getting to close to the Middle Kingdom will cause friction and potential complications in the long term. Even stating that the sole dependence on China for political, economic and military aid may cause nations to fall back and become an authoritarian regime again, in the case of Cambodia (Sambath, 2017, p. 15). These are severe statements that should notify smaller to middle-range states to reconsider their alliance with China. Leaning too much into the influential sphere of China may result in a political and economic backlash in the long term. The solution according to critics is the diversification of foreign investments while maintaining a healthy relationship with Beijing.

A considerable amount of scholars views the BRI as a tool for China to re-emerge as a prominent player in the region, as pointed out by Heng Pheakdey of the Phnom Penh-based research organisation Enrich Institute. Additionally, there is a divide in the benefits that Chinese development brings. Pheakdey puts forth two opposing points of view: one group believes that Chinese investment contributes to Cambodia's economic development and poverty reduction. The other group argues that China's unquestioning approach to how its aid and investment money is used has exacerbated corruption, deteriorated governance and human rights, and ruined Cambodia's natural resources and environment (Pheakdey, p. 76).

Putting forth serious accusations that blame China on multiple occasions on the bases of lack of transparency, violation of human rights and environmental deterioration. China has not been renowned for their transparency on human rights, and its domestic garments factories have been targeted for the abuse of workers rights for instance. Issues such as involuntary unpaid overtime work, unauthorised deductions from pay, and only rare allowances for sick leave are commonly reported (Radio Free Asia, 2012).

Especially minorities in the Chinese society are a target for so-called cultural cleansing. There are detentions programs within mainland China that re-educate its society, since its rooted in the Chinese Party and culture that transformation is formed through education. Rian Thum, a professor at Loyola University in New Orleans, says that China's re-education system echoes some of the worst human rights violations in history (Shih, 2018). The Chinese government in the form of the Foreign Ministry explained that they "*have not heard*" of the cultural cleansing and program, showcasing the unwillingness of the CCP to justify itself. Raising the question how China will treat the domestic workers in Laos and Cambodia.

The tendency is noticeable that western scholars are sceptic towards nations that become too dependent on economic investments from China. Too much reliance on a single nation is unhealthy and causes asymmetric interdependence relationships, what Laos and Cambodia should avoid.

China's current stance in the world economy is the result because of the chequebook diplomacy of Beijing. China has gained a tremendous amount of financial power in the last decade and can spend this on aid and investment in the region. According to Philip Orchard of Geo-Political Future, East Asia is getting worried about the coercive power of China, who continues to pour a massive amount of aid and investment into the region, and it is only a matter of time before Beijing tries to cash in (Orchard, 2017). China is using four investments of power; these are diplomatic, informational, economic and military to gain influence in the Asian region and its periphery. Therefore, Orchard unfolds that the investments of China are, at least in part, for strategic reasons.

Kamran Bokhari of the same platform further amplifies that there are limits to China's economic clout and that nations want funding, but not at any cost. He states that "*Countries that have partnered with China on projects need the finance and expertise to develop their economy and infrastructure, but they have their limits to accept Chinese terms to get access to their cash*" (Bokhari, 2017).

More nations have announced at the end of last year to not take part in certain BRI projects, such as Nepal, who withdrew from a \$2.5 billion hydroelectric dam. The BRI foundation and China's economic diplomacy policy is starting to show cracks and the failure of this,

according to Western scholars, is that the BRI is overly ambitious and lacks a coherent strategy. Nations get entangled in choosing China or maintaining a more western style development package. Beijing established with its institutions a parallel framework to challenge the liberal order. President Donald Trump stated during his five-nation tour of Asia last November -2017 -that the U.S. is not withdrawing from Southeast Asia but that it is not going to entangle itself in commitments that stray away from core U.S. interest.

Yun Sun, from The ASAN Forum, argues that the mismatch between Chinese and Southeast Asian capacities and aspirations will continue to hinder the progress of ambitious projects. Reactions from Southeast Asian nations are mixed on the possibilities of Chinese development projects with the number one question regarding the financial implications for the sovereignty, national security and financial security (Sun, 2017). Upholding the sovereignty is the number one priority for nations and risking it for development aid is a bridge too far.

Besides the divergence between scholars, there is one point that experts would agree on, and that is the fact that China will continue to play an essential role in Laos and Cambodia. Southeast Asia is an essential partner for Beijing and is arguably one of the most significant world regions for China (Pheakdey, p. 78).

A concluding remark is that the BRI initiative caused a spark in the study of China's foreign ambition and this resulted in numerous opinions and debates surrounding the path of China. There is a wide range of speculation and theory contributed to the periphery diplomacy of China which supports this research into analysing the in-depth motive of Beijing decision-making process.

A considerable amount of research has been concentrated around the implications of the BRI for China's future, but there is an opportunity to further study the implications of these development projects in a regional perspective. The combination of liberalism and neo-realism will provide new insights into the motive of Beijing to invest in its periphery. The analysis will concentrate on the Chinese motive to be active in respectively Laos and Cambodia, and will, consequently, look at the investments from a Chinese perspective.

## Chapter III: Methodology

### 3.1 Methodological Approach

This research will provide an in-depth analysis of the Laos & Cambodia bilateral relationship with China and its multilateral environment to come to a conclusion and answer the research question. Focus points are the Chinese motive behind the development projects and its interconnected regional policies. Surrounding factors and events will be taken into consideration and explained if it is deemed necessary to come to an answer of the research question.

The research question will be answered with qualitative research. Existing literature with additional media outlets will provide a clear understanding of the current national and regional circumstances and its latest developments. Due to the ever-changing factors that are playing in international relations its key to have the latest updates to define the situation as best as possible. Also meaning that the research will provide illustrations if deemed necessary to give a better understanding. Resulting in that this research is based on secondary sources, such as but not limited to books, academic journals, papers released by NGO's or direct documents released by the Chinese Communist Party. Media outlets such as Bloomberg and Reuters extensively analyse the BRI and its components in Southeast Asia which provides valuable information. Combining these sources will give an up-to-date and in-depth insight. The dynamics of the bilateral relationships are active in an ever-changing environment, and consequently, there is a timestamp on this research with up-to-date information until the 15th of May 2018.

Furthermore, there is the decision to analyse Laos & Cambodia, both situated in mainland Southeast Asia. The size of Southeast Asia combined with the factor of time puts a limit on the scope of this research. Thus, the analysis needed to be adapted to fit within the time period set by Aalborg University. A comparative analysis of two nations with shared participation in the Lancang-Mekong Cooperation Mechanism provides both a complementary and distinct insight.

China plays a significant role in the infrastructure financing in Southeast Asia and is one of the top investors in both Laos and Cambodia (Sun, 2017). Both nations are relatively poor with a GDP per capita of around \$2600 dollar for Laos and almost half for Cambodia. Meaning that both nations are in need of FDI and especially infrastructure development,

making them susceptible to economic pressure from the outside world. These factors make the pair connected to the bases that they need FDI while having contrasting relations with China and the western world in particular. Laos is a landlocked country with a communist regime and is, as mentioned, one of Asia's poorest countries. Cambodia is a constitutional monarchy with an upcoming general election in July 2018. Bringing another dimension to this research due to the conflicting desires of the U.S. and China. The Middle Kingdom is spending a vast amount of money in Cambodia without wishes to change the political system, whereas the U.S. aid is aimed towards building democracy and fighting the established status quo. The political trust, from China, flows back in the form of backing China's claim on the South China Sea.

The research gets another dimension given the fact that both nations are fighting poverty, with Cambodia opposing U.S. interference and Laos remaining one of the few communist states in the world. Both are accepting foreign investment but have to balance the scale towards not losing sovereignty, making them favourable research topics.

### **3.2 Structure**

To come to a well-comprehended understanding of the bilateral relations with Laos & Cambodia, the research will be structured in the following way. The focus point will be the Chinese constructed development projects in Laos and Cambodia, both situated in mainland Southeast Asia. This will show the sphere of influence that China has in both nations, revealing the motive behind the Chinese development projects and putting China's motive in contrast with its regional ambitions.

The second and third chapter of this research will be allocated towards the research layout. Since development will be the main tool of understanding the Beijing decision making process, the definition will be analysed including how it should be understood in the light of this research. Development is such a wide-ranging word and beholds different meanings in the eyes of the beholder. The evolution of development can be founded in the (7.1) appendix.

Afterwards, the three main theories, neo-realism, complex interdependence and liberal institutionalism, will be defined and discussed. Providing the theoretical framework for this research and tools of analysis for the Chinese development projects in Laos and Cambodia. Neo-realism is widely used by scholars to understand the decision making process of China,

and will be used to create a full picture regarding the actions of Beijing. Furthermore, is the concept intertwined with liberal institutionalism. The multi-theoretical framework of realism with liberalism provides an alternative viewpoint to the existing literature providing new insights into the decision-making process of Beijing.

The fifth chapter is the analysis and it will look at two separate instances of Chinese development in the world system. Laos and Cambodia will both give a distinct perspective on the influence of China in Southeast Asia. The goal is to analyse the Chinese development projects in both nations, Laos is a poor communist country with close ties to the Communist Party of China. Cambodia also shares good relations with China, who benefits through access to the seaports in the Gulf of Tonkin, and Phnom Penh is increasingly more in the news regarding its upcoming election on 29 July 2018. China's involvement will be evaluated in both states regarding its regional objectives and ambition.

Chapter VI will be the concluding remarks and will answer the research question set forth in the research layout.

### **3.3 Limitations**

This research is set out to explore Chinese activity in Laos & Cambodia, there needs to be a set of limitations, however, to stay within the boundaries of the analysis.

First, this subject has not been extensively approached by the use of complex interdependence. Thus, parts of this research will be based on subjective analysis and less on the reference of other journals and books. As explained in the literature review, the use of western sources can give a certain bias towards the answering of the research question. Western scholars and most certainly media have a Eurocentric viewpoint which varies from their Eastern colleagues. Besides this, the mainstream media and university reports are under the surveillance of the Communist Party in mainland China. The Chinese government keeps tight reins on both traditional and new media to avoid potential subversion of its authority (Xu, 2017). This results in zero-tolerance for critique on the Communist Party and this spreads towards the conducted reports released in mainland China. The economic power of China however is in line with its accessibility to the internet and experts claim that the need for internet/media freedom is testing the regime's control. The abundance of the critical notes towards the BRI and Chinese foreign policy is provided by the Western hemisphere.

The background of the BRI will also not be discussed extensively due to available research on this topic. The sheer size of the BRI also makes it non-realistic to provide insightful information for every project realised by China in either Laos or Cambodia. Therefore, this research will target the most influential projects for the host nation and China. The LMC case study, found in the appendix, can furthermore provide a additional in-depth analysis of a regional integrated framework built around Chinese investments. It can provide the reader with a better understanding of constructed regional frameworks in the line with liberal institutionalism.

At last, the BRI has a very wide set of projects with a missing common strategy according to experts. This can result in the fact that during the research period, certain stances and opinions of the Communist Party may adjust according to interactions and events in the international field of politics. This also makes this research more valuable due to the happening of events and reactions to it. The size and impact of the BRI and Chinese projects in Southeast Asia makes it a relevant and interesting topic to identify the direction China is heading into. All corresponded numbers in the report are expressed in U.S. Dollars unless specified otherwise. For Chinese and Western names of people, I use the system of listing the given name before the surname.

### **3.4 Terminology**

Due to the importance and relevance of development as a definition for this research, there is an in-depth analysis of its evolution since the end of the second world war. Providing the reader with an understanding of development and its various interpretations by scholars. The evolution of development (7.1) can be found in the appendix.

The report also consistently uses the words China's periphery. Official, authoritative and quasi-authoritative, Chinese sources, though, do not specify the meaning of this definition. Since the government does not describe the geographical boundaries of the word, it could potentially confuse readers into what is part of it. The public remarks of senior Chinese officials suggest that the leading countries on China's periphery, and thus the primary focus of periphery diplomacy at present, include nearby smaller and middle-range states (Swaine, 2016, p. 3).



Scholars, from both the west and east, provide various definitions of the word periphery. Yuan Peng, vice president of the China Institute of Contemporary International Relations, proposed a definition of three outer rings with corresponding types of diplomacy: great power, developing country and multilateral diplomacy. Although Chinese scholars commonly use this definition, in the aspect of this research a less broad and complex definition will be used that focuses on the smaller and middle-range states as defined by Chinese officials. The report's core is around Cambodia, Laos and Southeast Asia, which is centred around the developing country diplomacy with the combined aspect of multilateralism. Focusing on the smaller and middle-range states located in Southeast Asia under a multilateral scope.

Furthermore, it is necessary to clarify the terminology used relating to the One Belt, One Road initiative or OBOR. Scholars use different names, and there is uncertainty as to which abbreviation to use. The Mandarin term is yidai yilu (一带一路) which has the literal translation of One Belt, One Road which is commonly used by Western scholars. There is, nevertheless, the factor that Chinese authorities use different naming's referring back to the yidai yilu, one of these is the Belt and Road Initiative, or short for BRI. A recent Clingendael report mentions that Chinese sources are gradually replacing OBOR with the new acronym of BRI (Montesano & Heijmans, 2016, p. 1).

Ultimately Beijing was not satisfied with the naming of "The Belt and Road initiative, OBOR" and has changed its name. The Chinese government decided to change the name realising that OBOR was not the best foreign language name for something that is distinctly plural (Shepard, 2017). The government consulted multiple organisation such as the Central Compilation and Translation Bureau of the People's Republic of China to come up with a new naming, and this resulted in the Belt and Road initiative or its acronym BRI. Aleksandra Bērzina-Čerenkova gives the reason behind this from the Latvian Institute of International Affairs: *"The first English translation, namely: One Belt One Road, has brought about numerous misinterpretations, as the partners tend to focus too much on the word one, assuming that there is to be only one maritime route and a single land belt, whereas, in reality, The Belt and Road Initiative aims to connect Asia, Europe and Africa along five route"* (Bērzina-Čerenkova, 2016). This research will follow the official naming given by the People's Republic of China, the BRI.

## Chapter IV: Theory

Upcoming chapter will explain the multi-theoretical framework for the analysis. Realism as the pre-eminent theory will be first examined followed by liberalism. It will provide an explanation of neo-realism, complex interdependence and liberal institutionalism in the light of this research.

International relation (IR) theory is increasingly used in understanding the decision-making process of China regarding its gained economic power. The relevance of each theory, however, is of ongoing contestation, and with the number of developments in world politics the choice of theory varies with each scholar. IR gives a variant of perspectives on the rise of China and its role in the 21st century; the forthcoming analysis will use the scope of both realism and liberalism. Not presuming however that this research will not be influenced by other streams of IR theory that are used by sources. Realism is seen as the pre-eminent IR paradigm, and its concept will be explained to make the reader familiar with its basic idea. Parts of its concept are also used within the theory of complex interdependence, making it necessary to understand its application. There has always been a debate between the realist and liberals, trying to convince each other of their arguments and legitimacy gained through their theoretical choices. The leading theory used for this research is set forth by Robert Keohane & Joseph Nye, and also doesn't reject the realism angle, but it rather raised concern that at times there emerged certain situations where realist assumptions/explanations are not sufficient (Rana, 2015, p. 290). By combining the realist and liberal schools of thought, they wanted to create a new perspective on IR.

The theory of complex interdependence and liberal institutionalism both fall under the school of a liberal approach to international relations, where the central unit of analysis is the state. Liberals argue that the universal condition of world politics is globalisation (Moravcsik, 2010). Meaning that the states are a part of a transnational society that interacts on the bases of economics, culture and social aspects. States, hence, have the choice in today's world politics to interact with other nations or to block off certain aspects of globalisation. Some countries benefit more from globalisation than other states, causing a situation where states need to define their goals on the international playing field. Specific domestic groups in a nation can fall behind and pressure the government to listen to their voices. These social pressures, are transmitted through domestic political institutions and define "state

preferences" –that is, the set of substantive social purposes that motivate foreign policy (Moravcsik, 2010). This provides each nation that interacts in world politics with an underlying stake.

Institutionalism varies from realism on the fact that it rejects the presumption that international politics is a struggle for power and that military power is the top priority for every nation. Neo-realism has been a predominant theory in international relations with it being used by scholars to define the activities of China. Neo-realism is used within this research to describe specific actions of Beijing regarding its military power and due to its importance of usage with current scholars across both the western and eastern hemisphere, even though it might fall short on particular development cases. Overall creating a multi-theoretical framework for this research so that the actions of Beijing can be analysed through the scope of both neo-realism and liberalism, crafting a better understanding of their periphery (zhoubian, 周边) diplomacy and investments decisions in Southeast Asia.

#### 4.1 Neo-realism

Modern classical realism is contributed to Hans Joachim Morgenthau with his book *"Politics Among Nations"* from 1948 which created the framework for realism. Morgenthau explained that international politics, like all politics, is a struggle for power. He described power with the following words: *"When we speak of power, we mean man's control over the minds and actions of other men. By political power, we refer to the mutual relations of control among the holders of public authority and between the latter and the people at large"* (Morgenthau, 1948, p. 13).

Realism holds as main instruments the use of economics and especially military power, wherewith liberalism the instruments vary. Liberalism looks at the use of international institutions in international politics; other instruments are economic exchange which is enlarged by globalisation and the promotion of democracy for instance. Build upon realism is neorealism, with preminent scholar Kenneth Waltz and his book *"Theory of International Politics"* from 1979. The core concept is the balance of power. Kenneth Waltz asserts that *"if there is any distinctively political theory of international politics, balance-of-power theory it is"* (Waltz, 1979, p. 117). Each state has a single motif in IR, and that is to survive, the usage of power guarantees this, hence states strive to gain more power. By this logic, China is expanding its power and interest by building a powerful military, especially navy, to diminish

the power and potential threat of the U.S. (Macdonald, 2015). The logic of the balance-of-power is commonly used by scholars defining the relationship between the U.S. and China. What we see is that the balance of power continues to shift and that other states will join the U.S. to balance China, as is happening throughout South and East Asia (Macdonald, 2015). Thus, connecting the greater power diplomacy to the developmental diplomacy of Beijing.

Furthermore, there are more differences to be found between the foundation of both theories. Realism is about the human nature where as neorealism emphasises anarchy. Meaning that each state is separate and there is an overall absence of a force that rules above the states. Defined by Waltz as following *"In anarchic environments, each unit's incentive is to put itself in a position to be able to take care of itself, as no one else can be counted on to do so"* (Waltz, 1979, p. 107). In short, this means that each state is dependent on itself for the survival and it does not know the motives of other nation states, creating a system of mistrust and uncertainty. At last, Kenneth Waltz sees the international environment as a zero-sum game context, *"each power views another's loss as its own gain"* (Waltz, 1979, p. 70).

Where the realist is inclined to accept the persistence of war as an enduring phenomenon of an international system that imposes its requirements on the behaviour of states. Liberal IR theories tend to respond that liberal states are inherently peaceful and engage in warfare only with illiberal and undemocratic states (Buchan, 2002, p. 407). The liberal concept believes that war could be eliminated by perfecting the use of governments among nation states. We can trace the roots of liberalism back to the essay *"Perpetual Peace"* (1795) by Immanuel Kant. Immanuel Kant famously argued that peace could emerge among states once they shared three features: representative democracy, adherence to international law and organisations, and advanced commercial integration (Ikenberry, 2001). This essay of Immanuel Kant provided three conditions for peace which all became a separate IR theory. One of these branches is liberal institutionalism, also called neoliberal institutionalism or neoliberalism.

Liberalism was called idealism by scholars in the past, though this shifted to constructivism. Post-Cold war nations developed an understanding that power is not only defined by the strength of the military. The importance of economic efficiency and technological advancement was observed, and actors around the globe saw the importance to create a peaceful world order.

Liberalism has a certain basic concept that links together all theories falling under this perspective of world politics. The first one is, as mentioned before, that the states are the primary actors in the international system, but the domestic politics do matter of a nation. Second, there are factors beyond capabilities that constrain the state behaviour, and at last that the states can have interest in multiple goals and its interest can be ever changing. Notions that can be found in liberalism are free trade, democracy, international institutions and absolute gains.

#### 4.2 Complex Interdependence

Complex interdependence was introduced by Robert Keohane and Joseph Nye and refers to the complex transnational connections between states and societies. Meaning that there is a system of interdependence between the players in international relations. They released a book back in 1977 called *"Power and Interdependence"* what laid the groundwork for the theory. Complex interdependence highlighted the emergence of transnational actors vis-à-vis the state, and the focus was the rise of international regimes and institutions that compensated traditionally military capabilities and the new importance of welfare and trade in foreign policy matters compared to status and security issues (Rana, 2015, p. 290). Complex interdependence is now a widely used theory under the neoliberal school and is used to understand the willingness of states to have cooperation's and alliances.

The actors on the international playing field, including non-state actors, are all dependent upon each other according to the theory of complex interdependence. The authors define dependence as: *"Dependence means a state of being determined or significantly affected by external forces. Interdependence, most simply defined, means mutual dependence. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries"* (Keohane & Nye, 1966, p. 8).

The theory of complex interdependence is tied together with globalisation and the fact that actors around the globe are connected on the bases of cooperation, which also results in competition. Because there is mutual dependence on each other the policies and actions of one nation can have a profound impact on another one. Interdependence does not only mean that peace and cooperation among actors, but a relationship between actors characterised by cooperation, dependence, and interaction in a number of different areas, and conflict as well (Rana, 2015, p. 291).

Nations are intertwined with each other on the international stage and actions can have a profound impact due to the close relations partly created by globalisation. The reason behind the cooperation's is because it can still benefit the own common interest of a nation and it will create prosperity in the international system. There is no longer the thought of realism that only power is the national interest of a nation. While high politics – defined as military power and national security- is still essential, low-politics- social, economic and environmental topics- is gaining ground and is much more prominent than before. Creating a shift in concept from a military aspect to interdependence between nations on the bases of economics, social and environmental issues.

The combination of these aspects makes complex interdependence a powerful tool to analyse IR. Were Kenneth Waltz defines the international environment as a zero-sum context, the theory of Keohane & Nye varies: *"The politics of economic and ecological interdependence involve competition even when large net benefits can be expected from cooperation"* (Keohane & Nye, 1977, p. 10). The theory combines the realism thought of power politics and economic liberalism. Creating a realistic viewpoint that even though the world is more interconnected by means of globalization, military conflict remains a realistic threat to nations; thus it cannot be undermined in IR.

As with the relationships based on power politics, the ones in complex interdependence are not all defined as evenly balanced. The authors define it as *"It is asymmetries in dependence that are most likely to provide sources of influence for actors in their dealings with one another. Less dependent actors often use the interdependence relationship as a source of power in bargaining over an issue and perhaps to affect other issues"* (Keohane & Nye, 1977, p. 10).

Within the book of *"Power and Interdependence: World Politics in Transition"* the authors create three characteristics connected to the theory. First, they specify the international realm of politics as a multiple channel environment. Meaning, that the states are not the single actors, as it is with realism. There is a multitude of actors, interstate, trans-governmental and transnational that tie nations together. The state is not the sole factor when it comes down to relationships with other nation-states, NGO's, multinationals all have their influence on international relations. *"These actors, besides pursuing their own interests, also act as*

*transmission belts, making government policies in various countries more sensitive to one another*" (Keohane & Nye, 1977, p. 26).

The second point is the absence of hierarchy among issues on the international stage. Were as with realism the security aspect is always on top, the diverse amount of actors in liberalism make the agenda become blurred. Thus, the foreign policy is not dominated by security factors anymore as it is with realism. *"Military security does not consistently dominate the agenda"* (Keohane & Nye, 1977, p. 25). Therefore, the domestic and foreign policy also becomes more intertwined resulting in no clear hierarchy.

The last point is the use of military force in the international field of relations. Due to the interdependence of nations, the use of military force is decreasing because of the high cost. Nations are connected with their economies resolving issues with the use of military action would be very costly; hence, the usage of the military is irrelevant on many topics. *"Intense relationships of mutual influence may exist, but military force is no more considered an appropriate way of achieving other goals such as economic and ecological welfare which are becoming more important, because mostly the effects of military force are very costly and uncertain"* (Keohane & Nye, 1977, p. 28). The result is that in an interconnected world due to globalisation the nations are more likely to refrain from military actions and choose the route of diplomatic and economic policy. There is no full disclosure however on the use of military power and force on the international field. In an asymmetric relationship, the less dependent actor may use it as a bargaining tool (Rana, 2015, p. 293). Thus, we see a shift in international politics with the means of power. The build-up of a military force, nevertheless, is still seen as relevant and necessary.

#### **4.3 Liberal Institutionalism**

Liberal institutionalism (LI) is a relatively modern theory that emphasises that global governance and international organisations should be used to explain international relations. It is a more optimistic view towards IR created by Robert Keohane. We can identify two aspects of realism that are being used, namely that the environment is anarchic and that the states make rational calculation based upon their interest.

The factor that sets liberal institutionalism apart is the fact that it argues that institutions can make the anarchic environment more stable and safe by creating a so to speak global governance. *"By global governance they mean the network of rules, norms, and institutions*



*that can moderate competition between states, and crucially limit the resource to violence by states in pursuit of their interest''* (Wheeler, p. 1). Effectively meaning that the created international institutions have the role of controlling the environment by handling the possible concerns between states.

Moreover, its also build on the principle of complex interdependence refereeing to the integrated cooperating in the world. Relating to the factor is that, with the help of international institutions, nations around the globe will have stronger relations on the bases of economics and culture for instance. Creating an environment where the reputation of countries matters in respect towards its international recognition and status. By waging war and using military force the country might have a short-term win, but it will be a long-term loss. Actors will continue to cooperate with each other and therefore it is better to choose the path of diplomatic solutions and create a peaceful environment. "Neo-liberal institutionalists argue that it is this more long-term perspective concerned with reputation that pressures states into cooperating, rather than the more short-term survivalist perspective that encourages defection" (Wheeler, p. 1). The international institutions, Immanuel Kant '*federation of free states*' have an important factor to play in maintaining the peace in the system and controlling the diplomatic affairs between players.

The institutions play a vital role in the international environment, from economic cooperation between states to handling off violence and military aggression with the UN. The organisation have the power to monitor states and actors on their actions and act accordingly, for example with the World Trade Organization (WTO), which monitors the free trade and the various separate branches falling under the UN, such as the Security Council with the dispute of the U.S. with North Korea. "Neo-liberals argue that institutions work to facilitate cooperation by increasing transparency and mutual responsiveness, and thereby reducing the uncertainty about motives and intentions of other that realism argues limits cooperation" (Wheeler, p. 2). By connecting actors on the bases of shared interest, there is a common goal of cooperation which diminishes the change of conflict.

Post-World War II the U.S. created an international order open and inclusive to other great powers, which significantly increased the interdependence in the world order. These are known as the Bretton Woods institutions, which includes the World Bank and the IMF. The aim of the institutions was to rebuild the economies that were destroyed because of the war

and to promote international- economic- cooperation. It also laid the groundwork for the WTO which saw the light in the early 1990s.

The creation of the institutions was also done with a security aspect in mind. The mind-set was that the creation of a global economic interaction platform would help to maintain peace. The institutions would facilitate in, U.S. Treasury Secretary Henry Morgenthau words *“The creation of a dynamic world community in which the peoples of every nation will be able to realise their potentialities in peace”* (BW project, 2015).

Affiliated to LI is the Democratic Peace Theory, it contends that the U.S. promotion of capitalism and democracy has produced a liberal order in which its principal architects and supporters share similar ideological, governance, and economic and social views which inhibit the propensity to use military force to adjudicate differences (Macdonald, 2015). The rise of China was under the control of the Bretton Wood institutions, and the Western-based liberal order is hard to evade or overthrow when active in the international world of politics and economics. As Macdonald explains, China might one day overtake the U.S. in terms of economic and military power, but it is less likely it will surpass the entirety of the liberal order. The West can pact collectively against China if they see its actions as a threat and put restrictions on its trading position for example. Due to the importance of these institutions for China, its highly questionable Beijing would want to overthrow the system, but this does not mean the Middle Kingdom is happy with its current position. Its underrepresented in the World Bank and the IMF compared to the U.S., yet it is complying with the system rules for its own sake. The rise of China and its increase in economic power has granted it the strength to set up its own institutions. The Asian Infrastructure Investment Bank (AIIB) and the BRI as a tool make it possible for China to be in the central decision-making position. *“Similar tactics on the part of the U.S. to eschew Chinese participation, such as via the Trans-Pacific Partnership (TPP), are resulting in parallel institutions that compromise the more international and inclusive organisation in the liberal order”* (Macdonald, 2015).

What we see in the eyes of the scholars is not necessarily called the overthrowing as stated before of the liberal order but rather to paralyse its ability to generate collective action. Also expressed as the regionalisation of institutions, with for example China setting up the AIIB for the Asian continent. China's approach to handing out development aid has other criteria in correlation to for example the U.S or Britain. Where the U.S. wants to progress the nation

of Cambodia with its terms of free trade and greater democracy. China has no such demands, creating a different path to development funds. Scholars had an optimistic viewpoint of the rise of democracy in the 1990s, but the political liberalisation never started in mainland China and the world today is seeing a rise of authoritarian rule again. *“Throughout the developing world, as well, there is a resurgence of authoritarian rule, masked under democratic structures mean to promote international legitimacy and regime maintenance”* (Macdonald, 2015). There is a shift moving away from the Bretton Woods institutions and frontrunners are China and in lesser sense Russia. Since China, and Russia, has a veto power in the UN Security Council it can protect its core interest and its allies by vetoing any resolution it does not agree with.

*“Liberal institutionalist agree that China, as an outlier state from the Western bloc, will continue to work towards shaping and moulding the international order towards its advantage”* (Macdonald, 2015). Making this theoretical framework interesting for China's approach in Southeast Asia, where it is using its institutions to reach out to its allies. The economic and political ambitions of China seem to be running parallel to each other and liberalism combined with realism can provide a frame of understanding.

### **Limitations**

Every theory has its shortcomings when used to analyse distinct circumstances. Liberalism is mainly a Western-focused theory that looks from the perspective of Western forms of government. Consequently, the analysis based on institutionalism can be more centred towards the Western hemisphere. Hence, creating the possibility of a Western centred perspective. Neo-realism is an approach more used by scholars from both the Western and Eastern hemisphere and is used to balance the scale accordingly. A Western-based bias will be undeniable with the absence of critical mainland China scholars and the abundance of Western neo-realism reports.

There is also the hindrance of reading Chinese scholars reports due to the language barrier. A large proportion of reports and finding are only released in Mandarin language, leaving fewer sources to work with from the Middle Kingdom. Laos and Cambodia both provide the same obstacle ultimately putting restraints on the local/national thought of mind. The research will only make use of sources that are available in English, giving a Euro-centred bias to the available sources for this research. The goal is to balance the scale of information as much as possible to avoid preconceived notions.

## Chapter V: Analysis

China has positioned itself as the leading source of infrastructure funding and assistance in Southeast Asia (Bokhari, 2017). The rise of China granted the nation with economic power that it is using now in its ambitious BRI. Because the projects in Laos and Cambodia are part of the international initiatives spearheaded by China, the analysis will start off with the basic concept of the BRI and its influence on Chinese policymaking. The angle of this research is to understand the Chinese motive to develop projects in underdeveloped nations, therefore it is necessary to address the BRI and its components. The development projects and the BRI in Laos and Cambodia are intertwined, making a short assessment valuable for the understanding of China's periphery diplomacy.

### 5.1 Regional framework

The BRI is a result of the economic rise of China connecting the economic power of China to its place in the international political environment. The origins of the BRI stretches deep into the history of China, and its elements are carried over into the revived Silk Road. China is using the current Silk Road as a symbol of peace, cooperation, economic development, openness and equal opportunities (Campos, 2015, p. 7). The Silk Road is the oldest name used for an international trade path that interconnected Asia and Europe. In the mid-nineteenth century, the German geologist Baron Ferdinand von Richthofen named the trade route '*Die Seidenstrasse*', the Silk Road, and the term continues to be used by scholars and politicians around the globe (Waugh, 2010).

The BRI consist of two parts, The Silk Road Economic belt and the Maritime Silk Road of the 21st Century. The projects in Laos & Cambodia fall under the Silk Road Economic belt, and both have been dubbed strategic countries for the initiative. The BRI has been set up to deepen Beijing's reform, open up its economy and advance its diplomacy abroad. They have been written into the document of the Third Plenum of the 18th CPC Central Committee, the Meeting of Neighbourhood Diplomacy and the Central Economic Work Conference, and have been, according to Y. Hu, received enthusiastically both home and abroad (Hu, 2015, p. 27). The setting up of institutions and -economic - initiatives gives Beijing the tools to influence its periphery within its created framework.

What the genuine reaction is of nation-states on the periphery diplomacy of China varies between the Western and Eastern Media. Where President Donald Trump is aiming for

protectionist measures under his America First policy, China is going all in on globalisation and a collaborative approach. According to Xinhua, the official press agency of the PRC, one approach would put a “*bullet in the head*” of globalisation while the other would put a better compass in its hand. The opinions on the BRI vary by media outlet, and China has to deal with a sizeable amount of criticism towards its initiative. Beijing's control of the BRI and newly setup institutions also paves a path to development aid outside of the traditional liberal order of the Bretton Woods institutions. The liberal institutions gave the nations with persuasive positions inside these associations, such as the U.S., the power to pressure states into their liberal policies otherwise there would be repercussions regarding their flow of funds. Beijing is currently building a parallel scheme that compromises the current world order of institutions.

The BRI is a long-term national plan which was first mentioned in public in September 2013 in Kazakhstan. Back then, it was also Xi Jinping, Vice-President at the time, who announced it to the public. President Xi Jinping is a loved persona in mainland China with Chinese scholars speaking high of his achievements, including his successful anti-corruption campaign. Western media's and scholar's opinion varies from negative to slight optimism, with B. Allen-Ebrahimian from Foreign Policy summing up the negative points since the rise of Xi Jinping. “*During his tenure, the Communist Party has jailed human rights lawyers, constructed a high-tech surveillance regime, strict internet censorship, tightened media controls, denied Hong Kong elections and crushes any dissidents of the regime*” (Allen-Ebrahimian, 2018). Putting forth an extensive list of accusations and brings forth points of interest that are not seen in Chinese media. This research, however, doesn't prolong the on-going discussion of the Communist system in the 21st century and China's domestic political landscape.

Once the BRI is completed, the comprehensive network of trade routes will stimulate trade and exports among the Eurasian states, driving economic development in the Asian region (PwC, 2016, p. 5). Economic development is one of the centre points of the BRI and therefore interlinked with this research. The BRI is a mutually beneficial initiative according to the CCP which will link nations with a corridor of free trade. China has always rejected claims that its playing a geopolitical game and China's foreign ministry proclaimed that the BRI is “*essentially an economic cooperation initiative*”. The objective of the initiative is to promote five important goals among its constituent nation-states: policy coordination,

facilities, connectivity: unimpeded trade, financial integration and people-to-people bonds (Haggai, 2016, p. 11).

Furthermore, is the BRI called to life to help China with its domestic affairs. China is dealing with overproduction while it is at the same time aiming to move up in the value chain of production. The BRI can help with the movement of overproduction and overcapacity to new markets, helping the domestic market of China and at the same time create more integrated markets abroad. This interlinks with Chinese projects in Southeast Asia, and especially in Laos. The countless of projects under the BRI all require commodities. The ports, roads, railways and power plants constructed by China need iron ore, copper, metal and steel to be completed

According to Clyde Russell of news agency Reuters, the BRI is still primarily a conceptual exercise, rather than a physical reality (Russell, 2017). It is, nevertheless, a fact that the demand for commodities has risen because China is constructing infrastructure projects scattered across Southeast Asia, but it did not have the impact yet that China was hoping for. The Economist news agency states that, President Xi Jinping hopes that by investing in infrastructure it will find a new home for China's vast foreign-exchange reserves, most of which are in low-interest-bearing American government securities, and also creating new markets for Chinese companies such as high-speed rail firms, and to export some of his countries vast excess capacity in cement, steel and other metals (Economist, 2017).

Besides, China is seeking to manufacture more technical products than its currently doing, where the current competitiveness of China still lies in low-value products (Kwan, 2012, p. 1). China is aiming at becoming an innovative-driven economy, and the BRI can stimulate this process. Combined with an increased focus on environmental protection and the fight against pollution. Beijing is increasingly more aware of the environmental price it will have to pay if it lingers in the labour-and-resource-intensive section of the global manufacturing chain (Xuxin, 2016).

China is actively fighting pollution in the cities and is switching from economic growth model. In the past, the economy was only driven by growth numbers, and environmental protection came on a second or even third place, times have changed and protecting its citizens and nature is now becoming the primary concern of China. Where the U.S. is pulling

out of the Paris climate agreement, due to President Donald Trump, other nations are doubling down on fighting global warming and protecting the planet. Many countries have expressed their opinion towards the actions of the U.S., and this also includes China. Xie Zenhua of China's Special Representative for Climate Change Affairs has promised that *"China will 100 percent surely honour its commitments towards climate change and will implement the Paris agreement"* (Callebs, 2017). All of this points towards China taking the global lead in environmental protection, a role always portrayed on the U.S. President Xi Jinping even mentioned the word environment 89 times during his speech at the 19th Communist Party Congress, signifying its importance. China actively taking a role in climate change on the field of world politics is also part of its grander scheme of ambitions later described.

It is vital to mention the shift of global leadership to China on aspects such as environmental protection, especially since Donald Trump came to power. Even though states across the globe are connected by institutions, resulting in interdependence relations, there is also a surge of political polarisation noticeable. Nation-states around the globe are facing domestic crisis's and turn towards protectionist policies. Donald Trump portrayed China as an enemy during his campaign trail, who shall be punished for their exploitative relationship, but seems to be coming back from that viewpoint, with even praising his colleague Xi Jinping at their last meeting. The U.S. is loosing economically in the eyes of the President compared to China, and this is the fault of the last democratic government. Combined with the domestic factors the nations are working towards a possible trade conflict, which could drastically change the liberal order. The economic barriers and protectionist policies seem to have cooled down in April 2018, but the future is uncertain with President Trump. Donald Trump is more set on high politics compared to his predecessor and sets red lines, which when crossed, result in military action. Donald Trump's neo-realist perspective resulted in the most prominent budget for the military that the Pentagon has ever seen, an astonishing \$700 billion. The increase of \$94 billion, 15.5 percent, puts the U.S. isolated at the top of military spending in the world, leaving China and Russia far behind. Todd Harrison, military budget specialist of the Centre for Security and International Studies, nonetheless, puts the increase of money into perspective and states that it has been near the inflation-adjusted levels during the 1980s under President Ronald Reagan. *"We are stretched too thin"*, according to T. Harrison, *"We are trying to do too much with the size force that we have all around the*



*world. Money does not necessarily fix that*" (Al-Jazeera, 2018). To put it in perspective, the U.S. has 38 overseas army bases; China just opened its first one in Djibouti.

The BRI, China-Pakistan Economic Corridor, the LMC and other regional economic corridors all fall under the new type of great power relationship maintained by Beijing. All concepts share a certain amount of familiarity with definitions such as win-win and mutually beneficial economic relations. The concept of the BRI and other economic mechanisms such as planned oil pipelines and energy agreements envisions the development of a closer web of common economic and other interest in periphery countries that will benefit Chinese and local interest (Swaine, 2017, p. 5).

A fundamental principle expressed in Beijing's periphery policy is its ability to safeguard its sovereignty over territory and resources. With the increased need for resources, the importance of it also rises in the hierarchy of national interest. The territorial claims are intimately connected to the South China sea conflict and its impact on the region's balance of power. China's claim on these two aspects can be traced back to a report of former General Secretary Hu Jintao, released on November 2012. This report mentioned that while China should deepen mutually beneficial cooperation and strive to assist neighbouring countries, it also should resolutely safeguard national sovereignty, security, development interest; never succumb to any outside pressure; and resolutely safeguard China's maritime rights and interest, and build a maritime power (Swaine, 2017, p. 5). This report and its findings can be founded in the policy of President Xi Jinping to defend the core interest of Beijing and enforce its sovereignty claims against other nation-states. A neo-realist approach that can be partly achieved with neo-liberal instruments.

Liberal theories provide an approach more centred around economics and relating factors deciding why states decide to cooperate or divert from it. A deciding factor in international relations is still the use of military power, which is superior to the use of economic measure, leaving out the relative cost in the long-term. China plans to boost its military spending by 8.1% in 2018, as it looks to further advance an ambitious modernisation drive for its armed forces (Lendon, 2018). China can also use the strength of the military to pursue its goals and interest in the region. Since, in an asymmetric relationship, the less dependent actor may use it as a bargaining tool (Rana, 2015, p. 293). Neo-realism provides an understanding to the military force of China which translated back to its regional ambition.

An old geopolitical question has always been what a risen nation-state will do with its increased amount of capabilities. China has turned towards the creation of institutions and initiatives to create, with its economic power, a parallel scheme next to the Bretton woods to gain more control over its geopolitical environment. Rising great powers inevitable find themselves with growing stakes in how the world is organized, and they seek to help shape that regional and global environment (Ikenberry & Lim, 2017). Beijing can shape its periphery with its liberal created tools. The East Asian regional order, historically long dominated by the U.S. and Japan, can shift towards the Middle Kingdom with its pro-active periphery diplomacy.

The U.S. created the current liberal order post-war with the rise of China occurring within the system. China has always navigated through the multilateral institutions to facilitate their growth and will continue doing so. With increasing their participation within the liberal framework and by actively participating within, even though China is unsatisfied with its position. Its apparent that under the leadership of President Xi Jinping, China has adopted a more assertive approach towards multilateral organisations which is seen as an order controlled by and for Western powers (Bendini, 2016). The willingness of Beijing to cooperate within the mechanism been parallel towards its increase of power, but it has a disproportionately low share of voting rights compared with the U.S. Having a 3.81 percent voting share within the IMF while it accounts for at least 12.4 percent of the world GDP, showcases a misbalance. Therefore, its building new institutions such as the influential AIIB, the Regional Comprehensive Economic Partnership trade agreement (RCEP) accompanied by the BRI to symbolize the growing influence of Beijing. China is also the linchpin of the BRICS providing the largest share of funds within the Contingent Reserve Arrangement (CRA).

The Brookings Institution released a paper back in April 2017 named China's emerging institutional statecraft, regarding how China can use its new international institutions to advance its interest. Creating a debate surrounding the engagement of China within the regional and global institutions. Scholars stating that China will embrace the Bretton Woods order and play a constructive role, those that proclaim that Beijing is forced to actively participate due to its strategic approach, while others argue that China is seeking to work around the post-war institutions to facilitate its long-term goals. Where the AIIB and the NDB are seen as harbingers of a growing split between China and the U.S.-led liberal

international order (Ikenberry & Lim, 2017, p. 2). The paper of China's emerging institutional statecraft argues that the parallel created institutions are less of a threat to the liberal order than the domestic policies of grand economies. The legitimacy threat of the international institutions, hence, doesn't come from the East but from within, exemplified by the Brexit and the election of Donald Trump. Trump appears to see trade deals as inherently adversarial and zero-sum, with strong scepticism of multilateralism and international institutions as means to secure U.S. interest (Ikenberry & Lim, 2017, p. 17). China is now a supportive stakeholder of the established liberal order and benefitted from its policies, an increase of protectionism would hurt the world economy and in place their domestic market. Accordingly, it may be in Beijing's interest to play a greater role in underwriting certain aspects of the status quo, whether through enhanced participation, authority, and support of existing institutions or external innovation via new institutions that are consistent with liberal principles (Ikenberry & Lim, 2017, p. 17). Concluding that Beijing is at the forefront of liberal internationalism, portraying itself as a fighter of liberal values such as free trade especially since the election of Donald Trump.

All of these factors play a role for China towards its foreign policy and economic cooperation's. The factors are required to be taken into account since this research aims to analyse China's motive behind its development projects in its periphery, which is interconnected to its regional and global ambition.

## **5.2 Case Study: Laos & Cambodia**

Upcoming chapter will present more insight into the development projects constructed inside Cambodia and Laos. The case study of both nations provides a greater understanding of the kind of projects and their purposes. The case study only provides an in-depth look towards the most prominent and costly projects due to the absolute size of the bilateral relations. The projects will give an insight on the benefits from a Chinese perspective but also from the host nation. The research question is based on the Chinese interest in the region and therefore is the context constructed from the Middle Kingdom's viewpoint. An in-depth study can define if the relationships are asymmetrical or symmetrical, and the core interest of China.

Starting off with the Chinese development in Laos succeeded by Cambodia. Both individual nations are first analysed on their bilateral relationship with Beijing, followed by the most influential development projects.

**Laos**

China and Lao People's Democratic Republic, or known as Laos, are both socialist nations and share a stable relationship together. China played a role in the uprising of Laos, and its fight for independence, hence creating a special bond. Both nations have a history of fighting off outside pressure, and China has helped Laos in gaining its independence from foreign intruders. In the two Geneva conferences concerning the national independence of Laos, China offered staunch support to the country (Zhang, 2016, p. 11). The nation transformed from a monarchy to a socialist country and yields good diplomatic ties with China. The Middle Kingdom established diplomatic ties with Laos on 25 April 1961, and the visit of Premier Li Peng to Laos in 1990 marked the friendship and encouragement for better cooperation. Cooperation with the ASEAN is, however, the most fundamental part of Laos foreign relations (Zhang, 2016, p. 12).

Laos is the only landlocked nation in the peninsula and has to deal with geographical disadvantages since utmost of the nation is covered in the mountains, making only a small percentage of the land classified as arable. Its location has also made it a buffer zone between its more powerful neighbour states in the past. International conflicts and migration from neighbouring states have contributed to the current amount of ethnic groups living in Laos. The Western border of Laos is demarcated with the Mekong River, which interconnects Southeast Asia. The country shares a 423-kilometre mountainous border with China and a 541-kilometre southern border with Cambodia. Laos is named a pivotal player in the plans of the BRI, just like Cambodia, signifying its importance for the initiative. The location of Laos makes it excellent as a hub for transport to Southeast Asia, and a perfect entry point to the region.

Laos has announced a new policy that it aspires to be the battery of Southeast Asia. Effectively meaning that Laos wants to exploit all of its hydropower potential on the Mekong river and its tributaries. In the eyes of Foreign Affairs authors David Roberts and Jalal Sager, are the large-scale efforts to dam the Mekong River a threat to destabilising the region. Concerning the United States because Southeast Asia is one of the largest trading partners of Washington and a major security ally that can counterbalance China's growing regional influence (Roberts & Sager, 2016). Establishing a neo-realist approach that connects the military power of Beijing to its increased presence in the region by institutions. These factors

seem to be parallel to each other, where China can, by the use of liberal institutions, increase its military dominance in the region.

The projects in Laos are part of the BRI, which identified Laos as a significant companion for cooperation. At present, China is Laos most abundant source of aid and investment (Zhang, 2018, p. 4). The large-scale Chinese investments make the country dependent on its aid to move its economy upwards. Both nations grew closer to each other on the bases of economic cooperation since China's development policy turned to its periphery. They are partners in development projects and several regional cooperation networks such as the LMC and the ASEAN. China also has an ASEAN Free Trade Agreement with special trade status and Laos is a member of, just as the case is with the other nation of analysis Cambodia. The opinions of scholars vary on the relationship, whereas the Chinese analyst foremost see it as an equal cooperation model between a large state that is becoming a global power and a smaller nation-state with a limited amount of resources. This assertive approach is a reliable indicator of a newly developed China under the leadership of President Xi Jinping, who positions China as a free trade champion.

We can divide the role of China in the development of Laos into three aspects: investor, aid provider and as a source of development experience. China has vast amounts of experience with development projects, and Laos can significantly benefit from this. One of the first issues with the development of Laos is the lack of a conventional infrastructure. The economy of Laos is based on mining and hydropower, and this revenue should be invested back into the economy to establish a reliable transport network. This network of infrastructure will enable the citizens to take part in the economy and produce business to generate income, ultimately creating rural development and a smaller income gap. Laos can overcome a part of its geographical disadvantages through infrastructure connectivity, transforming itself from a land-locked country to a land-linked nation (Zhang, 2016, p. 17).

Laos has a strategic location for China and can connect the southern provinces of China to the rest of Southeast Asia. The establishment of a close connection also gives the Middle Kingdom more influence to stabilise the border area. Keeping the borders of China secure with Southeast Asian nations is a top priority for the CCP, as seen in Myanmar. China is particularly scared for spill-overs into Chinese territory, affecting the society, disturbing the economy from meeting its targets and national security. By establishing and maintaining a

close relationship with Laos, they can layout an infrastructure plan linking up the South of China with Bangkok and even beyond while securing their border affairs.

The development projects help with the fact that Laos can form a passage for China to use it as a transportation hub. The infrastructure benefits the LMC nations and ultimately creates a win-win situation in the eyes of China. Foremost it will link the South of China with Southeast Asia and opens up new markets for the domestic economy of the Middle Kingdom. Laos is, nevertheless, becoming dependent on the investments from its neighbour causing China to have leverage over Laos. Creating an asymmetrical interdependence situation, where China can influence Laos to alter its behaviour on topics of policy and diplomacy. Laos conclusively depends more on China than vice versa establishing an unhealthy power distance relationship between both nation-states. In combination with the distributed funds, Beijing can use its power to pressure other members to defer to its position on a broader range of matters (Kane, 2016). The post-war institutions use their funds to demand liberal policies of developing nations in exchange for aid and FDI. Beijing is providing a alternative causing no interference with domestic politics of the host nation, under their non-interference policy.

### **Development projects**

The ambition of Laos and the strategy of the BRI share similarities what makes it profoundly attractive for Laos to participate in the initiative. To transfer from a land-locked nation to a land-linked, they need to upgrade their infrastructure, and China has the expertise and tools. China is foremostly constructing railways which upgrades the infrastructure network of the host nation on a national level. China is now planning or constructing railways stretching from Kunming of Southwest China, crossing Laos, Vietnam, Cambodia, Myanmar, Thailand, Malaysia and eventually ending up in Singapore, which will connect China closely with all nations in Southeast Asia, forming three major international railways in the east, middle and west regions (Zhang, 2016, p. 18).

By constructing and developing infrastructure projects in Laos, the Middle Kingdom is improving their connection to Southeast Asia while at the same time helping to mould local development with a so-called positive domino effect. The Vice Minister of the Government Office of Laos, H.E. Somsanith Souvannalath, has spoken out that the China-Laos cooperation is boosting the economic and social development in the nation, its rural

acceleration causes development and is eradicating poverty (Souvannalath, 2016). Laos is in need for FDI to develop its infrastructure and the BRI is bringing the capabilities for it. The risk of the investments is the drawback the loans may have on the long-term.

The appearance of the Middle Kingdom in Laos has surged in the last years which can notified by the amount of FDI in Laos. In 2015 the amount of FDI surpassed \$1 billion, wherein comparison ten years ago the amount checked at only \$32.9 million. This is also partly in fact due to the chequebook of Beijing to allocate capital across the region. China wants to develop the infrastructure of Laos considering its one of the vital parts of an economy and remains one of the foundations of a society. It will, in time, develop the economic possibilities and create rural development. China is investing in the sectors of mining, electricity, agriculture and manufacturing. Mining has taken the most significant share of investment with more than 50%, followed by electricity (Zhang, 2016, p. 23). Mining and hydropower are fundamental for the economy and improvement is needed to boost production. Furthermore, is China highly interested in regional resources due to its increased demand.

During the ASEAN meeting of September 2016, both nations agreed upon strengthening their relationship on the bases of economic cooperation under the flag of the BRI. Laos wants to speed up the process of economic development, and China wants to construct its railway to link the Southern part of China with Bangkok. At first, this seems an ideal marriage where China can use its infrastructure expertise to develop roads, tunnels, trains tracks and power plants in Laos, creating development opportunities and helping itself by extending its regional reach and power. Recently Lao Prime Minister Thongloun Sisoulith has urged government ministries and other departments to efficiently spend a \$800 million package of foreign development assistance recently given by China for unspecified projects (Finney, 2018). Showcasing that China is pouring in billions of dollars in aid and investment into the small nation, pulling it closer into its orbit. Beijing is aiming for long-term relations, a neo-liberal institutionalist idea, that nation-states are more concerned with their reputation and therefore cooperate, than the short-term realist idea that causes defection. Nevertheless, since regional institutions and initiatives will bound the relationship, Beijing seems to be in the decision making position regarding regional policy concerning trade and diplomacy.

The Chinese President Xi Jinping visited Laos in September 2017 regarding the BRI and LMC. A historical meeting because it has been 11 years since a head of state from China visited its neighbour. The two socialist countries want to further cooperate on the bases of economics and tighten their bond. President Xi Jinping delivered a speech in Laos stating that *“the diplomatic ties went back 56 years ago, the traditional good neighbourly and friendly relations have stood the test of international vicissitudes and have become even stronger”* (Xinhua, 2017).

### **China-Laos Railway**

One of the pinnacles of Chinese investment is the train track linking Kunming in Southern China to Bangkok. This ambitious project crosses Laos, the China-Laos railway project, and its aim is linking mainland China to Southeast Asia, see illustration 2.0 in the appendix. In June 2017 the construction started in the former capital of Luang Prabang. The railway is the most significant project in Laos to date, with an estimated cost of \$6 billion – equivalent to nearly half of the countries GDP of \$13.7 billion in 2016 (Janssen, 2017). What it also automatically makes it China's most ambitious and largest investment project in Laos. China will control 70% of the joint company constructing the railway and Laos the remaining 30%. Investing in a project that is worth half of the countries GDP makes scholars question the capabilities of Laos into paying back any possible debt to China. Laos is ranked among the least developed nations in the world, and it has the probability to put the nation into undesirable debt obligations to China. Illustration 3.0 in the appendix showcases the China-Laos railway and its course, passing Luang Prabang and the capital Vientiane. What we see as mentioned before is two strategies of both nations in relation with the China-Laos Railway. For the Laos People Revolutionary Party, the railway helps the nation to shift from a locked nation in the middle of Southeast Asia to a country intimately in touch with its neighbour's trade. The greater scheme of Beijing is to build a 3000km railway running from Laos to Singapore via Thailand and Malaysia – a grand vision that would position Laos as a gateway to Southeast Asia (Kishimoto, 2017). The project is dubbed as a high-speed railway while in reality the train speed would be capped at 160 km/h with freight trains going as fast as 120 km/h. Conclusively, the train is connecting the South of China with Bangkok, technically only passing through Laos on paper. China and Thailand stand to gain substantially from better rail connections between the two countries, which are major trading partners and fast-growing tourism market for one another (Janssen, 2017). Laos could be a necessary stop on the way for Beijing, who seems to aim for bilateral trade with Thailand.



*‘‘A recent review by Thammasat University and the Japan External Trade Organization of Infrastructure project in China’s Belt and Road Initiative and various Association of Southeast Asian Nations projects found that China will receive 31% of the economic benefits, Thailand 8% and Laos 1% according to Ruth Banomyong, head of Thammasat’s Department of International Business, Logistics and Transport’’ (Janssen, 2017).*

These numbers, stated by Ruth Banomyong, are worrying for Laos and its economy. These numbers do not necessarily reflect the actual outcome of the profit, although if they are in the range of what is being proposed, it would portray a system of injustice. Effectively meaning that the railway is only there to serve Thailand and China and Laos is just obstacle on the pathway. Besides, it's not just about the economic impact of the railway. The railway was seen by the Laos Government as a tool of lifting people out of poverty and to start a path towards prosperity. However, the nation also has to worry about the environmental and social impact of Chinese projects. Beijing is repeatedly blamed for its lack of environmental care during its projects. The Journal of Current Southeast Asian Affairs repeatedly states that the Chinese approach to development aid is causing corruption, deteriorated governance and human rights, and destruction of natural resources and environment (Pheakdey, p. 76). These are pressing allegations describing that the initiatives and institutions of Beijing are causing harm to their surroundings while it is doubling down on its image of environmental protection.

The Laos government was under the impression that the construction of the railway would result in jobs for the local community, but instead, China is using its labour force. In Laos alone are 30.000 Chinese workers constructing the railway tracks, tunnels and other necessities. It is a disturbing conclusion for the Laos government to realise that the hard sought-after jobs are getting distributed to the Chinese community. Laos citizens are moreover scared of the aftermath of this resolution. It is well known that Chinese workers in the region settle down for business and don't return to their home country, which affects the society even after the finalisation of the Chinese projects. Laos lacks a number of jobs and is foremost active on mining resources and exporting its hydroelectric power. The employment of people in the infrastructure business would open up new opportunities for the local citizens and could create prosperity for otherwise disconnected communities. Unfortunate for Laos, all of the employees are from China Railway Group, who has been handed the construction of the project and is not cooperating enough with local parties. Vice Minister of Public Work

and Transport of Laos stated that *‘we want to use as much local labour as possible’* (Kishimoto, 2017), but the chances of attaining a large number of jobs seems slim due to having no experience on the field of railway construction and with a counterparty having its expertise on infrastructure development. The distribution of jobs is therefore one-sided in favour of Beijing and its construction team of China Railway Group. Creating a questionable attitude from scholars towards the development involvement of the Middle Kingdom in Laos. China seems to be the primary beneficiary of the railway leaving Laos with a handful of jobs and an illusion of local development to trigger a domino effect. Starting off 2018, the railway project was finished for 16 percent and is expected to be completed as scheduled by the end of 2021 (Laotian Times, 2018). Laos aimed to use as much local labour as possible and with the current outcome the local usage of labour is low and far from creating rural development that was anticipated. Mid-2017 the Chinese contractors announced nonetheless that they need as many as 7,112 Lao workers for the construction, ranging from a small percentage of 211 experts and 6340 workers (Vaenkeo, 2017).

The jobs are made available by the provincial Labour and Social Welfare Departments and are created to enforce a greater sense of cooperation. The approximately 7000 Lao workers are still not close to the 30.000 Chinese constructing employees. The high-speed railway project is meant as a symbol of cooperation, but with Beijing calling the shots and extensively outbalancing the workforce it has become another example of the pitfalls faced by small Southeast Asian countries in relying economically on their much larger neighbour (Kishimoto, 2017).

From this perspective, it seems that China is the party profiting the most from this ‘cooperation project’ and that Laos could be conceivably left with an expensive railway track it cannot benefit from as projected and outstanding debt to Beijing. The railway project is considerably more expensive than it would be in numerous other nations due to the rough terrain in Laos, where 70% is covered with mountains. To make the trajectory proposed by the Railway company, there needs to be countless of tunnels and bridges to successfully cross the mountainous area, lifting the cost to numbers out of reach for the landlocked nation. Over the past two years, contractors have completely drilled 53 channels passing through mountains, built 36 bridges with a total length of 54,000 metres, cleared land for building road access to construction areas with a total length of 800km, installed transmission lines

over 400km in length, installed 233 transformers and built a water supply system over 93km long (Laotian Times, 2018).

The total cost of the railway project alone exceeds twice the annual budget of Laos, which is \$3.6 billion. Putting pressure on the project to be successful for Laos or otherwise it could leave the nation with only 6.9 million inhabitants in debt it can not pay off without making concessions regarding its territory, sovereignty or resources. The government expects the railway to turn a profit in six years, which can be used to pay off the debt within 30 years of completion (Janssen, 2017). The increased amount of FDI into Laos gives the Beijing government more leverage, strengthen its position vis-à-vis the government to mould it into a strategic support state. Chinese presence with infrastructure projects worries scholars about the sovereignty of smaller nation-states and their mobility to choose between the west and east. The ASEAN as a whole risks going down the same path, as countries like Thailand and Indonesia grow more reliant on Chinese money (Kishimoto, 2017). The U.S. is aware of the Chinese tactics and uses its power in the liberal order to construct projects that eschew Chinese participation, as was the case with the TTP. In time this will create parallel institutions and initiatives that will hinder the idea behind the liberalisation of economies. The U.S. does not want China to build up a regional alliance of partners that are profoundly reliant on funds from Beijing, in turn making them vulnerable in case of economic backlashes.

The railway project now foremost benefits China and Thailand, leaving Laos out of the equation. Showcasing that the catchphrase win-win is by far not applicable to every project realised by China. Kunming, the capital of the impoverished Yunnan province, will be linked towards the southern nation-states of Asia, creating prosperity for the region, which is an economic target of the Middle Kingdom. The railway project will, in turn, upgrade Thailand's role as a regional transport hub and contribute to economic growth in the region (Janviroj, 2017).

### Economic Cooperation Zones

The railway project is the most ambitious plan of China that is constructed inside Laos, but their cooperation reaches further. Economic zones are also a way of China to spend FDI in a nation, and this is no different in Laos. The Boten-Mohan border economic cooperation zone, for illustration, received an injection of \$15.27 billion in investments (Vaenkeo, 2016). Back in September 2015, both nation agreed upon tightening their cooperation by establishing an SEZ at the border to improve the trade, investment and tourism in the region. This is further specified by the Chinese government under the sectors of agriculture, biological industries, logistics and cultural tourism.

The SEZ near the border is a great success, and the local authorities explain that the investments are flowing in, with already 60 – small - projects worth an estimated 100 billion RMB. The Mohan-Boten SEZ is on the border of both nations and grants great possibilities in the field of economic cooperation. Mr Kangpeng, Logistics Deputy General Manager of the Lao Baton Economic Zone Development and Construction Group, has stated that “*The Lao government has extended sound support for the operation of the Boten SEZ as a cooperation project between Laos and China*” (Vaenkeo, 2016). The economic cooperation has tightened near the border, but a remaining problem is the requirement of a visa for Chinese tourist. A diplomatic solution or temporary visa would cause a more significant influx of Chinese tourist and possible investments. The middle class in the Middle Kingdom is growing and overtook the U.S. for the first time in 2015. There is a total middle class reaching up to 109 million in 2015, compared to 92 for the U.S. They had to catch up to the U.S. in the last century adding 43.4 million, while the U.S. staggered at 22 million people. According to Credit Suisse CEO Tidjane Thiam “*the middle class will continue to expand in the world, with a lion's share of that growth to occur in Asia*” (Huang, 2015). The investments of China are focused in mainly four megaprojects: modern resorts, state of the art warehouses, a duty-free centre and a grand bus station. The leading point is the tax exemption that causes a greater influx of investments in the region, contributing to the benefit of both nations.

Beside the Boten-Mohan SEZ, there is a development of a new economic cooperation zone worth \$9 billion in the southern province of Champassak. Chinese investors are seeking opportunities across the border, where the southern provinces of China are deprived of economic opportunities to make money. Investments are among various sectors such as hotels, bakeries and plantations.

With the Chinese investments surge the landscape of Laos is literally changing, and not for the good of the Laos society in every aspect. The rice fields that always determined the Laos landscape has shifted to Chinese owned banana plantations. Chinese entrepreneurs are renting land of the local communities for roughly 300-600 USD a year for 1600 square meters of land. This is commonly what the farmers would earn from their land if they cultivated it, making it a magnificent deal for them. Therefore, the surge of Chinese renting of land created a surge of economic benefits to the poverty-stricken region, but there is also strong concern regarding the use of chemicals (Laotian Times, 2017). The concern is that the Chinese investors at one point can stop the renting of the arable land without the responsibility of cleaning the land of any used chemicals, leaving the local societies with the consequences. The development of agricultural products by Chinese companies is causing a surge in exports to the Middle Kingdom, with an increase of 300% between 2005 and 2013.

However, what at first seemed like a good deal for the impoverished Laotian farmers is turning out to be anything but positive, with unexpected side effects rapidly outweighing the economic advantages (Laotian Times, 2017). The pesticide used by Chinese farmers is affecting the local communities which result in an anti-Chinese movement in Laos.

Moreover, are Chinese investors buying land of the Laos government for lower prices than the citizens are demanding. A piece of land in the northern part of Laos was leased for a 99-year concession to a Chinese company to extend its hotel-casino complex, after villagers proposed \$5600 per 1600 square meters, the government purchased the rice fields for \$2800 (Laotian Times, 2017). With these deals, the government is significantly undercutting the local communities to satisfy their Chinese counterpart. The Ministry of Agriculture and Forests, nonetheless, has announced that it will do more inspections on the types and usage of chemicals by Chinese companies and will answer with the revoke of business licences if deemed necessary. Default does not ban the use of chemicals by Chinese companies, but the unacceptable usage like leaking chemicals into soil and water is creating environmental difficulties for Laos. The creation of new Chinese-owned banana farms was put to a stop due to the consequences, but a considerable share of the farmers sees no other option than renting out their land for interest. The Prime Minister Thongloun Sisoulith has voiced his concern over the widespread chemical usage on Chinese-run banana plantations stating that *“the government could not overlook this”* and *“since last year, I have ordered a prohibition on renting out more agricultural land for banana plantations to investors because of the damage from chemical contamination”* (Sisoulith, 2017).

Large sums of Chinese RMB are still getting invested in Laos, but are at this point not specified yet on projects. Meanwhile, Lao Deputy Minister of Foreign Affairs Khamphao Ernthavanh and Chinese ambassador for Laos Wang Wentian signed an agreement on Jan. 3, 2018 providing \$3.4 million in aid for projects planned along the Mekong River, including improvements on Lao ports (Finney, 2018).

Beside the China-Laos railway and the SEZ, the Middle Kingdom is investing in countless of other projects. During the state visit of President Xi Jinping in November 2017 agreements were made on multimillion projects such as \$90 million for a hospital in Vientiane and \$615 million towards the improvement of the countries health sector spread over three years. China is Laos top investor in 2018, with Chinese companies investing \$7 billion for the development of SEZ, dams and mines. Researcher Michael Hart, the author of an article in the December edition of the World Politics Review, explained that Laos had little choice than to accept the Chinese investments *“Laos was left with no real alternative but to accept the large-scale Chinese investments in infrastructure, even if it meant accepting the economic and political influence that comes with it he”* explaining that *“the risk of rebuffing Beijing was too great, as sustained growth and faster development are vital to ensure the legitimacy of the ruling party”* (Hart, 2017). This principle of performance legitimacy is also seen in Beijing, where the economic performance is tangled with the ability of the CPP to assert its authority. Maintaining steady economic growth numbers is therefore of vital importance for both nation-states ruling legitimacy.

### Cambodia

The economic position of China is solidified over the course of two decades of economic growth. Creating the opportunity for China to invest in foreign markets, resulting in being the most important economic trading partner of numerous nations, including Cambodia. The two nations share a long history together dating back nearly 800 years ago. The diplomatic ties were established in 1958 when the kingdom of Cambodia officially recognised the PRC.

Cambodia has followed China's lead in shifting to a free market economy and launched an economic reform program privatising state-owned enterprises, restoring private property rights, removing price controls, and encouraging foreign investment (Graceffo, 2017). From that point on towards 2007, the country experienced high numbers of GDP growth were the last years it slowed down again to single digit numbers around 8 percent. The GDP per capita of Cambodia was last recorded with \$1078.40 in 2016, equivalent to 9 percent of the world's average. Nevertheless, an increase compared to the \$621.03 in 1993. The Cambodian government now has considered de-dollarisation and sees the use of RMB as a step in the right direction, where it also assumes that using the RMB would increase Chinese tourism in the country (Graceffo, 2017). Officers of the Central and Foreign experts agree on this subject that it is within the best interest of Cambodia to move away from the U.S. dollar to sustain economic expansion, increase the provision of financial services and to promote the local currency, the Cambodian Riel.

According to Ouk Maly, vice-governor of the National Bank of Cambodia (NBC) it is necessary to de-dollarize to sustain economic growth rates *"as the size of the economy grows, dollarisation increases cost and vulnerabilities to the Cambodian economy"* (Kunmakara, 2018). A study of the NBC showed that only one-third of the loans taken in Cambodia are in Riel while the majority is in U.S. Dollars. The U.S. Dollar stays the most traded currency, with the Chinese Yuan, for now, only taken a small percentage. The de-dollarisation of Cambodia and its aim to extend the use the RMB is a step into the direction of China's regionalisation institutions and away from the liberal order constructed by the U.S. The same nation that requires Cambodia to reform its political system in return for foreign direct investment and development aid. Before, Cambodia had two major investors, namely the West in the name of the U.S. and the East with Beijing. The latest actions of Cambodia, however, changed the course of direction and put Cambodia closer into the orbit of Beijing. Ultimately having the potential to further develop into an asymmetrical relation, and it is the

core of power politics that worries the established order. Less dependent actors often use the interdependence relationships as a source of power in bargaining over an issue and perhaps to affect other issues (Keohane & Nye, 1977, p.11).

During the economic liberalisation of Cambodia, the nation decided to join several international organisations, such as the ASEAN in 1999 and the WTO back in 2007. Xinhua reported that through both of these organisations, trade ties with China increased as Beijing is a full member of both the ASEAN Plus Three and the WTO (Graceffo, 2017). Resulting in that Cambodia has a Generalized System of Preference (GSP) with China, reducing its duties of products exported to the Middle Kingdom. Furthermore, there are also SEZ in Cambodia, such as the 2006 established Sihanoukville. Both nations also form a Comprehensive Strategic Partnership of Cooperation since 2010 and have an ASEAN Free Trade Agreement, showcasing the extensive network of relations. At this point China grants a special trade status to select members of the ASEAN, these are Cambodia, Laos, Myanmar and Vietnam. Among Chinese export to Cambodia are its overproduction capacity of iron and steel, machinery and textiles. In return, the Middle Kingdom imports raw materials. Although China is the largest investor in Cambodia, much of China's investment is focused on building infrastructure for the extraction of raw materials, such as forest development, timber processing, power, textile, building material, contract engineering and farm production (Graceffo, 2017). The garment and textile industry is the largest in Cambodia and accounts for 80% of all the exports; China has helped with this position by investing in 3000 companies in the aforementioned sector. Beijing is momentarily the largest investor in Cambodia and primarily wants to expand on the bases of infrastructure and manufacturing. Cambodia, on the other hand, is helping the Middle Kingdom by the internationalisation of the Chinese Yuan and providing support for China's regional political goals.

Cambodia is pivotal to China's strategies to project more significant influence in Southeast Asia, buffer longstanding rivals, and potentially tame America's hegemony (Burgos & Ear, 2010, p. 615). China has changed over the course of time to an influential global actor; this is upsetting the status quo and regional hegemonic actors. Even though China is enlarging its sphere of influence, it is not seeking to create a neo-realism environment according to its President. Xi Jinping stated in April 2018 that the cold-war and zero-sum mentality is out of place while the world is aspiring peace and development (Xinhua, 2018a). China is defending economic liberalisation on a global scale, a position always taken by the United States, but



Washington seems to be occupied by its zero-sum and protectionist policies. The building of parallel institutions creates a sphere of influence in the East with the possible result of asymmetrical relationships with its periphery. Scholars warned against the plausible future for smaller nation-states in Southeast Asia such as Cambodia and Laos which would rely too much on one party for its economy. The diversification of development seems to be the most realistic option to not fall into a position of losing sovereignty for investments.

An asymmetrical interdependence relationship with China lies in the horizon especially now Cambodia has steered away from U.S. FDI. Although China's approach is more regional-specific than country-specific, it is now evident that some countries in the region are more equal than others, where China has the desire to establish itself through a charm offensive as an emerging superpower (Burgos & Ear, 2010, p. 618). There is a decline of American hegemony in the region in combination with an increased influence of regional multilateral institutions. Creating a decline in the influence of the Bretton Woods institutions due to the capabilities of Beijing. These developments in the region, some more noticeable than others, are generating a shift in the balance of power with increased involvement of China in regional affairs.

Cambodia is being ruled for the last 32 years by former Khmer Rouge soldier Hun Sen. Making it easier for China to build up a stable relationship in the so-called democratic environment of the Southeast Asia nation. Hun Sen has consolidated his power over the course of time but has been held in check by outside forces such as international organisations. These institutions set in a liberal international environment can hold nations in check and contribute to a safer anarchic surrounding. Institutions have the power to influence Cambodia from the outside regarding its domestic and foreign policies with rules and norms. By steering away from democratisation, the U.S. has the power to reduce the amount of development aid, directly harming the economy. Limiting the number of resources available for a nation puts pressure on its regime to steer away from its pursuit of interest, particularly in an environment where there is performance legitimacy. Cambodia's party is creating a tight grip on its society by also using its power to censor unwanted media. An English-language newspaper named The Cambodia Daily was forced to shut down after the government claimed it still owed \$6.3 million in taxes. The American owners of the newspaper were also not permitted to leave the nation before they repaid their debt to the government. Cambodia seems to be drifting off further from a democratic and liberal society,

yet Beijing does not mingle or question the domestic policies of its ally. The government of Cambodia is using laws as a weapon to bring down any opposition before the upcoming election, while in the meantime projecting the image and stability of Hun Sen rule. The crackdown on any dissidents of the government is more prominent and grander than before and has to do with the reasonably new Cambodia National Rescue Party. The newcomer to the political field almost won the parliamentary elections in 2016 and this shocked Hun Sen. The party is now framed as a plot to overthrow the government with the help of a secret “third hand”, which is later revealed to be the U.S. The opposition seems to be no realistic contestant for the elections, clearing the way for Hun Sen.

China does not put any restrictions relating to the political system of Cambodia or its domestic trade policies, and Cambodia embraces this. Mr Hun Sen stated that “*China is the rising power that is here to stay in the region*”, showcasing his alliance with its Eastern ally (Wallace, 2017). The no-restriction investments of China are a pleasant welcome compared to the aid from the liberal order and provide a safe haven for Hun Sen and its economy. Mr Thayer, a professor of politics at the University of New South Wales in Canberra, noted that the aid from Western nations could soon dry up – along with conditions the donors attached, which generally include adherence to democratic norms (Wallace, 2017). Nations such as Cambodia that are not looking for interference with their political system have an option with Beijing that provides them with sufficient funds to satisfy their economic needs and stabilises their performance legitimacy. While the liberal order is seeing Cambodia slowly drifting away from the democratisation process it was trying to establish.

### **Development Projects**

The most significant infrastructure projects embarked on by China are related to the development of the Mekong River through building several hydroelectric dams (Burgos & Ear, 2010, p. 618). Other development projects are in line with the standard in Southeast Asia regarding the upgrading of the primary and secondary infrastructure. In Cambodia, a considerable amount of projects are infrastructure related and according to scholars constructed to cope with the logistics of China in the future. The year 2018 is an extraordinary year for the relationship between China and Cambodia since it marks the 60th anniversary of the establishment of diplomatic ties between both nations, Chinese premier Li Keqiang visited Cambodia early 2018 and oversaw the signing of 19 new deals to celebrate this milestone (Touch, 2018).

The new agreements underline the deepening of the relationship between both nation-states, marking an even more significant presence of China. The deals made are infrastructure related and could help Cambodia build up its industries so it can compete in regional trade, benefiting the economy as a whole. Cambodia is one of the closest allies of China in Southeast Asia and is supporting the current regime of Prime Minister Hun Sen.

The West has further backed off at the presence of Hun Sen while China continues to invest in development aid and infrastructure. The opposition leader of Cambodia was according to Hun Sen plotting against the current regime with the U.S. as a helpful ally. The U.S. reacted by stating they had nothing to do with the opposition leader and the so-called act of treason.

The reaction also underscores the big difference between aid from the United States and aid from China, whose greater support for big-ticket projects has helped allow Prime Minister Hun Sen to brush off criticism over the arrest of election rival Kem Sokha (Reuters, 2017). Where the aid of China is without requirements, the American liberal order demands political reform. Creating an opportunity for China to fill the gap left by the Western aid. Aid from China is moreover highly visible for the community with comprehensive infrastructure projects, whereas the Americans also invest money into preserving the temples and untouched forests. The prime minister of Cambodia is in power for already 30 years and doesn't want the U.S. to mingle in its internal politics by building a democracy. *"Taking aid does not mean they can order us to do what they want. We are not their ally; we are not their slave"*, government spokesman Phay Siphon told Reuters *"the Chinese always support us in economic growth and they never interfere in our decisions"* (Reuters, 2017). Being a branch of the Principle of Peaceful Coexistence by China, for not interfering with the internal politics of other nation-states. The groundwork for this stance of non-interference, respect for foreign sovereignty, non-aggression and peaceful co-existence was laid in 1955 and scholars debate whether it is still sustainable. It causes nations to question the integrity of the Middle Kingdom especially since its sphere of influence has grown. Its investments in war-torn nation-states in Africa are at least identified as questionable.

Its non-interference is displayed on how China deals with the imprisonment of the Cambodian rival. *"To ensure the security of Cambodia, China will cooperate with Cambodia in all circumstances"* states Wang Jiarui, vice chairman of China's national assembly

(Reuters, 2017). This unquestionable support no matter which situation erupts gives the government of Cambodia a free pass to arrest its rivals and continue its 'democratic' rule. In return for this unconditioned trust, Cambodia is backing up China's claim on the South China Sea. Besides, China's military gained a strategic foothold in Cambodia, strengthening its regional position. Beijing is likewise concerned with its global position and is upgrading its military capabilities if it would ever come to a standoff with the dominant superpower the U.S. Especially the naval power of the U.S. poses a sinister threat to Beijing. The Chinese navy forces have been steadily upgraded to match Washington in the future. *"The task of building a powerful people's navy has never been as urgent as it is today"*. said Xi during a recent interview, *"We will unswervingly accelerate the modernisation of the navy and strive to build it into a world-class navy"* (Chen, 2018). By having strong navy capabilities, it can project force into the IOR and Pacific ocean, which surrounds the country's growing economic interest in Africa, the Middle East and Southeast Asia (Chen, 2018). Showcasing that the military and economic capabilities of China are tied together, hence it is hard to describe the regional actions of China only on the bases of realism or liberalism. It is a combined perspective that gives the most comprehensive answer to the question of what the motives are for Beijing.

The government of Cambodia has made a stance by dissolving the central opposition party and arresting its leader, showing the world that the nation is not swaying towards a democratic society. It is a sign for Western backers and institutions that Cambodia is moving away from the liberal order. Nevertheless, the international environment has changed the last century, and Beijing's chequebook granted it a place on the table of development aid and FDI. Weakening the position of the established liberal order in the Asian region. The non-interference policy of China contributes to the position of the newly developed Asian institutions. Beijing has no comprehensive desires such as democracy granting it a free pass to trade and invest wherever and whenever it wants. China's behaviour as a creditor has not been subject to the disciplines and standards that other major sovereign and multilateral creditors have adopted collectively (CGD Policy Paper, 2018, p. 20). Sequentially putting China in a unique position without having to face the political system and acts of a nation where it wants to invest.

The European Union, as well as the U.S., have now retreated from investing in Cambodia after the latest events. A direct consequence of this is that both parties will not recognise the result of the upcoming election. Unsurprisingly, this provided China with an occasion to reinforce its geopolitical position with Southeast Asia through Cambodia (Touch, 2018). Cambodia is, hence, a proxy playing field for the Western and Eastern hemisphere to influence it according to their preferences and policies.

A significant initiative is to modernise Sihanoukville's port and its associated facilities for import and exports of goods and also to host a naval presence (Burgos & Ear 2010, p. 624). The Preah Sihanoukville province has seen an increase in construction and investments due to the Chinese presence in the area. China is building hotels, casinos and apartments for Chinese tourists in the area due to an expanding amount of middle-class citizens, which is larger than in the U.S. after 2015. It is nonetheless not all rainbow and sunshine, according to Reuters. China's presence and investment in a fast-developing Cambodian port and province have pushed up the crime rate and brought instability, its governor stated in a letter to the government (Thul, 2018). It is surprising that Cambodia is publicly denouncing Chinese presence since Prime Minister Hun Sen is a close ally of the Middle Kingdom and the nation is dependent on Chinese FDI. The rule of Hun Sen is correlated to the state of the economy, which benefits from China, creating a domino effect of potential political actions if Beijing backs off. Biting the hand that is feeding you is never a wise move in an asymmetrical interdependence relationship.

There is a prominent influx of Chinese investments in the province of Preah Sihanoukville which in return attracts Chinese citizens. Governor Yun Min said in a three-page letter sent to the interior minister that the Chinese influx had "*created opportunities for Chinese mafia to come in and commit various crimes causing insecurity in the province*" (Thul, 2018). These acquisitions are made in January 2018, well after many Chinese investments are formed. The province was once a haven of peace and agriculture but shifted, by Chinese FDI, to an economic hub like so many other places scattered across Southeast Asia. Economic hubs bind the economy of the host country and China together on the bases of economics and trade, strengthening the position of China in the long term. The economic development of the region is beneficial for the local community with an increased amount of jobs, trade and opportunities. There is the fear, like in many other parts of Asia, that Chinese investors are taking over the province but the spokesman for the interior ministry, Khieu Sopheak,

proclaimed that Cambodia would not be controlled by the Middle Kingdom. *"We will keep our sovereignty, the Chinese cannot control us"* and *"if they come as proper investors and respect our laws, its fine"* (Thul, 2018). Sihanoukville is one of the leading examples of how close the two nations have become throughout the years. Just as China's aid and investment have helped Prime Minister Hun Sen defy Western criticism of a crackdown on his opponents, they are also binding Cambodia's economy even more closely to China's (Thul, 2017). Its also the only place in Cambodia with a deep-water port, extremely interesting for China, which is looking to diversify its trading routes.

The agreement of Chinese FDI brings in an immense potential for Chinese investors, such as Lao Qi, who moved from Zhejiang province, China. *"This is like China 20 years ago; the opportunity is enormous"* (Thul, 2017). While the construction boom attracts a lot of Chinese visitors, the Cambodian people are less drawn in by these developments. The prices have soared in the surrounding area, making it harder for the locals to make a living. Chinese are already renting half of the property in the city and its expected that this number will only grow. Across Sihanoukville, Mandarin signs are proliferating. Supermarkets packed with Chinese good are commonplace – the only Cambodian items tend to be beer and bottled water (Thul, 2017).

Chinese investors and wealthy individuals are looking for new places in Southeast Asia and Cambodia is attracting many tourists with the possibility to gamble, what is illegal in mainland China. Consequently, the area sometimes gets named Macau II. While the relationship between China and Cambodia got closer, the investments came pouring in, and may even be exploding according to U.S. based academic Sophal Ear, co-author of 'China's Quest for Resources Abroad'. *"We are talking orders of magnitude now beyond what anyone else is doing; they are crowding out other investors with sheer volume and scale of their activities"* (Thul, 2017).

Hu Tian Lu, marketing director, explained that the area is one of the core locations for the BRI and that Cambodia is tangled with Chinese policies. 90 percent of the active companies have Chinese origins and enjoy tax-cuts and tax-free import, boosting the local market. China is connecting the area through a new highway to Phnom Penh, where the airport is located. Making it more easy for tourist and investors to travel to the SEZ. China is also reconstructing the airport to make it more appealing. A fifth of all the visitors to Cambodia

are now Chinese, and Cambodia is hoping to welcome more than two million tourists by 2020.

Its key to identify the close relationship between Cambodia and China, whereas the U.S. before was the central source of FDI. The Western hemisphere, including the U.S., has denounced the political actions of Cambodia, which strives further away from democracy. China, on the other hand, is backing the regime and prime minister Hun Sen. This is directly reflected in the volume of aid received, where China accounts for 36% of the \$732 million aid in 2016, effectively four times the amount of the U.S. Chinese investment over the 2012-2016 period was over \$4 billion – more than 30 times that from the U.S. (Thul, 2017). The development of a sophisticated infrastructure will also in the long-term benefit China. If it will also reach to the development of the Cambodian society as a whole remains a question mark. Development in the 21st century is more than economic numbers and an increase of GDP per capita. The key is to increase the opportunities for the proletariat, but the subject is if that is the responsibility of the investor or the host nation. The same concept is happening at the African continent where China is active with its investments. China has set out a policy for every continent on the globe combined with a national plan, but the utmost of the host nations has no strategy vis-à-vis China. Former Senegalese minister and World Bank advisor Ibrahima summarised it as follows:

*‘‘If you have energy problems, infrastructure, railways, and yet you go to China to get money to build a stadium – I’m not saying its not important – or to build a palace, the question is: who do you blame, the Chinese or actually the country that does not make sure that the support of the investment goes to areas that are actually being productive to the economy?’’* (Diong, 2018).

The numbers are most apparent when talking about investment. China provided nearly 30 percent of investment capital in Cambodia last year (2016) – that is more than Cambodians themselves, and the U.S. only accounted for 3% (Reuters, 2017). Furthermore, under the control of Donald Trump, the money reserved for development aid is under pressure, what could mean a drop of 70% for the Southeast Asia nation. Directly related to the rise of Chinese investment and drop of the American one is the U.S.-Funded National Democratic Institute (NDI). This pro-democracy group is accused of the conspiring of bringing down the government and was expelled by prime minister Hun Sen, while it is being denied by the NDI themselves and the opposition in Cambodia. *‘‘The fact that the government has been*

*criticized by Western donors over the recent crackdown just means Cambodia is becoming more dependent on China''* according to Ou Virak of the Future Forum think tank (Reuters, 2018).

The FDI, of course, comes at a price and nearly half of Cambodia's 5.8 billion foreign debt is owed to China –many multiples what it owes any other country (Thul, 2017).

Aforementioned is also in line with the continued support from China despite the crackdown on the political competitors in Cambodia, which caused a drop in Western aid. As discussed, the surge of Chinese investment has positive as well as negative sides. Local hotel owners are getting offers to sell their property to Chinese investors, resulting in wealthy businesspeople. Renting has been described as a nightmare. Long-term Western expatriates talk of being 'Chinesed' – being turfed out because a Chinese customer has turned up willing to pay much more (Reuters, 2017).

The projects discussed are a part of the BRI and advance besides the SEZ of Sihanoukville, the Expressway connecting the region with the capital and its future newly constructed airport. China gained the opportunity for these projects due to the backing off of Western investors combined with the sheer lack of competition, leaving an opportunity for China to consolidate its geopolitical situation in the region. For Cambodia, its aged infrastructure is getting reconstructed without the need for democratisation or mingling of foreign powers in their political environment.

As it seems, both nations are benefitting from the cooperation, but the influence of China is growing with each year. The aim for China is to enlarge the amount of trade between both nations and the number of Chinese visitors. Sihanoukville, or Macau II, is the pinnacle of what could happen to places in Southeast Asia due to Chinese development aid, and scholars are divided if this is the appropriate model. Locals have less chance of landing a job due to the Chinese immigrants, the same people also preferably go to a Chinese owned business, in a Chinese neighbourhood. All of this adds up to a climbing cost for the locals that will eventually push them out.

The governor of Preah Sihanouk province, Yun Min, send a report to the Interior Minister Sar Kheng, explaining the complaints of the locals facing the rise of Chinese investment and immigrants. The governor highlights that the majority of foreigners requesting work permits



are Chinese, representing 69 percent in 2017 (Touch, 2018). Darren Touch, of *The Diplomat*, explains that this creates a delicate situation where the authorities need to serve the interest of Phnom Penh but also need to maintain close relations with Chinese parties. Sihanoukville is, hence, a representation of what happens to cities in Southeast Asia if there are no borders and restriction on FDI.

### Koh Kong Pilot Zone

China is also active in the Koh Kong province of Cambodia. It is also known as the Cambodia-China Comprehensive Investment and Development Pilot Zone (柬中综合投资开发试验区), being coined as a strategic manufacturing zone by the President Xi Jinping.

Located strategically near the Gulf of Thailand and providing besides economic also military capabilities for Beijing. It is interconnected to the String of Pearls strategy, a policy set forth by China to expand its naval presence in the Indian Ocean Region (IOR) by building civilian maritime infrastructures in friendly states in the region (Baker, 2015). The pearls resemble a chain of Chinese controlled ports along the coast from Southern China, through the IOR past the Middle East and ending up in Africa. Upgrading the navy has been set as a prime priority by the CCP due to the importance of it on the global field of politics and military strength. 80 percent of the fuel coming from the Middle East comes through the Strait of Malacca, making a potential blockade by the U.S. disastrous. The pilot zone is also associated with the speculative Thai Canal, which would end the Malacca dilemma for Beijing while at the same time cut the transportation days by 3. The strategy became famous to scholars in 2004 with the publication of *Energy Futures in Asia: Final Report* and is mainly set to strengthen the position of China vis-à-vis its regional ally, India. To strengthen its position, Beijing is also planning to expand the Marine Corps and raise new marine brigades. The goal of the PLAN is to double the strength of the Marine Corps to 100.000 (Misra, 2017).

China's vast land concession in the province emphasises according to the authors of "The Harbored Ambitions" the consequences of the limited transparency found in many China's infrastructure investments (Thorne & Spevack, 2018, p. 54). The pilot zone is set up by Chinese developers who consequently are entitled to 100% of the revenue with a 99-year lease contract. Its future profitability for Cambodia is doubted by scholars and it shares a lack of transparency to the outside world regarding the financial situation. The report claims that Beijing only paid a mere 1 million USD for access to 20% of the Cambodian coastline. Its 36.000-hectare concession- an area over three times the apparent legal limit – was initially

envisioned as an international tourism hub (Thorne & Spevack, 2018, p. 55). Various locations across Southeast Asia, as in Laos, are envisioned as a tourist hub for the Chinese middle class. The CCP described the pilot zone in Cambodia as an area for the development of manufacturing, cultural, tourist and logistical infrastructure.

The Pilot zone shares similarities with other development zones such as the constructing of a new highway connecting the rural zone to the central highway. Other projects include thermal power plants, water reservoirs and a deep-water port. The report brings forth that China is violating Cambodian laws for the construction of its projects. According to Cambodian law, land concessions areas shall not be more than 10.000 hectares, and in 2011 China even got an additional 9.100-hectares of land to build a hydroelectric dam, ground which was to be granted to a private company. Geopolitically, the Pilot zone is among many investments that induce Cambodian support for China regionally, particularly within ASEAN (Thorne & Spevack, 2018, p. 61). Combined with the fact that China will get access to cheap labour for manufacturing since the labour cost increased back in the mainland.

Military wise, Geoff Wade of Australian National University alleges that the Koh Kong New Port will have the future capabilities of hosting China's frigates and destroyers (Thorne & Spevack, 2018, p. 61) if they would wish to do so. The pilot zone does have benefits for Cambodia, but the development projects favour the Chinese interest above that of the host nation. Its bringing similar development goals as in Laos, with improved infrastructure and increase of tourism they want to trigger a domino effect causing economic growth in the underdeveloped area of Cambodia. In time the upgraded facilities, infrastructure and port will bring economic opportunities and increase the competitiveness of Cambodia vis-à-vis its neighbours. Furthermore, the Cambodian government has revenue by taxes on the activities within the zone and the lease for the land itself. The lease contract was free of charge for the starting ten years of the contract, from 2018 China will have to pay 1 million USD a year with an increase of 200.000 USD every five years, for over 20% of the coastline of Cambodia. It potentially impedes Cambodia's ability to profit from coastal industries such as fisheries, shipbuilding, and tourism as the country develops; instead, the Cambodians will only receive taxes on such profits (Thorne & Spevack, 2018, p. 62).

The restrictions on basic access to for example fishing can cause a massive backfire for Cambodia soon. Fishing and agriculture is one the main activities of the proletariat and taking this away cause a reverse in development for the rural population if no other options are given. Cambodia and Laos both face the same problems relating to the influx of Chinese investments and the downsides that come with it. The restricted ocean access and poor farming conditions cause families to move, after being kicked out of their living space. It was originally agreed that the UDG would pay affected families for their land and provide new housing for them, but many of those families – whose income is mainly dependent on fishing- claim that the company has failed to provide promised compensations (Thorne & Spevack, 2018, p. 63). The research” Harbored Ambitions’ speaks of at least 1000 families that were evicted and those refusing to leave have been forcefully removed, the same tactics Beijing is using in mainland China.

In the long run, the type of investments realised are also a responsibility of Cambodia to create an upwards spiral, not just for GDP numbers but also in the social aspect of development. The Chinese investments can accordingly be of great value for independent nation-states if spend on the right projects, as mentioned by the advisor of the World Bank Ibrahim. The second point is that most of the realised projects are getting completed by China from beginning to end, the host nation needs to be more in the decision making seat towards its development projects to create jobs and industry for the local community. Creating and having a tight economic relationship with Beijing is essential but it should not be the case that some regions of Cambodia are getting flooded with Chinese investors and tourist, eventually scaring away the local citizens.

With active monitoring of Chinese investment, such as the banana plantations, there can be insurance for a safe future for the next generation, with safe access to water and proper waste treatment. Furthermore, Cambodia can utilise China's support and expertise to develop its local industries to ensure it meets international standards for export so that it can compete alongside Vietnam and Thailand (Touch, 2018). The key for Cambodia is now to be in the driver's seat for the developing projects in their nation; otherwise, they will be side-lined by its Chinese partner.

#### 5.4 China's Periphery Ambition

China's strategic interest in Southeast Asia is now part of a wider agenda that is an outgrowth of the Beijing 1955 '*Principles of Peaceful Coexistence*'. Aforementioned document called for respect for the sovereignty and territorial integrity of all states, non-aggression against other states, non-interference in the internal affairs of other states, equality and mutual benefits, and peaceful coexistence (Burgos & Ear, 2010, p. 615). The claim of China on the South China Sea creates a field of criticism towards its respect for the sovereign claims of other nation-states.

The economic rise of China since the 1980s changed the development platform in Southeast Asia. China's capital and operators are active in multiple parts of the world and can be found stretching across the Asian region. China is gaining international attention partly due to the regionalisation of Chinese interest. The influence of the Middle Kingdom is spreading, causing a disturbance in international geopolitical relations. Beijing gained momentum to set up its institutions to work around the liberal order and be in the centre-decision making position. The Middle Kingdom is solidifying its regional presence with four investments of power; these are diplomatic, informational, economic and military.

China has a regional ambition, which can be further designated into its goals and targets for separate nation-states. President Xi Jinping is increasingly more active defending liberal values on the world stage, in comparison with the protectionist Donald Trump. It is noticeable that the U.S. is doubling down on high-politics in combination with neo-realism thoughts of mind and China is aiming towards low-politics and a neo-liberal approach. Beijing's mutual win approach is emphasising the absolute gains of international cooperation's and - Chinese - institutions while maintaining the thought that military force is a usable and practical instrument in an anarchic international environment.

Ever since Deng Xiaoping began the process of opening up, China's goal in international affairs has been to manage its external environment in a way that aids its economic development, achieve stability at home and ultimately pave the way for it to become a high-income country (Gulliver, 2017). This was said by Smart Gulliver, Group Chief Executive of HSBC at the China forum in London, stating that China foremost managed its external surroundings to benefit its economic growth so that China can grow as a nation towards a prosperous future. Explaining China's willingness to work within the liberal order to aid its economic journey, even though Beijing is now expressing that it is not satisfied due to it being underrepresented vis-à-vis the U.S. The Middle Kingdom is, therefore, complying with

the Bretton Woods institutions for its own sake, not because it is highly supportive of its - liberal -goals.

At first, China sought to grow by getting more significant influence in the U.S.-led institutions. The Bretton Wood institutions are of direct influence in the growth of nation-states, external relations and globalisation. China increase in capital is not directly reflected in increased voting share within the liberal framework. The approach of China is evolving throughout time and by the influence of the CCP and President Xi Jinping. The strategy has divided into two parts where the first is still to seek increased influence in the existing international institutions. Due to the increased capital and economic power, China can start to make more progress, the system is ultimately controlling the economic and political environment, and China has the power to change it from within by cooperating inside the lines of the Bretton Woods institutions. The international institutions are also the way to defend economic globalisation and to be a frontrunner of an integrated global economy. Beijing admits within this first step that it can grow as a nation-state by defending and promoting the liberal order and its policies. The rise of the protectionism would only hurt the global world economy and in turn the domestic market of China. The neo-liberal order, however, stands for the model of spreading democracy across the globe, nation-states in need of funds need to redirect their political system towards their values to receive the appropriate funds.

The second point is well in line with the first one only the main difference is that China wants to have more control. Hence, is China building a system of Chinese-led institutions. By doing so, it is reducing its reliance on the worldwide international network of institutions and creating its own sphere of influence. In doing so, Beijing is trying to equalise the global balance of power- effectively changing the rules of the game in its own interest (Gulliver, 2017). Giving the opportunity for China to be in the centre-decision making position without having to worry about conflicting interest regarding the liberal values of development aid. It can build a network of development projects funded by Asia-led institutions to help develop the region and at the same time increase its economic and political influence. The AIIB and the NDB are tools alongside the BRI to help China establish a counter-hegemon framework.

Under the administration of President Xi Jinping, China has adopted a more assertive approach towards the liberal multilateral organisations which is regarded as an order controlled by and for Western powers (Bendini, 2016). Even though both powers,

Washington and Beijing, have increased cooperation on a global platform, the interest of both nations differs on many topics making it hard to find consensus. According to the European Parliament, the frustrating over the U.S.'s predominance, especially in Asia, has caused an increased amount of tensions between the two powers. Beijing is now in the position, after its economic rise, to construct institutions and claim regional power. The time of China following the words of Deng Xiaoping's laying low and not leading is over; we see a proactive Beijing under the leadership of President Xi Jinping with an active Chinese foreign, security and economic policy

In 2013 the CCP held a forum (zuotan 座谈) aimed towards the Chinese diplomacy for its periphery. It was the first significant forum since 2006 aimed at its foreign policy and even the first one respectively about its diplomacy towards its periphery. The policy would be active for at least five to ten years. Its importance was signified by the attendance of the entire Standing Committee of the Politburo among other organs of the Chinese government and ambassadors of significant nations. As mentioned before, China was dealing with increased tensions towards its foreign policy and Beijing needed to come with a uniform policy to approach nations in the Asian region. Throughout the years China had a varied collection of strategies to its periphery. At the 16th Party Congress of the CCP, the diplomatic approach was big powers are the key, neighbours are paramount; developing countries are the foundation; and multilateralism is an important stage (Swaine, 2017, p. 3). The periphery diplomacy of China was seen as a concept to develop a harmonious world under the words of Deng Xiaoping.

China needed to adapt its foreign policy to its goals in the 21st century. General Secretary Xi Jinping gave guidance to the policies designed to:

- I. Enhance political goodwill
- II. Deepen regional economic integration
- III. Increase China's cultural influence
- IV. Improve regional security cooperation

(Swaine, 2017, p. 2)

These policies are also aimed towards making the periphery clear what the core interest is of Beijing and as President Xi Jinping mentioned "*enforce PRC sovereignty and territorial claims against rival disputants*".

The accustomed foreign policy of China is more successful than it was anticipating at first, partly because of the withdrawal of the U.S. on the global platform on numerous topics. Creating the opportunity for China to excess its newly found economic power in the existing international institutions and the ones it set up. Directly affecting Laos and Cambodia is the setting up of the BRI by China, which is the flagship policy carried out by President Xi Jinping. Its long-term impact could be to build a global consensus around how best to plan and fund infrastructure in emerging markets- which is why it has the potential to be one of the most potent forces for international development this century (Gulliver, 2017).

Furthermore, is the BRI in line with the Regional Comprehensive Economic Partnership (RCEP), which is the liberalisation of trade and thus creating more economic integration. China is stepping forward on the world stage where the U.S. is reconsidering its position regarding core U.S. interest. But with this new global role clearly comes an increased weight of expectation, the world continues to look to China for strong and stable growth with at the same time the willingness to push reforms that could harm its ability to grow (Gulliver, 2017). China's principal interest has and will remain, of having consistent economic growth. The economic growth rates and state of the economy is a reflection of the capability of the CCP to rule the nation, and are of life importance to the party. This concept is known as performance legitimacy, with the BRI made to prosper the domestic market of China and therefore the CCP legitimacy. There is a strong sense that the CCP and President Xi Jinping need to perform to maintain stability. Everyone agrees that economic performance represents the foundation of the CCP's continued ability to assert its authority (Zhu, 2011, p. 124).

To maintain their current status China needs to set reforms into action and simultaneously keep the growth rates uniform. The experience of other Asian countries has shown that middle-income economies only graduate to the higher income bracket by achieving a fast enough escape velocity (Gulliver, 2017). The current role China is taking on is helping the aforementioned process, consequently is their outwards look towards Southeast Asia a logic result of their ambition. With its development projects, China can manage the external environment to benefit the economic integration in the region, while at the same time creating new opportunities for the domestic market. Its increase in the field of globalisation and policy also helps the Chinese to enlarge their reach of influence and to shape strategic support states. The set of institutions brought into place after the second world war helped China to ascend

to become the second prominent economy in the world. Resulting in a position of power that allows China to come to the aid of regional allies.

One of the most dramatic changes in the PRC's foreign policy in recent decades has been its new willingness to engage with international institutions, which seems to be parallel to China's increasing power (Kane, 2016). With the increase in foremostly economic power, Beijing is increasing its presence on the global stage, and simultaneously the Bretton Woods institutions. From the perspective of liberal institutionalism China is acknowledging the importance of institutions and seeking more influence to realise their long-term goals. Started by joining the WTO in 2001 and shifting its policies to closer cooperation's with regional frameworks, such as the Association for Southeast Asian Nations (ASEAN). The institutions undeviatingly affect the Middle Kingdom on topics such as trade and military security. The PRC uses its power within these establishments to pressure other members to defer to its position on a broader range of matter (Kane, 2016). China uses the regional cooperation networks, U.S.-led international institutions and its own founded institutions such as the AIIB to reposition itself in the region and on the long-term on a global scale. Its newly found power gives China the chance to rebalance the scale of balance of power in the region, where it's not satisfied with the dominant presence of U.S. military

The U.S.-led institutions have been in place since post-World War II and provide a global governance model that China wants to influence. With by global governance we mean the network of rules, norms, and institutions that can moderate competition between states, and crucially limit the resource to violence by states in pursuit of their interest (Wheeler, p. 1). These values represent the collective idea of the institutions and the essence that more democracy, free trade and capitalism in the world would lead to less conflict because democratic nations do not wage war with each other, known as the democratic peace theory.

Institutions grant China means of power to influence individual states in Southeast Asia to get in line with its customs and regional objectives. China's claim on the South China Sea has seen it creating artificial islands with military bases, defending its territory and sovereignty claims. The U.S. was among the first nations to denounce the operations, with other nation-states such as the Philippines and Vietnam. The artificial islands are built near the territory of both nations, and they see the uprising of China's influence as a threat to their sovereignty. Neorealism defines the absence of a force above the states, and the gain of China is seen as



the loss of their own, expressing their rising concern. It is a zero-sum game context relating to the South China Sea, and the establishment of military bases enforces this observation. Improving their regional position towards Southeast Asia with the setting up of institutions and the BRI improves their diplomatic and economic position vis-à-vis their counterparts. The economic position of China can create opportunities to translate it to political and diplomatic power to influence partner states.

China will, hence, keep participating within the framework of the Bretton Woods institutions but on the side set up and enlarge its Asian ones to counter U.S. influence and steer the region in the direction China wishes. The BRI is managed as the great power diplomacy with Chinese characteristics envisioned by President Xi Jinping. It is coined as China's multilateralism which is in line with complex interdependence and the long-term relations needed to advance in as nation-state. The Bretton Woods institutions, Chinese institutions and regional frameworks including the BRI are used to enlarge the economic and political power of the Middle Kingdom. From a liberal institutionalist viewpoint, China is aiming to shape the international liberal order towards its advantage, as an outlier state between the Western created bloc.

China is thus cooperating within the current framework of global governance and is not seeking to overthrow the system due to its entangled and interest. It is, nonetheless, unsatisfied with the liberal order and its position inside it. China wants to be in the decision making position, and this creates a phenomenon called the regionalisation of institutions. Within the groundwork of complex interdependence, the nation-states do get interconnected on various platforms, although there remains doubt towards the Middle Kingdom when it comes down to their regional activities. The territorial dispute surrounding the waters and islands of the South China Sea have roiled relations between China and countries like Philippines, Vietnam, Taiwan, Malaysia, and Brunei in recent years, and tensions continue to rise with the U.S. (Xu, 2016).

The South China Sea is roughly 1.4 million square miles in the Pacific Ocean and essentially contains uninhabited islands, to which all six big Southeast nation lay a claim. Especially Vietnam and the Philippines are worried about the claim of China, and they feel like it can potentially affect their sovereign territory. It has escalated to diplomatic standoffs, partially also because of the militarisation of the zone. The so-called nine-dash line encompasses

almost all of the South China Sea leaving little to none to the rest of the Southeast Asian nations. The origins of the claim from China is based on its historical legitimacy dating back to the fifteenth century. Professor David Rosenberg, from Middlebury College, states that the immediate source of conflict in the region is competition over resources. Due to the economic rise of China and various other nations included in the ASEAN, the amount of trade and oil exports to the region skyrocketed. There is a considerable amount of economic competition, and a significant amount of ships sail through the waters to get to their destination. *“Behind it all, its essentially the industrial revolution of Asia, and the South China Sea has become the hub of that”* according to D. Rosenberg.

China is in great need of resources, and this amount will only go up within time, hence is the Middle Kingdom diversifying its trade supplies and routes. The World Bank has stated that the South China Sea holds an oil reserve of at least seven million barrels and 900 trillion cubic feet of natural gas. Small ASEAN nations such as Vietnam could have enormous economic benefit from these resources though China, in fact, is already drilling for natural gas. Moreover, as much as 50% of the global oil tanker shipment pass through the South China Sea, which sees three times more tanker traffic than the Suez Canal and more than five times that of the Panama Canal, making the waters one of the world's busiest international sea lanes (Xu, 2016). Minor conflicts regarding the South China Sea are among fishing incidents. The Philippines had intercepted a fishing expedition of China back in 2012, and the banning of fishing in specific areas is seen as a proxy for sovereignty claims.

The militarisation of China saw a response in the region to balance the power. Countries such as Vietnam and Malaysia have increased their military build-up and started to increase their arms trade with potential partners such as regional rival of China, India. Accordingly, are the stakes in Southeast Asia not only described on the neo-liberal bases of complex interdependence and liberal institutionalism. Small ASEAN nations feel threatened by the militarisation of China and its interest to enlarge its sphere of influence. China has opened up its first overseas military base and is making steps it had not done before in the past. It had always accused the U.S. of militarising the region, yet China is making the same steps in 2018. The islands in the South China Sea were always described by China as ‘necessary defence facilities’, and that part of it was triggered by the U.S.. This neo-realism stand-off creates a balance of power situation were sequentially China and the U.S. are across each other with several smaller nation-states as allies. By constructing military defence capabilities

as well as upgrading their technology, China wants to match the regional balance of power vis-à-vis the U.S.

The year 2016 saw an official response, to the U.S. military presence, from the Chinese spokesman of the Minister of National Defence, explaining that “*if somebody is flexing their muscles on your doorstep, can't you at least get a slingshot?*” (Stashwick, 2018). What we see, in the eyes of China, is a classic manoeuvre of balance of power. The U.S. presence in the international waters of the South China Sea is making China unsure about the genuine intentions and is, accordingly, deploying/building military capabilities to defend itself if the times come to an actual conflict. In response to the building of artificial island with military bases close to the sovereign territory of ASEAN nations, these states feel threatened and are unsure of the intentions of the Middle Kingdom, driving them closer to regional rival India or Western allies such as the U.S. Each action on the international playing field is carefully examined and causes a domino effect with responses. The single motif, from a neo-realist perspective, is the survival of the state and the increase of military capabilities in combination with arms deals, guarantees the state a form of power to fight of any possible hostility. Noteworthy is that the South China Sea militarisation triggered a chain of events that ends up in the arming of regional players to balance the power. Even though nations are interconnected on the bases of complex interdependence, the military capabilities in the region need to be in line with the agreements set in the various frameworks that connect the states on the bases of institutions within the liberal order.

Laos and Cambodia are not seen by the international community as the best investment option, but China still decided to invest heavily in these nations. Especially the political stability of Cambodia is low vis-à-vis other regional nations such as Malaysia. Scholars as Sophal Ear and Sigfrido Burgos note that for China, any nation-state that actively furthers the Chinese regional strategic agenda is welcomed as a friend, regardless of who is at the helm (Burgos & Ear, 2010, p. 616).

The case studies have shown that Cambodia and Laos, both nations with low economic standards and weak infrastructure design, have grown more dependent on China over the course of time. Especially Cambodia since it has accused the U.S. of treason on collaborating to overthrow the government. Close diplomatic and economic ties plays into the hand of Beijing due to the need of economic prosperity for both governments. Cambodia wasn't

interested by the liberal demands of the Bretton Woods institutions to improve the democracy in their nation in exchange for funds. The non-interference policy of Beijing gives it a free card to invest in countries which are labelled by the global institutions for reasons such as corruption.

Both nations have shown that there is a limited amount of transparency concerning the constructed infrastructure investments. Beijing is keeping its card close to their chest, creating the space for the outside world to question their intentions and goals. The CCP seems to have a strong presence in the constructed projects, which became more clear with the LMC. The construction of the China-Laos railway clearly showed that the principle of mutual benefit is not maintained throughout all of the projects, with the Koh Kong Pilot Zone as example in Cambodia. It is the systematic undercutting of the host nation making it not a coincidence but a near hand-picked strategy set out by the CCP. The pilot zone in Cambodia furthermore made it visible that China is not playing by the book and is violating national laws for its personal gain. The Middle Kingdom now maintains control of 20 percent of the Cambodian coastline, with consequences such as human right abuses, environmental degradation and economic losses for the domestic market. The unequal benefits exploit the host nations with granting economic power to Beijing, which can later be transformed into political control. In relationship is the selection of projects that are realized and their proven record of improvement to the domestic economy. There is a set of economic targets and this requires a certain amount of projects to realize, such as the China-Laos railway to connect the South of China to Bangkok. Ultimately questioning the factor of rural development and its domino effect. Finally, there is the potential debt burden for the host nation, portrayed by the railway constructed in Laos.

The setting up of the AIIB and the NDB grant a competitive alternative to the established liberal order on newly found principles more accommodating of China's values and interest (Ikenberry & Lim, 2017, p. 12). What is particularly interesting in the analysed case of Cambodia.

The creation of institutions and initiatives such as the BRI and LMC is benefiting Beijing to showcase to the rest of the world that they can carry responsibility by actively building and support, in the case of the Bretton Woods, a global system. It is a system of displaying willingness to cooperate and collaborate on common problems to win over the confidence of its periphery and the greater region. The institutional statecraft is posing two issue-specific

challenges: the rules, practices, and norms of multilateral development financing, and the institutional balance of power with the longer-term challenge to the integrity of the liberal international order and the hegemonic position of the U.S. (Ikenberry & Lim, 2017, p. 12). Laos, Cambodia and the LMC showcase that projects are interconnected to a greater ambition aimed at the medium-long term policies. It is the creation of a stable position in smaller to medium-sized nation-states that will provide a steady regional hegemonic position.

The projects under the BRI and AIIB provide China with bargaining strength vis-à-vis the liberal order. U.S. Federal Reserve Ben Bernanke stated that the failure of the U.S. Congress to improve the voting rights of China in the IMF have pushed it to establish the AIIB, making the U.S. in part responsible. The Bretton Woods framework could work from a privileged position with control over the nature of loan conditions and geographical development financing, accompanied by neoliberal economic principles. These neoliberal economic principles were, to some point also, in line with the foreign interest of the U.S. showcasing that what China is doing is not a new phenomenon. Liberal institutionalism provides an in-depth context of the national projects in a regional context. Projects such as the Koh Kong Pilot Zone showcase the economic, political and military possibilities that initiatives give to the fund distributor.

The reasoning for Beijing to be active in Laos, Cambodia and LMC is defined by four policy points:

- I: The securing of greater influence in the region
- II: Attaining natural resources and access to energy sources
- III: Strengthening of the bargaining position on regional disputes
- IV: Forming of a sub-regional group with Southeast Asian nations for economic cooperation

All of the points are interconnected and shows that China seeks equivalent privileges that allow it similarly to exercise influence and pursue its interest multilaterally (Ikenberry & Lim, 2017, p. 13). The first three point of policy can be reached by exercising greater economic control over small to medium-sized nation-states to create strategic support countries. It gives the opportunity to stealthy upgrade their military capabilities in the shades while its working on its global image of the upholder of liberal values. Nations get trapped inside a system of asymmetrical interdependence relations, those that get created under policy point number four. The rather pessimistic theory of post-development is in place for the

future developmental aid of China. Post-development meaning that the developed world is rearranging the developing world in their interest (McGregor, p. 14). President Xi Jinping is well aware of the direction China needs to head in to safeguard its future need for resources and simultaneously its political power position.

The theories of liberal institutionalism and complex interdependence provides a framework to interlink China's liberal economic targets to its neo-realist goals. This multi-theoretical framework provides a new insight into the development projects constructed by China in its periphery. The use of Western and Chinese sources shows a clear divide between the mind-set of the West and East. The West gets accused of a 'Cold War' mentality and is at times to pre-occupied with a zero-sum mentality. While the mainland Chinese scholars lack on reflective capabilities on their development projects and their beneficiaries.

The geopolitical question of what a risen nation-state will do with its increased capabilities is made clear for the case of China. The development projects in Laos and Cambodia, combined with the regional initiatives such as the LMC, empower Beijing on its course to being a regional hegemon. The parallel scheme of initiatives is created to challenge the established liberal order and provide a so-called network of counter-hegemonic institutions. The motive of China's development projects in individual nation-states goes further than the national perspective which required this research to provide an overview of regional objectives. The 21<sup>st</sup> century marks an era of interdependence and multilateralism which Beijing is playing out in its favour. President Xi Jinping has set out national plans for individual states in Southeast Asia to work towards its regional objectives, both economic and political. Laos and Cambodia need to create an economic and political strategy vis-à-vis China to handle its FDI to maintain its long-term sovereignty and political independence.

## Chapter VI: Conclusion

Regions around the globe, such as Southeast Asia, are dealing with low levels of infrastructure development eventually holding back their economy. China presents the opportunity to boost the connectivity, trade and development of Laos and Cambodia. The Middle Kingdom remains the only country willing and able to invest in these underdeveloped nations, but what is the underlying motive of Beijing? Resulting in the research question: *“What is the Chinese motive behind the construction of development projects in Laos and Cambodia?”*

China's periphery diplomacy noted the developing countries as the foundation and multilateralism as an essential stage to reach out to small and middle-range states. The development of Laos and Cambodia under the umbrella of the BRI with the aid of Chinese-led institutions is aimed at sustainable infrastructure capabilities for the host nations.

This research provided an alternative perspective on the periphery development of China with the use of a multi-theoretical framework of realism and liberalism. The analysing of the development process in both nations brought forth a list of four policy points that illustrate the motivational purposes for Beijing to engage with Laos and Cambodia.

- I: The securing of greater influence in the region
- II: Attaining natural resources and access to energy sources
- III: Strengthening of the bargaining position on regional disputes
- IV: Forming of a sub-regional group with Southeast Asian nations for economic cooperation

The case study has revealed that projects in both nations share the same characteristics, these are a limited amount of transparency, unequal benefits, strong CCP presence and potential debt burdens. The analysis was formed around Western and Eastern –primary Chinese – sources that placed the national development projects in a greater regional perspective. Researchers from Western and non-government affiliated Chinese organisations showcase that Beijing is gaining access to strategic points of interest in Laos and Cambodia both on the fields of economics and politics without agitating the status quo in the region. All four points lead to a greater strength of China in the region, which is ultimately a set up to becoming a regional hegemon. The multi-theoretical approach provided a new angle, compared to the existing literature, into the peripheral actions of Beijing.

Neo-realism and complex interdependence provided insight into the fact that China is using its economic influence, in Laos and Cambodia, to contribute to its impending military objectives in the region. Liberal institutionalism revealed that multilateralism coupled with China's development diplomacy consolidates the position of the Middle Kingdom while it is steadily enlarging its political leverage. Resulting in the fact that China's liberal economic policies are profoundly interconnected with its political and military regional goals.

Laos and Cambodia, from a host-nation perspective, are dealing with a double-edged sword; both depend on FDI for infrastructure development and its ruler performance legitimacy. They have to find a balance between the geopolitical ambitions of its influential investor and the economic opportunities, where diversification seems to be the keyword.

Multilateralism combined with development diplomacy consolidates the position of Beijing while its slowly gaining territory and political leverage. Being the effort of President Xi Jinping who is making resourceful decisions that will give Beijing the upper hand in the region while being careful not to distress the status quo. The goal of Beijing is not to overthrow the liberal order, due to its importance, but to create a parallel scheme of institutions while moulding the international order towards its preference.

China's economic power enables it to set up a parallel institutional scheme fundamentally building the blocks for its neo-realism and energy security long-term goals. Beijing's development diplomacy in Laos and Cambodia is perfectly synchronised with its multilateral tools and the targets of the CCP, showcasing a contrasting reality than it portrays to the outside world. President Xi Jinping has a clear-sighted vision towards its developmental aid in periphery Laos and Cambodia, to embody and bolster Beijing with calculated steps. Laos and Cambodia are a tool in the shed, which at times, will provide to be useful for its sovereignty, territorial and natural resource claims against rival disputants.

In conclusion, liberal institutionalism and complex interdependence illustrated that with the help of economic values Beijing is getting closer to its neo-realist claims on territory and resources. The analysis provides a window for follow-up research which would interconnect China's gained regional-developmental political influence to its ever-growing quest for – energy- resource security.



## Appendix

### Definition of Periphery

Yuan Peng, vice president of the China Institute of Contemporary International Relations, or CICIR, a think tank attached to the Ministry of State Security) defines China's periphery in terms of three rings. The "inside ring" consists of the 14 nations that share land borders with China. The "middle ring" includes the maritime countries that extend from the inner ring, as well as areas in the west Pacific to the Indian Ocean and to parts of central Asia and Russia that do not directly border China. The so-called "outer ring" extends to the circle of Africa, Europe, and America. Together, Yuan (and a few other non-authoritative observers) refer to these areas as the "great periphery. (Swaine, 2016, p. 4)

### 7.1 Evaluation of development

Development is a wide-ranging word used in international relations with no commonly accepted definition. Instead, as is the case with this thesis, academics and practisers outline their own interpretation of development and use this to analyse their own subject.

Development is commonly used in line with words such as progress and evolution, creating a sense where the society is moving forward from one form to another one. Not all scholars agree with this perspective, Michael Cowen and Robert W. Shenton suggest that development has evolved in opposition to progress, to mitigate its negative effects. Progress implies change and change destroys that which existed before it, sometimes with painful impacts, such as unemployment or marginalisation, for particular groups within society (McGregor, p. 6). In the light of Cowen and Shenton we can state that development is not necessarily associated with positive aspects, developers have the power to create projects that will put local people in a disadvantaged position with serious consequences on the long term.

This creates two generalist perspectives whereas the first views development in the light of evolution and moving society forwards in engaging projects. The second one proclaims that the projects are based upon power relations and have a destructive effect. Related to the latter is the argument used by the colonialists. Southeast Asian nations were under the direct control of European states who could legitimize their extraction of labour and resources under the promotion of development. These projects benefiting the extractor were labelled as society improving ventures, but were causing more harm than good.

Colonial empires started to collapse after the second world war which called for a modification of the development system and interstate relations. To this end an important conference took place at Bretton Woods in the U.S. that resulted in the establishment of the World Bank, the International Monetary Fund (IMF) and the Geneva Agreement on Tariffs and Trade (later to be the World Trade Organisation) (McGregor, p. 7). These institutions played a key role in the stabilisation of the world economy, whereas the creation of the United Nations, in 1945, was formed to protect human rights and maintain peace. After the second world war the United States helped the economies of European nations with the Marshall plan, which laid the backbone for foreign aid. With the setting up and formal acceptance of these institutions was an establishment of identifiable development institutions and industries. President Truman inaugural speech in 1949 is identified as the moment development grew to its present-day form. He spoke out against the *“old imperialism – exploitation for foreign profit”* and instead outlined *“a program of development to make the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas”* (Truman, 1949).

Development entered a new phase where it is now a goal of foreign and domestic policies, to further develop society without having destructive effects. Development is greatly associated with economic growth, which in terms can be calculated by the gross domestic product (GDP) of a nation. Helping nations in the post-war period to measure their state development strategies. Walt Rostow, who championed the modernisation theory, in his 1960 book *“The stages of Economic Growth: A Non-Communist Manifesto”*, became an essential conceptual framework for modelling development along a linear path of five distinct stages from *“traditional society”* to the *“final age of mass consumption”* (McGregor, p. 8).

The theory is rarely used anymore and is accused of being biased towards the United States. It depicts societies in the first stage, traditional societies, as being backwards therefore putting nations in Southeast Asia into the same stage without eye for the culture, political and social aspects. It placed the United States on a throne with a dominant position, portraying a society that everybody should pursue. Modernisation ideas also came to influence the Bretton Woods institutions and the United Nations which would use their power to encourage others to pursue modernisation goals (McGregor, p. 9). In the light of the modernisation theory, Rostow claimed that communism was anti-development, causing nations under the communist rule to be stuck in a certain phase without the possibility of moving forward.

United States greatest economic competitor, China, was and still is, according to the modernisation theory, unfairly treating its citizens therefore preventing further development.

In contrast with the modernisation theory, the neo-Marxist theory became popular during the 1960s and 1970s. Economist as Raul Prebische and Andre Gunder Frank claimed that the modernisation theory was the greatest obstacle for nations in the first stages to develop. Instead of dividing nations into five phases, they created two camps. The core, Northern America and Europe, and the periphery, which is basically the rest of the world. Peripheral countries are seen as locked into exploitative relationships with the core, those in peripheral countries were locked into low income employment in primary industries, with few opportunities to progress, while core countries are developing skilled secondary and tertiary employment sectors that produce high value goods and services stimulating further economic development and innovation (McGregor, p. 9). Because the periphery is getting exploited by the core, they should defend themselves with tariffs and taxes to industrialize their own economy, resulting in the production of their goods and services and cutting dependence on the core nations.

The Neo-Marxist theory however can't explain the rise of the Asian tiger economies such as Taiwan and Singapore who did not block off their trade, and there comes the World System theory in place. This theory adds another layer with the semi-periphery, these nations play a key role amidst the core and periphery, on the bases of international trade for instance. The semi-periphery however, has the same objective as the core nations ultimately creating a ruthless situation for the periphery.

The World System theory has always been more popular with the nations in the periphery and back in the 1980s the core responded with what is now the most common international economic development theory, neo-liberalism (McGregor, p. 10). This theory, backed by Margaret Thatcher and President Ronald Reagan puts the cause of underdevelopment in direct relation with a lack of freedom accorded to financial markets. Where Neo-Marxism proclaims the use of tariffs and taxes, the neo-liberalism perspective advocates for an absence of government intervention. The bases behind it is that inside a free market the capital will flow towards various markets creating a competitive economy, in due course benefiting the society. Where the Neo-Marxist blames the international order with its institutions, the neo-

liberal proclaims that the underdevelopment of a nation is the result of its own government policies.

From a Neo-Marxist perspective, the international order regulates the flow of funds and therefore the sovereignty of a nation. The Bretton Woods institutions are connected with countless underdeveloped nations across the globe in the 21<sup>st</sup> century and have the power to pressure states into neo-liberalism policies in exchange for borrowing money. This was for example the case in Indonesia during the Asian economic crisis when it was forced to undergo a 'short sharp shock' and apply structural adjustment policies as a condition of borrowing much needed money from the IMF (McGregor, p. 11). In the 21<sup>st</sup> century, Neo-liberalism is pursued by the majority of the Southeast nations in search for economic development by the rules of the Bretton Woods institutions.

Up until this point of discussion, the development of a nation is only associated with economic terms and foremost GDP to measure the effects. Development is, however, much more than just economic numbers and is closely linked with the well-being of the society and the benefits for the proletariat. An increase in GDP doesn't automatically mean that the society is better off, it could be the case that it aids the aristocracy and hurts the majority. Thus, development cannot be only measured by economic variables. This can be seen in the develop of large dams in Southeast Asia that boost a country's overall GDP but cause flooding and irreversible hardship for those forced to leave their homes and livelihoods (McGregor, p. 12). Through out the twentieth century the mind-set towards development changed and started to include numerous new factors such as social, cultural, political and environmental well-being. This led to the creation of the Human Development Reports (HDR) by the United Nations, this yearly report grades a country towards a certain amount of variables including life expectancy, literacy and gender equity. The aim of the HDR is to shift the focus of development economics from national income accounting to people-centred policies (HDR UN, 2016).

Development has gone through a process of transformation, and is being reconstructed as enlarging people's choices through boosting life expectancy and health, increasing knowledge and awareness through education, encouraging economic and political freedom, and heightening access to recourses that enable a 'decent standard of living'. (McGregor, p. 13). Development converted itself from a solemnly economic viewed construction to one that

puts non-economic variables first, thus looking at the society with a greater scope than just GDP.

Directly related to this change in direction are the Millennium Development Goals (MDG's). The eight MDG's- which range from halving extreme poverty rates to halting the spread of HIV/AIDS are providing universal primary education, all by the target date of 2015 – form a blueprint agreed to by all of the world's countries and all the world's leading development institutions (Millennium Goals UN, 2018). Noticeable is the absence of increasing the GDP and the shift towards social variables, while it still values economic growth and income of the society. Were the theories of Neo-Marxism and modernisation generalize countries into the same brackets, the new and improved form of development has eye for the unique situation of a nation and understands that it requires an altered approach for each of them. This creates an alternative theory that doesn't uses the top-down decision making approach but instead uses a grassroots one that symbolizes bottom-up decision making. It's a more expensive and time consuming development approach that directly listings to the needs of local inhabitants, having its positive and negative points in comparison with traditional aid.

An offspring of this is a debatable concept that has emerged, the post-development theory. Post-development writers argue that development is a discourse being used by the developed world to rearrange the developing world in their interest (McGregor, p. 14). This rather pessimistic notion argues that the core countries are exploiting the periphery by letting them chase a lifestyle of consumption similar to the western hemisphere. Traditions and cultures are fading away in Southeast Asia in pursue of a luxurious lifestyle that is getting promoted by the Bretton institutions, ultimately supporting the aristocracy of the world. The peasants become stuck in a pursuit for a lifestyle that only a small percentage of the world will achieve. They move away from the rural lands to the factories for a better life, but in the long run they will only attribute to the global production system benefiting the elite while loosing their past for an unachievable target. As explained by Elliot in *'An Introduction to Sustainable Development'*: “The mass movement of people from rural areas to work in urban factories, could be portrayed as people swapping their spiritually rich rural cultures for poorly paid, monotonous and often hazardous work in modern industrial practices”.

In the end, all theories mentioned above have an aim of equitable development, the tools to reach it various however. Grassroots development theory puts the decision making progress in the hands of the community while Neo-Marxism believes in the intervention of the government to provide a steady growth in a nation upwards to a path of prosperity. The aim of this thesis is not to discuss the development theories and propose solutions, but to use them as tools to analyse the regional development of Chinese investments in Southeast Asia.

## 7.2 Case study: Lancang-Mekong Cooperation

The LMC mechanism, was proposed by the Chinese Premier Li Keqiang as sub-regional cooperation between China and the five Southeast nations of Thailand, Vietnam, Myanmar, Laos and Cambodia (Jiafeng, 2016). The river originates in the Qinghai province of China, known as the Lancang in China, with a total length of 4800km. It is the 12th largest river in the world and the 7th longest in Asia, connecting all of the cooperation parties in the LMC. The LMC was seen as a rival to the long-standing Mekong River Commission, but this cooperation excludes the inclusion of China and Myanmar.

The news outlet China Daily states that the aim of the LMC is at contributing to the economic and social development of sub-regional countries, enhancing the well-being of the people, narrowing the development gap within the region and building a Community of Shared Future of Peace and Prosperity among Lancang-Mekong countries (China Daily, 2018). Beijing wants to create a synergy between its regional institutions, the BRI, ASEAN and other regional mechanisms such as the LMC to build regional progress. This also in return creates the opportunity to get closer to the UN 2030 Sustainable Development goals, another target for Southeast Asia. On July 7, 2016 President Xi Jinping met U.N. Secretary-General Ban Ki-moon and explained that the BRI and other Chinese initiatives have the potential to reach the goals of 2030. The years of 2018 and 2019 of the LMC are centred around the foundation-laying stage when the six countries want to strengthen their sectorial cooperation planning and start working on small and medium-sized projects along the Mekong. In the following years, from 2020-2022 the primary focus will be on strengthening the cooperation within the key areas and comprehensive projects to realise their ambitions. The idea is to optimise the cooperation model at the starting point of the mechanism with smaller projects, and then gradually focus on large-scale projects. An investment of \$110 billion is needed on a yearly basis on infrastructure to support the future growth according to ASEAN; this master plan will help and improve the coordination of projects, preparation and enhances the productivity ultimately. In line with the infrastructure is the logistics of a nation-state, to successfully move the goods from point a to b within the ASEAN community and outside. Eventually creating business opportunities for the ASEAN citizens and develop the region.

The LMC works with the BRI, and its connectivity aspect is synergised with the Master Plan of the ASEAN Connectivity of 2025 (MPAC 2025). The ASEAN Connectivity 2025 was introduced in Vientiane, Laos 2016 and succeeds the Connectivity 2010. The MPAC 2025

focuses on five strategic areas: sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and people mobility (ASEAN, 2018). Lots of focus areas of the various amount of mechanism in Southeast Asia cover the same features, such as infrastructure. Its key for upcoming nations such as Laos and Cambodia to build a reliable infrastructure to facilitate their economy.

With abundant resources, drainage of 795.000 square kilometres where 326 million people live, A GDP of \$590 million and an annual economic growth rate of 7%, the Lancang-Mekong region is now one of the most promising regions in Asia and the world at large (MFA PRC, 2016). The Chinese Ministry of Foreign Affairs has pointed out that the nations alongside the Mekong river have exceptional potential for development and economic growth, but did not reach this potential yet due to historical reasons.

The GDP per capita of the LMC nations is lacking behind the region's average and is around \$2800, in comparison, China's GDP per capita is \$8.123 in 2016. The primary objective for the LMC nations is development, and this can be accomplished with industrialisation and agricultural modernisation with the help of the LMC mechanism.

The shaping and creation of the LMC only took a year and has been prosperous from the starting point according to the Chinese government. Since there are six nations connected to the LMC mechanism, there is much personal interest making it even extra impressive that they came to a cooperation network within one year of negotiating.

November 2015 signals the first foreign minister meeting under the LMC mechanism in the Yunnan province of China. The parties agreed on the direction of the LMC and agreed to cooperate on three key areas of political security, economics and sustainable development, social and people-to-people and cultural exchanges (MFA PRC, 2016). China is naturally the party with the most capacity to spend FDI, but the LMC as a mechanism yields a profit to all the selected nations, it will take time, however, to entirely generate this. One of the fundamental characteristics is the improvement of transportation connectivity. The participating nations can considerably benefit from the expertise of China and its FDI to improve the connectivity and in the long term its economic potential in the region. Furthermore, there is a need for business development and tourist exchanges, foremost between China and the Southeast Asian nations. China can significantly contribute on all aspect with its expertise in infrastructure, a tremendous amount of potential FDI and it's



growing middle-class. The aim set forth by the LMC is to be “down-to-earth”, instead of “flying high”.

China is momentarily dealing with overproduction and overcapacity and can use the LMC as an instrument to deal with its domestic problems and at the same time help out its regional partners. The LMC is formed with the mind-set that all cooperating nations have political mutual trust in each other, defining that it would be easier to trust each other in an economic partnership. By improving their political and economical alliance, they can achieve mutual success, as with the BRI, and bring the region closer to each other.

One of the Chinese sayings stated by Chinese officials for the LMC is *“If you want to become rich, you need to build a road first”* which implies that the connectivity factor of the LMC is at the core. Due to Chinese expertise on infrastructure, they help the six nations who are lacking behind the average GDP per capita on the rest of Southeast Asia. The LMC creates the same perspective as with the BRI, of Chinese distributing its expertise and overproduction/overproduction. One of the important factors is the once discussed Kunming to Bangkok railway project, which crosses through Laos. The trans-Asian passage will connect most of the LMC nations, making trade more accessible. Besides the railway, the Mekong channel will be renovated, and there will be more more flight connections. By improving the connectivity in the region, there is hope for an increased amount of trade. The official news website of the Chinese Communist Party stated that foreign affairs is willing to help the LMC mechanism in the areas of power, energy, railway and resources. In turn, creating development and industrialising. The Long Jiaying Industrial park in Vietnam, Saysettha comprehensive development in Laos, Sihanoukville SEZ in Cambodia and the Thai-Chinese Rayong industrial zone are demonstrative projects of cross-border economic cooperation from the six nations (MFA, PRC, 2016).

At one of the initial first meetings, China pledged to offer 10 billion Yuan in loans and another \$10 billion in credit to its five cooperation members of the LMC. Showcasing the importance of China for the funds of the LMC and the reason for the creation of another mechanism next to the Mekong River Commission. Beijing is the beating heart of the mechanism and the party for funds and expertise.

The second meeting for the leaders of the LMC happened on January 10, 2018, in Cambodia. The cooperation meeting was co-chaired by Cambodian Prime Minister Samdech Techo Hun Sen and Chinese Premier Li Keqiang, furthermore were present the Thai Prime Minister Prayut Chan-o-Cha, Laos Prime Minister Thongloun Sisoulith, Vietnamese Prime Minister Nguyen Xuan Phuc and Myanmar Vice President Myint Swe. The general theme for the meeting was submitted by Cambodia: Our River of Peace and Sustainable Development.

*“The six leaders of the LMC will discuss key issues to develop the Mekong sub-region with a strong focus on the commitment to maintain peace, stability, sustainable development and prosperity of the Mekong sub-region”* stated by the Prime Minister of Cambodia (Xinhua, 2018b).

The striking point is the economic development of the Mekong sub-region for the benefit of the society. By providing better economic opportunities, the hope is that there will be a smaller development gap among the Southeast Asian nations in the near future. The ASEAN, BRI and LMC are all tools to contribute to the implementation of the United Nations 2030 Agenda for Sustainable Development. The Sustainable Development Goals (SDG's) are a set of 17 goals set by the United Nations, on different topics but each of them is intertwined with each other. It is a replacement of the Millennium Development Goals (MDG's), and its targets are among poverty, hunger, health, education, climate change and gender equality.

Top United Nations (U.N.) officials are now helping Beijing selling its BRI. United Nations Deputy Secretary-General Amina Mohammed suggested a way for African leaders to boost their economics and end decades of strife: sign up to participate in China's Belt and Road initiative (Lynch, 2018). The BRI is seen as a tool by UN officials to reach the SDG's of 2030 by eradicating poverty with Chinese development projects. C. Lynch, Foreign Policy's senior diplomatic reporter, stated the promotion of BRI projects by U.N as curious at least. Furthermore, he explains that *“U.N. support for the Chinese project comes just as Beijing is facing growing criticism for imposing unsustainable debt burdens on poor countries and feeding suspicions that the program is a cover for projecting China's economic and military interest”* (Lynch, 2018). European leaders and officials have stated that the BRI can have large political implications and smaller-medium sized nation-states should be aware. Chinese scholar Elizabeth Economy from the Council of Foreign Relations and author of *“The Third Revolution: Xi Jinping”* and *“The New Chinese State”*, names the U.N. backing as *“an*

*international stamp of approval to the Belt and Road Initiative at a time when it is under fire”* (Economy, 2018). The idea behind the backing of the BRI is that this way the U.N. can help and guide the projects to benefit their own goals, so it trickles down to eradicating poverty for instance.

The primary ticket for the summit was the realisation of a five-year development plan with Chinese build hydropower dams alongside additional projects scattered across the Mekong sub-region. So far there are seven mega dams constructed on the Mekong river with the construction initiated of 20 more, according to a U.S. non-profit organisation International Rivers. China is pledging extensive amounts of money to support small and medium-sized business along the river on top of the funds for dams and environmental protection.

One of the main critique points is the destruction of the environment that goes alongside all of these hydro dams and construction sites. Environmentalist and government officials have extensively shown their concern about potential destruction of the natural habitat surrounding the river. When Vietnam experienced its worst drought in 90 years in 2016, experts said China was partly responsible because its reservoir dams had increased evaporation rates upstream (Zhou, 2018). The Middle Kingdom also has plans to widen the Mekong river for the transport of giant cargo ships, destroying the ecosystem. The latest summit was coined as a way for Cambodia to enlarge its FDI from China since directly after it Li Keqiang visited Cambodia. The Cambodian Minister of Public Work and Transport Sun Chanthol said the Southeast Asian nation needed around \$500 million a year to develop a transport infrastructure (Zhou, 2018). Surrounding nations and the international community are getting worried that Cambodia is getting to close in the sphere of influence of Beijing with the direct effect that China will stand more strong on regional issues such as the South China Sea dispute. Beijing is accused of forfeiting the environmental protection plans to fast-track the development in the region. T. Fawthrop of *The Diplomat* states that *“Any idea of environmental protection for the wonders of the Mekong has been marginalised by China’s grand BRI with its focus firmly fixed on trade, infrastructure development and, along with the Mekong, dam construction”* (Fawthrop, 2018).

Amid the backdrop of the importance of the river in connecting Europe through Southeast Asia and beyond in the grand infrastructure programme launched by President Xi Jinping, Chinese delegation leader Premier Li Keqiang will be looking to bolster China’s influence in

the Mekong region as he faces his counterparts (Zhou, 2018). China is aiming, just as with the BRI, to enlarge its sphere of influence as Laura Zhou mentions of the South China Morning Post.

In short, the five nations connected to the LMC have a special place in the BRI of Beijing. All of the countries are dependent on the funds of foreign nations with China willing to take in the leading position in the region. With the various initiatives China can export its excess of industrial capacity and at the same time increase its sphere of influence. Especially after the years of the creation of the LMC China was under a loop due to its interest in the South China Sea. Li Keqiang, in turn, told the leaders of the Southeast Asian neighbours that in the challenging economic situation, better regional cooperation could help the Chinese economy counter downward pressure (Zhen, 2017). The LMC mechanism is in line with China's periphery diplomacy. The pro-active approach to the foreign and defence policy approach is a product of ongoing debate in mainland China on how to define the interest of the nation in its periphery. The most important question remains how Beijing will reconcile the contradictory policy imperatives of deepening positive relations with neighbouring countries while more firmly advancing China's territorial and resource interest and claims (Swaine, 2017, p. 1). Resource and territorial disputes are affecting Beijing outwards diplomacy towards creating devoted relations. This also pushed Beijing in the direction of re-considering its foreign policy and to more actively promote economic, political and security cooperation. Michael D. Swaine, senior fellow at Carnegie Endowment for International Peace and among the most prominent American analyst in Chinese security studies, proclaimed that to resolve existing problems, the PRC diplomacy will be more aimed towards this critical region, and it will be more fully integrated into China's overall strategic objectives of peaceful, reform-based national development, strengthening of security along the Chinese border, and the protection or advancement of Chinese territorial and natural resource claims (Swaine, 2017, p. 1).

The LMC has the same critique points that China has to deal with as the BRI. Scholars and nations around the globe are unaware of the intentions of the Chinese FDI surge, and Beijing needs to work on bringing trust and confidence. Where the Chinese institution of the AIIB sets high standards for transparency and non-discriminatory procedures, the BRI and LMC are more covered in a mystery. Investments mainly come from Beijing, and 90 percent of the projects constructed along the BRI is managed by Chinese companies (Clauss, 2018).

Creating an incentive for non-Chinese scholars to criticise the BRI as a China-centred project.

Chinese development projects, in Laos and Cambodia, are often condemned on the fact that there is little adherence to environmental protection, social standards and the lack of involvement of local workers. Beijing does possess the expertise in infrastructure development and the funds to realize these projects, but they need to keep an eye on the sustainability of those same projects. While these projects also have the chance of creating debt for the host nation, hence debt sustainability is another part of the puzzle. More transparency could strengthen confidence in China's lending practices and help counter international criticism that it seeks political influence in partner countries (Clauss, 2018).

Western critics such as M. Clauss, German's ambassador to China, recommend the development projects of China to be more transparent, with openness to outsiders and international standards, only this way the initiative as a whole can move forward and set China lose from the criticism. By adjusting its transparency and cooperation mechanism, other nations can more easily join which would make it more of a multilateral platform than it already is. Eastern scholar W. Jia, of Chapman University, explains that despite the negative tone of Western media the development projects of China are making the world a better place. That its commonly overlooked how the increased cooperation and connectivity is benefiting the liberal world order, and how all countries are gaining from it (Jia, 2018). Its been dubbed as a "*collaborative globalisation*", where China can work outside of the U.S.-led institutions. By constructing its institutions, China can maintain full control over its financing of development projects and dismiss the U.S.-led institutions that were always in place.

Instead of appreciating China's efforts to both inherit the liberal agenda of globalisation and forge a new path for global development, many Western political elites, led by the U.S., have started a campaign to resist China's development projects (Dodwell, 2018). The creation of the China-led institutions are a treat to the existing power of the U.S. and China is extending its influence of power. The status quo is not looking towards a reshuffle of power relations and are therefore opposing this trend of development. Beijing is not the traditional synonym for associated words such as freedom, democracy and individual rights and this creates an opportunity for Western critics to blame the system and initiatives. The world is seeing a

regionalisation of institutions and initiatives creating a rivalry between Washington and Beijing. The initiatives of China have inspired and spawned a push for localisation, particularly the Indo-Pacific strategy led by the so-called “*Quad*” of the U.S., India, Japan and Australia (Jia, 2018).

The U.S. is the frontrunner of warning the world about the intentions of the Middle Kingdom. One of the last statements of former Secretary of State Rex Tillerson, before he got fired, was to warn the world of being seduced by the siren call of Chinese loans for supporting their development projects. *“China offers the appearance of an attractive path to development, but in reality is trading short-term gains for long-term dependency”* (Dodwell, 2018). Laos and Cambodia are in a package where their need to look at their long-term sovereignty and put the infrastructure projects in perspective. Tillerson came to these conclusions with the help of *“The Debt Implications of the Belt and Road Initiative”* report authored by John Hurley at the Washington-based Centre for Global Development. It is, however, a U.S.-based centre, and hence biased towards defending the liberal order and the status quo. The paper, as mentioned before in this research, puts Laos in the risk of debt distress but doesn't state that the region will potentially have a systematic debt problem. There is risk associated with the acceptance of various amount of Chinese projects, but Laos and Cambodia are desperate for FDI on infrastructure.

So are the development projects putting the impoverished economic in peril in Southeast Asia? For sure according to D. Dodwell, who states that any government seeking infrastructure financing should be cautious about the risk linked with projects that will be paid for over 30 or 40 years (Dodwell, 2018). There is no hard evidence on the fact that China is lending Laos and Cambodia amounts of money that cannot be repaid by themselves, but the future will tell. Laos has a 25-year loan with a 2.3 percent interest rate for \$465 million with even a five-year grace period. With even the Washington-based Centre for Global development explaining that *“China has demonstrated a willingness to provide additional credit so a borrower can avoid default”* (Doddwell, 2018).

The clash between the U.S. and the liberal order vis-à-vis China in Cambodia and the greater region is more than just market access and development aid. M. Schuman of Bloomberg portrayed it as a *“clash of economic civilizations”* (Schuman, 2018). The U.S. advocates for the liberal norms of openness, democracy and private enterprises, while China is a hardliner

on controlled markets, strong role of the state and a non-interference policy that's seems more controversial than ever. Fundamentally, China's leaders don't see pro-market practices or fair trade treatment as necessary (Schuman, 2018), giving no incentive for Beijing to judge another nations domestic policies on either economics or politics. Beijing's claim on the South China Sea triggered a chain of events that set other regional actors on their toes, alarming that China is making a bid to dominate the international waterway and strengthening its regional position. Japan, Vietnam, Philippines, Malaysia and Indonesia all responded to this act of China with military upgrading, closer military ties with likeminded nations and Washington, who keeps an eye on China at all times (Luce & Hickey, 2015).

The projects in Laos and Cambodia share similarities to other development activities of Beijing, with a lack of transparency, excessive amount of Chinese influence with Chinese SOE as contractors and questionable profitability. There might be no official documents linking the development of Laos and Cambodia to political influence, but there is a parallel between China's economic influence in the periphery and its political power. Peter Cai, a partner of Australia's Lowy Institute think tank, explains that the increased economic activity means that *"China is going to have economic influence and we all know that economic influence easily translates into political leverage and power"* (Cai, 2018).

U.S. Secretary of State Rex Tillerson is a well-known critic of the BRI and China, and showcases his concern on the growing influence more than often. He proclaims that the Chinese *"predatory loan practices"* causes dependency on Beijing, establishing asymmetrical interdependence and it undercuts their sovereignty. R. Tillerson is far from being independent however, since shortly after he proclaimed that the U.S. model of development had proven its success over the course of time. The U.S. Secretary of State states that *"Chinese methods encourage dependency using opaque contracts, predatory loan practices, and corrupt deals that mire nations in debt and undercut their sovereignty, denying them their long-term, self-sustaining growth"* (Panda, 2018). Cambodia and Laos showcase that the projects have the potential to address the infrastructure gap in Southeast Asia, at the cost of a debt and a limited amount of jobs for the local communities.

At this point the U.S., European Union officials, European leaders and Asian nations have criticized the BRI in one way or another, regarding increased amount of political influence or a chance in military balance, portraying the dangerous waters Laos and Cambodia is in. At

times when the U.S. is cutting foreign development, China senses the opportunity. E. Economy author of *“Third Revolution: Xi Jinping”* The and *“The New Chinese State”* perfectly summarises the shortcoming of the BRI in Laos and Cambodia: *“It includes weaker environmental standards and in many cases the projects Beijing pushes don't always match what the recipient countries need, with the SOE so far dominating the field of projects”* (Economy, 2018). It is not the fact if China is good or wrong on its developmental aid to Laos and Cambodia, but where the international order, including the U.S., can work within the framework of Beijing to improve and adapt its aid so its better in the future. Since there is no alternative to China's ambitions.

In April 2018 a report got released by C4ADS, an American data-driven non-profit research institute, about Chinese Port investments and how they are reshaping the region. The paper concluded that contrary to Beijing's public rhetoric, the economics of the deals are questionable, political control is nearly absolute, and one of the main drivers is to give the Chinese navy the possibility of far-reaching logistical support under the cover of seemingly innocuous commercial operations (Johnson & Luce, 2018). The ports are seen as an extension of political influence of Beijing, with the Koh Kong Newport in Cambodia being directly named. The infrastructure investments of China are being questioned due to its striving for strategic interest.

*“Wherever there is Chinese business, warships will have a transportation support point”* – Deng Xianwu, commanding officer of PLAN warship Changbaishan in 2016 (2018, C4ADS)

The Chinese investments on ports and infrastructure projects are interconnected to strengthen the political and military position of the Middle Kingdom, with Deng Xianwu of the PLAN directly linking the business and military aspects. The authors state that the *“BRI – a massive infrastructure programme that Beijing says is aimed at promoting global trade and economic growth – is actually intended to expand the country's political influence and military presence”* (SCMP, 2018). Win-win is the initiatives keyword but in fact its an investments strategy to link up their political and economical influence in the periphery and beyond while upgrading their military capabilities. The research worked with official policy documents and analyses from state- and Communist Party-affiliated publications, with the conclusion that Chinese analyst prioritize the national security over its mutual beneficial economic aspect,



thus contracting the Chinese policy papers. Ports such as the Koh Kong Newport in Cambodia are part of a greater interconnected strategy to reshape the region to Beijing will. Many of the observers of the Chinese projects recognise that a network of maritime logistics hubs throughout the Indo-Pacific, including ports, has the potential to change the region's strategic landscape and several explicitly describe the role of infrastructure investment in Chinese grand strategy (SCMP, 2018). The ports in the same time strengthen the position of China vis-à-vis the U.S. on military capabilities and a possible stand-off cutting off trade routes.

Beijing can establish financial leverage through –vanity- projects and use this gained power to enlarge its influence, gain access to important ports and natural resources. By playing the economic card combined with diplomacy, China is gaining a foothold in the regional position of being a hegemon.

Illustration 1.0: Nations attending the BRI meeting of 2017

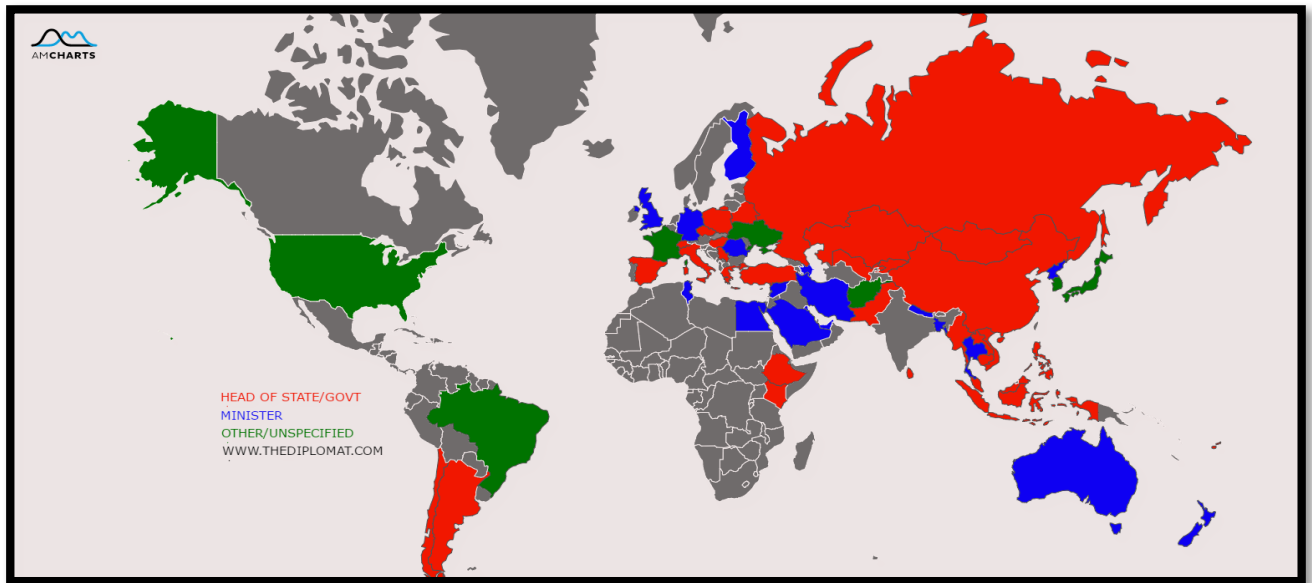


Illustration 2.0: High-speed railway project Southeast Asia

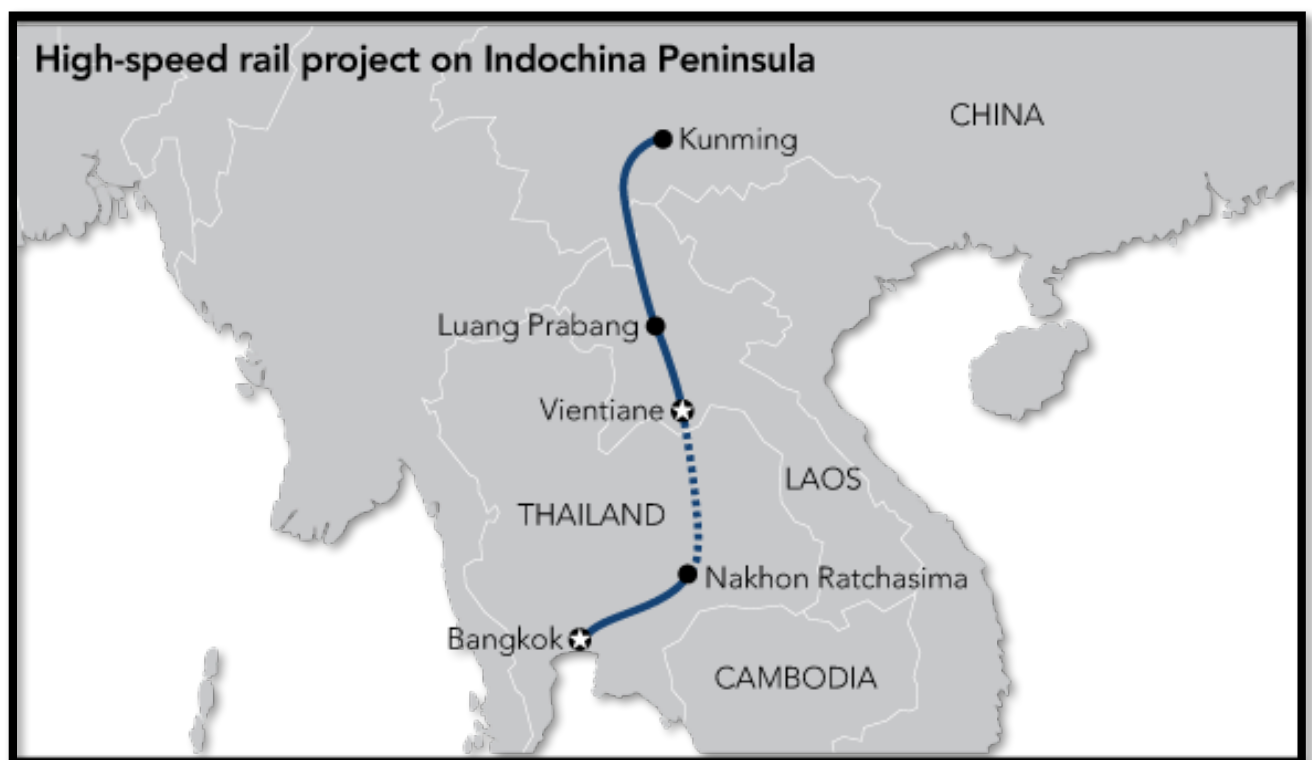


Illustration 3.0: China-Laos Railway



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