

# Power Politics or Transnational Public Policy? European and Chinese Development Cooperation with Sri Lanka and Myanmar

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*China's importance, influence and relevance as a development actor in Asia is on the rise. While the European Union and its member states have long played a strong role in shaping trade and development cooperation in Asia, China's recent regional engagement can hardly be overestimated. While the EU's stated intention in international cooperation is to promote sustainable global development, participatory and equitable trade, as well as peace and security, China's primary goals have frequently been less clear, and in many instances linked to political and economic objectives. This article therefore explores the EU's and China's means and ends of international cooperation, and what they may reveal about genuine intentions in two 'String of Pearls' countries, namely Sri Lanka and Myanmar. In a broader perspective, this research further aims at exploring the extent to which it is advantageous for development countries in Asia to involve China as a predominant development actor as compared to engaging with an extra-regional partner, such as the EU.*

*Keywords: International Development Cooperation, Beyond Aid, New Donors, Comparative Regionalism, Sustainable Development Goals, Regional Cohesion and Integration, Asia, EU, China, Myanmar, Sri Lanka*

## I. INTRODUCTION

China is a relatively new actor in international development as an emerging donor and partner, and due to its economic growth playing an ever

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more important role in new forms of global South-South cooperation, which is increasingly bypassing the European Union (EU) or the United States (US). For Asian, African, as well as Latin-American countries, China has long become a strategic partner in development and trade, with an increasing relevance also of the political dimension of this cooperation. Given China's dominant role in East-Asia and its rise as a global power, Chinese development policy, in Asia as well as in other parts of the world, has triggered suspicion as to both its intentions and the outcomes. In a number of African countries, China is about to or has already overtaken the place of the number one cooperation partner from the traditional donor countries (Hackenesch, 2013; Men and Barton, 2011). And, for their part, African leaders have understood to use the alternative supply of aid and development capacities to maximize their leverage in negotiations in their own favour (Sanderson and Forsythe, 2013).

In Latin America, the economies in Brazil, Chile and Venezuela today are so tightly entwined with the Chinese that a decline of growth in China directly translates into a decrease of productivity and stock market asset value in these countries (cf. Ahuja and Nabar, 2012). Equally, Asian economies such as Korea, Malaysia, Taiwan, Thailand but also Japan heavily depend on Chinese productivity, investments and consumption to a degree that a downturn in Chinese growth of one percentage point is mirrored at equal rates among the 'Asian tigers' (IMF, 2012). The devaluations of the Renminbi, during 2015, have once again impressively demonstrated the extent to which China has become the most important trade and development partner in the region (and beyond).<sup>1</sup> And China is further investing hugely in its relations with Asian countries, notably by setting up the Asian Infrastructure Investment Bank (AIIB) and providing substantial resources for its New Silk Road fund (BBC, 2015). Already before the establishment of the AIIB, only through financing by China Development Bank alone, China was "lending more to developing countries than the World Bank" (Sanderson and Forsythe, 2013, p. 103). By force of its demographic weight any of China's policy measures potentially has a strong global impact. This is frequently illustrated by invoking China's magic number, the relativizing force of its population: *No matter how small the number, it will be huge multiplied by China's population-and vice versa, no matter how big the figure, it will be tiny, divided by the number of Chinese inhabitants.*

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<sup>1</sup> According to The Economist Asian currencies such as the Indonesian rupiah, the Malaysian ringgit or the Thai baht have plummeted as a direct consequence of Chinese devaluation, cf. "Plunging like it's 1998", The Economist, 18 August 2015, online: <http://www.economist.com/news/finance-and-economics/21660557-rupiah-and-ringgit-plumb-depths-unseen-asian-financial>.

The focus of this paper is on the regional 'push and pull factors' of international cooperation. To what extent and under which conditions is it an advantage or a disadvantage for recipient countries to involve a regional power as a predominant development actor? And, what is the leverage of an extra-regional partner, such as the EU, as compared to the 'regional champion'? To investigate the effects of inter- and intra-regional development strategies in Asia, this contribution adopts an analytical framework built on a qualitative case study research design. The article explores means and ends of development cooperation in two most similar cases, namely Sri Lanka and Myanmar. The empirical analysis investigates China's development and cooperation activities in Sri Lanka and Myanmar. In doing so, particular attention is paid to the means of cooperation, and what they may reveal about the ends, i.e. the primary intentions behind the pursued cooperation. The research emphasis is thus less on *what* they achieve, i.e. the content of a program, but *how* they achieve it. As a rather simple-hypothesis we depart from the assumption that both China and the EU engage in forms of extended governance or 'governance transfer' (Börzel and van Hüllen, 2015) and, more precisely, in efforts of 'orchestration' (Abbott et al., 2015) to achieve a mixed set of goals, partly and to different extents motivated by self-interest and the responsibilities for global governance agendas.

Research on the European Union, as the case of the organizationally most-integrated supra-national governance system, has advanced the knowledge on different forms of external governance. The EU is therefore a crucial case for comparison, and, if done along a set of carefully selected criteria, particularly well-suited to be measured against the administrative structures of federal states as well as other forms of regional and international cooperation (Börzel, 2013; Brennan and Murray, 2015). Hence, the comparative design of this research avoids the mere juxtaposition of comparable examples and, by selecting cases according to the crucial independent variables, also addresses the 'N = 1 problem' of EU studies (Derlien, 1992; Rosamond, 2005). The China-EU comparison draws on evidence from two cases, Sri Lanka and Myanmar, where both actors are engaged in a variety of efforts of post-conflict reconciliation, reconstruction and development cooperation, according to their respective 'normal standards.' Therefore the two cases can be studied as instances of the EU's and China's regional developmental patterns.

The paper will first outline the theoretic framework for the study, and then present the context for respectively EU and China in Asian regional development, before providing, subsequently, a description and analysis of the two cases. The final discussion will highlight our initial findings, and elaborate on the differences and similarities of the two approaches, as well as the respective intentionalities behind them.

## II. ORCHESTRATION OF REGIONAL DEVELOPMENT COOPERATION

States use various organizational forms to exercise governmental power; regional cooperation can be conceptualized as a mechanism of indirect governance, namely ‘orchestration’ (Abbott et al., 2014, 2015), a softer species of delegation (although deployed for the same functional reasons): “The main benefits of indirect governance are functional: governors enhance their own governance capacity by tapping into the capabilities of third parties” (Abbott et al., 2015, p. 4). Abbott et al. mention several remote governance functions: expertise, agenda-setting, credible commitment, access to targets, monitoring, adjudication and legitimacy. As an innovative policy tool, orchestration has been defined as “the mobilization of an intermediary by an orchestrator on a voluntary basis in pursuit of a joint governance goal” (Abbott et al., 2014, p. 6). Especially in development or democratization contexts, also non-governmental organizations, social movements or civil society groups may become partners in new forms of common governance.

Orchestration thus is a weaker form of external governance, unlike delegation, when the governor does not have hard means of control over an agent (contract or sanctions): “Weak governments often have little alternative to orchestration [...] as the government is unable to enforce the contract” (Abbott et al., 2015, p. 12). In this instance of indirect governance, the governor “must select the intermediaries based on their governance goals and therefore may have to compromise on their capabilities. [...] C] ompatible motivations do not imply adequate capabilities. Often the orchestrator must work with intermediaries that are partly or completely incapable of performing the required tasks” (Abbott et al., 2015, p. 9). How orchestration is operationalized *in concreto*, more often than not, depends on interaction (negotiation, coordination etc.) between organizations, be it international, non-governmental or state administrations.

Arguably, the Asian Infrastructure Investment Bank (AIIB) can be interpreted as an instrument or an intermediary organization of Chinese orchestration of a set of target states, to involve them in a joint economic cooperation and development projects. The precise structure and functioning as a bureaucratic organization, its culture and decision-making routines, and especially the AIIB’s lending practice, i.e. which projects are funded, based on what criteria, decided by whom, will all be of crucial importance for the nature-as well as the success or failure-of Chinese regional development initiatives in Asia.

The specific instruments and organizational structures of international

administrations in turn are crucial for policy design and implementation, the modalities of regional cooperation but also the transfer of knowledge and technologies necessary for economic growth. The study of bureaucratic organizations is helpful to understand the functioning of administrations and public or non-governmental partners or international organizations, their decision-making structures and practices as well as how they communicate and interact in the joint achievement of shared governance goals. The organizational characteristics of international bureaucracies have been seen to be of central importance in determining the evolution and formation of preferences among their members, by creating incentives and isomorphic pressures on lower-level systems (Biermann and Siebenhüner, 2009; Reinalda, 2013; Trondal et al., 2010). Organizational specificities (of states, international bureaucracies, regional fora, donor organizations etc.) have the effect or are at least stipulating a tendency of more or less tightly coupling particular parts of administration together (internally and/or externally). Such re-coupling of units (intra-or inter-organizational, often combining different policy sectors) may direct information flows, shape concerns and considerations, create pre-dispositions among actors in the way of a certain form of decision-making, and making some outcomes more likely than others (e.g. coupling security and development or development and trade or climate change and development etc.).

Ever since the early 1990s, the EU has tried to find 'comprehensive approaches' to certain problems (Henökl and Webersik, 2014). Once considered successful or legitimate, it is highly likely that an existing solution *x* (comprehensive approach) gets linked to all sorts of problems that look susceptible to match the solution (Cohen et al., 1976). Concomitantly, certain organizational structures, particularly cross-sectorally coupled organizational sub-units, make 'comprehensive' solutions highly likely. This in turn, increases the chances that problems will be perceived or conceived (re-constructed) in a way that make them fit with a pre-existing solution, frequently non-withstanding the complexity of the 'real' problem (especially in a context of limited information and uncertainty, situations referred to as particularly relevant for decision-making based on limited or 'bounded' rationality). Also, because of certain role-expectations and demands of appropriateness in response to the question of "how does the EU as an actor behave in situations like this?" (March and Olsen, 1989, 2006) Normally, the answer is along the lines of automatic promotion of 'more integration'. Since standardized solutions in many instances do not account for the complexity of the problems they are applied to (sometimes because of the impossibility to foresee potential effects), the policy outcome may not be in line with the expectations, and paradoxical results may be the consequence.

## 1. Europe and Asia

Already in the 'European Security Strategy: A Secure Europe in a Better World', adopted in 2003, and even more with the new institutional setup under the Lisbon Treaty the EU clearly positioned itself as a global actor, assuming responsibilities and promoting its economic and security interests beyond Europe: Climate change, nuclear risks, terrorism and organized crime, but also sustainable development based on participatory and equitable trade regimes as well as a stable and fair international financial system are all of global concern, and demand a coordinated, global response.

In countless declarations the EU has made these claims an integrative part of its official discourse. With regard to East Asia, this aspect was elaborated in more detail in the 2007 East Asia Policy Guidelines, updated in 2012, to broaden the EU's approach to the region encompassing trade and investment, energy security, climate change and international development assistance. Not least because of the US' pivot to Asia and the Pacific, the strategic importance of regional politics and economic development, decisive for stability, prosperity and global governance, has become clearly visible. After a one-year-long public consultation process in 2015, the EU High Representative for the Unions External Policy (HRVP), Federica Mogherini has presented the new 'Global Strategy for the European Union's Foreign and Security Policy (EUGS) on 28 June 2016.<sup>2</sup> While the preparatory document, entitled 'The European Union in a changing global environment', circulated in June 2015, to launch the discussion, vaguely referred to a 'rounded EU approach to Asia', it explicitly mentions "China's efforts to develop infrastructural ties with Central and Southeast Asia as well as Europe" and "the growth of regional and sub-regional groupings in East Asia" as a source for dynamism and as the current 'geo-economic' mega-trends.<sup>3</sup>

At the same time, this strategic review document adopts critical tone towards China, with regards to human rights violations and its military assertiveness in the East and South China Sea, identifying it as a potential threat for "trade routes financial flows and a regional order in a part of the world which is of paramount importance to the EU" (EEAS, 2015). In fact,

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<sup>2</sup> High Representative of the Union for Foreign and Security Policy, 'Shared Vision, Common Action: A Stronger Union. A Global Strategy for the European Union's Foreign and Security Policy'; at: [https://eeas.europa.eu/top\\_stories/pdf/eugs\\_review\\_web.pdf](https://eeas.europa.eu/top_stories/pdf/eugs_review_web.pdf), 2016.

<sup>3</sup> [http://eeas.europa.eu/docs/strategic\\_review/eu-strategic-review\\_strategic\\_review\\_en.pdf](http://eeas.europa.eu/docs/strategic_review/eu-strategic-review_strategic_review_en.pdf).

the current soaring of tensions in the South East China Sea challenge a peaceful and prosperous development of Asia as well as international security and global economic stability. The maritime dispute also tests the EU's credibility to mediate and its capacities to help policing the respect of the rule of international law.

The new EU strategy towards Asia aims at mutual involvement of partners on both sides across a variety of regional institutions and fora of cooperation, such as the Association of South East Asian Nations (ASEAN), Asian Regional Forum (ARF), the Asia-Europe Meeting (ASEM), or the Asian Development Bank (ADB). Thereby the EU also seeks to increase coordination among Asian countries. It is a deliberate policy choice of a 'normative power Europe' (Cooper, 2009; Manners, 2002) to foster political and economic stability and prosperity throughout the world, to de-escalate confrontation, solve conflicts and crises, to promote the rule of law and European values, such as democracy and human rights (Biscop, 2015). Yet, economic interests are also part of the equation. Access to the European market is not only beneficial for South East Asian countries but also bears financial benefits for EU members states that are profiting from lower labour costs, lowered social standards, tax reduction schemes, and externalised environmental pollution. The garment sector is one example, and of economic significance for both Sri Lanka and Myanmar. Trade agreements, such as the EU Generalized System of Preferences or GSP+, have offered countries such as Sri Lanka preferential access to the European market. Though, the GSP+ agreement with Sri Lanka was suspended in 2010 due to human rights violations, the EU is sending positive signals since the regime change in 2015, and is yet to be re-established (Yap, 2013).

EU engagement in Asia, and in particular the ASEAN-EU partnership, may be equally seen as a means of jointly orchestrating multilateral cooperation, international norm-setting and regime building (Henökl and Reiterer, 2015). In a perspective of "principled pragmatism" (EUGS, p. 8), the EU-ASEAN relationship becomes a venue for orchestration of both sides' preferences and strategic interest in engineering a multilateral global governance architecture. Accordingly, the EU Global Strategy explicitly recognises Asia's crucial importance for the well-being of European trade and industry, depending on stable relations and security in Asia: "There is a direct connection between European prosperity and Asian security. In light of the economic weight that Asia represents for the EU-and vice versa-peace and stability in Asia are a prerequisite for our prosperity. We will deepen economic diplomacy and scale up our security role in Asia." (EUGS, p. 37). This situation of mutual interdependence naturally calls for increased cooperation and coordination. It further requires the support

and joint effort from other parties that need to be brought on board as well as strengthening the connectivity and exchange between Asian and European societies.

Directly involving Asian and European civil societies, the Asia-Europe Foundation (ASEF) but also a number of joint EU-Asian academic or leadership training programmes may serve as examples of furthering the governance goal of inter-cultural understanding, cooperation and exchange of good practices, by supporting civil society, education and labour mobility. Among these multiple inter-regional involvements, a series of features are creating indirect incentives (homogenization pressures) for the Asian counterparts to develop and adopt EU-like characteristics in order to be able to function as a partner; these are the dialogue structure (preferring region-to-region interaction), mode of interaction ('summitry', work programs, common strategies), issue framing (issues framed as *regional* issues), agenda-setting/shaping (agenda designed to accommodate regional topics).

## 2. EU 'Supralateralism' in International Cooperation

Even though member states remain the principal actors behind the EU foreign policy also the specific organizational characteristics of the EU's new external affairs administration influences the design and implementation of foreign policies. International bureaucracies, such as the EEAS, put in charge of coordinating, devising and conducting EU outward directed policies, may bias administrative decision-making and introduce a supranational 'action orientation' into the process of EU preference formation (Henökl, 2015; Henökl and Trondal, 2015; Simon, 1972). Such a latent supranationalism dominating the behavioural dynamics of the EU's foreign policy bureaucracy may play a particularly important role in combination with the EU's predilection for the region-to-region component of its interaction with Asia. Rooted in the EU's internal experience with deliberation and coalition-building processes, a natural inclination towards negotiated order has been seen as an explanation for the EU's behaviour as a 'compulsive multilateralist' (Smith, 2013, p. 668). This inclination may further help 'governance transfer' (Börzel, 2013) and the export of European practices of coordination and cooperation, institutions of consensus building, agenda shaping as well as the creation of administrative capacity at the regional level. For system-inherent reasons, it is no coincidence that the EU has been the most prominent promoter of inter-regionalism worldwide (Beeson, 2005; Murray, 2010), by actively encouraging and directly supporting such processes, but also by creating secondary incentives and indirect benefits for adopting 'EU-like' or EU-compatible structures in a



mimetic fashion. Exercising such homogenization pressure towards isomorphic adoption of a model, considered legitimate and successful at least, as long as it is (or was) successful, i.e. 1992-2008-is a natural behavioural trait, built into the Union's organizational matrix. Lifting and co-opting multilateral ambitions to the supranational level, and conceiving and framing them as a prerogative of the Union is clearly a policy preference pre-determined by the organizational choice-structure; thus 'supralateralism' (Keohane, 1990, p. 732) is understood here to denominate the phenomenon of attracting and co-opting the competence and to embrace the discursive leadership for multilateralism by the EU level, as a behavioural preference engrained in the EU's administrative decision-making premises (Henökl, 2015; March and Olsen, 1989). Co-optation is the EU's capacity to attract and absorb competences and capacities from sub-centres of governance, notably from the national level, to the supranational or regional level (Henökl, 2014). In the case at hand this means to look at how the EU and China, as orchestrators, use power, skill and material or non-material resources, such as funds, infrastructure, operational capability, information, access, and symbolic rewards to extract the support of intermediaries in the form of attention, time, legitimacy, human resources, and expertise to govern their targets and have them adopt the orchestrators' governance goals.

In conducting its external relations, already during the 1990s and early 2000s the EU developed a preference to deal with third countries collectively, to lay out regional strategies, aid programs, specific agreements with countries in a particular region, and thereby encourages regional groupings (Murray, 2010). This was a 'natural choice' as the EU had reached the deepest degree of regional integration worldwide. "The extent to which the EU groups countries together on a regional basis is a striking and unusual feature of its foreign relations; no other international actor does this to the same extent" (Smith, 2013, p. 76). These inter-regional relations are handled in varying formats, differing in intensity and broadness of approach. They include *inter alia* the EU-ASEAN partnership,<sup>4</sup> the Euro-Mediterranean Partnership (Barcelona Process)<sup>5</sup>, the Cotonou Process<sup>6</sup>, EU-Mercosur,<sup>7</sup> EU-Cooperation Council for the Arab States of the Gulf

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<sup>4</sup> [http://eeas.europa.eu/asean/index\\_en.htm](http://eeas.europa.eu/asean/index_en.htm).

<sup>5</sup> [http://eeas.europa.eu/euromed/index\\_en.htm](http://eeas.europa.eu/euromed/index_en.htm); <http://ec.europa.eu/trade/policy/countries-and-regions/regions/euro-mediterranean-partnership/>.

<sup>6</sup> [https://ec.europa.eu/europeaid/regions/african-caribbean-and-pacific-acp-region/cotonou-agreement\\_en](https://ec.europa.eu/europeaid/regions/african-caribbean-and-pacific-acp-region/cotonou-agreement_en) [http://eeas.europa.eu/delegations/sierra\\_leone/eu\\_sierra\\_leone/political\\_relations/partnership\\_framework/acp\\_eu\\_agreement/index\\_en.htm](http://eeas.europa.eu/delegations/sierra_leone/eu_sierra_leone/political_relations/partnership_framework/acp_eu_agreement/index_en.htm).

<sup>7</sup> [http://eeas.europa.eu/mercosur/index\\_en.htm](http://eeas.europa.eu/mercosur/index_en.htm); <http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/>.

(GCC),<sup>8</sup> EU-South Asian Association for Regional Cooperation (SAARC),<sup>9</sup> EU-South African Development Community (SADC),<sup>10</sup> the Summit between the Heads of State and Government of Latin America, the Caribbean and the European Union<sup>11</sup>, the EU-Andean Summit, and most recently with the African Union (AU).<sup>12</sup>

As a ‘soft’ or a ‘normative power’, the EU and its member states are expected to assume leadership and help orchestrating the global community via international organizations to make the above mentioned reforms happen. The main challenges for reshaping the post-Millennium Development Goals global development agenda, promoting a list of 17 Sustainable Development Goals<sup>13</sup> are thus, to exercise leadership and coordination in shaping global agendas and public policies as conditions for development, notably by reforming and building international regimes in a development-friendly way. This includes setting regional and sectoral policy priorities as a means of shaping and orchestrating global agendas, and streamlining individual foreign policy with global governance goals, such as the provision of public goods, trade and financial flows and institutions, resource extraction and agriculture, fisheries and maritime governance, healthcare, environment and climate change as well as education, knowledge and technology transfer or migration management. Engaging in such a process, providing leadership and assuming responsibility for the sustainable development goals, involves both the EU and China in an increasingly dense web of global governance structures.

### 3. China and Asia

Considering China’s dominant role in the region and its struggle for power and influence in various contexts, Chinese development policy, in Asia as well as in other parts of the world, has given rise to criticisms regarding its means and ends, and particularly its hidden political agenda and conditionality motivated by economic self-interest (cf. Breslin, 2013). Frequently, Chinese foreign investment has been seen a means of primarily securing its own political and economic influence and interests (e.g. ‘the Dalai Lama effect’ cf. Fuchs and Klann, 2013, see also: Davis et al., 2014; Lee and Meunier, 2015). Whereas the EU has the propensity to

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<sup>8</sup> [http://eeas.europa.eu/gulf\\_cooperation/index\\_en.htm](http://eeas.europa.eu/gulf_cooperation/index_en.htm); <http://ec.europa.eu/trade/policy/countries-and-regions/regions/gulf-region/>.

<sup>9</sup> [http://eeas.europa.eu/saarc/index\\_en.htm](http://eeas.europa.eu/saarc/index_en.htm).

<sup>10</sup> <http://ec.europa.eu/trade/policy/countries-and-regions/regions/sadc/>; [http://eeas.europa.eu/africa/sadc/index\\_en.htm](http://eeas.europa.eu/africa/sadc/index_en.htm).

<sup>11</sup> [http://www.eeas.europa.eu/lac/index\\_en.htm](http://www.eeas.europa.eu/lac/index_en.htm).

<sup>12</sup> [http://eeas.europa.eu/andean/index\\_en.htm](http://eeas.europa.eu/andean/index_en.htm) and <http://www.africa-eu-partnership.org/>.

<sup>13</sup> Proposed to the UN Summit in Sept. 2015: <https://sustainabledevelopment.un.org/sdgsproposal>.

deal with Asian countries collectively as ASEAN or, in a mode of orchestrating, *via* ASEM (Marchi, 2014; Henökl, 2004; Henökl and Reiterer, 2017), China has kept a strong bilateral focus in its foreign relations as demonstrated in the following two cases, and only occasionally acted as orchestrator, e.g. through rallying support for its AIIB. Bringing its political and economic weight fully to bear, this approach allows China to better exploit the asymmetric relationships it has with a number of Southeast Asian countries. And while the policy choices and approaches to development and cooperation by both actors may feature elements of political conditionality, the various types of conditionality may differ strongly as to their intentions and instruments (Koch, 2015).

The following sections track the question of different means and ends in Chinese approaches to international cooperation and development with regard to the selected empirical cases of Sri Lanka and Myanmar.

#### 4. Sino-Sri Lanka Relations

Sri Lanka, an island state, situated south of India in the Indian Ocean, is experiencing economic growth and political stability after a long lasting civil war that came to an end in May 2009. The end of civil war is marked by a boost in the tourism industry, the commercial sector and diplomatic relations. This section particularly focuses on the relations with China in terms of their bilateral development cooperation. Buddhist monks from ancient China are believed to have established religious relations with Sri Lanka as early as the 2<sup>nd</sup> century BC (Bogahawatta, 2015). Historical accounts show the exchange of goods between China and Sri Lankan traders. While Sri Lanka received Chinese porcelain China was interested in cinnamon, and other spices. Ancient shipwrecks of the coast of Jaffna in northern Sri Lanka are testimonies of this historical trade. In modern times, China and Sri Lanka established formal trade relations in 1952 when the Sino-Lanka Rubber-Rice Pact was signed. Sri Lanka promised to import a certain amount of rice, and in exchange, China promised to import rubber from Sri Lanka. More recently in 2005, China's Premier Wen Jiabao visited Sri Lanka to deepen economic and political relations, and in May 2013, former President Rajapaksa paid a visit to China. In May 2015, after Rajapaksa was defeated in general elections, the newly elected President of Sri Lanka Maithripala Sirisena visited China to reiterate the importance of the Sino-Sri Lankan relations.

While a large body of literature focuses on China's relations with resource-rich Africa, there is little research on China's economic, political and military relations with countries in Asia and the Pacific that do not

display the same resource base. Sri Lanka, as one of the pearls in the ‘String of Pearls’ in the Indian Ocean has attracted China’s attention, for political and military reasons, and for international trade and commerce (Kelegama, 2014; Khurana, 2008; Samaranayake, 2011; Zhu, 2015).

Since the end of the Cold War, China has changed direction in how to administer foreign assistance. While political intervention through economic means was an important paradigm during the Cold War, China then moved towards non-interventionist policies and supporting developing nations to build their national economies (Zhu, 2015, p. 6). As part of this paradigm shift is the use of State-Owned Enterprises (SOEs) as policy implementers in host countries by China. SOEs identify areas of intervention fitting their strengths and commercial interests in host countries. The host country government still proposes development projects to Beijing but unlike before, SOEs and other Chinese actors are already involved at the proposal stage (Zhu, 2015, p. 7).

This change in foreign policy has also been visible in Sri Lanka where the activity of Chinese actors is reflected in the steadily increasing import figures. China’s imports reached 10.3 per cent in 2011, and in 2014, China climbed up to become the second largest share in imports to Sri Lanka. As illustrated in table 1, and despite the growth of Sri Lankan exports to China, China’s imports have grown more rapidly leading to an increasing trade deficit. The trade deficit almost tripled between 2009 and 2011 from US\$ 973 million to US\$ 2.6 billion (Kelegama, 2014, p. 134). The Chinese economic engagement in Sri Lanka and other Asian countries is also connected to the appreciation of the Chinese Renminbi in recent decades, as foreign assistance projects can also serve as a source of capital inflows when export earnings decrease due to the strengthening of the national currency (Zhu, 2015, p. 5).

**TABLE 1. SRI LANKA’S BILATERAL TRADE BALANCE WITH CHINA: 2005-12**

Year	Exports to China (US\$ Millions)	Imports from China (US\$ Millions)	Trade Balance (US\$ Millions)
2005	29	631	-602
2006	25	780	-755
2007	34	924	-890
2008	47	1114	-1067
2009	56	1029	-973
2010	72	1240	-1168
2011	103	2092	-1989
2012	108	2667	-2559

*Source:* Sri Lanka Customs (2013) cited in Kelegama (2014).

Politically, China has military and strategic interests in Sri Lanka, especially in southern Sri Lanka, as a large proportion of the international shipping routes pass by the island. China's concern of being cut off from oil transported through the Strait of Malacca has led to stronger ties with the 'String of Pearls' governments of Sri Lanka, Myanmar, Bangladesh and Pakistan (Samaranayake, 2011). Nevertheless, despite occasional hosting of Chinese naval vessels in Sri Lankan waters, Sri Lanka has very little significance for energy security without a permanent Chinese naval presence (Khurana, 2008, p. 15). Militarily, China supported Sri Lanka in its struggle against the LTTE rebel movement in the North and East of Sri Lanka militarily and financially, in times when other countries were hesitant to take sides, including European governments.

To demonstrate China's engagement in Sri Lanka, the following discusses the Hambantota port project, an illustration of a Chinese SOE facilitating development cooperation in Sri Lanka. Already in 2007 and even before the devastating tsunami that damaged the original fishing port in Hambantota, the government of Sri Lanka and China signed an agreement where China provides financial and technical support to develop the Hambantota port (Khurana, 2008, p. 14) in southern Sri Lanka.

Sri Lanka has long been eager to attract Chinese investment especially as China does not impose same preconditions Western governments including the EU administration would do, in terms of human rights violations or socio-economic reforms. For instance, Sri Lanka's ending of the long-lasting civil war in 2009 is raising questions whether the government will accept domestic or international efforts to investigate war crimes and crimes against humanity committed particularly in the last months of the war. UN bodies have recommended an independent international inquiry into war crimes and other serious abuses. However, China does not show support for such investigation.

The Hambantota port project started in the aftermath of the tsunami of 2004 that had destroyed the fisheries port of Hambantota. Following a call for financial and technical support to rebuild the severely affected regions, the Chinese government requested the China Harbour Engineering Company (CHEC) to carry out the repairs at the Hambantota fisheries port. By successfully doing so, CHEC won the trust of the Sri Lankan government. Already in 2005, former President Chandrika Kumaratunga and President Hu Jintao agreed on China's plans for Hambantota, even before former President Mahinda Rajapaksa, who's popular support base is from southern Sri Lanka, assumed power (Samaranayake, 2011, p. 127). Following a high-level political visit to China, Sri Lanka agreed on the terms to finance a deep-water port in Hambantota, signing up to a 6 per

cent interest rate and an additional 3 per cent insurance fee (Zhu, 2015, p. 8). CHEC won the bid, and with Phase 1 starting, the Hambantota port opened in November 2010. Phase 2, including several container terminals, is currently underway. Today, the port is largely used as transit and bunker port for vehicles.

The implications of such large infrastructure projects such as the Hambantota port are multiple. First, since Chinese SOEs are not required to consult local communities, local non-governmental organisations, and local businesses, the long-term sustainability and acceptance of such projects are at risk. In Hambantota, local people feel excluded from the project and do not experience immediate economic benefits. Even before the large commercial port was built, local fishermen expressed their disappointment with the new fisheries port. Before the tsunami, the fisheries port was protected by sand dunes that were replaced with a concrete sea wall. According to local accounts, the jetty has been misplaced, leaving some fishing boats unprotected and making it difficult to navigate the port.<sup>14</sup>

Second, by investing in infrastructure rather than in productive sectors, such as agriculture or fisheries, Sri Lanka's foreign debt-servicing to export earnings is increasing (Zhu, 2015, p. 11). If infrastructure would boost foreign exchange earnings, this trend could be reversed. However, and this is apparent in the Hambantota district, the large infrastructure projects, such as the port and the international airport, have not yet led to increased productivity. There are some improvements, for instance when Sri Lankan farmers in the district started growing and selling Chinese-type green vegetables consumed by Chinese workers (Kelegama, 2014, p. 146).

Thirdly, the symbiotic relationship between the host government of Sri Lanka and Chinese CHEC has led to political clientelism. The naming of the Hambantota port and international airport after the former President Rajapaksa is only adding fuel to the speculation that political leaders favour their home constituencies rather than addressing pressing developmental needs. This perception also has a political dimension in a country that is still experiencing ethnic tensions between a variety of ethnic and religious groups, such as the Buddhist Sinhalese-speaking population in south and south-west of the country, and the Hindu Tamil-speaking population in the east and north-east of the country. As Zhu argues rightly, "there are significant questions about whether Chinese assistance is responding to the country's most pressing development needs or prioritizing the interests of contractors and political elite [...] undermining China's long-term goal of an economically prosperous, politically stable

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<sup>14</sup> Personal communication, 28 August 2015.

neighbourhood conducive to its Maritime Silk Road Agenda” (Zhu, 2015, p. 12).

## 5. China-Myanmar Relations

Historically, in a geo-economic perspective, Myanmar has long represented a ‘strategic land-ridge,’ necessary for China to “revive its ‘southwest silk road’ from Yunnan province to Myanmar and westward to Bangladesh” (Shee, 2002, p. 35; Wu, 1975). There were also important security issues such as the violent clashes between Burmese military and ethnic armies as well as the unresolved minority issues located along the border areas that had a potential to destabilize and spill into Chinese borderlands (Berger, 2009; Ganesan, 2011). Since China is keen to have a stable peripheral environment, Beijing supplied arms, such as fighter jets, naval vessels and tanks, and trained Myanmar’s air force, navy and army, in spite of its awareness of the regime’s nationalism and xenophobia (Shee, 2002). China was also concerned about Myanmar’s long-term political and social stability because of Rangoon’s/Naypyidaw’s failing economy and lack of political legitimacy. But also for reasons related to the growing importance of markets in the Greater Mekong Subregion (GMS), for producers in China’s Western provinces, access to Burmese natural resources (minerals, gas and oil, water resources for power generation) and exercising influence on China’s ‘greater periphery’, Beijing remained the closest ally and the most important benefactor of Myanmar’s military junta from 1988 until 2009 (Berger, 2009; Ganesan, 2005; Will, 2011). Since Myanmar’s admission to ASEAN in 1997, it is the third member that is part of the group of least-developed countries, together with Cambodia and Laos. Partly as a reaction to growing Chinese pressure, trans-border support for ethnic groups and meddling in Burmese minority issues, Myanmar’s generals started to diversify and re-orient their foreign relations, notably with the ASEAN countries but also towards the US, India, Japan or Sri Lanka, in order to increase their chances for survival. The growing influence of Beijing’s opponents or regional competitors and the flaring of tensions between the junta and ethnic minorities of 2009 have severely damaged the diplomatic relations with China.

As an international coalition between the previously irreconcilable positions of ASEAN, EU and US formed, China changed course and supported the idea of UN mediation (Geng, 2007).<sup>15</sup> This shift contributed

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<sup>15</sup> See also: Ministry of Foreign Affairs, the People’s Republic of China (2014). Position Paper of the People’s Republic of China At the 69th Session of the United Nations General Assembly, 2014/09/05. Online: [http://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/2649\\_665393/t1188610.shtml](http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1188610.shtml).

to bring about political dialogues between the generals and the National League for Democracy's (NLD) Secretary-General and Nobel Peace laureate Daw Aung San Suu Kyi. China even endorsed the ASEAN idea of 'constructive intervention' or 'comprehensive engagement' with Myanmar, in particular the initiative to persuade Naypyidaw to undertake political reforms towards the end of the 2000s (Li and Char, 2015; Sun, 2012). The process of democratic transition was, in spite of a few setbacks, gradually taking on over the last decade under Prime Minister (and since 2011 President) Thein Sein, materializing in the 2012 by elections and resulting in a landslide victory for the NLD (Marchi, 2014).

China's String of Pearls, to which-next to harbours in Bangladesh, Sri Lanka and Pakistan-also the Burmese deep-sea port of Sittwe belongs, is still a factor in Chinese rationale (Tea, 2011; Ali, 2013). China's strategy, which involves substantial investments in a number of ports along the Southeast Asian littoral following a model of civilian-military dual-use installations, to provide the support of increasing out-of-area missions by the Chinese navy, also needs to be considered in this context. A 2014 report by the US Institute for National Strategic Studies concluded that the "Dual Use Logistics Facility" model makes the most sense to support future Chinese naval operations in the Indian Ocean. Such a logistics facility would be designed to address non-traditional security challenges to China's overseas interests. It would ease the logistics burden of China's overseas naval operations [...] and support limited operations protecting Chinese citizens and property abroad. These could include conducting non-combatant evacuation operations (NEOs) of Chinese citizens (as in Libya in 2011), conducting humanitarian assistance and disaster relief operations, and potentially conducting special forces ground operations in such places as Africa to protect Chinese personnel, property and other economic interests" (Yung and Rustici, 2014, see also: Yung and Rustici, 2011).<sup>16</sup>

Whereas "EU-behaviour vis-à-vis Myanmar via ASEAN [...] has demonstrated concern to avoid the Myanmar issue destabilizing its relations with ASEAN" and "the desire to get away from influential China", the 'EU's obstinacy in applying negative measures' and maintaining the sanctions on Myanmar was motivated by its profile as a human rights advocate and its agenda of promoting democracy and good governance (Marchi, 2014, p. 72). The EU has since then taken a more positive approach and

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<sup>16</sup> Cf. Yung, "Burying China's String of Pearls", *The Diplomat*, 2015; online at: <http://thediplomat.com/2015/01/burying-chinas-string-of-pearls/>, summarizing the 2014 report by the Center for the Study of Chinese Military Affairs, Institute for National Strategic Studies, National Defense University and online at: <http://ndupress.ndu.edu/Portals/68/Documents/stratperspective/china/ChinaPerspectives-7.pdf>.



geared up its support for the country, with the prime goal to “help a legitimate, civilian government foster social and economic development-respecting human rights-and to rebuild relations with the international community.”<sup>17</sup> For the period 2014-2020, the European Commission focuses on rural development, education, governance and support to peace building as main sectors for development cooperation with Myanmar. Funding levels for the upcoming programming period are likely to be substantially increased, up to €90 million annually.

### III. DISCUSSION AND PRELIMINARY CONCLUSIONS

The two cases illustrate China’s economic engagement in Asia as chiefly self-interested activities motivated by economic and strategic considerations. On the political level, China needs reliable partners in international negotiations as well as for geopolitical considerations. Keeping good relations with ‘String of Pearls’ countries may help China in securing its energy demands, by securing international shipping routes. On the economic level, China’s export-oriented economy requires trade partners. By scaling up large infrastructural projects in recipient countries financed by Chinese loans, China can offset a loss in export earnings stimulated by a depreciation of the Chinese Renminbi. The establishment of the AIIB may be seen as a case of successful Chinese orchestrating, especially in view of strengthening its relations with and affirming its influence on the String of Pearls, and providing a funding platform for its New Silk Roads initiative (Renard, 2015). A number of states have overlapping, common interests, namely economic development and investments in infrastructure in Asia. This does not exclude the simultaneous existence of side-agendas, driven by divergent particular interests (e.g. counterbalancing the dominance of traditional global financial institutions) or expected political and economic advantages (trade and market access, return on investments etc). Whether China’s AIIB initiative can be seen as signalling a shift in strategy to a new multilateral approach away from its traditional bilateral cooperation remains to be seen. In the light of our case studies this observation is not corroborated-quite the opposite: rather obviously China uses the leverage of the asymmetric relations it has in the cooperation with individual countries to the benefit of its own interests.

Our comparison also begs the question, whether supra-national development cooperation is more effective and sustainable than bi-lateral cooperation. From a recipient point of view, Sri Lanka and Myanmar have

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<sup>17</sup> [http://ec.europa.eu/europeaid/countries/myanmarburma\\_en](http://ec.europa.eu/europeaid/countries/myanmarburma_en).

benefited from large-scale infrastructure projects, the political and military support by involving a regional power like China. The disadvantages of such relationship are negative terms of trade and a growing debt burden (as for Sri Lanka) and a potential loss in authority over the control of domestic natural resources (as for Myanmar). Politically, close relations with China (including military assistance) may compromise relations with other regional powers, such as India, another 'regional champion' with great leverage on shaping domestic political and economic affairs. To some extent, also positive effects of intra-regional cooperation can be detected in form of increasing foreign direct investment, labour mobility and knowledge transfer, thereby also improving societal connectivity. Recently, President Xi announced an increase of Chinese expenditure in South-South Cooperation in the areas of climate change, natural resource management, environmental protection and green economy.<sup>18</sup> Currently, China is exploring options for harnessing its South-South Cooperation towards promoting its concept of ecological civilization which has many overlaps with the concepts of green economy and sustainable development, and the 2030 Agenda. This is a promising area for future Sino-European development cooperation to the benefit of third countries (Henökl et al., 2016).

On the European side, growing dependency of a number of low-income countries on Chinese investment and cooperation activities are increasingly raising concerns among policy makers. While the EU has in the past projected an image of a value-driven actor for global development—although with some discrepancies between discourse and action—it seems now to be awakening to a changing global order, where the promotion of political and economic self-interest has returned to the debate about European foreign policy and its post-2015 development agenda. At the end of the day, the rationale here appears to be that if the EU wants to be an actor of global development that matters, it has to make sure by promoting its own agenda and interests through its external activities to put itself in a position to be able to shape and influence the future of international cooperation. As China is quickly learning the lessons from its own as well as European successes and failures, Europe will need to invest in orchestrating its partners worldwide in order to transform its cooperation agenda and particularly the sustainable development goals into a widely shared common interest and to translate them into joint global governance action.

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<sup>18</sup> "Sustainability within the China-Africa relationship: governance, investment, and natural capital", Symposium at the Brookings-Tsinghua Center for Public Policy, The Brookings Institution, Beijing, July 11, 2016: <https://www.brookings.edu/wp-content/uploads/2016/07/Sustainability-within-the-ChinaAfrica-relationship-governance-investment-and-natural-capital.pdf>.

Assessing the practical implications of this research, the EU has to engage China further and should complement its approach of ‘principled pragmatism’ (Biscop, 2016) by an ambition of ‘progressive realism’ in sustainable development, transnational public policy and global governance, focusing on the questions of ‘what needs to be done and how can it be done’. The way ahead is to keep nudging and socializing China as a new donor and partner in international development cooperation to respect common values and principles and to follow agreed-upon standards and rules. For an EU in crisis-mode this may become even more difficult in light of the UK’s decision to leave the Union. With Britain the EU loses some of weight, influence and access—certainly in Asia.

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