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Trends in  
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THE POLITICAL ECONOMY OF  
CHINESE INVESTMENT IN CAMBODIA

VANNARITH CHHEANG

**ISEAS** YUSOF ISHAK  
INSTITUTE

# Trends in Southeast Asia

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# FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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# **The Political Economy of Chinese Investment in Cambodia**

By Vannarith Chheang

## **EXECUTIVE SUMMARY**

- China suffers from a trust deficit in the region, and Southeast Asian countries have adopted hedging strategies, at varying degrees, aimed at diversifying their economic and strategic interests from Chinese investments and influence.
- Cambodia considers China as an important strategic and economic partner in providing performance legitimacy and as a countervailing force against its immediate neighbours.
- Cambodia's economic overdependence and power asymmetry have enabled China to exert significant political leverage over the Kingdom, especially on international issues affecting China's core national interest such as the South China Sea dispute.
- Local communities are discontented with some Chinese investment projects, especially hydropower plants and land concessions, which have infringed on labour rights and environmental protection.
- Given the public resentment and dynamic changes and transformations of politico-social environment in Cambodia, China needs to address the concerns and issues raised by local communities in order to sustain and enlarge its political and economic footprint. Promoting good corporate governance, as well as social and environmental responsibility, would help.





# The Political Economy of Chinese Investment in Cambodia

By Vannarith Chheang<sup>1</sup>

## INTRODUCTION

China's rising economic and political clout has created both opportunities and challenges for Southeast Asian countries. China's economic cooperation with Southeast Asian countries is multidimensional and multi-layered involving business collaboration, trade and investment, and financial assistance (grants and concessional loans), which are "fused indistinguishably".<sup>2</sup> Although the Chinese have claimed that their financial assistance has no strings attached, there is a close link between economic ties and political influence. Some regional analysts argue that "China's rise exerts a profound and complex impact on the political, security and economic contexts of Southeast Asia".<sup>3</sup> A Cambodia expert, Sophal Ear, puts it this way, "Taking the geopolitical interests of China in Southeast Asia into account, Chinese investment does not come free; political and economic strings tie those who benefit to the influence of China."<sup>4</sup>

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<sup>1</sup> Vannarith Chheang is Visiting Fellow at the ISEAS – Yusof Ishak Institute, Singapore. He would like to express his gratitude to Dr Benjamin Loh and Ms Moe Thuzar for their comments and inputs.

<sup>2</sup> Pál Nyíri and Danielle Tan, "Introduction: China's 'Rise' in Southeast Asia from a Bottom-Up Perspective", in *Chinese Encounters in Southeast Asia: How People, Money, and Ideas from China are Changing a Region*, edited by Pál Nyíri and Danielle Tan (Seattle and London: University of Washington Press, 2017), p. 11.

<sup>3</sup> Santasombat Yos, *Chinese capitalism in Southeast Asia* (New York: Palgrave Macmillan, 2017), p. 26.

<sup>4</sup> Sophal Ear, "Cambodia's garment industry: A case study in governance", *Journal of Southeast Asian Economies* 30, no. 1 (2013), p. 100.

Cambodia, a small and less developed country in the region, is largely perceived to be under strong influence from China due to the high level of economic dependency and power asymmetry — some valid, some overstated. China is now Cambodia’s top donor and investor. It has strong interest in regional power projection and Cambodia is regarded as a core strategic partner. The analyst David Koh argues “having a strong ally in Cambodia means China occupying a central position on Indochina”.<sup>5</sup>

In addition to economic interests, Cambodia has its own political and strategic calculation and interest in embracing China.<sup>6</sup> Being geopolitically and geo-economically “sandwiched” by two big neighbours, Cambodia has China as a “protector” and counterweight to Vietnam and Thailand.<sup>7</sup> China helps strengthen the legitimacy of the government, under the leadership of the Cambodian People’s Party (CPP).

This paper provides an overview on Chinese investment in Southeast Asia in general and in Cambodia in particular. It discusses the perception of Cambodian stakeholders towards Chinese investment and its implications on Cambodia’s domestic politics and foreign policy.

## CHINESE INVESTMENT IN SOUTHEAST ASIA

The presence of Chinese commerce in Southeast Asia dates back to the third century when official missions were despatched to countries in the South Seas (*Nanyang*). These missions were then followed by Buddhist

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<sup>5</sup> David Koh, *Chinese investments in Cambodia: View of Chinese Soft Power from the Ground Up* (Phnom Penh: Selected CICP Publications 2016), pp. 79–87.

<sup>6</sup> Terence Chong, “The politics behind Cambodia’s embrace of China”, *ISEAS Perspective* no. 59/2017. (Singapore: ISEAS – Yusof Ishak Institute, 2017) <[https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2017\\_59.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2017_59.pdf)>.

<sup>7</sup> *The Economist*, “The Giant’s Client: Why Cambodia has cozied up to China”, 21 January 2017 <<https://www.economist.com/news/asia/21715010-and-why-it-worries-cambodias-neighbours-why-cambodia-has-cosied-up-china>>.

pilgrims and later, during the Song dynasty, by traders.<sup>8</sup> The overseas Chinese who settled in the region contributed significantly to the local economies as well as cultures.<sup>9</sup> In short, overseas Chinese developed an informal business network across the region dating back in the 1500s.<sup>10</sup>

When the Cold War ended, China's economic presence in Southeast Asia was far behind that of the United States and Japan and some European countries. At that time, the author Robert Ross posited that China would not be able to project its regional power or hegemon without economic power.<sup>11</sup> It was only after the turn of the century that China started to ratchet up its economic engagement and presence in the region. Under the leadership of President Xi Jinping, China has exercised more robust neighbourhood diplomacy under the grand strategy of Belt and Road Initiative (BRI) and other regional cooperation frameworks such as China-ASEAN and Lancang-Mekong Cooperation.

To assume an increased role in regional and global leadership, China understands that it needs to be an economic power first, while gradually strengthening military power. After a decade of successful economic reform and opening up led by Deng Xiaoping in 1989, China's economic role in Southeast Asian started reemerging significantly. Chinese Premier Zhu Rongji stated at the Singapore Lecture on 30 November 1999 that

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<sup>8</sup> Rupert Hodder, *Merchant princes of the East: Cultural delusions, economic success and the overseas Chinese in Southeast Asia* (Chichester: John Wiley, 1996).

<sup>9</sup> Chris Dixon, *South East Asia in the World Economy: A Regional Geography* (Cambridge: Cambridge University Press, 1991); Henry Wai-chung Yeung, "Under Siege? Economic Globalization and Chinese Business in Southeast Asia", PROSEA Occasional Paper No. 21, June 1998 (Program for Southeast Asian Area Studies Academia Sinica, Taiwan), p. 9.

<sup>10</sup> Murray Weidenbaum and Samuel Hughes, *The Bamboo Network: How Expatriate Chinese Entrepreneurs Are Creating a New Economic Superpower in Asia* (New York: The Free Press, 1996).

<sup>11</sup> Robert S. Ross, "China and post-Cambodia Southeast Asia: Coping with Success", *Annals of the American Academy of Political and Social Science* 519 (1992): 52–66.

“the rejuvenation of China’s economy cannot be achieved without the development of Asia.... [T]he Chinese Government will continue to encourage and support Chinese enterprises of strength to invest and set up factories in ASEAN countries.... China and Southeast Asian nations, stand on a high plane and look forward, enhance co-operation and join hands in creating a better future for Asia”.<sup>12</sup> In 2000, Premier Zhu proposed establishing a Free Trade Agreement (FTA) between China and ASEAN. The proposal was met with apprehension by some ASEAN member countries.

China’s neighbourhood diplomacy — mainly economic in focus — is a major thrust of Beijing’s strategy to realize the Chinese dream and national rejuvenation, and also to counter “China threat thesis”. Chinese scholars claim that “China is willing to provide neighbouring countries with opportunities and space for common development”.<sup>13</sup> They argue that China systematically applies “two-wheel and one-spoke” drive model in its regional diplomacy. One wheel is on economic cooperation and the other wheel is on security cooperation, while people-to-people bond and cultural cooperation is the spoke connecting the two wheels.<sup>14</sup>

ASEAN has become one of the most attractive destinations for foreign investors due to its relatively low wage rate, dynamic regional economic integration, market size, and the opportunities offered by emerging economies (Cambodia, Lao PDR, Myanmar, and Vietnam) within the grouping.<sup>15</sup> The construction of an ASEAN Economic

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<sup>12</sup> Zhu Rongji, *China and Asia in the New Century* (Singapore Lecture Series) (Singapore: Institute of Southeast Asian Studies, 2000).

<sup>13</sup> Ruan, Zongze, Yurong Chen, Jianxue Lan, Junying Song and Jinyue Guo, “China’s New Neighbourhood Diplomacy: Seeking Stability Through Management and Planning”, CISS Report No. 9, February 2016 (Beijing: China Institute of International Studies (CIIS), 2016), pp. x and 23.

<sup>14</sup> Ibid.

<sup>15</sup> Ambashi Masahito, “ASEAN as an FDI attractor: How do multinationals look at ASEAN?”, ERIA Policy Brief No. 2016-04, January 2017 (Jakarta: Economic Research Institute for ASEAN and East Asia, 2017).

Community, which aims to realize a single market of more than 630 million people and a single production network with a free flow of capital and skilled labour, has increased the region's attractiveness for FDI<sup>16</sup> and is largely appealing to Chinese firms — both state-owned and private. The inflow of Chinese investment to Southeast Asia is also driven by the rising labour and production costs in China and low-cost alternatives in Southeast Asia. It is argued that external economic expansion helps maintain China's economic dynamism — it contributes to lowering domestic production overcapacity and ensuring a economic soft landing amid the “restructuring and balancing of different industries”.<sup>17</sup>

Some of the early challenges of China–ASEAN investment cooperation were the different positions and interests of both sides. China wished for investment protection while ASEAN was interested in investment liberalization for its members. Prior to the signing of the China–ASEAN investment agreement, there were some controversial issues such as the definition of investor and investment, and national treatment.<sup>18</sup> After several rounds of negotiation, China and ASEAN reached a consensus in adopting and implementing progressive approaches towards investment liberalisation and flexible approaches in the tackling of specific controversial issues.<sup>19</sup>

China's economic ties with ASEAN have gained momentum since the enforcement of the ASEAN–China Free Trade Area (ACFTA) in 2010. Within one year, China became the biggest trading partner of

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<sup>16</sup> Tham Siew Yean, “Asean Economic Community a solid pathway to prosperity”, *Today*, 1 August 2017 <<http://www.todayonline.com/commentary/asean-economic-community-solid-pathway-prosperity/>>.

<sup>17</sup> Sputnik International, “China doubles direct investment in Southeast Asia, bypassing US”, 15 December 2017 <<https://sputniknews.com/asia/201612151048608494-china-investment-southeast-asia/>>.

<sup>18</sup> Chen Huiping, “China-ASEAN Investment Negotiations: Problems and Prospects”, EAI Working Paper No. 127. Singapore: East Asian Institute. (2006)

<sup>19</sup> *Ibid.*

ASEAN. The ACFTA facilitates investment and trade flows between China and ASEAN member countries through mutual liberalization of trade and investment regime, standardization and simplification of procedures and regulations, mutual transformation and diversification of economic sectors, and collaborative cross-border linkages and inter-firm partnering.<sup>20</sup>

Under ACFTA, China offers preferential tax agreement to Cambodia, Laos, Myanmar, and Vietnam (CLMV countries) to enable these less developed ASEAN member countries to export their agricultural products to China under the Early Harvest scheme. However, non-tariff trade barriers, such as quality and safety standard-related measures, remain an obstacle for CLMV countries to export their products to China and to maximize the utility of ACFTA. For instance, the lack of understanding of the quality standard required by Chinese customs remains an issue for Cambodian rice millers and exporters.<sup>21</sup> In 2015, China initiated Lancang-Mekong Cooperation (LMC) to further economically connect China with mainland Southeast Asia. It is argued, “Increasing economic interdependence has brought about a new type of South-South cooperation in the Mekong region in which China serves as the hub while its neighbours form the spokes to complete the Sino-centric model of economic integration.”<sup>22</sup>

In addition to trade and investment facilitation mechanisms, ethnic Chinese communities in Southeast Asia have also played a critical role in inviting and benefitting from the inflows of Chinese investments. In addition, it has been suggested that “[e]thnic identities and linguistic competencies are used flexibly to benefit from the influx of Chinese

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<sup>20</sup> Thitapha Wattanaputtipaisan, “ASEAN-China Free Trade Area: Advantages, challenges, and implications for the newer ASEAN member countries”, *ASEAN Economic Bulletin* 20, no. 1 (2003): 31–48.

<sup>21</sup> Cheng Sokhorn, “Quality rice bound for China”, *Phnom Penh Post*, 26 December 2016 <<http://www.phnompenhpost.com/business/quality-rice-bound-china>>.

<sup>22</sup> Vannarith Chheang, “A new strategic frontier”, *ASEAN Focus*, Issue 10/2016, p. 7 <<https://www.iseas.edu.sg/images/pdf/Issue7AugSep16ASEANFocus.pdf>>.

capital”.<sup>23</sup> The interactions between Chinese business communities with the local people have generated multi-layered impacts on the local socio-economic landscape.<sup>24</sup> Some call the increasing Chinese economic presence “a hybrid form of ethnic Chinese capitalism” which has been transformed with the forces of globalization and emerged as a distinctive business landscape in Southeast Asia.<sup>25</sup> It is argued that “Chinese business is a dominant form of capitalism in Southeast Asia not only because of its financial position to host Southeast Asian economies, but also its complex and, yet, intricate social organization”.<sup>26</sup>

To an extent, the expansion of Chinese capitalism and economic presence has been enabled by “a hybrid mixture of families, networks, hierarchies and markets as the core foundations of economic organization among ethnic Chinese”.<sup>27</sup> The success of ethnic Chinese communities in Southeast Asia may now depend more on both the conditions of the local economies and the economic connectivity with China.

Driven by geographic proximity, economic integration, and socio-cultural connections, China has become one of the top five sources of foreign direct investment inflows in ASEAN, accounting for more than US\$8 billion, or 6.8 per cent of total inflows, in 2015 (see Table 1). The China-proposed Belt and Road Initiative (BRI) is expected to further boost Chinese investment in the region, especially in physical infrastructure projects such as rails, roads, seaports, airports, and industrial zones. The energy sector, ICT infrastructure, and the construction of special economic or industrial zones are other areas that the Chinese are interested in under the BRI cooperation framework.

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<sup>23</sup> Nyíri and Tan, “Introduction: China’s ‘Rise’ in Southeast Asia from a Bottom-Up Perspective”, p. 16.

<sup>24</sup> Santasombath Yos, *Chinese capitalism in Southeast Asia*.

<sup>25</sup> Henry Wai-chung Yeung, “Change and continuity in Southeast Asian Ethnic Chinese Business”, *Asia Pacific Journal of Management* 23, no. 3 (2006): 229–54.

<sup>26</sup> Yeung, “Under Siege?”.

<sup>27</sup> Henry Wai-chung Yeung, *Chinese capitalism in a global era: Towards hybrid capitalism* (London and New York: Routledge, 2004), p. 255.



*Table 1: Top Ten Sources of Foreign Direct Investment Inflows in ASEAN*

Country/region	Value			Share to total inflows		
	2013	2014	2015	2013	2014	2015
ASEAN	19,562.2	22,134.5	22,232.2	15.7	17.0	18.4
European Union (EU)	24,511.3	24,989.9	20,127.6	19.6	19.2	16.7
Japan	24,750.2	15,705.4	17,559.4	19.8	12.1	14.5
USA	7,157.2	14,748.5	13,646.0	5.7	11.3	11.3
China	6,426.2	6,990.1	8,256.5	5.1	5.4	6.8
Republic of Korea	4,303.3	5,750.7	5,710.4	3.4	4.4	4.7
Australia	2,587.7	6,281.5	5,246.7	2.1	4.8	4.3
Hong Kong	5,251.2	9,813.2	4,542.9	4.2	7.5	3.8
Taiwan, Province of China	1,381.8	3,253.9	2,807.0	1.1	2.5	2.3
New Zealand	335.9	550.0	2,241.2	0.3	0.4	1.9
Total top 10 sources	96,267.1	110,217.7	102,370.0	77.1	84.8	84.7
Others	28,597.4	19,777.4	18,448.8	22.9	15.2	15.3
<b>Total FDI inflow to ASEAN</b>	<b>124,864.5</b>	<b>129,995.1</b>	<b>120,818.8</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: ASEAN Secretariat, FDI database.

The impact of Chinese investments is mixed. While Chinese investments, especially in megaprojects such as hydropower plants, have generated economic opportunities, they are also the root causes of complex socio-cultural and political issues. Some of these projects have generated negative social and environmental impacts. Some local communities have become the victims of land-grabbing and “resource enclosure” caused by development projects. Small farmers and local manufacturers are unable to survive amid the influx of cheap products and commodities from China. Environmental problems, lack of transparency, and alleged human and community rights violations are some of the concerns voiced by local civil society groups.<sup>28</sup>

The rise of China has resulted in a “profound socio-political and economic change in the region of Southeast Asia”.<sup>29</sup> Southeast Asian countries welcome Chinese presence in their economies, but there is also a certain degree of fear and caution. Power differences and asymmetry with China pose great challenges for regional countries to be economically competitive and politically independent. There is concern that China will exert a “divide and conquer” strategy to project its regional and global power.<sup>30</sup> Some Southeast Asian countries view China as a threat to regional peace and stability due to its assertiveness in the South China Sea disputes. Analyst Tang Siew Mun posited that “it is in ASEAN’s interest for China to do well, but the consequences of China’s success may also do ASEAN harm. The ball is in China’s court to soothe ASEAN’s strategic anxieties.”<sup>31</sup>

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<sup>28</sup> Santasombat Yos, *Impact of China’s Rise on the Mekong Region* (London: Palgrave Macmillan, 2015).

<sup>29</sup> Leo Suryadinata, ed. *Southeast Asia’s Chinese businesses in an era of globalization: Coping with the rise of China* (Singapore: Institute for Southeast Asian Studies, 2006), p. 1.

<sup>30</sup> Nguyen, Thi Tham, *Su Can Du Cua Cac Nuoc Dong Bac A Vao Tieu Vung Song Mekong* [The Interventions of Northeast Asian Powers in the Mekong Sub-Region] (Hanoi: Nha Xuat Ban Khoa Hoc Xa Hoi (Social Sciences Publishing House), 2017), pp. 112–13.

<sup>31</sup> Tang Siew Mun, “Three strategic issues for ASEAN and China”, *ASEAN Focus*, Issue 10/2016, p. 7 <<https://www.iseas.edu.sg/images/pdf/Issue7AugSep16ASEANFocus.pdf>>.

Trust deficit is an obstacle in China–ASEAN relations. The economic overdependence on China and its geopolitical implications have caused great concern among Southeast Asian countries. Hedging has become a foreign policy strategy for many ASEAN member countries vis-à-vis China. They do this by diversifying their strategic and economic partners and proactively engaging other regional powers such as the United States, Japan, and India.<sup>32</sup> The strategic trust deficit between China and ASEAN remains a challenge to be collectively addressed.<sup>33</sup> It is imperative for China to convince its small neighbours that its fast-expanding power is benign and not a threat to the economic wellbeing, sovereignty and political autonomy of its neighbours.

Explaining ASEAN’s hedging behaviour towards China, analyst Cheng-chee Kuik argues that “the enduring uncertainty at the systemic level has compelled the states to hedge by pursuing contradictory, mutually counteracting transactions of ‘returns-maximizing’ and ‘risk-contingency’ options, which seek to offset the potential drawbacks of one another, as a way to project a non-taking-sides stance while keeping their own fallback position at a time when the prospect of power structure is far from clear”.<sup>34</sup> Economic diversification is one of the core elements of hedging strategy.

## CHINESE INVESTMENT IN CAMBODIA

Cambodian economy has performed well in the last two decades with an average growth rate of more than 7 per cent from 2000 to 2016,

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<sup>32</sup> Zhao Hong, *China and ASEAN: Energy security, cooperation and competition* (Singapore: ISEAS – Yusof Ishak Institute, 2015), pp. 5–6.

<sup>33</sup> Vannarith Chheang, “China and its Southeast Asian neighbors need more strategic capital”, East Asia Forum, 23 May 2013 <<http://www.eastasiaforum.org/2013/05/23/china-and-its-southeast-asian-neighbours-need-more-strategic-capital/>>.

<sup>34</sup> Cheng-chee Kuik, “How do weaker states hedge? Unpacking ASEAN states’ alignment behaviour towards China”, *Journal of Contemporary China* 25, no. 100 (2016), p. 500.

making it one of the fastest growing economies in ASEAN and East Asia. The GDP growth rate in 2016 was 7.2 per cent and is forecasted to be around 7 per cent for 2017.<sup>35</sup> The poverty rate was reduced from 53 per cent in 2004 to 17.7 per cent in 2012. With a per capita income of above US\$1,200, Cambodia now ranks as a lower middle-income country, according to the classification by the World Bank. Attracting FDI has been the main development strategy of the country. The annual average net FDI inflows to Cambodia from 2000 to 2015 are 7.7 per cent of GDP. Trade liberalization, stable macroeconomic development, and institutional reforms have resulted in “dynamic positive effects” of foreign investment to the country.<sup>36</sup>

Chinese investments to Cambodia have been facilitated by deep mutual political trust, stable macroeconomic conditions, market access, and low labour cost, and by the natural resource extraction sector. Chea Vuthy, Deputy Secretary General of the Cambodian Special Economic Zone Board, said that the reasons for China to invest in Cambodia were the “excellent diplomatic relationship” between Cambodia and China, political stability, an open economy, sound macroeconomic environment, fast-track investment approval process, low labour cost, Asian culture, and strategic location.<sup>37</sup> In addition, Chinese investments to Cambodia are enabled by the bilateral agreement on the protection and promotion of investment that came into force in August 1999.

To avert risks, Chinese firms in Cambodia receive and secure political support from China (in the case of state-owned enterprises)

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<sup>35</sup> Asian Development Bank, “Asian Development Outlook 2016”, 2015 <<http://www.adb.org/countries/cambodia/economy>>.

<sup>36</sup> Ludo Cuyvers, Joseph Plasmans, Reth Soeng and Daniel Van den Bulcke, “Determinants of Foreign Direct Investment in Cambodia: Country-Specific Factor Differentials”, Research Paper 2008-003, March 2008 (Department of International Economics, International Management and Diplomacy, University of Antwerp, 2010).

<sup>37</sup> Vuthy Chea, Deputy Secretary General, Cambodian Special Economic Zone Board, Council for the Development of Cambodia, Presentation at the Cambodia-China Business and Investment Seminar in 2009.

and political connections and protection from the local elites. Chinese investments in Cambodia are varied in terms of ownership type and asset specificity. China's state-owned enterprises have focused on hydropower plant projects — facilitated through grant aid or soft loans from Chinese government to Cambodia — which largely enjoy investment approval and protection. China's private firms, on the other hand, have concentrated their investments on the garment industry. In the land and resource sector, Chinese firms have strong political connections with local political elites.<sup>38</sup>

As a “least developed economy”, Cambodia has enjoyed preferential trade agreements and market access to the world market, particularly the United States and the European Union. As a member of the ASEAN economic community, Chinese firms investing in Cambodia can export their products to the entire ASEAN market. Cambodia has relatively cheap labour costs: the monthly minimum wage of a factory worker in 2017 is US\$153.

From 1994 to 2016, the total investment capital from China came up to about US\$14.7 billion, concentrated in four sectors, namely agriculture and agro-industry, industrial sector, physical infrastructure and services, and tourism (see Table 2).

There are about thirty Chinese investment projects relating to the agriculture and agro-industry planned, covering about 237,406 hectares of land. Presently, twenty-one projects are in operation on 173,904 hectares, but only about 42,081 hectares have been cultivated, mainly with rubber. In addition, there are seven Chinese investment projects in rice milling with a production capacity of 669.816 tons per year.

China has also invested in and is constructing its first special economic zone in Asia. This is the Sihanoukville Special Economic Zone, run by the Cambodia International Investment Development Group and Jiangsu Taihu Cambodia International Economic Cooperation Investment on

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<sup>38</sup> Daniel O'Neill, “Playing risk: Chinese foreign direct investment in Cambodia”, *Contemporary Southeast Asia* 36, no. 2 (2014): 173–205.

**Table 2: Chinese investment capital in Cambodia (US\$ million)**

<b>Year</b>	<b>Agriculture and agro-industry</b>	<b>Industrial sector</b>	<b>Physical Infrastructure and Services</b>	<b>Tourism</b>	<b>Total</b>
1994–2007	252	1,017	534	920	2,723
2008	45	166	3,805	467	4,483
2009	322	166	70	798	1,356
2010	191	156	no data	482	829
2011	7	324	no data	1,094	1,425
2012	27	487	no data	no data	514
2013	213	490	no data	8	711
2014	141	537	156	50	884
2015	63	316	no data	400	779
2016	304	453	115	114	986
<b>Total</b>	<b>1,565</b>	<b>4,112</b>	<b>4,680</b>	<b>4,333</b>	<b>14,690</b>

*Source:* Council for Development of Cambodia.

1,114 hectares of land in Phreah Sihanouk province. 108 enterprises and companies are located in the zone, with a total investment capital of US\$306,738 million.

Relating to hospitality and service sector, China has invested in five main projects, namely an international resort complex in Koh Kong province with an investment capital of US\$3,805 million on 45,000 hectares (by Union Development Group), a resort complex in Preah Sihanouk province with an investment capital of US\$5,000 million (by Yeejia Tourism Development Company), a resort complex in Preah Sihanouk province with an investment capital of US\$434 million by Zhongqi (Cambodia) Property Investment Co. Ltd, and a five-star hotel project with an investment capital of US\$85 million by Xi-Hu International Hotel.

Out of the twenty-three companies investing in the mining industry such as iron and gold, ten are from China. In 2016, there were two Chinese investment projects in granite stones mining in Kratie province. China is also the largest foreign investor in energy sector in Cambodia, with an accumulated capital of more than US\$7.5 billion in hydropower plants and about US\$4 billion in coal power plants. Chinese companies invested in nine electricity power stations with a capacity of 1,733 megawatts (there are seven hydropower projects with a capacity of 1,328 megawatts and two coal energy projects with a capacity of 405 megawatts). However, these energy development projects lack transparency and international standards. Social and environmental impacts caused by hydropower plants present a threat to local communities and sustainable development.<sup>39</sup>

Chinese investment in the textile and clothing industry contributes significantly to socio-economic development through creating job opportunities for more than half a million Cambodians and promoting technical expertise and production capacity.<sup>40</sup> The industry itself has become part of the vertically integrated value chain in China and an important node in the global value chain. The development of economic zones such as the Sihanoukville Special Economic Zone helps facilitate the expansion of Chinese firms and improve domestic manufacturing capacity.<sup>41</sup>

## **SOCIO-ECONOMIC EFFECTS**

To the Cambodian ruling elite, Chinese investment projects are generally fast in getting off the ground and in producing quick returns. More

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<sup>39</sup> Pheakdey Heng, “China’s role in the Cambodian energy sector: Catalyst or antagonist for development”, *South East Asia Research* 23, no. 3 (2015): 405–22.

<sup>40</sup> Sophal Ear, “Cambodia’s garment industry”, pp. 91–105.

<sup>41</sup> J. Wang, J. Wu and X. Yao, “The expansion of textile and clothing firms of China to Asian least developed countries: The case of Cambodia” (St. Louis: Federal Reserve Bank of St Louis, 2008).

importantly, the projects meet Cambodia's development needs.<sup>42</sup> The direct effects of the investments are employment opportunities and income generation for more than 1 million of the local workforce. The garment industry, which is chiefly invested by Chinese firms, employs about 700,000 Cambodian workers.

However, the spillover effects of Chinese investments, particularly in technology and knowledge transfer, are low given that Cambodia is at the bottom of the value chain and just a small part of the overall production. These investments have concentrated on the labour-intensive garment industry where factories work on cut-make-trim processes, and national resource extractions such as mining and hydropower plants which do not generate many job opportunities for locals. Moreover, these investments do not strengthen the capacity of local firms to integrate themselves in the global value chains.<sup>43</sup>

Chinese contractors tend to hire Chinese nationals rather than locals, which cause some public resentment and security concerns.<sup>44</sup> A study by Kubny and Voss found that the positive local effects of Chinese manufacturing investment are limited. Chinese firms have little interaction with local firms and do not contribute much to the capacity and skill development of the local workforce.<sup>45</sup> Skill development and capacity building for the local employees are limited. Cultural differences and miscommunication between Chinese supervisors and Cambodian workers occasionally lead to conflicts, including labour unrest and strikes.<sup>46</sup>

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<sup>42</sup> Terence Chong, "The politics behind Cambodia's Embrace of China".

<sup>43</sup> David Roman, "China is transforming Southeast Asia faster than ever", Bloomberg, 6 December 2016 <<https://www.bloomberg.com/news/articles/2016-12-05/china-transforms-frontier-neighbors-with-cash-for-rails-to-power>>.

<sup>44</sup> Le Hong Hiep, *Living Next to the Giant: The Political Economy of Vietnam's Relations with China under Doi Moi* (Singapore: ISEAS – Yusof Ishak Institute, 2017), pp. 95–100.

<sup>45</sup> Julia Kubny and Hinrich Voss, "The impact of Chinese outward investment: Evidence from Cambodia and Vietnam", Discussion Paper 16/2010, German Development Institute, 2010.

<sup>46</sup> *Ibid.*, p. 9.



The management of some Chinese investments may lead to the development of “extractive elites” — economic institutions and/or actors that extract resources and fail to protect property rights or provide incentives for economic activity — and widening income gaps.<sup>47</sup> China’s unquestioning approach to how its aid and investment money is distributed and used has exacerbated corruption, deteriorated good governance and human rights, and ruined Cambodia’s resources and natural environment.<sup>48</sup>

Local critics associate Chinese investment with widespread corruption and the erosion of good governance, human rights abuses, depletion of natural resources and environment, and lack of transparency.<sup>49</sup> Analyst Heng Pheakdey noted that:

While Chinese investment and aid is much needed for economic development, China’s unquestioning approach to how its aid and investment money is distributed and used has exacerbated corruption, deteriorated good governance and human rights, and ruined Cambodia’s resources and natural environment.<sup>50</sup>

Another analyst, Veasna Var, observed that:

Although China is one of the key development players in Cambodia, its involvement has not been appreciated by Cambodia’s general public because China’s strategic interests

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<sup>47</sup> Roman, “China is transforming Southeast Asia faster than ever”.

<sup>48</sup> Pheakdey Heng, “Chinese investment and aid in Cambodia a controversial affair”, 16 July 2013 <<http://www.eastasiaforum.org/2013/07/16/chinese-investment-and-aid-in-cambodia-a-controversial-affair/>>.

<sup>49</sup> Sokunthea Hout and Ramo Nuch, *The Roles of China’s Aid to Cambodia’s Socio-Economic Development* (Phnom Penh: Selected CICP Publications, 2016), pp. 53–62.

<sup>50</sup> Pheakdey Heng, “Chinese investment and aid in Cambodia a controversial affair”.

focus on the government, political parties and political elites and neglect to focus on benefits for the average Cambodian.<sup>51</sup>

Local complaints compiled by David Koh illustrate some of the shortcomings of Chinese investments in the textile industry and economic land concessions. (See Table 3 for a selection of some of these complaints.)

Promoting corporate social and environmental responsibility, transparency, and local participation is required to reduce public resentment against Chinese firms and expand economic opportunities for the local Cambodians. Ambassador Pou Sothirak, executive director of the Cambodian Institute for Cooperation and Peace, said that if China and Cambodia are to have long-lasting friendship, they will need to “work together to improve transparency, promote participatory and sustainable development by involving all relevant stakeholders, and minimize environmental degradation. Cambodia must strengthen its institutions and implement good governance policies to encourage responsible investment that link financial aid to poverty reduction and inclusive development.”<sup>52</sup>

Similarly, David Koh suggested that “Chinese investors must seek to engage all stakeholders at all levels, and must consider people who live in the neighborhood/concession areas as legitimate stakeholders ... companies need to go deep, deep down into locality to do its research to understand local culture and local aspirations.”<sup>53</sup> For instance, private companies from China may need to assume a greater role in promoting inclusive growth and sustainable development.<sup>54</sup>

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<sup>51</sup> Veasna Var, “China’s influence in Cambodia”, *The Khmer Times*, 29 June 2016 <<http://www.khmertimeskh.com/news/26618/china---s-influence-in-cambodia/>>.

<sup>52</sup> Sothirak Pou, Remarks at the 21st Century Maritime Silk Road Conference, organized by China Foreign Affairs University and Peace Boat, 1–6 August 2016.

<sup>53</sup> Koh, *Chinese investments in Cambodia*, p. 84.

<sup>54</sup> David Roman, “China finds new fans in Southeast Asia as U.S. turns inward”, Bloomberg, 12 December 2016 <<https://www.bloomberg.com/news/articles/2016-12-11/china-finds-new-fans-in-southeast-asia-as-u-s-turns-inward>>.

**Table 3: Local complaints of Chinese investment**

<p><i>Garment Factories</i></p> <ul style="list-style-type: none"><li>• Factory conditions are poor.</li><li>• Chinese factory enterprises pay low salaries that are merely enough to survive on.</li><li>• Chinese managers do not understand Khmer culture, which leads to misunderstanding and conflicts.</li><li>• There are some cases of sexual harassment, violation of labour rights, abuse of power and physical abuse.</li></ul>
<p><i>Economic Land Concessions</i></p> <ul style="list-style-type: none"><li>• Exploitation of natural resources, such as timber and mines, is not environmentally friendly and responsible.</li><li>• Environmental impact assessment reports, as required by law, are not done prior to the granting of land concessions and if done, are often procedural rather than professional in nature.</li><li>• Compensation of land requisition is usually meager as compared to the value of the land. Resettlement is another problem. Usually the evicted people are not provided proper resettlement housing and facilities.</li><li>• Corrupt officials take a big part of the compensation meant for local residents.</li></ul>

Source: David Koh, *Chinese Investments in Cambodia: View of Chinese Soft Power from the Ground Up* (Phnom Penh: Selected CICIP Publications, 2016), pp. 82–83.

## **POLITICAL EFFECTS**

In the late 1960s, Cambodia leaned towards China for economic and strategic reasons, veering away from the United States and its allies. Sandwiched between the two U.S. allies, Thailand and South Vietnam, Prince Norodom Sihanouk approached China for protection and support.

Western scholars called Cambodia then a “client state” of China and concluded that Cambodia was under China’s orbit. Alain-Gerard Marsot (1969) for instance argued that, “Chinese aid, though ostensibly without strings, was a means of increasing Chinese influence in [Cambodia] ... Cambodia can be used by China as a spokesman on the international level.”<sup>55</sup>

Bilateral relations fluctuated after 1970 when Prince Norodom Sihanouk was ousted by General Lon Nol. China took a decisive move to support the Khmer Rouge to fight against the U.S.-supported Lon Nol regime. After coming to power in 1975, the Khmer Rouge regime conducted mass atrocities that led to the death of 1.7 million Cambodians. Later, China supported Cambodian factions including the Khmer Rouge in their resistance against the Vietnamese occupation of Cambodia from 1979 to 1989. China even waged a border war with Vietnam in 1979 as a response to Vietnamese intervention in Cambodia.

After more than five decades of fluctuations, sometimes tensions, Sino-Cambodian ties have been markedly revived and enhanced since the late 1990s, and economic development and national sovereignty are core national interests and key factors shaping Cambodia’s foreign policy towards China. In 2010, Cambodia inked a comprehensive strategic partnership pact with China: this was the first strategic partnership that Cambodia had had. It is largely perceived that China, as a trustworthy friend, can help Cambodia develop and catch up with neighbouring countries, strengthen Cambodian independence and sovereignty, and enhance Cambodia’s regional and global role and image. China continues to be perceived as a Cambodia’s strategic balancer vis-à-vis its two big neighbours (Thailand and Vietnam).<sup>56</sup>

Cambodia is generally perceived by China as “a major target as well as a faithful supporter of China’s rapid rise, strategic expansion,

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<sup>55</sup> Alain-Gerard Marsot, “China’s Aid to Cambodia”, *Pacific Affairs* 42, no. 2 (1969): 191–98.

<sup>56</sup> Chong, “The politics behind Cambodia’s Embrace of China”.

and growing influence in Southeast Asia”.<sup>57</sup> Concerning China’s foreign policy strategy towards Cambodia, geostrategic interest outweighs economic interest. The long-term strategic interest of China in Cambodia is to ensure that China’s core national interest including the South China Sea will be protected. In other words, Cambodia is pivotal to China’s ability to project its power and influence in Southeast Asia. As argued by Burgos and Ear, “To China, exerting greater influence in the region and securing abundant natural resources ... are two of the most salient motivations to nurture a reciprocal relationship with Cambodia.”<sup>58</sup>

### *Cambodia’s Domestic Politics*

China has pursued a pragmatic foreign policy towards Cambodia by building an alliance with dominant political groups. For instance, China formed an alliance with Prince Norodom Sihanouk after the Bandung Conference in 1955 and supported the National United Front for Kampuchea (NUFK)<sup>59</sup> that was formed in 1970 under the prince’s leadership to fight the U.S.-backed Lon Nol regime. Later, China supported the Khmer Rouge regime that came to power in 1975 after toppling the Lon Nol regime. Subsequently, China supported FUNCINPEC (Front Uni National pour un Cambodge Indépendant, Neutre, Pacifique

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<sup>57</sup> Hsin-Huang Michael Hsiao and Alan Hao Yang, “Differentiating the politics of dependency: Confucius Institutes in Cambodia and Myanmar”. *Issues and Studies* 50, no. 4 (2014), p. 28.

<sup>58</sup> Sigfrido Burgos and Sophal Ear, “China’s Strategic Interests in Cambodia: Influence and Resources”, *Asian Survey* 50, no. 3 (2010): 615–39.

<sup>59</sup> The political programme was adopted on 3 May 1970 in Beijing to realize “national union for fighting against all the manoeuvres and aggression of the American imperialists, overthrowing the dictatorship of their flunkies headed by Lon Nol–Sirik Matak and for defending the national independence, peace, neutrality, sovereignty and territorial integrity of the country within her present frontiers and for building a free and democratic regime of the people progressing towards the construction of a prosperous Cambodia conforming to the profound aspirations of our people”.

et Coopératif or National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia), a royalist political party founded by Prince Sihanouk in 1981. China shifted its support to Cambodian People's Party (CPP) in 1997 when the CPP consolidated its power after the armed conflict between the CPP and FUNCINPEC in July 1997, which led to the weakening and division of FUNCINPEC.

In 1988, Hun Sen described China as “the root of everything that is evil” in his country. Twelve years later, he regarded China as Cambodia’s “most trustworthy friend”.<sup>60</sup> The watershed years of these new Chinese–Cambodian relations came in 1996 and 1997. On 18 July 1996, Hun Sen was invited for a state visit to Beijing. Interestingly, China sent a plane to collect him — the act impressed Hun Sen who was eager to build close relations with regional major powers to consolidate his power at home. Before boarding, he announced that the visit would end “the suspicion of the past”. During the visit, he met with President Jiang Zemin and Premier Li Peng, signed an agreement on trade and investment, and established an accord for members of the CPP and the Communist Party of China (CPC) to meet.<sup>61</sup>

In addition to the strategic convergence and political trust between the two governments and political parties, overseas Chinese in Cambodia have played a role in attracting investments from China. Cambodia’s ethnic Chinese largely arrived in the nineteenth and twentieth century. A new wave of Chinese migrants began in the 1990s, mainly in the form of traders and workers at the Chinese projects. Some Chinese Cambodians have cultivated strong socio-political trust and connections with the party-state elites and have privileged access to natural resources and other economic rents. A small number of Cambodian-Chinese

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<sup>60</sup> *The Economist*, “Why Cambodia has cosied up to China”, 21 January 2017 <<https://www.economist.com/news/asia/21715010-and-why-it-worries-cambodias-neighbours-why-cambodia-has-cosied-up-china>>.

<sup>61</sup> David Hutt, “How China Came to Dominate Cambodia”, *The Diplomat*, 1 September 2016 <<http://thediplomat.com/2016/09/how-china-came-to-dominate-cambodia/>>.

association leaders and tycoons have also engaged in “overt political transnationalism” and influenced bilateral political relationship.<sup>62</sup>

A news analysis by the Financial Times sheds some light on the business and political link between Prime Minister Hun Sen and Fu Xianting, a businessman commonly known as “Big Brother Fu”. Fu was reported to have close relations with Prime Minister Hun Sen and his bodyguard unit. With diplomatic support from China and financial backing from Chinese state-owned banks, Fu’s investment projects in Cambodia gained favourable conditions to mainly develop seaports and international resorts along the Cambodian coastline.<sup>63</sup>

Beijing provides diplomatic support and strategic space for Cambodia when Phnom Penh is pressured by international bodies on allegations of human rights abuses, oppression, corruption, and misuse of power at high government levels.<sup>64</sup> In return, diplomatic and political ties help secure approval and protection of Chinese investments, particularly those issued by state-owned enterprises (SOEs). O’Neill argues “the gains to political elites on both sides of the bilateral relationship create a status quo in which Chinese firms are encouraged by their government to invest in Cambodia, and the Cambodian leadership is willing to offer protection for Chinese firms.”<sup>65</sup>

Chinese economic presence also gives legitimacy the ruling elite and empowers its patronage system. These rulers rely on economic performance and development outputs particularly in terms of infrastructure development and employment opportunities to gain popular support and votes. Analyst Andrew Cock has argued that “the

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<sup>62</sup> Pál Nyíri, “Investors, managers, brokers, and culture workers”, in *Chinese Encounters in Southeast Asia: How People, Money, and Ideas from China are Changing a Region*, edited by Pál Nyíri and Danielle Tan (Seattle and London: University of Washington Press, 2017), pp. 27–39.

<sup>63</sup> *Financial Times*, “FT Investigation: How China brought its way into Cambodia”, 9 September 2016 <<https://www.ft.com/content/23968248-43a0-11e6-b22f-79eb4891c97d?mhq5j=e7>>.

<sup>64</sup> Burgos and Ear, “China’s Strategic Interests in Cambodia”, p. 637.

<sup>65</sup> O’Neill, “Playing risk”, p. 176.

patrimonialism of the Cambodian state and the provision of material aid and political legitimacy by external actors have been central to the endurance of this ruling elite”.<sup>66</sup>

### *Cambodia's Foreign Policy*

Cambodia's foreign policy is largely determined by domestic politics and economic conditions. Currently, Cambodia defines its national interests chiefly in terms of economic development and poverty reduction, which is increasingly closely attached to China's economic prowess. China has been the top donor to Cambodia since 2010. Vongsey Vissoth, Secretary of State at the Ministry of Economy and Finance, said “Without China, there would be no Cambodia today — one must learn to accept that. Why should we go to China for assistance? We don't want to favour China, but if they give us what we need, shouldn't we take it?”<sup>67</sup>

Economically, China is the largest donor and investor. It can meet Cambodia's development needs, and besides, there are no strings and conditions attached.<sup>68</sup> Geopolitically, China plays a balancing role vis-à-vis Cambodia's neighbours. Edgar Pang argues, “Cambodia appears more comfortably ensconced in China's embrace and has little qualms about bandwagoning. It views its immediate neighbours, Vietnam and Thailand, as historic predators of Khmer territories, and China as playing a pivotal role in ensuring its own survival.”<sup>69</sup>

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<sup>66</sup> Andrew Robert Cock, “External actors and the relative autonomy of the ruling elite in post-UNTAC Cambodia”, *Journal of Southeast Asian Studies* 41, no. 2 (2010), p. 241.

<sup>67</sup> Radio Free Asia, “Cambodia-China Relations: History” <<http://www.rfa.org/english/news/special/chinacambodia/loans.html>>.

<sup>68</sup> Edgar Pang, “‘Managing reliance’: The socio-economic context of the Chinese footprint in Laos and Cambodia”, *ISEAS Perspective*, no. 67/2017, Singapore: ISEAS – Yusof Ishak Institute, 2017, p. 4 <[https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2017\\_67.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2017_67.pdf)>.

<sup>69</sup> Edgar Pang, “‘Same-Same but Different’: Laos and Cambodia's Political Embrace of China”, *ISEAS Perspective*, no. 66/2017, Singapore: ISEAS – Yusof Ishak Institute, 2017, p. 1 <[https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2017\\_66.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2017_66.pdf)>.



However, local observers are cautious about China's immense influence over the kingdom and argue that Cambodia's overdependence on China has significant implications on Cambodia's foreign policy, current and future reform agendas, and political system.<sup>70</sup> Chinese private companies, with strong diplomatic and political backing from Beijing and financial support from the state-run banks, have rapidly expanded their commercial presence and business networks, which has helped to "form the foundations of China's political and strategic ambitions in Cambodia".<sup>71</sup>

It is argued that, "big investment deals have cemented Beijing's relations with Phnom Penh, but they have also helped yield political dividends for China as it imposes claims to disputed areas in the South China Sea."<sup>72</sup> Another critic raises the concern that "the government is at risk of losing its autonomy. If it were to rely solely on China, Cambodia also risks losing face and trust from the international community, and its role in ASEAN might be marginalized if it continues to put China ahead of ASEAN."<sup>73</sup>

Chinese investments are mainly located in special economic zones (SEZs) as these are believed to provide them with an efficient industrial environment.<sup>74</sup> Some foreign diplomats have expressed suspicions that China might have a strategic motivation to use some parts of Cambodia's

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<sup>70</sup> Veasna Var, "Cambodia should be cautious when it comes to Chinese aid", East Asia Forum, 9 July 2016 <<http://www.eastasiaforum.org/2016/07/09/cambodia-should-be-cautious-when-it-comes-to-chinese-aid/>>.

<sup>71</sup> James Kynge, Leila Haddou and Michael Peel, "FT Investigation: How China bought its way into Cambodia", *Financial Times*, 9 September 2016 <<https://www.ft.com/content/23968248-43a0-11e6-b22f-79eb4891c97d>>.

<sup>72</sup> Ibid.

<sup>73</sup> Pheakdey Heng, "Chinese investment and aid in Cambodia a controversial affair".

<sup>74</sup> Kali Kotoski, "More Chinese FDI on the horizon", *Phnom Penh Post*, 16 September 2016.

coastal zones and seaports to serve China's security and military objectives.<sup>75</sup> A regional analyst wrote that Cambodia was regarded by some Chinese strategists as "an indispensable part of its strong or pearls maritime strategy connecting Hong Kong to Sudan via the Indian Ocean" and Sihanoukville is one the pearls along the string.<sup>76</sup>

On the South China Sea issue, Cambodia shares a position similar to China's, and argues that the dispute should be resolved by the direct claimant states and a bilateral mechanism is the appropriate and effective way to resolve the differences. Cambodia has been reluctant to criticize China on the construction of artificial islands and the installation of military facilities on those islands. In fact, Cambodia was the first country in Southeast Asia to vocally express its opinion against the court ruling on the South China Sea, which was largely in favour of the Philippines. In the speech at the sixty-fifth anniversary of the Cambodian People's Party in June 2015, Prime Minister Hun Sen stated:

the CPP does not support, and more so is against, any possible declaration by ASEAN to support decision of the Permanent Court of Arbitration in relation to the South China Sea disputes ... Only countries concerned will be able to resolve this problem. ASEAN is not able to work on behalf of those countries concerned.<sup>77</sup>

Cambodia holds strongly to the view that a bilateral mechanism is the most effective way for resolving the conflicts and differences. In that context, the ASEAN–China framework serves to build political trust

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<sup>75</sup> Personal conversation with foreign diplomats to Cambodia, March 2017.

<sup>76</sup> Kenji Kawase, "The 'Chinazation' of Cambodia", *Asian Nikkei Review*, 16 March 2017 <<http://asia.nikkei.com/magazine/20170316/On-the-Cover/The-Chinazation-of-Cambodia>>.

<sup>77</sup> Xinhua News, "Cambodia not to support arbitration court's decision over South China Sea: PM", 28 June 2016 <[http://www.chinadaily.com.cn/world/2016-06/28/content\\_25889328.htm](http://www.chinadaily.com.cn/world/2016-06/28/content_25889328.htm)>.

and confidence among the claimants and other regional stakeholders. It states that the full implementation of the Declaration on the Conduct of Parties in the South China Sea (DOC) is necessary, but that the Code of Conduct (COC), which is under negotiation between China and ASEAN, should not be legally binding. The COC should instead aim to promote confidence-building measures and preventive diplomacy.

## CONCLUSION

Growing Chinese economic clout in the region presents opportunities, challenges and risks to the region. The effect of Chinese investment in Cambodia is mixed. While job opportunities and incomes have been created, some Chinese projects in hydropower dams and land concessions have adverse impacts on the livelihood of the local population and on the environment.

China's economic presence comes with political effects. The Cambodian ruling elite views China as a source of performance legitimacy measured in terms of economic growth and employment opportunities. Political leaders from different camps share the common view that China is a countervailing power against Cambodia's immediate neighbours (Thailand and Vietnam). On foreign policy, Cambodia tends to behave and act strategically and comfortably in favour of China's interests if this does not directly harm Cambodia's own national interest. The South China Sea dispute between China and four ASEAN claimant states is a case in point.

Looking forward, as a Chinese journalist puts it,

Cambodian people can form their own way of development through the presence of Chinese investment, instead of denouncing Chinese investment as a whole. Chinese companies are learning to cope with opposing voices in Cambodia such as working with NGOs and taking on more corporate social responsibilities.<sup>78</sup>

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<sup>78</sup> Wang Wenwen, "Social Touch Helps Chinese Firms Reach Public in Developing Countries", *Global Times*, 17 December 2015 <<http://www.globaltimes.cn/content/959120.shtml>>.

There is a clear need for Chinese firms to address local concerns and be more socially and environmentally responsible. The image of China depends pretty much on the performance of Chinese international firms, whether state-owned or private.

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