



Journal of Current Southeast Asian Affairs

HENG, Pheakdey (2012), Cambodia–China Relations: A Positive-Sum Game?, in:
Journal of Current Southeast Asian Affairs, 31, 2, 57-85.
ISSN: 1868-4882 (online), ISSN: 1868-1034 (print)

The online version of this article can be found at:
<www.CurrentSoutheastAsianAffairs.org>

Published by

GIGA German Institute of Global and Area Studies, Institute of Asian Studies and
Hamburg University Press.

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Cambodia–China Relations: A Positive-Sum Game?

Heng Pheakdey

Abstract: China has re-emerged to become a dominant foreign player in Cambodia. Politically, Cambodia is one of China's oldest and closest allies. Economically, China is Cambodia's top foreign investor, a major donor, and an increasingly important trading partner. Culturally, Chinese values are deeply embedded in many aspects of Cambodian society. However, China's dominance is surrounded by renewed controversies. While the government warmly welcomes Chinese aid, saying that it comes with no strings attached, many experts are concerned that China is providing aid for more nefarious reasons. Critics also accuse Chinese investment and aid of having exacerbated corruption, weakened governance and harmed human rights, and of ruining Cambodia's natural resources and environment. With such controversies, it is relevant and significant to assess the roles that China has played and continues to play in Cambodia's socio-economic development. Using expert interviews, media analysis and an extensive literature review, this paper uniquely contributes to the existing discussion on China–Cambodia relations by closely examining the controversies of China's investment and aid, critically analysing China's interests in Cambodia, and asking if the relationship between the two nations is a positive-sum game.

■ Manuscript received 1 August 2012; accepted 17 September 2012

Keywords: China, Cambodia, ODA, FDI, economic development, controversy

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1 Introduction

China's global rise needs no introduction but the country's increased influence in Cambodia, one of the world's poorest countries, has provoked some heated discussion. Although the presence of China in Cambodia is nothing new, the extent of its current involvement in Cambodia's politics and economic development is staggering. In fact, Cambodia is one of China's oldest and closest allies. Sino-Cambodian cultural and commercial relations are historic and can be traced back to eight centuries ago when a Chinese diplomat paid a visit to Angkor City in 1296 (Zhou 2007). During this thousand-year-old friendship, China's foreign policy strategy toward Cambodia changed from time to time. During the 1960s China lent its patronage to ex-King Sihanouk, then from 1975 to 1979 China financially and politically backed the Khmer Rouge regime led by Pol Pot, who was responsible for the killing of 1.7 million people during his rule. China continued to supply the Khmer Rouge with weaponry along the Thai–Cambodian border between 1979 and 1990, even after the regime fell.

After the first general election in 1993, Cambodia formed a coalition government comprising the FUNCINPEC party led by King Sihanouk's son Prince Norodom Ranariddh and the Cambodian People's Party (CPP), led by Hun Sen, a former prime minister in the Vietnamese-installed People's Republic of Kampuchea during the 1980s. Prior to 1996, China provided patronage to Prince Norodom Ranariddh but later withdrew its support because of the prince's close relationship with Taiwan. In 1997, Hun Sen ousted Prince Ranariddh in a violent coup. Despite the international condemnation, China recognized the result of the coup and provided Hun Sen with huge financial aid. Since then, a series of reciprocal high-level visits between the countries have helped to strengthen the bilateral relationship.

Presently, the bond between Cambodia and China is closer and stronger than ever. China is Cambodia's top foreign investor, a major donor and an increasingly important trading partner. With 247,197 Chinese tourists visiting Cambodia in 2011, China is also the latter country's third-biggest tourism market, after Vietnam and South Korea (Ministry of Tourism quoted in *TTR Weekly* 2012). According to the Chinese Association in Cambodia, there are about 500,000 Chinese and Chinese-Cambodians living in Cambodia, where they are one of the largest and most visible ethnic minorities (Radio Free Asia 2012a). Chinese-Cambodians play a prominent role in the Cambodian business sector as well as within Cambodia's political scene. Mandarin Chinese is the second most popular language in Cambodia after English. There are approximately 56 schools offering Chinese-language classes to some 30,000 students nationwide (*Xinbuanet* 2011b).

China is undisputedly playing an important political, economic and cultural role in Cambodian society. However, China's dominance is surrounded by renewed controversies. While the Cambodian government warmly welcomes China's aid, saying that it comes with no strings attached, experts warn that China is providing aid for reasons other than being a nice neighbour. Given China's dominance and the controversies its involvement has evoked in Cambodia, some key questions are being asked: How is China impacting the socio-economic development of Cambodia? Will the Cambodia–China relationship result in a positive-sum game? What roles will China play in Cambodia in the future? This paper aims to shed some light on these questions.

The discussion in this paper is based on 15 in-depth interviews, a comprehensive content analysis of more than one hundred newspaper and magazine articles on China–Cambodia relations, and an extensive review of the literature on China's foreign policy, investment and aid motivation, and economic condition. The interviews were conducted with experts from relevant government institutions as well as local and international organizations and thus represent the perspectives of different stakeholders. Unfortunately, the author's repeated requests for an interview with the Chinese embassy were rejected, so Chinese media outlets were analysed instead in order to indirectly represent China's views. The interviews were conducted in Cambodian and were translated by the author himself. Data from multiple sources have been triangulated to enhance the reliability of the paper.

2 The Extent of China's Involvement

In recent years, China has emerged as a major foreign player in Cambodia. Prime Minister Hun Sen once said Cambodia's strong economic growth in past years has owed a great deal to China's investment and steady technical and financial assistance (*China Daily* 2012a). This section illustrates the role of China as a top foreign investor, an important trading partner and a major economic and military donor in Cambodia and discusses the distinctive characteristics and controversies of such investment and assistance.

2.1 China: A Prominent Foreign Investor

Foreign direct investment (FDI) inflows are seen as a main driver of economic development and liberalization in Cambodia. After the restoration of peace and stability in 1993, Cambodia started to receive inflow of FDI and has since been a popular destination for foreign investors from China, South Korea, the United States, Malaysia and Thailand due mainly to its unex-

explored natural resources, low labour costs and attractive investment incentives. The investment projects approved rose steadily, with an annual average of 640 million USD from 1994 to 2005, and 5.3 billion USD from 2006 to 2010 (CDC 2012). According to the Council for the Development of Cambodia (CDC, the highest decision-making body of the government for private and public sector investment), by September 2011 China’s accumulative FDI had reached 8.8 billion USD, making it the largest investor in the kingdom,¹ followed by South Korea (4 billion USD), Malaysia (2.6 billion USD), the United Kingdom (2.3 billion USD) and the United States of America (1.2 billion USD) (CDC 2012).

Table 1: Top Investors in Cambodia (Jan 1994–Sep 2011, in million USD)

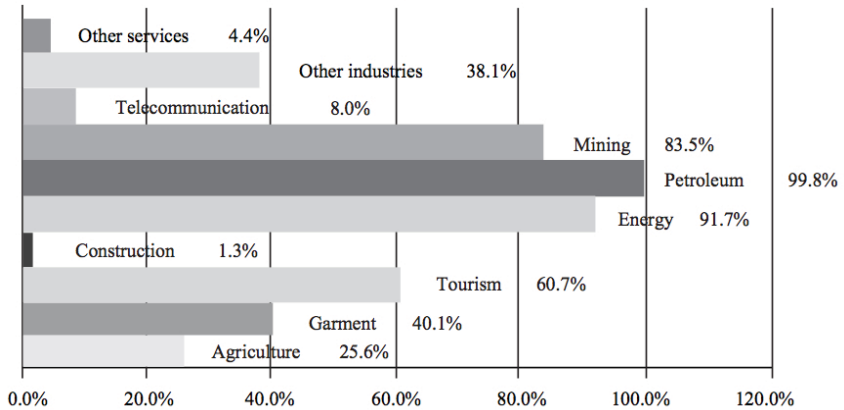
Country	2006	2007	2008	2009	2010	2011 (Jan–Sep)	1994–2011.9	
							Total	Rank
China	717	180	4,371	893	694	1,147	8,866	1
South Korea	1,010	148	1,238	120	1,026	134	4,027	2
Malaysia	28	241	3	7	167	231	2,609	3
UK	4	26	6	6	11	2,222	2,378	4
US	62	3	672	2	36	144	1,285	5
Taiwan	48	40	22	27	92	69	827	6
Vietnam	56	139	21	210	115	246	812	7
Thailand	100	108	74	178	2	0	746	8
Singapore	12	2	52	273	37	0	636	9
Russia	278	0	103	235	0	0	618	10
Total	4,440	2,656	10,889	5,859	2,691	5,674	39,886	-

Source: Cambodia Investment Guide, Council for Development of Cambodia 2012.

Traditionally invested heavily in small-scale manufacturing and the garment sector, China has now become a leading investor in natural resources and the energy sector. It also invests diversely in large-scale infrastructure, agriculture, tourism, telecommunications and construction. An estimated 23 Chinese firms are exploring mineral resources, five are constructing hydro-power dams, and hundreds more are investing in the garment industry (*People’s Daily Online* 2011b).

1 There are reasons to believe that Chinese investment in Cambodia might have been misreported. Comparing the investment figures from different sources, the author finds a huge discrepancy. He nevertheless acknowledges that China is one of Cambodia’s major foreign investors.

Figure 1: China’s Fixed Asset Approvals in Selected Sectors 1998–2008 (% of Total FDI Fixed Asset Approvals in Each Sector)



Source: Ouch, Saing, and Phann 2011.

2.2 China: An Important Trading Partner

Since the ASEAN–China Free Trade Agreement² was put into force in January 2010, China has become the biggest trading partner and the number-one export destination for ASEAN countries. China’s trade with ASEAN jumped sevenfold between 2000 and 2010, to 232 billion USD (ASEAN 2012). The growth of trade between China and Cambodia is the highest *vis-à-vis* the bilateral trade between China and any given ASEAN country. Driven by imports of garment raw materials, machinery, motorcycles, cars, foodstuffs, electronics, furniture, medicines and cosmetics, Cambodia–China trade tripled to 2.5 billion USD in 2011 from 791 million USD in 2009 (ASEAN–China Centre 2012). However, Cambodia’s exports (mainly agricultural products, rubber, fishery, timber and textiles) to China remain minimal, standing at 184 million USD by the end of 2011 (ASEAN–China Centre 2012). Thailand and the United States continue to be Cambodia’s top trading partners, but China is predicted to surpass both countries in the next decade. China and Cambodia have already pledged to double the trade amount to 5 billion USD by 2017 (*People’s Daily Online* 2012).

2 The ASEAN–China Free Trade Area is the largest free trade area in the world in terms of population, and third-largest in terms of nominal GDP (behind the European Union and the North American Free Trade Area). Under the FTA accord, the average tariff on goods from ASEAN countries to China is reduced to 0.1 per cent from 9.8 per cent.

Table 2: Cambodia's Top Import and Export Partners 2007–2010 (in Million USD)

Export Partners	2007	2008	2009	2010	Total 2007–2010
1. United States	2,363.1	1,970.9	1,552.8	2,183.6	8,070.4
2. Hong Kong, China	17.1	839.9	1,646.3	20.4	2,523.6
3. Canada	189.2	292.0	195.8	346.6	1,023.6
4. Germany	298.3	138.1	108.8	294.6	839.8
5. United Kingdom	211.7	155.7	179.7	315.0	862.2
6. Singapore	76.7	113.3	482.3	143.3	815.6
7. Vietnam	186.8	169.3	115.5	118.7	590.4
Import Partners					
1. Thailand	1,491.1	696.9	464.8	2,574.4	5,227.2
2. China	969.4	934.9	881.3	1,482.0	4,267.6
3. Singapore	482.2	303.8	209.0	2,436.1	3,431.0
4. Hong Kong, China	673.3	589.6	484.2	645.4	2,392.5
5. Vietnam	1,145.2	471.0	493.5	507.2	2,616.9
6. South Korea	309.6	229.4	209.1	214.9	962.9
7. Indonesia	134.0	96.2	145.5	239.5	615.3

Source: Author's calculation based on Asian Development Bank (ADB) key indicator 2011.

2.3 China: An Emerging Bilateral Donor

China has also been a major source of foreign assistance to Cambodia. In 1999 China gave Cambodia 218.3 million USD (200 million USD in interest-free loans and 18.3 million USD in foreign assistance guarantees), one of the largest aid packages that it had ever given to any country at the time (Long 2009). China became Cambodia's biggest donor in 2009, pledging 257 million USD, compared to 214 million USD from the EU, and 113 million USD from Japan (Palit and Palit 2011). Most recently, Cambodia received three aid packages from China in just three months. These include 70 million USD in aid pledged by President Hu Jintao during a visit to Cambodia in April 2012 (*Yahoo! News Singapore* 2012), a 20 million USD military aid deal signed in May (*VOA News* 2012) and a 430 million USD loan signed in June of the same year (*The Phnom Penh Post* 2012c). China's accumulative official development assistance (ODA) from 1992 to 2011 reached 0.86 billion USD, accounting for 7.1 per cent of total ODA, making it the second-largest bilateral donor, behind only Japan (CDC 2011).³

3 Caution should be used when interpreting the amount of China's aid to Cambodia reported by the media because statistics regarding Chinese aid are frequently misquoted. For example, Voice of America wrote that "by mid-2006 China provided at

Table 3: Disbursement to Cambodia (in million USD) for Selected Years and Countries

Country/ Organisa- tion	1995	2000	2005	2010	2011 (est.)	1992–2011	
						Amount	% of total
World Bank	29.6	32.69	37.83	56.91	95.97	795.07	6.6
ADB	37.86	51.13	89.39	76.285	149.72	1,209.15	10
EC	28.88	27.94	23.65	34.19	55.78	687.37	5.7
Japan	112.40	106.02	111.66	146.02	120.63	2,081.28	17.2
China	3.12	2.61	46.63	138.15	210.73	863.70	7.1
US	45.14	17.60	43.25	60.36	57.20	779.84	6.4
France	62.23	27.80	24.44	23.20	19.96	554.68	4.6
Germany	13.89	12.22	27.29	35.30	44.40	360.07	3
Total	513	456	609	1,074	1,235	12,131	100

Source: Author's own compilation from the *Cambodian Development Effectiveness Report 2007* and 2011.

ODA from China also has a number of distinct characteristics. Globally, Chinese financial assistance falls into three categories: grants, interest-free loans and concessional loans. As for Cambodia, the majority of China's ODA comes in the form of concessional loans, mostly earmarked for infrastructure projects (24 out of 34 Chinese-funded projects listed in the CDC database are concessional loans). It is not known for sure how much Cambodia owes China. There are contrasting estimates on Cambodia's debt to China, ranging from 2 billion to 6 billion USD (*The Phnom Penh Post* 2012a). Access to information concerning Cambodia's debt to China was restricted, even to members of parliament, according to Yim Sovann, a spokesperson for the opposition party (*The Phnom Penh Post* 2012a). However, a joint report by the International Monetary Fund and World Bank suggests that China holds the largest amount in bilateral loans to Cambodia, comprising 66 per cent of Cambodia's total debt at the end of 2010 (*The Phnom Penh Post* 2012a). Also, in comparison to other donors, China offers the least favourable loan conditions. Most Chinese loans have higher interest rates and shorter amortization and grace periods (Table 4).

least 2 billion USD in grant aid and loans" (*VOA News* 2010), but the number far exceeds even the total 0.86 billion USD of accumulative ODA from 1992 to 2011 recorded in the CDC's report.

Table 4: Terms of Loans from China Compared to from Other Donors (for Most Projects)

Country	Interest rate	Repayment period	Grace period
China	2–3%	15–20 years	5–7 years
ADB	1.2%	30 years	8 years
World Bank	1.2%	40 years	10 years
Japan	0.01%	40 years	10 years

Source: Author’s compilation from interview with officials at the respective institution. China’s figures were quoted from *China’s Foreign Aid Policy Paper* 2011.

Another distinctive feature of China’s ODA that has been widely discussed is the so-called “no-strings-attached” policy. Unlike the traditional donors, whose assistance always comes with strict reform requirements, China’s ODA is believed to come with no conditions and is warmly welcomed by the Cambodian government. Cambodia’s prime minister has repeatedly praised China in public, saying that “China has a way of doing things. They talk less but do more. Before anyone knows it, we get bridges, roads, etc. They are all without conditions” (Prime Minister Cabinet Office 2009). The same sentiment is felt at all levels of the government. A senior officer at the Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia said the following in an interview with the author:

In terms of ownership, China respects the receiving countries in terms of how the money should be used. China listens to the receiving countries’ needs and lets them use the money without any conditions. Another thing, China never regards itself as the donor. China gives aid to Cambodia as a friend and on a solidarity basis (A senior officer at the CDC, interview with the author on 9 February 2012).

While the governments on both sides claim that China’s financial assistance packages are simply the actions of a benevolent, friendly neighbour, analysts and observers believe China has a hidden agenda. Experts have no doubt that China’s aid *does* come with strings attached, but they are just different strings. For traditional donors, good governance, democracy and human rights are very important, so their aid usually comes with conditions which require the receiving countries to reform in those areas. China, on the other hand, is not interested in those things and claims that it does not want to interfere in the internal affairs of other countries, so its aid comes with no reform pressure in those areas; instead, the conditions usually surface in the form of political and investment favours. Dr. Chheang Vannarith, director of the Cambodian Institute for Cooperation and Peace, told the author

during an interview that China's aid has won the hearts and minds of more politicians than citizens:

There is no aid without any strings attached. But how they put the strings on the politicians is different from putting the strings on civilians. The West thinks about the general public because of their mindset of democracy and they believe that public opinion can shape a political system. This is the Western value so that's why they care about the general public. For China, they don't care about the general public. They care who makes the decisions and that is the politicians (Chheang Vannarith, director of Cambodia Institute of Cooperation and Peace).

China's aid is also infamously known for its lack of transparency. It is not known exactly how the money is utilized, and information regarding the projects is not publicly disclosed. Researchers on this topic, even of Chinese nationality, are usually not welcomed. As stated above, my requests for an interview with the Chinese embassy were rejected, and my interview requests at the Chinese Chamber of Commerce in Cambodia were likewise denied. It should also be noted that China is still an observer in the annual consultative group meeting of all donors in Cambodia. Questions are being asked as to why China does not want to be a member of this group. "We also don't have a clear record of Chinese aid. When we ask the CDC, they tell us one thing, but when we ask the Chinese embassy, they tell us another thing," says a former senior economist at the UNDP Cambodia office in an interview with the author. Also, Chinese ODA is unpredictable and unsystematic. Unlike ODA from the World Bank and Japan, China and Cambodia have not yet established a clear mechanism for aid management. In most cases, China's assistance is unplanned and often provided based on the Cambodian government's request.

Japanese aid is predictable because we have a clear process of what to do from the beginning until we get the response from Japan [...]. Also, Japan usually follows up for the entire project cycle. We need a lot of time to discuss but when it comes to implementation it's very systematic (Mr. Nhean Tola, senior programme officer at the Japan International Cooperation Agency, interview with the author on 20 January 2012).

The World Bank is very strict with regard to the use of its money. After the agreement has been signed, and after the procurement is complete and the consulting firm has been selected, the money is transferred directly to that firm. The government doesn't normally get the money. We also hire international procurement agents to manage the

procurement activities. The implementing firm also needs to write reports for the World Bank at different stages of the project. So it's very transparent (Mr. Chea Huot, a senior economist at the World Bank, interview with the author on 12 January 2012).

The lack of transparency of Chinese aid is nothing out of the ordinary in Cambodia. China's ODA to other countries has also met similar criticism; as Lancaster (2007) puts it, "China appears to administer foreign aid in an ad hoc fashion, without a centralized system, foreign aid agency and mission, or regularized funding schedule." In April 2011, China published its first foreign aid document (also known as the *White Paper*) as an initiative to improve transparency. However, the document is far from being comprehensive. Important statistics such as the amount of annual aid flow to each country are not available. Several observations can help explain the lack of information disclosure of China's aid. First, being a developing country that still receives financial assistance itself, China does not want to be recognized as the major ODA provider as it would be difficult to justify to the Chinese people why it is providing aid to other countries while a large proportion of the Chinese population is still poor. Second, not revealing too much information can also help avoid questions from receiving countries. For instance, questions may be asked about why one country gets more aid than another. Third, China's aid spreads across continents, and given its large territory it is a real statistical challenge to keep records of the money provided by all the different provinces and ministries across different portfolios.

2.4 China: The Biggest Source of Military Aid

In addition to the close economic relationship, Chinese–Cambodian military cooperation has also tightened considerably since the late 1990s. China has generously provided military assistance to Cambodia in various forms. For example, in December 1999 China donated construction materials worth 1.5 million USD, including new barracks, ten jeeps, ten ambulances, and parachutes for the Cambodian armed forces (Marks 2000). Between September and October 2006, China pledged assistance for Cambodian army human resource training and the repair of military equipment, and gave Cambodia six patrol boats to help combat drug- and human-trafficking (IntellAsia 2005). More recently, during talks between Cambodian Premier Hun Sen and Chinese President Hu Jintao alongside the opening of the World Expo in Shanghai in April 2010, China announced a new aid package comprising 257 new military cars, 50,000 uniforms, and 100 million CNY (15 million USD) (*Radio Free Asia* 2010). In May 2012, Cambodia and China signed a military cooperation pact in which China agreed to provide 120 million

CNY (20 million USD) to Cambodia to build military hospitals and military training schools for the Royal Cambodian Armed Forces and promised to continue training Cambodian military personnel in China (*Radio Free Asia* 2012c). According to a senior official at the Ministry of Defence who asked not to be named, China is the biggest source of military aid to Cambodia, contributing more than 5 million USD a year and sponsoring an average of 40 Cambodian soldiers every year to study military strategy in China (*News-mekong* 2005).

In sum, Cambodia is currently one of China's closest allies in Southeast Asia. The relationship between the two nations has reached a new peak with closer ties in almost all areas of cooperation. Chinese Ambassador to Cambodia Pan Guangxue once said, "China and Cambodia will always be good neighbours, close friends, trusted partners and dear brothers" (*The Phnom Penh Post* 2011). The dominant influence of China in Cambodia has sparked heated discussions on China's interests in this tiny country. The next section elaborates on China's underlying interests globally and then proposes some hypotheses on its motives in Cambodia, specifically.

3 China's Interests in Cambodia

The rise of China has become the topic of hot debate in recent years. Its impressive economic growth, colossal foreign reserve, and rising investment and aid to other countries have amazed the world, worried the West, and spurred discussion on the motivation of its increased presence and influence. In terms of investment, China has become the sixth-largest investor in the world, having invested 68.81 billion USD in 178 countries across the globe (UNCTAD 2011). With regard to official development assistance, China is the most prominent emerging donor, having given a total of 40 billion USD by the end of 2009 to 161 countries and 30 international and regional organizations (People's Republic of China 2011).

Attempts to pinpoint the real motives behind China's rising investment and aid have proven challenging due to the scale and diversity of its investment and assistance. A survey of more than one thousand Chinese firms finds that the top five drivers of China's overseas investment are 1) following a "Go Global" policy, 2) seeking new markets, 3) pursuing advanced technology, 4) reducing production costs and 5) benefitting from the preferential policy of the host country (Asia Pacific Foundation of Canada 2009). Empirical evidence, however, is far less conclusive. Buckley et al. (2007) find that Chinese firms tend to invest in countries with poor governance and high political risk, but Cheung and Qian (2008) argue that quality of institution is not the main factor and suggest that Chinese FDI is attracted by a

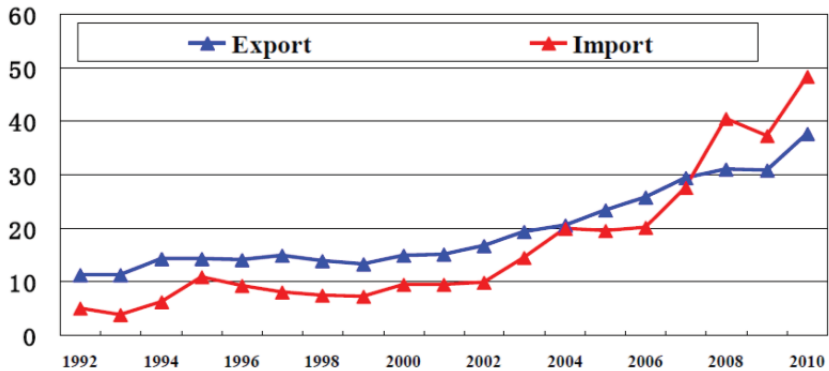
potential host country's natural resources. Cheng and Ma (2008) rule out both factors as the explanatory variables. Some scholars argue that China's investment motivation cannot be explained by mainstream theories because of its unique characteristics. The majority of China's outward investment is undertaken by state-owned enterprises (SOEs), so their activities have to be in line with government policies, meaning their investment goal may be defined by political motivations rather than driven by profit maximization. With regard to aid, the Chinese government claims that its foreign aid is used to help recipient countries strengthen their self-development capacity, improve the livelihoods of their people, and promote economic growth and social progress (People's Republic of China 2011). However, scholars believe that China provides aid for reasons beyond those listed in the paper. According to analysts, China's ODA aims to secure natural resources, establish strategic diplomacy, and spread Chinese values (see Lengauer 2011; Lum et al. 2011; Weston, Campbell and Koleski 2011).

Probing into China's domestic situation and examining the sectors in which Chinese investment is concentrated and the countries to which it provides aid paints a pretty good picture of the real motives of Chinese government. With an average annual growth rate of 10 per cent over the last three decades, China is one of the world's fastest-growing economies. It has overtaken Germany as the world's number-one exporting country and Japan as the world's second-largest economy. To sustain its economic growth, which is necessary for this huge authoritarian state, there is one thing that China needs the most: energy. China surpassed the US to become the world's largest energy consumer in 2010 and will likely remain in this position for the next 25 years (IEA 2011). With rising demand for energy and few natural resources back home, China needs to do whatever it takes to secure energy from abroad. Thus, it is not surprising that China invested 102.2 billion USD from 2006 to 2010 in the energy and power sector in the Middle East, Central Asia, Africa and Latin America. This investment amount is the largest sum relative to all other sectors (Scissors 2011).

Currently, China depends on foreign imports for over 50 per cent of the oil it consumes (Zhang 2011). Thus, China has, to a great extent, tried to build good relationships with the leaders of many countries around the globe through various means such as public diplomacy, large-scale investments, and no-strings-attached aid and debt cancellation to secure access to natural resources. For example, Chinese Premier Wen Jiabao made an extensive tour of Africa and offered 3 billion USD worth of credits to Angola, China's major oil supplier, to secure future reliable supplies (*Asia Times* 2006). To diversify its oil import (which mostly comes from the Middle East), Beijing has also spent billions of dollars securing drilling rights in

Nigeria, Sudan, the Democratic Republic of the Congo and Ethiopia (*Asia Times* 2006). Second, in addition to energy security, food security may present a potential problem for China in the future. China has 20 per cent of the world’s population but only 8 per cent of the world’s arable land; this makes feeding its people a real challenge. Although China is at present self-sufficient thanks to its large agricultural outputs, with dwindling agricultural land due to urbanization, industrialization,⁴ and the rising population,⁵ China will become more dependent on imports to meet local demand. To illustrate this, after having been a net food exporter for the previous two decades, in 2007 China became a net importer of food for the first time (see Figure 2). In 2010, Chinese import of grain reached a record high 60 million tons, of which 54.8 million tons were comprised of soybeans (60 per cent of the world’s total) (*People’s Daily Online* 2011a). In this regard, it is reasonable to believe that China is also looking for external food sources. Africa is one of the most promising regions for China’s agriculture outsourcing thanks to its abundant agricultural land. Chinese agricultural investment in Africa is currently concentrated in Sudan, Tanzania and Ethiopia although there are also Chinese firms investing in joint ventures in the fish industry in Mozambique, Namibia and Gabon (Naidu and Mbazima 2008).

Figure 2: Food Trade (in Billion USD), 1992–2010



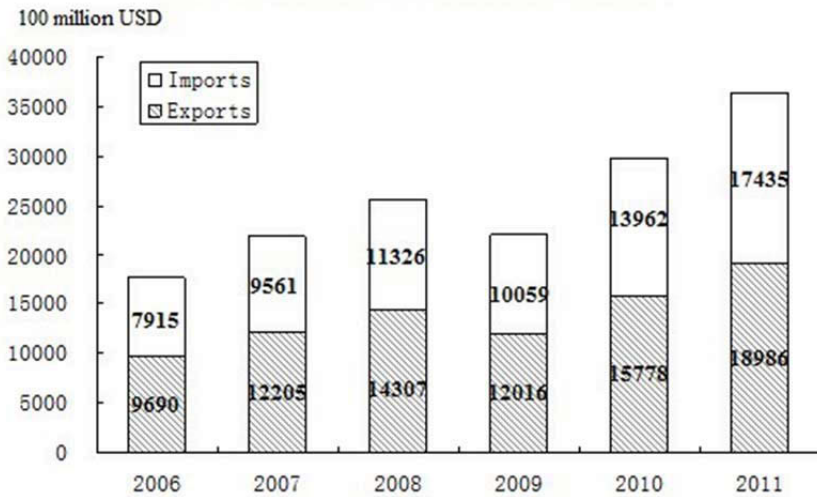
Source: Huang 2011; Centre for Chinese Agricultural Policy.

4 According to Mr. Chen Xiwen, the top agriculture advisor to Premier Wen Jiabao, China’s farmland has shrunk by 8.33 million hectares in the past 12 years due to the construction of apartments and factories, desertification, and deforestation (*The Sydney Morning Herald* 2012).

5 Under the medium-fertility scenario, China would reach a maximum population of 1.443 billion in 2030 (a 10 per cent annual increase for the next 25 years) followed by a long-term population decline (Wei and Liu 2009).

Third, China is evidently seeking to expand its export market. Serving as the factory of the world, China’s exports play a crucial role in its economy, averaging 47.8 billion USD annually (1990–2012) and accounting for almost 40 per cent of its GDP (Trading Economic 2012). In May 2012, China’s exports of office machines and data-processing equipment, telecommunications equipment, electrical machinery, and apparel and clothing were worth 181 billion USD (National Bureau of Statistics of China 2012). Currently, China exports mainly to the European Union, the United States, Hong Kong, ASEAN, Japan, South Korea, India, Russia and Taiwan, but in order to sustain its economic growth China is also on a quest for new export markets for its products. Given its combined population of one billion people and its rapid economic growth, Africa is a promising market for China to tap into. Africa accounted for 3.8 per cent of China’s exports in 2011, an increase from 2 per cent in 2002 (*Times Live* 2012). Latin America, Southeast Asia and Australia are also emerging export destinations for China.

Figure 3: Imports and Exports (2006–2011)



Source: National Bureau of Statistics of China 2012.

Fourth, China is using the charm offensive to attract more supporters and allies. Having a permanent seat on the United Nations Security Council, a nuclear-armed military, a continental-sized territory, a massive foreign reserve, and being the major manufacturing hub of the world, many believe China will become the next global superpower. In fact, some scholars predict that China will overtake the US to be the world’s foremost military

superpower within 20 years and will become the world's largest economy by 2021 (CNN 2011). Although some would contest the timeframe of the prediction, the consensus is that China will get there sooner or later. To ensure that the transformation to superpower is peaceful, China needs a lot of international support. Therefore, there is little doubt that one of China's motives for its increased presence abroad is to make more friends and gather support for its imminent rise. China has been using its consultative, non-interference and no-strings-attached policies to develop political and economic ties with many countries, including those viewed as rogue states by the United States.

Finally, China has used cultural tools within its public diplomacy to win more friends and expand its influence. For example, China has created various scholarship programmes to attract foreign scholars and students to study, research, and work in China. Serious effort has also been made to promote the learning and teaching of the Chinese language (Mandarin) worldwide. One example of such an effort is the establishment of the famous Confucius Institutes around the world, which offer Chinese-language training and promote Chinese culture through the organization of various activities involving music, cooking, and lectures on Chinese history and society. As of 2011, there were 320 Confucius Institutes in 96 countries with over 230,000 registered students globally, and China plans to increase the number of such institutes to one thousand by 2020 (Shen Siow 2011). Hu You Qing, deputy to the National People's Congress once said,

Promoting the use of the Chinese language will contribute to spreading Chinese culture and increasing China's global influence. It can help build up our national strength and should be taken as a way to develop our country's soft power (Kurlantzick 2007).

Obviously, the Chinese government has successfully established a range of institutions and a solid infrastructure to promote Chinese culture around the world.

To sum up, it is true that the increase in China's presence abroad is due partly to the "Go Global" policy, but China's agenda is about more than increasing investment, pursuing product diversification, improving the level and quality of the projects, expanding financial channels, and promoting brand recognition of Chinese companies. An analysis of the domestic socio-economic and political situation in China suggests that its increasing influence overseas is based on at least four main motives: to secure natural resources, particularly oil and food; to expand its export market to sustain growth; to spread its cultural values; and to strengthen friendship and cooperation with world leaders using the charm offensive and public diplomacy in order to gather support for its transition to superpower status. What

about China’s dominance in Cambodia? What does Cambodia have to offer to China? In the subsequent paragraphs, I propose four hypotheses.

Table 5: China’s Interest in Cambodia

Interest		Priority
Economic	Secure natural resources	Medium
	Expand export market	Low
Political	Enhance regional security	High
	Seek support for “One China” policy	High
Strategic	Seek support at global arena	Medium
	Balance the US influence	High
Ideological	Spread Chinese culture	High

Source: Author’s own analysis.

Politically, Cambodia is China’s ally. Cambodia – in particular, Prime Minister Hun Sen – has become one of ASEAN’s strictest adherents of the “One China” policy and a vocal supporter of China’s 2005 anti-secession law⁶ that Hun Sen describes as “highly necessary to the cause of China’s national reunification” (*People’s Daily Online* 2005). Also, China can always count on Cambodia’s full cooperation in dealing with its political resistance. For instance, in December 2009, upon Beijing’s request, Cambodia decided to deport 20 ethnic Uyghur⁷ asylum-seekers to China despite an outcry from the international community (BBC 2009). In April 2012, President Hu Jintao promised millions of dollars of aid and loans during his visit to Cambodia right before the ASEAN summit that was chaired by Cambodia. In return, he requested that the South China Sea dispute not be discussed during the meeting. Experts believe that Cambodia’s membership in ASEAN is important for China to engage Cambodia in shaping regional actors to serve the interests of China.

Economically, China has also benefitted from Cambodia. In return for its assistance, Cambodia’s government has welcomed and facilitated Chinese investment. Chinese FDI fixed asset approval rose sharply from just 105 million USD in 1998 to a staggering 4.375 billion USD in 2008 (CDC 2010). Using Cambodia’s “Most Favoured Nation”, “Generalized System of Preferences” and “Anything But Arms” status, Chinese garment factories were

6 Ratified on 14 March 2005, the law formalizes the long-standing policy of the People’s Republic of China to use “non-peaceful means” against the “Taiwan independence movement” in the event of a declaration of Taiwan independence.

7 Uyghurs are members of a Turkic-speaking ethnic minority living mostly in western China. The 20 Uyghurs were seeking refuge in Cambodia after fleeing persecution in a crackdown that followed riots in which the Chinese government reported that at least 197 people were killed.

able to bypass quotas and tariffs imposed by the US and the EU and export their products to the world market.

Relatively speaking, Cambodia has fewer natural resources than Africa or Central Asia, but this tiny country possesses an estimated 400 million barrels of crude oil and three trillion cubic feet of gas (EIC 2008). Cambodia also offers mineral resources, which is one of the few remaining underexplored (greenfield) areas in the world, and plenty of agricultural land. Investing in these sectors allows China to secure stable access to vital resources for its domestic growth. In fact, Chinese companies have already been granted land concessions and licenses to invest in mining, hydropower and agro-industry in Cambodia. According to a report by the Cambodian Centre for Human Rights (CCHR), 50 per cent of the land concessions granted since 1994 (4.6 million hectares) are in the hands of 107 Chinese firms (*The Phnom Penh Post* 2012b). As mentioned previously, an estimated 23 Chinese firms are exploring mineral resources (*People's Daily Online* 2011b), five are constructing hydropower dams (*People's Daily Online* 2011b), and 66 are investing in agro-business industry (Hicks et al. 2009). It is not known for sure how many Chinese firms are investing in Cambodia's oil but in 2007 the China National Offshore Oil Corporation (CNOOC) reportedly won the right to drill in Cambodia's offshore Block F, covering 7,026.7 square kilometres (*Xinhuanet* 2011c).

China also sees Cambodia as a farming field. As mentioned above, China is seeking external food sources to ensure its food security. With its favourable climate and because less than 30 per cent of its total potential arable land is currently cultivated (Yu and Diao 2011), Cambodia is promising for China's agricultural outsourcing. Thus, it is not surprising that China is the second-largest investor in agriculture with a share of fixed assets of 17.6 per cent from 2000 to 2010 (CDC 2010). There are already some visible signs of China's interest in Cambodia's agricultural products. For instance, in August 2011, the China National Food Industry Group signed an agreement with the Cambodian agricultural firm Ly Ye Rubber Company to import one million tons of cassava. In the same month, the Guangzhou branch of the China Grain Reserves Corporation (Sinograin) also agreed to buy up to 200,000 tons of milled rice per year from Cambodia (*Xinhuanet* 2011a). Investments in these sectors allow China to secure important natural resources to feed its own population.

Strategically, Cambodia occupies a unique geographical location vital for China to strengthen its own security in Southeast Asia. China's increasing exports and insatiable demand for energy have driven it to pursue its "string-of-pearls" strategy, a strategic move which involves establishing a series of nodes (pearls) of military and economic power throughout a region,

often through gaining increased access to airfields and ports. Situated in the centre of mainland Southeast Asia, the Cambodian port of Sihanouk Province is a precious “pearl” among China’s “string of pearls” (see Figure 4). It should be noted that China has already funded the renovation of the docking facilities at Ream and the port of Sihanouk Province. Access to these ports provides an excellent base for projecting maritime power into the Gulf of Thailand and the Straits of Malacca. Thus, Cambodia is strategically important for China to exert greater influence in Southeast Asia and to counterbalance the power of the US.

Cambodian airfields could also make up for China’s lack of in-flight refuelling capacity for warplanes providing maritime air cover. Such bases would not only protect China’s interests, they would drive a wedge both within ASEAN and between ASEAN and the United States (US Major Paul Marks in his article in the *US Army War College Quarterly* 2000).

Figure 4: China’s “String-of-Pearls” Map



Source: Map modified by the author; original map produced by Edgar Fabiano <<http://en.wikipedia.org/wiki/File:Collardeperlaschino.png>>.

Culturally, China has also been trying to spread Chinese values in Cambodia. By the end of 1960, Chinese had become the largest minority group in Cambodia, the population of Chinese and Chinese-Cambodians numbering approximately 425,000 at that time (Swann 2009). Although this number dropped during the subsequent war and under the genocidal Pol Pot regime,

ethnic Chinese have re-emerged as one of the most prominent groups in Cambodia and play an important role in the business sector. There are now about 500,000 Chinese and Chinese-Cambodians in the country, according to the Chinese Association in Cambodia (*Radio Free Asia* 2012a).

The cultural influence from China has not been paid enough attention to but it is prominent and can be witnessed in many aspects of Cambodian society, including but not limited to language and education, food and eating, media and entertainment, and beliefs and festivals. For example, Chinese New Year is one of the biggest celebrations in Cambodia, with up to 80 per cent of Cambodian people celebrating it every year (*Xinhuanet* 2012). Although Chinese New Year is not officially recognized as a public holiday, a number of schools, markets, businesses and government ministries are closed during this event. Chinese food has become a common dish in most Cambodians' homes. I estimate that there are at least one hundred Chinese restaurants in the capital Phnom Penh alone. Mandarin is the second most popular language in Cambodia after English. As mentioned above, there are approximately 56 schools offering Chinese-language classes to some 30,000 students nationwide (*Xinhuanet* 2011b). To further promote the Chinese language, China has built a Confucius Institute in Phnom Penh to offer Chinese-language programmes to Cambodian learners and training programmes for Chinese-language teachers (*Xinhuanet* 2010).

The popularization of the Chinese language in Cambodia far exceeds that in any other Southeast Asian country. This feather in the cap of Cambodia's Chinese has made an enormous contribution to both glorifying Chinese culture and developing the friendship between Cambodia and China (Yan Tingai, a former Chinese ambassador to Cambodia [Marks 2000]).

4 Discussion

Clearly, China is re-emerging as a prominent foreign player in Cambodia. Because Cambodia's geographical, natural, and cultural landscapes are conducive to China's rise in the region, the latter country has utilized its soft power (diplomatic, economic and cultural) to increase its involvement in the former country. China's influence now runs deep in Cambodian society. Politically, Cambodia is one of China's oldest and closest allies. Economically, China is Cambodia's top foreign investor, a major donor, and an increasingly important trading partner. Culturally, Chinese values are deeply embedded in Cambodians' way of life.

So given the scale of China's dominance in Cambodia, it has become relevant and important to assess the roles that China plays in Cambodia's

socio-economic development. As far as China is concerned, there are two opposing points of view: One group believes that Chinese investment contributes to Cambodia's economic development and poverty reduction. For instance, investment in the garment industry has boosted exports and generated local employment (Ouch, Saing and Phann 2011), and investment in hydropower can potentially provide electricity to some, if not all, of the 78 per cent of the population who currently do not have access to reliable electricity (UNDP 2010). These investments may not empower all Cambodians equally at once, but will contribute to everybody's well-being through trickle-down effects in the long run. The government is also expected to benefit financially through taxes and royalties from Chinese investment in mining, oil and gas. Chinese aid for building roads, bridges and highways is also expected to improve Cambodia's physical infrastructure, contributing indirectly to poverty reduction.

However, the other group argues that China's unquestioning approach to how its aid and investment money is used has exacerbated corruption, deteriorated governance and human rights, and ruined Cambodia's natural resources and environment. For example, Chinese investment has been repeatedly criticized for its lack of transparency, its human rights abuses, and the environmental deterioration it has wrought. Human rights activists have often implicated Chinese garment factories in the abuse of workers' rights. Issues such as involuntary unpaid overtime work, unauthorized deductions from pay, and only rare allowances for sick leave are commonly reported (*Radio Free Asia* 2012b). Chinese investment in massive agricultural and forestry exploitation projects has also sparked controversies. For example, the 200,000-hectare concession granted to Pheapimex, partnering with China's Wuzhishan, has displaced indigenous minority people who rely on the forests for their traditional livelihoods (Global Witness 2009). Chinese hydropower investment projects have also negatively affected the environment, destroying the protected areas, forest biodiversity and wildlife habitats (Middleton 2008). Critics also argue that the lack of transparency and accountability in the management of Chinese aid will aggravate the existing widespread corruption and poor governance.⁸ As Michael Sullivan (2009) puts it,

Chinese investment and aid, backed by China's regional foreign policy goals, may create new rent-seeking opportunities for powerful political and economic networks within the Cambodian state, at the expense of the government's reform agenda.

⁸ Cambodia ranks 164 out of 182 countries in Transparency International's Corruption Perceptions Index 2011.

The Cambodian government has warmly welcomed China's involvement. Cambodian Deputy Prime Minister Sok An told Chinese Ambassador Zhang Jinfeng, "The more investments and tourists from China, the greater the contributions will be to Cambodian economic growth" (*People's Daily Online* 2010). On another occasion, Cambodia's Public Works and Transport Minister Tram Iv Tek stated the following at the signing ceremony of the infrastructure development Memorandum of Understanding (MoU): "So far, China has built three bridges and 1,500-km-long roads for Cambodia, worth nearly one billion US dollars. The Cambodian people and government will not forget China's help" (*Xinhua* 2010). Premier Hun Sen called China "Cambodia's most trusted friend". He openly appreciated Chinese aid, saying that it comes with no strings attached, unlike aid from the US and the West, which often comes with stringent structural adjustment and reform requirements.

China's "unconditional" aid and inflow of large-scale investment are in some ways weaning Cambodia off its dependence on the West, but experts warn that too much reliance on any single country is unhealthy for Cambodia. "China will play an even more important role but we still need traditional donors," said Chan Sophal, president of the Cambodian Economic Association, in an interview with the author. There are concerns about the loss of independence and autonomy in decision-making if Cambodia's government is to rely solely on China. Past experiences have already shown how China could influence Cambodia's actions and decisions, especially with regard to diplomatic and political matters (elaborated in the previous section). In fact, most recently, Cambodia has been harshly criticized for its unjust chairmanship of the ASEAN meeting in July 2012 with regard to the South China Sea dispute. Meeting delegates described Cambodia as "the worst chair" and said China had effectively bought Cambodia's loyalty (*Reuters* 2012). Cambodia might also risk losing face and trust within the international community, and its role in the ASEAN community might be marginalized if it continues to give China special treatment.

This time around, Cambodia, as the ASEAN chair, has taken an uncompromising stand on the issue of the South China Sea. Instead of trying to find common ground among all concerned parties, as the ASEAN chair has done in the past, the chair decided to put its national interest ahead of the grouping's solidarity. In the long run, it will backfire on Cambodia and ASEAN as a whole (*The Nation* 2012).

This situation casts doubt and raises questions concerning the overall long-term benefits that Cambodia may derive from Chinese investment and aid. The question is whether China's involvement will leave Cambodia with any net positive gain. It is difficult and may be too early to answer this question

now. Although China has had a presence in Cambodia for centuries, its serious involvement in the form of large-scale investment and aid, which reflects its new foreign policy, is a recent phenomenon. There is some reported evidence of negative consequences such as the loss of livelihood of local communities and the deterioration of natural resources and the environment, and some evidence of benefits seen in the creation of jobs and the building of infrastructure, but the long-term net payoff has yet to materialize. Also, the lack of empirical evidence coupled with the poor information disclosure present a huge challenge to any attempt to assess the net impact of Chinese investment and aid.

Although the net effect of China on Cambodia is yet to be determined, there is one thing that most experts would agree on and that is the fact that China will continue to play a vital role in Cambodia in the near future, and that China's dominance will persist. Cambodia is an essential partner for China in the regional context, and Southeast Asia is arguably one of the most important world regions for China. With the combined population of 591 million people and a combined nominal GDP of 1.4 trillion USD (ASEAN 2011), ASEAN is significant for the growth of the Chinese economy. In fact, ASEAN is the fourth-largest trading partner for China, after the EU, the US and Hong Kong (National Bureau of Statistics of China 2011). And given that 5 per cent of the ASEAN population is Chinese, the values of this region *vis-à-vis* any other given part of the world are also culturally the closest to China's. Strategically, ASEAN also plays a critical role in China's "string-of-pearls" strategy to secure energy, exercise its maritime power and balance the influence of the US. In this regional context, Cambodia is one of China's few friends: While Vietnam, Singapore, and the Philippines have a closer relationship with the US, China's closest allies are Myanmar and Cambodia. China needs those two countries' support in the wake of disputes (for example, the South China Sea dispute) and in order to maintain regional security in general.

China and Cambodia will always be good neighbours, close friends, trusted partners and dear brothers [...]. I'm [of the] firm belief that with the care and support from the leaders of both countries and the joint endeavours of the two peoples, the traditional friendship between China and Cambodia will be passed on from generation to generation, and the bilateral ties will [lead to] an even [more] promising future (Pan Guangxue, Chinese ambassador to Cambodia; quoted in the *Phnom Penh Post* 2011).

Cambodia, on the other hand, also needs China's investment and aid for its economic growth. With Cambodia's government revenue currently at only 15.4 per cent of GDP (Um 2012), it will continue to depend on foreign aid

for many years to come (presently almost half of its national budget comes from aid). And given the government's preference for Chinese "no-strings-attached" aid over that from the traditional donors, China will remain a major player and Cambodia–China relations will become even closer. There are already signs of closer ties between the two nations. In February 2012, for example, both countries agreed to advance the comprehensive relations of strategic cooperation and partnership in trade, agriculture, infrastructure, communication, security and law enforcement. Just four months later, Cambodian and Chinese firms signed ten MoUs on business cooperation in the fields of agriculture, mineral resources, food, garments, and electronic products. Through these MoUs, Cambodian companies expect to export 60,000 tons of rubber latex, 500,000 tons of rice, one million tons of cassava, and 3,500 tons of black pepper to China to supply those Chinese firms (*China Daily* 2012b).

In short, Cambodia depends on China economically, while China needs Cambodia politically and strategically. Both nations will continue to be good friends at least until there is new leadership in either country. However, it is of great importance that the two countries work together to ensure that their relationship result in a win-win scenario. Among other things, serious efforts must be made to improve the management of investment and aid. Scores of literature have already proven that aid, if not well managed and if given in the wrong context, will do more harm than good. Aid delivered over long periods to nations with weak institutions has the potential to undermine good governance and to reduce local ownership, accountability and democratic decision-making, and it does very little to promote economic growth (Graham and O'Hanlon 1997; Easterly 2003; Tangri and Mwenda 2006). To ensure that Cambodian–Chinese cooperation will ultimately turn out to be a positive-sum game requires good leadership and accountable governments with a long-term vision of achieving sustainable development. This will entail placing great emphasis on improving transparency and information disclosure, promoting a participatory and inclusive development approach by involving relevant stakeholders, minimizing any potential negative impact on the environment, and making sure that the benefits are shared among all parties involved, particularly the local community.

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