

# China's Outward Foreign Invest to Cambodia from 1993 to 2017

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**Abstract:** *This paper examines the inflows and details of outward Chinese foreign direct investment (OFDI) to Cambodia from 1993 to 2017 and its impacts. The findings show that the Chinese OFDI to Cambodia was facilitated by strategic bilateral relations of the two countries and has its own characteristics. There was the increase trend of Chinese OFDI inflows to Cambodia in the given period. Chinese investments in Cambodia are diversified in terms of ownership type and asset specificity. China's state-owned enterprises focus on hydropower plants and natural resources, which largely enjoy investment approval and protection. 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. In the future, the two governments should work together to amplify the positive impacts and mitigate the negative impacts of Chinese OFDI in Cambodia.*

**Keywords:** Cambodia; China; (Outward) Foreign direct investment

## 1. Introduction

After the first UN-supervised election and also the issuance of Investment Law in 1993, Cambodia has become a notable destination for attracting foreign direct investment (FDI). Cambodia's inward FDI are mainly from Asian countries, particularly China, Japan, South Korea and ASEAN countries[1].

From 1994 to 2017, the overall investment capital from China was roughly \$14.7 billion, mainly concentrated on four sectors – the agriculture and agro-industry, the industrial sector, physical infrastructure and services and tourism, making China to be the biggest investors in Cambodia[1]. It is believed that FDI, together with the outward FDI from China is the main booster of Cambodia's economic development. This article reviews the existing literature to describe the trend and the determinants of Chinese outward FDI (OFDI) into Cambodia and its effects on the host country.

This is followed by a summary of existing literature on the Chinese OFDI strategies. The third section presents our findings on the development effects of Chinese OFDI in Cambodia trend and impacts of OFDI inflows to Cambodia from 1993 to 2017.. The last section concludes with some policy implications.

### 1.1 Chinese OFDI Strategies

Traditionally, FDI from developed countries was undertaken to exploit low-cost labor and raw materials in developing countries, and offering advanced technology or managerial expertise to make profit[2]. Later research on OFDI from developing countries, particularly that from rising markets, identifies that such OFDI is noticeably different not only because it is undertaken in search of strategic assets such as technology and managerial skills instead of offering them, but also because it has been strongly influenced by home

and host country institutional environments[3,4]. Being one of the most remarkable emerging markets, China first went into other developing countries both to utilize its advantages in technology, and to empower political affiliations with those developing countries[5]. Recently, there are more and more Chinese companies step into developed countries to pursue strategic assets like technology and brand[4,6]. In addition, China might foster its OFDI with unique features because of the distinctive institutional settings of its economy. The present literature suggests that Chinese OFDI has both conventional and idiosyncratic dimensions[7]. The conventional motivations of Chinese OFDI, which are similar to those of other emerging market multinationals (MNEs), can be summarized as following: (1) The support of government under "Go Global" policy for going abroad; (2) To avoid increasing competitive pressure from global rivals in their backyard; (3) Fast change of market conditions and a heightened borderless world economy; (4) The latecomer position and their deficiencies in core competencies; (4) Entrepreneurial desire to hit the core international markets.

On the other hand, distinctive features of Chinese OFDI have been identified which include: (1) Significantly driven by natural resource-seeking and strategic; (2) State ownership may serve as a specific kind of ownership advantages; (3) Availability of cheap capital from the state tends to create wasteful OFDI[8].

Literature has proved that, Chinese companies often operate in developing countries where they are confronted by factors found to discourage FDI[9]. These factors include weak regulation, high corruption and high political risk, each of which is characteristic of Cambodia's investment environment. Peter Buckley et al. discovered that Chinese outbound FDI to be positively correlated with political risk[10]. Likewise, Ivar Kolstad and Arne Wiig have concluded that Chinese outward FDI is attracted to countries with "poor institutions", using an index that includes

“control of corruption” and “political stability”[11]. Fung and Alicia Garcia-Herrero suggested “Chinese investment seems to be attracted to more corrupt countries”[12]. Yin-Wong Cheung and Xingwang Qian also found that Chinese FDI is not deterred by corruption, poor law and order or a lack of democratic accountability[13]. Cheng and Ma ruled 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[14].

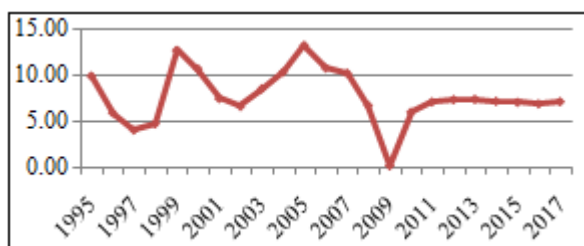
**1.2 China – Cambodia Relation**

The reasons given for China’s investment in Cambodia are the deep political trust, the relatively stability of political state of affairs and a sound macroeconomic environment, market access, low labor costs together with high percentage of people of labor age are also key plus points for investors, and natural resources and common Asian values [15–17]. Strategically, Cambodia occupies a unique geographical location vital for China to strengthen its own security in Southeast Asia. In 2013, the comprehensive strategic partnership of cooperation between the People’s Republic of China and the Kingdom of Cambodia developed smoothly and practical cooperation in all fields made positive progress. Alongside, since the inception of the “Belt and Road (BRI) Initiative”, Cambodia has embraced this China-led initiative and hopes to transform it into a source of national development. From connectivity to cross-border trade to tourism, Cambodia has taken a great deal of benefits from cooperation with China under the BRI framework and future enhancement of bilateral cooperation will lead to even greater potential[18].

**1.3 Cambodia economic growth**

**Table 1:** Cambodia basic indicators

Land Area (square Km)	181,035
Population (thousands, 2017)	16,100
GDP (million current US\$, 2017)	22,574
GDP (million current PPP US\$, 2017)	64,210
<i>Source: World Bank Data[19]</i>	



**Figure 1:** Cambodia’s GDP growth (annual %) from 1995 to 2017. *Source: World Bank Data[19]*

After reaching full peace in 1999, the Cambodian economy became more resilient and dynamic in spite of major challenges encountered by the regional and global economy and the natural disasters the country experienced. During 2000 – 2008 period, Cambodia achieved average growth of approximately 9 percent annually. In particular, during the last three years, Cambodia’s economic growth reached unprecedented double-digit rates of 11.4 percent per year on average, with its peak of 13.5 percent in 2007. Economic growth was 10.8 percent and 10.2 percent for 2006 and 2007, respectively. Though Cambodia has been affected by the global recession, it posted economic growth of 6.8 percent in 2008 when the expectation was only 4.8 percent. As result, the average per capita income increased remarkably from US\$288 in 2000 to US\$513 in 2006 and then to US\$900 in 2008. Poverty has been reduced by approximately 1 percent per year. The figure unfortunately dropped from 6.8 to nearly zero in 2009, then increased to 5.96 percent in 2010. The economic growth was relatively stable around 7% from 2011 to 2017 (Figure 1).

**1.4 OFDI Trend in Cambodia**

In 1989, Cambodia shifted to a free market economy and welcomed FDI. The country passed a new law on investments when the coalition government took over in 1993. This law was amended in 2003 to facilitate investments and serve national interest further. The sectors which are encouraged for investment in Cambodia include: Agriculture and agro-industry, Transport and telecommunications infrastructures, Energy and electricity sectors, Labor-intensive industries and export-oriented processing and manufacturing, Tourism-related industries, Mining of minerals (including oil exploitation), Encouraged investment activities [20].

FDI inflows increased remarkably following the peace accord and the reconstruction efforts led by United Nations Transitional Authority in Cambodia (UNTAC) started in 1993, however, the inflows thereafter declined due to the Asian financial crisis. In 2008, the investment reached the peak when Cambodia welcomed a number of huge investment projects from many countries, including Korea’s development of the International Finance Complex and new town project, China’s hydroelectric plants and Coast Development Complex in Koh Kong. From 1994 to Dec 2017, the total FDI of the country was about US\$40 billion. The main investing countries are China (Chinese OFDI only surpassed all other FDI sources combined), Hong Kong, USA and Netherlands. The construction industry attracts the largest share of foreign investors, followed by infrastructure, industry (primarily textiles), agriculture and tourism [1].

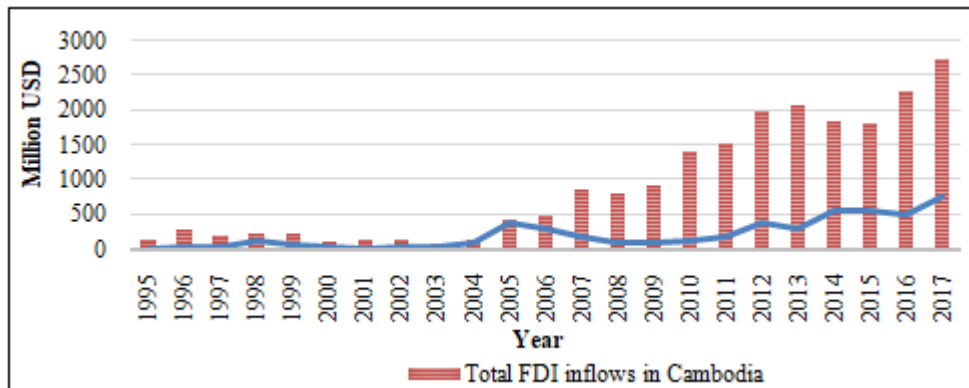


Figure 2: FDI inflows in Cambodia from 1995 to 2017. Source: UNCTAD database[21]

### 1.5 The Chinese OFDI in Cambodia

From 1993 to 2017, the total investment capital from China was about \$14 billion. It can be obvious that OFDI was relatively small until 2013. After the comprehensive strategic partnership of cooperation between the People's Republic of China and the Kingdom of Cambodia, the OFDI of China to Cambodia has remarkably increased from 2005 to 2017 despite some fluctuations. Currently, China is the largest investor in Cambodia (Figure 3).

Chinese investments in Cambodia are diversified in terms of ownership type and asset specificity. While the state-owned enterprises focus on hydroelectric plants and natural resources, which largely enjoy investment approval and protection, the private companies concentrate their investments on garment industry and tourism sector [22].

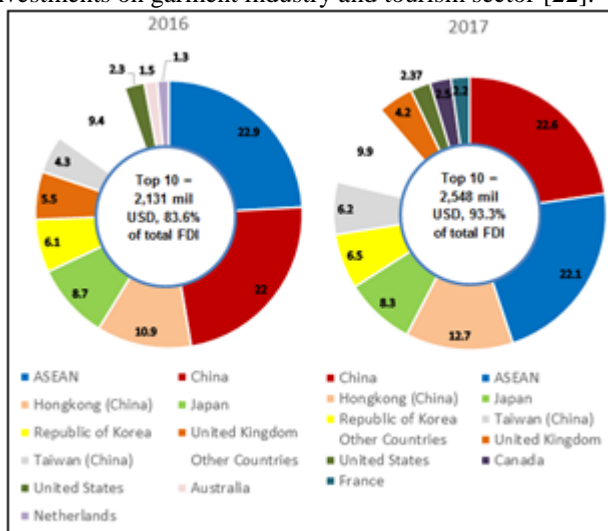


Figure 3: Top 10 OFDI investors in Cambodia, 2016 -2017. Source: ASEAN Investment report[1]

Traditionally, Chinese firms invested heavily in small-scale manufacturing and the garment/textile 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 hydropower dams, and hundreds more are investing in the garment industry.

For energy sector, 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.

China also sees Cambodia as a farming field. With its favorable climate and because less than 30 per cent of its total potential land is currently cultivated [23,24], 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. 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. Investments in these sectors allow China to secure important natural resources to feed its own population. There are about 30 Chinese investment projects relating to agriculture and the agro-industry, covering about 237,406 hectares of land, in which 21 projects are in operation on 173,904 hectares. So far, only about 42,081 hectares have been cultivated and rubber plantations consume most of the cultivated land. In addition, there are seven Chinese investment projects in rice mills with a production capacity of 669,816 tons per year [15].

China also invested in constructing the Sihanoukville Special Economic Zone, the first special economic zone funded by the Chinese government in Asia, co-managed by the Cambodia International Investment Development Group and Jiangsu Taihu Cambodia International Economic Cooperation Investment. There are 108 enterprises and companies gathered in the zone with a total investment capital of more than \$3 billion. [22].

## 2. Impacts of Chinese OFDI in Cambodia

### 2.1 Positive impacts

KhunSokanget al. have showed that there is positive relationship between economic growth (GDP) and FDI in Cambodia from 2006 to 2016. The results could be as a result of sufficient FDI fund invested into Cambodia's economy which has been able to exert enough impact to make it positive or growth enhancing. FDI is believed to transfer technology, promote learning by doing, train labor

and in general, results in spillovers of human skills and technology in Cambodia[25].

The impacts of Chinese OFDI in Cambodia are one of hottest debates. One group believes that Chinese investment contributes to Cambodia's economic development and poverty reduction. Chinese investment in the textiles and clothing industries contributes significantly to the socio-economic development through busting exports creating job opportunities for 700,000 – 800,000 Cambodian workers, mostly female low-skilled jobs[26]. The industry itself has become part of the vertically integrated value chain in China and an important node in the global value chain[27].

In hydropower sector, investment can potentially provide electricity to about 35 per cent of the population who currently do not have access to reliable electricity. These investments may not empower all Cambodians equally immediately, but will contribute to people's well-being through trickle-down effects in the long terms[16]. The development of economic zones such as the Sihanoukville Special Economic Zone helps facilitate the expansion of Chinese firms and improve national manufacturing capacity[28].

## 2.2 Negative impacts

However, several authors implied that the impact of China OFDI on poverty reduction of Cambodia was still unremarkable. The spillover effects of Chinese investments, particularly in technology and knowledge transferring, are low given the fact 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 labor-intensive garment industry where factories work on cut-make-trim processes, and national resource extractions such as mining and hydropower plants do not generate many job opportunities for locals. Moreover, these investments do not strengthen the capacity of local companies to integrate themselves in the global value chains. Chinese contractors tend to hire Chinese labors rather than the local ones, which cause some public resentment and security concerns [15,20,25,26].

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. 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 labor unrest and strikes[20].

Some experts 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[9,27].

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 adverse social and environmental impacts due to the non-compliance with international standards. 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[15,16]

Chinese investment in massive agricultural and forestry exploitation projects has also rised 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 [29]. Chinese hydropower investment projects have also negatively affected the environment, destroying the protected areas, forest biodiversity and wildlife habitats [30]. 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[17].

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 focus on the government, political parties and political elites and neglect to focus on benefits for the average Cambodian[15]. Several reports suggested that the Chinese OFDI received negative public media sentiment in Cambodia[31]. Many Cambodians have carefully warned China's support for Pol Pot, saying that they hated the manipulation between neighboring authorities and the lucrative companies and estimates from China that helped the Cambodian economy. The global group will turn out to be more awkward while China sustains to lengthen toward the military association with Cambodia[32]. There are also some questions that cannot be answered by existing literature, such as the "hidden goals" of Koh Kong project, is it for Chinese tourists – or China's military?[33]

## 3. Conclusions and Policy Implications

The paper describes the trend and figures of Chinese OFDI from 1993 to 2017 and summarizes existing literature on it positive as well as negative impacts to Cambodia. There were the increase trend of OFDI inflows to Cambodia, from China and many developed countries. China is the largest foreign investors in Cambodia. China's state-owned enterprises focus on hydroelectricity and exploiting natural resources, while China's private firms concentrate their investments on the garment industry and the tourism sector. The OFDI, to some extent, contributed to the economic development of Cambodia, by creating new jobs for low-

skilled workers and potentially providing reliable energy sources. However, it also brings notable negative socio-cultural, political and environment impacts. People are also skeptical about some ambition of Chinese OFDI projects.

Cambodia is unlikely to receive any further funding from the European Union and the United States due to some political issues. Unsurprisingly, this provided China with an opportune moment to reinforce its geopolitical position within Southeast Asia through Cambodia. Under BRI scheme, Beijing and Phnom Penh will hail stronger ties in the future.

In order to maximize the positive impacts of Chinese OFDI, 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. Cambodia must strengthen its institutions and implement good governance policies to encourage responsible investment that link financial aid to poverty reduction and inclusive development. On the other side, 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.” For instance, private companies from China may need to assume a greater role in promoting inclusive growth and sustainable development.

The paper is limited to Chinese OFDI to Cambodia. China has also provided Cambodia with other type of financial and non-financial assistance, such as Official Development Assistance (ODA), which is not discussed here. Additionally, the up-to-date quantitative literature is insubstantial. It urgently calls for further investigations with recent data to reveals the impacts of Chinese OFDI in Cambodia.

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