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## China's Foreign Investment and Assistance: Implications for Cambodia's Development and Democratization

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### Abstract

With a strong economy and newly acquired confidence following three decades of rapid economic expansion, China has pursued an outward looking policy based upon foreign direct investment, development assistance and trade targeting particularly the developing world. Such expansion has drawn concerns over its impact on human rights, democratization and the environment. This paper assesses these concerns by examining Sino-Cambodia relations over the past sixteen years. It concludes that while trade, development assistance, and investment have had positive effects on Cambodia's economic development, concerns that these engagements have derailed deeper democratization in Cambodia are not deterministic. Cambodia's authoritarian trajectory is less a product of China's engagement and more of the Cambodian elites' defiance of Western efforts at democratic promotion and belief in state developmentalism—economic prosperity with tight political control.

**Keywords:** *assistance, Cambodia, democratization, foreign investment, Khmer Rouge regime, People's Republic of China (PRC), Sino-Cambodian relations*

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### **Development and Democratization**

**Kheang Un**

#### **Abstract**

*With a strong economy and newly acquired confidence following three decades of rapid economic expansion, China has pursued an outward looking policy based upon foreign direct investment, development assistance and trade targeting particularly the developing world. Such expansion has drawn concerns over its impact on human rights, democratization and the environment. This paper assesses these concerns by examining Sino-Cambodia relations over the past sixteen years. It concludes that while trade, development assistance, and investment have had positive effects on Cambodia's economic development, concerns that these engagements have derailed deeper democratization in Cambodia are not deterministic. Cambodia's authoritarian trajectory is less a product of China's engagement and more of the Cambodian elites' defiance of Western efforts at democratic promotion and belief in state developmentalism—economic prosperity with tight political control.*

#### **Introduction**

Following three decades of rapid, sustained economic growth, the People's Republic of China (hereafter PRC or China) has emerged as a strong economic and political player in Asia and beyond. With a strong economy and newly acquired confidence, China has expanded its engagement with multilateral institutions, regional organizations and developing countries. China's engagement with developing countries rests on its outward foreign direct investment, development assistance and trade. Although China's engagement in the developing world has contributed to the latter's economic growth, such engagement has raised concerns over its negative impact on human rights, democratization, and the environment. Reactions to such concerns have been reflected in Sino-Cambodian relations through a complex intertwining in areas of trade, investment, diplomacy, development assistance, and culture over the past decade. Although it is agreed that China's close engagement has contributed to opening up Cambodia to the regional and global economy and thus economic growth, critics have charged that these developments have not only moved Cambodia deeper into China's sphere of influence but also increased the power and legitimacy of the autocratic regime in Phnom Penh, thereby hindering Western countries' efforts to promote deeper democratization.

This paper addresses the implications of China's trade and development assistance for Cambodia's economic growth and democratization. It is divided into four sections; the first traces the historical background of Sino-Cambodian relations, including China's support for the murderous Khmer Rouge regime. Second, the paper examines Beijing's

strategic deployment of soft power and its application to Cambodia. Third, it analyzes China's investment and assistance and its impact on Cambodia's economic and democratic development. This paper concludes that while Chinese trade and development assistance have had positive effects on economic development in Cambodia, its impact on Cambodia's democratization is not deterministic. Critics who blame China for derailing deeper democratization in Cambodia overlook first the nature of Cambodia's domestic politics and the appeal of China's soft power, and as well as the complexity of the relations between Cambodia and the donor community and the latter's often fractured efforts to promote democracy in Cambodia.

### **Historical Background**

Sino-Cambodian post-colonial diplomatic relations began in 1958 as Cambodia searched for friends who could help it navigate the conflict that would engulf Indochina over the next two decades. Cambodia's search coincided with China's quest for influence in the Third World. Following a meeting between Prince Norodom Sihanouk and Premier Zhou Enlai at the 1955 Bandung Conference of the non-aligned movement, the PRC and Cambodia established formal diplomatic relations in 1958. China soon became one of Cambodia's major patrons in the latter's quest for neutrality (Sihanouk, 1958-1959) until Prince Sihanouk was disposed by a military coup in 1970.

The PRC, after the end of the Vietnam War in 1975, was concerned about Vietnam's attempt to cultivate a unified Indochina. This troubled the PRC not because it was concerned about the Vietnamese threat per se, but because the PRC feared the fall of Indochina into the hands of a pro-Soviet Vietnam. This would eventually enable the Soviet Union to encircle China from multiple fronts (Ross, 1988, p. 40). As a consequence, the PRC offered military assistance, including military advisors, to Democratic Kampuchea (DK) which ruled Cambodia from 1975 to 1979 before it was toppled by the Vietnamese army (Kiernan, 1991, pp. 132-33; Short 2006). The DK regime undertook an extremely radical, utopian revolution copying distorted elements of Mao Zedong's Great Leap Forward and Cultural Revolution to construct the Khmer Rouge version of a Super Great Leap Forward. In the course of the social, cultural, psychological and physical destruction of Cambodia, the DK caused an estimated 1.7 million deaths from starvation, execution, and overwork, the highest per capita rate of mass killing in modern world history (see Chandler, 1991; Kiernan, 1995; Becker, 1998).

As news about the DK's "killing fields" spread worldwide, the legitimacy of the DK's resistance to the Vietnamese backed People's Republic of Kampuchea (PRK) could not be justified; therefore, a more acceptable anti-Vietnamese/PRK coalition was needed. China, the United States, and the Association of Southeast Asian Nations (ASEAN)—overlooking the DK's grave human rights violations—backed the Khmer Rouge and two other resistance movements against the Vietnamese army and Vietnamese backed government in Phnom Penh. Within this context, political scientist Muthia Alagappa (1993, p. 201) argues, the Cambodian conflict emerged as "bilateral (Khmer-Vietnamese) and domestic (intra-Khmer) became internationalized by the dynamics of deep-seated Thai-

Vietnamese and Sino-Vietnamese antagonisms, and global Sino-Soviet and Soviet-American rivalries” (see also Chanda, 1989). These rivalries sustained the Cambodian conflict for over a decade. In 1988, Hun Sen wrote in an essay that “China was the root of everything that was evil in Cambodia” (Jeldres, 2003).

Following the collapse of the former Soviet Union and its satellite states, a comprehensive agreement to the Cambodian conflict was reached in 1991. The peace-agreement led to the 1993 United Nations sponsored elections in Cambodia which produced an internationally legitimate government. During the first four years following the establishment of the Cambodia's new government, diplomatic relations between the PRC and Cambodia, which was reestablished in 1993, remained mixed. While maintaining diplomatic relations with the PRC, the Cambodian government permitted Taiwan to operate a liaison office in Phnom Penh. Legitimate and illegitimate businesses from Taiwan grew while those from the PRC were limited. The watershed of reestablishing close Sino-Khmer relations began in 1997, with Hun Sen's strategic diplomatic calculation to search for a powerful international ally when his international legitimacy was in question following his violent ouster of his democratically elected senior coalition partner, Prince Norodom Ranariddh. The United Nations Security Council, under pressure from the United States, voted the Cambodia seat left vacant in 1997 as a punishment for Hun Sen's violent grab of power. Cambodia's donors suspended its financial assistance to Cambodia, cutting its financial blood supply.

As a move to offset the decline in international diplomatic and financial support for his government, Hun Sen played the China card by “promptly expelled Taiwan's unofficial liaison office from Phnom Penh” (Marks, 2000). This policy pleased the PRC, which in 1998 offered Hun Sen a reciprocal response of US2.8 million dollars in military assistance. In 1999, the PRC provided an additional US18.3 million dollars in foreign assistance and US200 million dollars in interest free loans—the largest Chinese assistance to any country to that date (Marks, 2000). In response to China's indifference to Hun Sen's use of violence to consolidate his power, Hun Sen stated:

Although some international community members have not yet clearly understood the real situation in Cambodia, a number of friendly countries have maintained their just and fair stance on the Cambodian issue. Among them, the PRC, which has firmly adhered to the principle of peaceful coexistence, continues to respect the Kingdom of Cambodia's independence and sovereignty and does not poke its nose into Cambodian internal affairs (quoted in Marks, 2000).

### **PRC's Soft-Power and Cambodia**

China's foreign policy under Mao Zedong stressed self-reliance and the export of Maoist revolution abroad, of which Cambodia was an infamous recipient during the second half of the 1970s (Quinn, 1992). The outcome was disastrous for recipient countries as well as for China. Instead of bringing about economic growth and national prestige, Maoist revolution led China to economic disaster and international humiliation and isolation. Since

the 1980s following reforms initiated by Deng Xiaoping, Chinese foreign policy shifted from an ideological to a “ruthless pragmatic” path. This pragmatism centers on a number of core principles. First, only “economic prowess”—not ideology or military—can lead China on the path to greatness. Second, the route to economic growth can be constructed on the principles of peaceful development or global harmony (Pang, 2007; Cho and Jeong, 2008). Peaceful development requires the maintenance of good relations with foreign governments, reassuring the nations in China's neighborhood and beyond that China's rise will not be a threat to world order. To advance its foreign policy objective of peaceful development, the PRC adopted a new foreign policy tool based on the concept of “soft power” or a “charm offensive” (Kurlantzick, 2006 a, b and c; Pang, 2007; Nye, 2005).

In contrast to “hard power” which is projected through military force, “soft power,” according to Joseph Nye, “rests on the ability to shape the preferences of others .... [It] is the ability to get what you want through attraction rather than coercion or payments. It arises from the attractiveness of a country's culture, political ideals, and policies” (quoted in Dambaugh, 2008; see also Nye, 1990). Recently, analysts have discussed other attributes of the notion of soft power. Soft power entails not only the attractiveness of a country's use of ideas, culture, and politics, but it also encompasses diplomacy, foreign aid, trade, investment, and market access to induce other countries to cooperate with, share or follow China's world view and development model (Lum, Morrison and Vaughn, 2008; Pang, 2007; Kurlantzick, 2006 a, b, and c).

To many developing countries, Beijing's use of soft power has created a new ideology, the “Beijing consensus,” which does not require neo-liberal policies to achieve economic development. In other words, “an authoritarian political system can be maintained while also pursuing high economic growth,” through the adoption of developmental state strategy (Cho and Jeong, 2008: 463-64). As far as human rights is concerned, Beijing stresses “red rights” a second generation of human rights which emphasizes the rights to basic needs such as food, clothing, housing, shelter, and medical care. Beijing also stresses differences in historical, cultural, and economic developments among world nations to justify its claim that Western style democracy and human rights are not suitable for all nations. The Beijing consensus, with its focus on social harmony and order, serves as a countervailing force to the previously dominant “Washington consensus,” which stressed a market economy with democratic government (Nye, 2005). The Beijing consensus is popular with both authoritarian and semi-authoritarian governments because in their views it produces “win-win” outcomes wherein Beijing can help them attain economic growth without interfering in their domestic political affairs.

The year 2000 was the beginning of the systematic implementation of sophisticated PRC diplomacy based on “soft power”, directed largely to the developing world (Dambaugh, 2008). As far as developing countries are concerned, China's soft power projected through a “charm offensive” entails “... no interference [meaning] no political strings attached...” (Pang, 2007; see also Lum, Morrison and Vaughn, 2008). Kerry Dambaugh (2008, p. 12) describes “no strings attached” by noting, “Chinese money generally comes with none of the good governance requirements, human rights conditions, approved-project restrictions and environmental quality regulations” commonly found attached to aid and investment from Western countries.

Since the early 2000s, Cambodia is an illustrative case of the employment of the PRC's new diplomatic soft power. First, China has used a "charm offensive" in the form of senior leadership diplomacy. Since the early 2000s, top Chinese officials, including former President Jiang Zemin, former Chairman of the National People's Congress Li Peng, former Premier Zhu Rongji, and current Premier Wen Jiabao, have all visited Cambodia (Ministry of International Cooperation and Peace, Kingdom of Cambodia, 2009). Each of these visits was punctuated with announcements of Chinese economic assistance. For instance in 2006, Premier Wen Jiabao announced a US600 million dollar aid package. To further legitimize Sino-Khmer diplomatic ties, both Cambodian, and Chinese leaders touched the close historical link between revered King Norodom Sihanouk and the PRC's founding fathers—Chairman Mao Zedong, Zhou Enlai, and Deng Xiaoping.

Further, China has also promoted cultural connections and strengthened its relationships with the ethnic Chinese community in Cambodia by providing financial assistance for construction of Chinese language schools, publication of Chinese language textbooks, and scholarships for Cambodian students to study in China. The Chinese government also provided assistance for human resource development by sponsoring training programs for Cambodian government officials in China (author's interview with official at the Ministry of International Cooperation and Peace, August 4, 2009; see also Kurlantzick, 2006a). Furthermore, China has also funded Cambodia's prestige construction projects, such as the Council of Ministers building and a planned botanical garden.

More noticeable is Chinese development assistance to Cambodia which has not only increased dramatically but also diversified. The increase from 2006 to 2007 was 75%, from US53.2 million dollars to US92.4 million dollars (The Cambodian Rehabilitation and Development Board of the Council for Development of Cambodia, 2008, p. 8). As of 2007, China has extended assistance to Cambodia through internationally coordinated mechanisms in line with its commitment to engage in world affairs through bilateral as well as international multilateral institutions. In 2007 as part of its expanding involvement in multilateral institutions, China offered aid through the Consultative Group—91.5 million out of the 689 million total multilateral package to Cambodia (Lum, Morrison, and Vaughn, 2008). It is difficult to track China's aid to foreign countries because it is neither "provided in regularized annual allotments" nor publicly revealed for reason of avoiding domestic public criticism of wasteful spending in light of domestic needs (Dumbaugh, 2008). For 2007-2009, on a bilateral basis, China pledged US236 million dollars compared to US337 million dollars, and US215 million dollars by Japan and European Union respectively (see Table 1). Thus far, China has funded relatively fewer development assistance programs; however, when one counts loans and support for public works, infrastructure and hydropower projects, China is one of Cambodia's largest donors.

Table 1: Foreign Aid to Cambodia from key donors

Countries	2002	2003	2004	2005	2006	2007	2008	2009	2010
United States	22.1	34.3	40.6	43.3	51	58.1	54.9	52.7	N/A
United Kingdom	11.6	15.4	17	20.6	20.7	23.7	37.8	35.3	35.8

## China's Foreign Investment

Korea	22.5	10.3	24.1	14.9	13.3	31.4	12.1	19.6	5.6
Countries	2002	2003	2004	2005	2006	2007	2008	2009	2010
China	5.7	5.6	32.5	46.6	53.2	92.4	127.9	67.1	47.5
Japan	105.6	101.2	101.8	111.7	103.7	122.1	144.6	53	26.3
EU (including UK)	108.2	114.7	107.1	130.6	156.1	171.4	201.7	191.5	126.3
UN and Multilateral aid	191.4	193.4	164.8	187.5	251.2	191.4	297.4	202.9	138.9

Source: The Cambodia Aid Effectiveness Report 2008, prepared by the Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia for the Second Cambodia Development Cooperation Forum (CDCF), November 2008, p. 9.

According to the United States Congressional Research Service, China has become the “primary economic patron” of Cambodia (Lum, Morrison, and Vaughn, 2008). Its investments in Cambodia have risen exponentially with over 3,000 companies investing in natural resources, agriculture, textiles, and tourism. Information on the nature on Chinese firms operating in Cambodia is scarce. Dr. Kao Kim Houn, Secretary of State, Ministry of Peace and International Cooperation, indicated in an interview with the author that the Cambodian government sometimes does not know whether a Chinese firm is a state-owned or a private entity (Phnom Penh, January 23, 09). However, it should be noted that in Cambodia Chinese companies that invest in critical natural resources, construction and hydropower plants are state owned, a pattern that reflect China's industrial investment in the developing world and in Africa and Southeast Asia in particular (Wang, 2002). In Cambodia these key state-owned companies include Sinohydro Corporation, Chian Yunan Corporation for International Techno-Economic Corporation, China Heavy Machinery Corp., China Southern Power Grid Company, China National Offshore Oil Corporation (CNOOC), Guangdong Chenguan Enterprise Investment Group, and China National Machinery and Equipment Import & Export Corporation (Middleton, 2008a; Global Witness, 2009; Middleton, 2008b; Barney, 2005). Anecdotal evidence shows that private Chinese companies also conducted trade in Cambodia and invested in various sectors of Cambodian economy such as restaurants, tourism, gambling, and fitness club.

Chinese investment in Cambodia climbed from just 17 million or 1.3 percent of total domestic and foreign registered capital and fixed assets in 1994 to 688,737,099 million or 43.12 percent of total domestic and foreign registered capital and fixed assets in 2005

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(Hing, 2006: 205-216). Chinese investment continued to soar and reached just slightly under four billion dollars in 2008. Such dramatic increases make China by far the largest investor in Cambodia. (See Table 2).

Table 2: Foreign Investments from Key Countries

Country	1994	1995	1996	1997	1998	1999	2000	2001
United States	194,426,480	114,380,500	11,187,260	99,626,186.8	6,861,645	24,051,875	15,276,803	11,686,650
Thailand	7,142,150	207,596,571	533,807,889	34,757,898	86,572,266	36,618,927	43,467,305	17,859,701
Vietnam	N/A	369,499.2	N/A	N/A	871,030	1,002,540	N/A	N/A
Malaysia	1,417,000	2762881067.15	249,075,421	118,708,924.5	147,301,978	30,866,720	3,823,800	78,489,614
Singapore	94,870,800	145,794,981	64,885,646	27,697,278	33,261,340	3,331,185	11,188,816	N/A
United Kingdom	12,125,000	274051592	442,512,316	13,990,907	856,990	3,703,302	23,216,421	3,533,229
Korea	N/A	1,220,130	9,455,100	247,139,194	8,452,328	N/A	29,321,181	4,088,690
China	17,000,000	7,502,387	404,267,931	58,019,499	179,553,154	82,462,384	32,355,061	9,314,745
Taiwan	1,215,000	21,943,300	288,605,355	90,720,846	223,202,205	84,832,631	35,241,929	92,632,989
Hong Kong	7,306,781.51	129,219,992	34,481,855	86,551,155	138,787,638	52,249,784	8,862,925	1,934,076
Japan	N/A	1,432,500	14,043,150	609,315	3,371,800	4,593,808	424,997	N/A

Foreign Investment (continued)

Country	2002	2003	2004	2005	2006*	2007*	2008*
United States	N/A	N/A	4,554,852	6,568,285	66.47	9.39	680.09
Thailand	N/A	9,968,512	3,050,000	96,094,039	110.12	121.48	94.58
Vietnam	24,465,095	N/A	N/A	N/A	34.21	185.60	28.35
Malaysia	2,006,660	8,782,485	29,092,350	36,564,993	30.83	261.20	3.65
Singapore	11,000,000	7,005,050	6,719,352	30,721,880	15.31	3.04	64.46
United Kingdom	1,014,525	1,005,000	3,166,126	7400,000	4.54	27.15	7.10

## China's Foreign Investment

Country	2002	2003	2004	2005	2006*	2007*	2008*
Korea	86,578,350	3,468,915	8,100,450	71,665,651	1,014.31	170.07	1,259.58
China	32,880,130	48,230,618	102,214,163	689,737,099	745.40	220.76	3,976.09
Taiwan	11,795,330	2,340,200	18,287,581	14,543,289	64.09	53.93	24.85
Hong Kong	8,584,490	6,450,000	N/A	1,749,972	5.57	26.35	N/A
Japan	3,390,000	N/A	2,886,814	N/A	3.10	120.62	12.43

Source: \*is taken from the Cambodian Investment Board of the Council for the Development of Cambodia, 2006, 2007, 2008; additional data is from Hing Thoraxy, *The Cambodian Investment Challenges in Global Competitiveness* (Phnom Penh: 2006), pp. 205-216.

China waived tariffs for over 400 products from Cambodia, over 90 percent of which are agricultural goods and raw materials (Heinrich Boll, WWF and IISD, 2008, p. 3). Bilateral trade between China and Cambodia reached 933 million in 2007, though the balance of trade heavily favors China. In 2007, China exports to Cambodia amounted to 882 million, while the latter's export to the former was only 51 million (Xinhua, 2008). China's largest investment in Cambodia is in hydropower plants, entailing cumulative investments of approximately one billion dollars (Fullbrook, 2009). Four hydropower plants have been constructed or are under construction while 19 other dam projects are undergoing feasibility studies (Middleton, 2008). China has also invested in the development of a special economic zone in the port city of Sihanoukville with projected completion by 2015. This special economic zone, when finished, is expected to house some 300 companies with 80,000 job opportunities and US2 billion dollars in export revenues projected (ASEANAffairs, 2008). Furthermore, China has also invested in agribusiness—many of the projects are in joint partnership with Cambodian businesses. Another of China's major investments in Cambodia is in the garment sector.

### **China's Investment and Assistance A Win-Win Situation?**

Analyses of China's intentions in Cambodia vary. One theory postulates Cambodia has been incorporated into China's grand security strategy in an anticipated multi-polar world—one which is centered around China (Schmidt, 2006). Cambodia's seaport of Sihanoukville can serve as one location in a "string of pearls", strategic locations from which to secure vulnerable sea-lanes of communication and protect seaborne energy supplies. China also plans to use the seaport at Sihanoukville particularly for the delivery point for oil imports from the Middle East (Story, 2006; Perlez, 2006). Furthermore, in

conforming to China's 10<sup>th</sup> Five Year Plan (beginning in 2001) which considers the Mekong region as a top priority, China in collaboration with the Asian Development Bank funded infrastructural development projects such as roads, rails and bridges in the Greater Sub-Mekong region that link Cambodia and the rest of peninsular Southeast Asia to its Southwestern land-locked region to mitigate uneven economic growth that has over the past three decades favored China's coastal region (Schmidt, 2006, p. 48-49). This infrastructure has contributed substantially to Cambodia's economic transformation. It has linked previously remote Cambodian provinces to not only the country's economic center but also the broader Southeast Asian economy and beyond.

Another objective of China's assistance in Cambodia and in other developing countries is to proudly promote its culture, language and civilization, projected as culturally deterministic nationalism (Hua, 2009; Cho and Jeong, 2008). China's assistance to Cambodia aims at promoting the study of Chinese culture and language, particularly among Sino-Khmer. A former Chinese Ambassador to Cambodia, Yan Tingai, once stated: "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" (Marks, 2000). China also established a FM radio station whose broadcast focuses on teaching Mandarin and Chinese history.

Cambodia's ruling party—the Cambodian People's Party (CPP)—has also gained substantially from China's investments and assistance. The CPP has gained legitimacy through its investment in infrastructure, particularly bridges and roads, with funding from multilateral institutions and bilateral agencies. Funding from these institutions—even though crucial—are insufficient to address Cambodia's infrastructure needs; and the Cambodian government is often frustrated by the imposed conditions of this aid. China's economic assistance not only injects additional needed funding to infrastructure development, but it is also less troublesome. Middleson (2008b, p. 44) expressed this issue succinctly:

The reality is that many borrowing governments, including the Cambodian government, are pleased to accept Chinese support, mainly for the construction of physical infrastructure that dispenses with burdensome and costly environmental and social safeguard standards in order to accelerate their economic development. The Chinese government considers even serious human rights abuses an internal affair. As such, grants and loans through which the Chinese State Council's foreign policies are implemented are not attached to conditionalities on good governance.

As part of the PRC's "going out strategy," the Chinese government promotes Chinese FDI manufacturing in host countries of light industrial goods such as textiles, machinery and electrical equipment that could process Chinese raw materials (Wong and Chen, 2003). This pattern is reflected in Chinese companies' investment in the garment sector, which is the backbone of Cambodian exports and serves as a primary source of employment. This sector contributed 80 percent of recorded exports, provided 350,000 jobs, and added 2% to Cambodia's GDP since 1995. Furthermore, the garment sector has also generated thousands of jobs in indirect employment. Remittances sent by garment factory workers have transformed many rural villages where recipients have been able to invest in

agricultural production resulting in a higher standard of living. In addition to its contributions to Cambodia's overall economic growth, the garment sector also serves as a model for good labor practices which have won approval from both importing countries and conscientious consumers in the West (Ear, forthcoming).

Furthermore, China's investment in hydro-power plants helps the Cambodian government toward achieving its economic development plan, which includes the provision of cheap reliable electricity as a major component not only for industrial zones but also for rural Cambodia. Currently, only 20% of households have access to electricity and the government plans to increase that number to 70% by 2030 (Middleton, 2008b, pp. 25-26). Furthermore, on top of other issues such as infrastructure bottlenecks and poor governance, businesses cite high electricity costs as an obstacle to doing business in Cambodia. At present, Cambodia buys electricity from Vietnam and Thailand, but it has plans to reverse these trends following the completion of several major hydropower plants. The demand for electricity in Thailand will increase by 50% by 2021, while that demand in Vietnam will quadruple by 2015, surges that will be unmet by domestic supply (Middleton, 2008a). Therefore, Chinese investment in hydropower plants will reduce the price of electricity and increase the availability of electricity in rural areas. The increase in electricity supply and infrastructure improvement will further develop Cambodia's economy, while strengthening the CPP's popularity and legitimacy.

### **A Negative Effect?**

Many critics argue that the Chinese government uses its influence and financial assistance to promote Chinese companies and Chinese interests (Kurlantzick, 2006a, 2006b, 2006c). There are grounds for suspicion given the nature of Chinese companies' involvement in Cambodia, the secrecy of the bidding process for contracts for minerals rights, hydropower plants and economic land concessions. Foreign diplomats believe that "backroom deals" for Chinese companies do exist (McDermid and Sam, 2006). These backroom deals tend to exist in strategic sectors such as agro-businesses, minerals and oil which China considered critical for sustainable economic growth.

The Cambodian government denies this allegation. Dr. Kao Kim Houn, Secretary of State, Ministry of Peace and International Cooperation, Kingdom of Cambodia, contends that analysts and the press overreact to China's involvement in Southeast Asia in general and in Cambodia in particular (interview with author, Phnom Penh, January 2009). Overall, the Chinese government fulfills the need of the Cambodian government and given their shared philosophy on politics and economic development there appears to be little friction between them. An official of a multilateral institution stated that "China goes to recipient countries doing what they want. The Cambodian government wants infrastructure, so the Chinese government builds infrastructure for Cambodia (interview with author, Phnom Penh, January 2009).

However, it should be noted that China's assistance and investment in resource rich areas around the globe serves "to facilitate preferential access to such resources, especially oil" (Medeiros, 2006). One of the key objectives of outward foreign direct investment

(OFDI) is to acquire natural resources to meet the ever increasing demand for natural resources that are not fully met by domestic sources (Cai, 1999). A large proportion of China's OFDI, which amounts to US\$16 billion dollars, was in mining and energy (Henrich Boll, WWF and IISD, 2008, pp. 1-2).

China's investment in Cambodia is no exception, the focus is on resource exploration and extraction. Many of these projects, critics argue, do not take into account the impact on human rights and the environment. "China's goal is to extract natural resources to serve its commercial purposes. Thus, rather than a 'win-win' situation," Sam Rainsy, President of Cambodia's main opposition party, said "China's engagement produces a situation of 'win-win-lose' in which corrupt officials win and the unscrupulous investors win, but the Cambodian people lose" (McDermid and Sam, 2006). One western diplomat concurred, comparing the Chinese companies to "locust" who "consume natural resources, animals, minerals" disregarding "environmental protection" (McDermid and Sam, 2006).

The investments in agricultural plantations and hydropower plants is another good example. A Chinese state owned company, Fuchan, in partnership with Cambodian Pheapimex, developed an agricultural plantation in the northeastern province of Monduliri covering an area of 300,000 hectares. Another Chinese state-owned company, China Cooperative State Farm Group, in a joint venture with Pheapimex, developed a vast area in Kampong Chhnang and Pursat provinces. These companies did not produce an Environmental Impact Assessment as required by law. The impact of these joint ventures on local communities is extremely severe, including: population displacement, loss of access to land and resources, food insecurity and impoverishment (Middleton, 2008 b; Global Witness, 2007; Barney 2005). Another Chinese state affiliated firm, Wuzhishan LS, was accused by human rights groups of colluding with Cambodian government officials to grab land from indigenous peoples (Kurlantzick, 2006a). A Chinese SOE, the Everbright Group—as documented by the environmental watchdog, Global Witness—violated Cambodia's Environmental and Forestry Laws and infringed on local communities' livelihoods (Global Witness, 2003).

Furthermore, through joint ventures, these Chinese SOEs strengthened the financial positions of Cambodian business tycoons. These tycoons have formed a symbiotic relation with the ruling CPP whose electoral success and legitimacy rest on vast networks of mass based patronage sustained largely by financial contributions from Cambodian business tycoons (Un 2005; Un and So, forthcoming).

China's investment in hydropower plants is yet another example, according to critics, of the country's disregard for the impact its investments have upon local people and the environment. The examination of the final decision of the Canadian International Development Agency (CIDA) to withdraw funding from investment in a hydropower project—the Kamchay Dam—illuminates the difference between Chinese and western practices as far as human rights and environment is concerned. In the early 1990s, CIDA conducted a feasibility study of the Kamchay Dam. Although the agency confirmed the economic feasibility of the project, it withdrew from the project following pressure from a coalition of Cambodian and international non-governmental organizations who view the social and environmental costs of the project far exceeding its benefits (Middleton, 2008b, p. 59).

Chinese companies and their funders feel no such pressure. Middleson of the International Rivers writes that: "In many cases, very little detail is publicly available regarding the projects [hydropower plants] themselves, the agreement reached between the Cambodian government and the project developer, and the potential social and environmental impacts" (Middleson, 2008b, p. 28). A major funder for the hydropower plant in Cambodia is the China Export-Import Bank. Although the Bank adopted environmental policies in November 2004 regarding its financing of construction projects, "[T]here remains, however, little evidence of the guidelines for rigorous implementation on the ground to date" (Middleson, 2008a; see also Middleson 2008b, p. 46). As a result, hydropower dams have been constructed in protected national forests potentially flooding animal sanctuaries and precious tropical ecosystems.

However, it should be noted that the rise of Chinese investment in Cambodia is not attributed straightforwardly to Chinese pressure as some critics have charged. First, Chinese companies' successes in securing investments in Cambodia are partly facilitated by shared values between Chinese investors and Cambodian business communities dominated by Sino-Khmers. Fareed Zakaria (2008, p. 103) characterizes this phenomenon: "few Chinese have really internalized the notion that abstract rules, laws, and contracts are more important than a situational analysis of a case at hand ...." He further states that "[s]ocial relations and trust are far more important than paper commitments" (Zakaria, 2008, p. 112). The lack of transparency, rules and regulations in conducting business in Cambodia have prevented many Western companies from investing in Cambodia (a Western Business and legal consultant, interview with author, January 2007; a senior Western diplomat, interview with author, August 4, 2009). However, such an environment does not deter Chinese companies whose business collaborations with their Sino-Khmer counterparts are based on mutual trust and experience in operating in a non-transparent and corrupt environment in their own country (Johnston, 2005; particularly chapter 7). As elsewhere in Southeast Asia (see for example Yoshihara, 1988 and Yeung 2000), in the role of ethnic Chinese in facilitating and collaborating investment is crucial because of their political-economic ties with the ruling elites who exercise discretion in awarding contracts and granting permits for businesses.

Emerging markets, such as Cambodia, are often considered risky by Western and typical shared holder companies whose investments generally focus on short term return of profit. Many Chinese enterprises operating overseas, including in Cambodia, are either state owned or affiliated. These companies receive financial backing from state-owned financial institutions such as the China Export Import Bank and the China Development Bank to promote Chinese investment in apparently risky markets. These banks "largely implement the macroeconomic policies and political directions of the Chinese central government" (Middleson, 2008b, 43). As a result, these enterprises can adopt a longer term risky business horizon, foregoing short term benefits for long term gains, a practice that private Western companies are not willing to undertake (Official of a multilateral institution, interview with author, January 2009).

### **China's Assistance and Investment: An Impediment to Democratic Promotion?**

For China, aid is “value neutral.” Such neutrality, according to many critics, can block efforts for the promotion of democracy, sustainable and inclusive development and environmental protection. In other words, much of China's assistance worldwide tends to perpetuate the status quo of authoritarian and semi-authoritarian regimes (Zakaria, 2008, pp. 118-119). Referring to China's involvement in Southeast Asia, Joshua Kurlantzick argues that soft-power allows China to have growing influence, though with potentially dire consequences “for a region of nascent democracies and weak civil societies,” undertaking efforts to develop democracy and establish the rule of law and good governance (Kurlantzick, 2006c).

In Cambodia, it is argued that Chinese investment and assistance strengthen the ruling CPP because such investment and assistance offer the Cambodian ruling party a cushion against pressure from Western donors and international financial institutions which otherwise would have been able to use the Cambodian government for meaningful political reform (Sullivan, forthcoming). Since 1993, Western countries have provided billions of dollars for economic rehabilitation and promotion of good governance. Over a decade later, the Cambodian government has, as Duncan McCargo (2007) suggests, gotten “away with authoritarianism.” By examining the Prime Minister Hun Sen's rhetoric on the neutrality of China's aid to Cambodia, it can easily be assumed that China's influence counters Western intervention in Cambodia, particularly over the latter's efforts to promote good governance—a rubric term for judicial, political and anti-corruption reforms. The argument is that Western donors' adoption of a firmer stance on governance issues by threatening to link aid to reform outcomes “will push Cambodia further into the pockets of its biggest donor—China” (Global Witness, 2009). Under these circumstances, Western donors have to soften their stance when dealing with the Cambodian government.

This author's conversation with officials of multilateral institutions and the Cambodian government indicated that Western donors in fact have limited influence on the Cambodian government. China's assistance to and investment in Cambodia, according to an influential senior Western diplomat, “is not necessarily an impediment” to the promotion of democracy and human rights in Cambodia. However, the diplomat added, such aid and investment does offer the Cambodian government more “confidence” in dealing with Western donors (interview with the author, Phnom Penh, August 4, 2009). The fundamental problem is not so much the PRC's engagement in Cambodia as much as the donors' lack a unified, consistent and forceful voice when dealing with the Cambodian government (Ray, 2007; Dr. Koa, interview with author January 23, 2009). Given the lack of unity within the donor community and Cambodia's imbedded neo-patrimonial politics, the ruling CPP has been able to adopt a selective response toward political reform. They accommodated donors' pressure to reform certain sectors—such as social services and health—which do not threaten their power base and personal economic interests (Hughes and Un, 2007 and Hughes and Un, forthcoming). At the same time, they resist reforming areas that potentially undermine their grip on power, such as governance, the judiciary and anti-corruption laws. Such patterns will likely continue, I would argue, with or without China's investment or assistance.

## Conclusion

This article has documented the surge in overseas assistance and inflow of FDI from China to Cambodia over the past sixteen years. This rise forms part of Beijing's foreign policy strategy—increasingly recognized as the “Beijing Consensus”—wherein Beijing uses its newly acquired economic power (financial assistance, investment and market access) to gain political support from developing countries and access to their natural resources. This strategy is based on, according to Beijing, the principle that financial assistance, investment and market access is value neutral; therefore, they should not be linked to any conditions, as is often practiced within the framework of the Washington Consensus.

However, critics charge that the hidden agenda and interests imbedded in Beijing's notion of neutrality has negative implications for recipient countries in general and under this investigation, Cambodia. While China's investment in resource exploration and extraction in Cambodia has infringed on the local environment and human rights, its financial aid and investment have blocked efforts by internal as well as external actors to promote democracy, the rule of law and human rights in Cambodia.

The truth of the matter is more complex and appears more positive than critics have charged. China's investment and assistance have helped transformed Cambodia's economic landscape bringing more prosperity—of course unevenly and with a certain degree of human rights abuses—as they link Cambodia's peripheral areas to its core and Cambodia as a whole to regional and global economies. The charge that Cambodia's authoritarian trajectory a by product of China's engagement is only partially accurate. With or without China's pressure, the Beijing Consensus is appealing to the Cambodian ruling elite who share the belief in state developmentalism—economic prosperity with tight political control. Cambodian elites' defiance of Western efforts to promote deeper democratization existed even before the presence of China's investment and development assistance as evidenced in the 1997 CPP's coup against FUNCINPEC, a violent consolidation of power in the midst of western intervention.

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