

A REVIEW ON CHINA'S FOREIGN DIRECT INVESTMENT IN CAMBODIA

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Abstract

China is the leading investor in Cambodia over two decades. This paper examines the inflows and details of China's recent foreign direct investment (FDI) to Cambodia and its impacts. It is the fact that China's direct investment in the Cambodia has made an important contribution to the socio-economic development of the Cambodia in recent years as the growth rate economic growth is high and stable, GDP per capita has continuously increased, infrastructure has been upgraded and built, poverty rate has been significantly reduced, people's income and living standards have been improved. However, China's direct investment in Cambodia has also caused problems that need to be resolved.

Keywords: *China, Cambodia, Foreign Direct Investment, FDI.*

INTRODUCTION

Foreign Direct Investment (FDI) is generally seen as a source of economic growth and social progress in both developed and developing countries. FDI has been extremely beneficial to Cambodia's economy. Cambodia has seen a surge in FDI inflows since the early 2000s, owing to the country's prudent macroeconomic policies, political stability, and open market, as well as the growth of the wider regional economy. FDI has contributed significantly to the considerable inflows of financial capital of Cambodia [1,2]. According to the National Bank of Cambodia (NBC), the country's FDI inflows increased by 12% to \$3.5 billion in 2019. The finance sector received \$2.3 billion of this FDI influx. China continues to account for the majority of FDI invested capital, accounting for 43%, followed by South Korea (11%), Vietnam (7%), Japan (6%), and Singapore (6%). The industrial and services sectors accounted for the majority of this massive inflow of capital investment [3].

NOTABLE FACTS IN CHINESE INVESTMENT ACTIVITIES IN CAMBODIA

China is constantly increasing investment projects at Cambodia, has absolute dominance in the number and scale of projects, acquires key economic sectors of Cambodia and closely links with the "Belt and Road Initiative" (BRI). In terms of cumulative approved FDI from 1994 to 2019, China (21.81 percent) is the largest investor, and it was the source of considerable investment in infrastructure, resource development, notably rubber, and tourism in the early years. China is followed by Korea (6.16%) and the United Kingdom (5.01%). Malaysia (3.59%), Japan (3.13%), HongKong (3.05%), Taiwan (1.77%), Vietnam (2.31%), Singapore (1.64%), and Thailand (1.54%) are the other major sources of investment, with garment industry businesses accounting for the majority [4]. In fact, China's investment activities in Cambodia are larger than announced figures because investment projects under 2 million USD are licensed by localities and are not counted [5]. China focuses on investing in key areas for the Cambodia economy and society such as transportation, infrastructure, energy, agriculture, promoting investment in strategic and key areas

in the southern coastal provinces and border areas bordering Vietnam and Thailand, creating a mobile goods circulation system, spreading throughout the Cambodia and directly connecting with China [6]. China has built a decentralized investment management model, mobilizing state resources in combination with the private sector to participate in investment activities in Cambodia [7]. At the central level, the National Development and Reform Commission, China's Ministry of Commerce, plays a role in approving "sensitive" and high-value projects; The Central Bank plays a role in regulating, policy making, and supervising the overseas investment activities of commercial banks. The two main actors conducting investment activities in Cambodia are state-owned enterprises and private enterprises that develop according to the overall strategy, with political and diplomatic orientation. For large infrastructure projects, Build-Operate-Transfer (BOT) agreements are a common practice that allows China to conduct construction, operation, and management for decades before it can be completed. transferred to the Government of Cambodia [8]. In the energy sector, China's energy investment projects account for more than 90% of Cambodia's total energy projects. China has invested in 07 hydroelectric dam construction projects with a total capacity of 1432 MW with a total investment capital of 7.5 billion USD in the period from 2011-2018; 02 thermal power plants with a total capacity of 405 MW with a total investment of 4 billion USD. In addition, China and Cambodia have signed a memorandum of understanding to build three other hydroelectric dams in the near future, including: Lower Sre Pok III Dam in Ratanakiri province with a capacity of 416 MW; Lower Sre Pok IV dam in Mondulkiri province has a capacity of 48 MW; Sambor Dam has a capacity of 2,600MW with a capital of \$4.947 billion [9,10]. Besides, China is also the contractor to build the first oil refinery in Cambodia.

China has increased investment in super projects in Cambodia, focusing on acquiring and controlling important traffic activities, building infrastructure for strategic purposes. China implements projects to build and control most of Cambodia's major transportation routes, including waterways, aviation, roads and railways.

Regarding waterway sector, China completed construction of a new container port on the Mekong River in Kandal province (worth 28.2 million USD, operating in 2012); is implementing construction of 02 international seaports with large scale in Koh Kong province and Preah Sihanouk province, with a depth of over 14m and capable of receiving ships with a gross tonnage (DWT) over 100,000 tons; study and build 01 deep-water port in Kampot province, capable of receiving ships with a carrying capacity of 30,000 tons of goods. These new seaports can all be converted to serve military purposes, allowing the reception of large warships and submarines [11].

Regarding roads, an important transport route, China has stepped up investment in Cambodia with a large total investment capital. Up to now, China has invested in building 3000km of roads in Cambodia, focusing on expressways, especially national highways and provincial roads leading to border provinces with neighboring countries, including Vietnam [12].

Regarding railways, China has stepped up reconstruction, opening new and taking control of railway lines in Cambodia within the 7000km Singapore - Kunming Railway System, helping to connect China and ASEAN countries including: Singapore, Malaysia, Thailand, Myanmar, Cambodia, Laos, Vietnam. In 2012, Rail Service (Cambodia), behind Sino Pacific Construction (China), carried out procedures to receive the project to restore the railway line from Phnom Penh to Poi Pet. Notably, on December 31, 2012, Cambodia Iron and Steel Mining Industry Corporation and China

Railway Bridge Corporation signed an agreement to build a 404 km long railway line from Preah Vihear province to Kok Kong province, a seaport with a capacity of 50 million tons of cargo per year in Kok Kong province with a total investment of up to 9.6 billion USD and a steel factory with an investment of 1.6 billion USD in Pear Vihear province. During Prime Minister Hun Sen's visit to China from April 6 to 8, 2013, the two sides signed an agreement to invest in an oil refinery with a capacity of 5 million tons/year with a total investment capital of 1.67 billion USD [12].

In the agricultural sector, China has invested in about 38 projects in the field of agriculture and agricultural engineering in Cambodia, covering an area of about 237,406 hectares, of which 21 projects are operating with 173,904 hectares. However, only 42,081 hectares of land in these projects has been cultivated, mainly used to grow rubber, acacia, cereals and fruits (long-term concession land lease from 50 to 99 years). Notably, China is focusing on building and developing projects for storing agricultural products, processing agricultural products, and special economic zones (SEZs) for agriculture occupying large areas in areas [13].

DISCUSSION

The China - Cambodia relationship developed into a Comprehensive Cooperative Partnership in April 2006 and a Comprehensive Strategic Cooperative Partnership in December 2010 [14]. Since then, the two countries' senior leaders have regularly exchanged visits to strengthen and develop the relationship between the two countries. It can be said that the political and diplomatic relations between the Cambodia and China in the early years of the 21st century have been increasingly tightened. This relationship is an important factor contributing to the growing development of China's direct investment in Cambodia.

With a total capital accounting for 21.8% of total FDI in Cambodia, it can be said that China's FDI makes an important contribution to Cambodia's economic development. Over the past decade, the Cambodia economy has achieved high growth rates. In the years 2004-2007, the country's economy achieved an annual growth rate of more than 10%, especially in 2005 the growth rate reached 13.3%. From 2010 to now, Cambodia has achieved an average annual GDP growth rate of about 7%. GDP per capita increased from 760 USD in 2008 to 1,000 USD in 2012 and 1,060 USD in 2013, the average annual inflation rate is about 4.2%. The poverty rate decreased from 35% in 2004 to 20% in 2012 [15]. It can be seen that the contribution of Chinese FDI in specific areas such as: Energy, especially China's investment in building factories hydroelectricity has helped Cambodia reduce electricity imports as well as reduce electricity prices. In addition, with the growing development of the overseas Chinese community in Cambodia, in which many Chinese Cambodians are currently holding important positions in the Cambodian Government, Chinese factors are increasingly holding a plays an important role in the political, economic, cultural and social life of Cambodia, is an important bridge to promote and implement Chinese investment activities in Cambodia [16].

Despite these undeniable contributions, China's direct investment in Cambodia has also caused a number of challenges for Cambodia such as natural resources being exhausted, environmental pollution and destroyed and people lose their land affecting people's livelihood or Chinese projects lease land for too long and too much [17]. Therefore, over the past time, China's investment projects in Cambodia have received many criticisms, doubts and reactions from the people and social organizations. For example, the Koh Kong Sea Coast Development project with an area of 360 km² located in Botum Sakor national park in Koh Kong province, southwestern Cambodia, was rented

for 99 years to turn into a luxury resort. In 2011, the Chinese government also granted Chinese companies about 7,631 km² of land, most of which are national parks and wildlife sanctuaries [18]. Migration activities to create ground in Chinese investment projects make people feel dissatisfied by inadequate compensation prices and people who do not have access to the land. People are allocated new settlements that do not meet the standards of infrastructure, lack basic livelihood support [19].

In addition to the economic benefits that it has obtained through trade and investment with the China, the level of dependence, of the Cambodia's economy has been increasing. China accounts for about 40% of Cambodia's external debt. In addition, China also makes full use of Cambodia resources and market, fully exploits resources and minerals in Cambodia (wood, coal, ores, etc.) to supplement the supply of input materials for service. China's domestic production and business services; taking advantage of the Cambodia market to export Chinese goods and also Cambodia is as an intermediary market to export to 3rd countries through preferential mechanisms that Cambodia enjoys when participating in the Free Trade Agreement; The most important thing that China aims at in its relationship with the Cambodia is not only to break the siege and isolation of the US and its allies through the Cambodia's seaports such as Sihanoukville, Ream but also through the Cambodia to influence ASEAN and steer ASEAN's issues in China's favor, especially seeking support for China's "One China" policy and ambition to monopolize the East Sea.

CONCLUSION

China is the largest investor in Cambodia. Chinese companies invest in many different fields, in which they focus a lot on fields such as hydropower, agriculture, transportation, etc. It is the fact that China's direct investment in the Cambodia has made an important contribution to the socio-economic development of the Cambodia in recent years as the growth rate economic growth is high and stable, GDP per capita has continuously increased, infrastructure has been upgraded and built, poverty rate has been significantly reduced, people's income and living standards have been improved. However, China's direct investment in Cambodia has also caused problems that need to be resolved.

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