



BRIEFING PAPER:

Reassessing China's Investment Footprint in Cambodia

August 2020



Summary

- China's reported global investment has been **in decline** since 2016. This is due to a number of factors, including regulatory changes, the economic slowdown in China and the declining value of China's foreign currency reserves. However, Cambodia does not follow this trend and investment has been **on the rise** since 2015. This passed **US\$778 million** in 2018, according to official Chinese statistics. Additionally, project contracting has **increased dramatically**. In 2017, Chinese companies signed contracts worth more **US\$3.3 billion** in Cambodia.
- China has been Cambodia's **top bilateral development partner** since 2010. As of December 2018, China had provided **US\$5.8 billion** in development assistance to Cambodia. More than half of Chinese aid funded projects concern **transport and energy infrastructure**. As of mid-2019, Cambodia's outstanding foreign debt stood at **US\$7.22 billion**. Of this amount, **48%** was owed to China through interest-free and concessional loans.
- Chinese capital flows to a wide range of sectors including **agriculture, industry, energy, transport, mining, tourism** and **entertainment**. Both state-owned and private enterprises are involved in the development of projects, sometimes in partnership. China's **policy banks** have provided extensive support for infrastructure and industrial investment for 15 years and **commercial banks** are now playing an increasingly important role.
- Much of Chinese investment in agriculture and manufacturing is **export-oriented**. **Agriculture commodities** are an important focus, with products like rubber and fruit being cultivated for export to China and the region. Agricultural processing zones are becoming an important focus. A **free-trade agreement** is set to be signed in late August, which is likely to facilitate the export of agriculture products.
- Investment in **manufacturing** aims to set up industrial production bases that can operate at lower costs than in China. By establishing bases in Cambodia, Chinese companies can also export products to Europe and the United States under **preferential trade schemes** that Cambodia benefits from as a least-developed country, in particular the European Union's **Everything But Arms (EBA)** and the U.S. **Generalized System of Preferences (GSP)**. However, EBA was partially suspended in August 2020. Its impacts on the garment sector remain to be seen.
- A number of shifts have occurred in recent years. Many investments in **large-scale agriculture projects** in the late 2000s to 2010s were either unsuccessful or failed to develop beyond land clearance and logging. There is now **renewed interest** in large plantations for **rubber, wood** and **fruits**. The projects are led by private enterprises, but several have **state support** from policy banks, and a number of processing zones have been identified as priority cooperation projects by the two governments.
- Chinese finance dominates Cambodia's **energy sector**, and as of 2018 almost **75% of domestic power supply** came from Chinese built and financed power plants. In 2019, half of Cambodia's energy came from Chinese **hydropower projects**, but there have been no new hydropower projects approved for several years, and emphasis has now moved to Cambodian-Chinese joint venture **coal power plants**. Chinese companies have also begun to invest in solar power projects, but on a much smaller scale.
- Chinese involvement in **infrastructure** is still extensive. This includes **transmission lines, roads, bridges** and **irrigation**. Much is financed by concessional loans from the **China Eximbank**. This infrastructure supports improved **connectivity** and is an important foundation for the further development of Cambodia's still basic **industry**.

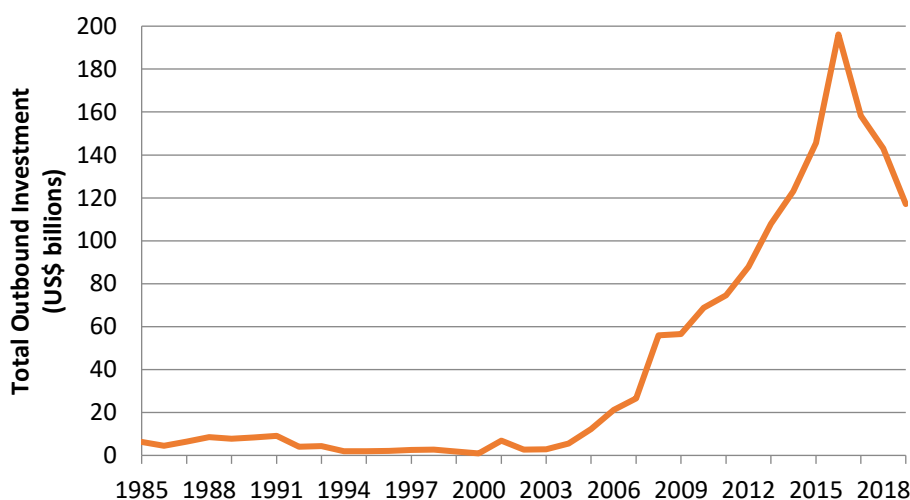
- Although Chinese investment in **industry** is mostly in low-end manufacturing, this could change in the coming years. Several **special economic zones (SEZs)** are moving towards their second phases, which include plans for **more complex manufacturing** of things like machinery. New SEZs in coastal areas are exploring opportunities for **heavy industry** including **metal smelting, plastics** and **chemicals**.
- **Mining** in Cambodia is a very opaque industry, with no publicly accessible database listing active mining licenses and who owns them. To date, large projects proposed by Chinese companies **have not moved forward**. However, the **context is changing** as transport infrastructure and energy access are improving, and with new ports and processing zones in the works, **mining could become increasingly viable**.
- Chinese investment in Cambodia's **tourism** increased drastically in the past 5 years. In 2018, Cambodia received 6.2 million international tourists – of which over **2 million** were Chinese. This was an increase of **65%** on the previous year. Private Chinese companies have invested in **hotels** across the country, but **mega-tourism** projects in coastal areas have attracted attention due to links to **land disputes** and impacts on **coastal and marine environments**, with several overlapping large parts of **Ream National Park**.
- Chinese investment in the **gambling** industry expanded rapidly in recent years. Between 2017 and 2018, the official number of casinos in Cambodia **jumped from 98 to 150**, with many located in Sihanoukville. Along with in-person gambling, which brings tourists from China and other countries, an extensive **online gambling** industry also grew rapidly. The online gambling industry is widely believed to be implicated in **criminal activity**, especially money laundering. Around the city of Sihanoukville, gang activity spiked with the expansion of online gambling, eventually leading to a **ban** being announced in August 2019. This was followed by a collapse in the local real estate market and had massive economic repercussions for Sihanoukville, as the city had largely grown around this industry.
- For several years, much of the **public, media and civil society attention** on Chinese projects has focused on **land conflicts** (as it has with investors from Cambodia and other countries). Land conflicts still persist in Cambodia, but not on the scale they once did. If plans around **industrial upgrading** and **expansion of processing zones** are successful, key issues of concern may shift towards **pollution control, ecological and biodiversity protection**, and mitigating broader impacts of heavy industry on the wider **environment** and **people**.
- It is still unclear what impacts the **COVID-19** pandemic will have on Chinese investment in Cambodia. At the peak of the spread in China, and with concerns high in Cambodia, **many projects (not only Chinese) ceased construction**. Travel restrictions in China prevented workers and company staff returning after Chinese new year, and with limited flights available this is still impacting some projects. With the virus now largely under control in China, and the spread in Cambodia apparently limited, projects have restarted, but there are likely to be longer term impacts that may become more apparent in the coming months. This will be felt acutely in the tourism sector and in sectors that are export-oriented, as global orders decline in the wake of the pandemic.

Background: The Current Context of Chinese Developments in Cambodia

Over the past decade, China has risen to become Cambodia's largest investor and a key political ally. China's presence as a major investor began to develop in 2006, after a state visit from then Premier Wen Jiabao, which resulted in the signing of several bilateral agreements and a commitment of US\$600 million in loans and grants.¹ Since then, the relationship has strengthened significantly, and the two sides have upgraded relations to a "comprehensive strategic cooperation partnership".

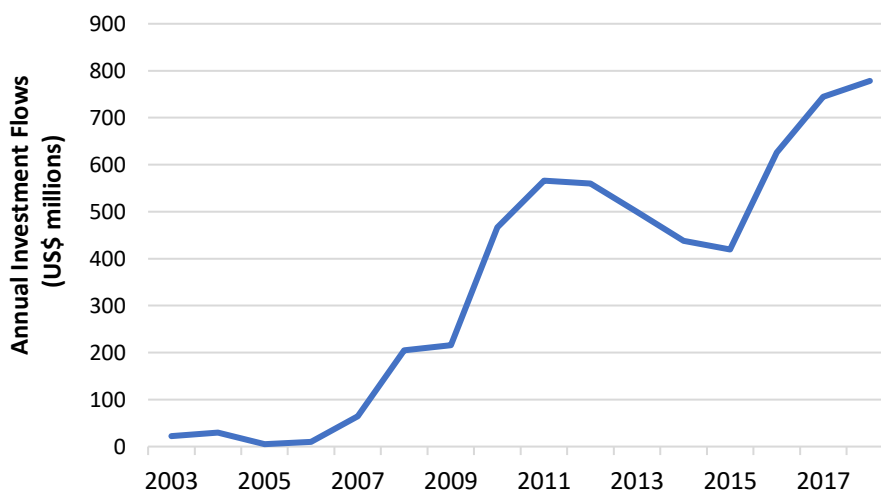
Although it is often assumed that China's global investment is rapidly increasing, it has in fact been dropping since 2016. There are a number of reasons for this, including the economic downturn in China, the declining value of China's foreign exchange reserves, and tightening restrictions on capital outflows. However, China's investment in Cambodia does not follow the same trend, and increased relatively steadily between 2015 and 2018.

China's Global Outward Foreign Direct Investment Flows, 1985-2019



Source: Ministry of Commerce of the People's Republic of China (2019, 2020)

China's Outward Foreign Direct Investment Flows to Cambodia, 2003-2018



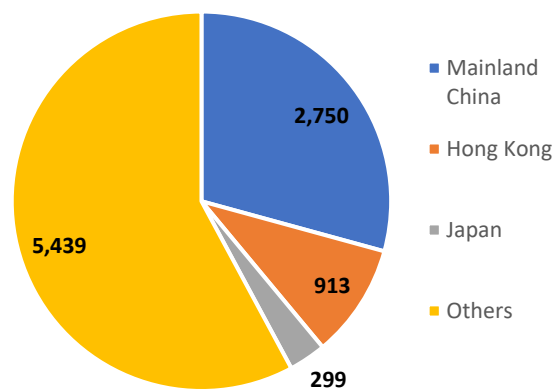
Source: Ministry of Commerce of the People's Republic of China (2019)

¹ Associated Press (2006, 9 April), "China pledges \$600 million to Cambodia", *China Daily*.
http://www.chinadaily.com.cn/china/2006-04/09/content_563496.htm

The above data is gathered from company self-reporting to China’s Ministry of Commerce (MOFCOM). Therefore, it does not include investment that is not declared, for whatever reason. Smaller private investment that is not in full compliance with Chinese regulations will therefore not show up. Likewise, secondary investments by Chinese companies who are already established overseas may not be represented. Nonetheless, MOFCOM data shows that *recorded* investment into Cambodia has risen significantly since the 2000s, reaching US\$778.34 million in 2018.²

Figures from Cambodia’s top investment approval body, the Council for Development of Cambodia (CDC), report *approved* investment, rather than *realized* investment. This can be problematic, as many approved investments are never implemented.³ However, these figures illustrate broader trends in foreign investment. According to the CDC, China has been Cambodia’s top investor since 2013,⁴ accounting for 22% of all approved foreign investment during 1994-2019.⁵ In 2019, approved investment from China hit US\$2.75 billion.

Approved Foreign Direct Investment in Cambodia in 2019 (US\$ millions)



Source: Council for Development of Cambodia (2020)

When considering Chinese investment in Cambodia, it is also important to look at trends in trade, as the two are closely linked. Chinese investment in agriculture and manufacturing in particular are heavily export-oriented. China is Cambodia’s largest trade partner, with total trade reaching US\$8.53 billion in 2019.⁶ The two countries have committed to increase the bilateral trade volume to US\$10 billion by 2023.⁷ In late 2019, negotiations began for a free trade deal to further develop the trading relationship.⁸ This is set to be signed in August 2020.

Chinese companies are also very active as contractors in Cambodia. It is important to distinguish investment from contracting. Investment involves ownership and a sustained presence in a host

² Ministry of Commerce of the People’s Republic of China et al (2019), *2018 Statistical Bulletin of China’s Outward Foreign Direct Investment*, Beijing: China Commerce & Trade Press.

³ Ministry of Commerce (2014), *Cambodia Trade Integration Strategy 2014-2018*, Phnom Penh: MoC, p.136.

⁴ Hin, P. (2019, 23 September), “China Still No.1 Source of Aid”, *Phnom Penh Post*.
<https://www.phnompenhpost.com/business/china-still-no1-source-fdi>

⁵ CDC (no date), *FDI Trend*. <http://www.cambodiainvestment.gov.kh/why-invest-in-cambodia/investment-environment/fdi-trend.html>.

⁶ Xinhua (2020, 5 January), 中国驻柬商务参赞：中柬经贸合作 2019 年成果丰硕。
http://www.xinhuanet.com/politics/2020-01/05/c_1125423385.htm

⁷ Kingdom of Cambodia & the People’s Republic of China (2019, 23 January), *Joint Communique Between the Kingdom of Cambodia and the People’s Republic of China*.

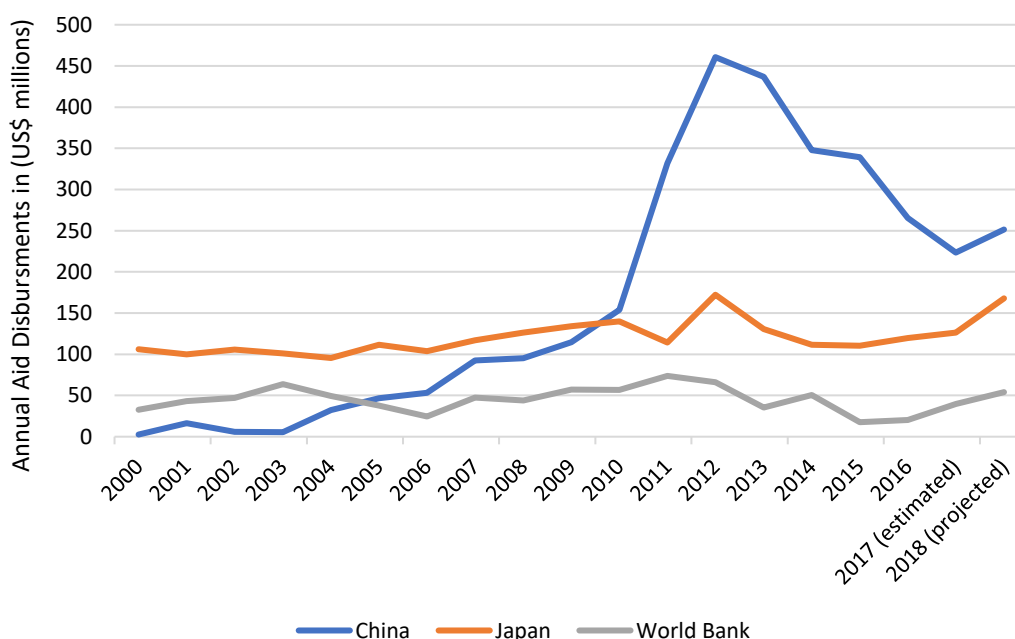
⁸ Sok, C. (2019, 15 November), “China free trade agreement negotiations to start in December”, *Khmer Times*.
<https://www.khmertimeskh.com/660011/china-free-trade-agreement-negotiations-to-start-in-december/>

country. Contracting is temporary, and lasts for the duration of a contract.⁹ In 2017, Chinese contracts in Cambodia were estimated to be worth US\$3.3 billion, with contract revenue earned in the same year reaching US\$1.76 billion.¹⁰ This is far higher than investment levels for the same year.

Chinese companies may be contracted to build projects that are supported by Chinese aid. For example, China National Heavy Machinery Corporation has received multiple contracts for power transmission projects funded through Chinese concessional loans. Major commercial Chinese infrastructure projects, like the hydropower project discussed later in this paper, may sub-contract Chinese companies for different aspects of a project. International companies are also contracting Chinese firms. For example, the French hotel chain Novotel has contracted China State Construction Engineering Corporation to build a new hotel in central Phnom Penh.

China is also one of Cambodia's most important development partners, and since 2010 has been the largest source of bilateral development assistance. As of December 2018, China had provided a total of US\$5.8 billion in development assistance to Cambodia.¹¹ More than half of Chinese aid funded projects concern transport (mostly road development or improvement) and energy (mostly high-voltage transmission lines).¹² As of mid-2019, Cambodia's outstanding foreign debt stood at US\$7.22 billion. Of this amount, 48% was owed to China through interest-free and concessional loans.¹³

Chinese Development Assistance to Cambodia, 2000-2018



Source: Council for the Development of Cambodia (2018)

⁹ Scissors, D. (2019, 10 July), *China's global business footprint shrinks*, American Enterprise Institute. <https://www.aei.org/research-products/report/chinas-global-business-footprint-shrinks/>

¹⁰ Ministry of Commerce Institute for International Trade and Economic Cooperation et al (2018), 对外投资合作国别(地区)指南(柬埔寨2018年版). <http://www.mofcom.gov.cn/dl/gbdqzn/upload/jianpuzhai.pdf>

¹¹ Sohu.com (2018, 14 December), 中国再向柬埔寨援助 18 亿! 累计高达 406 亿! http://www.sohu.com/a/281832795_120043455

¹² Council for the Development of Cambodia, *The Cambodia ODA Database*. http://odacambodia.com/Reports/reports_by_updated.asp?status=0

¹³ Ministry of Economy and Finance of Cambodia (2020), *Budget in Brief: Fiscal Year 2020*. https://www.mef.gov.kh/documents/shares/budget/BUDGET_IN_BRIEF_Fiscal_Year_2020.pdf

The Geography of Chinese Developments in Cambodia

Sector	Focus Areas
Agriculture	Investment in rice is focused in lowland areas where Cambodia's existing paddy production is located. Chinese finance has supported the development of rice mills and irrigation across the country. Large scale monoculture and fruit plantations and processing facilities are located mostly in previously forested areas that were granted under economic land concessions, especially in Kratie, Mondulkiri, Stung Treng and Preah Vihear. There are also two large sugar concessions in Kampong Speu.
Forestry	Chinese companies have established (or plan to establish) forestry projects and processing factories within economic land concessions, mostly in the eastern provinces of Kratie, Mondulkiri and Stung Treng.
Special Economic Zones	Most Chinese Special Economic Zones are located within the corridor between Phnom Penh and the coastal areas of Sihanoukville and Kampot, as well as areas bordering Vietnam in Svay Rieng. There are now some more rural-based SEZs, focusing on agriculture and forestry, located in Kratie and Kampong Speu.
Energy	The majority of existing generation projects are in Koh Kong and Pursat (hydropower) and coastal Preah Sihanouk (coal), with a handful of projects located elsewhere. Chinese funded transmission lines span the entire country.
Transport	Road and bridge projects are spread nationwide, port developments in the coastal areas, and new airports planned in Koh Kong and close to Phnom Penh and Siem Reap.
Tourism & entertainment	Investments in the tourism and entertainment industry, which includes hotels, resorts and casinos is largely focused in Phnom Penh and the coastal provinces of Koh Kong and Preah Sihanouk.
Mining	Chinese mineral exploration projects are located mainly in the four eastern provinces of Kratie, Mondulkiri, Stung Treng and Ratanakiri, as well as Preah Vihear.

Key Actors Involved in Chinese Developments in Cambodia

A broad range of actors play a role in regulating, financing, implementing and promoting Chinese overseas projects. This chain of actors stretches from Beijing down to the local level where projects are developed. At the Chinese state level, a range of actors are involved in the regulation and oversight of China's overseas investment, aid and trade. This includes senior level agencies such as the National Development and Reform Commission and Ministry of Commerce, which play a role in approval of high value and sensitive projects. The banking regulator plays an oversight role of policy and commercial banks' overseas activities, and various line ministries have foreign cooperation departments that play a role in certain overseas cooperation projects. For more information on regulation of Chinese overseas investment see: [*Safeguarding People and the Environment in Chinese Investments*](#).

COMPANIES

A variety of Chinese companies are active in Cambodia. This includes state-owned enterprises (SOEs) and non-state-owned companies. Historically, state-owned enterprises dominated Chinese outbound investment, but the number of private companies increased rapidly over the last 10 years. There are now many more private enterprises operating overseas than SOEs, but in terms of value, overseas investments by private companies are generally smaller than those of state-owned enterprises, which dominate infrastructure, resources, logistics, and other high-value sectors. Although SOEs and large private enterprises are the most visible Chinese overseas investors, there are also many thousands of smaller Chinese companies active overseas. Smaller companies can be difficult to identify, and there is often limited public information regarding their structure and operations.

SOEs can be centrally or provincially administered. Central SOEs are complex conglomerates with many subsidiaries that may be spread across China. Although they are coordinated by a central leadership, each SOE can be viewed as a “systems” of companies. Many of the central SOE-affiliated companies active in Cambodia are subsidiaries, rather than the parent group themselves, and are driven by commercial motives, although they tend to have better government connections than most private companies. Central SOEs are expected to develop overall business strategies that are in line with the central government’s policy agenda (which may include considerations for international relations), whereas provincial SOEs are tied to provincial agendas (which are less concerned with diplomacy and more driven by economic interests). These overall business strategies may only be loosely followed, however, by subsidiaries operating on the ground, to whom the most immediate concern is often profit.

Examples of Major Chinese Companies Active in Cambodia

Actor	Description	Examples
Central state-owned enterprises	State-owned enterprises under the administration of the central State-owned Asset Supervision and Administration Commission (SASAC).	<ul style="list-style-type: none"> • China Huadian Corporation • Power Construction Corporation • China Huaneng Group • China Road & Bridge Corporation • China National Machinery Industry Corporation (Sinomach) • China Datang Corporation
Provincial / municipal state-owned enterprises	State-owned enterprises headquartered at the provincial level, under the ownership and administration of the provincial branches of SASAC.	<ul style="list-style-type: none"> • Shanghai Construction Group • Yunnan Construction and Investment Holding Group • Anhui Conch Cement
Public companies	Companies listed on stock exchanges such as Shanghai, Shenzhen and Hong Kong. This includes subsidiaries of SOEs seeking to broaden and diversify investment.	<ul style="list-style-type: none"> • Sino Great Wall • China Huadian Hong Kong • China Power International Development • Metallurgical Corporation of China
Private companies	Companies owned by one person or a group of people, but whose shares are not publicly traded.	<ul style="list-style-type: none"> • Hongdou Group • Prince Group • Union Development Group • Cambodia Fiber Optic Cable Network • Guangdong Hengfu Group Sugar Industry

In Cambodia, there is some distinction between where Chinese state and private companies are active. SOEs are involved in major infrastructure works such as roads, bridges, irrigation, energy generation and transmission projects. Private companies, on the other hand, dominate the industrial, manufacturing, tourism and real estate sectors. However, there are overlaps, and SOEs are frequently hired by private companies as contractors. There are also cases where private companies secure approvals and licenses, then bring in SOEs as partners when projects are ready to move forward.

BANKS

China has three “policy banks” including China Development Bank (CDB) and the Export-Import Bank of China (China Eximbank), both of which are active in Cambodia.¹⁴ As policy banks, their role is to support the policy objectives of the Chinese government. This includes supporting the overseas expansion of Chinese companies and the development of China’s global role in international finance and investment.

Most of China Eximbank’s lending is commercial, but the bank is also responsible for China’s concessional lending, which accounts for the majority of China’s overseas aid. The bank has provided a large amount of financing for infrastructure in Cambodia. During 2005-2018, this supported over 3,000 km of highways, 430,000 hectares of irrigation, and nearly 8,000 km of transmission lines. Other priority areas include agriculture, tourism and the textile industries.¹⁵ The China Development Bank is the world’s largest development bank and provides medium to long-term financing for activities and projects that align with China’s national economic strategies. As of mid-2019, the bank had provided US\$5.3 billion in loans for 27 projects in Cambodia.¹⁶

Of China’s top four state-owned commercial banks, two have a physical presence and significant operations in Cambodia: Industrial and Commercial Bank of China (ICBC) and Bank of China. Bank of China was the first Chinese bank to open a branch in Cambodia and has developed a strong base for operations in the country. According to its president, as of late 2017, it had issued loans totaling more than US\$2 billion to over 100 projects.¹⁷ These are mainly in the areas of energy, real estate, garments, footwear, cement and building materials, agriculture, communications and industrial parks.¹⁸ ICBC set up a Cambodia branch in 2011 and is now an active member of the Cambodian financial sector.

Information on loans from all of the above banks can be extremely challenging to find. Some have published internal environmental and social guidelines and made commitments to initiatives such as the UN Global Compact and the UN Principles for Responsible Banking. All are subject to the Green Credit Guidelines issued by China’s banking regulator. Both Bank of China and ICBC are members of the Association of Banks in Cambodia and have signed on to its Cambodian Sustainable Finance Initiative (CSFI).¹⁹

The financing mechanisms used by Chinese developers differ depending on the size and type of project and the background of the company involved. Smaller private investors are most likely to

¹⁴ The third policy bank, the Agricultural Development Bank of China is mostly focused on domestic projects.

¹⁵ Export-Import Bank of China (2018, 1 November), 金融时报: 路桥连起中柬情 中国进出口银行发挥政策性金融优势助力中柬合作. http://www.eximbank.gov.cn/info/circus/201810/t20181022_7106.html

¹⁶ Cambodia Constructors Association (2019, 30 May), *Over US\$5 Billion in Infrastructure Loans Granted to Cambodia*. <https://www.construction-property.com/over-us5-billion-in-infrastructure-loans-granted-to-cambodia/>

¹⁷ Bank of China (2017, 12 November), 中行金边分行 7 年累计支持百余客户逾 20 亿美元贷款. http://www.bankofchina.com/aboutboc/ab8/201712/t20171211_10881641.html?keywords=柬埔寨

¹⁸ China Development (2019, 8 January), 访中国银行金边分行行长陈长江. <http://cxzg.chinadevelopment.com.cn/gdft/2019/0108/1436938.shtml>

¹⁹ Association of Banks in Cambodia (no date), *Cambodian Sustainable Finance Principles*. <https://www.abc.org.kh/CSFI/sustainable-finance-initiative>

invest their own equity, mixed with privately raised finance. Larger and more established companies will have better access to financing from China’s commercial and policy banks.

Financing arrangements differ across projects, and details are usually difficult to obtain. In the case of non-aid projects, banks tend to lend at market interest rates comparable to global lenders. One common structure for large infrastructure investments is a 30-70 split between equity and finance, i.e. the developer contributes 30% of its own funds and seeks bank financing for the remaining 70%.

Examples of High-Profile Projects Financed by Chinese Banks

China Eximbank	CDB	Bank of China	ICBC
Lower Sesan 2 hydropower dam	Lower Sesan 2 hydropower dam	Lower Sesan 2 hydropower dam	Lower Sesan 2 hydropower dam
Kamchay hydropower dam	Atai hydropower dam	Huaxin cement plant	Huaxin cement plant
Lower Russei Chhrum hydropower dam	Siem Reap airport	CIIDG I coal power plant	Siem Reap airport
Tatay hydropower dam	Phnom Penh airport		Huaguang coal plant, inside Sihanoukville SEZ
Siem Reap airport	Phnom Penh - Sihanoukville expressway		CIIDG II coal power plant
Sihanoukville Special Economic Zone			

CHAMBERS OF COMMERCE & BUSINESS ASSOCIATIONS

A large number of Chinese business associations and industry groups are active in Cambodia. The most important of these groups is the Chinese Chamber of Commerce in Cambodia, which has over 500 members and includes all the major state and non-state owned Chinese companies active in Cambodia. The current president is Jing Jun, who is also head of ICBC in Cambodia. There are also over 20 provincial and city level chambers of commerce operating in Cambodia, and numerous business associations and federations. These groups play an important role as connector, linking companies to the business and diplomatic community in Cambodia, and to local state actors.

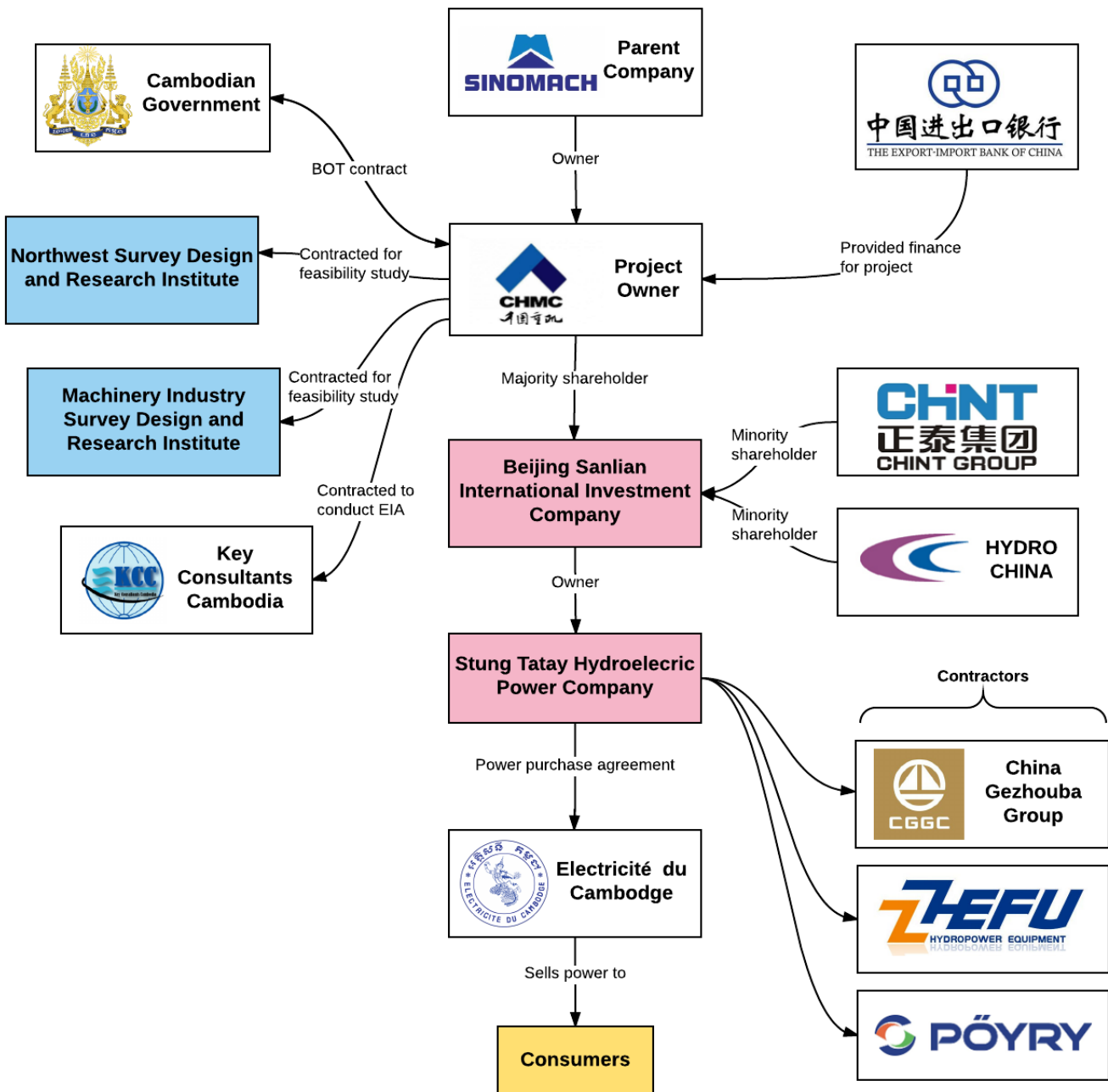
BROKERS

A number of individuals play an import connecting role. This includes Sino-Khmer businesspeople, some of which hold senior positions in the Cambodian power structure. A number of Chinese have also become naturalized Cambodian citizens and are conduits for Chinese investment. Some of these brokers hold government advisor positions and are very well connected.

Investment Approaches and Project Structures

Various actors may be involved in a single project as financier, project owner, contractor, etc. Some projects only involve Chinese companies, but in some cases can also include other international and local firms. The diagram below illustrates a simplified overview of some of the actors involved in a hydropower project in Cambodia.

Example of Actors Involved in a Chinese Hydropower Project in Cambodia²⁰



²⁰ Inclusive Development International (2019), *Safeguarding People and the Environment in Chinese Investments (Second Edition)*.

Chinese companies utilize a range of approaches to implement their overseas operations. For the most part, companies will establish a local subsidiary (or subsidiaries), which they will then use as the vehicle for their project. Funds may flow directly from a parent company in China, or from a Hong Kong-listed subsidiary.

Below is a basic summary of some of the most common approaches.

Approaches Utilized by Chinese Stakeholders

Approach	Description	Examples
Wholly-owned projects	Projects wholly-owned by a Chinese-owned but locally registered company.	Kamchay hydropower dam is wholly owned by a local subsidiary of state-owned Powerchina Resources Limited.
Joint-ventures	Projects involving two or more companies. This is especially common in large, high-value projects. This can be a joint-venture between Chinese companies, Chinese and local companies, or Chinese and other international companies.	Sihanoukville Special Economic Zone is a joint venture between two private companies, China's Hongdou Group and Cambodia International Investment Development Group. Lower Sesan 2 hydropower dam is a joint venture of Chinese state-owned Huaneng Group, Cambodia's Royal Group and Vietnam Electricity.
Build-Operate-Transfer (BOT)	BOT agreements are common in large infrastructure projects. The project owner will <i>build</i> , then <i>operate</i> the project for a specified period of time, then <i>transfer</i> it to the government. These projects are often large and require significant bank financing. The company will seek to both make a profit and pay off the project loan using income raised during the operating period.	State-owned China Communications Construction Company will build and operate the Phnom Penh Sihanoukville Expressway for 50 years before transferring to the Cambodian government.
Contracting	Many companies are involved in projects as contractors, rather than as direct investors. This may include contracts for shipping, supply of equipment and materials, technical work such as design and assessment, labor sourcing, provision of construction and engineering work, etc.	A subsidiary of China Gezhouba Group was contracted by Cambodia's state energy provider to build a dual-use power plant in Kandal province. A subsidiary of Metallurgical Corporation of China has been contracted to design and construct the first phase of the Dara Sakor tourism and urban development project in Koh Kong.

Predicting Future Trends in Chinese Investment

To predict the likely future trends in Chinese investment, it is useful to draw on policy documents from both Cambodia and China. Importantly, agreements between the two countries stress the alignment of Cambodia's key development policies – the Rectangular Strategy, National Strategic Development Plan, and Industrial Development Policy – with China's Belt and Road Initiative. These documents can be read together in order to get a sense of where Chinese investment is likely to flow in the coming years.²¹

Under the Industrial Development Policy (IDP), the Cambodian Government prioritizes investments in high value-added industrial sectors and upgrading Cambodia's manufacturing base. Currently Cambodia's economy depends on a small number of sectors, namely: garments, tourism, construction and rice production. The government aims to diversify and sees further industrialization and development of the manufacturing base as the driver for Cambodia's future development. Domestic and foreign investment will play a major role in achieving this.

The IDP includes priority sectors in which the Cambodian Government seeks to promote investment, including: industries and manufacturing that open new markets and produce high value-added products; agro-industrial production for export and domestic markets; supporting industries for agriculture, textiles, and tourism sectors; and industries serving regional production lines and those with future strategic importance, such as information technology, telecommunication, energy, heavy industries and green technology.²²

Official Chinese documents also indicate which areas are prioritized for investment, but largely mirror Cambodian state development priorities. For example, the 2018 *Country (Region) Guide to Foreign Investment Cooperation for Cambodia*, issued by China's Ministry of Commerce states that the Cambodian government is eager to strengthen cooperation with China in the fields of road and bridge construction, water conservancy, power grids, ports, airports and other infrastructure construction, as well as developing processing, storage and logistics for agricultural products, light industry, high and new technology industries, and achieving industrial diversification.²³ Chinese companies are encouraged to prioritize these areas.

Joint statements issued by the Cambodian and Chinese governments over the past few years set out the main areas in which the two countries have agreed to cooperate. During high-level meetings, cooperation agreements are often signed, frequently with lists of priority projects attached. For example, in 2016, China's National Development and Reform Commission and the Council for the Development of Cambodia signed an MoU on capacity cooperation. Attached to this was a list of 11 key cooperation projects – including industrial zones, transport and energy projects.²⁴ In 2018, a similar list was made public of 18 agreements signed during Prime Minister Li Keqiang's trip to Cambodia. This includes government-government, government-private sector and private-private sector agreements.

The latest high-level joint communique between China and Cambodia was released in January 2019 during Prime Minister Hun Sen's trip to Beijing. The two countries agreed to continue to support

²¹ Kingdom of Cambodia & the People's Republic of China (2018, 11 January), *Joint Communique Between the Kingdom of Cambodia and the People's Republic of China*.

²² Royal Government of Cambodia (2015), *Industrial Development Policy 2015-2025 – "Market Orientation and Enabling Environment for Industrial Development"*.

²³ Ministry of Commerce Institute for International Trade and Economic Cooperation et al (2018), 对外投资合作国别(地区)指南(柬埔寨2018年版). <http://www.mofcom.gov.cn/dl/gbdqzn/upload/jianpuzhai.pdf>

²⁴ National Development and Reform Commission of the People's Republic of China & Council for the Development Cambodia (2016), *Memorandum of Understanding on Capacity Cooperation Between China and Cambodia*.

companies to invest in the development of agricultural, manufacturing and processing parks, enhance cooperation in power supply and power grid construction, advance the development and application of clean energy resources, and construct basic public infrastructure including water supply, roads and rural schools.²⁵ These agreements are not always made public, but when they are, they are useful tools for assessing the priorities and future direction of Chinese investment in Cambodia.

Cambodia and the Belt and Road Initiative (BRI)

China's Belt and Road Initiative (BRI) aims to facilitate infrastructure investment and increase economic interconnectivity between China and the world. The initiative promotes the development of transport, energy, trade and communication infrastructure, among other things. It is a continuation of China's push to develop regional connectivity and trade routes, expand the international presence of Chinese companies, and increase access to global markets. In this sense, it can be seen as the next phase of the "Going Global" strategy that shaped China's early rise to becoming a major global development actor.

When it was first announced, details on the Belt and Road Initiative were limited, but a number of policy documents have since been issued by the Chinese government that map out the initiative in more detail. At the same time, several guiding documents have been released that call on companies and banks operating within the BRI to do so in a way that is socially and environmentally responsible. However, it is unclear to what extent these guidelines are known and implemented by Chinese stakeholders operating overseas.

Cambodia was quick to sign up to the Belt and Road Initiative and in 2016 the two parties signed an MoU on developing a framework for jointly advancing the Belt and Road in Cambodia.²⁶ Subsequently, the two countries signed several MoUs that discuss aligning the BRI with Cambodia's "Rectangular Strategy". Although the BRI is often mentioned by Cambodian and Chinese officials, as well as banks and companies active in Cambodia, it is often in very broad terms. Numerous projects that were approved, commenced construction, or were even completed prior to the existence of the BRI, are now referred to as BRI projects. As there is no list of what exactly is a "BRI project", many companies have used the label to enhance the profile of their projects. A more useful way to assess which projects are seen as a priority under the BRI is to refer to joint-statements such as those referred to earlier, which identify agreed cooperation projects between the two countries.

Sectors Attracting Chinese Investment

Key areas where Chinese private and state-backed investment is flowing and which have social, environmental protection and biodiversity implications include: agriculture, industry and special economic zones, energy, transport, tourism and entertainment, and mining.

AGRICULTURE

A priority of the Cambodian Government is to promote increased productivity and diversification of the agriculture sector. The government aims to develop Cambodia's processing capacities, increase modernization and move away from "low productivity and subsistence-based extensive agriculture"

²⁵ Kingdom of Cambodia & the People's Republic of China (2019, 23 January), *Joint Communique Between the Kingdom of Cambodia and the People's Republic of China*.

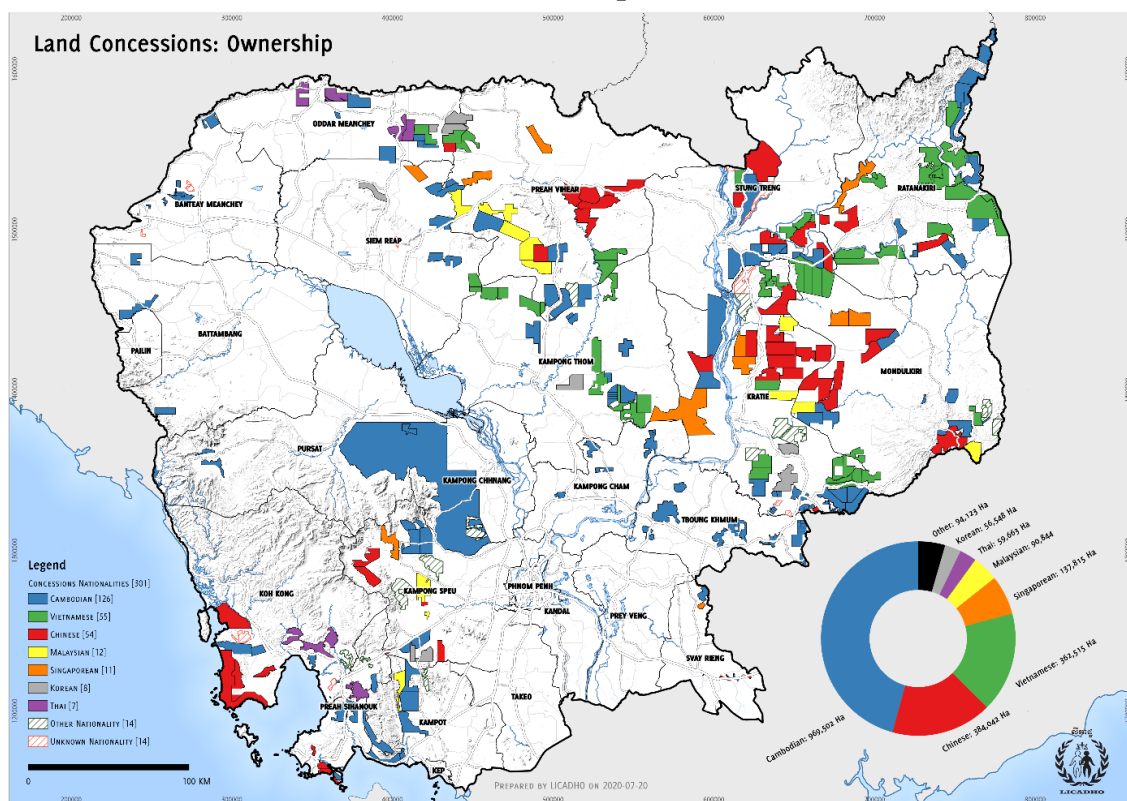
²⁶ Embassy of the People's Republic of China in Cambodia (2017, 18 May), "一带一路"倡议助力柬埔寨国家发展规划—访柬埔寨首相洪森. <http://kh.china-embassy.org/chn/zgjx/t1463138.htm>

towards “high productivity and commercialized intensive agriculture.”²⁷ The end goal is to capitalize on agriculture export markets, including the Chinese market. Of the US\$6 billion in bilateral trade that occurred in 2017, 87% consisted of Cambodian imports from China.²⁸ Cambodia hopes to close this deficit and is making efforts to increase export of agricultural commodities to China.

In the late 2000s to early 2010s, a large amount of private Chinese investment in Cambodia was directed towards large-scale agriculture projects. This was facilitated by Cambodia’s investment-friendly economic land concession (ELC) mechanism, through which domestic and foreign investors could obtain up to 10,000 hectares for agro-industrial plantations and processing facilities.

One analysis of official documents shows that out of 297 concessions known to have been granted, 18% were registered to Chinese companies, making it the second largest foreign holder of concessions, second only to Vietnamese companies who held 19%.²⁹ On the map below, concessions in red are Chinese-owned. There is also evidence that a number of Cambodian-registered concessions are at least in part developed by Chinese partner companies, such as the massive Pheapimex concession in Kampong Thom and Kampong Chhnang.

Concession Ownership in Cambodia



Source: Licadho (2020)

The ELC system was highly controversial due to its links to land grabbing, dispossession and deforestation. Cambodian media, NGOs and UN agencies reported regularly on violations, protests and petitions linked to these conflicts, and satellite images show extensive deforestation in and around

²⁷ Royal Government of Cambodia (2013), “Rectangular Strategy” for Growth, Employment, Equity and Efficiency Phase III of the Royal Government of Cambodia of the Fifth Legislature of the National Assembly, Phnom Penh: RGC, p.7, 43.

²⁸ Ministry of Commerce of the Kingdom of Cambodia (2018), *Value of Exports and Imports (USD) in 2017*. <http://www.moc.gov.kh/Portals/0/Docs/TradeInfo/TS18%20Value%20of%20Exports%20and%20Imports%20in%202017-20180914151746293.pdf>

²⁹ Licadho (no date), *Cambodia’s Concessions*. http://www.licadho-cambodia.org/land_concessions/

many concessions.³⁰ NGOs estimated that hundreds of thousands of people were impacted by ELCS. Concession holders of various nationality came into conflict with local people, including companies from China, such as Hengfu Group, a private company from Guangzhou, and holder of the largest sugar concession in Cambodia, located in Preah Vihear.³¹

With a ban on logging concessions in place, some ELCs were used as a front for logging, other companies cleared forest land for timber with plans to convert the cleared areas into monoculture plantations.³² This continues today, and company documents and websites of several Chinese companies highlight the timber activities within their ELCs. Indeed, the logging of valuable timber in many cases seems to be an essential part of the development model.³³ Concerns around ELCs eventually led to a moratorium on the granting of new concessions in 2012. This moratorium has remained in place, and while a number of Chinese concessions were developed, many investors abandoned or sold their concessions, or had them cancelled or reduced through the Order 01 process.³⁴

With the situation now more stable, media reports and company statements indicate that there is new investment going into large plantations. Chinese concession owners are often private enterprises, but a number have links to state-owned companies and financing. There is no evidence to indicate that new concessions have been granted, and it is likely that these are old concessions that have reactivated, or Chinese companies have acquired companies that already held ELCs prior to the moratorium. Another possibility is that Chinese companies have rented or purchased adjacent plots of land to create new plantation areas (so land is leased or owned, rather than concessioned). There have been some attempts to encourage contract farming, especially around the Hengfu sugar plantations, where local people were encouraged to grow sugar and sell it to the company, but it appears that companies have not been successful in convincing local people to enter such arrangements.

Most large-scale agriculture investment is geared towards export. As noted above, the Cambodian government has identified the lack of modern processing facilities as a barrier to increasing the productivity and value of Cambodia's agriculture sector. Chinese companies, financing and development assistance play an important role in addressing this by supporting rice processing infrastructure and investing in agriculture processing zones. Chinese private and state-owned enterprises, state-backed finance and aid are playing an important role in improving Cambodia's technical skills, processing capacities and product quality so that Cambodian produce is able to meet Chinese quality control standards. Cambodia and China are set to sign a free trade agreement in August 2020, which is predicted to further support export of agricultural products to China.³⁵

Until 2018, the European Union was the top purchaser of Cambodian rice, but China overtook in 2019. This is in part due to the EU imposing tariffs on Cambodian rice after complaints from Italy that it was undercutting its domestic market.³⁶ In 2019, the central SOE China National Cereals, Oils

³⁰ United Nations Human Rights Council (2012), *Technical assistance and capacity-building Report of the Special Rapporteur on the situation of human rights in Cambodia*, Surya P. Subedi: Addendum A human rights analysis of economic and other land concessions in Cambodia.

https://www.ohchr.org/Documents/HRBodies/HRCouncil/RegularSession/Session21/A-HRC-21-63-Add1_en.pdf

³¹ Community Network in Action et al (2017), *Cambodia: communities in protracted struggle against Chinese sugar companies' land grab*. <https://www.grain.org/article/entries/5728-cambodia-communities-in-protracted-struggle-against-chinese-sugar-companies-land-grab>

³² Forest Trends (2015), *Conversion Timber, Forest Monitoring, and Land-Use Governance in Cambodia*.

<https://www.forest-trends.org/wp-content/uploads/2015/07/Cambodia-Concessions-Report-small-size.pdf>

³³ IR Resources (no date), *Forestry and Agriculture Business*. <http://www.irresources.com.hk/index.php?ForestIndustry>

³⁴ Grimsditch, M. & Schoenberger, L. (2015), *New Actions and Existing Policies: The Implementation and Impacts of Order 01*, Phnom Penh: NGO Forum on Cambodia.

³⁵ Amarthalingam, S. (2020, 6 August), "What's the deal with Cambodia and China's FTA?", *Phnom Penh Post*.

<https://www.phnompenhpost.com/special-reports/whats-deal-cambodia-and-chinas-fta>

³⁶ Xinhua (2019, 6 May), *Cambodia's rice exports to China increase: World Bank*.

http://www.xinhuanet.com/english/2019-05/06/c_138038059.htm

and Foodstuffs Corporation (COFCO) signed an MoU with Cambodia's Ministry of Commerce to purchase 400,000 tons of rice per year.³⁷ In order to produce enough rice to fulfil this quota, Cambodia needs to improve its rice industry infrastructure. Central and provincial SOEs are involved in developing this infrastructure³⁸ and China Eximbank has provided financing.³⁹

Another key area of expansion is industrial fruit production, with a current focus on bananas.⁴⁰ This is a controversial industry in the region and has been connected to widespread land clearance and chemical pollution in Laos and Myanmar. Recent media reports indicate that rubber concession holders have begun to cut their mature rubber trees and replace with bananas for export to China.⁴¹ Aside from bananas, Cambodia has prioritized mango, longan, dragon fruit, coconut and pepper for export to China.⁴² In June 2020, an agreement was signed between the two governments to export 500,000 tons of mango to China per year.⁴³ A number of Special Economic Zones also focus on agriculture and are returned to below.

China's development assistance has supported several major irrigation projects, financed through concessional loans from the Eximbank.⁴⁴ There are various reports of China donating equipment and machinery including tractors, vehicles, ploughs, pumps, and other agriculture equipment to the Cambodian government.⁴⁵ In addition, China has supported the construction of agriculture centers in Cambodia. For example, in 2014 China approved funding for construction of an agricultural school in Kratie Province.⁴⁶ All of this seeks to support increase in production volume and product quality.

Several projects link commercial and development goals, such as the Cambodia-China Tropical Ecological Agriculture Cooperation Demonstration Zone in Kratie province. Located in an ELC area, this zone was selected by China's Ministry of Agriculture and Rural Affairs in 2017 as a priority Belt and Road agricultural cooperation demonstration zone. The zone currently focuses on the banana industry, and the Chinese company that holds the concession, Hainan Dingyi Oasis Ecological Agriculture, was one of the first companies to receive approval to export bananas to China. Future phases of the project will expand to other crops including pepper, mango, coconut and other tropical fruits. The zone has involvement from several companies, mostly from Hainan province, and has received support from the China Eximbank.⁴⁷

³⁷ Swift News (2019, 25 April), *Cambodia to Export 400K Tons of Rice to China*.

<https://swiftnewsdaily.com/articles/345379>

³⁸ May, K. (2019, 27 May), "China unveils plans to build rice storage facilities", *Khmer Times*.

<https://www.khmertimeskh.com/607824/china-unveils-plans-to-build-rice-storage-facilities/>

³⁹ Xinhua (2019, 20 June), *Cambodia awards Chinese firm to build rice warehouses, drying machines in 11 provinces*.

http://www.xinhuanet.com/english/2019-06/20/c_138159556.htm

⁴⁰ Chhut, B. (2019, 10 May), "First banana shipment to China on the way", *Khmer Times*.

<https://www.khmertimeskh.com/50602596/first-banana-shipment-to-china-on-the-way/>

⁴¹ Aun, C. et al (2020), "Rubber Concessions Drop 'Zero Profit' Commodity for China-bound Bananas", *Voice of America*.

<https://www.voacambodia.com/a/rubber-concessions-drop-zero-profit-commodity-for-china-bound-bananas/5530224.html>

⁴² Chhut, B. (2019, 30 July May), "Ministry unveils list of products to be shipped to China", *Khmer Times*.

<https://www.khmertimeskh.com/50628477/ministry-unveils-list-of-products-to-be-shipped-to-china/>

⁴³ Hin, P. (2020, 9 June), "Mangoes officially cleared for export to China", *Phnom Penh Post*.

<https://www.phnompenhpost.com/business/mangoes-officially-cleared-export-china>

⁴⁴ Council for Development of Cambodia, *The Cambodia ODA Database*. <http://cdc.khmer.biz/index.asp>

⁴⁵ Embassy of the People's Republic of China in Cambodia (2011, 30 May), 驻柬埔寨大使潘广学出席四川省政府向柬埔寨国会捐赠物资交接仪式.

<http://kh.china-embassy.org/chn/dssghd/t826405.htm>

⁴⁶ Yanjian Group (2014, 25 November), *Cambodia Kratie Agricultural School Project Awarded to Yanjian Group*.

<http://english.yanjian.com.cn/Article/ShowArticle.asp?ArticleID=151>

⁴⁷ China Council for the Promotion of International Trade (no date), 柬埔寨—中国热带生态农业合作示范区.

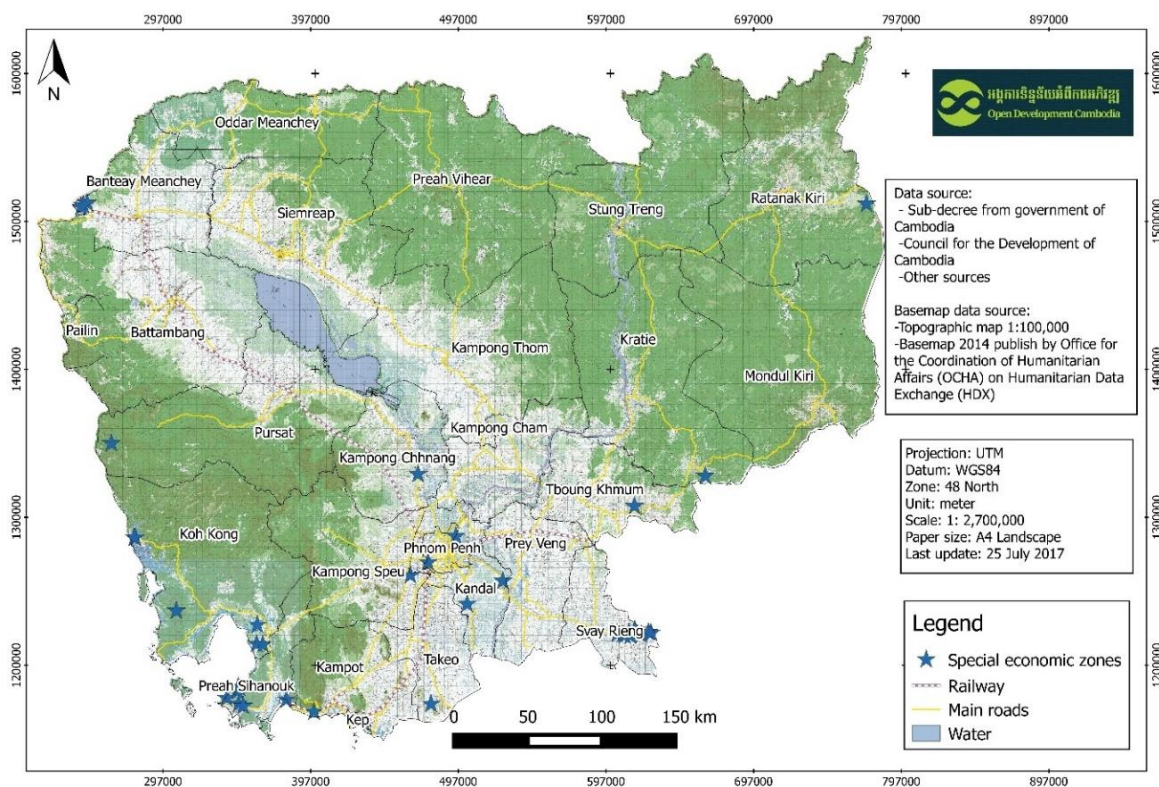
<https://oip.ccpit.org/ent/parks-introduces/47>

INDUSTRY AND SPECIAL ECONOMIC ZONES

Since the early 2000s, Cambodia has maintained annual GDP growth of around 7%.⁴⁸ This growth has been fueled in large part by the export economy, the backbone of which is Cambodia's garment and footwear industry.⁴⁹ Chinese owners account for the largest share of Cambodia's garment factories. As of 2019, almost 70% of Garment Manufacturers Association in Cambodia (GMAC) members were from the Greater China region: 285 from mainland China, 82 from Taiwan and 52 from Hong Kong.⁵⁰

Special Economic Zones (SEZs) have been developed to create clusters of industry and incentivize foreign investment. SEZs were formally introduced in Cambodia in 2005, and according to the Council for the Development of Cambodia there are now over 50 approved SEZs in Cambodia with more on the way.⁵¹ SEZs are a priority for both the Cambodian government as part of its Industrial Development Policy and for China as part of its push to move manufacturing bases overseas where operating costs are lower. Chinese companies are involved in a significant number of these zones, several of which are well developed and have strong state backing from both governments.

Special Economic Zones in Cambodia (as of 2017)⁵²



As SEZs are geared towards export, they are generally located in areas with strong infrastructure and an available labor force, such as around the capital, and in coastal and border crossing areas. Most are focused on manufacturing, but a small number center on agriculture products and are located in rural areas and in some cases in proximity to protected areas and forests. This includes a major

⁴⁸ With the exception of the dip experienced during the 2007-2008 global financial crisis.

⁴⁹ Rastogi, V. (2018), *Cambodia's Garment Manufacturing Industry*, ASEAN Briefing.

<https://www.aseanbriefing.com/news/cambodias-garment-manufacturing-industry/>

⁵⁰ Garment Manufacturers Association of Cambodia, <https://www.gmac-cambodia.org/>.

⁵¹ Khmer Times (2020, 1 February), "Cambodia has 54 special economic zones, more to come".

<https://www.khmertimeskh.com/50686294/cambodia-has-54-special-economic-zones-more-to-come>

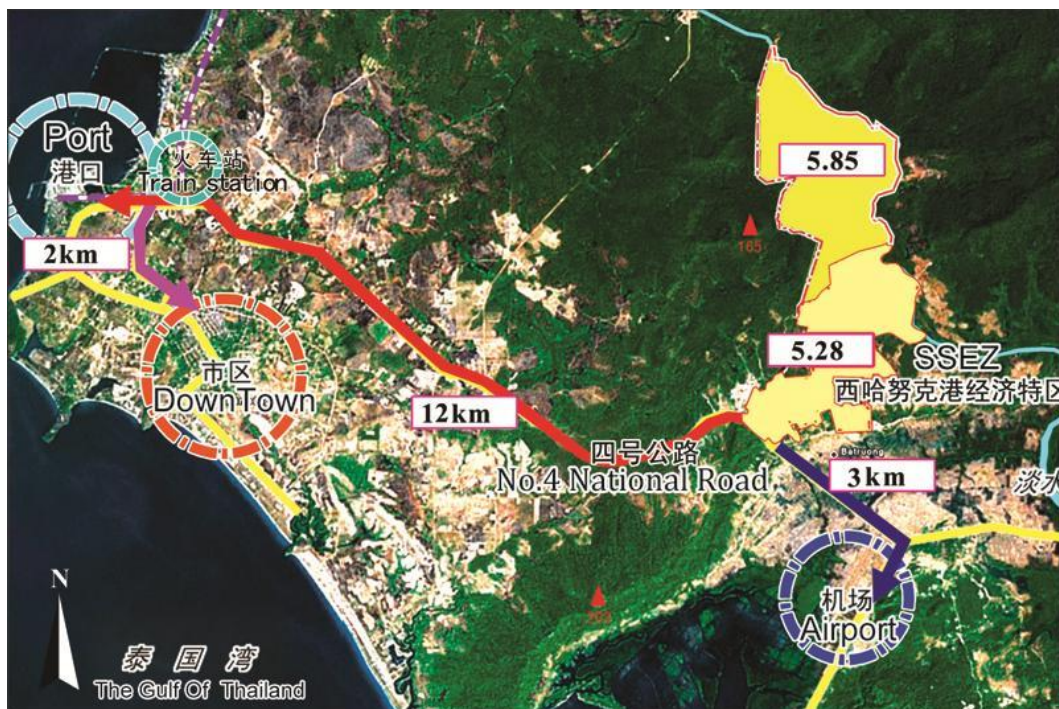
⁵² Open Development Cambodia (no date), *Maps Catalog*. <https://opendevdevelopmentcambodia.net/layers>

Chinese developed SEZ in Kratie province, which has been identified as a priority project by both governments.⁵³ With a focus on industrial agriculture and timber processing, it may increase pressure on areas that have already been badly hit by logging and forest conversion.

This zone covers 900 ha and will focus on crop processing (including rubber, cassava and rice), timber processing (producing flooring and furniture), stone processing, building materials, warehousing and logistics.⁵⁴ The zone developer, Zhongqi Group, also has subsidiaries in the timber and aluminum industries, which could make this location attractive given its proximity to timber resources and bauxite exploration zones.⁵⁵ On completion, the SEZ will be able to accommodate over 200 companies. The Kratie SEZ is located in Snoul district, just 1.5km from the Vietnamese border, which will facilitate export of goods from the zone.⁵⁶

The most high-profile Chinese-backed SEZ is the Sihanoukville SEZ (SSEZ). The SSEZ covers over 1,100 hectares, and when fully developed will have space for 300 factories. According to the developer it will employ 80,000 to 100,000 workers. The first phase focused on garments, luggage, leather goods and wood products. The second stage will introduce machinery, equipment, building materials and other industries. The vast majority of factories set up at the SSEZ are Chinese. The project is recognized as a model BRI investment by both governments, and has extensive Chinese-state support.⁵⁷ The SEZ developer is a joint-venture between the private Chinese company Hongdou Group and Cambodia International Investment Development Group Co., Ltd. (CIIDG), owned by Cambodian Senator Lao Ming Khin.⁵⁸

Location of the Sihanoukville SEZ



⁵³ Kratie Special Economic Zone (no date), <http://www.kratiesez.com/en>

⁵⁴ Kratie SEZ (no date), *SAR Planning*. http://www.kratiesez.com/en/wh/Special_Economic_Zone_Planning/

⁵⁵ Zhongqi Kaijian Group (no date), *About Us: Introduction*. <http://enkaijian.zqgroup.cn/about.html>

⁵⁶ Kratie SEZ (no date), *SAR Planning*. http://www.kratiesez.com/en/wh/Special_Economic_Zone_Planning/

⁵⁷ China Council for the Promotion of International Trade (no date), 西哈努克港经济特区. <https://oip.ccpit.org/ent/parks-introduces/46>

⁵⁸ Ministry of Commerce of the PRC (no date), 柬埔寨西哈努克港经济特区. http://www.mofcom.gov.cn/article/zt_jwjimyhqz/subjecto/201407/20140700666412.shtml

The developers promote the zone as strategic destination for companies as they can benefit from Cambodia's preferential treatment under the EU's Everything But Arms (EBA) scheme and the United States' Generalized System of Preferences (GSP).⁵⁹ This aligns well with the push from Chinese industry to export low-end manufacturing to countries where costs are lower. In August 2020, the EU partially withdraw Cambodia's EBA privileges due to human rights concerns.⁶⁰ This impacted about 20% of exports to the EU, mostly garments. This will impact on factories within the zone (and across the country) that export garments and footwear to the EU.

Special Economic Zones with Chinese Involvement

Zone	Location	Note
Sihanoukville SEZ	Preah Sihanouk	Cambodia-China joint venture (Jiangsu)
Sihanoukville SEZ 1	Preah Sihanouk	Cambodia-China joint venture (Inner Mongolia)
Kratie SEZ	Kratie	Private enterprise (Shandong)
Shandong Sunshell Svay Rieng SEZ	Svay Rieng	Private enterprise (Shandong)
Cambodia Zhejiang Guoji SEZ	Preah Sihanouk	Private enterprise (Zhejiang)
Cambodia-Sino Metallic Material SEZ	Preah Sihanouk	Developer unclear
Tian Rui Agricultural Trade SEZ	Kampong Speu	Private enterprise (Shandong)
Chhak Kampongsaom SEZ	Koh Kong	Registered to Cambodian nationals, but online materials indicate ownership is 75% Chinese
H.K.T. SEZ	Kampot	Cambodia-China joint venture, including central SOEs
Zhong Jian Jin Bian Jing Ji Te Qu SEZ	Kampong Chhnang	Chinese private-SOE joint venture (Liaoning)
Cam MJ Agricultural Park SEZ.	Preah Sihanouk	Developed by Prince Group, a major Chinese real estate company active in Cambodia
Kiri Sakor Koh Kong SEZ	Koh Kong	Cambodian-owned, Chinese SOE hired to develop masterplan
Kampot SEZ	Kampot	Cambodian owned, Chinese companies developing coal plant and deep-sea port
Cambodia Qilu Special Economic Zone	Svay Rieng	Developer unclear
Cambodian-Zhejiang International SEZ	Preah Sihanouk	Private enterprise (Zhejiang)

Although most SEZs are located in relatively developed areas and away from areas of high biodiversity, there are important environmental aspects to consider. In addition to the handful of SEZs specifically targeting agricultural products, a number also have furniture and woodwork companies in residence, which will likely source timber from inside Cambodia. Some SEZs are now also

⁵⁹ SSEZ (2012), *The favorable trade status*. <http://www.ssez.com/en/touzi.asp?nlt=58&none=17&ntwo=0>

⁶⁰ European Commission (2020, 12 August), *Cambodia loses duty-free access to the EU market over human rights concerns*. https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1469

developing plans for investing in heavy industry. Labour unions have expressed that it is harder to operate within SEZs.⁶¹

The Koh Kong SEZ, which is on the coast close to the Thai Border, has contracted a Chinese SOE to develop a masterplan for a zone specializing in iron, steel and petrochemicals.⁶² In 2019, a new SEZ was approved called the Cambodian-Sino Metallic Material Industrial Park, located in Preah Sihanouk province.⁶³ The private Chinese company Kasen International Holdings is working with a local company to develop an SEZ in the Stung Hav district of Preah Sihanouk province. This includes plans to develop heavy industry, including metal smelting, plastics and chemicals, as well as paper making. Kasen is a furniture manufacturer, which could again increase demand for wood products.⁶⁴ These heavy industry investments may increase pressure on Cambodia's domestic natural resources and will likely generate pollution and emissions that will pose serious wider environmental risks if not well managed.

ENERGY

Cambodia's unreliable and expensive power supply was for many years a major barrier to investment. Throughout the 1990s and 2000s, Cambodia relied on expensive and polluting diesel-powered generators and electricity imports for its power supply. As Chinese financed and developed hydropower and coal power plants began to come online around the early 2010s, there was a shift away from these sources of energy. Chinese development assistance has also supported thousands of kilometers of high-voltage transmission powerlines that have expanded and enhanced the existing national power grid.

China's role in Cambodia's energy sector is now so extensive that as of 2018 almost three quarters of the domestic power supply came from Chinese built and financed power plants.⁶⁵ The nine Chinese-supported hydropower projects alone represented just under half of the country's total generating capacity in 2019.⁶⁶ Additionally, all but two of Cambodia's coal plants are Chinese built and operated. The majority of financing for these projects has come from China Eximbank and China Development Bank, with some involvement from state-owned commercial banks.

Hydropower projects in Cambodia have been controversial and have met resistance from local people and environmental groups. However, with the most commercially attractive tributary dams constructed and already in operation, there have been no major new dams approved for several years. A long-running concern of environmentalists has been the potential development of dams on the Mekong mainstream in Kratie and Stung Treng. In March 2020, the Ministry of Mines and Energy

⁶¹ Thame, C. (2017), *Special Economic Zones (SEZs) and Value Extraction from the Mekong: A Case Study on the Control and Exploitation of Land and Labour in Cambodia and Myanmar SEZs*, Focus on the Global South.

⁶² BHI.com (2019, 2 April), 中冶赛迪签订柬埔寨戈公经济特区概念性总体规划合同.

http://projectinfo.bhi.com.cn/DynamicTopic/Construction_AbroadDetail.aspx?id=20461286

⁶³ Cambodia Constructors Association (2019, 6 August), *Government Gives Green Light to Another New SEZ in Sihanoukville*. <https://www.construction-property.com/government-gives-green-light-to-another-new-sez-in-sihanoukville/>

⁶⁴ Umpaper (2018, 26 December), *Haining Zhejiang Kesan Industrial investment project Cambodia filed by the Provincial Development and Reform Commission, including new paper products*.

<https://www.umpaper.com/info.do?method=searchNoChargeInfoDetail&id=96287&pid=01&info=14>

⁶⁵ Xinhua (2018, 27 June), *Interview: China plays key role in Cambodia's energy development, says minister*.

http://www.xinhuanet.com/english/2018-06/27/c_137284199.htm

⁶⁶ Presentation by Nong Sareth, Deputy Director of Hydro-Electricity Department, Ministry of Mines and Energy (March 2019).

https://www.unescap.org/sites/default/files/Operationalizing%20NEXSTEP%20at%20national%20level%20-%20Cambodia_Mr.%20Sareth%20Nong.pdf

lines run through environmentally sensitive areas, including high-voltage powerlines around the Tonle Sap lake, stretching from Battambang to Kampong Cham.⁷¹ A planned 500 kV “backbone” transmission running from Phnom Penh to the Laos border also threatens to cut directly through Prey Lang forest, one of Southeast Asia’s last remaining lowland evergreen woodlands.⁷²

Expansion of energy coverage and connection is a key priority of Cambodia’s Rectangular Strategy. At the same time, it has long been a priority for China to support its energy companies to go global, which has been further promoted through the Belt and Road Initiative. In line with these shared priorities, China-Cambodia joint documents in recent years have highlighted specific power plants as priority development projects.

Chinese Supported Hydropower and Fossil Fuel Energy Generation Projects

Project	Type	Location	Status	Reported cost	Output
Kirirom I	Hydro	Kampong Speu	Operational	US\$ 15.5m	12 MW
Kirirom III	Hydro	Koh Kong	Operational	US\$ 47 m	18 MW
Kamchay	Hydro	Kampot	Operational	US\$ 280m	193 MW
Stung Atay	Hydro	Pursat	Operational	US\$ 255m	120 MW
Stung Tatay	Hydro	Koh Kong	Operational	US\$ 540m	246 MW
Lower Russei Chhrum	Hydro	Koh Kong	Operational	US\$ 538m	338 MW
Lower Sesan II	Hydro	Stung Treng	Operational	US\$ 800m	400 MW
Battambang I	Hydro	Battambang	Operational	US\$ 100m	13 MW
Stung Tatay II	Hydro	Koh Kong	Feasibility study	??	150 MW
CIIDG I	Coal	Preah Sihanouk	Operational	US\$ 660m	405 MW
CIIDG II	Coal	Preah Sihanouk	Under preparation	US\$ 1.3b	700 MW
Sihanoukville SEZ	Coal	Preah Sihanouk	Under construction	??	100 MW
Botum Sakor power plant	Coal	Koh Kong	Approved	US\$ 1.3b	700 MW
Trapaing Prasat power plant	Coal	Oddar Meanchey	Approved	US\$ 294m	265 MW
Stung Hav SEZ power plant	Coal	Preah Sihanouk	Proposed	??	1,200 MW
Kampot SEZ power plant	Coal	Kampot	Proposed	??	540 MW
Kandal HFO Plant	Heavy Fuel Oil	Kandal	Under construction	US\$ 380m	400 MW

⁷¹ Phak, S. (2016, 12 December), “Power line project threatens highly endangered bird: org”, *Phnom Penh Post*. <https://www.phnompenhpost.com/national/power-line-project-threatens-highly-endangered-bird-org>

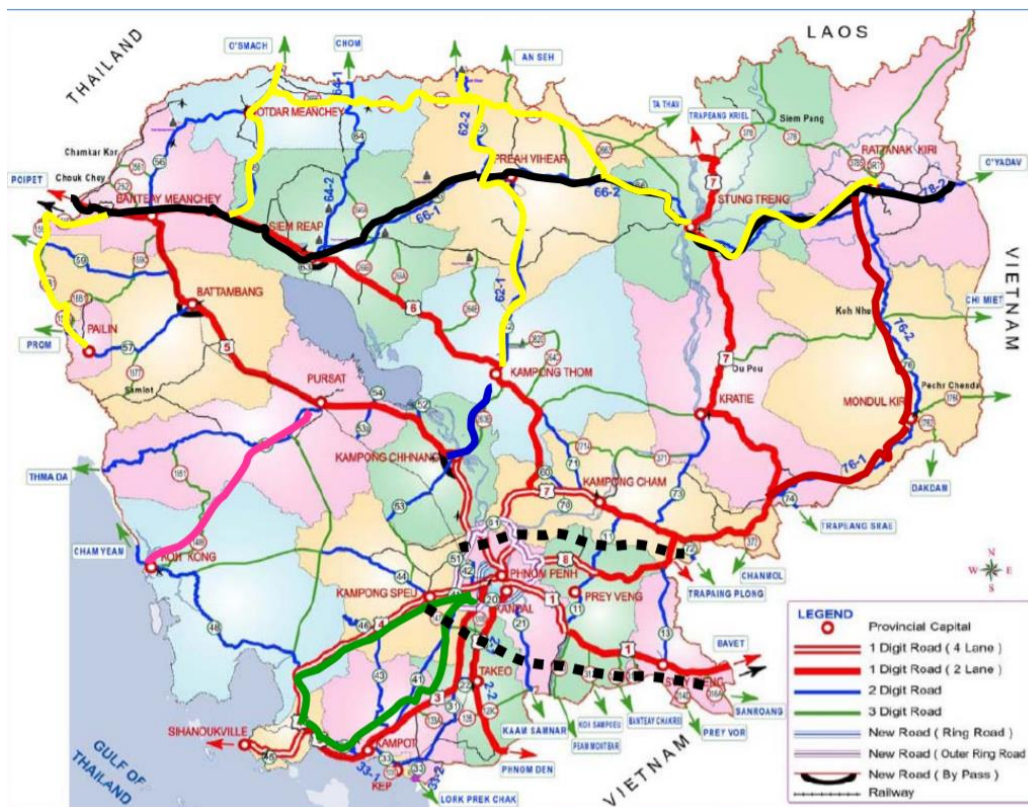
⁷² Electricite du Cambodge (2017), *Annual Report 2017*. [http://www.edc.com.kh/images/Annual%20Report%202017%20\(English\)_pdf](http://www.edc.com.kh/images/Annual%20Report%202017%20(English)_pdf)

TRANSPORT

Over the past decade, China has become a major funder of Cambodian transport infrastructure, especially roads and bridges. In 2018, China committed a grant to support the development of an Intermodal Transport Master Plan for Cambodia, which includes ten-year plans for road, rail, air, sea, waterways and logistics.⁷³

As illustrated in the Road Network Master Plan for 2020, a number of existing roads pass through or alongside protected areas. While transport infrastructure is vital to facilitate investment and expansion of industry, and to serve the interests of local people, new and improved roads also open up sensitive areas to increased traffic and potential exploitation.

Road Network Master Plan, 2020



Source: Ministry of Public Works and Transport

As of 2018, the China Eximbank had financed the construction of nearly 3,000 kilometers of roads in Cambodia,⁷⁴ with support for the development of roads and bridges reaching around US\$2 billion. According to Cambodia's Ministry of Public Works and Transport, 70% of Cambodia's upgraded roads and bridges were built with Chinese support.⁷⁵ As is always the case with concessional lending, these projects are financed by the Eximbank and implemented by Chinese state-owned enterprises.

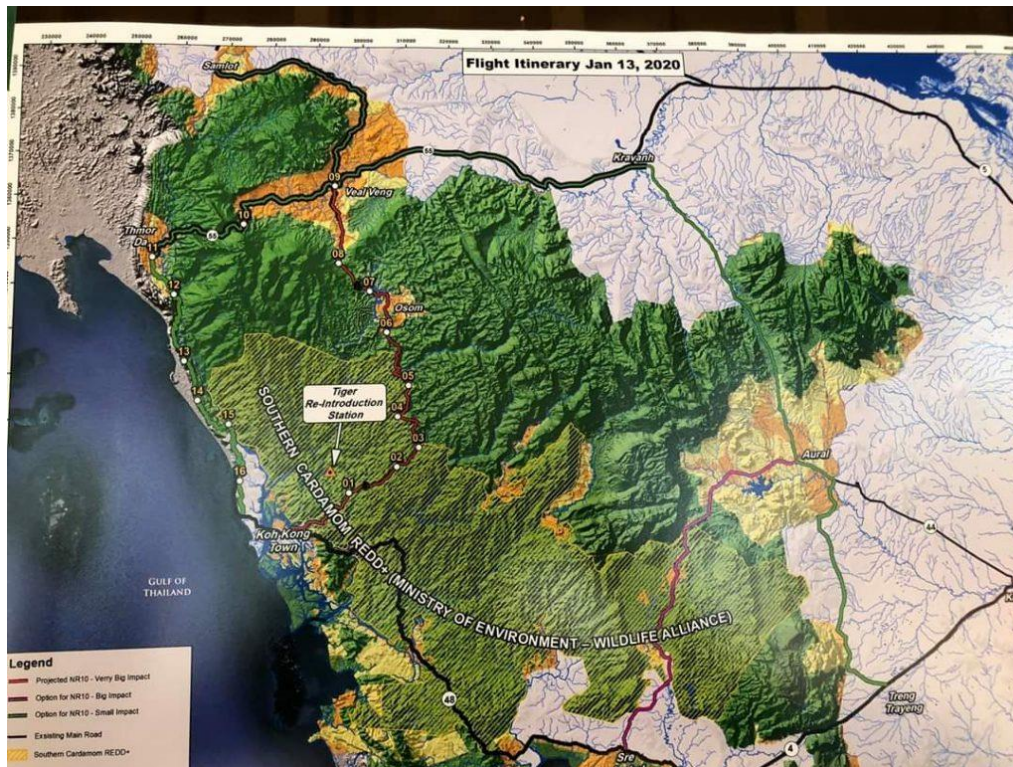
⁷³ May, K. (2019, 4 December), "Transport master plan nearing completion", *Phnom Penh Post*. <https://phnompenhpost.com/business/transport-master-plan-nearing-completion>

⁷⁴ Lancang-Mekong Cooperation (2018, 12 January), 中国进出口银行已融资支持柬埔寨建公路近 3000 公里. <http://www.lmcchina.org/sbhz/t1525322.htm>

⁷⁵ Hong Kong Trade Development Council (2018, 24 August), *China's Investment in Cambodian Infrastructure Totals US\$2 Billion*. <https://hkmb.hktdc.com/en/1X0AEUQS/inside-china/China%E2%80%99s-Investment-in-Cambodian-Infrastructure-Totals-US2-Billion>

Cambodia’s Official Development Assistance database indicates that four road projects are currently under construction or in the pipeline. As this database is based on donor self-reporting, it is possible that it is incomplete. One project of note is the new National Road 10, which will run from Samlot in Battambang, via Veal Veng in Pursat, to Koh Kong. This was proposed by the Cambodian Government in 2019, and ground was broken in March 2020.⁷⁶ The map below indicates that the road will pass directly through protected areas, including close to a “tiger re-introduction station”.⁷⁷

Proposed Route of New National Road 10



A second project of interest is the Phnom Penh-Sihanoukville Expressway. In March 2019 it was announced that a Chinese-supported expressway would be built connecting Phnom Penh with Sihanoukville. Under a Build-Operate-Transfer (BOT) agreement lasting 50 years, the four-lane expressway will be built and operated by the China Road and Bridge Corporation (CRBC), a subsidiary of state-owned China Communications Construction Company, at a cost of US\$1.9 billion. The project is financed mostly by a commercial loan from the China Development Bank, with some grant aid supporting the preparation work.⁷⁸

Cambodia has two main railway lines, the northern track connecting Phnom Penh with Poipet on the Thai border, and the southern line from Phnom Penh to Sihanoukville. There is no Chinese involvement in these active lines, but China provided a grant to study the “missing link”, connecting

⁷⁶ Economic and Commercial Counsellor of the Embassy of the PRC in Cambodia (2020, 10 March), 驻柬埔寨大使王文天同洪森首相共同出席 10 号公路开工暨 55 号公路通车仪式.

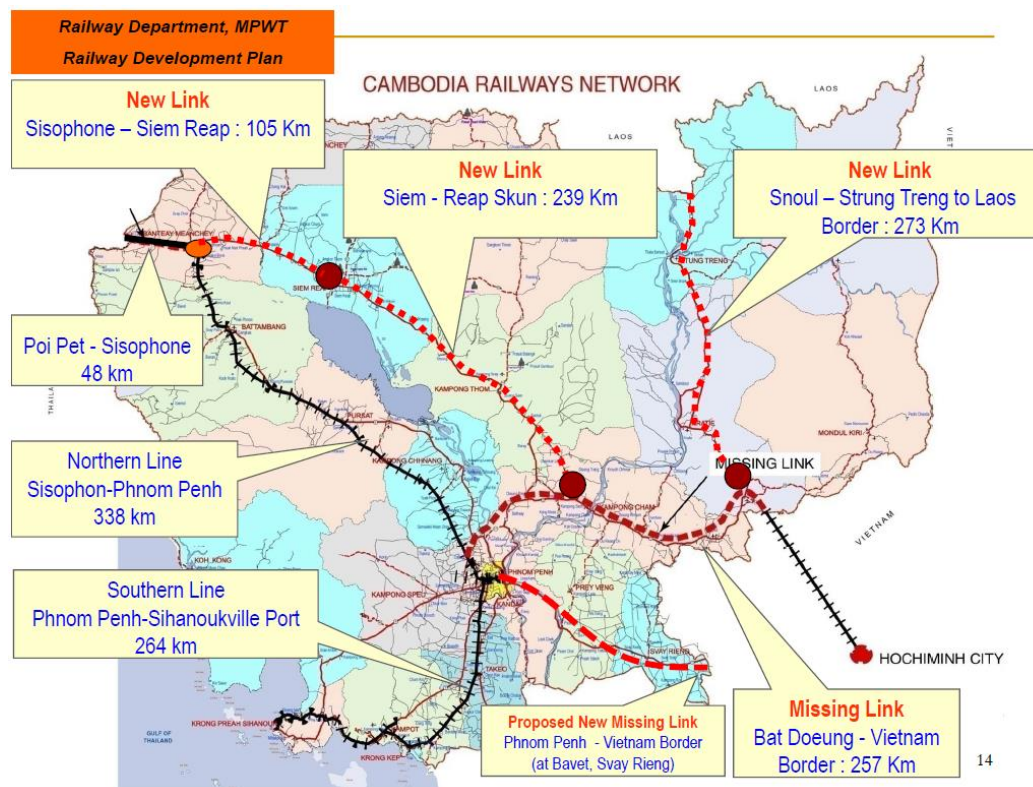
<http://cb.mofcom.gov.cn/article/jmxw/202003/20200302943612.shtml>

⁷⁷ Cambodia Constructor’s Association (2020, 16 January), *Government accelerates study on National Road 10 construction*. <https://www.construction-property.com/government-accelerates-study-on-national-road-10-construction-project/>

⁷⁸ Tomoya, O. (2019, 23 March), “Cambodia breaks ground on \$2bn China-funded expressway”, *Nikkei Asian Review*. <https://asia.nikkei.com/Spotlight/Belt-and-Road/Cambodia-breaks-ground-on-2bn-China-funded-expressway>

Cambodia's rail network to Vietnam.⁷⁹ This study was completed in 2009, but the project has not moved forward.

Map of Existing Railways and Missing Link to Vietnam⁸⁰



Source: Ministry of Public Works and Transport (2013)

Another railway project that was linked to Chinese developers was a major project connecting a proposed iron ore mine and refinery in Preah Vihear to the coast of Koh Kong. In 2013, this 400 km line was subject to an MoU involving a private Chinese company and subsidiaries of the state-owned China Railway Group and Sinomach.⁸¹ Although the companies conducted a lot of publicity around the project at the time, it never moved forward.

Cambodia currently has three international airports: Phnom Penh, Siem Reap and Sihanoukville. They are managed under a concession agreement by the French company Vinci and the Malaysian-Cambodia joint venture, Muhibbah Masteron Cambodia.⁸² Chinese companies are developing new airports in Phnom Penh, Siem Reap and Koh Kong. The provincial state-owned company Yunnan Investment Holding Ltd will build the new Siem Reap international airport on 700 hectares of land in the north of Sotr Nikom district, around 50km outside Siem Reap, under a 55-year build-operate-

⁷⁹ Cambodia ODA Database (2008), *Feasibility Study Project on the Missing Link Section of Trans-Asia Railway in Cambodia*.
http://odacambodia.com/reports/Individual_project_summary_report2008.asp?Record_Id=China%2D2009%2DDE35&DonorName=China

⁸⁰ Heng, S. (2017), *Presentation on Logistics Master Plan Development in the Kingdom of Cambodia*.
<https://www.unescap.org/sites/default/files/Cambodia%20-%20Ministry%20of%20Public%20Works%20%26%20Transport.pdf>

⁸¹ Equitable Cambodia & Focus on the Global South (2013), *Briefing Paper: The Chinese North-South Railway Project*.
http://equitablecambodia.org/website/data/dw/attachment/Cambodia-China-Railway-Development-BRIEF_English.pdf

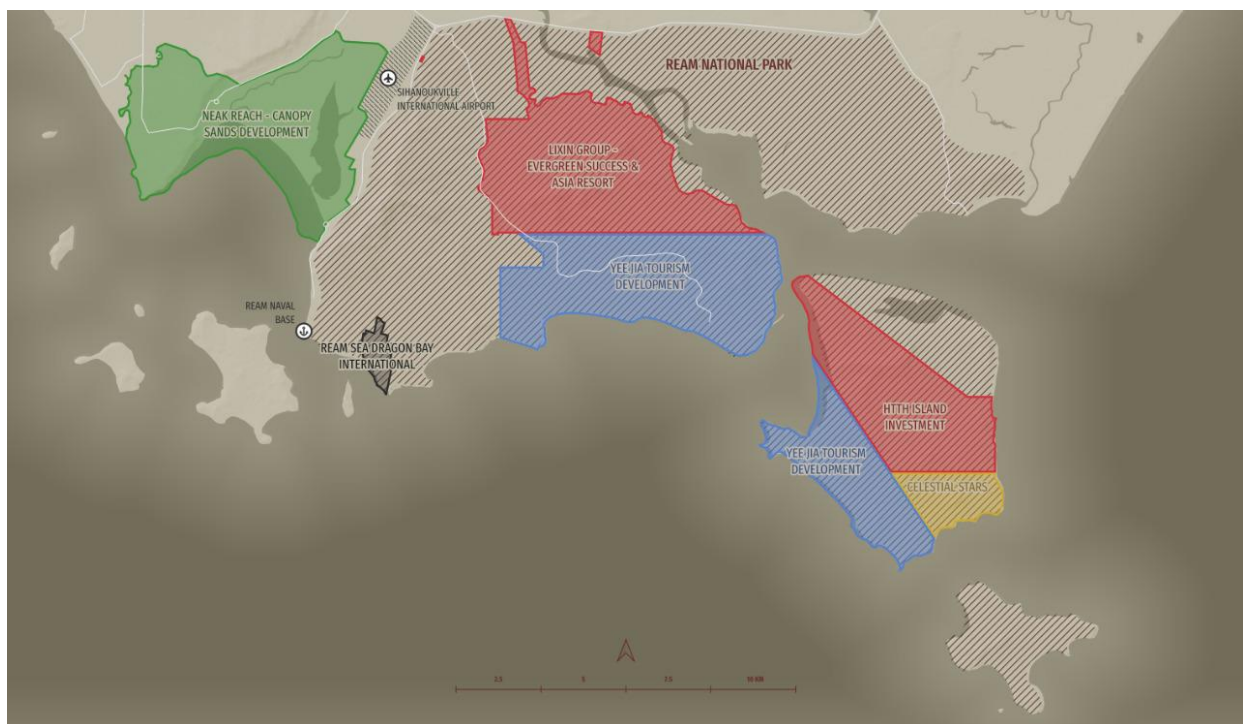
⁸² Open Development Cambodia (2015), *Infrastructure*.
<https://opendevdevelopmentcambodia.net/topics/infrastructure/#ref-83458-20>

transfer agreement.⁸³ The new airport is located between the Tonle Sap Biosphere, Phnom Kulen National Park and Boeung Per Wildlife Sanctuary. Although it does not sit directly adjacent to these areas, increased air traffic may have impacts on wildlife in those areas. The Koh Kong airport is being built inside the Dara Sakor development, returned to below.

TOURISM & ENTERTAINMENT

Over the course of the past five years, Chinese investment in Cambodia’s tourism and entertainment industry exploded. In 2018, Cambodia received 6.2 million international tourists. Of this figure, more than 2 million were Chinese – an increase of more than 65% on the previous year.⁸⁴ The ministry of tourism has set a target of attracting 5 million Chinese tourists per year by 2025.⁸⁵ In 2019, the tourism industry reportedly generated 20% of Cambodia’s GDP and employed as many as 800,000 people.⁸⁶

Major Chinese Coastal Tourism Developments



Source: Licadho (2020)

Private Chinese companies have invested in hotels across the country, especially in Phnom Penh, Siem Reap and Sihanoukville. Projects that have grabbed the most attention are in the coastal areas, where companies have secured huge areas of land for major developments. This includes the Dara Sakor project of Union Development Group, a private Chinese company, which covers almost 45,000 hectares in Koh Kong province. Although only a small percentage of the granted area has been developed, the project has been linked to land disputes for the past decade.⁸⁷ Elsewhere, major private

⁸³ Chea, V. (2017, 3 October), “PM announces new airport in Siem Reap”, *Khmer Times*. <http://www.khmertimeskh.com/5084356/pm-announces-new-airport-siem-reap/>

⁸⁴ Ministry of Tourism of the Kingdom of Cambodia (2019), *Tourism Statistics Report: Year 2018*. https://www.tourismcambodia.com/img/resources/cambodia_tourism_statistics_2018.pdf

⁸⁵ <https://go.huanqiu.com/article/9CaKrnKm009>

⁸⁶ Turton, S. & Phorn, B. (2019, 2 June), “Coronavirus deals heavy blow to Cambodia's shaky tourism industry”, *Nikkei Asian Review*. <https://asia.nikkei.com/Business/Travel-Leisure/Coronavirus-deals-heavy-blow-to-Cambodia-s-shaky-tourism-industry2>

⁸⁷ May, T. (2019, 17 December), “Cambodians struggle to be compensated for Dara Sakor megaproject”, *China Dialogue*. <https://www.chinadialogue.net/article/show/single/en/11735-Cambodians-struggle-to-be-compensated-for-Dara-Sakor-megaproject>

developments are taking place in Sihanoukville, several of which overlap Ream national park. These projects include private Chinese companies that are major players in Cambodia's tourism and real estate sector, including Prince Group, Unite International and Lixin Group. A number of these projects are developed in joint venture with local elites.

Another major focus for Chinese investors has been the gambling industry. This expanded rapidly in just a few years, and between 2017 and 2018, the number of licenses casinos in Cambodia jumped by 50% from 98 to 150, with many located in Sihanoukville.⁸⁸ Along with in-person gambling, which brings tourists from China and other countries where gambling is not legal, an extensive online gambling industry also grew in Cambodia in a short space of time. Although some operations were licensed, many were not, and the industry as a whole is widely believed to be implicated in criminal activity, especially money laundering. Around the city of Sihanoukville, gang activity spiked with the expansion of online gambling, eventually leading to a ban on online gambling being announced in August 2019.

The online gambling ban led to a massive slowdown in growth in Sihanoukville, as much of the city's development was centered around the industry.⁸⁹ Construction projects were stalled or abandoned and there is evidence of widespread failure to pay wages of laborers from both Cambodia and China.⁹⁰ There have been reports of some companies ignoring the online gambling ban,⁹¹ but it is clear that in general it had a massive impact on inflows of private Chinese capital to the city. Given the well documented social problems around online gambling, the ban was widely welcomed by the public. If the ban stays in place, the spotlight may fall back on the large coastal tourism projects that are being developed by Chinese companies.

MINING

Cambodia has mineral and metal reserves spread throughout the country. This includes materials that can be used in the construction industry, such as limestone, as well as gold, bauxite, iron ore, gemstones and coal. Cambodia also has oil and gas reserves, although the value and accessibility of these reserves is still unclear. Chinese companies are active in the mining sector and could foreseeably become involved in oil and gas exploitation in the future. According to Cambodia's National Policy on Mineral Resources (2018-2028), as of late 2017 the Ministry of Mines and Energy had granted:

- 260 licenses for opencast mines and quarrying sites covering 6,000 ha;
- 54 exploration licenses for surveys of metallic minerals including iron, gold, copper and bauxite, and;
- 27 industrial mining licenses for mining iron, gold, coal and silica.⁹²

⁸⁸ Hor, K. (2019, 2 January), "Number of casinos jumps by 53% in 2018", *Phnom Penh Post*. <https://www.phnompenhpost.com/business/number-casinos-jumps-53-2018>

⁸⁹ Turton, S. (2020, 10 January), "In Cambodia's boomtown, a gamble on Chinese money goes sour", *Nikkei Asian Review*. <https://asia.nikkei.com/Business/Industry-in-focus/In-Cambodia-s-boomtown-a-gamble-on-Chinese-money-goes-sour>

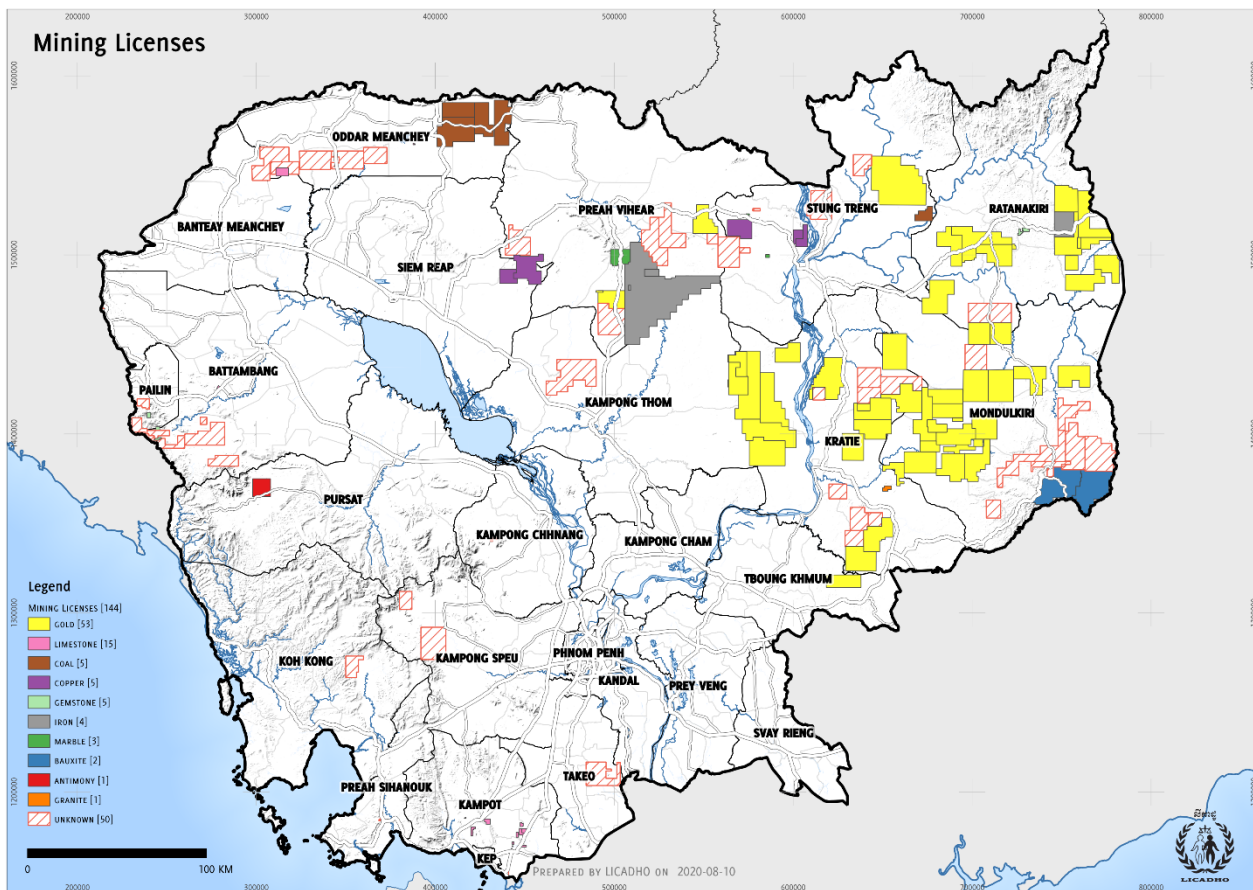
⁹⁰ Franceschini (2019), *Building the New Southeast Asian Macau: A Survey of Chinese and Cambodian Construction Workers in Sihanoukville*, Business and Human Rights Resource Centre. <https://www.business-humanrights.org/en/building-the-new-southeast-asian-macau-a-survey-of-chinese-and-cambodian-construction-workers-in-sihanoukville>

⁹¹ Kijewski, L. (2020, 20 February), "Sihanoukville, Cambodian magnet for Chinese casinos, loses its pull, leaving thousands owed money and unable to move on", *South China Morning Post*. <https://www.scmp.com/magazines/post-magazine/long-reads/article/3051344/sihanoukville-cambodian-magnet-chinese-casinos>

⁹² Ministry of Mines and Energy (2018), *National Policy on Mineral Resources 2018-2028*. http://www.mme.gov.kh/documents/255/MME_National_Mineral_Policy-EN.pdf

This includes Chinese companies, but as there is no publicly accessible official list of mining licenses, it is impossible to confirm exactly how many. The map below shows the location of the various mineral licenses granted in recent years, but it is likely to be incomplete and inaccurate in some places, as new mining licenses are granted but not publicized, and old licenses have expired.

Known Exploration Licenses Granted in Cambodia



Source: Licadho (2020)

A number of major state-owned enterprises have shown interest in mining in Cambodia. This includes provincial SOEs Guangxi Nonferrous Metal Group⁹³ and Wuhan Iron and Steel Corporation,⁹⁴ which both surveyed iron ore mining in Rovieng district of Preah Vihear. However, neither project materialized. In addition to these stalled projects, other mining licenses have been granted in and around protected areas in Preah Vihear and Kampong Thom. Due to the lack of published data, the exact location, ownership and status of these projects are difficult to confirm.

In the east and northeast, there are a large number of mining exploration licenses and a small number of active mines. Maps and lists available online show numerous licenses overlapping and adjacent to protected areas, although it is not clear how many of these are currently active, or who now holds them. However, there is clear interest from Chinese investors in bauxite, which is subject to exploration licenses within and to the east of Keo Seima Wildlife Sanctuary in Mondul Kiri. The Chinese majority state-owned company Sinotech Minerals Exploration is actively involved in bauxite

⁹³ China Mining News (2018, 13 November), 历届中国-东盟矿业合作论坛精彩回顾. http://ghzyj.sh.gov.cn/xwdt/hyxw/201811/t20181113_876852.html

⁹⁴ Baowu News Center (2007, 31 May), 武钢携手国内三家钢厂联合开发柬埔寨铁矿. <http://baosteel.com/baosteel/TradeneWS/ShowArticle.asp?ArticleID=20277>

exploration in the area and has an office on the ground.⁹⁵ This appears to be in cooperation with a subsidiary of a large Cambodian business group. Should this project move forward, the impacts could be extensive.

Conclusion: Chinese Investment in a Post-COVID World

This briefing examined the current scope of Chinese investment and finance in Cambodia, mapping trends and priority areas, highlighting projects that illustrate the various approaches taken by developers and the supporting role that the Chinese state plays. Although this focuses on Chinese actors, it is also important to be mindful of the local context and political environment. Cambodia is not a passive recipient of Chinese investment and aid, and proactively approaches China for funding for specific projects, while more broadly seeking to create an enabling environment for investment. In many cases, Cambodian companies and well-connected individuals work in partnership with Chinese investors.

Pre-COVID, China's domestic economic situation was already experiencing serious challenges, with GDP growth in 2019 lower than at any time since 1990. An increase in restrictions on overseas investment had also resulted in a decline in global outbound investment over the past three years. This indicates a more cautious approach to overseas investment, reflecting domestic economic struggles, the fallout of the US-China trade war, and, potentially, concerns about the negative reputational and economic impacts of becoming involved in controversial and risky overseas projects.

It is still unclear what mid- to long-term impacts the COVID-19 pandemic will have on Cambodia's economy and on Chinese investment in the country. At the peak of the spread in China, and with concerns high in Cambodia, many projects (not only Chinese) ceased construction. Travel restrictions in China prevented workers and company staff returning after Chinese New Year, and with limited flights available this is still impacting some projects. Projects that relied on equipment and materials from China also stalled for a period of time.

Chinese state resources are being mobilized to get stalled and delayed overseas projects back on track,⁹⁶ although this will likely support key projects that are identified as strategic to China and those that are joint-priorities of China and host countries. With the virus now largely under control in China, and the spread in Cambodia apparently limited, many projects have restarted. However, there are likely to be longer term impacts that may become more apparent in the coming months. This will be felt acutely in the tourism sector and on sectors that are export-oriented, as global orders decline in the wake of the pandemic.

Despite the uncertainty brought about by the COVID pandemic, China will continue to be a major political ally of Cambodia and a crucial source of capital. What remains to be seen is how Cambodia will handle this capital going forward, and the extent to which Chinese development projects and commercial activities will balance economic benefits with social and environmental protections.

⁹⁵ Sinotech (2018, 30 March), 柬埔寨蒙多基里上川龙铝土矿项目中期野外验收和技术研讨会圆满结束.
<http://www.sinotech-zsdk.com/news/shownews.php?lang=cn&id=207>

⁹⁶ Inclusive Development International (2020, 30 April), *265 Civil Society Groups Call on Chinese Authorities to Ensure that Covid-19 Financial Relief Does Not Bail Out Harmful Projects*.
<https://www.youtube.com/watch?v=jBPJNohU7xE>