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## **MONEY OR SOVEREIGNTY: THE IMPACT OF CHINESE FOREIGN DIRECT INVESTMENT ON CAMBODIA**

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### **Abstract**

*This study reveals that the influx of Chinese FDI, while contributing to economic growth and infrastructure development, has also resulted in negative consequences across political, socio-cultural, environmental, and socio-economic dimensions. The dominance of Chinese investment has undermined Cambodia's governance, eroded local autonomy, exacerbated corruption, marginalized local communities, and caused environmental degradation. This paper examines the implications of China's massive foreign direct investment (FDI) in Cambodia through the lens of Dependency Theory. Drawing on the theoretical perspectives of Theotonio Dos Santos and Fernando Henrique Cardoso, this study analyses how China's capital hegemony and foreign financing have led to Cambodia's dependence on Chinese investment. This study argues that Cambodia's reliance on foreign capital, compounded with inadequate governance, has perpetuated its dependency on China, compromising its sustainable development and national interests. This study emphasizes the importance for Cambodia to reduce its dependence on foreign investment, strengthen domestic economic capacity, and prioritize national interests through sound governance and regulatory mechanisms to mitigate the negative impacts of FDI.*

**Key Words:** *Cambodia-China Relation, FDI, Dependency Theory, Development, Governance*

### **Abstrak**

Artikel ini mengungkapkan bahwa masuknya PMA Cina, selain berkontribusi terhadap pertumbuhan ekonomi dan pembangunan infrastruktur, PMA juga menimbulkan konsekuensi negatif pada dimensi politik, sosial budaya, lingkungan hidup, dan sosial ekonomi. Dominasi investasi Cina telah melemahkan tata kelola Pemerintahan Kamboja, mengikis otonomi daerah, memperburuk korupsi, memarginalkan masyarakat lokal, dan menyebabkan degradasi lingkungan. Artikel ini mengkaji implikasi investasi masif PMA Cina di Kamboja melalui kacamata Teori Ketergantungan. Berdasarkan perspektif Theotonio Dos Santos dan Fernando Henrique Cardoso, artikel ini menganalisis bagaimana hegemoni modal dan pendanaan asing Cina telah menciptakan ketergantungan Kamboja. Studi ini berpendapat bahwa ketergantungan Kamboja pada modal asing, ditambah dengan tata kelola yang tidak memadai, telah melanggengkan relasi asimetris ini sehingga mengorbankan pembangunan berkelanjutan dan kepentingan nasional Kamboja. Studi ini menekankan pentingnya bagi Kamboja untuk mengurangi ketergantungannya pada investasi asing, memperkuat kapasitas ekonomi dalam negeri, dan memprioritaskan kepentingan nasional melalui mekanisme tata kelola dan peraturan yang baik untuk memitigasi dampak negatif PMA.

**Kata Kunci:** *Relasi Kamboja-Cina, PMA, Teori Ketergantungan, Pembangunan, Tata Kelola Pemerintahan*

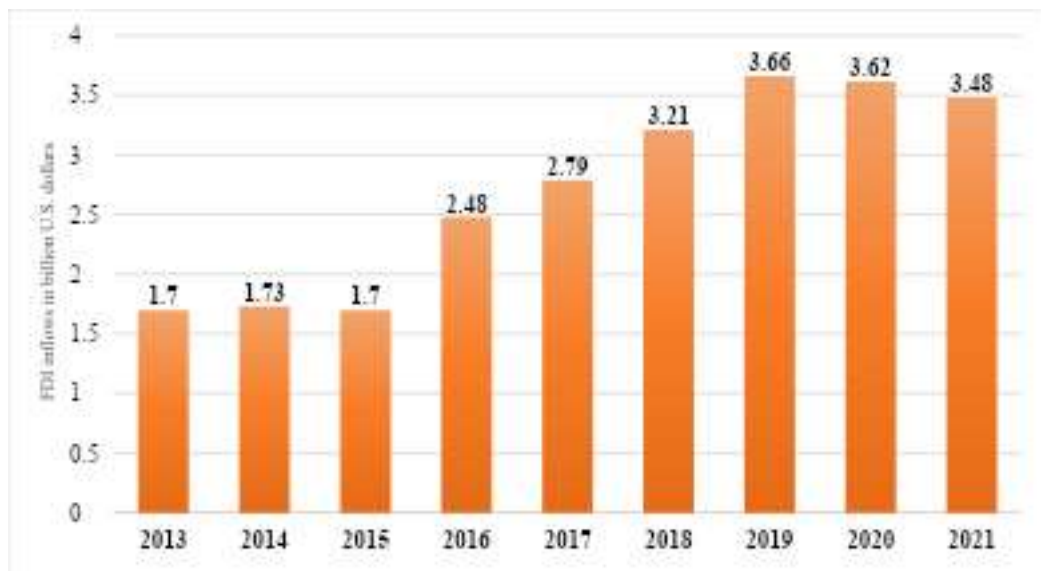
## **1. Introduction**

### **1.1. Background**

The discourse on empirical studies of asymmetric relations between countries frequently highlights dependency as a central issue, particularly concerning its implications for the development of emerging nations. Dependency is often observable in forms of foreign aid, specifically through Foreign Direct Investment (FDI), which recipient countries view as a source of both benefits and challenges. On one hand, FDI can spur economic growth, create jobs, and facilitate technology transfer in the recipient nation. On the other, it may also lead to dependency on foreign capital, technology, and markets.

Cambodia has been one of the most reliant nations on foreign financing since the early 2000s. From 2002 to 2010, Cambodia’s Central Government utilized foreign financing at levels reaching 94.3% (Chanboracheat 2015). This reliance on foreign capital continued in subsequent years, as evidenced by the steady growth in Foreign Direct Investment (FDI) net inflows from 2013 to 2021. The following data provides a detailed overview of these inflows, showcasing Cambodia's increasing dependence on FDI to support its economic development.

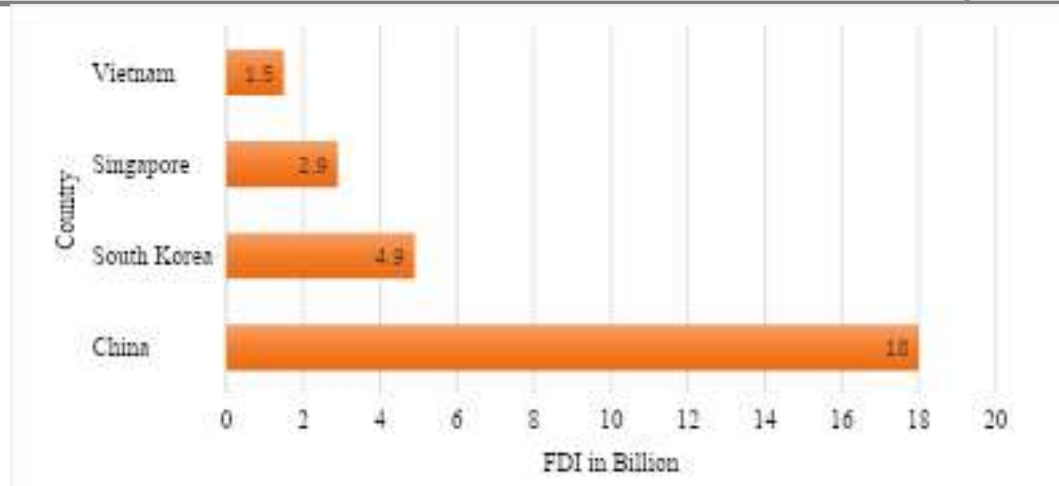
**Figure. 1 Foreign direct Investment (FDI) net inflows in Cambodia from 2013 to 2021**



Source: Processed by the Author based on Statista Research Department (2024)

Initially, after the restoration of peace and stability in 1993, Cambodia with its abundant unexplored natural resources and low labor costs has attracted investors from China, South Korea, the United States, Malaysia, and Thailand (Pheakday 2012). In the following years, data from the National Bank of Cambodia, as of 2021, Cambodia recorded a cumulative total of \$41 billion in FDI over 27 years, with China accounting for over \$18 billion, representing 43% of the total investment followed by South Korea \$4.9 billion (11%), Singapore \$2.9 billion (6%) and then Vietnam \$2.5 billion (6%) (Council for the Development of Cambodia [CDC] 2021).

**Figure. 1 Top Investors in Cambodia as of 2021 (USD)**



Source: Processed by the Author based on data from Council for the Development of Cambodia (CDC), *Foreign Direct Investment into Cambodia Hits \$41B Since 1994*, retrieved from <https://afid.cdc.gov.kh/news/foreign-direct-investment-into-cambodia-hits-41b-since-1994/>.

Cambodia has long been regarded as one of China's closest allies over recent decades. Official diplomatic relations between Cambodia and China began in 1958, marked by Cambodia's recognition of the People's Republic of China and rejection of Taiwan's independence claims. These relations deepened when China supported Cambodia's government during the 1997 coup (Burgos & Ear 2010). While the coup drew international condemnation, China continued to support the Cambodian People's Party, led by then-Prime Minister Hun Sen, providing financial support (Heng & Chheang 2019). This political support set the stage for strengthened bilateral relations, with subsequent high-level meetings, agreements, and cooperative ventures (Heng & Chheang 2019). In 2010, Cambodia and China signed a Comprehensive Strategic Partnership Agreement, boosting Chinese aid from USD 2.61 million in 2000 to USD 100.2 million by 2010 (Po & Sims 2021).

Since the emergence of Belt and Road Initiative (BRI) in 2013, Cambodia has also received infrastructure development assistance from China. Additionally, China holds a dominant position as Cambodia's primary creditor, responsible for 41% of the country's external debt (Cambodia Public Debt Statistical Bulletin 2022). This influx of foreign capital has undoubtedly fuelled Cambodia's economic progress and alleviated key infrastructure constraints (Linda & Wang 2023). Between 2004 and 2021, China funded approximately 101 development projects in Cambodia, particularly in road and transportation infrastructure (Ngin 2022).

Cambodia's economic aspirations have made the BRI a critical instrument for growth; however, this dependency raises pertinent questions. While BRI projects have expanded Cambodia's power sector and diversified its agriculture, leading to productivity gains, trade growth, and economic development, the costs are significant. Although these developments have contributed to poverty reduction and higher living standards, the extent to which Cambodia can sustainably leverage such investment remains unclear. The integration of FDI through the BRI has bolstered Cambodia's infrastructure and trade networks, yet this approach has also entrenched Cambodia's reliance on foreign loans from China.

The contributions of BRI projects, while undeniable, come with substantial and often overlooked environmental and socio-economic costs (Ngin 2022). Infrastructure initiatives have transformed Sihanoukville, Cambodia's principal deep-water maritime port, from a quiet resort town into a bustling hub of commercial and entertainment activities. This dramatic shift has led to corruption, displacement of local residents, inflated living costs, and widening social disparities. Research indicates that displaced communities frequently receive inadequate compensation, while environmental degradation—including deforestation, labor exploitation,

and declining water quality—has ignited protests from local citizens and environmental activists (Fang et al. 2019).

These conflicts underscore a broader dilemma regarding the impact of Chinese FDI on Cambodia. Chinese aid and investment are frequently criticized for lacking transparency, with limited details disclosed regarding the allocation of funds and the specifics of projects (Pheakday 2012). In the context of Cambodia's weak governance, Chinese foreign direct investment (FDI) has amplified pre-existing challenges, including corruption, foreign dominance, human rights violations, and resource exploitation, as illustrated in the case of Sihanoukville, which will be further examined in the discussion section (O'Neill 2014; Pheakday 2012). Although FDI is generally intended to promote job creation and technology transfer, critics argue that Chinese investments in Cambodia frequently involve the employment of foreign labor, thereby reducing job opportunities for local workers (Sokhorng, 2018). Notably, since January 2018, several Chinese workers in Sihanoukville have been detained for residing and working illegally, further hindering capacity-building efforts for the Cambodian workforce.

While Chinese FDI has generated short-term benefits like infrastructure improvements and economic growth, the Cambodian government has struggled to harness these investments to reduce long-term dependency on foreign capital. Chinese FDI typically follows a distinctive model characterized by high levels of state involvement, prioritization of strategic sectors, and the use of concessional loans tied to Chinese contractors and suppliers. This model often involves infrastructure development under the Belt and Road Initiative (BRI), where financing is structured to benefit Chinese state-owned enterprises (SOEs) while securing economic and political leverage over recipient countries (Hillman 2020; Bräutigam 2020). In Cambodia, this approach is evident in projects such as the Sihanoukville Special Economic Zone, which relies heavily on Chinese management, financing, and labor. This dependency reflects broader patterns in other developing nations, such as Sri Lanka and Bangladesh.

In 2017, due to its inability to manage financial losses, Sri Lanka was compelled to lease the port to China Merchants Port Holdings, a state-owned Chinese company, for 99 years (Abi-Habib 2018). This agreement criticized as a "debt trap" that compromised Sri Lanka's sovereignty over a strategically important asset. Beyond the relinquishment of Hambantota Port, Chinese FDI has stoked political tensions and amplified concerns about China's expanding geopolitical influence in the region (Wibisono 2019).

Similarly, Bangladesh has drawn substantial Chinese investment, particularly in infrastructure and energy. A notable project, the Payra Coal Power Plant, is part of Bangladesh's broader effort to expand its energy capacity. While this initiative has indeed expanded energy production, critics have raised concerns about its environmental impact and the dependency it cultivates (Sattar et al. 2022). The influx of Chinese labor has also reduced employment opportunities for local workers, heightening social tensions.

Moreover, Bangladesh's debt burden, though less severe than Sri Lanka's, remains vulnerable to escalation if repayment obligations are not effectively managed. Furthermore, Chinese-funded projects are often criticized for lacking long-term viability and for disregarding the socio-economic impacts on local communities, which deepens harmful dependence on foreign capital (Ahmed 2019).

This study put forth two principal arguments. Primarily, it will be demonstrated that substantial foreign funding will result in the predominance of the investor country over the assets of the recipient country. Secondly, it will be shown that inadequate governance serves to exacerbate the adverse effects of foreign investment management. Hence, this article presents a three-section study exploring the dynamics between the two countries. In the first part, this paper examines the factors contributing to Cambodia's reliance on economic ties with China. Second, this article analyses the implications of this dependence on the internal dynamics of the

Cambodian state. Third, it will conclude with a discussion of the conclusions and research recommendations related to these issues.

## **1.2. Research Question**

China's investment in Cambodia presents both opportunities and challenges. On one hand, Chinese FDI has significantly boosted Cambodia's economic growth, making it one of the fastest-growing economies among low-income countries in Asia (Mah 2022). On the other hand, the scale of Chinese investment and aid has constrained Cambodia's ability to negotiate and strategically leverage FDI to foster sustainable economic development (Ngin 2022). This necessitates a deeper exploration of the implications of Cambodia's reliance on Chinese FDI for its economic growth and internal socio-political dynamics. Therefore, this article is also expected to be part of reflections on the patterns and implications of Chinese FDI on the internal dynamics and authority of the recipient country through the main question of How does Chinese foreign direct investment impact Cambodia's economy and internal socio-political dynamics?

## **1.3. Purpose and Objective**

This paper critically examines the trajectory of Chinese FDI in developing countries, using Sri Lanka and Bangladesh as illustrative cases. The findings underscore how deficient governance and the opaque nature of Chinese FDI have compounded Cambodia's challenges in achieving sustainable economic progress and preserving its sovereignty. The objective of this article is to elucidate the consequences of Cambodia's economic development, which is characterised by a high degree of reliance on foreign funding. In particular, the investigation will focus on the domination of capital owners, the role of the Cambodian government, the local bourgeoisie, and the implications for Cambodia's internal aspects.

## **2. Literature Review**

Empirical studies on Cambodia-China relations have extensively examined the role of Foreign Direct Investment (FDI) and its impacts on recipient countries. Numerous studies have explored the influence of foreign investment on host countries. For instance, Slesman (2023) assessed both short- and long-term effects of various aid types on FDI, highlighting how specific forms of aid, such as governance aid and support from donors like Australia and the United Nations Development Programme (UNDP), positively impact FDI inflows. This study underscores the essential role of aid in fostering FDI, particularly in post-conflict countries like Cambodia.

On the other hand, Therith (2022) investigated how Special Economic Zones (SEZs) promote FDI in Cambodia, revealing a positive correlation between SEZs and increased FDI inflows. The key findings of this study emphasize SEZs' role in attracting FDI, especially within certain provinces, and underline the significance of institutional quality, infrastructure, and governmental policies in facilitating these investments. Similarly, Bun (2021) identified that FDI mitigates financial constraints for local firms through partnerships and joint ventures. Other analyses on the subject have demonstrated the broader impacts of FDI and foreign aid on economic growth in recipient countries, with Rao et al. (2020) specifically finding that FDI can act as a catalyst for economic growth.

Previous research has also examined the significant influx of FDI and its potential to drive economic development in Cambodia across various sectors. Nonetheless, there are concerns

about the implications of these investments on Cambodia’s internal governance. Although much of the literature acknowledges the positive contributions of Chinese FDI to Cambodia's economic growth, some scholars argue that Chinese FDI, especially in Belt and Road Initiative (BRI) projects, undermines Cambodia's autonomy and authority (Pheakday 2012; O'Neill 2014; Sothan 2017; Shihlun 2018; Hu et al. 2019; Ly & Tan 2021; Nisit et al. 2022; Linda & Yuan 2023; Mackenzie 2023).

Additionally, the patron-client dynamics fostered by Chinese investments in Cambodia have attracted considerable attention. Young (2020) noted that although BRI projects significantly benefit Cambodia's economy, they have also exacerbated issues related to environmental regulation and reinforced socio-political patron-client relationships between elites and communities in Cambodia. Ciorciari (2015) analyzed this dynamic further, detailing how the asymmetry in benefits within the Cambodia-China relationship obligates the weaker partner (Cambodia) to "reciprocate" by supporting China’s diplomatic and economic agendas. In this arrangement, China assumes the role of a patron, supplying investment capital, infrastructure support, development aid, and market access, while Cambodia acts as a client. This relationship is skewed heavily in favor of China, which gains access to Cambodia's natural resources, inexpensive labor, and a platform for extending its political influence.

In recent years, Cambodia has reciprocated China's patronage by repatriating Uighur asylum seekers and defending China's Mekong River dam projects. At the 2012 ASEAN Summit, Cambodia’s alignment with Chinese interests also led to the obstruction of a regional consensus condemning China’s claims in the South China Sea (Ciorciari 2015). This dynamic poses risks for Cambodia, as China's influence deepens, creating vulnerabilities such as debt overhang. By 2018, Cambodia's external debt had reached USD 7 billion, with approximately half owed to China, which may increase Beijing’s leverage over Cambodian strategic assets, such as the deep-water port in Sihanoukville, potentially positioning it as a naval outpost (Ciorciari 2015).

**Table. 1 Literature Organization**

<b>Theme</b>	<b>Reference Material</b>
The Causality of Foreign Capital Penetration and Aid in Cambodia	Slesman, L. (2023); Theot Therith, C. (2022); Bun, B. (2021); Rao, D. T., Sethi, N., Dash, D. P., & Bhujabal, P. (2020).
The Influence of Chinese Investment on Cambodia	Bora Ly, Albert W. K. Tan (Reviewing editor). (2021); Linda, Calabrese., Yuan, Wang. (2023); Pheakdey, H. (2012); O’Neill, D. (2014); Nisit Panthamit, Chukiat Chaiboonsri & Chira Bureecam. (2022); Shihlun Allen Chen (2018); Sothan, S. (2017); Hu, F., Zhang, X., Hu, M., & Cook, D. L. (2019); Mackenzie, E., Milne, S., van Kerkhoff, L., & Ray, B. (2023).
The Sustainability of Patron-Client Relations Under Chinese Investment in Cambodia	Young, S. (2020); Ciorciari, J. D. (2015).

Source: Processed by the Author (2024)

Based on the aspects explored, Prior literatures predominantly center on the scope and effects of foreign financial flows into Cambodia, particularly Chinese investments in BRI projects. This relationship is frequently described as a patron-client dynamic, examining the elements that sustain China’s influence over Cambodia. However, there remains a gap in

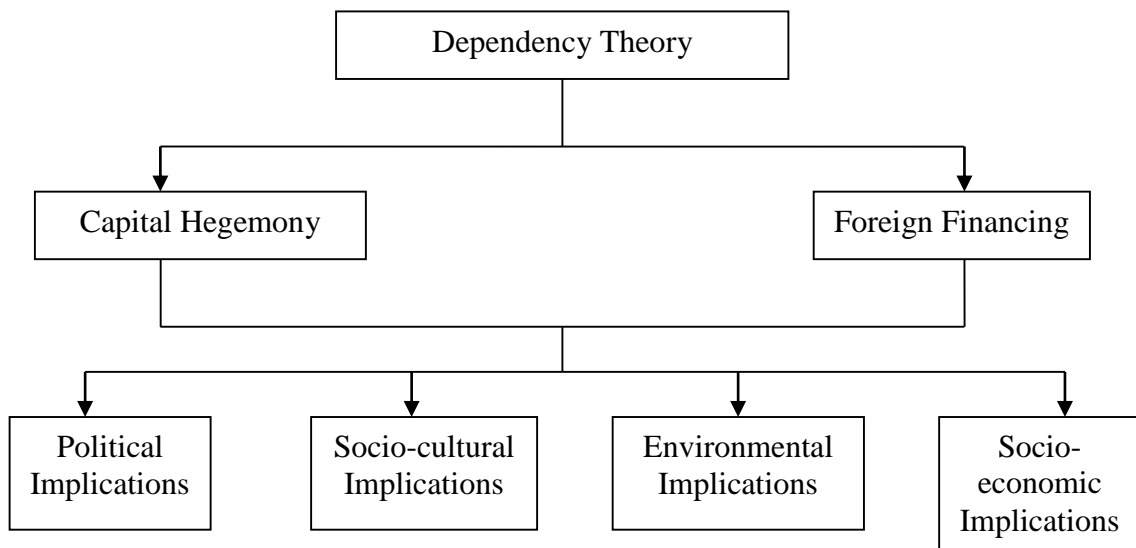


examining Cambodia's dependency on Chinese investments through a Dependency Theory lens. This article argues that a theoretical approach grounded in Dependency Theory can add value to the discourse by providing a framework for understanding the hegemonic influence of foreign economic powers on the internal dynamics of developing countries like Cambodia, which rely heavily on foreign funding for their economic development.

### 3. Theoretical Framework

This article will explain the reasons why Cambodia has not been able to develop its economy without the involvement of Chinese Foreign Direct Investment (FDI) and the implications of foreign domination on Cambodia's internal dynamics through the lens of Dependency Theory. The relation between two countries will be examined through dependency theory to explain the economic situation of developing countries and the importance of foreign capital for the sustainability in developing countries' economies. Dos Santos (1970) defines dependency as: "a state in which the economic activity of certain countries is influenced by the development and expansion of the economic activity of other countries, with these "certain countries" acting merely as the recipients of any effects that come with it. In addition, Dos Santos (1970) classifies dependency relationships as follows: (1) colonial dependency; (2) financial-industrial dependency; (3) technological-industrial dependency.

**Figure. 2 Conceptual Framework**



Source: Processed by the Author based on Dos Santos (1970) and Cardoso (1973)

Subsequent to Dos Santos (1970), Cardoso (1973) suggested that development and dependency can go hand in hand through the concept of "associated-dependent development". Cardoso contends that dependency relationships can evolve, transforming their structure over time. While classical dependency relied heavily on the extraction of raw materials, technological advancements now allow production to occur within peripheral countries, albeit under the control mechanisms of central-state holding companies. Although multinational corporations (MNCs) may encourage industrialization in these peripheral regions, the resulting patterns differ significantly from those in core countries. Cardoso characterizes the industrialization process within peripheral countries as follow: (1) high income inequality; (2) emphasis on the production



of durable luxury consumer goods rather than basic necessities needed by the masses; (3) increased debt and poverty; and (4) lack of absorption and exploitation of local labor.

Based on the previous explanations, this study applies Dos Santos' Dependency Theory (1970) along with Cardoso's perspective (1973) to analyze patterns of Chinese dominance as a foreign capital owner and to explore the implications of China's FDI on Cambodia's internal structures. The Cambodia-China relationship is assessed through the lens of financial-industrial dependency variables, as outlined by Dos Santos (1970), specifically focusing on: first, Capital Hegemony; the dominance of power by the central country (developed metropolitan country) which has financial power over peripheral countries (satellite underdeveloped country). This is shown by two indicators: (1) the involvement of the core country in the investment of raw materials in the periphery; (2) the dominance of the core country in the act of taking over the assets of the satellite country to be "controlled" by the core country in the form of granting ownership of mines, fields, or acquisition of local companies. Second, foreign financing, which can be viewed from the ability of the central country as a financial source that can provide assistance in the form of loans or debts to help fund the national and domestic economic development of peripheral countries through indicators such as foreign financing to help develop infrastructure, telecommunications, and industry.

In addition, Cardoso's perspective is also used to examine the implications of Chinese FDI on Cambodia's internal dynamics through four variables. First, Political Implications deals with how foreign investment often exerts considerable influence on local and national policies to create a favorable investment climate. Reliance on foreign financing strengthens local elites who benefit disproportionately from such investments. Second, Socio-cultural Implications considers the impact of development that is heavily dominated by foreign investment towards local populations and cultures of recipient countries. Third, Environmental Implications where countries that depend on foreign investment may compromise their environmental regulations and standards resulting in unbridled environmental degradation and long-term ecological damage in order to attract and retain foreign investment. Fourth, Socio-economic Implications which discusses how the socio-economic structure in developing countries is shaped by imbalanced relations with developed countries leading to inequality and internal conflict.

#### **4. Research Methods**

This article seeks to explain the implications of China's Foreign Direct Investment domination on Cambodia's economy and internal dynamics. In analyzing social phenomena between two countries, this article will use a qualitative-deductive approach. This method is used to understand and interpret the meaning of social reality that is explanatory in nature (Denzin & Lincoln 1994). Deductive logic through variables and indicators from the Dependency Theory of Dos Santos (1970) and Cardoso (1973) in this paper have a significant role to explain the situation of Cambodia that has not been able to build its economy independently without the assistance of Chinese investment.

The analysis of this study relies on secondary data derived from official websites of both Cambodian and Chinese governments, focusing on Cambodia's economic development and Chinese foreign aid (specifically FDI and BRI) in the period following Cambodia's stabilization from 2002 to 2023. In addition, previous literatures, reports and online news will also be included to support the official government documents. Data collection is conducted through desk and library research and involves three stages: (1) data reduction, sorting out data that will be used to make it more concise; (2) data presentation, to facilitate researchers in seeing the big picture; (3) conclusion making, to produce an interpretation of the phenomenon under study. In the process of collecting and analyzing data, triangulation techniques will also be used to obtain data validity and reliability (Neuman 2014).

## 5. Results and Discussion

### Chinese Hegemony as Capital Owner

#### *China's involvement in Raw Materials Investment in Cambodia*

Foreign investment has become fundamental in shaping Cambodia's domestic productivity and financial stability with China positioned as its largest foreign investor. Initially, Chinese investments were directed at small-scale manufacturing and the garment sector, yet over time, China has strategically expanded its presence into Cambodia's natural resources and energy sectors. By 2012, the approval rates for projects in the petroleum, mining, and energy sectors reached 99.8%, 91.7%, and 83.5%, respectively, reflecting a significant concentration of Chinese influence in these essential sectors (Pheakday, 2012).

Although Cambodia's natural resources are relatively limited compared to regions such as Africa or Central Asia, it holds an estimated 400 million barrels of crude oil and three trillion cubic feet of natural gas (EIC in Pheakday, 2012). In addition, Cambodia offers undeveloped mineral resources and agricultural land, positioning itself as a critical supplier for China's resource needs. Although explicit data on Chinese companies' investments in Cambodian oil are not available, reports indicate that the China National Offshore Oil Corporation (CNOOC) secured rights to drill in offshore areas covering 7,026.7 square kilometers in 2007 (Xinhuanet, 2011c, in Pheakday, 2012). This aligns with China's pursuit of resource security, as Cambodia's agricultural sector presents fertile ground for outsourcing food production; with less than 30% of the country's arable land cultivated (Yu & Diao, 2011), Cambodia holds promising potential for Chinese agricultural expansion. Consequently, China emerged as Cambodia's second-largest investor in agriculture, accounting for 17.6% of fixed assets in the sector from 2000 to 2010 (CDC, 2010).

China's interest in Cambodia's agricultural output is reinforced by formal agreements. For example, in August 2011, the China National Food Industry Group signed a contract with Cambodia's Ly Ye Rubber Company to import one million tons of cassava, while the Guangzhou branch of China Grain Reserves Corporation (Sinograin) agreed to purchase 200,000 tons of milled rice annually (Xinhuanet, 2011a, in Pheakday, 2012). These substantial investments ensure China's access to critical natural resources, largely to serve its own population's needs. This is in line with Dos Santos' theory, which explains that in financial-industrial dependency relations, core countries tend to invest massively in raw materials, natural resources, and agriculture to fulfil their country's consumption and production needs.

#### *China's Domination of Cambodia's Asset Acquisition Measures*

The cooperation between China and Cambodia presents both benefits and significant risks for Cambodia. While Chinese companies have invested extensively in various sectors, they are also steadily gaining control over critical Cambodian assets. Chinese companies hold extensive land concessions and licenses in areas such as mining, hydropower, and agro-industry (Pheakday, 2012). According to a report by the Cambodian Center for Human Rights (CCHR), 50% of the land concessions granted since 1994—amounting to 4.6 million hectares—are controlled by 107 Chinese companies (The Phnom Penh Post, 2012b, in Pheakday, 2012). This control is further underscored by the presence of approximately 23 Chinese companies with mineral resource exploration rights, five companies engaged in constructing hydroelectric dams, and 66 involved in agribusiness investments (Hicks et al., 2009; People's Daily Online, 2011b, in Pheakday, 2012).

Moreover, China's substantial investment in Cambodia has sparked criticism concerning the country's economic autonomy and governance capacity. Cambodia's key sectors generating export income, such as garments and textiles, are largely dominated by foreign investors, primarily Chinese. In 2019, 233 of the 522 members of Cambodia's Garment Manufacturers Association (GMAC) were Chinese-owned, compared to only 26 that were Cambodian-owned. Chinese investors have prioritized the manufacturing sector to capitalize on low labor costs and preferential market access to the EU and the US (ODI Report 2022).

Although China claims that its investments align with Cambodia's economic development objectives, these investments serve a dual purpose of consolidating China's influence over the country's natural resources and expanding its strategic foothold in Southeast Asia. Beyond agriculture, Chinese investments are significant in tourism, telecommunications, and construction, and China has successfully secured multiple bilateral trade agreements that grant access to Cambodia's valuable resources, including timber, oil, gold, iron, and steel (Chanborachet, 2015). In line with Dos Santos' paper on dependency, this phenomenon underscores the financial dependency of a peripheral nation (Cambodia) on a core nation (China). Such dependency not only reflects an economic imbalance but also creates opportunities for the core nation to exert control over the peripheral nation's economic trajectory, often prioritizing the core nation's strategic and economic interests.

## **Foreign Financing**

### ***China's FDI Contribution in Cambodia's Development***

In order to fund its national needs, Cambodia is one of the countries that relies the most on foreign financing from other countries. The significance of infrastructure in Cambodia's development has been emphasized in high-level political declarations, with Hun Sen stating that the country needs USD 500-700 million per year for infrastructure (Xinhua in Linda et al., 2022). The forms of financial assistance provided by China to Cambodia are *foreign direct investment* (FDI), debt and grants. In 2002, it is estimated that the accumulated funding that Cambodia had received from the Chinese government in the form of debt reached US\$3 billion for 47 development projects and US\$180 billion in grants for 10 other development projects (RFA n.d.). This funding assistance is used by the Cambodian government for various purposes and in various sectors. Almost all of Cambodia's needs are met through Chinese funding except for the education sector, the arts sector, and the environment and sustainability sector. Meanwhile, 55% of debt and grant financing from China is used for transportation followed by the agricultural sector at 21% and community and social issues at 8%. China is an important aid donor and development partner for Cambodia. From 2010 to 2018, development aid from China totalled USD 5.8 billion for transportation and energy projects. In 2019, Cambodia's debt to foreign countries reached USD 7.22 billion, of which 48% was ODA.

During the COVID-19 pandemic, Cambodia's economy faced significant challenges, with the World Bank predicting a sharp decrease in economic growth from 7% to 2.5% in 2020. Cambodia navigated this economic downturn through foreign aid, local donations, and support from international organizations. Among development partners, China remained prominent, providing medical experts and supplies and maintaining investments amounting to USD 7.9 billion from 2016 to 2019 as part of the Belt and Road Initiative (BRI). In a 2019 Facebook statement, Prime Minister Hun Sen indicated that China would continue providing assistance totaling 4 billion yuan (approximately USD 587.6 million) from 2019 to 2022. As the largest lending partner, China contributed approximately 41% of Cambodia's foreign debt, which reached USD 9.8 billion by mid-2022. China's planned ODA expenditures for Cambodia from 2019 to 2024 are expected to total USD 1.75 billion. China's financial contributions to Cambodia

stand out compared to those from other donor nations. For instance, with just 15 projects, China disbursed USD 503.7 million—significantly surpassing the aid from South Korea and Japan, which both implemented numerous projects (89 and 84, respectively) but provided less than USD 100 million each. Even with planned disbursements, China maintains a prominent position as a donor, surpassed only by Japan, which allocated USD 474.3 million in 2022 compared to China's USD 260.7 million.

Given that Cambodia's debt to China constitutes nearly 50% of its total foreign debt, Cambodia's dependence on Chinese funding raises concerns about its limited bargaining power (RFA n.d.). Although Deputy Prime Minister Sun Chantol remarked in a CNBC interview that the BRI has positively impacted Cambodia's development without detrimental effects, he noted that Cambodia is also pursuing other donors, such as Japan, and that the country's GDP ratio permits further financial aid applications. However, persistent concerns over a potential "debt trap" associated with Chinese assistance through the BRI remain. Cambodia's proactive search for additional aid sources reflects an implicit concern about deepening reliance on China. Based on the analysis above, it is evident that Chinese investment and aid significantly underpin Cambodia's socio-economic needs and development priorities, placing China's contributions as paramount in comparison to other international donors.

## **Implications of China's *Foreign Direct Investment* on Cambodia's internal Dynamics**

### ***Chinese FDI for Sihanoukville Development: Potential and Consequences***

The significant impact of Chinese investment brings its own dilemma to Cambodia, especially concerning the Sihanoukville Development project. One of the most visible benefits of Chinese investment is the development of infrastructure as evidenced by the proliferation of high-rise buildings, especially in Phnom Penh and Sihanoukville (The Cambodia Daily 2017). These positive impacts also include increased job vacancies, more adequate wages for local labor, and increased revenue for local businesses. Chinese investment has allegedly created 21,000 jobs and this number was expected to reach 80,000 by 2022. In this case, local workers who speak Mandarin are given higher wages. Overall, the increase in income and wages allows the Cambodian government to collect higher taxes which in turn will contribute to the improvement of Cambodians' welfare through the construction of roads, bridges, hospitals, and schools (Po et al. 2019). Chinese investment has also provided opportunities for small and medium-sized enterprises to start and expand. These businesses include hostels, guesthouses, and restaurants. Another positive effect of Chinese investment is the drastic transformation of the deep-sea port in Sihanoukville (The ASEAN Post 2018). Despite all the notable benefits, Chinese investments seem to favor a small group of people, especially high-ranking government officials and the Cambodian elite. The Cambodian people tend to feel the negative impact of the investment, which will be further explained below.

### ***Political Implications: The Dilemma of Autonomy and Foreign Financing***

The substantial presence of Chinese Foreign Direct Investment (FDI) in Cambodia, particularly in the Sihanoukville region, significantly impacts Cambodia's domestic politics and foreign policy. Critics argue that Chinese investment contributes to corruption and undermines the rule of law and governance. For instance, Transparency International's Corruption Perceptions Index (CPI) ranked Cambodia 157th out of 180 countries in 2023, underscoring concerns about governance within an FDI-driven economy heavily influenced by Chinese capital (Transparency International 2023).

In Sihanoukville, allegations of Chinese investors colluding with Cambodian officials suggest abuse of authority, with one notable instance involving Chinese investors reportedly using official Cambodian government license plates in violation of local laws. Differences in traffic regulations between Cambodia and China have further led to concerns over road safety as Chinese drivers have been involved in traffic accidents. This situation exemplifies how weak law enforcement, coupled with foreign financial influence, can perpetuate the power of a select elite in Cambodia. According to the World Justice Project (WJP) Rule of Law Index, Cambodia ranks among the lowest globally, placing it 141st out of 142 countries in 2022, reflecting significant challenges in law enforcement and governance (World Justice Project 2022).

A related issue involves "land grabbing," driven by escalating real estate values. Some officials allegedly conspire with wealthy individuals to seize land from rightful owners for commercial gain. In one instance, four villagers claiming legitimate ownership were arrested in September 2018, igniting protests from over 200 people who demanded their release (Po et al., 2019). Similarly, in October 2018, Chinese real estate developers reportedly encroached on Prek Toub Lake, a key provincial water source, by forging land certificates to enable the sale to Chinese investors. Such land seizures, reportedly facilitated by Chinese investment, have affected more than 20,000 Cambodian families since 2003, creating significant social tension (Cambodian Center for Human Rights 2020).

The political implications of land disputes driven by Chinese investment have also influenced Cambodia's electoral dynamics. In the 2013 and 2017 elections, the ruling Cambodian People's Party (CPP) saw a marked decline in public support, notably among constituents desiring leadership changes. In 2013, the CPP lost 22 seats to the now-dissolved Cambodia National Rescue Party (CNRP), and in 2017, they ceded approximately 400 commune positions to opposition parties. This decline is linked to unresolved land disputes. Following the 2018 elections, the government pledged to address these issues, yet Prime Minister Hun Sen later admitted progress has been slow. The judiciary's lack of independence has led to escalating social unrest, with affected landowners often resorting to protests, sometimes resulting in violence (Global Witness 2021).

The scope of Chinese FDI in Sihanoukville has raised concerns regarding Cambodia's sovereignty and domestic stability. While economic investment provides crucial development funds, the extensive Chinese interests in Sihanoukville make Cambodia increasingly vulnerable to Chinese political influence. This dynamic was evident in 2017 when Prime Minister Hun Sen publicly backed China's claims in the South China Sea, a position aligned with China's regional ambitions but potentially at odds with Cambodia's national interest (Hutt, 2017). Additional instances, such as the deportation of Taiwanese nationals to China and crackdowns on domestic political opposition, suggest that China's economic leverage may be influencing Cambodia's policy stance (Millar & Hout 2021).

There are also concerns that rapid development in Sihanoukville could destabilize Cambodia's internal power balance and lead to mass unrest. Forced relocations, environmental degradation, and the perception that Chinese interests supersede local priorities have fueled tensions (Millar & Hout 2021). Furthermore, entrenched Chinese criminal networks have reportedly taken root in Sihanoukville, contributing to rising public dissatisfaction. In the long run, if widespread discontent spread, it could threaten the Cambodian government's long-standing authority (Sun & Hutt 2021). Though Chinese FDI offers economic advantages, it also risks sparking a populist backlash if locals feel marginalized by the Sihanoukville project. Additionally, other regional actors, wary of China's growing influence, may seek to support anti-China sentiment in Cambodia (Nguon 2021). Thus, even though Chinese investment is substantial for Cambodia's development, Over-reliance on Chinese economic support could erode Cambodia's sovereignty and its democratic institutions over time.

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***Socio-cultural Implications: Law Enforcement Inefficiency***

The extensive Chinese investment in Sihanoukville has led to several negative consequences for the local Cambodian population. In tandem with the influx of investment, organized crime groups allegedly involving Chinese nationals have contributed to the increasing rate of crime in Sihanoukville. Various criminal activities—armed assaults, drug trafficking, money laundering, human trafficking, underage labor, prostitution, and violent incidents—have disrupted local stability and caused significant distress among residents (Alffram, 2022). From 2017 to 2018, crime in Sihanoukville reportedly surged by 25%, with Chinese nationals heavily implicated in many cases (Kimmarita, 2019). In early 2019, Cambodian authorities recorded 241 out of 341 detainees involved in criminal activities as being Chinese nationals (Nachemson & Meta, 2019).

In addition, many Chinese nationals residing in Sihanoukville have allegedly disregarded Cambodian customs and legal standards, encouraged by weak law enforcement and instances of corruption, which enable infractions to go largely unpunished. According to ASEAN Post report in 2018, 50 Chinese nationals were detained by Cambodian on charges related to prostitution, a crime that is explicitly prohibited by Cambodian law. Furthermore, Chinese businesses continue to distribute advertising materials promoting these prohibited services, showing a lack of respect for Cambodian regulations (Po et al., 2019). Chinese disregard for Cambodian social norms has also prompted concerns regarding cultural preservation, particularly as businesses and buildings increasingly display signage in Chinese rather than Khmer. Some media outlets have referred to Sihanoukville as the “New Macao,” highlighting the shift toward a Chinese-centric cultural landscape. This practice contravenes Cambodian regulations mandating the use of Khmer, contributing to concerns over the erosion of Cambodia’s cultural identity. The lack of robust policies to manage integration and protect local interests may widen the socio-cultural divide between Cambodians and Chinese nationals, potentially fueling xenophobia, discrimination, and community tensions.

***Environmental Implications: Sustainability at Risk***

Chinese investment in Cambodia has led to significant environmental consequences that have severely impacted local ecosystems. As billions of dollars are channeled into transforming once-quiet coastal towns into mega-tourism hubs, the resulting environmental degradation has posed considerable risks to both local communities and natural resources. One of the most visible impacts is the extensive destruction of beaches due to unregulated and illegal construction activities led by Chinese developers. According to the Cambodian Ministry of Environment, unregulated construction along the country’s coastlines, particularly in Sihanoukville, has led to severe degradation, including widespread deforestation in mangrove areas and accelerated coastal erosion (Ministry of Environment, 2021). Previously untouched coastlines have been cleared, and large tracts of land have been levelled and filled to establish access for hotels, condominiums, and casinos, causing notable damage to mangrove forests, seagrass beds, and marine ecosystems (Hutt, 2019). Additionally, toxic waste and untreated wastewater are regularly discharged directly into coastal waters, further harming marine life and local fisheries.

This rapid “unsupervised” development has exacerbated issues of soil erosion, landslides, flood risks, pollution, and the loss of biodiversity in Sihanoukville (Mackenzie et al., 2023). Chinese-funded projects have significantly disrupted local hydrology by draining watersheds, leveling hillsides, and paving over wetlands that once absorbed surplus water. Such environmental modifications heighten the vulnerability of communities to natural disasters, including flash floods and storms, which are increasingly intensified by climate change. Air pollution has also become a major concern, stemming from large-scale construction, heavy

traffic, and debris burning, resulting in thick, toxic smog enveloping Sihanoukville. Improper waste disposal further contaminates the soil and groundwater, while light and noise pollution levels rise steadily (Hutt, 2019). According to the Cambodian Ministry of Tourism, unregulated construction has diminished Sihanoukville's appeal as a tourist destination, with a 15% decrease in international tourist arrivals from 2018 to 2020, directly impacting the health and livelihoods of Cambodian residents reliant on tourism (Ministry of Tourism, 2021).

Despite these critical issues, effective environmental governance and enforcement remain inadequate, as Cambodian authorities often overlook environmental protection regulations in pursuit of Chinese investment (Po & Heng, 2019). Transparency International's 2020 report ranks Cambodia among the lowest in Southeast Asia for corruption control, with a score of 21/100, indicating widespread corruption that often undermines regulatory processes, including environmental law enforcement (Transparency International, 2020). Local regulators, influenced by personal interests and facing pressure from Beijing, struggle to enforce compliance or halt illegal projects, prioritizing profit over sustainable development. In the long term, unchecked ecological degradation could deplete the resources and natural assets that initially attracted foreign investment to the region.

### ***Socio-economic Implications: Alienation and Inequality***

Chinese FDI in Cambodia has introduced notable socio-economic consequences that risk deepening social inequalities and increasing tensions if not carefully managed. The rapid transformation of Sihanoukville, a city formerly known as a peaceful coastal tourism destination, has led to many Cambodians feeling alienated from the area, despite its status as a national tourism hub. Among the reasons for this growing detachment are the perceived dominance of Chinese expatriates and businesses, combined with elevated crime rates (Buehler, 2018). Additionally, rising costs of accommodation and food, which have surged in tandem with large-scale investment, further discourage locals from frequenting Sihanoukville (Po et al., 2019). A significant portion of Cambodian migrants who initially resided in the Sihanoukville area have now left, driven away by rising costs and dwindling economic opportunities, thereby contributing to increased social inequality (Buehler, 2018).

One critical implication of Chinese FDI is the displacement of local businesses and livelihoods under the pressure of substantial foreign commercial interests. Many Cambodian-owned shops, vendors, and tourism operators have been unable to compete with the burgeoning number of Chinese-owned hotels, casinos, restaurants, and retail outlets. This economic marginalization has fostered social resentment and concerns that the economic benefits of Chinese investment predominantly favor both Chinese and local elites, leaving the average Cambodian behind. Furthermore, the rapid pace of development has brought an influx of Chinese laborers and migrants, limiting job opportunities for local Cambodians and often suppressing wages. This competition in the labor market risks exacerbating social grievances, as local workers find fewer avenues for employment and economic advancement. At the same time, the strain on infrastructure, coupled with rising property prices, rents, and living costs in Sihanoukville, is generating frustration and economic hardship for many Cambodians (Po et al., 2019).

These socio-economic pressures have the potential to heighten social divisions and reinforce the perception that the interests of ordinary Cambodians are being sidelined while economic gains benefit a select few. Research has shown that the displacement of local populations and businesses due to rising costs can significantly erode community cohesion and exacerbate inequality (World Bank, 2018). Therefore, sustainable and inclusive development policies are urgently needed to ensure that the economic benefits and opportunities arising from Chinese FDI are equitably distributed across Cambodian society. Mechanisms should be



established to prioritize local employment, invest in skills training, and support small business development, while managing the influx of external labor to prevent wage suppression.

### ***Polemic on Foreign Financing vs. Autonomy***

This part of the analysis will basically focus on answering the main question of how Chinese FDI will affect Cambodia's economy and internal aspects. This article argues that massive foreign funding will lead to the domination of the investing country over the assets of the recipient country. Cambodia's dependence on foreign capital, especially from China, reflects the country's failure to build a strong and independent domestic economic capacity. While foreign investment provides short-term benefits in promoting economic growth and infrastructure development, over-reliance on foreign capital creates an unbalanced relationship that is vulnerable to the economic and political influence of the investor country.

In addition, inadequate governance intensifies the negative consequences of managing foreign investment. Cambodia's weak governance, characterized by high levels of corruption, ineffective law enforcement, and over-prioritization of foreign funding, has undermined the state's autonomy and authority to manage foreign investment in a sustainable manner and in the national interest. As a result, Cambodia has become overly dependent on massive Chinese investment, without the ability to control and mitigate its negative impacts. The multidimensional negative implications of dependence on Chinese FDI cannot be ignored.

Besides providing economic benefits, Chinese FDI also brings adverse consequences in political, socio-cultural, environmental, and socio-economic aspects. China's disproportionate influence in Cambodia's domestic and foreign policies, degradation of local culture, damage to ecosystems, economic inequality, and marginalization of local communities are some examples of the negative consequences that Cambodia has to face. Therefore, Cambodia needs to make serious efforts to reduce dependence on foreign capital, especially from China. The country should increase domestic economic capacity through structural reforms, improved governance, and promotion of sustainable domestic investment. Cambodia should also strengthen regulations and supervisory mechanisms to mitigate the risks and negative impacts of foreign investment, and prioritize national interests in managing international economic relations. Without concrete efforts to reduce dependence on foreign capital and enhance domestic economic capacity, Cambodia will continue to be vulnerable to the economic and political influence of investor countries, such as China. This could threaten Cambodia's sovereignty and sustainable economic development in the long run. Therefore, it is important for Cambodia to find a balance between the benefits of foreign investment and the protection of national interests through wise policies and strong governance.

## **6. Conclusion and Recommendation**

The extensive injection of Chinese funding into Cambodia's development projects has garnered both appreciation and significant criticism due to its wide-ranging impacts. This study finds that the substantial flow of Chinese funds is perceived to reinforce China's economic dominance over Cambodia, particularly through control over strategic assets. The resulting asymmetrical relationship has been analysed in terms of China's influence as a global hegemon that contributes to Cambodia's economic growth, but at the same time has effectively positioned Cambodia as a peripheral economy. This article evaluates the implications of this dominance arguing that sustained foreign investment has entrenched Cambodia's economic dependency on China. This dependency, in turn, has had broad internal repercussions on Cambodia's political and economic structures. Thus, in response to the primary research question, this study concludes that while Chinese FDI has indeed spurred development in Cambodia, it has simultaneously

weakened the authority of local governance which lacks sufficient capacity for regulatory oversight. Consequently, the continued development is accompanied by a dependency that prioritizes Chinese interests over Cambodian needs, spanning political, socio-cultural, environmental, and socio-economic dimensions, and raising concerns about Cambodia's sovereignty and sustainable development.

To address the multifaceted implications of Chinese FDI in Sihanoukville, a comprehensive and balanced approach is essential. Politically, the Cambodian government must prioritize safeguarding its autonomy by strengthening regulations on foreign investments to mitigate risks associated with overdependence on China and ensure long-term social stability. Socio-culturally, authorities should enforce stricter policies to manage the social impacts of FDI, including protecting local communities, curbing illegal activities, and ensuring that the welfare of Cambodians remains paramount. Environmentally, sustainable urban planning and robust regulatory enforcement are crucial to prevent ecological degradation, protect natural resources, and preserve Cambodia's coastal ecosystems, which are vital for sectors like tourism and fisheries. Socio-economically, inclusive development strategies are needed to distribute the benefits of FDI equitably, including local employment prioritization, skills training programs, and support for small businesses. Complementary measures such as affordable housing initiatives, infrastructure improvements, and expanded public services should accompany rapid urban development to minimize socio-economic disparities. By adopting these recommendations, Cambodia can effectively balance its developmental goals with the social, political, and environmental challenges posed by Chinese FDI, fostering sustainable and equitable growth for the nation.

Employing Dos Santos' (1970) and Cardoso's (1973) Dependency Theory provides a robust analytical framework for understanding China's dominance and its implications for Cambodia's reliance on foreign capital. Dos Santos' theory serves as a valuable tool to evaluate China's strategic involvement in key sectors of the Cambodian economy, highlighting a clear pattern of central-state hegemony that perpetuates a relationship of unequal benefit. Complementing this, Cardoso's concept of associated-dependent development allows for a nuanced examination of the internal dynamics between Cambodian elites and Chinese stakeholders, clarifying how external economic influences intersect with local socio-political structures. Unlike broader macro frameworks, Cardoso's perspective provides a more targeted empirical approach, particularly useful for examining specific inter-class interactions in this complex relationship.

However, the inherent limitations of this case study must be acknowledged when interpreting these findings. The intricate dynamics of the Cambodia-China relationship require a comprehensive analysis that encompasses historical, political, economic, and social dimensions to fully understand the nuanced facets of dependency. While the dependency framework from Dos Santos and Cardoso offers valuable insights, it may not wholly capture the unique contextual factors at play in Cambodia. Future research on Chinese investment in developing countries should consider integrating both macro and micro perspectives to more accurately reflect the diverse socio-economic realities at hand. Such an approach may ultimately contribute to developing more autonomous and sustainable models for countries that face similar dependency challenges in the global economy.

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