

PERSPECTIVE

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“Managing Reliance”: The Socio-Economic Context of the Chinese Footprint in Laos and Cambodia

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EXECUTIVE SUMMARY

- The Lao and Cambodian governments have decided to rely on China so that they can develop quickly. Their focus now is on dealing with the socio-economic consequences of this heavy reliance on China for investment and financial assistance.
- The risks of over-reliance on China appears to be comparatively lower for Laos which is able to hedge with Vietnam. Cambodia, on the other hand, appears more at ease with relying on China.
- The reception of the growing Chinese footprint at the government level has been overwhelmingly positive in Laos and Cambodia
- Popular concern and resentment towards increasing Chinese presence in Laos are less apparent due to the tighter political control of its society but these are not entirely absent. In Cambodia, these sentiments are more easily aired and amplified.
- The comparatively low risk of domestic political blow-back for Laos and Cambodia means that there is little disincentive for them to be depicted as Chinese economic vassals.

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INTRODUCTION

Laos and Cambodia's close embrace of China is anchored on the Chinese ability to disburse economic goodies to meet their developmental needs. In turn, they act as a strategic and "natural" geographical corridor for the flow of Chinese investment, goods and people from Yunnan to the Gulf of Thailand. Indeed, in 2011 the Chinese government designated Yunnan as a "bridgehead" (or *qiaotoubo*) for its economic penetration into Southeast Asia¹. The latest overarching framework is the evolving Belt Road Initiative (BRI) which positions Laos and Cambodia as key nodes in the "Indochina Peninsular Corridor" with promises of more economic and developmental largesse. In Laos, the scale of BRI projects is exemplified by the High-Speed Railway (HSR) project that costs US\$6.8 billion, which is about half the size of the country's 2015 GDP of US\$12.3 billion. The 417 km line from the Chinese border to Vientiane will pass 154 bridges and 76 tunnels and eventually be part of the railway spine that will run from Kunming to Singapore. Cambodia has yet to feature a flagship BRI project similar to the HSR, but the Cambodian Government has inked an *Outline of Bilateral Cooperation Plan to Jointly Build the Silk Road Economic Belt and the 21st Century Maritime Silk Road* in May 2017, focussing on seven key areas of cooperation². In the meantime, the Chinese have expressed interest in development projects worth billions for a new airport (in Siem Reap), sea-ports (Koh Kong province), expressways and hydropower stations under the BRI.

Given their low level of development, the Lao and Cambodian governments have welcomed Chinese economic overtures and initiatives with open arms. According to statistics from the Lao Ministry of Planning & Investment, China's total accumulated investment in Laos surpassed US\$6 billion in 2016 – making it the largest foreign investor in the country. The Ministry also puts China as the largest Official Development Assistance (ODA) or donor to Laos in 2014 with US\$187 million in grants. In Cambodia, China is also the largest foreign investor with total accumulated investments reaching almost US\$12 billion as of end-2016. This apparently accounted for close to 35% of all FDI into Cambodia. Likewise, Cambodia also considers China the country's most important financial and developmental assistance partner (note: concessionary lending and loans form the bulk of Chinese "aid" but these do not count in OECD and Western calculation of ODA). The exact amount of Chinese economic aid and lending to Laos and Cambodia remains unknown due to scattered figures. However they are massive and the bulk goes towards strategic flagship infrastructure projects. For example, the World Bank office in Vientiane estimated that China extended around US\$4.8 billion in lending to Laos for the HSR project alone. In Cambodia, China has been identified as Cambodia's biggest external lender since 2010 with projects such as the US\$900 million Lower Sesan 2 Hydro-power and a US\$1.6 billion national highway construction project largely financed by Chinese money.

There is little debate within the Laos and Cambodia establishment if they should continue to rely so heavily on China. For many of the author's interlocutors in Vientiane and Phnom Penh, the "train has already left the station". The question is no longer whether Laos or

¹ See http://www.gov.cn/zwgk/2011-11/03/content_1985444.htm

² The seven areas are: 1) infrastructure, 2) agriculture, 3) capacity building, 4) industrial cluster (including SEZ development), 5) culture & tourism (with plans to increase the number of Chinese tourists from 800,000 in 2016 to 2 million in 2020), 6) finance, and 7) Eco-environment protection.

Cambodia should continue to truck with the Chinese – in their view there is simply no viable alternative given present developmental needs. The question is how to live and deal with the socio-economic “consequences” of heavy reliance on China for trade, investment and financial assistance.

GROWING ECONOMIC OVER-RELIANCE

Today both Laos and Cambodia share a similar reliance on Chinese investment and financial assistance to maintain the pace of economic growth needed for them to achieve their developmental goals.

In Laos, researchers at the National Institute for Economic Research (NIER) told the author that Chinese investment and aid play a critical role in maintaining the country’s high growth rates so that it can meet the goals of graduating from LCD status by 2020.³ China not only offers investment and aid on a scale unmatched by others (Japan, ROK, Thailand or Vietnam), but it can, more importantly, provide direct investment and projects to strategic growth sectors of the economy. For example, there has been some concern within Lao economic agencies that growth has been slowing down in the “traditional sectors” of Chinese investment such as mineral mining, agriculture, rubber and urban construction (note: till June 2013, mining projects accounted for 50% of Chinese investments in Laos). The fears are also compounded by concerns over Beijing’s curbs on the outflow of Chinese capital in early 2017.⁴ However, the concerns have been allayed to some degree as China showed that it was able to make significant changes to the structure and direction of its overseas investments. The focus is now on the infrastructure construction and connectivity sector and is anchored by the promise of new investment projects parked under the BRI, AIIB and the Lancang-Mekong Cooperation Mechanism. Lao policy planners have also been assured that these government-related projects will not be affected by capital curbs. In a nutshell, Laos can continue to depend on China to help maintain the tempo of its economic growth.

Cambodia also sees China as their best bet in maintaining high growth rates and graduating from a LDC (by 2025)⁵. A senior government advisor told the author that foreign investors such as the Japanese have complained to Cambodian leaders of the country’s high energy prices and infrastructure deficiencies. While they had “rightfully identified” these as key factors that hinder larger scale private sector investments, the Japanese government is unwilling to help Cambodia develop these very sectors. Japanese investments (like the US, Korean and EU) remain very much private-sector driven and focussed on the commercial sectors. China, however, is the only partner that has had the wherewithal and resources to

³ According to the 8th Five Year Plan (FYP) adopted by the Lao National Assembly in June 2016, GDP growth averaged 7.9% between 2011-2015. The FYP assessed that the current rate of growth needs to be sustained if Laos is to achieve its 2020 goal of graduating from LCD status.

⁴ See “China to tighten controls to curb capital flight”, *AFP*, 1 Jan 2017

⁵ According to World Bank country statistics, Cambodia sustained an average growth rate of 7.6% in 1994-2015. According to preliminary estimates, Cambodia’s GDP growth was 6.9% in 2016.

invest in the “US\$1-2 billion-type of projects” that can help Cambodia develop the energy and infrastructure sectors.

The risks of over-reliance in China, however, appears to be comparatively lower for Laos. This may not be obvious at first glance given the relative size of prominent Chinese projects such as the colossal HSR project. A Vientiane-based economist pointed out to the author that China had more riding on the project than Laos. Given its prominent link to the BRI framework, China “has to make it work” given the assessment by most economists that high-speed rails are seldom profitable. Accordingly, the heavy-lifting required to deliver the project “successfully” by 2021 will have to be borne by the Chinese. The colossal HSR project aside, the Chinese are not the only game in town for Laos. Less commonly observed than Chinese efforts in carving out North-South transport arteries from Yunnan are a number of East-West corridors or highways that provide alternative routes in Laos’ quest to become “land-linked” (as opposed to “land-locked”). Interestingly, these are usually underwritten by development partners such as the Japanese and Koreans with the aim of providing “access” to Vietnamese ports. One such project is the Asian Development Bank’s Greater Mekong Subregion (GMS) East-West Economic Corridor that connects Laos (via its southern city of Savannakhet) to the Vietnamese port-city of Danang.⁶ Another project that may be more impactful is a proposal for new highways to link Vientiane to Hanoi as well as the Vung Aung industrial zone-cum-seaport in Vietnam. The significance of the project is a 50-year concession that Vietnam will grant Laos for use of Vung Aung seaport. While financing modalities remain vague, the initial feasibility study (funded by Korea) indicates that the entire initiative may cost upwards of US\$4.5 billion.⁷ While Chinese investments are still expected to predominate in the Lao economy, the “East-West” alternatives can help Laos put some of its proverbial eggs in other baskets.

Cambodia, on the other hand, appears more at ease with relying on China. A former Cambodian Minister told the author that this is not only due to a purely economic imperative. The ruling elite are more comfortable with Chinese investment and economic aid that come with little “scrutiny” and “strings and conditions” (as compared to Western investment/aid). For large-scale projects at the Government-to-Government level, there is apparently little check or even debate on the risks of over-reliance. Indeed Cambodian officials have tended to be uncritical of China’s economic presence and to be quick to defend Chinese investments.

Expressions of disapproval towards the Chinese economic footprint come predominantly from independent think-tanks and commentators. In this regard, the author met researchers from the Cambodian Development Resource Institute who are less sanguine about Chinese investments. They describe Chinese private investors as “footloose” (i.e. looking for quick money). Meanwhile the larger Chinese SOE investors do not usually strike a balance between development and sustainability. In a nutshell, Chinese capital has helped the

⁶ The East–West Economic Corridor is an economic development programme initiated by the GMS in 1998 to promote development and integration of four Southeast Asian countries (Myanmar, Thailand, Laos and Vietnam). This corridor became operational on December 12, 2006.

⁷ Souksakhone Vaenkeo, “Laos, Vietnam speed up plans for Vientiane Hanoi Expressway”, *Asia News Network*, 10 March 2017.

country's economic development in the short-run – but there are questions to be asked about the quality of the investments in the long run. Where governance is concerned, the researchers are also critical of Chinese SOEs and businessmen who are willing to make use of the Cambodian “patronage network” and “back-doors” for their dealings. Thus, the official rhetoric points towards an “open door” for all countries, but the playing field may not be level in reality. Cambodian officials are naturally dismissive of such claims. A senior official told the author that Chinese investment “is not perfect” and pointed out that Cambodia works closely and welcomes other major investors such as the Japanese, Koreans, EU and the US too. In the case of Japan, the level of economic aid is substantive and long-standing.⁸ In addition, Cambodia also upgraded its relationship with Japan to “strategic partnership” in 2013.⁹ That said, China's willingness and ability to invest and assist Cambodia in the strategic sectors of infrastructure, energy and port construction are “unmatched” – hence it should be “unsurprising” that Cambodia is particularly supportive of Chinese economic and business overtures over those of others.

GROWING CHINESE GROUND PRESENCE

Lao and Cambodian reception of the growing Chinese economic footprint at the government-to-government level has been overwhelmingly positive, but this is less evident at the people-to-people level. For both societies, Chinese capital and investments bring physical changes and development, particularly in the cities and towns. At the same time, both Lao and Cambodian societies also have to deal with new economic migrants from China. There are no precise official numbers, but estimates point to between 50,000 to 120,000 of them in Laos and Cambodia respectively.¹⁰ More are expected as China ramps up its BRI and infrastructure projects in the region. In Laos, the author learnt that the Chinese intend to import over 50,000 workers to work on the 417 km High-Speed Rail – and close to 10,000 have already entered the country to work on the first phase of the tunnelling. Meanwhile, Chinese infrastructure and construction projects in Cambodia have also brought in a substantial number of Chinese workers. There are reportedly over 50,000 migrants in Phnom Penh alone – with the number expected to rise alongside the boom in Chinese property development projects.

Concern and resentment towards Chinese presence are less apparent in Laos where the ruling communist party exercise relatively tight control—but it is not entirely absent. Privately, many Lao citizens that the author met acknowledge that the Chinese migrants bring in much-needed capital, skill, entrepreneurship and new technology. However they have also brought competition as well as undesirable influences. Two well-known Chinese mega commercial projects in Laos – the Golden Boten City and Golden Triangle SEZ – illustrate this dichotomy between desirable activities (development of tourism, SEZs) and

⁸ Japan's official development assistance totalled over \$2.4 billion between 1993 and 2014, including \$190 million in loans, \$1.4 billion in grants and \$798 million in technical cooperation. <https://opendevelopmentcambodia.net/topics/japanese-aid/>.

⁹ This was declared after PM Hun Sen's bilateral meeting with Japanese PM Shinzo Abe in Tokyo on 15 Dec 2013.

¹⁰ Pal Nyiri and Danielle Tan, “Introduction: China's Rise in Southeast Asia from a bottom-up perspective”, *Chinese Encounters in Southeast Asia*, (University Washington Press).

undesirable practices (gambling, prostitution, drug money-laundering, wildlife trafficking etc).¹¹ The author also learnt from business contacts that there have been some instances – though rare – where Lao individuals have refused to sell prime property in Vientiane to the Chinese because the latter are seen as “buying over” the country. To be fair, the case in point involves a wealthy individual from the “old rich”. The reality is that most Laotians at this juncture are generally more pragmatic and have less reservations about dealing with the Chinese.

That said, Lao authorities are not insensitive to these social concerns and have in fact taken steps in amelioration. An interesting propaganda tool that the Lao Government has employed is the production of a trendy and youthful Lao rock-music video (see <https://www.youtube.com/watch?v=U0LbGx01EIo>) extolling the benefits of Sino-Laos cooperation and the benefits that the BRI will bring to Laos. Besides this soft approach, officials at the Institute of Foreign Affairs told the author that the government has taken steps to engage its citizens at the grass-roots level – especially in areas affected by Chinese infrastructure projects and in provinces where the HSR run through - to explain the benefits of Chinese investments as well as how the authorities can assist in solving issues related to relocation and compensation.

Unlike Laos, social resentment and concerns over China’s footprint in Cambodia is easily aired and amplified in the latter’s relatively open and democratic system. For example, media reports have highlighted popular concern over Chinese “land-grabs” and economic degradation (especially through mining and hydropower projects) in recent years. That said, most informed observers also agree that it is often not easy to draw a distinction between anti-Chinese and anti-Government sentiments since the opposition and vociferous NGO groups have a tendency to conflate these sentiments. Indeed, similar complaints and concerns have also been raised over other foreign-owned projects – especially Vietnamese-linked one. In fact a senior Cambodian Government Advisor told the author that the Vietnamese have it “worse” and face resentment that is more deep-seated and visceral. He claimed that there is a strong widespread belief among Cambodians that land that is being given out to Chinese projects while the investments will “still ultimately belong to Cambodia” (i.e. they will be returned to Cambodia when the lease runs out). The same cannot be said where the Vietnamese are concerned because they are perceived to harbour permanent territorial ambitions. The larger point, though, is that all foreign investment projects do go awry from time-to-time, but Cambodia remains by and large receptive to Chinese presence.

CONCLUSION

At this stage, the sense from Vientiane and Phnom Penh is that the socio-economic impact of the Chinese footprint is still manageable. In a broader context, strong anti-Chinese sentiments are less common in Laos and Cambodia when compared to others in the region, such as Vietnam or Myanmar. Historically the Sino-Lao and Sino-Khmer communities have

¹¹ See Danielle Tan, “Chinese Engagement in Laos: Past, Present, and Uncertain Future”, *Trends in Southeast Asia* (ISEAS), 2015.

been small and well integrated¹². How this will change with the latest wave of Chinese investment and migration bears watching and research.

The comparatively lower risk of domestic political blow-back for Laos and Cambodia means that there is presently little disincentives for their respective regimes to be identified as Chinese economic vassals. While Laos and Cambodia risk becoming economic vassals of China, it is not a new situation for both countries. They have been highly dependent on a series of major powers for developmental needs since the colonial era.¹³ Laos and Cambodia will try to manage their increasing reliance on China, but for the foreseeable future, neither is likely to break out of the dependency mind-set.

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¹² In 2010, estimates of the Sino-Lao and Sino-Khmer communities stood at 176,000 and 147,000 respectively. Leo Suryadinata, *The Rise of China and the Chinese Overseas*, ISEAS publishing, 2017

¹³ In the last seventy years, Laos and Cambodia found political and/or economic patrons in France (colonial era), the United States (Vietnam War era), the former Soviet Union (1980s), Japan (1990s), and China.