EXECUTIVE SUMMARY

This research was conducted to explain the underlying rationale for Chinese investments and aid in Cambodia’s energy sector, and explore how these financial injections affect the livelihood and development of local communities. This topic is highly relevant to Cambodia in a number of ways.

First, energy is a critical development challenge in Cambodia. Currently, only 35% of the population has access to reliable electricity. Due to its dependence on the import of diesel for power generation, Cambodia’s electricity price is one of the highest in the world. Such high cost of energy negatively affects Cambodia’s competitiveness, as it imposes a heavy financial burden on the majority of low-income households, and drives potential investors away. Unless proper policies are put in place, Cambodia’s energy security will be at risk as energy demand is predicted to rise in years to come. To solve the current energy shortage and to meet future electricity demand, the government has prioritized the development of hydropower, which according to the national power development plan (2008-2020), will contribute more than 50% to the total power supply by 2020. While hydropower has the potential to help boost domestic electricity generation, contribute to improving electricity access, and accelerate economic growth, there are contentious debates on the social and environmental consequence of such development projects.

Secondly, the controversy of Cambodia’s energy development is fueled by the dominant involvement of China in this sector. China is currently the largest foreign investor, and a major donor in Cambodia. China is also the chief financer of the energy sector, spending billions of dollars in investment and aid in local power generation and distribution systems. Noticeably, China is responsible for financing and building of at least six dams across the country. While Chinese investment and aid is much needed for this under-developed sector, China’s unquestioning approach to how its aid and investment money is used has triggered corruption, worsened governance and human rights, and contributed to the destruction of Cambodia’s resources and natural environment. Civil society organizations in Cambodia argue that many Chinese investments, especially in hydropower, lack transparency, fail to meet international standards, and cause social and environmental harm.
Given the urgency to develop Cambodia’s energy sector and the controversial role that China plays in this regard, careful research attention on the topic is needed. Literature on the impact of investment and aid at global, a regional and country level is abundant, but at a local level is scarce. There is a gap between the results of aggregate data at the macro level and what happens at the local level. This research, therefore, aims to contribute to narrowing this gap by focusing in particular on the community when exploring the ways in which Chinese investment and aid are affecting the development of local communities in Cambodia. The research investigates China’s role in Cambodia’s energy sector and uses the China-funded Kamchay hydropower project as a case study to explore the impact on local community. To realize its objectives, the research raises four specific questions:

- What are the economic, political and social implications of Cambodia-China relations?
- What role does China play in Cambodia’s energy sector?
- How has the China-funded Kamchay Dam project affected the livelihood of local community?
- In the context of China’s global resource diplomacy, what motives does China have for its relations with Cambodia?

To answer the above questions, this research employs a qualitative method and adopts a theoretical framework built upon a range of literature including foreign direct investment (FDI), energy, and sustainable development. The following sections summarize the finding to each research question.

First, this research uses expert interviews, media analysis and an extensive literature review to study the extent and implications of China-Cambodia relations. The finding suggests that the relationship between Cambodia and China is mutually beneficial, but good leadership and accountable governments with a long-term vision of achieving sustainable development are required to ensure that such relationship result in a win-win situation. Currently, Cambodian benefits economically from China’s inflow of investment and generous donations, while China benefits politically and strategically for having Cambodia as an ally. However, there is evidence to suggest that Cambodia’s economic gains from China are taking place at the expense of social dislocation and environmental destruction. Cambodia’s dependence on Chinese investment
and aid has resulted in the loss of its autonomy, the deterioration of good governance, and permanent damage to the environment.

The second question requires the research to examine China’s controversial role in Cambodia’s under-developed energy sector. Using a sustainable development framework, the research assesses China’s contribution to the sector and finds that its multimillion-dollar investment is transforming the country’s energy sector, helping to reduce reliance on foreign energy, increase the rate of electrification, and potentially reduce energy costs. However, China-funded energy projects, particularly hydropower dams, have met with widespread suspicion and harsh criticism for failing to meet international standards and for imposing social and environmental damages. Only when China fully embraces international best practices and drastically improves the transparency of its investment projects will it become a real catalyst for sustainable energy development in Cambodia.

To answer the third question the study investigated the impact of a hydropower project constructed by a Chinese firm. The US$ 280 million Kamchay dam, the first large-scale dam in Cambodia, was selected as a case study. This study found that the dam had reduced the price of electricity, created short-term employment opportunities and improved local infrastructure. However, inadequate planning and stakeholder consultation have caused the project to fall short of international standards. While the economic gains from the dam have not yet materialized, local communities have seen their income reduced and their livelihood disturbed. It is clear that if hydropower is to contribute to solving Cambodia’s energy problems in a sustainable way, a comprehensive and inclusive mechanism for good hydropower development must be developed and rigorously implemented. China, in this regard, should play a vital role in enhancing and enforcing its environmental and social safeguards if it wants to contribute to the poverty reduction in Cambodia.

The last research question discusses Cambodia-China relation in the global context of China’s resource diplomacy. The mainstream literature tends to suggest that China uses its resource diplomacy, which include outward investment, no-strings-attached economic assistance, and political support to resource-rich developing nations to obtain energy and other importance resources, but this paper finds that, in the context of Cambodia, China’s motives are more strategic than economic. China charms Cambodia not for short term
economic benefits, but rather for long term strategic and political gains. China is indifferent to Cambodia’s limited resources, but finds Cambodia’s strategic geographical location vitally important to increase its influence in the region.

The empirical findings of this research contribute significantly to the existing theoretical debate and policy development in Cambodia. On a theoretical level, this research contributes to narrowing the gap in the literature on the impact of China’s investment and aid by emphasizing the impact on local communities. Building on relevant theories, this study proposes a useful and replicable framework to study the impact of hydropower by focusing on the community and linking the livelihood of the affected people directly to the impact of the dam. This research also contributes to the theoretical debate among economists about the type of development that China brings to Cambodia by examining the positive and negative aspects of a dam and by focusing on the local communities affected. The findings of this research in the Cambodian context also offer another angle of analysis of the way China employs its diplomacy and soft power in different countries around the world.

On a policy level, this research contributes to the development of the national sustainable energy policy. Cambodia’s energy insecurity is harming its competitiveness and constraining growth. The government needs to put in place proper policy to remedy the situation. This research used scientific methods to study the pros and cons of hydropower, the most important source of energy which, according to the national plan, will contribute more than 50% to the total power supply by 2020. The findings of this research provide concrete evidence from the community level and offer useful input and recommendations for policy makers to promote sustainable energy development in Cambodia.