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Constructing the future of Cambodia

A Study on the Impact of Chinese Foreign Direct Investment (FDI)
in the Construction Sector in Phnom Penh

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Abstract

This qualitative research aims to address the impacts of China's Foreign Direct Investment (FDI) on Cambodian labor in the construction sector by choosing the Diamond Island, a hub of China's real-estate investment in Phnom Penh, as a case study. Based on the interviews with 35 Cambodian construction workers and nine key informants from the government, private sector, international organizations, international non-governmental organization, and research institute, the study assesses both positive and negative impacts from Chinese FDI.

Findings and analyses show how Chinese FDI has successfully function in Cambodia and how it helps generate the employment and higher wages to the local workers. Simultaneously, it could also be a way to hinder the potential gains from its spillovers, including a knowledge diffusion, technology transfer, skilled development for local workers, as well as better labor standards and decent livelihoods if not granting compliance with law enforcement and a good collaboration among relevant agencies. Therefore, the advantages of inward FDI in Cambodia has prevailed, but the full benefits have not yet been fulfilled. Lastly, the study suggests a policy implication for future research in order to derive greater benefits from Chinese investment.

Keywords: China, Cambodia, FDI, labor, construction sector, workforce

Word count: 14,966

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List of Acronyms

| | |
|------------|--|
| BRI | Belt and Road Initiative |
| FDI | Foreign Direct Investment |
| MNEs | Multinational Enterprises |
| SDGs | Sustainable Development Goals |
| RGC | Royal Government of Cambodia |
| CDC | The Council for the Development of Cambodia |
| MLVT | Ministry of labor and Vocational Training |
| MLMUPC | Ministry of Land Management, Urban Planning and Construction |
| ILO | International Labour Organization |
| UN-Habitat | United Nations Human Settlement Programme |
| CCC | Chinese Chamber of Commerce in Cambodia |
| CDRI | Cambodia Development Resource Institute |

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1. Introduction

China's policy of "going out" into various parts of the world through vast trade, aid packages, loans and investment, will reshape geopolitics and economics of the host countries. Today, Watkins et al. (2018) expected that there are 600 projects, ranging from pipelines for oil and gas, bridges, roads, and railways, and power plants, that China helped finance billions of dollars in the last decade to support its tactical moves in 112 countries.

The Belt and Road Initiative (BRI)¹ has been launched in 2013 by President Xi Jinping, which aims to advance Chinese overseas investment. The project focuses on building up infrastructure and connectivity to connect China with neighboring countries, Eastern Europe, Africa, South Asia, and Southeast Asia. It is argued that BRI is China's most ambitious foreign policy and economic initiative and the largest development plan in the modern history (Cai, 2017) that the host countries need to be prepared for both positive and negative consequences.

A recent promotion of China's FDI and BRI projects is highly significant in the Southeast Asian region due to its strategic location, economic interests, as well as the diplomatic and cultural ties. Among others, Cambodia is one of the most concrete examples as, frequently, it has been reported as the most reliable and committed supporter of China's FDI and BRI in Southeast Asia.

In Cambodia, as Official Development Assistance (ODA) is significantly decreasing, FDI from non-OECD countries, especially China, South Korea, Taiwan, Hong Kong, Singapore, and Thailand, are the primary sources of FDI inflow. Since the 2000s, China's investment has grown substantially in the country and rapidly overtook Japan and Royal Government of Cambodia (RGC) across four main economic sectors, including construction, garment, agriculture, and tourism, and has emerged as the largest source of investment in Cambodia. In 2016 alone, China invested US\$1.07 billion in Cambodia, accounting 29.92 percent of all investment capital,

¹ also known as the One Belt One Road (OBOR) or the Silk Road Economic Belt and the 21st-century Maritime Silk Road

followed by Cambodia at 27.55 percent, Japan at 22.78 percent, and Thailand at 4.61 percent (CDC, n.d.).

As a result, FDI becomes a critical driving force of Cambodia's economic development in the past two decades with an average GDP growth rate of 7.7 percent and becomes one of the fastest growing economies in ASEAN and East Asia and the sixth fastest growing country in the world. It is expected that Cambodia will remain its strategic move at the same pace in the upcoming years as envisaged in Cambodia's Industrial Development Policy (IDP) 2015-2025 that it has committed to maintaining the momentum of growth at the targeted rate of at least 7 percent per annum (CDC, n.d.)

The *Diamond Island* or *Koh Pich*, in a local language, is explicitly reserved for FDI, especially from China. It is a primary construction site which will host the finest condominium and skyscrapers. An influx of massive development on the Diamond Island will lead to both opportunities and challenges for the domestic workforce, not only those who live in Phnom Penh, but also other rural-urban migrant workers who seek for jobs in the capital. Due to its significance, Diamond Island has been selected as the case study for this research.

1.1 Purpose and Research Questions

The impact of FDI is notably relevant to *Sustainable Development Goal 8 Decent Work and Economic Growth* and *Goal 11 Sustainable Cities and Communities*, which the RGC has voluntarily participated and planned to localize the goals as appeared in the National Strategic Development Plan 2014-2018. Given to its development relevance, the purpose of this study aims to provide an assessment of the importance of Chinese inward FDI to Cambodia's economic development, focusing in particular Cambodian labor market in the construction sector of real estates, through a single case study qualitative approach. The research strategy adopted a semi-structured interview to gain insight experiences from local workers who have engaged or witnessed the Chinese investment on the Diamond Island, as well as experiences and opinions from relevant key informants to complement each other for inclusive results. Observations and research on documents and reports will also be made. The secondary purpose is to fill a gap in

the recent discussion on China's FDI and BRI which usually concerns only the sovereignty and geopolitical aspects of the initiative, while there might be more concrete and economic objectives behind that should not be left unattended.

Moreover, the existing literature related to the linkage between the Chinese FDI and its impact on Cambodian labor usually focus either on particular sector of Cambodia's well-known garment industry (e.g. Cuyvers et al., 2008a; Chandarany et al., 2011), or on specific case in Sihanoukville coastal province (e.g. Ellis-Petersen, 2018; Sokhorng, 2018b), which limit the understanding of the situation of the whole country. As the construction sector is booming, it is thus bounded in time and place to investigate more on this topic. Also, the previous studies on Cambodian labor usually examine only on traditional labor migration to Cambodia's neighboring countries (e.g. Derks, 2011) rather than the socio-economic change and new employment opportunities provided in their home countries. With these research purposes, the following research and sub-research questions have been developed:

RQ: How has the recent inflow of Foreign Direct Investment (FDI) from China to the Cambodian construction sector affected its labor market?

SRQ 1: What are the reasons behind China to choose Cambodia as one of its favorite FDI destinations and how has the Royal Government of Cambodia responded to the Chinese FDI inflow?

SRQ 2: What are the positive and negative impacts of the Chinese FDI inflow on Cambodian unskilled labor in the construction sector?

SRQ 3: To what extent has Chinese investments influenced Cambodia's economic development?

The main research question will shed light on the relevance and importance of the Chinese FDI inflow on Cambodia's economic development, and the construction sector and its labor. To provide an overview of a huge investment from China in Cambodia, SRQ 1 will outline why China has chosen to invest in Cambodia by using Dunning's OLI Model to conceptualize the situation and, also, to explain the reciprocal actions from RGC. Relating to SRQ 1, SRQ 2 will

explore both values and obstacles caused by the Chinese FDI on Cambodian unskilled labor by using empirical data from the field. Lastly, SRQ 3 will describe the position of Cambodia's economic development by using Dunning's Five-Stage theory as an analytical framework.

1.2 Delimitations

As stated in the research question that the study will be contributed to the Chinese FDI engaging in the construction sectors and its impacts on the local workforce, the research will not discuss neither on other impacts, such as, a loss of an autonomy or other political dimensions, nor study on other sectors, such as garment or tourism, as these studies have already been done by other researchers. Also, due to the nature of a qualitative approach, small sampling size and selected case study, accuracy of the findings can't be 100 percent accurate in generalizing the nationwide situation. However, considering the significant representation of the Chinese investment in the construction sector on Diamond Island, the study results can serve as a basis for further exploration on a larger scale.

1.3 Thesis structure

This thesis consists of seven chapters. Following the introduction, a second chapter will set the scenes of context in Cambodia, China's involvement in Cambodia and its roles in the construction sector, as well as the significance and development of the Diamond Island. Next, existing researches related to China's FDI and BRI plan will be reviewed. The fourth chapter describes the methodology used in this thesis. Limitations and ethical considerations will also be made in this section. In the fifth chapter, FDI theories will be introduced to conceptualize FDI and used as an analytical framework of the study. Findings and analysis will be formed in the sixth chapter, following by the last chapter ending the thesis with the conclusion.

2. Background

2.1 History of Political and Economic Development of Cambodia

2.1.1 Cambodia Year Zero under the Khmer Rouge regime (1975-1989)

After being independent from France in 1953, Cambodia had to face the worst history of Khmer genocide under the Khmer Rouge regime when city dwellers were forced to move to the countryside becoming agricultural farmers, and at least 1.7 million of Cambodians were killed. Until 1978-1979, the Vietnamese troops defeated the Khmer Rouge, and pro-Vietnamese Party won the parliament election. Hun Sen became a Prime Minister and tried to attract foreign investment while abandoning the socialist ideology. Regarding the relationship between Cambodia and China, China's attempt to involve in Cambodia remained suspicious and received little trust from the government and Cambodian people due to its previous role in supplying weapons to the Khmer Rouge (Kosal 2009; Pheakdey, 2012). However, the bilateral relation slowly improved when China adopted an anti-Khmer Rouge policy and later reduced military assistance (Kosal, 2009). The civil war caused severe disruption to the national education system and a massive loss of skilled Cambodians, which has affected skills shortfall until today.

2.1.2 Cambodia after the Khmer Rouge: stepping into FDI and labor export (1989-2004)

After having Paris Peace Agreement signed in 1991 and the UN-sponsored first general election in 1993, Cambodia formed a coalition government comprising the FUNCINPEC party led by Prince Norodom Ranariddh and the Cambodian People's Party (CPP) led by Hun Sen, a former prime minister supported by Vietnamese authorities during the 1980s. At that time, RGC, in consultation with the World Bank and International Monetary Fund (IMF), has agreed on the economic and structural adjustment program by opening up for FDI. Subsequently, a Law on Investment was approved in 1994² and the Council for the Development of Cambodia (CDC)³ was established and assigned with the authorization of qualified investment projects (QIPs), both

² 1994 Law on Investment was later amended in 2003 to increase the ease of approval of the investment projects and applications, which will be elaborated in the sixth chapter.

³ There are two boards under CDC, including Cambodian Investment Board (CIB) and Cambodian Special Economic Zones Board (CSEZB).

domestic and foreign ones. CDC was made as a one-stop service for investment and drive liberalization of the country's policy towards foreign investment⁴.

Before 1996, China used to support Prince Ranariddh but withdrew it because of Prince's close relations with Taiwan. Later, Hun Sen undertook a political coup and ousted Prince Ranariddh, arranged the general election and became a Prime Minister in 1998. Despite the international condemnation and allegation of harassment after the general election, China recognized the Hun Sen's government with a provision of huge aids to Cambodia. Undoubtedly, the healthy relationship with increasing trust and confidence significantly presented in almost all aspects from 1997 onwards, following by a series of reciprocal high-level visits, which have helped strengthen the bilateral relationship (Kosal, 2009). China's economic profile has become particularly pronounced in Cambodia

Besides attracting FDI into the country, Cambodia has started to *export* its labor abroad since 1995 as a solution to deal with a lack of employment opportunities within the country and as a new source of national revenue (Derks, 2011).

2.1.3 Cambodia under Prime Minister Hun Sen (2004-present)

Since Hun Sen was re-elected in 2004, democratic development and human rights situation has been monitored and criticized by the international communities, especially the EU and the States. Amid dwindling support from the West, China has performed relatively well by supporting the current regime led by Hun Sen, who has ruled Cambodia for 33 years, and the development of the country based on a non-interference policy (Kosal, 2009; Vireak and Vutha, 2018).

Therefore, China strategically became the closest ally and the biggest investor of Cambodia.

From 2004-2017, Chinese FDI to Cambodia accounted for US\$19.6 billion. In 2017 alone, the capital was US\$2.8 billion (World Development Indicators, n.d., see Figure 5 and Appendix 4). The investments concentrated on various sectors, including the garment industry, hydropower,

⁴ From 1994-2004, approved FDI amounted to US\$5,313 million for 1,147 projects, having manufacturing industries, especially the garment sector that attracts most FDI (Cuyvers et al., 2008a).

agro-processing, mining, and construction sector. In terms of development assistance, China has committed about US\$554 million of grants to Cambodia from 2016-2018 (Yara, 2018). Air connectivity between Cambodia and China has boosted up to support tourism and business opportunities. As a result, the flood of Chinese investment has remarkably cut Hun Sen's dependence on western donors, whose aids and assistance usually come with conditionality for democracy, human rights, and transparency.

2.2 China's FDI and its Belt and Road Initiative (BRI): A look into Southeast Asia

China's increasing presence and greater influence in the Southeast Asian region comes with no surprise. China has been using a variety of diplomatic, foreign assistance, trade and investment initiatives, to drive its foreign policy goals, emphasizing the "mutual benefits" of political, economic and cultural ties with its regional neighbors (Sullivan, 2011). Geopolitically, the ten Southeast Asian nations grouped as ASEAN located at some of the world's most transited sea routes, giving it a strategic position (Burgo and Ear, 2010). China shows its attempt to overcome the traditional dominant players in the region, like the US, and to reach out to new allies and unnerve some countries involving in the South China Sea dispute. Economically, according to IMF, ASEAN becomes the world's fifth largest economy, accrues a gross domestic products (GDP) of US\$2.73 trillion in 2017, putting the group ahead of the United Kingdom's US\$2.63 trillion and India's US\$2.61 trillion, and rank as the world's third-largest workforce of more than 600 million people, behind China and India (Lee, 2018). ASEAN also hosts several policies that show good signs for future regional potentials.

Moreover, China's state policy of non-interference into the internal affairs of other states makes Chinese aid and investment particularly attractive to the authoritarian and semi-authoritarian states as Lum et al. (2018) highlighted that the Chinese mega-projects thus seems to grow sustainably in the countries that have weak governance, including Myanmar, Lao PDR, and Cambodia.

After being “friends” with countries in the region, China begins its FDI strategies by moving factories with excess supplies, such as industrial steel, cement, and glass, to other countries aiming to reduce a massive surplus at home while helping less developed countries to build up their construction industries (Cai, 2017). However, at the early stage, it seems that China has slow progress in implementing the projects abroad. China, therefore, needs to get some models and show an early sign of the success of the Chinese standards. Subsequently, China’s FDI and its grand strategy of BRI, together with the rise of economic and political power, has emerged as a new force that could have profound effects on the region’s political and economic landscape.

2.3 China’s involvement in Cambodia

China’s strategic interests in Cambodia are part of a broader strategic agenda in Southeast Asia (Burgos and Ear, 2010). There are three main reasons behind China's strategic interests in Cambodia: geopolitics, energy security, and infrastructure projects establishment (Ibid.).

First, considering geopolitical and security aspects, China’s tactical move in Cambodia is considered as a tool to increase its presence and influence in the region to support China’s new security and military postures. In Cambodia, Beijing donated nine patrol boats and five warships to Cambodia between 2005-2007 and now invest in the Port of Sihanoukville. China claims that it will help Cambodia to improve its maritime security to fight off pirates and drug smugglers and to help enhance social stability and territorial security as spillover effects. However, Burgos and Ear (2010), argues that in the other way, China aims to link with its interests over the South China Sea disputes and can also use Cambodia as a strategic, sea-accessible location to protect China’s import-export goods from piracy and looting.

Second, as a result of China’s rapid population growth and economic development, it is essential for China to have energy self-sufficiency by securing the accessibility to inexpensive and reliable energy sources, including oil, coal, and electricity (Burgos and Ear, 2010) and also serve as a basis to support its FDI plan in other industrial sectors. Based on the cost-effective calculation, Mekong region, specifically Laos PDR and Cambodia, has become a place for Chinese investment in energy power and hydroelectric dams. At the same time, RGC also wants the

country to have electricity. Therefore, seven dams were built, and all paid by China. Currently, the Chinese dams generate almost half of Cambodia's electricity (Watkins, Lai, and Bradsher, 2018), however, only 20 percent of the population has reliable access to electricity and prices are among the highest in the world (Bradley, 2009).

Third, per earlier discussion of the first two reasons, it is necessary for Beijing authorities to give high importance on the infrastructure projects as basically all goods require transportation. As a result, China has established a series of roads, highways, and bridges which are a subsidiary of all development projects. Since the very first state visit of Hun Sen to China in 1999, China provided US\$218.3 million interest-free loans (Kosal, 2009). Besides the government, Chinese companies also became very active and have successfully emerged as the number one foreign investor in Cambodia in 2004. Only the first nine months of 2005, China pledged US\$442 million of investment, significantly increase from US\$80 million in 2004 (Ibid). One year later, former Chinese President Wen Jiabao gave US\$600 million more in aids and loans, which mainly contributed to hydroelectric dams, bridges, and the iconic government offices, including new Council of Ministers, Senate building, and National Assembly hall in Phnom Penh, following by millions of dollars heavily invested in the garment industry from the first stage. Hun Sen, in return, described China as Cambodia's "most trustworthy friend" (Burgos and Ear, 2010; Kosal, 2009; BBC, 2006; Kyngge et al., 2016). Since then, China keeps providing huge aids and investment almost every time during state visits.

China and Cambodia recently celebrated its 60th anniversary of their diplomatic relationship in 2018, in which President Xi Jinping had added new momentum to the Comprehensive Strategic Partnership of Cooperation. To celebrate this special occasion, the deal of significant transportation, connectivity, and infrastructure development projects in Sihanoukville province, including the deep-sea port and the Specialized Economic Zone (SEZ), has been developed. Moreover, 19 agreements and MoUs were signed to finance projects on new expressway and airport, and buildings and rehabilitating infrastructures. However, the total amount of agreement made was not disclosed (Vannak, 2018; Victor, 2018; Davis, 2018).

2.4 China's roles in Cambodia's construction sector

China's today interests in Cambodia is not limited to agriculture, garment, and natural resources, but extensively includes large infrastructure projects and real estates. In the construction sector, Chinese state-owned companies, together with some huge Chinese private companies, usually invest in basic infrastructure due to the needs of large capitals. However, cooperation is not limited to the government level. Chinese private-owned construction companies are very much enthusiastic about investing in the real-estate business, which will be a central focus of this study as real estates, including luxurious hotels and apartments, restaurants, and casinos built by Chinese could be seen everywhere on the Diamond Island and in Phnom Penh. To Cambodian, although these new construction projects offer financial rewards and new employment opportunities, they have simultaneously aroused controversy and lead to widespread criticism (Burgos and Ear, 2010).

2.5 The Diamond Island: From a fishing village to a hub of investment

The Diamond Island or Koh Pich located in Sangkat Tonle Bassak in Chamkarmon district, which is centrally located in the heart of Phnom Penh and is one of the three priciest districts for real estate in the city (CDC, n.d.; Kosal, 2018).

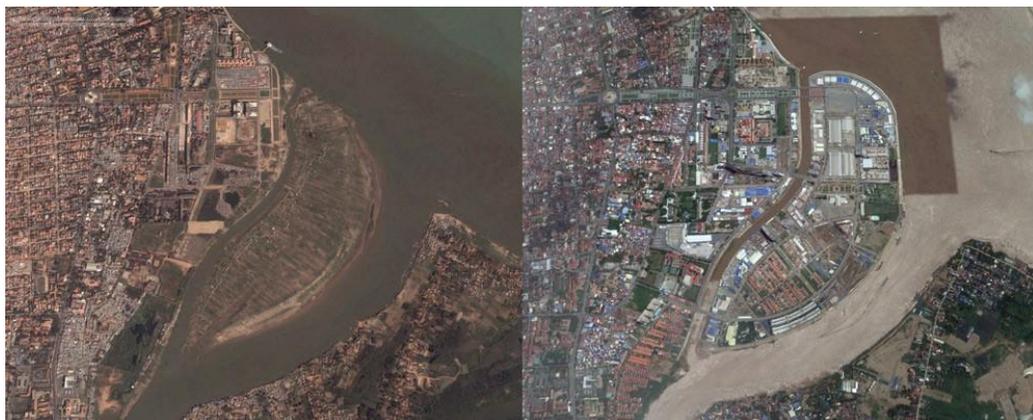
The Island was a semi-submerged sandbar, naturally created by the three main rivers of Cambodia, Tonle Sap, Bassac, and Mekong with the original size of 700 metre-wide. In the 1980s, the fishing families and farmers have settled on the Island to grow crops. By 2004, a Khmer-Canadian conglomerate, Overseas Cambodian Investment Corporation (OCIC), the biggest multidisciplinary investment company in Cambodia and the same shareholder with Canadia Bank, the largest financial institution of the country, gets a permission to develop the Island into an international commercial city managed by a new specific municipality, Koh Pich City Hall, which separated from Phnom Penh City Hall. After facing some controversial issues of the relocation of local people, the approval was finally granted, and the initial construction was launched in 2006 with an original plan to be completed in 2016. There are three phrases under the whole construction project, while the first phrase already amounted to US\$200 million

(Say, 2008; Urban Voice Cambodia, 2010). However, the completion of the project is delayed, and huge construction projects are still going on.

Diamond Island in the 1990s



Diamond Island before and after development began

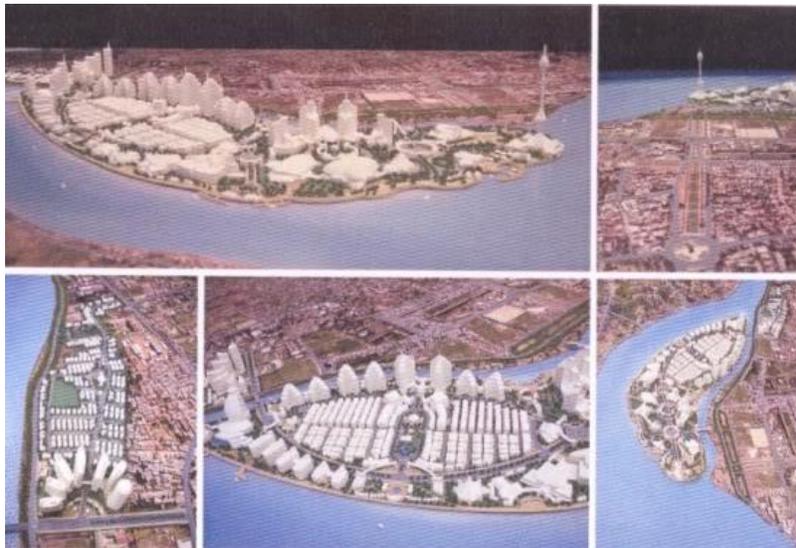


Source: <http://www.khmer440.com/k/2017/12/the-jewel-in-the-crown-a-history-of-koh-pich-diamond-island/>

Nowadays, OCIC, as a developer, has created more land, occupying 100 hectares (1,000,000 sq.m.) in total (OCIC, n.d.). Sales of apartments, villas, and houses began in late 2008 with a price of US\$1,500 per sq.m. Each unit is available from US\$400,000 up to US\$2 million while a villa can be rented for US\$3,500 per month (Khmer440.com, 2017). Three billions-of-dollars bridges were built to connect the Diamond Island City with Phnom Penh city center. Two more bridges will be built soon. Despite the physical link by bridges, the Island is totally disconnected from the country's history and culture.

The success of a colossal development, mostly by the Chinese firms, has resulted in some iconic buildings, for example, a Roman-style Conference and Exhibition Center, a high-end gym and golf club, a vast housing compound named “Elite Town”, a dozen of (mainly Chinese) restaurants, an international school, luxurious wedding halls, and a bunch of hotels and finest condominiums. The D.I. Riviera modelled the iconic Marina Bay Sands Complex in Singapore, the “Elysee” project with Arc de Triomphe and “La Seine” lighthouse, as well as all the street names linked to many well-known cities, such as Yale, Columbia, Arizona, which give a sense of how luxurious and elegant the Island is. According to a project manager and architect for OCIC, Touch Samnang, business people, expats, Khmers living abroad and foreigners, especially Chinese, are their target (Say, 2008).

A graphic shows the development project plan on the Diamond Island



Source: <https://www.skyscrapercity.com/showthread.php?t=1108385&page=3>

Besides, the case of this remarkably rapid change was chosen to be filmed, named “Diamond Island”, screening at the 2016 Cannes Film Festival. The movie reflected how the land has been transformed and how the life of a young male has been forever changed from a rural Cambodian to labor at the construction site. The movie also showed little dreams of young workers who want to live on the Island but what they can do is becoming as construction workers for ongoing

projects or a security guard for the finished ones. One main character said, “I have been living here since 2009 when there was nothing but sand and grass.”

The Diamond Island is also a venue for “Cambodia Construction Industry Expo”, organized annually by the Cambodia Constructors Association (CCA) and actively supported by the government. It’s the biggest expo which brings together numbers of contractors, construction companies, property developers, and customers. Approximately, the exhibition attracts more than 300 booths, 200 companies, and over 15,000 visitors nationally and internationally each year, resulting in the trend of the construction boom in Cambodia. Thus, Diamond Island is selected as a bounded case for this study.

3. Literature review

This literature review will provide information on existing research relating to Chinese FDI and BRI to summarize, evaluate, and compare the relevant studies, as well as to give access to the thesis. First, previous research on the values and obstacles of the Chinese FDI and BRI framework will be reviewed. Second, the impacts of the Chinese FDI and BRI on labor in the construction sector will be discussed. Third, this part will raise the criticism of the Chinese FDI and BRI and will suggest alternative interventions of how Cambodia can benefit from the investment inflow. The chapter will finish by discussing gaps appeared in previous research, situating the relevance of this thesis.

3.1 Values and obstacles of China’s FDI and its BRI framework

Generally, the host countries subsidizing FDI activities is based on the expectation that, in addition to the employment and higher wage generated by these activities, FDI will also make available to the host country a package of capital, modern technology, know-how, and managerial and marketing skills, and consequently foster productivity growth in the FDI-receiving country (Cuyvers et al., 2008a).

The overall goals of the Chinese investment aim to help ease the impact of an economic slowdown in China, increase connectivity amongst nations, and increase its investment and trade plan. The Chinese investment was deepened and broadened worldwide with its grand strategy of BRI with a clear focus to promote construction and infrastructure, strengthen coordination on economic policies, enhance complementary of development strategies and boost interconnected development. Therefore, existing knowledge on the value of the Chinese FDI and BRI framework are usually centered around economic growth, connectivity, and poverty reduction.

In the case of Cambodia, both state-owned enterprises and private companies were backed up by the Chinese government. China's colossal investment stems not only from Beijing's economically strategic interests in the country and the region but also arises because private sector initiatives seek fertile ground where there is an environment to prosper and grow (Burgos and Ear, 2010:638). This strategic move is believed to contribute to Cambodia's economic development, poverty alleviation and well-being of Cambodians, especially an improvement in local employment opportunity (Chandarany et al., 2011). Vireak and Vutha (2018), explored the progress of cooperation and concluded that BRI is not a one-way initiative but rather an interaction, adjustment and synergy of economic growth from both sides via infrastructure development, industrialization, and trade and investment expansion and tourism sector. As a result, giving a "no-strings-attached" loan and establishing a series of dams for hydroelectricity, roads, bridges, highways, port, and airport will help local people to have access to public facilities and help indirectly reduce poverty.

However, some considered China's *no-strings-attached* loan, *unconditional* ODA, and large-scale investment as "soft power" that comes at a time when the power of western countries was declining in the region (Sullivan, 2011). China needs to remain its presence in Southeast Asia and needs Cambodia as the closest ally to support in the wake of regional disputes, such as the South China Sea conflict, and to maintain regional security in general (Pheakdey, 2012). Sullivan (2011) raises further concern that under the Chinese investment, Cambodia may be running the risk of finding itself on the periphery of, and dependent upon, China's core economic activities within its territory (Sullivan, 2011).

Moreover, inflow from China, both aid and FDI, is also famously known for its lack of transparency. There is no clear description of how the money has been used, and the information regarding the projects is not publicly disclosed (Pheakdey, 2012). In the case of Cambodia, this opposing viewpoint provoked a heated discussion. O'Neill (2014)'s finding is that the Chinese government supports Chinese state-owned enterprises and Chinese private firms via loans and excellent bilateral ties between Chinese and Cambodian government, or precisely the key Cambodian political elites, to overcome corruption, the weak rule of law, and non-transparent environment in Cambodia which usually deter foreign investment, especially from the West. China's overseas investment is in some way used to exacerbate corruption, deteriorated governance, human rights, and labor abuse, and over-exploited Cambodia's natural resources and environment (see O'Neill, 2014; Pheakdey, 2012; and Sullivan, 2011).

Regarding the BRI, many aspects of the BRI initiative remain unclear, including which (and how many) countries will participate, how much China and the host countries will spend to finance the initiative and what projects will fall under the BRI (Morrison, 2018).

There are also some studies that have found unexpected impacts in Sri Lanka as Sri Lanka government was unable to pay a sizable loan for its strategic port of Hambantota and finally had to hand over the port to the Chinese firm who will be taking control of the facility on a 99-year lease (Dahlan, 2018). This case of unmanageable debt and a possible loss of sovereignty has raised similar concerns in Pakistan, Maldives, and Laos (Kuronuma, Maulia and Janssen, 2018).

The presented literature has shown that the Chinese FDI and its BRI plan are vast and complex. However, it is not apparent how Chinese mega-projects could address sustainable development in countries, especially the countries that have weak governance. Understanding how Chinese investment has been perceived worldwide and in Cambodia is thus essential for being able to relate the findings in this research.

3.2 Impacts of the Chinese FDI inflow on the construction sector and labor in Cambodia

This section will present existing research on impacts on Cambodian labor when promoting the Chinese investment within the country. While research on how the Chinese investment flow on the labor market in the construction sector is limited, previous studies on the influence on other key economic sectors of Cambodia, such as garment and other manufacturing sectors will also be discussed.

Economic activities continue to expand at a robust pace. While Cambodia is well-known in its garment exports, the garment sector eased slightly considering Cambodia's rising minimum wage and increasing competition from other low-wage countries, namely, Myanmar, Bangladesh, and Vietnam. On the contrary, construction activities continue to be vibrant as investors' appetite for residential and commercial property remained its resilience as one of the main drivers of growth, witnessed by the continual increase in the number and value of construction projects approved in 2016 (World Bank, 2017). Domestic credit financing the construction and real estate sector accelerated again, growing at 37.1 percent in November 2017, up from 28.4 percent in May 2017, as demand for construction and real-estate investment revived (World Bank, 2018).

These emerging domestic construction activities are spreading, not only in the capital, but also in major and coastal provinces, especially in Sihanoukville, and other provinces bordering Thailand and Vietnam, which reflects the rising demand for affordable houses for locals, and luxurious accommodation for Chinese and foreign investors, expats, and Chinese tourist arrivals. As a result, the construction boom has played essential role on creating about 200,000 jobs in 2016, a 33.3 percent year-on-year increase, which represents 10 percent of total employment in the industry sector (World Bank, 2017). Wages of unskilled workers in the construction sector have risen to as high as US\$200 a month, which represents a 9.2 percent year-on-year increase (Ibid.). Wages of skilled construction workers are twice as much as the minimum wage, ranging from US\$300 to US\$450 per month (Ibid.). Some scholars also found that Cambodian workers are being lifted out of poverty by foreign investment inflows driven by Chinese rising wages (Jacob,

2013; Bradsher, 2013), specifically workers at the Chinese construction sites could earn three times more than what they used to on local projects (Ellis-Petersen, 2018).

World Bank (2017) expected that poverty would continue to decline as there is a significant improvement in GDP. Evaluation of Chinese FDI inflow to Cambodia has found that there is a strong correlation between key macroeconomic indicators, including GDP, investment, and trade. This correlation suggests that any change in China's economic performance would influence that of Cambodia's. Pisey and Sunsatya (2018) found that if slowdown of FDI led to 10 percent in total investment in Cambodia, the country's GDP would be contracted by 0.16 percent in the short run with a higher impact in the long term, while Cambodia does not have any significant effect on China's economy.

Human capital development of skilled labor and technology competencies are equally crucial for local employment. Cuyvers et al. (2008a) examined the impact of FDI on economic productivity in Cambodia's manufacturing sector. They found that the presence of foreign firms plays a decisive role in enhancing labor productivity in Cambodia's manufacturing sector and would allow the country and domestic firms to benefit from it, and suggested that the country should continue to implement an investment-friendly policy.

There are, however, some articles shown that many Cambodian workers leaving the country to work overseas, mainly Thailand, Malaysia, Saudi Arabia, South Korea, Japan, Singapore, and Hong Kong, is still increasing. According to Dy Thehoya, a programme officer at Center for Alliance of Labor and Human Rights (CENTRAL), the increasing number of migrant workers reflects that economic conditions have not improved for them as wages are still too low and jobs are hard to find (Kunthea, 2018). Some studies that illustrated cases in BRI participating countries have worried about the foreign workers at the construction site, for example at Gwadar port in Pakistan, where more than half of construction workers are Chinese (Kuronuma et al., 2018). A more detailed criticism will be discussed in the following section.

3.3 Criticism of China's FDI and BRI and alternative intervention

Having presented the possible positive effects on Cambodian economic growth and human resource development when promoting the Chinese investment and the current understanding of how Chinese FDI can have this outcome, this section will discuss criticism towards an influx of Chinese investment and its ambitious BRI plan on labor market in Cambodia. The criticism is essential to understand the context that is relevant to the thesis inclusively. As the case is recent, the news article will also be discussed.

Normally, FDI is expected to create jobs to the locals and transfer skills and technology to the host country, which some think that it is not the case for the Chinese investment in Cambodia as they bring their people in the form of foreign laborers (Sokhorn, 2018a).

Since January 2018, it has been reported that numbers of Chinese workers were arrested for living and working illegally without passports, work permits, or proper documents. Most cases are reported in Sihanoukville, and few more cases are in Phnom Penh. Consequently, Cambodian workers will not be employed or trained to acquire necessary skills and there is little or no opportunity to develop the human resources of the country. Former U.S. Secretary of State Rex Tillerson (2017) also criticized certain aspects of BRI in his remarks made in October 2017, covering the issues of enormous levels of debt for receiving countries and the job creation issues as, too often, foreign workers are brought in to carry out the infrastructure projects. He also called for alternative financing measures and financing structures.

Furthermore, some said that an influx of investment and workers from China caused social issues. It has already been proved in Sihanoukville where Provincial Governor Yun Min wrote a letter to Interior Minister Sar Kheng highlighting a tension between Chinese newcomers and the local people as small local businesses and residents are being squeezed out due to a soaring rent, land grabbing, and high crime rates, while several illegal Chinese laborers at the construction sites deteriorate in peace and tranquillity of Sihanoukville (Nikkei Asian Review, 2018; Ellis-Petersen, 2018; Sokhorn, 2018b).

Given the criticism, Pheakdey (2012) suggested that serious efforts and measures must be made to improve the management of investment and aid. Similarly, Ho Vandy, adviser to the Ministry of Commerce and former president of the Cambodia Association of Travel Agents, recommended that the government should have fundamental laws to identify and manage all businesses that are investing in the Kingdom as well as to keep track of what percentage of these investments have benefited the local labor workforce. Otherwise, Cambodia will lose the benefit of the FDI. More transparency laws and more regulations that prioritize local workers should be created and implemented to ensure that China's FDI and BRI effort will result in a win-win scenario. (Sokhorng, 2018a). Pisey and Sunsatya (2018) recommended that Cambodia should also give closer attention to any potential slowdown in China and take necessary measures to counter those risks. Both governments should have an alternative intervention and widen economic cooperation by boosting investment and trade in high value-added industries, especially from China to Cambodia, through both bilateral and regional cooperation under the BRI or ASEAN framework. These interventions could help mitigate risks from the economic dependency of the Kingdom.

3.4 Research gap

The existing literature presented above provides insights into a debatable discussion on China's FDI and BRI ambition in Cambodia. One group sees a strong correlation between FDI and development, such as well-trained human resources, transfer of technology, better local livelihoods, and job creation. The other group argues that it creates tension between Chinese business owners and small local firms, land management issues, crime rates, foreign laborers, and unsustainability. However, it might be too early to judge the real impact of Chinese investment in Cambodia.

Regarding the labor market, most recent cases of foreign/Chinese laborers import as well as violence and conflict amongst Chinese and the locals were reported in Sihanoukville. These findings are limited and not comprehensive to understand the overall situation in the country, especially in the capital, Phnom Penh. Moreover, many other studies on Cambodian workforce focus on labor migration, mainly from Cambodia to Thailand, ranging from remittances to labor

exploitation issue, rather than employment opportunities within the country. Thus, it opens several research gaps that this thesis aims to address and explore.

4. Methodology

This chapter will provide an overview of the methodological approach taken within this thesis. First, the research design and strategy will be presented. Later, an in-depth description of methods used within the case selection, sampling strategies, and data collection will be provided. Lastly, ethical considerations and limitations will also be discussed.

4.1 Research Design and Strategy

To explore and understand the impacts of the Chinese investment on Cambodia's local unskilled labor in the construction sector, a qualitative approach has been adopted to the study. The philosophical foundation of this study adheres to interpretative epistemology as interpretivist tends to understand the social world through an examination of the interpretation of that world by participants (Bryman, 2012:380). Specifically, this research was designed as a single instrumental case study to explore a bounded system. In the case study approach, an in-depth data collection from interviews and multiple sources of information is involved (Creswell, 2007; Bryman 2016). Given the environment of the topic being studied, two primary sources of data will be used, including (1) primary data from semi-structured and open-ended interviews with Cambodian construction workers on the Diamond Island, and (2) secondary source such as documents and reports will be studied.

4.2 Sampling and Data Collection

By using a single instrumental case study approach, the in-depth field data collection focuses on a concerned issue of the impact of a huge Chinese investment on Cambodian labor. First, the Diamond Island has been selected as a bounded case as it significantly represents as a hub of investment in the construction sector in Phnom Penh, especially in real-estate business and thus exemplifies the numbers of Cambodian workers and dynamic of the local employment generated

by the Chinese FDI. To best fit the study, the purposive sampling was used in order to conduct sampling with reference to the goals of the research. Due to the small sample size in this study, a maximum variation was employed as a sampling strategy to ensure a wide variation as much as possible in terms of the dimension of interest and to represent diverse cases and to fully describe multiple perspectives about the case. Therefore, thirty-five participants were selected deliberately based on their common patterns of experiences and relevance to the research question (Bryman, 2012:419; Creswell, 2007:125-129).

Following Creswell (2007)'s four basic types of information, observations, interviews, documents and reports, and audiovisual materials, were considered important, mainly interviews, observations, and documents.

Regarding the *interviews*, 35 individual Cambodian construction workers, including 25 men and ten women in different age groups from both Chinese and local companies who have witnessed the Chinese investment activities in the construction sector on the Diamond Island, were selected as participants. However, the exact number of participants was not pre-decided. Instead, the interviews were performed until theoretical saturation was reached, as no new findings emerged during the interviews (Stewart-Withers et al., 2014:63).

The fieldwork plan and emergent design have been carefully prepared by having a semi-structured list of interview questions. However, flexibility in the sequence, number and content of questions were adaptable depending on each participant's answers and tones of conversation. A one-on-one interview was conducted in a natural setting to provide insights by talking directly to the construction workers through the Khmer-English translator and see how they behave or react within their contexts. Workers' companies, supervisors, and colleagues had no interference to prevent them from being dominated by others. Therefore, each participant had an informal communication which will lead to a direct interaction between interviewer and interviewees.

Besides 35 construction workers, nine key informants and specialists from relevant organizations⁵ who have expertized in the field of FDI, labor, and urban planning were also interviewed to make the findings more inclusive. During November - December 2018, all interviews were conducted in person in English and no interpreter required, except the CEO of Zhe Jiang Construction Company who communicated via email in Chinese and the answers to the interview questions were later be translated into English.

Second, the *observations* have been made before, during, and after the interviews. Descriptive and reflective fieldnotes were gathered on the physical setting, events and activities, and personal experiences.

Table 1: Summary of types of information used in the study

| Type of Information | Units of analysis | Number of units |
|---|--|--|
| Semi-structured in-depth interviews and observations made before, during, and after the interview | Construction workers from both Chinese and Cambodian construction sites on the Diamond Island | 35 construction workers (25 men and 10 women) |
| | Stakeholders from the field of FDI, labor, and urban planning | High-ranking informants from 9 organizations (1 government agency; 4 international organizations; 2 Chinese private sectors; 1 INGO; and 1 research institute) |
| Documents and reports | Public documents and official reports related to FDI, economic policy and its implication, investment law, and labor law | 40+ documents (academic journal, official documents, statistics, and statements, legal documents, archival materials, and news articles) |
| Audio-visual material | Film that related to the topic | <ul style="list-style-type: none"> ● A film named “Diamond Island” ● Photograph from the field, presentations, etc. |

⁵ Key informants include the government (Ministry of Labor and Vocational Training - MLVT), private sectors (Chinese Chamber of Commerce - CCC and Zhe Jiang Construction Company), international organizations (International Labor Organization - ILO, United Nations Human Settlements Programme - UN-Habitat, Japan International Cooperation Agency - JICA, and World Bank), Non-Governmental organization (Habitat for Humanity International) and the research institutes (Cambodia Development Resource Institute - CDRI).

Third, information from various sources of public documents and reports, including academic journal, official paper, statistics, and statements, legal document, archival materials, as well as news articles from reliable sources, were collected and analyzed. Lastly, audiovisual material, involving photographs from the field and a film named “Diamond Island,”⁶, and relevant presentation have also been included in the data collection procedures.

The interviews from both groups of construction workers and key informants were audio-recorded by using a phone recorder and later transcribed by the researcher. All the audio recordings, transcription, fieldnotes, literature, and pictures were stored in the researcher’s personal computer and subsequently synchronized to other tools, including Google Drive and Dropbox across devices.

4.3 Data Analysis Strategy

Following Creswell’s Data Analysis Spiral (2007:150-158), analysis is a crucial process to understand informant’s descriptive details, to classify the data, and interpret them accordingly to answer the research questions. As a part of the analysis, a read-through of transcription of interviews and fieldnotes was carried out. Next, the database was organized and coded into twelve initial categories by using nodes in NVivo 12 to help identify important themes within the data collection and further assist the analysis. Meanwhile, multiple forms of evidence were used to support each. After a categorical aggregation, connections between the codes have come across when one thing tends to be associated with or caused by other things and later were divided into four themes of positive spillover, negative impacts, China’s roles and firms’ characteristics, and policy implication. In the last section of the study, findings will be related to the existing literature by using Dunning’s OLI Model and Five-Stage theory as analytical frameworks. An outline of causal relations between factors was developed subsequently and reported holistically. At this stage, the analysis uses an inductive approach to organize and shape the themes that emerge from an obtained database and the analytical process.

⁶ *Diamond Island* is a 2016 film directed by Davy Chou, a Cambodian-French filmmaker. The film was screened at the International Critics’ Week section at the 2016 Cannes Film Festival and won the SACD Award.

In the last section, an interpretation has been conducted on a case-based basis, which based on the observations and interviews, multiple reliable sources, and researcher's interpretations as it cannot be separated from each researcher's background and prior understanding (Creswell, 2007). However, all interviews, including the construction workers and stakeholders from multiple sectors, were used to ensure that the study has included as many perspectives as possible.

4.4 Ethical Considerations

Ethical consideration is primarily considered throughout the process of a field data collection. The fieldwork began after a thesis supervisor had approved the outline procedure and draft interview questions. The fieldwork was conducted with an open mind as a key. Each interview started with self-introduction, following by explaining purposes of the study, presenting general information and informing the interviewees that they were participating in a study, and most importantly, asking for their consents. During the interview, the researcher adhered to the ethical sensitivity by not placing the participants at risks and protecting their anonymity and confidentiality as the topic of this study is sensitive to their career and relationship among Chinese and local community. Thus, numbers were assigned to participants as Worker 1-35 to minimize any adverse impact and increase their benefits (Hammett, 2015:115). At the same time, their working hours, privacy, and right of participants were fully respected (Creswell, 2007) as they can choose not to answer or withdraw the interview at any point. Samplings vary to sex and age-group. Nonetheless, all informants were above the age of 16, following Lund University guidelines for research with children.⁷

An observation was made simultaneously without taking fieldnotes in their presence, but after the interviews instead, to build trust. Throughout the whole research, self-reflexivity of avoidance of any prejudice or subjective values is crucially considered as it could impact findings (Tracy, 2010). Moreover, a translator was carefully selected, and the discussion had been made before the fieldwork started to ensure that the chosen translator is not biased and feel comfortable to work on the topic.

⁷ Only 1 out of 35 participants were under the age of 18, being 17 years old, and the consent from her parents was well-received.

4.5 Limitations

The qualitative research itself could impact on the access to data both positively and negatively since culture, ethnicity, clothing and belongings of the researcher can impact findings (Hammett et al. 2015:51), yet being Thai who share a similar appearance, culture and tradition is beneficial. Most participants who used to work in Thailand for quite sometimes can speak Thai fluently. So, people were generally open to the questions and showed their interests in the study. Also, the data can never be an absolute truth as interviews could provide subjective data which could be biased (Hammett et al., 2015:147). Many external factors could affect their perception and answers despite proper planning of sampling strategy. Gender-imbalance was shown in data collection, resulting in 25 male and ten female workers involved in the interviews. However, it could be argued since, generally and culturally, there are more men involved in this sector, especially at the construction sites. Also, the interviews were highly dependent on the translator, which cannot be guaranteed whether all things said will be conveyed in the right meanings or tones. Having a colleague from UNDP who is a young professional with extensive experiences in field data collection as a translator help minimize this risk.

Moreover, having access to the Chinese sides, including the Chinese Embassy, companies and their workers, is very limited due to security measures and the sensitivity of China-related issues in Cambodia. As a result, the interview involves 18 workers working with Cambodian companies and only nine workers from the Chinese companies, while eight workers were not sure whether their companies are Chinese or Cambodian. This situation can cause the researcher to miss some data and useful information. However, an opportunity to interview the President of the Chinese Chamber of Commerce (CCC) and the CEO of Zhe Jiang Construction Company help fulfil the missing data. Another alternative used was to attend Cambodia Construction Industry Expo 2018 to collect data from the statements made by high-ranking officials and CEOs, explaining their vision towards foreign investment in the construction industry which will be discussed more in the Findings chapter.

Lastly, as some impacts caused by huge Chinese investment in Cambodia, such as the issue of foreign workers, has been discussed recently and has not yet shown in any academic publication,

most recent discussion and statistics from some other sources, such as reliable online news articles, are also worth to be discussed and analyzed.

The methodological approach has provided a fundamental understanding of how the research has been designed and how the data has been collected. The next chapter will present a theoretical framework that will be used as a means to analyze the findings in this thesis.

5. Theoretical framework: Conceptualizing FDI

Before proceeding to present and analyze the findings, it is essential to outline the theoretical framework that is built on the literature of FDI. The theory will analytically shape and define the concept of FDI, and later the Chinese FDI in Cambodia, and the impact on Cambodian workforce, which is a principle of the aim of this qualitative study.

FDI is a crucial instrument that has been using as an instrument of growth for both developed and developing countries. It is, therefore, essential to look more closely at the theory behind FDI to understand how it occurs and its impact on the host country in the short, medium, and long term. Being theoretically informed about FDI and its subsequent behavior in the host country will allow us to better understand its impact on the Cambodian labor market and its economic development.

A concept of FDI had become an attraction after World War II when globalization accordingly emerged. The original concept of FDI importantly attached to the Multinational Enterprises (MNEs) and FDI flow between the 1950s and 1960s, specifically from the United States to European countries, and from the later to other less developed countries. Consequently, scholars have come up with several theories to explain this capital movement situation. However, there is no 'one-in-all' theory to describe all kinds of FDI either the outward or inward FDI at the macro- and micro- level.

In this section, I will expose two theoretical schemes, including Dunning's eclectic paradigm or OLI model, and Dunning's Investment Development Path Theory or Five-Stage Theory.

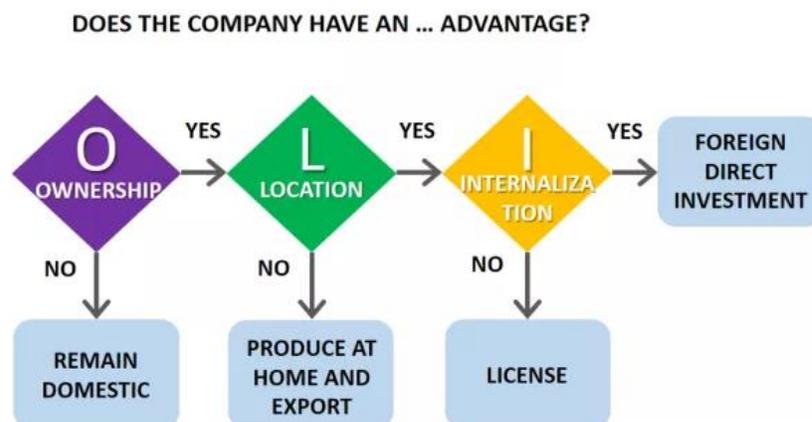
5.1 The eclectic paradigm or OLI Model

Eclectic paradigm or OLI model, developed by professor John Harry Dunning (1977), has been widely used as FDI framework. In the paradigm, Dunning tried to combine FDI theories ranging from firm, industry and country level, and integrate them into a single analytical framework to provide valuable insights and a more comprehensive conceptual framework for explaining the occurrence and success of FDI. The theory depicted that not only differences in countries' resources and firms' advantages play significant roles in instigating overseas investment activities, but also the actions of governments of the host countries determine the attractiveness and conditions of entry (Oppong, 2018). Therefore, Dunning suggested that FDI will successfully operate if only three following conditions are fulfilled.

First, O from Ownership advantages

The foreign firms will have ownership advantages. According to Denisia (2010), this ownership advantage refers to (1) Monopoly advantages in the form of privileged access to markets, through ownership of limited natural resources, patents, or trademarks; (2) technology which referred to knowledge broadly defined so as to contain all forms of innovation activities; and (3) economies of large size, such as economies of leaning, economies of scale and scope, and greater access to financial capital. Thus, these advantages are uniquely given to foreign investors concerning its brand name and acquisition market share (Gastanaga et al., 1998).

Figure 1: Eclectic paradigm or OLI Model



Source: <https://www.business-to-you.com/choosing-the-right-entry-mode-strategy/>

Second, L from Location advantages

The condition of the location advantage is the critical factor in determining who will become the host countries for investment activities (Denisia, 2010; Opong, 2018). According to Dunning (1980 and 1988), the specific advantages of each country can be divided into three categories:

- a) The economic benefits consist of quantitative and qualitative factors of production, costs of transport, telecommunications, market size, etc.;
- b) Political advantages, including common and specific government policies that affect FDI inflows;
- c) Social advantages, including a distance between the home and host countries, cultural diversity, attitude towards strangers, etc.

Third, I from Internalization advantage

Unlike the first two conditions, this advantage offered to the investor usually depends on the investor's behavioral characteristics and intentions (Opong, 2018). This third characteristic of the OLI paradigm provides a framework for assessing different ways in which the company will exploit its powers from the sale of goods and services to various agreements that might be signed between the companies (Denisia, 2010). As cross-border market Internalization benefits are higher, the more the firm will want to engage in foreign production rather than offering this right under license or franchise (Ibid, 2010).

Eclectic paradigm shows that OLI conditions are different for each foreign company as it depends on the company's characteristics, as well as the economic, political, and social context of the host country. Therefore, the objectives and strategies of the firm will be varied depending on the challenges and opportunities presented in each targeted country. This OLI model will be later used to check against the successful case of China's outward FDI in Cambodia.

5.2 Investment Development Path Theory or Five-Stage Theory

Dunning proposed that states go through five stages of development that are directly related to the net investment value (Gerasimos, 2015). At the first stage of the IDP, the advantages of OLI

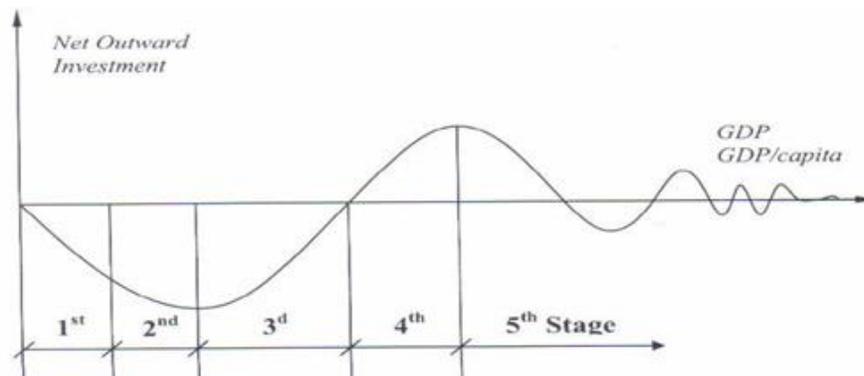
are not fully met as there is a low inward FDI, but foreign firms are beginning to discover the advantages of the country. At this stage, there is no outward FDI.

At the second stage, inward FDI grows at an increasing rate due to the advantages of the country, but OFDI is still limited. At this stage, the standards of living are rising as well as the size and purchasing power are sufficient enough to attract more FDI and investors to the country.

At the third stage, the value of inward FDI remains strong, but their nature is changing due to the rising wages. Simultaneously, outward FDI gains momentum as domestic companies are getting stronger and develop their competitive advantages, for example, knowledge and technological advancement.

At the fourth stage, outward FDI exceeds inward FDI, which is a sign that the domestic firms are seeking advantages overseas. Moving to the fifth stage, outbound and inbound FDI come into equilibrium which reflects the maturity of the domestic market.

Figure 2: Investment Development Path Theory/ Five-Stage Theory



Source: Gerasimos, 2015

Within the several existing theories on FDI, I have found Dunning's theoretical framework of the OLI model and Five-Stage paradigm most relevant and useful in guiding analysis of primary and secondary data and will be further used to answer the research question. Therefore, in the case of the present study, I will use Dunning's conceptual framework to analyze FDI in Cambodia as the host country that attracts a huge Chinese investment over the past decade. It is important to note

that Dunning's theories of FDI are not a one-size-fits-all approach. They are only an approach to guide how FDI might be understood. The OLI Model will be used to analyze the general process of how FDI occurs while the Five-Stage theory will be used to describe effects of how FDI impact on the labor market and overall economic development in Cambodia. From my primary and secondary sources of data, I see Cambodia remains at the second stage which will be further analyzed in the analysis part.

6. Findings and analysis

6.1 Description of the case

6.1.1 Workers' interviews and observation from the field

Most of 35 interviewed Cambodian construction workers⁸ see the construction projects on Diamond Island create more job opportunities and usually provide higher wages. Even though some of them earn less than what they used to earn from previous companies, most of the construction companies pay faster (daily or weekly). Most unskilled Khmer workers earn US\$5-10 per day (US\$6-8.5 for men and US\$4.5-5.5 for women) from the Cambodian companies while those who work with the Chinese companies earn slightly higher at US\$8-10. The skilled laborers, such as safety technicians and plumbers, earn US\$10-15 per day. 14 out of 35 workers or 40 percent of total interviewees have experienced or believe that Chinese workers earn around US\$20 and even more at US\$50-80 with particular expertise.

At the Chinese construction sites, some Cambodians said that 50 percent or more of total employees are Chinese. Most Cambodians are unskilled laborers, focusing on laying bricks and

⁸ Interviewed workers comprise of 25 men and ten women whose age range between 17 (with an approval from his/her guardian) to 50 years old. Most of them come from provinces near Phnom Penh, for example Kandal, Takeo, Prey Veng, Kampong Chhnang, and Kampong Cham (see Annex 2), while other workers living closer to the border usually decide to work abroad, especially in Thailand and Vietnam.

mixing cement, while works that require more skills, such as a substantial use of glass, are done by Chinese. However, most of them said they don't learn any new thing that much as they already know those basic works assigned to them. The construction foreperson, including managers and inspectors, are also Chinese. Based on the observation and interviews at the Cambodian construction sites, workers are mainly Cambodians. Even though Khmer workers know that the Chinese companies usually pay more, they still prefer to work with the Cambodian ones due to a language barrier and a well-established relationship with their local bosses.

Almost every interviewee mentioned that there are a large number of Chinese workers on Diamond Island, mostly in the central and northern parts where the Chinese investment is spreading around with the luxurious apartments and skyscrapers. The southern part is more devoted to local investors' projects, such as the luxurious villas and the French architectural-designed low-rise buildings to match Cambodian's preference of staying in 2-3 storey-houses. Most local workers live at the construction labor camp in the central and southern part of the Island and rarely have neither interaction nor conflict with the Chinese.

6.1.2 Cambodia Construction Industry Expo 2018 (29 November - 1 December 2018)

The three-day-long Cambodia Construction Industry Expo is the biggest construction expo in Cambodia held annually by Cambodia Constructor Association (CCA) to promote construction materials and machinery and to showcase more than 600 products, involving 310 booths from 186 national and international companies in 2018. An observation has been made at the opening ceremony on 29 November 2018.

H.E Chea Sophara, Deputy Prime Minister and Minister of MLMUPC⁹, presided over the event. His welcoming remarks expressed the promising future of the construction sector as it ensures the country's economic development and has contributed a lot to Cambodians since the technological standards have been lifted and all kinds of construction materials have been provided to and can be produced within the country. However, H.E. Sophara also raised the current issue of a shortage of skilled labor and controversial land ownership, and thus, urged

⁹ Ministry of Land Management, Urban Planning and Construction

companies to adhere to the regulations and try to compromise with local people. He concluded by calling for everyone to maintain peace and political stability to ensure this growing dynamic.

Neak Oknha Pung Kheav Se, Chairman of Canadia Bank and Chairman of CCA, congratulated the success of 2018 general election. He thanked Prime Minister Hun Sen for always ensuring the economic growth and peaceful environment for the construction industries and H.E. Sophara for his commitment and approval of all the legal documents and standards, and his support on CCA's event. He stressed that new buildings grow immensely and become the new beauty of Phnom Penh.

Mr. Wu Ningning, executive president of the China-ASEAN Business Council, has delivered his remarks in Chinese and the translation was not provided. According to the Khmer Times, he highlighted a comprehensive strategic partnership of the two countries and the great potentials of the construction industry. More Chinese enterprises are optimistic and seek for future cooperation in this sector (Manet, 2018).

6.2 The development of Chinese FDI inflow in Cambodia and a policy discussion: a practical application of the OLI Model

As the development of FDI is a reciprocal action from home and host countries, the OLI theoretical framework will explain that only the determination from the foreign firms to invest overseas is not enough to make any decision, but the action of the host country will also determine the attractiveness and give the point of entry to operate in a foreign country successfully. This section will investigate both China's key competitiveness and the reaction from RGC that help support an inward FDI.

6.2.1 Ownership-specific-advantages

First, a company needs an ownership advantage to overcome the perception of foreignness and its non-native status. Samples of the ownership advantages are a reliable brand name or trademark with a good reputation, production techniques which contain all forms of technological capabilities, innovation activities and entrepreneurial skills, and a large scale of economies.

Recently, China has been growing up very fast because of the immense investment in infrastructure and its peaceful role as strategic ally and most prominent business partner by promoting sustained development assistance, trade incentives, and confidence-building measures and has been trying to upgrade and export Chinese construction techniques and rebranding “made-in-China” products to the global standards.

Many Chinese companies in provinces are keen to involve in this national project as they see it as “golden opportunity” to obtain cheap funding and gain political support for their own infrastructure projects under the banner of BRI (Cai, 2017). Considering Chinese firms’ unique characteristics, they are opportunistic, step-pointing in when the US and Japan have hesitated, especially on aids, trade agreement, and infrastructure development (Burgos and Ear, 2010). At the same time, China plans to export its oversupplies from repeated industries, for example, industrial steels, cement, and pleat glasses, to the new markets. The interview with the President of CCC supported this statement as he mentioned that

“...Chinese companies are good at looking for opportunities. The Chinese government called Chinese companies to invest overseas. Most companies really enjoy the fast-growing economic in China, but five years ago, there were too many steel and cement industries in China. Overall, the supply is more than demand. So, we must find new markets.”

On the other hand, Japan has always been strongly committed in developing Cambodia. However, a Project Formulation Advisor of JICA in Cambodia admitted that China has taken the lead and is committing far more resources and flow of capital than the rest of Cambodia’s traditional donors. Even though the Japanese investment in the construction sector is huge considering the two biggest malls in Phnom Penh built under the Japanese brand, AEON Mall, not so many Japanese firms want to invest in the construction sector in Phnom Penh due to an unclear regulation on land ownership. “Japanese don’t like taking risks. I think foreign companies don’t have the rights to own the land and thus need to partner with local companies. So, the land ownership is critical,” he added. The situation reflects a result of the document shredding during the Khmer rouge era and a continued non-transparent land management system.

In brief, the Chinese companies with the support from the government has redefined the former perception towards Chinese technology and construction standards and introduced them to Cambodia as a new market. With the support from a close tie between Beijing and Phnom Penh, especially on the access to lands, buildings under the Chinese brand name are becoming well-known and acquiring the Cambodian market share.

6.2.2 Location-specific-advantages

Location advantages are one of the key criteria to answer the question of who the host country should be. There must be some signs of compelling advantage offered by the host country that worthwhile to undertake FDI, considering the economic, policy and political, and social context.

Economic Context

Firstly, factors of production, including the existence of cheap raw materials and low wage rate, make the country more attractive and competitive to FDI. Undoubtedly, Cambodia fits this criterion with its cheap labor costs. Despite the fact that the average wage is rising, it is still competitive comparing to its neighboring countries, Thailand and Vietnam. Even though there is still a lack of skilled workforce, China decided to bring its workforce, especially skilled laborers, together with technique and technology from China to fulfil this criterion.

Secondly, the market demand is sufficient for production to take place in Cambodia. As the GDP growth rate¹⁰ is estimated at least 7 percent per annum with real GDP per capita has also steadily increased from US\$1,043 in 2013 to more than US\$1,130 in 2014 and project to reach US\$1,225 in 2015 (CDC, n.d.). This fact is also supported by the President of CCC who insisted that the market size is good enough to invest, considering the number of populations with almost 70 percent are workforce.¹¹ ILO National Coordinator said that 30 percent of Cambodian labor (approximately 50,000 people) work in the construction market. Cambodia is also potential to connect China with the larger market share in ASEAN.

¹⁰ Market size is typically measured by GDP (Cuyvers et al., 2008b).

¹¹ According to the 2008 General Population Census, Cambodia's population was 13.4 million, consisting of children (0-14 age) 33.7 percent, economically productive age group (15-64) 62 percent, and the elderly population (65+) 4.3 percent (National Institute of Statistics, n.d.). The next General Population Census in Cambodia will be launched in 2019.

Lastly, the quality and quantity of transportation and telecommunication in the host country could influence the companies' decision. In terms of transportation, Cambodia is strategically located in Southeast Asia, which could be the main transportation route that links Thailand and Vietnam. Moreover, the coastal city, Sihanoukville, has the potential to facilitate goods and materials in the South China Sea, the Gulf of Thailand, and the Strait of Malacca. President of CCC reaffirmed that it is the right decision made by the Chinese leader to fund infrastructure as it is the basis of everything. Telecommunication is also essential to facilitate trade and investment, yet Cambodia was not able to have all these billion-cost facilities. At the same time, the Chinese have calculated that it worth not to wait until Cambodia has everything, but building it by themselves based on a Build-Operate-Transfer model.¹² Therefore, it is not a coincidence that the Chinese government envision and foresee building infrastructure and telecommunication networks as a crucial step of its FDI and BRI strategy.

Policy and Political Context

To attract inward FDI, Cambodia has liberalized its FDI regulations and adopted an investment-friendly policy. According to the 1994 Law on Investment, Cambodia has granted generous incentives to eligible investment projects. These incentives include a reduction of Corporate Income Tax (CIT) from 15-25 percent to only 9 percent, a tax holiday of up to 8 years; export and import tax exemption on construction materials, production equipment including spare parts, intermediate goods and raw materials; guarantee against expropriation; no restriction or no tax on repatriation of profits; no withholding tax on dividends; and equal treatment of both domestic and foreign investors (Cuyvers et al., 2008b). To further improve the investment climate, the investment law of 1994 was amended in 2003 to replace the 9 percent CIT with 20 percent.

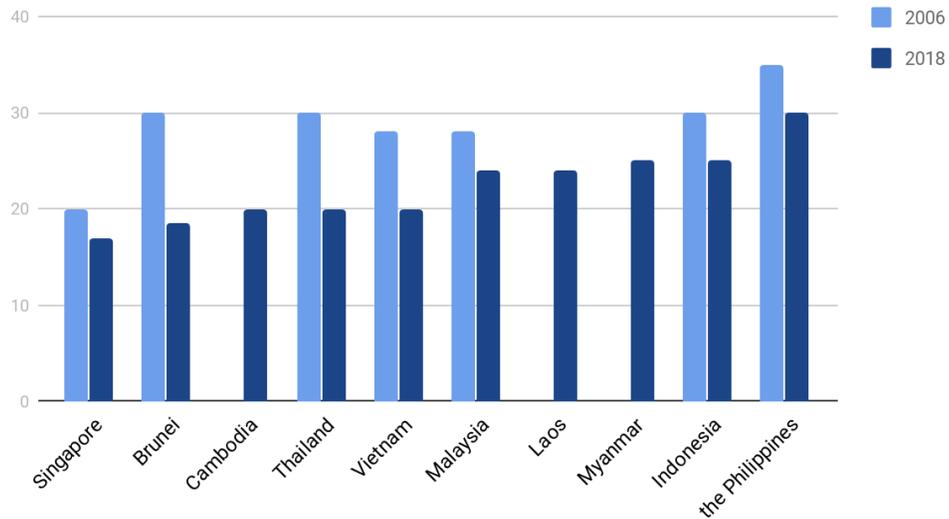
Although the corporate tax has increased while other ASEAN nations tend to lower the tax,¹³

¹² Build-Operate-Transfer or Build-Own-Transfer (BOT) is a model used to finance large projects, usually infrastructure projects developed through public-private partnership. After receiving a concession from the government, the private sector will finance, build, and operate for certain period of time as specified in the contract to recoup its investment before transfer the management of the projects back to the government. In Cambodia, BOT projects need to be approved by CDC and shall submit for the approval of the Council of Ministers (CDC, n.d.). Some of BOT projects included roads, highways, a deep-sea port, and Special Economic Zone (SEZ) in Sihanoukville.

¹³ Singapore 17 percent, Brunei 18.5 percent, Thailand and Vietnam 20 percent, Malaysia and Laos 24 percent, Myanmar 25 percent, Indonesia 25 percent, and the Philippines 30 percent.

Cambodia is still seen competitive in terms of financial incentives available for foreign investors comparing to other countries in the region.

Figure 3: ASEAN Corporate Income Tax (CIT) rate



Sources: Tax authorities, KPMG, Deloitte, EY, PwC¹

Besides an amendment on CIT rate, the projects approved by CDC are eligible to enjoy other favorable benefits, such as tax holiday and tax-free imports of capital goods and intermediate goods used in the production of exports. There is no discriminatory treatment between local and foreign investors, except two main restrictions on foreign citizenship. First, the ownership of land by investors for QIPs, approved by CDC, shall be vested only by persons holding Cambodian citizenship or in Cambodian entities. However, the use of land is permitted to all investors, including *concessions, unlimited long-term leases and limited short-term leases that are renewable* (CDC, n.d.), which practically means that 100 percent foreign ownership in most sectors are allowed in Cambodia as President of CCC also mentioned about this key benefit for its construction business that they don't gain from some other ASEAN countries, such as Thailand. The second restriction is on the employment of foreigners which doesn't matter as it has mentioned only that visa and work permits are required for skilled foreign workers if the qualification and expertise are not available in Cambodia.

In addition, Cambodia also launched other favorable policies, including a signed MoU on “Formulating the Outline of Bilateral Cooperation Plan to Jointly Build the Silk Road Economic Belt and the 21st Century Maritime Silk Road” and the national policy direction guided by its Rectangular Strategy Phase III and Industrial Development Policy (IDP)¹⁴, which attract more Chinese investors and entirely shape the cooperation between Cambodia and China within the BRI framework (Vireak and Vutha, 2018). Moreover, such investment-friendly policy has been backing up by the political stability, close diplomatic tie, and a long-established friendship between senior officials, that the Chinese investors can perform their business in comfort. Political stability under Prime Minister Hun Sen is paramount to foreign investors’ decision while freedom of speech and a form of labor union or labor association are very limited.

Social Context

First of all, geographical distance between home and host country is also regarded as an essential determinant of location advantage since it affects the market accessibility, transaction costs, costs of transportation and communication, in case there is a language barrier, which requires sending personnel from the home country (Cuyvers et al., 2008b). Geographically, the distance between China and Cambodia is not too far. Approximately, 100 direct flights have connected China’s major cities to Cambodia recently and help facilitate Chinese companies to set up their businesses (Yara, 2018).

Similar cultural practices also help localize the FDI activities. Many prominent Sino-Khmer business tycoons and high-ranking government officials have close ties with Chinese companies operating in Cambodia (Sullivan, 2011) and numbers of Khmer-Chinese communities help ease the cultural gap and create a neutral or positive attitude towards strangers (Burgos and Ear, 2010). China is now actively supporting the rejuvenation of Cambodia’s Chinese community in Phnom Penh by promoting language school and Chinese newspaper, supporting Chinese-Cambodian social organizations, facilitating business links between private Chinese companies and Cambodian business interests (Sullivan, 20011; Kosal, 2009), and offering more than 1,000

¹⁴ Based on the MoU, four out of seven key areas on the MoU are in line with the priorities of the IDP, namely a promotion of agro-industry, stronger boost for infrastructure, promotion of industrial cluster and industrial human resource capacity building.

scholarship and 700 fellowships for Cambodian students to pursue their higher educations or short-term trainings in the past 13 years (Yara, 2018). From my observation, even though there are some criticism and sensitive sentiments towards the Chinese newcomers, it is unavoidable for Cambodians to start learning Chinese as it is a way to get higher incomes and have a better access to the job market. Restaurants, sale offices, newspapers and signs are often written in Chinese, while a lot of Chinese-language schools are established in the city.

6.2.3 Internalization-specific-advantages

If the local firms prefer to perform the value chain activity in-house rather than to have it performed by an external party, they might offer the rights through a partnership arrangement, ranging from the basic exporting partners, licensing, franchising, and joint ventures in order to keep control over its activity engagement in FDI. However, the more the firms want to engage in foreign products, the higher the possibility that FDI will be determined. According to Cuyvers et al. (2008a)'s study of one thousand manufacturing firms in Cambodia during 2002-2003, most forms of degree and ownership control is wholly foreign-owned. Only some minority foreign firms are joint ventures or partially owned by foreign investors as most cases of Chinese firms in Cambodia usually choose to perform FDI, the most capital-intensive business activities.

Table 2: The summary of factors, competitiveness, and policy support for Chinese FDI in Cambodia within the OLI framework

| Questions on categories of advantages | Answers | Result |
|---------------------------------------|--|--|
| O - Ownership | Yes | A successful operation of Chinese FDI in the construction sector in Cambodia |
| L - Location | Yes, except for some economic factors, including availability of skilled workforce, transportation infrastructure and telecommunications services in the host country. | |
| I - Internalization | Yes | |

In the case of Chinese FDI in the construction sector in Cambodia, some criteria cannot absolutely be answered as ‘Yes’ because of an inadequate infrastructure (including high energy costs), transportation, telecommunication, and skills shortage. However, the Cambodian government has sent a strong welcoming message while China has huge capital and, therefore, choose to fulfil those criteria by themselves as it is still cost-effective to perform FDI in Cambodia.

6.3 Impacts of the Chinese FDI on Cambodian labor in the construction sector: An empirical evidence

6.3.1 Positive spillovers for Cambodian labor

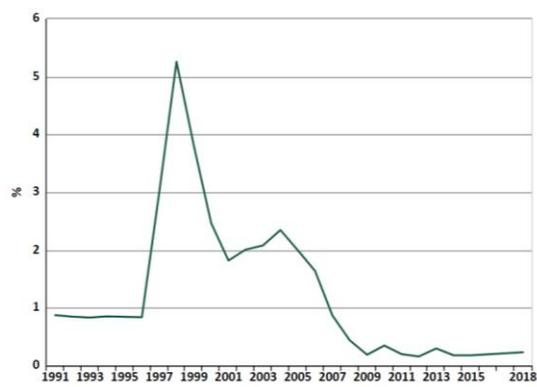
Employment opportunities

Obviously, FDI provides more job opportunities for local people. From the conversation with workers, many workers said that they could find more jobs on Diamond Island. Some do the construction works as a temporary job after the harvesting season or during their school breaks. Some found the jobs by having personal networks while others got a job from subcontractors. Therefore, the opportunities from FDI have provided not only to workers but also subcontractors. Worker 11 highlighted that the construction business is more stable than any other sectors. Also, anyone can work at the construction sites as no skill required, a female worker (Worker 8) added.

Besides Cambodian workers, almost every key informant¹⁵ agreed that the Chinese investment has noticeably created more jobs to the local workforce and thus has a positive contribution to overall economic development. The following graph shows the decreasing unemployment rate from 3.8 percent in 1999 to 0.2 percent in 2018.

¹⁵ including JICA Project Formulation Advisor, UN-Habitat Programme Manager for Cambodia, National Director of the Habitat for Humanity International, ILO National Coordinator for Cambodia, Director/Founder at Cambodian Institute for Urban Studies (CIUS) and a World Bank Accredited Environmental Safeguard Specialist, Research Fellow / Unit Head at Cambodia Development Resource Institute (CDRI), and President of CCC

Figure 4: Cambodia's unemployment rate



Source: the graph is generated by <https://knoema.com> by using data from World Development Indicators (WDI)

Moreover, some people who used to be migrant workers could choose to work in Phnom Penh instead of travelling overseas. Although the wage is still less than in Thailand, for example, at least they can live closer to their families as mentioned by Worker 7 and 20. This is in line with an interview with Director General of the National Employment Agency (NEA) at MLVT¹⁶ as he said that the cause of migration had been changed from survival purpose to a choice of preference as wages have been steadily increased after having a construction boom. The issue of wage will be further discussed in the next section.

Higher wages

The ILO National Coordinator said that the construction workers could earn around US\$120 per month which is more than what they used to receive 30-35 percent in the past few years. Many workers said that they could earn better on Diamond Island than any other projects. Their wage has also been slightly increased at US\$0.5 every six months (Worker 14) or US\$0.3-0.5 every few months (Worker 29). Some who work with the Chinese companies could earn higher at US\$10. To increase the wage, it depends on each companies' practices and regulations. JICA Advisor raised that the rising minimum wage in Cambodia, especially in the garment sector could reduce its attractiveness for some industries in the future, yet not for the construction ones.

¹⁶ Ministry of labor and Vocational Training

Others positive impacts

First, FDI provides entrepreneurial skills and knowledge diffusion which are the foundation of skilled development, said the MLVT Director General and the World Bank Specialist. At least, people started learning a new language – Chinese, which is the complementary skills and could be useful, added the National Director of the Habitat for Humanity International. The President of CCC raised that an investment in real-estate business provides more housing options and a new lifestyle to Cambodians as he said

“We build apartment and real estate due to the high demand, not only for Chinese or investors but also for the locals. They are changing their mind of moving from living in a house to an apartment. ...I called it a “business involvement” which create more choices of housing for people. Most apartments are from China. So, it’s kind of a contribution from the construction sector.”

An interview with CEO of Zhe Jiang Investment Group, one of the leading Chinese construction companies in Cambodia, also complemented this idea as he viewed BRI as a win-win strategy as their projects could also benefit the locals in return.

When asking about workers’ perception towards the development on the Diamond Island, most of the construction workers said it is “good”, “beautiful”, “has no impact”, and “provide more jobs”. Many said “no idea” or left the question unanswered. Worker 25 noted that the garment factory was good, but now it is the construction sector that is booming.

6.3.2 Obstacles for Cambodian labor

Foreign workers

Positive impacts on human development and knowledge and technology transfer generally accepted in the garment factory, but it is still skeptical for the construction sector as the employment of Chinese as foreign workers were reported¹⁷. The issue has been raised by key informants (UN-Habitat, Habitat for Humanity International, and CDRI). The Habitat for Humanity International Director added that some giant Chinese companies hire Chinese citizen,

¹⁷ The maximum percentage of foreigners who can be employed in each of the enterprises shall be determined by a Prakas of the Minister in charge of Labor based on each of the categories of personnel as follows (Article 264): a. Office personnel b. Specialized personnel c. Non-specialized personnel

not only for the high-skilled work but also for the unskilled ones. Such case has been reported in the local media and widely discussed in the society, which MLVT Director-General also disclosed that unskilled foreign workers do exist, but the government is trying to be stricter in dealing with this issue. President of CCC and CEO of Zhe Jiang company argued that hiring the Chinese skilled workers and foreperson is necessary to ensure that everything will be under the work plan. Also, their workers equipped with more skills and better work ethics as they can finish the work on time.

Nowadays, there are several Chinese workers on Diamond Island, agreed by all the construction workers interviewed. At the construction sites, they said that all workers at Khmer companies are Khmer, but there are both Khmer and Chinese at the Chinese sites. The ratios between Khmer and Chinese at their sites are approximately 60:40, 50:50, and 30:70, estimated by the interviewees. When asking about the knowledge and technology transfer, two workers said they have learned about safety measures and ceiling techniques, while others don't feel like learning anything.

Shortage of skilled labor

As mentioned in the background chapter that a lack of skilled labor was historically caused by the Khmer Rouge since 1975. The problem of importing foreign workers could make the process of knowledge and technology transfer not fully function in Cambodia, worsen the situation of the country's skills shortfall, and further prevent the Cambodian workforce from human resource development and sustainable economic growth.

Cambodia's workforce is characterized by low-level of education and low skills. Even though the Cambodia' IDP 2015-2025 supports the policies focusing on skilled and human resource development, science, technology and innovation promotion (Vireak and Vutha, 2018; West, 2016), shortage of skilled Cambodian workers remains challenging due to a lack of proper training system and technical vocational training, as well as an implementation from the government. It has also been pointed out by Habitat for Humanity International, CDRI, and World Bank that a lack of skilled labor in Cambodia is a cause that allows foreign companies to bring their skilled labor into the country. Moreover, the problem also relates to perception and

cultural values that good students should go to the university while unsuccessful students have no alternative but joining vocational schools, CDRI added.

Wage-related concerns

According to the 1997 Labor Law¹⁸, the minimum wage is set by a Prakas (ministerial order) of the Ministry that is in charge of labor. However, there is only *Prakas on Determination of Minimum Wage for Workers in the Textile, Garment and Footwear Industries for 2018*¹⁹, which determines minimum wage only for the garment workers (US\$170/month). This situation could push workers in other sectors to fall into a vulnerable and unstable situation of employment, treatment, and access to social services. Most interviewees wish to ask for a higher payment from the government. ILO and UN-Habitat concerned that they are vulnerable as some of them are informal/casual workers based on daily payment or short-term contracts.

Findings also found a significant gap in payment between gender. One young male worker even said that the government/company should increase the payment for his female colleagues. ILO also raised this issue and hope that it will be discussed in the new national minimum wage law. Unfortunately, this issue has been prioritized by neither the government nor the companies.

The next concern related to wage is an unequal payment between Chinese and Khmer laborers. Some said that their (Chinese) companies pay other Chinese unskilled workers at least US\$10-20 per day while paying only US\$6 for the locals. Those skilled Chinese labor (ranked at a higher position) could earn US\$40-60 per day. In general, they, either at the same or different ranks, were paid approximately five times higher than local Cambodians. It is worth to note that some local workers might misunderstand the skilled and unskilled jobs. Habitat for Humanity International stressed that even though the wage for Cambodian construction workers is decent compared to other poor Cambodians but they are “very much underpaid.” According to the interview with key informants, the unequal wage might relate to time-efficiency and work ethics. Director General of MLVT, President of CCC, and CEO of Zhe Jiang company firmly believe that those with higher wages must have particular skills or rank at higher positions, such as

¹⁸ All labor-related matters are regulated by the Constitution and the 1997 Labor Law.

¹⁹ MoLVT No. 414 KB/Br.K

technicians, engineers, or managers. CEO of Zhe Jiang company mentioned that his Chinese employees usually receive a higher salary at US\$1500-US\$2000 per month, because of their skills and experiences.

Impacts on the livelihoods of workers and local communities

First, the issue of bad working condition, labor abuse, and unequal treatment was raised by UN-Habitat, which is in line with the previous studies of Burgos and Ear (2010) that even though there is a positive result of labor treatment standard in the garment factories recently, there is still a lack of labor rights promotion and protection in the construction and other sectors, especially in terms of abuse and exploitation, harsh working condition, unauthorized paycheck deductions, underage workers, verbal abuse, etc. Besides, the one-party-ruled government has stipulated an investment-friendly climate by cutting labor laws that are unfavorable to the business, such as obstructing labor unions' registration (Davis, 2018). Nevertheless, these concerns were not raised by any of the interviewed construction workers, which doesn't mean that the problem does not exist, but because labor rights and unions were not promoted in Cambodia²⁰.

Second, UN-Habitat and Habitat for Humanity International raised the issues of urban planning and unsustainable use of resources by the Chinese investors. The expansion of the Diamond Island affects the flow of the river, fish migration, and biodiversity disruption which affect fishers and residents who live in lower villages, and therefore could force them to move into the capital or neighboring countries to find new labor jobs. Also, a lack of proper urban planning, such as building a casino and luxurious apartment in front of the Royal Palace (near Diamond Island) could ruin the beauty and identity of Phnom Penh, UN-Habitat added. There is less public space for the locals and proper waste management and drainage system were not strictly required due to weak law enforcement and a lack of coordination between relevant agencies.

²⁰ For example, according to the 1997 Labor Law, the number of hours worked by workers of either sex cannot exceed eight hours per day, or 48 hours per week (Article 137). If workers are required to work overtime for exceptional and urgent jobs, the overtime hours shall be paid at a rate of 50 percent higher than normal hours. If the overtime hours are worked at night the interval from 22:00-05:00 or during weekly time off, the rate of increase shall be 100 percent (New Article 139). Two interviewees always work for the overtime payments (from 17.00-23.00) and got paid the same rate as the day shift.

Therefore, it is arguable that FDI from China does not benefit everyone. Three workers (number 14, 27,29) told from their experiences that the development exists on the Island, but it only generates the benefits to a specific group of (rich) people. They just construct, receive daily wages, and leave the Island.

To sum up, the empirical data from labors and key informants provides mixed results, showing both positive and negative impacts of Chinese FDI on the local labor market. However, based on the interview with the construction workers, the positive effects seem to outweigh the negative ones, while most concerns were raised by international organizations and INGO. Therefore, in order to maximize the positive spillovers from FDI, it is also essential that Cambodia and its people must recognize the negative impacts caused by the bring-in of foreign workers which could prevent Cambodian workforce from knowledge and technology transfer and skilled development, an insufficient attempt from the government to build capacity of its people, and most importantly, a lack of law enforcement and coordination among concerned agencies that should be taken into consideration seriously to make FDI grow sustainably.

6.4 The Relations between the Impacts of FDI and Analytical Framework: Empirical evidence through the lens of Five-Stage theory

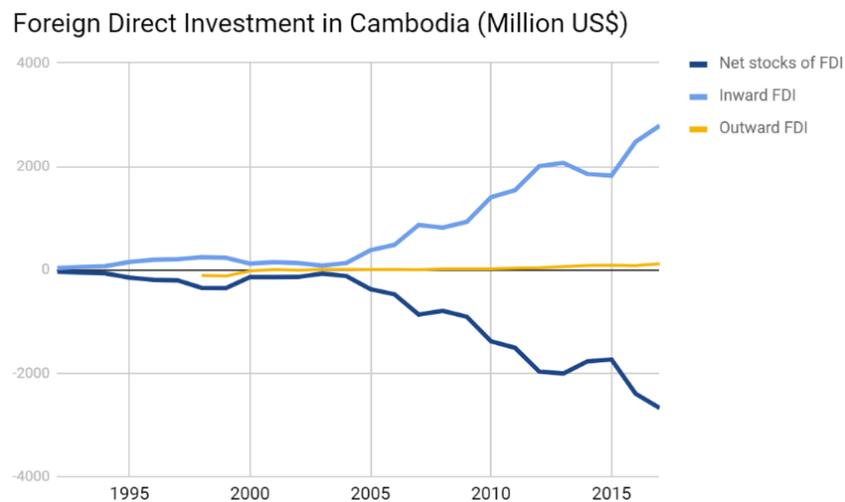
According to Dunning's OLI paradigm, the main concerned criteria that MNEs use to decide where to invest abroad are whether the country is rich in natural resources and materials, whether the size of the market, productivity, and labor intensive market are big enough, and whether the tariffs and other regulations somewhat facilitate their business. These criteria usually combine with political support and stability. Primary and secondary sources showed a two-way action from both the Chinese and Cambodian sides that finally lead to the successful operation of Chinese FDI in the construction sector in Cambodia. However, some exceptions in Location category, namely the transportation and telecommunication, make the case both corroborate and contradict with OLI Model. Even though all categories were not carried out before the arrival of Chinese, China's outward FDI can still successfully function in Cambodia due to China's unique characteristics and quick decisions made by the government and private sectors.

Also, inward and outward FDI affects country's economic structure. Looking into the paradigm of OLI advantages, supported by the empirical evidence from the field and relevant studies and Dunning's Five-Stage theory could initially explain the country's level of economic development, represented by GDP and the net stocks of FDI (outward minus inward FDI).

Cambodia's inward and outward FDI shows a pattern that is similar to Stage 2 of the Five-Stage theory as the country is highly dependent on inward FDI. This inward FDI mostly targets the emerging domestic market in consumer goods and infrastructure more than reaching out to foreign market as local firms lack Ownership advantages. The foreign investors do appreciate the advantages especially the cheap labor costs and the investment policies backed up by the good relations between Phnom Penh and Beijing authorities and cultural ties. The standard of living is rising, i.e. more job opportunities and higher wages, which draw more foreign companies to the countries. At this stage, the outward investment is too little, and thus the net stocks of FDI will become increasingly negative.

The reason that Cambodia is not at Stage 1 because Stage 1 is associated with the pre-industrialization that inward and outward FDI is almost non-existent which is clearly not the case in Cambodia where the market is big enough, and RGC fully supports FDI by developing principal commercial and legal frameworks to mitigate foreign investment and trade barriers. Even though some basic infrastructures are still needed for all to access, the existing ones are adequate to further invest in other sectors and many more infrastructures will be built soon under the recent MoUs and agreements with the Chinese government. The Cambodian labor force is not poorly educated. On the contrary, they are well-equipped with basic skills required for their jobs which help move Cambodia to the second phase.

Figure 5: Inward and Outward FDI between 1992-2017



Source of inward and outward FDI data: World Development Indicators²¹

The chart is generated by the author.

Figure 5 shows the strong development of inward FDI in the last decade. However, it is still at the early stage to support domestic firms to invest overseas and thus make Cambodia struggle to move to the next phrase. At this stage, the inward FDI will remain strong, but nature is changing due to the circumstance, such as the rising wage, significant spillovers of skills development and technology transfer. Even though the minimum wage is rising in Cambodia, but it has not been set for all sectors by law while the higher wage, considered as the main cost of investment, is not significant enough to lower the attraction of foreign investors as other advantages remain competitive. At the same time, unlike the garment sector, a knowledge diffusion to the local workforces are still skeptical in the construction sector which supports the claim of previous garment-related literatures (e.g. Cuyvers et al., 2008a; Chandarany et al., 2011) that the construction is booming but still behind the long-established garment industry. Stronger domestic firms with increasing ownership advantages and capacities will be the critical change to make domestic players become more competitive in the domestic market and start to invest in other countries. Simultaneously, a lack of coordination among government agencies, unclear regulations and practices, and weak law enforcement related to labor, land management, and

²¹ World Bank's record of an outgoing FDI has been reported from 1998 onwards.

urban planning, remain challenging for the domestic firms to overcome a large capital from outsiders. The government policies on outward FDI are not developed, and the OLI advantages have not yet fully covered by the domestic firms. These factors enable Chinese investment to enjoy its Ownership advantages, for example, privileges of land tenure and access to resources, as well as Location and Internalization advantages, and thus prevent Cambodia to be far from the third phrase under Dunning's Five Stage theory.

7. Conclusion

Since almost a decade ago, China has taken a leading role in developing Cambodia and emerged as a top donor and investor of the Kingdom. Sino-Cambodian relation has been tightened by trust and respect, and thus Cambodia is China's most committed ally in the region while China is Cambodia's most generous development partner that Cambodia can whenever turns to for aids and assistance to boost their infrastructure and economic growth. An influx of the Chinese investment in Cambodia stems not only from the close diplomatic tie and the vast capital from state-owned companies, but also from the private sectors themselves who explored Ownership, Location, and Internalization advantages, especially the cheap labor costs and RGC's supporting policies, regulations, and incentives, provided to them. These privileges, backing up with bilateral MoUs and agreements and unique political stability under Prime Minister Hun Sen, have encouraged them to perform FDI and supported their businesses to prosper and grow by having a construction as one of the main targeted sectors in Cambodia.

As seen in the case study, the positive impacts result in employment creation and income generation to both individual unskilled workers and the subcontractors in the construction industry. The construction boom helped increase the wage and provide more alternatives for workers to consider taking the job opportunities in the country instead of traditionally going abroad. Nevertheless, this growing sector also causes a wage gap, comparing between construction and garment, between men and women, and between Chinese and local workers. Knowledge transfer and skills development are still questionable due to an allegation of an import of skilled and unskilled Chinese workers.

As the positive impacts seem to have more considerable influence on Cambodian labor than the negative ones, the country's investment-friendly policy should continue to be adopted and implemented to attract more inward FDI. However, a lack of proper human development plan could affect Cambodia's economic performance in the long run, as well as capacity to self-sustain and expose itself to invest abroad. Such a situation will make Cambodia remains at Dunning's second stage of economic development for a certain period. Therefore, policy interventions on balancing sources of financing other than China, educating people, enhancing human capacity, exchanging of skills, knowledge and innovations, should be crucially considered. Also, law enforcement on land ownership, environment, and anti-corruption should be strengthened to ensure that FDI will genuinely benefit the locals and the national economic development in a sustainable manner. Without intensive interventions to develop human capital, there is a high possibility of the economy becoming caught in a low-skill and low-wage trap in the future.

It is worth noting that the Five-Stage theory also suggests that it is varied widely for each country and even each domestic industry within the country. Also, there might be other numbers of factors that could affect the country's economic development which future research could further work on it. However, looking into a dynamic approach within the paradigm of OLI advantages, together with GDP and FDI value as indicators, is relevant to this study and the case study of Cambodia.

Since the Chinese FDI and its associated mechanisms, like BRI, can provide investment, financial support, and better job opportunities in Cambodia, it can help expedite Cambodia's industrialization and diversification process and move the Kingdom to the third stage. To accomplish this process, it is important for future research to further study on the role of labor union and association, the formulation of concrete vision, implementation plan, and practical roadmap, as well as the possibility of having a robust leading institution that involves all concerning agencies in dealing with the issue.

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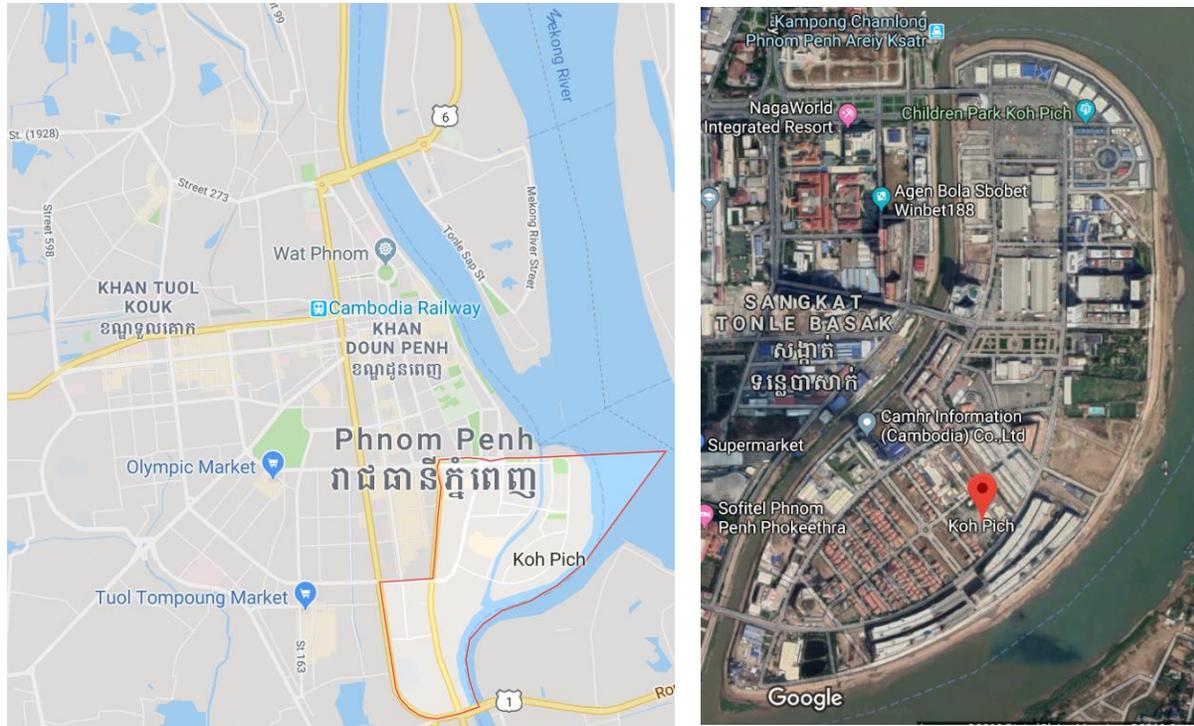
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Appendices

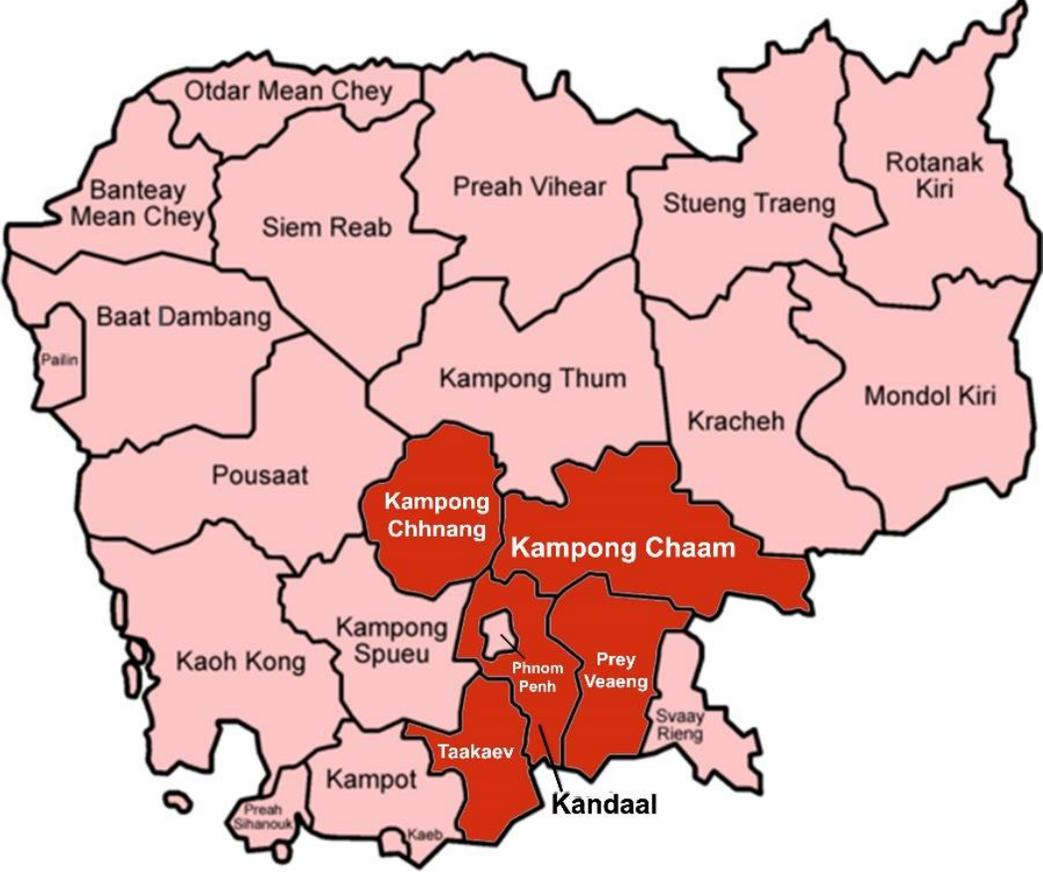
Appendix 1 – Map of the Diamond Island



Source: <https://www.google.com/maps>

The Diamond Island or Koh Pich located in Chamkarmon district, Sangkat Tonle Bassak (within the red line), where the land price is one of the priciest in Phnom Penh

Appendix 2 – Map of provinces where most rural-urban migrant construction workers/interviewees come from



Based on the interviews with 35 construction workers, the map shows five provinces, including Kampong Cham/Chaam, Kandal/Kandaal, Takeo/Taakaev, Prey Veng/Prey Veang, and Kampong Chhnang, where most rural-urban migrant workers in the construction sector on the Diamond Island come from.

Appendix 3 – List of Interviewees

A list of interviewees, consisting of 35 anonymous construction workers and 9 key informants from different stakeholders. As you may notice that there were 19 workers who work with Cambodian companies and only 9 workers from the Chinese companies were interviewed, while 7 workers were not sure whether their companies are Chinese or Cambodian. Some workers misunderstood that their companies are Khmer as they only communicate with their local bosses, but those companies are actually Chinese-branded as forepersons and managers are all Chinese.

Construction workers

| Interviewee# | Sex | Age | Construction company (Employer) | Hometown |
|--------------|--------|------------|---------------------------------|-----------------|
| 1 | Male | 30-40 | Khmer | Kampong Cham |
| 2 | Female | 30-40 | Khmer | Kandal |
| 3 | Male | 40-50 | Khmer | Takeo |
| 4 | Male | 30-40 | Chinese | Pursat |
| 5 | Male | 20-30 | Khmer | Kandal |
| 6 | Female | 40-50 | Khmer | Prey Veng |
| 7 | Male | 40-50 | Khmer | Prey Veng |
| 8 | Female | 20-30 (24) | Chinese | Kampong Chhnang |
| 9 | Male | 20-30 (25) | Chinese | Kampong Chhnang |
| 10 | Male | 30-40 | Don't know* | Kandal |
| 11 | Female | 30-40 (39) | Don't know | Kampong Cham |
| 12 | Male | 10-20 (19) | Khmer | Kampong Cham |
| 13 | Male | 30-40 | Khmer | Kandal |
| 14 | Male | 30-40 (39) | Khmer | Kampong Chhnang |
| 15 | Male | 20-30 (23) | Don't know | Prey Veng |
| 16 | Male | 30-40 (35) | Don't know | Svay Rieng |
| 17 | Male | 20-30 | Don't know | - |
| 18 | Male | 30-40 | Khmer | Kandal |
| 19 | Female | 30-40 | Khmer | Kampong Cham |
| 20 | Female | 20-30 (26) | Khmer | - |
| 21 | Male | 30-40 | Chinese | Kampong Cham |
| 22 | Male | 40-50 (41) | Khmer | Prey Veng |
| 23 | Female | 10-20 (17) | Don't know | Prey Veng |
| 24 | Male | 40-50 | Don't know | Kandal |
| 25 | Male | 20-30 (23) | Khmer | Svay Rieng |
| 26 | Male | 30-40 (32) | Chinese | Kandal |

| Interviewee# | Sex | Age | Construction company (Employer) | Hometown |
|---------------------|------------|------------|--|-----------------|
| 27 | Female | 40-50 | Khmer | Prey Veng |
| 28 | Female | 30-40 (38) | Chinese | Prey Veng |
| 29 | Male | 30-40 (33) | Chinese | Prey Veng |
| 30 | Male | 20-30 | Chinese | - |
| 31 | Male | 10-20 (18) | Chinese | Kampong Speu |
| 32 | Female | 30-40 | Khmer | Tboung Khmum |
| 33 | Male | 10-20 (18) | Khmer | Tboung Khmum |
| 34 | Male | - | Khmer | - |
| 35 | Male | 40-50 (43) | Don't know | Kampong Thom |

*Don't know means the interviewee did not know or was not sure whether his/her company owned by Khmer or Chinese

Key informants and stakeholders

| | Name of the Organization | Position |
|---|--|---|
| 1 | Ministry of Labor and Vocational Training (MLVT) | Director General of the National Employment Agency (NEA) |
| 2 | Chinese Chamber of Commerce in Cambodia (CCC) | President |
| 3 | Zhe Jiang Construction Company | CEO |
| 4 | International Labour Organization (ILO) | National Coordinator for Cambodia |
| 5 | United Nations Human Settlement Programme (UN-Habitat) | Programme Manager for Cambodia |
| 6 | Japan International Cooperation Agency (JICA) | Project Formulation Advisor |
| 7 | World Bank | World Bank Accredited Environmental Safeguard Specialist and Director/Founder at Cambodian Institute for Urban Studies (CIUS) |
| 8 | Habitat for Humanity International | National Director |
| 9 | Cambodia Development Resource Institute (CDRI) | Research Fellow / Unit Head at Cambodia Development Resource Institute (CDRI) |

Appendix 4 – Net Stocks of FDI in Cambodia (Million USUS\$)

The table was compiled as below and generated into a chart (Figure 5) by the author.

| Year | Outward FDI | Inward FDI | Net stocks of FDI |
|------|-------------|------------|-------------------|
| 1992 | | 33 | -33 |
| 1993 | | 54.12 | -54.12 |
| 1994 | | 68.9 | -68.9 |
| 1995 | | 150.8 | -150.8 |
| 1996 | | 193.6 | -193.6 |
| 1997 | | 203.7 | -203.7 |
| 1998 | -107.16 | 242.82 | -349.98 |
| 1999 | -120.92 | 232.24 | -353.16 |
| 2000 | -23.6 | 118.31 | -141.91 |
| 2001 | 4.37 | 146.48 | -142.11 |
| 2002 | -8.12 | 130.96 | -139.08 |
| 2003 | 7.26 | 81.58 | -74.32 |
| 2004 | 10.24 | 131.42 | -121.18 |
| 2005 | 4.28 | 379.18 | -374.9 |
| 2006 | 8.38 | 483.21 | -474.83 |
| 2007 | 1.1 | 867.29 | -866.19 |
| 2008 | 20.49 | 815.18 | -794.69 |
| 2009 | 18.87 | 928.39 | -909.52 |
| 2010 | 20.58 | 1404.32 | -1383.74 |
| 2011 | 29.17 | 1538.88 | -1509.71 |
| 2012 | 36.18 | 2003.85 | -1967.67 |
| 2013 | 62.27 | 2068.47 | -2006.20 |
| 2014 | 82.06 | 1853.47 | -1771.41 |
| 2015 | 87.76 | 1822.8 | -1735.04 |
| 2016 | 79.07 | 2475.92 | -2396.85 |
| 2017 | 114.86 | 2788.08 | -2673.22 |

Source: World Development Indicators