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**Article**

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## INFORMATION & TECHNOLOGY MANAGEMENT | RESEARCH ARTICLE

# The implication of FDI in the construction industry in Cambodia under BRI

Bora Ly<sup>1\*</sup>

**Abstract:** There is clear evidence that building infrastructure contributes to a country's rising economy and improved well-being. Belt and Road Initiative (BRI) expansion operations are mainly designed to make the infrastructure necessary and increase physical connectivity. The purposes of this article are to discuss the implication of FDI in Cambodia under the BRI initiatives on Diamond Island and Golden Silver Gulf Resort as the cases. This work uses a qualitative method and two theoretical frameworks of Ownership-Location-Internalization (OLI) and Investment Development Path (IDP) to investigate the cases. The inward FDI returns in Cambodia have triumphed, but not they all have been met so far. However, it can be a way of hindering potential benefits to spillover effects and obstacles for Cambodian workers.

**Subjects:** Public Administration & Management; Cities & Infrastructure (Urban Studies); Property; Development Economics

**Keywords:** BRI; Cambodia; China; Construction; FDI; IDP; Infrastructure; OLI

### 1. Introduction

Various economists argue that China's inflow of FDI will increase over the next few years, which could substantially affect countries' economic well-being, especially emerging countries. It constitutes the motivation for this paper to analyze the effects of China's FDI influx on infrastructure development under the Belts and Road Initiatives (BRI) policy. It is a new geopolitical strategy that China

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### PUBLIC INTEREST STATEMENT

This article explores the problematic notion of FDI under BRI in Cambodia. China seems to have played a top role inside developing Cambodia and is becoming one of the leading donors and investors for nearly a decade ago. FDI showed a significant influence on host country development in line with mainstream economic theory. The growing sector is causing wage gaps compared to Chinese and indigenous workers. Transferring expertise and abilities development continues to be questionable because of the alleged transfer of experienced and incompetent Chinese employees. The private sector's involvement in infrastructure projects is limited and should be strengthened. Another challenge is the lack of transparency and local engagement. Chinese companies cannot develop without the grasp of Cambodian stakeholders. However, China's FDI and BRI can offer Cambodia better investment and economic support.

introduced during President Xi visited Kazakhstan and Indonesia in 2013. The BRI was publicized in 2013 in return for China's foreign policy, which has confirmed itself as a catalyst intended for development and the global economy. The BRI suggests two strategic concepts: The Silk Road Economic Belt "Belt" and Marine Silk Road "Road" for the 21st century, aiming to reconstruct the international trade road. The initiative focuses on infrastructure investment with USD 8 trillion in funding to develop transportation systems, energy and communications networks in 70 countries across Asia, Europe and Africa (Hurley et al., 2018). BRI is the most ambitious economic and foreign policy initiative in China and the promising development initiative in modern history (Cai, 2017). It is argued that both positive and negative consequences must be planned for the host countries.

With its strategic position, economic interests, and relationship to diplomats and cultures, there has recently been a significant promotion of Chinese FDI and BRI initiatives in the Southeast Asian region. Cambodia is also the most effective and dedicated supporter of the FDI and the BRI of China in the region. Chinese investment in the country has risen considerably in four main sectors—agriculture, construction, garments, and tourism since the 2000s. According to the MOFCOM data, recorded investment into Cambodia has increased considerably since the early 2000s and reached USD 778.34 million in 2018 (IDI, 2020). As a result, FDI is becoming the main drivers of economic development in Cambodia in the last two decades, averaging 7.7% GDP growth and one of the fastest developing Asian economies and the sixth fastest-growing economy worldwide.

Golden Silver Gulf resort is located Preah Sihanouk Ville and the Diamond Island or Koh Pich is at the Tonle Bassac in the center of Phnom Penh are designated explicitly for the FDI and BRI initiative. A key development site holds the most elegant apartment, skyscrapers, luxurious villas, hotels, exhibitions, shopping centers, etc. An influx of significant constructions on these sites will give domestic workers both challenges and opportunities to those who live in the capital and to the rural-urban labour migrant who pursues employment in the city. Given its developmental significance, this study aims to evaluate the importance of Chinese inward FDI to the economic growth of Cambodia by concentrating on the Cambodian labor market in the construction industry through an approach of qualitative case studies. Besides, it aims to bridge the gap in China's FDI and BRI ongoing discussions, which typically involve geopolitical and sovereignty realms, whereas more realistic and economic targets may remain. It might be seen that various scholars have studied the effect of FDI on economic development (e.g., Chaudhury et al., 2020; Rao et al., 2020; Wu et al., 2020). Empirically contributions to the view that FDI fosters economic development through various technology spillovers (Dogan & Taspýnar, 2013; Kotrajaras, 2010; Liu & Lim, 2019; Melnyk et al., 2014; Yu et al., 2011). Then the study also included support that FDI could bring vulnerability and external dependence to the host country, along with the impact of domestic investment, deterioration of absorption capacity due to destruction rivalry between foreign corporations and local companies and "market-stealing effects" (Gerlach & Liu, 2010; Khaliq & Noy, 2007; Margeirsson, 2015; Wan, 2010). In order to make a little comment, this article used the OLI paradigm and the IDP framework for elaboration.

## 2. China's engagement in Cambodia

China's interest in Cambodia is part of the comprehensive strategic plan in Southeast Asia, including geopolitical, security, energy, and infrastructure development (Burgos & Ear, 2010). China's approach swing in Cambodia strengthens its impact and attendance within the region to sustain its security-related geopolitical and security parts. Between 2005–2007, the Chinese government offered nine guarding ships and five warships to Cambodia, and it is investing in Sihanoukville harbor. China argues that it will help the country strengthen maritime security, fight piracy, and drug smugglers, and promote social and territorial stability. Nevertheless, China intends to use the South China Sea conflict and its interests in Cambodia to shield its imports-exports from sea and plunder (Burgos & Ear, 2010).

Because of the speedy growth of the economy and population, it should have sufficient energy by providing easy access to cheap and reliable sources of energy (Burgos & Ear, 2010), and it is also the

source for supporting FDI strategies for new businesses. Following cost-effective forethought, the Mekong River, especially Laos and Cambodia, has become China's investment spot for energy and hydropower. On the flip side, the Cambodian government wants to supply electricity to the nation. That is why seven dams are built and exclusively supported by Chinese investment. Chinese dams produce nearly half of power plants in Cambodia (Watkins et al., 2018), but only 20% of the population have access to utilities, and the cost is exceptionally high compared to other countries (Bradley, 2009).

Also, Chinese authorities put up greater importance on infrastructure projects where all goods need to be transported. Therefore, China has built infrastructures such as highways, bridges, roads, and railway networks, which provide development support. According to Kosal (2009), since Prime Minister Hansen's first visit to China in 1999, about USD 218 million in interest-free loans has been provided to Cambodia. Besides the government, Chinese firms are active as Cambodia's top foreign investors in 2004. In the first nine months of 2005, China promised to invest USD 442 million over USD 80 million in 2004 (Kosal, 2009). In the subsequent year, ex-president Wen Jiabao provided an additional USD 600 million in subsidies and loans, most of which benefited dams, bridges, and significant administration offices, counting Council of Ministers, Senate houses, and parliaments auditorium. After massive investing millions of dollars in the apparel industry's first place, Prime Minister Hun Sen treats China as a trusted partner (Burgos & Ear, 2010; Kosal, 2009; Kynge et al., 2016). After that, it has continued to make substantial aid and investments during state visits. According to the Council for Development of Cambodia (CDC), authorized Chinese investment reached USD 2.75 billion in 2019 (IDI, 2020).

In 2018, China and Cambodia celebrated 60 years of foreign relations. To commemorate this day, China has pulled out billions of dollars in development aid and loans in Cambodia through bilateral and under BRI agendas. Sihanoukville's transportation and major infrastructure development project contracts were signed, including the seaport and the Special Economic Zone (SEZ). It also signed 19 agreements and memorandums of understanding on the funding of new highway, airport, and infrastructure innovations, but the full contract was not released (Davis, 2018; Prak, 2018; Victor, 2018).

### 3. The FDI and BRI

The host country sponsoring FDI activities expects to provide capital packages, high-tech, know-how, and management skills to the host country and the high wages and jobs created by these happenings. Thus, the market is leading the way in improving FDI productivity in beneficiary countries (Cuyvers et al., 2008). The complete goal of Chinese commitment is to lower the bearing of its economic downturn states, strengthen cross-border links and investment strategies. BRI's excellent approach has deepened Chinese investment and spread it worldwide, in which emphasis is placed on promoting infrastructure development, strengthening economic policy coordination and strategies for growth, and promoting interconnection expansion. Therefore, China's FDI and BRI generally focus on improving economic connectivity and combat poverty.

In Cambodia, the Chinese government upholds both state-owned and private firms. According to Burgos and Ear (2010), China's massive investment helps Beijing's domestic and regional economic strategies and the private sector's plans for finding a fertile field where the environment flourishes and grows. This policy adjustment is thought to have contributed to Cambodia's economic growth, poverty reduction, and Cambodian people's welfare, particularly employment opportunities in the region (Chandarany et al., 2011). BRI seeks to develop markets along with the free flow of economic resources. It possesses a multilateral platform for economic expansion. Thus, they pass through other economic, political, international, and cultural relationships (Joshua, 2019). By providing new investment and development opportunities in Asia, China provides no strings attached to aid and loans to protect leadership and obstacles to the US strategic alliance in Asia. It seeks to create economic dependence to strengthen regional leadership by promoting the potential consumer market along BRI, such as Central, West, South, and Southeast Asian states. Therefore, it will hook up all market-places and provide numerous development possibilities (Chung, 2018).

Therefore, Cambodia should be the closest ally to support regional conflicts and generally to uphold the security of the region, for example, in the South China Sea (Pheakdey, 2012). Under China's investment, Cambodia is at risk of relying on and around its economic intervention (Sullivan, 2011). However, both foreign aid and FDI are known for the absence of openness. There is a lack of clarity on how the money was used, and no project-related information is released (Pheakdey, 2012). The Chinese government endorses its state-owned and private enterprises through loans and better bilateral relations or vital political figures to overcome fraud, weak legitimacy, and lack of openness conditions in Cambodia, which the Western investments are usually discouraged (O'Neill, 2014). China's foreign investment intensifies corruption, weakened governance, abuse of human rights, and natural resources (O'Neill, 2014; Pheakdey, 2012; Sullivan, 2011).

Dahlan (2018) argues that various studies had revealed an unexpected impact on Sri Lanka due to the government could not pay much for the Hambantota port and finally handed this port to a Chinese company to control the site for 99 years lease. Also, Yamada and Palma (2018) point out that these cases of uncontrollable debt and prejudice of sovereignty have increased similar problems in Laos, Maldives, and Pakistan. Thus, China's FDI and BRI structure is immense and multifaceted. It is not clear how considerable Chinese plans can bring up sustainable development, especially in states with weak governance.

#### **4. Criticism and interaction with China's FDI and BRI**

FDI is expected to generate jobs for locals and transfers of technologies and skills to the recipient country, but some argue that Chinese investment in Cambodia has come in the form of foreign labourers (Sokhorng, 2018). Since January 2018, many Chinese employees have been detained for working and living illegally. The majority have been informed in Preah Sihanouk Ville, and there have been fewer in Phnom Penh. Cambodian individuals are not hired or taught to acquire the required skills and get little capability to develop the workforce. According to Rex Tillerson, former US secretary of state condemned BRI's specific points in his observations in 2017 on its colossal debt level and job creation because foreign workers are often imported for implementing infrastructure developments. He also called for alternative financial structures and instruments (Tillerson, 2017).

Besides, some also view that Chinese investment and labor inflows root social problems. Pheakdey (2012) argued that significant efforts and actions to improve investment and aid management are needed. In the same way, Ho Vandy, commercial advisory and former president of Cambodia travel agency association, proposed that besides identifying and managing all businesses investing in Cambodia, governments should include a fundamental statute that will assist the local workers to track the proportion of these investments. Otherwise, Cambodia will lose its FDI benefits. More openness and procedures should be developed and implemented to focus on domestic labor so that China's FDI and BRI can lead to win-win circumstances (Sokhorng, 2018). Cambodia should also pay more attention to China's potential slowing economy and take necessary action to address these stakes (Pisey & Sunsatya, 2018). Under the BRI framework, the two governments should intervene and expand economic cooperation through bilateral and regional collaboration, by strengthening investment and high added-value trades, especially from China to Cambodia. Such involvement might be useful in lowering the risk of economic dependence in the country.

#### **5. Methodology and theoretical framework**

This paper was employed as a qualitative method to investigate and consider substantial Chinese investment in Cambodian labor under the BRI. The subsequent analysis will include two cases study of FDI on infrastructure development in Diamond Island and Golden Silver Gulf resort. The two cases have been chosen for specific reasons because they constitute a significant investment hub for the construction sector in Phnom Penh and Preah Sihanouk, particularly for property developers, thus demonstrating the number of Cambodian employees and dynamics of local



jobs created by the Chinese FDI. Data were gathered and analyzed from numerous sources, including scholarly publications, official papers, reports, legal documents, and media articles from reliable sources. It was split into positive spillover, adverse effects, Chinese roles and business characteristics, and political implications. The results will be analyzed to apply to Dunning's OLI and Investment Development Model (IDP) analysis frameworks.

Developed and emerging economies are generally unutilized FDI as an essential tool for growth. Therefore, it is necessary to examine the FDI theory more closely to figure out its consequences on the host country. Theoretical evidence of FDI and ancillary activities in the host country will help better understand the implication of infrastructure development and Cambodia's economic growth under the BRI scheme. The initial concept of FDI was prominent in the 1950s and 1960s about multinational corporations (MNEs), and FDI flows, especially in the US, EU, and other developing countries. Thus, scholars have developed many theories to explain the state of the capitalist movement. However, no single theory demands all foreign direct investment types, outward and inward, at the macro and micro level.

### 6. Dunning's OLI paradigm

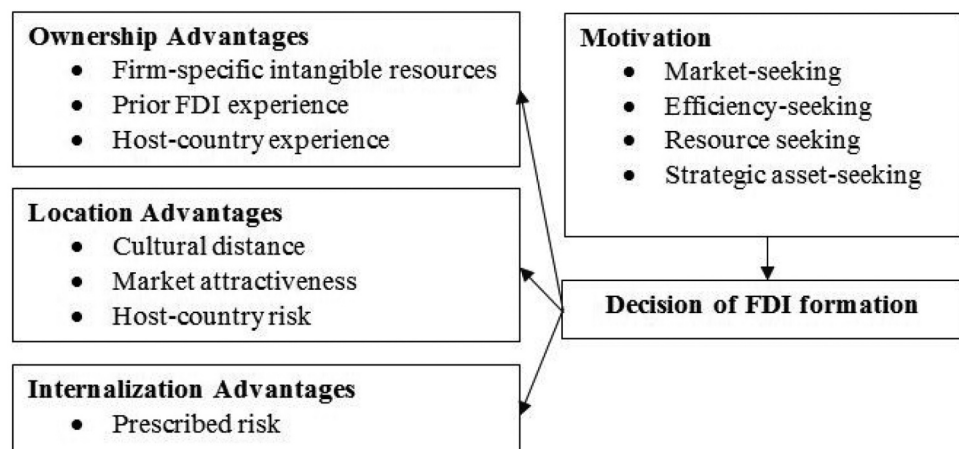
John H. Dunning developed the Ownership-Location-Internalization (OLI) Paradigm in 1977. It is a simple big-picture framework for organizing the views on MNCs' benefits and applies to the FDI establishment mode choice. According to Oppong (2018), the theory pronounced that the difference between the country's resources and its advantages plays a vital role in driving foreign investment activities and the host country's actions to establish the interest and entrance environment. Therefore, Dunning recommended that FDI would only succeed if three situations were met. The determinants of FDI entry mode selection are listed under the three pillars of the model, as shown in Figure 1.

Among the benefits of ownership, the literature indicates the importance of company-specific intangible resources such as technical acquaintance or abilities (Brouthers et al., 2003; Slangen & Hennart, 2007); corporate entity's previous encounter in foreign investment (Ogasavara, 2010; Ogasavara & Hoshino, 2007), and experience inside the host nation where the analyzed choice of the FDI setting was made (Slangen & Hennart, 2008; Larimo, 1993).

Cultural distance is often investigated among the determinants of FDI mode selection (Brouthers, 2013; Brouthers et al., 1996), with industry growth and market scale (market attractiveness) (Agarwal & Ramaswami, 1992), and host-country risks, including financial, expropriating and political risks (Busse & Hefeker, 2007; Brouthers et al., 2009). Finally, internalization factors

**Figure 1. Dunning's OLI framework for the decision of FDI formation and motivation.**

Source: authors' expansion based on Dunning's OLI Paradigm



that influence FDI approaches' choice focus primarily on operating and cost savings (Nakos & Brouthers, 2002) and composite components, including contract costs, risks of unwanted information disclosure, and quality control issues—expressed in the theoretical framework. John H. Dunning contends four incentive types for MNCs to conduct FDI, including market, efficiency, resources, and asset seeking.

In pursuit of the market, FDI is interested in fostering, protecting existing markets, infiltrating, and encouraging new ones. There are still many other impulses than considering market size and growth traditions such as increasing competitive advantage, matching customer needs, and preferences. Thus, finding new markets is an incentive for FDI (Dunning & Lundan, 2008).

Again, motivation for discovering efficacy is related to the management effectiveness of business operations in other regions, which leverage different supply capacities and economies of scale to achieve efficiency through proper cost management (Dunning & Lundan, 2008). Also, searching for FDI resources is associated with accessing high-quality but inexpensive foreign support in the domestic market. Dunning and Lundan (2008) claim that resources are divided into three categories: physical resources, low and abundant supply of skilled or semi-skilled workforce, and finally, technology and capacity management.

Asset-seeking investors strategically direct foreign firms to acquire assets to strengthen their competitiveness in the international marketplace. As Dunning and Lundan (2008) contended, those investors exist in two forms, FDI new investors want to enter a foreign market by gaining a competitive advantage and firms looking to establish global and regional strategies.

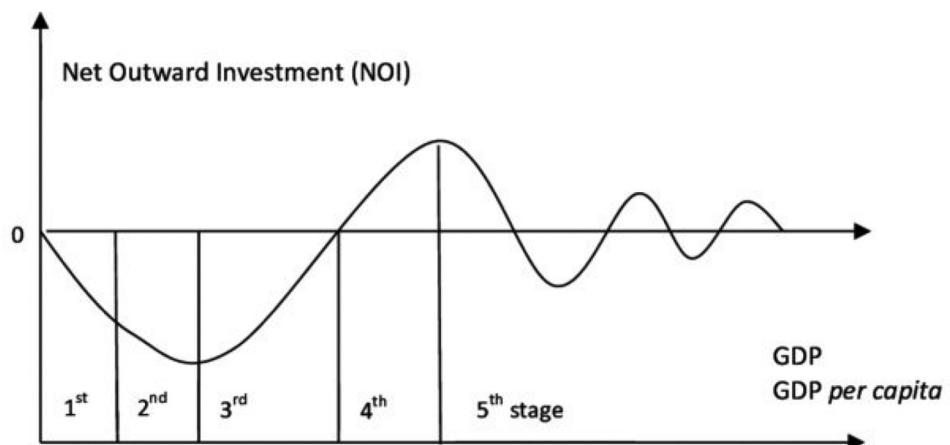
### 7. Investment development path (IDP)

The main request of the IDP is for the country to undergo five phases of development. FDI is developing through the dynamic and time-dependent way between Gross Domestic Product (GDP) or per capita GDP economic growth and the positioning by country of net outward investment (NOI), which theoretically is the distinction between outward and inward FDI. The difference in FDI level and type is clarified by modifying the state's possible locational advantages and altering its domestic companies' ownership characteristics. The IDP framework distinguishes five steps with different net investment value levels, as shown in Figure 2.

Further, an elaboration of different phases for FDI fascinating to become active in a foreign country is illustrated in Table 1. In the first phase, inward FDI is limited and almost finds resources. Due to MNE offerings' minimal location benefits (for example, low levels of income per capita can

**Figure 2. The shape of the investment development path (IDP).**

Source: Adapted from Dunning and Narula (1996)





**Table 1. Overview of developing inward FDI motivation over the different phases**

|                | Phase 1          | Phase 2          | Phase 3                 | Phase 4                     | Phase 5                      |
|----------------|------------------|------------------|-------------------------|-----------------------------|------------------------------|
| FDI Motivation | Resource seeking | Resource seeking | (-) Resource seeking    |                             |                              |
|                |                  | Market seeking   | (+) Market seeking      | (-) Market seeking          |                              |
|                |                  |                  | Efficiency seeking      | (+) Efficiency seeking      | (++) Efficiency seeking      |
|                |                  |                  | Strategic asset seeking | (+) Strategic asset seeking | (++) Strategic asset seeking |

Source: Adopted from Dunning and Narula (1996). Note: (+) indicates an increasing importance and (-) decreasing the importance of FDI compared to the previous phase.

minimize the level of demand), only types of FDI can arise (Dunning & Narula, 1996). Foreign firms desire to export, and unless the country is advantageous by specific resources, the state will attract resources seeking FDI. Therefore, the first stage of FDI is principally motivated by the country’s abundance of resources. Nevertheless, to end of the first phase, states can attract FDI seeking markets as people’s purchasing power increases (Narula & Dunning, 2000).

The country will receive FDI, looking for a second stage, in which the domestic market can grow in size or purchase power can be higher. FDI in the market seeking will become increasingly important, especially when there are significant trade barriers when exporting or neighboring markets provide the considerable potential to access economies of scale (Narula & Dunning, 2000). Initially, FDI seeking markets will be imported to replace manufacturing investment and require a significant population and marketability to support the projected demand. Therefore, it will mainly be driven by the country’s population size and purchasing power. Besides, the key to creating and managing a thriving industry is a critical element of attracting FDI, such as infrastructure, communication, institutional quality, qualified and unqualified workforce supply (Dunning & Narula, 1996). The matter where the country can provide the desired region will be a determining reason in the second phase of attracting FDI in the market seeking.

In the third phase of the IDP, the FDI’s motivation will move away from import-substitute production towards production seeking efficiency. The comparative benefits of labor-intensive and resource-intensive industries disappear because of wage increases. In businesses where local firms have a competitive advantage, there may be FDI for strategic asset acquisition (Dunning & Narula, 1996). The appeal of FDI would allow scale economies to be captured, making them substantially more dependent on the domestic and international markets. It is also significant to adopt a more technology-intensive production process that encourages inward FDI to pursue efficiency. For productive foreign investment, personnel training, the commodity market’s readiness, the workforce’s functions, developing the financial market, and the ability to benefit from existing technologies will become increasingly crucial to pursuing efficiency-seeking FDI (Narula & Pineli, 2017).

In the fourth phase of the IDP, the demand for FDI will turn into efficiency-seeking FDI and strategic activities to acquire foreign assets due to rising wages. In the fifth phase of the IDP, FDI is likely to be driven by strategic activities to acquire foreign assets and efficiency-seeking FDI. So, this phase is likely a knowledge-based economy. Innovation turns into a vital feature detailing the influx of FDI into these nations (Narula & Pineli, 2017).

### 8. Case of golden silver gulf resort

Preah Sihanouk New City—a modern, new type of economic development city called the Golden Silver Gulf resort is in Ream National Park, about 18 km from Preah Sihanouk Ville city center and

7.3 km from Preah Sihanouk Ville International Airport. The project is one of the BRI frameworks mentioned by the Minister of Tourism Thong Khun at the 2016 MoU signing ceremony (Kotoski & Chandara, 2016). It is on the west side of the Ream peninsula and Koh Tmei Island, 28 km of coastline, the project including luxurious villas, hotels, exhibitions, shopping centers, healthcare facilities, and international harbor (Ngamsangchaikit, 2016). The project costs roughly USD 3 billion and takes 20 years to complete (Chea, 2016), which in 2014 has been funded by Yeejia Development Co., Ltd, a subsidiary of the Chinese-owned Unite International Investment Group.

Cambodia's first expressway project was officially started in March 2019, according to the Ministry of Public Works and Transport, at the cost of USD 1.9 billion and a total distance of 190.3 km under the form of a project for the construction operations transfer completed by early 2023 (Pisei, 2019). Also, it connects the Golden Silver Gulf Resort with Cambodia's two largest international airports in Preah Sihanouk Ville and Phnom Penh, which will accumulate more benefit to Preah Sihanouk City and the Golden Silver Gulf Resort.

### **9. Case of the diamond island**

The Diamond Island or Koh Pich is a county near the Tonle Bassac in the center of Phnom Penh and also among the city's most valuable real estate (Kosal, 2018). The island is a semi-waterlogged sand island formed by the essence of Cambodia's three major rivers: Tonle Sap, Tonle Bassac, and the Mekong, originally 700 meters in size. In the 1980s, fishers and farmers settled on the island for harvesting. In 2004, the Overseas Cambodia Investment Corporation (OCIC) was Cambodia's largest multinational corporation with the same stake in Canada Bank, a significant financial institution, offers authorized to build up the islands into a global commercial town managed with a particular additional city, Koh Pich Town Hall, which detached via Phnom Penh City Hall.

After the controversy over the population's movement, the final approval was permitted, and composition began in 2006 and ended up in 2016. The whole construction project has three phases, which already amounts to USD 200 (Say, 2008). Even though the completion of the task is slowed and a vast construction is still in progress. Today, being a developer, OCIC has established more terrain, taking up an overall total of 100 hectares (1,000,000 square meters). However, the success of the enormous development, mainly by Chinese companies, constructed iconic buildings such as Roman-style conference and exhibition centers, luxury gyms and golf clubs, and a vast housing complex called Elite Town, dozens (mostly Chinese) restaurants, international schools, luxurious wedding halls, hotels, and top-class condominiums. Also, DI.Riviera connects the "Elysee" project with Singapore's Marina Bay Sands Complex, the Arc de Triomphe, the "La Seine" lighthouse, and eminent model all road names Arizona, Columbia, Yale, which provides the island with a sense of luxury and style. According to the OCIC project manager and architect, expatriates are their target and Chinese in particular (Say, 2008). It also hosts the Cambodia Construction Industry Fair, which receives government supporting annually and dynamically. The largest exhibition draws in many corporations, infrastructure businesses, contractors, real estate developers nationally and internationally.

### **10. The implication of the OLI framework**

Since the development of FDI is an interaction between domestic and host countries, the OLI theoretical framework explains that international companies' foreign investment decisions are inadequate to choose and determine the host country's activities. It offers the allure to operate successfully in a foreign country. Next, let considering Cambodia's response to China's central competitiveness and inward FDI support.

#### **10.1 Ownership advantages**

Initially, the company needed ownership to improve foreign awareness and non-national status. The name of the trusted brand or trademark that stands for its reputation for much technology, creative activities, prosperous undertakings, and the economy of scale are examples of ownership

advantages. As China has proliferated in recent years through its vast infrastructure investment preferences, its relaxed position as a strategic and most important partner, and its contribution to building trust and export construction activities and goods in the world. Thus, various local Chinese firms are participating in this state project, and it is considered a golden opportunity to get economic and political about infrastructure development under the BRI (Cai, 2017). Given the uniqueness of Chinese companies, it turns into opportunities when the US and Japan are hesitant about aid, trade agreements, and infrastructure development (Burgos & Ear, 2010). Simultaneously, China plans to export surplus products to new markets in steel, cement, and fold-glasses.

So far, Japan is always committed to developing Cambodia. However, China has considered the lead and is employing more capital and resource leakage than other Cambodia donors recently. China-based companies are reintroducing Cambodia as a new market by redefining their awareness of Chinese infrastructure building and standards. Especially in terms of land accessibility, with strong support for Beijing and Phnom Penh, Chinese brands' infrastructure building is gaining popularity and market share in Cambodia.

### **10.2 Location advantages**

There must be signs of attractive benefits tendered by host countries that value FDI, considering their economic, political, and social perspectives.

#### *10.2.1 The economic perspectives*

First, the growth factors of production, including low-wage, inexpensive raw materials, make FDI more desirable and competitive. Cambodia is worth a reasonable labor cost. Average wages are rising but remain competitive over neighboring. Although there is a shortage of skilled workers, China has to hire specialized personnel and Chinese technology and expertise to meet this requirement.

Second, the demands of the market are appropriate to produce in Cambodia. Cambodia's GDP per capita was USD 1,504 in 2018. In the last two decades, per capita GDP in Cambodia has increased significantly from USD 294 to 1,504, reaching a maximum of 18.17% in 2008 and then down to 8.54% in 2018. However, the GDP growth rate is about 7% per annum. According to the ILO National Coordinator, 30% (about 50,000) of Cambodia's workforce works in the development sites. Therefore, Cambodia is more likely to associate China with a more critical market share than ASEAN.

Because Cambodia's strategic position can be linked to Southeast Asia, the quality and quantity of the host country's transportation network can support the company's decision. Sihanoukville's coastal city is also likely to facilitate goods among the Gulf of Thailand, the Malacca Strait, and the South China Sea. The Chinese Communist Party (CCP) leader reiterated, it is the right decision for Chinese leaders to finance the facilities because all is undeveloped. Infrastructure is also needed to promote trade and investment, but Cambodia cannot afford billions of costs to build. Together, the Chinese considered that it was not worth waiting for Cambodia to make everything; however, it builds itself based on the Build-Operate-Transfer (BOT) scheme. Hence, China's strategy is to establish infrastructure and transportation networks, mainly because of the core FDI and BRI planning stage.

#### *10.2.2 Political and social context*

Cambodia opened up its FDI procedures and proactively nurtured an environment strategy for incentivizing FDI. For example, a foreign investor can take ownership of any business in any industry and receive the same treatment as a local investor. The government also offers specific guarantees to foreign investors, including making non-discriminatory, except for land ownership, not to carry out price controls on products or services, and approve foreign currency purchases through the banking system and remit those currencies overseas. Cambodia has motivated generous incentives for investment projects and taxes from domestic and foreign investors

below average ASEAN rates. Such incentives include corporate income tax (CIT) is 20%, tax credits up to 8 years, exemption on production equipment and construction resources import-export, no withholding tax on dividends, and no repatriation profits tax.

Besides modifications to the CIT rate, Council for the Development of Cambodia (CDC) is entitled to other preferential, for instance, tax holidays and free tax on import of materials and capital goods utilized in export production. Because the countries are classified as Least Developed Country (LDC), providing tax-free or preferential export access to many developed countries, including the EU and the US. The restriction is about foreigners' employment, who mentioned that if specialists and skills do not have in Cambodia, a skilled foreign worker only needs a visa and a work permit. Besides, Cambodia has introduced various plans, including bilateral cooperation that will attract more investors and affect Cambodia's collaboration with China under BRI (Vireak & Vutha, 2018).

Regarding geography, China is not far from Cambodia, which flights connect Cambodia with significant capitals in China and comfort to create their industries (Yara, 2018). The favorable procedures on investments will also allow Chinese investors to conduct business comfortably to political stability due to the close diplomatic ties and a high level of friendship among senior officials in Cambodia. Even though freedom of expression and trade unions are limited, political soundness is imperative in foreign investors' decisions. Parallel cultural norms also localize FDI actions.

According to Sullivan (2011) contends that the significant corporate tycoons of Sino-Cambodia and senior-level officials securely connect with Chinese firms running in Cambodia, and the Sino-Cambodia group supports to bridge the cultural gap (Burgos & Ear, 2010). Also, Cambodia's Chinese community, with the active support from Chinese administration in the promotion of language schools, seamlessly links Chinese private companies with Cambodia's corporate benefits (Sullivan, 2011; Kosal, 2009) and provided over thousand grants to students over the last decade (Yara, 2018). It can be seen that there are criticism and sensitive sentiment against Chinese immigrants, but learning Chinese is inevitable because it is a way for Cambodians to raise their revenue and gain better access to the job market.

### 10.3 Internalization advantages

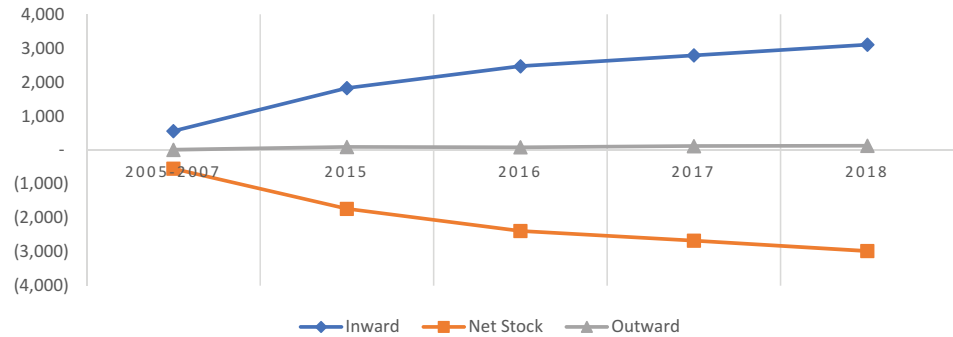
When a local business prefers to perform a domestic value chain rather than just an external function, it can further regulate the activity through partnership agreements, starting with major export partners, business licenses, and joint projects related to FDI. Nevertheless, more companies desire to participate in foreign goods, a lot more likely, and the FDI will be driven. During 2002–2003, Cuyvers et al. (2008) observed one thousand firms, which most are functionally and solely foreign-invested, but most Chinese firms typically favor to conduct FDI, a capital-intensive, so only a few foreign firms are joint venture or perhaps relatively possessed by foreign capital in Cambodia. The Chinese FDI in Cambodia's construction segment cannot sometimes accomplish because of the lack of infrastructure, expensive energy costs, lack of skills, and technology. However, the Cambodian administration dispatched a very welcome message because China has much capital, thus fulfill these standards directly since it is still profitable to do FDI.

## 11. Implication for workforce

FDI can have a positive impact on local businesses through worker mobility and exposure. The relationship between foreign and domestic companies (intentionally) increases the spillovers and linkage outcomes. Indeed, FDI provides better employment opportunities for residents. The workers and the subcontractors were given the chance of FDI, which typically contributes positively to the overall economic growth. Besides, some who were migrant workers can work on the sites instead of traveling abroad. According to the Director-General of MOLVT and World Bank Experts, FDI delivers entrepreneurship skills and knowledge diffusion as development skills. Also, people learned Chinese, a new language that is complementary and useful for working with Chinese.

**Figure 3. Inward and outward FDI between 2005–2018 (USD million).**

Source: Chart was generated by author from the World Investment Report 2019 and UNCTAD FDI/MNE database



## 12. The implication of FDI

Based on the OLI model, the key factors determine the position for investing if the state is rich in resources regardless of market, productiveness, tariffs, and other procedures that facilitate their business. These conditions are typically combined with political stability and support. The sources represent China and Cambodia's bilateral activities, leading to China's successful implementation in Cambodian infrastructure development. However, some exclusions to location, such as transport and connection, resulting from corroborating and contradicting cases with the OLI model. Not all categories were performed before the Chinese arrived, but due to China's peculiarities and the rapid decision-making within the state and private sector, Chinese outward FDI could operate effectively in Cambodia.

Also, both inward and outward FDI influences the nation's economy. Cambodia's inward-outward confirmations are similar to the second phase of IDP because it depends intensely on an inward. This inward is mainly focused on emerging local consumer goods and infrastructure, not overseas, because local companies have no ownership advantage. Foreign investors appreciate the benefits, particularly the cost-effective and investment procedures supported via harmony and cultural ties bounded by Cambodia and China. There is too rare outward at this phase, so the FDI's net stock will be more harmful.

The cause of Cambodia is not in its infancy is the first stage associated with prehistoric times, which does not happen in Cambodia where the market is large, and the government upholds it because inward and outward rarely exists by developing a trade and legal framework to comfort trade barriers and foreign investment. Although some necessary infrastructures still needed for all to access, existing infrastructure will put more in other segments, plus more will soon come to be built within MoUs and contract with the Chinese administration. The Cambodian workforce is undoubtedly not correctly cultivated. Instead, they are well equipped with the skills essential for doing the job, pushing Cambodia into the second phase.

Figure 3 proves the swift expansion of FDI during the past decade. However, it is still a discovery to support local companies to invest overseas, making it tricky for Cambodia to move to another phase. Inward FDI is still active at this stage, but nature changes due to pay raises, expertise development, and technology transfer. Although the base pay is rising but not legally enforceable in all regions where it is considered a vital investment cost and is not enough to reduce foreign investors' attractiveness, there is still competition due to other advantages. An active local company with enhanced quality and ownership will be an essential step in increasing local players' competitiveness in the domestic market and investing abroad.

Failure to collaborate among state authorities, ambiguous regulations, land management, and urbanization remain challenges for local companies to overcome significant external capital. The government procedures upon outward FDI are not settled, and domestic firms have not

adequately wrapped OLI's benefits. These aspects allow Chinese investments to benefit from takeover interests such as location and internalization benefits, and access to land ownership and resources, leaving Cambodia away from IDP's third phase.

### 13. Conclusion

This article explores the problematic notion of FDI under BRI in Cambodia. China seems to have played a top role inside developing Cambodia and is becoming one of the leading donors and investors for nearly a decade ago. The Sino-Cambodia connection has been heightened with trust and respect, and therefore, China is Cambodia's most advantageous development friend, where Cambodia is seeking assistance and improving infrastructure and economic development. The inflow of Chinese investment occurs in the enormous capital of state-owned enterprises and close diplomatic and private sectors, which has learned the advantages of ownership, location, and internalization labor cost-effectiveness and regulation and incentives in Cambodia. Supported by bilateral trade agreements and outstanding political stability, these privileges have been one of Cambodia's main target areas to carry out FDI through infrastructure development and help businesses thrive and grow. FDI also showed a significant influence on host country development in line with mainstream economic theory.

As the case study illustrations, the positive effect leads to employment and income generation for subcontractors and workers. However, the growing sector is causing wage gaps compared to Chinese and indigenous workers. Transferring expertise and abilities development continues to be questionable because of the alleged transfer of experienced and incompetent Chinese employees. Human resource development is essential for improving economic performance and productivity as part of Cambodia's infrastructure development. The primary constraint for attracting FDI in Cambodia is the lack of skilled labor. Thus, the private sector and FDI can usually help to upgrade the expertise of the host country. It can also provide efficient supply chain management and has a significant impact on the diffusion of technology. For full participation of the private sector, environmental support of long-term policy structure, attitudes, and practices must be evident. The interaction between the private and public sectors needs to be institutionalized for mobilizing the private sector to develop human capacity in Cambodia. Besides, development partners should promote Cambodia's empowerment in applying new technologies, support SMEs' development, and encourage linkages between these and foreign companies. To be socially conscious, foreign investors need to integrate with the community, establish corporate citizenship, and develop human resources.

According to Chheang (2017), Cambodia is actively supporting BRI because of its strong recognition that BRI will benefit the country in terms of infrastructure and socio-economic development, and diversification of development sources. Besides, BRI is expected to contribute to regional integration and connectivity to complement ASEAN's connection projects. Political trust and economic pursuits explain Cambodia's attitude toward BRI (Chheang, 2017). However, challenges, such as major social issues related to developing Cambodia's infrastructure, are the settlement and compensation for residents displaced or affected by development projects. Increasingly, cases of severely treating affected property owners are severe. According to the Cambodian Constitution, affected owners must be compensated with acceptable values. Though, there is no written act or subordinate legislation on resettlement as a national policy. Also, the private sector's involvement in infrastructure projects is limited and should be strengthened. Another challenge is the lack of transparency and local engagement. Despite their rich knowledge and expertise, Chinese companies cannot develop without the grasp of Cambodian stakeholders.

It can also be understood that the IDP paradigm implies that each nation and the domestic industry in the country is widely different. There might also be other factors which could influence the economic growth of the country and which future studies might further focus on them. However, finding a robust prospect in the OLI model, along with GDP and FDI reliability, is referring to Cambodia and analysis, relevant mechanisms such as China's FDI and BRI can offer Cambodia better investment and economic support, facilitating Cambodia's industrialized and diversified



progression and moving the country to stage three. In order to achieve this process, future analysis needs to examine further the role of the labour union and the organization and the formulation of a clear vision, action plan and functional roadmap, and the potential of a robust, leading entity including the agencies engaged.

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