

U.S. Faces China Hurdle in Cambodia

By **CHUN HAN WONG**

Updated Nov. 15, 2012 12:51 p.m. ET

KAMPONG SVAY, Cambodia—When Asia-Pacific leaders gather this weekend in Southeast Asia—a bright spot in a sputtering global economy—their Cambodian hosts may extend a warm welcome to U.S. President [Barack Obama](#), but they will view officials from Beijing as old friends.

Territorial tensions will dominate a gathering of Southeast Asia's leaders in Cambodia this weekend as the U.S. and China look to exert influence over the resource-rich countries. The WSJ's Alex Frangos has the details.





This highway in central Cambodia was built by a Chinese construction company. *CHUN HAN WONG/THE WALL STREET JOURNAL*

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Mr. Obama's visit to Cambodia—this year's host for the East Asia Summit—will be a first for a sitting president. But for Chinese Premier Wen Jiabao and his colleagues, a trip to Phnom Penh is old hat after 15 years of diplomacy, aid, loans and investments.

"Cambodia understands that China has been its largest benefactor over the years," said Li Mingjiang, who studies Chinese foreign policy at Singapore's S. Rajaratnam School of International Studies.

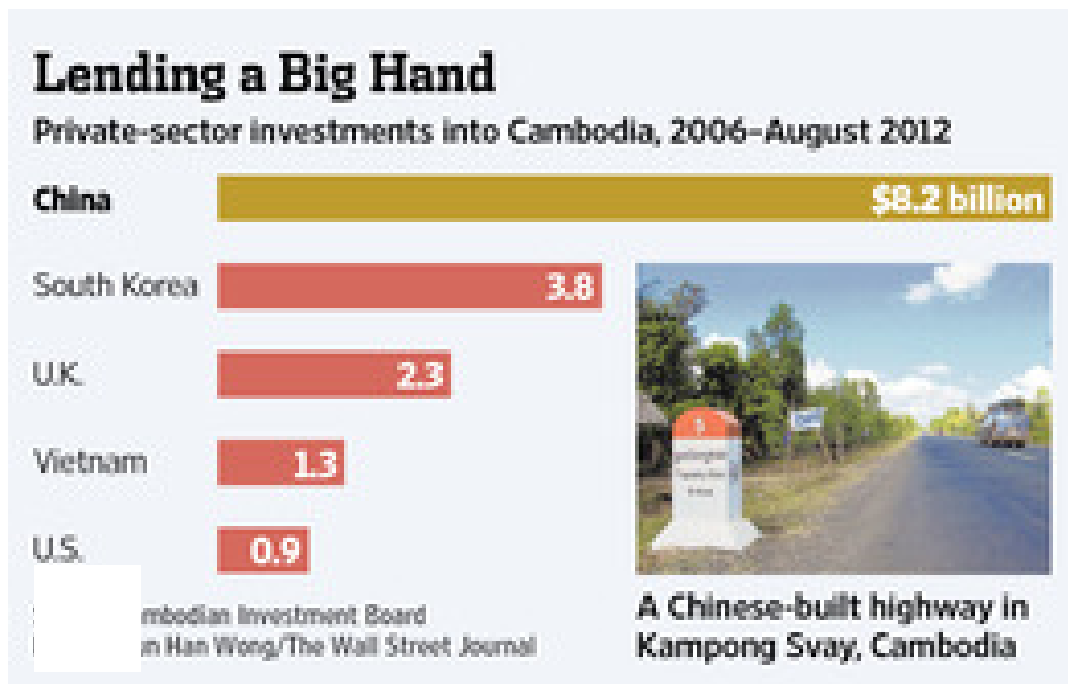
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That has built Beijing a steady ally within the Association of Southeast Asian Nations, a 10-nation group whose members are crucial to U.S. strategy to counter China's rising economic and military power. Since Asean makes decisions by consensus, giving each country a soft veto, having a friend in Prime Minister Hun Sen is a card for China to play as the U.S. expands relations with richer members

like Indonesia and Singapore and poor but promising ones like Myanmar.

Cambodia, like neighboring Myanmar and Laos, has been a major beneficiary of Beijing's push in recent years to cultivate ties with developing countries in Asia, Africa and Latin America. From 2006 to August 2012, Chinese companies invested more than \$8.2 billion in Cambodia, besting second-placed South Korea's \$3.8 billion and the \$924 million from American companies, according to the Cambodian Investment Board. Since 1992, Beijing has offered Cambodia \$2.1 billion in aid and loans to fund agricultural development and the construction of more than 2,000 kilometers of roads and bridges, Chinese and Cambodian officials say.

China's investments have changed Cambodia's landscape. In Kampong Svay, about 125 kilometers north of Phnom Penh, a Chinese construction facility lays abandoned off a pristine asphalt road, part of a 128-kilometer connection between central and northern Cambodia that has shortened journey times and increased travel. At the road's inauguration in August, Mr. Hun Sen praised China for lending the needed \$52 million.



"The new road has helped my business. I'm grateful to the Chinese," said Ly Sokha, a 45-year-old shopkeeper. Daily revenues from his stall, which peddles wares like beer and gasoline, have more than doubled to \$25.

Beijing says its aid to Cambodia is an effort to boost progress in a nation that ranks among the world's least developed, where gross domestic product per capita stands at about \$830—one of Asia's lowest—and some 30% of its 14.5 million people live below the poverty line.

China's aid "is not only advantageous to the economic development of Cambodia, but also conducive to narrow the development gap within Asean, to promote Asean economic integration process," China's foreign ministry said in response to queries from The Wall Street Journal.

China's growing footprint in Southeast Asia straddles simmering regional tension. Analysts say China is most keen on Cambodia's influence within Asean. Beijing's claims to the whole of the South China Sea has put it at odds with partial but competing claims by members Vietnam, the Philippines, Malaysia and Brunei.

At an Asean meeting in July, Cambodian diplomats clashed with Filipino counterparts and torpedoed a collective response to Beijing's increasing assertiveness, people familiar with the talks said. It was unprecedented to not issue a joint communiqué after a major meeting, which left many regional diplomats furious.

On the eve of Asean's coming summit, Cambodian Foreign Minister Hor Namhong said he believes that "China's new leaders will strengthen and expand their cooperation with Asean."

Beijing began courting Mr. Hun Sen in 1997, after the Cambodian leader seized full power in a brief military struggle. Since then, Cambodia has supported Beijing through routine foreign policy and times of geopolitical tension.

In 2009, Cambodia defied international protests to repatriate to China 20 asylum-seeking Uighurs, an ethnic minority from restive Xinjiang province, just days before Beijing granted Cambodia \$1.2 billion in aid—more than the cumulative total in the previous 17 years.

"The Cambodian government likes the fact that China's aid comes with few strings attached," said Douglas Clayton, chief executive at Leopard Capital, a private-equity firm that invests in frontier markets. "It's allowed Cambodia to distance itself

from the West and nongovernment organizations that criticizes them" over issues like human-rights abuses and corruption.

Beijing currently backs 19 development projects—including road and electricity works—worth a total of \$1.1 billion, according to Cambodian data. Since 2002, China has ranked among Cambodia's top five trading partners—bilateral trade was worth \$2.72 billion last year compared with just \$76 million in 1996, according to the International Monetary Fund.

The private sector has weighed in. Huawei Technologies Co., for instance, has invested hundreds of millions into developing Cambodia's mobile communications network. Chinese companies are also involved in garment manufacturing, Cambodia's top exporter, and are poised to tap newfound energy resources.

China's presence in Cambodia isn't entirely benign, activists say. For instance, Tianjin Union Development Group has been accused by rights groups of forcefully evicting residents and destroying wildlife in southwestern Koh Kong province, as it pursues plans for a multibillion dollar tourism zone. Tianjin Union denied taking part in any illegal activities, and have taken steps to address issues arising from local residents and environment.

The relationship should nonetheless endure. Mr. Hun Sen, who has been prime minister since 1985, and his Cambodian People's Party are widely expected to retain a tight grip on power after next year's elections.

"The wily Hun Sen plays countries off against each other—China and the West, but also China and Vietnam," Cambodia's eastern rival, said Ian Storey, an academic at the Singapore-based Institute of Southeast Asian Studies. "As long as Hun Sen stays in power, which he is likely to do for a long time, we can expect Cambodia's relationship with China to remain intact."

—*Sun Narin in Cambodia and Lilian Lin and Kersten Zhang in Beijing contributed to this article.*

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