When the Cold War ended, the international community witnessed a deluge of civil conflicts throughout the developing world. To stem the flow of violence, Western organizations implemented post-conflict reconstruction initiatives centered around structural reforms that would both aim to create a state that mirrors the West, as well as a state that would resist a return to conflict. Since most of these conflicts took place in the poorest parts of the world, the standard prescription was economic overhaul. This typically took the form of creating an open free-market which could attract foreign direct investments (FDI) into the post-conflict economy, which should create a windfall of positive spillovers for the host-state. Cambodia, a state left without any formal institutions following years of violent conflict is a perfect example of this model. When the international community arrived, and doled out measures of reform, Cambodia responded well and quickly captured the region’s largest share of inward FDI. Today, while Cambodia is still a strong economic performer, it is one of the most corrupt countries in the world and finds the bulk of FDI coming from a single source: China. Through this arrangement, Cambodia is in the precarious position of being dependent on Chinese FDI and positive spillovers have failed to materialize. With stark regional disparities and little domestic investment to expand human capital, the benefits of Cambodia’s windfall of FDI have been extremely limited. This reality can prove challenging for lasting peace in the country.

The form and content of this abstract are approved. I recommend its publication.

Approved: Sasha Breger-Bush
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CHAPTER I

INTRODUCTION

The refugee crisis that is crippling parts of Europe and the Middle East at the moment is a vivid reminder of the fact that the effects of conflict in any part of the world do not exist in a vacuum. While the physical aspects of conflict may be isolated, the economic effects of conflict can be far-reaching, as formal economic functions are immobilized when violent conflict ensues forcing families, workers and businesses to flee from the embattled state. The economic symptoms of conflict can pose significant challenges for post-conflict reconstruction initiatives. Development and peacebuilding experts alike agree that the most potent peace dividend that can arise in the post-conflict state, in addition to the cessation of physical violence, is economic integration for citizens (Collier, Hoefler & Soderbom, 2008; IDA, 2014; Philpot & Powers, 2010). Attaining a rigid peace dividend in post-conflict policy via the resumption of robust and open economic activity, as the literature will attest, can prove to be one of the most effective ways to curb violence, normalize relations with regional actors and enhance the post-conflict state’s ability to integrate and capitalize on the global economy.

Being that over half of the world’s poorest citizens, or roughly 2 billion people, live in states where development has been hampered by conflict and the fact that states that have endured conflict have a 40 percent chance of relapsing into conflict, there seems to be a pernicious relationship between poverty and violent conflict (Collier et al., 2008; IDA, 2014).

A recent World Bank policy report suggests that, “conflict is development in reverse” and states that are doomed to fall into the “conflict trap,” those in the 40 percentile of states relapsing into conflict within a ten-year span of a civil conflict, do so because post-conflict development efforts have failed to deliver broadly shared economic benefits for those who are affected most
by conflict: poor citizens (Collier et al., 2016; IMF, 2003; UNDP, 2016). While reconstruction needs are immense and varied for states in a post-conflict setting and many of a state’s physical, institutional and economic systems have been fractured by conflict (more below), one policy initiative that institutions like, The World Bank, International Monetary Fund (IMF) and the UNDP, commonly implement is to open the economy and facilitate the arrival of foreign direct investment (FDI) into the state (Collier et al., 2016; IMF, 2003; UNDP, 2016).

By adopting free-market economic policies—for example, deregulation, privatization, fiscal austerity, and free trade, the literature argues, the host country will reach a threshold of economic stability that will attract FDI from global firms who have the expertise, resources, and global mobility that will aid in lifting emerging economies onto the main stage (Liu, 2008; UNDP, 2016). Through this arrangement, global lenders argue, states emerging from conflict can utilize international aid to implement structural reforms that will attract foreign investors into the country, building long-term relationships with global firms that can contribute to a more sustainable path to development than aid alone can provide.

In addition to accessing capital through foreign investments, the literature adds (more below), FDI will both directly and indirectly create a surge of positive spillovers, from raising human capital, building regional commercial ties, to disciplining host governments’ economic policies (Collier et al., 2016; Kumar, 2007; Liu, 2008; UNDP, 2008). If the spillovers from FDI can then be harnessed and broadly dispersed among sectors of society by host governments, the literature suggests, the country’s developmental trajectory will have a more auspicious chance of resisting a return to the ‘conflict trap’ (Kumar, 2007; Liu, 2008; UNDP, 2008). In this view, the onus of success in post-conflict policy lies with a host-state’s ability to utilize the tools of donors and global organizations to implement lasting policies that will deliver broadly shared benefits.
This state-centric approach to post-conflict reconstruction is a visible departure from policies that were guided more by political and economic reform, from lenders like the IMF and World Bank, throughout peacebuilding activities born from the onslaught of civil conflicts that erupted in the immediate post-Cold War years (IMF, 2016). While international institutions like the UN and its various branches had long been present, post-conflict interventions were rarely mobilized until the Soviet Union fell and its many dependents ruptured into self-determinant conflicts (UNDP, 2008). This means that post-conflict intervention as a practice is still relatively novel and the subsequent lack of data and scholarly attention to mechanisms that have succeeded or failed pose both difficulties for policy-making, as well as opportunities to broaden the knowledge-base.

While conflicts continue to rage on throughout the world, questions of how to promote peace in regions susceptible to violence continue to challenge scholars and practitioners who strive to understand how sustainable elements of development can be introduced and conflict recidivism avoided. While the circumstances surrounding civil-conflict are as diverse as the countries that host conflict, generalizing effective policies that will work across all post-conflict situations is impossible. What will seemingly benefit the gap in literature most of all is more comparative context. This study seeks to contribute to this crucial, yet underserved, knowledge base by presenting an in-depth case study that will seek to offer some nuance to the discussion of post-conflict economic development, while focusing exclusively on the primacy of promoting FDI.

For this task, no country seems better suited to challenge prevailing development norms than Cambodia. Cambodia has overcome some tremendous obstacles throughout the past four decades. The country was sucked into the Vietnam war through a secret bombing campaign led
by the US, which helped galvanize an embattled and impoverished countryside to support radicals led by Pol Pot who strove to reset Cambodia’s calendars to year zero; to the “lost decade,” where the invading and internationally-scorned Vietnamese Army stemmed the murderous Khmer Rouge, though at an extremely high cost for the beleaguered Khmer citizens (Than, 1992). Add the decades of extractive colonialism that preceded these events and one can quickly see that Cambodia has faced some profound developmental challenges.

From this deeply troubled past Cambodia has made some incredible transformations, at least on the surface. The World Bank’s Senior Country Economist states, “Cambodia has joined the Olympians of growth. With an annual growth average of 7.7 percent for two decades now, it is the sixth-fastest [growing economy] in the world from 1993 to 2013” (World Bank, 2014, para. 16). This growth, the Minister of Finance notes, has been hinged on the ability of Cambodia to attract foreign direct investment (FDI) (Chanthol, 2014). The Minister highlights a variety of traits that have allowed Cambodia to attract FDI: proximity to the former and emerging tiger markets in Asia, a prominent, albeit fledgling, port city on the Gulf of Thailand (one of the busiest trade-routes in Southeast Asia); a relatively young labor force; and natural resources spread throughout the country (Than, 1992). All else equal, Cambodia is really poised to succeed within the framework of globalization. Its assets have proved compelling for foreign investors and with these investments, in conjunction with immense flows of aid, Cambodia should have the necessary tools to steer a sturdy course. Unfortunately, all else has not been equal.

While Cambodia’s post-conflict growth has indeed been impressive, especially considering the zero-starting-point in which Cambodia began to rebuild when UN forces arrived in 1992, the optimism that is placed in overall growth distracts from the shortcomings that exist
under the surface. Land and food security is a continuing problem for the country’s 80 percent rural, and predominantly impoverished, citizens (Than, 1992). Education falls far behind its Asian neighbors and corruption in Cambodia has consistently remained in the bottom 8 percent in the world, or 164th of 182 jurisdictions in Transparency International’s Corruption Perception Index (Hill & Menon, 2014; Transparency.org, 2016). Additionally, Cambodia’s windfall of FDI, since the 1991 signing of the Paris Peace Accords, has come primarily from a single source, China (O’Neill 2014; Than, 1992). While much of the pro-FDI literature focuses on benefits derived from developed, typically Western, societies, the question of positive spillovers from an Asian-centric investment base is not as clear and current literature is lacking in addressing this. These characteristics of Cambodia’s post-conflict development, I will argue, have run counter to the promises of FDI and may not bode well for continued peace in the future.

With exclusive focus on the post-conflict state of Cambodia, this study seeks to broaden our understanding of how FDI operates in theory and how FDI operates on the ground. In recognizing that no two post-conflict situations will be the same and that conflict itself can affect states in a multitude of ways, there will be no attempt to generalize findings across all post-conflict locales. Rather, the attempt is to flesh out how a country like Cambodia, one that was decimated by civil war and foreign occupation, has fared in establishing a Western-friendly economic identity and in harnessing the concomitant downpour of FDI. Is FDI providing the beneficial spillovers as the literature professes it will? Or, are we simply witnessing the “Guilded Age” of post-conflict reconstruction, where, in the absence of effective governance and sound judicial oversight, the economically mobile prosper while the bulk of impoverished toil? Can reliance on a single source of FDI from China, as will be demonstrated below, create the kind of post-conflict dependency that leaves a country more vulnerable than self-sufficient? What does
this tell us about the role of FDI in a post-conflict setting and what does this portend for future peace?

This paper will proceed as follows: 1) The first chapter will outline the existing literature on FDI in theory and in practice, specifically in relation to development and economic stability. 2) The following chapter will outline the data and methodological approach that will be used in uncovering how FDI has shaped Cambodia’s post-conflict economic reform since the signing of the Paris Accords in 1991 to present. 3) The final chapter will present the findings in Cambodia and will conclude with possible directions for further research.
CHAPTER II
FOREIGN DIRECT INVESTMENT IN POST-CONFLICT POLICY

Definitions

As terms within the economic/globalization lexicon can be easily blurred in technicalities, I will employ the following definitions in my research. Foreign direct investment (FDI), will be understood as a flow of capital from any firm that establishes long-term relationships through investments with enterprises in foreign markets and holds a minimum equity stake of ten percent (Kumar, 2007). FDI differs from other types investments, such as portfolio equity investment, which is when a foreign firm buys company shares, typically via the stock market, and does not necessarily gain any effective control of the company (Kumar, 2007). This distinction will be important moving forward, as the element of control garnered through FDI denotes a heavier influence and a more direct interaction between parent/affiliate companies, theoretically allowing for a more fluid movement of ideas, technologies and managerial know-how from parent to affiliate enterprises (Kumar, 2008).

Firms that invest across national borders will henceforth be referred to as multinational corporations (MNCs). These companies are typically based in developed countries and seek strategic investment in firms often located in lesser developed countries (LDCs) (Kumar, 2008).

While this study does not seek to tie post-conflict economic policy to the attainment of peace directly, global institution like the UN often frame post-conflict interventions as practices in peacebuilding. Thus, peacebuilding, as the UN describes it, denotes a strong lean toward establishing structures of peace that would sustainably reject a return to conflict. Put into the post-conflict context, these processes typically include: “Strengthening the institutional base; making a constitution, or a new one, and establishing the rule of law; strengthening security;
economic reconstruction; as well as national reconciliation” (Yilmaz, 2009, 240). While all of these steps are critical in the post-conflict state-building process, the literature suggests that peacebuilding initiatives often devolve back into conflict, which suggests that there are crucial elements missing, or are being misused, in their implementation (Call & Cousens, 2008; Del Castillo, 2008; Gersen, 2001; Venugopal, 2011; Yilmaz, 2009). States emerging from conflict throughout the past several decades, as well as states that revert to conflict, all seem to have entrenched poverty as a common denominator and thus peacebuilding as it relates to economic reconstruction and FDI will be of central focus moving forward.

**The Post-Conflict State: An International Problem**

Before delving into the development literature, it will first be important to illustrate just why the post-conflict state, differentiated from lesser developed countries (LDCs) in general, is such a unique subject that deserves explicit attention. While economies within most LDCs already struggle to compete in global markets as it is, conflict can exacerbate already difficult situations to disastrous levels, by crippling formal economies and stripping citizens of the capacity to earn a living (Venugopal, 2011).

“The economic and political consequences of violent conflict,” as highlighted in the 2008 United Nations Development Program (UNDP) (2008) report, “includes substantial loss of livelihoods, employment and incomes, debilitated infrastructure, collapse of state institutions and rule of law, continuing insecurity and fractured social networks” (p. 17). The report then presents Afghanistan, a country that has endured more than a quarter century of violent conflict, as an example of the detrimental relationship between development and conflict: “Afghanistan stands as one of the most impoverished, conflict-prone states in the world, and ranks near the bottom of
all human development indicators” and has furthermore been ranked by the Fund for Peace as the “seventh weakest state in the world” (UNDP, 2008, 17).

Conflict reshapes whatever political and economic institutions were in place prior to the outbreak of violence, as the breakdown of the formal economy will force people into other avenues of survival (Venugopal, 2011.). The loss of a traditional means of employment pushes citizens to operate in the informal, or shadow economy, where subsistence agriculture becomes the only means to eat and informal, or black market, transactions become the only means to trade (Call & Cousins, 2008). Illicit activities—bolstered by the state’s diminished capacity to regulate—such as drug and arms trading become viable avenues for those stranded in what is essentially economic purgatory (Call & Cousins, 2008; UNDP, 2008; Yilmaz, 2009). While conflict pushes people to the fringes of economic activity, the state government’s goal to normalize the situation becomes that much harder and its limited resources become squeezed that much more as a potential tax base cannot be fully realized (Call & Cousins, 2008). Furthermore, human capital is depleted as many of the educated and trained are either directly pulled into conflict or leave the country in search or opportunity elsewhere, resulting in a ‘brain drain,’ that will further challenge reconstructive efforts in the post-conflict setting (Call & Cousins, 2008).

The post-conflict state is thus void of systems and infrastructure that might otherwise direct citizens’ activities toward a cohesive productive capacity and at this point the struggling state is in dire need of external assistance (Berman, 2000; Dicken, 2007). At this point, the post-conflict state often looks toward Western organizations.

In addition to the welfare of the state embroiled in conflict, regional ramifications can be felt by neighboring states in several ways. Of foremost concern is the mass movement of people mobilized by conflict and their subsequent drain on the resources of neighboring states, who
themselves are often struggling LDCs (UNDP, 2008). This strain in itself can be a source of conflict for neighboring states and speaks to the necessity of governments and international actors to comprehensively address the sources of conflict at the state-level, lest it devolve into regional chaos, i.e. D.R.C., C.A.R., and now the Levant. These previous examples also speak to the dangers of leaving entire societies devoid of formal and open economic processes in the post-conflict setting, as without jobs, young men and women might find whatever offers local militias are providing as quite attractive.

Clearly a state emerging from conflict is disproportionately vulnerable and the new government is often weak and aid-dependent (LeBillon, 2008). Whatever economic systems were in place prior to conflict have typically been destroyed or severely stunted and the most crucial peace dividend, economic reintegration, often takes second place to political reforms, which is a significant contributor to the fact that, as Call and Cousins (2008) note: “A significant number of armed conflicts relapse into war, and many ‘new’ wars occur in countries that have failed to consolidate peace. When peacebuilding fails,” Call and Cousins (2008) continue, “parties to conflict often unleash greater violence than in the prior war” (p. 1). Rwanda surely stands as a vivid example of these dangers and clearly illustrates the necessity of effective and sustainable post-conflict intervention operations (Call and Cousins, 2008).

Considering that there are now more than “35 countries that have entered the post-conflict phase since the end of the Cold War in ‘89” and that the return to conflict rate is as high as 40 percent among these often poor countries, it is clear that traditional means of peacebuilding need to adapt and find ways to promote and facilitate alternatives to conflict more rigorously (Collier et al., 2008; Del Castillo, 2008).
Intervention, however, is a costly and difficult process. Scholars and UN publications themselves often cite the complexities involved with mobilizing the tremendous amount of resources, personnel and capital required in any post-conflict situation (much of which is absorbed by the mission itself) (Del Castillo, 2008; Gersen, 2001; UNDP, 2008). It is thus not surprising that in recent years the UN has been seeking partnerships with actors from the private sector (UNDP, 2008).

Additionally, the post-conflict state is complicated in and of itself, as each country’s capacity-level in the aftermath of conflict differs substantially (Del Castillo, 2008, Gohou & Soumare, 2010). These capacity differences include the level of human and structural damage sustained throughout the conflict, a state’s history of domestic economic processes, its possession of marketable resource endowments and, among many other attributes, its relationship and placement in the regional economy (Del Castillo, 2008, Gohou & Soumare, 2010; UNDP, 2008).

These differing contexts have proved challenging for peacebuilding actors, namely the UN, World Bank and IMF, as they have been widely criticized by scholars and practitioners alike for ‘rubberstamping’ peacebuilding operations by implementing values of the West and of the developed onto cultures with significantly different value systems and different ways of doing things (Call & Cousins, 2008, Gersen, 2001; Gohou & Soumare, 2010; Philpott & Powers, 2010). In light of the tremendous obstacles being faced by international peacebuilding bodies, post-conflict protocol has been forced to recalibrate its approach, looking toward non-traditional actors in the private sector to complement peacebuilding processes (UN.org, 2015). The following section will examine the reasoning behind these shifting attitudes from external aid-
driven reform to a more endogenous approach, which is centered around mobilizing a state’s unique capabilities.

**Literature Review**

**Development for Peace**

Peace cannot be maintained in a breadline for long. This was made explicitly clear in the days after WWII, when much of the developed world was left crawling after decades of violence and destruction. In order to avoid further conflict, it was clear that a sustainable political model must be coupled with a sustainable economic model. “Historically speaking,” notes Del Castillo (2008), “the emergence of a development-for-peace approach to post-conflict reconstruction is best exemplified through the Marshall Plan, the champion of post-conflict policy” (p. 23). What made the Marshall Plan so successful, Del Castillo (2008), Gohou & Soumare (2010), among others, argue, was the heavy emphasis placed on the states receiving aid and resources to guide their own path for development and take domestic ownership of the reconstruction process.

Comparing a war-torn Europe of the 1940s with modern post-conflict states necessitates proper contextualization, as, even then, the European states had a history and collective understanding of industry and what a functioning economy looks like (Del Castillo, 2008). Countries that are racked with conflict today and are primarily located in the global South, on the other hand, have experienced little more than the extractive end of globalization, typically playing host to firms who invest in resource extraction and low-skilled labor, and thus have little exposure in shaping and sustaining higher-value added production capabilities that would aid in developing a more diverse and rigorous domestic economy (Del Castillo, 2008; Gohou & Soumare, 2010). Despite these differences, situating the host state as the primary director of its post-conflict institutional identity is widely seen as a success in the Martial Plan’s format (Gohou
This centralization of host-state prerogative, which made the Marshall Plan so successful, will be an important attribute to keep in mind as we move toward uncovering Cambodia’s role in its post-conflict reconstruction.

Debates and inclusive decision-making practices of the Martial Plan’s nature have changed significantly in peacebuilding protocol and have been replaced with a consistent call among global lenders for strict structural adjustment programs (SAPs), which typically involve adopting the hallmarks of a free-market economy, such as: rapid de-centralization, de-regulation and open access to international firms (Del Castillo, 2008; Kumar, 2008). “The reconstruction projects of late,” Del Castillo (2008) notes, “have had to rely on throwing money at a system that may not have the capacity to adjust. Underdevelopment needs time to develop” (p. 21). The framers of the Marshall Plan seemed to have had an understanding of the fact that development is indeed a slow and gradual process and spent a great deal of energy in tailor-fitting processes that would maximize benefits for each country by first providing the platform of economic recovery and sustainability (Del Castillo, 2008; Gohou & Soumare, 2010). Though there has been a visible shift in publications from global lenders of late, it wasn’t until 2001 that the World Bank’s International Development Association (IDA) adopted more flexible post-conflict procedures, which included: a period of observation before engagement, a clear “transitional support” approach and “country assistance strategy,” as well as a call for more cooperation with competing agencies, “NGOs and civil society” (IDA, 2014, 9).

Though, before structural reforms can begin, the primary condition to be met is the cessation of violence, which is typically effected through internationally mediated power-sharing arrangements among competing factions of governance in the initial stages of peace accords (USAID 2009; UNDP, 2008). While this is clearly a necessary step toward building peace in a
conflict ridden state, the extent to which power sharing reflects a true dividend of peace among rival citizens, or is simply a placation of international bodies to ensure the continuation of aid, is a highly contentious subject in the peacebuilding literature (Hopp & Klokke-Lesch, 2004; Philpott & Powers, 2010; Venugopal, 2011). To this end, the literature situates the attainment of peace into two main categories: positive peace and negative peace (Call & Cousens, 2008). Negative peace can simply be the absence of violence alone, where a positive peace is more focused on “Resolving the numerous social, economic, and political fissures that exist in a post-conflict setting” (Call & Cousens, 2008, 3). Clearly a negative peace is a temporary solution to overt violence, while the processes involved with building a positive peace require an intimate understanding of the post and pre-conflict context in order to implement lasting structures that will foster that peace. These structures, as demonstrated through the Marshall Plan, manifest in part through sound economic development built on country-specific policies (Del Castillo, 2008; Call & Cousens, 2008).

While many of the conditions placed on post-conflict aid may indeed help in preparing the country for a place in the global market, in an attempt to hasten its economic development, the literature warns that conditions of aid do not always acknowledge the interests of the host country (Manning & Marlborough, 2010). First of all, as the post-conflict state is quite foreign to (often) Western actors, they innately lack an intimate knowledge of the country which would be required to create durable conditions (Manning & Marlborough, 2010). This can lead to a particularly volatile situation if certain domestic actors, regions, or ethnic groups are ignored or favored by the resulting policy (Manning & Marlborough, 2010). Moreover, the literature warns that conflicts arising today must not be treated as ‘new’ wars, but should be understood as a long historical process with a host of preceding variables to address in peacebuilding, a point that
seems often ignored by donors and practitioners as per their insistence on implementing standardized, “one-size-fits-all” reforms (Putzel, 2005). This top-down element of determining what’s right for the post-conflict state can complicate post-conflict policy as many citizens or regions can be left out of the fold.

Additionally, peacebuilding often ignores the economic processes that were in place prior to conflict. In this vein, the UNDP (2008) stresses the importance of “nurturing indigenous drivers,” or tapping into the historical productive capacity of a society (p. 20). Citizens in conflict affected states, the UNDP (2008) report adds, will not simply wait passively for external agents to bring them the good life. Rather, ” the report continues, “they will get to work in whatever capacity they know best” (UNDP, 2008, 20.) The study concludes by urging practitioners to mind these indigenous drivers when designing a reconstruction program and complement, rather than completely overhaul, systems of the economy (UNDP, 2008). This is an area, the literature suggests, that could better be navigated by members of the private sector who, through business dealings and a working knowledge of domestic or regional processes, can more naturally implement themselves into the post-conflict context, transferring capital and benefits along the way (Gariga & Phillips, 2014; Manning & Marlborough, 2010; Suhrke & Buckmaster, 2005).

The fact that the face of donors and peacebuilding institutions are often associated with Western ways and values places another restraint on their effectiveness toward promoting a viable peace. Writing in the context of “developmental neocolonialism,” some scholars within the development literature seem to recognize the tension that is created when conditions are placed on aid that require the host state to more closely resemble donors (Venugopal, 2011). Much like colonial practices, donors can favor certain groups, political parties or regions within
the post-conflict state that are more closely aligned with their own interests (Venugopal, 2011). As this suggests that some groups would be placed on unequal economic footing, practices like these can run counter to peacebuilding goals of fostering a positive peace, allowing resentment and contempt to fill the void of broadly shared benefits.

The post-conflict state is also sensitive to the patterns and manner in which aid is dispersed. Surhke and Buckmaster (2005) note a distinct correlation with donors and their response to conflict by the newsworthiness, or as they call it, the “CNN effect” and the amount of money they disperse (p. 737). The more prolific the news surrounding a conflict is, Surhke and Buckmaster (2005) argue, the more donors will “frontload,” or pour large amounts of financial aid and other physical resources into the state (p. 737). This type of donor behavior clearly suggests a self-serving post-conflict aid strategy and raises several questions about the interests and the effectiveness of organizations that are involved in peacebuilding and post-conflict reconstruction.

Furthermore, pouring large amounts of financial aid into post-conflict states, the literature suggests, can have long-term negative impacts on economic development (Suhrke & Buckmaster, 2005; Venugopal, 2011). Highlighting a recent World Bank publication, Suhrke & Buckmaster (2005) suggest that while conditions are attached to initial agreements of aid, there is little oversight when it comes to funds actually being dispersed. The often new and fragile post-conflict governments, rather than reinvesting funds to promote immediate and broadly shared economic growth, tend to disappear funds, whether through corruption or poor investments (Suhrke & Buckmaster, 2005, 739). It is because of blowback like this, a 2012 United Nations Development Program (UNDP) publication illustrates, that “Developing countries [and the development community at large] increasingly see foreign aid as a short-term
solution and a catalytic for trade and development driven by the private sector” (p. 3). With the domestic private sector being significantly set-back as a result of conflict, FDI, the UNDP (2012) suggests, can be a crucial driver of economic recovery.

The newsworthiness aspect of donor choice also suggests a level of subjectivity on behalf of donors as to what and when is a conflict. This has been demonstrated in tracking aid flows over time throughout peacebuilding operations. In the cases of Bosnia and Cambodia as an example, Bosnia received about “three times as much post-conflict aid” than Cambodia, a country with the twice the population of Bosnia (Surhke & Buckmaster, 2005, 739). As conflict involves the destruction of life, the implications that some conflicts would not be in the limelight enough to warrant aid is a frightening proposition.

The approach to peacebuilding and reconstruction illustrated by the Marshall Plan seemingly changed along with the polarizing political atmosphere of the Cold War years, where development was used more as a proxy to create states that resembled Western models (Gersen, 2001). What changed too was the manner in which wars were fought, or at least with whom they were fought. Inter-state wars, where aggressors and victims are much easier to discern, were rapidly becoming exceptions, as intra-state conflicts, where hostilities are deeply woven in complex relationships and histories, became the new norm (Gersen, 2001). Translated to the peacebuilding community, this shift means that Marshall Plan-era approaches of relying on salvaging pre-existing structures and simply funding the initiatives of able state leaders were quite incapable of addressing the causes of modern-day conflict in states that have few financial resources, stark social/ethnic cleavages and weak institutions (Del Castillo, 2008).

Finally, the changed nature of conflict has also had profound implications for the legal and normative aspects of conflict intervention. “The fact that intra-national conflicts occur within
the borders of states,” Yilmaz (2009) notes, “made most international actors reluctant to intervene, either for legal concerns or for concern to avoid probable losses” (p. 238). Thus faced with an explosion of post-Cold War conflicts, public international institutions charged with the task of promoting development and avoiding conflict, namely the UN, IMF and World Bank, were in a constant race to implement top-down peacebuilding structures in situations that were anything but transparent and in locales that were anything but familiar to peacebuilding practitioners (Gerson, 2001). This approach clearly did little to douse the flames of contempt, as peacebuilders, trying to operate through a singular policy approach of political and economic reform, failed to recognize the intricacies of each site of conflict as vastly different and unique to one another. By structuring policy around the inherent traits and indigenous drivers of the host state, the literature argues, policy can build upon already existing processes, rather than implementing a clean-sweep of reform (UNDP, 2008; Yilmaz, 2009).

**FDI as a Complement to Post-Conflict Intervention**

When domestic processes are widely hampered from conflict, the literature argues, post-conflict aid and policies directed toward encouraging investments made by MNCs can “provide a country with access to capital, jobs, skills, technology, and international business networks that are unavailable domestically” (See Table 1) (Griffin & Whyte, 2014, 1). In attracting these external inputs, the literature highlights, in addition to providing an immediate peace dividend in the form of economic activity, FDI can significantly contribute to the long-term growth prospects of the domestic economy by creating linkages with upstream/downstream domestic industries (Griffin & Whyte, 2014; Surhke & Buckmaster, 2005; UNDP, 2012).

In the tense political environment of the early nineties, UN Secretary-General Boutros Ghali, witnessing that “a significant number of armed conflicts relapse into war, and many ‘new’
wars occur in countries that have failed to consolidate peace,” institutionalized the term “peacebuilding” in his 1992 *Agenda for Peace* and expanded its post-conflict prerogative, as: “action to identify and support structures which will tend to strengthen and solidify peace in order to avoid a relapse into conflict (Call & Cousens, 2008, 3; Secretary-General of the United Nations, 1992). This definition, with its call for structural reinforcements of peace, is a clear departure from 90s-era post-conflict interventions that made aid contingent on complete political-economic reform, regardless of whether or not those conditions would continue to be upheld once aid arrived and experts left (Manning & Marlborough, 2010).

Furthermore, being that “Peace negotiations and post-conflict economic recovery,” Wennmann and Berdal (2010) elaborate, “are often perceived as two distinct operations that are conducted in different contexts and by different institutions,” we need to shift our framing of peacebuilding as a two-stage process, “towards an ongoing process in which the resolution of a conflict and the preparation of future political or economic orders go hand in hand” (p 22). To this end, a 1999 initiative led by then Secretary General of the UN, Kofi Annan, “launched the Global Compact, a voluntary partnership between the UN, the private sector, and NGOs” which seeks to bridge the interests of global development actors as well as firms which embrace “good international corporate practice[s]” that can align and support private sector reform supported by the UN, World Bank, IMF and other actors typically engaged in post-conflict reconstruction (Oliver, 2014, 9).

The concerted approach to post-conflict expressed in the Global Compact, is very reminiscent to Marshall Plan-era policies which rested heavily on planning and tailor-fitting reforms to best match the host state’s capabilities and is best captured through the endogenous growth model (GuechHeang & Moolio, 2013). “In contrast to the neoclassical model,” which
places emphasis on economic growth through transfers of FDI, the endogenous framework emphasizes “a number of channels through which FDI can permanently affect the growth rate and those include research and development (R&D), human capital accumulation, and externalities, or spillover effects, which all will promote growth in the long run” (GuechHeang & Moolio, 2013, 89). FDI literature situates its spillover potential into two channels. De Mello (1999), Dunning (1993), Blomstrom et al. (1996) and Borensztein et al. (1998) posit that the first channel consists of capital accumulation via the arrival of new economic inputs and technology that foreign firms bring to the table which boosts the productive capacity of the recipient state (GuechHeang & Moolio, 2013). The second channel, highlighted by De Mello (1996, 1997, 1999), is more concerned with the intangible accumulation of human capital, wherein “FDI augments the host country’s existing stock of knowledge via labor training, skill acquisition, and the introduction of alternative management practices” (as cited in GuechHeang & Moolio, 2013, 89). Furthermore, the more productive a society is, that is, the more a host state can harness and expand these spillovers, the more FDI will serve as a self-fulfilling prophecy, further garnering the attention of international firms who see the newly stable and vivacious state as a solid investment (Dunning, 1993; GuechHeang & Moolio, 2013; De Mello, 1997).

Much has been covered so far about the dangers and inefficiencies of an externally-driven approach to post-conflict reconstruction and much stock has been placed in the building a sustainable development through the arrival and proper harnessing of FDI. While FDI is painted in the literature as something as a panacea to invalid economies throughout the developing world, these benefits are placed squarely on the recipient country’s ability to harness and distribute these benefits. This relationship, expressed through the endogenous growth literature, places a state’s possession and investments of human capital at the “forefront” of economic
growth (Azam & Ahmed, 2015, 100). In this sense, Azam & Ahmed (2015) discuss the tremendous growth potential in states with an already healthy level of human capital stock, that is citizens whom have had the opportunities to develop marketable skill sets through “higher education,” “on-the-job training,” and access to “preventative and curative healthcare” (p 100). In this model, states that have the ability to invest significant resources into the skills and health of the local populace can augment significant returns from both a diverse domestic economy, as well as in attracting foreign firms drawn to the prospect of a healthy and skilled labor base (Borensztein et al., 1998; Azam & Ahmed, 2015).

While this model has had success in describing rapid growth throughout the developed world in the age of globalization, it offers little in explaining the potential growth in a post-conflict situation, as most of the domestic stock of human capital has been obliterated throughout conflict (more below). Nonetheless, this conception of creating a threshold of domestic investments in things like health and education before FDI can be adequately attracted will be important to keep in mind when considering the decimated post-conflict context of Cambodia. The following section will take a closer look at the emergence of FDI in the development landscape as well as some of the professed benefits of FDI.

FDI and Development: Can MNCs Deliver?

The evolution of FDI, like that of post-conflict development, has its roots in the post-WWII years. “First, from the end of WWII to the end of the Cold War in the 1990s, FDI flows and stocks increased around the world, especially in developing countries” (Gohou & Soumare, 2010, 76). During this period, the author continues, “FDI flows were mainly driven by political rather than by economic motives, Second, since the 1990s, FDIs have been concentrated in countries that offer fiscal benefits, subsidies, and other incentives” (Gohou & Soumare, 2010,
As previously mentioned, in order to be included in FDI data, a firm must hold at least 10 per cent ownership equity in the foreign affiliate (Kumar, 2007). While an investment threshold of 10 percent may seem slightly arbitrary, it does imply a substantial mobilization of financial and human assets to the affiliate company in the process of expanding, enhancing, or building productive elements anew in the host country (Bwalya, 2006). This movement of resources is what is generating fanfare for FDI in the peacebuilding literature, in that, through the transfer of foreign physical assets, there is an indirect benefit for the host entity—in addition to the direct benefit of attaining foreign capital and resources—in what are commonly referred to as “spillovers” (Bardy et al., 2012; Bwalya, 2006; Kumar, 2007; Liu, 2008).

Beyond FDI, capital flows come in two other primary forms: Portfolio equity investing is when a foreign firm buys company shares, usually through stock markets, without gaining any effective control and Portfolio debt investments are investments that typically cover bonds and short/long-term borrowing from banks and multilateral institutions (Kumar, 2007, 3). While all three modes denote the movement of capital from one MNC to a foreign enterprise, only FDI denotes an element of ownership. This level of ownership implies that the investing MNC will have a much more hands-on relationship with the affiliate, transpiring in the transplantation of methods, knowledge and technology to the affiliate in order to maximize investment yields (Bardy et al., 2012). Most importantly, while all three modes of investment will bring much needed capital to the host state, only FDI, through its entrenched relationship with local enterprises, connotes a sense of productive sustainability to the host state (Kumar, 2007).

The sustainability and the longer time horizon of FDI versus portfolio debt investments and even foreign aid, is an aspect of FDI that has great potential for development. Whereas aid is predicated on the commitment of lenders, which can be capricious (as discussed above), and
portfolio investments can, and typically do, flee the country at the first sign of increasing risk, FDI, with its threshold of 10 percent ownership, is typically undertaken with the long game in mind for investors (Azam & Ahmed, 2015).

This threshold of investment also denotes a substantial mobilization of resources and capital and thus it is worth highlighting what compels MNCs to invest abroad. The literature highlights several reasons that drive FDI, but for the relevance of this paper, the three main drivers are: market-seeking, efficiency-seeking and resource-seeking investments (Kavita & Sudhakara, 2011). For those firms that are market-seeking, they are usually drawn to the spending capacity of local citizens as a way to broaden their consumer base and as such, host countries tend to be more developed and the resources the firms move abroad tend to be higher-tech and require high-skilled employees (Kavita & Sudhakara, 2011). Conversely, efficiency seeking behavior tends to be driven by lower productive costs, typically owed to cheaper labor relative to source-state labor. These firms are typically low-skilled and low-tech manufacturing firms, like the garment industry, for example (Kavita & Sudhakara, 2011). Finally, resource-seeking behavior is driven by the presence of raw materials in the host state. Firms engaged in resource extraction tend to mobilize high-tech processes, though typically bring the necessary skilled labor with them (Urban, Nordensvard, Siciliano & Li, 2015). Resource-seeking also lends itself to controversy, as host states are typically located in LDCs and subsequently have lesser developed regulatory capacities which firms can exploit, through environmental or social degradation, for example (Urban et al., 2015). Additionally, with lower levels of human capital in economies that attract efficiency-seeking investments, there is less absorptive capacity of workers to reap the benefits of spillovers and thus these firms typically exploit lower labor costs while reserving higher management positions for source-state employees (Kubny & Voss, 2010).
Aside from the access to needed inputs, MNCs seek investments with the fewest risks. FDI requires host state approval and is usually secured through contracts with the firm and the appropriate ministries in the country. As such, countries with opaque or unstable political and legal institutions pose tremendous risks for foreign firms, as if policy were to change, a firm could risk losing investments through nationalization, contract reneging or lost profits through bribes and payouts (O’Neill, 2014). This will be an important consideration when discussing the FDI environment in the Cambodia case study section.

The focus on FDI, as being as much or more pertinent in the post-conflict setting as international aid, is gaining more prominence in development circles as it is, above all, a non-debt source of finance in which the government can utilize for economic investment projects as well as a tool to enhance the host country’s technical capacity (Bwalya, 2006). To cite Kumar (2007) again, “A key aspect of economic advancement lies in poorer nations’ capacity to acquire more capital and scale the technological ladder” (p. 1). Furthermore, Kotrajaras, Tubtimtong and Wiboonchutikula (2011) note that “Many studies have concluded that FDI is a long-term capital inflow and has the smallest fluctuation compared to other types of capital flows” (183). This constancy in capital flows is crucial to development as with other avenues, such as aid and loans, the financial spigot is turned on and off as per the whims of the lender.

Where actors involved in providing aid to post-conflict countries might have core interests they are seeking to achieve, as much of the funding from these organizations is provided by those who support the organization’s specific cause, businesses, by their very nature are politically neutral (Jamali & Mirshak, 2009). In a study that interviewed leaders of MNCs throughout the world who have conducted business in fragile and conflict-affected areas, many respondents clarified their neutral stance, with one manager saying: “please make note of it, we
are neutral, nonpolitical whatever you want to call it; we don’t support any political faction nor wish to be dragged into political squabbles or discussions” (Jamali & Mirshak, 2009, 458).

Conversely, Schouten (2007) noted that, “companies cannot operate neutral. The very fact that that a company conducts activities within a political environment makes it a political actor” (as noted in Jamali & Mirshak, 2009, 460). The argument behind this is that a firm has the capacity to legitimize any state or ruling government simply by their presence. Regardless of their perceived position, many of the respondents in the author’s survey indicated that they exercise their policies of corporate social responsibility (CSR) through continuing business in fragile states and providing for customers within states, actions, the authors note, may have an indirect capacity to aid in peacebuilding initiatives (Jamali & Mirshak, 2009).

As bleak as the post-conflict state’s productive capabilities are, scaling any ladder is going to require support and resources. To this end, things are looking up for the developing world, as “FDI is now the largest source of external finance for developing countries. In 2006, for instance, inward stock of FDI to developing countries amounted to about a third of their GDP, compared to just 10% in 1980” (Mihalache-O’Keef & Vashchilko, 2010, 137). Capital flows during this same period have “skyrocketed from $104 billion in 1980 to $472 [billion] in 2005” (Kumar, 2007, 1). Current estimates place annual flows from FDI at “$700 billion, figures that have for the past decade exceeded that of global trade (Gorg & Greenaway, 2004, 171). Indeed, FDI rose steadily throughout the 1990s, though as Figure 1 represents, FDI has been anything but impervious to global market shocks and downturns. FDI flows took a noticeable dive upon the “global slowdown of 2001” and another, more drastic dive at the onset of the “global recession of 2008 to 2009” (OECD, 2014, 3). While it is impossible to deny the substantial flows of capital that FDI has spurred throughout the global economy, over-reliance on
capital derived from FDI for the purpose of development, due to the inherent risks involved with potential global economic slowdowns, should caution policymakers to implement FDI as a tool, not a cure-all.

![Figure 1: Global FDI flows from 1999 to 2013 (USD billion)](https://www.oecd.org/investment/FDI-in-Figures-Dec-2014.pdf)

While the statistics and data (above) both affirm the growing presence of FDI as a crucial actor in development, they also express that firms are drawn to countries for a variety of reasons and the fact that an LDC has experienced conflict does not mean that it is necessarily less attractive for the business community. Clearly attracting capital is crucial in the post-conflict context, but the physical transfer of assets is only half of the expected benefits that can be derived through FDI.

**Human Capital and Domestic Market Growth: Is FDI a Funnel?**

While the arrival of foreign capital is often the most visible manifestation of FDI, it is not capital itself that will provide the most benefits to the developing recipient country (Mihalache-O’Keef & Vashchilko, 2010; Wennmanm, 2010). Capital is in short supply in a post-conflict state and while governments should seek to attract it the best they can, there are other, perhaps
more sustainable methods, to promote broad-based development in a post-conflict setting. In response to the praises that FDI can help reduce the savings gap of the recipient country, by supplanting domestic government revenues aimed toward reconstruction, Liu (2008) reminds us that, “According to neoclassical growth theory, economic growth based on capital accumulation is not sustainable because of diminishing marginal returns to capital. Therefore,” Liu (2008) continues, “for FDI to promote long-term economic growth, it must lead the recipient country to adopt policies that are conducive to economic growth or policies that facilitate technology transfer” (p. 191).

One of the most sought-after spillovers of FDI that is cited in the literature is its promotion of human capital in the host country (Bwalya, 2006; Gohou & Soumare, 2010; Kumar, 2007; Liu, 2008; UNDP, 2008). As previously mentioned, human capital can be expressed in many forms, but it is ultimately a relative figure gauging the productive capacity, as well as health vigor, of a labor force in a potential host state to that of the labor pool available throughout the developed world. As discussed in respect to endogenous growth, high levels of human capital are what typically attract FDI (Azam & Ahmed, 2015; Noorbakhsh, Paloni & Youssef, 2014). While it seems striking that FDI alone can generate any amount of substantial change within the host country, it is important to remember just how depleted the resource-base is for a post-conflict country. As mentioned above, a state that has endured conflict has both tremendous physical damage to restore in order resume market activity, as well as substantial losses to the skilled workforce, who often become entangled or lost in conflict (Call & Cousins, 2008; Yilmaz, 2009). Furthermore, conflict forces a life-style change among the poorest—often the most numerous segment of society—forcing many into modes of subsistence, whereby the formal economy is abandoned, further reducing potential revenue streams for both citizen and
state (Call & Cousins, 2008). While the post-conflict state faces many pressing challenges in times of transition, it can be easy for the needs of those extremely impoverished citizens to be diluted by more macro-level policies in the immediate post-conflict years. Though, as the poor often represent the largest segment of a post-conflict society and in turn the most viable labor and tax base, policy should be quickly aimed at reaching the poor and rebounding levels of human capital, as, “On the economic side, recent literature on endogenous growth suggests that human capital may be the principle contributor to self-sustained growth in GDP per capita” (Gohou & Soumare, 2010, 76).

The underlying premise of FDI and its effects on the host country rests in the fact that MNCs possess various intangible assets, including technology, managerial know-how, export contacts and reputation (Bwalya, 2006). While MNCs are not the only actors to engage in FDI, others might include state owned enterprises (SOEs), they are often the most prolific and flexible when it comes to moving operations abroad, as many firms already have some level of supply chain in neighboring countries or regions (Griffin & Whyte, 2014). While there is no attempt to color all MNCs as amiable actors, the very fact that firms are large enough to engage in FDI denotes a certain mastery of the global economy and of whatever sector they are involved in. This firm-level mastery is direly needed in the post-conflict context. From the firm’s perspective, this means that systems and processes have been honed to an optimal level and can be replicated and transplanted to a variety of environments with relatively little investment (Liu, 2008). With proven processes, combined with the intangible assets they possess, firms, as the literature suggests, can initiate human capital and technological spillovers via at least three channels:

1) Through the movement of highly trained and skilled staff from foreign firms to domestic firms.
2) Through a “demonstration effect,” arising from arms-length relationships between foreign and domestic firms, which enables the latter to learn and adopt superior production technologies and managerial and organizational skills.

3) Through ‘competition effects’ from foreign firms, which may force rival domestic firms to upgrade production techniques in order to remain competitive and productive. (Bwalya, 2006, 515).

Just the very presence of a MNC in a post-conflict setting, as Bwalya (2006) suggests, will have an indirect effect on the behavior of local industries, either by demonstrating new methods and technology for production or by enhancing sector-level competition, both of which can be attributed to the fact that MNCs possess the skills and expertise that domestic enterprises, stunted by either violence or poor economic policy, are starving for. The bottom line, Kusago (2005) implies, is that “Skill levels influence the competitiveness of products” (p. 509). With a broader base of skilled workers, the logic implies, foreign firms will have to invest less in training and can mobilize more technical industries to these locales. An influx of skills will also naturally support entrepreneurialism, which is extremely important to all economies (Bwalya, 2006; Kumar, 2007).

As FDI arrives and skill sets are augmented by the host state, signals are sent to international investors and a cascade effect can result, whereby spillovers from one sector or firm can be built upon—maturing, diversifying and broadening the host country’s market that much faster (Bwalya, 2006; Liu, 2008). Additionally, as Liu (2008) points out, “An increase in human capital induces more investments in human capital, which enhances the catch-up potential of the recipient country,” (p. 177). This suggests, that when FDI begins to stimulate growth of human
capital, the recipient state will be more incentivized to broaden their own investments in human
capital, further readying the population and domestic market for more growth.

Concerning FDI’s influence on domestic markets, as MNCs are often sprawled across several
locales, investment in a post-conflict market might very well mean a concomitant stimulation in
domestic industries, which might supplant distant sourcing, productive or logistic activities for
the MNC (Dicken, 2007). One positive correlation, is that “FDI benefits local firms by lowering
the cost of imitation,” bringing production capabilities right to the country (Liu, 2008, 177).
Domestic industries can also benefit from FDI through ‘downstream’ (intra-sectoral) and
upstream (inter-sectoral) linkages, in which foreign firms can utilize local inputs or services to
complement one of many stages of product development (Bwalya, 2006, 520). FDI as a promoter
of domestic growth, Gohou and Soumare (2010) add, can also be seen as a contributor to
regional integration, trust-building, and bilateral engagement with regional markets. To back this
up, Gohou and Soumare (2010) suggest that smaller and less accessible markets, like those in
Sub-Saharan Africa, are beginning to band together regionally as a way of expanding market
shares and attracting FDI. In the same capacity that FDI can build inter/intra-sectoral
relationships, Gohou and Soumare (2010) argue, the arrival of FDI can also spur low-level
exchanges among regional enterprises in a way that leads to both greater market access for
foreign firms as well as creating a more robust peace dividend for the region.

Compounding the positive relationship between foreign and domestic markets further, early
post-conflict investment in FDI, Appel and Loyle (2012) argue, “Can inform other investors and
potential trading partners that the post-conflict state has positive economic prospects” (p. 685).
In addition to the correlative benefits of FDI being present in the host country on domestic
markets, political efficacy of new governments can benefit as well, as “New leaders can use FDI
as a domestic indicator of their ability to govern and secure their own legitimate tenure in office” (Appel & Loyle, 2012, 685). Furthermore, as some economists have argued, large “Capital flows can discipline governments’ macroeconomic policies,” aiding in policy transparency by creating a level of accountability to policy (Kumar, 2007, 3). These effects of FDI all send positive signals to the pool of potential MNCs to invest, which in turn may urge a windfall of FDI and the arrival of more of the benefits already discussed. Kwok and Tadesse (2006) expand on the relationship between MNC and host government by situating the effects into three channels: 1) Regulatory pressure effect- wherein standard practices of the MNC can might rebuke corruption practices of the host government and encourage transparent investment policies. 2) Demonstration effect – in line with indirect spillovers previously discussed, a foreign firm can demonstrate the effectiveness of investment in human capital and technology research, creating somewhat of a model for state governments. 3) Professionalism effect – the presence of an MNC can be very attractive to potential workers, especially younger generations. In order to make oneself more marketable to these firms, citizens will strive for applicable training and courses that are most relevant to the firm’s processes—creating a more professional employee base (Kwok and Tadesse, 2006, 769-771).

In relation to the promotion of peace, Bardy et al. (2012), illustrate the spillover effect of FDI as follows: FDI=>Spillovers=>Increase in human capital threshold=>improved living standards (p. 186).

This simple illustration reflects the tremendous potential impact that scholars see as a consequence of FDI in shaping post-conflict development and peace. It has been demonstrated that FDI can have profound effects on the post-conflict country, from elevating (or rebounding) human capital, to promoting a vibrant investment atmosphere, to conferring legitimacy on new
post-conflict governments. What is most important of these spillovers, in the post-conflict context, are the implications that FDI, in its job creating and training capacities, can significantly reduce the risk of a return to violence by increasing human capital and offering an escape route from cycles of violence and poverty (Call & Cousins, 2008). In this context, FDI can certainly contribute to the peace process by helping to stem poverty and offering alternatives to the industry of conflict. The benefits of FDI that have been covered will be illustrated below (Table 1). Though, like all things even remotely political, there are those who praise the role of FDI and there are the detractors. The following section will look at some of the most glaring arguments of FDI with an eye toward suggesting policy in the post-conflict state that can reduce these negative impacts.
FDI Spillovers | Potential for Peacebuilding | Source
---|---|---
1. Spur regional trade | Opens channels of regional channels of communication and economic ties. Bilateral engagement | Gohou & Soumare, 2010
2. Influx of capital | Increased exports and economic inputs into the host state can r | Bardy et al., 2012; Bwalya, 2006; Kumar, 2007; Liu, 2008
3. FDI signals FDI | Initial investments signal further investments, stimulating economy and creating more jobs | Dicken, 2007; Appel & Loyle, 2012
4. Technology/knowledge transfer | Increased human capital, expanding skilled labor force, expanding economic mobility for citizens | Bwalya, 2006; Dicken, 2007; Liu, 2008
5. Domestic industry linkages | Expansion of upstream/downstream productive engagement in domestic firms | Kusago, 2005
6. Discipline local governments | Capital flows from firms with a stake in returns can help discipline gov’ts macroeconomic policy-aiding in policy transparency | Kumar, 2007
7. Supports government legitimacy | The more inflows of capital fledgling gov’ts can attract, the more legitimate they appear to the population | Appel & Loyle, 2012
8. Contingencies on investment for supporting infrastructure | Can assist in focused reconstruction projects that can lead to further investments | Bardy et al., 2012; Gohou & Soumare, 2010
9. Job creation | Aside from intra-sectoral job linkages with MNCs and the host state, FDI investments can create new jobs in post-conflict states | Bwalya, 2006; Kumar, 2007; Liu, 2008;
10. Human capital growth | With new jobs and technologies being infused into the state, portions of the labor pool will gain exposure and training for new production processes | Bwalya, 2006; Gohou & Soumare, 2010; Kumar, 2007; Liu, 2008; UNDP, 2008

Table 1: Global FDI flows from 1999 to 2013 (USD billion)

Potential Drawbacks of FDI: Strong Policy First, Benefits Second

FDI has certainly been gaining more and more prominence in the development and peacebuilding literature of late, though FDI does indeed have its drawbacks. While FDI’s correlation with the advancement of human capital and its indirect, but substantial, relationship
with domestic firms has been demonstrated, there are issues of contingency that must be discussed. One major issue, as was highlighted in the literature, is that technology transfers, as beneficial as they may be, are very expensive and initially require vast mobilization of resources via the MNC (Gohou & Soumare, 2010; Liu, 2007; Robertson & Tietelbaum, 2011). While the expense of technology transfer is true in most situations of FDI, it is especially true in the post-conflict context, as aspects of physical damage to the state challenge normal productive abilities (Berman, 2000; Dicken, 2007; Liu, 2007). These are challenges, Bardy et al. (2012) suggests, that can be minimized if MNC and state ambitions can coalesce as a “two-way street” (p. 192).

With the onus on the state and supporting institutions to build policies that will be synergistic with FDI, allowing spillovers to be realized and widely dispersed, the literature urges post-conflict policy to mold FDI and supporting frameworks into the peacebuilding architecture (Bardy et al., 2012; Gouhou & Soumare, 2011).

While much has been said about the positive spillovers associated with FDI, it is important to note that, while many of these spillovers are praised for their long-term benefits toward post-conflict reconstruction, there are short-term sacrifices that must be made. To this end, Aitken and Harrison’s 1999 study of Venezuelan firms, found that “[foreign] firms gain market shares at the expense of domestic firms and force the latter to produce smaller outputs at higher average costs” (Liu, 2007, 177). While this is certainly true in the initial stages of FDI, Liu (2007) argues, the long term effect is positive, perhaps from exposing domestic firms to rigorous competition and making them more efficient in the process, or by simply benefiting and eventually adapting from the spillovers of FDI. Essentially, domestic firms may suffer throughout the initial stages of FDI, but, as the literature suggests, those that do survive the diminishing effects of FDI will be more lean and competitive as a result, further contributing to
the long road of economic development (Liu, 2007). Situated in the post-conflict context, these findings offer little argument against FDI, as domestic markets, by most accounts, will be decimated by the effects of conflict and will thus have very little to lose.

FDI is a both a product and a driver of globalization. As such, the effects of FDI on a host state can have global implications. Making this argument, Robertson and Tietelbaum (2011) offer a unique study that correlates FDI with a global rise in labor unrest, leading to an increase in industrial strikes and protests. One possible explanation for this phenomenon, the authors argue, is the “Social dislocation associated with rapid inflows of FDI in low and middle income countries,” as “foreign dominated sectors are often located in specific regions, cities or economic zones and thus create waves of rural-urban migration of those seeking employment” (Robertson and Tietelbaum, 2011, 667). The result of this phenomenon, Robertson and Tietelbaum (2011) continue, is that workers are isolated from “traditional social networks, are more vulnerable, and thus have more propensity to engage in strikes” (p. 667). The global exposure of MNCs and their visible reputation, means both that workers of a MNC can view and share information about worker-related issues and grievances across sectors and boundaries, and, that MNCs, due to their international exposure, are less willing to put down strikes (Robertson and Tietelbaum, 2011).

While this study suggests a slight vulnerability in the global operations of a MNC, it also suggests that peace can be sacrificed if careful attention is not paid to the regional dispersion of benefits resulting from FDI. Thus, in order to stave off a regional imbalance of development, post-conflict policy might benefit significantly from careful attention being paid to rural, as well as urban, development.

Corruption is another vital element that can be both combatted and enabled by the behaviors of FDI. Kwok and Tadesse (2006) note that, as FDI is typically derived from more
developed countries with more rigorous anti-corruption practices, i.e. OECD regulations and US Foreign Corrupt Practices Act (1977), firms are more constrained in engaging with corrupt practices with host governments. On the other side of the coin, FDI that is sourced from countries like China, O’Neill (2014) highlights, and are less immune to corruption at home, can actually target countries with pervasive corruption as they will see a potential trade-off: greasing the wheels of host state corruption while escaping the regulatory prowess found in more transparent governments. Of course this behavior can contribute to and intensify corrupt practices in the host state. To this end, all FDI is not equal.

A final distinction in the FDI literature worth mentioning is a study done by Kotrajaras et al. (2011) that looked at FDI throughout several East Asian countries. The authors found that while domestic policy does indeed influence the capacity of a state to benefit from the spillovers of FDI, levels of development also seem to matter. Focused squarely on economic growth in the region, the study found that high-income and middle-income countries, which typically have higher education and financial development, benefitted most from FDI while low-income had little to show for equal levels of FDI. This study reveals that FDI can be unequal in its distribution of benefits, depending on how high up the development ladder a country is.

Another interesting caveat worth mentioning is how firms from highly developed countries behave in LDCs. A study done by Zeng and Easton (2007) found that “rich-country-” sourced FDI is “viewed favorably because it can convey to host countries policies and practices developed to accommodate stringent home-country regulations” (2221). In this study, the authors note, MNCs that engage in FDI from developed states often have more developed policies of “corporate social responsibility (CSR), issues like environmental protection and fair labor practices (Zeng & Easton, 2007, 2221). Of course this isn’t true across all cases of FDI from
developed countries to LDCs, though it does suggest a level of hierarchy in the levels of FDI founded in CSR and FDI from middle and low-income countries, which the authors note tend be geared more toward extractive industries (Zeng & Easton, 2007). While global FDI flows have traditionally been sourced in developed/global north economies, recent trends have showed a spike in south-south investment (Zeng & Easton, 2007). While this bodes well for economic engagement among the South, if FDI is sourced from states with relatively weak regulatory bodies and whom have weak environmental stewardship policies, however, then chances are, the authors argue, that similar behaviors will be demonstrated in host states (Zeng & Easton, 2007). These characteristics may have dire consequences in attempting to construct a positive peace in post-conflict situations.

An important factor in attracting FDI to LDCs and post-conflict countries lies within the host state’s ability to create incentives for MNCs whom could easily choose another locale. One such incentive that has become a popular way to attract MNCs into LDCs since the early 1980s is the creation of export processing zones (EPZs) (Hooshang & Weiping, 1995). EPZs are special zones designated by host state governments which provide, among other country-specific incentives, tax breaks for MNCs, duty-free or low-tariff imports of raw materials for firms and access to low-wage labor (Sargent & Matthews, 2009). Essentially, an EPZ is an enclave of manufacturing where favorable treatment is given to investing MNCs. While there are significant benefits for MNCs within these zones, the host state can expect to reap significant profits, either from increasing exports (at near duty-free costs), “creating jobs, generating foreign exchange, and achieving other development goals” (Sargent & Matthews, 2009, 1069).

While there is much hope placed in the performance of EPZs by host governments, their success has been limited, especially in Asian developing countries (Hooshang & Weiping, 1995).
“Implementation problems, such as poor location choices, insufficient infrastructure investment, and bureaucratic administrative procedures,” to name just a few are common problems plaguing the success of EPZs in developing Asian economies (Hooshang & Weiping, 1995, 843). While Hooshang and Weiping’s (1995) study mainly focused on middle income and emerging markets in Asia, such as Malaysia and India, one can only expect these problems to be magnified in post-conflict, low income countries like Cambodia.

The ‘enclave’ nature of EPZs can also be problematic for a host state’s ability to realize potential positive spillovers of FDI within the zones. This is in part because the host state, especially in a post-conflict context, typically lacks the ability to create upstream or downstream inputs that are of the quality required by firms located in EPZs which handicaps the benefits derived from linkages (Hooshang & Weiping, 1995). Thus, firms heavily rely on importing higher quality materials from their global networks (Hooshang & Weiping, 1995). Aside from not generating linkages with domestic firms, the over-reliance on imported goods also cuts in to the stock of foreign currency, which would be significantly more if products were sourced locally (Hooshang & Weiping, 1995).

Finally, operations drawn to EPZs are typically low-skilled and labor-intensive and as such, there is little incentive for firms to invest in professional training for its workers (Hooshang & Weiping, 1995). This severely limits the impact of MNCs to spur human capital development. While the promotion of EPZs in developing economies may be beneficial in various ways, the purpose of highlighting their mixed successes here is because EPZs have become a popular approach in attracting FDI, though as Hooshang & Weiping (1995) have highlighted, the success stories come from countries with established markets and at least moderate levels of human capital. In cases of post-conflict policy, implementing EPZs should not be seen as a singular tool
to attract foreign investments, but should be an integral part of a broad economic policy that seeks to bolster domestic productive capabilities across several sectors and geographic regions (Hooshang & Weiping, 1995). Furthermore, while in many cases host governments implement conditions on investing MNCs that would guarantee more lucrative returns, i.e. required levels of reinvested capital, partnerships with local industries and minimal threshold of hiring from the local labor force, for example, the post-conflict state is often devoid of adequate resources to bargain (Hooshang & Weiping, 1995). Thus, it seems more creative policy approaches are needed to reap the potential rewards from EPZs.

While FDI can both seemingly complement and complicate peacebuilding initiatives, it seems that to promote broad dispersion of economic benefits, while curbing deleterious elements, the effects of FDI boil down to the host state’s ability to attract and direct the spillovers of FDI in a coherent and regionally cohesive manner. The problem is, as the literature suggests, there is simply not enough concrete data to predict the effects of FDI on a post-conflict state and thus policy directives are inconsistent at best (Liu, 2008; Robertson and Tietelbaum, 2011). In order to contribute to the void of literature on this issue, the remainder of this paper will explore the case of Cambodia and how the emergence of FDI following decades of conflict and isolation has shaped the Cambodia of today. The next section will outline the methodology and data that will be used to explore this relationship. Will the promised spillovers of FDI be apparent, or will Cambodia reveal a caveat to the discussion of FDI in post-conflict development?
CHAPTER III
SUMMARY OF THE LITERATURE, METHODOLOGY AND DATA

Summary of the Literature

The literature has highlighted that recidivism rates of a return-to-conflict are as high as 40 percent (USAID, 2009). The fact that nearly half of conflicts suspended in peace talks or through international intervention will devolve back into conflict is ominously high. The literature has also pointed out some of the enduring economic hardships that conflict can pose for states while also highlighting the fact that conflict is predominantly hosted in the poorest regions of the world (Call & Cousins, 2008). In this light, conflict can have the capacity to transform countries and entire regions into self-perpetuating cycles of violence (Bwalya, 2006; Call & Cousins, 2008; Gersen, 2001; Yilmaz, 2009). When societies come to depend on industries of conflict and subsist squarely through the informal economy, the developmental capacity of a state diminishes (Bwalya, 2006). In this respect, conflict-prone locales are isolated from the technologies, investments, and expertise that drive modern free-market economies, undermining the economic changes necessary to achieve a more “positive peace.”

In a development-for-peace approach to post-conflict reconciliation, the literature exemplifies the success of the Marshall Plan (Del Castillo, 2008; Gohou & Soumare 2010). The success of this policy was in its ability to build on pre-existing features of the host state economy and in its ability to shape reconstruction policy around the unique interests and capabilities of the host state. While global institutions seem to be moving back toward this approach, many peacebuilding operations of late have relied on the expertise of Western organizations to reshape the conflict-affected state to resemble Western political and economic characteristics (Surhke &
Buckmaster, 2005; Venugopal, 2011). The mixed success of these operations have revived scholarly and institutional interest in endogenous growth models, where the onus of absorbing positive spillovers is guided by the state’s ability to structure development around its specific needs (GuechHeang & Moolio, 2013). To this end, conflict intervention and subsequent domestic policy must be carefully tailored to boats the state’s indigenous drivers in order to reap spillovers from FDI.

While there is abundant scholarly attention paid to the role of FDI in LDCs, there is very little work that focuses on FDI in the post-conflict period as both an agent of development as well having potential to assist or detract from peacebuilding initiatives. While there are numerous factors that would make a post-conflict state especially prone to return to conflict, there are very few factors that scholars have identified as being pro-peace and thus compelling a state away from conflict. As the breadth of these factors are too immense to be tackled here, the purpose of this research is to focus on one factor that seems to be gaining prominence in reconstruction agendas: the attraction and facilitation of FDI.

It has been demonstrated that the post-conflict state is extremely vulnerable to conflict relapses and such cases do not only hurt the prospects of development for that country, but can turn entire regions into conflict zones (UNDP, 2008; Venugopal, 2011). While there may be many unique drivers of conflict within a state which require careful attention throughout peacebuilding initiatives, one of the most broadly recognized peace dividends that can be realized in the post-conflict setting is economic mobility (Collier et al., 2008; IDA, 2016; Philpot & Powers, 2010).

The literature has detailed the many positive ways in which FDI can boost the development agenda of the host state. The literature has also expressed that there may be a
minimal threshold of development in the host state that is required in order to reap these benefits (Kotrajaras et al., 2011). Thus, while the attainment and broadening of human capital might be one of the most promising spillovers of FDI, the post-conflict state, with its depleted physical resources might not meet the threshold to garner these benefits. Rather, as the literature illustrates a spike in south-south FDI, lower-skilled and extractive industries might be filling the gaps of higher-tech industries that are drawn to states that possess the minimal threshold of development (Zeng & Easton, 20017). In this regard, the literature warns, it is important to consider the characteristics of the state sourcing the investments (Zeng & Easton, 2007).

**Methodology**

With the World Bank describing Cambodia as an “Olympian of growth” and as the “sixth fastest” growing economy in the world, it is clear that Cambodia has made tremendous progress in achieving postconflict economic growth (World Bank, 2014, para. 16). Cambodia has resisted a return to the kind of conflict that destroyed the nation in the 70s, it has achieved membership status to prestigious regional organizations (more below) and has garnered some of the largest FDI flows in the region (Nakamura, 2006). Yet the country continues to be plagued by intense poverty, stark regional disparities in the context of development and holds the ominous title of the 8th most corrupt country in world (Hill & Menon, 2014; Transparency.org, 2016).

Furthermore, Cambodia has had little luck in diversifying its FDI allocation, as China, a country not known for its promotion of CSR, remains the largest investor into the country (O’Neill 2014; Than, 1992). For all of these reasons Cambodia presents itself as an interesting subject when trying to understand the long-term effects of FDI into a post-conflict country.

An ideal approach to measuring Cambodia’s capacity in harnessing the spillovers of FDI might be to track the changing levels of human capital over time, as that has been described as
the most potent effect of FDI. Accessing accurate data regarding Cambodia’s social makeup, however, is quite difficult as any base-line government records were largely destroyed throughout the Khmer Rouge occupation and efforts to gather country-wide data are still lacking (Than, 1992). Therefore, the content of this study, will be more broad and exploratory. While a large \( n \) study might seem ideal for such a pervasive subject as FDI, the unique characteristics of post-conflict countries, having suffered vastly different levels of destruction and having vastly different reconstruction needs, will leave any findings insufficient in capturing accurate data. Thus, this study will utilize the case study approach. In focusing in-depth on a singular event, the hope is to extract specific behaviors and consequences of FDI that can potentially be projected in states with similar levels post-conflict reconstruction needs.

By following FDI trends in Cambodia throughout the 1990s to present, and focusing more on regional distribution of FDI flows, as well as practices of firms sourcing FDI into Cambodia, I hope to present how FDI, especially investments sourced from non-western countries, have shaped, if at all, Cambodia’s current position as a popular FDI host state with high levels of corruption and inequality (more below).

**Data**

As previously mentioned, the Khmer Rouge effectively wiped the historical slate clean and thus economic data preceding the 1975 civil conflict is sparse. Additionally, as much of Cambodia’s economic precedence is that of a relatively isolated, centrally-planned economy, figures concerning the role of private, foreign enterprises are equally sparse. Therefore, this study will rely on figures that have been published following the United Nations intervention in 1993 as primary indicators of Cambodia’s evolving economic situation.
The International Monetary Fund (IMF) was heavily involved in Cambodia’s fiscal and institutional overhaul and thus were also heavily invested in collecting data which would follow the large amount of monetary relief that was pouring into the country (USAID, 2009; IMF, 2006). IMF data was succinctly organized in a 2006 publication detailing the changed economic conditions since intervention as well as the economic trajectory for Cambodia. Figures concerning investments from foreign firms as well as political and economic conditions, from that of economic isolation to that of its current status as an apparent destination for international investors, in Cambodia will be derived from this publication.

In order to not be overly reliant on institutional data, this study will also draw, as much as possible, from domestic government publications that have been published through the Council for the Development of Cambodia (CDC). The CDC serves as the liaison for foreign investors and the state and is thus responsible for tracking and publishing all relevant sector-specific data, labor characteristics and the legal framework involving FDI. Though, as becomes immediately clear when pouring through official records, many statistics in Cambodia are only partially represented or are altogether absent and as such this study will also draw on other scholarly work that has been done in the region, primarily from sources who have conducted in-country research.

Much of the historical and inter-war descriptions of Cambodia will be garnered through academic work as well as publications from nongovernmental organizations (NGOs) who operated in Cambodia throughout the reconstruction period. The Swedish organization, SIDA (Bernander et al., 1994/95), was one of the first and longest serving aid-oriented agencies in Cambodia and has consequently published several detailed reports concerning the changing realities of citizens in post-conflict years (Bernander, Charny, Eastmond. Lindahl, & Ojendal,
1995/94). Data collected through SIDA will aid to inform this study of the state of Cambodia’s inter-war and post-conflict economy, which will be important in understanding both the level of destruction that was wrought throughout conflict as well as Cambodia’s post-conflict starting point.

Cambodia continues to make important advances in its economic position and identity within the dynamic Southeast Asian market and while this study seeks to explore some of the contributing factors behind Cambodia’s gradual economic reconstruction, it does not aim to capture all of the phenomena surrounding these important changes. The primary goal of this study is to contribute to a better understanding of how FDI operates and effects a delicate economy in the immediate post-conflict years and findings will therefore be partial and incomplete.

Firms are more mobile than ever before and as places from Afghanistan to Yemen serve as a testament to the continuing presence of conflict, the nexus between economic stimulation and conflict prevention is an area deserving greater emphasis in developmental and peace studies. The next chapter will proceed as follows: the first section will briefly outline the historical context of Cambodia from colonial to post-conflict times. This historical overview will help the reader in understanding the traditional, indigenous drivers that have long shaped Cambodia’s productive identity, characteristics in which the UNDP (2008) strongly urge policymakers to build-off of when implementing post-conflict policies. Additionally, in presenting the history around the conflict years the reader can better understand the nature of Cambodia’s post-conflict starting point. The next section will focus exclusively on Cambodia’s post-conflict economic regime, focusing on the role of FDI in relation to Cambodia’s evolving economy. The final section will present findings from recent FDI inflows as they relate to
supporting a positive peace in the country. The study will then conclude with possible policy recommendations for future post-conflict economic policies.
CHAPTER IV
CAMBODIAN CASE STUDY

Colonial Indochina: Origins of Extraction

Once part of the Southeast Asian colonial holdings of France, Cambodia has had an extensive history of foreign investment and resource extraction. The height of pre-conflict foreign investment was the decade leading up to the Wall Street crash of 1929 (Freeman, 2002). During this time the agricultural sector, rubber plantations in particular (along with coffee, tea, rice, sugar cane, teak, and other agricultural commodities) attracted the bulk of foreign investments, with “3,800 million francs (roughly $7.4 billion considering inflation) of new capital issues recorded between 1924 and 1930, of which over 90% were funds raised by private business” (Freeman, 2002, 5).

Aside from agricultural investments, Cambodia also attracted “vigorous gem mining activity” from various private enterprises up until the 1930s (Freeman, 2002, 6). While capital was certainly pouring into Cambodia, the source was quite limited, as, “by 1937, 97% of all foreign investment in Indochina was sourced from France (Freeman, 2002, 7). Implementing strict protectionist trading policies, the exclusivity of French investment, while good for France, effectively divorced the Indochina region from commercial relationships with the rest of East Asia (Freeman, 2001, 7). A theme that, as will be presented, might be replicating itself in the current relationship dynamics with China.

This limited investment pool made the Indochina region extremely susceptible to downturns in the French economy. Thus, as the 1930s global recession began to exact its toll on the global economy, the value of exported commodities from Indochina were reduced “by almost 60% between 1929 and 1931” (Freeman, 2002, 7). The next decade saw a general stagnation in
Indochina until the French colony was finally dissolved in 1949 (Than, 1992). This dependency on a limited pool of foreign investors will something to watch closely as we investigate Cambodia’s current investment pool.

Becoming an independent nation state in 1953, inward FDI continued to flow into the region throughout the 1950s and 1960s stemming from three primary sources: China, France and Japan (Cuyvers et al., 2011; Hill & Menon, 2014). Again, investment was primarily focused on resource extraction and Cambodia proved to be a viable source, attracting “650 investment projects” in 1955, increasing to “3,707 projects” by 1967 (Cuyvers et al., 2011, 223). This robust period of foreign capital accumulation created an emerging middle/merchant class concentrated in the capital, sparking economic cleavages between rural/urban citizens (Hill & Menon, 2014). This all came to a grinding halt in the early 1970s as Pol Pot and the Khmer Rouge embarked on a malevolent path of complete transformation. Cambodia would not see the likes of foreign firms within her borders for nearly 25 years.

The Face of Post-conflict Cambodia

While the Khmer Rouge were effectively removed from power, they were not altogether removed from Cambodia (Bernander et al., 1994/95). Retreating to the fringes of Cambodia’s Thai border, the Khmer Rouge withdrew into the remaining enclaves of rural support they had, establishing geographical blocs of political tension and economic isolation from what little activity the rest of the country was involved (Than, 1992). Although blood had ceased to be spilled in the killing fields in Phnom Penh, Cambodia was still a largely divided and broken country. The continued presence of combatants in the Cambodian forests would leave reconstruction efforts to be skewed away from these areas, leaving many unfortunate citizens cut-off from aid and services (Nernander et al., 1994/95).
Formal economic activity in Cambodia had long been replaced by subsistence living in the informal economy. To this end, the post-Khmer Rouge Cambodian populace was far enough removed from formal economic activity that nearly all vestiges of the economic mobility that existed in the 50s and 60s was gone. Now that NGOs and Western Aid organizations were arriving in droves to stifle the dire humanitarian crisis, Cambodia could officially begin its arduous path toward reconstruction, renormalization and stability from ground zero.

Specific figures concerning the number of citizens who perished or fled the country under the Khmer Rouge vary anywhere from 1-1.5 million people, which is equivalent to roughly 25 percent of the population (Hill & Menon, 2014). The following decade under Vietnamese rule saw only a prolonged retardation of economic progress peppered with intermittent outbreaks of factional war (Hill & Menon, 2014). As such, when Cambodia’s hidden problem came into international focus in the early 1990s, “it was one of the poorest countries in the world” (Hill & Menon, 2014, 3).

Reconstruction would be a formidable task, as much of the country’s infrastructure had been destroyed during conflict, most of the educated citizenry and skilled merchants had been killed off or had fled the country, there was no functioning legal system or effective bureaucracy to speak of, “and there was little trust in the currency (Riel)” (Hill & Menon, 2014, 3). To this end, Cambodia’s post-conflict population was strikingly young, with “45 percent” being under the age of 15 (Curtis, 1993, 8). This is an ominously low possession of a skilled labor pool and, as mentioned in the literature, the combination of these damages would make the task of attracting quality FDI (those higher-skilled industries that have the capacity to create spillovers) difficult.
Reconstruction efforts would be further obstructed by a tenuous security situation, owed both to the continued presence of ex-combatants who had retreated to the countryside and to the pervasive presence of unexploded land mines littering the eastern countryside (Hill & Menon, 2014). The problem of landmines is such that, as estimated by a local NGO, around “50 persons” are injured everyday—1800 per year—of which leaves 1 out of 24 persons living in Cambodia without a limb and effectively leaves workable land too dangerous to till” (Than, 1996, 276). As previously mentioned, agricultural work had long been Cambodia’s primary driver of economic and productive activity and the presence of land mines undermined a quick resumption of work for the nine out of ten citizens who reside in rural areas and subsist through agricultural work (Curtis, 1993).

With very little capital to work with and having tremendous humanitarian-relief demands, Cambodia would have to relinquish reconstruction efforts to the willing and financially-able members of the international aid community. Thus, as much of the literature written on post-conflict Cambodia attests, reconstruction would be on Western terms (Curtis, 1993; Hendrickson, 2001; Than, 1996). This would be a jarring process for the Kingdom, and would prove to be a divisive process for a country traditionally oriented around the royal family and administered through customary law (Bernander et al., 1994/95).

**Post-Conflict Capacity Building: 1989-1993**

Article I in the 1991 Paris peace Accords dictate that the United Nations Transitional Authority in Cambodia (UNTAC) would lead the transitional period until free and fair elections have been organized and the results approved by the UN (usip.org, 2016). Free and fair elections were held in 1993, though while giving the Khmer citizenry a formal modicum of government, they offered little in the way of a new direction for Cambodia. The UNTAC administered
peacebuilding initiatives brought all concerned political factions into the fold in a structure of power-sharing that would give all political rivals a seat at the table (Bernander et al., 1994/95). The process of political reconciliation was overseen by formerly-exiled King Sihanouk through the Supreme National Council (SNC), a transitional source of authority legitimized by UNTAC (Mehmet, 1997; Bernander et al., 1994/95). Those incorporated into the new government were members of the royalist-backed FUNCINPEC party, members of the former Khmer Rouge party, and members of the former PRK (Vietnamese-backed) government—now the CPP (Mehmet, 1997; Bernander et al., 1994/95).

On paper, the structure of power-sharing would offer the fledgling parliamentary system proportional representation for all concerned bodies. Though, considering the tense history among the parties and the disparate political views arising from communist-oriented Khmer Rouge, the royal/traditionalist orientation of FUNCINPEC, and the liberal economic leanings of the CPP, it is of little surprise that, in this absence of political hegemony, a power struggle was born (Mehmet, 1997). In 1997 the CPP, headed by a 32-year-old Hun Sen, led a coup against the coalition government. Victorious in this power-struggle and suffering little international backlash, Hun Sen, leader of the CPP and member of the former PRK government, ostensible supporter of free-market ideologies and at the time the youngest heads of state in the world had solidified his role as head of Cambodian government (Mehmet, 1997; Than, 1992). Of course this did not send positive signals to global investors from the developed world.

With a few adjustments to the young constitution concerning re-election practices, Hun Sen has secured a fifth Prime Ministerial and has embodied the political status quo in Cambodia ever since reconstruction began in 1993 (Mehmet, 1997). Considering the lack of international condemnation of Hun Sen’s political stranglehold, it is clear that the international community
prefers stability over political viability and the CPP government, while not popularly legitimized by the Cambodian people, seemed to have a firm grip on power and a complete reclamation on the monopoly of violence/force (Venugopal, 2011). This ‘democratically-approved’ government, according to Polity IV, now scores a 2 on a scale of -10 to 10, ‘placing it in the middle category between fully autocratic and fully democratic states’ (O’Neill, 2014, 182). Again, this political situation would exude a great amount of uncertainty for potential foreign investors who see opaque political practices as high-risk business environments (Nordal, 2001).

Nevertheless, with the signing of the peace accords and the resulting cessation of overt conflict, the state, leaning heavily on the directives of Western donors and the IMF’s Enhanced Structural Facility, could begin its path toward reconstruction via the development of a market economy (Development Consulting International [DCI], 2003). Chief among structural adjustment initiatives was a complete restructuring of the formerly centralized financial sector, the rapid sell-off of state owned enterprises (SOEs), establishing tax and investment laws, enacting a land-titling regime and to make progress toward improved accounting and auditing standards as well as a rapid downsizing of civil services (DCI, 2003, 9). For the struggling and impoverished citizens of Cambodia, the rapid dismantling of government-administered services in the civil sector would compound their bleak situations further, as much of the free market benefits, as will be demonstrated, rarely made it out of the capital, Phnom Penh.

All of these policies were implemented in order to prepare Cambodia’s economy to be more investment and business friendly (IMF, 2006). Though many of the resulting changes seemed to challenge prospects of peace, as the façade of democracy seemed to be legitimized by UNTAC’s reticence to oppose the hijacked power-sharing system they had imposed. Hun Sen’s stranglehold on government was apparently seen as permissible, so long as market reforms
persisted. For the people, this arrangement, as one in-country author attests, would create disillusionment and apathy for the ruling party, sentiments that contradict a positive peace and perhaps have aided in Cambodia’s extensive culture of corruption and continued civil unrest (Curtis, 1993).

**Development Hurdles and Aid Dependency: 1993-2003**

The Tokyo Conference of 1992 gave the Secretary General a platform to “issue a consolidated appeal for funds to cover Cambodia’s most immediate needs for national rehabilitation” (Bernander et al., 1994/95). In essence, the conference served as an international fundraising assembly, where about USD 600 million was set as the immediate monetary goal to provide humanitarian assistance in Cambodia, as well as establishing “a more permanent coordinating mechanism, named the International Committee for the Reconstruction of Cambodia (ICORC)” which was meant to consolidate and coordinate reconstruction efforts moving forward (Bernander et al., 1994/95).

Since Vietnamese withdrawal in 1989, the capital city of Phnom Penh had been swarming with Blue Helmet peacekeepers and representatives of numerous NGO—all pouring in to apply their various mission statements to the weathered citizens. SIDA (1994/95), a Swedish humanitarian organization that had singularly maintained a presence in Cambodia since 1979, followed arriving funds and changing conditions in Cambodia very closely. They note that total disbursements by 1993 equaled, “USD 323 million, or 65 percent of the Tokyo pledges,” of which nearly “57 percent” had been absorbed by emergency food relief and “restoration of services in rural areas” (Bernander et al., 1994/95, 28). Needless to say, the bulk of relief funding was pouring in from external sources and by 1993, “Foreign aid represented all of the government’s capital expenditures” (Bernander et al., 1994/95, 76).
Domestic civil society was emerging by the early 1990s, but planning, channeling of funds and more grand macroeconomic goals were being strictly administered by the numerous international representatives crowding the scene (Bernander et al., 1994/95; Than, 1992). Aside from being removed from the planning of reconstruction projects, there was a much more ostensible disparity in compensation between local and international civil servants. Foreign NGOs with tremendous budgets and stipends through institutional giants like the IMF and World Bank, were able to absorb significant portions of humanitarian relief funding just to maintain daily operations in the country (Bernander et al., 1994/95; Than, 1992). Domestic civil servants could expect little more than an average compensation of less than US 20 per month, a meager pay well below the subsistence threshold (Bernander et al., 1994/95, 76). This top-down approach to Cambodia’s reconstruction seems to contradict lessons learned from Marshall Plan era policies, as well as the more recent 1999 Global Compact, in that the host state was largely removed from implementing its own strategies of peacebuilding and reconstruction (Oliver, 2014). With many of the local actors crowded out by international experts and organizations, and with funds being clearly squandered by immense operating budgets of these organizations, the seeds of corruption were being sewn.

In this practice local civil-servants (teachers, nurses, doctors, etc) were forced to supplement their incomes through engagement in the private sector, or simply by charging for services that were meant to be free (Bernander et al., 1994/95). Teachers began to charge students a fee to attend school, doctors were selling drugs out of state hospitals and ministry officials often straddled the public/private line using their official positions as financial gatekeepers for private firms (Bernander et al., 1994/95). The effects of this are clear: many children stopped going to school and many of the sick stayed sick, or worse. Of course there
were facilities that received steady funding by the UN and other NGOs, “But this coverage is partial and leaves countless hospitals, clinics and schools nonfunctional for lack of support” (Bernander et al., 1994/95, 76). Clearly these qualities do not support a rebounding level of human capital that would aid in a more attractive investment destination, which as mentioned in the literature, could be one of the quickest avenues of economic recovery (Griffin & Whyte, 2014).

In combination of low civil-servant wages and a weak judicial system, corruption has also been bolstered in Cambodia by a complicated system of import procedures and the multiple bureaucratic points of contact involved in starting a business. To this end, The Australian Export Finance and Insurance Corporation’s risk assessment of Cambodia rates the country ‘high’ for breach of contract risk,” owing to weak property laws, and the Belgian export credit agency Delcredere Duroire, “scores Cambodia a six for medium and long-term political risk on a seven-point scale (seven being the highest risk)” (O’Neill, 2014, 184). In a 2007 study of over “500 Cambodian firms, 60 per cent said,” in relation to business operating environment, “that the norm among government officials was for firms to provide ‘informal payments or gifts’… in order to ‘get things done’ with regard to customs, taxes, licenses, regulations and services” (O’Neill, 2014, 184). As discussed in the literature review, these traits significantly increase the risk for foreign investors and as such would be a deterrent for most firms (O’Neill, 2014).

As the role of domestic and international civil servants can be described as largely uneven in Cambodia’s reconstructive efforts, so too can the application of economic benefits that were realized by citizens. One such example, as documented by SIDA (1995/94), is the case where aid agencies provided “400 days of free food” for returning refugees, making them appear pampered in comparison to local conditions, “and was to a degree non-conducive to
reconciliation” (Bernander et al., 1994/95, 30). Furthermore, as these returning refugees, along with a bulk of internally displaced peoples (IDPs), were categorically resettled into more wealthy western provinces, the bulk of aid was poured into these areas, leaving the eastern and central provinces largely neglected in the immediate post-conflict period (Bernander et al., 1994/95).

Additionally, as much of the country was still organized along politically-affiliated blocs, with the Khmer Rouge and their leader Pol Pot having retreated into the jungles along the north-western Thai-Cambodian border, along with other factional supporters spread throughout country, the flow of (predominantly Western) aid seemed to flow to where interests were aligned (Hill & Menon, 2011). This left huge segments of Cambodia’s rural population without access to aid or any economic stimulation. The regionally unequal application of aid seemed to run counter to concepts of building a positive peace, as those neglected regions and groups began to flock to areas where opportunity was present, only complicating reconstruction efforts for citizens in those areas (Hill & Menon, 2011).

Foreign aid, in the decade spanning 1993-2003, “has averaged 12 percent of GDP a year…reaching $500 million in 2003. About 70% of aid flows were in the form of official grants, largely provided by donors, while the rest were concessional loans mainly from the WB and the Asia Development Bank (Nakamura, 2006, 51). Thus, the predication of continued aid has seemingly been more pronounced in the maintenance of stability than in tangible economic performance. This behavior is born largely from the fact that Cambodia’s fiscal policy has never had a chance to mature. With 15 percent of budget expenditure being derived from the Soviet Union until the late 80s, the government has always had a safety net to stave off disaster in the face of large fiscal and current account deficits (Hill & Menon, 2014). If necessity is the mother of invention, then fiscal safety nets are the fathers of economic stagnation. With significant
investments not being made by the government into things like education, health and infrastructure, investments that might aid in elevating Cambodia’s level of human capital and regional networks, there would be few assets to use in promoting Cambodia as a viable investment climate.

As previously mentioned, many of Cambodia’s hurdles were born from the very fact that the post-conflict government was young and widely contested by a populace who saw Hun Sen and his governing body as illegitimate vestiges of the past (Hill & Menon, 2011; Than, 1996). While domestic political contention can be expected in any power-sharing scenario, the largest obstacles Cambodia’s economic reconstruction seemed to face was the fact that political stability, judicial reform and concrete economic policies were altogether absent (Nakamura, 2006). These are all substantial obstacles for attracting foreign firms as well as creating the type of environment where spillovers from FDI can be realized (Berman, 2000). Though, as we shall see in the case study section, these setbacks did little to deter China’s investment ambition.

**Summary of Cambodia’s Post-Conflict Challenges**

Those involved in aligning Cambodia’s economy with the standards of modern economic practices faced immense obstacles. Below is a recap of some of the most pervasive problems facing Cambodia’s economic reconstruction that will further serve to highlight the unique investment climate that Cambodia offered.

- **Rural disadvantage:** One such obstacle was the balancing act between providing much-needed humanitarian relief to the embattled rural poor and establishing commercial inroads in the much more business-friendly urban centers (Cuyvers et al, 2011). A 2002 survey conducted by the Cambodian Investment Board Council for the Development of Cambodia Foreign Investment illustrates that, “85% of the population lives in rural
communities and 75% of the poor are farmer-headed households” (Thoraxy, 2002, 2). “The agriculture sector,” the report continues, “contributes about 43% of GDP and provides direct employment to nearly 80% of the labor force” (Thoraxy, 2002, 2).

Demographic figures are hard to establish in the immediate post-conflict years, but considering the urban swelling that has taken place after the Paris Peace Accords, it is safe to assume that rural populations were even more concentrated in the early 1990s (UNDP, 2008). This concentration of productive efforts will be important to bear in mind as we move toward surveying the impact of FDI in Cambodia.

- **Poor infrastructure:** Cambodia’s infrastructure had been severely damaged throughout almost 30 years of civil conflict. With only “10% percent” of the country’s road network being “all weather, [leaving] much of the system impassable during the Cambodia’s annual rainy season (Hill & Menon, 2014, 14). This leaves segments of rural populations literally disconnected from much of the country on a seasonal basis. Furthermore, investments that might be fruitful in resource extraction or agriculture, for example, in rural areas are hampered by pronounced logistical hurdles.

- **Low human capital threshold:** The concentration of the labor force in the agro-industry also conveys a fairly low level of human capital, as much of the domestic farming practices called for brute labor over technological know-how (Mehmet, 2011). While a clear majority of Cambodians reside in rural communities, these are still the communities facing the largest developmental challenges. Additionally, with around “55 percent of the population [being] under the age of 25,” Cambodia has a young and vibrant, yet predominantly uneducated labor force (Dept. of State, 2014). While this social makeup
might bode well for efficiency-seeking firms, the literature warns that spillovers will be limited, as the absorptive capacity is too low (Kubny & Voss, 2010).

- A 2004 World Bank study revealed that, “The informal costs in Cambodia are quite high: the so-called bribe tax is roughly 5% of total sales in the manufacturing sector, the highest among five countries for which similar data is available” (Nakamura, 2006, 58). Furthermore, US Embassy officials in Phnom Penh “explicitly stated that to promote business interests in Cambodia US firms would have to engage in activities that violate the [US Foreign Corrupt Practices] Act” (O’Neill, 2014, 178).

- **Weak/Inconsistent rule of law:** Cambodia’s accession to the World Trade Organization (WTO) in 2003 has put pressure on the government to reform the judiciary, a critical step in implementing trade policy and a transparent legal framework (Nakamura, 2006). The judiciary thus far has proved to be inconsistent in its implementation and execution of law, creating an unpredictable business atmosphere in Cambodia (Thoraxy, 2002). Furthermore, legal code surrounding private property law is highly undeveloped—owing largely to the fact that returning refugees are laying claims to land that has been occupied in their absence (Nakamura, 2006).

- **High cost of production:** “Energy costs in Cambodia are high, reflecting the dilapidated state of the country’s diesel generators and lack of domestic sources of fossil fuels” (Nakamura, 2006, 58). This high energy cost would translate to the corporate world as high production costs, perhaps limiting many manufacturing firms from investing.

- **Weak consumer market:** While there has certainly been an uptick in Khmer nationals garnering wealth over the post-conflict years, this circle is still rather small and significantly outweighed by the majority of citizens who cannot afford high-value goods
and services. Thus, there is very little potential for attracting any significant levels of FDI which aim to serve the local market (Nakamura, 2006).

- **Pervasive poverty and urban flight:** “Approximately 36% of the Cambodian population lives below the poverty line with about 90% of the poor living in rural areas” (DCI, 2003, 11). This concentration of rural poor has spurred urban migration for those attracted to the more robust economic activity in urban areas.

- **Security:** Landmines continue to be a pervasive problem for rural citizens and potentially productive land that has not yet been cleared by NGOs is still too dangerous to work (Than, 1996). This has had a very negative impact on the resumption of work for the many rural citizens who subsist through agricultural work.

- **Reliance on the informal economy** – “The informal sector is prevalent in Cambodia comprising over 80% of GDP and 95% of employment. The informal sector is made up mostly of unregistered farmers and agricultural enterprises. The informal industrial sector is composed of over 27,000 small enterprises, which are not registered with the Ministry of Commerce (MoC, 2016). The informal industrial sector accounts for almost half of total industrial output and supplies mainly the domestic market” (DCI, 2003, 10). The implications of the magnitude of informal economic activity in Cambodia suggest a widely ignored tax base and a complete disconnect between government policy and local business practices. The informal characteristics of this sector also limits the capacity to create linkages with foreign investing firms, as the illegality of informal firms would only compound risks for foreign firms (Kubny & Voss, 2010).
Overview of Cambodia’s Investment Regime

As highlighted above, Cambodia has faced some tremendous obstacles in building an investment atmosphere that is conducive to reaping the benefits of positive spillovers from FDI. Before delving into the case study, it is worth highlighting a few domestic and international policies that were created to help facilitate Cambodia’s post-conflict growth. Cambodia’s Law on Investment (1994) was a policy that officially opened all sectors to FDI and permitted 100 percent foreign ownership (Dept. of State (DoS), 2014). This policy aimed at attracting firms away from countries that had more stringent conditions attached to FDI, like the requirement for MNCs to form “joint ventures with a particular local firm chosen by the host government” (Karabay, 2010, 220).

The next most important policy was the US extending most favored nation (MFN) status to Cambodia (1996), which significantly lowered tariffs exported to the US (DoS, 2014). The following year this privilege was expanded with Cambodia being designated as a beneficiary under the generalized system of preferences (GSP) which lowered tariffs for exports to, and expand engagement with, developed countries, namely: US, EU and Japan (Dos, 2014). This move was directly aimed at spurring FDI into the country, as any firm investing in Cambodia could reap the lower exporting costs. This is what spurred the explosion of the garment industry (discussed below) (Venugopal, 2011).

In 1999, Cambodia became a member of the regional association of Southeast Asian Nations (ASEAN) and garnered the benefits of the ASEAN free trade area (AFTA), which allows Cambodia to export to member states at a set tariff between 0 and 5%, a rate that will be altogether abolished by 2018 (UNCTAD, 2003). This arrangement both helps to broaden regional trade and engagement as well as attracting countries from outside the region who wish
to serve some of the larger markets within ASEAN, like Malaysia, Thailand or Singapore, for example. Membership status within ASEAN will prove to be very important for investing states who seek to project more influence in the region, as will be discussed below. Finally in 2004, Cambodia became the first LDC to receive membership into the World Trade Organization (WTO) through full accession (WTO.org, 2016). As membership is based on economic and political performance, WTO membership has spurred an overhaul of domestic trade policy, aimed at enhancing the rule of law, business predictability and transparent policy (Dept. of State, 2014; WTO.org, 2016). Membership into the WTO surely helps legitimize Cambodia’s business climate, though, when looking at the lack of macro-level changes on the ground, much of the professed achievements may have simply been lip service.

At this point, it is hoped that there is a basic understanding of the overall investment climate in Cambodia. It is a resource-rich state that is plagued with regional disparities and, owing to the lack of judicial development and executive oversight, it is high on the list as one of the most corrupt countries in the world. Yet, with all of these traits considered, the World Bank praises it as an “Olympian of growth” and the “sixth-fastest” growing economy in the world (World Bank, 2014, para. 16).

While there is no arguing the rate of growth Cambodia has experienced throughout the past 25 years, to question whether this growth has contributed or detracted from the achievement of a positive peace is worth exploring. The following section will examine the patterns and ramifications of FDI into the country and will attempt to situate Cambodia’s growth as either a model for successful post-conflict development, or a model of caution for the development community.
FDI in Post-Conflict Cambodia:

Following the UNCTAD administered elections in 1993, Cambodia’s decades-long economic isolation was rapidly replaced with a free-market economic regime that was ready to open the door to the global economy. With most of the aid being absorbed by immediate humanitarian relief, there were several attempts to create incentives that were aimed at attracting FDI, namely by Western powers designating Cambodia as a preferential export locale through such policies as MFN and GSP. With later memberships including entrance into the regional ASEAN organization as well as membership into WTO, Cambodia seemed to be cultivating an air of legitimacy as a viable locale for foreign investments.

Although the US has taken an active role in implementing bilateral trade relations with Cambodia, Western investment has remained quite low (Venugopal, 2011). In fact, throughout the 1994-2013 period, FDI originating from China accounted for the bulk of FDI (Table 2), with Korea following up as the second largest investor. As the literature has pointed out that not all FDI source-states are equal, this Asian-centric investment pool might be delivering a more diverse set of spillovers, as the next section will explore.
Table 2: Top Ten Foreign Direct Investors in Cambodia

(Cumulative 1994-2013)

<table>
<thead>
<tr>
<th>Country</th>
<th>FDI (US$ Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. China</td>
<td>9.61</td>
</tr>
<tr>
<td>2. Korea</td>
<td>4.40</td>
</tr>
<tr>
<td>3. EU</td>
<td>3.7</td>
</tr>
<tr>
<td>4. Malaysia</td>
<td>2.62</td>
</tr>
<tr>
<td>5. Vietnam</td>
<td>1.524</td>
</tr>
<tr>
<td>6. USA</td>
<td>1.29</td>
</tr>
<tr>
<td>7. Taiwan</td>
<td>1.02</td>
</tr>
<tr>
<td>8. Thailand</td>
<td>0.899</td>
</tr>
<tr>
<td>9. Hong Kong</td>
<td>0.870</td>
</tr>
<tr>
<td>10. Singapore</td>
<td>0.786</td>
</tr>
</tbody>
</table>


The allocation of FDI in Cambodia has largely been concentrated in three main sectors: export-oriented manufacturing (namely garments), tourism, and the primary sector (those processes making use of natural resources) (Cuyvers et al, 2011). As we can see from the table above, China has initiated the bulk of these investments, though they have typically been aimed at the garment sector through Chinese private companies and the primary sector, namely hydroelectric dams, through state-owned enterprises (SOEs). This almost singular pool of FDI has put Cambodia in a precarious situation, as will be explored below.

**Chinese FDI: A Recipe for Dependency?**

China is no doubt a latecomer to the globalization game and with increasing investments in Sub-Saharan Africa and Southeast Asia, it has become a fixture in many developing state’s inward stock of FDI (O’Neill, 2014). What seems most unique about China’s investment behavior is that the country has no apparent qualms with investing in places deemed as pariah states by most of the international community, places like: Sudan, the Democratic Republic of Congo and (throughout its tenure as a rogue state) Myanmar (O’Neill, 2014). While many of these states possess several qualities that would deter investments by MNCs who seek low-risk
engagements, China seems to be attracted to these locales. One reason for this might be the amount of leverage China possesses.

In addition to the windfall of Western aid Cambodia received in the immediate post-conflict years, China also gave a substantial amount of loans and grants, reaching “$2.7 billion” by 2012 (Pheapdey, 2013, 3). With the Chinese crowding out other lenders by 2009, it has become the nation’s largest supplier of loans and grants, even though these loans often come at a higher interest rate than Western organizations (O’Neill, 2014). Though, unlike aid received from Western institutions and countries, Chinese aid was given with no ostensible political or economic strings attached (O’Neill, 2014; Pheakdey, 2013; Kubny & Voss, 2010). Prime minister Hun Sen has been recorded on several occasions praising Chinese aid: “Normally, Chinese aid comes with no condition such as telling us to do this or that before they provide [the aid to] us,” and “When China gives, it doesn’t say do this or that. We can do whatever we want with the money” (as mentioned in O’Neill, 2014, 182). US Embassy staff have been recorded confirming China’s strategy of lending with “few strings attached” (O’Neill, 2014, 182).

Considering the nature of pervasive corruption in Cambodia, along with the fact that Hun Sen hijacked UNTAC’s power-sharing arrangement, these string-less loans, rather than pressuring the host government to move toward more open and transparent practices has seemingly solidified the status quo. Though. As will be highlighted below, there are strings attached to Beijing’s loans, just instead of pushing for political or economic reform, these strings pressure the government to safeguard and perpetuate China’s business interests in a location that would deter FDI from MNCs who lack this type of insurance (O’Neill, 2014).

Considering its reduced risk in Cambodia, China has been the largest investor in Cambodia’s textile industry, the primary driver of exports, and has jump-started the country’s
dilapidated energy sector through some of the largest hydropower investments in the world (CDC, 2016; O’Neill, 2014; Pheakdey, 2013). Though, behind this seemingly benevolent approach to spur regional development, China has perhaps gained the most.

In 2009, for example, Cambodia followed China’s urges to deport “20 ethnic Uyghur asylum seekers” back to Beijing and in the ASEAN summit that same year, Cambodia kept silent on the issue of China’s territorial aggressions in the South China Sea, which “resulted in the failure of ASEAN’s foreign ministers to issue a joint communique for the first time in ASEAN history (Pheakdey, 2013, 3). Aside from securing an ally in a tense Southeast Asian environment, China has also secured safe and open access to Cambodia’s natural resources, as since 1994, according to the Cambodian Center for Human Rights, 50 percent of all land concessions—totaling 4.6 million hectares—were relinquished to resource-seeking companies from China (Pheakdey, 2013, 3). This land acquisition, granted by a country in which a vast majority of its rural citizens continue to organize land ownership through common law practices, have been the cause of much social unrest in project areas (more below).

China’s outward FDI comes from two primary sources, state sponsored investments through state owned enterprises (SOEs) and typical investments made from private sector entities, of which in the case of Cambodia, has been primarily directed at the garment sector (more below). While FDI originating from the private sector can vary in its investment targets throughout different countries, FDI from SOEs are typically extractive, resource-seeking investments. As such, given Cambodia’s abundance of rivers, China has invested heavily, much as they have done in several African states as well as in other regional LDCs like Myanmar and Laos, in the hydroelectric industry.
Hydroelectric Industry: Water, Power & Conflict

On the surface, investments in projects like constructing hydroelectric dams in a country where, outside of urban centers, only about “15-20 percent of households have access to electricity,” might seem like a logical step in the country’s development, in reality few have benefitted and many more have been negatively affected (Urban et al., 2015).

Sinohydro, a Chinese SOE, is the world’s largest and most prolific constructors of overseas dams, has been at the forefront of projects in Cambodia (Urban et al., 2015). Its most recent project in Cambodia has been construction of the Kamchay Dam, which, according to environmental NGO, International Rivers, has been the source of numerous human rights abuses, massive dislocations and irreversible environmental consequences (Urban et al., 2015). Additionally, given the high costs and demand for highly skilled workers to implement this (and other similar) projects, China typically brings its own workforce with them, leaving Cambodia little in the way of absorbing any substantive spillovers (Kubny & Voss, 2010).

The site of the Kamchay Dam is located on the southern coast in Bokor National Park, an area that was supposed to be protected following years of illicit logging that took place throughout Cambodia’s conflict and following years of isolation (a topic too large to tackle in this study) and is also an area used for various income-generating activities by over 22,000 people (Urban et al., 2015). While measures in Cambodia’s accession to the WTO and ASEAN place great emphasis on environmental protection, encouraging environmental and social impact surveys to be taken prior to such projects, in Cambodia, as on local environmental NGO attests, there is only one checkpoint that needs to be cleared, the Prime Minister’s ok (O’Neill, 2014). Remarking on who “comprised the ruling core of Cambodian leadership,” leader of the opposition party Son Chhay, as gathered through extensive interviews in Cambodia by O’Neill
(2014), claimed: “Hun Sen makes all the decisions, he’s a dictator. They call him Saddam Hunsen” (p. 183).

Thus, the Kamchay Dam project went ahead with little if any formal procedures of impact assessment and according to Urban et al. (2014), who were on site of the construction and held extensive interviews with affected community members, the project led to a “series of severe impacts on the local population” (p. 582). The most immediate effects were the disappearance of fertile land, fruit trees and bamboo forests of which the local population’s livelihood depended (Urban et al., 2014). As a result of the changing landscape, the once thriving tourism industry that was drawn to the national park’s scenery as well as to the diversity of fruits, pepper trees and aquatic life has diminished, with an 80 percent reduction in 2013 (Urban et al., 2014, 583).

The result has been the massive migration of rural citizens, most of which have low literacy rates, to urban areas where the inability to find sufficient work has led to reliance on microcredit loans of which many cannot repay and thus the downward cycle of financial hardships for the affected community (Urban et al., 2014). While there were some repayment efforts on behalf of Sinohydro, these fell significantly short as, instead of being compensated for the land that was lost to dam’s construction, the scheme was based on payments per lost tree, e.g. “$10 for a banana tree, $30 for a mango tree”, and a trifling “$3 per square meter of rice paddy” lost (Urban et al., 2014, 584). While this approach can ease the bloodletting temporarily, it cannot account for the subsequent years of harvests which the families depended on for subsistence as well as for their livelihoods. These sad realities have led to several protests from rural villagers and occasional episodes of violence being directed at Sinohydro security, though
these were quickly quelled by Cambodian security forces who were at the ready to protect the dam (Urban et al., 2014).

While such substantial loss of livelihoods and dislocations might seem like a justified cost at the prospect of attaining a modern and reliable energy source, the fact is that similar projects have had vastly different results. Urban et al., (2014) also conducted a similar process of interviews and followed the construction of a Sinohydro project in Ghana. In the case of Ghana, before allowing the construction and resettlement process to proceed, parliament created a new authority, Bui Power Authority (BPA) (named after the Bui Dam project site) to directly deal with the “management of the dam and its impacts, including the implementation of the resettlement plan (Urban et al., 2014, 584). This policy not only included the local government as a support mechanism for those adversely affected by the construction, but also held Sinohydro to strict standards of health and safety as well as mandated engagement with the affected community by hosting local consultation meetings (Urban et al., 2014).

The Kamchay Dam example is just one of many such projects that have taken place in Cambodia and clearly exemplifies Cambodia’s heightened fragility to such projects, owed largely to the lack of support of local governance. I argue that the relationship between China and the Cambodian government, namely Hun Sen and his capacity of making decisions with zero executive oversight, has created a laissez faire investment climate in Cambodia where, in order for projects and aid to continue to pour in from China, Hun Sen is best to utilize the rubber stamp approach to approving such projects. As we see in Ghana, bureaucracy does have the capacity to curb the deleterious effects of hydroelectric construction, though of course the results were an elevated cost for Sinopower in order to fulfill BPA mandates. It all seems to come down to the
prerogative of the host country and the audacity to challenge such substantial investments to adhere to practices of corporate social responsibility (CSR).

What is most surprising about Chinese SOE investments in Cambodia is the nature of their ownership and the fact that Cambodia actually benefits very little from these large and socially divisive projects. Risks that Chinese investments might face in Cambodia, owing to its lack of a transparent and fully independent judiciary and bureaucracy, have been legally curbed by legislation that guarantees payments for such large scale investments to Sinohydro “for the 44-year life of its build-operate-transfer (BOT) agreement (O’Neill, 2014, 188). This agreement guarantees Chinese SOEs “against losses caused by political instability” or any other phenomenon that would hinder profits to be fall on the responsibility of the Cambodian government (O’Neill, 2014). This means that after construction of the dam by the Chinese firm, the dam will be operated by the Chinese firm for several decades, until a profit margin has been met, and only then will be transferred to the host government, all the while the Cambodian government insures any potential losses owed to any domestic instability (O’Neill, 2014). Hence the rapid response by Cambodian security forces when villagers began protesting at the Kamchay project as mentioned above.

BOT measures were typically initiated through public private partnerships (PPP) to safeguard, incentivize and help finance private firms to engage in large scale investment projects such as hydroelectric dams (O’Neill, 2014). Though in this case, Sinohydro is clearly not a private firm and this relationship seems to benefit Chinese SOEs the most, as they are able to finance, operate throughout the early highest profit yielding stages of the dam and all the while passing risk to the host state with significant leverage afforded by the Chinese government (O’Neill, 2014). Thus, even if Cambodian were to soon get its political, legal and economic
cards in order, the state will still be tied to these agreements. While this arrangement clearly highlights Chinese investment foresight, it also highlights why such investments would be drawn to relatively weak states, where through leverage in the form of financing aid and needed projects, China can secure a beneficial and safe investment where other forms would dare not invest. Also highlighted in the case of the Kamchay dam project, these practices can have significant and negative consequences for achieving a durable positive peace. Next, to get a closer look at how Chinese private firms have impacted Cambodia, the following section will examine Cambodia’s engine of growth, the garment sector.

**The Garment Sector: Made in Cambodia (Under Chinese Supervision)**

The section above illustrates resource-seeking behavior of very large SOEs from China. Considering that China’s domestic economy has grown remarkably in the past few decades resulting in a broadening middle-class and a demand for higher wages from an expanding skilled labor pool, it is of little surprise that private firms in China have been engaging more and more in efficiency-seeking FDI as a way to lower production costs and increase profits. In pursuit of this, many firms and Chinese expatriates have found a perfect market in Cambodia’s thriving garment sector.

As mentioned above, bilateral policy incentives from the US aimed at making Cambodia more competitive in exported goods combined with a low-skilled labor force in Cambodia have created the perfect recipe for efficiency-seeking firms to lower production costs and reap the benefits of low export tariffs. For the Chinese, given their historical status as fixtures in Cambodia’s merchant-class have given them the leg-up in dominating the domestic manufacturing industry. To this end, the bulk of “FDI from China has gone to the garment sector, where large, labor intensive factories are typical” (Kubny & Voss, 2010, 9).
Looking back to the literature, this type of massive job-creation should be at the top of any post-conflict country’s agenda, but in the case of the garment sector, there seems to little in the way of positive spillovers, beyond job creation, as there is seemingly very little in the way of upward mobility for locals. Kubny & Voss (2010) conducted a study in Cambodia which surveyed Chinese-owned firms in the garment industry and found that while a typical firm will employ “an average of 979 employees,” senior management positions were “usually filled by Chinese expatriates,” with “less than 30 percent of top or middle management posts occupied by local employees” (p. 9). Of the large number of those employed by these firms, “90 percent are women,” which given the cultural context of Cambodia, implies an even lower educational threshold than male counterparts (Kubny & Voss, 2010, 4). Supervisor positions were exclusively occupied by Chinese employees which, attributed to language and cultural barriers between management and employees, has led to occasional problems, like “labor unrest and strikes” (Kubny & Voss, 2010, 9). Additionally, of the companies surveyed by Kubny & Voss (2010), the figure of labor turnover was an average of 50 percent a year (p. 10). Given the nature of garment manufacturing being a low-skilled and labor-intensive process with such high labor turnover rates, it is only rational for firms to minimize training expenditures, which is exactly what many of these firms expressed in regards to relegating higher-level positions to fellow Chinese (Kubny & Voss, 2010).

Beyond the occasional strikes by employees in these sectors, the authors found little correlation with negative effects attributed to Chinese FDI in this sector, though they also found zero positive effects, which would challenge the literature given the substantial breadth of FDI being dedicated to this sector (Kubny & Voss, 2010). The lack of spillovers is predominantly owed to low threshold of human capital in Cambodia, as well as the limited pool of competitive
domestic industries that might be able to supplant sourcing of goods required in the garment sector in upstream/downstream linkages, though, those that are able to supply “simple input goods to Chinese companies” are firms that are themselves owned by overseas Chinese investors (Kubny & Voss, 2010, 11; Surhke & Buckmaster, 2005; UNDP, 2012). This lack of domestic innovation highlights both the devastating and far-reaching impacts that conflict can have on a society, as well as the lack of host government ambition in rebounding domestic human capital through education and training investments. Again, it seems that ample funds and steady investments from the Chinese have solidified the status quo, rather than urging any domestic renaissance.

Cambodia has taken some lengths to diversify investments with the creation of EPZs and have given firms within these zones special tax holidays of up to 9 years and tariff incentives in order to spur production (CDC, 2016). While these zones ban investments in the retail and export sector, they have been slow to attract substantial investments of industries that would support local manufacturing and thus have contributed little to potential absorptive capacity (Kubny & Voss, 2010; CDC, 2016). Furthermore, these zones are concentrated around the capital, which offers little in the way of regional distribution of benefits (CDC, 2016).

Investment risks in Cambodia have been widely identified with the primary factor being pervasive corruption. As the hydro-electric example illustrated that SOEs have carefully buffered risk by insisting on domestic legislature to guard their investments against any radical domestic shocks, the private sector investing out of China does not share the luxury of wielding state power behind its investments. Thus, Chinese firms in the manufacturing industry have had to find more creative ways to buffer risks, which primarily manifested in various levels of bribes being owed to local branches of the government (O’Neill, 2014). To accomplish this, firms have
had to rely on “industry-wide collective action through the Garment Manufacturers of Cambodia (GMAC)” (O’Neill, 2014, 192). Due to their sheer numbers, with out of “438 member factories, over 400” of them are under Chinese ownership (when classifying greater China—Taiwan and Hong Kong—as a single source) they have been able to curb the culture of corruption through widespread lobbying (O’Neill, 2014). As a result of collective action from one of the country’s most important export sources, GMAC suggests, “a drop in T-shirt prices from $2 per dozen to $1.10 is due entirely to more efficient bureaucratic regulations, in other words, fewer palms to grease” (O’Neill, 2014, 194). The success of this group, relative to other industries in Cambodia that face similar costs, can perhaps be attributed to their ability to threaten to exit. With highly mobile assets, sewing machines and similar equipment, and the ease in which they could relocate to another locale and diminish Cambodian government earnings, it seems that collective action in this sector is especially potent (O’Neill, 2014).

In this regard, FDI in this sector, while offering little in the way of direct spillovers to its employees, has been able to influence local government to conform to prevailing business norms by reducing costs associated with corruption, though this reduction in costs might only be relegated to this specific set of actors. In many ways the concentration of foreign managers and apparent glass ceiling for the numerous low-level local employees is not conducive to a positive peace, as some of survey respondents indicated that there were occasional outbreaks of labor strikes (Kubny & Voss, 2010).

Aside from large investments in the primary sector via Chinese SOEs and the abundance of Chinese firms driven to the Sino-centric garment industry in Cambodia, a final and equally important driver of Cambodia’s economy has been the tourism sector. While there is very little data available as to which firms are driving the country’s booming tourism industry, its rising
importance to Cambodia’s success has had some very interesting consequences. The following and final section will focus on this sector and will lead to a conclusion and possible policy recommendations.

**Tourism: A Holiday in Cambodia**

Cambodia has a rich cultural heritage and around 1200 years ago it was the seat of the great Khmer empire—an empire so vast some scholars (of which “recent NASA satellite imagery” can attest to) claim it to be “the largest pre-modern urban space on the planet” (Winter, 2008, 526). Vestiges of this once powerful empire are still visible in the World Heritage Site of Angkor Wat, a 400 square kilometer sprawling complex of ornate temples, including the “largest religious complex on the planet” (the structure featured on Cambodia’s flag), tucked away and overgrown among the jungle near the northern city of Siem Reap (Winter, 2008, 527). This site had previously made Cambodia, in the 1960s, “one of the most famous tourist destinations in Southeast Asia, with annual tourist arrivals of 50,000 to 70,000 (Chheang, 2011, 13). All traces of this once thriving industry were decimated by the following decades of conflict (Chheang, 2011).

From early on in the post-conflict stages, and long serving as a source of national identity and pride, this site was seen as extremely important to the socio-political and economic reconciliation in post-conflict Cambodia. Thus, in 1992, right as recovery efforts were underway, Angkor was added to the list of World Heritage Sites (Winter, 2006). Beyond the ancient glory of the Khmer civilization, the Angkor complex also has important significance for the early presence of Buddhism in Southeast Asia, a religion that has a strong presence within Cambodia and the entire region (Winter, 2006). In addition to the Angkor site, Cambodia boasts six national parks, coastal retreats including a marine reserve, and abundant eco-tourism centered around lush
rainforests and the Mekong River (Chheang, 2011). Needless to say, there is ample opportunity for tourism-based development.

“In 1994, around 8,000 foreign tourists visited Angkor. Just over a decade later, in 2005, over 830,000 international tourists visited the site, an increase of 10,000% in just over a decade (Winter, 2006, 532). Reaching “two million in 2007,” the number of tourists are “expected to go up yearly to around 20 to 30 percent” (Chheang, 2011, 7). While the government was attempting to institute the first three-year structural adjustment program (see above), focused on promoting traditional economic drivers, the tourism industry, largely overlooked by early planning, was quickly revealing itself as “one of the state’s most important economic assets (Winter, 2006, 534). “International tourism receipts,” as highlighted in the World Economic Forum (2012), “are now estimated to be equivalent to about 15 percent GDP, a share that is almost double that of neighboring Thailand, a long famed tourist destination (Hill & Menon, 2014, 9). Though, as will prove to be a common theme in Cambodia, the economic benefits of this boom in the tourist industry are highly uneven, both geographically and socially (Winter, 2006).

Servicing this boom in tourism through FDI, China, Korea and Vietnam have become the most rigorous investors in Cambodia’s tourism and service industry (CDC, 2016).

Those citizens with language skills and service industry skills have found a highly lucrative market in the tourist industry (Winter, 2006). “After tips, commissions and bonuses, the monthly income for head chefs, tour guides and hotel management staff often exceeds 1,000 US dollars” per month and those endeavoring in entrepreneurial pursuits around the tourist industry can expect to make even more (Winter, 2006, 535). Compare this income to that of “school teachers, manual laborers, nurses or market traders [which] remains in the region of 30 to 40 US dollars per month” (Winter, 2006, 535). This stark contrast in income between these sectors
illuminates a less obvious paradox in Khmer society, which is, while work within this sector requires minimal skills, the tourism industry is proving to have a strong pull for Khmer youth, who see the quick cash attained in this field as more alluring than continuing a formal education (Hill & Menon, 2014; Winter, 2006). In fact, much of the youth may see the rapid expansion of job opportunities in Cambodia’s tourist industry as one of the safest career avenues, as, projected by Cambodia’s Ministry of Tourism, “[Cambodia’s] economy is expected to rise by 5.5% per annum in real terms between 2009 and 2018, and the tourism related employment is estimated at 1,102,000 jobs in 2008, 15.4% of total employment, or 1 in every 6.5 jobs. By 2018, this could total 1,121,00 jobs, 12.7% of total employment, or 1 in every 7.9 jobs (Chheang, 2011, 14).

Compounding the income disparity further is the fact that tourism is heavily concentrated in only a small percentage of the country. While there is certainly no shortage of eco-tourism potential throughout the country, poor investments in rural road works and infrastructure have made small distances between provinces incredibly long to traverse—a problem that is further complicated in the monsoon season (ADB, 2014). This allurement of the tourism industry in certain locales has caused a steady migratory flow from rural to urban centers of those that want a slice of the pie (Winter, 2006). This flow could perhaps be stemmed with a more balanced regional investment in infrastructure, which, as the literature suggests, would also increase the attractiveness of heavier FDI in rural areas that are currently ignored due to the high cost of production owed to logistical hurdles (ADB, 2014).

While not directly expressed in the literature, my own experience in Cambodia has revealed a common practice of impoverished parents keeping their children away from school to serve as ‘begging-bate.’ To this end, one cannot walk down a street in any major city without the constant barrage of very young children asking for money so that they “can go to school.”
seems to be less a symptom of booming tourism than an effect of poor domestic policy and civil investments, yet where the tourists are, young beggars will be there too.

Making this troubled situation worse is the fact that Cambodia is largely recognized as a sex tourism hub in South East Asia (Cotter, 2009). Sexual exploitation is rampant and young children are easy prey for organized crime syndicates in Phnom Penh and other major cities catering to pedophile tourists drawn to Cambodia’s off-the-radar feel (Cotter, 2009). To this end, one-third of all sex workers in Cambodia are children and as with migratory pull of the tourist industry in general, the sex trade has a powerful pull for rural poor (Cotter, 2009). This isn’t all to say that Cambodian officials allow such acts to take place, but combined with inadequate “political will” and widespread corruption throughout the police force, the best way to tackle the problem, scholars suggest, is through international pressure (ADB, 2014; Cotter, 2009, 512). This pressure, however, as has been suggested, is largely circumvented by China’s more lax and string-less policy of aid and investments.

While Tourism has proved to be a mode of rapid development and job expansion, the industry itself is inherently susceptible to external factors, like foreign demand and natural disasters and thus is not really a sustainable path of development in and of itself (ADB, 2014; Hill & Menon, 2014). Additionally, Cambodia benefits from tourism more from its proximity to more popular destinations: Thailand, Singapore or Vietnam for example, and thus the flow of tourism is highly predicated on the performance, stability and overall appeal of these neighboring countries (Hill & Menon, 2013). As for the immediate future, tourism is not projected to slow, so perhaps the most important developmental step that be taken is to more widely disperse the economic benefits born out of tourism.
Current trends in FDI in the tourism industry have left large gaps between those who reap the benefits and those who are excluded. While certainly everyone can’t be expected to be brought into the fold, as the tourism industry in itself has been shown to have several negative social consequences, but the benefits of one of the top performing sectors in the country could expect to share more of the benefits derived through tourism via rural/infrastructure development policy. One of the largest missing drivers, according to one study, is the limited investment provided by Cambodian ministries to promote and facilitate tourism throughout the rest of the country (Chheang, 2011). Not everyone goes to Cambodia for the temples, Chheang (2011) suggests, as one of the rising forms of tourism is “voluntourism” (volunteering plus tourism), of which there is ample opportunity to promote throughout the country (p. 14).

Additionally, there is much to be lost if a youth culture becomes singularly drawn to tourism-centric jobs, which are often low to moderately skilled positions. While the short-term gain through higher wages is promising, the lack in skills that would be otherwise gained through more education or exposure to higher-skill positions is something to consider.

Conclusion

From the perspective of a multinational corporation, Cambodia is a country wrought with risks and as such is less than appealing for the majority of global firms who invest across borders. Chinese SOEs that engage in large-scale operations, like constructing hydroelectric dams, and mobilize significant resources to the host state, have hedged risks by exerting financial influence on the Cambodian government. Private Chinese firms that dominate Cambodia’s garment sector have reduced corruption costs through collective action combined with their ability to threaten an exit, of which would severely hurt Cambodia’s leading export commodity. While Chinese firms certainly infuse the state with revenues, there seems to be relatively few
positive spillovers in regard to the garment sector and significant negative consequences resulting from large scale dam projects. As was exemplified through Ghana’s imposition of standards of practices on Sinohydro, both social and environmental impacts can be curbed by more active engagement from the host state government. The Cambodian government, however, has taken a much more hands-off approach to Chinese investments.

To say that Cambodia has a reliance on Chinese investments would be fair, though the absence of those investments would reduce the country’s inward stock of FDI to paltry levels. Of course this begs the question that if there was an absence of abundant and “string-less” funding from China, might Cambodia begin to make inroads in creating a more attractive and diverse investment climate for firms that might be able to deliver more positive spillovers than Chinese firms have been able to provide?

While there is ample literature that points to the many potential benefits that can be realized through FDI, the cases above highlight that without parallel investments in local capacity building, there will little chance in absorbing these spillovers. Cambodia certainly possesses an abundance of marketable resources, but until domestic skill levels can be increased and an entrepreneurial capacity revived, it seems that investments will continue to be resource and efficiency-seeking in behavior, leaving locals with little potential to benefit at all. Furthermore, as long as the Cambodian government is amply

This seems to be especially true in the case of tourism. With few avenues for upward mobility, there is large pull for youth to abandon prospects of higher education and training to reap the higher wages afforded by the booming, though relatively low-skilled industry of tourism. While handsome revenues can be earned, the vulnerability of this industry to external shocks makes it an industry that state should be over-reliant on. To broaden prospects for youth
and curb the inequalities between the tourism sector and jobs within the civil sector, for example, again requires more domestic investments in education, job training and encouraging entrepreneurial endeavors.

While peace is always tenuous in a post-conflict society, prolonged exposure to this type of extractive behavior of foreign firms, combined with a domestic government that is not responsive to the needs of a post-conflict society will clearly not support a positive peace. In light of this, it seems that post-conflict governments need to balance rapid economic growth with careful planning of regional and sectoral diversity.
REFERENCES


