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សមាគមសេដ្ឋកិច្ចកម្ពុជា
CAMBODIAN ECONOMIC
ASSOCIATION



Inclusive Development and Chinese Foreign Direct Investment in the Greater Mekong Sub-region



Kunming University of Science and Technology
Cambodian Economic Association
National University of Laos

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From 2014-2016:



IDRC | CRDI

Canada

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Kunming Workshop, China, July 2014



Luang Prabang Workshop, Lao PDR, August, 2015



Phnom Penh Workshop Cambodia, June, 2015



Dissemination Workshop, Kunming, China, Nov. 2016



What is “Inclusive Development” ?

- Research Objectives: to identify the influence of Chinese FDI from the perspective of the host countries and investing country in order to achieve the inclusive development of all stakeholders.
- The “inclusive development” in this study is defined as the mutual benefits and win-win situation of the investing countries and the host countries from the dimensions of the economy, society and environment.
- Demands of the host countries + impacts of Chinese FDI from 3 dimensions

Why are Cambodia and Laos selected ?

- China has become the biggest investing countries in Laos and Cambodia.
- Investment environment change + economic development heterogeneity

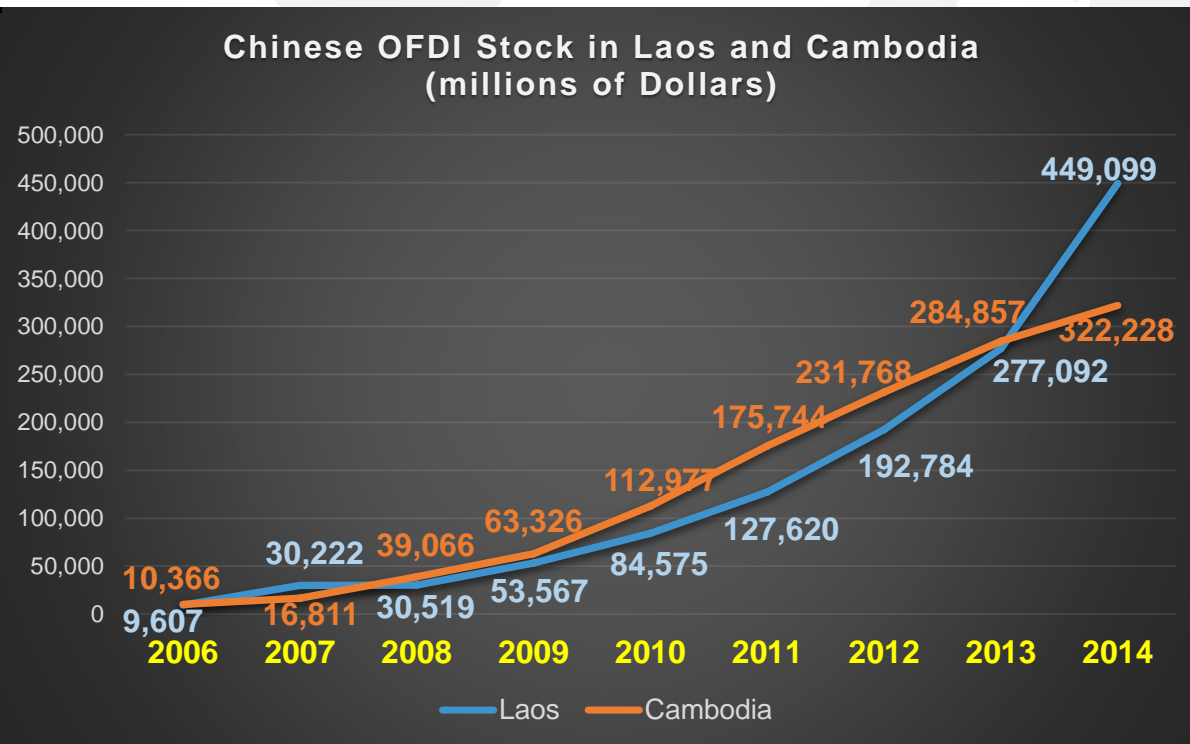


Figure 1. Chinese IFDI Stock in Cambodia and Lass
Data Source: 2014 Statistical Bulletin of Chinese International Investment

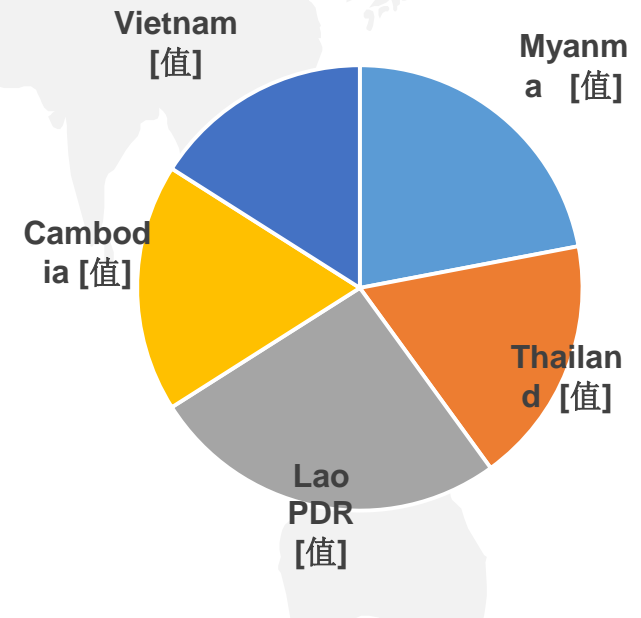
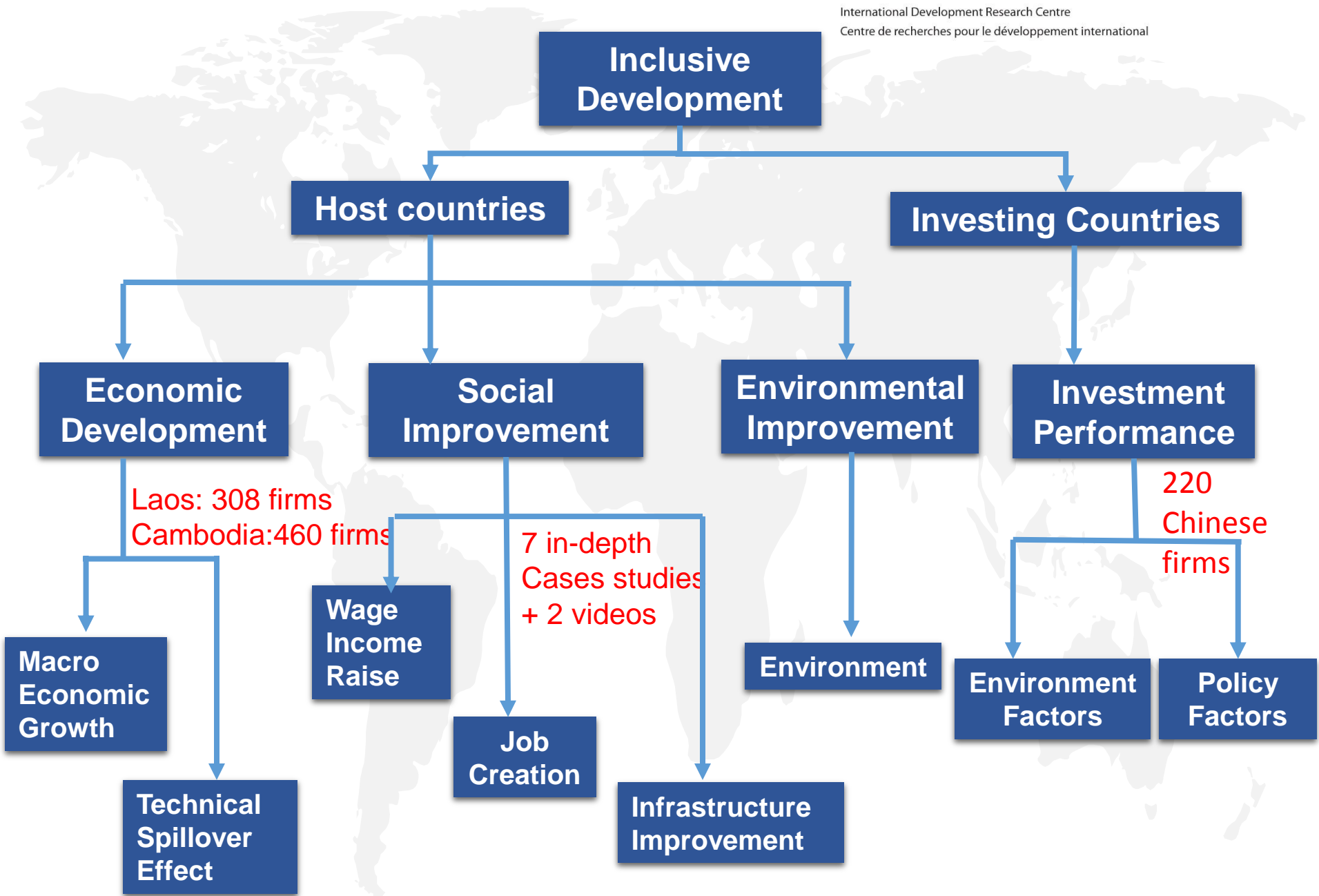


Figure 2 : Percentage of China's FDI and stocks to GMS countries in 2014
Data source: 2014 Statistical Bulletin of China's Foreign Direct Investment



Inclusive Development

Host countries

Investing Countries

Economic Development

Social Improvement

Environmental Improvement

Investment Performance

Laos: 308 firms
Cambodia: 460 firms

7 in-depth
Cases studies
+ 2 videos

220
Chinese
firms

Macro Economic Growth

Technical Spillover Effect

Wage Income Raise

Job Creation

Infrastructure Improvement

Environment

Environment Factors

Policy Factors

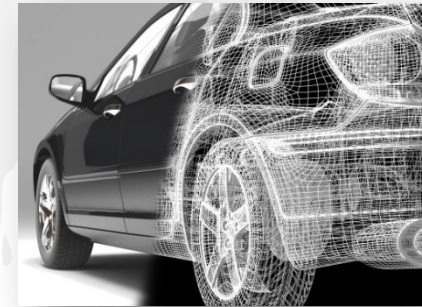
I. The influence of Chinese FDI on the host countries



1.1 The influence of Chinese FDI on the macro economy of the host countries



1.2 The spillover effect of Chinese FDI on the host countries' enterprises



1.3 The impact of China's direct investment on host countries: society and environment

1.1 The influence of Chinese FDI on the macro economy of the host countries

Cambodia (Cambodia Economic Association)

- Methodology: input-output analysis
- Chinese FDI has made positive contributions to the economic growth of Cambodia.
- **Fast tax revenue increase + limited consumption effects**
- Chinese FDI has obvious spillover effect on the Cambodian garment industry

Variables	\$ Million	Share (%) 2013
Gross Value Added	898	6
Consumption	193	2
Import	1988	21
Tariff	94	27
Employment	611125	-

Variables	\$ Million	Share (%)
Remuneration for Unskilled Labor	244	27
Remuneration for Skilled Labor	39	4
Return to Capital	573	64
Land Rent	18	2
Tax Revenue	25	3
Total	898	100

Table 1: Contribution of Chinese Investments

Source: Cambodia Economic Association

Table 2: Distributional Effect of GVA

Source: Cambodia Economic Association

Lao PDR(National University of Laos)

- Methodology : general equilibrium (CGE) model
- The increase in Chinese FDI has positive impacts on GDP, well being level, trade balance, and household income.

➤ From the sector dimension, Chinese FDI contributes to the output growth of most sectors, especially the light manufacturing, the textiles and clothing, mining and extraction.

➤ Non-skilled labors have higher returns, indicating that they have benefited more from Chinese FDI.

No	Sectors	Results of Chinese FDI Growth(%)
1	Grains and crops	0.78
2	Livestock and meat products	0.82
3	Mining and extraction	11.3
4	Processed food	2.47
5	Textiles and clothing	14.72
6	Light manufacturing	15.34
7	Heavy manufacturing	10.46
8	Utilities and construction	0.15
9	Transport and communication	5.01
10	Other services	3.9

Table 4: Impact of Chinese FDI on output

Macroeconomic variables Simulation	Results of Chinese FDI Growth
Real GDP (%)	+ 2.67
Well being level (equivalent variation) (\$US million)	+ 51.14
Household income (%)	+ 1.69
Trade Balance (\$US million)	+ 58.80

Table3: Macroeconomic results of Chinese FDI Growth

1.2 The spillover effect of Chinese FDI on the host countries' enterprises

Competition effect

Demonstration-imitation effect

Training-mobility effect of human capital

Inner industrial

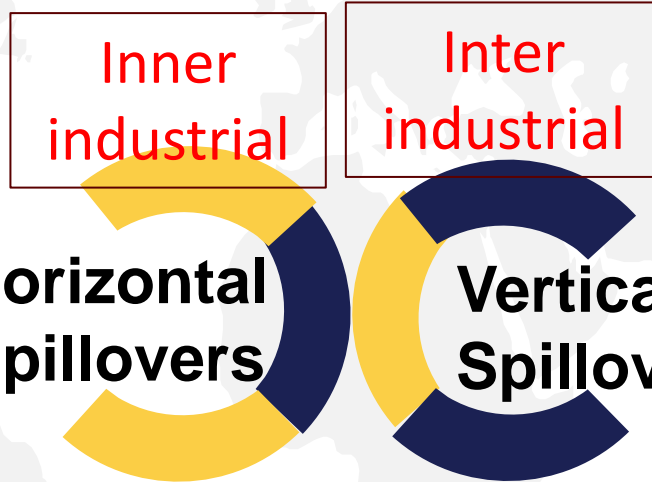
Inter industrial

Horizontal Spillovers

Vertical Spillovers

Forward linkage effect

Backward linkage effect



The spillover effect of Chinese FDI on the host countries' enterprises

- **Firm Survey:** 308 Cambodian firms close to Phnom Penh, 460 Lao firms covering 9 provinces in Lao PDR;
- **Samples by sectors:**
 - Cambodia:** hotel and restaurants, food and beverage, architecture, health, furniture, wholesale and retail, transportation and garment
 - Lao PDR:** Focus on productive sector: (1) Manufacturing; (2) Agriculture; (3) Handicraft and other sectors.
(Excluding natural resources development, hydropower etc.)



The spillover effect of Chinese FDI on the host countries' enterprises

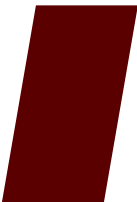
		Cambodia	Laos
Horizontal Spillovers	Competition effect	Weak	Strong
	Demonstration-imitation effect	Very weak	Strong
	Training-mobility effect of human capital	Weak	Weaker
Vertical Spillovers	Forward linkage effect	Weak	Strong
	Backward linkage effect	Very weak	Intermediate



1.3 The impact of Chinese FDI on host countries: society and environment

In this section, 7 enterprises involving agricultural planting (coffee, natural rubber etc.), agricultural products (rice) processing, garment, cement manufacturing and hotel services invested by China in Cambodia and Laos were chosen to conduct the case studies:

- Agricultural planting and agricultural products processing enterprises: a positive impact on the local society in **promoting employment, increasing income, skill training and other aspects.**
- Garment, cement and other manufacturing enterprises: significant effect on local employment creation, income growth of local residents, infrastructure improvement (road etc.) and improvement of environmental protection.
- Hospitality: high degree of the localization and significant skill improvement



2. The evaluation of the performance and influence factors of Chinese FDI enterprises



**The evaluation
of the
performance of
Chinese
investment
enterprises**

**The impact
factors
identifications**

2.1 The evaluation of the performance of Chinese investment enterprises

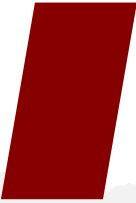
- Methodology: Questionnaire + face to face interview + in-depth case studies
- Number of questionnaire: 220 effective questionnaires (117 from Cambodia + 103 from Laos)
- Survey areas: Vientiane, Khammouan, Phôngsali, Oudômxaï, Luang Prabang in Laos; Phnom Penh and neighboring areas, Sihanouk economic zone in Cambodia
- Results findings: **Chinese firms with good performance: 30.91%**
- Countries Difference: Chinese firms in Cambodia have better performance.

	All		Cambodia		Lao PDR	
	Frequency	Ratio	Frequency	Ratio	Frequency	Ratio
Poor performance	68	30.91	28	23.93	40	38.83
Average performance	84	38.18	49	41.88	35	33.93
Good performance	68	30.91	40	34.19	28	27.18

Table 6: The performance of Chinese investment enterprises



2.2 The evaluation of the performance and influence factors of Chinese FDI enterprises

		Cambodia		Laos	
	Resources Availability	+	significant	-	Not significant
Environment Factors	Market Potential	+	significant	+	significant
	Policy and Law Stability	+	significant	+	significant
	Infrastructure	+	significant	-	Not significant
Policy Factors	Tax Policy	+	significant	-	significant
	Land Use Policy	-	significant	+	Not significant
	Investment Services	-	significant	-	significant
Other Factors	Technical Staff Proportion	+	significant	+	significant
	Localization	-	Not significant	-	Not significant
	Informal Payments	-	Not significant	-	significant
	Administrative system	+	Not significant	+	significant
	Firm Age	-	Not significant	+	significant




China's direct investment strategy for the Greater Mekong Subregion based on inclusive development

Host government:

- 
- 
1. To Improve the education level and enhance the absorptive capacity.
 2. To Speed up infrastructure construction and reduce logistics costs.
 3. To Enhance the understanding and accessibility to local laws and regulations.

Chinese government:

- 
1. To strengthen the industrial guidance for Chinese investing enterprises.
 2. To cultivate technology and management talents.
 3. To Hold investment promotion exhibitions.

Chinese investing enterprises:

1. To survey the market before the entry.
2. To actively communicate with labor force.
3. To extend the cooperation with local enterprises and people.
4. To actively shoulder corporate social responsibility.
5. To respect the local culture and strictly abide by laws and regulations.



**Thank you for your
attention!**