



**Statement before the House Foreign Affairs Subcommittee
on Asia, the Pacific, Central Asia and Nonproliferation**

***“Understanding and Addressing Challenges
in the Mekong Region”***

A Testimony by:

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Thank you, Chairman Bera and Ranking Member Chabot, for inviting me to speak on the challenges facing the Mekong subregion. My remarks will focus on China's influence in Cambodia and the difficulties it presents to the interests of the United States, its allies and partners in the region, and Cambodia itself.

The most immediate concern for U.S. interests and those of its partners regarding Cambodia should be China's likely future military footprint. The lion's share of attention on this front understandably focuses on Ream Naval Base, though for reasons I will explore, the United States should also be concerned about the airstrip a Chinese company is building at nearby Dara Sakor. But Ream is a symptom of the deeper problem of Chinese influence in the country, enabled by its economic weight and willingness to fuel the structure of rent-seeking elites on which Hun Sen and his Cambodian People's Party have built their power. U.S. policy toward Cambodia, meanwhile, has drifted from engagement to punishment and back with little strategic clarity. The result has been a vacuum China has been happy to fill.¹

Ream Naval Base

The Ream saga began in late 2018 when Vice President Mike Pence sent a letter to Prime Minister Hun Sen raising concerns about rumors of a potential Chinese base in the country. The Cambodian leader insisted that his country's constitution makes any foreign military presence impossible.² But in July 2019, the *Wall Street Journal* reported that Phnom Penh had inked a secret pact, seen by senior U.S. officials, which granted China exclusive access to Ream in exchange for infrastructure upgrades at the base. An early draft of the agreement reportedly allowed for Chinese troops, weapons, and ships to use the base for 30 years with an automatic renewal every 10 years thereafter.³ Cambodian officials including Prime Minister Hun Sen, again denied the reports.⁴

A month before that report, the Department of Defense had grown suspicious when Cambodia first requested and then suddenly rejected U.S. assistance to repair some facilities at the base which the United States had helped build just a few years earlier.⁵ In 2020, the Cambodian government suddenly demolished the facilities. The Tactical Headquarters of the National Committee for Maritime Security was just eight years old and the adjoining Rigid-Hulled Inflatable Boat (RHIB)

¹ Gregory B. Poling, Charles Dunst, and Simon Tran Hudes, "Pariah or Partner? Clarifying the U.S. Approach to Cambodia," *Center for Strategic and International Studies*, June 14, 2022, <https://www.csis.org/analysis/pariah-or-partner-clarifying-us-approach-cambodia>.

² AFP, "'No Foreign Troops on Cambodian Soil': Prime Minister Hun Sen Insists No China Naval Base Being Built," *South China Morning Post*, November 19, 2018, <https://www.scmp.com/news/asia/southeast-asia/article/2173939/no-foreign-troops-cambodian-soil-prime-minister-hun-sen>.

³ Jeremy Page, Gordon Lubold, and Rob Taylor, "Deal for Naval Outpost in Cambodia Furthers China's Quest for Military Network," *Wall Street Journal*, July 22, 2019, <https://www.wsj.com/articles/secret-deal-for-chinese-naval-outpost-in-cambodia-raises-u-s-fears-of-beijings-ambitions-11563732482>.

⁴ "Cambodia Denies Deal to Allow Armed Chinese Forces at Its Naval Base," *Reuters*, July 21, 2019, <https://www.reuters.com/article/us-china-cambodia/cambodia-denies-deal-to-allow-armed-chinese-forces-at-its-naval-base-idUSKCN1UH00V>.

⁵ Prak Chan Thul, "U.S. Presses Cambodia Over Possible Chinese Military Presence," *Reuters*, July 1, 2019, <https://www.reuters.com/article/us-cambodia-usa/u-s-presses-cambodia-over-possible-chinese-military-presence-idUSKCN1TW23W>.

Maintenance Facility only three years old.⁶ Cambodian authorities insisted that the structures were demolished so they could be relocated, though the site chosen farther north, and well outside the base, seems of little use.⁷ At the same time, the deputy commander of the Cambodian Navy also admitted for the first time that China would be funding upgrades to the base, including dredging to accommodate larger vessels.⁸

Construction finally began in April 2021 with the construction of two new China-funded buildings near the site of the demolished U.S.-built facilities. Land clearing and modest construction continued through the fall.⁹ Dredging vessels showed up at the start of 2022, deepening the harbor and heralding a rapid increase in land clearing and construction this year. The dredged sand was used to create a new pier between June and September.¹⁰ That has allowed supplies to be brought in by sea from the nearby port city of Sihanoukville—a Chinese enclave discussed in more detail below.¹¹ That is important as it seems the level of activity has overwhelmed local roads and created significant backups.¹² Twenty-eight acres of land, more than 15 percent of Ream’s total area, was cleared between July and October alone, suggesting that significant construction is on the way.

Strategic Significance of Ream and Dara Sakor

Analysts like those of us at the CSIS Asia Maritime Transparency Initiative are still waiting to see exactly what use China will make of Ream Naval Base. The land clearing and fencing so far suggests that China will make exclusive use of much of the northern portion of the base, consistent with the reported details of the agreement seen by U.S. official in 2019. In exchange, China is constructing facilities for Cambodia’s use in the southern portion of the base and deepening the harbor in ways that will presumably benefit both parties as they will be able to bring larger naval vessels to the base.

But it is important to acknowledge that naval presence at Ream, whether rotational or permanent, would not markedly add to China’s larger power projection capabilities in the region. Ream is roughly the same distance from the Strait of Malacca as China’s much larger and more capable military base on Fiery Cross Reef in the Spratly Islands, meaning vessels there will be no closer to breaking out from the “first island chain” that hems China in. And given the ways in which China’s construction in the Spratly and Paracel Islands have already radically upended the military

⁶ “Update: China Continues to Transform Ream Naval Base,” *CSIS Asia Maritime Transparency Initiative*, October 12, 2021, <https://amti.csis.org/changes-underway-at-cambodias-ream-naval-base/>.

⁷ Niem Chheng, “Naval Base Relocation Explained,” *Phnom Penh Post*, October 6, 2020, <https://www.phnompenhpost.com/national/naval-base-relocation-explained>.

⁸ Shaun Turton and Mech Dara, “Cambodia Naval Base Set to Undergo China-Led Expansion,” *Nikkei Asia Review*, October 3, 2020, <https://asia.nikkei.com/Politics/International-relations/Cambodia-naval-base-set-to-undergo-China-led-expansion>.

⁹ “Update: China Continues to Transform Ream,” *CSIS Asia Maritime Transparency Initiative*.

¹⁰ “Update: Dredged Pier Constructed at Ream,” *CSIS Asia Maritime Transparency Initiative*, July 18, 2022, <https://amti.csis.org/dredgers-spotted-at-cambodias-ream-naval-base/>.

¹¹ “Construction at Cambodia’s Ream Picks Up Pace,” *CSIS Asia Maritime Transparency Initiative*, October 18, 2022, <https://amti.csis.org/construction-at-cambodias-ream-picks-up-pace/>.

¹² Tomoya Onishi, “‘Swallowed’ by China: Cambodia’s Ream Base Expansion Raises Alarm,” *Nikkei Asia Review*, August 28, 2022, <https://asia.nikkei.com/Spotlight/Belt-and-Road/Swallowed-by-China-Cambodia-s-Ream-base-expansion-raises-alarm>.

status quo in the region, Ream would be more a complement than a significant change to China's existing power projection network.¹³

The things that would seem to make most sense for China at the base would be sensing and communications facilities to monitor activity in Thailand, Vietnam, Malaysia, and potentially the eastern Indian Ocean. China will also most likely seek to build satellite tracking and communications facilities at the base which, given its location near the equator, would be extremely useful. These capabilities probably matter more to China than the naval component of its future presence at Ream.

The Dara Sakor airfield on the other side of Ream Bay could end up being more impactful for China's growing power projection network. This facility is part of a larger development, nominally a resort, being constructed by Union Development Group (UDG)—a Chinese company with links to the People Liberation Army. The airstrip UDG has built at Dara Sakor is 3,400 meters long, outstripping the runways at Phnom Penh's international airport. Such an airstrip built in the middle of nowhere serves no commercial purpose. But it makes a great deal of sense for the Chinese air force and its naval aviators. Access to a runway at Dara Sakor would allow China to launch large patrol aircraft over the Gulf of Thailand, considerably boosting its surveillance capabilities and therefore its carrier operations in the area. This is especially important for the People's Liberation Army – Navy as its aircraft carriers cannot currently launch patrol aircraft and are therefore hampered by their need to operate within range of coastal airstrips. Dara Sakor could also provide China's carrier-based fighter jets with a divert runway—another necessity for safe carrier operations farther from the Chinese coast.

Debt Sustainability

China is the largest investor—accounting for more than 40 percent of incoming FDI in 2021—and creditor in Cambodia. But Cambodia doesn't yet face debt distress, nor has it followed countries like Sri Lanka, Pakistan, or Laos in asking for restructuring of its debt owed to China.¹⁴ Cambodia's total public debt as of June 2022 stood at \$9.7 billion, of which China holds just over \$4 billion or about 40 percent. Multilateral development banks hold 32 percent with the rest owed to other countries.¹⁵ This amounts to a public debt to GDP ratio, as of last year, of 35 percent. That is up from 28 percent in 2019, due in no small part to the difficulties of Covid-19 response. But it is still far below that of heavily debt distressed countries. Neighboring Laos, for instance, has a debt-to-GDP ratio of 88 percent and faces persistent fears of a potential default. Cambodia's debt-to-GDP is not expected to change significantly in 2023 and 2024.

The Cambodian government, and Prime Minister Hun Sen in particular, has rejected claims that Cambodia risks falling into a debt trap. In the short term, he appears to be correct. But if Cambodia continues to take on large amounts of debt, particularly to China under what could prove

¹³ "By Air, Land, and Sea: China's Maritime Power Projection Network," *CSIS Asia Maritime Transparency Initiative*, September 15, 2021, <https://amti.csis.org/power-projection-network/>.

¹⁴ David Hutt, "Cambodia Not Quite Yet in a China Debt Trap," *Asia Times*, September 21, 2022, <https://asiatimes.com/2022/09/cambodia-not-quite-yet-in-a-china-debt-trap/>.

¹⁵ Sorn Sarath, "Cambodia's Foreign Debt Tops \$9 Billion with China Accounting for More Than 40 Percent," *Cambodian Journalists Alliance Association*, August 19, 2021, <https://cambojanews.com/cambodias-foreign-debt-tops-9-billion-with-china-accounting-for-more-than-40-percent/>.

unfavorable terms, it could end up in trouble in the years ahead. This is particularly true if that debt goes toward commercially nonviable projects or those that predominantly benefit Chinese investors but not the local economy.

For Cambodia's debt to remain manageable, it needs to do three things. First, Cambodia's GDP needs to grow faster than its new debt. This hasn't happened for the last three years, but growth is expected to pick up as the manufacturing and tourism sectors revive post-pandemic. Second, it must spend the loans it does take wisely. And third, it must ultimately become less reliant on foreign creditors in general, and China in particular.¹⁶

Special Economic Zones

Cambodia has more than 40 special economic zones, though a lack of transparency makes a full accounting impossible. These vary widely in size, quality, and economic benefit to the country and its people. The largest investors in these zones are from China, Japan, Taiwan, and Thailand, along with well-connected Cambodian businesspeople. The largest of the zones, and the one most indicative of both their promise and peril, is the Sihanoukville Special Economic Zone established in 2008. The zone, housed within the eponymous port city, contains more than 100 businesses, most of them owned by China. These businesses have created thousands of jobs for Cambodians, but still fall well short of the zone's advertised potential.¹⁷ And alongside the legitimate businesses has come a wave of crime, vice, and displacement, with many Cambodians complaining that Sihanoukville has become a Chinese enclave.¹⁸

China's massive investment in Sihanoukville has made it both a crown jewel of the Belt and Road Initiative and a hub for transnational crime. Weak law enforcement has allowed Chinese criminal syndicates who relocated from the mainland to thrive. In addition to gambling, prostitution, extortion, and trafficking, the city has most recently been linked to job scam networks targeting nationals from neighboring countries.

Efforts to combat rampant crime have perversely amplified the city's economic downturn amid the Covid-19 outbreak. Following the Cambodian government's ban on online gambling in August 2019, Sihanoukville's casinos catering to gamblers in the mainland began to shutter and a wave of Chinese workers left. Then the pandemic hit, freezing the flow of both Chinese tourists and capital. Official figures estimate that there are more than 1,000 unfinished buildings in the city.¹⁹ Things may be turning around slowly, as a local government spokesperson said in May 2022 that investors from China have begun to return.²⁰ But the city's fortunes could easily be wrecked by the

¹⁶ Hutt, "Cambodia's Not Quite Yet in a China Debt Trap."

¹⁷ "Special Economic Zones," *Open Development Cambodia*, updated September 30, 2020, <https://opendevelopmentcambodia.net/topics/special-economic-zones>.

¹⁸ "How China Changed Sihanoukville," *The ASEAN Post*, December 29, 2019, <https://theaseanpost.com/article/how-china-changed-sihanoukville>.

¹⁹ Shaun Turton and Huang Yan, "Stuck in Sihanoukville: Projects Grind to Halt in Cambodia Resort Town," *Nikkei Asia Review*, August 5, 2022, <https://asia.nikkei.com/Business/Business-Spotlight/Stuck-in-Sihanoukville-Projects-grind-to-halt-in-Cambodia-resort-town>.

²⁰ Daryl Lim, "The Revival of Sihanoukville, Cambodia's 'Gold Rush' City," *ThinkChina*, July 18, 2022, <https://www.thinkchina.sg/revival-sihanoukville-cambodias-gold-rush-city>.

headwinds buffeting the Chinese economy, not least due to Beijing's ongoing commitment to its zero-Covid policy.

U.S. Policy

The United States has pursued an uneven, at times contradictory, policy toward Cambodia over the last decade. The country's flawed democracy has steadily deteriorated into an authoritarian system under the Cambodian People's Party. The same patronage networks that keep Hun Sen in power also fuel corruption and a thriving illicit economy. And for these reasons, the United States and other partners, particularly in Europe, have sought punitive measures to punish Hun Sen's regime. But at the same time, the country sits in a region of great importance to the United States and its competition with China for global influence. And Cambodia's membership in the Association of Southeast Asian Nation, of which it was the chair in 2022, earns it more attention than it would otherwise. These factors necessitate U.S. engagement. The result has been a whipsawing between engagement and sanctions, carrots and sticks.

In responding to China's influence in Cambodia, the United States has lately reached for sticks to little effect. In September 2020, the U.S. government sanctioned UDG under the Global Magnitsky Act for corruption and environmental harm.²¹ In November 2021, the United States slapped GMA sanctions on Cambodian Navy Commander Tea Vinh and Defense Ministry Director-General Chau Phirun for conspiring to illegal profit from the construction work at Ream.²² Neither step did much to slow the progress at the two projects, which were clearly the real targets of the sanctions. And by selecting only these two projects out of the myriad cases of corruption and abuse of power in Cambodia, it was made clear that GMA was being leveraged to combat Chinese influence more than human rights abuses and corruption.

The United States has very little leverage to influence political developments within Cambodia in the short term. That makes sanctions most often ineffective and in some cases counterproductive, in as much as they convince Hun Sen's regime that it has no alternatives but to embrace China more tightly. By contrast, principled engagement has proven more effective. That was especially true during 2022 when, as ASEAN Chair, Hun Sen sought the prestige that came with that title, moderated his behavior in order to keep external partners engaged, and oversaw a surprisingly effective chair year as a result.

As much as Washington might wish otherwise, waiting out Hun Sen's regime is not a realistic option. He is only 67 years old and will remain a power behind the throne even after engineering the elevation of his 44-year-old son Hun Manet to power, perhaps as early as next year.²³ The former opposition Cambodian National Rescue Party has been disbanded and its spiritual successor, the Candlelight Party, doesn't appear to have the popularity to challenge the ruling Cambodian People's Party at the moment. So, the United States and partners should invest in civil

²¹ U.S. Department of Treasury, "Treasury Sanctions Chinese Entity in Cambodia Under Global Magnitsky Authority," Press Release, September 15, 2020, <https://home.treasury.gov/news/press-releases/sm1121>.

²² Jack Adamović Davies, "US Sanctions Cambodian Navy Chief for Alleged Graft," *Radio Free Asia*, November 10, 2021, <https://www.rfa.org/english/news/cambodia/usa-sanctions-11102021183811.html>.

²³ David Hutt, "Hun Manet to Rule Cambodia Way Ahead of Schedule," *Asia Times*, November 30, 2022, <https://asiatimes.com/2022/11/hun-manet-to-rule-cambodia-way-ahead-of-schedule/>.

society and independent media in Cambodia, and expand aid and assistance to the public at large. But Washington should recognize that those are investments in the eventual evolution of Cambodia into a better governed, more democratic country. In the meantime, isolation will only force Hun Sen into the arms of China, perhaps against his will. Sanctions will not change his behavior and should be avoided, particularly if they are nakedly targeted at China-related projects.

As for Ream and Dara Sakor, the United States can continue to call for more transparency, push Phnom Penh to ensure that Chinese access at Ream is non-exclusive, and discourage the use of Dara Sakor by the Chinese military. It should also continue to publicize developments at both facilities, which will stiffen opposition to them both within Cambodia and among its neighbors. Results will probably be mixed; it is likely too late to stop either development but perhaps their scope could still be limited. In any case, the likelihood of China's eventual use of one or both facilities could still be turned to the U.S. advantage. Washington should use it to leverage closer security cooperation with neighboring Thailand and Vietnam, both of whom should be even more concerned by these developments than the United States.