

# Diplomatic Briefing

## The Price of Prosperity: Economic Diplomacy in Southeast Asia and the World

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**THANKS TO**

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**Diplomatic Briefing** is a biannual collection of categorized opinion pieces and short articles from an extended network of scholars and regional experts, covering a wide range of issues from international relations, to sub-regional affairs, to foreign policy, to economic and trade, and beyond.

Initiated by Konrad-Adenauer-Stiftung (KAS) Cambodia and the Cambodian Institute for Cooperation and Peace (CICP), the Diplomatic Briefing aspires to serve the diplomatic community, policymakers, and interested stakeholders in Cambodia and the region on analysing and debating the latest trends, challenges and issues in the global arena that may hamper key developments of Cambodia and threaten regional peace and stability at large.

The Diplomatic Briefing also attempts to serve as a platform for intellectual exchange of perspectives and insights as well as for emerging Cambodian scholars to have their research works published.

**About CICP**

The Cambodian Institute for Cooperation and Peace, established in 1993, is Cambodia's oldest foreign policy think tank and Cambodia's leading platform for track 2 foreign affairs dialogue. The Institute strives to stimulate viable, policy-based research to address a range of challenges and to promote balanced debate on the important issues that matter most for the country and the region. Over the course of nearly 30 years, CICP has engaged with analysts, scholars, and diplomats from across the globe to examine the geopolitical, security, social and economic questions that impact both Cambodia as well as Southeast Asia as a whole. On this site, you can explore the wide ranging activities that the Institute undertakes, including the outcome reports from many of those events as well as our two flagship publications: The Journal of Greater Mekong Studies and Diplomatic Briefing. We are immensely proud of our track record as a research institution as well as our continued position as the only foreign affairs think tank in the kingdom ranked three years in a row, since 2018, at the 32nd spot out of over 100 Top Think Tanks in Southeast Asia and the Pacific by the University of Pennsylvania's Global Think Tank Index. As an institution, CICP is grounded in three simple terms: Objective, Neutral, and Independent. We engage without bias and seek to motivate stronger policy-oriented academic research in the kingdom and actively partner with a diversity of actors in order to strengthen research capacity in the kingdom and to support Cambodia's own security, development, and sovereignty as well as regional integration.

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**About KAS**

Freedom, justice and solidarity are the basic principles underlying the work of the Konrad-Adenauer-Stiftung(KAS). The KAS is a political foundation, closely associated with the Christian Democratic Union of Germany (CDU). As co-founder of the CDU and the first Chancellor of the Federal Republic of Germany, Konrad Adenauer (1876-1967) united Christian-social, conservative and liberal traditions. His name is synonymous with the democratic reconstruction of Germany, the firm alignment of foreign policy with the trans-Atlantic community of values, the vision of a unified Europe and an orientation towards the social market economy. His intellectual heritage continues to serve both as our aim as well as our obligation today. In our European and international cooperation efforts, we work for people to be able to live self-determined lives in freedom and dignity. We make a contribution underpinned by values to helping Germany meet its growing responsibilities throughout the world. KAS has been working in Cambodia since 1994, striving to support the Cambodian people in fostering dialogue, building networks and enhancing scientific projects. Thereby, the foundation works towards creating an environment conducive to social and economic development. All programs are conceived and implemented in close cooperation with the Cambodian partners on central and subnational level.

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The form can be accessed here:



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[Maurizio.Paciello@kas.de](mailto:Maurizio.Paciello@kas.de).

Thanks for your being part of our community,

Your CICP and KAS team

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# I. EDITORIAL NOTES

Welcome to the Fourth volume of the Diplomatic Briefing! We hope you enjoyed the last three editions and that you find the fourth one equally interesting, if not more so.

The Diplomatic Briefing aspires to serve the diplomatic community, policymakers, and interested stakeholders by identifying the latest trends and challenges in the global arena that may hinder the key developments of Cambodia and threaten regional peace and stability at large. It also attempts to serve as a platform for the intellectual exchange of perspectives and insights, as well as a place in which emerging Cambodian scholars can have their research works published.

This fourth issue brings you provocative thoughts and comprehensive insights on the latest trends of economic statecraft in Southeast Asia and beyond. It highlights the aspect of economic diplomacy that has

on one hand strengthened state-to-state relations while on the other imposed barriers in the form of rising unilateralism and protectionist policies. We are immensely proud of this publication, especially given the increasing importance of it as a constructive platform for both Track 1 and Track 2 personnel, including policymakers, the diplomatic community, and academia alike, who jointly use it to contribute to the discussion and strategic discourse analysis generated here.

We are particularly thankful for the invaluable contribution of Ambassador Carmen Moreno, Head of EU Delegation to Cambodia, for a comprehensive overview of the ASEAN-EU Strategic Partnership

from an economic perspective, which is indeed very important in setting the stage for the subsequent orientations as Cambodia chairs ASEAN over the course of 2022. We are also extremely appreciative of the strong support extended by the Australian Embassy to Cambodia, featuring Ambassador Pablo Kang, who has offered a profound deliberation on Australia's role in the context of Cambodia's development cooperation. Equally important is to get to understand more in-depth of Japan's role in the Mekong sub-region and with that, we are also grateful for the Japanese Embassy's support in this regard.

The Diplomatic Briefing has always been both a platform for renowned experts in their field, for diplomats, and as well an opportunity for promising young researchers to publish their research works. This volume contains pieces by three outstanding young writers who have passed through KAS Horizon, the flagship training program by CICP and KAS for aspiring young international relations practitioners.

We also wish to express our sincere thanks to all of our contributors, particularly those colleagues from KAS offices spanning three different continents who have shared their observations and research on the pertinent issues of the host country in which they reside, as well as other important issues brought forward by additional authors, including that of the digital economy.

We hope that one way or another this volume will serve to foster a deeper and more substantive discussion on the various challenging issues and key foreign policy setbacks faced in the region. We wholeheartedly welcome more debate, thought-provoking insight, and diverse perspectives so that this Diplomatic Briefing can serve its purpose in fostering more concrete and pragmatic ideas that we can all benefit from.

Southeast Asia is home to breathtaking natural diversity. A diversity that also influences the economic models of countries in the region. In the picture: The Raja Ampat Islands in West Papua, Indonesia.



**PICH Charadine**



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## II. COVER STORY

### ASEAN-EU Strategic Partnership: The Economic Perspective

*Ambassador Carmen Moreno has been the Head of the European Union Delegation to Cambodia since September 2019. From August-September 2019, she was the SOM ASEM and Special Representative to Afghanistan. She was the Ambassador of Spain to Thailand, accredited to Cambodia, Laos and Myanmar from 2013 to 2017. From 2012 to 2013, she was the Chief of Cabinet of the Secretary General of Foreign Affairs, Spain. She was Director Cooperation for Asia, Africa and Middle East at AECID (Spanish Agency for International Development Cooperation) from 2008 to 2012. Before that, she held various diplomatic posts in China, Cuba, Malaysia, India and Pakistan. Amb. Moreno holds Postgraduate Degree on Armed and Political Conflicts and Master's Degree on Contemporary China and International Relations.*

*The European Union and ASEAN have a longstanding and dynamic relationship that was elevated to a Strategic Partnership in December 2020. Both the European Union and ASEAN are the most advanced regional integration organizations in the world and are natural partners in promoting and defending multilateralism and a rules-based global order.*

The economic dimension of their cooperation is already rich and diverse, and has grown over the years based on trade, investment, sustainable connectivity and development partnerships. In 2020, the European Union was ASEAN's third largest trading partner (after China and the US), while foreign direct investment (FDI) flows from the EU into ASEAN amounted to USD10.5 billion, making the EU one of the largest external sources of FDI for Cambodia. Through trade and investment, the European Union and ASEAN have already become essential economic partners.

To advance into a Strategic Partnership, ambitious bilateral trade and investment agreements have been negotiated and concluded with Singapore and Vietnam in recent years, while negotiations continue with other ASEAN Member States. A network of bilateral trade agreements will contribute to deepen the economic dimension of our engagement with ASEAN as a whole and should serve as a building block for a future region-to-region EU-ASEAN Free Trade Agreement (FTA).

H.E. Carmen Moreno

Head of the European Union Delegation to the Kingdom of Cambodia



Other less developed economies in ASEAN will continue to enjoy total or partial access to the European market through the Generalized Scheme of Preferences (GSP+ and Everything But Arms, EBA) which contribute towards narrowing the development gaps, promoting economic growth and job creation and to a better integration into the regional and international value-chains.

However, the economic dimension of the EU-ASEAN Strategic Partnership goes well beyond trade and investment and is bound to play an essential role in the post-COVID-19 pandemic recovery for both regions.

The post-pandemic recovery and future resilience of both the European Union and ASEAN will be very much dependent upon how to tackle the climate change challenge, build a low-carbon, green and digital economy as the foundation for sustainable and inclusive development and human security.

To this purpose, and as the EU-ASEAN joint ministerial statement on connectivity (December 2020) underlines, connectivity can help to mitigate the impact of the COVID-19 pandemic and support a robust socio-economic recovery, enabling both regions to build back better, greener and in a more sustainable, inclusive and resilient manner. Deepening and strengthening connectivity between the two regions becomes an essential part of the economic dimension of the Strategic Partnership between the EU and ASEAN.

For greater trade to take place, we need to build adequate transport connectivity. To this end, the rebuilding of transport links disrupted by the COVID-19 pandemic between ASEAN and Europe will encourage new trade, investment and growth opportunities for both regions. In particular, it could also help to support recovery of the tourism sector, which has been badly damaged by border closures and restrictions. The launch of ASEAN Customs Transit System (ACTS), with support from the EU, will facilitate movement of goods overland and reduce costs for citizens and businesses within ASEAN, while creating new opportunities for smaller companies to access regional and international markets through increased land based connectivity.



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The ASEAN Custom Acts (ACTS) will ensure greater transport connectivity for trade activities.

In June 2021, ASEAN and the EU signed the Comprehensive Air Transport Agreement (CATA). As the world's first region-to-region air transport agreement, it will bolster connectivity and economic development among the 37 member states of ASEAN and the EU. Under the agreement, airlines of member countries will be able to fly any number of services between both regions, up to 14 weekly passenger services, and any number of cargo services via and beyond to any third country.

In the highly contested space of the Indo-Pacific at a time of increased geopolitical competition, ensuring maritime security and freedom of navigation, as well as rules-based oceanic governance, is a common endeavor for both organizations. Successful cooperation in the fight against illegal, unreported and unregulated (IUU) fisheries and support by the EU for certain ASEAN countries in fisheries management and control systems are good examples of increased cooperation and connectivity in the maritime domain.

ASEAN and the EU must undertake the transition towards a low-carbon and climate resilience economy. To achieve this, they will have to work together in implementing the Paris Agreement, to advance energy efficiency and clean energy solutions and promote a circular production model entailing green growth. This will require leveraging substantial financing for investment, such as in the ASEAN Catalytic Green Facility, under the ASEAN Infrastructure Fund, to which the European Investment Bank and EU Member States (Germany and France) contribute over 600 million EUROS. Building on already existing initiatives, such as the Forest Governance Support Program (FLEGT), Biodiversity Conservation and Management in

protected areas in ASEAN, the SMART Green Cities in ASEAN and ASEAN Emergency Response Mechanism, among others, will promote innovation, incentivize investment and enhance market access for the private sector.

Connectivity will also be at the heart of the digital transition. The 2019 ASEAN-EU Statement on Cybersecurity Cooperation underlines the commitment to promote an open, secure, stable, accessible and peaceful information and communication technology environment. Cooperation in data protection, e-commerce and digital governance will need to underpin future work in the economic dimension of the Strategic Partnership between the EU and ASEAN.

An enhanced economic engagement will also require stronger integration in both organizations. As a Strategic Partner, the European Union is the biggest donor to the ASEAN Secretariat with over 250 million Euros in grants (2014-2020), supporting the integration process in the region through programs such as the ASEAN Regional Integration Support (ARISE Plus).

The European Union and its Member States are also major development partners of many ASEAN member states, contributing to the narrowing of the development gaps and enhancing regional integration. Team Europe (the EU and its Member States) response to the COVID-19 pandemic worldwide through the COVAX mechanism and in ASEAN, with 800M EUR recovery package and 20M EUR support to the health systems, proves Europe's commitment to a strong and sustainable recovery in the region.

The European Union and ASEAN are also Strategic Partners in the realization of the UN SDGs and the 2030 Agenda for Sustainable Development. Regional and bilateral cooperation programs by the European Union, Member States and Team Europe Initiatives will promote sustainable food systems, better education and vocational training, market access for small and micro-sized enterprises, decent job conditions, due diligence, safe migration and, among others, better governance and democratic accountability. Such development programs are an integral part of the economic dimension of the

EU-ASEAN Strategic Partnership, supporting an inclusive and resilient recovery in which the rights and freedoms the SDGs and 2030 Agenda are built upon, can be achieved by all.

To conclude, the economic dimension of the EU-ASEAN Strategic Partnership is a rich, complex and multidimensional reality anchored in decades of dialogue and joint work that will build on the achievements of the past to tackle the challenges of the future.



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The European Union shows its commitment to ASEAN through the COVAX mechanism along with an 800 million EUR recovery package and 20 million EUR support to the health systems



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The EU and ASEAN are also strategic partners in the realization of UN SDGs.



# III. HIGHLIGHT

## Australia's Development Cooperation in Cambodia

**Pablo Kang** is a senior career officer of the Department of Foreign Affairs and Trade (DFAT).

He has been the Australian Ambassador to the Kingdom of Cambodia since December 2019. Prior to this role, he was the inaugural Chief Executive Officer of the AUD 2 billion Australian Infrastructure Financing Facility for the Pacific. Ambassador Kang headed the Task Force established to manage the installation of a high-speed undersea telecommunications cable connecting Australia with Papua New Guinea and Solomon Islands. Other roles in Canberra have included the head of the International Organisations Branch (2010-11), a Senior Adviser in the International Division of the Department of Prime Minister and Cabinet (2004-05) and an Executive Officer working on people smuggling, refugee and immigration issues (2002-03).

Overseas, Ambassador Kang has served in the United Kingdom (Second Secretary, 1999-2002), the Philippines (Deputy Head of Mission and Counsellor, 2006-08), Vanuatu (Head of Mission, 2009-10) and the United Arab Emirates (Head of Mission, 2012-16, concurrently non-resident Ambassador to Qatar).

Ambassador Kang was promoted to First Assistant Secretary (Senior Executive Service Band 2) level in December 2019.

Ambassador Kang has BA (Hons) LLB (Hons) degrees from the University of Sydney, a Graduate Diploma in Arts (Foreign Affairs and Trade) from Monash University and is an alumnus of the John F Kennedy School of Government Executive Education program at Harvard University. He is also a fellow of the University of Wollongong in Dubai. He speaks Bislama and Solomon Islands Pijin.

Ambassador Kang is married with two sons.

**H.E. Pablo Kang**

**Australian Ambassador to the Kingdom of Cambodia**



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## Introduction

2021 has been another tumultuous year. COVID-19 continues to exert immense pressure on the global economy. Across Southeast Asia, the pace at which economies recover from the pandemic and the types of economic activity that drive the recovery, will have far reaching implications for the 650 million people who call this region home.

In 1950, Australia's Foreign Minister, Percy Spender said:

*"We live side by side with the countries of South and Southeast Asia, and we desire to be on good-neighbour terms with them. Above all, it is in our interests to foster commercial and other contacts with them and give them what help we can in maintaining stable and democratic governments in power, and increasing the material welfare of their peoples. In doing so we take the long view."*



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In 1950, Percy Spender served as Australia's Foreign Minister.

Spender's comments still ring true today. The Australian Government has made it very clear that economic development in Southeast Asia is increasingly important to Australia. Australian businesses are looking to diversify their supply chains to build greater resilience to future potential shocks. Natural security threats (like pandemics and climate change) can affect geopolitical tensions. Australia is therefore strengthening the country's economic and strategic resilience, and assisting our neighbours to build dynamic economies with multiple sources of investment and a diverse range of export markets.

Australia attaches great importance to our development cooperation to bolster engagement in the region. This includes reinforcing our role as an economic and development partner of choice for Indo-Pacific, including Cambodia.

Our development cooperation has evolved considerably. In Cambodia, we are shifting our engagement from a 'direct aid' approach to a 'development partnership'. Australia is a neighbour and close friend of Cambodia, during both stable and difficult times. Our development support in the wake of COVID-19 is a prime example. This is what good friends do for each other – invest in the future for mutually beneficial and long-term outcomes. This is something Australia has been doing for almost 70 years, as we currently prepare to celebrate the 70th anniversary of Australia-Cambodia diplomatic relations next year.

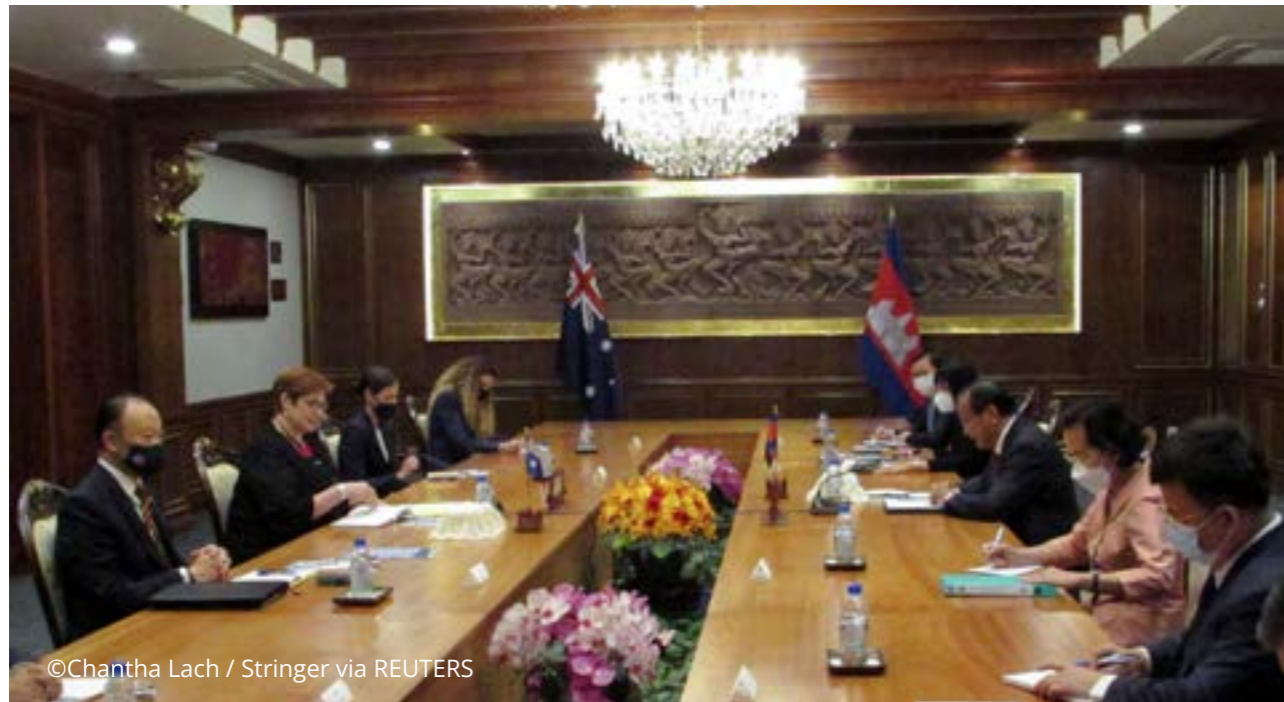
Australia has played a critical role in supporting the Cambodian Government to achieve its development objectives as it aims to transition to an upper middle-income country by 2030 and a high-income country by 2050.

In this fourth volume of the KAS-CICP Diplomatic Briefing, I am delighted to share with readers some of my observations from our work here in Cambodia and the key lessons in delivering effective development cooperation to improve the lives and livelihoods of the Cambodian people.



## I. The Cambodia Development Response Plan: Our Role as a 'Responsive and Inclusive Friend'

Australia has played a significant role as a responsive and inclusive development partner for Cambodia. We have been actively supporting Cambodia's immediate response and socio-economic recovery from COVID-19. This is part of our broader set of foreign policy priorities to provide timely and targeted responses to emerging issues in the Indo-Pacific. Australia's support is outlined in our bilateral COVID-19 Development Response Plans (CDRP).



The CDRP for Cambodia was designed in consultation with the Cambodian Government and civil society to address the socio-economic impacts of the pandemic and support Cambodia's economic recovery and progress towards becoming a more resilient and inclusive middle-income country. It focuses on three pillars – including health security, stability, and economic recovery.

We are more than halfway through implementing the two-year CDRP initiative. Our mid-term assessments show that by pivoting our pre-existing programs to respond to Cambodia's most pressing COVID-19 impacts, while also continuing to invest in new initiatives, Australia's assistance remains appropriately targeted. This twin approach has proven useful in amplifying the program's impacts on economic growth and the livelihoods of many vulnerable Cambodians, particularly women, children, and people with disabilities.

Australia is also supporting Cambodia's public health response and promoting a safe, effective, and equitable vaccine rollout. This includes at least AUD 35.7 million for Cambodia as part of our regional AUD 523 million Vaccine Access and

Australia's Foreign Minister Marise Payne speaks during a meeting with Cambodia's Foreign Minister Prak Sokhonn at the Ministry of Foreign Affairs and International Cooperation in Phnom Penh, Cambodia November 8, 2021.

Health Security Initiative and AUD 100 million Quad Vaccine Partnership. Australia is also supporting stronger public health systems and contributing to Cambodia's COVID-19 response through our AUD 50 million contribution to the Health Equity and Quality Improvement Project (H-EQIP), a World Bank-administered Multi-Donor Trust Fund. H-EQIP is improving health facilities, purchasing medical equipment (including 80 ambulances and 110 ventilators), and upgrading laboratory facilities at the National Institute of Public Health (NIPH), as well as in Siem Reap and Battambang to install and enable PCR testing for COVID-19.

In terms of promoting stability, Australia has been working with Germany's technical development agency, GIZ, to support the Ministry of Planning to

develop a standardised and transparent mechanism for identifying the poorest Cambodians, who will then receive an IDPoor card. This support has enabled 673,487 households, or 2.6 million of the poorest Cambodians, to have access to COVID-19 emergency cash transfers. Australia also worked with Cambodian partners to distribute personal protective equipment and sanitary supplies to disadvantaged groups, people with disabilities, and women experiencing violence.



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Australia along with other Cambodia's partners are working together to distribute medical equipment and supplies to disadvantaged groups in Cambodia.

On economic recovery, our Resilience Fund has adopted a 'flexible funding mechanism' with the United Nations Development Programme (UNDP), providing technical assistance to the Government to guide its stimulus package of approximately 4.3% of GDP. The Resilience Fund is supporting Cambodian small and medium sized enterprises (including many women-led businesses) to move their business online so that they can continue trading during the pandemic. The Fund has already onboarded 1,200 farmers to e-commerce trading platforms, helping farmers to ensure business continuity and capitalise on the benefits of digital business.

These are just some of the notable achievements that demonstrate Australia's role as a key promoter of Cambodia's development. Through our development cooperation, Australia is creating the conditions to rebuild critical economic activities inclusively and sustainably. Importantly, we are responding directly to many key priorities articulated in Cambodia's 'Economic Recovery Plan 2021–2023', ensuring that the support is demand driven.



## II. Regional and Multi-Stakeholder Programs: Our Role as a ‘Development Impact Maximiser’

When bilateral, regional and global initiatives are closely aligned and geared towards common priorities, development cooperation can generate more meaningful, long-term, and wide-ranging outcomes. Engagement with key multilateral institutions can also amplify the impacts of our support through shared resources and collective contributions.

Australia is playing a role as a ‘development impact maximiser’ in Cambodia, helping to achieve development objectives by leveraging resources and expertise from our regional and multilateral programs. This includes the Mekong-Australia Partnership (MAP), Partnerships for Infrastructure (P4I), and our support for the Public Financial Management Reform Program (PFMRM) through the World Bank’s Multi-Donor Trust Fund (MDTF).

In November 2020, Prime Minister Scott Morrison announced a new Mekong-Australia Partnership (MAP)—including AUD 232 million to support increased economic and environmental resilience and human capacity development in the five Mekong countries, with a current focus on Cambodia and Laos. Through additional MAP support, we have funded new activities and expanded components of our existing bilateral program in Cambodia. In August 2021, we committed AUD 65 million to MEF to support the modernization of Cambodia’s agriculture sector and development of an agro-processing industry. Agriculture is a key element of Cambodia’s economic recovery.

Australia holds a comparative advantage in strong institutions and possesses government agencies that are ready and willing to share relevant skills and experience with our Cambodian colleagues. MAP is strengthening agency-to-agency linkages between governments to further human capital development in Cambodia.

Leveraging additional resources from our regional initiatives, while also upholding the principle of flexibility in our suite of programs, enables Australia to expand development impacts to areas that demand immediate support. This kind of flexibility has reinforced our role as a responsive development partner, ensuring our contributions are tightly calibrated to the Cambodian Government’s emerging priorities.

Our ‘Partnerships for Infrastructure’ (P4I) is an AUD 141 million initiative to partner with Southeast Asian governments, including Cambodia, to promote the development of quality economic infrastructure.



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P4I provides specialist policy, regulatory, planning and procurement support. Importantly, it puts key cross-cutting priorities for Australia, like gender equality, social inclusion, disaster risk reduction and climate change, at its core. In Cambodia, P4I has been supporting MEF to implement public investment management reforms and improve public-private partnerships. P4I is also strengthening renewable energy development in Cambodia, including an initiative to help electrify the remaining unconnected parts of the country through village-level mini-grids.

Ensuring Australia’s bilateral and regional programs are strategically aligned means our development cooperation is more than just the sum of its parts and able to generate tangible impacts to support Cambodia’s economic growth.

Finally, Australia also has several programs supporting the Cambodian Government to deliver better public services. One such program is our Multi-Donor Trust Fund (MDTF) on Public Financial Management (PFM) and Service Delivery with the European Union and World Bank. The MDTF is accelerating revenue and expenditure PFM reforms at both national and subnational levels. By adopting a multi-stakeholder approach to Cambodia’s policy reform programs, we are strengthening a collaborative culture of development work with key partners. This allows us to leverage our collective influence, technical expertise, and convening power to achieve beneficial outcomes at an expanded scale and scope.

Under the leadership of Prime Minister Scott Morrison, Australia has been actively engaging with ASEAN.



### III. Maximising Our 'Niche Diplomacy' in Agriculture, Infrastructure and Education

Australia has comparative advantages in several sectors, including agriculture and infrastructure. We hold an extensive record in championing successful economic reforms and enabling inclusive growth. We also have a strong interest in the strength of the wider Southeast Asian economy. We are committed to sharing our technical expertise to support countries in our region pursue challenging reforms that can unlock the next stage of economic growth, noting the benefits that will also flow to Australia as a result of this support. In Cambodia, this is best reflected in our current 'niche diplomacy' – supporting the country in areas that we excel – including agriculture, infrastructure and education.

In terms of agriculture, Australia has been supporting Cambodia's agricultural development through our CAVAC II program - Australia's largest aid investment in Cambodia (AUD 89.9 million). CAVAC II began in 2016 and builds on our long legacy of agricultural assistance and expertise in water management, as well as agriculture extension and research. Recognising the rapid structural transformations in the Cambodian economy, CAVAC II transitioned from a value-chain-focused program in 2019 to focus more directly on agricultural competitiveness and resilience in an increasingly diverse economy. Through CAVAC, we have developed ten fully operational schemes that provide irrigation for 18,731 hectares of land, enabling the production of more than 100,000 MT of paddy rice annually, and benefiting around 12,000 households with increased incomes. Through the Australian Centre for International Agricultural Research, we are also maximising Australian knowledge and expertise to broker and invest in research partnerships for sustainable intensification and diversification of agriculture.

On infrastructure, Australia has enabled greater access to clean piped water and grid electricity for Cambodian households through our AUD 49.4 million Investing in Infrastructure (3i) program. 3i increases private investment in small-scale infrastructure in rural areas by offering competitive grants to private companies covering a proportion of infrastructure costs that would otherwise be unprofitable for companies. As of June 2021, 3i has leveraged AUD 32 million in private investment, enabling access to clean piped water and grid electricity for more than 200,000 and 120,000 Cambodians respectively.

3i is also providing policy support to the government to help implement infrastructure-related priorities. One example is support to the Ministry of Industry, Science, Technology, and Innovation (MISTI) to develop a Provincial Investment Plan (PIP) which



assesses the coverage of the piped water supply across 22 Cambodian provinces. The study calculates the investment costs to bring treated piped water to all unconnected villages. This work will support Cambodia's goal to achieve universal access to clean water by 2030. 3i is also working with the Ministry of Mines and Energy to develop a Variable Renewable Energy Assessment and Integration Strategy to inform national energy planning and accelerate Cambodia's clean energy transition.

Finally, our internationally recognised excellence in education has already enabled more than 900 Cambodians to undertake postgraduate studies in Australian universities through our 'Australia Awards' scholarships programs. After returning to Cambodia, many of our awardees have become notable emerging leaders and champions for reform in the government, private sector, civil society, and academia.

Agriculture is a key element to Cambodia's economic recovery.



## IV. Conclusion – Maximising Australia’s strengths to support Cambodia’s development

A strong and stable economy in Australia and Cambodia is mutually beneficial for both countries. As Cambodia is emerging from COVID-19, we will continue to work with the relevant counterparts to ensure that our contributions remain targeted and effective. Australia is a responsive and inclusive partner, a development impact maximiser, and an ongoing supporter of niche diplomacy. We will remain a close and reliable friend of Cambodia in the decades to come, as investing in the country is a key component of our foreign policy strategy and the future of Australia’s broader partnership with Southeast Asia.



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A strong and stable economy in Australia and Cambodia is mutually beneficial for both countries.

## IV. PERSPECTIVES

### 1. Japan’s Role in the Mekong Sub-region: Economic Engagement Aspect



SASAKI Keiichiro

*SASAKI Keiichiro is Second Secretary at the Embassy of Japan in Cambodia, and is leading the work on multilateral diplomacy, including ASEAN and Mekong cooperation. He is also a Fellow at the Daniel K. Inouye Asia-Pacific Center for Security Studies (DKI APCSS). He received a MALD from the Fletcher School of Law and Diplomacy at Tufts University, and an LL.B. from the University of Tokyo partnership with Southeast Asia.*

\* This article does not necessarily reflect the views of the Government of Japan.

Japan’s distinctive role in the Mekong region is threefold: (1) to work in collaboration with the Mekong countries to build a free and open Mekong region in the face of growing geopolitical conflict and the new challenges associated with COVID-19; (2) to contribute to the long-term development of the Mekong countries; and (3) to respect and support the region’s homegrown initiatives.



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ASEAN representatives take a photo with Japanese Foreign Minister Taro Kono during the Mekong-Japan Foreign Ministers’ Meeting in Bangkok, Thailand, August 3, 2019.

Regarding the first point, the Mekong is located at the center of the Indo-Pacific and can lead the region as a potential economic hub. As geopolitical conflict intensifies and new challenges emerge, the importance of strengthening key principles in the region, such as the rule of law, openness, transparency, and inclusiveness, is growing. Japan has been working in collaboration with the Mekong countries to build a free and open Mekong region. To bring prosperity to the wider region, while respecting ASEAN Centrality and unity, we will continue to cooperate in ensuring the protection of a rules-based international order, the rule of law, freedom of navigation, and the promotion of free trade. Our focus on cooperation includes strengthening connectivity, contributing to the development of a free and open region, through projects such as the development of a new container terminal for Sihanoukville Port and National Roads No. 1 and 5 in Cambodia.



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Cambodia's Prime Minister Hun Sen shakes hands with Japan's Prime Minister Shinzo Abe prior to their working lunch at Abe's official residence in Tokyo, Japan May 31, 2019.

As for the second point, Japan's economic cooperation with the Mekong countries emphasizes our long-term support to enrich the region's resilience. This will contribute to ASEAN integration and the establishment of a strong ASEAN Community. Regarding the enhancement of connectivity, Japan has been committed not only to simply building roads and bridges but also significantly invigorating the bidirectional flow of people and goods, such as the improvement of customs clearance procedures at the border and the easing of the transportation of goods. Moreover, as the people of the Mekong countries enjoy such enhanced connectivity, we also value cooperation in the area of human resource development.

Another example of our cooperation is the support for Bakong, the backbone of the payment system in Cambodia allowing fund transfers with the use of a phone number and QR code, as the digital transformation continues to be accelerated by the COVID-19 pandemic.

This system was developed by a Japanese venture company and issued by the National Bank of Cambodia. The Japanese team, including JICA, is currently conducting exhibitions to encourage the use of Bakong. The initiative will help to promote financial inclusion in Cambodia, generate long-term social change, and act as a future model for the region and beyond.

Furthermore, Japan supports the achievement of universal health coverage (UHC). In the wake of the COVID-19 pandemic, achieving UHC, which includes the improved prevention and detection of, and response to, public health emergencies, is essential for the health and human security of all, particularly in preparation for managing future pandemics. We have been cooperating through the provision of vaccines manufactured in Japan, as well as medical equipment and technical assistance via JICA, thereby emphasizing the importance of strengthening the healthcare system over the long-term.



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Cambodia received the first batches (332,000 doses of the total 1 million) of the AstraZeneca vaccine donated by Japan on July 23, 2021.

Regarding the final point, as geopolitical conflict increases and economic and trade relations become more unstable, we hope that the Mekong region will remain strong enough to not be swayed by the politics and economics of the major powers. From this perspective, the Ayeyawady–Chao Phraya–Mekong Economic Cooperation Strategy (ACMECS) is an example of an important homegrown framework for overcoming geopolitical challenges and fostering economic connectivity within the region. As mentioned in the Tokyo Strategy 2018, Japan highly values ACMECS and believes that the mutual synergies between it and the framework of the Mekong–Japan cooperation will be effective.

Japan does not hesitate to express its candid opinions regarding matters considered truly advantageous for the development of the Mekong region, as it

values the strong bonds between itself and the Mekong countries and seeks to develop relationships bound by friendship and deep trust. This is also because Japan firmly believes that the Mekong region can serve as the torchbearer for a free and open international order emphasizing the principles of the rule of law, openness, transparency, and inclusiveness, as well as constituting an economic center which brings growth to the region and beyond. I have been impressed by the strong development of the region during my stay in Cambodia and visits to other Mekong countries. Japan has been a beneficial long-term partner to the Mekong countries and will continue to cooperate with the region to further develop its strength. We will continue to cherish the strong ties with each country and respect and support the homegrown initiatives of the Mekong region.



## 2. The Geo-economics of US-China Relations: What Does it Mean for ASEAN?



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### No Time to Die

In the last 15 years, ASEAN countries have enjoyed a significant increase in prosperity and contributed to a larger relative share of global economic growth. For both the United States and China, ASEAN economies have played a major role as export destinations and production hubs for their global supply chains.

With China's growing role as a regional economic powerhouse, Southeast Asian economies have also become testing grounds for the global ambitions of Chinese investors seeking to internationalize their business models and build capacity in sectors such as energy and e-commerce.



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China's Foreign Minister Wang Yi attends the ASEAN-China ministerial meeting in Bangkok, Thailand July 31, 2019.

Yet the continuous acceleration of strategic competition between Washington and Beijing has brought major challenges for the region. First, ASEAN countries lie at the heart of a geo-economic and geopolitical contest between these two major powers. China's Belt and Road Initiative (BRI) has increasingly shed light on the level of Chinese investment in the region. China has become the supreme lender to the Southeast Asian countries, exposing many of them to a threatening level of debt.<sup>1</sup> At the same time, Beijing has yielded its soft power outreach by engaging more

coherently in cultural and educational exchanges with the ASEAN countries.

On the other hand, the White House sent a clear signal that the Indo-Pacific has become the premier theater in its strategic competition with Beijing. The United States is looking for ways to balance the emerging unilateral dependencies of ASEAN countries vis-à-vis China and to offer adequate solutions for much-needed financing in the region.



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U.S. President Joe Biden participates virtually with the ASEAN summit from an auditorium at the White House in Washington, U.S. October 26, 2021.

### Acceleration of Potential Conflict Areas

The US-China trade war, beginning in 2018, seemed to have reached a lull with the agreement on the phase one trade deal in early 2020. Despite this however, such progress turned out to be only temporary, with various tariffs still being imposed to this day. This ongoing economic conflict between the two has now spilled over into the geopolitical and geo-technological realm. On the same day that Australia, the UK and the US announced the new security-focused coalition aptly named "AUKUS," China, a member state of the Regional Comprehensive Economic Partnership (RCEP), filed an application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Washington quickly protested Beijing's application, yet welcomed that of Taipei just a week later when Taiwan submitted its own application. Geopolitical considerations are increasingly shaping the regional trade structure. Under these emerging dynamics, ASEAN countries are forced to find a new modus vivendi to navigate between the two great powers without conceding their central interests.

## Impact of the Trade War on ASEAN

Against all expectations, as demonstrated below in Figure 1, the ASEAN economies continued to grow during the US-China trade war and throughout the Covid-19 pandemic. According to Mao and Görg, the most severely impacted economies have been the EU, Canada and Mexico, as imports from China are more likely to be used as intermediaries for products manufactured in the US and then re-exported to third countries. In other words, tariff increases on Chinese imports in the United States are considered to cause a significant negative domestic impact in economic terms.<sup>2</sup> Conversely, another study shows that countries like Vietnam, Taiwan and Malaysia even gained from the trade war.<sup>3</sup> One observer for instance found that Japan and South Korea may have benefited from shifts in US import demand.<sup>4</sup> At any rate, ASEAN countries appear to have succeeded in maintaining steady economic development during this period, indicating that the impact of the trade war on the macro-economies in Southeast Asia remained limited.

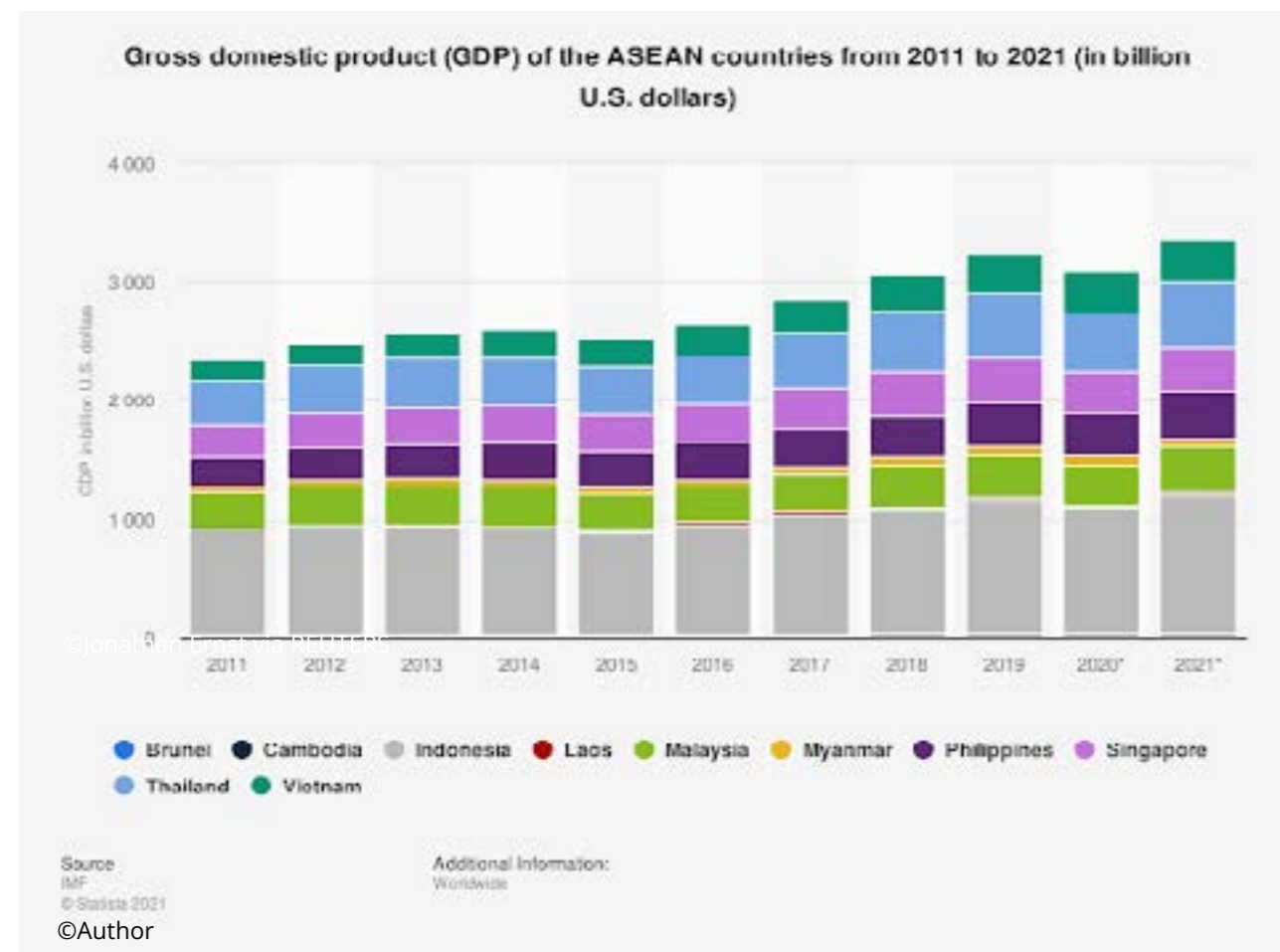


Figure 1. Gross domestic product (GDP) of the ASEAN countries from 2011 to 2021 (in billion U.S. dollars).<sup>5</sup>

## Can China's Entry to CPTPP Solve the Trade War?

In mid-September 2021, while the US-China trade war was grinding to a stalemate, Beijing applied to join the CPTPP. Petri and Plummer argued that China's entry into the accord "could address many challenges that the continuing trade war created."<sup>6</sup> Indeed, hope had been set in motion that if Beijing signed the free trade agreement reached among CPTPP members, it could end the tit-for-tat escalation of tariffs, and provide a positive stimulus to the global economy. To join the accord, however, China needs to be approved by all 11 signatories and must redress cross-border data flows, conduct reforms towards its state-owned enterprises and fulfil international labor standards.

Whereas ASEAN member states Malaysia, Singapore and Brunei welcome China's interest in entering the CPTPP, Australia and Japan take a more cautious stance.<sup>7</sup> Given that the United Kingdom has shown keen interest in joining the accord, the White House has opposed China's membership, and the newly evolving AUKUS coalition has emerged, it remains uncertain at this point as to whether China will eventually join the CPTPP.

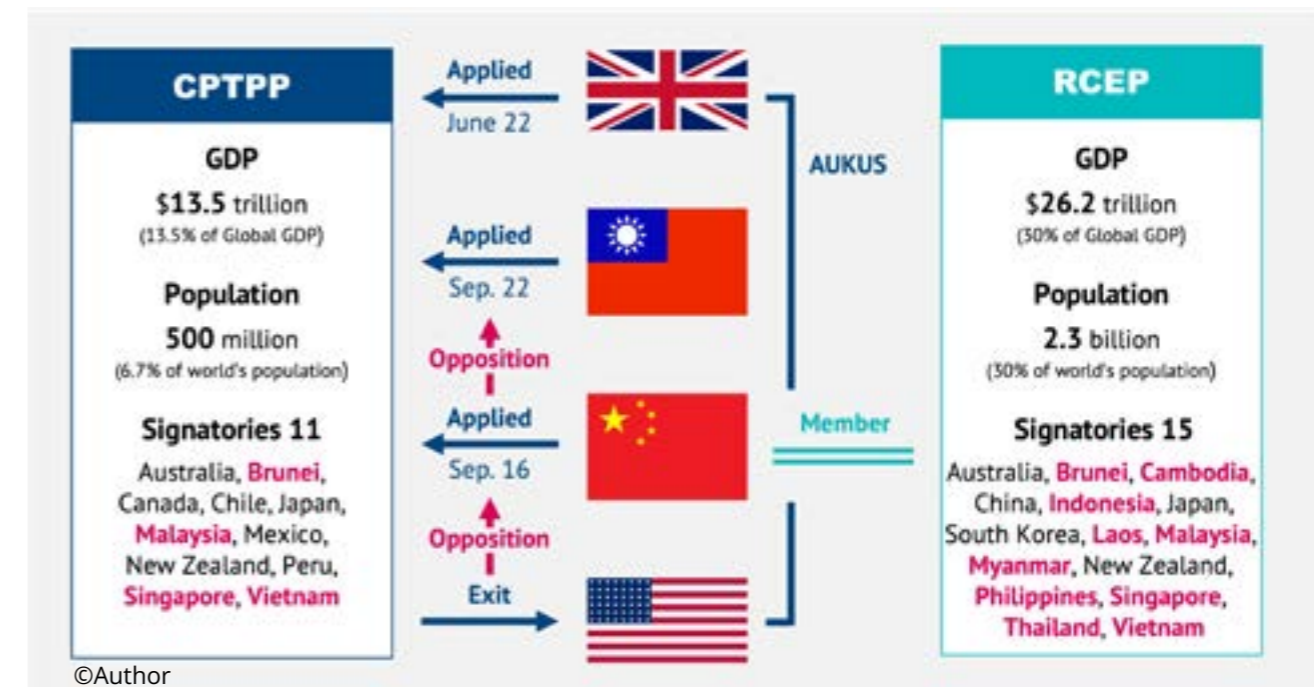


Figure 2. Current developments in CPTPP. The UK has already signed an FTA with 9 CPTPP member states. If the UK's accession procedure moves forward first, it will set a good precedent for China and Taiwan's accession talks. On the other hand, RCEP will come into force on January 1, 2022.

## The ASEAN Way... Towards a New Regional Economic Framework?

For ASEAN, the most sensible option appears to be playing the role of a 'balancer' in the new regional balance of power characterized by US-China contestation, especially since the confrontation between AUKUS and China will remain a long-term strategic struggle for influence in the Indo-Pacific. To ensure that the balance between these two great powers remains favourable to ASEAN, importantly, the region must demand that China adhere to the terms of CPTPP membership requirements along with Japan, Australia and Canada. Otherwise, if any

exception that China demands is given--instead of "bringing China closer to CPTPP standards," it will instead "push the accord toward a Beijing standard."<sup>8</sup> This would in turn undermine ASEAN centrality and rather strengthen 'China's centrality' in the region.

To avoid allowing the CPTPP to become involved in the US-China competition, the Southeast Asian countries must call on applicant countries to strictly follow the accord's rules. Kawase argues that the CPTPP and RCEP both ultimately lead to the



development of the 'Free Trade Area of the Asia-Pacific' (FTAAP). The free trade area proposed by the Asia-Pacific Economic Cooperation (APEC) is an approximate combination of the CPTPP and RCEP, including China and Taiwan. China and Taiwan entering the CPTPP is inevitable then in this regard. Hence, Southeast Asian countries, as well as Japan and Australia, should not exclude China as a result of strategic and geopolitical considerations; rather, they should push for the full implementation of the CPTPP terms of accession. To do so, developing a partnership with the EU is highly desirable. This is because cooperation with the EU in this context would strongly support the maintenance of the CPTPP's high standards.<sup>9</sup>

With the Indo-Pacific Strategy adopted by the EU Commission and the Indo-Pacific guidelines embraced by several EU member states, Southeast Asian countries are already in the focus of new trade and investment cooperation initiatives. This could also help ASEAN countries to mitigate risks emanating from unilateral dependencies. The ongoing global discussions on building robust and diversified supply chains can be seen as a strategic opportunity for Southeast Asian countries to make full use of their comparative advantages and showcase the high potential they possess in the region.

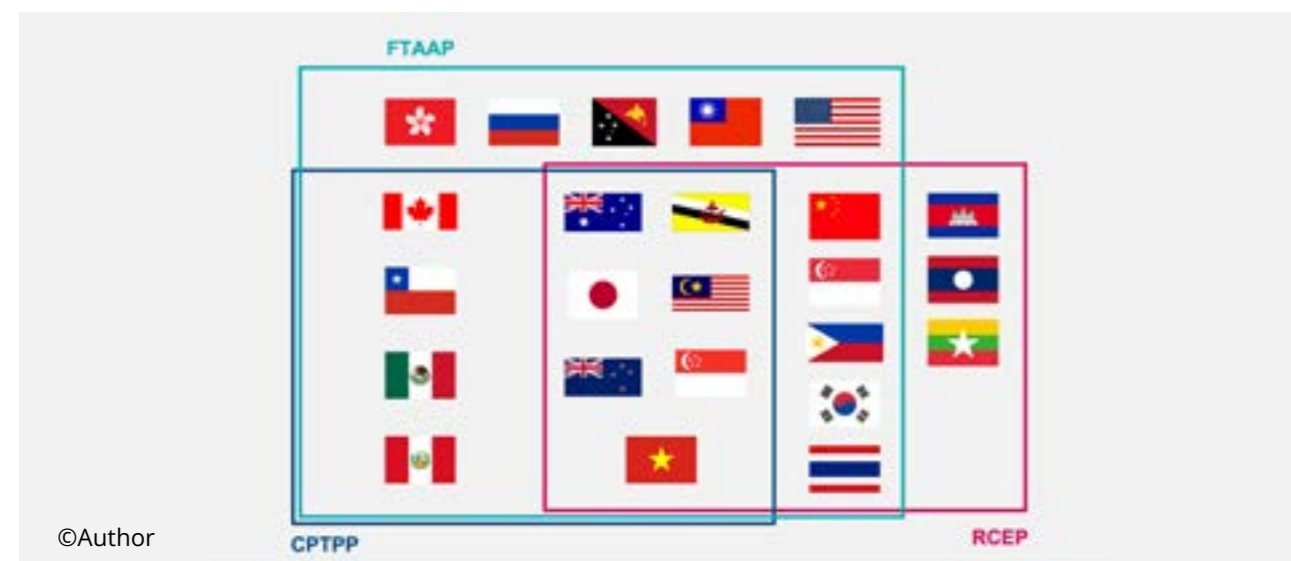


Figure 3. Correlation diagram of FTAAP (Free Trade Area of the Asia-Pacific), CPTPP (Comprehensive and Progressive Trans-Pacific Partnership) and RCEP (Regional Comprehensive Economic Partnership).

### 3. Going Digital: How the US Can Restart its Economic Engagement in Southeast Asia



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U.S. Secretary of State Antony Blinken sits next to Indonesian Foreign Minister Retno Marsudi during a meeting with Foreign Ministers of the ASEAN Nations on the sidelines of the 76th Session of the U.N.

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"America is back"—the reverberating mantra from Washington encapsulates the Biden administration's return to the international diplomatic stage following four years of perceived retreat of the US under Trump's America First policy. The affirmative slogan could not be more relevant in Southeast Asia, where US leadership has experienced a massive drought. To repair the relationship, the Biden administration envisaged rebuilding the US diplomatic toolbox.<sup>1</sup> The establishment of the Indo-Pacific Directorate at the National Security Council, and the immediate high-level engagement of Secretary Antony Blinken upon his confirmation with his counterparts in the Philippines and Thailand, all point to an optimistic trajectory of American diplomacy.

Indeed, there is no short supply of US commitment to extended deterrence in the Asia-Pacific, especially with the deepening tensions in the South China Sea. But the absence of coherent economic statecraft remains a gaping vulnerability in US foreign policy that may hinder the success of its comeback in the region.

Unfortunately, the Biden administration is less inclined toward trade liberalization, crushing the slightest hope that the US will rejoin the Japan-led Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or sign on to the ASEAN-led Regional Comprehensive Economic Partnership (RCEP).<sup>2</sup>





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“America is back”—the reverberating mantra from Washington encapsulates the Biden administration’s return to the international diplomatic stage following four years of perceived retreat from the U.S under Trump’s America First policy.

The reluctance of the US to join any significant trading agreement diverges from ASEAN’s increasing appetite for economic integration. For ASEAN, the importance of RCEP lies beyond increased trade and investments. RCEP is emblematic of its convening power, especially when the region is grappling to recover from the devastating impact of the global pandemic. It is also worth noting that some ASEAN member states—Indonesia, Malaysia, Brunei, Vietnam, Thailand, and the Philippines—have expressed their own interest in joining CPTPP.



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Internet users browse the Internet near an advertising billboard for 4G connection service at a bus-stop in Hanoi, Vietnam August 29, 2017.

Nevertheless, such differing perspectives must not preclude the US and ASEAN from exploring other areas to stimulate economic growth. To this end, the emerging digital economy presents a viable alternative path that could foster a more feasible economic engagement between the two regions in the new normal. Three critical areas stand out where the US can provide substantial investments to boost ASEAN’s digital innovation and transformation to better compete in the data-driven economy.

**First - infrastructure and internet connectivity.**

Despite the region’s overall economic contraction due to the pandemic, the digital economy in Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam reached US \$100 billion in 2020.<sup>3</sup> The number of internet users across the region has spiked dramatically; 310 million, or 70 percent of all consumers in Southeast Asia, have gone online due to increasing reliance on digital products and services. At this rate, ASEAN might be on track to hit its target of adding \$1 trillion to its GDP over the next ten years. But even with a booming digital economy, ASEAN cannot ignore the growing digital divide that might leave less digitally connected countries like Cambodia, Laos, and Myanmar behind.

At the recent US-Japan summit, President Joe Biden and Prime Minister Yoshihide Suga vowed to strengthen cooperation in building next-generation infrastructure, such as 5G and 6G communications networks—an important development that will benefit Southeast Asia’s increasing demand for connectivity access. With Japan’s formidable experience in building infrastructure and communication networks in the region and the US’s investment in open and secure network architecture, the two allies can close the deepening connectivity gap in Southeast Asia with more trustworthy and diverse vendors.<sup>4</sup>

Additionally, the Plan of Action to Implement the ASEAN-US Strategic Partnership (2021-2025)<sup>5</sup> that aims to bridge the prevailing digital gaps and promote open, secure and resilient 5G ecosystems and networks can assist the implementation of the ASEAN Guidelines for 5G Ecosystems Development.

Furthermore, given the immense challenges of 5G deployment across Southeast Asia, the US Trade and Development Agency has also been advancing a regulatory approach for 5G wireless applications among vertical industries to support the region’s overall 5G ecosystem.<sup>6</sup>

**Second - cyber capacity-building.** During the ASEAN Digital Minister’s Meeting, the ASEAN Digital Masterplan 2025—the blueprint outlining the region’s vision to leapfrog into a digitally enabled economy—took center stage.<sup>7</sup> The ASEAN Ministers emphasized the global threat of cyberattacks to supply chains which transcend individual networks and systems. Thus, central to ASEAN’s digital

transformation is the need to create a more robust cybersecurity environment that will facilitate trust and interoperability across all digitization initiatives.

Novel ways of launching cyberattacks and cybercrime have risen dramatically throughout the pandemic.<sup>8</sup> As companies turn to remote work alongside an unparalleled digital adoption of cloud services, artificial intelligence (AI), and the Internet of Things, nefarious actors are exploiting an increasing number of attack vectors. During the pandemic for example, the primary cybersecurity concerns among organizations in Singapore, Indonesia, Thailand, and the Philippines have been network threats and malware.<sup>9</sup>

Unfortunately, as large enterprises increase their cybersecurity spending to mitigate threats, micro, small, and medium-sized enterprises (MSMEs) are left vulnerable to hackers and cybercriminals due to a lack of resources. Despite being considered the linchpin of ASEAN’s economy, MSMEs are often neglected and bear the brunt of insecure networks that lead to operational disruptions and data breaches, causing significant financial and reputational damage.<sup>10</sup>

Building on the US Digital Connectivity & Cybersecurity Partnership, the Biden administration can fast-track the continuous adoption of cybersecurity best practices in Southeast Asia, particularly among MSMEs that do not have the fundamental knowledge or resources of cybersecurity practices. The Digital Asia Accelerator Video Series—a ten-part Facebook-based campaign that raised cybersecurity awareness among Cambodian MSME owners and staff—can be replicated in other Southeast Asian states. At the international level, the recently launched Cybersecurity and Infrastructure Security Agency (CISA) international strategy called CISA Global could also serve as a platform for the US to engage Southeast Asia in protecting critical national infrastructures through threat incident response, information-sharing, stakeholder engagement, capacity building, and public-private partnerships.

**Third - data governance.** Despite its uneven digital maturity, the increasing penetration of the internet in Southeast Asia makes it one of the world’s leading data generators, next to China and India. Data will be crucial in advancing tech innovation in AI, robotics, advanced manufacturing, and quantum computing. Recognizing the value-creation surrounding data, ASEAN released its Framework on Digital Data Governance and subsequently developed a set of Model Contractual Clauses (MCCs) to facilitate data flow across its member states. The MCCs will be instrumental in advancing secure data transfers, while also reducing costs among businesses. ASEAN is currently finalizing a region-wide certification to improve data flow among member states.<sup>11</sup>





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Brandon Wales, acting director of the Cybersecurity and Infrastructure Security Agency (CISA).

Both ASEAN and the US subscribe to the Asia-Pacific Economic Cooperation Cross Border Privacy Rules (APEC-CBPR). This multilateral data privacy certification allows the free flow of data without recognition of domestic privacy laws. The US has continuously supported efforts to promote data transparency and accountability using the APEC-CBPR as a fundamental reference. In close partnership with the US-ASEAN Business Council, the Biden administration can supplement ASEAN industry outreach efforts targeting American companies and industry associations across the region to adopt best

practices and risk-based approaches commensurate with data transfers.

Reviving the US-ASEAN relationship will take more than just an optimistic slogan. As the US aims to balance its domestic and international commitments in the post-COVID era, it might not be inclined to join full-scale economic integration initiatives in the foreseeable future. But its renewed engagement, marked by high diplomatic bandwidth and compelling interest to boost ASEAN's digital economy, suggests a concrete path forward.

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## 4. Playing the Long Game? Russia's Relationship with Southeast Asia



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Russian President Vladimir Putin speaks with Singapore's Prime Minister Lee Hsien Loong during a group photo at the ASEAN-Russia Summit in Singapore, November 14, 2018.

In recent history, the most important year in terms of global development has, even retrospectively, been largely off the radar of most people: but 2007 was indeed special in many respects. The first iPhone conquered the world, Facebook jumpstarted its global expansion, Twitter was founded, and Android as well as AirBNB were launched.<sup>1</sup>

However, it was an equally pivotal year in terms of Russia's relations with the West and a key moment when it comes to explaining why Moscow is so keen on engaging Southeast Asia today. On 10 February 2007, Russian President Vladimir Putin addressed the Munich Security Conference with a speech that marked the end of a cautiously pro-Western outlook



which had reigned in Moscow during the 1990s and particularly after 11 September 2001, when Putin even tried to build a partnership with Washington in the global war on terrorism.<sup>2</sup> In Munich, the Russian leader accused the West of stoking revolutions, ignoring international law and pushing NATO ever closer to Russia's borders.<sup>3</sup> This was clearly a turning point in relations and marked the beginning of an escalatory dynamic in relations between the West and Russia that saw war between Russia and the small Caucasus-republic of Georgia in 2008, the illegal annexation of Crimea from Ukraine, the conflict in Eastern Ukraine and rounds upon rounds of mutual accusations, sanctions and the expulsion of diplomats.

Facing increasing pressure from sanctions and diplomatic isolation in the West, Moscow soon looked to strengthen and reactivate alternative relationships with the rising economies of Asia, particularly China, but also the ASEAN states.<sup>4</sup> Russia saw plenty of opportunities not only to open up new markets for its energy exports, but also its widely renowned, well-established arms industry.<sup>5</sup> Many Asian countries had adopted ambivalent positions with regards to the major fault line between Russia and the West. Only Japan opted to sanction Moscow over the annexation of Crimea. And while Thailand, Malaysia, Singapore, the Philippines, and Indonesia voted for a 2014 UN General Assembly resolution rejecting the legitimacy of the "independence referendum" in Crimea, they did not follow many Western states' sanction policies. Five years later, out of all the ASEAN states, only Singapore voted in favor of a resolution calling on Russia to withdraw its troops from Crimea - the Philippines, Cambodia, Laos, and Myanmar even voted no, while the rest abstained.<sup>6</sup>

A pivot to the region thus demonstrated that Moscow was far from isolated – particularly in the most dynamic growth region of the planet.<sup>7</sup>

In this vein, Russia was quick to organise a high-level summit with ASEAN leaders in Sochi in 2016 that – unlike similar formats in 2005 and 2010 – generated high expectations and concluded with the adoption of a strategic partnership plus an action plan to strengthen and deepen economic and security ties over the following five years.<sup>8</sup>

It is worth asking then, how successful have these declarations been in augmenting the relationship five years later? Has Russia managed to substantially expand its ties with ASEAN countries? To answer these questions, it is worth looking in more detail at the trend lines of two of Russia's key exports in the region – energy and armament systems.

## The Energy Dimension

Russia assumes an important position for four out of the ten ASEAN states when it comes to energy, namely Singapore (Russia's share of energy imports in 2017-18 stood at 90%), Malaysia (68%), Thailand (62%) and The Philippines (38%). Additionally, the total for Russian oil, gas and mineral exports to ASEAN amounted to roughly USD 5 billion annually at this time.<sup>9</sup>

Moscow has had some success when it comes to energy investments and joint projects with Vietnam and Indonesia, where several major projects are underway or already maturing. For instance, the Vietnamese-Russian joint venture Vietsovetpetro is generating annual revenues of about USD 2 billion.<sup>10</sup>

In 2017, Indonesia reached an agreement with Rosneft to build a USD 15 billion oil refinery and petrochemical complex in East Java to serve as a major hub for the regional distribution of Siberian oil exports.<sup>11</sup> At the same time, smaller energy projects with Cambodia, Malaysia, Myanmar, Singapore, and Thailand are also being implemented.<sup>12</sup>

When it comes to Vietnam, an interesting constellation arose when Rosneft agreed to help the country drill for fossil fuels in maritime territories claimed by Beijing – only to see the contract cancelled in July 2020 under Chinese pressure – a theme explored in more detail below.<sup>13</sup> Hanoi has however demonstrated interest in another champion of Russia's technological prowess by purchasing a research reactor in 2019, reinvigorating nuclear cooperation with Moscow after Vietnam had actually cancelled a nuclear power plant project with Russia's Atomstroyexport in 2016.<sup>14</sup>

Beyond Vietnam, Russia's success in partnering with regional players on similar projects has however been severely limited. This is due to the fact that renewable energy sources are becoming increasingly popular, cost and safety concerns are looming large in nuclear tech and Indonesia and Malaysia constitute formidable local competition for Russia as net exporters of energy.<sup>15</sup>

Zooming out for a moment, it seems as though Moscow's inroads into the region have remained relatively small in regards to energy with few exceptions. Renewable energy, for instance, is a good lense for observing how Russia is markedly absent in the key growth sector of the 21st century, as prices per kilowatt hour collapse, while technologies possessing a small environmental footprint continue to gain popularity in Southeast Asia.<sup>16</sup>



©Alexander Zemlianichenko/Pool via REUTERS

Commander-in-Chief of Myanmar's armed forces, Senior General Min Aung Hlaing attends the IX Moscow conference on international security in Moscow, Russia June 23, 2021.

## The Armament Dimension

In contrast, Russia succeeded in boosting arms exports to ASEAN states, driven particularly by escalating regional military expenditure and a deteriorating security order. Moscow's indifference to human rights, as well as the desire to balance against China in the region, play equally important roles in explaining this trend.<sup>17</sup>

Yet the number of Russian arms exports in the region paints an inconclusive picture. On the one hand, there is Vietnam, which receives more than 80% of its arms imports from Russia, while at the same time retaining relatively close ties to the US as a balancing force against China. Hanoi for example has acquired six Russian-made Kilo-class attack submarines, four Gepard-class frigates and eight Tarantul V-class corvettes, while also cooperating with the St. Petersburg-based firm UEC-Klimov on a military helicopter engine repair facility in Vietnam

itself.<sup>18</sup> Indonesia, Malaysia and Myanmar have also bought major Russian military tech, including aircraft, tanks and transport helicopters. Other countries, like the Philippines under President Rodrigo Duterte, appreciate the business-only attitude of Moscow when it comes to arms exports, where human rights concerns are left on the side-lines. On the other hand, however, countries like Thailand, Indonesia, Singapore or Brunei prefer mostly US systems and boast miniscule defence-related imports from Russia.

It is difficult at an analytical level to credibly aggregate these contradictions into one indicator, yet a rough picture of Russia's market share can be glimpsed from long-term datasets such as how ASEAN spent 27% of its armament imports on Russian products from 2000-19.<sup>19</sup>



## From Micro to Macro

Against this backdrop, three main conclusions emerge:

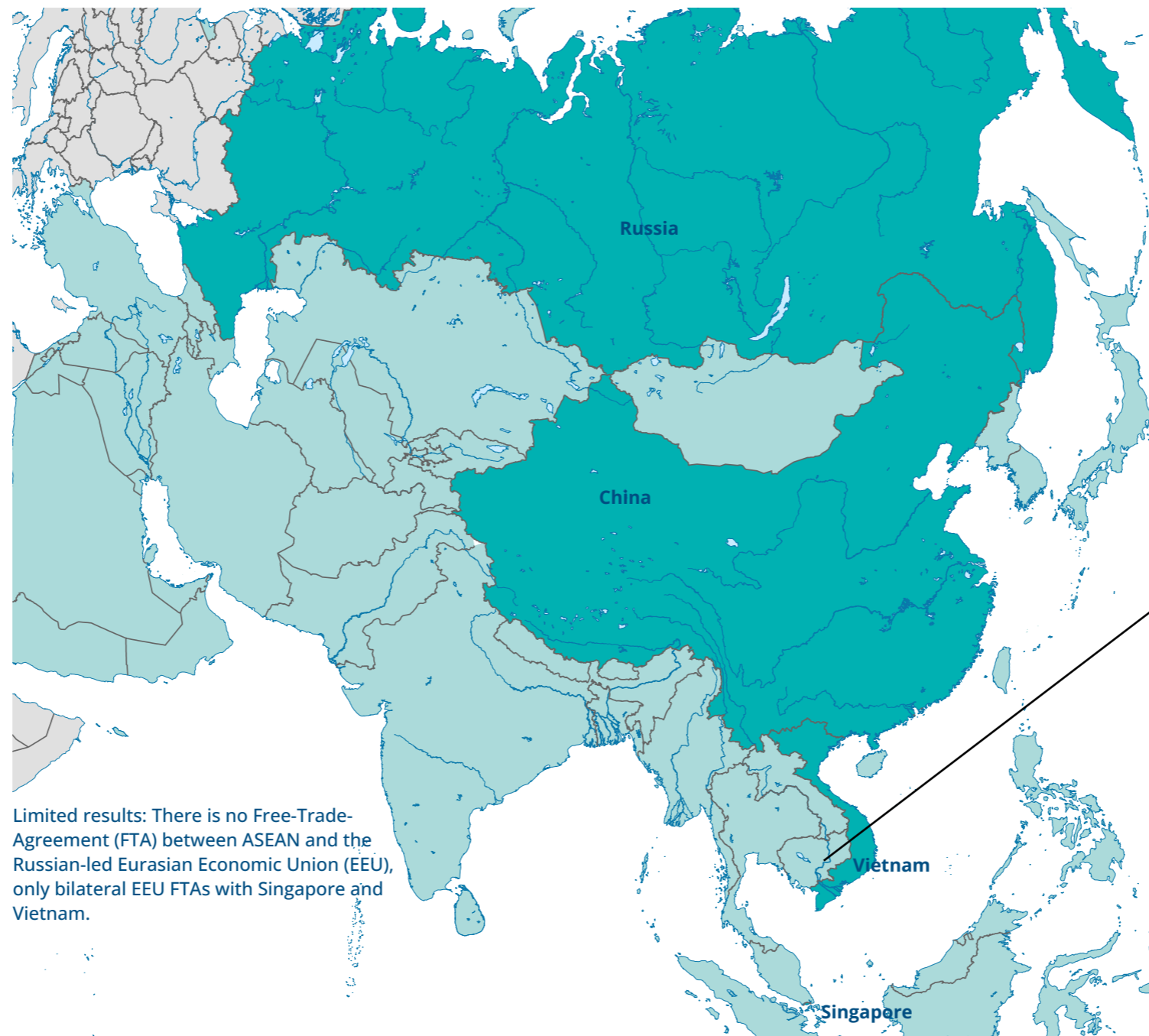
Firstly, despite some insular successes in a number of bilateral energy and arms projects in the aftermath of numerous high-level summits since 2016, Moscow's overall economic engagement towards the region remains limited – particularly when Russia-ASEAN trade turnover of USD 18,2 billion in 2019 is contrasted with numbers for US-ASEAN trade of USD 292,4 billion and China-ASEAN trade of USD 644 billion. Crucially, investments in diversifying and modernising ASEAN's economies will not boost demand for Russia's traditional export commodities, mainly consisting of dirty fossil energy or capital-intensive nuclear plants.<sup>20</sup>

Furthermore, trade policy efforts have exhibited only limited results so far. There is no Free-Trade-Agreement (FTA) between ASEAN and the Russian-led Eurasian Economic Union (EEU), only bilateral EEU FTAs with Singapore and Vietnam.<sup>21</sup> Neither has Russia joined the Regional Comprehensive Economic Partnership – a key free trade zone between the members of ASEAN and other regional countries like Australia, China, South Korea or Japan.<sup>22</sup>

Secondly, apart from the abovementioned economic indicators, a number of structural political factors severely constrain Moscow's expansion plans towards Southeast Asia. For instance, Moscow is only trusted to a very limited extent as a balancing power with regards to the US and China in the region, as it is too focused towards and even dependent upon Beijing.<sup>23</sup> One example that was duly noted in the region was when Russia quickly fell in line with Beijing after an international arbitration court in the Hague ruled in 2016 that Chinese claims surrounding the nine-dash-line in the South China Sea had no basis in international law. Identifying Southeast Asia as a key growth and competition area in the 21st century, also play an important role here.

Given all of this, slow and persistent Russian efforts might well nib away at some of the less successful aspects of Moscow's relationship with the region. This determination was on display only last September, when the economy ministers of Russia and ASEAN signed a trade and investment cooperation roadmap aimed at institutionalizing trade and political exchange, laying the groundwork for future FTAs.

More importantly, however, Russia is systematically laying the groundwork for a future based on new paradigms. It is wholly conceivable that the established power structure built around a strong US regional commitment and a non-superpower status

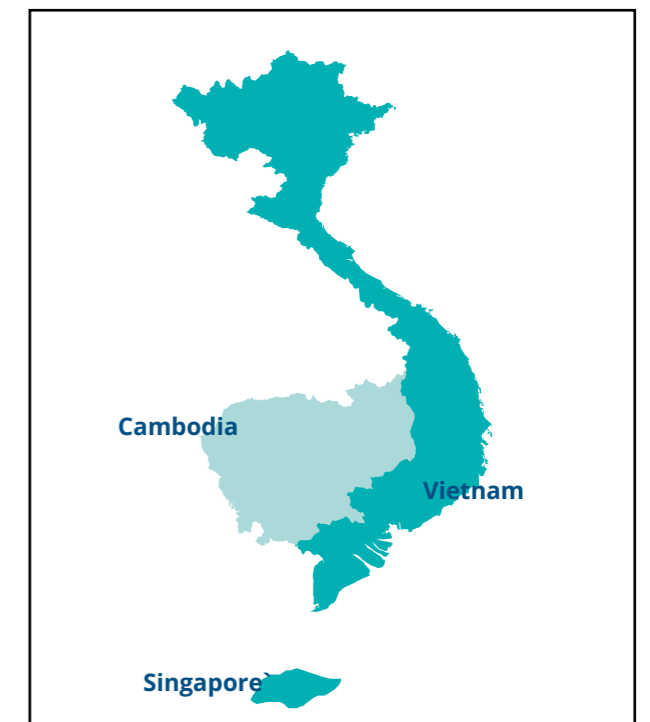


Limited results: There is no Free-Trade-Agreement (FTA) between ASEAN and the Russian-led Eurasian Economic Union (EEU), only bilateral EEU FTAs with Singapore and Vietnam.

will continue to fray and deteriorate. At some point, a crisis, or the culmination of longer-lasting trends, could well lead to a wholly new environment where Moscow will be well-positioned to take advantage of any new windows of opportunity that present themselves in an increasingly volatile world.

Thus, even if Russia's deeds have so far not caught up to its rhetoric when it comes to relations with Southeast Asia, patiently playing the long game might well get Moscow there eventually.

A larger force is at work here. Despite Moscow's rhetoric of a foreign policy reorientation, even a pivot to Asia, Russia's foreign policy direction, just as its economics and demographics, remain oriented



the aforementioned roadblocks and problems. This is partly informed by the Kremlin's realization that the conflicts with the West are well beyond quick diplomatic fixes and have moved into the systemic realm. Yet, geostrategic and economic considerations, such as correctly identifying Southeast Asia as a key growth and competition area in the 21st century, also play an important role here.

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## 5. In the shadow of IR4.0 : The Digital Economy and its Implications for Cambodia’s Economic Diplomacy



Nasa Dip

Nasa is a fresh graduate from the Department of International Studies, holding a degree in International Relations. She is currently a project manager and reporter at Globe Media Asia. Her interests include international politics, gender issues and diplomacy. Nasa continues to engage with youth projects and write while learning new things along the way towards achieving her career prospects.

### Introduction to Digital Economy and Cambodia’s Framework

Following a decade of economic growth and social development, Cambodia is moving rapidly in terms of digital transformation. Major plans, such as the Rectangular Strategy Phase IV,<sup>1</sup> which aims to create job opportunities in line with the Fourth Industrial Revolution, and the official launch of the 15 year policy framework of the Digital Economy and Social Policy of Cambodia (2021-2035), indicate that digitalization will play a significant role in future national policy. From the internet of things (IOT) to government institutions launching online services, digitalization is not only increasing, but also putting many sectors at risk of being replaced by new technologies, such as artificial intelligence. During this disruptive period of transformation, Cambodia has focused on building a vibrant digital economy and digitally literate society for accelerated growth.

In addition, the Kingdom’s foreign policy has also undergone a new phase of modern diplomacy by prioritizing, among other things, international cooperations. With such a transformation of the country’s strategy, the Kingdom’s new digital framework should help to prepare this rapidly developing nation for a global transformation.

The term “digital” has become increasingly intermingled with other concepts as it continues to grow in importance, along with the current wave of 4IR. Since digitalization has become a key priority globally, one cannot ignore the importance of the increasing role of the digital economy in diplomacy and foreign relations. This paper will analyze the relationship between these two important aspects and assess the digital economy implications of the Kingdom’s diplomacy goals.

### Digital Economy

With billions of people already connected through technological devices<sup>2</sup>, the ongoing digital revolution is changing the way we live while also challenging traditional communications, goods and services industries and business and production models. The term “Digital Economy” has a complex nature given its vague and sometimes contested definition. The term was coined by Don Tapscott in 1995 in his publication; ‘The Digital Economy: Promise and Peril in the Age of Networked Intelligence’.<sup>3</sup>

Don’s remarkable work paved a way for others to step in and fulfill the meaning of the term by putting greater emphasis on the emerging role of technology and the internet.<sup>4</sup>

Digital Transformation in all Aspects of the Economy and Society (Source: Digital Economy and Society 2021-2035 policy framework.)



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Digital Transformation in all Aspects of the Economy and Society.

The Asian Development Bank defines the digital economy as a “broad range of economic activities that uses digitized information and knowledge as key factors of production based on the internet, cloud computing, big data, and FinTech to collect, store, analyze, and share information digitally and transform social interaction”. A report published by World Bank in 2019 on “The Digital Economy in Southeast Asia” recognizes a non-standard definition of the term and arguably provides a better conceptualization by not restricting the digital economy to only the ICT sector, but also applying it to every sector of the economy.

In the Cambodian context however, as defined in the Digital Economy and Society Framework, the term is narrowly defined as a market that relies on digital technology to facilitate the exchange of goods and services through E-commerce. While in a broader sense, it refers to economic, social, and cultural communication systems that rely on the use of ICT and digital systems.

### Understanding Cambodia’s framework

The official framework on Digital Economy and Society 2021-2035 by the Royal Government of Cambodia details the policies, strategies and goals needed in the process of digital far reaching transformation. In terms of the major goals of the framework, there

are three crucial pillars, including the creation of 1) Digital Citizens, 2) Digital Government and 3) Digital Business.

First, Digital citizens refer to those who are equipped with adequate understanding of the digital world, capable of utilising and engaging efficiently, making their society digitally informed. Second, Digital government, or E-government is a government that is able to offer services online, through secure and trustable platforms, making public services easier, such as Cambodian Ministry of transportation has implemented online services capable of being accessed publicly for example. Thirdly, Digital Business is the process of adopting digital technology to transform business models, processes, products and services.

Progress towards such a transformation is in some respects already underway. The rise of internet users, mobile banking and ecommerce are noticeable trends, especially with regard to the global pandemic, pushing daily consumption online and causing swift changes in the uptake of digital payment systems.

Yet, despite the Kingdom’s commitments and goals, it is still relatively underprepared for a digital transformation when compared to other states in the region, the nation is still relatively underprepared for a digital transformation. Legal frameworks for data privacy and cyber security for example are still inadequate, while trust in technology utilization is also low. Mobile and internet users may have increased rapidly in recent years, yet coverage and consumption remains mostly only in larger urban areas.

In order to counter setbacks like these and further its overall development goals, the Kingdom is also increasingly engaging in the practice of economic diplomacy. Having been released in the same year, the economic framework also entails important, long-term orientated policies focused on enhancing the country’s capabilities. Given the rapid changes and challenges currently occurring both regionally and globally, the Kingdom has made it her priority to secure economic growth, ensure the safety of her open market from external shocks, and most importantly, improve international cooperation, including in the digital sphere.



## The Role of the Digital Economy and its Relation to Economic Diplomacy

The scope of The Kingdom's economic diplomacy relies primarily on aspects such as working with partners to increase the country's "economic diversification" and enhancing socio-economic development. Diplomacy will also play a major role in shaping the outcomes of both Cambodia's economic and digital strategy.

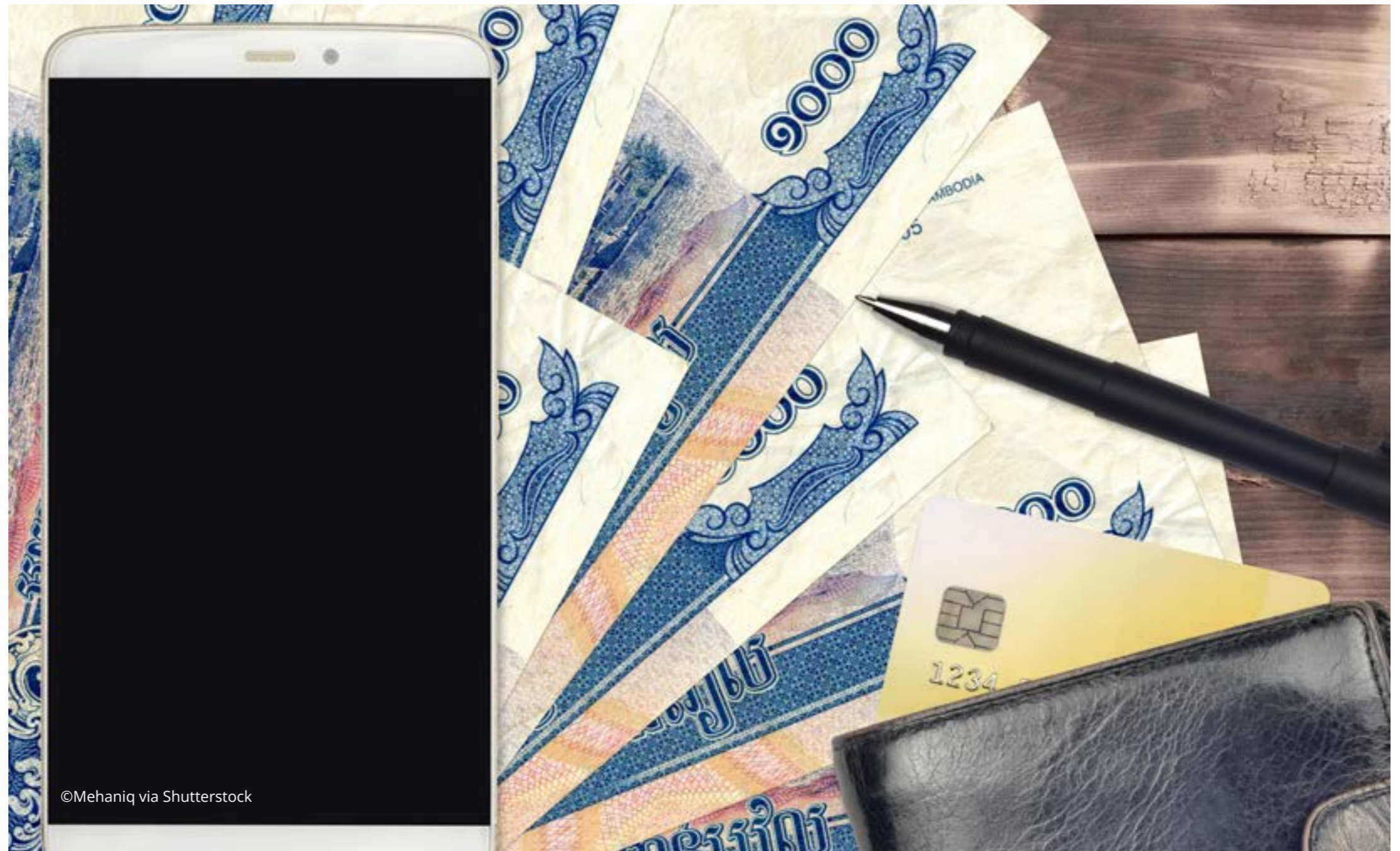
### Strengthening Cooperation: Digital technology as a boosting tool

Economic diplomacy aims to strengthen the country's regional and international economic cooperation and attract foreign direct investment (FDI). The Kingdom is already actively engaged in regional and international economic mechanisms, allowing her to maintain an enthusiastic role. In preparation for external shocks or changes in the global political and economic environment, the government also pursues multilateralism and economic diversification by welcoming multilateral agreements and foreign investment.

Diplomats thus need to be proactive both politically and economically in attracting foreign investment. At the same time however, the Kingdom also must also maintain a good reputation in order to attract investments in the first place. The digital business pillar of Cambodia's digital economy framework will therefore be crucial in helping to further promote the country as an attractive investment destination by adaptation of digital technology in local businesses and enterprises. The promotion of a more digital friendly business, for example, e-commerce, already appears to have facilitated a rapid rise in local businesses digitizing their operations. This improvement in turn leads to more productive and competitive businesses that represent better investment opportunities.

The use of digital tools and communication methods also transforms the market in other ways. It is noticeable in the cities and urban areas for example that delivery services have been vastly improved, with postal tracking systems and mobile communication becoming more common. These new digital platforms expand the market beyond tradition and make business processes easier and more efficient. Moreover, the use of such digital technology easily spreads to other firms in the sector, enabling them to compete in the modern markets, increasing overall productivity. Greater innovation in turn drives growing demand on the consumer side, adding more value to the overall economy.

Digital transformation also provides businesses and the individuals within them with the tools needed



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to engage in further innovation, thus leading to a positive feedback loop since digital adaptation boosts innovation, making the Kingdom's business sector consist of digitally friendly environments for the startup ecosystem.

The enabling of digital business, in this sense, creates a digitally friendly environment that is more competitive, therefore playing a significant role in foreign investors' decision to target Cambodia as part of their business expansion activities. A 2018 OECD report also found that the digital economy facilitates the transmission of a wide range of goods and

services in digital form. The wider adoption of digital goods and services in turn enables local enterprises to communicate with businesses abroad and enter international global value chains, creating favorable circumstances for Cambodia to pursue her Economic diplomacy goals.

The promotion of digital-friendly businesses will help attract more FDIs into the Kingdom as well facilitating local businesses.





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Through the implementation of E-government, Cambodian citizens now have easier access to information and services within their reach.

**Digital Governments: Human development and future of diplomats.**

Digital government (e-government) possesses a vital role in a modern digital economy by enhancing public services and digitizing administrative systems to make the necessary data and services available for citizens. E-government includes the availability of information and government documents in secure digital platforms. Ranking at the top of the world, Estonia, Denmark and South Korea have established advanced e-government systems, setting a clear example for the rest of the world. In the Cambodian context, some ministries have already started to adopt online public services, such as vehicle registration and taxation. This has shifted the way in which these ministries function and carry out their missions to better respond to citizens' needs.

To enhance the Kingdom's e-government strategy, civil servants, ministries and departments will have to adopt the use of digital technology, including

the use of basic platforms to the improvement of one's ability to grasp digital literacy. This adaptation will enhance existing human capacities and allow individuals to build a new set of digital skills. At the same time, the government will need to bring in new human resources equipped with the necessary digital knowledge and skills, thus drawing people with innovative ideas to government work.

The implementation of digital governments will therefore help to create a new generation of civil servants equipped with digital technology awareness and modern skills over the long-term, thus improving the quality of human resources in the government sector. In this sense, the future caliber of Cambodian diplomats will also be influenced by this new generation of human resources. As a main focus in the economic diplomacy framework, Cambodian diplomats will have to play more than political and negotiation roles, but also bring to the table other skills in order to carry out their roles in achieving the Kingdom's economic diplomacy goals.



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To enhance the Kingdom's e-government strategy, civil servants, ministries and departments will have to adopt the use of digital technology, including the use of basic platforms to the improvement of one's ability to grasp digital literacy.

**Digital citizens: Socio-economic improvement**

A digital citizen is characterised by resilience and adaptiveness. In a UNDP digital literacy report, Cambodian youth is found to be highly connected and have a strong presence in cyberspace. A high number of working youths for example are now adopting e-banking, while the rate of smartphone users stands at above 90% in the urban and 75% in rural areas. This use is mainly centred around daily communication, including social media and email for professional use. The number, however, only indicates basic digital consumption, while the ability to grasp and adapt to digital technology adequate to the characteristics of a digital citizen is still in progress.

The Kingdom not only seeks to promote digital citizens, but also digital leaders, especially in local communities. Enrollment in STEM education currently stands at only 27.1%, while just 0.03% of the population is enrolled in technical and vocational

education and training programs. This pillar is also highly connected to digital government, as a successful online public service requires engagement from citizens with digital knowledge, able to communicate, analyse, and extract information, and so on.

With regards to Cambodia's economic diplomacy, digital citizens contribute to socio-economic development when citizens are able to utilize their digital skills to shift from traditional to modern ways of doing things, including remote learning and digital civic engagement. With a high number of smartphone owners among modern Cambodian youths, the curriculum could move beyond classroom practice, and include understanding of wider knowledge through the adoption of remote learning. Communication between people, and the availability of opportunity across the region thus becomes easier with digital tools, giving people more chances to connect with others across the globe, in turn increasing well-being and socio-economic development.





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Students of the National Polytechnic Institute of Cambodia prepare their manned drone for flight, in Phnom Penh, Cambodia, September 17, 2021.

## Conclusion

Cambodia has clearly set out her digital economy and economic diplomacy frameworks, recognizing the ever increasing importance of digital technology, the Fourth Industrial revolution and the need to respond to external shocks. The two frameworks, each with different priorities but nevertheless highly connected, pave the future of the Kingdom's diplomatic, economic and societal development. In the digital era, from the individual to government level, digital technology has broadened the ability of humans to communicate, engage, analyse and work in almost every sector. At the same time however, digitalization also comes with costs in terms of cyber security, physical connection and privacy drawbacks. To tackle these issues, the Kingdom will need to work on a legal framework and set of protection strategies, making sure the nation will be able to prosper in the digital era without losing trust in technology. The digital economy framework and practice appear to contribute significantly to Cambodia's economic diplomacy, while also enhancing the nation's resilience and adaptiveness. In a competitive global order, it is important for this small yet rapidly growing state to seize the opportunity to enhance her strength to stand tall on the regional and global stage.

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# V. CASE STUDIES

## 1. Chinese Economic Diplomacy: The Recent Development of the Kingdom's Sihanoukville



Chhay Lim

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### I. Chinese Economic Statecraft in the 21st Century

From a Chinese perspective, there is no direct interpretation of the term “economic statecraft”, yet the closest translation appears to be that of “economic diplomacy” (经济外交: jing ji wai jiao), which is used to this end interchangeably. It generally refers to how both economic activities and diplomacy tend to complement each other.<sup>1</sup> Chinese scholars mostly define the term in two ways. One is the use of economic tools to achieve diplomatic and political goals abroad, meaning that economic activities serve diplomacy, while the other is the inverse.<sup>2</sup>

Since the start of the 2000s, China has embraced its “going out” foreign policy, prioritizing international economic development. The remarkable rise of China has undeniably come about from the expanded capability of Chinese economic statecraft in the 21st century. In recent years, Beijing's successful economic statecraft has allowed it to influence global development policy around the world, significantly reducing the US's long-standing leadership in this

area.<sup>3</sup> It is hardly surprising then that China has now become a potential challenger, at least in the eyes of some, to the global primacy of the United States.

In the context of Southeast Asia, a spotlight has always been shone on the region during periods of intensifying geopolitical competition between external great powers. In this vein, it currently constitutes a strategically important focal point for Chinese economic diplomacy. China has been the largest trading partner to ASEAN for 12 consecutive years, and in the first half of 2021, this trade accounted for US\$410.75 billion, up by 38.2% on the previous year.<sup>4</sup> In 2013, noticeably, President Xi Jinping chose Indonesia, the largest state in Southeast Asia, as the place to officially announce the Maritime trade aspect of the Belt and Road Initiative (BRI). Some even labeled the region as China's “Strategic Throat”, a place in which it can demonstrate its growing global power to compete with the US.<sup>5</sup> Through the BRI framework, Beijing has used trade, investment,

and official development aid (ODA) as a tool to achieve economic diplomacy and ultimately political objectives abroad. This takes place through ambitious connectivity projects seeking to connect China to the rest of the world and vice versa.

Cambodia has recently been seen as the most enthusiastic state in Southeast Asia for embracing Beijing's policy, especially under the BRI cooperation framework.<sup>6</sup> In recent years, such economic diplomacy has greatly impacted the Cambodian

development landscape. China is not only the largest investor in the Kingdom, but also the biggest financier of infrastructure development, the most important catalyst for socio-economic growth, and the greatest external influence on the evolution of Cambodia's foreign policy. This article will use Sihanoukville's recent development experience as a case to understand how Chinese economic diplomacy has played out in the Kingdom and what the consequences of this have been.

### II. The Kingdom's Sihanoukville: A Vital Part of Chinese Economic Diplomacy

Cambodia and China have long-standing diplomatic relations. Such a friendship culminated into a “comprehensive strategic partnership” by 13 December 2010; and under this cooperation framework, Cambodia and China in 2019 jointly signed the Action Plan on Building China-Cambodia Community of Shared Future (2019-2023), by which both leaders put more efforts into consolidating cooperation in political security, the economy, commerce, socio-cultural tourism, the environment, and all rounds of people-to-people exchange. Since the inception of the BRI in 2013, Cambodia has actively engaged and embraced the Chinese-led initiative and considered it to be an important source of its national socio-economic development.<sup>7</sup>

But when analyzing the impact of the BRI and Chinese economic diplomacy in Cambodia, why would Sihanoukville be used as the main case study? In terms of international trade, the Kingdom currently hosts only one international deep-water seaport, which is located in Sihanoukville. This once sleepy coastal city, situated in the Southwest of Cambodia, has huge potential as international trade and logistics route and, with one of the most beautiful beaches in the world, a tourism destination. The city was even expected to soon become a modern metropolis, with some labeling it as a second Shenzhen or Macau to China due to a large influx of Chinese casinos, hotels, and many other investments projects flooding in.



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A panorama shot of Sihanoukville showing its high-rise buildings as well as other on-going construction projects.





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Sihanoukville has also become home to many power plants and oil fields owned by Chinese companies that are worth around \$4.2 billion.<sup>8</sup>

Sihanoukville is home to many power plants, oil operation fields owned by Chinese companies amounting to around \$4.2 billion.

When one travels through downtown Sihanoukville today, large banners with red backgrounds and golden Chinese characters (the Chinese identity of luck/feng shui) line the streets. The plethora of hotels, restaurants, and casinos have almost transformed this once-sleeping city into the new face of modern Cambodian development. What complements China's desire to invest in the city is the willingness of Prime Minister Hun Sen to attract such investment in having enthusiastically embraced the BRI since its inception.

When examining the impact of the BRI in Sihanoukville, two projects stand out, including the Phnom Penh-Sihanoukville expressway and the Sihanouk Special Economic Zone (SSEZ). The former, the Kingdom's first-ever highway (National Road number 4) from Phnom Penh to Sihanoukville, is worth \$2 billion and is at the time of writing 51% completed. This project came about as an investment from China's Bridge and Road Corp, supervised by the technical team of Guangzhou Wanan Construction Supervision Co., Ltd. under the BRI's "build-operate-transfer (BOT)" framework.<sup>9</sup> The expressway plays a significant role in connecting the South Sea Corridor, along with the National Road No.3 also under construction with the help of Chinese investment. This development is of great significance for the Kingdom, as it will help to boost the economy's main export sectors, including garment, textile, leather products, bags and other light manufactured goods. The country cannot remain underdeveloped in terms of logistics routes, as this will hinder the productivity improvements sorely needed for the Kingdom's continual economic development. Chinese investment in infrastructure projects therefore seems to have

come at the right time.

The second project of note when assessing the BRI's impact on Cambodia would be the Chinese-Cambodian SSEZ in Sihanoukville, in which mostly low-skilled workers, especially women, are able to find better job opportunities. The SSEZ focuses mainly on the light-industry sector, while also aiming to include hardware machinery, home furnishings, building materials, automobile parts, tires, fine chemicals, etc. The SSEZ is reported to have helped boost local employment opportunities up from 80,000 to 100,000.<sup>10</sup>

With their active engagement in developing this special economic zone, China even has helped upgrade the country's only autonomous port in Sihanoukville, a vital part of the BRI's maritime SilkRoad which should allow it to expand its influence throughout the region and boost connectivity to the Indian Ocean.<sup>11</sup>

In short, Cambodia, especially with the potential that Sihanoukville provides, plays a strategic role in the Chinese BRI and China's wider economic diplomacy goals. Its strategic location will not only expand the capabilities of Chinese economic statecraft but perhaps also achieve Chinese political goals by allowing it to become a dominant actor capable of challenging the United States in the region. The wider consequences of successful economic statecraft are therefore far reaching and not to be easily overlooked.



©World Bank Photo Collection via Flickr

A woman irons fabric at a garment factory at the Sihanoukville Special Economic Zone.

### III. How Has It Affected the Kingdom?

Despite the positive aspects of Chinese foreign investment for Cambodia however, we should not fail to recognise the potentially negative consequences of such investment, at least three of which will be considered in more detail here.

Firstly, cultural identity in the Kingdom is gradually being eroded. The mass media claims that there is "No Cambodia left" in its own coastal city, as Chinese identity and money now reign supreme.<sup>12</sup> Perhaps even more worryingly, however, the rising crime rate of Chinese nationals in recent years has ascended to centre stage in the national debate over China's economic presence in the country. Many local citizens now feel that a sense of "Cambodian-ness" and "inclusiveness" is being lost in Sihanoukville.

Secondly, it has been argued that Cambodia is not ready for the influx of Chinese investment into the city and that local labor skills are not well-matched with the demands of Chinese investment. The question naturally arises then, is Cambodia really benefiting from such investment? One might agree that it provides more employment opportunities for

locals, yet the degree to which the country benefits also depends on local capabilities to adequately handle such capital flows. Currently, Cambodia still lacks institutional capacity in law enforcement, which is a significant problem when it comes to hosting a rapid influx of Chinese nationals involved in the construction and gambling industries. Criminal acts reported to have taken place at the hand of Chinese gangs for example include money laundering, back-door prostitution, and much more. Even more serious, the sudden collapse of the Chinese seven-storey building in June 2019 killed at least 18 people and left many others injured.<sup>13</sup> The rapid construction has also caused a significant environmental impact due to a lack of waste management and pollution disposal capabilities. This has caused serious concerns among locals and created doubt over the social responsibility of the Chinese corporations, with some even claiming that the Chinese construction activities are somewhat destructive to the local environment.

Thirdly, Cambodia's reputation on the international stage has been put at risk as a result of its being seen to be too close to China.





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Cambodian Prime Minister Hun Sen gestures next to China's State Councillor and Foreign Minister Wang Yi as they attend a ceremony at the Morodok Techo National Stadium in Phnom Penh, Cambodia, September 12, 2021.

The mal effects of Chinese investment in Sihanoukville have given Western politicians, foreign pundits and a variety of anti-China actors ample reason to lambast Cambodian leaders as having been bought by China. This is not only about international reputation however, but also foreign policy maneuverability. Cambodia has always been viewed as China's client

state, embracing Beijing's policy abroad and growing dependent on Chinese aid and investment. As shown by recent criticism from the US regarding the possibility of stationing a Chinese military base in the Ream area of Sihanoukville, Cambodia now finds itself in a hard position amidst intensifying strategic competition between Beijing and Washington.

#### IV. Conclusion and Ways Forward

Chinese economic diplomacy in the 21st century manifests itself in the framework of the BRI, the largest connectivity project on the planet. While Southeast Asia is a prime strategic location for economic diplomacy, Cambodia is the most enthusiastic state when it comes to embracing the BRI and other Chinese policies in the region. Sihanoukville's recent development trajectory is an important case through which to study Chinese economic involvement in the Kingdom, as the city was quickly transformed from a once sleepy town to a soon-to-be metropolis and Asian financial center characterised by vast Chinese-run projects.

Cambodia has undeniably benefited from Chinese economic diplomacy, especially in terms of infrastructure development, foreign investment, bilateral ODA, people-to-people exchange and educational linkages.

Despite this, however, Cambodia should not neglect the risk that comes from over-reliance on one power, as this would result in less maneuverability in dealing with other foreign relations. Furthermore, Cambodia should always consider the negative effects of accepting large quantities of Chinese investment as a primary source of socio-economic development. In

this regard, there are at least three points that need to be considered.

First, law enforcement capacity should be improved, especially in the context of the influx of Chinese nationals. It is important that the Kingdom maintains social order, security, and prevents more criminal activities from taking place. Second, the Kingdom must preserve its cultural identity and keep a sense of "Cambodian-ness" alive within the country. In

Cambodia, cultural identity is always a sensitive issue, and cultural conflicts between Cambodians and the Chinese can always lead to misunderstandings and unnecessary conflict. Third, the country must improve waste and pollutants disposal within the vast ongoing construction in order to keep the city clean. Recent constructions have proved that the city has a weak waste management system, and that leads to environmental degradation, especially resulting from the disposal of pollutants into the ocean.

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## 2. More than corporate, but still corporate The Huawei ICT Academy Program in Kenya



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People walk past a Huawei logo on the facade of a store at a shopping complex in Beijing, China, July 14, 2020.

On June 9, 2021, Huawei opened its revamped Training Center and moved it to the African Advanced Level Telecommunications Institute (AFRALTI), a regional and intergovernmental ICT training institution. At the launch, the company invited senior Huawei representatives, Kenyan government officials and representatives from the regional UNESCO office and the Jomo Kenyatta University. None of the speakers withheld any praise: They talked about the “extra mile” that Huawei Kenya was taking to provide employment opportunities and [how it has been] supporting the national thrust of developing [a] competitive ICT infrastructure”. The speaker of the Ministry of ICT, Innovation and Youth Affairs commended Huawei, calling upon it to continue “to upskill and reskill our local workforce.” All speeches throughout the meeting expressed how Huawei is perceived as much more than simply an ICT equipment producer in Kenya. Instead, its partnership with Kenyan education institutions and its range of corporate social responsibility (CSR) projects, particularly given the public communication of these activities, has allowed the company to position itself as an educational partner. This is a perception that appears to be grounded in reality, as Huawei seems to train more young people than any other international firm in the sector (Tugendhat 2020, 4).

While newspaper articles often only scratch the surface of such issues, this paper seeks to dig a little deeper by providing an introduction to Huawei’s University-partnership program, Huawei ICT Academy, and its training activities at AFRALTI in Kenya. It argues that these activities are to the benefit of Kenyan universities and students, while also serving the long-term strategic interest of Huawei. In short, it builds on the Kenyan case, which also speaks to the Cambodian context given that the Royal University of Phnom Penh and the Institute of Technology of Cambodia have been recognized as Huawei ICT Academies.

To understand Huawei’s training and partnership activities, it is key to understand its three business branches. Besides the selling of devices, such as phones or tablets (consumer business), Huawei is also active in the carrier business, meaning the construction and management of telecommunication infrastructure such as towers and cables. It is this business branch that features in the Western debate on the exclusion of Huawei in national 5G networks. In addition, Huawei also engages in the enterprise business by selling communication solutions to companies based on their specific needs (ibid. 2020, 5-7). Each of these branches bring their own particular stakeholders in need of training to the Huawei Training Centre and the ICT Academy.



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President of Huawei’s Carrier Business Group Ryan Ding delivers a speech at the company’s Global Mobile Broad (MBB) Forum in Shanghai, China.



## The Huawei Training Center

Beginning with the training center at AFRALTI, two groups primarily receive training there: Corporate customers and subcontractors. The former refers to companies that bought equipment from Huawei and want to train their staff on how to oversee the system. The latter refers to the people Huawei tasks with the maintenance and service provision of equipment for which the company holds managed services contracts (ibid. 2020, 11; 2021, 11). These activities focus mainly

on the carrier business of telecommunications infrastructure.

Of course, Huawei did not only begin its training activities in 2021. Before the AFRALTI site, the company used its Eastern African training center which opened in 2008 (Sui 2016, 3). Since then, it has trained 7,200 people in Nairobi, according to vice president of Huawei Southern Africa Duan Xue Peng.<sup>2</sup>

## The Huawei ICT Academy Program: University Partnerships

While the training provided at AFRALTI is closely connected to Huawei's business activities, cooperation with universities holds comparatively indirect benefits for the company. Based on a Memorandum of Understanding between each University and Huawei, the institution is recognized as a Huawei ICT Academy. Besides universities however, Huawei also partners with independent training institutions and, since recently, technical and vocational education and training providers (TVETs) (Kirui 2021). At their core, such partnerships allow universities and training institutions to prepare their students for Huawei certificates. Huawei therefore trains lecturers at its partner universities on its systems and equipment, while also contributing to their curricula. This training and support is provided for free or for only a small fee. In addition, Huawei either donates equipment or offers discounts to

acquire the necessary hardware. The universities, in return, offer respective courses to their students, either as part of the core curriculum on certain degree programs or a voluntary extra. To receive the respective certificates, students must pass an exam costing only a small fee which is then marked centrally by Huawei. The academy program focuses on the enterprise arm of the business. Successful participants might even find employment opportunities at Huawei or its enterprise clients looking for staff to oversee their system.

Originally, the Academy approach was pioneered by Cisco, Huawei's main competitor in the enterprise business. Huawei copied it and then rolled it out globally.



©Rafael Marchante via REUTERS

Cisco System is Huawei's main competitor in the enterprise business.

While the first Academy Lab, which was donated to Strathmore University in 2013, appeared to be only short-lived (Tugendhat 2020, 15), the program has seen a strong uptake since 2018. Huawei now claims to have established 41 ICT Academies, trained 122 lecturers and 4,500 students in Kenya.<sup>3</sup>

Other aspects of Huawei's presence at Kenyan universities include the CSR program "Seeds for the Future", the Huawei ICT Competition, various job fares

and the "Learn On" initiative, which sought to facilitate remote learning for Huawei Certificates during the pandemic. Through the "Seeds for the Future" program, internship opportunities are provided for 36 Kenyan students per year, of which the best nine go to the Huawei headquarters in Beijing for training. The competition provides students with an opportunity to compete with their peers in tasks set by Huawei at the national, regional, and global level.



©Aly Song via REUTERS

Through the "Seeds for the Future" program, internship opportunities are provided for 36 Kenyan students per year, of which the best nine go to the Huawei headquarters in Beijing for training.

## Benefits and take-aways

On the side of the universities, these partnerships offer an opportunity to broaden their portfolio, as well as to acquire state of the art equipment and training at an affordable price. Unlike its competitor Cisco, Huawei covers most of the costs and heavily subsidizes the certification system. For the students, it creates a chance to prepare themselves for the job market and gain industry-relevant experience. In this way, the company does positively contribute to the Kenyan ICT workforce by promoting a win-win situation between itself and the students, something it should be commended for.

On the corporate side of the partnership, Huawei might then want to hire some of the graduates and, thus, save costs by localizing staff (Tsui 2016). However, this is arguably only a positive side-effect, as the level of cooperation it is engaged in is too broad to constitute an efficient recruiting program. Instead, Huawei benefits in two slightly more indirect, but no less fundamental, ways from this partnership. First, by training its partners and interested students, the company lays the groundwork for its business activities. The selling of telecommunication equipment to network operators, as well as tailored



communication solutions to businesses, requires skilled workers to install, manage and troubleshoot them. It is not important that every certified person ends up working in such a position, but only that a certain number of them choose to do so. At the same time, the partnership creates institutional arrangements that tie Kenyan universities and graduates to Huawei's performance in East Africa. As a "later-comer" relative to its competitor Cisco, it is understandable that Huawei would proactively approach Kenyan universities and students as well as heavily subsidize its Academy program to establish itself in the local market. In that sense, Huawei is building the capacity of Kenyan ICT professionals, a capacity which is in line with the strategic goals of the company's business. With a workforce trained on its equipment specifically, Huawei creates the supply side of its own labor market.

Secondly, these activities allow Huawei to present itself as more than a commercial enterprise. While Henry Tugendhat, a senior policy analyst at the U.S. Institute of Peace (2021, 19), rejects the hypothesis of "Chinese exceptionalism" for Huawei in Africa, its extensive range of activities does stand out from the crowd. While other companies in the carrier business also train their staff, and Cisco is the traditional champion in the enterprise business, Huawei's training and CSR activities form a bigger portfolio

which shapes the company's image in the Kenyan public sphere. Generally speaking, Huawei knows how to present its activities as a direct contribution to national policy goals, such as Kenya's Vision 2030 and the Digital Economy Strategy of 2020. In that vein, the company does not only do business in Kenya, but shows itself to go the "extra mile" for the overall development of the country.

To conclude, Huawei's approach of making indirect investments, for which not each project is guaranteed to pay off, says something about the long-term and encompassing nature of its interest in the Kenyan market. This geographical focus appears even more strategic when one considers the headwind the company faces in Western markets. To be sure, a business company being "strategic" should be of no surprise to anybody. Yet, this framing as "more than a business company" could be dangerous in creating false expectations on the side of Kenyan government officials, politicians, and political commentators. It is important to remember that Huawei remains an enterprise which depends on receiving a return on its investments. In Kenya, a favourable economic landscape particularly well suited to Huawei's business activities, in which it appears as a partner of choice, might yet emerge from its ability to present this "extra mile" it is willing to go.



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Meeting at the Ministry of ICT, Kenya.

## Graphs:

### Relevance and tendency of the Kenyan ICT Sector

	2016	2017	2018	2019	2020
Total Fixed and Wireless Internet Subscriptions (in thousands)	26,684	33,365	45,705	39,657	44,391
Employment number at Telecom Operators and Internet Service Providers	14,626	15,938	17,819	18,674	19,284
Annual Investment (KSh Billion) by Telecom Operators and Internet Service Providers	54	41	45	59	39
Internet subscriptions per 100 inhabitants (three years and above)	65.28	79.60	106.33	89.97	98.40

### International Trade in Telecommunications Equipment

	2016	2017	2018	2019	2020
Exports (in KSh Million)	1,209.3	653.3	587.9	732.4	513.9
Imports (in KSh Million)	28,693.9	32,014.7	25.512	26,055.2	25,911.6

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1. Because the functioning of the training center is comprehensively described by Henry Tugendhat (2020, 2021), this article focuses on the university partnership.
2. Speech by Duan Xue Pen at the opening ceremony of the Huawei Training Centre at AFRALTI.
3. Speech by Duan Xue Pen at the Opening Ceremony of the Huawei Training Centre at AFRALTI.



### 3. Nord Stream 2: Implications on European (Energy) Security



Morb Sethmonykeo

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#### Introduction

In 2015, an agreement to begin construction on Nord Stream 2, a twin natural gas pipeline project, was signed by Gazprom, a Russian government-owned gas behemoth, and five other European companies—BASF/Wintershall, Uniper (formerly E.ON), Engie, OMV, and Shell (Fischer, 2016; Gazprom, n.d.; Lang & Westphal, 2017). Nord Stream 1 had first been inaugurated four years earlier, opening a direct delivery route of natural gas from Russia to Germany. Nord Stream 2 is an extension of its predecessor, running in a similar direction more than 1,230 kilometers from Narva Bay in the Kingisepp district in the southern part of Leningrad through the Baltic Sea to its landfall facility in the coastal municipality of Lubmin, Germany (Gazprom, n.d.; Nord Stream 2 AG, 2020). The project is operated by a Gazprom subsidiary named Nord Stream 2 AG based in Zug, Switzerland and is estimated to possess a delivery capacity of 55 billion cubic meters (bcm) a year for at least 50 years, enough to power 26 million households in Europe (Fischer, 2016; Nord Stream 2 AG, 2020; Timokhov & Zhiznin, 2019). The project was expected to cost between EUR 8 to 10 billion, with half of the finance sourced from Gazprom and the other half from the rest of the participating companies (Fischer, 2016; Lang & Westphal, 2017).

The construction of the Nord Stream 2 project has been a target of much international criticism, especially among policy-makers in the European Union (EU). Among the staunchest supporters of the project are Russian energy giant Gazprom and parts of the German government, who base their argument on the commercial nature of the project and the benefits of a cheap and reliable energy source brought by the pipelines directly to a European energy hub. To many other members of

the EU and the U.S. However, the issue has become highly politicized and is viewed with a streak of skepticism. Their concerns include the increasing market expansion of Gazprom and the Russian government's control over the EU's energy supply—hence providing Moscow with additional leverage over EU foreign policy. Yet more unease also comes from the possibility that the project could also weaken the position of the current transit countries vis a vis Russia, potentially causing them to miss out on transit fees which amount to billions of dollars a year. This reasoning has led many countries to move against the Nord Stream 2 project. Fearing the repercussion brought by series of US sanctions (Countering America's Adversaries Through Sanctions Act [CAATSA], the Protecting Europe's Energy Security Act [PEESA], and the Protecting Europe's Energy Security Clarification Act [PEESCA]), many European partners have decided to withdraw from the project, among which included Swiss offshore contractor Allseas responsible for the pipe laying activities (Lang & Westphal, 2017; Westphal, 2021). As a result, construction was suspended for a whole year between December 2019 and December 2020, until the Russian pipe layer ship Akademik Cherskiy, later joined by Fortuna, resumed construction (Russian News Agency TASS, 2021).

An objective analysis is needed to develop a comprehensive understanding of the economic and political implications cast by the pipeline project on Europe. A careful examination indicates that both sides of the aisle over-emphasize their positions and downplay the significance of the opposing argument, thus necessitating an analysis that adopts a more moderate position. Germany, by using its characteristic style of reasoning that focuses on the

economic aspect of the argument, ignores one simple fact: Nord Stream 2 is a commercial undertaking whose geopolitical significance transcends its own economics. Any well-rounded analysis of Nord Stream must take into consideration the worsening hostilities between Russia and Ukraine and the likelihood that the Kremlin seeks to bypass the latter in delivering

one of its highest-priced assets to Europe. On the other hand, the geopolitical argument supported by the opposing camp deliberately overlooks the ability of the project to ameliorate the rising demand and decreasing supply of natural gas in Europe created by a fall in domestic production.



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The two onshore pipes exiting the Baltic Sea pipeline Nord Stream 2 are pictured at the landfall facility in Lubmin, Germany, September 10, 2020.

#### Germany's Commercial Logic and Foreign Policy Maneuvering

The announcement of Nord Stream 2 took place in 2015, a year after Russia effectively annexed Crimea. The annexation had been a source of friction between Western governments and the Kremlin. Therefore, in an effort to legitimize its dealing with Russia, Germany has taken an apolitical position that focuses on the industrially lucrative commercial qualities of the project, rather than the (geo)political ones. (Fischer, 2016; Lang & Westphal, 2017; Timokhov & Zhiznin, 2019; Westphal, 2021). The German government has been insistent on reducing the role of politics to the fulfillment of legal obligations of the economic actors involved in the project (Fischer, 2016). According to the Economics Minister Sigmar Gabriel, this new infrastructure serves to further EU energy security by acting as a bridge directly connecting the consumer to its producer (Fischer, 2016).

By looking at the need for natural gas in Europe and the insufficiency of domestic production, the decision to support Nord Stream 2 appears to be a sound, levelheaded judgment. Recent development indicates that between 2009 and 2019, the production

of natural gas in the UK, Germany, Denmark, and the Netherlands was cut in half to only 76.2 billion cubic metres (BCM) over the course of 10 years, while the production of the continent's largest gas field in Groningen, the Netherlands will be shut down completely in 2022 for safety reasons (Fischer, 2016; Westphal, 2021). The falling domestic production of natural gas in the bloc has already well exceeded the prediction made by a 2017 Prognos study, whose findings were used to rationalize the Nord Stream 2 pipeline project (as cited in Westphal, 2021). The study predicted only a 41 BCM drop in production by 2025, significantly lower than the actual number mentioned above (as cited in Westphal, 2021). All this happened at the same time as Europe was undergoing a dramatic rise in gas consumption. By 2019, total net natural gas imports to the EU28, including Switzerland and western Ukraine, were 407 BCM, while the Prognos study estimated this figure to be merely 376 BCM for 2020 (Westphal, 2021). It is also worth taking note that out of all of the imports in 2019, 170 BCM was sourced from Russia (Westphal, 2021).





Russian President Vladimir Putin and German Chancellor Angela Merkel attend a news conference following their talks at the Kremlin in Moscow, Russia August 20, 2021.

## Economic (opposition)

However, enthusiasm for the economic prospects of the pipelines is not shared by the EU Commission nor many other members of the EU. Their opposition is built around the context of EU (energy) security, the potential for Russian (geo)political weaponization of the project and the integrity of Ukraine, of which Germany has been considerably dismissive (Lang & Westphal, 2017; Temnycky, 2021; Timokhov & Zhiznin, 2019; Westphal, 2021). For example, countries in the Baltic, especially Sweden and Denmark, have been vocal in their concern that the project might increase Russia's naval presence in the region (Lang & Westphal, 2017; Temnycky, 2021; Timokhov & Zhiznin, 2019;). In addition, Nord Stream 2 finds itself in a much more politically-charged position than its predecessor Nord Stream. The conditions that made its predecessor economically conducive and somewhat non-threatening politically have now all but vanished (Lang & Westphal, 2017). The central-eastern EU countries, who claim to be at risk of paying the highest price if the pipeline goes into operation, are now worried that Nord Stream 2 might reverse their humble progress made towards energy diversification. They also remain much more skeptical about the political motivations of the Kremlin which pushed for the pipeline's construction in the first place (Lang & Westphal, 2017). These lines of argument, however marred with flaws, are worth Berlin's thorough consideration, especially as one of the most important actors in the union and a host country of the project whose direct benefits stand higher than those of any other 'benefactor'.

Critics of the project should not ignore the fact that the pipelines might have been used by Berlin as a foreign policy tool to induce Russia to conform to internationally-recognized norms. It is seemingly allusive that Germany's dual strategy of deterrence and cooperation might be at play. On the one hand, Nord Stream 2 has become an area in which cooperation between Russia and Germany can blossom, for the sake of mutual economic gains. On the other hand, that cooperation, and the potential for economic benefits, can also be stripped away should there be signs of discontent. In recent months, relations between Berlin and Moscow have slumped into a somewhat hostile mode with the poisoning of Kremlin critic Alexie Navalny, the escalating tension in eastern Ukraine and the alleged misinformation campaigns against Berlin. During the height of the Navalny case, a speculation that Germany might 'pull [the] plug' on Nord Stream 2 arose (McGuinness, 2020; Westphal, 2021). This reiterated a more nuanced aspect of the pipelines: construction has raised the costs of non-cooperation, however asymmetric, if relations between the two were to further spiral downward (Gros, 2021; Westphal, 2021). The pipelines, to some degree, have given Germany an additional instrument to deter Russia from blatant international aggression and abuse of power.

## Implications of Nord Stream 2 for EU Energy Security

The twin gas pipelines introduced by Nord Stream 2 do not pose sizable threats to EU energy markets according to many critics, but this also does not mean that they are the only viable option available to the union.

It is fairly reasonable to argue that the difference in gas production and consumption in Europe can be compensated by the existing pipeline network scattered across Europe (Temnycky, 2021). After all, the pipelines passing through Ukraine have a delivery capacity of 146 BCM a year, while another 33 BCM is delivered by the Yamal-Europe pipeline running through Poland and Belarus (Barnes, 2017). These capacities are complemented by the newly constructed Nord Stream, aka Nord Stream 1, and several other pipelines snaking through Turkey (Barnes, 2015). To some, these pipelines render the additional 55 BCM delivered through Nord Stream 2 marginal, but this view is arguably an oversimplification.

The critics' assumption that existing pipelines can compensate for growing European gas requirements without the aid from Nord Stream 2 fails to consider market competition in Europe. The decline in domestic gas supply must be balanced by the flow of natural gas transported to the region in liquified natural gas (LNG) tankers and pipelines from elsewhere (Barnes, 2017; Fischer, 2016; Lang & Westphal, 2017). Therefore, despite the immense

capacity built of its pipeline network, Russian gas still faces fierce competition with gas alternatives that are more or less equally economical for its European customers. The construction of two additional Nord Stream pipelines is crucial for Russia, or for Gazprom to be more precise, to diversify its delivery channels, minimize risks, and ultimately enable its European customers to benefit from natural gas at a more competitive price (Barnes, 2019; Fischer, 2016). According to some estimates, building additional capacity for Russian gas imports will enable European consumers to reap up to EUR 35 billion in savings as a result of lower average gas prices in 2025 (as cited in Barnes, 2019).

Contrary to the belief across Europe, the Nord Stream 2 pipelines do not necessarily allow Gazprom to dominate the EU energy market, at least as long as there is an adequate implementation of appropriate regulation on the part of EU officials. Critics of Nord Stream 2 often accuse Gazprom of attempting to 'saturate' pipelines transporting gas from western to eastern Europe, limiting the options available for those in the east (Barnes, 2019). This accusation may present an intuitive argument based on the susceptibility of the energy sector to natural monopoly, but it blatantly neglects the market regulation already in place to prevent such a scenario. The operation of transmission networks that carry gas out of the energy hubs in the EU is strictly regulated by so-called Congestion Management



Ukrainian President Volodymyr Zelenskiy and German Chancellor Angela Merkel attend a joint news conference following their talks at the Mariyinsky Palace in Kyiv, Ukraine August 22, 2021.



Procedures (CMPs), which were designed by the European Commission to ensure that the supply of energy commodities within the union is allocated with optimal utility (Barnes, 2017; European Union Agency for the Cooperation of Energy Regulators, n.d.). The measure prevents contractual congestion—not physical congestion—by giving pipeline capacity booked by a company to another supplier should the customers demand so (Barnes, 2017; European Union Agency for the Cooperation of Energy Regulators, n.d.). This affords customers the freedom to choose energy suppliers which exhibit superior market potential. In addition, once imported gas enters the EU—the entry point in Lubmin in the case of Nord Stream 2—it becomes part of a larger pool of gas ready to be transported elsewhere through the transit infrastructure within the union (Barnes, 2019). This means that the source of gas from which it is delivered cannot be easily traced and it is up to the operators themselves to distribute the gas (Barnes, 2019). These guidelines should significantly curtail the fear of market domination. If the problem still persists, then it is the poor implementation of regulations which is at fault.

Finally, the argument that the pipelines will make the EU dangerously overdependent on Russia by giving the Kremlin political leverage over the region is highly exaggerated. The opposition fears that Moscow could use its gas supply as a means to achieve political ends, suggesting that the murky affiliation between Gazprom and the Russian government likens the company to a powerful political weapon as much as a business player. However, the likelihood that Russia weaponizes the pipelines for political objectives is not high, as the pipelines do not create a one-sided dependence on the part of the EU, but rather a codependent relationship between all of the parties involved. One must pay attention to the fact that energy export earnings constitute a significant portion of the Russian government's revenue (Gros, 2021). Russia depends on the EU, its largest energy export market, to be a reliable partner which sustains its energy export-dependent economy. On the other hand, the 55 BCM natural gas delivered through Nord Stream 2, although rendering other pipelines' capacities negligible in comparison, constitutes a fraction of the EU's total gas imports (Gros, 2021). Therefore, if anything, Russia relies as much on the European market as the EU relies on Russia for reliable, cheap energy.



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The Russian pipe-laying vessel Akademik Cherskiy, which may be used to complete the construction of the Nord Stream 2 gas pipeline, lies in the port of Mukran, Germany, July 7, 2020.

## The Question of Ukraine

Much of the controversy around the pipeline stems from the Ukraine issue. The critics of Nord Stream 2 argue that the continuation of the Ukrainian pipeline delivering Russian natural gas to western Europe makes more economic sense. A commentary by the Wilson Center (2021) highlighted that the refurbishment of the current Ukrainian-Polish pipeline would amount to only EUR 6 billion, lower than the estimated cost of around EUR 10 billion for the construction of the Nord Stream 2 project (as cited in Temnycky, 2021). This stance, however, is built on some fundamental problems. First, it operates on an absurd assumption that the existing transit capacity in Ukraine can correspond to the future demand for natural gas, which has been successively projected to increase significantly. To keep up with the increasing demand, the European Bank of Reconstruction and Development and the European Investment Bank provided loans of USD 300 million to upgrade Ukraine's decaying capacity under the name of the Nak Naftogaz Emergency Pipeline Upgrade and Modernization Project (Barnes, 2017). This initiative is said to have restored only 30 BCM/year, well below the capacity necessary to sustain current energy needs. Numerous calculations also indicate that the other parts of the Ukrainian network, after five decades of operation and minimal maintenance, also need refurbishment (Barnes, 2017).

There have been calls from several international players urging the Ukrainian authorities to use the billions generated from transit revenues to overhaul the country's decaying energy infrastructure (Barnes, 2017; Temnycky, 2021). One prominent advocate of this is Mario Mehren, chief executive officer of Wintershall, who said, "for decades European consumers have paid billions in transit fees. The money was used for all kinds of purposes in Ukraine, but not for the maintenance of pipelines."

This argument is not to say that the Ukrainian network should be rendered irrelevant altogether. After all, Gazprom still needs to utilize as much transit capacity at its disposal as possible if it is to

compensate for growing energy needs in Europe. A 2017 calculation made by Weiser Hecking suggests that even if the Nord Stream 2 pipelines are online at full capacity, a sizeable portion of Gazprom's gas supplies (as much as 30 BCM/year) will still need to be carried through the Ukrainian pipeline. This is of course providing that the Europeans continue to opt for Russian natural gas, which is projected to be a reasonable market choice given its inexpensiveness compared to its LNG counterpart (as cited in Barnes, 2017). Ukraine can thus continue to earn significant transit fees, but only if the system is operated efficiently and provides its contractor partner—in this case, Gazprom—an attractive tariff regime (Barnes, 2017).

Another concern raised by critics is the security of Ukraine. Their worry centers around the assumption that Nord Stream 2 is obscuring Ukraine's role as a passageway for Russia to transport gas to Europe and that this could potentially embolden Russia to act with belligerence toward its smaller neighbor, especially given the two's hostile history (Lang & Westphal, 2017; Temnycky, 2021). This speculation was amplified by Russia's intention to bypass Ukraine as a transit country for the transmission of energy commodities to Europe, which has been made explicit by the Russian government itself since 2014 (Barnes, 2017; Fischer, 2016; Lang & Westphal, 2017; Timokhov & Zhiznin, 2019). However, one must keep in mind the fact that a huge portion of its energy exports passing through Ukraine never deterred Russia from annexing Crimea. Moreover, despite their mutually antagonistic relationship, the two governments were still able to reach an agreement in 2019 whereby Gazprom, a Russian government-linked energy company, promised to pay Ukraine between USD 1.5 and 5 billion per year in transit fees until 2024 (Gros, 2021). This goes to show that the political environment between Russia and Ukraine does not necessarily have as much to do with their energy cooperation, or noncooperation for that matter, as one might expect. A further decline in the volume of Russian gas transiting through Ukraine therefore might not lead the Kremlin to be any bolder in dealing with its much smaller neighbor than before.



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European Commission Vice-President Maros Sefcovic, Russian Energy Minister, Alexander Novak, Ukrainian Minister of Energy and Environmental Protection, Oleksiy Orzhel, attend a news conference after trilateral gas talks between the EU, Russia and Ukraine in Berlin, Germany December 19, 2019.

## Conclusion and Recommendations

When it comes to the Nord Stream 2 debate, a multivariate understanding is essential in making a sober analysis of the matter. Both camps of the debate have presented arguments worthy of further contemplation, but some of those lines of reasoning also exhibit an overtly misleading nature, whatever the intentions may be. For Germany, despite its double-faceted strategy, the country still finds itself in a predicament whereby it tries to preserve its role as an indispensable guarantor of the region's security while balancing the project's promising economic foundation. The line of argument made by the German government and corporations on the pipelines' ability to generate substantial economic output and eventually ensure the union's energy security seems to have gained more currency among those in the scholarly world than in the political sphere. It is built on a solid foundation, based on the EU's comprehensive legal criteria for the regulation of its internal energy market. On the other hand, the (geo)political dimension of the project, whether it is the by-product or the end goal of the venture, is worth considering by policy-makers inside the EU and outside in a more thorough fashion, especially

those from Germany and the US. All in all, the issue of the Nord Stream 2 pipelines can be summarized in two competing perspectives: the competitive market reality of private energy companies and the geopolitically-oriented mindset of foreign and security policy actors.

Although Germany is politically and economically invested in the project, the government still needs to make its commercial justification resonate with other members of the EU. Germany needs to engage in a more robust confidence-building effort with its neighbors who stand to be directly impacted by the project. It needs to regain the confidence of its fellow EU members in regards to its ability, through regulatory authorities and monitoring capacity, to ensure fair market competition in the energy sector. The German government should also seek ways to kick start multilateral-level dialogues with other stakeholders, especially its Central-Eastern neighbors, to bridge current divergent national interests. These dialogues will also reduce asymmetries of information and, in turn, enable policy-makers to make more informed choices. Most importantly, it will reflect

Germany's symbolic gesture to acclimatize itself to the collective goal of building an energy union inside of the EU and its willingness to compromise to prevent any foreseeable, preventable divide within the union.

The European Union itself needs to emphasize its existing—and solid—regulatory framework. The

union should invest in its regulations, adhering to the current regulatory criteria and foiling any temptation to give in to the arbitrary notion of a good or bad natured project. The union should also strictly adhere to fair competition, upon which its foundation as a regional organization rests, by allowing the gas sector to compete with other energy commodities, including renewables.

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## VI. WRAP-UP

As 2021 draws to a close, we stand at the edge of an optimistic hope for a so-called “new normal”. While not knowing precisely when COVID-19 will ultimately come to an end, we are all anticipating the emergence of a post-COVID-19 socio-economic recovery in which economic diplomacy will become an increasingly integral consideration in every foreign policy domain. We are currently living in a more interconnected world than ever before and that is why we are particularly proud of being able to bring in perspectives from as far afield as Kenya to map out issues like our economic interconnectedness and more.

To recap, the key takeaway from this volume still hinges on the ‘spillover effects’ of major power rivalry, primarily the U.S.-China trade war. While power contestation is inevitable, the fundamental question in Southeast Asia is how we can navigate these challenges together. A key cornerstone of the discussion also resides around the role of middle powers in this new regional architecture, be it in the form of security or economic engagement. Another important takeaway is the need to concretize region-to-region relationships, i.e., between ASEAN and the EU, as well as with external partners and relevant stakeholders. It is also worth noting that the digital economy and ICT cooperation have been frequently mentioned throughout, highlighting the importance of digitalization as a pragmatic cooperation framework going forward, though with some precautions. Nonetheless, apart from the growing security and strategic competition the world is currently facing, we ought to pursue a more functional cooperation approach in the wider context of economic diplomacy and constructive engagement as a way forward.

Last but not least, we wish to once again express our sincere thanks and appreciation to all of the contributors who have made this publication another lively forum for insights on international political economy and beyond.

For our readers, thank you for your support throughout and we hope you will continue to find our Diplomatic Briefing a useful, thought provoking resource. The fifth edition will be rolled out in 2022. Stay tuned for more!



**PICH Charadine**



**Maurizio PACIELLO**

Southeast Asia is home to some of the biggest urban agglomerations on earth, leading to an increasingly strong role for the service economy in Southeast Asia. In the picture: Indonesia's capital Jakarta.



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## Diplomatic Briefing 1: New Decade, Old Challenges?

by Pich Charadine & Robert Hör

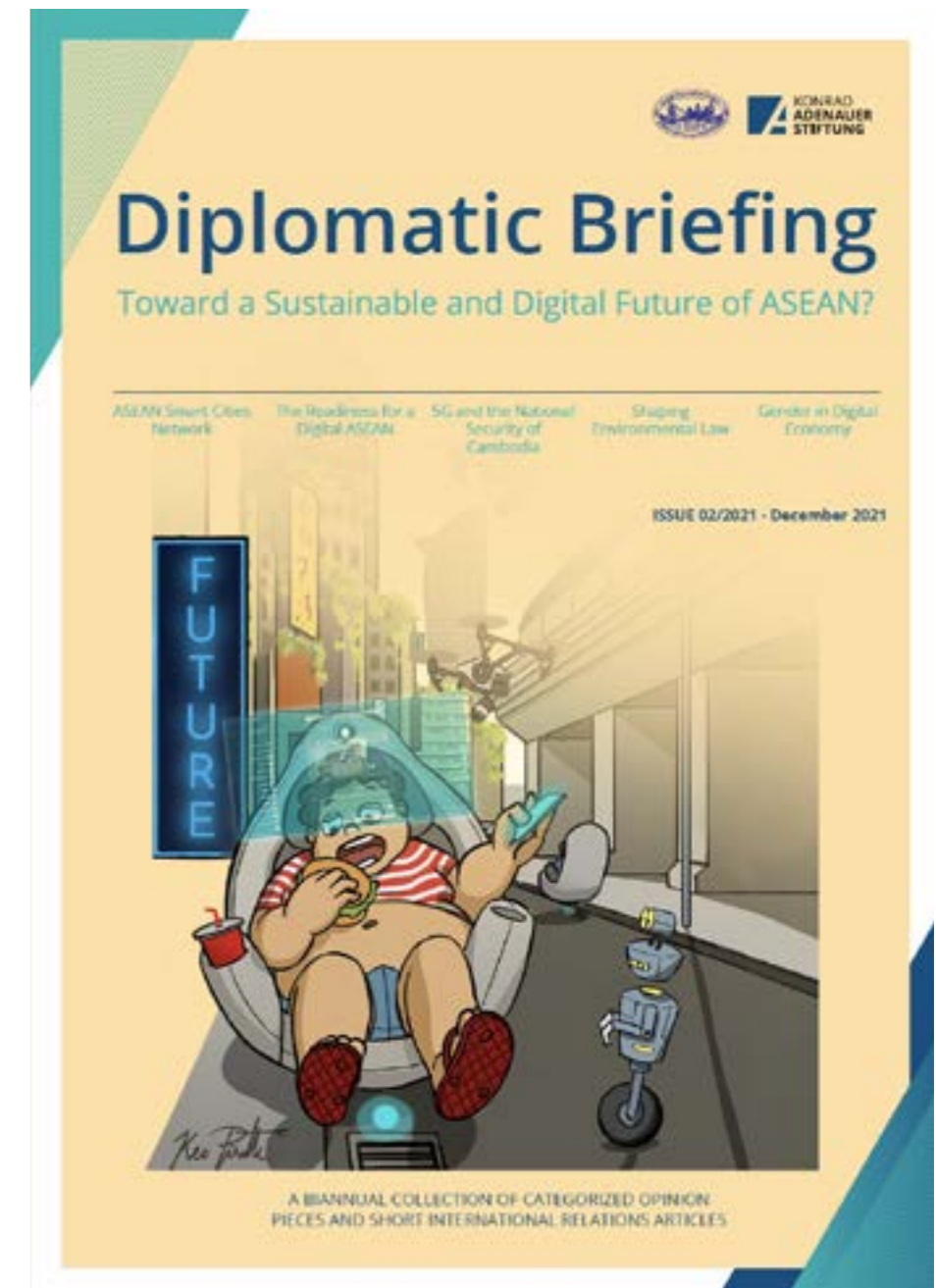
The world is embarking on a new decade, yet key challenging aspects remain, which certainly alert us that perhaps there is a need for a much better innovative resolution more than ever before. In the first Diplomatic Briefing foreign policy experts and diplomats share their opinions about the next decade and how we can deal with these challenges. How can we make the world a more harmonized place to be? What kind of trends will shape the future? Read more in the first volume.



## Diplomatic Briefing 2: Toward a Sustainable and Digital Future of ASEAN?

by Pich Charadine & Robert Hör

With regards to the environment, it was reported that 35 percent of countries in the Asia-Pacific region experienced a drastic loss of forest and it is the only region with a declining share of forest area; namely in Cambodia, Myanmar, Indonesia, and Timor-Leste. Air pollution remains to be a critical concern in the ASEAN region with its unceasing population growth and the concentration of urban density. The volume of hazardous waste generated has increased fivefold between 2000 and 2015, reaching nearly 40 million tons, with very limited efforts toward efficient waste management plans and the lack of capacity to recycle. 6 ASEAN countries should put more emphasis on sustainability-related goals, ensuring that they are not being sidelined for other interests. Failure to do so will put ASEAN at risk of losing its good record in relation to global sustainable development efforts



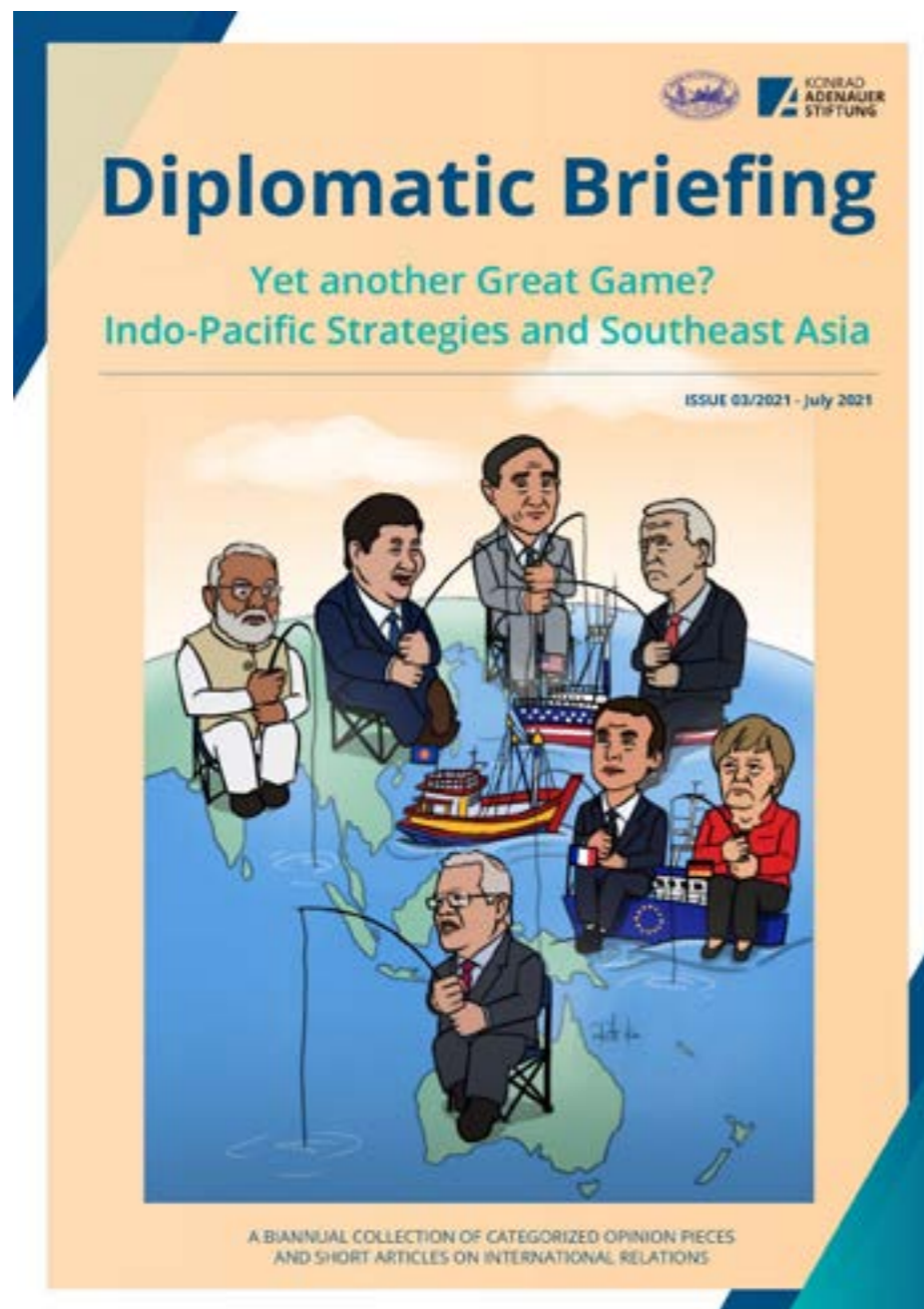


## Diplomatic Briefing 3: Yet Another Great Game? Indo-Pacific Strategies and Southeast Asia

by Pich Charadine & Maurizio Paciello

In the latest issue of the Diplomatic Briefing, we look at the Indo-Pacific and how international players are looking to shape it and perceive it. We have a look at what the concept means for ASEAN and Cambodia in particular and whether it truly is just the latest battleground for great powers or indeed a space for multilateralism to flourish.

This issue is also available in Khmer.

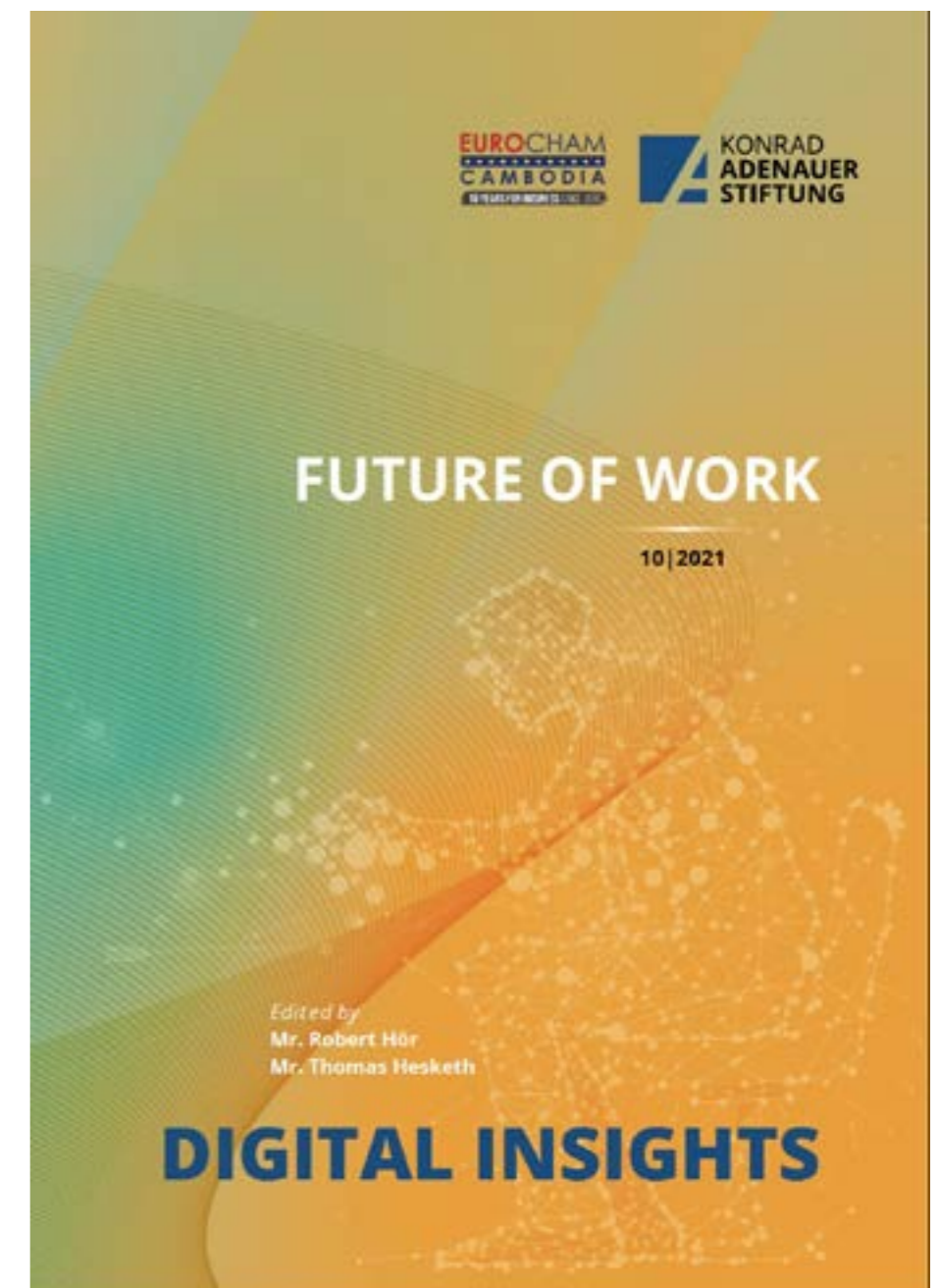


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by Robert Hör & Thomas Hesketh

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## Digital Insights: Transforming the Workplace of Cambodia's Young White-Collar-Workers

by Robert Hör and Todd Hunkin

Cambodia's economy has been transforming towards skills-driven, service and professional jobs. White-Collar-Workers play a pivotal role within this emerging transformation that as of 2020, covered approximately 11% of Cambodia's workforces. With the increasing importance of White-Collar-Workers in the country and with little evidence to support the hypothesis raised in other contexts, this paper aims to shed much needed new light as the realities of young White-Collar-Workers in Cambodia.



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An artists' rendition of world leaders on a diplomatic and economic charme offensive.

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