

# ***Assessing the Geopolitical Impact and Future Prospects of the Funan Techo Canal Project***

Hongwei Chen<sup>1,a,\*</sup>

<sup>1</sup>*Department of Government and Public Administration, University of Macau, China*

*a. sc22377@umac.mo*

*\*corresponding author*

**Abstract:** The Funan Techo Canal project is set to significantly alter the geopolitical landscape of Southeast Asia by enhancing Cambodia's economic independence and reducing its reliance on Vietnam for maritime access. Economically, the canal will lower logistics costs, streamline trade routes, and attract foreign investment, aligning with China's Belt and Road Initiative(BRI). This infrastructure project not only promotes regional trade but also strengthens Sino-Cambodian relations. Militarily, the canal will facilitate the People's Liberation Army Navy's (PLAN) access to the Strait of Malacca, expanding China's military projection capabilities in the region. By integrating economic growth with strategic military advantages, the project serves as a critical element in China's broader strategy to increase its influence in ASEAN. Ultimately, the Funan Techo Canal not only promotes regional trade but also establishes a model for future cooperation among ASEAN countries, reshaping the region's geopolitical dynamics.

**Keywords:** Funan Techo Canal, Geopolitics, China-Cambodia Relations.

## **1. Introduction**

Based on structural realism and geopolitical theory, this paper analyses the geopolitical impacts of the Funan Techo Canal project on Southeast Asia through its geopolitical changes and its integration with the China-Laos Railway, which is also being built by China in the region. It also introduces Yaqing Qin's relational theory to analyze the rationale for China's diplomatic choices in this project and analyses the prospects for the Funan Techo Canal project through the success of the China-Laos Railway. By examining the officially disclosed blueprint of the project and relevant historical facts, this paper analyzes the impact of the completion of the Funan Techo Canal on regional stakeholders and explores the rationale behind China's selection of Cambodia as a partner for this initiative. Finally, this paper assesses the future prospects and outlook of this project.

## **2. Background**

The South China Sea situation has become increasingly tense and China has always been consolidating its control over this area, particularly in the context of the U.S. election year, which has intensified regional security concerns [1]. The ongoing disputes between China and Vietnam and between China and the Philippines are progressively heated, prompting China to strengthen its strategic partnerships in Southeast Asia [2]. In response to China's rising, the US has constructed an

island chain military blockade model, and the first island chain is the closest to China. The recent appointment of Wang Wenbin as China's ambassador in July to Cambodia highlights China's commitment to promoting bilateral relations, while the construction of the Funan Techo Canal is poised to fundamentally alter the geopolitical landscape. As the construction of the Funan Techo Canal project began, it raised concerns among stakeholders in the region like Vietnam, resulting in a more intensive situation.

Among the Southeast Asian states, Thailand and Vietnam have persistently followed the so-called "Bamboo Diplomacy" [3]. This refers to a strategic approach for middle powers, which involves maintaining flexible and adaptive foreign relations to balance and engage with multiple major powers while safeguarding their national interests, much like a bamboo swaying in the wind [4]. This is somewhat similar to the hedging strategy chosen by many ASEAN states. While these states are pursuing a hybrid strategy that combines security alignment with the United States and economic engagement with China (also known as hedging), Cambodia chose an alternative way to embrace China almost exclusively that benefits their interest [5]. In terms of external governance, China's diplomatic strategy is distinct in that it emphasizes relationality or Guanxi in addition to normative constructs. Consequently, the canal project between China and Cambodia, along with the Sino-Lao Railway connecting China and Laos, exemplifies this characteristic of China's foreign policy regarding partner selection.

According to Shen and Chen, they estimate that capacity utilization rates in "sunset" industries, such as shipbuilding, aluminum, steel, and real estate construction, have decreased to below 70%, illustrating China's overcapacity issues [6]. Evidently, railways and canals are important for countries to pursue land and sea power. Hence, as China grapples with industrial overcapacity, China needs to address economic integration within ASEAN to establish stable cooperative partners and agents within ASEAN states. Cambodia, which has long maintained good relations and shared interests with China, is this suitable partner. The mutually beneficial Funan Techo Canal project is the demonstration showcase. In addition, to ensure the stability of the project, Cambodia has requested the deployment of two 056C destroyers from China, claiming it is for humanitarian missions [7]. China has also conducted military exercises and exchanges with various countries in the region. Through joint military exercises and infrastructure investments, China is positioning itself as a key player in regional security and economic development and promoting its influence in Southeast Asia to counter the growing US challenge in the region.

### **3. Impact Analysis**

The Funan Techo Canal project will have a profound impact on the regional political economy and military dynamics, with far-reaching implications for the geopolitical landscape of southeast Asia.

#### **3.1. The Economic and Political Impact**

The inauguration of the Funan Techo Canal is anticipated to significantly enhance Cambodia's trade and investment landscape by reducing reliance on Vietnam for maritime access, thereby lowering logistics costs. This strategic infrastructure project aligns with China's BRI, promoting deeper and more comprehensive Sino-Cambodian cooperation and addressing China's need to diversify trade routes amid overcapacity challenges. Furthermore, the canal is expected to reshape regional dynamics, bolster Cambodia's economic independence, and expand China's political influence in ASEAN, establishing a collaborative model for other Southeast Asian states.

### **3.1.1. Promoting Trade and Investment**

The inauguration of the Funan Techo Canal is expected to significantly enhance regional trade and investment in Cambodia.

According to the World Bank's 2022 report, Cambodia's container clearance costs are substantially higher than the average price [8]. Nevertheless, with the new China-funded Mekong Canal, these clearance costs are anticipated to decrease, enabling approximately 70% of Cambodia's exports to bypass the Mekong River Port and reduce reliance on Vietnam for maritime access, as stated by the Government of Cambodia's spokesperson [9]. Accordingly, by providing a direct and efficient maritime route, the canal will lower logistics costs and attract increased foreign investment in Cambodia and neighboring Southeast Asian states. Enhanced connectivity will streamline trade flows from China and within the region, hence driving economic growth and development.

The canal will also help alleviate the economic constraints Cambodia faces due to its historical dependence on Vietnam for trade routes. Presently, most goods from Cambodia must be exported via Vietnamese ports on the Mekong River, where container fees are ten times higher than those for Vietnamese exports. The average cost of customs clearance for Cambodian exports via Vietnam is between US\$220 and US\$250 per export container, compared to US\$50 in Japan and US\$60 in Thailand and Vietnam [8]. The situation has been exacerbated by Vietnam's past actions, including blockades of the Mekong River ports in 1994 and 2020, which severely restricted Cambodia's export capabilities.

However, the canal is poised to fundamentally alter the geopolitical landscape by reducing Cambodia's reliance on Vietnam and the associated transportation costs for passage through Vietnam water. Hence, the canal will enable Cambodia to leverage its strategic location, counterbalancing Vietnam's influence and enhancing Cambodia's economic independence and regional influence. Aligned with China's Belt and Road Initiative (BRI), the Funan Techo Canal represents a significant infrastructure investment enhancing Sino-Cambodian economic cooperation. This partnership promises benefits such as increased Chinese investment, technology transfer, and infrastructure development for Cambodia.

### **3.1.2. The Canal Will Diversify Regional Maritime Trade Routes for China**

China is facing the problem of overcapacity and urgently needs to diversify its export methods and trade routes. The canal project and subsequent cooperation can be a solution.

The Strait of Malacca is China's most important energy transportation corridor and serves as a maritime lifeline. It is a crucial passage for many of China's trade routes and is vital for energy imports. From 2008 to 2018, crude oil import to China via the Strait of Malacca increased by 110%, while Liquefied Natural Gas (LNG) import to China via the Strait of Malacca increased by 1,600% [10]. Most of China's crude oil import sources require shipping through the Strait of Malacca. Currently, China has only a few medium-sized land oil and gas transport pipelines, with minimal reliance on rail transport; maritime tanker transport accounts for the vast majority. In terms of scale, maritime transport constitutes 92% of total oil imports, with only 7% from South American routes, while the remainder must pass through the narrow Strait of Malacca. However, China severely lacks strategic projection points at the "Malacca choke point," making it imperative to seek new outlets in Southeast Asia.

According to Mahan's theory, the starting point and foundation for comprehending sea power is the necessity to secure commerce, by political measures conducive to military, or naval strength [11]. The construction of canals will diversify energy import routes and lower China's dependence on the Strait of Malacca. Once the Canal is completed, China can utilize the Lancang-Mekong River to directly access the Gulf of Thailand, providing a new outlet to the South China Sea for inland regions

such as Yunnan and Tibet. This will also ensure the safe passage of Chinese merchant ships through the Strait of Malacca. Additionally, the deep-water port of Sihanoukville, with a depth of approximately 9.5 meters, can be directly accessed via the canal, offering China a new maritime outlet. The canal project is in line with Mahan's logic since it can be interpreted as utilizing influence to guarantee commerce security.

### 3.1.3. Establishing a Collaborative Model for ASEAN States

The bilateral and comprehensive cooperation between China and Cambodia in the canal project could serve as a representative model for other ASEAN states. The canal project serves as another normative and cooperative model of mutually beneficial cooperation with China, alongside with Sino-Laos Railway project. China's foreign policy uniquely emphasizes relationality (Guanxi) and adheres to moral principles in its international affairs [12]. That is why China attaches importance to the united front and solidarity with the pro-Chinese faction in its diplomacy. This diplomatic strategy of China aims to socialize other countries through relationship governance and to build a set of pragmatic and moral norms through relationships.

Yan's Moral Realism emphasizes the importance of morality in the construction and exercise of power, arguing that ideal leadership should encompass both material strength and moral constraints [13]. Therefore, in China's foreign governance, the emphasis is on constructing a set of norms through ethical choices. The canal project was a concern for Vietnam, and the project was not finalized due to the need to maintain good relations with the pro-Chinese faction of Vietnam and the united front. When Nguyen Phu Trong, representing the pro-Chinese faction, was in power, the construction of the canal did not adhere to moral and diplomatic principles of relationship. That is why the Funan Techo Canal was only a framework agreement signed with China in October 2023, with construction set to begin in December 2024, just before the U.S. election.

However, Biden's visit to Vietnam in September indicated a strengthening of U.S.-Vietnam relations. In May 2024, Tô Lâm was elected president of the Communist Party of Vietnam (CPV), leading to the resignation of pro-China Nguyen Trung Phu. In June, Putin visited Vietnam, while Nguyen Phu Trung made only a brief appearance. On July 31st, a high-level Vietnamese delegation prioritized a visit to the U.S., signaling a further shift towards the U.S.

As Vietnam's internal affairs have evolved, the pro-Chinese faction has declined and Vietnam's diplomatic stance has shifted towards the United States, the original relationship has been profoundly altered. Consequently, the construction of the Canal is not only morally justifiable but also highly advantageous for China's national interests. The next day of CPV's power transition, Cambodian Deputy Prime Minister Song Kim Tat visited China to secure support for the canal project. Thus, in July, Ambassador Wang Wenbin took up his post in Cambodia. On the 31st, following the Vietnamese high-level delegation's priority visit to the United States. Following this, construction of the canal was officially initiated on August 5. Vietnam's tilt towards the U.S. made the canal's construction morally justified.

The diplomatic choice of focusing on relationality establishes a paradigm for Southeast Asian countries to cooperate with China. As Qin emphasizes a combination of normative and relational governance [12]. Most Southeast Asian states chose the strategy of hedging, seeking security guarantees from the U.S. while obtaining economic benefits through trade with China. This stance does not align with the moral norms of Chinese diplomacy and this act based on Bamboo Diplomacy is also considered to be duplicitous. To construct new norms through relationality, China selected cooperative partners based on relationality and moral principles.

Hence, as a cooperation model, the canal project is expected to encourage a shift in their cooperative policies towards China. The Vietnamese President's visit to China coincided with the canal's launching and it is anticipated that this project will result in a shift in policy of cooperation

with China. In the foreseeable future, other ASEAN member states are likely to exhibit an increased willingness to collaborate with China, particularly regarding the advancement of the Trans-Asia Railway project, as they observe the tangible benefits that Cambodia and Laos derive from their cooperative engagements with China.

### **3.1.4. Expanding Economic and Political Influence of China**

The infrastructure investment and extensive cooperation embarked on by China in the Indochinese Peninsula will expand China's economic and political influence in ASEAN. Upon the completion of the canal with a linkage with the Sino-Laos Railway, it will enhance the integration of the Chinese economy with the markets of Laos and Cambodia. With increasing economic influence, the economic landscape of ASEAN will be reshaped.

On the one hand, China faces a severe issue of overcapacity, and ensuring the security of energy and food import shipping routes is a recurring priority [13]. On the other hand, challenges in exporting Chinese products overseas have arisen due to the implementation of the 301 Act and other restrictive measures imposed by Western countries. Hence, China is seeking an outlet for its economic difficulties through the canal project. Previously, China has been compelled to produce goods in Hungary to sell to Europe and in Mexico and Brazil to sell to North America as to bypass the restrictive measures, but the outlook is not optimistic. The U.S. has cut off access to the American market for Chinese new energy products, and Europe has also passed sanctions against Chinese new energy legislation. In this context, ASEAN has become China's second-largest trading economy.

From the offensive realism perspective, China needs to increase its ability to exert authority outside of its own borders to counterbalance attempts by other superpowers and emerging states [14]. Hence, the canal project is to extend influence by developing and fostering regional agents. Thus, through the integration of the Funan Techo Canal and the Sino-Laos Railway, China can support the industrial development of Laos and Cambodia, enhancing their economic capability.

According to Mearsheimer, China will try to create regional hegemony by following the US's historical pattern of expansion [15]. Regardless of whether China is establishing hegemony or not, the emergence of a new economic landscape in Southeast Asia, centered around Kunming, positions Cambodia and Laos as stable suppliers of raw materials and reliable export markets, with China functioning as a manufacturing hub. This dynamic is likely to facilitate the construction of a regional community of interest. This relationality is likely to promote the emergence of various pro-China regimes, positioning Cambodia and Laos as agents of China in ASEAN. As China's influence in ASEAN grows, it can concurrently facilitate industrial transfer through direct exports and investments in manufacturing facilities within ASEAN states for secondary processing. This strategy may effectively circumvent the implications of the restriction, eventually addressing overcapacity issues.

## **3.2. The military impact of this geopolitical change**

Responding to U.S. military pressure, China has established a distinctive naval strategy enabling PLAN to turn the near seas into a no-go zone for the US Navy. The Pentagon has named this tactic "the A2/AD strategy" [16]. As China intensifies its military cooperation with Laos and Cambodia, the Canal Project holds significant potential to facilitate the execution of this strategic plan.

### **3.2.1. Deepening Military Cooperation and Expanding China's Military Projection Capabilities**

The 'A2/AD strategy' has the objective of keeping hostile forces at bay by attacking them far from China's coastline (A2). If hostile forces are within striking range of China, attempt to deny their freedom of operational actions (AD) [16]. In this context, the operationalization of the canal can



widen this striking range of PLAN. And in the foreseeable future the canal is to expand military influence

Once the canal is completed, it will provide conditions sufficient for PLAN's main naval vessels to navigate freely and directly towards the Strait of Malacca, ensuring the security of maritime trade routes. About 100 kilometers west of the canal's outlet is the Chinese-built Ream Naval Base established by China. Till now, the PLAN has had two 056c and 071 class landing ships stationed at the Ream Naval Base for several months, raising concerns among US. This base could serve as a new outpost for China near the South China Sea.

Furthermore, the endpoint of the China-Laos Railway is in Cambodia's Kampot Province, directly reaching the international port of Seven Star Sea, which can accommodate 10,000-ton naval vessels during wartime. Located in the central region of the Indochinese Peninsula, the 75th Group Army based in Kunming can access the inland regions through the China-Laos Railway with extreme strategic significance. Mackinder identified the railways as a particularly important force of transmuting the conditions of land power [17]. Even as time progresses, railways maintain a substantial influence on terrestrial nations, particularly those that are landlocked. And canals have similar effects, both can be seen as extensions of power. By relying on the canal and railway, a water-land amphibious delivery system will be established to achieve military deterrence against various countries in Southeast Asia. This will greatly increase China's military influence in the South China Sea, which is part of the first island chain.

China would simultaneously eliminate US security guarantees to its allies and partners and undermine US influence in the region if it could create a favorable balance of power within the first island chain [18]. China's ultimate goal is to break the U.S. military deterrence in the South China Sea, gaining greater leverage in South China Sea disputes. This will consequently influence the military policies of various ASEAN countries and compel them to reassess their foreign policies of hedging so as to ultimately utilize the 'A2/AD strategy'

#### **4. The Predictability of the Future Prospects of the Funan Techo Canal Project**

As a model for the Funan Techo Canal project, the Sino-Laos Railway exemplifies China's overseas infrastructure-building capabilities. The progress of the canal project has a promising outlook due to significant Chinese investment and military presence.

##### **4.1. The Success Model of the China-Laos Railway**

China's infrastructure development capabilities are widely recognized globally, with the successful China-Laos Railway serving as a prime example.

The Laos-China Railway has greatly facilitated trade between the two countries, leading to substantial economic growth. The canal project and the Sino-Laos railway project display numerous similarities, particularly the active willingness to advance the projects. Given the successful operation of the railway, it can be anticipated that the future prospects of the canal are promising.

##### **4.2. Similar Background and Conditions for Cooperation**

Laos and Cambodia share similar historical, geographical and diplomatic backgrounds.

Historically and presently, Sino-Laos and Sino-Cambodia relations have remained very close and friendly [5]. Their historical ties with China can be traced back to the tributary system, and since the establishment of the PRC, both countries have maintained a close relationship with China. China's intervention during the self-defense counter-offensive against Vietnam also aimed to provide assistance to Cambodia.

Both countries have demonstrated a keen willingness to advance cooperation with China on these projects, as evidenced by the successful initiation of the Sino-Laos Railway and serving as a predictive model for the future development of the canal project.

### 4.3. Analogous Patterns of Collaborative Engagement

Both projects feature significant contributions from the countries involved, with construction exclusively undertaken by Chinese state-owned enterprises (SOEs). In terms of operational models, the operational rights temporarily belong to China.

The operational rights of the China-Laos Railway currently reside with the Yunnan Railway Bureau (a SOE of China). According to the framework agreement, China will contribute around \$1.7 billion for the canal project, post-construction maintaining a 49% stake, while Cambodia holds 51% [19]. After being operational, China will still retain operational rights over the canal. The Sino-Cambodian cooperation will adopt a "build-operate-transfer" model, allowing China to claim management and operational rights over the canal, profiting from toll fees for a period of 40 to 50 years, after which the operational rights will be transferred to Cambodia.

Additionally, China's robust infrastructure capabilities indicate a high probability of successful project completion. China has previously facilitated the opening of the China-Laos Railway, ensuring the successful completion of the canal project. The strong military projection capabilities in the region will also safeguard the progress of the project, preventing interference from regional powers.

## 5. Conclusions

The Funan Techo Canal project represents a pivotal shift in Southeast Asia's geopolitical and economic landscape. The canal is anticipated to improve trade, lower logistics costs, draw foreign investment, and lessen Cambodia's dependency on Vietnam for maritime access. The project not only offers China a new avenue to resolve maritime passage challenges but also establishes a normative and moral model for future cooperation with other ASEAN countries. In addition to enhancing ties between China and Cambodia, this infrastructure project acts as an example and representative for regional cooperation among ASEAN countries. Militarily, the canal project enhances China's military projection capabilities in Southeast Asia, bolstering its strategic position in South China Sea conflicts against U.S. military influence. Overall, the Funan Techo Canal is a significant advancement for China in augmenting its political and military power while fostering regional economic integration.

## References

- [1] Nguyễn Anh, C. (2023). *The South China Sea for China, the United States, and what choice for Vietnam*. *Cogent Social Sciences*, 9(1), 2204570.
- [2] Glaser, B. S. (2022). *Conflict in the South China Sea*. Council on Foreign Relations..
- [3] Chachavalpongpun, P. (2024). *Roots of Resilience: Interests and Values in Thai Foreign Policy*. *Journal of Current Southeast Asian Affairs*, 18681034241248475.
- [4] Po, S., & Primiano, C. B. (2020). An "ironclad friend": Explaining Cambodia's bandwagoning policy towards China. *Journal of Current Southeast Asian Affairs*, 39(3), 444-464.
- [5] Qin, Y. (2012). *Relations and processes: The cultural construction of China's international relations*. Shanghai People's Press.
- [6] Shen, G., & Chen, B. (2017). *Zombie firms and over-capacity in Chinese manufacturing*. *China Economic Review*, 44, 327-342.
- [7] Associated Press. (2023). *Strengthening ties: China's gift of two warships to Cambodia amid strategic port expansion*. Retrieved from [https://apnews.com/article/china-cambodia-ream-warships-navy-port-e21dbae6bd1b9943f7bec8bbaa040da9]
- [8] World Bank. (2022). *Cambodia Economic Update: Strategies for navigating the oil price shock and post-pandemic recovery (June 2022)*. <https://www.worldbank.org/en/country/cambodia/publication/cambodia-economic-update-june-2022>

- [9] Lach, C., & Guarascio, F. (2024). Cambodia says it will cut shipping through Vietnam by 70% with new China-funded Mekong canal. Reuters. <https://www.reuters.com/world/asia-pacific/cambodia-says-it-will-cut-shipping-through-vietnam-by-70-with-new-china-funded-2024-05-07/>
- [10] Yin, Y., & Lam, J. S. L. (2022). Energy strategies of China and their impacts on energy shipping import through the Straits of Malacca and Singapore. *Maritime Business Review*, 7(2), 145-160.
- [11] Wu, Z. (2022). Grand strategy and China's sea power: A review essay. *Journal of Strategic Studies*, 45(6-7), 1071-1082.
- [12] Qin, Y. (2020). A multiverse of knowledge: Cultures and IR theories. In *Globalizing IR Theory* (pp. 139-157). Routledge.
- [13] Yan, X. (2013). Ancient Chinese thought, modern Chinese power. In *Ancient Chinese Thought, Modern Chinese Power*. Princeton University Press.
- [14] Schweller, R. L., & Pu, X. (2011). After unipolarity: China's visions of international order in an era of US decline. *International security*, 36(1), 41-72.
- [15] Mearsheimer, J. J. (2010). The gathering storm: China's challenge to US power in Asia. *The Chinese journal of international politics*, 3(4), 381-396.
- [16] McDevitt, M. (2016). *Becoming a Great "Maritime Power": A Chinese Dream*. Cna.
- [17] Knutsen, T. L. (2014). Halford J. Mackinder, geopolitics, and the heartland thesis. *The International History Review*, 36(5), 835-857.
- [18] Montgomery, E. B. (2014). Contested primacy in the Western Pacific: China's rise and the future of US power projection. *International Security*, 38(4), 115-149.
- [19] Sok, B. (2024). Q&A: How Cambodia's Chinese-backed Funan Techo Canal risks destabilizing the Lower Mekong Delta. *The China-Global South Project*. Retrieved from [<https://chinaglobalsouth.com/analysis/qa-how-cambodias-chinese-backed-funan-techo-canal-risks-destabilizing-the-lower-mekong-delta/>]