

CNSS Explainer #06



FUNAN TECHNO CANAL

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Funan Techo Canal
Cambodia's Ambitious Waterway



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What?

1. After taking office in August 2023, Prime Minister Hun Manet launched an ambitious US\$1.7 billion waterway project known as the '**Funan Techo Canal**'.
2. Officially known as the **Tonle Bassac Navigation Road and Logistics System Project**, is a significant infrastructure initiative in Cambodia.
3. The canal extends for 180 kms and is designed to link the Phnom Penh Autonomous Port with the coastal province of Kep, located on the **Gulf of Thailand**.
4. This connection is facilitated via the Bassac River (also known as Hau Giang River), **a crucial tributary of the Mekong River**.
5. The project is a collaboration with the China Road and Bridge Corporation (CRBC) and involves a Build-Operate-Transfer (BOT) arrangement and is **strategically funded by China**.

ville Autonomous Port

Kampot Logistics and Multipurpose Port

Why?

1. Cambodia's need for this canal is rooted in its historical memory, particularly the economic blockade imposed by the South Vietnamese government in 1956 by weaponising Cambodia's dependence on the port of Saigon. This has driven Cambodia to **pursue strategic autonomy** over the years.
2. Designated as a **least developed country** by the UN, Cambodia is a member of ASEAN and WTO, among other international organizations. Its economy is primarily agricultural, with growing sectors in textiles, construction, garments, and tourism.
3. The Funan Techo Canal is central to Cambodia's aspirations to become a **major logistics and economic hub** in the Mekong sub-region and a key driver of the country's economic growth.
4. According to analysts this project can **promote Cambodia's economic development** by facilitating the transport of finished products and generating as many as 1.6 million jobs in the process. Additionally, could revolutionise water resource management in Cambodia, boosting the growth of the agricultural sector and enhancing flood control and water conservation efforts.
5. With this canal, Cambodia is expected to cut shipping through Vietnam by 70% and expect to earn US\$88 million annually from transportation by 2050.

Assessment

1. The Funan Techo Canal project has revealed an undercurrent of **competing interests** surging in Southeast Asia.
2. Vietnam has articulated concerns about the project's impact on its port traffic as well as its effect on the **ecosystem** and natural balance along the Mekong River.
3. Cambodia will have to assure its neighbours that the canal project abides by the **1995 Mekong Agreement** and the regulations of the **Mekong River Commission**.
4. The construction of the canal project could significantly increase Cambodia's **economic reliance** on China, raising concerns about potential long-term economic dependency that might lead Cambodia to align more closely with China's **political interests**, potentially affecting its stance on regional and international issues, such as disputes in the South China Sea involving neighboring countries like Vietnam.
5. As a sovereign nation, Cambodia has the right to pursue development projects within its territory and this canal project's construction is likely to test Prime Minister Hun Manet's **foreign policy and diplomatic acumen** and management of Cambodia's relationship with Vietnam and with other major powers.
6. Many advocate that Cambodia and Vietnam should work towards **mutual understanding and conflict management**. But, discussions currently extend beyond just Cambodia and Vietnam and involve a range of stakeholders.

China Factor: An Analysis

1. In September 2023, the China Bridge and Road Corporation signed an agreement with Cambodia to invest in the canal project via a Build-Operate-Transfer (BOT) contract. The new canal will facilitate access to Cambodia's **Sihanoukville Special Economic Zone** and its port, which has received significant investment through China's **One Belt and One Road (OBOR) Initiative**.
2. While there is no strong evidence at the moment to prove that the canal would increase China's military presence in Southeast Asia, Washington-based analysts believe the canal could be leveraged to reinforce that presence. It is important to note that the canal's outlet near Cambodia's **Ream Naval Base** could pose future security challenges in the region.
3. Article 53 of Cambodia's Constitution stipulates a policy of **permanent neutrality and non-alignment** and does not allow the establishment of any foreign military bases.

China Factor: An Analysis

(contd.)

4. One of China's key strategic advantages would be the canal's potential to offer **an alternative route** for Chinese naval and commercial vessels that currently travel through the contested and geopolitically sensitive South China Sea. This region, which forms part of the "**First Island Chain**," is particularly concerning for China due to the significant military presence of the US and its allies, which poses risks of confrontation and blockade during conflicts.

5. By providing a shorter and potentially safer shipping route, the canal aligns with China's goals of reducing transportation costs and improving connectivity between China and **markets in Africa, the Middle East, and Europe.**

6. Should tensions rise or conflicts occur in the South China Sea, the Funan Techo Canal offers China **a strategic alternative** to maintain uninterrupted maritime trade. This backup route could be essential in circumstances where conventional shipping lanes are compromised by military operations or political disagreements.

Going Ahead

The Funan Techo Canal project will likely lead to further discussion on **Thailand's 'Land Bridge' project**, described as an 'alternative route' to the Malacca Strait that has sparked wide discussion about the relationship between Thailand, Singapore and Malaysia. China is one of the potential investors of the Thailand's 'Land Bridge' project.

Although the construction is poised to reduce Cambodia's dependency on Vietnamese ports for international shipping and enhance its logistical capabilities and trade autonomy, the intricate relationships among the project's stakeholders and the **ever-evolving geopolitical landscape in the Mekong region** are likely to lead to increasingly securitised and politicised discussions surrounding the project in the future.