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INTELLIGENCE

INTELLIGENCE WEEK : INSPIRE. INNOVATE. INFLUENCE.

FUNAN ***TECHNO CANAL*** **PROJECT**



Executive Summary

Cambodia's 180-kilometer-long artificial waterway and the first-ever inland-sea link, the Funan Techno Canal, is set to transform and fuel the geopolitical landscape of the region. The project, estimated at US \$1.7 billion, is largely financed by China and is seen as an economic boom by reducing dependence on Vietnamese ports and easing its overland transport routes. However, the project is creating anxieties among neighbors about possible environmental impacts and geopolitical power dynamics. This report explains the focus on the actors involved and the geopolitical and security risks in the troubled South China Sea.





Background Overview

On August 5, 2024, Cambodia broke ground on the Funan Techno Canal, scheduled to be completed by 2025. The agreement was signed in October 2023 with the Chinese state-owned China Bridge and Road Corporation. It plans to connect Cambodia's two important ports, Phnom Penh and Sihanoukville, which are now linked via National Road 4 (and the newly constructed Expressway E4) and the dilapidated southwest rail line, with no waterway connecting them, which is costly and slow. This reliance on Vietnam's ports and waterway systems for exporting garments and importing raw materials is a key motivator for the project. With half of Cambodia's garment sector centered around Phnom Penh, creating an internal, more efficient route for transporting goods has become crucial to lowering costs and enhancing competitiveness.

China's financing of the project and faster work pace are creating suspicion among global actors that it could potentially use the canal for military purposes, as this canal could potentially increase its influence. The Mekong River is one of the world's longest transboundary waterways, flowing through China, Myanmar, Laos, Thailand, Cambodia, and Vietnam, triggering potent reactions from both interested countries and outside global powers.

Key Actors and Strategic Interests

Cambodia:

Motivations: Cambodia wants to fulfill its primary goals of economic self-sufficiency by reducing transportation costs and reliance on Vietnamese ports for garment exports. The project is further supported strongly by Prime Minister Hun Manet's statement that “we are breathing through our own nose” and Deputy PM Sun Chanthol's remark that “the project will shorten shipping routes by nearly 200 km, reducing CO2 emissions. All along the canal, we will see new tourism centers and logistics centers.”

Challenges: Cambodia faces diplomatic pressure from Vietnam and other Mekong stakeholders over environmental and geopolitical concerns.



Vietnam:

Concerns: Vietnam fears the canal will divert water from the Mekong Delta, affecting its agriculture, fisheries, and maritime trade revenues as Cambodia no longer relies on Vietnamese ports. Its port and maritime industry and the livelihoods of millions dependent on the Mekong Delta are at stake. Hanoi seeks more transparency from Cambodia on the canal's long-term economic and environmental impacts.

Strategic Response: Vietnam is consulting with other Mekong countries and using multilateral platforms to mitigate the canal's effects. Vietnam can also use the Treaty on Waterway Transportation as a diplomatic means, which was signed by Cambodia and Vietnam and grants "most-favored nation" status to each other's vessels via the Mekong River and its tributaries.

MEKONG DELTA





China:

Role: China is the primary financier of the Funan Techno Canal, using it to extend its influence in Cambodia and the broader Mekong subregion. China already controls water flows through its upstream dams, and this project strengthens its foothold in the region.

Strategic Interests: The canal aligns with China's Belt and Road Initiative (BRI) goals, enhancing its economic and security leverage in Cambodia. It can also facilitate and strengthen China's military presence at Ream Naval Base.

REAM NAVAL BASE

Key Findings

China has further strengthened its position by financing projects in infrastructure-hungry Cambodia and Laos.

The project operates under a build-operate-transfer arrangement, allowing the China Road and Bridge Company to operate the canal for some 50 years in return for funding its construction.

China's military influence is expanding in Cambodia, with two Chinese corvettes stationed at Ream Naval Base since December 2023. These ships are the only ones using a new Chinese-funded pier, built to Beijing's naval specifications. However, Cambodia denies permanent Chinese military deployment.

Article 53 of the Cambodian Constitution prohibits foreign military bases on its territory, and Article 55 clearly states that any treaty and agreement incompatible with the independence, sovereignty, territorial integrity, neutrality, and national unity of the Kingdom of Cambodia shall be eliminated.

Within the Mekong area, Thailand and Vietnam, which both see themselves as regional leaders, have become increasingly concerned about their region's future outlook.


There is growing anxiety that Southeast Asia risks effectively splitting into pro-China and pro-West blocs. The Funan Techno Canal is the latest manifestation of these concerns.

Analysis & Forecast

Economic and Geopolitical Impact: The canal would alter Cambodia's trade routes, thereby likely reducing its dependence on Vietnam, thus impacting Hanoi economically and ecologically. Meanwhile, the canal can enhance China's influence in Southeast Asia. It may strain ASEAN unity and break down the region into pro-China and pro-West blocs. It may expedite the moves of these countries towards closer security and economic coalitions through regional mechanisms such as the Cambodia-Laos-Vietnam (CLV) initiative by Vietnam or Thailand's Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS).

TRADE ROUTES





Environmental Impact: The canal will automatically reduce the amount of water in the Mekong Delta, which has the potential to harm Vietnam's agricultural activities and fisheries. There is also concern about exacerbating the ongoing ecological stress caused by climate change and upstream hydropower dams, leading to salinization and reduced fishery yields in Vietnam, exacerbated by Cambodia's lack of environmental transparency on the project.

Security Concerns: China's presence at Cambodia's Ream Naval Base, combined with its growing economic leverage, raises suspicion about increased military cooperation between China and Cambodia and expectations that Beijing will intensify joint military exercises. Regional security tensions are expected to rise as the U.S. and its allies respond to China's influence.

Looking ahead, two potential scenarios could emerge. The most likely one is that the geopolitical tensions between Mekong countries and China will intensify. In parallel, other major powers, such as Japan and the U.S., are both likely to double down on their shared vision for the area.

Recommendations

Vietnam: Engage multilaterally with Cambodia to find more transparent and environmentally responsible aspects of the project. Invest in port infrastructure development and look for alternative economic partners to share risks and recover losses that might occur from this project.

Cambodia: Allowing the Mekong River Commission for regional consultations and reviewing the project with a third party is a much-needed step toward reducing the anxieties building up among its neighbors.



Multilateral Forums: The regional cooperation mechanism of the Mekong River Commission and ASEAN must be strengthened to effectively manage water resources sustainably. Alternative infrastructure projects must be promoted to balance the pathway of economic development away from overdependence on China's investments.

External Forces: The U.S., Japan, and Australia need to invest more in Southeast Asian infrastructure so that more alternatives to China's Belt and Road Initiative are opened up. Moreover, deepening and strengthening security ties with ASEAN members in maintaining maritime security and regional stability would counterbalance Cambodia's increasing dependence on growing Chinese influence.



ASEAN - Australia
1974 - 2024
A Partnership for the Future





Conclusion

The Funan Techno Canal is the new geopolitical hotspot in the Mekong subregion. Cambodia presents this project as an economic lifeline while sidelining the environmental risks, security implications, and China's deepening influence in the region. The canal project will likely deepen the already existing divisions within ASEAN, with clearer lines being drawn around more pro-China or pro-West.



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