BRI Projects in Cambodia and Laos Roll On Despite Covid-19

Vannarith Chheang*

Cambodia’s Prime Minister Hun Sen (L) poses with Chinese President Xi Jinping (C) and his wife Peng Liyuan as he arrives to attend a welcoming banquet for the Belt and Road Forum at the Great Hall of the People in Beijing on 26 April 2019. Picture: Jason Lee, AFP.

* Vannarith Chheang is Visiting Fellow at ISEAS – Yusof Ishak Institute, and President of the Asian Vision Institute (AVI), an independent think tank based in Phnom Penh, Cambodia.
EXECUTIVE SUMMARY

• The Covid-19 pandemic has affected the implementation of BRI projects. However, China has swiftly taken measures to keep BRI projects going by ensuring financial flow and supply of materials. This has moderated the impact and made the situation manageable.

• The key BRI projects in Cambodia (the Phnom Penh-Sihanoukville expressway, new international airports in Siem Reap and Phnom Penh) and Laos (the high-speed rail project) are not much affected by the pandemic.

• Through BRI, China’s economic presence and influence in Southeast Asia will continue to rise.

• Cambodia and Laos will continue to rely more on China for their economic development, increasing their economic reliance on their northern neighbour.
INTRODUCTION

Begun in 2013, the Belt and Road Initiative (BRI) has become one of the key international cooperation platforms, mainly focusing on infrastructure development and connectivity. As of June 2021, 140 partner countries had signed on to it, in growing acknowledgement of the BRI being a catalyst for global growth. A World Bank report estimated that if fully implemented, BRI transport infrastructure can reduce travel times for economies along transport corridors by up to 12%, thus reducing trade costs. It is projected that trade would increase up to 9.7% for corridor economies and up to 6.2% for the world at large. International trade is expected to increase global real income up to 2.9%, lifting 7.6 million people from extreme poverty and 32 million people from moderate poverty.1

The smaller economies in Southeast Asia, such as Cambodia and Laos, are much attracted to the BRI chiefly because it helps develop their economies, bridge the developmental gaps within and across national boundaries.2 These two countries are China’s closest strategic partners in Southeast Asia.3 This paper seeks to shed light on the impact of the Covid-19 pandemic on BRI projects in general and Cambodia and Lao PDR in particular. It argues that despite the ravages and disruptions caused by the pandemic, the BRI projects in Cambodia and Lao PDR have not been much affected, and China’s soft power in these two countries continues to grow.

COVID-19 PANDEMIC AND THE BRI PROJECTS

For China, BRI is at the core of its opening-up strategy. It helps China maintain economic dynamism and a high growth rate by increasing its global value chains and expanding export markets.4 China has a strong interest in strengthening and developing BRI projects in the post-pandemic era with the hope that its presence, image, and influence will continue to expand. From the Chinese perspective, Covid-19 provides an opportunity for raising China’s economic, cultural, technological, and scientific potential.5 Remarkably, trade between China and BRI partners has exceeded 9.2 trillion US dollars, and direct investment by Chinese companies in countries along the Belt and Road has surpassed US$130 billion.6

BRI provides economic opportunities for the recipient countries, enhancing infrastructure development and connectivity and increasing trade and investment relations with China. But infrastructure investment pays off only when it increases the productivity of the host economy. Most BRI infrastructure projects are debt-financed, and the host country needs to repay the debt to China. Excessive debt is a possibility and challenge for poor host countries with limited capacity to repay the debt. Some countries were already in debt distress before the pandemic,7 and this will be compounded by the opacity of contracts and the associated corruption in the post-pandemic recovery.8 It is argued that the pandemic partially leads to a diversification in BRI financing, which in turn reduces overdependence on China and helps host countries limit debt trap impacts, and may improve the transparency and accountability of the BRI projects.9

The Covid-19 pandemic has caused certain disruptions to BRI projects, including interruptions of supply lines for raw materials, production of construction components, and the mobility of workers.10 It needs to be noted that BRI projects are largely dependent on the international transfer of Chinese personnel and managers.
During the pandemic, China added more impetus to soft infrastructure projects such as a “health silk road” and a “digital silk road.” Concerning the health silk road, by mid-June 2021, China had provided more than 290 billion masks, 3.5 billion protective suits and 4.5 billion testing kits to the world and helped many countries build testing labs. It has also donated and exported more than 400 million doses of finished and bulk vaccines to more than 90 countries. As of June 2021, Laos had received 1.4 million doses of Sinopharm from China (donation), and as of 11 July 2021, Cambodia had received 2.2 million doses of Sinopharm (donation) and commercially received 4.35 million doses from Sinovac and Sinopharm.

China’s Ministry of Foreign Affairs stated in June 2020 that 30%–40% of BRI projects had been affected by the outbreak, and a further 20% had been seriously affected. A year later, Foreign Minister Wang Yi said, “despite the sudden outbreak of Covid-19, Belt and Road cooperation did not come to a halt. It braved the headwinds and continued to move forward, showing remarkable resilience and vitality”. He also suggested deepening international cooperation on vaccines, strengthening cooperation on connectivity, promoting collaboration on green development, and advancing free trade. Notably, businesses involved in BRI are being encouraged to fulfil their social responsibilities and improve their environmental, social and governance (ESG) performance. It marks a new beginning in enhancing the quality and accountability of BRI projects. However, implementing these ESG guidelines remain an issue, and the BRI projects in Cambodia and Laos need to improve their ESG standard.

In a survey of 25 central banks from Europe (13), Asia (4), the Middle East, (3), The Americas (2), Africa (2), and Oceania (1) in early 2021, only 18% of them said their projects had been significantly affected by Covid-19. As many as 30% said the pandemic had no impact on projects. There has been no reduction in funding from China, and Chinese development and state-owned banks continue to offer financial support. Interestingly, 87% of the responses expect BRI projects to contribute to post-Covid recovery, and 75% expect the BRI to support a green recovery and sustainable development. Moreover, nearly 80% believe that BRI projects are economically viable. At the same time, 23% say BRI debt is causing their external debt volume to reach an unsustainable level.

Across Southeast Asia, despite some disruptions, most BRI projects remain in full swing, with ongoing efforts increasing connectivity on the ground and at sea. Some BRI projects have been postponed several times. For instance, the Jakarta-Bandung High-Speed Rail project which started in 2016, has been delayed several times, from 2019 to 2020 then 2021 and now 2023. Notably, trade and investment relations between China and ASEAN continued to increase, even during the pandemic. In 2020, ASEAN became the largest trading partner of China, surpassing the European Union, with the bilateral trade volume hitting US$732 billion. China’s BRI investments in ASEAN increased from US$16.8 billion in 2014 to US$29.3 billion in 2019, accounting for about 27.6% of BRI investments worldwide. Notwithstanding a sudden drop in total BRI investments in 2020, the ASEAN region still received US$16.9 billion, accounting for 36 per cent of total BRI investments.
MAIN BRI PROJECTS IN CAMBODIA

Cambodia has embraced BRI mainly for economic reasons. Infrastructure development is the key national interest of the Kingdom, and China has been the main development partner in this field. As of June 2021, China had built 3287km of road, eight main bridges with a total length of about 7690m. It is the top investor and donor for Cambodia, and cumulative Chinese investment capital from 1994 to 2019 was US$23.43 billion, accounting for 49.84% of total foreign direct investment in Cambodia. China provided grants of about US$280 million from 2013 to 2015, about US$590 million from 2016 to 2018, and about US$560 million from 2019 to 2021.19

Speaking at the Asia-Pacific High-Level Conference on the Belt and Road Cooperation in June 2021, Cambodian Foreign Minister Prak Sokhonn said that BRI projects in Cambodia were quite resilient, notwithstanding the disruptions caused by the pandemic.20 Addressing the world political parties’ meeting organised by the Communist Party of China on July 6, 2021, Prime Minister Hun Sen underlined that BRI was a win-win cooperation mechanism that played a critical role in socio-economic development especially during the pandemic crisis and post-pandemic recovery. He added that China’s support helps enhance Cambodia’s political independence.21

Currently, China is constructing a 190km expressway connecting the capital city Phnom Penh to Preah Sihanouk province on the coast. The expressway has a width of 24.5m with two lanes on either side. The road is being developed on a build-operate-transfer (BOT) basis, invested by the China Road and Bridge Corporation through the Cambodian PPSHV Expressway Co Ltd. After completion, it will be the first expressway in Cambodia, costing about US$2 billion. The construction began in March 2020 and was scheduled to be completed by the first half of 2022,22 but that was later postponed to March 2023. As of June 2021, 51.35 per cent of the project has been completed. On June 21, the Cambodian Minister of Public Works and Transport said the project went well despite the Covid-19 pandemic and will be completed by September 2022, ahead of the March 2023 schedule.

Other ongoing key infrastructure projects are the new Siem Reap international airport and the new Phnom Penh international airport. The new airport in Siem Reap costs US$880 million, and is constructed by the Chinese-owned Angkor International Airport Investment (Cambodia). The new airport can accommodate 7 million passengers. Construction started in March 2020 and is scheduled for completion by 2023. By May 2021, 42 per cent had been completed. The following two phases will see the airport accommodate 10 million passengers by 2030 and 20 million passengers by 2050.23 Another new Phnom Penh international airport funded by the Overseas Cambodia Investment Corporation (OCIC) has a close connection with China. It is also a BOT project with an investment capital of 1.5 billion, out of which about US$1.1 billion comes from China Development Bank and US$280 million from OCIC. Metallurgical Corporation of China designs and builds the airfield. The construction began in early 2020 and is expected to be completed by 2023.24

These main BRI projects were initiated by the Cambodian government before financial support was sought from China. Being Build-Operate-Transfer (BOT) projects, they will not add to Cambodia’s external debt distress. According to the joint World Bank-IMF debt sustainability analysis of Cambodia in 2019, Cambodia’s external debt distress is low, as is
the overall risk of debt distress. In 2020, Cambodia’s external public debt stood at US$8.8 billion of which about US$4 billion were with China, i.e. about 44 per cent of the total foreign debt.

Chinese companies in charge of BRI projects have managed to adapt quickly to the pandemic by securing the supply of raw materials and ensuring that their workforce was not exposed to the virus. The key challenge for infrastructure development in Cambodia is the lack of human resources, and in June 2021, the Ministry of Public Works and Transport requested support from China to train Cambodian engineers, especially for road, bridge and other infrastructure projects.

MAIN BRI PROJECTS IN LAOS

Laos has the ambition to transform its geography from a landlocked to a land-linked country. Since the turn of the century, China’s economic presence in Laos has expanded, and in 2013, it emerged as the largest investor in Laos. In 2017, China had become the top donor and investor and second-largest trading partner for Laos. A strong partnership with China is believed to be central to the Lao ruling elite’s development-based performance legitimation and the enhancement of identity-based inner justification.

Lao Foreign Minister Saleumxay Kommasith has stressed the importance of advancing high-quality Belt and Road cooperation, i.e. the Laos-China Railway and the Laos-China Economic Corridor, and the promotion of a Laos-China community with a shared future. Ambassador Khamphao Emthavanh in turn has said that BRI helps Laos connect with the region and that the railway project was the “symbol” or iconic project of BRI in Lao. Scholar Kuik Cheng-Chwee argues that Laos needs to be on board in order to leverage the railway’s operations to diversify growth and expanding business sectors and industries. The rail project promises to bring transformative benefits by strengthening the ecosystem for national development, expanding market access to the region, and transforming Laos into a regional logistic hub.

The US$5.9 billion high-speed rail project connecting Vientiane to Boten town in China is the largest BRI project in Laos, and when ready, the railway will carry both passengers and freight, travelling at a maximum speed of 160km to 200km per hour. The project started in December 2016 and is to be completed and operational by December 2021. The 422km railway is expected to lead to a significant increase in trade, investment, tourism, and industry development. After completion, it is hoped that Lao export to China will increase by 60 per cent and that the country will be able to receive more than 1 million Chinese tourists per year. The Lao ruling elite generally regards the rail project as a “river of iron” that will transform Lao’s geo-economic destiny and strengthen the political relevancy of the Lao People’s Revolutionary Party.

The World Bank is cautiously optimistic about the project, stating that it could provide Laos with a land link to global and regional supply chains. Still, Laos would need to invest much more in streamlining border crossings and building more roads and facilities connecting to the line to help local traders connect with the supply lines. In addition, Laos needs to identify and implement new business opportunities, and enable local companies to take advantage of the project.
Some studies, however, show that Laos risks falling into a vicious debt cycle, closely related to infrastructure lending from Chinese financial institutions.\textsuperscript{37} There is a concern that the rail project might lead to a “debt trap” since the project is worth about one-third of the country’s GDP, and China funds 70 per cent of the total costs. As a result, Laos has incurred an estimated US$1.5 billion in external debt to China.\textsuperscript{38} It is a considerable amount for a country with a nominal GDP of around US$20 billion and official foreign exchange reserves of around US$1.1 billion.\textsuperscript{39} China has reportedly started delaying or writing off some of the debt Laos is building up to pay for the railway and other Chinese-backed projects in exchange for asset transfers.\textsuperscript{40}

The rail project will obviously provide better access for China to the raw materials and markets in mainland Southeast Asia. The cost of regional transportation and logistics will drop, reducing reliance on aviation or long shipping routes between southern and southwestern China to mainland Southeast Asia. The Sino-Lao and Sino-Thai rail routes, which are expected to extend southwards to Malaysia and Singapore, are parts of the Pan-Asia railway network China seeks to construct, connecting Kunming with Singapore.\textsuperscript{41} China’s BRI projects, coupled with robust vaccine diplomacy, are critical sources for Chinese soft power and economic influence in the region.

**CONCLUSION**

China’s BRI projects have been affected by the Covid-19 pandemic but only to a moderate and manageable level. BRI projects in Southeast Asia, especially in Cambodia and Laos, have been resilient, and the key BRI projects in Cambodia, especially the Phnom Penh-Sihanoukville Expressway, the new international airports in Siem Reap and Phnom Penh and Laos, especially the high-speed rail project are not much affected by the Covid-19 pandemic. The continued inflow of Chinese investments and the growing trade relations between China and Southeast Asian countries will expand China’s economic presence and influence in the region, shaping a new regional economic order with China in the centre.

Cambodia and Laos, China’s two closest strategic partners in Southeast Asia, are relying more on China where their economic and strategic interests are concerned. Infrastructure development is central to the national development strategies of these two small economies, and China will continue to inject more resources and exert more influence in these two countries in order to gain a firm foothold in the Mekong region.


