The Undetermined Costs and Benefits of Cambodia’s Engagement with China’s Belt and Road Initiative

Chanrith Ngin*

Chinese Vice Minister of Commerce Qian Keming (L) bumps fists with Cambodia’s Minister of Tourism Thong Khon (R) during a handover ceremony of the Morodok Techo National Stadium, funded by China’s grant aid under its Belt and Road Initiative, in Phnom Penh on 12 September 2021. Photo: TANG CHHIN Sothy/POOL/AFP.

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EXECUTIVE SUMMARY

- Cambodia is perceived as a ‘client state’ of China due to its dependence on Chinese aid and investment, particularly within the Belt and Road Initiative (BRI). Lack of agency and debt default are potential pitfalls that Cambodia is perceived to have.

- Cambodia does have agency to manage BRI projects in that it can coordinate and diversify donors and investors to meet its economic needs.

- In the infrastructure sector, Cambodia has used coordination and diversification strategies to boost economic growth as well as reduce poverty and inequality.

- Cambodia has also hedged with the United States to maintain access to the largest market for the country’s garment and agricultural exports.

- Even though Cambodia needs more BRI loans to enhance its infrastructure for post-pandemic recovery, the risk of debt distress will remain low for the country as it has a public debt management strategy, and has furthermore also increasingly diversified its lending sources.

- However, the economic benefits of the BRI need to be considered along with adverse impacts on local livelihoods and the environment. Thus, a holistic project-specific assessment is essential to shed light on the costs and benefits of BRI.
INTRODUCTION

Cambodia is commonly deemed a ‘client state’ of China\(^1\) over-depending on the latter’s economic and political support, particularly within the Belt and Road Initiative (BRI). A loss of sovereignty and the likelihood of falling into a ‘debt trap’ are often cited as the key tenets of this over-dependence.\(^2\) Among ASEAN countries, Cambodia is seen to support China’s position in the South China Sea dispute.\(^3\)

Given the bilateral asymmetry, does Cambodia’s engagement in the BRI provide more costs than benefits? This essay argues that it is too early to conclude that BRI’s costs exceed benefits for the country, by first describing how Chinese investment and aid, including BRI projects, have contributed to overall economic growth and poverty reduction in Cambodia despite some adverse impacts on local livelihoods and the environment. It then discusses Cambodian efforts to reduce dependence on China by diversifying investors and donors. Finally, it argues that costs and benefits related to BRI schemes in Cambodia have been only partially examined, thus preventing a complete assessment.

ECONOMIC GROWTH AND POVERTY REDUCTION

Before the COVID-19 pandemic, Cambodia enjoyed rapid economic growth, achieving an average annual growth rate of 7.7 percent, between 1998 and 2019.\(^4\) The country’s GDP per capita rose from US$269 in 1998 to US$1,643 in 2019, and is estimated to be US$1,648 in 2021.\(^5\) During that period, garment exports and tourism were the main drivers of growth, followed by construction and agriculture.\(^6\) In 2019, tourism, manufacturing exports, and construction contributed over 70 percent of economic growth and provided 39 percent of the total paid employment. The Covid-19 pandemic severely impacted these key sectors, and the economy contracted by 3.1 percent in 2020.\(^7\) The country entered the endemic phase since 2021, and the economy is expected to grow by 2.1 percent in 2021 and 5.1 percent in 2022.\(^8\) This positive outlook is premised on a strong recovery in manufacturing, particularly the garment, travel goods, footwear and bicycle industries, and in agriculture.\(^9\)

Economic growth over the past two decades has contributed significantly to reducing poverty and inequality, mainly due to the substantial rise in labour (especially wage) earnings.\(^10\) The poverty rate declined from 53.2% in 2007 to 13.5% in 2014.\(^11\) Notwithstanding this, under a redefined poverty line, about 18 percent of the population was identified as poor in 2019, with the lowest poverty rates being in Phnom Penh (4.2 percent) and other urban areas (12.6 percent), and the highest in rural areas (22.8 percent).\(^12\) Along with poverty reduction, income inequality has also decreased over the last two decades, with the Gini coefficient declining from 40.4 in 1997 to 37.5 in 2008 and 29 in 2012.\(^13\)

While causal links between Chinese investment and aid and poverty reduction in Cambodia have not been precisely substantiated\(^14\) China has crucially contributed to economic growth in the country as the top investor and donor. Among other things, its salient contribution has been job creation and increased business opportunities.\(^15\)
Between 1994 and 2021, Cambodia received US$41.0 billion in foreign direct investment (FDI), of which China (Cambodian institutions dealing with statistics refer to China as “the Greater China region”, covering mainland China, Hong Kong, Macau, and Taiwan) accounted for 43.9 percent, followed by South Korea (11.9 percent), Vietnam (6.1 percent), Singapore (6.5 percent), Japan (5.9 percent), and Malaysia (4.6 percent). The main sectors that attracted Chinese investors were manufacturing (30.7 percent), electricity (13.0 percent), finance (10.9 percent), real estate (10.7 percent), hotels and restaurants (9.6 percent), agriculture (6.4 percent), and construction (5.2 percent). Despite the pandemic, Chinese investment in Cambodia rose substantially, with fixed-asset investment reaching US$2.32 billion in 2021, up by 67 percent from US$1.39 billion in 2020. In other words, Chinese investment in 2021 comprised 50 percent of overall approved investment of US$4.35 billion, followed by the U.S. (4 percent) and Singapore (3 percent). Over the last decade, many Chinese investment schemes have been related to the BRI.

**BRI PROJECTS IN CAMBODIA**

No official definition or formal list of BRI projects in Cambodia exists. One useful approach to identify BRI projects has been proposed by Wang (2022), defining BRI projects as those: (i) financed by loans from Chinese financial institutions, totally or partially; (ii) invested in by Chinese state-owned and/or private companies; (iii) invested in by joint ventures between Chinese firms and their local partners; and (iv) as part of China’s foreign assistance programme. BRI projects are implemented by Chinese provincial authorities and state-owned enterprises (SOEs). The BRI has political, economic and development objectives addressed in a number of sectors. Although the BRI also includes trade pacts, technologies and social sectors (such as health and education), its eminent feature is infrastructure projects that involve Chinese SOEs. Based on Wang (2022)’s criteria, from January 2021 to March 2022, Cambodia had 17 BRI projects, comprising one bid awarded, six completed projects, two projects whose construction just started, four contracts signed, and four projects in progress (see details of the projects in Appendix). By type of sector, these are two agriculture projects, one chemicals project, two construction projects, four energy projects, one entertainment project, one health services project, and six transportation projects. Also, there have been projects undertaken before the start of the BRI in 2013 that later were labelled as part of the BRI. From 2004 to 2021, the Chinese government funded 101 projects in Cambodia, the bulk of which concerned road networks and agricultural and power infrastructure.

**DEVELOPMENT ASSISTANCE AND DONOR DIVERSIFICATION**

Alongside the soaring investment, China has increased its development aid to Cambodia through the BRI apparatus. By 2019, 48 percent of Cambodia’s official development assistance (ODA) worth about US$ 7.22 billion had come from China. China also pledged to provide around US$ 600 million in aid for the period of 2019-2021. Further, China is Cambodia’s top lender, which accounted for 41 percent of the foreign debt of US$ 9.8 billion by June 2022. Other main debtors included Japan (10%), France (5%), and multilateral agencies (32%). Recently, thanks to massive donations of COVID-19 vaccines from China, Cambodia was able to fully inoculate over 90 percent of its populace. The high vaccination rates have enabled the kingdom to open up and gradually resuscitate its economy.
China is a major donor, with spent and planned disbursements of ODA totalling US$1,750 million in 2019-2024, while other donors such as Japan (US$1,693 million) and South Korea (US$790 million) have also been providing significant amounts of aid (see Table 1). This signifies that Cambodia has a diverse range of donors, from both Asian and non-Asian sources.

Table 1: Disbursement of Official Development Assistance, by Selected Donor (as of May 2022)

<table>
<thead>
<tr>
<th>Donor</th>
<th>Number of Projects</th>
<th>Own Disbursement (US$ million)</th>
<th>Planned Disbursement (US$ million)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2019</td>
<td>2020</td>
<td>2021</td>
</tr>
<tr>
<td>European Union</td>
<td>67</td>
<td>65.50</td>
<td>89.35</td>
<td>76.90</td>
</tr>
<tr>
<td>China</td>
<td>15</td>
<td>503.70</td>
<td>494.75</td>
<td>343.15</td>
</tr>
<tr>
<td>Japan</td>
<td>84</td>
<td>207.65</td>
<td>501.65</td>
<td>400.60</td>
</tr>
<tr>
<td>South Korea</td>
<td>89</td>
<td>72.80</td>
<td>103.25</td>
<td>119.80</td>
</tr>
<tr>
<td>USA</td>
<td>61</td>
<td>95.30</td>
<td>93.00</td>
<td>112.10</td>
</tr>
</tbody>
</table>

Source: Extracted from Cambodia ODA Database. Available at: http://odacambodia.com/Reports/reports_by_updated.asp?status=0 (Accessed on 26 May 2022)

Given the dominant shares of Chinese investment and aid, and in the overall context of donor dependence, it is presumed that Cambodia does not have any bargaining power. In fact, recent studies show that Cambodia does hold some leverage in dealing with its donors, including China. For instance, Calabrese and Cao (2021) found that the Cambodian government has employed its Development Cooperation and Partnerships Strategies to coordinate aid to developing infrastructure, both BRI and non-BRI related, to meet its economic needs. Despite China considerably funding infrastructure through the BRI, there are dozens of other donors financing transport and energy infrastructure in Cambodia. What has optimized the aid in this sector is the strategy of “diversification” that Cambodia uses to spread infrastructure financing and implementation across donors. Evident examples have included assistance to construct roads, bridges, ports, and Special Economic Zones (SEZs).

There are, for example, both the grant-funded ‘Cambodia-China Friendship Bridge’ and the ‘Cambodia-Japan Friendship Bridge’ standing next to each other over Tonle Sap River in the capital city of Phnom Penh (see Figure 1). South Korea is building a “Cambodia-Korea Friendship Bridge” through a grant in 2023 over the same river and city, just about one kilometer from the ‘Japanese’ and ‘Chinese’ bridges. While China has a dominant investment in Sihanoukville in general and a Sihanoukville SEZ in particular, Japan has substantially been aiding the Sihanoukville deep-sea port.
Another instance of donor diversification is in national road construction and repairing. The government has purposefully assigned sections of roads to specific donors to construct or rehabilitate. For example, the construction of the Phnom Penh–Preah Sihanouk Expressway has been allocated to China, while Japan has done a preparatory study of the Phnom Penh–Bavet Expressway. South Korea has upgraded National Roads 2, 22 and 48, while Japan has repaired National Road 5 and China has improved National Roads 3 and 7. This division strategy is also evident in the assignment of infrastructure sub-sectors to donors based on the government’s priorities. In each sub-sector, the portfolio is allocated to at least three donors. If a sub-sector has high priority, more than three donors are involved.

The diversifying and balancing of donors have enabled Cambodia to avoid over-reliance on China, reduce transaction costs, and to use emerging donors as alternatives to conventional ones. In this manner, the government has generated “competition” among donors that have over time increased investment in infrastructure. For instance, loans and grants for the infrastructure sector (communication, energy, and transport) rose from US$ 242 million in 2010 to US$ 306 million in 2017. While the increase in the disbursement in the energy sector was mainly due to loans from China, the transport sector benefited from significant funding from Japan and the Asian Development Bank. Thus, Cambodia has effectively used a “diversification” strategy to increase funds to improve infrastructure, which is a strategic priority for economic recovery and inequality reduction.

Another strategy that Cambodia has employed to minimize dependence on China is to diversify foreign investors, with such efforts being intensified recently. This strategy is jointly executed by the Cambodia Chamber of Commerce (CCC), the Council for the Development of Cambodia (CDC), and the Ministry of Commerce. Furthermore, besides Japan and South
Korea, the government is forging a free trade agreement with India. The CCC will open a representative office in Canada in June this year to lure the Canadian business community to invest in Cambodia. In the same month, a CCC delegation will discuss investment opportunities with the New York Chamber of Commerce in the US, which will conduct a reconnaissance visit to the kingdom. Improving economic relations with the US is paramount for Cambodia since the super power is its largest export market, specifically through the Generalised System of Preferences (GSP) system. In 2021, the US Congress suspended Cambodia’s GSP status for its deteriorating human rights, restrictions on civil society, and suppression of dissent voices.

Before the GSP suspension, more specifically in 2021, Cambodia exported more than $8.7 billion worth of goods, mostly agricultural and garment products, to the US, an increase from US$6.5 billion in 2020. This amount made up over 30 percent of the total export, while export to China was at only about 7 percent. This US export share represents a critical economic leverage since garments and agriculture are the key sectors that provide jobs conducive to poverty reduction. Although China is the main investor in these industries, Cambodia cannot afford to lose the American market. In 2019, the garment industry employed 750,000 workers and its export earnings accounted for 15 percent of the GDP.

Hence, on the political front, Cambodia applies an ‘open position’ policy with the U.S. while attempting to refine their relationship and desiring ‘a full reconciliation’ with the superpower. For instance, though Cambodia is not invited to join the U.S.-led Indo-Pacific Economic Framework, it wants to be a member of this regional bloc. To improve the political relation and attract investment from US businessmen, the Cambodian government has hired US lobby firms to convince American politicians about the ‘true’ situation and mutual interests in the country, spending over US$ two million by 2021 for this purpose.

Another pivotal donor and investor that Cambodia hedges with is Japan, who exercises a ‘balancing-China strategy’ by providing quality and sustainable development assistance and investment, particularly ‘quality infrastructure’, to the kingdom. With this strategy, Japan is highly valued among Cambodians, given their ‘mixed perceptions’ about China. Despite its investor and donor diversification, Cambodia is often criticized as being too reliant on China and becoming vulnerable to a ‘debt trap’.

FEAR OF THE ‘DEBT TRAP’

In addition to the aid/investment coordination and diversification strategies, Cambodia has a ‘conservative’ debt management strategy. The Ministry of Economy and Finance is the only institution mandated to borrow money and strategize loans and repayments. The key borrowing principles focus on: (i) the amount affordable by the state budget and the economy; (ii) high concessional loans; (iii) the sectors that support growth sustainability and productivity enhancement; and (iv) transparent and effective use of loans. This strategy is applied to loans from all bilateral and multilateral institutions, including those from China. As an example of targeting loans to boost growth, by the end of 2018, Cambodia used 87 percent of its debts to fund infrastructure. In June 2022, 32 percent of concessional loans was spent on improving infrastructure. Specifically, in 2017, China financed around 70 percent of Cambodia’s roads and bridges. Infrastructure improvement is key to pre-pandemic economic growth, post-pandemic recovery, and further inequality reduction. Cambodia still faces a substantial
infrastructure gap. Bridging this gap would make the country more competitive with greater connectivity, driven by investments in rural and urban infrastructure. An IMF analysis has shown that inequality can be reduced faster by targeting infrastructure spending in rural areas. The government is devising a master plan to upgrade transport and logistic infrastructure, which will cost about US$50 billion.

Contrary to the popular perception, Cambodia’s public external debt is well below the benchmarks set for sustainability. Foreign debts accounted for 25 percent of the GDP in 2018 and 24.9 percent in June 2022. Given its development status and growth rates, Cambodia can safely borrow up to 40 percent of its GDP. While the pandemic-induced economic slowdown may have weakened Cambodia’s ‘debt carrying capacity’, and the debt-to-GDP ratio may rise during the next decade, but given the growth projections and present policies, the country remains at low risk of debt default. Specifically, while Cambodia’s borrowings from China for improving infrastructure is expected to soar, it faces low risk of debt distress if it continues to effectively apply its debt management strategy and increasingly diversifies its strategic lenders.

COSTS AND BENEFITS OF THE BRI

Besides the debt and sovereignty issues, studies on BRI projects in Cambodia have focused on the socio-economic and environmental impact of infrastructural and agricultural investments on local livelihoods. These have been specific case studies focusing on individual projects and using qualitative methods (such as interviews and group discussions). Environmental damage, land grabbing, forced evictions, loss of livelihoods, limited participation by local communities, and lack of transparency and accountability are common findings from these studies. There are also studies examining BRI projects in general and discussing their economic, social and environmental ramifications in broad economic and political terms. The conclusions of these analyses are based on macro factors (such as economic growth and national sovereignty) and associated regional and global geopolitics and geo-economics. Costs and benefits of the BRI are discussed based on broad assumptions rather than concrete measures. For instance, a claim is made that since Chinese state-owned enterprises (SOEs) are involved in BRI-related investments, most benefits will go to China. Another presumptuous claim is about the ‘few’ benefits that locals in Sihanoukville have gained given the omnipresence of Chinese businesses in the city. While these assumptions appear to make sense, they lack an analytical rigour to draw sound and specific conclusions to make useful and actionable policy recommendations.

Moreover, while qualitative project-specific research has provided detailed accounts of impacts from the perspectives of local communities, it has not fully captured the views of diverse stakeholders and, as such, provides incomplete assessments of the impact of the projects reviewed. For example, perspectives from the private sector as well as national and sub-national government actors, who are normally hard to access, are often not presented. Furthermore, socio-economic and environmental impacts are qualitatively examined and perception-based, with quantitative back-up of maps and satellite images at times. What is missing are longitudinal studies that examine before-and-after-the-project conditions using large-N surveys to quantify measurable changes, particularly concerning economic effects in the medium and long term.
In conclusion, even though the BRI projects in Cambodia have had some adverse impacts on local livelihoods and the environment, their full economic impacts have not been holistically scrutinized. Hence, it is crucial to undertake more comprehensive studies of the costs and benefits of BRI schemes.

Without a proper comprehension of project-specific or sector-based performance, the public assessment of policy and business decisions can be easily distorted.
## Appendix: BRI projects in Cambodia, January 2021-March 2022

<table>
<thead>
<tr>
<th>Year</th>
<th>Project Title</th>
<th>Status of Project</th>
<th>Sector</th>
<th>Region</th>
<th>Estimated Cost (USD)</th>
<th>Parent Company in Charge</th>
<th>Company Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>Hun Ty Agricultural Industrial Park Phase I</td>
<td>Contract signed</td>
<td>Agriculture</td>
<td>Sihanouk</td>
<td>Unavailable</td>
<td>China Civil Engineering Construction Corporation Ltd.</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Hun Ty Agricultural Industrial Park Phase II</td>
<td>Contract signed</td>
<td>Agriculture</td>
<td>Sihanouk</td>
<td>Unavailable</td>
<td>China Civil Engineering Construction Corporation Ltd.</td>
<td>State-owned</td>
</tr>
<tr>
<td>2022</td>
<td>Celimo Tires</td>
<td>Construction started</td>
<td>Chemicals</td>
<td>Sihanoukville Special Economic Zone (SSEZ)</td>
<td>297 million</td>
<td>Hodo Group</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Royal Skyland Project</td>
<td>In progress</td>
<td>Construction</td>
<td>Phnom Penh</td>
<td>Unavailable</td>
<td>China Metallurgical Group Corporation</td>
<td>State-owned</td>
</tr>
<tr>
<td>2022</td>
<td>Techo International Airport</td>
<td>In progress</td>
<td>Construction</td>
<td>Phnom Penh</td>
<td>1.5 billion</td>
<td>China State Construction Engineering Corporation Ltd.</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Rural Water Supply Project Phase II</td>
<td>Completed</td>
<td>Energy</td>
<td>Kampong Chhnang</td>
<td>Unavailable</td>
<td>China Jiangxi International Economic and Technological Cooperation Company</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Sihanouk 2x350MW Coal-fired Power Plant Unit 2</td>
<td>In progress</td>
<td>Energy</td>
<td>Sihanoukville</td>
<td>1-1.3 billion</td>
<td>Power Construction Corporation of China</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Cambodian National Stadium</td>
<td>Completed</td>
<td>Entertainment</td>
<td>Phnom Penh</td>
<td>150 million</td>
<td>China State Construction Engineering Corporation Ltd.</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Cambodia-China Friendship Preah Kossamuk Hospital</td>
<td>Completed</td>
<td>Health services</td>
<td>Phnom Penh</td>
<td>79 million</td>
<td>China State Construction Engineering Corporation Ltd.</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Cambodia Highway 41 Upgrade Project 1B</td>
<td>Bid awarded</td>
<td>Transportation</td>
<td>Kampong Speu</td>
<td>19 million</td>
<td>China Communications Construction Company, Ltd.</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Cambodian National Highway No. 11 Reconstruction and Expansion Project</td>
<td>Completed</td>
<td>Transportation</td>
<td>Prey Veng and Tboung Khmum</td>
<td>Unavailable</td>
<td>China Communications Construction Company, Ltd.</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Eighth Cambodia-China Friendship Bridge</td>
<td>Completed</td>
<td>Transportation</td>
<td>Kampong Cham</td>
<td>Unavailable</td>
<td>Shanghai Construction Group</td>
<td>State-owned</td>
</tr>
<tr>
<td>2022</td>
<td>National Road 7 Upgrade Project</td>
<td>Completed</td>
<td>Transportation</td>
<td>Kratie</td>
<td>33 million</td>
<td>Shanghai Construction Group</td>
<td>State-owned</td>
</tr>
<tr>
<td>2021</td>
<td>Phnom Penh-Sihanoukville Expressway</td>
<td>In progress</td>
<td>Transportation</td>
<td>Phnom Penh and Sihanoukville</td>
<td>2.019 billion</td>
<td>China Communications Construction Company, Ltd.</td>
<td>State-owned</td>
</tr>
<tr>
<td>2022</td>
<td>Techo Airport B500 Lake Development Project Phase I</td>
<td>Contract signed</td>
<td>Transportation</td>
<td>Phnom Penh</td>
<td>Unavailable</td>
<td>China National Machinery Industry Corporation</td>
<td>State-owned</td>
</tr>
</tbody>
</table>

Source: Extracted from a database provided by Wang (2022)
ENDNOTES


5 https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=KH


7 Ibid


15 Ibid


17 Ibid


36 Ibid

41 ibid.
47 ibid.
52 ibid.


