The Belt and Road Initiative in Cambodia:
Costs and Benefits, Real and Perceived

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Abstract

China is Cambodia’s largest bilateral donor, lender, investor, and trading partner. Economic relations have been strengthened by Cambodia’s active participation in the Belt and Road Initiative (BRI). Participating in the BRI has costs and benefits. It has addressed infrastructure deficits, reducing trade and transport costs, supporting productivity and economic growth. This has improved living conditions and reduced poverty. On the negative side, there are concerns over environmental decay, land grabbing, and associated losses in livelihoods. Benefits appear to outweigh costs in Cambodia. Nevertheless, China is trying to improve the environmental, social and financial sustainability of BRI investments, following international criticisms. Although there are early signs that implementation of projects is becoming more environmentally friendly, concerns over inadequate environmental impact assessments and resettlement programs remain. Increasing reliance on one country also carries risks – diversifying sources may also help in achieving Cambodia’s aim of diversifying its economic structure.

Keywords: Belt and Road Initiative; Infrastructure Development; Cambodia
JEL Codes: F21, F50, O18
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1. Introduction

It is widely recognised that Cambodia and China have a strong and special political and economic relationship. Perhaps what is less well known is how old this relationship is, with diplomatic ties dating as far back as to the 13th century (Zhou 2007). Cambodia’s growing reliance on China for investment, trade, aid and finance has reached such a level that it is sometimes referred to disparagingly as a ‘client state’ of China. As a small but independent, sovereign state, Cambodia is faced with the challenge of managing this relationship and ensuring that its national identity is preserved while its national interests are served. There is little doubt that the strengthening of ties between the two countries is aided by the strong, personal relationship between President Xi Jinping and Prime Minister Hun Sen. The relationship has also been aided by increasing isolation from the West, which has imposed various punitive measures in response to a perceived deterioration in governance standards and human rights violations. The US and Europe in particular have been steadily increasing such pressures over time, starting from the 1997 coup that ended the power sharing arrangement with Prince Ranariddh and instilled Hun Sen as the sole Prime Minister.

An important factor driving the intensification of the economic relationship between the two countries is Cambodia’s active participation in China’s Belt and Road Initiative (BRI). Cambodia has been a vocal and enthusiastic proponent of the BRI since its inception in 2013. In Cambodia, the BRI focusses mainly on loans provided for the development of physical transport infrastructure, although it has also been associated, either directly or indirectly, with the development and transformation of the port city of Sihanoukville in the south. There are also investments in agriculture, energy, and manufacturing, apart from strengthening ties through people-to-people exchange.

The main objective of this paper is to assess the impact of the BRI, focussing on its costs and benefits, both real and perceived. This perception is derived from various actors within the country itself – government, private sector and citizens – and therefore aims to provide a narrative from an insider’s point of view.

Following criticisms from the US and other non-BRI members, China expressed its commitment to improving the quality of BRI investments at the second BRI summit in 2019.

1 This paper is based on a study commissioned by the Centennial Group’s Emerging Market Forum for a multi-country project on the BRI. I am grateful to Rajat Nag, Charith Ngin and Fredrik Sjöholm for useful comments, without implicating them in any way.
Commitments were made to multilateralise the BRI by adopting international standards and norms in project selection and all aspects of operation and implementation. The BRI projects were also expected to be more sustainable, financially, environmentally and socially, from the borrowing country’s point of view. Although data is still limited, an attempt is made to try and assess whether these commitments from the second BRI summit are being reflected in the implementation of ongoing projects or in the selection of new ones.

The paper is in six parts. The next section describes the growing relationship between Cambodia and China, focussing on the role of the BRI, and how this affects its stated aim of pursuing diversification in various forms. Section 3 aims to provide a working definition of BRI and the types of projects that are included in it. Following that, an assessment of the costs and benefits of the BRI is undertaken, drawing on existing studies. The perceptions of the BRI and its impacts from the public sector, private sector and the people of Cambodia is the subject of Section 5. A final section concludes.

2. BRI, Growing China Reliance, and Diversification

As a transitional economy and Least Developed Country (LDC), Cambodia needs to attract foreign direct investment (FDI) or incur external debt if it is to grow at a rate faster than that determined by its low domestic savings rate. There is a sustainability element associated with each of these flows, however. The need for long-term debt sustainability is widely recognised and perhaps better understood than the need to ensure that FDI inflows do not exceed absorptive capacity. The latter is associated with ensuring that external competitiveness of the tradable goods sector is not impaired by a sharp appreciation of the real exchange rate due to massive inflows of FDI. This could lead to a process of deindustrialisation similar to that described as Dutch Disease. The relevant point here is that an economy like Cambodia should be selective in its choice of projects, whether financed by foreign investment or borrowings, if it is to grow in a sustainable and inclusive manner.

The increasing reliance on a single country for both its economic and non-economic needs carry obvious risks. Cambodia debt at end 2021 was $9.5 billion, of which 42.7 percent was owed to China. As a share of GDP, this was about 15 percent. As the China growth juggernaut starts to slow, diversifying trade and investment partners can spread risk by reducing vulnerability to country-specific shocks. Domestic structural changes by diversifying sources of growth will be enhanced by increasing the share of new investors that can help plug Cambodia into new markets and manufacturing global supply chains (see Section 4). There are costs associated with increased concentration and need to be considered in assessing net benefits of future engagement.²

² The fact that there is inertia or path dependence in this process increases its importance and ramifications. There is international evidence to suggest that alliances matter in the future evolution of trade and investment outcomes because governments align commercial policies with national security interests and firms take political relations between states into account when assessing risk. The sharp increases in trade and investment flows between Cambodia and China over the last decade in particular is very much in line with the international evidence and is only likely to increase with time, ceteris paribus.
But has the increasing reliance on Chinese investment and aid associated with BRI reduced or crowded-out engagement with other investors and donors? There is evidence to suggest that this may not have been the case. For instance, Calabrese and Cao (2021) find that the Cambodian government has employed its Development Cooperation and Partnerships Strategies (see CDC 2013; 2019) to coordinate aid to develop both BRI and non-BRI related infrastructure to meet its economic needs. Despite China dominating the funding of infrastructure development through the BRI, there are many other donors and financiers involved in transport and energy infrastructure development in Cambodia. As shown in Table 1, total disbursements associated with ODA from China between 2019-2021 is only marginally higher than that from Japan over the same period (Ngin, 2022).

Table 1 also indicates that planned disbursements between 2022-2024 from China and other donors will continue their historical trend of decline. The drop is particularly sharp for 2024, which may simply reflect increased uncertainty that far into the future. Even after putting aside 2024, should this trend be a source for concern for the future of the BRI in Cambodia? There are a number of reasons to suggest that it should not. First, the decline is not as sharp as that of the other major donor, Japan. Second, it may reflect changes in the composition of BRI activities from hard to soft infrastructure, which involves lower financial outlays (see Section 5). This could be in response, at least in part, to the second BRI summit. Last but certainly not least, it may also reflect a shift towards non-ODA financing. A shift towards greater Chinese equity investment and private sector involvement has already started and this trend could increase in the future.

Therefore, despite the growing reliance on Chinese aid and investment, the government has been careful to avoid crowding out aid and investment from other sources. In fact, some see the government leveraging on the growing relationship with China to strategically catalyse more aid and investment from competing sources in the region.

Table 1: Disbursement of Official Development Assistance by Select Donors (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 (See Ngin, 2022)
3. Defining BRI Projects in Cambodia

There is no official list of BRI projects in Cambodia. To avoid including all China-related investments or loans as part of the BRI, Wang (2022) provides a set of criteria to be used in determining which projects should be included. Projects are classified as being part of BRI if they are (i) financed, either totally or partially, by loans from Chinese financial institutions; (ii) invested in by Chinese enterprises (either state-owned or private); (iii) invested in by joint ventures between Chinese firms and their local partners; and (iv) part of China’s foreign assistance programme.

Based on the criteria listed above, Wang (2022) identifies 101 projects in Cambodia that can be considered part of the BRI. A significant share of projects relate to loans provided for the development of physical transport infrastructure. These include major road networks, such as the $2 billion, 190 kilometre Phnom Penh-Sihanoukville Expressway, major new airports such as the Siem Reap International Airport and another in Phnom Penh, and various smaller connectivity projects. As of June 2021, China had built 3287 kilometres of road and constructed eight main bridges with a total length of about 7.7 kilometres as part of the BRI.

The BRI in Cambodia has received a lot of negative press coverage through its association, either directly or indirectly, with the development and transformation of Sihanoukville. Large amounts of Chinese investments have transformed Sihanoukville from a sleepy seaside resort town, popular amongst low-budget tourists and backpackers, into a bustling gambling centre, where luxury hotels and casinos now abound. Although the Chinese investments in the real estate, hotel and casino complexes themselves may not be considered part of the BRI, the infrastructure and related projects that have facilitated the transformation of the town are very much part of the BRI.

The Sihanoukville Special Economic Zone (SEZ) started in 2008-09 as an enclave focussing on light manufacturing, mainly garments, and was managed by a Chinese company. An overwhelming majority of firms in the zone are from China (see Warr and Menon, 2017). It has grown from employing less than 1,000 workers (both local and foreign) in the early stages of operation to become the largest SEZ in the country. It has also evolved from a light manufacturing enclave to a multi-purpose SEZ that encompasses the entire province, following the signing of a sub-decree by Prime Minister Hun Sen on 9 June, 2021. The SEZ is considered part of the BRI, as well as all the light manufacturing and wastewater treatment and other facilities included within it.

There are also investments in agriculture and energy as part of the BRI, apart from strengthening ties through people-to-people exchange. The main energy projects is the 700-megawatt power plant in Sihanoukville.

In June 2020, China’s Ministry of Foreign Affairs stated that 30 to 40 percent of BRI projects worldwide had been affected by the COVID-19 pandemic, and a further 20 percent had been seriously affected. Unlike other countries, it appears that implementation of BRI projects were
less affected by the pandemic in Cambodia (Chheang, 2021). Consistent with this, from January 2021 to March 2022, Cambodia had 16 BRI projects, comprising one bid awarded, six completed projects, two projects whose construction just started, four contract signings, and four projects in progress. By type of sector, these include two agriculture projects, one chemicals project, two construction projects, four energy projects, one health services project, and six transport infrastructure projects. Also, there have been projects undertaken before the start of the BRI in 2013 that later were labelled as part of the BRI.

4. Costs and Benefits of BRI Projects

The number of studies examining the costs and benefits of BRI projects in Cambodia are limited. The existing analyses tend to be specific case studies focusing on individual projects and using qualitative methods, such as interviews and group discussions. This approach, by its very nature, tends to highlight the short-run effects, generally costs, and is less well equipped to capture the long-run impacts, generally benefits. This skew needs to be borne in mind in interpreting the findings of these studies. Therefore, it is perhaps unsurprising that many of the studies focus on immediate, direct impacts such as environmental damage, forced evictions as a result of land grabbing, and associated loss of livelihoods. This is not to deny that these effects are real or significant, but simply to note that they generally focus on only half of the impacts in a cost-benefit analysis. The analyses also point to various problems relating to procedure and implementation, with non-existent or limited consultation with or participation by local communities, and a general lack of transparency and accountability. The procedural problems are directly related to the negative impacts highlighted.

There are a large number of qualitative studies that highlight the environmental damage resulting from BRI infrastructure projects. However, there are some early signs that environmental impacts are being taken more seriously in the implementation of projects following the second BRI Summit. Pressure to do so has also come from US President Biden’s Build Back Better World (B3W) proposal. In the ongoing construction of the Phnom Penh-Sihanoukville Expressway, for instance, there are reports that measures are being taken to protect the fragile ecosystem by reducing the impact of the construction work on the green hills and surrounding water to avoid any land erosion. Increased use of recycled materials and the use of technologies that reduce and recycle waste is also evident in the implementation phase. For instance, each part of the project - the office buildings, the hotel, and even the parking lot - has a sewage treatment plant attached to it that recycles domestic waste water for farmland irrigation in the neighbouring areas (Daye, 2021). Although early days, there are signs

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3 Wang (2022) uses three sources in compiling his list of BRI projects. The primary source of the dataset is the weekly/bi-weekly reports of BRI projects posted on the Belt and Road Portal. The second source is the websites of Chinese companies undertaking BRI projects which also include certain projects not listed on the Belt and Road Portal. The third source is media reports.

4 Some of the existing studies include Hu et al., (2019); Po and Heng (2019); Calabrese et al., (2022).

5 There are a large number of studies using more formal methodologies and with more data relating to the impacts of Chinese investments in sub-Saharan Africa that tend to find similar negative impacts, especially with regard to the environment. These include, for instance, Shinn (2016) and Zhang et al., (2014), although it remains unclear if the record has improved in more recent times.
emerging that more environmentally friendly technologies and processes are being applied in the construction of projects such as this major expressway following the second BRI summit. It is still too early to tell if this attempt to build a "green expressway" will lead to a new trend in the infrastructure industry that pays greater attention to protecting Cambodia's environment, however. In addition, issues relating to appropriate due diligence, especially in limiting concerns over land grabbing as part of resettlement programs, and effective implementation of environment impact assessment, remain the overriding concerns and need to be addressed separately.

The benefits from BRI projects in infrastructure emanate from reduced transport and trade costs, which can take many years to materialise. The effect that it can have on increasing economic growth can take even longer and may be obscured by the fact that it may be small in the aggregate. Any technology transfer associated with these projects may also be difficult to identify or measure, but this does not preclude its existence. In a country like Cambodia, these effects are likely to start with human capital development from skills transfer through training and related spillovers. The more immediate benefits are usually related to increased employment generation. Although there is clear evidence of increased employment generation, there are concerns that most of the better paying jobs, in management for instance, are reserved for Chinese nationals. Even in the low to mid-skilled categories, there is evidence to suggest that Chinese investment is associated with the import of foreign workers, limiting the spillover to the local economy and employment opportunities for local workers. The fact that labour markets conditions for low and medium skilled workers remain tight despite the pandemic suggests that this is more of a perceived rather than real cost.

The limited spillover to the local community is highlighted in studies on the large-scale Chinese investments in Preah Sihanouk province. As noted earlier, even if the massive investments in the hotels and casinos that make up the entertainment complexes are not considered part of the BRI, the transport and other infrastructure that has facilitated its development are very much part of the BRI. Therefore, in assessing impact, it is necessary to consider how the BRI has contributed to the overall development and transformation of Sihanoukville, including its new role as an entertainment and leisure centre anchored around gambling. Although this type of industry may not have been the focus of the infrastructure and related projects of the BRI, it is nevertheless an indirect consequence of the Initiative.

The rapid development has resulted in soaring property prices and rentals, which has benefitted land-owning locals but has also increased the cost of living for other Cambodians in the province. There has also been a significant amount of dislocation and forced resettlement of locals to accommodate the rapid transformation. To illustrate, in 2017, Sihanoukville added 120,000 tourists and 78,000 permanent residents from China –when considered against the province's total population of only 150,000, this massive migration has disrupted the economic and social fabric of the local communities (Alffram, 2022). There are also concerns that local micro, small and medium enterprises (MSMEs) that served the previous backpacker tourist

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6 In other words, it would be inappropriate to exclude both the costs and benefits associated with the development of this industry, even if the investments directly involved in its transformation are not considered part of the BRI.
trade have been crowded out by Chinese owned firms targeting a higher-end gambling and leisure tourists, leading to loss of local capital and employment.

Chheang and Heng (2021) suggest that even though Chinese investment is bringing wealth to Cambodia, this wealth is not being shared locally and is mainly kept within Cambodia’s Chinese community. Faulder and Kawase (2018) go further to suggest that Chinese residents and visitors in Cambodia buy from Chinese businesses, eat in Chinese restaurants, and stay in Chinese hotels, and so the trickle-down effect to local businesses is very limited. These are legitimate concerns that have been repeatedly raised by the affected parties and independent observers and media. Greater engagement and consultation with local communities and stakeholders could have mitigated some of the costs while preserving the benefits of increased development and connectivity.

Apart from the entertainment industry, Sihanoukville is now home to Cambodia’s largest SEZ. It has already created better employment opportunities for rural workers looking to move out of subsistence agriculture, and significant growth potential remains. The focus of activities in the SEZ continues to be light manufacturing and centred around garments. Structural change domestically by diversifying sources of growth will be enhanced by increasing the share of new investors that can help plug Cambodia into key manufacturing global supply chains in the electronics and automotive sectors. So far, the diversification within manufacturing away from garments has been driven mainly by Japan, as well as newly industrialising economies such as South Korea and Taiwan, in the SEZs located in Phnom Penh and Poipet. While Chinese investment has been supporting expansion and upgrading within garments, textiles and agriculture, diversification out of these sectors and into the key manufacturing supply chain industries in electronics and automobiles has not yet taken place. There is also scant evidence to support the contention that strong political ties or active participation in the BRI have facilitated a relocation of Chinese firms in non-garment manufacturing trying to evade US trade war tariffs.

Apart from the special case of Sihanoukville, the BRI investments in infrastructure that improves connectivity is already beginning to deliver benefits by reducing transport and trade costs, which have traditionally been high in a poorly connected country like Cambodia. This infrastructure development has increased the competitiveness of the tradable goods sector, boosted exports and lowered prices to consumers and producers in Cambodia.

It is important to recognise that the full benefits from BRI projects cannot be realised without complementary policy reforms, most of which require domestic actions unrelated to the BRI itself. This applies particularly, but not exclusively, to infrastructure connectivity projects. This is what is often described as the software (policy) that must accompany the hardware (physical infrastructure), and usually involve policy changes that reduces the cost of doing business. For instance, the World Bank estimates that on average, real incomes for economies

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7 If positive spillovers have been limited, there has been growing concerns over increased crime rates in the community due to the influx of Chinese criminals linked to the casino and gambling industry. For instance, a local police report in March 2019 showed a 25 percent increase in the crime rate in the province, mostly involving Chinese nationals (see Long, 2019).
involved in the BRI could be two to four times larger if trade facilitation is improved and trade restrictions are reduced. Although progress in being made in trade facilitation and simplification of customs procedures through Cambodia’s participation in various ASEAN and bilateral free trade agreements (FTAs), there is still a long way to go. For instance, Cambodia ranked 98th out of 160 countries surveyed by the World Bank in its Logistics Performance Index (LPI) score in 2018, while neighbouring Viet Nam ranked 39th. Realising the full benefits of BRI projects requires greater progress with implementing complementary policy reforms.

In addition, removing impediments that stand in the way of a more efficient reallocation of factors or production and resources across sectors could increase these medium to long-term benefits even further. Therefore, the direct cost-reducing effects from BRI-related infrastructure development present a lower bound of economic benefits, and may represent only a fraction of the full benefits if accompanied by complementary policies.

Finally, what of the concerns over debt diplomacy and rising debt distress from the BRI and other lenders? The latest Debt Sustainability Analysis (DSA) using the joint IMF/World Bank Debt Sustainability Framework for Low Income Countries was undertaken prior to the pandemic in 2019. The DSA found that Cambodia remains at low risk of external debt distress and that the overall risk of debt distress was low. Although the overall risk of debt distress was found to be low, the analysis did indicate that debt sustainability was vulnerable to export and growth shocks, both of which occurred during the pandemic, and the materialization of contingent liabilities from public-private partnership projects. Although it is important to wait for the next DSA to be undertaken to reassess Cambodia’s current debt stress levels, it is unlikely that the low risk levels would have been significantly raised by the pandemic itself (IMF, 2021). In 2020, Cambodia’s external public debt stood at US$8.8 billion of which about US$4 billion, or less than half, was with China. In the case of Cambodia, concerns over possible debt traps and debt diplomacy associated with the BRI appear to be misplaced, even after factoring in the effects of the pandemic.

5. Perceptions of the BRI: Government, Private Sector and the People

The overwhelming perception amongst the public sector and government officials in Cambodia is that the BRI has been beneficial to Cambodia’s economic development. This view appears to extend from the Prime Minister down to junior officials in almost every government ministry. Prime Minister Hun Sen has made his strong support for the BRI very clear and had repeatedly highlighted its economic benefits. Addressing the world political parties’ meeting organised by the Communist Party of China on July 6, 2021, he described the BRI as a win-win cooperation mechanism that has played a critical role in the socio-economic development of the country, especially during the pandemic and in post-pandemic recovery. He went further to suggest that China’s support through the BRI helps enhance rather than hinder Cambodia’s political independence. Support for the BRI at the highest levels of government in abundantly clear.
The BRI is seen as playing an important role in enabling the government of Cambodia to realize its short- and medium-term objectives, as outlined in the Rectangular Strategy Phase IV and the Industrial Development Policy 2015-2025. More importantly, it is viewed as a critical instrument in achieving its long-term aspirations of achieving upper middle income status by 2030 and high income status by 2050. This position is perhaps best summarised by Vasim Sorya, undersecretary of state and spokesman for the Ministry of Public Works and Transport: “these projects have provided and will continue to provide a lot of tangible benefits to the economy and people of Cambodia.”

This positive perception of the BRI by the public sector is shared by the private sector as well. This is perhaps unsurprising given that the private sector will be the key beneficiary of improvements in infrastructure that reduces trade, transaction and other costs of doing business. Some see the benefits as extending beyond just improving the return on investment, however. For instance, Mak Chamroeun, vice president of Phnom Penh-based online market Smile Shop, had the following to say: "All these infrastructure projects have been playing a key role not only in improving people's daily lives, but also in promoting economic growth and modernising rural areas." In this regard, there is a growing perception that the BRI is contributing to a more inclusive growth process and new model of development.

But there are also quite a few critics of the BRI, both domestic and foreign, who question whether it is in Cambodia’s long-term interests to be increasingly dependent on just one country (see Section 2). There are questions raised as to whether the BRI is contributing to rising indebtedness, inequality, corruption and exclusion by pandering to local elites. Concerns over debt diplomacy is often highlighted, especially given the rising influence of China in neighbouring Laos, and the findings of studies such as Gelpern et al. (2021) that point to the often confidential terms of BRI loan contracts that leave borrowers with little leeway or room for renegotiation. This is a view commonly expressed by academics and NGOs. A lot of the criticism has been directed at Sihanoukville and its rapid and dramatic transformation, as described earlier. The criticism from academics and NGOs is a more general one, however, and for them Sihanoukville simply exemplifies its worst manifestation.

As noted earlier, it would seem that that implementation of BRI projects were less affected by the pandemic in Cambodia compared to most other countries. However, is there any evidence that the commitments made during the second BRI summit in 2019 were being pursued during the pandemic period? Data is still limited but a lot depends on whether the assistance provided for dealing with the pandemic, described as the Health Silk Road (HSR) is accepted as part of the BRI. If it is, as being proposed by China, then the complexion of BRI in Cambodia has significantly changed to be more socially responsible and inclusive since the second BRI summit.

In terms of the first objective of the summit to multilateralise the BRI, greater engagement with multilateral agencies will be critical. In countries where institutions are missing, weak or still

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8 Quoted in China Daily (2022).
9 Quoted in China Daily (2022).
developing, multilateral development banks can play an important “honest broker” role in ensuring that standards are observed and long-term national interests are served.

It could be argued that the increasing role of the Asian Infrastructure Investment Bank (AIIB) in financing infrastructure projects may be an indirect way of serving this objective. It is indirect because although China is the major shareholder, the AIIB is a multilateral development bank and is not there just to serve the BRI, or to finance BRI projects alone. This is further illustrated, for instance, by Brazil recently joining the AIIB as a full member without also joining the BRI. In short, the AIIB and the BRI may be related but they are not one and the same. This is also true of the New Development Bank (NDB), the development financing arm of the BRICS initiative, which involves Brazil, Russia, India, China and South Africa. The NDB may also provide an avenue in the future to multilateralise the BRI should Cambodia start borrowing from it to finance such projects.

While the shift from borrowing directly from Chinese state-owned banks or enterprises to the AIIB is an improvement that should be welcome, challenges remain. There are other concerns with simply shifting financing to the AIIB to meet the commitments of the second BRI summit. The AIIB has chosen to adopt the national standards of borrowing countries when it comes to sensitive issues relating to environment, resettlement, and other safeguard measures. This is in contrast to other multilateral development banks such as the World Bank and ADB, that have their own standards, which are usually set at a higher level. In fact, some see the increasing number and complexity of the requirements associated with borrowing from these traditional multilateral lenders as driving the increase in borrowing from less demanding sources, which then also reduces the leverage of the former in using financing to leverage policy reform. The incentive to shift from traditional lenders to the newer ones with less erroneous requirements is greater for smaller projects where the cost of compliance could represent a significant share of total project costs. A happy medium needs to be struck but this has yet to happen.

It may also be that some national standards in LDCs like Cambodia are not yet fully developed, or are missing altogether, due to weak institutions (see Hill and Menon, 2013). To the extent that national standards fall short of the objectives of the second BRI summit, this shift would fail to meet the new aspirations and could still pose a problem. Furthermore, the real problem is often one of implementation, rather than the standards themselves. Since the standards set by multilaterals like the World Bank and ADB are generally higher than national standards, their monitoring and implementation are also carried out by them. This is further assurance that standards are actually implemented as intended. If national standards are employed, then it is possible that oversight is either shared with or delegated to national authorities, raising concerns over possible conflict of interest and independence.

Nevertheless, the shift from borrowing from China’s state-owned banks or corporations to the AIIB does increase transparency, a major concern raised by Gerpert et al (2021) about BRI projects. It is also likely to raise other standards as a result, even if they fall short of those imposed by other multilateral development banks. In short, shifting lending to the AIIB reduces the problem but may not completely address it. Shifting lending to the AIIB as well as other
multilateral development banks would go much further in meeting the aspirations of the second BRI summit. This is already happening but could be increased further, especially if cooperation with the AIIB could be enhanced.

Apart from multilateralising the BRI, the second summit also called for greater attention being paid to the environmental and social consequences of projects. The jury is still out but there are promising signs relating to changes in the composition of interventions, as noted earlier. According to Wang (2022), the pandemic has affected the composition of BRI projects in Southeast Asia and has shifted the focus somewhat towards more so-called “soft” infrastructure such as health services and digital economy. Apart from the HSR, which has been particularly important for Cambodia, economic engagement with the Southeast Asian region has seen increasing prominence being given to the Digital Silk Road (DSR) in China’s BRI agenda. These trends are likely to continue into the foreseeable future for the region, although the focus on traditional physical infrastructure is likely to remain for countries like Cambodia.

The provision of vaccines from China to Cambodia was a key factor in enabling the country to manage the pandemic effectively and to reopen its economy early and safely. Accepting that the HSR now part of the BRI, this dimension is arguably the most important contribution of the BRI to Cambodia’s pandemic management and recovery. Cambodia was the first Least Developed Country (LDC) to vaccinate more than 85 percent of its population, with one of the best records amongst all countries. This also allowed it to be the first country in ASEAN to open its borders unilaterally and allow tourism to restart, thereby minimising the economic cost of pandemic lockdowns. In this regard, the HSR has played a critical role in minimising the social and economic burden imposed on a poor country with a weak healthcare system. It has limited the extent of economic scarring, and arrested the extent to which the gains in poverty reduction were reversed by the pandemic. These are profound accomplishments with long-term consequences.

6. Conclusion

Although Sino-Cambodian diplomatic and economic relations date back centuries, they have intensified and grown sharply over recent decades. China is now Cambodia’s largest bilateral donor, lender, investor, and trading partner. Economic relations have been formalised and strengthened by Cambodia’s active participation in the BRI.

As an LDC and transitional economy looking to achieve upper middle income status by 2030, the BRI has been an important instrument in addressing infrastructure deficits and reducing trade and transport costs. This has supported improvements in productivity that have spurred trade, and have produced high rates of economic growth. The fruits of this growth have been distributed reasonably fairly, with rising living standards and sharp reductions in poverty

10 Although adequate supplies of vaccines from China were important in the vaccination outcome, Cambodia deserves credit for managing the logistics efficiently, enabling a rapid rollout under challenging circumstances (see Menon, 2021).
incidence. It has also supported development of the power sector and agricultural diversification, all of which have aided in Cambodia’s rapid development.

The benefits of the BRI in these sectors, both real and perceived, clearly outweigh their costs. Nevertheless, there are risks associated with increasing reliance on just one country for economic and non-economic needs. The BRI is also associated with the transformation of Sihanoukville from a sleepy, beachside resort town to a bustling entertainment centre focussed on gambling. The spillover benefits of this rapid development to the local communities appear limited, while there is growing evidence of a rise in the cost of living, crime, corruption and all forms of inequality. While the BRI was not directly involved in transforming Sihanoukville in this way, it created the enabling conditions to allow it to happen. There is a need to address the real and perceived costs of this rapid transformation, that has caused dislocation and displacement amongst local communities.

The second BRI Forum in 2019 committed to addressing the kinds of concerns raised by the Sihanoukville experience, which could arguably have been mitigated through greater community consultation and multi-stakeholder participation. It is still too early to draw conclusions about the extent of change that has been introduced since the forum, and the onset of the pandemic has complicated such an analysis further.

The multilateralisation of the BRI in Cambodia is occurring through a gradual but certain shift in the financing of projects from state-owned banks and corporations to the AIIB. It is still early days but there are signs that the AIIB’s role is set to increase rapidly. While this will increase overall transparency including contractual obligations, the extent to which it will also raise environmental standards and other safeguards which increasing social inclusion remains unclear. This is mainly because the AIIB will be adopting national standards, which may not even exist, and oversight of implementation may also involve national authorities rather than an independent party.

The pandemic has shifted the focus of operations towards the health and social sectors, especially with the introduction of the so-called Health Silk Road (HSR). Cambodia is an outstanding example of how its relationship with China and embrace of the BRI had enabled it to achieve a truly remarkable vaccination rate and manage the pandemic much more effectively than many other more developed countries. By being one of the first countries in Asia to be able to open its borders safely and unilaterally thanks to the HSR, Cambodia may have substantially slowed the reversal of decades of progress in poverty reduction and social upliftment. Although this achievement in significantly limiting the extent of economic scarring from the pandemic may not be obvious or fully appreciated, it will undoubtedly have a profound and long lasting impact on Cambodia’s future economic and social development. To the extent that these changes have been facilitated by commitments made at the second BRI summit, then Cambodia is an example of positive changes being reflected in BRI operations in-country.
References


