

The Belt and Road Initiative in Cambodia

Costs and Benefits

Jayant Menon

China is Cambodia's largest bilateral donor, lender, investor, and trading partner. Economic relations between the two countries have been strengthened by Cambodia's active participation in the Belt and Road Initiative (BRI). However, participating in the BRI has both costs and benefits. It has addressed Cambodia's infrastructure deficits, reduced trade and transport costs, and supported 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. On the whole, 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 the 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 help achieve Cambodia's aim of diversifying its economic structure.

Keywords: Cambodia, China, Belt and Road Initiative (BRI), costs and benefits, infrastructure development, land grabbing, environmental decay.

Article received: July 2023; revised: October 2023; accepted: January 2024

1. Introduction

It is widely recognized 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 the thirteenth 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 has been aided by the strong, personal relationship between President Xi Jinping and former Prime Minister Hun Sen. The

Jayant Menon is Visiting Senior Fellow in the Regional Economic Studies Programme at the ISEAS – Yusof Ishak Institute, 30 Heng Mui Keng Terrace, Singapore 119614; email: jayant_menon@iseas.edu.sg

relationship has also been aided by Cambodia's increasing isolation from and by the West, especially the US and Europe, which have imposed various punitive measures in response to a perceived deterioration in governance standards and human rights violations. The US and Europe have also been steadily increasing such pressures over time, starting with the 1997 coup that ended the power-sharing arrangement with Prince Ranariddh and installed 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 focuses 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.

This paper assesses the impact of the BRI, focusing on its costs and benefits, both real and perceived. Without a comprehensive, quantitative cost-benefit analysis of the BRI in Cambodia, the analysis relies on project assessments, qualitative studies, and perceptions of its costs and benefits. These perceptions are derived from various actors within the country itself—government, private sector, and citizens—and therefore aim 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. Commitments were made to multilateralize the Initiative 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 the selection of new ones.

The paper comprised of six parts. The next section describes the growing relationship between Cambodia and China, focusing on the role of the BRI, and how this affects its stated aim of pursuing diversification in various forms. The third section 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 impact on the public sector, private sector, and the people of Cambodia are the subject of the fifth section. The 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 recognized and perhaps better understood than the need to ensure that FDI inflows do not exceed absorptive capacity. The latter is associated with ensuring that the 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 deindustrialization 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 carries obvious risks. Cambodia's total public debt stood at US\$10.72 billion as of September 2023, of which just over 40 per cent was owed to China. As a share of GDP, this was about 15 per cent. As the China growth juggernaut starts to slow, diversifying trade and investment partners can spread risk by reducing

TABLE 1
Disbursement of Official Development Assistance by Select Donors (as of May 2022)

Donor	Number of Projects	Own Disbursement (US\$ million)			Planned Disbursement (US\$ million)			Total
		2019	2020	2021	2022	2023	2024	
European Union	67	65.50	89.35	76.90	108.70	55.80	12.20	408.45
China	15	503.70	494.75	343.15	260.70	123.70	18.95	1,744.9
Japan	84	207.65	501.65	400.60	474.30	90.85	18.00	1,693.0
South Korea	89	72.80	103.25	119.80	141.70	182.50	170.40	790.45
USA	61	95.30	93.00	112.10	97.10	67.00	32.70	497.20

SOURCE: Extracted from Cambodia ODA Database. Available at: http://odacambodia.com/Reports/reports_by_updated.asp?status=0 (see Ngin 2022).

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.¹ There are costs associated with increased concentration and need to be considered in assessing net benefits of future engagement.²

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 and 2021 are only marginally higher than those from Japan over the same period (Ngin 2022).

Table 1 also indicates that planned disbursements between 2022 and 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 of concern for the future of the BRI in Cambodia? There are several 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. 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. Some see the government leveraging the growing relationship with China to strategically catalyse more aid and investment from competing sources in the region.

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. It is clear that this is a very broad set of criteria and in a developing country like Cambodia would cover almost all Chinese investments, joint ventures or loans.

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 relates to loans provided for the development of physical transport infrastructure. These include major road networks, such as the US\$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 3,287 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 among 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 integral to the BRI.

The Sihanoukville Special Economic Zone (SEZ) started in 2008–9 as an enclave focusing 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 2016). It has grown from employing fewer 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 project is the 700-megawatt power plant in Sihanoukville.

In June 2020, China's Ministry of Foreign Affairs stated that 30 to 40 per cent of BRI projects worldwide had been affected by the COVID-19 pandemic, and a further 20 per cent had been seriously affected. Unlike other countries, it appears that the implementation of BRI projects was less affected by the pandemic in Cambodia (Chheang 2021). Consistent with this, from January 2021 to March 2022, Cambodia had sixteen BRI projects, comprising one bid awarded, six completed projects, two projects whose construction just started, four contract signings, and four projects in progress.³ 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

As noted, there is no comprehensive, quantitative cost-benefit analysis of the BRI in Cambodia, a significant gap that needs to be filled. The number of studies examining the costs and benefits of individual BRI projects in Cambodia is also limited.⁴ The existing analyses tend to be specific case studies employing qualitative methods, such as interviews and group discussions. This approach, by its very nature, tends

to highlight the short-run effects, which are generally dominated by costs, and is less well-equipped to capture the long-run impact, 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 effects such as environmental damage, forced evictions as a result of land grabbing, and associated loss of livelihoods.⁵ This is not to deny that these effects are real or important, but simply to note that they generally focus on only half of the impact in a cost-benefit sense. The analyses also point to various problems relating to procedure and implementation, with non-existent or limited consultation with local communities, and a general lack of transparency and accountability. The procedural problems are directly related to the negative impact 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 impact is being taken more seriously in the implementation of projects following the second BRI Summit. In the construction of the Phnom Penh-Sihanoukville Expressway, for instance, there are reports that measures were 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 are 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 wastewater for farmland irrigation in the neighbouring areas (Daye 2021).

Although still early days, there are signs 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 materialize. 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 domestic workers.

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 have 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 on gambling. Even if 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.⁶

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 trade have been crowded out by Chinese-owned firms targeting higher-end gambling and leisure tourists, leading to the 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 equally among the local community as it is concentrated 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, so the trickle-down effect on local businesses is very limited.⁷ The restricted and skewed spillovers are a legitimate concern that has been repeatedly raised by independent observers and the 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 on 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 industrializing 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 has 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 investment 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 for consumers and producers in Cambodia.

It is important to recognize that the full benefits of BRI projects cannot be realized 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 involves policy changes that reduce the cost of doing business. For instance, the World Bank estimates that, on average, real incomes for economies involved in the BRI could be two to four times higher if trade facilitation is improved and trade restrictions are reduced. Although progress is 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 ninety-eighth out of 160 countries surveyed by the World Bank in its Logistics Performance Index (LPI) score in 2018, while neighbouring Vietnam ranked thirty-ninth. Realizing the full benefits of BRI projects requires greater progress in implementing complementary policy reforms.

In addition, removing impediments that stand in the way of a more efficient reallocation of factors of 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 was at low risk of external debt distress and that the overall risk of debt distress was also low. The analysis did, however, 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

In the absence of a quantitative cost-benefit analysis of the BRI in Cambodia, perceptions of its costs and benefits gain increasing importance. The overwhelming view amongst the public sector and government officials in Cambodia is that the BRI has been beneficial to Cambodia's economic development. This notion appears to extend from the Prime Minister down to junior officials in almost every government ministry. Former Prime Minister Hun Sen had made his strong support for the BRI very clear and had repeatedly highlighted its economic benefits. Current Prime Minister Hun Manet has not deviated from this position. Addressing the world political parties' meeting organized by the Communist Party of China on 6 July 2021, Hun Sen 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 hinders Cambodia's political independence. Support for the BRI at the highest levels of government is 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 current Pentagon Strategy (Phase I) and in the previous Rectangular Strategy (Phase IV) and the Industrial Development Policy 2015–25. 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 summarized 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."⁸

The 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 reduce 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 modernizing rural areas"⁹. 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 interest to be increasingly dependent on just one country. 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 are often highlighted, especially given the rising influence of China in neighbouring Laos, and the findings of studies such as Gelpert 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 the implementation of BRI projects was 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 remain 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 multilateralize the BRI, greater engagement with multilateral agencies will be critical. In countries where institutions are missing, weak or still 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 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 multilateralize 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 welcomed, 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 the 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 than national standards. 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 newer ones with less stringent 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 of 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 oversight may be either shared with or delegated to national authorities, raising concerns over possible conflicts of interest and independence.

Nevertheless, the shift from borrowing from China's state-owned banks or corporations to the AIIB does partly address the lack of transparency, a major concern raised by Gelpert 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 overcome 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 multilateralizing the BRI, the second summit also called for greater attention to be paid to the environmental and social impact 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 the 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.

This shift was formalized when China launched the Global Development Initiative (GDI) at the United Nations in September 2021, amid the pandemic, to support the drive towards realizing the Sustainable Development Goals (SDGs) and beyond. The GDI is not intended to replace the BRI, however, but to complement it by focusing on smaller projects focused on the social sectors and designed to help achieve the SDGs. While these trends are likely to continue into the foreseeable future for the region, the focus on traditional physical infrastructure is likely to remain for countries like Cambodia.

It is interesting to note that 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.¹⁰ Accepting that the HSR is now part of the BRI and GDI, this dimension is arguably the most important contribution of these initiatives to Cambodia's pandemic management and recovery. Cambodia was the first LDC to vaccinate more than 85 per cent of its population, with one of the best records among all countries. This also allowed it to be the first country in ASEAN to open its borders unilaterally and allow tourism to restart, thereby minimizing the economic cost of pandemic lockdowns. In this regard, the HSR has played a critical role in minimizing 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 formalized 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 incidence. It has also supported the 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 both 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 focused 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 conclude the extent of change that has been introduced since the forum, or the launch of the Global Development Initiative (GDI) in 2021, and the two may indeed be related.

The multilateralization 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 such as 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) prior to the launch of the GDI in 2021. Cambodia is an outstanding example of how its relationship with China and embrace of the BRI have 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, Cambodia is an example of positive changes being reflected in BRI operations in-country.

Acknowledgements

This paper is based on a study commissioned by the Centennial Group's Emerging Market Forum for a multi-country project on the BRI (Kohli, Linn, and Nag 2023). I am grateful for useful comments from Cassey Lee, Rajat Nag, Charith Ngin, Fredrik Sjöholm, participants at the 2022 East Asian Economic Association conference and a joint CDRI-ISEAS webinar, and two anonymous reviewers, without implicating them in any way.

NOTES

1. These issues are discussed in detail in Menon (2024).
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 are very much in line with the international evidence and are only likely to increase with time, *ceteris paribus*.
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, Borodyna, and Nadin (2022).
5. There are several studies using more formal methodologies and with more data relating to the effects of Chinese investments in sub-Saharan Africa that tend to find similar negative impact, especially with regard to the environment. These include, for instance, Shinn (2016) and Zhang, Alon, and Chen (2014), although it remains unclear if the record has improved in more recent times.
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.
7. If positive spillovers have been limited, there have 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 per cent increase in the crime rate in the province, mostly involving Chinese nationals (see Long 2019).
8. Quoted in *China Daily* (2022).
9. *Ibid.*
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).

REFERENCES

- Alffram, Matthias. 2022. "Sihanoukville Pays the Price for Heavy Reliance on Chinese". *Bangkok Post*, 9 May 2022. <https://www.bangkokpost.com/business/2306938/sihanoukville-pays-the-price-for-heavy-reliance-on-chinese>
- Calabrese, L., and Yue Cao. 2021. "Managing the Belt and Road: Agency and Development in Cambodia and Myanmar". *World Development* 141: 105–297.
- , O. Borodyna, and R. Nadin. 2022. "Risks along the Belt and Road: Chinese Investment and Infrastructure Development in Cambodia". Report. London: ODI. www.odi.org/en/publications/risks-along-the-belt-and-road-chinese-investment-and-infrastructure-development-in-cambodia/
- Chheang, Vannarith. 2021. "BRI Projects in Cambodia and Laos Roll on Despite Covid-19". *ISEAS Perspective*, no. 2021/99, 27 July 2021.
- , and Pheakdey Heng. 2021. "Cambodian Perspective on the Belt and Road Initiative". In *Research Handbook on the Belt and Road Initiative*, edited by Joseph Chinyong Liow, Hong Liu, and Gong Xue, pp. 176–190 (Ch 15). Cheltenham, UK and Massachusetts: Edward Elgar Publishing.
- China Daily*. 2022. "China's BRI Projects Greatly Benefit Cambodian Economy, People: Officials, Experts". Xinhua, 5 May 2022. <http://global.chinadaily.com.cn/a/202205/06/WS6274bc7ba310fd2b29e5b118.html>
- Council for the Development of Cambodia (CDC). 2013. "Development Cooperation and Partnerships Strategy (2013–2018)". Phnom Penh: CDC.
- . 2019. "Development Cooperation and Partnerships Strategy (2019–2024)". Phnom Penh: CDC.
- Daye, C. 2021. "Chinese Companies Leverage New Technology to Protect Environment under the BRI". *Global Times*, 28 June 2021.
- Faulder, D., and K. Kawase. 2018. "Cambodians Wary as Chinese Investment Transforms Their Country". *Nikkei Asian Review*, 18 July 2018. <https://asia.nikkei.com/Spotlight/Cover-Story/Cambodians-wary-as-Chinese-investment-transforms-their-country>

- Freedman, David, and Jayant Menon. 2022. "Cambodia's Post-Pandemic Recovery and Future Growth: Key Challenges". *ISEAS Perspective*, no. 2022/40, 20 April 2020. https://www.iseas.edu.sg/wp-content/uploads/2022/03/ISEAS_Perspective_2022_40.pdf
- Gelpern, A., S. Horn, S. Morris, B. Parks, and C. Trebesch. 2021. "How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments". Peterson Institute for International Economics, Kiel Institute for the World Economy, Center for Global Development, and AidData at William & Mary.
- Hill, H., and J. Menon. 2013. "Cambodia: Rapid Growth with Weak Institutions". *Asian Economic Policy Review* 8, no. 1: 46–69. <https://www.adb.org/publications/cambodia-rapid-growth-weak-institutions>
- Hu, Fang, Xiekui Zhang, Mingming Hu, and David Lee Cook. 2019. "Chinese Enterprises' Investment in Infrastructure Construction in Cambodia". *Asian Perspective* 43, no. 1: 177–207.
- IMF. 2021. "Staff Report of the 2021 Article IV Consultation". IMF: Washington, DC.
- Kohli, Harinder, Johannes Linn, and Rajat Nag. 2023. *The Belt and Road Initiative and Global 2030 Sustainability*. New Delhi: Penguin.
- Long, K. 2019. "Report: Sihanoukville Crimes Increase 25%". *Phnom Penh Post*, 14 March 2019. <https://www.phnompenhpost.com/national/report-sihanoukville-crimes-increase-25>
- Menon, Jayant. 2021. "Cambodia Tests Living with COVID-19". *East Asia Forum*, 2 December 2021. <https://eastasiaforum.org/2021/12/02/cambodia-tests-living-with-covid-19/>
- . 2024. "Cambodia Country Diagnostic Study: Diversifying by Addressing Human Capital, Business Costs, and Resilience and Sustainability". Report prepared for the Asian Development Bank (ADB), Manila.
- Ngin, Chanrith. 2022. "Does Cambodia's Engagement with China's Belt and Road Initiative Provide More Costs than Benefits?". ISEAS – Yusof Ishak Institute, forthcoming.
- Po, Sovinda, and Kimkong Heng. 2019. "Assessing the Impacts of Chinese Investments in Cambodia: The Case of Preah Sihanoukville Province." *Issues and Insights* 19 (May). https://pacforum.org/wp-content/uploads/2019/06/issuesinsights_Vol19WP4_FINAL.pdf
- Shinn, David H. 2016. "The Environmental Impact of China's Investment in Africa". *Cornell International Law Journal* 25: 25-65.
- Wang, Zheng. 2022. "Assessing the Belt and Road Initiative in Southeast Asia amid the COVID-19 Pandemic (2021–2022)". *ISEAS Perspective*, no. 2022/57, 26 May 2022.
- Warr, Peter, and Jayant Menon. 2016. "Cambodia's Special Economic Zones" *Journal of Southeast Asian Economies* 33, no. 3: 273–90.
- Zhang, Jian , Ilan Alon, and Yanan Chen, 2014. "Does Chinese Investment Affect Sub-Saharan African Growth?". *International Journal of Emerging Markets* 9, no. 2: 257–75.
- Zhou, Dagan. 2007. *A Record of Cambodia: The Land and Its People*. Chiang Mai: Silkworm Books.
-