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Risks along the Belt and Road: Chinese investment and infrastructure development in Cambodia

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Risks along the Belt and Road: Chinese investment and infrastructure development in Cambodia

Linda Calabrese, Olena Borodyna and Rebecca Nadin

April 2022



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Acronyms

AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
BRI	Belt and Road Initiative
CHINCA	China International Contractors Association
EBA	Everything but Arms
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GNI	gross national income
GMAC	Garment Manufacturers Association of Cambodia
IMF	International Monetary Fund
LDC	least developed country
MoU	memorandum of understanding
ODA	official development assistance
RGC	Royal Government of Cambodia
SEZ	special economic zone
SOE	state-owned enterprise
US	United States

Executive summary

Foreign investment and infrastructure development have the potential to open new development pathways, stimulating investment and job creation and promoting economic transformation in host countries. Chinese firms, as key players in the investment and infrastructure space, can therefore play a major role. For example, China's Belt and Road Initiative (BRI) can be an engine for growth and development. However, this is not a given; as an external change agent, the BRI, and economic engagement with China more broadly, can also generate economic, environmental and political risks in host countries.

Cambodia has close economic and political ties to China, and is the recipient of a great deal of Chinese investment and lending. Economic engagement with China yields very different outcomes depending on the sectors and actors (both Chinese and Cambodian) involved. Much has been written on the drivers, challenges and developmental impact Chinese firms have on the Cambodian economy. However, a gap remains in understanding what the BRI, and economic engagement with China more generally through trade, investment and lending, mean for Cambodia's socioeconomic development. There has also been limited discussion of how Cambodia-China relations may yield different impacts and generate risks to Cambodian development across different sectors and different parts of the country.

This report seeks to fill this gap. It looks at how specific aspects of the BRI (investment, lending, infrastructure construction), and wider Chinese investment, may create risks for the Cambodian people and the country's development process. Identifying risks arising from external factors such

as the BRI can be challenging, because they are not always well defined. Therefore, this study pays particular attention to Cambodian stakeholders' perceptions of both macro risks – impacting the whole society, such as credit risk – and those impacting subnational contexts, such as workers' displacement in certain regions.

While the report takes the BRI as its main focus, an assessment of the risks deriving from Chinese investment in Cambodia cannot ignore other activities undertaken by Chinese firms, such as private investment in tourism and real estate, because these are seen by many stakeholders on the ground as part of the same phenomenon of 'Global China'.

We looked at two case studies: 1) infrastructure development at the national level; and 2) investment in the tourism and entertainment sector at the local level, in the coastal city of Sihanoukville. Cambodia presents two very different situations at the national and local levels. At the national level, the Royal Cambodian Government (RGC) seemed to be highly capable of managing the challenge most commonly associated with the BRI: debt sustainability. Other issues, such as rule of law and corruption, did not seem to be specifically linked to the BRI or to economic engagement with China. The areas we found to be potentially more challenging were land and housing speculation, as well as economic fragility and over-reliance on China as an economic partner. Land and housing speculation requires specific and targeted interventions to address a problem brought about recently by large inflows of private investors. The second issue, that of economic fragility, is more deeply embedded in Cambodia's economic structure. The country

currently relies on a low value-add manufacturing model, which leaves little value in the country. Moreover, Cambodia seems to be distancing itself from other partners and relying increasingly on China for its trade, investment and financial needs.

At the local level, the Sihanoukville case study highlights the major challenges of urban planning and environmental and social sustainability. Job creation and increased business opportunities are counterbalanced by land speculation, potentially leading to increased inequality and discontent, directed especially towards China as a whole, with little distinction between the different types of actors involved. Sihanoukville tells the story of a ‘Chinese silo’, where Chinese companies invest in sectors that are of interest to Chinese consumers, cater to Chinese tastes and make use of Chinese services. Apart from a handful of land and property owners, Cambodians see little benefit in the development of the city. In contrast with the national-level government, the local government in Sihanoukville does not have the means or capacity to address all the issues caused by a rapid inflow of Chinese investment.

Other factors create additional risks to Cambodia’s development process, not least the Covid-19 pandemic. While the partnership with China may prove resilient and useful in this context, it could also push Cambodia closer to China, exacerbating the economic over-reliance discussed earlier. More specific to Sihanoukville, the gambling ban implemented in 2020 has revealed the fragility of the economic model adopted in the city, exposing its citizens to additional challenges of unemployment.

In summary, we identify a ‘fractured’ development process in Cambodia. On the one hand, we find a central government that can deal with large-scale financial inflows from China, managing its public

external debt and ensuring the country receives support from a variety of partners. On the other hand, we find a local government in Sihanoukville that is overwhelmed by large inflows of capital and does not receive much support to address the challenges this poses.

We find a similar fracture in terms of Chinese capital. At the risk of oversimplifying, we find that large companies and state-owned enterprise (SOEs) work with the government to achieve the developmental goals set by the government. Individual investors and private enterprises, whether they invest in real estate in Phnom Penh or casinos in Sihanoukville, do not have quite the same impact. This is not to say that Chinese private enterprises behave badly – for instance, Chinese investment has driven the growth of the garment sector, and Cambodia is now one of the top global garment producers. However, private enterprises do not have incentives, nor are they forced by the RGC, to align with Cambodia’s development model, and in cases such as real estate or gambling, the outcomes of their investment can be mixed.

Cambodia’s engagement with Chinese firms and investors brings both positive and negative outcomes. This depends on the type of capital and on the purpose it serves, as discussed in other contexts (Lee, 2017; Camba, 2020). To ensure that Cambodia benefits, the RGC must ensure that the risks are managed properly. Based on this, we make the following recommendations for the RGC and its development partners (while drawn from our findings, the recommendations apply beyond the BRI and engagement with China):

- Upgrade Cambodia’s economic model. To avoid continued over-reliance on low value-add manufacturing production, the government should consider ways Cambodia could climb up

the value chain. This could include supporting domestic production of inputs; developing an ecosystem of services that supports manufacturing; and promoting the development of domestic garment entrepreneurs, who can support the longer-term development of the sector (see Balchin and Calabrese, 2019).

- Support local governments and improve their capacity to regulate, monitor and enforce rules. This should be done across the country, but specific provisions could be made to respond to specific contexts and needs, such as those of Sihanoukville. Building the capacity of local government entails raising the capacity of their staff through training, secondments and exchanges. It will also involve more financing.
- Develop a framework to ensure that Chinese and other foreign investors have a more positive impact on local communities. To avoid the ‘silo’ effect, services should be put in place for foreign investors, aimed at developing the backward linkages they need. This also involves strengthening regulations on local sourcing of goods and services.

Recommendations for the Chinese government, in particular the Ministry of Commerce, which is responsible for trade and outward investment, and the Ministry of Foreign Affairs, which oversees the embassy network:

- To improve engagement with Cambodia (and with other countries with a similar, long-standing and strong relationship with China), seek to improve the quality of outward investment. This could entail providing training on local rules and regulations, and support to investors. It may be difficult to do this from China, so embassies in-country should become the reference point for these activities.

- Strengthen the role of embassies in supporting Chinese citizens who may face difficulties in-country.
- Support firms that are interested in strengthening local linkages by providing them with training and toolkits, or by connecting them with potential partners in-country.

Recommendations for Chinese firms:

- Ensure that plans to engage with local communities and build local government capacity to draft, monitor and enforce regulations are in place when intending to invest abroad, and seek support from in-country partners to this end.

1 Introduction

Foreign investment and infrastructure development have the potential to open new development pathways, stimulating investment and job creation and promoting economic transformation in host countries. Chinese firms, as key players in the investment and infrastructure space, can therefore play a major role. For example, China's Belt and Road Initiative (BRI) – through its five areas of cooperation (infrastructure connectivity, trade, financial cooperation, policy and people-to-people exchanges) – can be an engine for growth and development. However, this is not a given; as an external change agent, the BRI, and economic engagement with China more broadly, can also generate economic, environmental and political risks in host countries. These risks are not separate and distinct, but rather dynamically interconnected. For instance, climate risks can generate political tensions that in turn become political risks, as well as economic risks if they drive away investors (Opitz-Stapleton et al., 2019). These risks are particularly relevant for infrastructure development, the most 'visible' part of the BRI, but they extend to the other areas of connectivity as well.

As the recipient of much Chinese investment and lending, Cambodia has close economic and political ties to China. In Cambodia, economic engagement with China yields very different outcomes depending on the sectors and the actors (both Chinese and Cambodian) involved. Much has been written on the drivers, challenges and developmental impact Chinese firms have on the Cambodian economy (Heng, 2012; Chheang, 2017; Chen, 2018; O'Neill, 2018). Scholars have also focused on the specific aspects and risks of China's presence in Cambodia, diving into issues

such as infrastructure construction (Hu et al., 2019) or labour (Franceschini, 2020). However, a gap remains in understanding what the BRI, and economic engagement with China more generally through trade, investment and lending, mean for Cambodia's socioeconomic development. There has also been limited discussion of how Cambodia-China relations may yield different impacts and generate risks to Cambodian development across different sectors and parts of the country.

This report seeks to fill this gap. It looks at how specific aspects of the BRI (investment, lending, infrastructure construction), and wider Chinese investment, may constitute risks for the Cambodian people and the country's development. In doing so, the study aims to understand how risk is perceived by Cambodian stakeholders, and how that affects their response to the BRI and investment. Identifying risks arising from external factors such as the BRI can be challenging, because they are not always well defined. Therefore, this study pays particular attention to Cambodian stakeholders' perceptions of both macro political risks – impacting the whole society, such as credit risk – and those impacting subnational contexts, such as workers' displacement in certain regions. It examines the host country's risk perceptions (non-governmental organisations and think tanks, government, domestic and foreign businesses) of BRI and Chinese investment and infrastructure construction in general. The study is based on interviews and primary data collection in Cambodia in May and June 2019, and on additional material collected to understand the impact of Covid-19.

This study takes a broad definition of the BRI – focusing not only on infrastructure construction projects financed by the Chinese government and implemented by state-owned enterprises (SOEs), but also private investments considered part of the BRI, such as the Sihanoukville Special Economic Zone, and private Chinese investment in other sectors, such as tourism and entertainment, which are not ‘official’ BRI projects. In fact, private investors often attach the BRI label to their investment, hoping that this will give their operations greater legitimacy and endorsement by governments. Cambodian stakeholders beyond the central government tend not to distinguish between BRI and non-BRI, state- and private-owned, when perceiving risk, and so all these types of engagement need to be analysed concurrently. Therefore, it makes sense to broaden the definition of the BRI to cover a variety of both public and private actors.

This report is structured as follows. Section 2 begins with a description of Cambodia’s socioeconomic context and development objectives. Section 3 considers Cambodia–China political and economic engagement. Sections 4 and 5 assess the BRI and Chinese investment in Cambodia at the national and subnational levels. At the national level, the focus is on infrastructure construction and investment in manufacturing and other sectors. The study reviews and assesses the perceived risks associated with this, such as over-reliance on a low-value investment model, debt sustainability and corruption. At the subnational level, the focus is on the case of Sihanoukville, where several risks linked to crowding out of domestic investment, threats to Cambodian and Chinese workers, urban planning and local governance are identified. Section 6 concludes by evaluating and reframing the various risks identified: Cambodia’s dependence on a low-value development model; the various models

of engagement of Chinese firms; and the limited links between Chinese and local firms. These risks differ at the national and subnational levels, creating a ‘fractured development’. Finally, Section 6 provides recommendations to Cambodian and Chinese stakeholders and to development partners.

2 Cambodia's development context

Development dynamics shape a country's vulnerability, exposure and capacity to manage risks and opportunities associated with large-scale infrastructure initiatives such as the BRI. This section reviews Cambodia's socioeconomic context and its national development objectives.

2.1 Cambodia's socioeconomic context

2.1.1 Socioeconomic development context

Political landscape

After decades of war and genocide, Cambodia finally regained political stability in the 1990s. In 1993, after the end of the Khmer Rouge regime, Cambodia adopted a constitution that established the country as a constitutional monarchy. Since then, Hun Sen's Cambodian People's Party (CPP) has held power either in a coalition or as a majority party. In the mid-1990s, the country moved from a planned market system to a free market economy (Hossain, 2010). The Royal Government of Cambodia (RGC) introduced a series of reforms to bring the country into the global trading system, open it to foreign investment and privatise state-owned enterprises (Bargawi, 2005; Calabrese and Balchin, 2022).

Cambodia faces persistent governance challenges. The openness of the economy is accompanied by relative predictability in the business environment and a basic level of services from the state. However, Cambodia still has low levels of citizen engagement in rule-making, control of corruption and rule of law relative to other lower middle-income countries in the region. While corruption

has declined, Cambodia still has the highest bribery incidence among its neighbours (World Bank, 2017).

There is little in the way of political pluralism. At national elections in 2018, Hun Sen's CPP faced minimal opposition following a crackdown on the Cambodia National Rescue Party (CNRP), which gained seats at the local election in 2017, and the arrest of its leader Kem Sokha (Kijewski, 2020). Hun Sen was likely wary of the political unrest that followed the previous national election in 2013, when the CNRP won almost half of the seats and organised mass protests, claiming polling irregularities (Wright, 2017). Protests related to land and labour rights are not uncommon, and are subject to government restrictions. Analysis by civil society organisations suggests that the government has used Covid-related measures to further restrict freedom of expression and association (Human Rights Watch, 2022).

Cambodia's development strategy is grounded in its membership of the Association of Southeast Asian Nations (ASEAN), which it currently chairs, and the RGC has worked to strengthen economic and sociocultural integration with other members. However, other members are suspicious of the country due to its support for China's approach to the disputes in South China Sea, where several countries, including China, Vietnam and the Philippines, claim overlapping territories as part of their exclusive economic zones. In 2016, Cambodia, contrary to the wishes of Vietnam and the Philippines, blocked references to a decision by the Permanent Court of Arbitration, which ruled in favour of the Philippines while dismissing China's claims in the South China Sea (Mogato et al., 2016). In 2012, Cambodia was accused of

blocking a joint statement on the South China Sea dispute (BBC, 2012). Despite political tensions, ASEAN countries are still important to Cambodia's economy. Vietnam, Singapore and Thailand are respectively the fourth, fifth and sixth largest sources of foreign direct investment (FDI) in Cambodia (National Bank of Cambodia, 2016) and account for more than 20% of the country's exports (Observatory of Economic Complexity, n.d.).

In recent years, Cambodia and China have pursued closer military ties, holding joint exercises, training and naval visits (Parameswaran, 2016; Xinhua, 2020a). Cambodia has also received financial assistance for military purposes from China (Reuters, 2018). Cambodia's growing military ties with China have come under increased scrutiny amid concerns from the United States (US) regarding a military base China is allegedly establishing in Cambodia. However, Cambodia is not the only country in Southeast Asia with which China has pursued closer military ties. In October 2018, China held joint military drills with Thailand and Malaysia (Xinhua, 2018a).

Social development

In 2020, Cambodia ranked 144th out of 189 countries on the Human Development Index, behind all but one other ASEAN country (Myanmar), which was 147th (UNDP, 2020). Economic growth (discussed in the next section) has resulted in impressive achievements in terms of poverty reduction. The population living below the national poverty line declined from 47.8% in 2007 to 13.5 % in 2014 (World Bank, 2017). Most recent reports suggest that around 17.8% of population live below the national poverty line, which was updated in 2021 (Khmer Times, 2021). Despite substantial progress in poverty reduction, many Cambodians have moved only slightly above the poverty line. The pace of poverty reduction

has slowed, declining by several percentage points compared with the 2007–2009 period, when poverty rates halved. While inequality has declined significantly, with the Gini coefficient falling from 32 in 2008 to 28 in 2012, progress has slowed down (World Bank, 2015).

Cambodia has a young population: around 31% of people in the country are aged 15 years or below (World Bank Group, 2022a). While the country has a high rate of primary school enrolment, the average Cambodian citizen over 25 has received just five years of education (UNDP, n.d.). The country compares unfavourably with other ASEAN nations in terms of literacy rates: at 81%, it is among the lowest in the region. It also lags behind other ASEAN countries in terms of higher education and skilled labour. As shown in Section 5.3, low skills among the workforce make it challenging for Cambodians to take full advantage of job opportunities associated with the influx of Chinese investment in the country. School closures because of the Covid-19 pandemic have resulted in huge learning losses for many students (Ly, 2021).

Labour force participation rates are high for both men and women. Although the unemployment rate is low, over half of the workforce is in vulnerable employment. The country also has a relatively high percentage of child labour (approximately 13%) and youth not in school or employment (17%) (UNDP, n.d.).

While the country is urbanising, the majority of the population (around 80%) remain rural (World Bank Group, 2018), and most Cambodians work in agriculture. Inequalities in access to services persist between rural and urban areas. The distribution of access to drinking water and basic sanitation and hygiene among urban and rural households remains unequal. In 2020, only

18% of rural households had access to safely managed water, against more than 50% of urban households (WHO, UNICEF Joint Monitoring Programme, n.d.). Access to basic sanitation and hygiene for urban households stood at over 90% in 2020, compared to just over 60% of rural households with access to basic sanitation and 70% with access to hygiene facilities (ibid.).

Economic development

Cambodia has experienced moderate growth in past decades. During the period 1994–2015, the average gross domestic product (GDP) growth rate was 7.6%, making Cambodia the sixth-fastest growing economy in the world. Growth has been driven by goods and services (mainly garments and tourism), and to a lesser extent by agriculture, construction and real estate (World Bank, 2017). As a result of this growth, Cambodia's gross national income (GNI) per capita more than tripled, from \$300 in 1994 to an estimated \$1,070 in 2015, when Cambodia became a lower-middle income country. GNI continued increasing between 2015 and 2019, before declining between 2019 and 2020 – from an estimated \$1,350 to \$1,320 (World Bank Group, 2022b), likely reflecting the economic impacts of Covid-19. Cambodia's economic growth has been accompanied by job creation. The country has been extremely successful in creating jobs for youth and women in labour-intensive activities, especially in the garment sector. Agriculture and tourism have also contributed to these positive trends (World Bank, 2017). Analysis undertaken in 2022 suggests that the country meets the criteria for graduation from list of least developed countries (LDCs) (LDC; Dara, 2022), though the economic repercussions of Covid-19 may delay the graduation date.

The main sectors of the Cambodian economy are agriculture, manufacturing and construction. The country's economic structure has changed little

since 1994. Only construction and real estate have seen a considerable change in their share of value-added to GDP, while the share of manufacturing has remained constant and the share of agriculture, forestry and fisheries has declined (te Velde, 2019). Most Cambodians are engaged in agriculture, followed by trade and manufacturing. Labour productivity gains in agriculture and other sectors have been lower than in other rapidly growing economies, partly due to lower capital intensity (ibid.).

Although manufacturing's share of GDP has not changed significantly over time, hovering around 16% from 2000 to 2020, the sector is an important contributor to the Cambodian economy, especially in garment manufacturing. However, the country's reliance on the low-value production of garments creates many challenges to economic development. Ready-made garments constituted 55% of Cambodia's merchandise exports in 2019, earning \$8.3 billion (DESA/UNSD, n.d.). These are mainly exported to Europe (32% of the total) and the US (19%), owing to preferential access to these countries' markets (The Growth Lab at Harvard University, n.d.). In 2018, the textile and garment subsector employed 660,000 people, making it the largest formal employer (Rastogi, 2018; Schill, 2019). However, garment production has remained mostly at the level of simple assembly, with limited value addition and low margins (Calabrese and Balchin, 2022). In August 2020, after a long review process, the European Union (EU) partially withdrew Cambodia's preferential market access because of concerns over human and labour rights in the country. The partial withdrawal affects selected garment and footwear products, as well as travel goods and sugar, amounting to one-fifth of Cambodia's exports to the EU, worth around €1 million a year (European Commission, 2020).

Cambodia faces an infrastructure gap, mostly an effect of the country's long civil war. While Southeast Asia scores relatively well in terms of infrastructure compared to other developing regions, Cambodia compares negatively to its regional neighbours. Access, reliability and the cost of energy remain a challenge; transport infrastructure is underdeveloped, and transport costs are higher than in other countries in the region (Calabrese et al., 2017).

2.1.2 Emerging issues: the Covid-19 challenge

The first confirmed Covid-19 case was reported on 27 January 2020. The infection was subsequently contained, and precautionary measures taken early in the year were gradually lifted. Cambodia was hit by the first large-scale local transmission in February 2021, when a large number of cases were reported in a single day, prompting another round of restrictive measures. Vaccination has been under way since early February 2021 (IMF, 2020a). Cambodia has received vaccines through bilateral procurement, the World Health Organisation's COVAX facility and donations. Over 90% of vaccine doses were either procured from or donated by China (Xinhua, 2021).

The pandemic has hit the Cambodian economy via three main channels: tourism, exports and FDI. Cambodia is heavily reliant on tourism from the East Asia and Pacific region. Chinese tourists accounted for 35% of total international arrivals before the pandemic. Tourism rapidly declined after the Covid-19 outbreak in China, and the sector has come to a standstill. Exports (garments, footwear, travel goods and rice) were affected by the collapse of global trade, as well as by disruption in global value chains, which prevented the supply of intermediate goods. Following the Covid-19 outbreak in China, the value of approved

FDI projects is reported to have significantly decreased. For instance, approved FDI projects in the construction sector contracted by 40.2% in the first few months of 2020 compared to the previous year (Ly et al., 2020).

In 2021, the situation gradually improved, with more than 80% of the population receiving two doses of the vaccine and infections and mortality declining as a result. Real GDP was projected to grow at 2.2% in 2021. Traditional growth drivers, especially light manufacturing and agriculture, are supporting the economy to bounce back (Ly, 2021), though recovery in the tourism sector is likely to be subdued given the 2022 waves of Covid-19 cases in China, prompting further travel restrictions. Recovery in the construction sector may be hampered by a lack of finance.

2.2 Cambodia's development strategy

Cambodia's economic development strategies have changed dramatically over the past 60 years. In the 1960s, Cambodia was a socialist economy combining private enterprise with considerable state control and ownership in both rural and urban activities. From the early 1990s, after the demise of the Khmer Rouge regime, the country started to shift towards a market-oriented approach (Asian Development Bank, 2014).

Cambodia's development plans are outlined in a series of national planning documents. The long-term vision for Cambodia is articulated in the Vision 2050 document, which plans for the country to become an upper middle-income country by 2030 and a high-income country by 2050 (Xinhua, 2018b); however, this vision does not have a clear roadmap yet. The Rectangular Strategy, which outlines core development priorities and was adopted in 2004, runs parallel

to these plans. The third phase of the Rectangular Strategy (2014–2018) had a strong focus on infrastructure, identifying transport, energy, water management and digital infrastructure as priority sectors. The economic diversification pillar of the Rectangular Strategy Phase IV (2019–2023) highlights the need for Cambodia to improve its transport infrastructure for logistics, energy and digital infrastructure. The importance of infrastructure in Cambodia’s development has been stated in high-level political declarations, with Hun Sen stating that the country needed \$500–700 million per year in infrastructure (Xinhua, 2017).

One of the main pillars of Cambodia’s development strategy is industrialisation, as outlined in the Rectangular Strategy Phase IV. This is further developed in Cambodia’s Industrial Development Policy 2015–2025, which aims to transform and modernise the country’s industrial structure from a labour-intensive industry to a skill-driven industry by 2025.

3 Cambodia's relations with China

3.1 Cambodia–China political relations

Cambodia and China have cultivated strong bilateral relations over the years. Since 2010, cooperation between the two countries has been framed as a Comprehensive Strategic Cooperative Partnership (Xinhua, 2010; Li and Ye, 2019).¹ The two countries have signed agreements to work together across different sectors, including trade and commerce, the military, law enforcement, tourism and technology. In 2014, the two countries established the China–Cambodia Intergovernmental Coordination Committee, aimed at promoting bilateral relations (Xinhua, 2014). China and Cambodia also collaborate through regional cooperation mechanisms such as the China-ASEAN Dialogue and the Lancang-Mekong Cooperation.²

Cambodia has supported the BRI since its announcement in 2013, and Cambodia and China have sought closer cooperation on integrating the BRI with Cambodia's development strategy. Following President Xi Jinping's visit to Cambodia in 2016, the two countries signed multiple cooperation agreements, including a memorandum of understanding (MoU) on promoting a BRI construction cooperation programme. During the visit, China pledged

to support Chinese enterprises with a good reputation to 'go out' and implement cooperation projects, such as the Sihanoukville Special Economic Zone in Cambodia. The two countries also agreed to accelerate the integration of China's BRI and 13th Five-Year Plan and Cambodia's Rectangular Strategy and Industrial Development Policy 2015–2025 (MOFA, 2016). Since then, the two countries have signed numerous agreements covering various areas of cooperation (Chheang and Pheakdey, 2019). In 2019, Cambodia was the first country to sign an action plan for building a 'community of shared future' with China (Xinhua, 2020b). China and Cambodia signed a free trade agreement in 2020 (Thul, 2020), which, due to come into effect in 2022, the agreement dedicates a full section to the implementation of the BRI.

Cambodia is a member of the Asian Infrastructure Investment Bank (AIIB), a multilateral investment bank headquartered in Beijing. Initially, Cambodia did not borrow any money from the bank, citing unfavourable debt conditions, but said that AIIB could become an important source of finance in the medium-to-long term (Vireak, 2019). The bank has approved financing for two projects in Cambodia: a fibre-optic communication network project, with a financing of \$75 million, and a

-
- 1 A Comprehensive Strategic Cooperative Partnership is one of the closest types of partnership established by the People's Republic of China with other countries or organisations as part of its foreign policy efforts. 'Comprehensive' indicates cooperation in the economic, technological, cultural and political domains; 'strategic' means that cooperation between the two countries is not only important, but also stable and long term; and 'partnership' indicates that the two countries cooperate on the basis of respect, trust and equality, for a relationship that is mutually beneficial (Li and Ye, 2019).
 - 2 The Lancang-Mekong Cooperation (LMC) was established in 2015 by the six Mekong riparian nations with an aim of 'building a community of shared future of peace and prosperity among Lancang-Mekong Countries' and establishing the LMC 'as an example of a new form of international relations featuring win-win cooperation' (Lancang-Mekong Cooperation China Secretariat, 2021).

project on the restoration of rural productive capacity, approved in 2020 in response to the Covid-19 crisis.

3.2 Chinese trade, investment and development finance trends in Cambodia

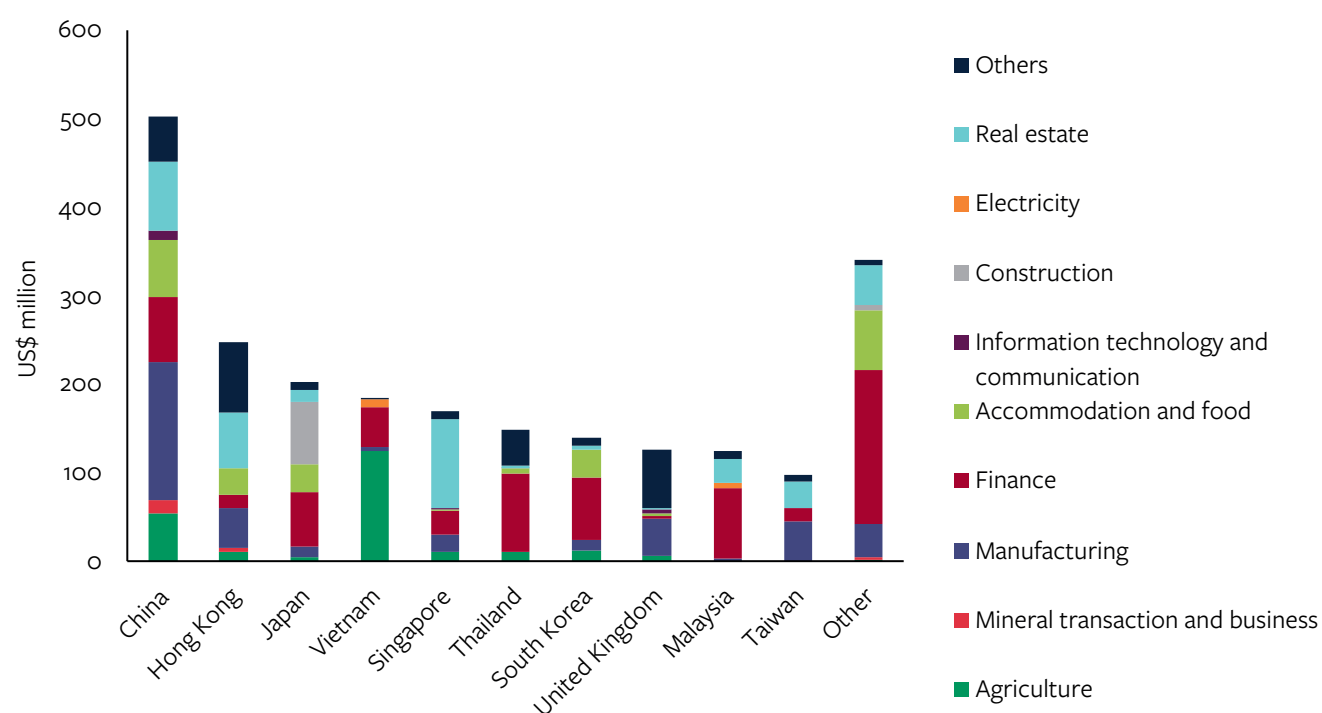
In addition to a strong political partnership, China and Cambodia have close economic ties. Yet this economic relationship is unbalanced due to the unequal size of the two countries' economies: China is much larger and therefore a very important partner for Cambodia, while Cambodia is relatively small among China's partners.

Cambodia has a large and growing trade deficit with China. Imports from China into Cambodia have been growing at a much faster pace than exports. However, this does not appear to be a problem, as Cambodia exports considerable

amounts to other countries. China is a small market for Cambodian exports compared to much larger partners such as the US, the United Kingdom (UK) and Germany, absorbing only 6% of exports. However, China has been the main source of Cambodian imports since 1998 (National Bank of Cambodia, 2016). More than 41% of Cambodian imports come from China (including mainland China and Hong Kong). Cambodia's main exports to China are finished garments and footwear products, raw materials and agricultural products. Imports largely comprise inputs for the garment sector, including fabrics, yarn, cotton and machinery.

Cambodia is a relatively large recipient of FDI from China. Data from China shows that, with \$750 million-worth of FDI flows in 2019, Cambodia was the 20th top destination for Chinese outward FDI that year (MOFCOM, 2020). FDI stock was reported at \$6.5 billion at the end of 2019 (ibid.).

Figure 1 Cambodia FDI inflows by country and sector, selected countries (2016)



Source: National Bank of Cambodia (2016)

While small compared to the \$53 billion stock of Chinese investment in Singapore, for example, this amount is considerable for a small economy like Cambodia, corresponding to around a quarter of the country's GDP in 2019.

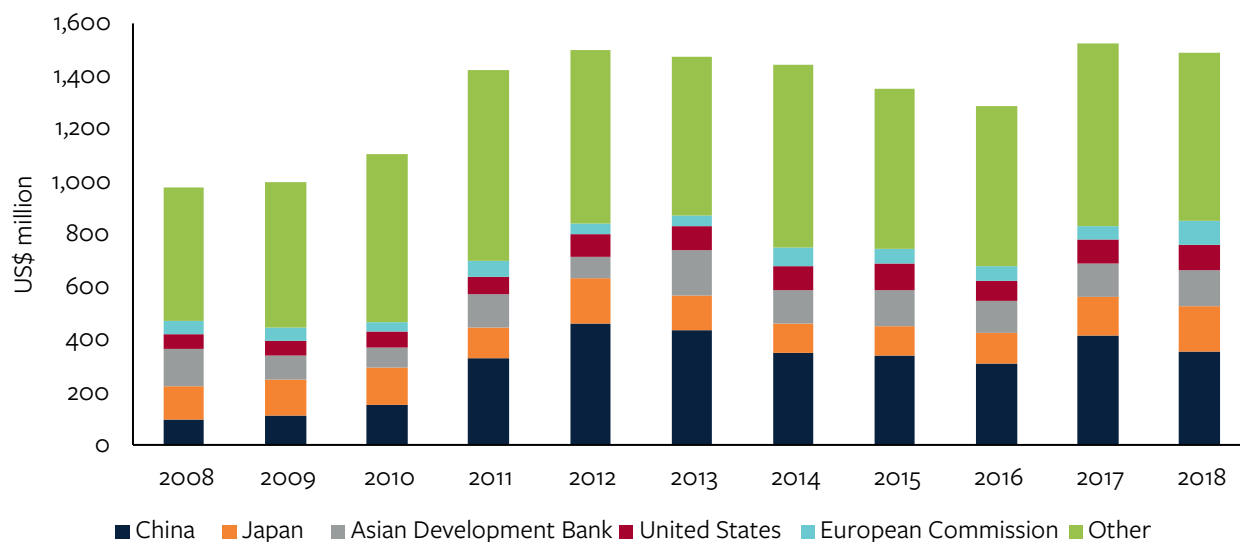
A (now slightly dated) report by the National Bank of Cambodia revealed that, in 2015, China was the largest investor in Cambodia, with a total stock of \$4.6 billion invested, representing 31.2% of total FDI stock. FDI from China was divided by sectors as follows: 42% to energy and hydropower, 24% invested in garment manufacturing, 10% in agriculture and 5% in the financial sector. Between 2011 and 2015, FDI inflows from China averaged \$590 million per year (or 35% of the total inflow) (National Bank of Cambodia, 2016). In 2015, Chinese companies invested mostly

in manufacturing (by far the largest recipient of Chinese FDI for that year), finance and real estate (*ibid.*).

Cambodia is also relevant in terms of contracted construction projects. The China International Contractors Association (CHINCA)'s³ 2017–2018 annual report states that Cambodia was among the top 20 countries in terms of Chinese construction projects, with \$1.4 billion worth of newly contracted projects and \$710 million worth of completed project turnover (CHINCA, 2018).

China is one of Cambodia's main aid partners. According to official data from Cambodia, China overtook Japan as the country's main development partner in 2010; it then maintained that role until 2018, the latest year for which figures are available (Cambodian Rehabilitation and Development Board, 2018; 2020). However,

Figure 2 Total ODA disbursement to Cambodia by development partner (2008–2018)



Source: Cambodia Rehabilitation and Development Board (2018; 2020)

³ The China International Contractors Association (CHINCA) is a national industry organisation consisting of enterprises engaged in foreign contracted projects, labour cooperation, engineering investment and related services in China.

some note that China's disbursement figures include both official development assistance (ODA) and other development finance (such as commercial lending for infrastructure), bringing into question the comparison with other countries.⁴

Table A1 (see Appendix) lists all projects financed by Chinese stakeholders since 2004. At the time of writing, 101 projects financed by China had been completed, were ongoing or were in the pipeline since 2004. These projects were mostly financed through concessional funding: 33 via grants, 66 via concessional loans and two financed through non-concessional loans. A little over half (54) of these projects were in US dollars, with the remaining 47 in Chinese yuan. Over a third (40) of the projects were aimed at expanding or upgrading Cambodia's road network. The second and third most common types of project were related to agricultural or power infrastructure.

3.3 The BRI in Cambodia

Cambodia and China first signed an MoU on the BRI in 2016, with Cambodia being the second country in the Southeast Asia region (after Laos) to formally join the initiative (China Government Network, 2016). Despite recognition of the initiative by the two governments, there is no officially sanctioned list of BRI projects. From the perspective of the RGC, to be classified as part of the BRI, projects should meet certain criteria – namely that investments should be endorsed by the highest levels of the Chinese government.⁵ For this study, we adopted a broad perspective and included not only projects that were explicitly

recognised as part of the BRI, but also large-scale private Chinese investment whose presence affects and shapes perceptions and risks of the BRI on the ground.

In addition to these official projects supported by the RGC, provided in Table A1 and discussed in Section 3.2, China–Cambodia relations entail cooperation on other fronts. One notable example is the Sihanoukville Special Economic Zone, discussed in detail in Section 5. The zone predates the announcement of the BRI, but was officially elevated to the status of 'landmark project on the Belt and Road Initiative' and repeatedly referenced in official bilateral communications released by China and Cambodia as an example of the kind of Chinese investment in Cambodia the two countries want to encourage.

During the second Belt and Road Summit, in Beijing in April 2019, China and Cambodia signed several agreements including on: the export of 400,000 tonnes of Cambodian rice to China;⁶ the promotion of general agricultural exports to China; financing frameworks between the Bank of China and Cambodian Canadian Bank; and encouraging further growth of Chinese tourism to Cambodia (Spiess, 2019).

4 Personal communication with Marina Rudyak, University of Heidelberg (February 2021).

5 Interview with government official, June 2019.

6 The 400,000 tonnes of rice is an export cap, rarely reached. The actual exported volumes are well below this amount, and never reached 300,000 tonnes in the past 10 years (UN Comtrade data).

4 Cambodia's development processes, Chinese investment and the BRI: risks at the national level

Risk inherently involves probability – either the subjective view of how possible something is and what the impacts might be, or more objective statistical probabilities (e.g. the frequency or likelihood) that a threat event of a particular type, magnitude and duration occurs. Both cases inherently involve perceptions and value judgements of what is considered a problem, why and by whom (Opitz-Stapleton et al., 2019).

Policy-makers, academics and the public have different perceptions of what might constitute a threat, the severity of the risks, what is tolerable and what actions should be taken to manage (or not) the perceived risks. Such perceptions also shape the risk management options undertaken, and by whom. Drawing on stakeholder interviews and current literature, this section outlines the dominant risk narratives arising from the design, financing and implementation of the BRI in Cambodia at the macro (international and national) level.

The RGC recognises that the BRI offers development opportunities for the country, and that these opportunities involve trade-offs.⁷ This section reviews the risks, real and perceived, associated with the BRI at the national level. These are macro issues concerning the country's economy as a whole, and are associated with large-scale Chinese firms, in particular SOEs

involved in large infrastructure projects. Section 5 explores the micro dimension, focusing on the case of Sihanoukville.

4.1 Economic fragility and reliance on China

The close economic partnership between Cambodia and China brings a lot of capital into Cambodia in the form of investment and development finance. However, relying excessively on one partner can lead to fragility and make a country more vulnerable to shocks. In this subsection, we assess the extent to which Cambodia's economy is dependent on China.

Cambodia's economy relies on trade and investment from China

As discussed in Section 3.2, China is one of Cambodia's closest economic partners: it is the source of many of Cambodia's imports, one of its main investors and the largest provider of development finance. Cambodia receives both private and public finance from China, with differences across sectors. Concessional lending is directed towards infrastructure construction, especially transport and energy (Grimsditch, 2019). In the manufacturing sector, much Chinese investment is private. Similarly, the tourism and gambling industry in Sihanoukville and real estate development across the country seem to be driven by private investment (Chheang, 2017; Grimsditch, 2019).

⁷ Interview with government official, May 2019.

The textile and garment sector, an important source of export revenue, is dominated by foreign investors, particularly Chinese. This is reflected in the composition of the Garment Manufacturers Association of Cambodia (GMAC). In 2019, of the 522 GMAC members operating in garments and textiles, only 26 had Cambodian owners, while 233 were Chinese-owned, 50 Hong Kong-owned and 81 Taiwanese-owned (GMAC, 2019). Chinese firms invest in the manufacturing sector in Cambodia to take advantage of cheap labour and preferential market access to the EU and the US. In particular, Cambodia enjoys duty-free and quota-free access to the EU market through the Everything but Arms (EBA) scheme. Many Chinese firms set up shop in Cambodia, then import inputs from China, assembling and exporting finished garments to the US (Balchin and Calabrese, 2019).

A feature of the Cambodian manufacturing sector is the presence of special economic zones (SEZs). There are 16 operational zones (with another 27 approved), estimated to employ more than 90,000 people (OECD, 2018). In theory, SEZs should contribute to upgrading and diversification in the industrial sector, as set out in the Rectangular Strategy and Industrial Development Policy. However, SEZs remain a small part of the economy: they employ fewer than 100,000 people, while the garment sector as a whole employs 700,000.

Tourism is an important sector of the Cambodian economy. In 2017, the sector earned \$3.64 billion, or 17% of total exports, making it a large exporter and forex earner. Tourism provides direct and indirect jobs for between 2 and 3 million people (Asian Development Bank, 2014; World Travel and Tourism Council, 2019). Tourists from China are the biggest group in terms of arrivals. Chinese investment in Sihanoukville, much of which is in

the tourism sector (hotels, restaurants, casinos) is also growing considerably (World Bank Group, 2019).

While China's economic presence in Cambodia is increasing, some of Cambodia's main partners, such as the EU, are increasingly distancing themselves from the Cambodian economy. The EU is the main importer of Cambodia's garments, absorbing more than 40% of the country's garment exports under the EBA regime (Balchin and Calabrese, 2019). However, in August 2020 the EU partially withdrew Cambodia's preferential market access due to concerns over human rights, as discussed in Section 2.1. Cambodia has sought assistance from China to mitigate this pressure. The Chinese government told Hun Sen in April 2019 that China would help Cambodia deal with issues arising from the withdrawal of EBA status (Chheang, 2020).

A lesser-known controversy entails EU restrictions over Cambodia's (and Myanmar's) rice exports. In March 2018, the EU started an investigation over increased imports of Indica rice from Cambodia (and Myanmar). This resulted in the re-establishment of customs duty of €175/tonne on rice imports from Cambodia, to be reduced to €125/tonne over the course of three years, from January 2019 until January 2022 (this has now been lifted) (European Commission, 2019). Therefore, while China is an increasingly important economic partner for Cambodia, the EU is distancing itself. This emerging dynamic could lead to Cambodia's over-reliance on China, as well as a concentration of economic relationships with a few partners.

Perceptions of risk

Our interviewees were aware of Cambodia's over-reliance on China in economic terms. However, several pointed out that choices for Cambodia

were limited. Few wanted to invest in the country's garment and real estate industries and Chinese companies and individuals remained among the few sources of finance available. This was pointed out not only by Cambodian stakeholders but also by foreign non-Chinese business and private sector representatives.

Many interviewees highlighted the reluctance of foreign non-Chinese companies to invest in Cambodia, due to the challenges presented by the market and the business environment. One interviewee mentioned that Japanese companies took a cautious investment approach. For instance, while the Sihanoukville Port SEZ had been established in 2012 with the support of the Japanese government, it only hosted a handful of companies. Japanese companies do invest in Cambodia: in the Phnom Penh SEZ, the majority of firms are Japanese (OECD, 2018), and the Aeon shopping malls in Phnom Penh were set up by a Japanese company. However, Japanese investment in real estate has not been as extensive as that from China. Similarly, one interviewee reported that a US company was interested in investing in the casino business, but was unable to do so until Cambodia enacted the Gaming Law (now in place). Chinese companies and individuals, on the contrary, have been interested in and able to invest in several sectors in Cambodia, notwithstanding the challenging business environment.

Some interviewees mentioned that the government was aware of the challenges of over-reliance on a limited number of partners and investors, and had taken steps to diversify its economic relationships. Hun Sen, for example, has repeatedly invited Japanese companies to invest in Cambodia (Ven, 2018; Chea, 2019). The SEZs have been part of this diversification strategy, aiming to attract investment from multinational companies

in skills-intensive sectors. However, these efforts have yet to be successful in diversifying the investor pool.

Impact assessment

As shown above, Cambodia relies on China in many domains: trade, investment, development finance. Relying on one economic partner, regardless of whether it be China or another country, will always be an issue because an economy without diversified relationships is less resilient to shocks.

Cambodia's close relationship with China is well documented in the literature on hedging, which acknowledges both economic and political dimensions (Po and Primiano, 2020; Kuik, 2021). The problem for Cambodia is two-fold. First, a slowdown in China may lead to negative impacts on more than one aspect of the Cambodian economy. Second, Cambodia relies on China for its relations with other countries. For example, to produce the garments it exports to the EU and the US, Cambodia relies on investment and inputs from China. Therefore, supply chains issues and similar problems affecting China endanger Cambodia's export earnings. Unfortunately, Cambodia's choice of partners is limited. For instance, the shaky EU-Cambodia relationship reduces Cambodia's alternative partnership options.

Covid-19 has made it evident that limited diversification leads to challenges in terms of investment, input sourcing and exports. China was one of the first countries to recover from the pandemic-induced economic crisis (IMF, 2020b), and this may lead us to conclude that engaging with China is positive for Cambodia. Cambodia could build commercial ties with other countries, but this will be a long-term process. If cementing trade ties with China currently provides a stable

basis for this diversification process, then the risk could be mitigated. In any case, the RGC is well aware of the situation and, despite remaining close to China, is attempting diversification in several areas (for example, see Calabrese and Cao (2021) on aid).

In addition to Covid-19, a continuation and deepening of the US–China trade war could have uncertain effects on Cambodia. On the one hand, the trade war may cause a slowdown of the Chinese economy, with negative effects on Cambodia; on the other hand, trade diversion could prompt increased investment in the garment sector directed towards Cambodia (IMF, 2018).

4.2 Debt sustainability, creditworthiness and related risks

The impact of large infrastructure projects on debt sustainability depends on how these projects affect economic growth and, in particular, whether they can generate the resources to service the debt, either directly or indirectly. This subsection looks at whether Chinese infrastructure financing poses risks to debt sustainability in Cambodia.

Financing infrastructure often entails lending to sovereigns, or using a sovereign guarantee. This can create issues for debt sustainability if returns on investment are not properly factored in. When borrowing externally, countries expose themselves to several financial risks (Bandiera and Tsiropoulos, 2019):

- **Risks from repayment of investment** – for instance, if an external event reduces the expected revenue from a project and triggers additional expenses for the government. An example is a fall in revenues from toll roads because of Covid-19.

- **Risks from financing terms**, such as refinancing, liquidity and currency risks, which could result in a higher debt burden and higher debt service for the government.
- **Risks from collateralised debt financing**, which could lead the government to lose some of its assets if it cannot repay its debts.
- **Default risk**, which is a concern for both the lender and the borrower.
- **Operational risks**, such as those linked to default or breach of contract clauses.

Debt also has broader consequences for a country's development. Large debt service repayments may prompt the government to reduce other development or social spending. The country's creditworthiness is also at stake. If investors doubt a country's ability to service its debt, they can demand higher returns to compensate for increased risk. Finally, defaulting on debt obligations may discourage future investment and lending. If the country has no choice but to borrow from a lender of last resort (such as the IMF), this may impose reforms, thus constraining the country's policy independence.

Cambodia's debt situation

Cambodia's public debt is currently low, at around 30% of GDP (IMF, 2018). By the end of 2018, 86.9% of the country's accumulated debt was to finance the infrastructure sector. China was by far Cambodia's largest creditor, with \$4.6 billion-worth of accumulated debt (40.5% of Cambodia's total debt stock), followed by the Asian Development Bank (23.2%) (MEF, 2019).

A joint IMF/International Development Association (IDA) Debt Sustainability Assessment (DSA) in 2018 indicated that both debt as a share of GDP and the debt service-to-exports ratio, at 1.4%, were well below the thresholds for risk (indicated at 40% and 15% respectively). The DSA also

found that Cambodia was most vulnerable to export shocks (in line with our assessment of Cambodia's undiversified export bundle) and the materialisation of contingent liabilities (IMF, 2018). These findings were in line with a debt sustainability analysis undertaken by Cambodia's Ministry of Economy and Finance.

As China is Cambodia's largest creditor, it is worth considering whether any debt risk in the country is related specifically to China. This can be framed in relation to the 'debt-trap diplomacy' narrative (Chellaney, 2017) circulating in the media and bolstered by the alleged examples of deals gone sour, such as Hambantota port in Sri Lanka.⁸ Some studies have attempted to assess Cambodia's debt risks specifically related to the BRI. These studies agree that BRI projects may increase Cambodia's total debt stock considerably, but do not pose dangers in terms of debt sustainability (Wignaraja et al., 2018; Hurley et al., 2019).

The RGC manages its debt through a very conservative approach, detailed in its debt management strategy (2011–2018). The strategy is based on several key points: 'i) borrow the amount that the budget and the economy can afford, ii) borrow only high concessional loans, iii) borrow for sectors that will support growth sustainability and productivity improvement, and iv) use those borrowings in a transparent and highly effective manner' (Hem, 2019: 4). The Ministry of Finance is the gatekeeper of government borrowing and is the only institution that can borrow money.⁹ In the words of Hem Vandy, Undersecretary of State, Ministry of Economy and Finance:

Among the many national accomplishments Cambodia has made over the last two decades, debt management is one we are proud of. We treat the debts we contract under the BRI like any other debts from multilateral and bilateral institutions in terms of the due process and the core underlying debt management principles that they shall adhere to. We seek the annual approval of the elected representatives of our people in the Parliament and report the borrowings to them on a regular basis ... BRI is not going to create a debt trap for Cambodia (Hem, 2019: 4).

This view is corroborated by data on lending from China. As shown in Section 3.2, most funding given by China to Cambodian institutions since 2004 is in the form of grants and concessional loans, with only two non-concessional loans agreed upon since then.

Perceptions of risk

Cambodian stakeholders perceived the risks of debt deriving from the BRI as low. Our interviews with the Ministry of Economy and Finance showed that, through this deliberately conservative approach, the country will not incur excessive debt.

Interviews with development partners highlighted that Cambodia's approach to borrowing only for infrastructure, and mostly at conditional rates, places the country in a relatively safe position. There remain some challenges linked to the contingent liability risk, as public-private partnerships (PPPs) are not on the balance

⁸ The case of the Hambantota port has been discussed, and its debt-trap nature debunked, by many sources (Ferchen and Perera, 2019; Sautman and Yan, 2019; Wignaraja et al., 2020). Moreover, the debt-trap diplomacy narrative has also been debunked (Jones and Hameiri, 2020; Singh, 2020).

⁹ Interviews with Ministry of Economy and Finance, May 2019.

sheet. While the government plans to increase its use of PPPs, the framework to manage these is currently weak.

Impact assessment

The risk perceptions highlighted above are realistic in terms of the likelihood of a debt crisis. Cambodia does not face immediate debt sustainability risk, especially if the government maintains its prudent approach. That said, the broader economic environment could change and affect Cambodia through the export channel. A slowdown in China, for example, could reduce investment into Cambodia, reducing exports as well. The same could happen if Cambodia loses preferential access to the EU market, as discussed above. Both these cases may have a negative impact on debt servicing.

4.3 Government effectiveness

‘Government effectiveness’ denotes the government’s ability to plan, coordinate and implement its plans. It refers to how the various parts of government (ministries, departments and agencies at the national and subnational levels) work together and manage the country’s resources to kickstart and sustain the development process.

National government effectiveness

Government effectiveness encompasses many issues, but this report looks at three main areas: i) management of relations with development partners; ii) environmental management; and iii) local government effectiveness. In this section, we discuss the first point and leave the second and the third for Section 5, where these are reviewed in relation to the case of Sihanoukville. Another area of government effectiveness relevant to the BRI is debt management, discussed above.

As a low-middle income country, Cambodia is a significant aid recipient: in 2019 net ODA accounted for 3.9% of GNI (World Development Indicators). Aid is provided by both traditional development partners (UK, US, Australia, Japan) and non-traditional ones (China, South Korea, India) (CRDB, 2018; Sato et al., 2011; Greenhill, 2013). In 2018, more than 20 development partners were active in Cambodia (CRDB, 2018), a proliferation of donors that has been described as ‘aid fragmentation’ (Sato et al., 2011).

Cambodia operates a standard aid coordination structure, guided by a Development Cooperation and Partnership Strategy, now in its second phase (2019–2023). The practical implementation of this mechanism offers insights into Cambodia’s strategic approach to aid. For example, many donors take up infrastructure construction, repair and maintenance. Since 1993, over 95% of Cambodia’s main national roads have been either rehabilitated or built from scratch with funding and support provided by development partners. These have included traditional donors such as the Asian Development Bank, the World Bank and Japan, but also emerging donors such as China, South Korea, Thailand and Vietnam (Sato et al., 2011).

Perceptions of risk

In terms of managing development partners, interviews highlighted that the RGC could balance support from and divide tasks among them. This strategic division of labour emerges clearly in the transport infrastructure sector, where rehabilitation of the national road network was split by the government among different donors, in particular from Asia (Asian Development Bank, Japan, China, South Korea, Thailand, Vietnam). Construction of the Phnom Penh–Preah Sihanouk Expressway, requiring an investment of \$1.6 billion, was assigned to China, while the Phnom

Penh–Bavet Expressway, estimated to require an investment of \$2 billion, was assigned to Japan (Hort, 2017). A similar division of labour can be seen with urban roads in Phnom Penh, where South Korean and Chinese partners are involved in the construction of the ring roads around the city (ibid.).

Our interviews pointed to a similar division of labour for other types of infrastructure. For example, in 2011 the Chinese government funded construction of a bridge in Phnom Penh, known as the Chroy Changvar II Bridge or Cambodia-China Friendship Bridge (Vong, 2014; Mao and Nguon, 2018). This was built next to the first Chroy Changvar Bridge, originally built using Japanese aid in 1966 and known as the Cambodian-Japanese Friendship Bridge (Moeun, 2018; Khuon, 2019a). Despite this visible competition, the projects ended up working complementarily: renovation of the Japanese bridge, which started in 2017, was enabled by the presence of the Chinese bridge, which allowed traffic to continue flowing with minimal disruption.¹⁰ Projects explicitly linked to the BRI have involved similar government-led coordination. For example, in the coastal province of Sihanoukville, the port has been built and is managed with the help of the Japanese government (Port Autonome de Sihanoukville, 2019), while the Sihanoukville SEZ has been supported by the Chinese government.

The RGC manages development partners' work on vital infrastructure projects to ensure minimal disruption (Calabrese and Cao, 2021). While the RGC has welcomed a plurality of development partners, rather than disrupting the government's work by creating excessive transaction costs, or casting the government as a passive recipient willing to 'accept whatever aid is offered,

[this approach] shows a carefully considered strategy that views the new donors as providing alternatives important to the country's balanced development' (Sato et al., 2011: 2,099). The authors argue that this strategy was motivated by dissatisfaction with traditional donors, both in terms of the volumes offered and the lack of a strategic orientation towards infrastructure (Sato et al., 2011).

Impact assessment

In terms of development partners' management, we highlight the ability of the RGC to leverage a multiplicity of partners and to divide the work amongst them. This applies to infrastructure development, and therefore to the BRI. This is an area that does not raise concerns for the future.

4.4 Rule of law and breaches of contract

The rule of law indicates the presence of and compliance with rules and regulations, which are accessible, commonly understood and respected. In theory, a strong rule of law creates a stable and predictable environment, and can promote investment. This section reviews the rule of law in Cambodia in relation to investment, as this is the main channel through which Chinese companies in general, and the BRI in particular, can affect the development process.

Cambodia and the rule of law

Investment in Cambodia is regulated by the New Investment Law, promulgated in 2021. This includes a wide range of incentives and tax concessions, exemptions, deductions and repatriation of earnings. Compared to the former Investment Law, the New Law provides more investment guarantees and protection,

¹⁰ Interview with development partner, Phnom Penh, May 2019.

such as compensation for losses as a result of civil war, armed conflict and a state of national emergency; protection against nationalisation or expropriation; restrictions against pricing regulation; and intellectual property protection.

Cambodia has signed 27 bilateral investment treaties (BITs), 14 of which are still in force, including one with China that entered into force in 2000. In general, most BITs do not impose limits on the category of disputes that can be submitted, as long as they concern protected investment under a BIT. However, the Cambodia–China BIT differs slightly in that it provides limited scope for recourse to international arbitration and favours the adjudication of investment disputes by the court of the host state (Chan, 2017). Cambodia is also a signatory to 16 multilateral treaties with investment provision, mostly due to its ASEAN membership.

Perceptions of risk

Our interviews pointed to two main areas of risk related to the rule of law: the lack of a legal framework for certain activities and, specifically in relation to Chinese investors, the limited availability of translated laws, policies and regulations.

The lack of a legal framework can discourage investment. An example was provided by one of our interviewees, who mentioned that European and US investors were interested in investing in the casino sector, but were driven away by the lack of a gaming law (now in place). The lack of regulation discourages some investors, especially

those concerned with compliance (Senase, 2019), making it difficult for Cambodia to diversify its investor base.

Another perception was that Chinese investors followed a ‘different’ legal system. Referring to the garment sector, one Cambodian working for an international organisation mentioned that Chinese investors brought in production standards and legal systems from China, alongside senior staff and production processes.¹¹ Chinese companies interviewed stated that they followed Cambodian standards and regulations in their work.¹² This latter view is in line with research findings in other countries (Weng and Buckley, 2016), while the opinion that Chinese companies followed Chinese regulations did not find much basis or evidence in the literature. Our interviews revealed that Chinese investors experienced challenges navigating the Cambodian legal system and found it difficult to access non-Khmer version of certain laws – both English and Chinese versions were difficult to obtain.¹³ An interviewee mentioned that the Chinese embassy did not provide help in this regard,¹⁴ and Chinese companies often sought the support of Cambodia-based Chinese law firms. The services of these firms, acting as intermediaries between Chinese companies and the Cambodian legal environment, were in high demand.¹⁵

Even if Chinese firms are common in Cambodia, they still experience challenges in operating there. This has prompted the proliferation of many agents operating as intermediaries between Chinese companies and the RGC. These range

¹¹ Interview with development partner, Phnom Penh, June 2019.

¹² Interview with Chinese company, May 2019.

¹³ Interview with Chinese law firm, Phnom Penh, May 2019.

¹⁴ Interview with Chinese businessman, May 2019.

¹⁵ Interview with Chinese law firm, Phnom Penh, May 2019.

from law and accounting firms focusing on specific services and catering to the Chinese market, to intermediary firms dealing with issues arising between Chinese companies and the government.

Another challenge concerns commercial disputes. Chinese companies perceived Cambodian courts to be slow and at times biased against them. Chinese companies sought to settle commercial disputes (through arbitration or other mechanisms) in China or, if the case involved a company of another nationality, Hong Kong or Singapore.¹⁶

Impact assessment

The lack of regulations in certain sectors can discourage investment. While our interviews only revealed this for the entertainment sector, a broader investigation into foreign investment in Cambodia could reveal similar dynamics in other sectors. The negative perception of Cambodian courts could discourage foreign investment. It was not clear whether this was an issue of concern for Chinese investors only, or if it applied to other investors as well.

Our research uncovered no evidence of the use of different regulations and legal systems by Chinese companies. This issue may be linked to stakeholders' perceptions of the rules and regulations followed by Chinese investors and a lack of mutual understanding between Chinese and Cambodian stakeholders.

4.5 Land acquisition and speculation

Landholding and security

Despite developing an advanced legal framework for landholding, inequality in land ownership in

Cambodia is among the highest in Southeast Asia. Inequality and lack of transparency are key factors leading to land disputes. The Ministry of Land Management, Urban Planning and Construction reported that, as of the end of April 2019, it had received 10,078 complaints related to land disputes (Kingdom of Cambodia, Ministry of Land Management, Urban Planning and Construction, 2019).

Inequality in landholding contributes to high levels of land insecurity. At 33%, the rate of land insecurity in Cambodia is higher than in neighbouring Thailand (17%) and Vietnam (10%) (Prindex, 2019). Efforts to improve tenure security have included the reallocation of up to 360,000 hectares of land improperly allocated for agriculture and economic land concessions to people on low incomes (World Bank, 2017).

Perceptions of risk

Concerns about land management issues associated with Chinese investment in Cambodia were raised by several interviewees. Issues included violations of the Land Law (2001) pertaining to the size of land concessions, absence of community engagement and inadequate or misappropriated compensation. Other concerns included the pricing out of Cambodians from the property market because of speculation by property owners. Our interviews indicated that these issues often transpired as a result of interactions between existing vulnerabilities, such as corruption and legislative and administrative gaps, and weak state enforcement capacity, as well as business practices among the Chinese investment community. However, it is important to emphasise that land management issues in

¹⁶ Interview with Chinese company, May 2019.

Cambodia are not confined to Chinese investment: they are also associated with other investors as well.

There were numerous rumours and unverified reports of private Chinese investors establishing relations with powerful leaders to obtain preferential land deals. The Land Law and related regulations establish that land concessions, which can be legally granted on state private land, cannot exceed 10,000 hectares, and yet there were numerous reports of Chinese companies receiving larger concessions. One of these referred to the case of the Dara Sakor project in Koh Kong, a massive tourist resort being developed by China's Union Development Group, but rumoured to be reserved for a Chinese military site (Long, 2020). The project received a land concession larger than that allowed by law.¹⁷ Chinese investors have also been implicated in alleged land grabs in Preah Vihear province. Reports suggested that China's Heng Fu Sugar established five separate companies to sidestep limits on the size of concessions, triggering protests by farmers (Kynge et al., 2016).

Other issues refer to the lack of appropriate community consultation mechanisms and inadequate compensation for loss of land and livelihoods.¹⁸ Dara Sakor was again cited as an example. The project was built in an area of community fisheries; however, no community consultation took place before the start of the project. A consultation process was established only after protests prior to the 2013 election, and the conflict with the community is reportedly still not fully resolved. Local corruption likely

aggravated conflict with the local community in Dara Sakor: local authorities reportedly received compensation payments for local communities from Chinese investors, which they failed to distribute to the people affected.¹⁹ Other similar cases of inadequate or non-existent compensation have been reported (Higgins, 2012; Reaksmey, 2018).

Our interviewees also raised concerns about land speculation, in particular in Phnom Penh and Sihanoukville. In the capital, concerns related to luxury apartments being built by Chinese companies, mainly for overseas clients, and their impact on the land and housing market. Some reports anticipated that the number of luxury apartments in Phnom Penh would double from 8,492 in 2018 to 30,000 in 2020. Few locals would be able to rent or buy these apartments. The average monthly income in Phnom Penh is between \$600 and \$700, while the price of these apartments can reach \$3,500 per square meter, with rents up to \$1,000 a month. Concerns have been raised over the sustainability of these developments and the pricing out of Cambodians from Phnom Penh (Goh and Thul, 2018).

In Sihanoukville (discussed in more detail in the next section), the influx of Chinese capital, particularly in the entertainment sector, is likely to have a similar effect on land prices and the housing market. Cambodian landowners, particularly those whose property is well connected to infrastructure, are benefitting from rising demand for housing.²⁰ According to reports, rents in Sihanoukville have risen, with property owners charging between \$5,000 and \$7,000 a

17 Interview with interview with academic expert, May 2019, Phnom Penh

18 Interview with interview with international NGO, June 2019, Phnom Penh

19 Interview with interview with academic expert, May 2019, Phnom Penh

20 Interview with interview with UN agency, May 2019, Phnom Penh

month if renting to Chinese nationals, compared to \$500–\$1,000 a few years ago (Pisei, 2018). Some Chinese stakeholders interviewed in the city said that the steep rise in rents for housing was pricing out investors from non-gambling businesses. Increased construction activity is also having negative environmental and social impacts (see Section 5 for more detail).

Impact assessment

As is the case in many countries, land acquisition and related speculation in Cambodia can have a considerable negative impact on the local population. First, inadequate compensation following land acquisition can lead to loss of livelihoods, displacement and increased poverty for the local population. Second, increasing land prices can lead to housing and land insecurity, increased poverty and marginalisation and growing inequality. Land issues should be appropriately managed and the existing framework strengthened to ensure that current landowners do not lose out, and that land and wealth inequality do not skyrocket.

Land disputes can also fuel anti-Chinese sentiment. In May 2019, around 20 people representing 26 families locked in a dispute with Union Development Group protested in front of the Chinese embassy, urging the ambassador to ‘instruct this company to resolve this land dispute’ (Sotheary, 2019). If land issues intensify, protests may become more common in future.

To avoid these issues, Chinese companies should engage more comprehensively around land questions. Our interviewees highlighted that, thus far, this had not been easy. For example, not one Chinese investor turned up for a workshop

run by a development partner and a Cambodian ministry.²¹ Chinese SOEs were also easier to approach for engagement than private companies, which may not have a physical office in Cambodia. However, in the case of SOEs, decision-making powers often lie with parent companies in China; therefore, a local office’s participation in consultations may not be meaningful or yield the desired outcomes.²²

4.6 Corruption

Corruption in Cambodia

In 2021, Transparency International ranked Cambodia 157th out of 180 countries in its Corruption Perception Index, which is worse than other Southeast Asian countries such as Laos, Vietnam and Myanmar.

In addition to its social consequences, corruption can place a major administrative and financial burden on Cambodian firms. Compared to the average firm in low-middle income countries, enterprises in Cambodia face higher levels of corruption, with almost 65% experiencing at least one bribe request across six of the transactions necessary to establish or operate a business (World Bank, 2016). However, corruption may not be regarded as an unsurmountable problem by firms, which described it as an ‘extremely efficient, transparent, predictable corruption’ (Kelsall and Heng, 2014: 32). This ‘institutionalized corruption’ helps in ‘greasing the wheels’ of business, effectively acting as an administrative regulator for firms’ operations.

In recent years, Cambodia has put in place some anti-corruption measures, focused on improving public financial management and transparency

21 Interview with interview with international NGO, June 2019, Phnom Penh

22 Interview with interview with international NGO, June 2019, Phnom Penh

in budgeting. However, some consider that these reforms have served to consolidate and centralise power in the hands of political elites (Baker and Milne, 2019). Attempts to address corruption in Cambodia have included the recent establishment of an Anti-Corruption Unit.

Perceptions of risk

Grand corruption²³ has caused public outcries and prompted a reaction from the RGC in the form of anti-corruption reforms. Our interviewees considered that instances of grand corruption (linked, for example, to infrastructure projects) had decreased in Cambodia in recent years. However, they also felt that petty corruption²⁴ remained a problem, especially in relation to business. The RGC's Anti-Corruption Unit has ramped up efforts against corruption, but this remained a problem for firms. In particular, foreign businesses whose home countries enforce regulations against corruption and bribery abroad face challenges when operating in Cambodia. This is the case for the US, where the Foreign Corrupt Practices Act allows the US government to prosecute the bribery of foreign officials. Japanese companies face similar challenges. In 2011 the Chinese Criminal Law was amended to include a clause explicitly criminalising the bribery of foreign officials, punishable with imprisonment. However, these provisions are rarely implemented (Lang, 2019).

Our interviews with Chinese companies revealed that many found doing business in Cambodia challenging, and they therefore resorted to

using intermediary companies. Local laws and regulations are unclear to some Chinese companies, and the business environment may be unfamiliar. Local government officials may demand small bribes to allow the business to run. Some Chinese private companies we interviewed tried to minimise their contact with the RGC through their use of intermediary companies. These intermediary companies help Chinese companies navigate the business environment, dealing with permits, applications, and official documents, and government officials when necessary.²⁵ In some cases, this may involve them having to pay small bribes or additional fees charged by local authorities.²⁶ This is not to say that all intermediary companies engage in these practices – some are law or accountancy firms providing normal services to their clients. In general, however, our interviewees noted a preference for avoiding dealing directly with the government. If they could afford to do so, they paid intermediaries to avoid becoming involved in illicit activity.

Impact assessment

Petty corruption affects businesses in Cambodia, though it seems that many enterprises have found ways to operate regardless of corruption, while in some cases this has become efficiently institutionalised (Kelsall and Heng, 2014).

This tends not to be the type of corruption that transfers large sums from taxpayers into the hands of a few elites, and therefore may have small effects on inequality. However, this type of

23 'Grand corruption', also called 'political corruption', refers to corruption taking place at the public sphere's top tiers and within the highest levels in private business, often involving large sums of money (U4, no date).

24 Petty / administrative corruption is defined as small-scale corruption taking place at the interface between public institutions and citizens. Petty corruption is often in the form of bribery linked to the implementation of existing laws, rules and regulations (U4, no date).

25 Interview with Chinese law firm, Phnom Penh, May 2019.

26 Interview with Chinese firm, Sihanoukville, May 2019.

corruption may still drive away some businesses that could operate in Cambodia if such corruption was not present. This may constitute a net loss for Cambodia.

4.7 Conclusions

This section analysed the risks of the BRI to the Cambodian development process, focusing on national-level challenges. The analysis looked at how the national government is addressing these challenges.

In terms of economic fragility and reliance on China, our analysis found that this may be a concern. While China has been one of the first countries to exit the Covid-19-induced economic crisis, a longer-term outlook suggests it is prudent for Cambodia to maintain and strengthen relations with other partners as well. The recent increase of Covid-19 cases in China (as of March 2022) may signal that the storm is not over. Other areas of concern include issues of land acquisition and compensation and corruption, which could potentially exacerbate poverty and inequality. With corruption, it should be noted that this problem is not exclusive to engagement with China or the BRI. However, it is pervasive, and a solution should be sought at the country level, rather than specifically in relation to China.

Regarding debt sustainability and government effectiveness, there seems to be little reason for concern. The RGC is handling both the country's financial situation and development partners effectively, and the BRI appears to pose no threat. In relation to rule of law and breaches of contract, the evidence in this area was scant and did not allow us to conclude that there was a particular issue at the national level.

The next section analyses the potential risks posed by the BRI to the Cambodian development process from a subnational perspective, focusing on Sihanoukville. This will offer a different perspective.

5 Case study: an in-depth look at Sihanoukville

The previous section focused on the national level, concentrating on risks to Cambodia as a whole. It concluded that, apart from Cambodia's economic reliance on China, the RGC is effective at handling the challenges posed by the BRI. This section moves on to explore the case of Sihanoukville. This differs from the previous case: in terms of the types of Chinese firms involved, the sectors considered and the role of the government.

5.1 The context: recent developments in Sihanoukville

Sihanoukville, also known as Kampong Som, is a port city south-west of Phnom Penh and the capital of Preah Sihanouk province. Together with Phnom Penh and Siem Reap, Sihanoukville is one of the main economic centres of Cambodia. In recent years, the city has evolved from a laid-back coastal town to a bustling tourism and business destination. In contrast to other cities in Cambodia, Sihanoukville's economy is not heavily reliant on agriculture. In 2013 around half of the labour force was absorbed by the services sector, followed by agriculture (around 30%) and manufacturing (around 20%). In 2009, poverty incidence was among the lowest in Cambodia, with less than 10% of the population living under the poverty line (Asian Development Bank, 2014).

The city boasts one of two international ports in the country: the Sihanoukville Autonomous Port (or Port Autonome de Sihanoukville).²⁷ This is the country's only deep-water port, handling 70% of imports and exports. The port's facilities include wharves, an oil terminal, a container berth, a jetty and storage facilities (Asian Development Bank, 2014). It was originally built in 1956, and revamped with the support of the Japanese government in the early 2000s (Port Autonome de Sihanoukville, n.d.).

The economy is dominated by Chinese-owned businesses (Sheith, 2019). Chinese investors have poured money into the tourism and entertainment sector, building casinos, hotels and restaurants. This has prompted further investment in supporting activities, such as shops and supermarkets, beauty salons, real estate and taxi services all undertaken by Chinese businesses. Much of the Chinese investment in Sihanoukville is private (te Velde, 2019) and potentially 'translocal',²⁸ meaning investment by Chinese citizens directly in Cambodia.

Chinese investment in the construction and tourism sector in Sihanoukville has increased local prices and pushed up the cost of living (Hin, 2019). While those who already owned land have profited from this boom by renting or selling their

²⁷ The other one is on the Tonle Sap River in Phnom Penh.

²⁸ 'Translocal firms' have been defined as firms that are started, owned and/or run by foreign nationals, and may have a board of advisors in a foreign country, but are exclusively registered locally (Sautman and Yan, 2016; Oya and Schaefer, 2019). Translocal investment differs from FDI in that there is no investing firm headquartered in another country.

plots, others have seen their daily expenditures skyrocket without a corresponding increase in income (Franceschini, 2020).

It is difficult to estimate the value of all these new enterprises, not only for researchers but also for the Sihanoukville and Cambodian authorities. Investment from China has produced an annual revenue conservatively estimated at between \$3.5 billion and \$5 billion, 90% of which derives from gambling (Turton, 2020, cited by Franceschini, 2020).

The area has become highly dependent on trade and investment with China and Chinese managers and workers (te Velde, 2019). Our interviews revealed that the main tourism activities (casinos, hotels) are managed by Chinese citizens, as well

as smaller enterprises (supermarkets, restaurants, beauty parlours), leaving limited job opportunities for local people apart from low-wage jobs in tourism and construction. Between 2018 and 2019, the authorities conducted a survey of foreigners residing in Sihanoukville. Of almost 14,000 foreigners, 12,500 were Chinese (Long, 2019a).

The rapid development of Sihanoukville appears to be unregulated. Our interviews revealed limited urban planning and a limited ability of the local government to control and manage urban growth, or provide services to citizens (including waste collection and sewage water treatment). One result of uncontrolled urban growth was the collapse of a building under construction in 2019, killing or injuring almost 40 people (Long, 2019b).

Box 1 Sihanoukville Special Economic Zone (SEZ)

The Sihanoukville SEZ has a decade-long history and, as such, predates the BRI. The project is often referred to as a 'pillar of cooperation' between China and Cambodia, and is cited as an exemplary BRI project.

Located a few kilometres outside Sihanoukville, the SEZ (whose official name is the Cambodia Taihu International Special Economic Zone) is owned and operated by the Hongdou Group, a large Chinese private company. The SEZ is modelled on the Shenzhen Special Economic Zone (Wang et al., 2009). Covering 11 square kilometres, it is marketed as offering investors a safe political environment, geographic advantages, low labour costs, a favourable trade status, infrastructure support and good services (Sihanoukville Special Economic Zone, n.d.).

Firms in the SEZ produce textiles and garments, machinery and electronics, in addition to technological industries (Wang et al., 2009). The Sihanoukville SEZ has attracted 160 firms (mainly from China, but also from other countries including Ireland) and aims to expand to 300. Data for 2018 suggests that companies in the SEZ had exported \$400 million worth of goods, predominantly garments and furniture (te Velde, 2019). In early 2021, permits were issued for five new investments creating an additional 2,000 jobs (The Star, 2021).

Reports of money laundering, illegal gambling and human trafficking, allegedly associated with the flood of Chinese immigrants, have increased. In February 2018, the RGC launched a taskforce to address the issue. In August 2019 a ban on online gambling was announced for the following year (Cheng, 2018; Khuon, 2019b, cited by Franceschini, 2020). According to reports, this generated panic among Chinese investors and caused the bubble to burst, with many losing their jobs and real estate losing its value overnight (Franceschini, 2020; Hutt, 2020). Many workers on construction sites remained stranded in Sihanoukville with no salary and no way to return home (Franceschini, 2020).

The remainder of this section discusses the risks identified in Sihanoukville resulting from investment in the city. We look at the impact of Chinese investment in the manufacturing, hotel and entertainment sectors to assess the potential risks to local development processes.

5.2 Local government effectiveness

Perceptions of risk

When travelling to Sihanoukville, first impressions are striking. During our fieldwork in May and June 2019 the city was in full expansion, with many buildings under construction. There was limited evidence of urban planning or a clear city development strategy. The city's infrastructure appeared overwhelmed: roads were often flooded during the rainy season and garbage was accumulating on street corners as collection services were not able to cope with the increase in population. Some interviewees pointed out that garbage was being discharged into the ocean or burned on the streets when not collected.

Impact assessment

In late 2000, Cambodia started a process of decentralisation transferring power from central to local government. Local governments have responsibility for certain tasks (waste management, water and sanitation), with more functions identified for transfer in what has been a slow process (Eng and Ear, 2016).

Many urban development and planning functions in Sihanoukville should be undertaken by the local government. However, it has been overwhelmed by the influx of Chinese investment, and does not have the necessary human and financial capacity to regulate the sudden growth faced by the city. The provincial administration, for example, had no data or information about the presence of foreign residents in its territory, or about ongoing economic activity. The government has limited ability to regulate construction works, resulting in new buildings mushrooming close to the coast. Unregulated urban growth has created the challenges described above (lack of urban planning, excessive pressure on infrastructure and services). This precarious situation is evident from the state of the city and its infrastructure, and also emerged from our interviews.

The local government in Sihanoukville has limited capacity to undertake inspections and monitor the development of new buildings. During our interviews, the local government shared with us that it did not have the capacity or means to monitor all new building sites in the city, and it did not know how many building sites were active. As a result, construction firms have limited respect for building and health and safety standards. One interviewee noted that, while companies are obliged to prepare an environmental impact assessment and an environmental management plan, once permission to build or invest was obtained they may well ignore it.

In summary, the local government of Sihanoukville has limited means or capacity to deal with the inflow of Chinese investment into the city in recent years. The government is unable to fully monitor and regulate the activities of this investment, nor can it ensure that urban services are scaled up appropriately. This has led to unregulated urban growth, with social and environmental costs to be paid down the line. It has also cost lives.

The Chinese government is likely aware of the environmental concerns associated with its overseas investment. Yet it remains to be seen whether efforts to improve its 'global footprint' through initiatives such as the Green Belt and Road and publishing guidelines for overseas investment and Green Development Guidelines for Overseas Investment and Cooperation (State Council, 2017; MOFCOM and MEE, 2021) will make a substantial difference to outcomes for communities and ecosystems impacted by projects.

5.3 Labour market issues

A common complaint in Sihanoukville is that Chinese citizens are taking jobs from Cambodians. Beyond the business opportunities that many Cambodians see as being seized from them, they also believe that Chinese people are taking jobs in many sectors, such as construction.

The Cambodian labour market

Employment in Cambodia is regulated by the Labour Law of 1997. This permits the employment of foreigners, but states that Cambodians should be prioritised over foreign nationals in certain occupations, such as lawyers, bailiffs and

notaries. To be legally employed in the country, foreign workers must have a work permit and employment card. Exceptional cases, where the number of foreign employees exceeds the quota, should be authorised by the Ministry of Labour and Vocational Training.

The New Investment Law of 2021 stipulates that, in the event that it is not possible to find qualified Cambodian employees, investors can hire foreign nationals to manage or operate a company in numbers not exceeding the quotas stipulated by the laws and regulations in force. To hire foreign workers on qualifying investment projects, investors should demonstrate that comparable skills are unavailable in Cambodia. The Investment Law aims to maximise skills transfer for local staff by providing incentives to investors who provide vocational and skills training to Cambodian workers.

An additional piece of legislation issued by the Ministry of Labour and Vocational Training in August 2014, a *praka* (proclamation) on the Use of Foreign Workforce, regulates the proportion of local and foreign staff. The *praka* limits the number of foreign employees to no more than 10% of the workforce.²⁹

The work permit system should in theory allow the RGC to control the number of foreign workers in the country at any one time, in absolute numbers and in relation to domestic workers. However, with large numbers of foreigners working in the country either illegally or overstaying their visas, this remains challenging.

²⁹ Of these, 3% should be office employees, 6% specialised employees or workers, and 1% non-specialised employees or workers.

Box 2 Chinese workers in Cambodia

The precarious labour market in Sihanoukville not only affects Cambodian workers, but also Chinese workers. Limited oversight by the government of employment conditions affects domestic and foreign workers alike.

Our interviews revealed that Chinese workers often found themselves in a situation of vulnerability. Low- or medium-skilled Chinese workers sometimes reach Cambodia with no formal contract or agreement. As Franceschini (2020) puts it, referring to his surveyed sites, '[e]mployers ... purposefully left their workers in a legal limbo'. The author indicated that the workers in Chinese construction companies in Sihanoukville he interviewed were often hired by subcontractors, had no contracts and no clear line management, and were paid on a daily basis, with very limited job security. Workers were sometimes recruited through 'predatory' employment agencies, attracting them to the jobs with false promises regarding working conditions and leaving them stranded in a foreign country when challenges arose (ibid.). Other working conditions, such as health and safety requirements and payment of social security, were also often lacking (ibid.).

If they find themselves disagreeing with their bosses, Chinese workers cannot strike, and they cannot afford to hire lawyers to press claims. The Chinese embassy does not intervene to support them.³⁰ Passports and documents are often held by their employers (Franceschini, 2020).

Perceptions of risk

The workforce localisation rate, or share of local workers hired by foreign companies, is a contentious issue for Chinese firms – both private and state-owned – operating abroad. Whether Chinese firms rely on expatriates or prefer to hire local workers has been widely debated (see, for example, Sautman and Yan, 2015; Oya and Schaefer, 2019; van der Kley, 2020). This issue predates and extends beyond the BRI.³¹

Issues to do with workforce localisation rates were raised during several of our interviews. Many local experts and development partners specifically questioned why Chinese companies were bringing in their own workers for low-skilled manual labour in the construction industry and casual employment as street vendors and hairdressers, among other occupations.

The first point to note here is that Chinese capital seems to have created new jobs in Sihanoukville. Although there were no statistics on this or hard

³⁰ Interview with Chinese law firm, Phnom Penh, May 2019.

³¹ The frequency with which this claim was being raised prompted many scholars to investigate in the African context. Invariably, these studies found that African employees in Chinese firms ranged from 50% to more than 95% of the total workforce (Broadman, 2007; Brautigam, 2009; Chen et al., 2009; Mohan and Lampert, 2013; Sautman and Yan, 2015; Sun et al., 2017; Schoneveld et al., 2018). More recent comparative analysis has highlighted that the localisation rates of Chinese firms is similar to those of other foreign firms (Oya and Schaefer, 2019).

data, the construction and tourism boom in a previously quiet area seems to corroborate this observation. However, the number of new jobs created, or whether these corresponded to job losses in other areas, was difficult to investigate.

Not only were more jobs (in absolute numbers) likely available, but wages seemed to have risen, probably due to increased demand driven by Chinese capital inflows. One company we interviewed reported having increased the salaries of local workers from \$100 a month in 2015 to \$800 in 2019.³²

Considering concerns over workforce localisation rates and the perceived establishment of Chinese business ecosystems in the country, understanding the perspective of Chinese companies on these issues is crucial in identifying a workable solution for all stakeholders. During our interviews, some private Chinese companies raised concerns about labour shortages and the lack of adequate skills in Cambodia.³³ These issues had a two-fold effect on businesses: they made it difficult for some companies to find local employees and contributed to high labour turnover rates.

We found limited evidence that Chinese firms preferred to hire Chinese rather than Cambodians, or hire Chinese when there were qualified Cambodians to do the job. A Chinese construction company we interviewed in Sihanoukville stated that only 200 of its staff were Cambodian nationals, while the overwhelming majority were

Chinese.³⁴ One small piece of evidence in terms of localisation rates is data from Franceschini (2020). At seven construction sites where the author conducted interviews, the number of Chinese workers was equal to or larger than Cambodian workers. We were not, however, able to assess how generalisable this evidence is outside of the specific context of the construction section in Sihanoukville.³⁵

When Chinese companies brought in Chinese nationals, it was often to carry out tasks that Cambodian workers were not able to undertake, especially when specific skills were required. Other research on localisation rates (Oya and Schaefer, 2019) shows that they improve over time (van der Kley, 2020) as companies train their staff and replace foreigners with locals. Cambodian government representatives interviewed for the study were aware that Chinese companies bringing in their own workers and construction materials were some of the trade-offs associated with the BRI. A government interviewee pointed out that even lower-skilled Chinese workers were more efficient than local workers.³⁶ The lack of skills that we anecdotally identified in Sihanoukville is confirmed by national-level data. A recent national survey by the National Employment Agency (NEA) found that employers of all firms, both foreign and domestic, found it difficult to fill vacancies, as they could not find Cambodian applicants with the right skills (NEA, 2018). Interestingly, in addition to technical and managerial competencies, among the skills employers identified as lacking were English- and

32 Interview with real estate company, Sihanoukville, May 2019.

33 Interview with Chinese construction company, Sihanoukville, May 2019.

34 Interview with Chinese construction company, May 2019.

35 Comparative studies undertaken in different contexts have shown that in construction, localisation rates are generally lower than in manufacturing, for example (Oya and Schaefer, 2019).

36 Interview with Ministry of Economy and Finance, Phnom Penh, May 2019.

Chinese-language skills (ibid.). Language barriers may prevent Chinese employers from effectively communicating with their Cambodian staff.

This leads us to consider worker turnover in Chinese firms in Sihanoukville, an issue that was flagged repeatedly in interviews. Allegedly, Cambodian workers frequently left their jobs at short or no notice as they found employment in other companies.³⁷ High labour turnover is a common issue in many countries characterised by low-wage employment (Gelb et al., 2017; Oya and Schaefer, 2019), and is particularly challenging for Chinese companies given the speed of construction activities. The NEA survey found that the percentage of staff leaving their jobs was increasing, from 13.7% in 2016 to 16.5% in 2017 (NEA, 2018).

Impact assessment

It was difficult, given the lack of hard data and evidence, to assess the extent of job creation for Cambodian workers in Sihanoukville, as well as localisation rates. A certain level of job creation seemed to be evident, but this was difficult to quantify, especially in net terms.

Regardless of whether net job creation has taken place, Cambodians still perceive that Chinese companies are not giving them a fair share of jobs. The RGC was aware of issues arising from high numbers (real or perceived) of Chinese nationals being employed in low-skilled jobs, and it has taken action to manage the situation. In August 2019, the Ministry of Labour and Vocational Training issued a *praka* on jobs prohibited for self-employed foreigners in Cambodia. The regulation encompasses 10 activities, namely:

1. drivers of all types of vehicles in a form of business such as two-wheeler driver, three-wheeler driver, driver of two-wheeler with a trailer, four-wheeler driver, passenger car driver and truck driver
2. vendors walking to sell goods or using all types of vehicles to sell goods in public locations
3. massage provider in public locations
4. barber, hairdresser and beautician
5. sewing service provider and shoe shiner
6. sewer
7. tire and car repairer
8. Khmer souvenir producer
9. Khmer musical instrument, monk alms bowl, Buddhist statute producer
10. goldsmith, diamond/gem processor.

The regulation also stipulates that existing work permits for these activities would not be extended. Although the regulation does not target any specific nationality, it does target sectors where, according to our interviews, Chinese nationals are reportedly employed. Such action can therefore be interpreted as an attempt to protect Cambodian business owners, such as street food vendors and hairdressers, occupations where Chinese are highly visible, from competition.

While good on paper, the regulation does not address two fundamental issues: the capacity of local governments to monitor its enforcement, and a lack of skills preventing Chinese firms from hiring more Cambodians in place of Chinese citizens. Regarding the first point, we have flagged the limited capacity of local government to monitor and enforce regulations (Section 5.2), an issue that also makes it difficult to effectively monitor the labour market.

³⁷ Interviews with three Chinese companies, May 2019.

5.4 Impact on local communities: discontent of small business owners excluded from Chinese business ecosystems

One of the most common complaints shared in our interviews in Sihanoukville was the perception among local communities that Chinese workers and business owners were taking work opportunities that should be for Cambodians. We have examined complaints about workers in the previous subsection. Regarding businesses, the local community complained about the pervasive presence of Chinese businesses in almost every sector.

Perceptions of risk

The boom in the construction and entertainment industries in Sihanoukville has been due to a large inflow of Chinese capital. Many businesses have been set up, such as casinos, hotels, restaurants and other entertainment venues, as well as saloons, supermarkets and taxi services, all aimed at Chinese nationals. Due to language barriers, many of these activities have been set up by Chinese people for Chinese people, leaving Cambodians unable to profit from these opportunities.

Many of our interviewees complained that they were unable to benefit from the huge inflow of capital into the country. Even informal business opportunities and jobs, such as taxi drivers, street vendors and hairdressers, were reportedly taken by Chinese citizens.³⁸ Others reported that Cambodians were growing increasingly wary of Chinese nationals, who were in many cases perceived as rude and culturally insensitive.

Impact assessment

The first impression of Sihanoukville provides plenty of evidence for some of these claims – not only hotels and casinos, but also many restaurants, shops and salons seem to cater for Chinese consumers, displaying Chinese signs, and were staffed with Chinese personnel.

While it seems undeniable that many of these businesses could be run by Cambodians, it is also difficult to quantify the extent of this phenomenon given the lack of data and statistics. Chinese capital has clearly created jobs for Cambodians, as discussed in Section 5.3 above. Therefore, it is impossible to know whether the job creation generated by Chinese investment is on balance positive or negative for local communities.

One final point needs to be considered: many Cambodians have also profited from the inflow of Chinese capital. Those who previously owned land or property have seen the value of their assets grow rapidly as Chinese firms and individuals have invested (Franceschini, 2020). Although this may have also exacerbated inequality, there was limited information to ascertain this.

Another outcome to be considered is the potential for growing anti-Chinese sentiment in Sihanoukville. Unlike neighbouring Vietnam, which has a history of deep-rooted hostility and even recent territorial clashes with China, anti-Chinese protests in Cambodia have been mostly directed at specific issues such as land acquisition. The English-language media review suggested that as of the time of this research, there had been no protests over the presence of Chinese workers in Cambodia. However, anti-Chinese sentiment is reportedly on the rise, with blog posts on

³⁸ Interview with development partner, May 2019.

Facebook using the hashtag #ChineseAgain! to highlight that Chinese investment in the country is making some people suffer (Wright, 2018).

There are also cultural tensions between Cambodian and Chinese communities. While these may not lead to anti-Chinese violence or protests, they may exacerbate friction over jobs and alleged land grabs by Chinese companies.

5.5 Conclusions

This section has described the rise and fall (or at least the slowing down) of Chinese investment in Sihanoukville. We have seen how the rapid inflow of Chinese capital into the construction, tourism and gambling sectors has transformed the city, putting pressure on infrastructure and challenging the local government's capacity to manage the process.

Chinese investment in Sihanoukville has led to major problems in terms of urban planning, as well as environmental and social sustainability. While there has been job creation and business opportunities in the city have increased, this growth has been counterbalanced by land speculation. This can potentially lead to increased inequality and discontent, directed especially towards China as a whole, with little distinction between the different actors involved.

The story of Sihanoukville, as perceived by its Cambodian inhabitants, is one of a 'Chinese silo'. Investment has been made in sectors that are of interest to China, cater to Chinese visitors and make use of Chinese services. The staff may be Cambodian, but Cambodians, excluding a handful of land and property owners, see little benefit in the development of their city – apart from some employment opportunities in tourism and construction.

Nonetheless, this is not a 'Cambodians versus Chinese' story. Chinese workers in Sihanoukville have also been exploited and, while their conditions may be marginally better than those of their Cambodian counterparts, they do not come out on top either. Chinese investors and Cambodian land and property owners benefit the most from the rapid development of Sihanoukville, while the average citizen loses out.

The story of Sihanoukville differs dramatically from the national-level account presented in the previous section. The central government appears better equipped than local governments to monitor and regulate the presence of Chinese investment to ensure benefits for the country. These differences are explored in the next section, concluding our report.

6 Conclusions and recommendations

Taking the BRI as the starting point, this report has looked at the political and economic risks that derive from Cambodia's economic engagement with China. In particular, it has outlined how different types of engagement, conducted by different firms and stakeholders in different sectors and parts of the country, can generate uneven developmental outcomes for Cambodia.

China and Cambodia are very close partners, both in terms of political and economic relations. Apart from the official activities and government-to-government exchanges explicitly labelled as part of the BRI, there are many other ways in which the Chinese and Cambodian business communities interact. While our starting point was the BRI, an assessment of the risks deriving from Chinese investment in Cambodia cannot ignore these other activities. They are seen by many stakeholders on the ground as part of the same phenomenon of 'Global China'. In Sihanoukville, for example, we find an SEZ creating thousands of jobs and contributing to economic diversification. But we also see chaotic construction activities with potentially negative environmental and social impacts. For many Cambodian observers, these are part and parcel of the increased Chinese presence in their country and therefore need to be assessed together.

Cambodia presents two very different situations at the national and local levels. At the national level, the RGC seems to be highly capable of managing the challenge most commonly associated with the BRI: debt sustainability. Other issues, such as challenges with rule of law and corruption, did not seem to be linked to the BRI or to economic engagement with China. The areas we found to be potentially more challenging were land and

housing speculation, as well as economic fragility and over-reliance on China. Land and housing speculation requires specific and targeted interventions to address a problem brought about recently by large inflows of private investment.

The second issue, economic fragility, is more deeply embedded in Cambodia's economic structure. The country currently relies on a low value-add manufacturing model, which leaves little value in the country. Moreover, Cambodia seems to be distancing itself from other partners and relying increasingly on China for its trade, investment and financial needs. An astute strategy would entail further diversification, rather than a narrowing of partnerships. A more sustainable economic model would require efforts around value addition and upgrading, which the RGC should work towards.

At the local level, the Sihanoukville case highlights the major challenges of urban planning and environmental and social sustainability. Job creation and increased business opportunities are counterbalanced by land speculation, potentially leading to increased inequality and discontent, directed especially towards China as a whole, with little distinction between the different actors involved. Sihanoukville also tells the story of a 'Chinese silo', where Chinese companies invest in sectors that are of interest to Chinese consumers, cater to Chinese tastes and make use of Chinese services. Apart from a handful of land and property owners, Cambodians see little benefit in the development of the city. In contrast with the national-level government, the local government in Sihanoukville does not have the means or capacity to address all the issues caused by a rapid inflow of Chinese investment. It finds it difficult to

protect the safety and rights of its own citizens, as well as those of the Chinese citizens living and working in Sihanoukville.

Other factors create additional risks to Cambodia's development. While the partnership with China may prove resilient and useful in the context of Covid-19, it could also push Cambodia closer to China, exacerbating the economic over-reliance discussed earlier. More specific to Sihanoukville, the gambling ban implemented in 2020 has revealed the fragility of the economic model adopted in the city, exposing its citizens to additional challenges of unemployment.

In Cambodia, there is a strong dichotomy, or what we might call a 'fractured' development process. On one side, we find a central government that can deal with large-scale financial inflows from China, managing its public external debt and ensuring the country receives support from a variety of partners (Calabrese and Cao, 2021). On the other, we find a local government in Sihanoukville overwhelmed by large inflows of capital, and without the support to address these challenges.

We find a similar fracture in terms of Chinese capital. At the risk of oversimplifying, large companies and SOEs work with the government to achieve the developmental goals set by the government. Individual investors and private enterprises, whether they invest in real estate in Phnom Penh or casinos in Sihanoukville, do not have quite the same impact. This is not to say that Chinese private enterprises behave badly – for instance, in Cambodia, Chinese investment has driven the growth of the garment sector, and the country is now one of the top global producers. However, private enterprises do not have incentives, nor are they forced by the RGC, to align

with Cambodia's development model, and in cases such as real estate or gambling, the outcomes of their investment can be mixed.

Cambodia's engagement with Chinese firms and investors brings both positive and negative outcomes. This depends on the type of capital and on the purpose it serves, as discussed in other contexts (Lee, 2017; Camba, 2020). To ensure that Cambodia benefits, the RGC must ensure that the risks are managed properly. Based on this, we make the following recommendations for the RGC and its development partners (while drawn from our findings, the recommendations apply beyond the BRI and engagement with China):

- Upgrade Cambodia's economic model. To avoid continued over-reliance on low value-add manufacturing production, the government should consider ways Cambodia could climb up the value chain. This could include supporting domestic production of inputs; developing an ecosystem of services that supports manufacturing; and promoting the development of domestic garment entrepreneurs, who can support the longer-term development of the sector (see Balchin and Calabrese (2019) for additional material on this last point).
- Support local governments and improve their capacity to regulate, monitor and enforce rules. This should be done in general, but specific provisions could be made to respond to specific contexts and needs, such as those of Sihanoukville. Building the capacity of local government entails raising the capacity of their staff through training, secondments and exchanges. It will also involve more financing.
- Develop a framework to ensure that Chinese and other foreign investors have a more positive impact on local communities. To avoid the

‘silo’ effect, services should be put in place for foreign investors, aimed at developing the backward linkages they need. This also involves strengthening regulations on local sourcing of goods and services.

Recommendations for the Chinese government, in particular the Ministry of Commerce, which is responsible for trade and outward investment, and the Ministry of Foreign Affairs, which oversees the embassy network:

- To improve engagement with Cambodia (and with other countries with a similar, long-standing and strong relationship with China), seek to improve the quality of outward investment. This could entail providing training on local rules and regulations, and support to investors. It may be difficult to do this from China, so embassies in-country should become the reference point for these activities.
- Strengthen the role of embassies in supporting Chinese citizens who may face difficulties in-country.
- Support firms that are interested in strengthening local linkages by providing them with training and toolkits, or by connecting them with potential partners in-country.

Recommendations for Chinese firms:

- Ensure that plans to engage with local communities and build local government capacity to draft, monitor and enforce regulations are in place when intending to invest abroad, and seek support from in-country partners to this end.

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Appendix 1 Projects supported by Chinese stakeholders in Cambodia

Project name	Sector	Subsector	Project status	Start date	Completion date	Currency	Budget	Term of Assistance	Implementing Agency
Rehabilitation project of the National Road No.7 of Cambodia from Kratie to Trapeang Kriel	Transportation	Road Infrastructure & Transport	Completed	01/10/2004	31/12/2007	USD	60,980,000	Concessional Loan	Ministry of Public Works & Transport
Rehabilitation project of the National Road No.7 of Cambodia from Kratie to Trapeang Kriel	Transportation	Road Infrastructure & Transport	Completed	01/10/2004	31/12/2007	USD	2,430,000	Grant	Ministry of Public Works & Transport
Project of Purchasing Suppressing Smuggling and Drug Trafficking Equipment	Community Development	Community Development	Completed	04/07/2005	31/12/2007	CNY	500,000,000	Concessional Loan	Ministry of National Defence
Project of New Council of Ministers Building of the Kingdom of Cambodia	Governance & Administration	Local Government Reform	Completed	28/12/2005	31/12/2008	CNY	225,070,000	Concessional Loan	Office of the Council of Ministers
Project of the Construction of Greater Mekong Sub-region Information Superhighway Cambodia Section	Technology, Information and Communications	Post & Telecommunications	Completed	01/01/2006	31/12/2007	CNY	135,000,000	Concessional Loan	Ministry of Posts & Telecommunications
Survey on the Project of National Botanical Garden of the Kingdom of Cambodia	Environment and Sustainability	Environment protection (incl. EIA, pollution control)	Completed	08/04/2006	08/04/2007	CNY	30,000	Grant	APSARA Authority
Project Rehabilitating the Chau Say Tevoda Temple of Angkor in Cambodia	Culture, Arts & Sports	Culture, Arts & Sports	Completed	09/05/2006	31/07/2007	CNY	4,500,000	Grant	APSARA Authority
Project Rehabilitating the National Road No.76 Junction of the NR No.7 at Snuol to Senmonorom Mondolkiri (127 km)	Transportation	Road Infrastructure & Transport	Completed	14/02/2007	30/07/2010	USD	51,900,000	Concessional Loan	Ministry of Public Works & Transport
Project Rehabilitating the National Road No.8 from Ksach Kandal to Vietnam Border (109 km)	Transportation	Road Infrastructure & Transport	Completed	15/03/2007	30/06/2010	USD	71,512,717	Concessional Loan	Ministry of Public Works & Transport

Project name	Sector	Subsector	Project status	Start date	Completion date	Currency	Budget	Term of Assistance	Implementing Agency
Construction of the Prek Tamak Bridge (1060m)	Transportation	Road Infrastructure & Transport	Completed	06/06/2007	30/09/2010	USD	43,503,619	Concessional Loan	Ministry of Public Works & Transport
Construction of the Prek Kdam Bridge (975m)	Transportation	Road Infrastructure & Transport	Completed	11/06/2007	30/09/2010	USD	28,783,664	Concessional Loan	Ministry of Public Works & Transport
Provide Office Equipment and Vehicles to the Ministry of Parliamentary Relations and Inspection	Governance & Administration	Public Service Reform	Completed	01/01/2008	22/05/2008	USD	72,500	Grant	Ministry of National Assembly- Senate Relation and Inspection
The Rehabilitation of National Road No. 57 Project, 144km, from Battambang to Pailin (Cambodia and Thailand Border)	Transportation	Road Infrastructure & Transport	Completed	26/03/2008	30/07/2011	USD	41,880,000	Concessional Loan	Ministry of Public Works & Transport
Design & Construction Project of the National Road No. 62 of Cambodia from Tbeng Meanchey to Prasat Preah Vihear & Road No. 210 from Thani Bek Village, the Junction of NR No. 62 to Srayang-Koh Ker	Transportation	Road Infrastructure & Transport	Completed	05/04/2008	31/12/2011	USD	57,800,000	Concessional Loan	Ministry of Public Works & Transport
Provide Office Equipment and Vehicle to the Senate of the Kingdom of Cambodia	Governance & Administration	Legal and Judicial	Completed	01/09/2008	30/12/2008	USD	145,000	Grant	Senate
Feasibility Study Project on the Missing Link Section of Trans-Asia Railway in Cambodia	Transportation	Rail Infrastructure & Transport	Completed	01/12/2008	30/12/2009	USD	2,898,500	Grant	
Provide Electronic Library to the Royal Academy of Cambodia	Education	Higher Education	Completed	16/01/2009	31/05/2009	USD	80,810	Grant	Office of the Council of Ministers
Construction and Rehabilitation Project of the National Road No. 78 from O Pong Moan (Stung Treng Province) to Ban Lung (Ratanakiri Province)	Transportation	Road Infrastructure & Transport	Completed	18/11/2009	17/04/2013	CNY	510,770,000	Concessional Loan	Ministry of Public Works & Transport
National Road No. 62 (South Section) & Extension Roads No.8-1 & No.8-2 Project	Transportation	Road Infrastructure & Transport	Completed	28/12/2009	28/04/2013	USD	68,363,120	Concessional Loan	Ministry of Public Works & Transport
The Rehabilitation of National Road No. 57B Project	Transportation	Road Infrastructure & Transport	Completed	29/06/2010	29/06/2014	CNY	629,091,787	Concessional Loan	Ministry of Public Works & Transport

Project name	Sector	Subsector	Project status	Start date	Completion date	Currency	Budget	Term of Assistance	Implementing Agency
Design-Build of National Road 3762 Rehabilitation Project	Transportation	Road Infrastructure & Transport	Completed	01/09/2010	01/12/2012	USD	15,228,192	Concessional Loan	Ministry of Public Works & Transport
Phnom Penh Loop Line Transmission System	Energy, Power & Electricity	Power Transmission	Completed	21/09/2010	08/09/2015	USD	75,870,000	Concessional Loan	Electric Authority of Cambodia
Kampong Trabek River Flood Control Project in Prey Veng Province	Agriculture	Agriculture water & Irrigation	Completed	24/11/2010	21/03/2015	USD	31,014,469	Concessional Loan	Ministry of Water Resources & Meteorology
Kanghot Irrigation Development Project in Battambang Province	Agriculture	Agriculture water & Irrigation	Completed	26/11/2010	08/02/2015	USD	49,911,971	Concessional Loan	Ministry of Water Resources & Meteorology
Prek Stung Keo Water Resources Development Project in Kampot Province Project	Agriculture	Agriculture water & Irrigation	Completed	05/01/2011	05/01/2015	CNY	291,000,000	Concessional Loan	Ministry of Water Resources & Meteorology
The Rehabilitation of National Road No. 59 Project – Kamrieng-Phnom Prik – Sampov Loun – Malay – Kaun Damrey project	Transportation	Road Infrastructure & Transport	Completed	15/02/2011	15/03/2014	CNY	509,593,711	Concessional Loan	Ministry of Public Works & Transport
Development Project of Design-Build Stung Pursat Dam	Agriculture	Agriculture water & Irrigation	Completed	20/06/2011	20/06/2015	USD	63,134,700	Concessional Loan	Ministry of Water Resources & Meteorology
Phnom Penh Port New Container Terminal Project	Transportation	Water Infrastructure (port)	Completed	20/06/2011	22/01/2013	USD	27,452,416	Concessional Loan	Ministry of Public Works & Transport
NR.61 (Prek Kdam-Thnol Keng NR.6A)	Transportation	Road Infrastructure & Transport	Completed	28/06/2011	28/06/2014	USD	9,494,528	Concessional Loan	Ministry of Public Works & Transport
Construction of NR 41 from junction NR4 Thnal Toteung – Chum Kiri (Kampot)	Transportation	Road Infrastructure & Transport	Completed	29/06/2011	29/06/2015	USD	44,992,000	Concessional Loan	Ministry of Public Works & Transport
Project of Takhmao Bridge over Tonle Bassac River and its Connecting Road	Transportation	Road Infrastructure & Transport	Completed	29/06/2011	29/06/2015	USD	31,995,392	Concessional Loan	Ministry of Public Works & Transport
Project of Design-Build of New Chroy Changvar Bridge in Phnom Penh	Transportation	Road Infrastructure & Transport	Completed	30/06/2011	30/06/2015	USD	26,752,000	Concessional Loan	Ministry of Public Works & Transport
Project of Rural Grid Extension and Implementation (22Kv) in Kampong Cham, Prey Veng, Kampong Speu and Preah Sihanouk	Energy, Power & Electricity	Power Transmission	Completed	21/07/2011	21/07/2015	USD	50,883,600	Concessional Loan	Electric Authority of Cambodia

Project name	Sector	Subsector	Project status	Start date	Completion date	Currency	Budget	Term of Assistance	Implementing Agency
Disaster management and anti-terrorism	Community Development	Community Development	Completed	20/08/2011	20/08/2015	CNY	1,250,000,000	Concessional Loan	Civil Aviation Authority of Cambodia
Sreng River Basin Water Resources Development Project	Agriculture	Agriculture water & Irrigation	Completed	09/09/2011	09/09/2015	USD	52,045,000	Concessional Loan	Ministry of Water Resources & Meteorology
Enlargement Project of National Road No.6A of Cambodia	Transportation	Road Infrastructure & Transport	Completed	20/12/2011	20/12/2015	USD	68,392,600	Concessional Loan	Ministry of Public Works & Transport
Project of Extension National Road 76	Transportation	Road Infrastructure & Transport	Completed	02/02/2012	02/02/2017	USD	89,273,400	Concessional Loan	Ministry of Public Works & Transport
Vaico Irrigation Development Project – Phase I	Agriculture	Agriculture water & Irrigation	Completed	02/02/2012	02/02/2017	USD	99,303,000	Concessional Loan	Ministry of Water Resources & Meteorology
Enlargement of NR. 5 into 4 lanes from Phnom Penh to Prek Kdam	Transportation	Road Infrastructure & Transport	Completed	31/03/2012	31/12/2017	USD	55,309,000	Concessional Loan	Ministry of Public Works & Transport
Project of National Road No.214 of Cambodia and construction of Across the Mekong River Bridge	Transportation	Road Infrastructure & Transport	Completed	15/04/2012	15/11/2015	USD	113,441,875	Concessional Loan	Ministry of Public Works & Transport
Multipurpose Dam Development Project in Battambang Province	Agriculture	Agriculture water & Irrigation	Completed	13/06/2012	13/06/2017	USD	99,283,600	Concessional Loan	Ministry of Water Resources & Meteorology
Project of Reconstruction NR.6 of Cambodia (The Section from Thnal Kaeng to Ang Kroeung)	Transportation	Road Infrastructure & Transport	Completed	13/06/2012	13/06/2017	USD	242,269,000	Concessional Loan	Ministry of Public Works & Transport
Project of Rehabilitation NR.44	Transportation	Road Infrastructure & Transport	Completed	13/06/2012	13/06/2017	USD	78,192,000	Concessional Loan	Ministry of Public Works & Transport
Kanghot Irrigation Development Project – Phase II	Agriculture	Agriculture water & Irrigation	Completed	01/11/2012	01/11/2016	CNY	209,000,000	Concessional Loan	Ministry of Water Resources & Meteorology
300 Biodigesters	Agriculture	Agriculture inputs	Completed	12/11/2013	02/06/2014	USD	400,000	Grant	Ministry of Agriculture, Fisheries & Forestry
Construction of 115kV Transmission Line and Substation from Phnom Penh to Bavet Project	Energy, Power & Electricity	Power Transmission	Completed	27/02/2014	30/06/2018	CNY	475,414,600	Concessional Loan	Electricite due Cambodia

Project name	Sector	Subsector	Project status	Start date	Completion date	Currency	Budget	Term of Assistance	Implementing Agency
Koh Thom Bridge Project	Transportation	Road Infrastructure & Transport	Completed	15/03/2014	31/12/2016	CNY	126,000,000	Concessional Loan	Ministry of Public Works & Transport
Staung River Basin Water Resources Development Project, Phase I in Kampong Thom Province	Water and Sanitation	River Development	Completed	18/04/2014	31/01/2018	CNY	329,750,000	Concessional Loan	Ministry of Water Resources & Meteorology
Achang Irrigation Development Project in Kompong Chhang Province	Agriculture	Agriculture water & Irrigation	Completed	03/11/2014	31/12/2019	CNY	283,500,000	Concessional Loan	Ministry of Water Resources & Meteorology
Rural Grid Extension Project Phase II	Energy, Power & Electricity	Power Transmission	Completed	04/12/2014	31/12/2017	CNY	47,088,128	Concessional Loan	Electricite due Cambodge
Stung Chikreng Water Resources Development Project in Siem Reap Province (Phase I)	Agriculture	Agriculture water & Irrigation	Completed	16/02/2015	31/05/2018	CNY	280,900,000	Concessional Loan	Ministry of Water Resources & Meteorology
National Road No. 55 Project (Pursat-Phnom Korvanh-Veaveng-Thmorda)	Transportation	Road Infrastructure & Transport	Completed	04/05/2015	09/03/2020	USD	129,314,000	Concessional Loan	Ministry of Public Works & Transport
Sreng River Basin Water Resources Development (Phase II)	Agriculture	Agriculture water & Irrigation	Completed	08/06/2015	31/12/2019	USD	43,035,551	Concessional Loan	Ministry of Water Resources & Meteorology
Construction of National Road No. 58 Project	Transportation	Road Infrastructure & Transport	Completed	10/06/2015	26/02/2020	USD	119,751,775	Concessional Loan	Ministry of Public Works & Transport
National Road No. 1577 Project	Transportation	Road Infrastructure & Transport	Completed	02/11/2015	31/12/2017	USD	36,301,400	Concessional Loan	Ministry of Public Works & Transport
Technical Vocational Education and Training Center at Sihanouk Province	Education	Physical Education and Sport	Completed	10/12/2015	10/06/2017	CNY	56,000,000	Grant	
Rural Grid Extension Phase III & IV	Energy, Power & Electricity	Power Transmission	Completed	26/01/2016	31/12/2018	USD	94,862,727	Concessional Loan	Electricite due Cambodge
The 230 KV Loop Transmission Line Project in South Western Part of Cambodian National Grid (Phase I)	Energy, Power & Electricity	Power Transmission	Completed	16/06/2016	31/12/2020	USD	159,155,400	Concessional Loan	Electricite due Cambodge
Vaico Irrigation Development Project Phase II	Agriculture	Agriculture water & Irrigation	Ongoing	01/11/2016	31/12/2021	CNY	382,306,900	Concessional Loan	Ministry of Water Resources & Meteorology

Project name	Sector	Subsector	Project status	Start date	Completion date	Currency	Budget	Term of Assistance	Implementing Agency
Vaico Irrigation Development Project Phase II (Economic and Technical Cooperation)	Agriculture	Agriculture water & Irrigation	Ongoing	01/11/2016	31/12/2021	CNY	229,384,200	Non-Concessional Loan	Ministry of Water Resources & Meteorology
Enhancement Public Transportation	Transportation	Road Infrastructure & Transport	Completed	16/12/2016	16/12/2017	CNY	57,000,000	Grant	Municipality of Phnom Penh
Rural Grid Extension Project Phase 5 and 6	Energy, Power & Electricity	Power Transmission	Completed	01/01/2017	31/12/2019	USD	84,982,500	Concessional Loan	Electricite due Cambodge
The West Second Ring Road of Phnom Penh Project	Transportation	Road Infrastructure & Transport	Completed	06/03/2017	31/12/2020	CNY	388,000,000	Concessional Loan	Ministry of Public Works & Transport
Construction of NR. 51 Project	Transportation	Road Infrastructure & Transport	Completed	28/03/2017	31/12/2020	CNY	161,892,700	Concessional Loan	Ministry of Public Works & Transport
Construction of NR. 51 Project (Economic and Technical Cooperation)	Transportation	Road Infrastructure & Transport	Completed	28/03/2017	31/12/2020	CNY	97,135,600	Non-Concessional Loan	Ministry of Public Works & Transport
Project for Stung Pursat Dam No. 3 & 5 Development in Pursat Province – Phase II	Agriculture	Agriculture water & Irrigation	Completed	01/06/2017	31/12/2020	CNY	309,000,000	Concessional Loan	Ministry of Water Resources & Meteorology
Project for Construction of 230 kv Transmission Line, Stage 2 (Loop Line in Eastern Part of Cambodian National Grid Part I)	Energy, Power & Electricity	Power Transmission	Ongoing	01/07/2017	31/12/2021	USD	116,620,120	Concessional Loan	Electricite due Cambodge
Project for Construction of 230 kv Transmission Line, Stage 2 (Loop Line in Eastern Part of Cambodian National Grid Part I)	Energy, Power & Electricity	Power Transmission	Ongoing	01/07/2017	31/12/2021	USD	116,620,120	Concessional Loan	Electricite due Cambodge
Morodok Techo Stadium	Culture, Arts & Sports	Sports	Ongoing	01/08/2017	31/12/2021	CNY	1,000,000,000	Grant	Ministry of Education, Youth & Sport
Project for Construction of Stung Trang Krauch Chhmar Bridge Over Mekong River (Phase 1 of National Road No. 71 C)	Transportation	Road Infrastructure & Transport	Ongoing	01/12/2017	31/12/2021	CNY	388,762,000	Concessional Loan	Ministry of Public Works & Transport
Project for Upgrading NR. 11 (Nak Leoung – Thnal Torteung)	Transportation	Road Infrastructure & Transport	Ongoing	19/12/2017	31/12/2021	CNY	671,067,000	Concessional Loan	Ministry of Public Works & Transport

Project name	Sector	Subsector	Project status	Start date	Completion date	Currency	Budget	Term of Assistance	Implementing Agency
The Transmission Line 230KV Project Phase II (Completion of Loop Transmission Line in South Western & Eastern Part of Cambodian National Grid)	Energy, Power & Electricity	Power Transmission	Ongoing	01/02/2018	31/12/2021	USD	176,490,468	Concessional Loan	Electricite due Cambodia
2019 Census Material for Aid Cambodia	Governance & Administration	Other	Completed	08/02/2018	31/12/2018	CNY	15,000,000	Grant	Ministry of Planning
Landmine Clearance Activity in Cambodia	Rural Development	Land Mine Clearance	Completed	19/06/2018	31/12/2018	USD	2,500,000	Grant	Ministry of Economy & Finance
Project for the Preparation of the Intermodal Transport Master Plan in Cambodia	Transportation	Transport Policy and Management	Completed	19/06/2018	31/12/2020	CNY	18,000,000	Grant	Supreme National Economic Council
Equipment Provision to Senate of Cambodia	Governance & Administration	Public Service Reform	Completed	19/07/2018	31/12/2018	CNY	4,200,000	Grant	Senate
National Road No.3 Construction Project (From Chom Chao - Bek Kus - Kampot)	Transportation	Road Infrastructure & Transport	Ongoing	17/10/2018	31/12/2022	USD	208,915,450	Concessional Loan	Ministry of Public Works & Transport
China-Cambodia Friendship Medical Building Project (Kosomak Hospital)	Health	Hospital Services	Ongoing	30/10/2018	31/12/2022	CNY	550,000,000	Grant	Ministry of Health
Project on providing ballot boxes and polling booths	Governance & Administration	Elections	Completed	01/11/2018	31/12/2018	CNY	50,000,000	Grant	National Election Committee
Design and Construction Project of Phnom Penh Ring Road No.3 (NR.4-NR.1)	Transportation	Road Infrastructure & Transport	Ongoing	14/01/2019	31/12/2022	USD	259,397,500	Concessional Loan	Ministry of Public Works & Transport
Water Resource Development of Stung Raksa, Preah Vihear Province	Agriculture	Agriculture water & Irrigation	Ongoing	01/02/2019	31/12/2022	CNY	622,000,000	Concessional Loan	Ministry of Water Resources & Meteorology
China-grant-aid Tboung Khmum Provincial Hospital Project	Health	Hospital Services	Ongoing	01/03/2019	31/12/2021	CNY	273,188,548	Grant	Ministry of Health
The Project on the construction of Express Way (Phnom Penh-Sihanouk)	Transportation	Road Infrastructure & Transport	Ongoing	22/03/2019	31/12/2023	USD	88,540,000	Grant	Ministry of Public Works & Transport
Project for School Facility Improvement in Cambodia	Education	Secondary and Technical Education	Ongoing	26/06/2019	31/12/2022	CNY	133,810,000	Grant	Ministry of Education, Youth & Sport

Project name	Sector	Subsector	Project status	Start date	Completion date	Currency	Budget	Term of Assistance	Implementing Agency
The Technical Cooperation Project for the Information Technology Building of the Office of the Council of Ministers of Cambodia	Technology, Information and Communications	Other	Ongoing	26/08/2019	31/12/2021	CNY	9,900,000	Grant	Office of the Council of Ministers
Modern Agriculture Development Plan for Cambodia	Agriculture	Agriculture Sector policy and management	Completed	11/10/2019	31/12/2019	CNY	9,760,000	Grant	Ministry of Agriculture, Fisheries & Forestry
Restoration Project of Royal Palace in Angkor Cambodia (Phase I)	Culture, Arts & Sports	Culture, Arts & Sports	Ongoing	30/11/2019	31/12/2023	CNY	45,000,000	Grant	Ministry of Culture & Fine Arts
The 500 KV Backbone & Sub-Region Transmission Line Project	Energy, Power & Electricity	Power Transmission	Ongoing	01/03/2020	31/12/2023	USD	111,993,600	Concessional Loan	Electricite due Cambodia
Construction of National Road from Samlot-Veal Veng-Koh Kong (NR. 1551)	Transportation	Road Infrastructure & Transport	Ongoing	09/03/2020	31/12/2023	CNY	1,246,966,000	Concessional Loan	Ministry of Public Works & Transport
Feasibility Study on Sewerage and Wastewater Treatment Infrastructure Development Project in Preah Sihanouk Province	Water and Sanitation	Other	Completed	12/10/2020	31/12/2020	CNY	1,340,000	Grant	
Feasibility Study on Sihanoukville Referral Hospital Improvement Project	Health	Other	Completed	12/10/2020	31/12/2020	CNY	1,000,000	Grant	
Construction of National Road No.71 C			Pipeline	01/01/2021	31/12/2024	USD	126,382,300	Concessional Loan	
Restoration Project of Royal Palace in Angkor Cambodia (Phase II)	Culture, Arts & Sports	Culture, Arts & Sports	Pipeline	01/01/2024	30/11/2028	CNY	45,000,000	Grant	Ministry of Culture & Fine Arts
Construction of National Road No.70B Tonlebet-Sreysanthor-Prektamak			Pipeline			USD		Grant	
Materials Provision to Cambodian Customs			Pipeline			CNY		Grant	
Prek Thnot Irrigation Development Project in Phnom Penh, Kandal and Takeo Province			Pipeline			USD		Grant	
Rural Electrification-Rural Grid Extension Phase 7			Pipeline			USD	78,153,189	Concessional Loan	

Project name	Sector	Subsector	Project status	Start date	Completion date	Currency	Budget	Term of Assistance	Implementing Agency
Rural Road Improvement Project (Phase 2)	Rural Development	Rural Roads	Pipeline			CNY		Grant	Ministry of Rural Development
Rural Water Supply Project (Phase 2)	Rural Development	Rural Water & Sanitation	Pipeline			CNY		Grant	Ministry of Rural Development
The Promotion of Paddy Production and Rice Export Project			Pipeline			USD	350,000,000	Concessional Loan	
The Renovation Project for the Friendship Building of the Office of the Council of Ministers of Cambodia			Pipeline			CNY		Grant	Office of the Council of Ministers
Water Resources Development Prek Stung Kev in Kampot Province (Phase 2)			Pipeline			USD		Grant	

Source: Cambodia ODA database