

Cambodia's undertaking of Belt and Road Initiative and Industrial Development Policy

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Introduction

Cambodia is one of the strong supporters of China's BRI. In addition to the cooperation agreement to further enhance the comprehensive strategic partnership signed during President Xi's visit to Phnom Penh in 2016, Cambodia and China agreed on an 'Outline Cooperation Plan to Jointly Build the Silk Road Economic Belt and the 21st Century Maritime Silk Road' a year later.

Cambodia's firm support of BRI is driven by both strategic and economic considerations. Strategically, the initiative represents opportunities for Cambodia to reduce dependency on the development of Western donors whose assistances in many cases frustrated the government via their strict conditions attached. Since the 2000s, China¹ overtook some major Western donors, including EC and USA and emerged as "the largest single donor" to Cambodia. Equally important is the fact that the government of Cambodia favours China's non-interference policy on the ground that it enable Cambodia to maintain sovereignty and pursue independent foreign policy on the international stage.

Economically, BRI can be a new source of Cambodia's next stage of growth and development through ever increasing infrastructure development, investment, trade and tourism. During the visit of State Councilor Yang Jiechi in April 2017 in Phnom Penh, Prime Minister Hun Sen said: "The Belt and Road Initiative is of great historical significance, which will surely advance regional connectivity and the construction of regional integration, and bring

enormous opportunities to the development of countries in the region. The Cambodian side hopes to realize better and faster development of its economy through further deepening bilateral practical cooperation under the Belt and Road framework"². For China, Cambodia is its old and close ally that can play important role in promoting regional and sub-regional cooperation as well as the construction of its BRI (Pou 2017).

Cambodia already has its own national development policies such as the Rectangular Strategy Phase III and Industrial Development Policy (IDP). In consistency with the goal of BRI in promoting policy synergy, Cambodia's designed policies have been fully used to shape direction of cooperation between Cambodia and China within the BRI framework.

Out of the 14 points of cooperation measures that have been laid out at the Belt and Road Forum, Cambodia and China have clearly identified specific areas of cooperation that best fit with Cambodian and Chinese national strategies. Based on the MoU on Formulating the Outline of Bilateral Cooperation Plan, Cambodia and China have identified 7 key areas namely infrastructure, agriculture, capacity building, industrial cluster, culture and tourism, finance and eco-environment protection. In the 7 key areas, there are 4 areas on the MoU that are in line with the priorities of the IDP, namely promotion of agro-industry, stronger boost for infrastructure, promotion of industrial cluster and industrial human resource capacity building.

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According to the IDP, the strategic approach is to promote the development of the manufacturing sector and agro-processing industry through integration into regional and global production chain; positioning the development of industrial zones so as to ensure critical mass, economic linkages and competitiveness; development of economic corridors, streamlining the operational procedures for Special Economic Zones (SEZs) and developing new industrial parks and industrial clusters. With this policy, measures and action plans have been laid out, namely promoting FDI that focuses on improving the development of SEZs and preparation of industrial zones, promoting the agro-industrial sector and coordinating and supporting of policy focusing on skills and human resource development, science, technology and innovation promotion. This, in a sense signifies, how Cambodia's IDP has been utilized to guide the direction of the policy engagement with the BRI.

Funding and Working Mechanism

For Cambodia, funding related to BRI are based on the expansion of the existing bilateral mechanisms. Specific BRI cooperation mechanisms are still in institutional building process. To be precise, both countries signed "Memorandum of Understanding on Formulating the Outline of Bilateral Cooperation Plan to Jointly Build the Silk Road Economic Belt and the 21st Century Maritime Silk Road between the Kingdom of Cambodia and the People's Republic of China" during the state visit of President Xi Jinping to Cambodia from 13 to 14 October, 2016.

Seven months later, the Outline of Bilateral Cooperation Plan to Jointly Build the Silk Road Economic Belt and the 21st Century Maritime Silk Road was formulated and signed when Prime Minister Hun Sen attended the Belt and Road Forum (BRF) for International Cooperation and paid an official visit to China in mid-May 2017. In the Outline, both sides agreed to set up Cambodia-China Cooperation Working Group of Jointly Building the Belt and Road. The Working Group is in charge of the organization, coordination and implementation of the Plan, identifying the list of priority projects, discussing and consulting major issues during the implementation of the Plan and proposing solutions and measures. Both sides agreed to

make full use of existing bilateral cooperation mechanisms, and to jointly contribute to the implementation of the Plan and construction of the Belt and Road.

For IDP-specific mechanisms, a new working group had been set up to shape a long-term view to develop the industrial sector and transform Sihanoukville into a multi-purpose industrial zone. Prime Minister Hun Sen made direct mentioning about the establishment of this Working Group at the cabinet meeting in late December 2017³. The government is planning to build a massive economic zone in Preah Sihanouk province to accommodate up to 10,000 factories, similar to Thailand's eastern economic corridor. The joint working group consists of officials from the Ministries of Industry and Handicraft, Tourism, Land Management, Environment, as well as Economy and Finance. The first action of the new group will be to determine what areas of the province are to be protected and preserved and which ones will be turned into industrial spaces. They will then create a master plan to lay out in detail the development plans for the region.

Project Formulation Process

The project formulation process often evolves around specific points of official visits of leaders. For example, during the visit of President Xi Jinping in October 2016, Cambodia and China laid out the list of Priority Projects of Productivity Capacity and Investment Cooperation by identifying eleven cooperation projects, including the development of new Siem Reap International Airport, the construction of Phnom Penh-Sihanoukville Highway, the construction of new power plants and development of agro-industrial Special Economic Zones (SEZ) in Northeastern provinces, among others.

In terms of agro-industry development, on 19 October 2016, Cambodia signed a Memorandum of Understanding (MoU) on Agricultural Development with a Chinese company from East China's Shandong province. According to the MoU, the company has planned to invest about US\$ 2 billion in developing a 300-hectare Special Economic Zone in western Kampong Speu province, in which storage facilities, packaging factories, and processing factories for agricultural

products will be built. The firm would also cooperate with the Ministry to establish an Agricultural Research and Development Center and a Center for Sanitary and Phytosanitary Control and would try to attract more Chinese enterprises to invest in agricultural processing factories in its Special Economic Zone.

Non-governmental level cooperation has also witnessed an increased enthusiasm along with the promotion of BRI. After the visit of President Xi Jinping, the Chinese government has encouraged well-known Chinese enterprises to redirect their focus to Cambodia. Concretely, a forum was held in December 2016 under the theme "Cambodia: The Kingdom of Opportunities Along the 'One Belt One Road'", gathering more than 600 enterprises and resulting in the signing of a US\$ 1.5 billion deal to build a Cambodia-China Friendship City in Phnom Penh's northern suburb.

Similarly, during Premier Li Keqiang's official visit to Cambodia on 11 January 2018, major infrastructure development projects that support the multi-modal transport and connectivity between Phnom Penh and strategic location of Sihanoukville province, the only deep-sea port coastal area, has been further developed. The latest deals were signed during the official visit of Premier Li Keqiang to Cambodia on 11 January 2018, following the 2nd Mekong-Lancang Leaders' Meeting hosted by Cambodia a day earlier. Marking the 60th anniversary of diplomatic relations, Cambodia and China signed 19 agreements, amounting to billions of dollars in concessional loans on the financing of projects like the expressway to Sihanoukville and the new airport in Phnom Penh.

According to the Ministry of Public Works and Transport, the construction of a 190-kilometer (120-mile) highway from Phnom Penh to Sihanoukville will cost US\$ 2 billion and will take at least 44 months to complete after beginning the construction this year. The two prime ministers also witnessed the signing of Framework Cooperation Agreement for Stung Hav Port and SEZ Project in Preah Sihanouk province. Regarding this project, a month earlier before the visit of Premier Li Keqiang, China Metallurgical Group Corporation has asked Prime Minister Hun Sen to support its investment in a

project at Preah Sihanouk's Stung Hav International Port and Special Economic Zone. Cooperating with local partner, the company plans to expand the existing Sihanoukville SEZ and enlarge the port so it can accommodate vessels of 50,000 tons⁴.

Conclusion

China's new grand strategy, BRI, together with the rise of economic and political power emerges as a new force that could have profound effects on regional economic landscape. Cambodia sees BRI as a new source of economic growth via infrastructure development, industrialization, and trade and investment expansion and tourism sector; whereas China regards Cambodia as its closest and strategic ally that can help achieve the BRI's goals and visions.

From such evolution, it is clear that BRI is not a one-way initiative but rather an interaction, adjustment and synergy of national development policies from both sides. Cognizant of its relevance and importance, both countries work closely together to advance the coordination and implementation of BRI strategy through a number of endeavors, including reciprocal state-level visits, integration of the initiative into national development plan, setting up of Cambodia-China joint working groups, and expansion of non-governmental cooperation and exchanges. These initial cooperation outcomes have been hailed as solid progress under the BRI cooperation framework between Cambodia and China.

Since the BRI and its associated mechanisms can provide investment and financing support for Cambodia's much needed infrastructure development, industrial park and productive capacity cooperation from China, it can expedite Cambodia's industrialization and diversification process. Doing so requires both government to formulate a concrete vision, implementation plan and action roadmap as well as to assign a strong leading institution to coordinate the working group.

Notes:

1. According to the government's Development Cooperation and Partnership Report 2016, China supplied USD 486 million in aid and loan during 2000-2009 and USD 2.075 billion during 2010-2015. RGC (2016). Development Cooperation and Partnership Report. Phnom Penh, Royal Government of Cambodia.

2. <http://kw.china-embassy.org/eng/zgyw/t1458566.htm>

3. Changes ahead for Sihanoukville, 25 December 2017, May Kunmakara, Khmer Times <http://www.khmertimeskh.com/5097894/changes-ahead-sihanoukville/>

4. Chinese firm seeks PM's support for S'ville port and SEZ project, December 8, 2017, Ven Rathavong, Khmer Times <http://www.khmer-timeskh.com/5094794/chinese-firm-seeks-pms-support-sville-port-sez-project/>

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