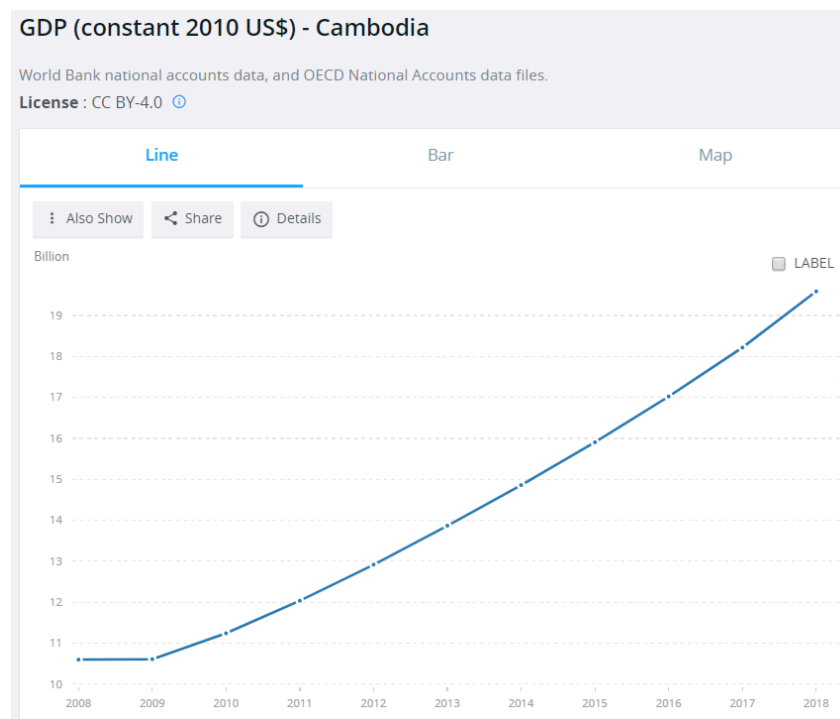


Cambodia: A brief Economic Report on the last decade (2008-2018)

A glimpse into Cambodia's Economic Status

Gross Domestic Product (2008-2018)

Regarding Cambodia's GDP, it appears to be thriving and doing the best it has ever done. Cambodia's economic growth has been rising above its predicted growth every year over the last decade. The real growth rate achieved a four year high of 7.5% in 2018 evaluation compared to its 7.0% increase in 2017. This is fueled mainly by an ever-increasing rate of international tourism and accelerated growth in garment and footwear exports, caused by an increase of demand in high-income countries, especially the U.S. and Europe.



In terms of tourism, 3.8 million international tourists visited Cambodia during the 2018 spring season, an approximately 11% increase compared to the number of international tourists in 2017 during the same time period. This surge of international tourists was largely due to the increased number of Chinese tourists. The tourism sector alone contributed over 1/10th of GDP

last year, with this in mind, it is suggested that Cambodia's economic growth is flourishing and is on track to beat its predicted economic growth this coming year.

However, it's not all good news for Cambodia, last year the European Commission ended its half-year monitoring period over Cambodia which would decide whether or not it qualifies for another decade of tariff-free market access under the 'Everything but Arms scheme'. This policy was an initiative taken by the European Union under which all imports from the least developed countries into the EU are duty and quota-free. Its aim is to incentivize the rapid development of the poorest countries in the world, which worked out very well for Cambodia. The results of the study are yet to be released, however, the loss of this policy would present itself as a huge barrier for the Cambodian economy to get over, considering that 40% of all Cambodian exports are to the EU.

Human Capital Index (2008-2018)

Human Capital Index and its Contributions to Cambodia's Economic Development

Growing evidence and multiple studies highlight that investments in people are needed to drive economic progress and sustainable development. Although building human capital has many intrinsic and private benefits, these extend to others and to the whole of economies. Until recently, total capital production (buildings, machinery, and infrastructure) and natural capital (agricultural land, forests, protected areas, minerals, oil, coal, gas reserves) have been the ways to identify a nation's wealth, however, global wealth accounting now includes human capital, or the sum total of a population's skills, health, knowledge, and resilience, as an explicit contributor to the overall assets and economic health of a country. Improving the quality of Cambodia's human capital is at the core of the country's goals. Cambodia seeks to gain an equivalent HCI

standing to that of upper-middle-income countries by improving factors such as standards of living, child mortality rates, life expectancy, and the percent of the population educated.

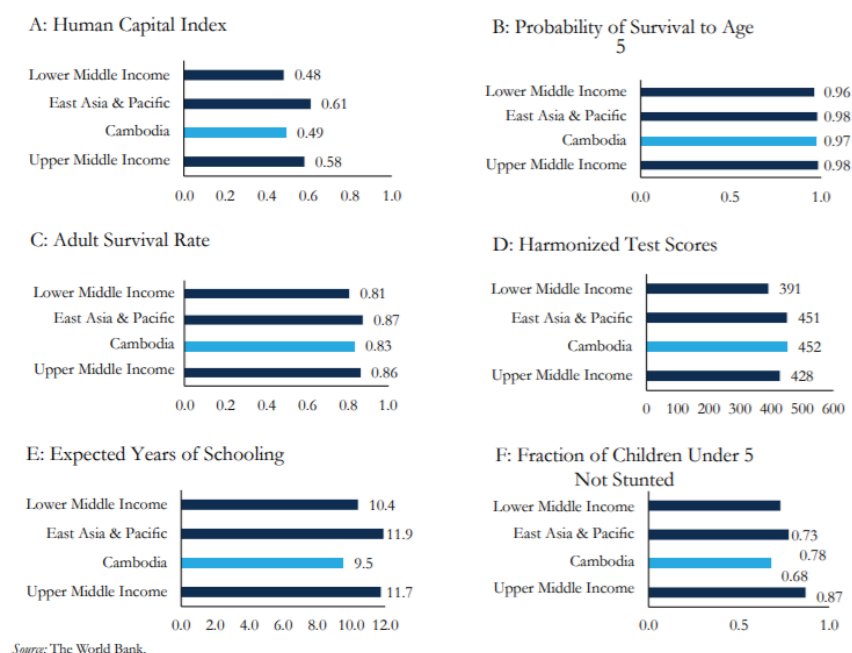


TABLE S3: Human Development Indicators, Cambodia (2000–2014)

Indicator	2000	2014
Total population	12,152,354	15,270,790
Total fertility rate	3.8	2.7
Life expectancy	65.6	68.3
Under-five mortality rate (deaths per 1,000 live births)	83	35
Infant mortality rate (deaths per 1,000 live births)	80	29
Neonatal mortality rate (deaths per 1,000 live births)	37	18
Maternal mortality ratio (deaths per 100,000 live births)	437	170

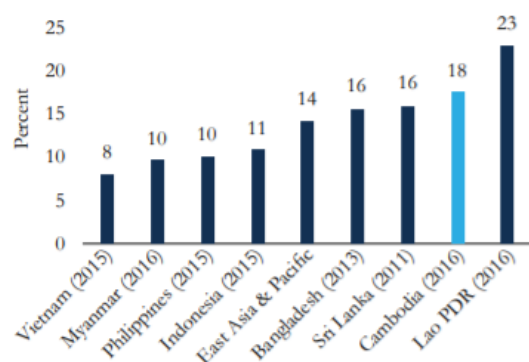
Source: CDHS 2000 and 2014.

From the graphs and tables above, it can be said that Cambodia has made some major improvements over the last decade regarding factors involved in the makeup of the HCI. In order to keep making significant changes that lead to improvement, Cambodia requires capital that it seriously lacks. The HCI grasps the impact of investment in children today who grow up to determine future productivity and are the backbone of long-term economic growth. The graphs and data tables demonstrate that there are major gaps in health, prenatal nutrition, childhood nutrition, and education which only further constricts productivity of the future labor force. According to the World Bank, Cambodia's overall HCI value is a mere 0.49. This indicates that a child born today in Cambodia, brought up with the standards of living Cambodia currently has to offer, the child will grow up to only be 49% as productive compared to a child born in a developed country such as U.S., Germany, Japan, etc. This means that it would take two Cambodians to match the productivity of an American. Although this seems as though Cambodia is a horrible place to grow up, Cambodia is performing better than what's expected for a less developed country on the HCI scale but still requires a considerable process in order to attain HCI scores that would be expected from a country whose economy seems to be at a flourishing stage.

Proposed Solutions, What can Cambodia do?

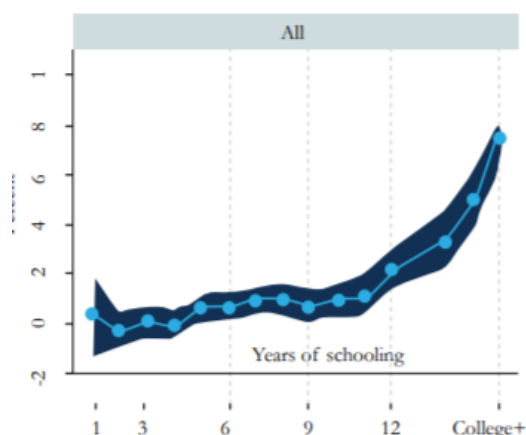
Firstly, Cambodia needs to promote educational attainment and improve the quality of education. This is a key priority for promoting human capital growth and ensuring the future employability of the Cambodian labor force. Cambodia's employers are affected more by inadequately skilled labor than neighboring countries and returns to primary and secondary education are low (figures S1 and S2).

FIGURE S1: Cambodia's employers are affected more by inadequately skilled labor force than other countries



Source: Enterprise Survey, 2016. Note: Percent of employers reporting inadequately educated workforce as a barrier to firm operation.

FIGURE S2: Low rate of return to education



Source: World Bank, 2019. Future jobs in Cambodia. Note: Percent returns to wages by year of schooling.

Although access to primary education is improving, the quality of education is inadequate, as demonstrated by poor learning outcomes. According to the 2018 International Student Assessment for Development, PISA-D, Cambodia has a high proportion of students who performed below the baseline in all the three domains—92 percent in reading, 90 percent in mathematics and 95 percent in science. Access to secondary school remains a challenge; in 2017-2018 gross enrollment for lower secondary was only 56.8 percent and drop-out rates were still high at 15.4 percent. A well-educated and highly skilled population is needed to drive innovation and income generation, and subsequently economic growth and poverty reduction in the ‘knowledge economy’.

Secondly, the foundations of human capital, education, and skills development are set long days between conception and a child’s second birthday are critical periods of physical and cognitive development. Poor nutrition, inadequate care, and repeated infections are associated with poor child growth, or linear growth faltering. The evidence is well-established that stunting—a marker of undernutrition and measure of the severity of linear growth faltering—are

associated with lower cognition and motor development in early childhood and later life learning, health, and ultimately, adult earnings potential.

Thirdly, from an early age, the dimensions of human capital complement each other. Adversities, when experienced, accumulate from pre-conception and continue throughout prenatal and early life. These adversities can disrupt brain development, health, and early learning; developmental delays childhood, and continue throughout life (Walker, 2017). On the other hand, proper nutrition in utero and in early childhood improves children's physical and mental well-being. Evidence from a multi-country study in Southeast Asia found that both underweight and obese children had lower IQ scores than healthy-weight children (BK, N, 2013). Early abilities make it easier to learn new skills, as well as build confidence and the motivation to learn more.

Cambodia is an example of a fast post-conflict growing economy; however, fast economic growth does not guarantee sustainable human development. In order to sustain achievements and progress in human development, Cambodia needs to push ambitious innovative social policies. Sustaining progress through addressing inequalities and preventing falling back into multidimensional poverty. Innovative social policies and commitment to address the wide inequalities between genders, regions and rural-urban settings. Investment in education and health, as education and health have multiple effects on human development; Invest in people and support them through innovative social policies to fully realize their potential. Development prospects of a country, specifically Cambodia are influenced by the age structure of its population and its size; thus Cambodia needs to maximize the benefits of demographic changes as these will have considerable effects on its ambitious economic growth agenda.

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Cambodia: Chinese relations and BRI

The BRI and opportunities for Cambodia

The BRI opens up a range of opportunities for Cambodia. The most obvious advantage is the potential for significant improvements to its otherwise lacking physical infrastructure. As quoted in the (Khmer Times, 2016), “the Ministry of Public Works and Transportation issued the Transport Master Plan, estimating that Cambodia will need USD 9 billion by 2020 to build 850-kilometer expressways and USD 26 Billion to build 2230-kilometer expressways by 2040.” By embracing the BRI, Cambodia will open itself to access the massive infrastructure funds provided by the Asian Infrastructure Investment Bank. With help from China’s BRI, Cambodia is more likely to gain access to other infrastructure loans from the Export-Import Bank of China, the China Development Bank, and the Silk Road Fund. In order to fund these infrastructure projects, which involve 65 countries in Asia and beyond, President Xi Jinping promised USD 79.4 billion in the Belt and Road Forum in May of 2017. These investments could pile up to a total chunk of USD 502 billion, as estimated by Credit Suisse (Burgess & Foley, 2017).

Under the BRI, Cambodia, and China have agreed on several infrastructure projects, with China offering USD 2 billion supporting funds all of which would be loans (Sum, 2016). Seven major bridges have already been built, one of which is named the “Cambodia-China Friendship Bridge” crossing the Mekong River. Another bridge connecting Steng Trang province to Krouch Chmar is under construction. Also within the BRI framework, China has proposed several railway infrastructure developments and renovation projects. The first 190-kilometer expressway connecting the capital Phnom Penh to the coastal province Sihanoukville in the southwest is under progress, all of which is facilitated by Chinese economic and technical assistance (Sum, 2016). The Cambodian government recently signed an agreement with Yunnan Investment

Holdings, China's state-run enterprise, to build a new airport in Siem Reap, Cambodia's tourism capital, at a cost of USD 880 million (Gaudemar & Cheng, 2017). Additionally, the BRI will help Cambodia improve its electricity generation infrastructure with the construction of hydropower dams which will help boost its economic and social development. All of this physical infrastructure will enhance connectivity and promote people-to-people exchange in Cambodia and the region.

In addition to the physical infrastructure development projects mentioned above, one of the largest projects initiated by China through the BRI is the construction of Special Economic Zones. Cambodia's largest SEZ, the Sihanoukville Special Economic Zone (SSEZ), which was established in 2008 even before the launch of the BRI will benefit even more from the BRI because it provides a platform for cooperation between the two countries. So far, the SSEZ has immensely benefited Cambodia's developing economy and will continue to aid Cambodia to achieve its industrial development goals. To facilitate the smooth operation of SSEZ, China has assisted Cambodia to upgrade its Sihanouk Autonomous Port. The development of this port is part of China's effort to exert its influence in the Asia Pacific region and extend it into the Middle East. The expansion of ports across Cambodia would no doubt allow it to significantly benefit from this maritime trade route (Kaplan, 2016).

The SSEZ alone has generated a rise in income by directly offering employment opportunities to over 20,000 unemployed Cambodian workers further increasing the social and economic involvement of largely low skilled, female workers who are mainly from Sihanoukville. Over 100 factories currently operating within the SSEZ hire these Cambodian workers in order to produce garment, textiles, bags, leather products, hardware, machinery, wooden products, and other light manufacturing products for exports. Reaching the second phase

of the SSEZ development, the SSEZ will be ready to host up to 300 more factories and enterprises projected to employ over 100,000 Cambodian workers. The SSEZ offers a vocational training center backed by the government, which is currently in operation and offers skills to workers and students in and around the coastal town, free of charge. The income generation and empowerment benefits are substantial, considering the impact of indirect benefits for immediate families of the workers and the need for other businesses to support the livelihood of the workers (Kha, 2019).

The BRI and the Challenges for Cambodia

Although the BRI has demonstrated well-documented opportunities for Cambodia, this hope should not hide the potential risks that it brings along. One of the obvious pitfalls of Cambodia embracing China's BRI could be the phenomenon most analysts have called a "debt trap". Earlier this year, the Ministry of Finance and Economy released the Cambodia Public Debt Statistical Bulletin, describing the country's debt situation. The report notes bilateral loans of totaling USD 5.3 billion, of which USD 3.9 billion is from China, making it the largest creditor, with loans worth four times more than those of Japan. Cambodian national debt is about one-third of the country's total GDP (Ministry of Economy and Finance, 2017). Despite the debt, Chan Sophal, director of the Center for Policy Studies, commented "The level of debt currently is not a concern if compared to other countries in similar stages of development. With increasing revenue, mobilization and exports, Cambodia's capacity to service debt has also increased significantly" (Kotoski, 2017).

Another challenge is associated with environmental impacts related to Chinese investments in hydropower dams. Local media reported that the first major hydropower Dam built by China's Sinohydro Corporation had flooded 2000 hectares of Bokor National Park in

southern Cambodia's Kampot province, home to several endangered species and an important resource for local communities (San, 2017). Also, the dam construction by the Chinese was followed by the forced eviction of local communities. The South China Morning Post also reported that nearly 5000 people were liable to be evicted from their local villages when the dam's reservoir fills, and almost 14000 living along the banks of the Sesan and Srepok stand to lose most of the fish they rely on for sustenance (Jing, 2015).

Alongside the risk of the debt trap and environmental degradation, Cambodia's warm acceptance of the BRI has increased its risk of falling into the direct Chinese sphere of influence. Cambodia's recent policy changes have been criticized for being designed in a manner that serves the political interests of China to gain short-term benefits at the expense of its good relations with its ASEAN neighbors and other global powers (Var & Po, 2017).

The BRI and its future in Cambodia

To maximize their benefits from China's enthusiastic infrastructure development and investment initiative, the Cambodian government needs to promote policies that ensure its political stability. Firstly, Cambodia has to continue to fully address social issues ranging from corruption to nepotism and impunity to social justice for Cambodia's elite. Though China's aid has arrived with no-strings-attached and unlikely to cease shortly, the government must tackle the issues head-on if it hopes to enjoy its economic prosperity. With the idea of corruption looming large, Cambodia may lag behind its neighbors in regards to economic growth, public trust, social solidarity, and its national reputation on the global stage.

More importantly, Cambodia should seek to increase diversity in its foreign aid and foreign policy to avoid falling fully into the Chinese sphere of influence. Hopping on the Chinese bandwagon at the expense of its relations with its neighbors and more importantly, the US and its

allies are not the move to make (Va, 2017). To ensure independent prosperity, sovereignty, and foreign policy independence, Cambodia should work on improving its relations with all the countries in the region and beyond. If Cambodia chooses to depend solely on China and not adopt a diverse foreign policy, Cambodia falls into the risk of losing its independent foreign policy and becoming a pure Chinese benefactor. Therefore, it is important for Cambodia to not alienate itself and rely on Chinese aid and loans alone.

In addition to ensuring political stability, tackling critical social issues, building human resources, and creating flexible independent foreign policy, Cambodia needs to regard its relationship with its ASEAN neighbors with utmost priority to promote unity in decision making. As a member of the ASEAN family, Cambodia has collected a large sum of economic and geopolitical benefits and should respect what development has been made, without which a small state like itself would be incapable of making progress. “In this regard, Cambodia not only needs to settle its domestic affairs but also improve its foreign policy by fostering good relations with its neighboring countries and strengthening its role and relevance in ASEAN,” (Heng, 2017)

Conclusion

Although it is undeniably true that Cambodia-China relations go back more than 2000 years, Cambodia’s decision to jump onto China’s BRI should be seen as a form of diplomatic behavior through which Cambodia should show signs of sensitivity when dealing with other countries (Leng, 2017). As a small country in its developing stage, Cambodia requires support and foreign investment from all corners of the world. Embracing the BRI is what Cambodia should do as long as it aligns with its national development strategy. In its current situation, the

BRI is a big step towards its development goals and Cambodia should take advantage of it to make progress towards becoming a country of middle or high-income in the next few decades.

However, Cambodia's unquestioned compliance with China's BRI can be a mixed blessing, because there is a strong likelihood that Cambodia may fall into the Chinese debt trap and China's sphere of influence. Additionally, Chinese investments and aid targeted towards the Cambodian elite may promote corruption and nepotism leading to the exploitation of natural resources and worsen the human rights records in Cambodia. As Cambodia continues to support the BRI and receive China's "no strings attached" aid and loans, its foreign policy will be undermined and formulated in favor of China's broader interests and influence in the regional and international arena.

Realizing these challenges, Cambodia should actively engage in reforming its agendas, which include, legal, educational, and health reforms, preserving political unity and stability, striving to resolve key domestic issues, strengthening human resources, and pursue independent foreign policy. In order to make progress and stay relevant in the SEA region, Asia-Pacific region, and more importantly the global community, Cambodia should work on strengthening its relations with countries in ASEAN and foster ASEAN unity, while also adopting a practical open-door foreign policy, continuing to make allies throughout the globe (Heng, 2017).

Word Count: 1826

Total Word Count : 3059

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