



Royal University of Law and Economics

Final Report on

**THE BELT AND ROAD INITIATIVE:
SIGNIFICANT ACHIEVEMENTS
AND CHALLENGES**

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ABSTRACT

The thesis examines whether the Belt and Road Initiative mainly serves Chinese interests, and what effect this project will have on China's increasing globalization in the 21st century. Thus, the thesis will make assumptions about what the political spillovers of this economic initiative could be and whether China intends to achieve political goals with the Belt and Road Initiative, apart from economic benefits, especially with regards to the country's increasing globalization in the 21st century. The thesis concludes that a hegemonic takeover of China in global politics is not likely, although the Belt and Road Initiative has the capacity to bring about profound changes in the international political scene. This article also analyzes opportunities and challenges for Cambodia as it embraces China's Belt and Road Initiative. This paper observes that Cambodia can benefit enormously from this highly ambitious Chinese initiative in such areas as physical infrastructure development, foreign direct investment, economic development and integration, regional and international linkages, people-to-people exchanges, bilateral and multilateral ties, and national and international connectivity. However, this paper also argues that Cambodia is facing a number of major challenges which need to be addressed if the country wishes to reap as many benefits as possible from the BRI.

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LIST OF ACRONYMS

- AIDS Acquired Immune Deficiency Syndrome
- AIIB Asian Infrastructure Investment Bank
- APEC Asia-Pacific Economic Cooperation
- ASEAN The Association of Southeast Asian Nations
- BRI Belt and Road Initiative
- BRICS Brazil, Russia, India, China, and South Africa
- CCCC China Communication Construction Company
- CCTI China-CEEC Trade Index
- CDC The Council for the Development of Cambodia
- CEEC Central and Eastern European Countries
- CELAC The Community of Latin American and Caribbean States
- CFR Council on Foreign Relations
- CIPS The Cross-Border Interbank Payment System
- CM Port China Merchants Port Holdings Company Limited
- CRBC China Road and Bridge Corporation
- DPs Development Partners
- DSSI The Debt Service Suspension Initiative
- EPC Taiwan's Engineering, Procurement, and Construction
- EU European Union
- FDI Foreign Direct Investment
- GDP Gross Domestic Product
- GE General Electric International Inc
- GMS Greater Mekong Subregion

- IDP Industrial Development Policy
- IMF International Monetary Fund
- MoU Memorandum of Understanding
- NGO Non-Governmental Organization
- OBOR One Belt One Road
- ODA Official Development Assistance
- OECD Organization for Economic Co-operation and Development
Organization
- PPP Private Public Partnership
- RGC The Royal Government of Cambodia
- RMB Ren Min Bi (currency of People's Republic of China)
- SAR Special Administrative Region
- SDR Special Drawing Rights
- SGR Standard Gauge Railway
- SLPA Sri Lanka Ports Authority
- SOP Standard Operating Procedure
- SSEZ Sihanoukville Special Economic Zone
- TCM Traditional Chinese Medicine
- TEUs The Twenty-Foot Equivalent Unit
- TIR Transports Internationaux Routiers
- UAE The United Arab Emirates
- UK The United Kingdom
- UNESCO The United Nations Educational, Scientific and Cultural
- UNTWO The United Nations of the World Tourism Organization

INTRODUCTION

Over the past two decades, Cambodia has undergone a significant transition, reaching lower middle-income status in 2015 and aspiring to attain upper middle-income status by 2030. Driven by garment exports and tourism, Cambodia's economy has sustained an average real growth rate of 7.7 percent between 1998 and 2019,¹ making it one of the fastest-growing economies in the world, with per capita income increasing from below US \$500 in the early 2000s to US \$1,269 in 2016 and around US \$1,655.39 in 2020.² Relations between Cambodia and China date back to at least the 13th century, and diplomatic relations between the two countries were officially established on July 19, 1958. It does retain considerable influence, including through close links with the former King Norodom Sihanouk, senior members of the Cambodian government and the ethnic Chinese community in Cambodia. In 2006, the two countries agreed to raise their bilateral relations to a comprehensive partnership of cooperation and upgraded to a comprehensive strategic partnership in 2010.³

Cambodia-China long-term relations have recently been strengthened. On the one hand, Cambodia has been strongly supportive of China on the regional and international stage. Cambodia has also been in full support of many Chinese initiatives, including the Asian Infrastructure Investment Bank (AIIB) and the One Belt One Road (OBOR) initiative. On the other hand, China has recognized ongoing support by Cambodia and has awarded this small state millions of US dollars each year through its unconditional aid and loans. In particular, China has greatly contributed to Cambodia's infrastructure development, economic growth, and improved foreign direct investment and trade. Cambodia has fully and actively

¹ *The World Bank in Cambodia*. <https://www.worldbank.org/en/country/cambodia/overview>

² Aaron, O'Neill. *Gross Domestic Product (GDP) per Capita in Cambodia 2026*. (2021). (<https://www.statista.com/statistics/438362/gross-domestic-product-gdp-per-capita-in-cambodia/>)

³ Phea, Kin. 2020. *Cambodia-China Relations in the New Decade*. Phnom Penh: The Konrad-Adenauer-Stiftung.

engaged in China's BRI for the fact that economic development opportunities generated from this initiative are believed to be tremendous.⁴

Taking the mutually beneficial Sino-Cambodian bilateral ties and the launching of China's OBOR initiative into account, this paper aims at offering an analysis of the opportunities and challenges for Cambodia as it embraces OBOR. Although it is obvious that Cambodia is going to greatly benefit from this ambitious Chinese initiative, this paper argues that Cambodia is also going to face a number of challenges which need to be tackled if the country wishes to reap as many benefits as possible from the OBOR. Accordingly, this paper will discuss future directions for Cambodia so that the country can take full advantage of the OBOR initiative as it is beginning to take shape.

⁴ Heng, K. and Po, S. (2017). Cambodia and China's Belt and Road Initiative: Opportunities, challenges and future directions. *UC Occasional Paper Series*, 1(2), 1-18.

CHAPTER 1: WHAT IS THE BELT AND ROAD INITIATIVE?

In September 2013, Chinese president Xi Jinping made a visit to the Republic of Kazakhstan and gave a keynote speech at Nazarbayev University, titled “Promote Friendship between Our Peoples and Work Together to Create a Bright Future.” In his speech, Xi pointed out that “to forge closer economic ties, deepen cooperation and expand space for development in the Eurasian region, we should take an innovative approach and join hands in building an ‘economic belt along the Silk Road’. We may start with work in individual areas and link them up over time to cover the whole region.” This was the first time the strategic concept of the “Silk Road Economic Belt” had been proposed.⁵

In October 2013, while attending the APEC Economic Leaders Meeting, Xi remarked that the Southeast Asia region has served as an important hub for the “Maritime Silk Road” since ancient times, and that China is willing to strengthen maritime cooperation with ASEAN by making good use of the China-ASEAN Maritime Cooperation Fund set up by the Chinese government and establishing a sound maritime partnership for the purpose of jointly building the 21st Century “Maritime Silk Road”.⁶

China’s One Belt One Road Initiative (OBOR), also known as the Belt and Road Initiative (BRI), has received tremendous attention from all over the world since 2013 when it was first proposed by the Chinese government. Consisting of the “Belt” ---Silk Road Economic Belt---and the “Road” ---21st Century Maritime Silk Road, it is a highly ambitious initiative that aims to improve multilateral trade among economic partners, integrate regional economics, and enhance regional connectivity. Chinese President **Xi Jinping** proposed building a land-based “Silk Road Economic Belt,” extending from China to Central and South

⁵ Chandarith, NEAK. *The Belt and Road Initiative and Its Implications for Cambodia: Symposium Proceedings*. (2015). Phnom Penh. Royal University of Phnom Penh.

⁶ *President Xi Jinping Makes Remarks on Promoting the Connectivity in the Asia Pacific at the 21st APEC Economic Leaders' Meeting*. (2013) https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwynmlxycx21apec_665682/t1087409.shtml

Asia, the Middle East, and Europe, and a sea-based “21st Century Maritime Silk Road,” connecting China to Southeast Asia, the Middle East, Africa, and Europe via major sea lanes.⁷ As of January 2021, the number of countries that have joined the Belt and Road Initiative (BRI) by signing a Memorandum of Understanding (MoU) with China is 140.⁸

According to the General Administration of Customs, Trade between China and countries along the Belt and Road witnessed robust growth in the first half of 2021, China's total imports and exports with these countries surged 27.5 percent year on year to 5.35 trillion yuan (about 826 billion U.S. dollars) in the January-June of 2021 period.⁹ The trade volume accounted for 29.6 percent of China's total foreign trade in the same period, while the growth stood at 0.4 percentage points faster than the overall pace. China's exports to countries along the Belt and Road expanded 29.1 percent year on year in the six-month period of 2021, led by steel and auto products. Meanwhile, imports from these nations went up 25.6 percent, with imports of crude oil, farm produce and metal ore reporting steady growth, China's central and western regions have also increased participation in Belt and Road cooperation. In the first half, trade between these regions and countries along the route accounted for 19 percent of China's total, 0.4 percentage points higher than a year ago.¹⁰

⁷ David, Sacks. *Countries in China's Belt and Road Initiative: Who's In And Who's Out*. (2021). <https://www.cfr.org/blog/countries-chinas-belt-and-road-initiative-whos-and-whos-out>

⁸ *Belt and Road Portal*. <https://eng.yidaiyilu.gov.cn/>

⁹ Huaxia. *China Reports Robust Trade with Countries along B&R in H1*. (2021). http://www.xinhuanet.com/english/2021-07/13/c_1310058852.htm

¹⁰ China the State Council Information Office. *Press Conference on China's Import and Export in the First Half of 2021*. (2021). http://english.scio.gov.cn/pressroom/2021-07/13/content_77624026_2.htm

CHAPTER 2: AIM AND OBJECTIVE

On 28 March 2015, an important step towards implementation was made. China's National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce of China published the "Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st-century Maritime Silk Road".¹¹ In the action plan, the main goals of the BRI are defined as follows:

- It is aimed at promoting the orderly and free flow of economic factors, highly efficient allocation of resources, and deep integration of markets; encouraging the countries along the Belt and Road to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards; and jointly creating an open, inclusive and balanced regional economic cooperation architecture that benefits all.¹²

The initiative defines five major priorities:¹³

- policy coordination (Promotion of intergovernmental cooperation, multi-level intergovernmental macro policy exchange and communication mechanism)
- infrastructure connectivity (Improvement of connectivity of infrastructure construction plans and technical standards systems)
- unimpeded trade (Reduction of investment and trade barriers, promotion of regional economic integration)
- financial integration (Coordination and cooperation in monetary policy, set-up of financing institutions)
- and connecting people (Cultural and academic exchange and dialogue, media cooperation).

¹¹ The National Development and Reform Commission. *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. (2015). https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml

¹² The National Development and Reform Commission. *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. (2015). https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml

¹³ Belt and Road Initiative. <https://www.beltroad-initiative.com/belt-and-road/>

The BRI has been associated with a very large program of investments in infrastructure development for ports, roads, railways, and airports, as well as power plants and telecommunications networks. Since 2019, Chinese state-led BRI lending volumes have been in decline. The BRI now places increasing emphasis on “high quality investment”, including through greater use of project finance, risk mitigation tools, and green finance.¹⁴

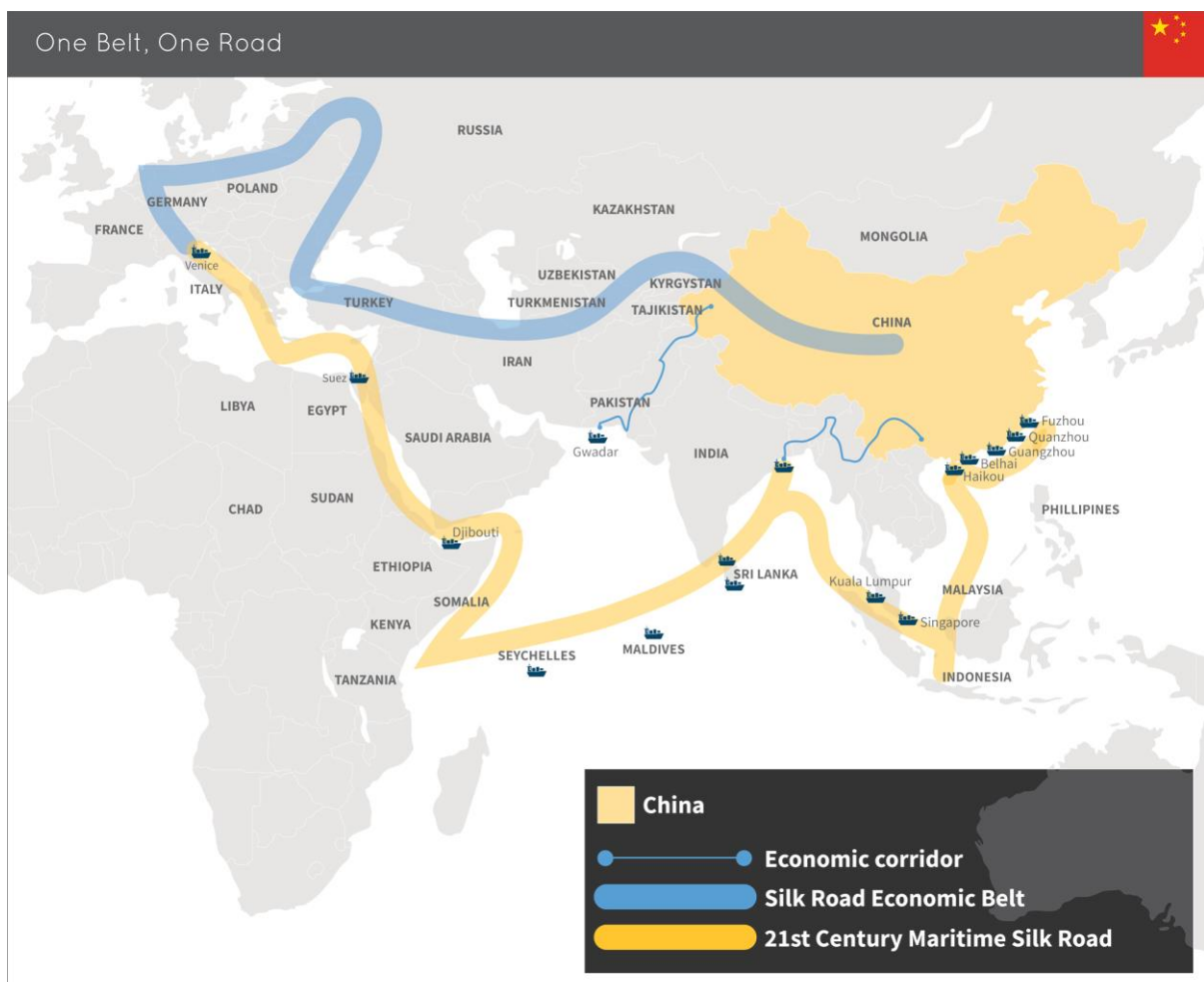


Figure 2.1 One Belt One Road [Asia Research News]

¹⁴ European Bank for Reconstruction and Development. *Belt and Road Initiative (BRI)*. <https://www.ebrd.com/what-we-do/belt-and-road/overview.html>

CHAPTER 3: SIGNIFICATION ACHIEVEMENTS OF BELT AND ROAD INITIATIVE

According to China's National Development and Reform Commission, by the end of October 2019, China had signed 197 Belt & Road Initiative (BRI) cooperation agreements with 137 countries and 30 international organizations. From January to September, China's trade with BRI nations reached some US \$950 billion, and non-financial direct investment in these countries hit US \$10 billion. China has established bilateral currency swap arrangements with 20 countries and established RMB clearing arrangements with seven nations.¹⁵

I. SIGNIFICANT PROGRESS

Significant progress has been made in the construction of international economic cooperation corridors and passageways. The six major corridors for international economic cooperation - the New Eurasian Land Bridge, and the China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar economic corridors - connect the Asian economic circle with the European economic circle. They have played an important role in establishing and strengthening connectivity partnerships between participating countries and building an efficient and smooth Eurasian market.¹⁶

- The New Eurasian Land Bridge. Over the past five years or so, regional cooperation through the New Eurasian Land Bridge has widened, enhancing partnerships featuring openness, inclusiveness, and mutual benefits to a higher level and driving forward economic and trade exchanges between Asia and Europe. The "Budapest Guidelines for Cooperation Between China and Central and Eastern European Countries" and the "Sofia Guidelines for

¹⁵ Great BRI Achievement. (2019). <https://sbrchina.com/great-bri-achievements/>

¹⁶ The Belt and Road Initiative: Progress, Contributions and Prospects. <http://www.china-un.ch/eng/zywjyjh/t1675564.htm>

Cooperation Between China and Central and Eastern European Countries" have been published, showing that steady progress is being made in pragmatic cooperation in the frameworks of the China-EU Connectivity Platform and the Investment Plan for Europe. Construction has started on the Belgrade-Stara Pazova section of the Hungary-Serbia Railway in Serbia. The Western China-Western European International Expressway connecting western China, Kazakhstan, Russia and Western Europe is basically complete.

- The China-Mongolia-Russia Economic Corridor. China, Mongolia, and Russia have made positive efforts to build a cross-border infrastructure connectivity network consisting mainly of railways, roads, and border ports. In 2018, the three countries signed the "Memorandum of Understanding on Establishing a Joint Mechanism for Advancing the China-Mongolia-Russia Economic Corridor", making further progress in improving the working mechanism of the tripartite cooperation. China's side of the Tongjiang-Nizhnelenskoye railway bridge was completed in October 2018. Construction of the Heihe-Blagoveshchensk road bridge is progressing smoothly. A Sino-Russian enterprise consortium has completed preliminary design of the Moscow-Kazan High-Speed Railway. The "Intergovernmental Agreement on International Road Transport along the Asian Highway Network" signed and approved by the three countries has entered into force. The China-Mongolia-Russia cross-border terrestrial cable system has been completed.
- The China-Central Asia-West Asia Economic Corridor. Over the past five years or so, cooperation has advanced in energy, infrastructure connectivity, the economy and trade, and industrial capacity in this corridor's framework. China has signed bilateral agreements on international road transport with Kazakhstan, Uzbekistan, Turkey, and other countries, as well as China-Pakistan-Kazakhstan-Kyrgyzstan, China-Kazakhstan-Russia, China-Kyrgyzstan-Uzbekistan, and some other multilateral agreements on international road transport, constantly

improving infrastructure construction in Central Asia and West Asia. The China-Saudi Arabia Investment Cooperation Forum has promoted industrial complementarity between the Belt and Road Initiative and Saudi Vision 2030, and has concluded cooperation agreements worth more than US \$28 billion. China and Iran have drawn on their strengths in various fields and are strengthening their combined forces in the fields of roads, infrastructure and energy.

- **China-Indochina Peninsula Economic Corridor.** Over the past five years or so, progress has been made in infrastructure connectivity and the construction of cross-border economic cooperation zones through this corridor. The Kunming-Bangkok Expressway has been completed, while the China-Laos and China-Thailand railways and some other projects are well underway. Cooperation has started in building the China-Laos Economic Corridor. More intensive efforts have been made to dovetail Thailand's Eastern Economic Corridor and the Belt and Road Initiative. Economic cooperation between China and Cambodia, Laos, Myanmar, Viet Nam and Thailand is advancing steadily. Positive roles for the China-ASEAN (10+1) cooperation mechanism, Lancang-Mekong cooperation mechanism, and Greater Mekong Subregion (GMS) Economic Cooperation are becoming clearer.
- **The China-Pakistan Economic Corridor.** A cooperation plan focusing on energy, transportation infrastructure, industrial park cooperation, and Gwadar Port has been implemented in the framework of this corridor. China and Pakistan have established the Joint Cooperation Committee of the China-Pakistan Economic Corridor, which meets regularly. Smooth progress has been made on a number of projects. Key projects, such as the road to the Gwadar Port, the Peshawar-Karachi Motorway (Sukkur-Multan section), the Karakoram Highway Phase II (Havelian-Thakot section), the Lahore Orange Line Metro, and the 1,320MW Coal-Fired Power Plants at Port Qasim have been launched. Some projects have

already brought benefits. The China-Pakistan Economic Corridor is open to third parties for cooperation, and more countries have joined or expressed a willingness to participate.

- Bangladesh-China-India-Myanmar Economic Corridor. Over the past five years or so, the four countries have worked together to build this corridor in the framework of joint working groups, and have planned a number of major projects in institutional development, infrastructure connectivity, cooperation in trade and industrial parks, cooperation and opening up in the financial market, cultural exchange, and cooperation in enhancing people's wellbeing. A Joint Committee of the China-Myanmar Economic Corridor has been established. The two countries have also signed a MoU on building the China-Myanmar Economic Corridor, as well as papers on a feasibility study for the Muse-Mandalay Railway, and the Framework Agreement on the Kyauk Phyu Special Economic Zone Deep-Sea Port Project.

II. INFRASTRUCTURE

Infrastructure connectivity has been remarkably enhanced. "Access to roads will enable all sectors of the economy to prosper." Insufficient infrastructure investment is a bottleneck for economic development in developing countries. Accelerating infrastructure connectivity is a key area and core goal of the Belt and Road Initiative.¹⁷

i. Railways

Major progress has been made in building inter-regional and intercontinental railway networks, focusing on such cooperation projects as the China-Laos Railway, China-Thailand Railway, Hungary-Serbia Railway, and Jakarta-Bandung High-Speed Railway.

Preliminary research has advanced on the eastern route of the Pan-Asia Railway Network, the upgrade of Pakistan's Karachi-Peshawar Railway Line (also referred to as Main

¹⁷ The Belt and Road Initiative: Progress, Contributions and Prospects. <http://www.china-un.ch/eng/zywjyjh/t1675564.htm>

Line 1 or ML-1), and the China-Kyrgyzstan-Uzbekistan Railway. A pre-feasibility study on a China-Nepal cross-border railway has been completed.

After preliminary work on China Railway Express cargo trains, an international railway operation mechanism with cooperation among multiple countries has been established. The railway companies of China, Belarus, Germany, Kazakhstan, Mongolia, Poland, and Russia have signed an agreement on deeper cooperation in China-European rail service. By the end of 2018, the China-European rail service had connected 108 cities in 16 countries in Asia and Europe. A total of 13,000 trains carried more than 1.1 million TEUs. Among the trains starting from China, 94 percent were fully loaded; and among those arriving in China, 71 percent were fully loaded.

China has cooperated with other B&R countries on customs clearance to make it more convenient and efficient for the operation of the trains. The average inspection rate and customs clearance turnover time have both decreased by 50 percent.

ii. Roads

Trial operations have been carried out on nonstop transport on the China-Mongolia-Russia, China-Kyrgyzstan-Uzbekistan, China-Russia (Dalian-Novosibirsk) and China-Viet Nam roads. In February 2018, regular operations began on the China-Kyrgyzstan-Uzbekistan highway. China-Viet Nam Beilun River Bridge II has been completed and opened to traffic. China formally joined the Convention on International Transport of Goods Under Cover of TIR Carnets (TIR Convention). It has signed 18 bilateral and multilateral international transport facilitation agreements with 15 B&R countries, including the "Intergovernmental Agreement of the Shanghai Cooperation Organization Member States on the Facilitation of International Road Transport". Positive progress has been made in implementing the GMS "Agreement for the Facilitation of Cross-Border Transport of Goods and People".

iii. Ports

In Pakistan's Gwadar Port, routes for regular container liners have been opened and supporting facilities in the starting area of the Gwadar Free Trade Zone have been completed, attracting more than 30 companies to the area. Preliminary work has been completed on Sri Lanka's Hambantota Port Special Economic Zone, including defining the zone's industrial functions and making conceptual plans. An important transit hub has been completed at the Port of Piraeus in Greece, and Phase III construction is to be completed. Khalifa Port Container Terminal Phase II in the United Arab Emirates officially opened in December 2018. China has signed 38 bilateral and regional shipping agreements with 47 B&R countries. China's Ningbo Shipping Exchange has made constant efforts to improve the Maritime Silk Road Freight Index and released the China-CEEC Trade Index (CCTI) and the Ningbo Port Index.

iv. Air Transport

China has signed bilateral intergovernmental air transport agreements with 126 countries and regions. It has expanded arrangements for air traffic rights with Luxembourg, Russia, Armenia, Indonesia, Cambodia, Bangladesh, Israel, Mongolia, Malaysia, and Egypt. Over the past five years or so, 1,239 new international routes have opened between China and other B&R countries, accounting for 69.1 percent of the total of China's new international routes over that period.

v. Energy Facilities

China has signed a large number of cooperation framework agreements and MoUs with other B&R countries, and has carried out extensive cooperation in the fields of electricity, oil and gas, nuclear power, new energy, and coal. It works with relevant countries

to ensure the safe operation of oil and gas pipeline networks and optimize the configuration of energy resources between countries and regions.

The China-Russia crude oil pipeline and the China-Central Asia natural gas pipeline have maintained stable operations. Certain sections of the eastern route of the China-Russia natural gas pipeline will enter service in December 2019 and the entire eastern route will be completed and enter service in 2024. The China-Myanmar oil and gas pipelines have been completed.

vi. Communication Facilities

Significant progress has been made in the construction of China-Myanmar, China-Pakistan, China-Kyrgyzstan, and China-Russia cross-border fiber optic cables for information transmission. China and the International Telecommunication Union signed a "Letter of Intent to Strengthen Cooperation on Telecommunications and Information Networks within the Framework of the Belt and Road Initiative". China has also signed cooperation agreements with Kyrgyzstan, Tajikistan, and Afghanistan on fiber optic cables, which represent the practical launch of the Silk Road Fiber Optic Cable project.

III. TRADE

i. Expanding trade

From 2013 to 2018, the value of trade between China and other B&R countries surpassed US \$6 trillion, accounting for 27.4 percent of China's total trade in goods and growing faster than the country's overall foreign trade. In 2018, the value of trade in goods between China and other B&R countries reached US \$1.3 trillion, growing by 16.4 percent year on year. The trade in services between China and other B&R countries has seen steady progress, growing by 18.4 percent from 2016 to reach US \$97.76 billion in 2017. The figure accounted for 14.1 percent of China's total trade in services, 1.6 percentage points higher than

in 2016. According to a World Bank study that analyzes the impact of the Belt and Road Initiative on trade in 71 potentially participating countries, the initiative increases trade flows among participating countries by up to 4.1 percent.¹⁸

ii. Faster Pace of Trade Model Innovation

New trade models such as cross-border e-commerce are becoming an important driver of trade. In 2018, the total value of retail goods imported and exported through the cross-border e-commerce platform of China Customs reached US \$20.3 billion, growing by 50 percent year on year. Exports were US \$8.48 billion, growing by 67 percent year on year, and imports were US \$11.87 billion, growing by 39.8 percent year on year. As Silk Road e-commerce prospers, China has established cooperation mechanisms for bilateral e-commerce with 17 countries, created agreements on e-commerce cooperation under the BRICS and other multilateral frameworks, and made solid progress in finding overseas partners for Chinese businesses and developing Chinese brands.

iii. Financial Integration

Financial integration is an important pillar of the Belt and Road Initiative. Exploring investment and financing models, international multilateral financial institutions and commercial banks have played an innovative role in expanding the channels of diversified financing, providing stable, transparent and quality financial support for the Belt and Road Initiative.

iv. Exploring New Models of International Investment and Financing

Boasting huge cooperation potential in infrastructure construction and industrial capacity, the Belt and Road Initiative is in urgent need of finance. The sovereign wealth funds

¹⁸ Suprabha, Baniya, Nadia, Rocha, and Michele, Ruta. Trade Effects of the New Silk Road: A Gravity Analysis. WORLD BANK Policy Research Working Paper 8694, January 2019. <http://documents1.worldbank.org/curated/en/623141547127268639/pdf/Trade-Effects-of-the-New-Silk-Road-A-Gravity-Analysis.pdf>

and investment funds of the participating countries are playing a bigger part. In recent years, the Abu Dhabi Investment Authority of the UAE, China Investment Corporation and other sovereign wealth funds has markedly increased investment in major emerging economies participating in the initiative. The China-EU Joint Investment Fund, which began operation in July 2018 with an injected capital of EUR500 million from the Silk Road Fund and the European Investment Fund, has helped the Belt and Road Initiative to dovetail with the Investment Plan for Europe.

v. Growing Support from Multilateral Financial Cooperation

China's Ministry of Finance and its counterparts in 27 countries, including Argentina, Russia, Indonesia, the UK, and Singapore, have endorsed the "Guiding Principles on Financing the Development of the Belt and Road". According to the principles, the countries participating in the Belt and Road Initiative support the channeling of financial resources to serve the real economy of the countries and regions involved, with priority given to such areas as infrastructure connectivity, trade and investment, and industrial cooperation, among others. The People's Bank of China has rolled out joint financing programs with the International Finance Corporation under the World Bank Group, Inter-American Development Bank, African Development Bank, European Bank for Reconstruction and Development, and other multilateral development institutions. By the end of 2018, these institutions had invested in more than 100 programs in over 70 countries and regions. Established in November 2017, the China-CEEC Bank Consortium includes 14 financial institutions from China, Hungary, the Czech Republic, Slovakia, Croatia, and nine other Central and Eastern European countries. In July 2018, the China-Arab States Bank Consortium was founded, followed by the China-Africa Financial Cooperation Consortium, established in September. Each was the first multilateral financial cooperation mechanism between China and the respective area.

vi. Closer Cooperation between Financial Institutions

In building the Belt and Road, policy-backed export credit insurance, which has board coverage, plays a special role in supporting infrastructure and basic industries. The strengths of commercial banks lie in taking deposits from wider sources, corporate financing, financial products, trade agency, and trust services. By the end of 2018, the China Export & Credit Insurance Corporation had endorsed US \$600 billion in export to and investment in the participating countries. Chinese-financed banks, such as the Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, and China Construction Bank, have formed extensive agent banking relations with the participating countries. Commerzbank became the first German bank to join the banking mechanism of the Belt and Road Initiative when it signed a MoU on cooperation with the Industrial and Commercial Bank of China.

vii. Improved Financial Market System

The initiative's participating countries have made continued efforts to consolidate and improve financial cooperation for long-term benefits and win-win outcomes. With a steady supply of innovative financial products, channels for financing the Belt and Road Initiative have expanded substantially. China has continued to open up its interbank bond market. By the end of 2018, about RMB200 billions of Panda bonds had been issued. The Export-Import Bank of China issued a RMB2 billion green bond for global investors, and the BRICS New Development Bank issued a RMB3 billion green bond to support the green development of the Belt and Road Initiative. Stock equity, business and technical cooperation between securities and futures exchanges have advanced. The Shanghai Stock Exchange, Deutsche Burse Group, and China Financial Futures Exchange jointly founded the China Europe International Exchange in 2015, and the Shanghai Stock Exchange and Astana International

Financial Center Authority of Kazakhstan have signed an agreement to co-invest in building the Astana International Exchange.

viii. Deeper Financial Connectivity

Eleven Chinese-funded banks have set up 76 first-grade institutions in 28 B&R countries, and 50 banks from 22 B&R countries have opened 7 corporate banks, 19 branches, and 34 representative offices in China. Two Chinese-funded securities firms have established joint ventures in Singapore and Laos. China has made bilateral currency swap arrangements with more than 20 B&R countries and Renminbi clearing arrangements with 7 B&R countries, and signed cooperation agreements with the financial supervision authorities of 35 B&R countries. The Renminbi's functions as a currency for international payment, investment, trade, and reserves have been strengthened. The Cross-Border Interbank Payment System (CIPS) now covers some 40 countries and regions involved in the Belt and Road Initiative. The China-IMF Capacity Development Center and the Research Center for the Belt and Road Financial and Economic Development have been founded.

IV. CLOSER PEOPLE-TO-PEOPLE TIES

People-to-people ties are the cultural foundation for building the Belt and Road. It is the common dream of all people to enjoy a peaceful and prosperous life. Over the past five years or so, the B&R countries have carried out diplomatic activities and cultural exchanges of various forms in wide fields, enhancing mutual understanding and recognition, and laying a solid cultural foundation for furthering the initiative.

i. Diverse Forms of Cultural Exchange

China and other B&R countries have hosted events such as arts festivals, film festivals, music festivals, cultural relic exhibitions, and book fairs, and have jointly launched new publishing, radio, film, and television programs, as well as translating and introducing

each other's media programs. The Silk Road International League of Theaters, Silk Road International Museum Alliance, Network of Silk Road Arts Festivals, Silk Road International Library Alliance, and Silk Road International Alliance of Art Museums and Galleries have been established. China, CEE countries, ASEAN countries, Russia, Nepal, Greece, Egypt, and South Africa have hosted activities to celebrate the cultures of B&R countries in different years, and developed about a dozen cultural exchange brands, such as the "Silk Road Tour" and "Chinese/African Cultures in Focus". Major cultural festivals and expos have been launched, such as the Silk Road (Dunhuang) International Cultural Expo, Silk Road International Arts Festival, and Maritime Silk Road International Arts Festival, and 17 Chinese cultural centers have been set up in B&R countries. China has signed cooperation agreements on the protection of cultural heritage with Indonesia, Myanmar, Serbia, Singapore, and Saudi Arabia. Through a combined effort from China, Kazakhstan, and Kyrgyzstan, Silk Roads: The Routes Network of the Chang'an-Tian Shan Corridor has become a UNESCO World Heritage site. Steady progress has been made in the Belt and Road News Alliance. The Silk Road NGO Cooperation Network, with 310 members, has become an important platform for non-governmental cooperation.

ii. Fruitful Results in Education and Training

The Chinese Government Scholarship-Silk Road Program has been set up, and China has signed agreements with 24 B&R countries on the mutual recognition of higher education degrees. In 2017, 38,700 students from other B&R countries studied in China on scholarships provided by the Chinese government, accounting for 66 percent of all students receiving such scholarships. Other B&R scholarships are provided in the Hong Kong and Macao SARs. China has opened 153 Confucius Institutes and 149 Confucius Classrooms in 54 B&R countries. The Chinese Academy of Sciences offers scholarships for Master's and Doctorate

programs to other B&R countries, and runs science and technology training courses which have trained some 5,000 students from other B&R countries.

iii. Expanding Cooperation in Tourism

China has held a joint year of tourism with many other B&R countries, initiating cooperation mechanisms such as the Silk Road Tourism Promotion Union, Maritime Silk Road Tourism Promotion Alliance, and Tea Road International Tourism Alliance. China has signed mutual visa exemption agreements for different types of passports with 57 B&R countries, and concluded 19 agreements or arrangements to streamline visa application procedures with 15 countries. In 2018, outbound Chinese tourists numbered 150 million, and inbound foreign tourists numbered 30.54 million. Russia, Myanmar, Viet Nam, Mongolia, Malaysia, the Philippines, and Singapore were the main sources of tourists for China.

iv. Deeper Cooperation in Health and Medicine

Since the first Belt and Road Forum for International Cooperation, China has signed 56 agreements on cooperation in the health sector with countries such as Mongolia and Afghanistan, international organizations such as the World Health Organization, and NGOs such as the Bill & Melinda Gates Foundation. In August 2017, the Belt and Road High-Level Meeting for Health Cooperation: Towards a Health Silk Road was held in Beijing, which issued the "Beijing Communiqué of the Belt and Road Health Cooperation." China has carried out cooperation on the prevention and control of AIDS, malaria, dengue, flu, and tuberculosis with Lancang-Mekong countries; on the prevention and control of echinococcosis, plague, and other zoonosis with Central Asian countries; and on the prevention and control of polio with Western Asian countries. China has dispatched ophthalmology teams to Cambodia, Myanmar, Laos, and Sri Lanka to carry out the "Brightness Action" program, and short-term medical teams to island countries such as Fiji,

Tonga, Micronesia, and Vanuatu in the Pacific. It has established traditional Chinese medicine centers in 35 B&R countries, and 43 international TCM cooperation bases.

v. Ongoing Effort in Disaster Relief, Assistance, and Poverty Alleviation

Since the first Belt and Road Forum for International Cooperation, China has provided RMB2 billion in emergency food assistance to developing countries participating in the initiative, injected an additional US \$1 billion into the South-South Cooperation Assistance Fund, and implemented 100 Happy Home Projects, 100 Anti-Poverty Projects, and 100 Health Recovery Projects. China has participated in 8 joint programs for the protection of cultural relics with 6 countries, and 15 joint archeological activities with 12 countries. China has provided Laos and other countries with seismic monitoring equipment to improve their early warning and disaster alleviation capacity. China has initiated 24 cooperation programs with civil society organizations in Cambodia and Nepal, in an effort to improve the lives of local people.

V. INDUSTRIAL COOPERATION

The Belt and Road Initiative draws investment from diverse sources, encourages third-party market cooperation, and aims to build industry, supply, service, and value chains that benefit all and are shared by all, so as to provide new growth drivers for faster development in the participating countries.

- 1) Stable growth in China's direct investment in B&R countries. From 2013 to 2018, China's direct investment in B&R countries surpassed US \$90 billion, realizing a turnover of US \$400 billion in foreign contracted projects in these countries. In 2018, Chinese businesses made a total of US \$15.6 billion in non-financial direct investment in B&R countries, growing by 8.9 percent year on year and accounting for 13 percent of China's total non-financial FDI during the same period. The turnover of foreign contracted projects in B&R countries reached US

\$89.3 billion, or 53 percent of the total turnover of foreign contracted projects in the same period. According to a World Bank study, the transportation network proposed by the Belt and Road Initiative could lead to a 4.97-percent increase in total FDI flows to B&R countries, a 4.36-percent increase in FDI flows within B&R countries, a 4.63-percent increase in FDI flows from OECD countries, and a 5.75-percent increase in FDI flows from non-B&R countries.¹⁹

- 2) Steady progress in international cooperation on industrial development and third-party markets. As faster growth in B&R countries has generated huge market demands for international industrial cooperation, China has taken active measures to boost market-oriented industrial cooperation with relevant countries in all areas, so as to upgrade the industrial structure and raise the level of industries in these countries. Currently, China has signed agreements on industrial cooperation with more than 40 countries, including Kazakhstan, Egypt, Ethiopia, and Brazil. It has dovetailed industrial cooperation programs with regional organizations such as ASEAN, the African Union, and CELAC. China has signed third-party market cooperation agreements with France, Italy, Spain, Japan, and Portugal.
- 3) Vigorous development in cooperation parks and zones. Applying market principles and complying with laws, Chinese businesses of all types have joined in the development of cooperation parks and zones in other B&R countries, sharing China's best practices and the experience it has gained in development zones and industrial parks during reform and opening up. In addition to promoting the local economy, these have also created new sources of tax revenue and jobs in the countries involved. China has established the China-Kazakhstan Khorgos International Border Cooperation Center, and the China-Laos Mohan-Boten Cross-

¹⁹ Maggie Xiaoyang, Chen. and Chuanhao, Lin. Foreign Investment across the Belt and Road Patterns, Determinants and Effects. WORLD BANK Policy Research Working Paper 8607. October 2018.
<https://openknowledge.worldbank.org/handle/10986/30577>

Border Economic Cooperation Zone; more cross-border economic cooperation zones with other countries are being planned or built.

CHAPTER 4: SIGNIFICANT ACHIEVEMENT AND IMPACTS OF BELT AND ROAD INITIATIVE'S MEMBERS

I. ACHIEVEMENT OF BELT AND ROAD INITIATIVE'S MEMBERS

Speaking at a media interview on 21, May 2016, Chinese Minister of Foreign Affairs Wang Yi outlined the significant achievements of the “One Belt, One Road” Initiative (Initiative) as follows:²⁰

- Increased recognition and understanding of the Initiative. With the support and participation from more than 70 countries and organizations, to date the Initiative has gained widespread recognition and understanding, and based on this Initiative is built an international exchange framework.
- The financial support mechanism has begun to take shape. The Asian Infrastructure Investment Bank (AIIB) was opened for business in early 2016, while the Silk Road Fund has formally disbursed its first tranche of funds to several investment projects. Countries along the route of the Initiative have discussed the establishment of a bipartite or multipartite cooperation fund to finance major projects.
- An infrastructure connectivity network has begun to take shape. Infrastructure construction projects have been launched to connect Eurasian countries through air and land sea routes, paving the way for Eurasian cooperation. Construction has begun on a railway between Hungary and Serbia, the Jakarta-Bandung High-Speed Rail, the China-Laos railway and the China-Thailand railway. These railways represent the first steps towards a Trans-Asia Railway Network, and other expressway projects are under construction.

²⁰ China Go Abroad. Wang Yi: Significant Achievements of the “One Belt, One Road” Initiative. <http://www.chinagoabroad.com/en/article/20518>

- Cooperation in production capacity has been accelerated. China has concluded with more than 20 countries a batch of important projects related to cooperation in production capacity. To date, Chinese funds for cooperating with the “One Belt, One Road” countries in production capacity has topped \$100bn.
- Economic corridor construction has made significant progress. China, Russia, and Mongolia have reached consensus on the creation of an economic corridor passing through each of the three countries, and are now working on a construction plan. A large number of major projects have been launched under the China-Pakistan economic corridor. The new Eurasian Land Bridge economic corridor and the Bangladesh-China-India-Myanmar economic corridor are proceeding steadily.
- Freight transport between China and Europe is growing steadily. Thus far, more than 1,500 trains have traveled between China and Europe. This includes 815 trips in 2015, 2.7 times that in 2014.
- Trade investment has witnessed sharp growth. In 2015, Chinese enterprises invested \$15bn in 49 countries along the route of the “One Belt, One Road” Initiative.
- China has promoted cultural exchange and interaction with the “One Belt, One Road” countries. China has offered "One Belt and One Road" scholarships, sponsored cultural/art festivals and hosted other cultural exchange events.

i. China-Brunei

Brunei has abundant oil and gas resources, but the nation lacks the materials for producing oil and gas pipelines.

Liaoning, a province in northeastern China, provides \$2.123 million in financing loans, and Huludao City Steel Pipe Industrial Co., Ltd. produces 100,000 tons of oil and

gas pipelines. This investment not only generates \$100 million, but it also offers more than 300 job opportunities.

ii. China-Kazakhstan

Kazakhstan is a landlocked country in Central Asia, and as its winters are very cold, there is barely any vegetable production. One Belt One Road connects Kazakhstan with the northwestern Chinese Xinjiang Uygur Autonomous Region. The cross-border trade in vegetables provides Kazakhstan's people with their basic needs. The total trade between Xinjiang and Kazakhstan is more than \$11 billion annually, a figure that composes 40 percent of China-Kazakhstan trade in total.²¹

Kazakhstan is developing steadily. Although it was part of the former Soviet Union and has been in a state of turmoil since the former Soviet Union split, making its import and export volumes relatively small compared to its counterpart countries, yet after more than ten years of development, long-time coexistence with the "Belt and Road", Kazakhstan has made great strides in its own economic and trade development, and its imports and exports have also been rising. At the same time, in terms of overall development, China and Kazakhstan's cooperative trade has also achieved more in-depth development, especially the developments in the economy and trade. China is one of Kazakhstan's key foreign trade partners. In 2020, trade turnover with China reached 18.1 percent of the total trade of Kazakhstan. Exports to China amounted to \$9 billion and imports from China – \$6.4 billion.²²

Based on the good communication and discussion between China and Kazakhstan, the Economic and Trade Agreement, the Investment Protection Agreement, the Commodity Inspection Agreement, and the Automotive, the Transport Agreement, the Railway Transit

²¹ Judy Lu. *HOW ONE BELT ONE ROAD BENEFITS DEVELOPING COUNTRIES*. (2018). <https://borgenproject.org/one-belt-one-road-benefits/>

²² Shayakhmetova, Zhanna. *Positive Dynamics Observed in Trade Between Kazakhstan and China*. (2021). <https://astanatimes.com/2021/04/positive-dynamics-observed-in-trade-between-kazakhstan-and-china/#:~:text=China%20is%20one%20of%20Kazakhstan's,imports%20from%20China%20%E2%80%93%20246.4%20billion.>

Transport Agreement and other policies have been signed successively, escorting economic and trade relations between the two countries and making long-term and in-depth development in economic and trade development possible between the two countries.

iii. China-Kenya

Kenya is also a beneficiary of Chinese rail technology. The 480km standard gauge railway from Mombasa port to the capital Nairobi opened in June 2017, replacing a 19th-century British-built line. The new USD3.8 billion line cuts freight costs and journey time, and will ultimately be extended to Uganda. Henry Rotich, Kenya's Treasury Cabinet Secretary, said in March that China's investment in railroads was good for regional growth, and that Kenya would lobby for more BRI projects.²³

In May 2014, China and Kenya signed a cooperation agreement on the Mombasa-Nairobi Railway. It is the first new railway to be built in Kenya in the past 100 years, which is the pharynx of the East African railway network.²⁴

In addition, Chinese enterprises joined hands with GE to increase the EPC market strength. For example, in 2015, China Machinery Industry Group used 60 1.7 60-103 fans in its base construction of Kenya's wind power project.

China has invested \$14 billion in Eastern Africa Kenya's Standard Gauge Railway (SGR). The SGR is a 485km single-track railroad, and acts as one of the most significant projects since Kenya became independent in 1963.²⁵

The SGR stretches from Mombasa to the Kenyan capital, Nairobi, and in December 2015, Kenya loaned \$1.5 billion from China to extend the SGR further to Naivasha in the north-west. The SGR also facilitates local industries and trade between Africa and China.

²³ Lifang. *Kenya to lobby for regional projects under Belt and Road Initiative*. (2018). http://www.xinhuanet.com/english/2018-03/30/c_137075352.htm

²⁴ Yifeng, Hu. *The Mombasa-Nairobi Railway and the Future of Kenya*. <http://www.mofcom.gov.cn/article/beltandroad/ke/enindex.shtml>

²⁵ Mohammed, Yusuf. *Kenya's Chinese-Built Railways Proves Pricey*. (2020). <https://www.voanews.com/africa/kenyas-chinese-built-railway-proves-pricey>

President Uhuru Kenyatta's administration has largely taken loans from China since 2014 to build roads, bridges, power plants and the SGR. The World Bank had estimated that Kenya could save Ksh55.9 billion (\$517.8 million) from China between January and June under the DSSI deal in principal and interest payment freeze. But China announced that Kenya would be granted a Ksh26 billion (\$240.85 million) relief.²⁶

iv. China-Pakistan

The China-Pakistan economic corridor is one of the salient components of BRI to date. This network of projects, together forming the single-biggest BRI program with financing and infrastructure worth more than USD60 billion, connects western China to Gwadar, a previously undeveloped, deep-water port on Pakistan's Arabian coast. The corridor will provide a new trading route, opening up the country to multiple industrial and trading opportunities.²⁷

On December 22, 2015, Chinese Construction Co., LTD. formally signed the EPC general contract for the Karachi-Lahore Highway project with Pakistan's National Highway Administration. The Karachi-Lahore highway project is the largest transportation infrastructure project for the China-Pakistan economic corridor. It is about 1152 km in total and designed with two-way six lanes at a speed of 120 km/h.²⁸

On January 10, 2016, the main project of the Karot hydropower station, which was built by China Three Gorges Corporation, started on the Ji Lahm River in Pakistan. This is the first foreign investment project of the Silk Road fund. The Chinese government has pledged to invest at least \$35 billion in Pakistan by 2030 to finance the construction of power plants.²⁹

²⁶ Otiato, Guguyu. *Kenya: China Halts Kenya Loans Amid Debt Reprieve Bid*. (2021). <https://allafrica.com/stories/202107020719.html>

²⁷ Jacob, Mardell. *The BRI in Pakistan: China's Flagship Economic Corridor*. (2020). <https://merics.org/en/analysis/bri-pakistan-chinas-flagship-economic-corridor>

²⁸ *China-Pakistan Economic Corridor*. (2018). <http://pk.chineseembassy.org/eng/zbqx/CPEC/t1627115.htm>

²⁹ Ashley, Zhu. *Belt and Road Forum for International Cooperation*. <https://expressdigest.com/belt-and-road-forum-for-international-cooperation/>

II. IMPACTS OF BELT AND ROAD INITIATIVE TO ITS MEMBERS

The Belt and Road Initiative has also stoked opposition. For some countries that take on large amounts of debt to fund infrastructure upgrades, BRI money is seen as a potential poisoned chalice. BRI projects are built using low-interest loans as opposed to aid grants. Some BRI investments have involved opaque bidding processes and required the use of Chinese firms. As a result, contractors have inflated costs, leading to canceled projects and political backlash.³⁰

i. China-Sri Lanka

However, drawing on the experience of Sri Lanka, where the Sri Lankan government made up its mind to convert state property into equity to pay off its debt owed to China. In August 2017, Sri Lanka's cabinet of ministers took a decision to sign a concession agreement with CM Port to operate the Hambantota Port as a Private Public Partnership (PPP) project under which a 70 percent stake in the port is leased to CM Port. Instead, a 70 percent stake in the port was leased to China Merchants Port Holdings Company Limited (CM Port) for 99 years for \$1.12 billion. The remaining 30 percent of the stake is owned by the Sri Lanka Ports Authority (SLPA) and the commercial operations of the port are handled by the CM Port and the SLPA jointly, while the government of Sri Lanka still owns the port. At the time of entering into the lease agreement, Hambantota Port was valued at \$1.4 billion and CM Port invested \$1.12 billion as per the terms of the agreement.³¹

ii. China-Malaysia

In Malaysia, Mahathir bin Mohamad, elected prime minister in 2018, campaigned against overpriced BRI initiatives, which he claimed were partially redirected to funds

³⁰ Chatzky, Andrew. and McBride, James. *China's Massive Belt and Road Initiative*. (2020). <https://www.cfr.org/background/chinas-massive-belt-and-road-initiative>

³¹ Moramudali, Umesh. *The Hambantota Port Deal: Myths and Realities*. (2020). <https://thediplomat.com/2020/01/the-hambantota-port-deal-myths-and-realities/>

controlled by his predecessor. Once in office, he canceled \$22 billion worth of BRI projects, although he later announced his “full support” for the initiative in 2019.³²

iii. China-Kazakhstan

In Kazakhstan, mass protests against the construction of Chinese factories swept the country in 2019, driven by concerns about costs as well as anger over the Chinese government’s treatment of Uighurs in Xinjiang Province.³³ More such stories are likely, according to a 2018 report by the Center for Global Development, which notes that eight BRI countries are vulnerable to debt crises.³⁴ CFR’s Belt and Road Tracker shows overall debt to China has soared since 2013, surpassing 20 percent of GDP in some countries.³⁵

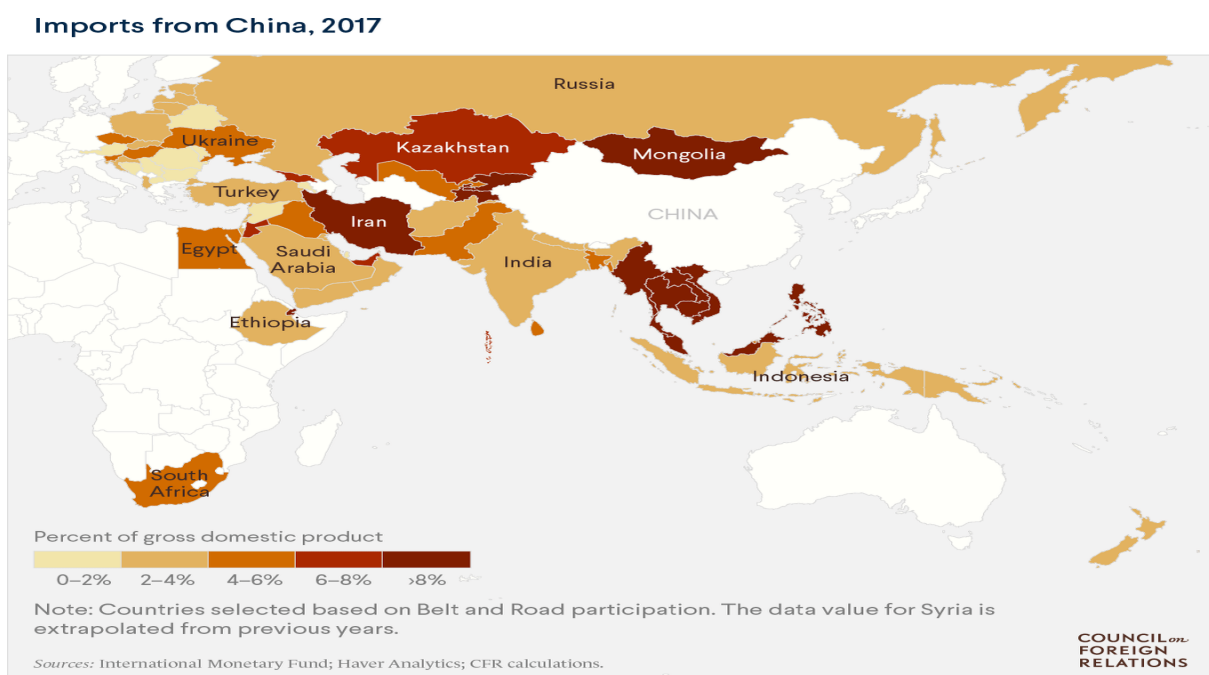


Figure 2.1 Imports from China [Source: Council on Foreign Relations]

³² Kinling, Lo. *Malaysia’s Mahathir backs China’s belt and road but insists on open trade routes.* (2019). <https://www.scmp.com/news/china/diplomacy/article/3007874/malysias-mahathir-backs-chinas-belt-and-road-insists-open>

³³ Bradley, Jardine. *Why are there anti-China protests in Central Asia?* (2019). <https://www.washingtonpost.com/politics/2019/10/16/why-are-there-anti-china-protests-central-asia/>

³⁴ Hurley, John. Morris, Scott. and Portelance, Gailyn. *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective.* (2018). <https://www.cgdev.org/publication/examining-debt-implications-belt-and-road-initiative-a-policy-perspective>

³⁵ Steil, Benn. and Benjamin Della, Rocca. *Belt and Road Tracker.* (2019). <https://www.cfr.org/article/belt-and-road-tracker>

CHAPTER 5: SUCCESSES AND CHALLENGES IN CAMBODIA

I. SUCCESSES

i. Political Security Relations

Cambodia-China signed an “Action Plan 2019-2023 on Building a China-Cambodia Community of Shared Future” in April 2019 in Beijing during Cambodian Prime Minister Hun Sen’s mission to the Second Belt and Road Forum from 25 to 29 April 2019.³⁶ Under this action plan, the two countries committed to undertake 31 measures in the five domains of politics, security, economics, people-to-people relations, and multilateral cooperation. However, their relations may have been overshadowed by the development agenda. Since the introduction of the Belt and Road Initiative (BRI) in late 2013, China has played an influential role in Cambodia, in which the development agenda has been used as a primary tool.³⁷

ii. Infrastructure

Tangibly, by the end of 2017, more than 2,000 km of roads, seven large bridges, and a new container terminal at Phnom Penh Autonomous Port were constructed with the support of China. A new international airport in Siem Reap, Dara Sakor International Airport in Koh Kong province, and an international airport in Kandal province amount to nearly 3 billion USD in approved airport projects. The 2 billion USD Phnom Penh-Sihanoukville Expressway Project has been constructed by the state-owned China Communications Construction Company.

³⁶ *China-Cambodia Community of Shared Future Features Four Special Points: Chinese Ambassador to Cambodia.* <http://m.en.freshnewsasia.com/index.php/en/localnews/13941-2019-05-08-08-06-23.html>

³⁷ Phea, Kin. *Cambodia-China Relations in the New Decade.* (2020). <https://www.kas.de/en/web/kambodscha/single-title/-/content/cambodia-china-relations-in-the-new-decade-2>

iii. Energy

In the energy sector, more than 7.5 billion USD in hydropower plants and about 4 billion USD in coal power plants have been invested, as well as some 30 agricultural and agro-industrial projects (of which 21 are in operation).

iv. Special Economic Zone

China is involved in constructing the Sihanoukville Special Economic Zone (SSEZ), which has attracted more than 100 companies from China and other countries with a total investment of more than 3 billion USD as of 2017 and created nearly 20,000 jobs for the local community. The SSEZ plans to have 300 factories by 2020. Moreover, Chinese investment in the textiles and clothing industries also contributed significantly to Cambodia's socio-economic development by creating job opportunities for almost one million Cambodian workers.

v. Economy

According to statistics released by the Council for the Development of Cambodia (CDC), of the cumulative foreign direct investment (FDI) approved in the period of 1994-2019, the largest share was from China (21.81 percent), which in the early years was the source of extensive investment in the fields of infrastructure, energy, resource development, including rubber, and tourism. In 2019, investment approval recorded 9.40 billion USD, among which China invested 2.75 billion USD. China also vowed to push bilateral trade to 10 billion USD by 2023 and encouraged more Chinese investment flow to Cambodia.³⁸

By many accounts, Cambodia is one of China's closest allies in the Southeast Asian region. Politics aside, China has undeniably become Cambodia's largest economic influencer, being the largest foreign investor, largest bilateral donor, largest trading partner, largest buyer

³⁸ Council for the Development of Cambodia. *FDI Trend*. <http://www.cambodiainvestment.gov.kh/why-invest-in-cambodia/investment-environment/fdi-trend.html>

of Cambodian rice, and the largest source of foreign tourists in the country. Since the inception of the BRI in 2013, Cambodia has embraced this China-led initiative and hopes to transform it into a source of national development. From connectivity to cross-border trade to tourism, Cambodia has benefited greatly from cooperation with China under the BRI framework, and future enhancement of cooperation between the two countries will lead to even greater potential.³⁹

vi. Official Development Assistance

By 2017, Cambodia had received approximately 4.2 billion USD in Official Development Assistance (ODA) from China in the form of grants and soft loans. This ODA has targeted physical infrastructure, agriculture, health and education. China is also the main source of Cambodia's public external debt. By the end of 2017, Cambodia's public external debt was 9.6 billion USD, of which around 42 percent was owed to China. China also pledged 600 million USD in grants to Cambodia from 2019 to 2021.⁴⁰

vii. Tourism

In terms of the tourism sector, 15 airline companies are operating regularly between Cambodia and China. In the first nine months of 2019, Cambodia has received approximately 1.8 million Chinese tourists. Cambodia surpassed its goal of 2 million Chinese tourists by 2018 and subsequently set higher targets. In a new memorandum of understanding with Beijing, Cambodia aimed to attract 3 million Chinese tourists by 2020, 5 million by 2025, and 8 million by 2030.⁴¹ However, due to the COVID-19 outbreak, the number of Chinese tourists in the first two months of 2020 has drastically decreased.

³⁹ Kha, Sok. *The Belt and Road in Cambodia: Successes and Challenges*. (2019). <https://thediplomat.com/2019/04/the-belt-and-road-in-cambodia-successes-and-challenges/>

⁴⁰ Reuters. *Cambodian leader, in Beijing, says China pledges nearly \$600 million in aid*. (2019). <https://www.reuters.com/article/us-cambodia-china-idUSKCN1PG0CZ>

⁴¹ Xinhua. *1.7 mln Chinese tourists visit Cambodia in 8 months, up 33 pct*. (2019). http://www.xinhuanet.com/english/2019-10/08/c_138454211.htm

Thong Khon, Cambodian tourism minister, at the inaugural Cambodia-China tourism forum in Phnom Penh 2018, under the theme of “Embracing the Opportunity of Tourism Development on the Silk Road,” said:⁴²

The Cambodian tourism sector must be prepared to welcome a growing number of Chinese tourists, as they lead the globe in the number of outbound travelers and were responsible for the most visitors to the Kingdom last year. The world has turned to focus on the potential of Chinese visitors. While Chinese have become the fastest-growing nationality of outbound tourists, the World Tourism Organization (UNTWO) has recommended its member countries to prepare for hosting Chinese tourists. The cooperation in the tourism sector between Cambodia and China has been strengthened in 2018, 60 years after the two countries began diplomatic relations. Through positive strategic and comprehensive cooperation, the inflow of Chinese investment and tourists to Cambodia will keep increasing annually.

viii. Education

In the educational sector, from 2004 to 2017, China offered more than 1,000 scholarships to Cambodian students to pursue their education in China, and more than 700 fellowships for short-term training. Several other exchange programs have been conducted among government officials, the media, youth, and academics with funding support from the Chinese government.

ix. Trade

Cambodia has inadequate infrastructure capacity and significantly lower performance in logistics than others in the region, resulting in higher costs that subsequently affect the country’s economic competitiveness. The expressway project has the potential to enhance connectivity and logistics within Cambodia and beyond, improving logistical efficiency and reducing trade costs. This new infrastructure will complement the existing national road connecting Phnom Penh and Sihanoukville Port, Cambodia’s only international deep-sea port, which handled more than 90 percent of Cambodia’s total container traffic in 2017. China’s

⁴² Kimsay, Hor. *China-Cambodia tourism forum held*. (2018). <https://www.phnompenhpost.com/business/china-cambodia-tourism-forum-held>

state-owned China Communications Construction Company (CCCC) is responsible for the construction and cost of this \$1.9 billion expressway project. Under the concession agreement with the government, CCCC will collect tolls on the road through its subsidiary company, China Road and Bridge Corporation (CRBC), in order to recoup its investment. This expressway project demonstrates the increasing importance of multi-stakeholder partnerships such as public-private partnerships in delivering necessary physical infrastructure, and the Cambodian government has aimed to promote such mechanisms.

These two projects work complementarily to promote synergy between the BRI and Cambodia's most recent economic growth strategy, the Industrial Development Policy 2015–2025 (IDP). The IDP laid out key concrete measures to strengthen and diversify Cambodia's industrial sector and increase and diversify exports by enhancing connectivity in transport and logistics, and improving the labor market and skills.

II. CHALLENGES

The quality, accountability, transparency, and sustainability of Chinese investments and infrastructure development projects, the debt that Cambodia owes China, the lack of social and environmental impact assessment and safeguard measures for Chinese investment projects, and Cambodia's economic dependency on China, are among some of the outstanding risks and concerns that have been raised by some civil society groups. However, the Cambodian government always asserts that all Chinese investments and infrastructure development projects have been made in a transparent, open, and inclusive manner, and Chinese debt is manageable.⁴³

⁴³ Phea, Kin. *Cambodia-China Relations in the New Decade*. (2020). <https://www.kas.de/en/web/kambodscha/single-title/-/content/cambodia-china-relations-in-the-new-decade-2>

i. Debt Trap

Given the fact that the BRI has demonstrated well-documented opportunities for Cambodia, this vision should not obscure the potential challenges that also exist. One of the obvious pitfalls of Cambodia's embracing of China's BRI could be the phenomenon most analysts have called a "debt trap". This concern is applicable in the context of Cambodia.

In 2020, the Royal Government of Cambodia (RGC) has signed concessional loan agreements with Development Partners (DPs) for a total of USD 2.02 billion, accounting for 74% of the debt ceiling (SDR 1.9 billion of which SDR 1.4 billion was permitted by the Budget Law 2020 and an additional borrowing ceiling of SDR 500 million by the Budget Law 2021), according to the Cambodia Public Debt Statistical Bulletin. (The Ministry of Finance and Economy, 2021)⁴⁴

ii. Foreign Policy

Cambodia's enthusiastic acceptance of the BRI is likely to guarantee that this small state will fall into the Chinese sphere of influence. Cambodia has been criticized for having a less independent foreign policy, a policy largely designed to serve the political and diplomatic interests of China to gain some short-term benefits at the expense of its good relations with its ASEAN counterparts and other regional and global powers in the region and beyond. There are some recent developments in Cambodia's foreign policy that lead many Cambodian and international analysts to perceive that Cambodia is moving into the Chinese sphere of influence.⁴⁵

Moreover, one big challenge of the next decade in their relations remains the resolution of the South China Sea dispute. China does not favor multilateral negotiations and

⁴⁴ Ministry of Economy and Finance. (2021). Cambodia Public Debt Statistical Bulletin. Phnom Penh. <https://gdicdm.mef.gov.kh/en/2021/03/31/10300.html>

⁴⁵ Heng, K. and Po, S. (2017). Cambodia and China's Belt and Road Initiative: Opportunities, challenges and future directions. *UC Occasional Paper Series*, 1(2), 1-18.

called on concerned states to continue using the ASEAN-China mechanism for the full implementation of the Declaration on the Conduct of Parties in the South China Sea, and for ASEAN and China to further work together to realize the Code of Conduct in the South China Sea. Cambodia is still seen by other countries as being in favor of China's bidding.⁴⁶

⁴⁶ Phea, Kin. *Cambodia-China Relations in the New Decade*. (2020).
[https://www.kas.de/en/web/kambodscha/single-title/-/content/cambodia-china-relations-in-the-new-decade-](https://www.kas.de/en/web/kambodscha/single-title/-/content/cambodia-china-relations-in-the-new-decade-2)

CHAPTER 6: MY PERSPECTIVE

However, mitigating public discontent depends on the extent of SOP implementation. It really comes down to governance and public capacity, which have been viewed as constraints in themselves, in terms of coordination, accountability, government effectiveness, rule of law enforcement, and corruption. The extent to which the Chinese guidelines are effectively adopted in Cambodia is also a concern because they seem to mainly target big state-owned enterprises but are nonbinding, providing essentially soft and moral regulation.

Under the BRI, Cambodia and China have a great interest in bringing their cooperation to a higher level of partnership. These “partnerships,” however, do not concern governments alone. They must be formed by all levels of society working together to ensure sustainability and maximize and share benefits while minimizing the negative impact to the greatest extent possible. Based on a people-centered approach, the foundation of partnerships must build, strengthen, and consistently promote people-to-people interactions and cultural exchange while enhancing tolerance and understanding of each other.

Cambodia would undoubtedly profit as China places a strong emphasis on neighborhood diplomacy and intends to use the OBOR concept to fund infrastructure projects in order to win the support and goodwill of surrounding poor countries. However, to reap full benefits from OBOR, Cambodia will need to draft a more comprehensive and long-term infrastructure development strategy, as well as genuine engagement with China based on mutual respect. Cambodia must do so without enraging other important countries in the region, notably ASEAN, because the country needs all the allies it can obtain in order to evolve into a peaceful, stable, and successful state.

Cambodia must expand its institutional capacity, governance, leadership, and human resources, as well as refine and establish all essential legislative frameworks and laws, which

must be strictly enforced in the implementation of BRI projects. To ensure fair bidding, responsible behavior, and benefit sharing in investment projects, as well as project quality, accountability, and sustainability, and the transfer of technology and know-how from such investments, Cambodia and China must promote transparency and openness.

CONCLUSION

Cambodia and China have strong political, security, and economic ties, which are likely to strengthen in the coming years. In terms of commerce, investment, and ODA, China has become Cambodia's most important strategic and economic partner under the BRI. However, BRI projects in Cambodia may turn opportunities into challenges and threats if the Cambodian government does not take them into serious consideration.

The Belt and Road Initiative is a "brand of collaboration" that is open and inclusive, as well as a global public good that all parties contribute to. The effort also enables countries to generate new development prospects and momentum, as well as to use their comparative advantages for win-win outcomes, in order to make progress toward establishing a community of shared future for humanity. In these conditions, the world could benefit from the ancient Silk Road's wisdom and power, which is marked by a spirit of peace and collaboration, openness and inclusion, reciprocal learning, and mutual profit.

According to the research above, "OBOR" is a symphony performed by all countries along the path, rather than a Chinese solo. It is, in particular, collaboration between China and Cambodia to operate in the vast Eurasian market. Cambodia and ASEAN should grasp the "OBOR" chance with China to fulfill their own dreams, which are complementary to and encouraged by the Chinese dream.

RECOMMENDATION

In the face of rising geopolitical rivalry and uncertainty, sparked mostly by the intensifying struggle among superpowers, Cambodia should pursue a multi-vector foreign strategy that does not place too much emphasis on a single power. Cambodia, being a small country sandwiched between two larger and more powerful countries, must maintain its foreign policy of permanent neutrality and non-alignment. The country must pursue a policy of peaceful coexistence with its neighbors as well as with other nations around the world.

Cambodia must make as many friends as possible, and it must understand how to deal with superpowers as a good friend, because its primary goal is to maintain political stability, peace, and social order in order to achieve human dignity, economic prosperity, and poverty alleviation.

Chinese investments and ODA have made a significant contribution to Cambodia's development and GDP share. However, there are some risks and concerns that Cambodia should seriously examine when it comes to its relationship with China in order to achieve long-term success.

For the sake of its own security, sovereignty, and prosperity, Cambodia should continue to endeavor to balance its bilateral relations and foreign policy objectives with other nations. Cambodia's growing reliance on China must be taken into account, and BRI-related projects must be well-managed to achieve a better balance and shared benefit among Cambodians. Cambodia's foreign policy options are limited if it is overly reliant on China.

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