

## *Original Paper*

# Cambodia's Path to Prosperity: Assessing the Impact of China's OBOR Initiative on Well-Being and Economic Growth

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Received: August 16, 2023

Accepted: October 12, 2023

Online Published: October 20, 2023

doi:10.22158/ibes.v5n4p90

URL: <http://dx.doi.org/10.22158/ibes.v5n4p90>

### ***Abstract***

*This article mainly investigates the effects of OBOR on Cambodia's local population, focusing on the indicators including the HDI growth rate and unemployment rate. The findings reveal that there is no conclusive evidence to suggest concrete benefits from China's foreign aid.*

### ***Keywords***

*Cambodia, China, Economic Growth, OBOR, Well-Being*

## **1. Introduction**

I was on a trip to Cambodia. During my visit, while in a car en route to a destination between Phnom Penh and Preah Sihanouk, I noticed a significant change: after a turn, it became evident that the styles of the highway were highly similar to Chinese style, including signs and toll gates. I was wondering that if there might be a connection between the highways in Cambodia and China. After investigating, I learned this way was funded by the Chinese government: "China invested almost 2 billion dollars to build this 200km highway from Phnom Penh to Sihanoukville, this project took three years to finish, benefitting drivers who require high efficiency and safety of transportation" (NIKKEL Asia).

Cambodia is not an isolated case. China has also given help to other countries in the aspect of infrastructure, especially members of One Belt and One Road Initiative. For instance, "China spent 1 billion dollars to construct road with 60 percent of bridges and tunnels in Montenegro" (Belt and Road News), or "established a 433 kilometers highway from north to south in Kyrgyzstan" (Radio Free Europe Radio Liberty).

Cambodia is thus one among several nations to receive help from China. However, it seems that China's assistance is being commented differently from multiple stakeholders. While the government and people who obtains help of China praise China, domestic voices are in some ways opposing this

funding because they see it as a diversion of money from Chinese taxpayers that generates little internal benefits.

China's foray into foreign aid dates back to its very establishment, with the People's Republic of China launching its foreign aid efforts during the period from 1950 to 1974, now commonly referred to as the First Stage. As elucidated by Li Xiaoyun, this initial phase was primarily driven by the ideological clash of the era. Notably, during this period, although the financial support extended to other nations steadily increased, it was accompanied by a proportional decrease in China's GDP share. Within this context, China's focus was directed toward assisting its communist allies in enhancing their infrastructure.

Wei Chang, Charlie Xue, and Guanghui Ding shed light on this era by highlighting China's construction projects across Asia, aimed at fostering technological and cultural exchanges amidst the backdrop of the Cold War. Importantly, these endeavors, while taxing on the Chinese populace, provided opportunities for domestic architects to draw inspiration and fuel their future innovations in artistic styles.

The subsequent period, from 1974 into the 1990s, witnessed a shift in China's focus towards domestic economic development, leading to a reduction in foreign aid allocations to other nations, as pointed out by Li Xiaoyun. However, the turning point came in 1991 when China embarked on a new stage, characterized by the provision of technology, loans, and various forms of assistance to other countries. This marked a shift toward mutually beneficial arrangements, as highlighted by Li Xiaoyun, wherein both parties reaped advantages from these collaborative efforts.

## **2. Motivation**

The driving force behind this research lies in the exploration of the impacts generated by China's foreign aid and the OBOR Initiative. The outcomes and analyses derived from this study hold significant potential in shaping the future course of China's foreign aid expenditures. Furthermore, these findings can serve as a valuable reference for other nations engaged in foreign aid efforts, enhancing the overall effectiveness of their initiatives. This research also endeavors to offer insights into the most cost-effective forms of aid, capable of sustaining heightened public satisfaction over time. Moreover, by adopting a comprehensive approach to the examination of foreign aid, this study contributes to a deeper and more nuanced understanding of the manifold benefits it bestows upon smaller nations.

## **3. Literature Review**

Foreign aid from China has long been a topic of fervent debate. A study examining foreign aid, exemplified by Zimbabwe from 1965 to 2000, revealed that foreign aid can indeed benefit recipient countries but within the confines of donor-determined parameters (Moyo, Lungisani, & Leo Tsakata Mafuso, n.d.).

Conversely, when it comes to foreign aid, the situation in regions like Africa between 1996 and 2017 did not witness substantial flourishing, partly due to less advanced political institutions, as evidenced by linear models (Wiley online library). However, it's imperative to acknowledge that these cases may not directly apply to China's foreign aid endeavors, especially with regard to Cambodia, a member of the One Belt One Road Initiative. Cambodia's political landscape differs significantly from that of African countries, making it inappropriate to extrapolate these findings to assess China's foreign aid in Cambodia. Instead, the focus of China's foreign aid to Cambodia should be optimized, with a particular emphasis on narrowing down its scope under the One Belt One Road (OBOR) Initiative proposed by China in recent years.

Concerning OBOR, it's essential to recognize that it is a strategic initiative introduced by China to foster connections with countries spanning the path from China to Europe through financial support. However, it has not been without criticism, with some questioning China's underlying intentions, including potential control over participant nations (Parliament of Australia). While OBOR has undoubtedly attracted substantial direct investment from China, the overall advantages and implications for Cambodia remain unclear. Notably, scholars such as Kimkong Heng and Sovinda Po in 2017 have expressed concerns about Cambodia's vulnerability to China's influence in terms of its political environment, diplomatic relations, and the risk of falling into debt traps (UC Occasional Paper Series). Furthermore, the International Monetary Fund (IMF) has stated, after an exhaustive analysis of over 450 samples, that it could not discern any tangible improvements resulting from China's aid during the third stage of foreign aid, which includes Cambodia (International Monetary Fund).

While many scholars have reached a consensus that OBOR is influenced by ideological clashes between China and Western countries, it's worth noting that most analyses have focused on the macro level, predominantly centered on official communications. Surprisingly, very few have delved into the perspectives of local Cambodian citizens regarding China's foreign aid. Consequently, this essay's research question seeks to answer whether Cambodian people genuinely benefit from OBOR, aiming to provide a more comprehensive and localized understanding of the impact of foreign aid initiatives.

#### **4. Background**

China plays a substantial role in enhancing the well-being of its neighboring nations. Notably, China's foreign aid exhibited a remarkable upward trajectory from 2003 to 2015, escalating from approximately 0.7 billion US dollars to an impressive 3 billion US dollars (China Africa Research Initiative). Although there was a temporary dip in foreign aid between 2015 and 2021, it subsequently rebounded, regaining its momentum and surging from 3 billion dollars to 2.3 billion US dollars before ultimately reaching 3.2 billion US dollars.

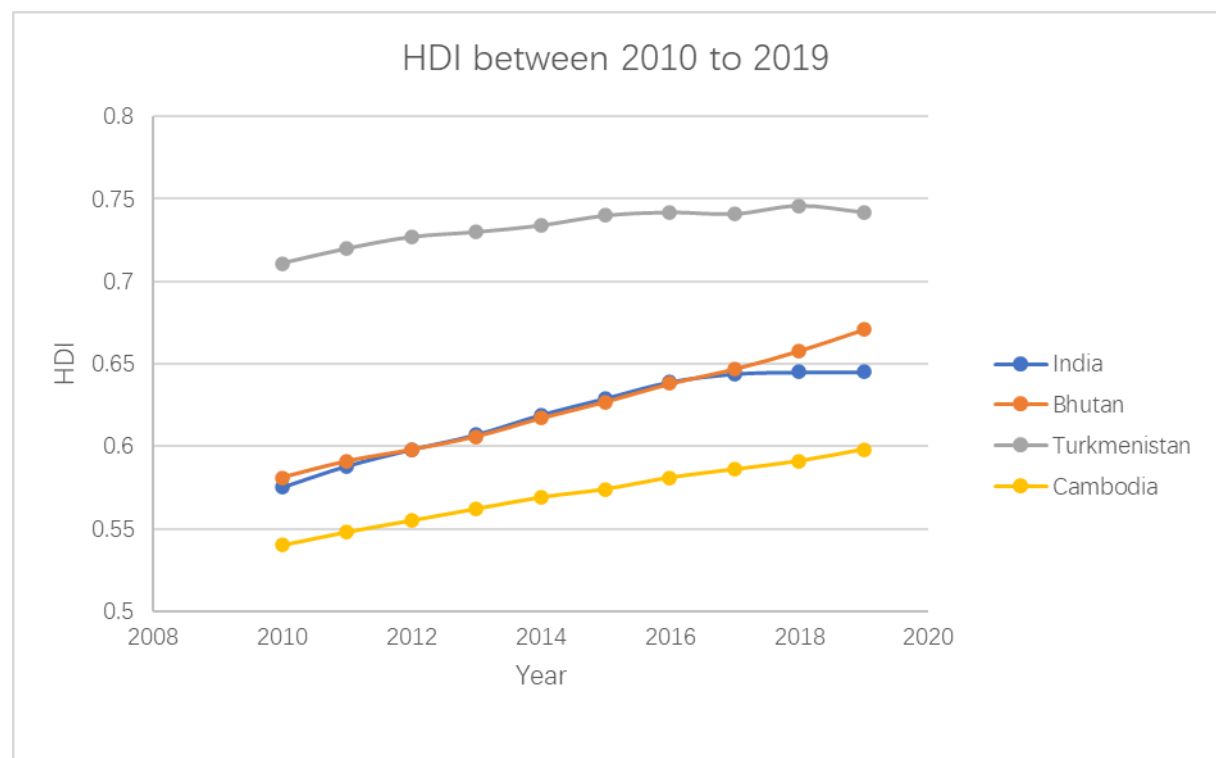
Among the beneficiaries of this foreign aid, Cambodia secured a significant portion. In 2019, China made a substantial commitment to provide Cambodia with approximately 600 million US dollars in 2022, constituting roughly 20% of Cambodia's total aid receipts (Open Development Mekong). It's

worth noting that Cambodia's foreign aid inflow doesn't solely hinge on China; other significant contributors include the Asian Development Bank, the United States, as well as other Asian nations like China and Japan (8 Cambodia).

The pertinent question arises: Does this assistance from China translate into an improved well-being for the people in the recipient countries? As a case in point, this research endeavors to explore whether the foreign aid received by Cambodia is associated with an elevation in its Human Development Index (HDI).

## 5. Analysis

To empirically examine this hypothesis, I have undertaken a comparative analysis, juxtaposing Cambodia's Human Development Index (HDI) with that of similar Asian countries—India, Bhutan, and Turkmenistan—none of which were participants in the One Belt One Road (OBOR) Initiative. The ensuing dataset encapsulates the chronological progression from 2000 to 2019:

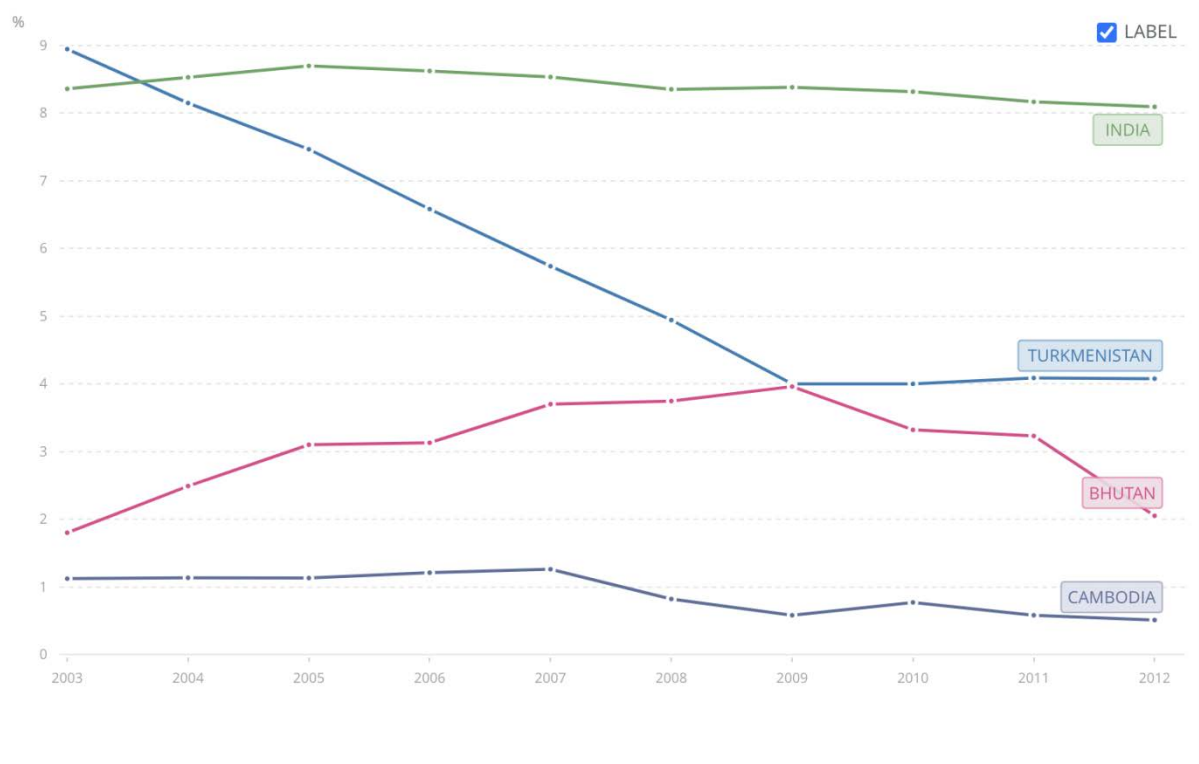


**Diagram 1. HDI of Various Asian Countries between 2010-2019 (Note 1)**

This diagram displays the HDI data for four different Asian countries from 2010-2019. Overall, the HDI of these four nations increased slightly about less than 0.5 over the past two decades except a little decrease for India between 2017 to 2019. Before 2013, these countries experienced growth at a fairly similar rate, and even after 2013 there was not huge difference in growth rate of HDI between Cambodia and the countries that did not join OBOR. Therefore, there is insufficient evidence to suggest

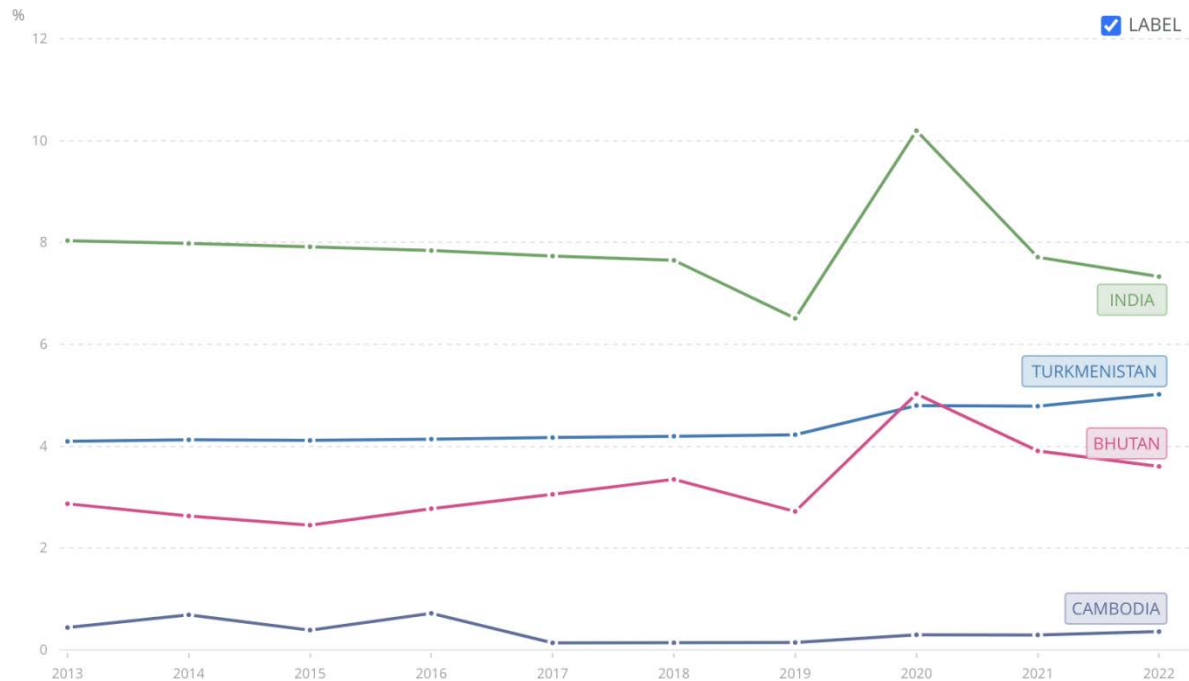
that OBOR has promoted the growth rate of participating countries.

Followed by similar procedure, I will proceed to examine the effects of OBOR on the unemployment rate in Cambodia by analyzing the data from these four countries:



**Diagram 2. Unemployment Rate of Turkmenistan, India, Cambodia, Bhutan from 2003-2012**

(Note 2)



**Diagram 3. Unemployment Rate of Turkmenistan, India, Cambodia, Bhutan from 2013-2022**

(Note 3)

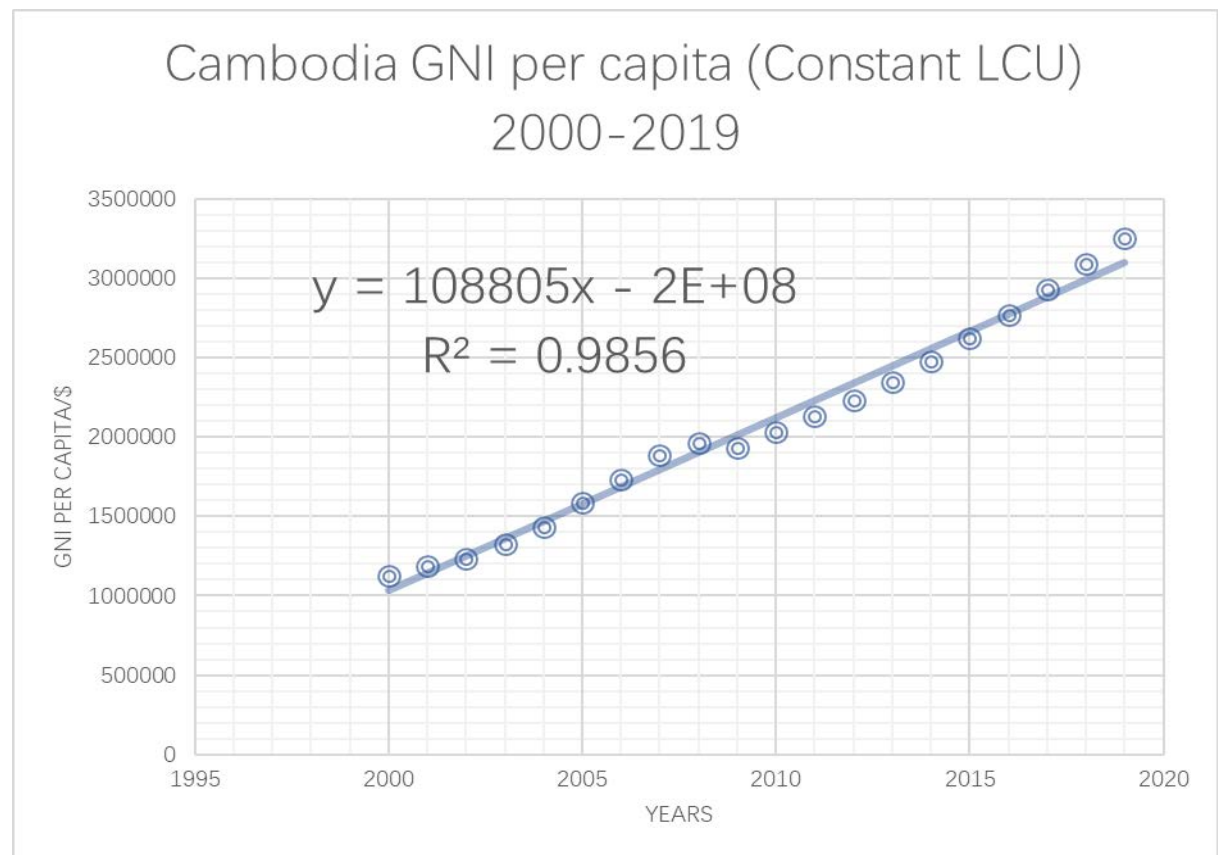
There are two graphs that illustrate unemployment rate of Cambodia, Turkmenistan, India and Bhutan during two distinct periods: 2003-2012 (prior to OBOR) and 2013-2022 (during OBOR in Cambodia). First of all, it is worth noting that Cambodia consistently maintained the lowest unemployment rate among the four nations, at about 1% and less. Before joining OBOR, Cambodia's unemployment fluctuated from 2003 to 2007 at about slightly over 1%. Although there was a rebound between 2009 and 2010, unemployment rate in Cambodia generally decreased until 2012. After Cambodia's involvement in the OBOR in 2013, its unemployment rate fluctuated at lower level, approximately 0.5% from 2013 to 2016. And then the unemployment rate remained about 0.4%. In summary, there was a trend of decrease of unemployment in Cambodia before OBOR was introduced, but after 2013 the rate continued to decrease and ultimately stabilized at about 0.4%.

While before OBOR was introduced, other 3 nations all have much higher unemployment rate than Cambodia. Bhutan and Turkmenistan, in particular, experienced strong variation of unemployment rate: Turkmenistan saw a remarkable decrease from 9% to about 4%, while Bhutan initially saw an increase from 1.8% to about 4% and then a decrease to 2%. India experienced a more modest change, rising from 8.4% to about 8.6 and then declining to 8.2%. In contrast, between 2013 and 2022 all countries except Cambodia had huge increase of unemployment rate during the COVID-19. India and Bhutan both had a drop at first and an enormous increase, and then decreased dramatically. While

Turkmenistan experienced increase since 2019 and kept increasing. Nevertheless, instead of having huge change in unemployment rate, Cambodia had stabilized its rate since 2017 at about 0.5 %. In general, OBOR has contributed to stabilizing Cambodia's unemployment rate, performing a higher degree of economic resilience compared to its counterparts.

In addition to the Human Development Index (HDI), Gross National Income (GNI) per capita stands as a pivotal gauge of overall well-being. To comprehensively track alterations in various income-related indicators, it is imperative to align the analysis with the inception of the One Belt One Road (OBOR) Initiative in Cambodia. Indeed, OBOR was officially introduced in Cambodia in 2013, as documented by the USC US-China Institute. Consequently, all statistical assessments pertaining to OBOR's impact should commence from the pivotal year of 2013.

In order to measure satisfaction of Cambodian people since 2013, several indicators in Human Development Index have been introduced, with a specific focus on Gross National Income (GNI) and life expectancy. All data utilized for the analysis are from the year 2000, making comparison easier. Also, due to the pandemic, data after 2019 might not accurately portray situations in Cambodia. Consequently, the years of data are from 2000 to 2019, right before Covid-19. In order to examine whether GNI increases, I will compare the growth rate of GNI per capita before and after OBOR was introduced. There would be two graphs that show GNI per capita with time:

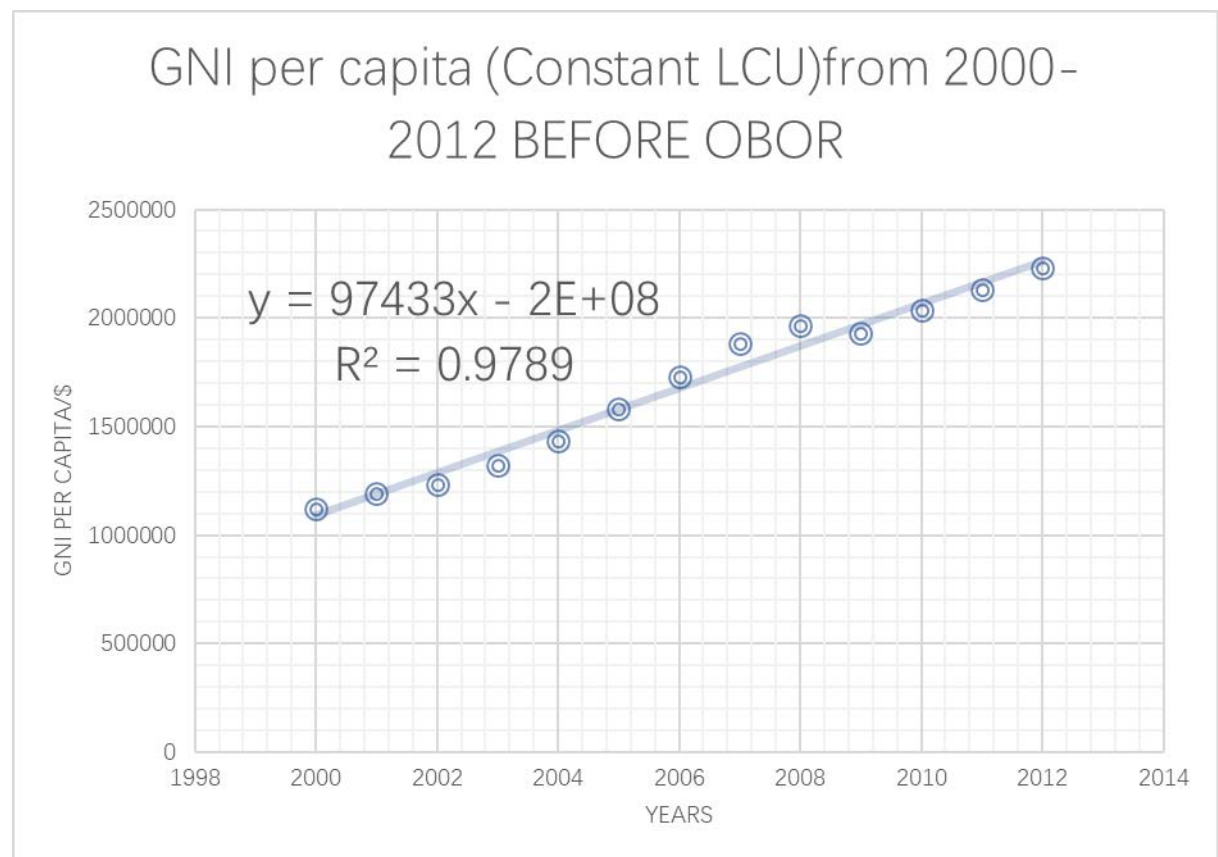


**Diagram 4. Graph Cambodia GNI per Capita (Constant LCU) from 2000-2019**

This graph illustrates the trajectory of Gross National Income (GNI) per capita (Constant LCU) from the year 2000 to 2019. An observant analysis of this diagram reveals a consistent upward trend in GNI per capita during this timeframe. Specifically, the calculated gradient amounts to an impressive 108,805, indicative of the average increase in GNI per capita (Constant LCU) over the course of the 2000-2019 period.

Moreover, the high R-squared value underscores the robustness of the correlation observed. This statistical measure, approaching unity, signifies a strong positive relationship, affirming that as the years advanced from 2000 to 2019, GNI per capita consistently experienced upward growth.

STAGE 1 BEFORE OBOR (2000-2012)

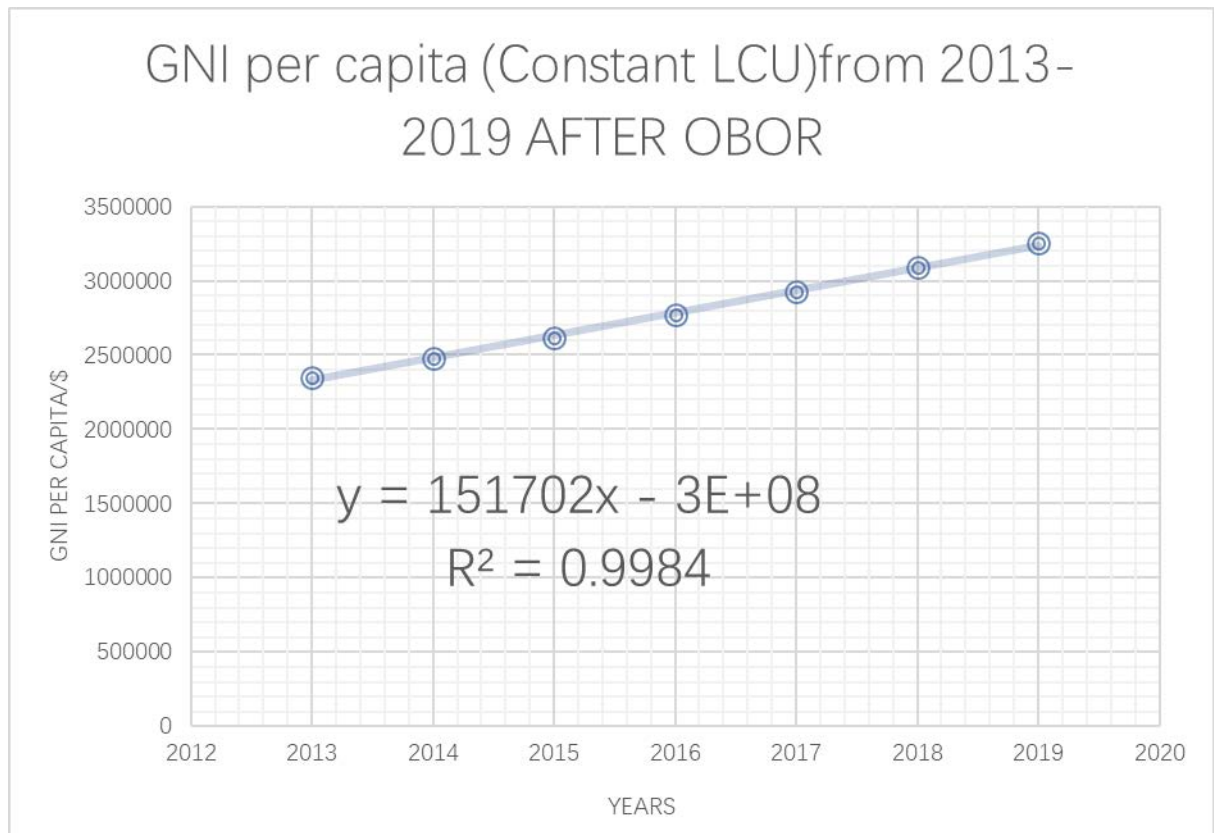


**Diagram 5. Graph Cambodia GNI per capita (Constant LCU) from 2000-2019**

Examining the graph depicting Cambodia's Gross National Income (GNI) per capita (Constant LCU) from 2000 to 2012, it becomes evident that the calculated gradient amounts to \$97,433. This figure stands in stark contrast to the gradient observed from 2000 to 2019, which reached \$108,805. This discrepancy underscores that the growth rate of GNI per capita (Constant LCU) during the 2000-2012 period was notably slower compared to the broader 2000-2019 timeframe.

Furthermore, the R-squared value in proximity to 1 reinforces the prevailing trend: as the years unfolded from 2000 to 2012, GNI per capita exhibited consistent growth.





**Diagram 6. Graph Cambodia GNI per capita (Constant LCU) from 2013-2019 after OBOR**

Analyzing the graph illustrating Gross National Income (GNI) per capita (Constant LCU) trends from 2013 to 2019, post the introduction of OBOR in 2013, reveals a striking gradient of \$151,702. This value surpasses both the gradients observed during the periods of 2000-2019 (\$108,805) and 2000-2012 (\$97,433), highlighting a notably accelerated growth rate of GNI after the inception of OBOR.

This assertion gains substantial credibility from the exceptionally high coefficient of determination, affirming the unmistakable clarity of this trend.

In summary, the evidence overwhelmingly supports the hypothesis that the introduction of OBOR in 2013 led to an increased growth rate of GNI per capita (Constant LCU).

## 6. Conclusion

This essay introduced the magnitude of the OBOR megaproject by pointing out its massive scale with statistics. In order to measure what OBOR has brought to Cambodian people, it chose two indicators—HDI, unemployment rate, and GNI per capita growth rate—to analyze well-being of Cambodian people affected by OBOR.

For the HDI analysis, I employed cross-country comparisons through juxtaposing Cambodia with other Asian countries that did not join OBOR. Although HDI in these nations were different, their growth

trend with time were almost the same. For Pre-Covid time, unemployment in India and Cambodia were gently decreased while other two nations fluctuated enormously. After COVID-19, all nations except Cambodia experienced growth in unemployment rate to different extents.

Linear correlation was conducted to examine the rate of growth of GNI per capita. The growth rate between 2000 to 2019 is compared with growth rate between 2000 to 2013 and 2013 to 2019. The result is that after OBOR was introduced in 2013, GNI per capita growth rate increased. In summary, while the OBOR initiative did not exhibit a significant impact on HDI, it did promote economic stability as well as average income in Cambodia.

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## Notes

Note 1. <https://ourworldindata.org/human-development-index>

Note 2. <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?end=2012&locations=TM-IN-KH-BT&start=2003>

Note 3. <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?end=2022&locations=TM-IN-KH-BT&start=2013>