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A City's Skyline in the Making

The developing skyline of Sihanoukville. Source: Max Pixel (CC).

Overlapping Agendas on the Belt and Road: The Case of the Sihanoukville Special Economic Zone

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Initiated in 2006, the Sihanoukville Special Economic Zone (SSEZ) has become a flagship Belt and Road project in Cambodia. This essay examines the development of the project since its inception, considering the various drivers that have moved it forward and the numerous agendas and interests that have shaped it. With popular analysis and critiques of the Belt and Road Initiative and Chinese overseas investment often based on sweeping assessments and assumptions, the authors argue that this method of excavating the roots of projects and contextualising them locally generates a richer picture, which is essential to better understand project drivers and impacts and, ultimately, respond effectively when concerns emerge.

Since Chinese President Xi Jinping first announced it in 2013, the Belt and Road Initiative (BRI) has evolved to become the overarching framework through which China frames much of its global engagement. Among many other countries, Cambodia has enthusiastically embraced the BRI and, during President Xi's visit to Phnom Penh in 2016, the Chinese and Cambodian governments signed a memorandum of understanding on bilateral cooperation under the initiative (Xinhua 2017).

The BRI has been subjected to much scrutiny in recent years. With the initiative encompassing many projects with high environmental, social, and governance risks, such scrutiny is valid, and indeed necessary. However, many critiques assume the BRI is a clearly defined masterplan and fail to pay attention to the detachment between (often vague) intentions and realities on the ground, overlooking, for instance, how local agency plays a fundamental role in shaping Chinese engagements overseas, for better or worse. Cambodia is an important case in point. As the country has become a major focus of Chinese diplomatic and economic engagement, some observers have raised concerns about the kingdom increasingly coming within China's 'sphere of influence' (Layton 2017), or even becoming a 'Chinese colony' (Sukumaran 2019). While China has clearly become a favoured partner of the Cambodian Government, broad-stroke assessments of the relationship often fail to consider host-country agency and the diversity of agendas in play. As we have argued elsewhere (Loughlin and Grimsditch 2021), more grounded assessments that consider local dynamics and interests are key to understanding the BRI and projects that carry its branding.

A longer-term historical perspective is also helpful to put the dynamics we are seeing today in context. In the case of Cambodia, although discussion of the two countries' ever strengthening ties is now often framed within the narrative of the BRI, the bilateral relationship long pre-dates these developments, with the two countries celebrating 60 years of friendship in 2018. This bond navigated lengthy interruptions during that period, but the mid 2000s marked a new phase (IDI 2021b). The year 2006 was a watershed moment, as a visit from then premier Wen Jiabao resulted in several bilateral agreements and a package of US$600 million in loans and grants (AP 2006). Ties have since gone from strength to strength, with relations upgraded in 2010 to a 'comprehensive strategic cooperation partnership'—China's highest level of bilateral relations. Beijing has since become Cambodia's top source of investment and aid, and its number one trading partner.

An exaggerated emphasis on state interactions also gives a skewed picture of the relationship. In Cambodia, alongside state-backed investment leaving China via formal channels, a parallel world of loosely regulated and often illicit private capital flows has emerged and grown exponentially in the past decade. This has manifested most starkly in the coastal city of Sihanoukville, where a boom in property development and 'legitimate' gambling investment became intertwined with illegal online gambling, telecoms fraud, money-laundering, and other criminal activities (Turton 2021). Recent analyses of the Chinese presence in Cambodia have at times conflated these illicit activities with other types of investment (Goldberg et al. 2021). At the same time, a complex geopolitical landscape has shadowed narratives of Chinese investment in Cambodia, with the United States especially scrambling to push back against what it sees as an expansion of China's diplomatic, economic, and military influence in the region (Nachemson 2021). As a result, attention is often drawn away from the multifaceted push and pull factors that steer the BRI, obscuring what is in fact a nuanced landscape of multiple (and sometimes competing) interests and agendas.

To suggest an alternative, more grounded approach to studying the BRI and, more broadly, Chinese engagements overseas, this essay takes a deeper dive into the case of the Sihanoukville Special Economic Zone (SSEZ), a landmark BRI project where both Chinese and Cambodian state development objectives align. Strong state backing from China has enabled Chinese commercial actors to realise the project, supported by top-level political backing from Cambodia and well-positioned local elites. This comes in the context of host-country development strategies that have prioritised the pursuit of an export-oriented development model that has long been promoted by a range of actors, including Cambodia's multilateral, Western development partners. Chinese investment and development projects in Cambodia are extremely diverse and each tells its own story, but by focusing on the SSEZ, we seek to illustrate how deeper dives can cut through the competing narratives around the BRI, to reveal how China's global interactions often build on existing initiatives and development models, and show how they are able to align with, adapt to, and support prevailing local and global dynamics.

Archaeology of a Showcase BRI Project

China is now by far Cambodia's top investor, but this is just one aspect of the countries' bilateral ties (IDI 2021a). China is also the number one trading partner—with bilateral trade surpassing US$11 million in 2021 (Xinhua 2020)—and the largest source of development aid, according to Cambodia's own tally (CDC 2020). At the same time, Chinese contractors have become a mainstay of the Cambodian construction industry, making infrastructure projects possible and facilitating the property boom Cambodia was experiencing before the onset of the Covid-19 pandemic—generating significant revenues for China's state-owned firms in the process. Private capital from China also dominates the manufacturing sector, which is largely focused on garments and footwear (IDI 2020). Military cooperation has also increased in recent years, with China's ambassador referring to bilateral military ties in 2021 as a key pillar of the two countries' 'steel friendship' (钢铁友谊) (PRC Embassy 2021).

High-level bilateral meetings between Cambodia and China are often followed by joint statements identifying priority cooperation areas and projects. Communiqués over the past few years have made specific reference to the SSEZ, as well as other key projects such as the Phnom Penh–Sihanoukville Expressway and the Angkor International Airport in Siem Reap (Kingdom of Cambodia and PRC 2019). These projects are routinely referred to as priority BRI projects in statements from Cambodian and Chinese officials, but the scope of the two countries' development cooperation extends far beyond them. China is Cambodia's top source of concessional finance, which flows to transport, energy, and irrigation projects, among others, and in 2019 alone came close to US$500 million (CDC 2020). Commercial finance from Chinese state-owned banks has also supported extensive infrastructure developments, and private investment from China now eclipses that of other nations (IDI 2021b).

As one of the earliest cooperation projects launched under the post-2000 phase of China–Cambodia relations, the SSEZ is a useful case study, showing how a plurality of diverse stakeholders is helping to realise both Chinese and Cambodian state objectives via what has become a landmark BRI project. One of Cambodia's largest special economic zones, the SSEZ covers more than 11 square kilometres. When fully developed, it will accommodate 300 factories and, according to the developer, will employ 80,000 to 100,000 industrial workers (SSEZ n.d.). Its initial phase focused on textiles and apparel, luggage, leather goods, and wood products, with the second phase broadening this to

The SSEZ Expands

Sihanoukville SEZ, October 2021. Source: Google Earth.

machinery, equipment, building materials, and other industries (SSEZ n.d.). By the end of 2021, more than 170 factories had been established within the zone, the majority of which were Chinese, reportedly employing 30,000 people (Zhang 2022). Satellite images of the SSEZ indicate about 50 per cent of the zone had been developed by October 2021.

The project is a joint venture between Jiangsu Taihu Cambodia International Economic Cooperation Zone Investment Company Limited and Cambodia International Investment Development Group Company Limited (CIIDG). Jiangsu Taihu is owned by four Chinese companies, with Hongdou Group holding the largest stake. Hongdou is a major private company from Wuxi, Jiangsu Province (CCPIT n.d.). CIIDG is owned by family members of an influential Cambodian tycoon and senator (IDI 2021a).

Founded back in the late 1950s, Hongdou has traversed complex political and economic waters throughout its existence. Soon after the patriarch of the Zhou family established a small cotton-processing operation in 1957 in Wuxi, party officials ordered that it merge with several local collective enterprises. In 1983, when Deng Xiaoping's reform and opening-up strategy was well under way, Zhou Yaoting, the patriarch's son, took over the business, which was still ostensibly state-owned. By 1992, the Zhous and other private individuals had gained a 50 per cent share in the company. They then spent the next decade increasing their shareholding and purchasing government-held shares until 2004, when the Chinese Government sold its remaining stake in the company, which along the way had picked up the name 'Hongdou'. Today, Hongdou remains a family enterprise, with the third generation Zhou Haijiang at the helm and various family members holding senior management positions (Flannery 2005). In the past two decades, the company has also developed its activities overseas. As production and salary costs increased in China during the 2000s, like many other Chinese apparel producers, the company began to feel the pinch. In a *Forbes* interview from 2015, the chairman put the company's continued success during these 'changing times' down to diversification into new areas domestically and overseas (Flannery 2015).

The Cambodian partner CIIDG also navigated an evolving domestic landscape and its owners emerged from Cambodia's post–civil war settlement among the top players in Cambodia's business community. The company was founded by Senator Lau Meng Khin in the late 1990s, when he made his fortune through logging and other ventures (Diepart and Schoenberger 2016: 161). CIIDG is now chaired by his wife, Choeung Sopheap, with directorships held by their children (MOC n.d.). The family has been described as a 'magnet for capital from China' and, through CIIDG, they have secured multiple lucrative joint ventures with Chinese investors in real estate, agriculture, mining, and energy (Bahree 2014).

The SSEZ has been a joint priority of the two governments since 2006, when it was designated one of a handful of pilot 'foreign economic trade cooperation zones' by China's Ministry of Commerce (Hang et al. 2017). These pilot zones received subsidies from China's Ministry of Commerce to support their establishment (Bräutigam and Tang 2012), and the SSEZ received financing from the Export–Import Bank of China (Eximbank of China 2019) and insurance from the state policy insurance provider, Sinosure (n.d.). Chinese state-owned commercial banks have also expressed support for the development and financed specific parts of its infrastructure (Xinhua 2018). When the project experienced delays early on, as it 'ran into difficulties with the Cambodian partner', China's Ministry of Commerce brought the Chinese parties together, along with representatives of Wuxi Municipality, to seek a solution. This resulted in the restructuring of the joint-venture (Bräutigam and Tang 2012: 811). The high-level intervention from both the commerce ministry and the Wuxi Government illustrates the lengths the Chinese Government is willing to go to support these kinds of overseas pilot projects.

Although pre-dating the BRI by seven years, the SSEZ is now fully absorbed into Belt and Road rhetoric, with the zone often referred to as 'a landmark project' of the initiative. It enjoys high-level support from both governments and, in 2019, China's state media quoted Cambodia's then deputy prime minister Hor Namhong referring to the project as 'the biological child of the Royal Government of Cambodia and the Chinese

Government' (Mao and Nguon 2019). As mentioned above, the SSEZ is explicitly labelled a priority project in numerous joint statements from the two governments, including joint communiqués from 2015, 2016, and 2019.

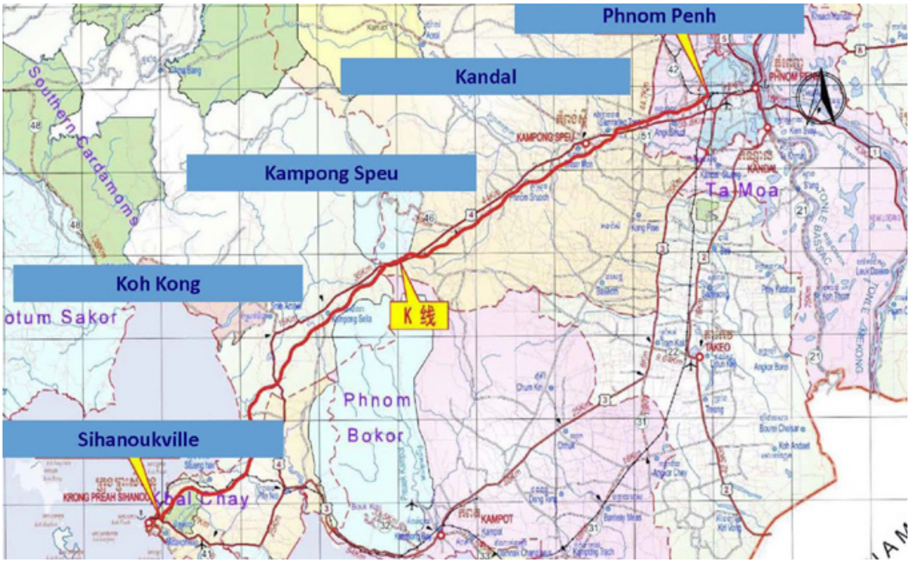
Cambodia has demonstrated its high-level support for the project throughout its life, committing to ensure its smooth development and guaranteeing its stability. For instance, in 2014, amid national labour unrest following the 2013 elections, a division of Cambodia's counterterror unit under the leadership of the Prime Minister's son visited the SSEZ. Its deputy commander stated that one of their most important tasks was 'to take responsibility for the stability and harmony of all the SEZs in Cambodia for counter-terrorism special operations … and to eliminate signs of unrest initiatives' (SSEZ 2014b). This was published in the news section of the SSEZ's website in English and Chinese. The same year, after a meeting with the incoming Preah Sihanouk Governor, the general manager of the zone said the provincial government was a 'powerful supporter' of the SSEZ, ready to help resolve difficulties, 'including illegal worker strike[s]' (SSEZ 2014a). These strong public statements from senior officials indicate the high priority the government attaches to the success of the project.

Overlapping Agendas

While a major project in its own right, the SSEZ fits into broader Cambodian and Chinese development strategies, with Cambodia seeking to attract industrial investors and China supporting its investors to 'go out'. This also aligns with regional economic models that have been promoted by other international and multilateral actors for the past three decades. While the SSEZ has come to represent a 'model' BRI project, it is important to note that this sits within policy and regulatory frameworks that emerged from the overlapping agendas of a range of stakeholders—Chinese, Cambodian, and international—rather than simply the exportation of Chinese industrial capacity.

One of the key objectives of the overseas industrial zone model was to support Chinese companies to 'go global in groups' (Bräutigam and Tang 2014: 79). The SSEZ is a strong example of this, with Chinese companies representing more than 85 per cent of the zone's tenants as of 2018. For inexperienced companies, investing in foreign countries is an intimidating prospect, but within the safety of a zone that is Chinese-managed, has state backing, and provides the infrastructure necessary to support industry, the prospect is likely much more attractive. In addition to creating overseas bases for these companies and expanding Hongdou's production empire, the SSEZ has generated business opportunities for a host of Chinese contractors who have provided construction services and built telecommunications and energy infrastructure within the zone.

The SSEZ also illustrates how Chinese state-backed capital and private commercial interests intertwine overseas. The state seeks to support Chinese enterprises to go global and access new markets, while also offshoring excess capacity. In the manufacturing



sector, this relies heavily on Chinese private sector actors who develop local connections, integrate with local business communities, and establish and operate factories and production lines. In addition to providing subsidies and mobilising capital, other state-backed infrastructure projects link the zone to the transport, telecommunications, and energy networks needed to make such industrial projects possible. For example, the soon to be opened Phnom Penh–Sihanoukville Expressway passes by the zone, and Sihanoukville hosts three Chinese-financed and built coal plants that connect to the provincial grid and beyond. The development of this infrastructure seeks to support Cambodia's industrialisation, makes Chinese commercial investments viable, and generates further contracts for state-backed construction and engineering firms (Grimsditch 2019).

The SSEZ showcases the interaction not only between Cambodian and Chinese development priorities, but also of other international and multilateral actors and, crucially, linkages to global value chains. Cambodian factories mostly feed Western export markets, and the United States has now become Cambodia's top market, with exports exceeding US$9 billion in 2021 (Hin 2022a). A major pull factor for Chinese companies establishing manufacturing bases in Cambodia has been the access to preferential trade terms with Europe and the United

Building Connectivity

Route of the Phnom Penh–Sihanoukville Expressway currently under construction. Source: Cambodia Constructors Association 2020.

States—described on the SSEZ website as Cambodia's 'favourable trade status' (SSEZ 2012). Even where factories are wholly Chinese-owned and utilise materials produced in China, they can benefit from relaxed tax regimes and quotas when exporting certain products to Europe and the United States, provided their products are assembled in Cambodia.

When looking at the broader set of agendas at play in Cambodia's industrial sector, it is also important to take a step back and consider the evolution of the SEZ model, which is the result of years of interventions from a range of development partners. The current phase of the Cambodia–China relationship initially developed against a backdrop in which Cambodia remained heavily dependent on foreign aid from the West and Japan, along with finance from multilateral institutions including the World Bank and Asian Development Bank (ADB). While these actors provided financing for infrastructure and state capacity-building, they also encouraged market reforms, economic liberalisation, development of export-oriented industries, and enhanced physical connectivity within Cambodia and with the region.

This is illustrated well in the Greater Mekong Subregion (GMS) Economic Cooperation Program, which was established in 1992 by the ADB and includes the Mekong countries plus Yunnan and Guangxi provinces in China (Raymond 2021). The GMS program is structured around 'economic corridors' that traverse the region. Along with energy and transport infrastructure, SEZs play an important role in these corridors. As the GMS action plan for 2018–22 states: 'The development of SEZs, especially in border areas along economic corridors, should be given special focus. SEZs will play an increasingly important role as investment locations that offer a competitive environment to support global supply chains' (ADB 2018). Rather than replacing or subverting prevailing development models, the BRI in many respects integrates with the existing direction of travel. The BRI's 'vision and actions' document discusses building 'key economic industrial parks as cooperation platforms' to 'promote industrial cluster development' and explicitly refers to the GMS program as an existing mechanism of which the BRI should 'make full use' (NDRC et al. 2015).

China's efforts to offshore excess capacity and lower-end manufacturing pre-date the BRI but have now been absorbed by the initiative. Likewise, SEZ development was a priority for Cambodia for years before the ascent of Chinese capital in the country but is now a central feature of the two countries' cooperation. Nonetheless, the SSEZ provides a useful snapshot of how the two countries' economic and policy objectives have aligned, building on a host-country development model that was heavily influenced in its formulation by Western, Japanese, and multilateral development actors promoting an export-oriented development model as part of a push towards economic liberalisation in the post-socialist, post-conflict nation.

Assessments of the SSEZ

Cambodia's Gateway to Global Markets

Sihanoukville is currently home to Cambodia's only deep-water port. Source: Dmitry Makeev (CC).

Assessments of the BRI in Cambodia can be highly polarised. Unsurprisingly, evaluations from Chinese state media are uniformly positive, including a recent report from *Xinhua* under the headline: 'China's BRI Projects Greatly Benefit Cambodian Economy, People: Officials, Experts' (Xinhua 2022). Such reports are often republished by local media and boosted on Cambodian Government websites and social media accounts (MPWT 2022). These often unnuanced takes are matched by equally sweeping critical assessments of the BRI, sometimes based on an incomplete understanding of what is occurring on the ground, with many of these reports revolving around the SSEZ.

One recent example of this is a report from the US research organisation C4ADS, evaluating 'economic development zones' in the Mekong (Goldberg et al. 2021). As noted above, since the mid 2010s, Sihanoukville has become a base for organised crime, dominated by mainland Chinese actors as well as groups from Hong Kong and Taiwan (Turton and Huang 2021). The C4ADS report conflates this with the SSEZ, and the report's deep dive into Chinese investment in Sihanoukville concludes:

> Belt and Road Initiative investments, including Sihanoukville SEZ, ostensibly espouse the goal of progress for local communities and countries. However, in this case, that progress greatly harmed the local populations with increasing crime rates, higher rents, overwhelmed infrastructure, suppression of the local culture, with locals cut out of the profits. (Goldberg et al. 2021: 35)

While it is entirely legitimate to raise concerns about the troubling recent developments in the city of Sihanoukville, the SSEZ is a self-contained zone outside the city, predating the shift in the city's development by almost a decade, and is a manufacturing and export hub with no links to gambling or urban real estate investment. Despite the economic downturn that hit the city after a ban on online gambling and the onset of the pandemic, the SSEZ has continued to report strong production and export figures (Hin 2022b).

The reality is that, among Cambodia's SEZs, the Sihanoukville zone is one of the most successful. This is certainly not to say that there are not concerns worthy of attention. Several companies based in the zone have been investigated for transhipping products via the zone to side-step US import tariffs (Prak 2019). The zone will soon bring online its own coal power plant, which will increase Cambodia's national carbon emissions and potentially push away global buyers who are conscious of their supply chains' exposure to carbon emissions (Ham 2021). Furthermore, the expansion of the zone and likely move up the industrial value chain potentially mean more energy and pollution-intensive industries will locate there, which will put strain on the Cambodian Government's rudimentary environmental regulation and enforcement agencies.

The closed nature of SEZs in general makes study of working conditions extremely challenging and, even though the SSEZ has been operating for more than a decade, no comprehensive assessments of labour practices among zone tenants have been published. The limited literature available indicates that union activity in the zone is limited, with a 2018 report finding only 12 government unions were active in six of the 100 factories operating at the time, with no independent unions (Khuon 2018). Workers interviewed for that report said their factories had no unions and, although some had workers' representatives, in cases of severe labour violations, they 'could not help'. In 2014, a Chinese-owned factory reportedly fired 10 union leaders and activists, who then struggled to find work in other factories within the zone due to their activities (CCIM 2018). Interviews compiled by an academic researcher in 2017 also included testimony from people who claimed they were fired and then blacklisted across the zone for their union activities (Thame 2017). A labour ministry official responded to criticism by saying the SSEZ had a committee of representatives from government agencies and complaints could 'be put in a mailbox' (Niem 2018).

However, it is important to note that similar issues exist across Cambodia's industrial sector and have also been observed in SEZs across the region. As Thame (2017: 4) notes in a regional study of SEZs, limited transparency, displacement, labour violations, and selective enforcement of environmental regulations are common. While these issues exist in both Chinese and non–Chinese-owned zones and factories, Chinese companies have an outsized presence in Cambodia's manufacturing sector and more frequently appear in critical reporting, especially concerning labour issues. It therefore follows that Chinese policymakers face a greater imperative and a clear responsibility to take action to raise the standards of companies operating in overseas industry.

There are signals that policymakers in China are increasingly cognisant of the reputational issues Chinese companies face around the world, as evidenced by the now common references to developing 'high-quality' infrastructure and building a 'green' BRI (Xi 2021). Regulations and guidelines related to Chinese overseas investment and finance continue to evolve and are becoming more detailed. Although most provide guidance rather than mandated rules, they increasingly urge Chinese firms to ensure compliance with local regulation or, where they fall short, to apply Chinese or international best-practice standards (MOFCOM and MEE 2021). In this regard, many Chinese companies have a long way to go, with most still content to rely on simply satisfying local norms and regulatory standards, regardless of their adequacy. As the SSEZ continues to expand, and if it does draw in more projects with greater ecological footprints, scrutiny will increase if appropriate standards are not upheld within the zone.

What Next for the BRI in Cambodia?

While Chinese investment in Cambodia has made important contributions to improving infrastructure and generating employment in manufacturing, it has also enriched already powerful economic elites, who are frequently a gateway for Chinese capital. These business actors often enjoy close relationships with the ruling party, which in turn has proved itself to be adept at associating itself with development projects to boost its performance legitimacy (Loughlin and Milne 2020). During a 2016 event marking the opening of the one-hundredth business at the Sihanoukville SEZ, the Prime Minister asked: '[W]ere there no actions taken by Hun Sen, would there be any factories/enterprises in the whole country?' (Hun 2016). Many Chinese companies have proven capable of navigating both the formal and the informal political dynamics of the country, effectively harnessing the influence of local elite business interests. Before the rise of Chinese investment and aid in the country, the ruling party attempted to draw performance legitimacy from development interventions by other international actors, and business elites were courted by investors from other countries in the region who previously played a more dominant role in Cambodia's investment landscape. While this dynamic pre-dates the arrival of Chinese investment and the BRI, the huge influx of capital from China has supercharged it.

Chinese aid has reduced Cambodia's reliance on its traditional donors, and increased investment will potentially reduce the need for aid in the long term. It could be argued that in the near term this will bolster the position of Cambodia's ruling party and reduce its susceptibility to external pressure for political reform, but there are also challenges associated with such a shift (Loughlin 2021). Simply generating jobs in manufacturing is not enough to satisfy the needs of a population that is increasingly aspirational. Although there have been modest increases in the minimum wage of garment workers in recent years, they do not meet the increased cost of living brought about by the very economic development their labour has helped fuel. In a survey of garment workers in three Phnom Penh factories in 2016, Franceschini (2020) found the minimum wage covered just over 40 per cent of respondents' perceived monthly financial needs. Chinese investment will have to bring with it industrial upgrading and capacity-building for workers, and quality of life improvements commensurate with the role those workers play in making these developments possible. Furthermore, if Cambodian industry seeks to maintain and expand its links to global supply chains, the country and its investors will be subject to the demands of buyers—including requirements around the environment and human rights.

A More Grounded Approach?

As stated at the outset of this essay, critiques of the BRI and of specific BRI projects are often based on sweeping assessments and assumptions that obfuscate the often complex and multifaceted push and pull factors that drive projects forward. As a flagship cooperation project between Cambodia and China, the SSEZ has often been drawn into these oversimplified debates, and as such this essay represents an attempt at a deeper dive to reframe the project and capture the more nuanced story of its inception and development. This method of excavating the historical roots of projects and contextualising them locally can be applied to all sorts of developments, generating a much richer picture, which is essential if concerned stakeholders are to better understand their drivers and impacts and, ultimately, respond effectively when concerns emerge.

The SSEZ is a useful case study for such an exercise as it demonstrates a complex alignment of multiple agendas and drivers. These include high-level Chinese and host-country development strategies, local political and elite interests, and the benefits (and burdens) this can create for local people. It showcases the interaction of Chinese state and commercial priorities, how they overlap with pre-existing development agendas that China was not necessarily involved in crafting, and how this ultimately feeds into the demand of global supply chains for affordable products for largely Western consumer markets.

China's ascension to Cambodia's top economic and political partner has been rapid and, as is the case in many other countries, critical attention is often polarised and does not always facilitate improved understanding of China's developing role in the world. As noted earlier, all projects tell a different story and, to tell that story, it is essential to explore the historical and contemporary contexts, as well as the multiple drivers and interests in play.