

The Impact of China's Economic Slowdown on Cambodian Economy

Khin Pisey* and Chea Sunsatya**

With a decelerated growth of China, the One Belt One Road (OBOR) is as an important medium and long term national development strategy—aims to help China resolve certain strategic problems related to overcapacity, industrial restructuring and imbalance in the foreign trade, promotion of the Renminbi (RMB) internationalization, as well as the inadequacy in developing deeper and broader cooperation between China and countries and regions along the 'Belt and Road'.

The main goals of One Belt One Road (OBOR) are to accomplish coordination of policy across nations along the OBOR route, to develop infrastructure, to improve connectivity amongst the nations, to increase trade and investment flows, to stimulate financial integration, and to better the relations of the people.

Cambodia is one of the countries located along-side the Maritime Silk Road through China-Indochina Peninsula Economic Corridor (CICPEC), also known as Nanning-Singapore Economic Corridor. The CICPEC aims to connect eight major cities in ASEAN – Singapore, Kuala Lumpur (Malaysia), Bangkok (Thailand), Phnom Penh (Cambodia), Ho Chi Minh City (Vietnam), Hanoi (Vietnam), and Vientiane (Laos), and Nanning (China), see Figure 3. This corridor is built on existing economic co-operation mechanisms including Great Mekong Sub-region (GMS) Economic Cooperation, the Kunming-Singapore Railway network, also known as Pan-Asia Railway Network, and ASEAN Economic Community (AEC). The GMS backbone have been operating nine land transportation corridors connecting Thailand, Cambodia, Laos,

Myanmar and Vietnam with Yunnan and Guangxi provinces of China.

The OBOR can be the opportunity for Cambodia to attract more FDI inflows and increase exports to China, as well as to the rest of the world. For Cambodia, China is one of the main sources of foreign direct investment (FDI) and trading partners. China has now become Cambodia's largest source of investment, according to the data reported by the Council for the Development of Cambodia (CDC). In 2016, FDI inflow from China increased to 29.92% of total investment from 18.62% in 2015, and from 15.68% in 2014. In 2016, FDI inflow from China becomes the first largest investment, taking over domestic investment, followed by Japan with 22.78%. This shows that FDI from China is a significant source of capital in Cambodia. The trend does not show any sign to abate in 2017 and 2018. China has now become a key investing partner for Cambodia and been included in the top ten list of its trading partners.

Through trade and investment, China and Cambodia have cemented their relationship to a higher level of strategic partnership. Cambodia can leverage this window of opportunity to attract more technical assistance and financial investment in fundamental infrastructure for her future development.

Even though, there is no real sign of repercussions of potential drastic slowdown of the Chinese economy on trade and investment to Cambodia, it is important to assess the degree of Cambodia's economic dependency on China so that win-win solutions could be further explored

* Mr. Khin Pisey is the director of Nuppun Institute for Economic Research.

**Mr. Chea Sunsatya is a research associate at the Nuppun Institute for Economic Research.

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benefits.

Findings from the analysis show a strong correlation between key macroeconomic indicators including GDP, investment and trade of the two countries. This correlation suggests that any changes in China's economic performance would influence on that of Cambodia's.

The impact on Cambodia can be analysed to reflect on potential economic slowdown in China as one scenario and the other for off-setting scenario, with a tariff removal on bilateral trade between the two countries.

If slowdown of FDI led to 10% in total investment in Cambodia, the country's GDP would be contracted by 0.16% in the short-run, the long-run impact would be higher as it would affect capital stock for the future growth of the economy.

A counter policy measure would be a deeper trade and investment relationship between the two countries. For Cambodia, it is desirable to have greater market access to China through the removal of tariff and non-tariff barriers. For such a scenario, Cambodia's export sectors would benefit so that Cambodia can broaden her export and diversify her growth base from garment, textile, and tourism. More market access for Cambodia does not have any significant impact on the China's economy due to the large size of its economy as compared to Cambodia.

While there may be other non-economic elements of the relationship should be strengthened, the findings provide a good basis for further discussions on economic relation between Cambodia and China so that proper measures should be taken to minimise or neutralise such negative impacts of potential economic slowdown in China on Cambodia's economy.

There are some key implications to take note. First, Cambodia should pay closer attention to any potential slowdown in China and take necessary measures to counter potential risks. Second, Governments of both countries should widen economic cooperation by boosting investment and trade in highly value-added industries, especially from China to Cambodia, through both bilateral and regional framework under the Belt and Road Initiatives (BRI) or ASEAN-led Regional Comprehensive Economic Partnership (RCEP). Third, China should further provide concessional finance to build more hard infrastructures in Cambodia to improve her logistics and cost competitiveness for the next stage of development and participating in the BRI or connecting to China-Indochina Peninsula Economic Corridor (CICPEC). Finally, human capital development and technology transfer are equally important areas of cooperation for Cambodia to realize her inclusive development goals.

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