CDRI
Cambodia Development Resource Institute

CAMBODIA'S NEW GROWTH STRATEGY

AN ASSESSMENT OF MEDIUM AND LONG-TERM GROWTH FOR RESILIENT, INCLUSIVE, AND SUSTAINABLE DEVELOPMENT

FEBRUARY 2025

Cambodia's New Growth Strategy
An Assessment of Medium and Long-term Growth for Resilient, Inclusive, and Sustainable Development

CDRI – Cambodia Development Resource Institute
Phnom Penh, February 2025

Disclaimer:

The views expressed in this background paper are those of the authors and do not necessarily reflect the views of the Cambodia Development Resource Institute, the Cambodia Australia Partnership for Resilient Economic Development, or the Department of Foreign Affairs and Trade. The authors are responsible for any unintentional errors or mistakes.

Citation:

Cambodia Development Resource Institute [CDRI]. 2025. *Cambodia's New Growth Strategy—An Assessment of Medium and Long-term Growth for Resilient, Inclusive, and Sustainable Development.* Phnom Penh: CDRI

CDRI

☞ 56 Street 315, Tuol Kork

✉ PO Box 622, Phnom Penh, Cambodia

☎ +855 23 881 701/881 916/883 603

@ cdri@cdri.org.kh

🌐 www.cdri.org.kh

Layout and cover designed: Oum Chantha and Tim Borith

Edited by: Jessica Alice Kalisiak

Contents

vii Acknowledgements

viii List of acronyms and abbreviations

xi List of contributors

1 **The Overview Report**

19 Background Paper 1
Cambodia's Economic Trajectory: 2000-2022 Macroeconomic Analysis
Hing Vutha and Kruy Narin

43 Background Paper 2
Structural Transformation and Economic Growth in Cambodia
Ngov Penghuy and Cheng Savuth

77 Background Paper 3
Increasing the Inclusiveness, Resiliency and Sustainability of Economic Growth in Cambodia
Jayant Menon

99 Background Paper 4
A Macroeconomic Review: Cambodia's Current State and Future Outlook
Muth Sumontheany

120 Background Paper 5
Climate Change, Gender, and Social Analysis for Cambodia's New Growth Strategy
Eng Netra, Caroline Hughes, Ngin Chanrith, Chea Phal, and Cesci Cruz

150 Background Paper 6
Overcoming Constraints for Effective Policy Implementation
Eng Netra, Caroline Hughes and Pak Kimchoeun

166 Background Paper 7
Delivering the skills required for Cambodia's clean energy transition
Dean Rizzetti

176 Background Paper 8
Cambodia Economic Diversification Pathways
Kelly Wyett

206 Background Paper 9
A New Growth Strategy for Cambodia: Economic Scenarios
Roland Rajah and Ahmed Albayrak

Acknowledgements

This research was produced with extensive inputs from a wide range of stakeholders with high vested interests in Cambodia's development and its future prosperity. Their time and contributions throughout the study process provided through events, seminars, workshops, and individual conversations were invaluable to the content and recommendations of the report. We are grateful to all of them for helping us to conduct and complete this ambitious project.

The research was organised jointly by CDRI, the Ministry of Economy of Finance, and the Lowy Institute. The Overview Report was prepared by a joint team led by Eng Netra, comprising Roland Rajah, Caroline Hughes, Muth Sumontheany, Chhorn Dina, and Jayant Menon.

The Overview Report was further supported by nine background papers, which provide a comprehensive foundation for the analysis and findings presented here. The first paper on *Cambodia's Economic Trajectory: 2000-2022 Macroeconomic Analysis* was authored by Hing Vutha and Kruy Narin. The second paper on *Structural Transformation and Economic Growth in Cambodia* was authored by Ngov Penghuy and Cheng Savuth. The third paper on *Increasing the Inclusiveness, Resiliency and Sustainability of Economic Growth in Cambodia* was authored by Jayant Menon. The fourth paper, *A Macroeconomic Review: Cambodia's Current State and Future Outlook*, was authored by Muth Sumontheany. The fifth paper on *Climate Change, Gender, and Social Analysis for Cambodia's New Growth Strategy* was authored by Eng Netra, Caroline Hughes, Chea Phal, Ngin Chanrith and Cesci Cruz. The sixth paper on *Overcoming Constraints for Effective Policy Implementation* was authored by Eng Netra, Caroline Hughes and Pak Kimchoeun. The seventh paper on *Delivering the Skills Required for Cambodia's Clean Energy Transition* was authored by Dean Rizzeti. The eighth paper on *Cambodia Economic Diversification Pathways* was authored by Kelly Wyett. Lastly, the ninth paper on *Modelling Cambodia's Road to Quality Growth* was authored by Roland Rajah and Ahmed Albayrak. We are grateful to those who authored the papers.

We are also grateful to DFAT for its long-term support of CDRI and this study through one of DFAT's flagship programmes, CAPRED.

List of acronyms and abbreviations

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AIP	Agro-Food Industrial Park
AMRO	ASEAN+3 Macroeconomic Research Office
ASEAN	Association of Southeast Asian Nations
BAU	Business-as-usual
BRI	Belt and Road Initiative
CamDX	Cambodia Data Exchange
CAPRED	Cambodia Australia Partnership for Resilient Economic Development
CBOs	Community-Based Organisations
CCFTA	Cambodia-China Free Trade Agreement
CDC	Council for the Development of Cambodia
CDRI	Cambodia Development Resource Institute
CDS	Country Diagnostic Study
CISIC	Cambodia Standard Industrial Classification
CKFTA	Cambodia-Korea Free Trade Agreement
COI	Complexity Outlook Index
CSDGs	Cambodia Sustainable Development Goals
CSES	Cambodia Socio-Economic Survey
DFAT	Department of Foreign Affairs and Trade
EAC	Electricity Authority of Cambodia
EBA	Everything but Arms
ECI	Economic Complexity Index
ETD	Economic Transformation Database
EU	European Union
EV	Electric Vehicle
FDI	Foreign Direct Investment
FED	Federal Reserve
FOLU	Forestry and Other Land Use
FTA	Free Trade Agreement
GDCE	General Department of Customs and Excise of Cambodia
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GFT	Garment Footwear and Travel
GGDC	Groningen Growth and Development Centre
GHGs	Greenhouse Gases
GI	Geographical Indication
GIDA	Gender and Inclusive Development Analysis

GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German development agency)
GNI	Gross National Income
GSP	General System of Preferences
HCI	Human Capital Index
HEF	Health Equity Funds
HIC	High-Income Countries
HS	Harmonized System
ICOR	Incremental Capital-Output Ratio
ICT	Information and Communication Technology
IDP	Industrial Policy
IDPoor Programme	Identification of Poor Households Programme
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contribution
ISIC Rev.4	International Standard Industrial Classification Revision 4
KHR	Khmer Riel
LCR	Liquidity Coverage Ratio
LDC	Least Developed Country
LFS	Labour Force Survey
LPI	Logistics Performance Index
LTS4CN	Long-Term Strategy for Carbon Neutrality
M&E	Monitoring and Evaluation
MEF	Ministry of Economy and Finance
MFIs	Microfinance Institutions
MFN	Most-Favoured-Nation
MISTI	Ministry of Industry, Science, Technology & Innovation
MLMUC	Ministry of Land Management, Urban Planning and Construction
MLVT	Ministry of Labour and Vocational Training
MME	Ministry of Mines and Energy
MOC	Ministry of Commerce
MOEYS	Ministry of Education, Youth and Sport
MOI	Ministry of Interior
MOP	Margin of preference
MSC	Mekong Strategic Capital
MSMEs	Micro, Small, and Medium Enterprises
MtCO2e	Megatons of Carbon Dioxide Equivalent
NA	National Income Account
NBC	National Bank of Cambodia

NCSD	National Council on Sustainable Development
NDC	Nationally Determined Contribution
NGS	New Generation School
NIS	National Institute of Statistics
NLA	National Learning Assessments
NPLs	Nonperforming Loan
NSDP	National Strategic Development Plan
NSSF	National Social Security Fund
OECD	Organisation for Economic Co-operation and Development
PFM	Public financial management
PISA	Programme for International Student Assessment
PPP	Purchasing Power Parity
PV	Photovoltaic
PWT	Penn World Table
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership
RGC	Royal Government of Cambodia
SDF	Skills Development Fund
SEAMEO	Southeast Asian Ministers of Education Organization
SEZ	Special Economic Zone
SMEs	Small and Medium Enterprises
SNEC	Supreme National Economic Council
SPS	Sanitary and Phytosanitary Standards
STEM	Science, Technology, Engineering, and Mathematics
STM	Structural Transformation Model
TFP	Total Factor Productivity
TPAP	Teacher Policy Action Plan
TVET	Technical and Vocational Education and Training
UMIC	Upper Middle-Income Country
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations International Children's Emergency Fund
UNU-WIDER	United Nations University World Institute for Development Economics Research
USD	United States Dollar
WHO	World Health Organization
WITS	World Integrated Trade Solution
WTO	World Trade Organization

List of contributors

Ahmed Albayrak	Research Associate in the Lowy Institute's Indo-Pacific Development Centre
Caroline Hughes	Director of Doctoral Studies and the Rev. Theodore M. Hesburgh, C.S.C. Chair in Peace Studies at the Kroc Institute for International Peace Studies, University of Notre Dame
Cesci Cruz	Associate Professor in the Department of Political Science and the Department of Economics at UCLA
Chea Phal	Senior Research Fellow at CERI, CDRI.
Cheng Savuth	Royal University of Phnom Penh
Dean Rizzetti	Policy Director at EnergyLab.
Eng Netra	Executive Director, CDRI
Hing Vutha	Lecturer at the School of Economics and Public Policy, University of Adelaide
Jayant Menon	Senior Fellow at the ISEAS – Yusof Ishak Institute in Singapore, and Research Adviser at CDRI
Kelly Wyett	Senior Public Sector Development Advisor, CAPRED
Kruy Narin	Deputy Director General of the General Department of Policy at the Ministry of Economy and Finance
Muth Sumontheany	Research associate at CDET, CDRI
Ngin Chanrith	Honorary Academic, The University of Auckland, New Zealand
Ngov Penghuy	Nagoya University
Pak Kimchoeun	Policy Hub Senior Advisor, CAPRED
Roland Rajah	Lead Economist; Director of the Indo-Pacific Development Centre at the Lowy Institute

របាយការណ៍ទិដ្ឋភាពទូទៅ

សារគន្លឹះសំខាន់ៗ

ការពង្រីកសេដ្ឋកិច្ចរបស់ប្រទេសកម្ពុជានាពេលថ្មីៗនេះមានលក្ខណៈល្អប្រសើរគួរឱ្យកត់សម្គាល់ ប៉ុន្តែកត្តាដែលជំរុញកំណើនសេដ្ឋកិច្ចកម្ពុជានាពេលកន្លងទៅ ទំនងជាមិនអាចរក្សាសន្ទុះដដែលនេះនៅពេលអនាគតបានឡើយ។ សន្ទុះនៃវិស័យអចលនទ្រព្យបានថយចុះ ហើយដំណើរការផ្លាស់ប្តូរទ្រង់ទ្រាយធំនៃកម្លាំងពលកម្មពីវិស័យកសិកម្មទៅវិស័យកម្មន្តសាល ជាមួយនឹងការបំប្លែងដីព្រៃទៅជាដីកសិកម្ម មិនអាចជំរុញកំណើនក្នុងអត្រាដូចមុនទៀតបានទេ។ លើសពីនេះទៀត ការប៉ះទង្គិចពីខាងក្រៅនានា ដូចជាជំងឺរាតត្បាតកូវីដ-១៩ ការកើនឡើងនៃលទ្ធិគាំពារនិយម និងការរំខានសេដ្ឋកិច្ចសកលទូលំទូលាយ បានរារាំងយ៉ាងខ្លាំងដល់ផលចំណេញនៃការអភិវឌ្ឍផ្អែកលើការនាំចេញ។ ហេតុដូច្នេះ ការរក្សាឱ្យបាននូវកំណើនឆាប់រហ័សក្នុងរយៈពេលមធ្យម និងការធានានូវភាពធន់នៃសេដ្ឋកិច្ចរយៈពេលវែងនឹងនាំមកនូវបញ្ហាប្រឈមសំខាន់ជាច្រើន។

ការដេញតាមកំណើនរយៈពេលខ្លី និងខ្លាំងក្លាពេក គឺមិនអាចធ្វើទៅបាន ហើយក៏មិនគួរឱ្យចង់បានដែរ។ ការពង្រីកសេដ្ឋកិច្ចយ៉ាងឆាប់រហ័ស ប៉ុន្តែមិនមានតុល្យភាព អាចនាំឱ្យមានការកើនឡើងហានិភ័យផ្នែកហិរញ្ញវត្ថុ ការសឹករេចរិលនៃបរិស្ថាន និងការកើនឡើងនៃវិសមភាពសង្គម។ ជំនួសមកវិញ ចាំបាច់ត្រូវផ្លាស់ប្តូរទិសដៅនៃការយកចិត្តទុកដាក់ទៅលើការធានា**គុណភាព**នៃការអភិវឌ្ឍ ដោយសង្កត់ធ្ងន់លើអភិបាលកិច្ចល្អ ការវិនិយោគលើមូលធនមនុស្ស បរិយាបន្នសង្គម និងចីរភាពបរិស្ថាន។ ធាតុផ្សំទាំងនេះមានសារៈសំខាន់ដូចគ្នា ឬមានសារៈសំខាន់ជាងគោលដៅចំណូលទៀតផង ដោយសារធាតុផ្សំទាំងនេះជាកត្តាកំណត់សមត្ថភាពរបស់កម្ពុជា មិនត្រឹមតែដើម្បីសម្រេចបាននូវគោលដៅរយៈពេលមធ្យមប៉ុណ្ណោះទេ ថែមទាំងជួយរក្សាគោលដៅរយៈពេលវែងរបស់កម្ពុជាផងដែរ។

ការវិភាគគោលនយោបាយគ្រប់ជ្រុងជ្រោយទៅលើសមិទ្ធផលសេដ្ឋកិច្ចរបស់កម្ពុជា ដោយមើលលើកត្តាកំណត់កំណើននានា បង្ហាញទាំងវឌ្ឍនភាព និងចន្លោះប្រហោងសំខាន់ៗ។ ចំណុចល្អគឺ សូចនាករសមិទ្ធផលរបស់កម្ពុជា ជាទូទៅមានភាពប្រសើរឡើងជាបន្តបន្ទាប់។ ទោះយ៉ាងណាក៏ដោយ វឌ្ឍនភាពនេះនៅតែមិនគ្រប់គ្រាន់ ក្នុងការកាត់បន្ថយគម្លាតជាមួយនឹងប្រទេសដែលមានសេដ្ឋកិច្ចស្រដៀងគ្នានោះទេ ដែលធ្វើឱ្យមានហានិភ័យដល់ការសម្រេចបាននូវចក្ខុវិស័យសេដ្ឋកិច្ចរបស់កម្ពុជា។ ចំណុចខ្វះខាតដែលនៅតែបន្តកើតមានឡើងនៅក្នុងបរិយាកាសធុរកិច្ច ជាពិសេសគុណភាពបទប្បញ្ញត្តិ សមត្ថភាពស្ថាប័ន និងការអភិវឌ្ឍធនធានមនុស្ស គឺជាឧបសគ្គដ៏ធំក្នុងការបង្កើនល្បឿនកំណើនសេដ្ឋកិច្ចរបស់កម្ពុជា។

ជាងនេះទៅទៀត ការងើបឡើងវិញរបស់កម្ពុជាក្រោយពីវិបត្តិជំងឺរាតត្បាតកូវីដ-១៩ ត្រូវបានរារាំងដោយបណ្តុំបញ្ហាប្រឈមជាច្រើន ដូចជាការប្រែប្រួលអាកាសធាតុ និងការចំណាយលើការរស់នៅមានការកើនឡើង និងការប៉ះទង្គិចពីកត្តាខាងក្រៅផ្សេងទៀត។ ទោះជារាជរដ្ឋាភិបាលបានផ្តល់ជំនួយដល់

គ្រួសារងាយរងគ្រោះ និងសហគ្រាសខ្នាតតូចក៏ដោយ កម្ពុជាត្រូវការចាំបាច់នូវរិធានការគោលនយោបាយ ដែលមានសក្តានុពល និងមានគោលដៅច្បាស់លាស់ជាងមុន ដើម្បីពង្រឹងភាពធន់ក្នុងបរិបទពិភពលោក ដែលកំពុងវិវត្ត។ ការផ្លាស់ប្តូរគំរូនៃការអភិវឌ្ឍ មានភាពចាំបាច់យ៉ាងខ្លាំង៖ **ការផ្តល់អាទិភាពលើគុណភាពនៃកំណើនសេដ្ឋកិច្ច ជាជាងការគិតត្រឹមតែល្បឿននៃកំណើន** នឹងពង្រឹងស្ថិរភាពសេដ្ឋកិច្ច ជំរុញវិបុលភាពប្រកបដោយបរិយាបន្ន និងពង្រឹងស្ថាប័ននានាដែលចាំបាច់សម្រាប់កំណើនប្រកបដោយចីរភាព និងតម្លៃកាន់តែខ្ពស់។

របាយការណ៍នេះស្នើឡើងនូវ**យុទ្ធសាស្ត្រកំណើនថ្មី**មួយ ដើម្បីសម្រេចបាននូវការពង្រីកសេដ្ឋកិច្ច ប្រកបដោយចីរភាព និងគុណភាពខ្ពស់ ក្នុងរយៈពេលមធ្យម និងវែង។ យុទ្ធសាស្ត្រកំណើនថ្មីនេះ ចែកចេញជាពីរផ្នែកគឺ៖

១) **គោលនយោបាយតាមវិស័យ**៖ គោលនយោបាយទាំងនេះ គួរតែទាញយកផលប្រយោជន៍ពីនិន្នាការសេដ្ឋកិច្ចពិភពលោកបច្ចុប្បន្ន រួមមានការរៀបចំខ្សែច្រវាក់ផ្គត់ផ្គង់ឡើងវិញ អន្តរកាលបៃតង និងការកើនឡើងទ្រព្យធននៅទូទាំងតំបន់អាស៊ី ដើម្បីជំរុញកំណើនពីរយៈពេលខ្លីទៅមធ្យម។ វិស័យអាទិភាពនានា រួមមាន **ការកែច្នៃកសិផល គ្រឿងអេឡិចត្រូនិច សេវាកម្មដែលអាចធ្វើពាណិជ្ជកម្មបាន និងទេសចរណ៍**។ ដើម្បីសម្រេចបាននូវសក្តានុពលនៃវិស័យទាំងនេះ រាជរដ្ឋាភិបាលគួរតែផ្តោតលើការលើកកម្ពស់បរិយាកាសធុរកិច្ច ការជំរុញការអភិវឌ្ឍកម្លាំងពលកម្ម និងការដោះស្រាយឧបសគ្គហេដ្ឋារចនាសម្ព័ន្ធ ដើម្បីលើកកម្ពស់ភាពប្រកួតប្រជែង និងទាក់ទាញការវិនិយោគផ្ទាល់ពីបរទេស (FDI) ដែលនឹងបង្កើនការធ្វើសមាហរណកម្មរបស់កម្ពុជាទៅក្នុងខ្សែច្រវាក់ផ្គត់ផ្គង់សកល។ **គោលនយោបាយឧស្សាហកម្មទំនើប**មួយ គួរចង្អុលបង្ហាញផ្លូវដល់ការវិនិយោគ ដែលធ្វើពិពិធកម្មសេដ្ឋកិច្ចកម្ពុជា សំដៅកាត់បន្ថយភាពងាយរងគ្រោះដោយសារការប៉ះទង្គិចពីខាងក្រៅ។

២) **កំណែទម្រង់រចនាសម្ព័ន្ធគ្រប់ជ្រុងជ្រោយ**៖ ការធានាភាពធន់នៃសេដ្ឋកិច្ច បរិយាបន្ន និងចីរភាពរយៈពេលវែង តម្រូវឱ្យមានកំណែទម្រង់ជាមូលដ្ឋាន។ **ការវិនិយោគទៅលើមូលធនមនុស្ស** ជាពិសេសក្នុងប្រព័ន្ធអប់រំ ដែលគាំទ្រការសិក្សាពេញមួយជីវិត នឹងលើកកម្ពស់ការសម្របខ្លួននៃកម្លាំងពលកម្មកម្ពុជាទៅនឹងការផ្លាស់ប្តូរផ្នែកបច្ចេកវិទ្យា និងសេដ្ឋកិច្ច។ ភាពបន្ទាន់ដូចគ្នានេះ គឺ**កំណែទម្រង់ស្ថាប័ន** ដែលជួយពង្រឹងក្របខ័ណ្ឌបទប្បញ្ញត្តិ កែលម្អអភិបាលកិច្ច និងលើកកម្ពស់សក្តិសិទ្ធិភាពនៃរដ្ឋបាលសាធារណៈ។ ដើម្បីជំរុញការកសាងសង្គមដែលមានភាពធន់ និងសមធម៌ ចាំបាច់ណាស់ត្រូវមានការពង្រីកប្រព័ន្ធគាំពារសង្គម ការបង្កើនលទ្ធភាពទទួលបានការថែទាំសុខភាពប្រកបដោយគុណភាពខ្ពស់ និងឆ្ពោះទៅរកការគ្របដណ្តប់ជាសកល។

ខណៈដែលប្រទេសកម្ពុជាបានដាក់ចេញគោលនយោបាយ យុទ្ធសាស្ត្រ និងផែនការសកម្មភាពជាច្រើនរួចហើយ ជាពិសេសតាមរយៈ**យុទ្ធសាស្ត្របញ្ចកោណ ដំណាក់កាលទី១** បញ្ហាចំបង គឺស្ថិតលើការអនុវត្តជាក់ស្តែង។ ដើម្បីដោះស្រាយចំណុចខ្វះខាតនៃក្នុងការអនុវត្ត ចាំបាច់ត្រូវ៖

- ពង្រឹងសមត្ថភាពមន្ត្រីរាជការក្នុងវិស័យសាធារណៈដែលមានគុណវឌ្ឍិខ្ពស់ តាមរយៈការជ្រើសរើស ការតម្លើងឋានៈតួនាទី និងការកសាងសមត្ថភាពដោយផ្អែកលើគុណសម្បត្តិ។
- ពង្រឹងប្រព័ន្ធទិន្នន័យ ដើម្បីកែលម្អការតាក់តែងគោលនយោបាយ និងការសម្រេចចិត្ត។
- បង្កើតយន្តការអាទិភាព និងគណនេយ្យភាពច្បាស់លាស់នៅគ្រប់ស្ថាប័នសេនាធិការរដ្ឋាភិបាល។
- ពង្រឹងការចូលរួមរបស់ភាគីពាក់ព័ន្ធ តាមរយៈការផ្សព្វផ្សាយប្រកបដោយប្រសិទ្ធភាព និងយុទ្ធសាស្ត្រគ្រប់គ្រងការផ្លាស់ប្តូរ។

ដើម្បីពន្លឿនកំណែទម្រង់ និងដឹកនាំប្រទេសកម្ពុជាឆ្ពោះទៅរក**សេដ្ឋកិច្ចដែលស្មុគស្មាញ និងប្រកបដោយថាមវន្តជាងមុន** រាជរដ្ឋាភិបាលត្រូវតែប្រតិបត្តិ**ចក្ខុវិស័យកំណើនសេដ្ឋកិច្ចក្នុងរយៈពេលវែងថ្មី**មួយ។ ចក្ខុវិស័យនេះត្រូវបញ្ជាក់អំពីគុណតម្លៃស្នូល គោលបំណងនៃការអភិវឌ្ឍ និងអាទិភាពគោលនយោបាយ ដែលត្រូវផ្តោតលើផ្នែកសំខាន់ៗចំនួនប្រាំមួយគឺ៖

- កំណត់គោលដៅប្រាកដនិយមសម្រាប់កំណើនសេដ្ឋកិច្ចនិងការបង្កើតការងារប្រកបដោយបរិយាបន្ន។
- ពង្រឹងតួនាទីរបស់រដ្ឋក្នុងការផ្តល់សេវាសាធារណៈ និងការគាំពារសង្គម។
- បង្កើតក្របខ័ណ្ឌសម្រាប់ចីរភាពបរិស្ថាន និងអន្តរកាលឆ្ពោះទៅសេដ្ឋកិច្ចដែលមានការបូនទាប។
- បង្កើតយុទ្ធសាស្ត្រដើម្បីពង្រឹងការចូលរួមក្នុងសេដ្ឋកិច្ចសកលរបស់កម្ពុជា ដើម្បីគាំទ្រដល់គោលដៅអភិវឌ្ឍន៍ជាតិ។
- ជំរុញកំណែទម្រង់ស្ថាប័ន ដើម្បីឱ្យស្របតាមលក្ខខណ្ឌតម្រូវនៃប្រទេសដែលមានសេដ្ឋកិច្ចជឿនលឿន។
- បង្កើតយន្តការសម្រាប់ការចូលរួមជាសាធារណៈ ក្នុងការរៀបចំ ការអនុវត្ត និងការត្រួតពិនិត្យគោលនយោបាយ។

តាមរយៈការទទួលយកយុទ្ធសាស្ត្រមួយដែលផ្តោតលើកំណើនប្រកបដោយ**គុណភាពខ្ពស់ ចីរភាព និងបរិយាបន្ន** កម្ពុជាអាចដោះស្រាយភាពមិនប្រាកដប្រជាជាសកលបាន ខណៈបន្តឆ្ពោះទៅរកវិបុលភាពសេដ្ឋកិច្ចរយៈពេលវែង។ ការសម្រេចបាននូវ**អត្រាកំណើនជាមធ្យម ៦,៤ ភាគរយ** ក្នុងទសវត្សរ៍ខាងមុខនេះ គឺអាចធ្វើទៅបាន ក្នុងលក្ខខណ្ឌមានការរៀបចំគោលនយោបាយ និងការអនុវត្តប្រកបដោយប្រសិទ្ធភាព។ ទោះជាយ៉ាងណាក៏ដោយ កំណើនសេដ្ឋកិច្ចតែម្យ៉ាងមិនគ្រប់គ្រាន់ឡើយ។ តាមរយៈការជំរុញភាពធន់ ការកែលម្អអភិបាលកិច្ច និងការវិនិយោគទៅលើមូលធនមនុស្ស ប្រទេសកម្ពុជាមិនត្រឹមតែអាចធានា**ការពន្លឿន**វិបុលភាពប៉ុណ្ណោះទេ ប៉ុន្តែក៏ធានាថាមាន**សមធម៌ និងភាពយូរអង្វែង**ផងដែរ។

សង្ខេបអនុសាសន៍គន្លឹះ

ការពន្លឿនកំណែទម្រង់តាមវិស័យ

១ កំណត់គោលដៅគោលនយោបាយគាំទ្រដល់អនុឧស្សាហកម្មដែលមានសក្តានុពលខ្ពស់

- **ទាក់ទាញវិនិយោគិនបង្គោលបរទេស** ក្នុងវិស័យអាទិភាពដើម្បីពង្រឹងចង្កោមឧស្សាហកម្ម និងបង្កើនសមាហរណកម្មសកល។
- **ដោះស្រាយបញ្ហាកកស្ទះផ្នែកបទប្បញ្ញត្តិ ហេដ្ឋារចនាសម្ព័ន្ធ និងជំនាញ** តាមរយៈការចូលរួមដៃលមានរចនាសម្ព័ន្ធជាមួយវិស័យឯកជន ដើម្បីកែលម្អភាពទាក់ទាញនៃការវិនិយោគ។
- **ដាក់ដំណើរការក្រុមប្រឹក្សាយោបល់ត្រួតពិនិត្យការវិនិយោគផ្ទាល់ពីបរទេស** ដើម្បីវាយតម្លៃគោលនយោបាយឧស្សាហកម្ម តំបន់សេដ្ឋកិច្ចពិសេស និងប្រព័ន្ធលើកទឹកចិត្តការវិនិយោគជាយុទ្ធសាស្ត្រ។

២ ជំរុញអន្តរកាលបៃតងសម្រាប់កំណើនប្រកបដោយចីរភាព

- **ពង្រីកយន្តការផ្តល់ហិរញ្ញប្បទានបៃតង** ពិសេសសម្រាប់គម្រោងចាមពលកកើតឡើងវិញ និងប្រសិទ្ធភាពចាមពល។
- **គាំទ្រដល់ឧស្សាហកម្មបៃតង** តាមរយៈការលើកកម្ពស់ការទទួលយកការប្រើប្រាស់ចាមពលស្អាត បច្ចេកវិទ្យាចាប់យកកាបូន និងដំណោះស្រាយប្រសិទ្ធភាពចាមពល។
- **លើកទឹកចិត្តការអនុវត្តកសិកម្មប្រកបដោយចីរភាព** ដែលកាត់បន្ថយដានកាបូន ខណៈលើកកម្ពស់ផលិតភាព។

៣ ផ្តល់អាទិភាពលើកំណែទម្រង់ដែលគាំទ្រដល់កំណើនរយៈពេលមធ្យមប្រកបដោយបរិយាបន្ន

- **ពន្លឿនការធ្វើឌីជីថលូបនីយកម្ម** ក្នុងសេវាសាធារណៈ ដើម្បីបង្កើនសក្តិសិទ្ធិភាព និងតម្លាភាព។
- **ពង្រីកហេដ្ឋារចនាសម្ព័ន្ធឌីជីថលនៅតំបន់ជនបទ** ដោយផ្តោតលើកសិករខ្នាតតូច ដើម្បីបង្កើនផលិតភាព និងការទទួលបានទីផ្សារ។
- **កែលម្អបរិយាកាសបទប្បញ្ញត្តិធុរកិច្ច** ដើម្បីសម្រួលដល់ការបង្កើតសហគ្រាសធុនមីក្រូ តូច និងមធ្យមជាផ្លូវការ បរិវត្តកម្មឌីជីថល និងលទ្ធភាពទទួលបានហិរញ្ញប្បទានដែលសមរម្យ។

កំណែទម្រង់ជាមូលដ្ឋាន

៤ កសាងមូលធនមនុស្សដើម្បីរឭទ្ធភាពសេដ្ឋកិច្ចប្រកបដោយចីរភាព

- **កំណែទម្រង់ស៊ីជម្រៅក្នុងប្រព័ន្ធអប់រំ** ចាប់ពីមត្តេយ្យសិក្សាដល់ឧត្តមសិក្សា ដោយផ្តោតសំខាន់លើភាពស្របគ្នានៃ គណនេយ្យភាព គុណភាព និងកម្លាំងពលកម្ម។
- **ពង្រីកម្មវិធីគាំពារសង្គម** និងដាក់ចេញគោលនយោបាយគ្រួសារមេត្រី ដើម្បីទ្រទ្រង់កម្មករនិយោជិត និងសហគ្រាសធុនមីក្រូ តូច និងមធ្យម។
- **ពង្រឹងលទ្ធភាពទទួលបានការថែទាំសុខភាព** ដើម្បីធានាបានការគ្របដណ្តប់ជាសកល និងការកែលម្អគុណភាពសេវាកម្ម។

៥ ពង្រឹងអភិបាលកិច្ច ជាមូលដ្ឋានគ្រឹះសម្រាប់ការអភិវឌ្ឍរយៈពេលវែង

- **អនុវត្តកំណែទម្រង់គ្រប់ជ្រុងជ្រោយលើប្រព័ន្ធរដ្ឋបាលសាធារណៈ និងប្រព័ន្ធគតិយុត្តិ** ដើម្បីបង្កើនសក្តិសិទ្ធិភាព និងតម្លាភាព។
- **បង្កើនតម្លាភាព និងភាពដែលអាចព្យាករបាននៃប្រព័ន្ធពន្ធដារ** ដើម្បីបង្កើនភាពអនុលោមទៅតាមច្បាប់ និងបង្កើតប្រាក់ចំណូល។
- **បញ្ចូនបុគ្គលិកបច្ចេកទេសទៅកាន់តំបន់ជនបទ** ដើម្បីគាំទ្រសកម្មភាពសេដ្ឋកិច្ច និងធានាការផ្តល់សេវាសាធារណៈប្រកបដោយសមធម៌។

៦ ជម្លុះឧបសគ្គក្នុងការអនុវត្តគោលនយោបាយ

- **លើកកម្ពស់វប្បធម៌គុណាធិបតេយ្យ** តាមរយៈការជ្រើសរើសមន្ត្រីរាជការ និងការតម្លើងឋានៈតួនាទីដល់មន្ត្រីរាជការដែលមានគុណវឌ្ឍិខ្ពស់ក្នុងវិស័យសាធារណៈ។
- **ពង្រឹងការសម្របសម្រួលរវាងស្ថាប័នរដ្ឋាភិបាល** តាមរយៈការសម្រេចចិត្តដែលផ្អែកលើទិន្នន័យរឹងមាំ និងការបែងចែកទំនួលខុសត្រូវច្បាស់លាស់។
- **បង្កើតយុទ្ធសាស្ត្រផ្សព្វផ្សាយ និងយុទ្ធសាស្ត្រគ្រប់គ្រងការផ្លាស់ប្តូរ** ដើម្បីឱ្យភាគីពាក់ព័ន្ធចូលរួមក្នុងកំណែទម្រង់គោលនយោបាយ។

៧ កំណត់គោលបំណងសម្រាប់ចក្ខុវិស័យរយៈពេលវែងរបស់កម្ពុជា

- **កំណត់គោលដៅដែលប្រាកដនិយម** សម្រាប់កំណើនសេដ្ឋកិច្ច និងការបង្កើតការងារប្រកបដោយបរិយាបន្ន។
- **ពង្រឹងកម្រិតនៃសេវាសាធារណៈ និងការគាំពារសង្គម** ស្របតាមចក្ខុវិស័យប្រទេសចំណូលខ្ពស់ និងកំណត់ប្រភពចំណូលប្រកបដោយចីរភាព។
- **បង្កើតក្របខ័ណ្ឌបរិស្ថានជាតិប្រកបដោយនិរន្តរភាព** ដើម្បីផ្លាស់ប្តូរទៅជាសេដ្ឋកិច្ចកាបូនទាប។
- **បង្កើតយុទ្ធសាស្ត្រសម្រាប់ការចូលរួមសេដ្ឋកិច្ចសកល** ដើម្បីទទួលបានអត្ថប្រយោជន៍ជាអតិបរមាពីពាណិជ្ជកម្ម និងការវិនិយោគអន្តរជាតិ។
- **អនុវត្តកំណែទម្រង់អភិបាលកិច្ច និងកំណែទម្រង់ស្ថាប័ន** ស្របតាមលក្ខខណ្ឌតម្រូវនៃប្រទេសដែលមានសេដ្ឋកិច្ចជឿនលឿន។
- **បង្កើតដំណើរការអភិវឌ្ឍគោលនយោបាយប្រកបដោយបរិយាបន្ន** ដែលធានាឱ្យមានការចូលរួមជាសាធារណៈក្នុងការរៀបចំ ការអនុវត្ត និងការត្រួតពិនិត្យ។

The Overview Report

Key messages

Cambodia's recent economic expansion has been remarkable; however, the factors that have historically driven its growth are unlikely to sustain the same momentum in the future. The real estate boom has subsided, and the large-scale transition of labour from agriculture to manufacturing, along with the conversion of forests into farmland, can no longer fuel growth at previous rates. Additionally, external shocks—including the COVID-19 pandemic, escalating protectionism, and broader global economic disruptions—have significantly hindered the dividends of export-driven development. As a result, sustaining rapid growth in the medium term and ensuring long-term economic resilience will pose significant challenges.

Pursuing aggressive, short-term growth is neither feasible nor desirable. A rapid but unbalanced expansion could lead to heightened financial risks, environmental degradation, and increasing social inequality. Instead, the focus must shift towards ensuring the **quality** of development—emphasising good governance, human capital investment, social inclusion, and environmental sustainability. These elements are equally or more important than income targets, as they determine Cambodia's ability not only to meet its medium-term goals but also to sustain long-term aspirations.

A comprehensive policy analysis of Cambodia's economic performance across key growth determinants reveals both progress and critical gaps. Encouragingly, the country's performance indicators have generally improved over time. However, this progress remains insufficient to bridge the gap with peer economies, thereby jeopardising the realisation of Cambodia's economic vision. Persistent weaknesses in the business environment—particularly in regulatory quality, institutional capacity, and human development—present formidable barriers to accelerated growth.

Moreover, Cambodia's post-pandemic recovery has been hampered by compounding challenges, including climate change, rising living costs, and other external shocks. Despite government support for vulnerable households and small enterprises, more robust and targeted policy measures are required to enhance resilience in the evolving global landscape. A paradigm shift is imperative: **prioritising the quality of growth over sheer speed** will reinforce economic stability, foster inclusive prosperity, and fortify the institutions essential for sustained and higher-value growth.

This report proposes a **new growth strategy** to achieve high-quality and sustained economic expansion over the medium- and long-term. The strategy is twofold:

1. **Sector-Specific Policies** – These should capitalise on current global economic trends, including supply chain reorganisation, the green transition, and rising wealth across Asia, to drive short-to-medium-term growth. Priority sectors include **agro-processing, electronics, tradeable services, and tourism**. To unlock their potential, the government should focus on improving the business climate, fostering workforce development, and addressing infrastructure deficiencies to enhance competitiveness and attract foreign

direct investment (FDI), thereby deepening Cambodia's integration into global supply chains. A **modern industrial policy** should guide investments that diversify the economy, reducing vulnerability to external shocks.

2. **Comprehensive Structural Reforms** – Ensuring long-term economic resilience, inclusivity, and sustainability requires fundamental reforms. **Investing in human capital**, particularly in education systems that support lifelong learning, will enhance workforce adaptability to technological and economic shifts. Equally urgent are **institutional reforms** that strengthen regulatory frameworks, improve governance, and enhance public administration efficiency. Expanding social protection systems, increasing access to high-quality healthcare, and progressing toward universal coverage will be critical to fostering a more resilient and equitable society.

While Cambodia has already introduced numerous policies, strategies, and action plans—particularly through the **Pentagonal Strategy Phase One**—the key challenge lies in execution. Addressing implementation gaps requires:

- Strengthening a highly qualified public sector workforce through merit-based recruitments, promotions, and capacity building.
- Enhancing data systems to improve policy design and decision-making.
- Establishing clear prioritisation and accountability mechanisms across government agencies.
- Strengthening stakeholder engagement through effective outreach and change management strategies.

To accelerate reforms and guide Cambodia toward a **more complex and dynamic economy**, the government must embark on a **new long-term vision for growth**. This vision should articulate core values, development objectives, and policy priorities, addressing six critical areas:

- Setting realistic targets for inclusive economic growth and employment creation.
- Strengthening the role of the state in providing public services and social protection.
- Establishing a framework for environmental sustainability and transitioning to a low-carbon economy.
- Developing strategies to strengthen Cambodia's global economic engagement in support of national development objectives.
- Advancing governance and institutional reforms to align with the requirements of an advanced economy.
- Creating mechanisms for public participation in policymaking, implementation, and oversight.

By embracing a strategy centered on **high-quality, sustainable, and inclusive growth**, Cambodia can navigate global uncertainties while advancing toward long-term economic prosperity. Achieving an average **growth rate of 6.4 percent** over the coming decade is feasible—provided that policies are effectively designed and implemented. However, growth alone is not enough. By fostering resilience, improving governance, and investing in human capital, Cambodia can ensure that prosperity is not only **accelerated** but also **equitable and enduring**.

Summary of key recommendations

Accelerated sector reforms

1 Target policy support at high potential sub-industries

- **Attracting anchor foreign investors** in priority sectors to strengthen industrial clusters and enhance global integration.
- **Addressing regulatory, infrastructure, and skills bottlenecks** through structured engagement with the private sector to improve investment attractiveness.
- **Activating an advisory FDI review board** to assess industrial policies, Special Economic Zones (SEZs), and strategic investment incentives.

2 Drive the green transition for sustainable growth

- **Expanding green financing mechanisms**, particularly for renewable and energy efficiency projects.
- **Supporting green industries** by promoting clean energy adoption, carbon capture technologies, and energy-efficient solutions.
- **Encouraging sustainable agricultural practices** that minimise carbon footprints while improving productivity.

3 Prioritise reforms that support inclusive medium-term growth

- **Accelerating digitalisation** in public services to improve efficiency and transparency.
- **Expanding digital infrastructure in rural areas**, with a focus on smallholder farmers to enhance productivity and market access.
- **Enhancing the business regulatory environment** to facilitate micro, small, and medium enterprises (MSMEs) formalisation, digital transformation, and access to affordable finance.

Fundamental reforms

4 Build human capital to sustain economic progress

- **Deepening reform in the education system** from early childhood to higher education, with a strong focus on accountability, quality and workforce alignment.
- **Expanding social protection programmes** and introducing family-friendly policies to support workers and MSMEs.
- **Strengthening healthcare access** to ensure universal coverage and improved service quality.

5 Improve governance as the key foundation for long-term development

- **Implementing a comprehensive public administration and legal system reform** to enhance efficiency and transparency.
- **Increasing tax system transparency and predictability** to improve compliance and revenue generation.
- **Deploying technical experts to rural areas** to support economic activities and ensure equitable service provision.

6 Overcome constraints in policy implementation

- **Promoting a culture of meritocracy** by recruiting and promoting the most qualified public sector professionals.
- **Enhancing inter-agency coordination** through robust data-driven decision-making and clear responsibility allocation.
- **Developing outreach and change management strategies** to engage stakeholders in policy reforms.

7 Set objectives for Cambodia's long-term vision

- **Setting realistic targets** for inclusive economic growth and employment generation.
- **Strengthening public service and social protection levels** in line with high-income aspirations and identifying sustainable revenue sources.
- **Developing a national environmental sustainability framework** for a transition to a low-carbon economy.
- **Crafting a strategy for global economic engagement** to maximise benefits from international trade and investment.
- **Implementing governance and institutional reforms** to align with the requirements of an advanced economy.
- **Creating an inclusive policy development process** that ensures public participation in formulation, implementation, and oversight.

1. Introduction

In just three decades, Cambodia has impressively transformed from a war-torn economy to one of the fastest growing economies in the world. If recent high levels of growth continue over the next two decades, Cambodia would comfortably advance its long-term development agenda.

However, there are two important questions that need to be addressed. Can Cambodia recover adequately from the COVID-19 pandemic to realise its aspiration toward an advanced economy, given an increasingly uncertain world economic order? And, can Cambodia's growth become more inclusive, sustainable, and resilient in the future? This report answers "yes" to both questions with commitments to embark upon major reforms. This projection is conditional on faster reforms in line with a new growth strategy scenario involving accelerated reforms, while a business-as-usual (BAU) reform scenario will deliver slower growth and delay reaching the targets. The report outlines future scenarios for a new growth strategy to capitalise on its past success, seize new emerging opportunities and tackle head-on the fundamental weakness the country faces, and embrace new challenges within an uncertain future.

This Overview Report, supported by nine background papers, examines past performance and policy lessons, identifies fundamental weaknesses and emerging challenges for the future, and provides an overview of a new growth strategy. It indicates priority policy reforms, as well as key points for overcoming implementation challenges.

2. Historical growth and development trajectory

Cambodia has grown at more than 7 percent per year since 2000, except for the years afflicted by the Global Financial Crisis (GFC) and the COVID-19 pandemic. Cambodia managed the COVID-19 pandemic relatively well. After contracting by 3.1 percent in 2020, real GDP growth rebounded to 3.0 percent in 2021 and 5.2 percent in 2022, thanks to effective containment and a highly successful vaccination programme. Cambodia's economy grew by 5.2 percent in 2022 and 5.3 percent in 2023 as domestic demand recovered and higher external demand gradually lifted growth closer to pre-pandemic levels.

However, Cambodia's growth prospects have significantly changed. New drivers of growth are needed, requiring policies to promote economic diversification. Growth in recent decades was driven by structural transformation as employment shifted from agriculture to low-skilled jobs in labour intensive manufacturing (primarily the garment, footwear and textile industry) and tourism. These industries were in turn narrowly dependent on low wages, trade preferences, and a single tourist attraction (the Angkor Wat temples). Growth immediately before the pandemic was also narrowly based, mainly driven by the large-scale transition of labour from agriculture to

manufacturing, along with the conversion of forests into farmland, as well as large capital inflows into construction and real estate. None of these growth drivers are likely to be as important in the future:

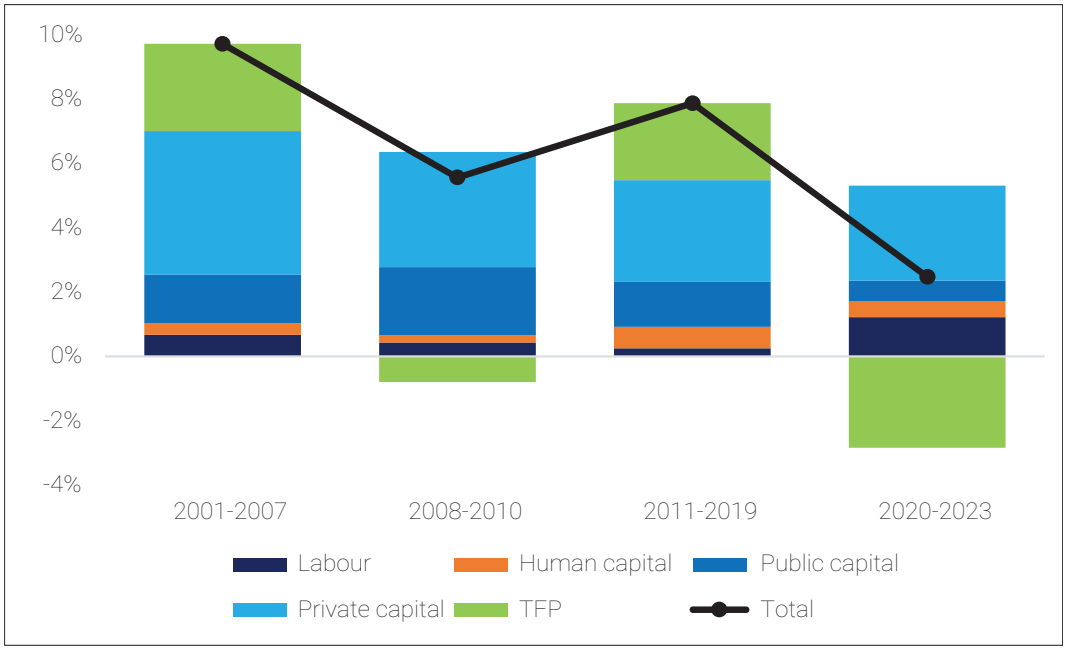
- The first phase of structural change has likely run its course. Cross-country comparisons suggest that Cambodia may already have realised most of the one-off benefits from inter-sectoral diversification, of moving workers from agriculture into manufacturing or services.
- Trade preferences concentrated the commodity composition of exports towards garments, and a heavy reliance on a few markets such as the US and EU, increasing vulnerability to demand and country-specific shocks. Trade preferences are likely to diminish growth aspirations.
- The construction and real estate boom were heavily dependent on housing and commercial investment. The growth slowdown in China ended this boom rather suddenly, and emphasised the risks associated with over-reliance on a single country for trade, aid and investment. Additionally, construction and real estate booms are rarely sustainable and do not support long-term growth. When they result in price "bubbles" that destabilise the overall economy, their net economic impact is often negative.

The rapid economic growth of the past has also occurred at the expense of the environment, which is unsustainable. For instance, forest cover has shrunk dramatically, from above 62 percent in 1990 to below 45 percent in 2021, because of uncontrolled land-use conversion, and rapid urbanisation, exacerbating climate change vulnerability. Land-use conversion is not sustainable as a source of growth. New drivers of growth must pay attention to sustainability.

Cambodia's growth story has been largely one of capital accumulation, with public and private investment accounting for a majority share of the economic growth since 2001 (Figure 1). Human capital and labour contributions have remained relatively modest, however. In contrast, the contribution of total factor productivity growth (TFP) fluctuated between positive and negative during 2001-2023. While TFP initially generated 2.7 percent of growth during 2001-2007, it subsequently became a drag on growth, reducing it by 0.8 percent during 2008-2010. It then stabilised during the 2011-2019 period before sharply declining in 2020-2023, reducing economic growth by 2.8 percent. Capital accumulation and labour quantity were the main contributor to growth during 2020-2023.

Productivity growth will have to play a bigger role in driving economic growth moving forward. This will require a new phase of structural transformation featuring diversification within the broad sectors (manufacturing and services). International experience shows that this process does not happen on its own. It requires active government facilitation and economic reform particularly regarding human capital and the business enabling environment.

Figure 1: Contributions to economic growth



Source: Author's estimates based on national accounts, IMF, Penn World Tables

3. Modelling Cambodia's growth pathways

The modelling undertaken for this study analyses the key drivers of economic growth and uses this as the basis for understanding Cambodia's future economic prospects. This study has employed two approaches to modelling Cambodia's future economic growth. First, a reasonably traditional neoclassical model is employed, where economic growth depends on increases in the number of workers, human capital improvements, private and public capital investment, and increases in TFP. TFP is typically interpreted as representing market efficiency, knowledge and technology, and the quality of institutions. The second model employed takes a sectoral (structural transformation) approach whereby economic growth depends on increases in the workforce, the movement of workers from low to higher productivity sectors (e.g. from agriculture to manufacturing) and increases in value-added labour productivity within individual sectors (including via industrial upgrading). The two models combine to provide different insights into Cambodia's future growth prospects and improve the robustness of the exercise, with the average results of the two models used to construct each scenario projection.

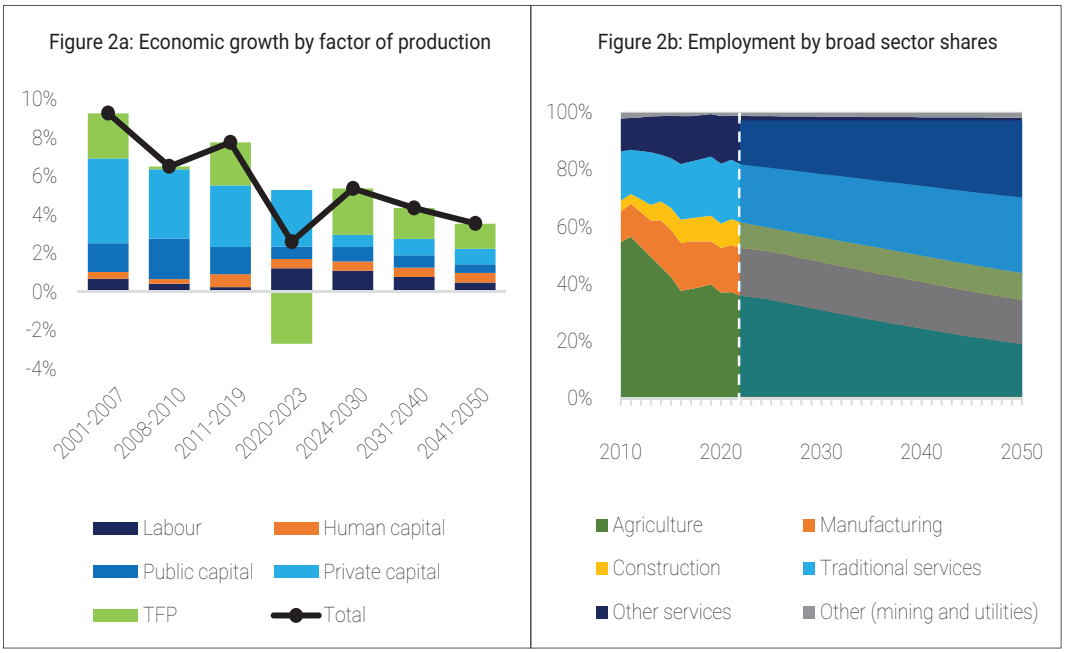
Both modelling approaches suggest reduced future growth under a BAU scenario.

Neoclassical model: Private investment will be weaker due to the end of the real estate boom, elevated corporate debt, and with banks facing high non-performing loans. Public investment in infrastructure is lower

due to tighter fiscal conditions and fewer projects funded by external development partners. The need to invest in adaptation increases investment costs. Overall, total investment is projected to return to its long run average during 2000-2019 of 25 percent of GDP, considerably lower than the recent peak of 38 percent of GDP seen in 2022. Human capital improvement follows its 2000-2019 trend while TFP growth slows marginally over the long-term. The main cause of slower growth in the neoclassical framework is sharply reduced contributions from future capital accumulation due to both lower public and private investment rates and diminishing returns after decades of high investment (Figure 2a).

Sectoral perspective scenario: The end of the real estate boom alone reduces future growth compared to pre-pandemic by 1.2 percentage points. The share of manufacturing in total employment has been stagnant at about 16 percent for some time and is projected to remain at this level over the coming decade before gradually declining as Cambodia's economy matures and labour costs rise. There has been relatively little productivity growth within manufacturing, with industrial upgrading proceeding slowly. Non-farm employment creation has been dominated recently by construction and traditional services (e.g. trade and hospitality). Increases in construction have ended; growth in services will continue but with weak productivity benefits. Overall, the key insight from a structural transformation perspective is that employment in Cambodia is no longer rapidly industrialising and is instead increasingly dominated by services (Figure 2b) with weak labour productivity performance.

Figure 2: BAU scenario growth and employment projections



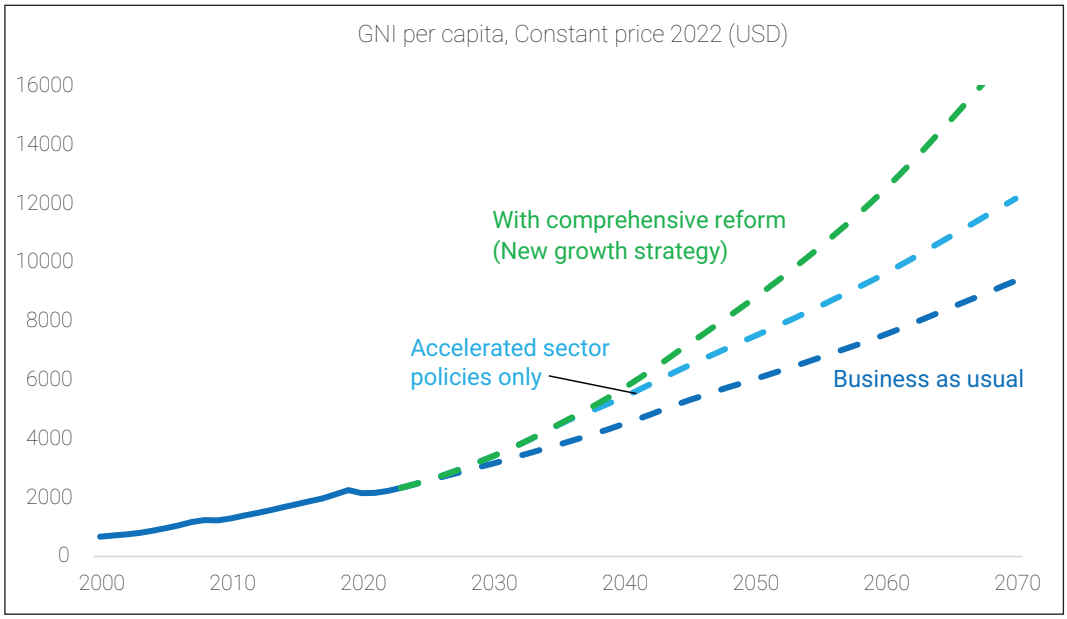
Source: Authors projections and national accounts statistics

4. A new growth strategy for Cambodia

Cambodia's existing growth strategy – built on political stability, prudent macroeconomic policy, and economic openness – has allowed the country to take advantage of its key competitive advantages in low-cost labour, world class tourism assets, and its geographic position in the dynamic East Asia region. However, these pillars alone are no longer enough. Scenario modelling discussed above indicates that in a BAU projection, economic growth would be considerably slower than before the pandemic. Between 2024-2030, the BAU scenario would see economic growth stuck at about 5.4 percent per year, similar to its current pace. This would still place Cambodia as a relatively fast-growing economy by international standards. However, it would be well below the rate of progress desired by Cambodia and its political leadership. More important, over the longer term the costs of continuing BAU would be even higher and could see Cambodia stuck in the middle-income traps. Figure 3 and Table 1 below summarise the key results of the growth modelling carried out for this report.

In response, this report recommends Cambodia adopt a new growth strategy focused on two aspects of government policy effort. The first and more immediate would focus on **accelerating Cambodia's medium term economic prospects through prioritised sector policy efforts**. This would be targeted at a limited subset of high potential industries (notably electronics, agro-processing, tradeable services, and tourism) together with policies to support

Figure 3: Scenario development pathways



Source: Authors projections and national accounts statistics

Table 1: Key economic growth modelling results

Scenario	Projected economic growth		
	2024-2030	2031-2040	2041-2050
1. Business-as-usual	5.4%	4.3%	3.4%
2. Accelerated sector policies only	6.4%	5.1%	3.1%
3. 3. With comprehensive reform	6.4%	6.3%	5.3%

Source: Authors projections and national accounts statistics

small and medium enterprises (SMEs) and the informal sector. This element of the strategy recognises that rapid growth usually relies on achieving strong performance in a few key sectors while achieving inclusiveness requires economic growth to reach the majority of lower income workers in traditional services and the informal sector. If Cambodia can succeed in this regard, economic growth would be considerably faster, averaging 6.4 percent a year over the rest of this decade.

The second element of the recommended strategy recognises that **comprehensive reform is needed to sustain fast growth over the long-term**. The focus here is on human capital development (education and health) and improving institutional quality (or governance). The third element of the new growth strategy is that Cambodia **deliberately recognises inclusion and quality employment as well as addressing key environmental sustainability and social resilience priorities**. It must be acknowledged that reform in these areas will take time to bear fruit. However, growth will inevitably slow without progress on these key fundamentals. With success in these areas, Cambodia is projected to achieve rapid and broad-based growth sustained at 5-6 percent in later decades.

4.1. Accelerated priority sector reforms for short-to-medium term growth

There is no time to waste. Delay would not only be costly in foregone national prosperity but also risk missing important growth opportunities while increasing future economic vulnerabilities. The best way to achieve substantially faster growth over the medium-term is to accelerate policy efforts in a few targeted industries with high potential while supporting inclusiveness.

The current global and regional situation offers three key opportunities for sectoral policy: the reconfiguration of global production networks as supply chains and investment moves out of China; the transition to a green economy; and the ongoing rise of Asian economies, consumers and businesses. These are once-in-a-generation opportunities, with the greatest gains for countries that capture them early thereby benefiting from clustering and network effects that can help to reinforce and build their competitiveness in new industries over time.

In the short-to-medium term, rapid economic growth can be achieved by shifting the economy towards a few high performing industries that can generate

strong productivity gains, as the garment industry previously did in Cambodia. A new phase of structural transformation is required, expanding manufacturing via diversification into promising new sub-industries.

Agro-processing and electronics assembly are the most promising manufacturing sub-industries that would not only allow Cambodia to move into higher value-added activities but ones that are feasible based on current capabilities and competitive advantages (i.e. in labour-intensive basic manufacturing) while also providing a basis for future industrial upgrading over the longer term (for instance into machinery and automobiles). This is broadly the path followed by other successful Asian economies that Cambodia is seeking to emulate, such as Vietnam and China.

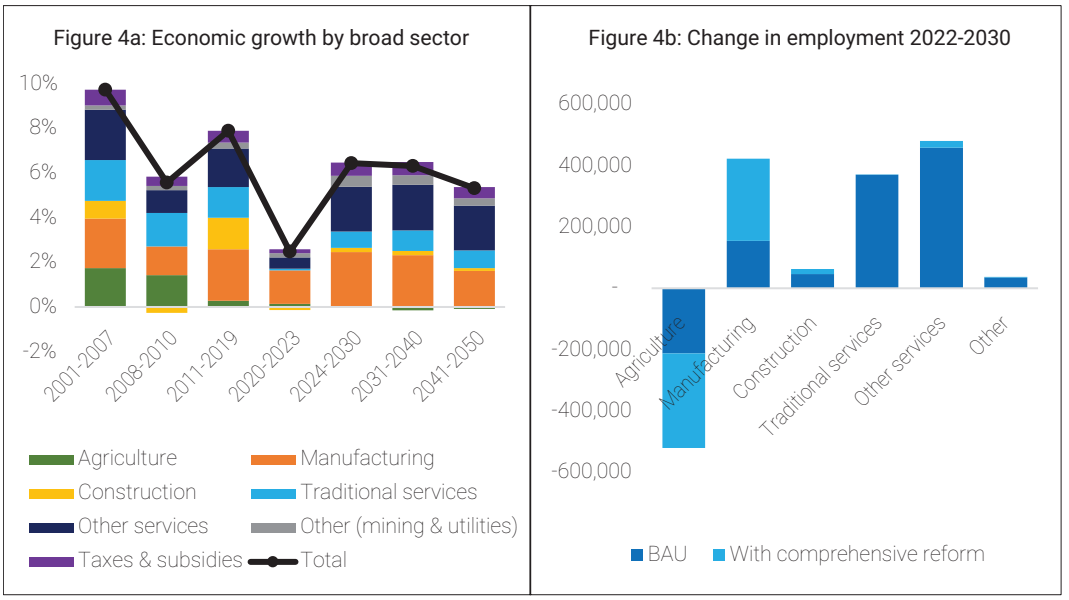
With successful accelerated sector policy efforts, it would be feasible for Cambodia to achieve growth upwards of 6 percent over the coming decade. This would also generate greater non-farm employment (Figure 4b). However, the bulk of non-farm employment creation is likely to remain in the services sector, especially for less skilled workers. Tourism also retains growth potential especially given Cambodia's proximity to a rising Asian middle class and is a predominantly services-based industry. With that in mind, policies aimed at boosting productivity growth in traditional services to match higher performing economies could contribute meaningfully to both stronger and more inclusive growth.

4.2. Comprehensive reforms to sustain growth over the long-term

Cambodia must concurrently accelerate efforts to address key long-term reform priorities to lay the foundation for sustaining progress. At present Cambodia is not making sufficient progress in several key policy areas that will ultimately be vital to sustaining rapid economic growth in the long-term. Broadly, these relate to improving human capital and institutional quality as well as social resilience and environmental sustainability. A policy gap analysis was conducted for this report comparing Cambodia to its current and potential future peers in several key areas. The exercise reveals that Cambodia performs well in the policy areas most closely associated with achieving structural transformation (i.e. growth driven by a limited set of sectors) but is not making enough progress in other areas critical to long-term growth. For instance, Cambodia compares favourably to its peers and is making reasonable progress in closing the gap with higher income countries in terms of infrastructure, openness to trade and investment, political stability, and government effectiveness. In terms of human capital, Cambodia is making progress in terms of quantity (access), however the gap in terms of quality is large and does not appear to be improving in line with that required. Cambodia remains limited in terms of the broader business environment, with challenges in logistics performance, regulatory quality, and digital restrictiveness. Hence, the regulatory reform agenda to support Cambodia's industrial competitiveness requires urgent attention.

Comprehensive reforms should focus on human capital development and governance,

Figure 4: Growth and employment projections with comprehensive reforms

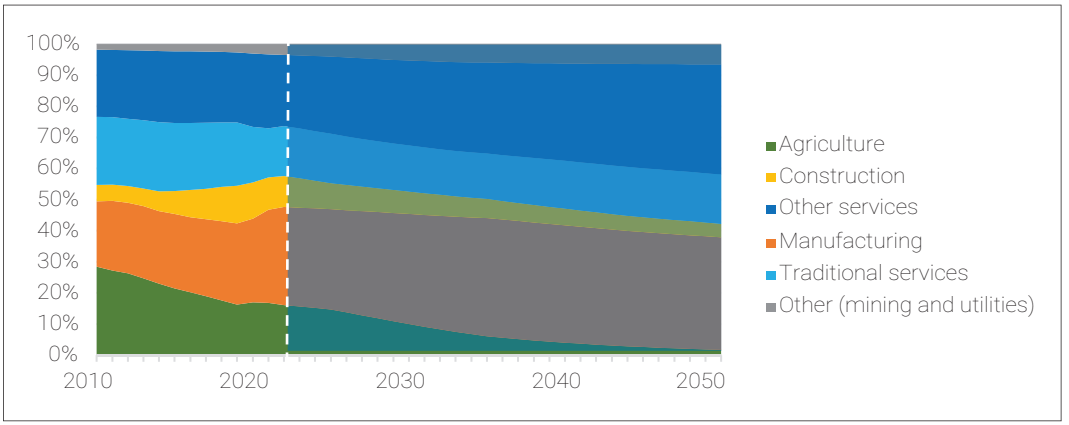


Source: Authors projections and national accounts statistics

while also addressing environmental and social resilience priorities. With success in these areas, Cambodia is projected to achieve rapid and broad-based growth sustained at 5-6 percent in later decades.

If Cambodia succeeds in improving its long-term fundamentals, then achieving sustained and more broad-based growth will be possible. In the Comprehensive Reform scenario modelled in this study, growth would remain sustained in the 5-6 percent range over the long-term, with greater industrialisation as well as gradual diversification into modern digital and business services (Figure 5).

Figure 5: Output by sector - comprehensive reforms



Source: Authors based on Worldwide Governance Indicators and national accounts statistics

4.3. The new growth strategy must also be inclusive and sustainable

Complimenting the two-pronged growth strategy focused on accelerated sector policy efforts and a more comprehensive reform strategy, Cambodia must pursue inclusive growth that is also sustainable and resilient. With this, Cambodia could feasibly sustain economic growth in the 5-6 percent range over the coming decades, ultimately reaching its future growth aspiration.

Cambodia's long-term strategic plans such as the Pentagonal Strategy and the economic policies that underlie them all aim implicitly or explicitly support green, inclusive, sustainable and resilient economic growth. Green growth needs to be oriented towards mitigating and adapting to climate change, while avoiding local-level environmental degradation. Inclusive growth must generate decent and sustainable jobs in manufacturing and services, while providing fair and sustainable returns for the self-employed in agriculture or in micro, small, and medium-sized enterprises (MSMEs) across sectors, formal and informal. This type of growth is bottom–up, with the working-age population enabled through education and skills development and by equal opportunity to participate in generating economic growth. Such jobs must offer fair wages, protect labour rights and provide safe work environments. Policies to support families with affordable housing and childcare options promote the well-being of the next generation.

Improving the sustainability of growth and its drivers also involves diversifying trade and investment flows. That is, diversifying export products and markets and import sources, as well as sources of FDI flows, will reduce risk and vulnerability to country-specific and other external shocks and increase the sustainability of economic growth.

Green, inclusive and sustainable growth is more likely to be resilient. Enabling green and inclusive growth means encouraging and assisting workers to shift from informal to formal employment and regularising undocumented migrant labour. This facilitates the implementation of policy to equip workers and small businesses with skills and flexibility, increasing their ability to withstand shocks and crises, and to be resilient in the face of ongoing change processes (including climate change and technological change). Diversification assists in this. Social protection systems should be expanded to support marginalised communities.

4.4. Summary of key recommendations

Policy reforms take time to pay off. Cambodia must accelerate the implementation of key policy reforms that will bear fruit in the short-and-medium term but at the same time embarking on reform priorities for long-term growth development. Importantly, the policy recommendations below require political leadership, sustained policy change and implementation, and redirection of resources and state capacity. Below is a summary of selected key policy recommendations. More detailed discussions of these recommendations are developed in the respective background papers supporting this Overview Report.

A **Target policy support to high potential new sub-industries**	• **Attracting anchor foreign investors** in priority sectors, including agro-processing, electronics, tradeable services, and tourism, to strengthen industrial clusters and enhance global integration. • **Addressing regulatory, infrastructure, and skills bottlenecks** through structured engagement with the private sector to improve investment attractiveness. • **Activate the FDI review board** to assess industrial policies, SEZs, and strategic investment incentives.
B **Respond to green transition for more sustainable and resilient growth**	• **Expanding green financing mechanisms**, particularly for renewable and energy efficiency projects. • **Supporting green industries** by promoting clean energy adoption, carbon capture technologies, and energy-efficient solutions. • **Encouraging sustainable agricultural practices** that minimise carbon footprints while improving productivity.
C **Reforms to support broad-based and inclusive medium-term growth**	• **Accelerating digitalisation** in public services to improve efficiency and transparency. • **Expanding digital infrastructure in rural areas**, with a focus on smallholder farmers to enhance productivity and market access. • **Enhancing the business regulatory environment** to facilitate MSME formalisation, digital transformation, and access to affordable finance.
D **Build human capital to sustain long-term economic progress**	• **Deepening reform in the education system** from early childhood to higher education, with a strong focus on quality, accountability and workforce alignment. • **Expanding social protection programmes** and introducing family-friendly policies to support workers and MSMEs. • **Strengthening healthcare access** to ensure universal coverage and improved service quality.
E **Improve governance as the key foundation for long-term development**	• **Implement a public administration and legal system reform** to enhance efficiency and transparency. • **Increasing tax system transparency and predictability** to improve compliance and revenue generation. • **Deploying technical experts to rural areas** to support economic activities and ensure equitable service provision.
F **Overcome constraints in policy implementation**	• **Promoting a culture of meritocracy** by empowering the most qualified public sector professionals. • **Enhancing inter-agency coordination** through robust data-driven decision-making and clear responsibility allocation. • **Developing outreach and change management strategies** to engage stakeholders in policy reforms.

G **Set objectives for Cambodia's long-term vision**	• **Setting realistic targets** for inclusive economic growth and employment generation. • **Defining public service and social protection levels** in line with high-income aspirations and identifying sustainable revenue sources. • **Developing a national environmental sustainability framework** for a transition to a low-carbon economy. • **Crafting a strategy for global economic engagement** to maximise benefits from international trade and investment. • **Implementing governance and institutional reforms** to align with the requirements of an advanced economy. • **Creating an inclusive policy development process** that ensures public participation in formulation, implementation, and oversight.

5. Overcoming constraints for effective implementation

The government already has in place a framework of strategies, laws and action plans that could be successful in facilitating the new growth strategy described above. Most of the challenges identified above are already comprehensively addressed within the government's existing policy framework. The Pentagonal Strategy Phase One is organised in such a way as to integrate, and sequence needed reforms in order to realise a new growth model that is built on skills, technology and innovation.

The Pentagonal Strategy Phase One notes several implementation challenges. It refers to challenges in "the capacity and quality of institutions", in "the effectiveness of inter-ministerial/institutional coordination"; and in "outreach and dissemination … affecting the effectiveness of participation and support".

5.1. Challenges related to the capacity and quality of institutions

There are three central problems: a hierarchical culture that prioritises loyalty over innovation and stifles reform; the concentration of budgets and other resources at the center, disincentivising motivated public servants from pursuing sub-national level careers; and challenges in institutional quality or governance that hinder effective service provision. The government should move ahead with its functional review of civil service positions, and with reforms to further promote meritocratic hiring and promotions practices, further deconcentrate government by devolving budgets and deploying qualified personnel to lower levels of government.

5.2. The effectiveness of inter-ministerial/institutional coordination

There are three key aspects to this. The first is the importance of robust, reliable, accessible and timely data to provide the foundation for inter-institutional discussions and agreements. Such data should be collected by central government agencies, independent researchers and through participatory local-level methods. The successful implementation of the IDPoor system provides a strong precedent here. The second is the importance of prioritisation, which requires establishing a goal, a theory of change and a step-by-step implementation plan with intermediate targets and objectives. The government's successful long-term Public Financial Management Reform Program offers a good example of this. The third is the importance of a clear distribution of roles and responsibilities and strong leadership. The government's COVID-19 response is a model of how this can be achieved.

5.3. Monitoring and evaluation

The lack of attention and investment in monitoring and evaluation (M&E), particularly at the outcome level, necessitates a more focused and systematic approach across all levels of government. This requires emphasising the role of robust, timely and accessible data and evidence in policy making, implementation and M&E. The availability of adequate data and M&E system as a basis for discussions can promote shared understandings of problems and greater commitment to solutions across agency boundaries.

5.4. Outreach, dissemination and change management

Building on the recommendation above, extending the analytical work required for effective internal coordination can also assist with outreach and dissemination. This requires work to assess the variety of constituencies of stakeholders affected by each step of the proposed policy implementation plan, including groups inside and outside government, and formulating a change management plan to inform, educate and manage the response of these different groups.

6. Setting the objectives for Cambodia's long-term vision strategy

To drive reform and accelerate development, the government should undertake the process to develop a new vision strategy for growth toward a more complex and dynamic economy and society. The new vision should outline the long-term development plan, core values, and guiding principles for policy reforms. Policy makers need to address six objectives: 1) realistic targets for inclusive development via economic growth and job creation; 2) identification of the level of public services and social protection the state should aim to achieve in line with reaching medium

and long-term growth goals and the revenue sources required to finance this; 3) requirements for domestic environmental sustainability and the transition to a low-carbon economic trajectory; 4) a strategy for managing Cambodia's international economic relationships to support its development agenda; 5) targets for steadily improving governance and institutions in line with the requirements of becoming a more advanced economy; and 6) a credible platform for public participation in public policy formulation, implementation, and oversight.

7. Conclusion

Models of Cambodia's future growth suggest that BAU will not deliver rapid economic growth in the new global context. The modelling and contextual analysis completed in this study provide a basis for crafting a new vision strategy, which the changing global context necessitates. A new growth strategy could deliver sufficient growth to sustain high-quality development over the medium- and long-term.

The new growth strategy has multiple aspects: establishing sector-specific policies to take advantage of current opportunities to boost short-to-medium term growth, investing in fundamental reforms to achieve long-term growth, ensuring that growth is shared and benefits future generations, communities and marginalised populations sustainably and equitably.

Suggested sector-specific policies are focused on facilitating further foreign investment in agro-processing, electronics, tradeable services, and tourism to take advantage of reconfiguration of global supply chains and the green transition and facilitating the upgrading of domestic SMEs to integrate them into this ecosystem.

Suggested fundamental reforms would prioritise human capital investments, particularly in education and health, and meritocracy initiatives, but also include investing in an M&E system for evaluating policy implementations. Suggested inclusive reform priorities would include expanding social protection and insurance, pursuing wider public administration reform, and steady and effective management of a participatory process that will ensure public support and participation in the design, implementation, and oversight of the government's reform process.

The fast-pace of change in Cambodia and elsewhere in the region and the global economy requires the government to respond quickly to multiples challenges, risks, and shocks as they arise at the same time. In doing so, the government needs to uphold the elements outlined in the new growth strategy, and the policy responses should build the foundation for the short-term problems, not undermine, long-term reform priorities and vision.

ឯកសារសារតារទី១

គន្លងសេដ្ឋកិច្ចកម្ពុជា៖ ការរិភាគម៉ាក្រូសេដ្ឋកិច្ចឆ្នាំ២០០០-២០២២

ហ៊ីង វុត្ថា និង គ្រុយ ណារិន

សារគន្លឹះសំខាន់ៗ

មាគ៌ាកំណើនសេដ្ឋកិច្ច

- ចាប់តាំងពីឆ្នាំ១៩៩៨មក ប្រទេសកម្ពុជាបានផ្លាស់ប្តូរពីសេដ្ឋកិច្ចដែលពឹងលើវិស័យកសិកម្ម ទៅជាសេដ្ឋកិច្ចមួយដែលជំរុញដោយវិស័យឧស្សាហកម្ម និងសេវាកម្ម ដោយសម្រេចកំណើនមួយដ៏រឹងមាំ ប្រមាណ ៧ ភាគរយ ជារៀងរាល់ឆ្នាំ ចាប់ពីឆ្នាំ២០០០ ដល់ឆ្នាំ២០១៩។ វឌ្ឍនភាពនេះបាននាំឱ្យប្រទេសកម្ពុជា ទទួលបានហាន:ជាប្រទេសមានចំណូលមធ្យមកម្រិតទាបនៅឆ្នាំ២០១៥ ក្នុងការត្រៀមលក្ខណៈសម្រាប់កំណើនរយៈពេលវែងប្រកបដោយគុណភាព និងមហិច្ឆតាក្នុងការសម្រេចបាននូវការអភិវឌ្ឍប្រកបដោយចីរភាព បរិយាបន្ន និងភាពធន់។
- ការរួមចំណែកនៃវិស័យកសិកម្មក្នុងផលិតផលក្នុងស្រុកសរុបបានធ្លាក់ចុះពី ៣៥,៥ ភាគរយ ក្នុងឆ្នាំ២០០០ មកនៅត្រឹម ១៦,៥ ភាគរយ ក្នុងឆ្នាំ២០២២ ខណៈវិស័យឧស្សាហកម្មបានកើនឡើងដល់ ៤១ ភាគរយ។ វិស័យសេវាកម្ម រក្សាការរួមចំណែកប្រកបដោយស្ថិរភាព ទោះជាវាបានថយចុះបន្តិចពី ៣៨ ភាគរយ មក ៣៦ ភាគរយ ដោយសារផលប៉ះពាល់ពីជំងឺរាតត្បាតកូវីដ-១៩។
- វិស័យសំខាន់ៗ ដូចជា រាយនភណ្ឌ សំណង់ អចលនទ្រព្យ និងឧស្សាហកម្មម្ហូបអាហារ និងភេសជ្ជៈ បានជំរុញកំណើនសេដ្ឋកិច្ច ដែលទ្រទ្រង់ដោយការវិនិយោគពីបរទេស និងការធ្វើសមាហរណកម្មទៅក្នុងទីផ្សារក្នុងតំបន់ និងសកលលោក។ លំនាំកំណើននេះឆ្លុះបញ្ចាំងពីមូលដ្ឋានសេដ្ឋកិច្ចតូចចង្អៀត ដែលអាចបង្កបញ្ហាប្រឈមដល់ភាពធន់ និងចីរភាពរយៈពេលវែង។
- ទោះបីជាមានបញ្ហាប្រឈមពីរបត្តិហិរញ្ញវត្ថុសកលនៅឆ្នាំ២០០៧-២០០៨ និងជំងឺរាតត្បាតកូវីដ-១៩ នៅឆ្នាំ២០២០ក៏ដោយ ក៏សេដ្ឋកិច្ចរបស់ប្រទេសកម្ពុជា បានបង្ហាញពីភាពធន់ ដោយការស្ទុះងើបឡើងវិញយ៉ាងខ្លាំង ក្រោយរបត្តិនីមួយៗ។

កត្តាជំរុញកំណើនសេដ្ឋកិច្ច

- ការរិភាគដោយប្រើក្របខណ្ឌគណនេយ្យកំណើន បានបង្ហាញថា កំណើនសេដ្ឋកិច្ចកម្ពុជាពីឆ្នាំ២០០០ ដល់ឆ្នាំ២០២២ ភាគច្រើនត្រូវបានជំរុញដោយមូលធនឯកជន ការវិនិយោគផ្ទាល់ពីបរទេសដ៏រឹងមាំ វឌ្ឍនភាពកំណែទម្រង់ និងបរិយាកាសវិនិយោគប្រសើរឡើង។ មានការវិនិយោគយ៉ាងច្រើនលើវិស័យសំខាន់ៗ ដូចជាកម្មន្តសាល អចលនទ្រព្យ និងសំណង់ ដែលជំរុញឱ្យមានការពង្រីកសេដ្ឋកិច្ចយ៉ាងឆាប់រហ័ស។

- កត្តាផលិតភាពសរុប (TFP) បានដើរតួនាទីយ៉ាងសំខាន់ក្នុងការបង្កើនសក្តិសិទ្ធិភាពនៃការប្រើប្រាស់កម្លាំងពលកម្ម និងមូលធន ទោះបីជារាបានជួបប្រទះការប្រែប្រួលក្នុងអំឡុងពេលមានការរំខានផ្នែកសេដ្ឋកិច្ច ដូចជា វិបត្តិហិរញ្ញវត្ថុសកល និងវិបត្តិកូវីដ-១៩ ក៏ដោយ។ ទោះបីជាមានចំនួនតិចជាងការវិនិយោគឯកជន ការវិនិយោគមូលធនសាធារណៈ មានសារៈសំខាន់សម្រាប់ការអភិវឌ្ឍហេដ្ឋារចនាសម្ព័ន្ធ ដែលកសាងមូលដ្ឋានគ្រឹះដ៏រឹងមាំសម្រាប់កំណើនវិស័យឯកជនប្រកបដោយចីរភាព។

- ការរួមចំណែកនៃកម្លាំងពលកម្ម និងមូលធនមនុស្សក្នុងកំណើនសេដ្ឋកិច្ច នៅមានកម្រិតតិចតួច ដែលឆ្លុះបង្ហាញពីការវិនិយោគតិចតួចក្នុងការអភិវឌ្ឍកម្លាំងពលកម្ម។ ឥទ្ធិពលមូលធនមនុស្សដែលមានកម្រិតនេះ បានបញ្ជាក់ពីតម្រូវការកែលម្អការអប់រំ និងការបណ្តុះបណ្តាលជំនាញឱ្យប្រសើរឡើង ដើម្បីបំពេញតម្រូវការ និងរចនាសម្ព័ន្ធសេដ្ឋកិច្ចកម្ពុជាដែលកំពុងរីកចម្រើន។

បញ្ហាប្រឈម និងទិសដៅគោលនយោបាយ

- កំណើនសេដ្ឋកិច្ចរបស់កម្ពុជា ត្រូវបានរាំងស្ទះដោយការពឹងផ្អែកលើឧស្សាហកម្មដែលមានភាពស្មុគស្មាញទាប សក្តិសិទ្ធិភាពទីផ្សារការងារទាប និងបរិយាកាសធុរកិច្ចដែលទន់ខ្សោយ និងមិនសូវមានថាមវន្ត ដែលបានរារាំងវឌ្ឍនភាពឆ្ពោះទៅរកការសម្រេចបាននូវកំណើនសេដ្ឋកិច្ចកាន់តែខ្លាំង។
- ដើម្បីរក្សាកំណើន និងសម្រេចបានចក្ខុវិស័យក្នុងការសម្រេចបាននូវកំណើនរយៈពេលវែងប្រកបដោយគុណភាព កម្ពុជាត្រូវផ្តោតលើការអភិវឌ្ឍមូលធនមនុស្ស តាមរយៈការបង្កើនការវិនិយោគលើវិស័យអប់រំ និងបណ្តុះបណ្តាលជំនាញ ការធ្វើពិពិធកម្មសេដ្ឋកិច្ចរបស់ខ្លួន ដើម្បីកាត់បន្ថយភាពងាយរងគ្រោះនឹងការប៉ះទង្គិចពីកត្តាខាងក្រៅ និងពង្រឹងបរិយាកាសធុរកិច្ចរបស់ខ្លួន ដោយកាត់បន្ថយរបាំងការិយាធិបតេយ្យ ការកែលម្អក្របខ័ណ្ឌបទប្បញ្ញត្តិ និងការពង្រឹងហេដ្ឋារចនាសម្ព័ន្ធ។ លើសពីនេះ ការពង្រឹងអភិបាលកិច្ច និងសមត្ថភាពស្ថាប័ន តាមរយៈកំណែទម្រង់វិស័យសាធារណៈគ្រប់ជ្រុងជ្រោយ និងការអនុវត្តគោលនយោបាយប្រកបដោយប្រសិទ្ធភាព មានសារៈសំខាន់ណាស់ ដើម្បីសម្រេចបានគោលដៅសេដ្ឋកិច្ចរយៈពេលវែង។

Background Paper 1

Cambodia's Economic Trajectory: 2000-2022 Macroeconomic Analysis

Hing Vutha and Kruy Narin

Key messages

Economic growth path

- Since 1998, Cambodia has transitioned from an agrarian-based economy to one driven by industry and services, achieving robust growth of over 7 percent annually from 2000 to 2019. This progress led to Cambodia attaining lower middle-income status in 2015, setting the stage for long-term quality growth with ambitions of achieving sustainable, inclusive, and resilient development.

- The share of agriculture in GDP dropped from 35.5 percent in 2000 to 16.5 percent in 2022, while the industrial sector's share increased to 41 percent. The services sector maintained a steady contribution, though slightly reduced from 38 percent to 36 percent due to the COVID-19 pandemic's impact.

- Key sectors such as textiles, construction, real estate, and food and beverage industries drove economic growth, supported by foreign investment and integration into regional and global markets. This growth pattern reflects a narrow economic base, which could pose challenges to long-term sustainability and resilience.

- Despite challenges from the 2007-2008 global financial crisis and the 2020 COVID-19 pandemic, Cambodia's economy showed resilience, rebounding strongly after each crisis.

Drivers of economic growth

- Analysis using the Growth Accounting Framework revealed that Cambodia's economic growth from 2000 to 2022 was largely driven by private capital, bolstered by strong foreign direct investment (FDI) and progressive reforms and improved investment climate. Key sectors such as manufacturing, real estate, and construction saw substantial investments, fuelling rapid economic expansion.

- Total Factor Productivity (TFP) played a significant role in enhancing the efficiency of labour and capital use, although it experienced fluctuations during periods of economic disruption like the global financial crisis and COVID-19. Public capital investments, while smaller than private, were essential for developing infrastructure, laying a solid foundation for sustained private sector growth.

- Labour and human capital contributions to growth were relatively modest, reflecting underinvestment in workforce development. The limited impact of human capital underscores the need for improved education and skills training to better meet the evolving demands and structure of Cambodia's growing economy.

Challenges and policy directions

- Cambodia's economic growth is constrained by a reliance on low-complexity industries, low labour market efficiency, and a less dynamic and underdeveloped business environment, all of which hinder progress toward achieving greater economic progress.
- To sustain growth and realise its vision of achieving long-term quality growth, Cambodia must focus on developing human capital through increased investment in education and skills training, diversify its economy to mitigate vulnerability to external shocks, and strengthen its business environment by reducing bureaucratic barriers, improving regulatory frameworks, and enhancing infrastructure. Furthermore, enhancing governance and institutional capacity through comprehensive public sector reforms and effective policy implementation will be essential for achieving long-term economic objectives.

1. Introduction

Since achieving peace in 1998, Cambodia has established a strong foundation as an independent and sovereign nation that is now recognised globally and engages actively in economic integration and international cooperation. This engagement has helped Cambodia develop its national policies and strengthen strategic partnerships that have enhanced its economic development.

Over the past two decades, Cambodia has achieved remarkable macroeconomic and financial stability with an average annual economic growth rate exceeding 7 percent between 2000 and 2019. This robust growth has resulted in a significant increase in GDP between 2000 and 2019, which rose elevenfold from USD3.7 billion to USD36.6 billion, and GDP per capita had a nearly eightfold increase from USD310 to USD2,345 during the same period. Cambodia's economic progress has also resulted in substantial poverty reduction and improved income equality. The proportion of Cambodians living below the national poverty line dropped significantly from 45 percent in 2006 to 17.8 percent in 2019 (WB 2022; WB 2024). Simultaneously, the depth and severity of poverty has also decreased (WB 2022). According to the Gini Coefficient, which rose from 0.41 in 2007 to 0.29 in 2014, income equality has improved (MOP 2022). Such advancement enabled Cambodia to achieve lower middle-income status in 2015 and set the stage for the country's ambitious goals for future growth.

Alongside these macroeconomic successes, Cambodia's economic structure has undergone a significant transformation, namely shifting from a reliance on agriculture to a focus on industry and services. Considering GDP, agriculture's contribution has decreased from 35.5 percent in 2000 to 16.5 percent in 2022 while the service sector has

maintained its 36 percent contribution to Cambodia's GDP. Conversely, the industry sector has increased its contribution to GDP from 22 percent to almost 41 percent. The industry sector's growth sets Cambodia on the path towards becoming an industry-based economy, which the Industrial Development Policy 2015-2025 has outlined. Cambodia's economic growth has been sustained by various fundamental factors but most notably through improving effective public financial management (e.g., enhanced revenue collection, efficient budget allocation, and sustainable debt management). Additionally, the trade sector has expanded rapidly and robustly, while the banking sector has maintained financial stability that is characterised by liquidity, robustness, and resilience.

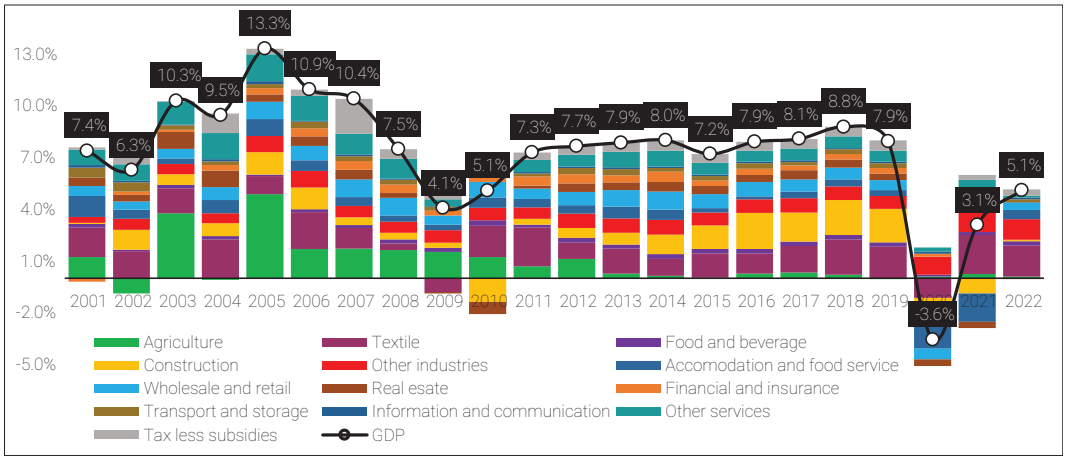
Despite these achievements, the COVID-19 pandemic dealt a significant blow to development efforts by stalling Cambodia's growth. The pandemic's impact has highlighted the vulnerability of Cambodia's narrowly focused economy characterised by a heavy reliance on a few sectors and lack of diversity in export products and markets. As the global landscape rapidly changes, marked by trends like uncertainty in global trade, geo-economic fragmentation and digitalisation, Cambodia must diversify its economy and adapt to the evolving market demands in order to ensure future stability and growth. Furthermore, Cambodia must prioritise addressing structural challenges, such as strategic investments in infrastructure, improving education and skills training, and nurturing an innovative ecosystem. These efforts are essential for Cambodia's continued economic progress.

The objective of this paper is to thoroughly analyse Cambodia's economic growth from 2000 to 2022. Specifically, this analysis will focus on examining historical macroeconomic trends, the contributions of key sectors, the structural transformations within the economy, and key drivers of growth. By analysing these elements, the paper aims to provide insights into areas such as the evolution of Cambodia's economic structure, and the resilience of the economy to external shocks. These insights will offer a clearer understanding of Cambodia's economic trajectory and inform policy recommendations for sustaining growth, fostering diversification and achieving long-term development goals. The findings will set the stage for subsequent papers, which will explore the policy implications and strategic directions necessary for Cambodia's progress toward its vision of long-term quality growth, aiming for sustainable, inclusive, and resilient development.

2. Cambodia economic growth path

Cambodia's economic journey since 1998 has been marked by strong progress. The country's commitment to socio-economic development is evident in its impressive annual growth rate that has been, on average, over 7 percent since 1998. In fact, there have been periods of steady and lasting growth, with some years witnessing double-digit growth rates (Figure 1).

Figure 1: Contribution to growth of GDP by sectors (2001-2022)



Source: National Institute of Statistics (NIS)

2.1 Key trends in Cambodia's economic growth and resilience

The early 2000s marked a period of strong economic progress for Cambodia. GDP growth rates consistently exceeded 7 percent and reached a peak of 13.3 percent in 2005 which transformed the country's economic landscape. This impressive growth was primarily fuelled by key industries, such as garment and textiles, construction, and food and beverage, each playing a vital role in driving the economy. The garment and textile industry, in particular, emerged as a significant contributor to the economy due to robust export demand, substantial FDI, and an abundant workforce. The construction sector also experienced rapid expansion that was driven by significant investments in infrastructure projects, such as road networks and real estate developments, particularly private homes, condominiums, and commercial complexes. The food and beverage industry thrived as well capitalising on the growth of domestic consumption and expanding export opportunities. Furthermore, specific government policies, such as tax incentives, investment promotion schemes, and infrastructure development initiatives, played a crucial role in sustaining this upward trajectory.

The global financial crisis of 2007-2008 significantly impacted Cambodia's economy and led to a sharp decline

in GDP growth (4.1 percent in 2009). Reduced global demand and investment in important industries, such as textiles and construction, caused these industries to suffer. The crisis had widespread effects on the economy and resulted in slower growth and heightened economic uncertainty. Despite these challenges, Cambodia's economy experienced a strong rebound between 2010 and 2019. The GDP growth rates during this period were consistently above 7 percent as a result of successful economic diversification efforts. In fact, in 2017, the GDP growth rate reached 8.8 percent due to strategic government policies that incentivised investment and the return of favourable global market conditions. The garment and textile industry saw a resurgence due to an increase in global demand and sustained FDI. The construction industry also continued its growth trajectory supported by increased investment in infrastructure, including major road expansions and the development of commercial properties in urban centres as well as a booming real estate market. Furthermore, industries like accommodation, food service (both wholesale and retail), and real estate experienced substantial growth and played a vital role in the overall economic recovery. As evidenced above, this period was characterised by economic diversification with a broader range of industries contributing to growth and increased efforts to enhance competitiveness and attract investment.

The beginning of the COVID-19 pandemic in 2020 significantly hurt Cambodia's economy and, in fact, caused a fall in GDP growth (by 3.6 percent). The garment and textile, tourism, and hospitality industries were especially impacted by the pandemic because they heavily depend on external demand and human mobility. The garment and textile industry encountered major difficulties, such as a lack of materials, closed factories, and cancelled orders due to disruptions in global supply chains and decreased demand from key markets. Likewise, the accommodation, food service, and tourism-related industries saw a significant drop in business due to travel restrictions and health concerns, which limited both international and domestic tourism.

Despite these challenges, the Cambodian economy showed signs of recovery in 2021 and 2022. In 2021, GDP growth rebounded to 3.1 percent and further increased to 5.1 percent in 2022. This recovery has been supported by a gradual return of other key industries. For example, the construction industry became more active as infrastructure projects restarted and investor confidence grew. Driven by domestic demand and a partial return of FDI, the real estate market also began to recover. Financial and insurance services demonstrated stability and growth as a result of increased digitalisation and a focus on financial inclusion, which aims to provide financial services to underserved populations. The technology industry also experienced significant growth as demand for online services and remote work solutions surged. However, recovery has been uneven across different industries with some experiencing robust growth while others continue to face challenges. Industries, such as textiles and tourism, were heavily affected by the pandemic and are still struggling to return to pre-pandemic levels. These industries' recovery depends

on different factors, such as the global economy, return of international tourism, and the ability to adapt to changing market trends.

2.2 Key factors explaining the growth trends

Several key factors have contributed to Cambodia's remarkable economic growth over the past two decades. Political stability in Cambodia has allowed the country to prioritise socio-economic development with private investment becoming the foundation of its economy. The investment in physical infrastructure and human capital has played a crucial role in supporting sustainable growth, while legal and judicial reforms have been instrumental in creating a favourable business environment. Cambodia's participation in organisations, such as the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO), and free trade agreements, such as the ASEAN Economic Community (AEC), Cambodia-China Free Trade Agreement (CCFTA), Regional Comprehensive Economic Partnership (RCEP), and Cambodia-Korea Free Trade Agreement (CKFTA), has deepened its connections to regional and global value chains. Policy frameworks, such as the Triangular Strategy, Rectangular Strategy, and National Strategic Development Plan, have also played key roles in guiding and shaping Cambodia's development by outlining strategic directions and priorities.

The key industries driving growth, such as garment and textiles, tourism, construction, and real estate, are all experiencing significant benefits from foreign investment that have led to job creation and income generation. In particular, the garment and textile sector has experienced substantial growth due to significant investments primarily from China. The achievement of fiscal stability, supported by Public Financial Management Reform, has been a crucial factor in supporting economic expansion. Between 2000 and 2022, the Cambodian government's current revenue increased by nearly twenty times—from KHR1.4 trillion in 2000 (10 percent of GDP) to KHR27.5 trillion in 2022 (17 percent of GDP). Total government expenditure, on the other hand, increased sixteen-fold during the same time period. In 2022, it was KHR32.4 trillion representing 20 percent of GDP, while in 2000 it was KHR2.0 trillion and 14 percent of GDP (MEF 2019).

Effective management of public debt has allowed Cambodia to maintain a debt level of approximately 25 percent of GDP, which is well below the 40 percent of GDP threshold recommended by the International Monetary Fund (IMF) for developing countries in 2022. Maintaining a lower public debt is crucial for ensuring long-term financial stability, as it reduces the risk of debt distress and enhances the government's ability to manage future economic shocks.

Meanwhile, Cambodia's financial sector has undergone significant reforms, particularly in the banking industry, which was previously distrusted. These reforms have resulted in a more robust and liquid banking sector. International reserves amounting to USD18 billion continue to provide a secure buffer covering the country's imports for up to six months. The surge in mobile electronic payments in 2022 to USD272.8 billion, which is approximately

seven times the GDP, signifies a remarkable advancement in digital financial inclusion and showcases the evolving landscape of financial transactions (NBC 2023).

Within exports, Cambodia's trade volume has surged nearly sixteen-fold, soaring from USD3.0 billion to USD48.2 billion between 2001 and 2023[1]. This dramatic increase reflects Cambodia's growing integration into trade systems that have been driven by the adoption of more open trade policies and progressive domestic reforms. Additionally, trade preferences played a significant role, particularly for the key export industries such as garments and textiles, footwear, bicycles, and electronics. As a result, Cambodia has positioned itself as an important participant in the global market and has become a strong exporter of these goods. Its position fosters robust economic growth and has enabled Cambodia to expand its trade networks both regionally and internationally.

FDI has been vital to Cambodia's economic growth. In fact, FDI has led to a significant rise in registered capital from USD9 billion in 2010 to USD44.5 billion in 2022 (NBC 2023). Robust external demand has caused exports of both garment and non-garment manufacturing products to quadruple from USD4 billion in 2010 to USD15 billion in 2018 (MEF 2019). Additionally, an unprecedented surge in domestic consumption has elevated economic activities and resulted in the highest tax revenue collected in 2019 (18.6 percent of GDP), which is remarkable considering tax revenue was 12.6 percent of GDP in 2014 (MEF 2019).

1 The International Trade Centre's Trade Map, accessed at https://www.trademap.org/

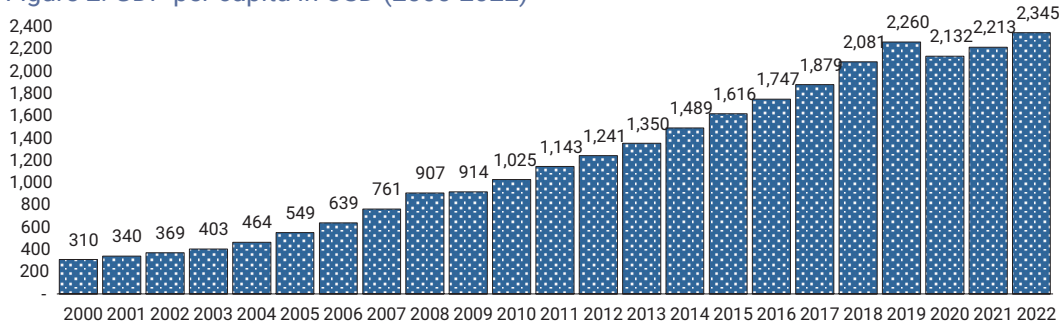
In response to the COVID-19 pandemic, the Royal Government of Cambodia (RGC) implemented the "Strategic Framework and Programs for Economic Recovery in the Context of Living with COVID-19 in a New Normal, 2021-2023" to maintain the livelihood of its citizens and create a lifeline for affected businesses. Various intervention measures were introduced, including tax relief for affected businesses in priority industries, wage subsidies for suspended workers, cash transfers to poor and vulnerable households, reskilling and upskilling for terminated workers, and better credit access for businesses in targeted industries. As a result, GDP growth gradually recovered to 3.1 percent in 2021 and 5.1 percent in 2022. However, the slow recovery has also delayed the full restoration of investment confidence. The pandemic has undeniably taken a toll on past development achievements and left the country's Sustainable Development Goals behind schedule. Furthermore, the Russia-Ukraine war, geo-political tension, and uncertain global trade order have added pressure on the recovery momentum. This has hindered Cambodia from quickly returning to its potential growth path and has affected the country's long-term vision.

2.3 GDP per capita surge and social progress

Despite fluctuations in growth rates, Cambodia has experienced significant growth in its GDP per capita, which has increased more than sevenfold from USD310 in 2000 to USD2,345 in 2022 (Figure 2). Higher GDP per capita has been accompanied by an improvement in living standards, a reduced poverty rate, and decreased income inequality, all of

which indicate positive socio-economic development. Between 2004 and 2019, the poverty rate in Cambodia significantly decreased from 53.2 percent to <10 percent due to rapid economic expansion and structural changes that enhanced the standard of living. Additionally, access to basic services, such as electricity, water, sanitation, health, and education, have significantly improved over time. Such advancements have narrowed the gap in living standards between rural and urban households, which is shown by a decrease in the Gini Coefficient from 0.41 in 2007 to 0.29 in 2014. Yet, it is important to note the Gini Coefficient increased slightly to 0.32 in 2019/2020 (MOP 2022).

Figure 2: GDP per capita in USD (2000-2022)



Source: National Institute of Statistics (NIS 2024)

3. Sectoral contributions to economic growth

Over the last two decades, Cambodia's economic structure has significantly transformed (Figure 3). As the country moved toward an industrial economy, the agricultural industry's contribution to GDP subsequently shrunk from 36 percent in 2000 to 16 percent in 2022. However, agriculture's contributions increased again in 2009 due to the global financial crisis and again in 2020 due to the COVID-19 pandemic. These two major economic events led to an increase in commodity prices resulting from supply shocks. However, afterwards, the agricultural industry's contribution to Cambodia's GDP began declining which indicated decreased dependence on sector. Furthermore, employment in the agriculture industry dropped from 56 percent in 2008 to only 36 percent in 2021 (Figure 4). Similarly, the biggest subsector in agriculture, crops, has steadily declined its share of GDP from 16 percent to 10 percent, between 2000 and 2022, respectively. The second highest contributing subsector, fisheries, has also contributed less to GDP (down from nearly 11 percent to approximately 3 percent between 2000 and 2022). Livestock and poultry, on the other hand, have similarly contributed less to GDP dropping roughly 2 percent between 2000 and 2022. Regardless of its decreased importance to Cambodia's GDP, agriculture remains a critical sector to

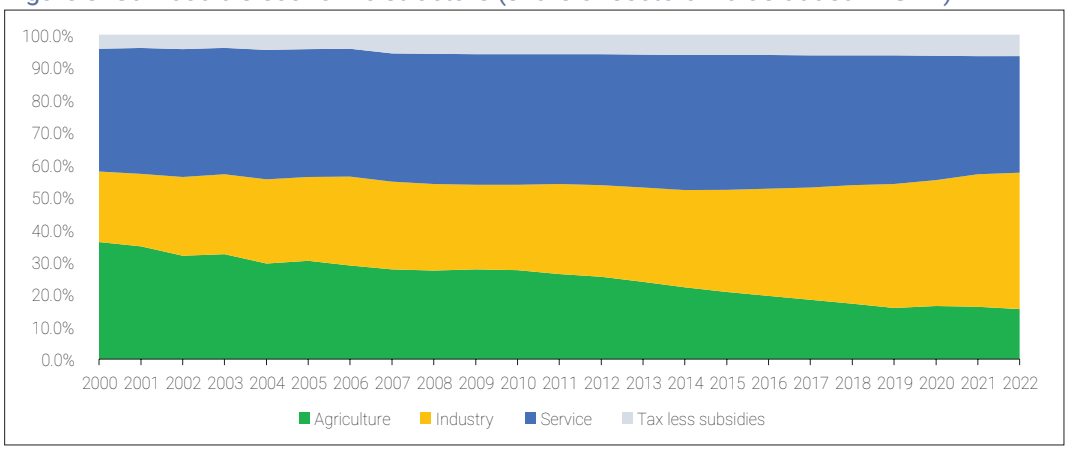
ensure food security and persists in being the occupation of more than a third of the population.

Within other industries, such as garments and textiles, footwear, construction, and food and beverage, contributions to Cambodia's GDP have expanded rapidly from 22 percent in 2000 to 41 percent in 2022. Causes for this expansion can be attributed to various factors. For instance, Cambodia's vision in moving the country toward an industrial economy as well as the rapid transformation of global and regional architecture combined with the geopolitical landscape have visibly highlighted the opportunity for Cambodia's industrial development. The structural industrial transformation in Cambodia will be defined by the following three important factors: changes in regional cost structure and labour costs; Cambodia's favourable geographical positioning between the two potential industrial regions of Bangkok and Ho Chi Minh City and close proximity to other large East Asian economies; and changes to the supply chain aimed at ensuring reliability and mitigating risks arising from geopolitical issues, natural disasters, labour unrests, and other unexpected events.

Within Cambodia, the Industrial Development Policy 2015-2025 provides a roadmap for the development of the industrial sector. By sub-sector, textiles, clothing, and footwear has continued to provide a significant contribution to GDP with nearly 14 percent in 2022 (up from 9 percent in 2000). Simultaneously, employment across the industrial sector has also grown from 16 percent in 2008 to 27 percent in 2021. While existing industries have scaled up over time, several newly emerging industries have opened in the Kingdom as part of economic diversification. The newly emerging industries include the automotive industry; bicycles; solar panels; electronic gadgets; tyre production; and furniture. Despite the disruptions caused by the pandemic, strong external demand for non-garment manufacturing products have led to substantial export growth, increasing by 28.2 percent in 2020, 47.3 percent in 2021, and 24.7 percent in 2022. These exports amounted to USD3.4 billion, USD5.1 billion, and USD6.4 billion, in the respective years (Figure 5).

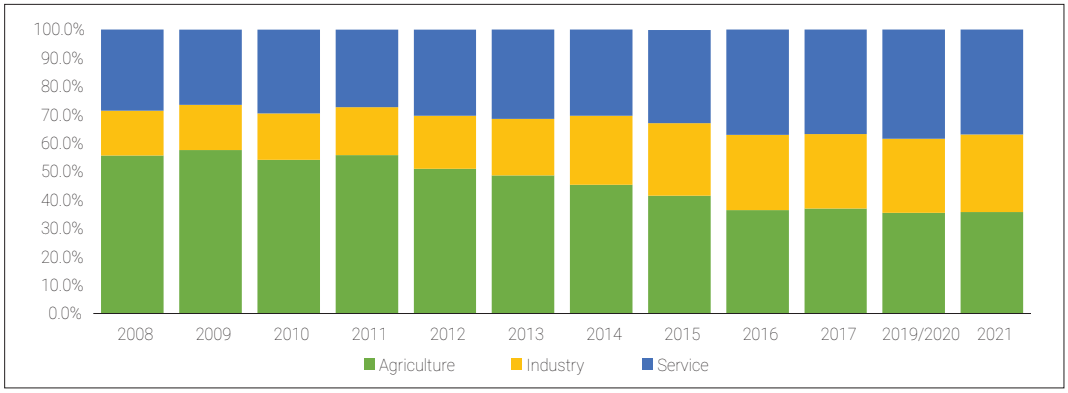
The service sector (i.e., accommodation and food service, real estate, financial and insurance, transportation and storage, and information and communication) largely maintained its contribution to Cambodia's GDP between 2000 and 2022, from 38 percent to 36 percent, respectively. Despite the pandemic's severe impact, the service sector's strong performance helped mitigate some of the effects on the economy. Employment in the service sector gradually increased from 28 percent in 2008, to 37 percent in 2021. It is worth noting that the tourism-related sectors (accommodation and food services, transportation, wholesale and retail and entertainment) were one of the hardest-hit sectors by COVID-19, mainly due to fears around spreading the disease and widespread travel restrictions. In 2020, nearly 3,000 tourism-related businesses shut down or temporarily closed, which resulted in 50,000 unemployed workers and put more than 30,000 jobs in related sectors at risk.

Figure 3: Cambodia's economic structure (share of sectoral value-added in GDP)



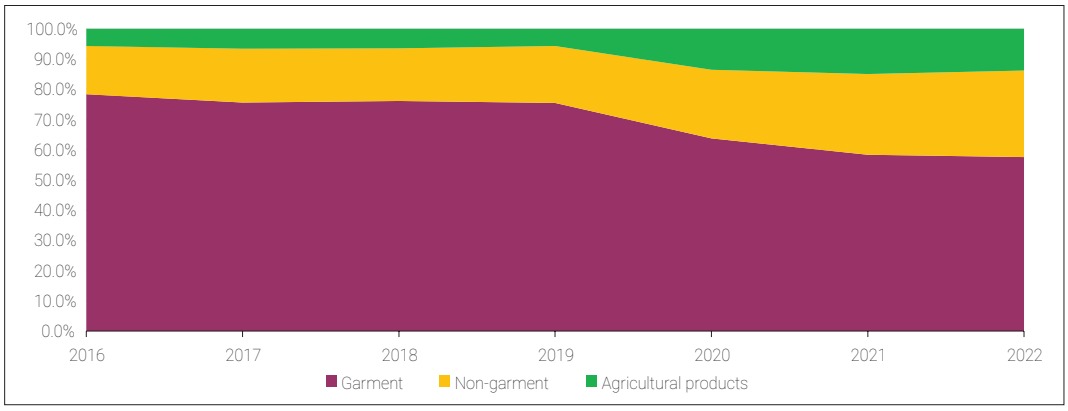
Source: National Institute of Statistics (NIS 2024)

Figure 4: National employment by sector



Source: National Institute of Statistics (NIS 2024)

Figure 5: Cambodia's export structure (share of exported products to total export)



Source: General Department of Customs and Excise (GDCE 2024)

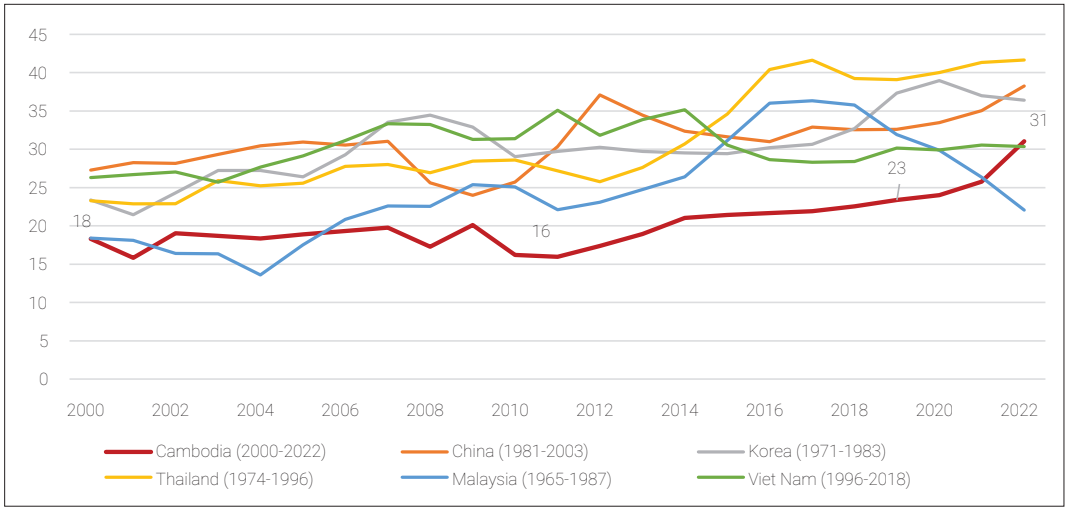
4. Historical trends of key macroeconomic indicators

4.1. Investment-to-GDP ratio

The investment-to-GDP ratio, which is represented by gross fixed capital formation as a percentage of GDP, is a vital economic metric providing crucial insights into investment levels that support economic activities. Figure 6 depicts the trajectory of Cambodia's gross fixed capital formation as a proportion of its GDP from 2000 to 2022, compared to various countries with comparable income levels to Cambodia during that period. Starting at approximately 18.3 percent in 2000, Cambodia's investment-to-GDP ratio exhibited a notable upward trend increasing to over 31 percent by 2022. This consistent increase indicates a robust investment climate driven by favourable government policies, infrastructure development, and increasing market opportunities that fostered growing confidence in the Cambodian economy among investors. From 2000 to 2007, the investment-to-GDP ratio rose from 18 percent to 20 percent. This period was marked by a significant influx of FDI and domestic investment that were driven by government incentives, tax reforms, and increasing trade partnerships, which were supported by favourable policies and global interest. The surge in investment was instrumental in driving Cambodia's economic growth and has positioned it as one of Southeast Asia's rapidly expanding economies. However, the 2008 global financial crisis adversely affected Cambodia's investment landscape, resulting in a significant downturn in the investment-to-GDP ratio as FDI dwindled, domestic investment stalled, and investor confidence wavered amidst economic uncertainties. After 2010, Cambodia's capital formation witnessed a resurgence, which was characterised by steady growth and a maturing investment environment that can be attributed to a series of structural reforms, enhanced market regulations, and improved business climate. This strong rebound can be attributed to a combination of internal economic reforms, political stability, and deeper integration into the global economy that enhanced Cambodia's appeal to investors.

Within the region, Cambodia's average investment-to-GDP ratio between 2000 and 2022 was 20 percent. This average ratio is modest, especially when compared with the major fast-growing economies of Asia, such as China, Korea, and Thailand, which have historically demonstrated investment-to-GDP ratios surpassing the 30 percent mark (Figure 7). The high intensity of investment fuelled each country's respective periods of accelerated economic growth and development. By contract, Cambodia's ratio has not yet reached such heights, indicating it needs to boost the formation of capital within its economic structure. Both Malaysia and Vietnam also surpass Cambodia's investment intensity with an average ratio of 24 percent and 30 percent, respectively. Cambodia is currently below the average investment-to-GDP ratio found in lower-middle-income countries (26 percent) indicating a comparatively more conservative investment environment for its level of development and economic growth.

Figure 6: Gross fixed capital formation as a percentage of GDP (2000-2022) of Cambodia and selected countries in Asia



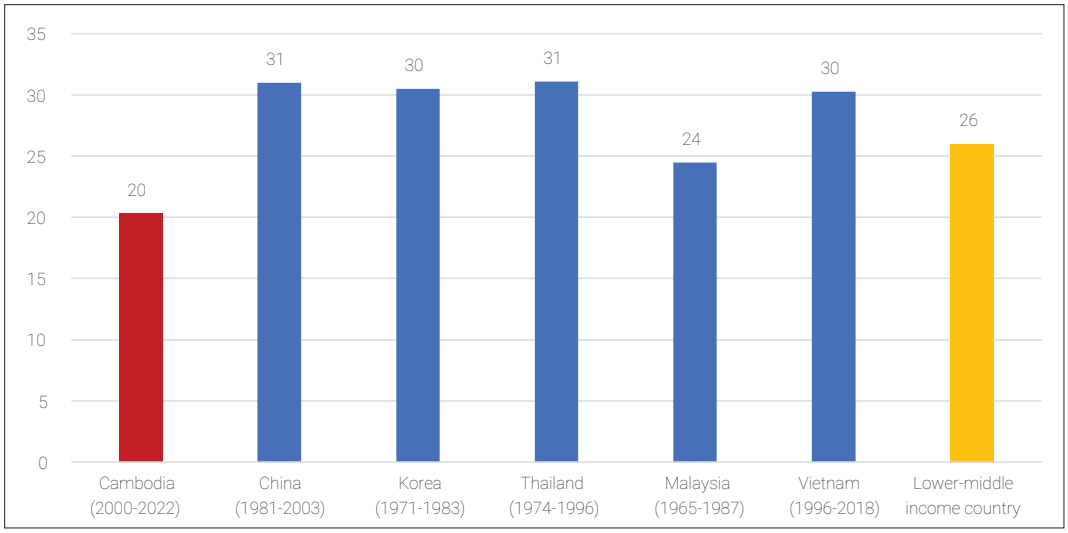
Source: World Development Indicator (2024)

The comparison between Cambodia and other Asian countries reveals significant implications for Cambodia's economic strategy. Most importantly, it emphasises the opportunity for Cambodia to raise its investment-to-GDP ratio thereby aligning it with the higher levels that fuelled the strong growth of other nations. As other countries' economic trajectories have shown, increasing the investment-to-GDP ratio could catalyse economic development.

4.2. Human capital development

The data on Cambodia's Human Capital Index (HCI) from 1996 to 2019, shown in

Figure 7: Regional perspective on gross fixed capital formation - Cambodia in context

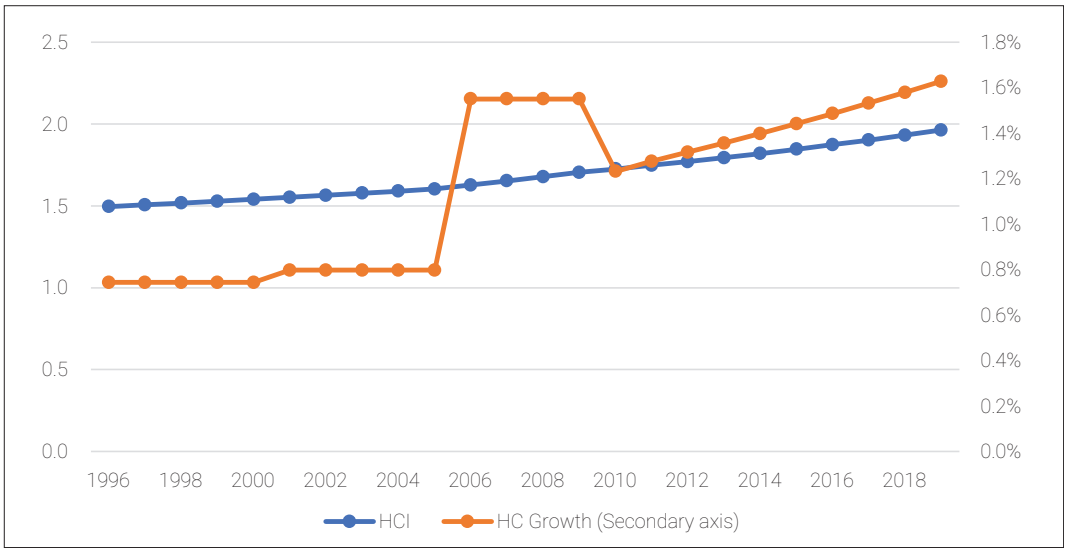


Source: World Development Indicator (2024)

Figure 8, suggests a gradual improvement in human capital development. The HCI value increased from 1.5 in 1996 to 2.0 in 2019 with a noticeable rise in the growth rate after 2005. Initially from 1996 to 2005, the HCI remained relatively stagnant at 1.5 with an annual growth rate of 0.7 percent. This period reflects a slower pace of development likely influenced by factors such as the country's post-conflict recovery phase and the time needed to rebuild and reform educational systems. However, from 2006 onwards, the HCI demonstrated a consistent increase. The year-over-year growth rate doubled from 0.8 percent to 1.6 percent between 2005 and 2006, indicating a major change in the emphasis on human capital development. This change may be due to several factors, including increased government investment in education, reforms in the education sector, and international aid and development programmes focused on improving educational infrastructure and access. However, the HCI resumed its upward trend shortly after and reached 1.8 percent by 2012 and finally 2.0 by 2019, with the growth rate stabilising at 1.6 percent. The steady increase in the HCI demonstrates Cambodia's commitment to improving its human capital through education. The steady increase in the HCI is a positive sign that suggests improvements have been made in educational attainment, skill development, and potentially healthcare as well since all these factors are typically included in the computation of the HCI.

Despite making commendable strides in human capital development, Cambodia still falls behind its regional counterparts. Having an HCI score of 1.9, Cambodia falls behind China (2.7) and Vietnam (2.8), who have better utilised their education and healthcare systems to develop human capital. The gap becomes more significant when you look at Malaysia and Thailand, with scores of 3.1 and 2.8, respectively,

Figure 8: Trajectory of human capital index in Cambodia (1996-2019)



Source: Groningen Growth and Development Centre (2024)

highlighting the benefits of significant investments in human capital. The difference is yet more pronounced when compared to countries like Japan and South Korea, with HCI scores of 3.6 and 3.8, respectively. All the above countries show how dedicated health and education policies can transform economic development. For Cambodia, regional disparities underscore an urgent need for targeted reforms. To accelerate growth and development, Cambodia should prioritise strengthening its education and health sectors and draw upon lessons from its neighbours to advance its human capital development.

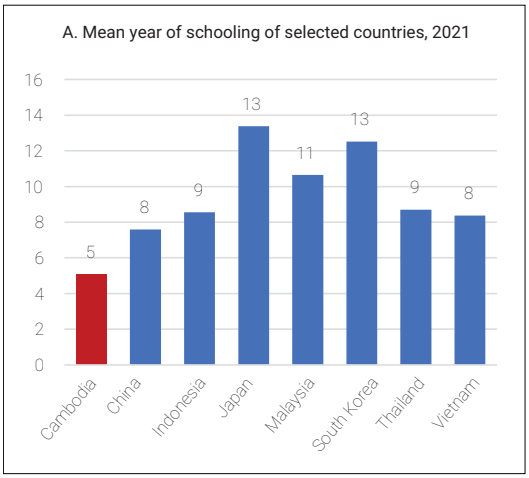
Educational attainment is a fundamental component of human capital development. For Cambodia in particular, it appears to be a limiting factor compared to the educational benchmarks set by neighbouring countries. With its citizens having, on average, 5 years of schooling, Cambodia is significantly lower than that of its regional peers. China and Vietnam both report an average of 8 years, and Indonesia and Thailand report their citizens have 9 years of schooling (Figure 9A). Looking at the more advanced educational systems of Malaysia, South Korea and Japan, the average number of years of schooling stands at 11, 12.6 and 12.7 years, respectively. The quality of education, often measured by standardised assessments like the Programme for International Student Assessment (PISA), further indicates the disparities in human capital development across the region. Cambodia's PISA score stands at 337. Its score is substantially lower than that of Indonesia (369) and Thailand (394) pointing to an intraregional gap in educational quality (Figure 9B). Malaysia's PISA score of 404 suggests a moderate level of educational proficiency compared to Cambodia. The disparity becomes even more stark when comparing Cambodia to the top performers in the region. Hong Kong, South Korea, and Japan boast PISA scores of 520, 523, and 533, respectively, indicating highly developed education systems that produce students who excel in critical thinking and problem-solving, which are key skills in a knowledge-driven economy. Vietnam's score of 560 has been widely recognised as a significant factor contributing to its growing economic stature.

The regional comparison presented above underscores the dual challenges confronting Cambodia's human capital development. Enhancing the quality of education is essential to equip students with the necessary skills for success in a globally competitive economy. Furthermore, addressing disparities in educational attainment, particularly in rural and marginalised communities, is crucial for ensuring inclusive and equitable access to education. Neglecting either dimension of the education system jeopardises Cambodia's ability to compete effectively on the global stage and fully leverage its human capital potential. By addressing these challenges comprehensively, Cambodia can drive sustainable economic growth and societal advancement, and position itself for long-term prosperity and development.

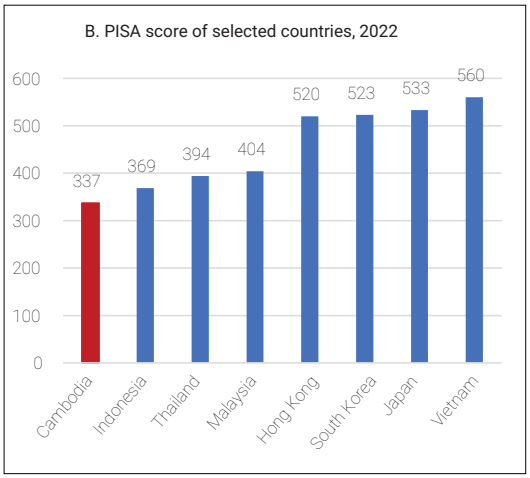
4.3. Demographic dynamics and its economic implications

Cambodia's demographic evolution between 1995 and 2022 has gone through significant transitions. The population growth rate decreased from 2.6 percent in 1995 to 1.1 percent in 2021 indicating a transition from having a rapidly growing

Figure 9: Mean year of schooling and PISA score of selected countries



Source: Human Development Index and OECD (2022)

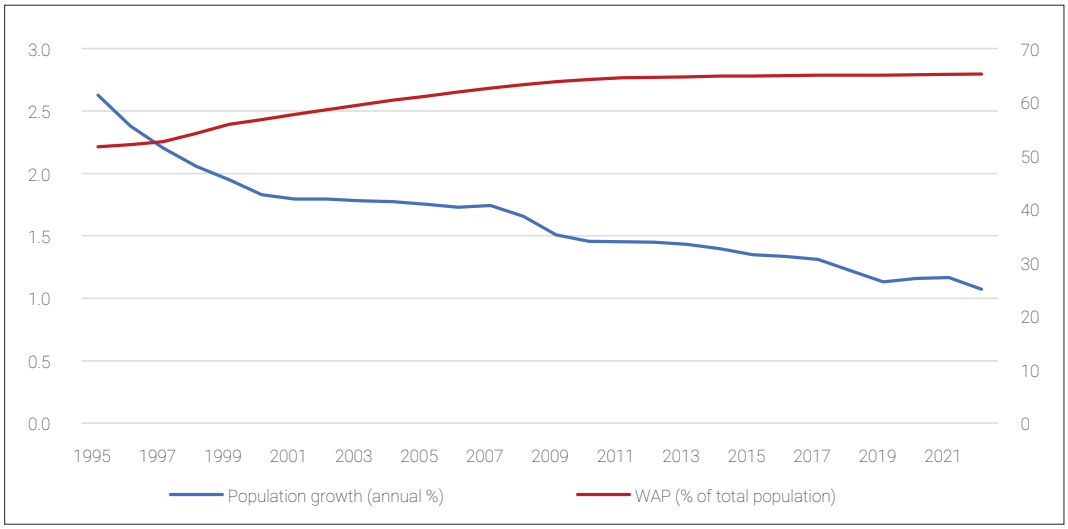


Source: World Development Indicator and OECD (2022)

young population to a slower-growing older population (Figure 10). Possible reasons for this decrease in the population growth rate include better access to healthcare and family planning, urbanisation, changes in family traditions, and educational progress, particularly among women. Even as the population growth declined, the total population steadily increased from 10.9 million in 1995 to 16.8 million in 2022. Cambodia's changing demography is also reflected in the growing working-age population (WAP) (from 52 percent in 1995 to 65 percent 2021) indicating a matured labour market. The increased proportion of the WAP could lead to possible economic expansion and advancement since a larger labour force can lead to higher production, consumption, and savings, which are all crucial factors for economic advancement.

Simultaneously, there has been a noticeable decrease in the proportion of the population under 14, which dropped from 45 percent in 1995 to 29 percent in 2022. This decline underlies the slowing birth rate and an overall shift towards smaller family units. However, having a smaller youth population has been balanced by the increasing segment of the population over 65 years old, which has doubled from 3 percent to 6 percent between 1995 and 2022. The rise in the elderly population signals a growing demand for healthcare, social services, and pension systems that have the potential to reshape economic demand and labour market compositions. Adding complexity to this demographic landscape is the downward trend in labour force participation rates, particularly among women, which have fallen from 77 percent in 1995 to 70 percent in 2019 (Figure 11). The declining labour force participation rate occurred despite an overall increase in the working-age population, and may stem from various challenges, such as inadequate job opportunities and insufficient support for childcare or elderly-care that hinder full economic engagement. While the

Figure 10: Cambodia's population growth and working-age population (WAP)



Source: World Development Indicator (2024)

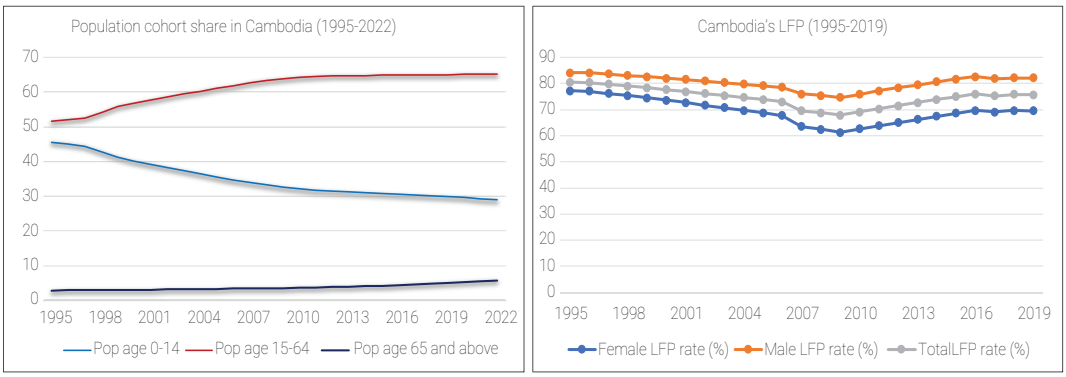
decline in participation among men was less significant, having any decline still suggests underutilisation of the working-age population.

The demographic shifts unfolding in Cambodia present a multifaceted challenge to its economic growth trajectory. While the expanding working-age population offers promise for economic expansion, harnessing this potential requires effective labour market integration strategies. The growing working-age population has the potential to drive productivity and innovation provided there are mechanisms in place to fully utilise this demographic cohort. However, this demographic advantage is offset by concerning trends, including an ageing population and a declining population growth rate. These shifts impact the dependency ratio—the ratio of non-working (young and elderly) to working-age individuals—which can increase economic pressure and reshape demand for various services like healthcare and social support systems within the economy.

4.4. Labour market dynamics

The employment landscape in Cambodia underwent a structural transformation from 1995 to 2021 that reflected the country's evolving economy. Initially in 1995, agriculture dominated the employment sector, comprising 79 percent of the workforce. However, agriculture's dominance steadily diminished and by 2021 it employed 39 percent of the workforce. The gradual shift away from agriculture reflects Cambodia's broader economic trajectory. This shift has been characterised by increased mechanisation and improvements in agricultural efficiency that have resulted in reduced labour demand, as well as a deliberate focus on industrialisation. In fact, the industrial sector's share of employment has notably risen from 5 percent to 25

Figure 11: Cambodia's population cohort and LFP rate (1995-2022)

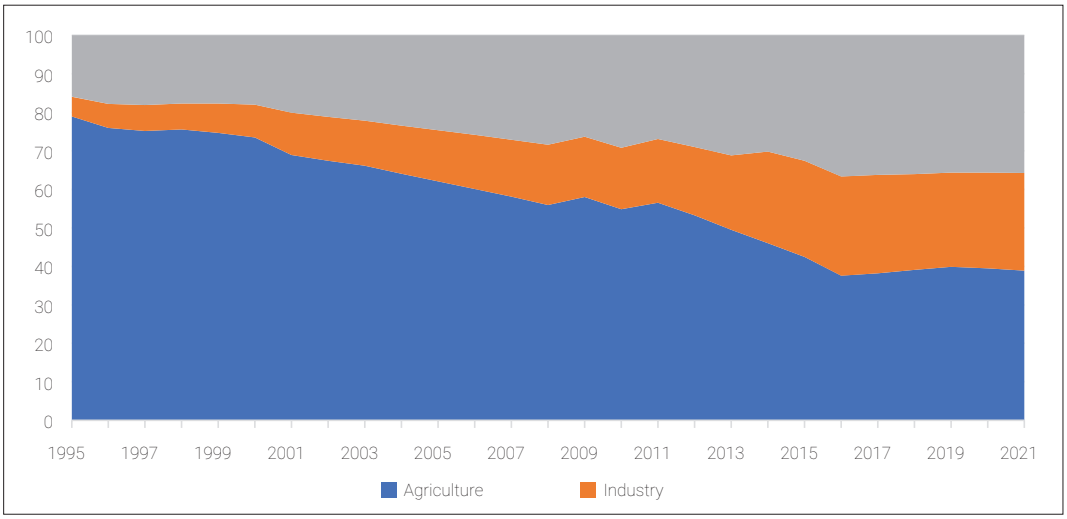


Source: World Development Indicator (2024)

percent within the same timeframe. This growth showcases Cambodia's successful venture into manufacturing, especially in the garment industry, supported by favourable investment policies and globalisation. Concurrently, the service sector has seen significant growth, doubling its employment from 16 percent to 36 percent of the total workforce. As Cambodia's economy progressed, there has been a rising demand for services, such as tourism, finance, business services and telecommunication, which typically expand alongside economic development and increasing income.

Cambodia's structural shift has critical implications for its economic trajectory. The move from an agrarian-based economy to one dominated by industry and services suggests the country is in an advancing stage of economic development most associated with rising living standards and a growing middle class. However, this transition also requires an adaptive educational system and vocational training programmes to equip workers with the necessary skills for emerging economic sectors. Since 2016, the stable distribution of employment across agriculture, industry, and services signifies a phase of economic consolidation. For sustained economic growth and resilience, it is imperative for Cambodia to maintain this balanced approach to its economy. Maintaining such a balance will require supporting the industry and service sectors as engines of economic growth while implementing measures to ensure the agricultural sector remains viable and competitive. Moreover, the transition underscores the need for policy frameworks that facilitate smooth labour transitions. Workers shifting from agriculture to emerging economic sectors require support through re-skilling initiatives, access to education, and labour mobility programmes. It is equally important to develop social safety nets to protect the workforce during this transition.

Figure 12: Evolution of sectoral employment distribution in Cambodia (1995-2021)



Source: World Development Indicator (2024)

5. Analysing the drivers of economic growth in Cambodia

In this section, we use the Growth Accounting Framework to analyse key factors influencing Cambodia's economic growth between 2000 to 2022. We chose this period of analysis because it captures significant changes in Cambodia's economic landscape, beginning with a phase of recovery from the civil war's extensive turmoil and advancing towards a period of dynamic industrial and service growth. The framework is based on the Solow-Swan growth model (Solow 1956; Swan 1956), which attributes growth to three fundamental inputs: capital, labour, and Total Factor Productivity (TFP). TFP measures the efficiency of capital and labour utilisation in the production process (Loayza and Pennings 2022). The basic neoclassical growth model is expressed as:

$$Y_t = K_t^{1-\beta} (A_t h_t L_t)^{\beta}$$

Where at a given year (t), Y_t represents real output, K_t denotes capital stock, h_t denotes human capital per worker, L_t denotes the number of workers, A_t denotes the total factor productivity, and β is the elasticity of output to labour. Following Rajah and Leng (2022), we differentiate capital stock into public capital and private capital to discern their distinct role in fuelling economic growth. Consequently, the derived formula in growth terms for the decomposition of GDP growth is expressed as:

$$g_Y = g_A + \varphi g_{K.public} + \gamma g_{K.private} + \beta g_h + \delta g_L$$

Where g denotes the growth rate of the respective subscript variables.

The data used for this growth decomposition analysis were sourced from the Penn World

Table version 10 (PWT 10.01) and the World Development Indicators (WDI), with specific data on public and private capital stocks obtained from the International Monetary Fund (IMF).

The growth decomposition of Cambodia's economy from 2000 to 2022 shown in Figure 12 reveals insightful trends in which factors have been driving Cambodia's economic growth. Between 2000 and 2019, Cambodia's economic growth rate of 8.1 percent was principally propelled by private capital, which contributed 3.7 percent, and highlights how private investment has driven economic development. TFP also played a significant role by contributing 2 percent and reflected gains in efficiency and innovation in the use of labour and capital. Public capital's moderate 1.6 percent contribution underscores the government's investment in supporting growth. Labour and human capital displayed smaller contributions and indicate potential under-investments in human resource development.

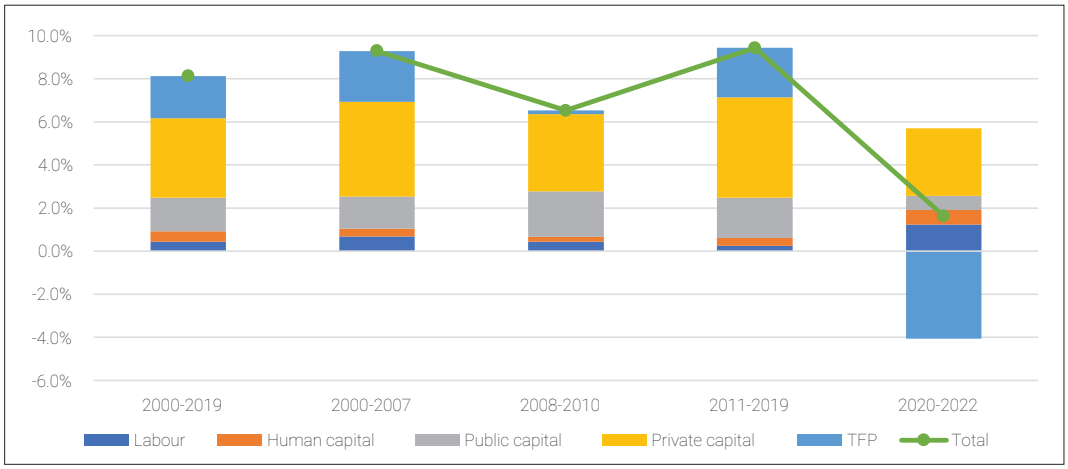
Between 2000 and 2007, the Cambodian economy experienced a higher growth rate of 9.3 percent. During this period, private capital contributed 4.4 percent indicating a surge in private sector investment and entrepreneurship. TFP's contribution was robust at 2.4 percent signifying effective improvements in production efficiencies during this time. However, contributions from labour and human capital were relatively low suggesting more modest advancements in workforce capacity and educational investments.

During the global financial crisis (2008-2010), the growth rate declined to 6.5 percent. Public capital contribution increased to 2.1 percent, which reflects a possibly strategic increase in public investment to counter the economic downturn. By contrast, TFP's contribution plummeted to 0.2 percent, which is likely a consequence of the global slowdown in economic activities that negatively impacted productivity. Yet, even within this crisis, private capital continued to provide significant contributions to the growth rate (3.6 percent) though it was lower than the previous period.

From 2011 to 2019, the growth rate rebounded to 9.4 percent. Private capital contributions peaked at 4.7 percent suggesting continued robust private sector activity. TFP saw a resurgence to 2.3 percent, which indicated a bounce back in economic efficiencies and innovative gains post-crisis. Public capital investment regained its consistent contribution of 1.9 percent, and the inputs from labour and human capital also remained relatively constant indicating a steady but limited influence on overall economic growth.

Most recently between 2020 and 2022, the growth rate contracted sharply to 1.6 percent as a result of the COVID-19 pandemic. A significant negative TFP contribution of 4.1 percent during these years indicates the disruptions and inefficiencies brought about by the pandemic. On the other hand, labour's contribution saw an increase to 1.2 percent perhaps due to a greater number of workers entering the market or shifts in labour dynamics due to the pandemic. Contributions from both public and private capital declined during this period reflecting economic uncertainties and an overall reduction in investment activity. Human capital saw a slight increase in its contribution, which suggests continued or intensified efforts in education and skill

Figure 13: Key drivers of Cambodia's GDP growth, 2000-2022



development even in the face of economic headwinds.

The economic growth decomposition analysis presented above reflects a dynamic economic landscape in Cambodia influenced by global and local events, shifts in policy and investment, and changing resource use. The economic trajectory from 2000 to 2022 shows a country undergoing significant changes, including periods of recovery, rapid expansion, economic disruptions, and most recently, a worldwide pandemic. The fluctuating contributions of private capital, public capital, labour, and human capital highlight the diverse set of levers influencing Cambodia's economic trajectory. Private capital's prominent role across the years suggests a business climate conducive to investment and entrepreneurial activities that have likely been bolstered by policy measures aimed at liberalisation and attracting investment. The variable yet critical inputs from public capital reflect the Cambodian government's commitment to infrastructural and developmental projects that lay the groundwork for sustained economic activity. Albeit smaller, the contributions from labour and human capital are equally crucial. These contributions highlight the importance of improving the quality of the labour force and the necessity of educational and skill development initiatives. Since labour and human capital inputs have been relatively stable, it indicates a possible need for policy intervention to enhance human capital and drive sustainable growth further. The significant shifts in total factor productivity, particularly the sharp decline from 2020 to 2022, serve as a stark reminder of the vulnerability of economic progress to unforeseen shocks, like the COVID-19 pandemic. The unprecedented negative contribution of TFP implies a substantial loss in efficiency, likely disrupted by lockdowns, supply chain interruptions, and shifts in consumer and business behaviours. Such a significant drop in TFP emphasises the importance of investing in strategies to build resilience and adaptability within the economy.

6. Challenges and policy directions

Currently, Cambodia faces the difficult task of maintaining the remarkable economic growth of the last 20 years while also tackling new structural obstacles in the context of an evolving global economic order. Despite significant progress in establishing macroeconomic stability and achieving an enviable average annual growth rate between 2000 and 2019, certain vulnerabilities threaten Cambodia's continued upward trajectory. The challenges include a heavy reliance on labour-intensive industries, a narrow industrial base, and limited diversification, all of which expose the nation to external shock risk and the middle-income trap. The country's industrial sector, while expanding, is still characterised by low complexity and value addition, with a large informal sector and a shortage of medium- and high-skilled labour, which is particularly pronounced in industries reliant on technology and innovation. Recent assessments in WB (2024) indicate that although Cambodia has made significant progress in diversifying manufacturing exports and capturing higher value-added manufacturing, it is critical for Cambodia to upgrade the sector. Doing so will further enhance the country's global competitiveness. Strategic efforts to move up value chains and enhance economic complexity are also essential and align with this broad policy priority.

Another challenge Cambodia needs to address in its next phase of growth is to improve its human capital and skills development. While the country has made moderate progress in building human capital and upgrading skills for its workforce (WB 2024), these gains have been accompanied by poor learning outcomes and skill mismatches, which could potentially constrain economic advancement. Only 10.7 percent of Cambodia's labour force is involved in medium- and higher-level technical occupations which is significantly lower than Vietnam's 19.1 percent and Malaysia's 29.4 percent. The regional disparity is reflected in the educational landscape, where the workforce's educational attainment falls short of the evolving demands of a knowledge-based global economy. Consequently, there is a growing skills gap in the labour market. To address this issue, it is essential for the government to prioritise investments in education and vocational training programmes that are aligned with the needs of the economy.

Improving the business environment remains an urgent priority for Cambodia as it seeks to sustain economic growth and enhance global competitiveness. Despite recent progress, the costs associated with registering a business, trading across borders, and accessing basic utilities like electricity remain significantly higher compared to structural peers, necessitating further reforms. Additionally, the broader business environment in Cambodia is not yet conducive to firm productivity and competition (WB 2024). Addressing these challenges is essential to fostering a more dynamic and competitive market. Enhancing the business environment is crucial to foster a dynamic and competitive market. Key areas requiring immediate attention include reducing bureaucratic red tape, simplifying the business registration process, and lowering the

costs associated with cross-border trade and utilities. Furthermore, strengthening legal and regulatory frameworks, improving transparency, and combating corruption will be vital in building investor confidence.

Notably, Cambodia's infrastructure and connectivity shortcomings hinder efficient business operations and market access. Cambodia's logistics performance in 2023, as measured by the Logistics Performance Index (LPI) Score from the World Bank, highlights these challenges. Cambodia's ranking in 2023 was 115 out of 139 countries, with a score of 2.4 indicating it is below average on indicators such as customs efficiency, infrastructure quality, international shipments, logistics competence, tracking, and timeliness. Moreover, the assessment of Cambodia's trade facilitation in the UNESCAP (2022) assessment pointed out significant limitations, particularly in paperless and cross-border trade. These issues underscore the urgent need to improve connectivity, especially in transport, logistics, energy, digital infrastructure, and provide better basic urban services. Addressing these gaps is crucial for enhancing Cambodia's business environment and overall economic performance. Strategic investments and reforms in these areas will not only boost firm productivity and competitiveness but also attract foreign investment and strengthen Cambodia's position in the global market.

Effective governance and institutional capacity are essential for managing Cambodia's development challenges and achieving its long-term objectives. While significant progress has been made, especially in the areas of government effectiveness, rule of law, public financial management reforms (WB 2024), robust institutions capable of leading and coordinating economic strategy, overseeing implementation, and addressing operational difficulties are still needed urgently. Recognising this, the RGC has prioritised institutional change as part of its Pentagonal Strategy, which emphasises the critical role of efficient governance structures in navigating the complexities of a developing economy. Key policy priorities include deepening public sector institutional reforms, improving the quality of public spending, reducing corruption, and strengthening fiscal transparency. Strengthening these areas is essential for ensuring that Cambodia can effectively respond to evolving economic demands and continue its positive trajectory toward sustainable development.

Moving forward, Cambodia's policy directions are focused on building upon past achievements and addressing emerging challenges to realise its vision of long-term quality growth, aiming for sustainable, inclusive, and resilient development. Central to this vision is the implementation of comprehensive initiatives like the Pentagonal Strategy-Phase I, which prioritises key areas such as creating robust human capital development, fostering economic diversification, stimulating private sector growth, enhancing resilience to external shocks, and embracing digital transformation. By concentrating efforts on these critical domains, Cambodia aims to ensure sustained economic growth, foster inclusiveness across society, and realise its long-term development objectives.

References

General Department of Customs and Excise [GDCE]. 2024. https://stats.customs.gov.kh/en/publication

Groningen Growth and Development Centre. 2024. Penn World Table 10.0. https://www.rug.nl/ggdc/productivity/pwt/?lang=en

Loayza, Norman V., and Steven Pennings. 2022. *The Standard Long Term Growth Model*. The Long Term Growth Model. V. N. Loayza and S. Pennings. Washington DC, The World Bank.

MEF [Ministry of Economy and Finance]. 2019. Revenue Mobilization Strategy 2019-2023. Phnom Penh, Ministry of Economy and Finance.

MOP [Ministry of Planning]. 2022. Cambodia Socio-Economic Survey. Phnom Penh, Ministry of Planning.

NBC [National Bank of Cambodia]. 2023. Payment System Annual Report. Phnom Penh, National Bank of Cambodia.

Rajah, Roland, and Alyssa Leng. 2022. *Revising down the rise of China*. Lowy Institute Analysis. Sydney, Lowy Institute.

Solow, Robert M. 1956. "A contribution to the theory of economic growth." *The Quarterly Journal of Economics*, 70(1): 65-94.

Swan, Trevor Winchester. 1956. "Economic growth and capital accumulation." *Economic Record* 32(2): 334-361.

UNESCAP [United Nations Economic and Social Commission for Asia and the Pacific]. 2022. *Digital and Sustainable Trade Facilitation: Global Report 2021*. Bangkok, The United Nations Economic and Social Commission for Asia and the Pacific.

WB [World Bank]. 2022. *Cambodia Poverty Assessment: Toward A More Inclusive and Resilient Cambodia*. Phnom Penh, The World Bank.

WB [World Bank]. 2024. "World Development Indicator", from https://databank.worldbank.org/source/world-development-indicators.

ឯកសារសាវតារទី២

បរិវត្តកម្មរចនាសម្ព័ន្ធ និងកំណើនសេដ្ឋកិច្ចនៅប្រទេសកម្ពុជា

ង៉ូវ ប៉េងហុយ និង ចេង សារុធ

សេចក្តីសង្ខេប

ការសិក្សានេះអង្កេតលើកំណើនសេដ្ឋកិច្ចរបស់កម្ពុជា ដោយប្រើវិធីសាស្ត្រពណ៌នា និងធ្វើបំណែកថ្នាក់ទៅលើផលិតភាពនៃទិន្នផល និងទិន្នន័យការងាររបស់ឧស្សាហកម្មចំនួន១២ ចាប់ពីឆ្នាំ២០០០ ដល់ឆ្នាំ២០២២។

- សេដ្ឋកិច្ចរបស់ប្រទេសកម្ពុជា កំពុងដំណើរការបរិវត្តកម្មរចនាសម្ព័ន្ធ ហើយកត្តាជំរុញកំណើនបាននិងកំពុងផ្លាស់ប្តូរពីវិស័យកសិកម្មទៅវិស័យកម្មន្តសាល និងសេវាកម្ម។
- វិស័យសម្លៀកបំពាក់ និងរាយនភណ្ឌ នៅតែគ្របដណ្តប់ក្នុងវិស័យកម្មន្តសាល ។ ទោះជាយ៉ាងណាក៏ដោយ ការនាំចេញគ្រឿងអេឡិចត្រូនិក និងគ្រឿងម៉ាស៊ីន កសិឧស្សាហកម្ម និងផលិតផលផ្លាស្ទិកបានកើនឡើង ដែលបង្ហាញពីសញ្ញានៃការធ្វើពិពិធកម្ម។
- ទិន្នផលសេវាកម្មដែលអាចធ្វើពាណិជ្ជកម្មបាន (ដូចជាព័ត៌មាន និងទំនាក់ទំនង ការដឹកជញ្ជូន សកម្មភាពសេវាកម្មធុរកិច្ច និងហិរញ្ញវត្ថុ) បានបង្ហាញពីកំណើនជាប់លាប់។
- អត្រាកំណើនផលិតភាពសរុប គឺមានការប្រែប្រួលមិនទៀងទាត់។ ជាមធ្យម វានៅមានកម្រិតទាប បើប្រៀបធៀបនឹងប្រទេសផ្សេងទៀតក្នុងកម្រិតចំណូលដូចគ្នា។
- កំណើនផលិតភាពសរុបក្នុងទស្សវត្សរ៍ចុងក្រោយនេះ ត្រូវបានជំរុញ**កាន់តែច្រើនដោយអន្តរវិស័យ និងតិចជាងមុនដោយការបែងចែកកម្លាំងពលកម្មតាមវិស័យនីមួយៗ**។
  - **ការបែងចែកកម្លាំងពលកម្មអន្តរវិស័យឡើងវិញ** ពីវិស័យដែលមានផលិតភាពទាប ដូចជាវិស័យកសិកម្ម ទៅវិស័យផលិតភាពខ្ពស់ ដូចជាវិស័យកម្មន្តសាល និងសេវាកម្ម បានរួមចំណែកធំបំផុតក្នុងការបង្កើនកំណើនផលិតភាពសរុបក្នុងផ្នែកសេដ្ឋកិច្ច។ ទោះជាយ៉ាងណាក៏ដោយ តទ្ធិពលនេះមានកម្រិតមធ្យម ដោយសារតែឧបសគ្គក្នុងការចល័តកម្លាំងពលកម្ម។
  - **កំណើនផលិតភាពក្នុងវិស័យ** ក៏បានរួមចំណែកដល់កំណើនផលិតភាពសរុប ដែលបង្ហាញថា វិស័យភាគច្រើនមានកំណើនផលិតភាព ជាជាងមានការធ្លាក់ចុះ។ ទោះជាយ៉ាងណាក៏ដោយ កំណើនផលិតភាពតាមវិស័យនៅមានតិចតួច ដែលធ្វើឱ្យតទ្ធិពលនេះនៅមានកម្រិត។
  - **ការបែងចែកពលកម្មឡើងវិញទៅវិស័យកំណើនផលិតភាពខ្ពស់** បានកាត់បន្ថយកំណើនផលិតភាពសរុបមកត្រឹមកម្រិតមួយដែលមានកំណត់។ ការចូលរួមចំណែកពីវិស័យនេះ មានចំនួនតិចតួច ដោយសារចំណែកការងារនៃវិស័យកំណើនផលិតភាពខ្ពស់ ហាក់ដូចជាមានការថយចុះ ខណៈដែលវិស័យកំណើនផលិតភាពទាប ជួបប្រទះនឹងការកើនឡើងចំណែកការងារ។

តទ្ធិពល និងអនុសាសន៍គោលនយោបាយ៖

- ដើម្បីបង្កើនកំណើនផលិតភាពសរុប ប្រទេសកម្ពុជាត្រូវ៖
  - បង្កើនការងារក្នុងវិស័យដែលមានផលិតភាពខ្ពស់ និងវិស័យកំណើន។
  - លើកកម្ពស់កំណើនផលិតភាពតាមវិស័យនីមួយៗ។
  - កាត់បន្ថយឧបសគ្គចំពោះការចល័តកម្លាំងពលកម្មនៅគ្រប់វិស័យ ដោយផ្តល់នូវការត្រៀមលក្ខណៈជំនាញរួចជាស្រេច។
  - ជំរុញការវិនិយោគបន្ថែមលើវិស័យដែលមានផលិតភាពខ្ពស់ និងវិស័យកំណើន ដើម្បីបង្កើតការងារបន្ថែមទៀត។

Background Paper 2

Structural Transformation and Economic Growth in Cambodia

Ngov Penghuy and Cheng Savuth

Executive summary

This study investigates Cambodia's economic growth using descriptive and productivity decomposition methods on output and employment data of 12 industries from 2000 to 2022.

- Cambodia's economy is undergoing a structural transformation, and the growth driver has been shifting from agriculture to manufacturing and services.
- Manufacturing is still dominated by garments and textiles. However, the export of electronics and machinery, agro-industry, and plastic products increased, indicating a sign of diversification.
- Output in tradable services (such as information and communication, transportation, business service activities, and finance) has shown consistent growth.
- The aggregate productivity growth rate is volatile; on average, it is still moderately low compared to other countries at the same income level.
- Aggregate productivity growth in the last decades was driven **more by inter-sectoral and less by intra-sectoral labour reallocation.**
    - **Inter-sectoral labour reallocation** from low-productivity sectors such as agriculture to high-productivity sectors such as manufacturing and services contributed the largest to increasing the overall aggregate productivity growth of the economy. However, this effect was moderate due to labour mobility barriers.
    - **Intra-sector productivity growth** also contributed to increased aggregate productivity growth, suggesting that most sectors have productivity growth rather than decline. However, the sectoral productivity growth was relatively small, which limited this effect.
    - **Labour reallocation to the high-productivity growth sector** reduced aggregate productivity growth to a limited extent. The contribution from this item is small because high-productivity growth sectors tended to experience falling employment share while low-productivity growth sectors experienced rising employment share.

Policy Implication and Recommendations:

- To increase aggregate productivity growth, Cambodia has:to:
    - Increase employment in high-productivity and growth sectors
    - Enhance intra-sectoral productivity growth.
    - Reduce barriers to labour mobility across sectors by equipping the workforce with skill readiness
    - Promote more investment in high-productivity and growth sectors to create more jobs.

1. Introduction

Cambodia has enjoyed steady and rapid economic growth, with an annual average growth rate of around 7 percent in the past two decades (MEF 2023). The robust growth trajectory enabled Cambodia to achieve lower-middle-income economy status in 2015. As the country develops, the structure of the economy must also change. Economic structural transformation has been observed in countries from low-income to middle-income and high-income status, including South Korea, Taiwan, Singapore, and China. In these countries, the pattern and process of moving from reliance on low-productivity economic sectors, such as traditional agriculture, to high-productivity economic sectors, such as manufacturing and services, plays a crucial role in fostering further economic growth and development.

Unlike the classic growth model where economic sectors are aggregated to explain growth, such as in the Solow Model, changes of economic sectors and sub-sectors can provide deeper insight into how to foster growth through the changes in a country's structure of output and employment. Therefore, in this study, we will investigate the pattern of structural transformation by considering changes in output and employment across economic sectors and sub-sectors to identify key trends and the strengths that drove the development of the Cambodian economy over the past two decades. In addition, we will compare the pattern of Cambodia's structural transformation with that of other developed countries.

The study on the structural transformation and growth trend, especially the analysis at the sectoral level, has significant policy implications for Cambodia's future sustainable growth trajectory. A combination of industrial policy, law, and regulations has been adopted. However, key economic sectors or industries supporting long-term economic growth must be evaluated appropriately to ensure growth. Policies such as the Industrial Development Policy (IDP) 2015-2025, New Cambodia Law on Investment 2021, Cambodia Science, Technology and Innovation Roadmap, Digital Economy and Society Policy Framework 2021-2035 and Cambodia Sustainable Development Goals Framework (CSDG) 2016-2030 require sectoral analysis to be effectively implemented. Therefore, identifying key sectors and conditions supporting economic growth is paramount and is the focus of this investigation on structural transformation.

This study has the following objectives: (1) to investigate patterns and trends of sectoral output and employment, (2) to describe the role of manufacturing and service as the engine of economic growth, (3) to examine structural transformation within manufacturing and service, (4) to determine the relationship between structural transformation and productivity

growth (i.e., labour productivity) and (5) to identify patterns within Cambodia's structural transformation and compare it to that of other countries and to ensure Cambodia can have a productivity growth convergence.

2. Literature review on structural transformation

Past studies on structural transformation for developed countries have identified a key pattern (UNCTAD 2016; Rodrik 2009; Sen 2019). First, the share of agriculture output to GDP and employment in the agricultural sector experienced a decline as income per capita grew. Second, the manufacturing sector had an 'inverted U' pattern as income per capita grew. In other words, the share of value-added and employment in manufacturing sector increased until it reached a maximum threshold after which it started to decline. Third, the share of value-added and employment in the service sector grew continuously as income per capita increased.

Some scholars have proposed the manufacturing sector peaking signified that the service sector was replacing it as the engine of growth (Rodrik 2009). This pattern suggests that the economy shifted from agriculture to manufacturing and services as countries developed. Such structural transformation allowed many countries, such as South Korea, Singapore, and Taiwan, to transform from low-income to high-income status (UNCTAD 2016).

Many empirical studies have shown that manufacturing has been the engine of economic growth. For instance, Rodrik's (2009) study indicated manufacturing's share of GDP and its employment share were dually associated with higher economic growth. As a result, others have argued that manufacturing does not only promote but also sustains economic growth (Szirmai and Verspagen 2015). However, some economists have also found that the service industry plays an important role in structural transformation since service output is more income elastic and absorbs more labour (Sen 2019).

Recent findings challenged the manufacturing-led growth model. In fact, the findings highlighted that developing countries who undergo economic growth more recently have experienced rapidly declines in manufacturing, a phenomenon called "**de-industrialisation**." De-industrialisation often occurred at an earlier stage than in developed countries and could potentially trap developing countries in middle-income status (Herrendorf, Rogerson and Valentinyi 2013). Several studies found that the peak of employment in manufacturing in developing countries was only 30 percent which is significantly lower than developed countries that reached a peak of 40 percent employment in manufacturing in the past (Rodrik 2016; Felipe, Abdon and Kumar 2012).

Many factors are considered to influence the outcome of structural transformation, including (1) factor endowments and (2) government policies. Factor

endowments refer to resources, such as labour, capital natural resources, or technology, that can shape the comparative advantages of countries and diversification capability. However, they often also result in the country producing of a limited range of products (Hausmann et al. 2013). Some studies found that given limited human capital and skilled labour, many developing countries cannot increase the production of highly sophisticated products, such as from producing electronic equipment to producing automobile or from producing low value-added products to high value-added products (UNCTAD 2016; Hausmann et al. 2013). Government policies have been found to be crucial in influencing the process of structural change in an economy (Kruse et al. 2023). Sen (2018) argued that productive structural transformation depends on the demand for labour in high-productivity sectors and the supply of labour from low-productivity sectors. The barrier preventing labour mobility across sectors could hinder structural transformation.

3. Data and methodology

3.1. Data

To analyse the economic structural transformation, this study uses the annual changes of output, value-added and employment across all economic sectors. Data on sectoral output was obtained from the national income accounts (NA) compiled by the National Institute of Statistics (NIS). Data on sectoral employment was obtained from the Cambodia Socio-economic Survey (CSES), Labour Force Survey (LFS), population census, and International Labour Organization (ILO). All data used in this analysis was from between 2000 and 2022.

The sector classification used in this study is based on the latest version of the International Standard Industrial Classification, ISIC Rev 4 (UN 2008). ISIC Rev 4 classified sectors into 21 ranging from A to U. For this study, we grouped the 21 economic sectors in the ISIC Rev 4 into 12 sectors according to the Economic Transformation Database (ETD) of the Groningen Growth and Development Center (GGDC) to simplify our analysis. In ETD format, sector D which refers to electricity was combined with E which represents water, sewage, and waste management. Similarly, sector G was combined with I. Sector J was combined with M and N. Sector O was combined with P and Q. Finally, sector R was combined with S, T, and U. The 12 sectors of ETD are "A. Agriculture", "B. Mining", "C. Manufacturing", "D+E. Utilities", "F. Construction", "G+I. Trade Services", "H. Transport Services". "J+M+N. Business Services", "K. Financial Services", "L. Real Estate", "O+P+Q. Government Services", "R+S+T+U. Other services". Details on ISIC Rev 4's classification and ETD classification of economic activities are presented in Appendix 2.

Note that the word **"industries"** and **"sectors"** are interchangeable. To avoid

confusion, we use the singular word **"industry"** to mean an aggregate sector consisting of the manufacturing sector and non-manufacturing sector. In contrast, we use the plural **"industries"** to refer to the sectors or sub-sectors within agriculture, industry, and service sectors. In this sense, the economy is divided into three main sectors: the agriculture sector, the industry sector (manufacturing sector and non-manufacturing sector), and the service sector. Within each sector, we have sub-sectors.

3.2. Methodology

This study utilised two key methods to investigate Cambodia's structural transformation. First, **descriptive statistics** were gathered to examine trends in output and employment between 2000 and 2022 across sectors and sub-sectors with all available data. Utilising descriptive statistics allowed us to identify (1) the growth rate of output and employment, (2) volatility and growth performance, and (3) the diversity and concentration of Cambodia's economic structure in terms of output and employment. Second, to examine changes in productivity within each sector and sub-sector, we use **the shift-share method** to decompose aggregate productivity into (1) labour reallocation to high productivity sector effect, (2) labour reallocation to high productivity growth sector effect, and (3) intra-sectoral productivity growth effect, by following McMillan and Rodrik's (2011). We conducted the productivity decomposition analysis on each of the 12 sectors.

Notably, agriculture and manufacturing were each treated as a single sector. By utilising the shift-share method, we obtained insights into (1) the **inter-sectoral specialisation** effect, which is the movement of labour to higher value products with higher productivity levels rather than higher value-added activities, and (2) the **intra-sectoral productivity change**, which is the movement of labour between manufacturing sub-sectors within the manufacturing sector or between agriculture sub-sectors within the agriculture sector that impact aggregated productivity. Intra-sectoral productivity changes within the manufacturing or agriculture sector can also be driven by the intra-sectoral specialisation effect which is the upgrades towards high-value-added activities within these sectors and sub-sectors that also impact aggregated productivity (Wong 2006; McMillan and Rodrik 2011; UNCTAD 2016). Details of the decomposition method in mathematical expression are described in Appendix 3.

4. Results and findings

4.1. Trend of output

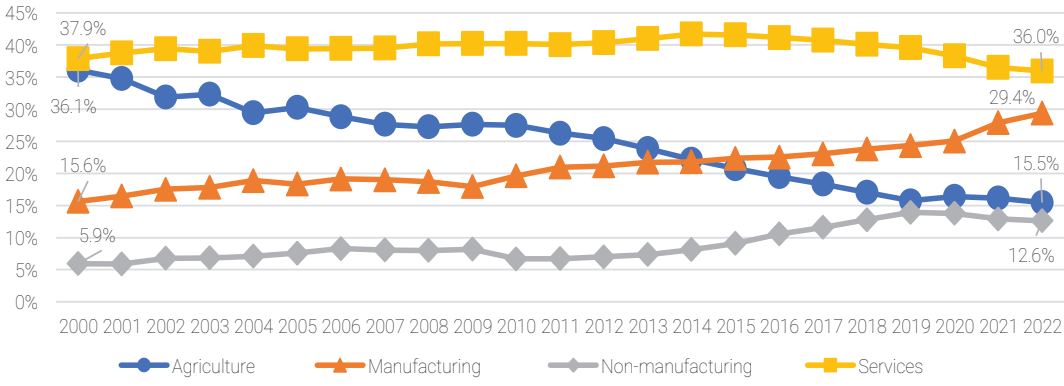
The output of each sector in Cambodia has changed over time. As shown in Figure 1, the agricultural sector's contribution to GDP declined from 36.1 percent to only 15.5 percent and the industrial sector's (manufacturing plus non-manufacturing) contribution to GDP increased from 21.5 percent to 42 percent during 2000-2022. Meanwhile, the service sector's contribution remained relatively stable at between 36 and 38 percent during the same period. How each sector contributed to Cambodia's GDP suggests the country underwent a structural transformation where it has been gradually shifting its reliance from agriculture to manufacturing.

Critical drivers of Cambodia's growth came from the industrial (manufacturing and non-manufacturing) and service sectors. Within the manufacturing sector, its growth is primarily attributed to the rapid growth of labour-intensive manufacturing, such as garment and footwear, travel goods (e.g., bags), and bicycles. As a Least Developed Country (LDC), Cambodia was able to receive preferential market access to EU[1] and US markets[2] through the 'Everything but Arms, EBA' agreement and the Generalized System of Preferences (GSP), respectively. Coupled with the relatively low cost of labour, Cambodia was able to maintain its export competitiveness in the last decades. However, rising labour costs due

1 In February 2020, the EU suspended part of the tariff preferential treatment to Cambodia, approximately 20 percent, extracted from https://ec.europa.eu/commission/presscorner/detail/en/ip_20_229.

2 Cambodia has received GSP status since 1997 until 2021 when US GSP expired, along with other 26 countries Cambodia is sent a petition to request US for restore the GSP, extracted from https://cambodianess.com/article/cambodia-calls-on-the-us-to-renew-gsp-access-as-competitiveness-stalls

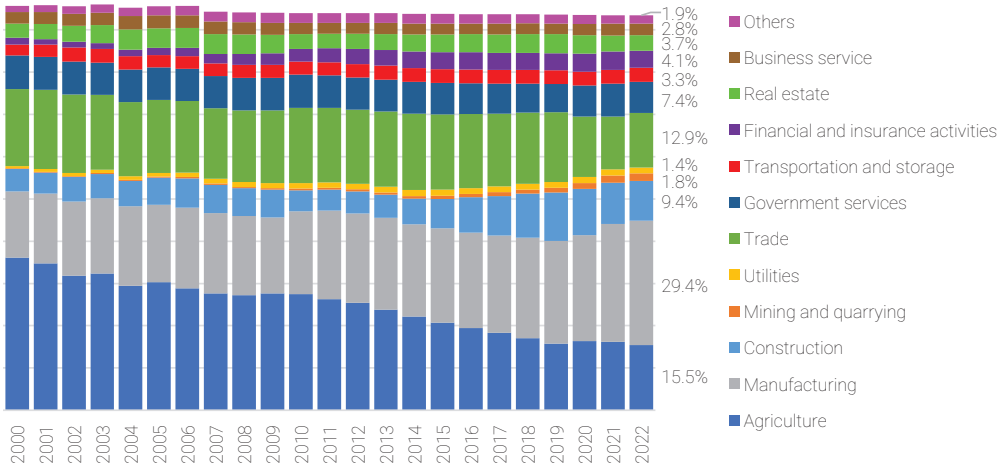
Figure 1: Sectoral share of value-added to GDP (Percent)



Source: Author's calculation based on MEF rebased data 2023 (Constant price 2014)

Notes: 1) Non-manufacturing included construction, energy and mining sectors;
2) The share is a ratio to GDP, excluding taxes and subsidies

Figure 2: Sub-sectoral share of value-added to GDP (Percent)



Source: Author's calculation based on MEF rebased data 2023 (Constant price 2014)
Notes: The share is the ratio to GDP, excluding taxes and subsidies

to minimum-wage law[3] require Cambodia to lower its business and production costs to maintain its competitiveness.

The annual growth of value-added in manufacturing has been higher than that of agriculture in the last two decades. Since 2012, non-manufacturing, especially the construction sector, has achieved the highest growth rate, but it was later negatively impacted by the COVID-19 pandemic which it is still recovering from today. Yet, the COVID-19 pandemic's impact on Cambodia's manufacturing sector was limited compared to its impact on the service sector. The service sector's growth rate has been strong, averaging around 7.1 percent over the last two decades. However, like many other countries, the service sector was hit hard during the COVID-19 pandemic, and in 2020 and 2021, it experienced a decline of -6.7 percent and -1.8 percent, respectively (Figure 23 in the appendix).

The agriculture, industry, and service sectors contain sub-sectors with variations in labour, capital, skill, and technology intensity. Therefore, it is helpful to analyse how each sub-sector contributes to each sector's growth. Figure 2 differentiates the industry and service sectors into their sub-sectors wherein industry is comprised of manufacturing and non-manufacturing sectors and manufacturing consists of labour-intensive garments and footwear, travel goods, bicycles and automobiles, and electronics components. Figure 2 also contains non-manufacturing sub-sectors of industry, including energy, mining and construction. In 2022, construction's contribution to GDP increased to 9.4 percent while energy and mining remained stable at 3.2 percent. While the construction sector was vital in pushing the economy forward in past growth periods, it also faces various risks because of its heavy reliance on foreign capital.

3 Minimum wage has risen to USD204 in 2024 compared to USD200 in 2003 based on Ministry of Labour and Vocational Training.

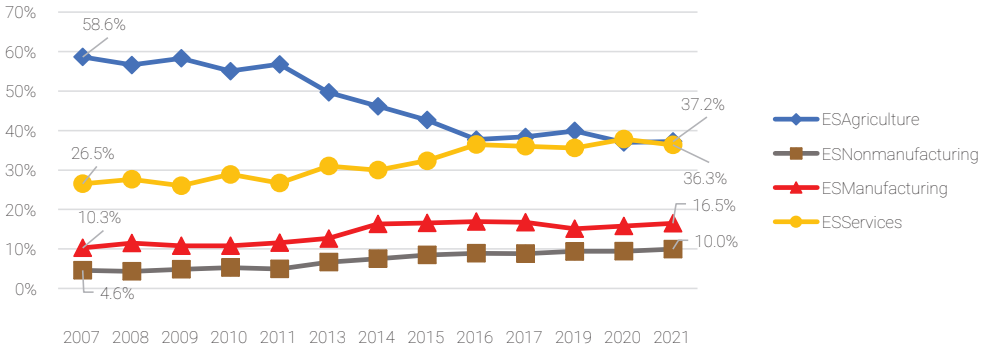
Within the service sector, services trade, which included wholesale and retail sales, foods, beverages, and accommodation, accounted for the largest share at roughly 12.9 percent followed by government sub-sector (e.g., public administration, defence, education, healthcare and social work) which contributed 7.4 percent. The remaining 15.8 percent of the service sector's contribution to GDP mainly included tradable services, such as transportation, storage, finance, real estate, and business services (i.e., information and communication, professional, scientific and technical activities, and administrative support services, such as business support services, tour and travel services, among others).

In summary, Cambodia is undergoing a structural transformation with manufacturing and service sector-led growth patterns. Despite being the key driver of growth, we found that manufacturing still concentrated heavily on narrow-based labour-intensive production, such as garments and textiles, and, therefore, should pursue further diversification. Within the service sector, growth is chiefly driven by domestic-oriented whole and retail sales, food, beverage, and accommodation with a limited domestic market size. However, there are indications for the potential growth of tradable services, such as information and communication, business services, transportation, and finance, which could also serve the export market.

4.2. Trend of employment

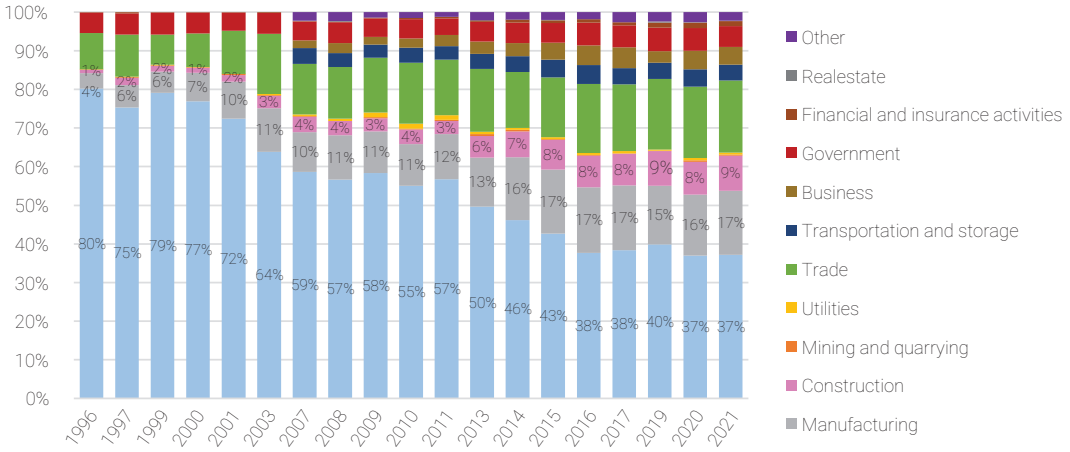
To obtain a clearer picture of the structural transformation described in the preceding section, it is equally important to examine changes in the patterns of employment across sectors as well. UNCTAD (2016) analysed structural transformation focussing exclusively on labour reallocation across and within sectors. The study noted that during structural transformation, the share of people employed by agriculture decreased while manufacturing and service employment increased. This trend has been observed in many countries as countries transform from low-income to middle-income and high-income status. The increasing employment share in manufacturing and service suggested that manufacturing and service played increasingly essential roles in job creation and income generation for workers.

Figure 3: Employment share by sector (Percentage of total employment)



Source: NIS and ILO (2024)

Figure 4: Employment share by sub-sectors (Percentage of total employment)



Source: NIS and ILO (2024)

Considering employment by sector, we found a decrease in agricultural employment and an increase in industry and service employment in Cambodia. As shown in Figure 3, the percentage of people employed in agriculture dropped from 58.6 percent in 2007 to 37.2 percent in 2021. Meanwhile the percentage of people employed in manufacturing increased from 10.3 percent to 16.5 percent and in service from 26.5 percent to 36.3 percent during the same period. Employment in the non-manufacturing sub-sector, including construction, energy, and mining, was relatively stable at under 10 percent.

Figure 4 shows the percentage of employment across sub-sectors and how it has changed between 1996 and 2021. Despite a general decline in employment within the sector, agriculture remained the largest source of employment in 2021 employing 37 percent of Cambodians. Employment in industry—both manufacturing and non-manufacturing—slowly increased reaching 26.5 percent in 2021. Employment in the service sector also slightly increased over the years and caught up with agriculture. Within services sectors, trade (wholesale and retail sale, foods, beverage and accommodation) and government sector (public sector, education, health care and social work) employed the largest percentage of Cambodians and transportation and logistics, finance, real estate and business sectors employed the next largest percentage. Remarkably, the boom in construction over the last few years was evidenced in the sub-sector's employment growth in 2021 (9 percent).

By looking at changes in each sector's contribution to GDP and its employment rate, **Cambodia is in the middle of a structural transformation process**. That process entails a shift from the low-productivity agricultural sector to the relatively higher-productivity industry sector. This process mirrors structural transformations witnessed in many developing countries. However, other studies have also shown that while some countries could sustainably and inclusively achieve their development, others got

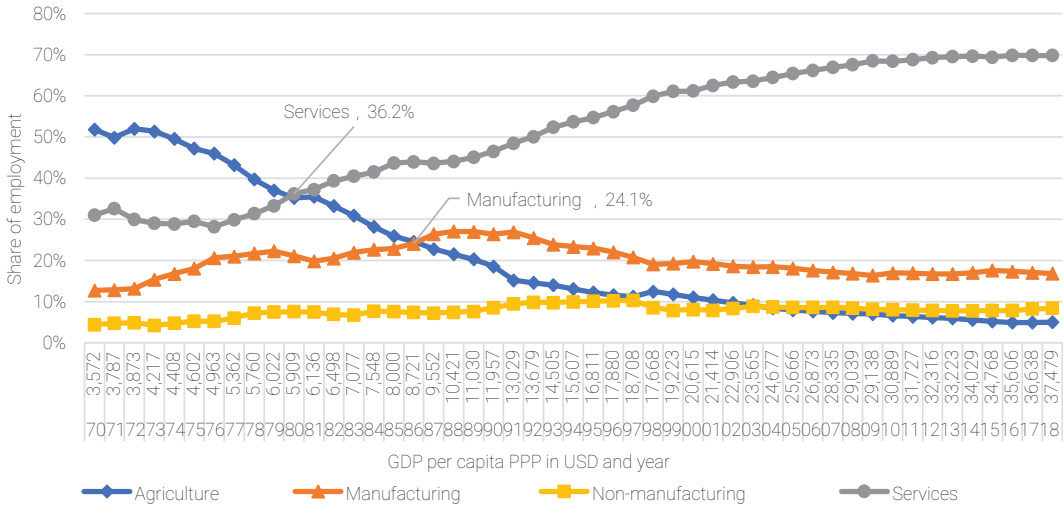
trapped in upper-middle-income status (Herrendorf, Rogerson and Valentinyi 2013). Therefore, Cambodia must learn from these experiences and build a conducive environment for its economy to thrive and grow sustainably in the long run.

4.3. Cambodia's structural transformation: A cross-country comparison

As a country develops, the structure of its economy also changes. To understand Cambodia's pattern of structural transformation, we compared it with other countries that underwent a similar transition from low-income to high-income and countries that were currently undergoing structural transformation. We selected South Korea, China, Vietnam, and Thailand to provide this comparison.

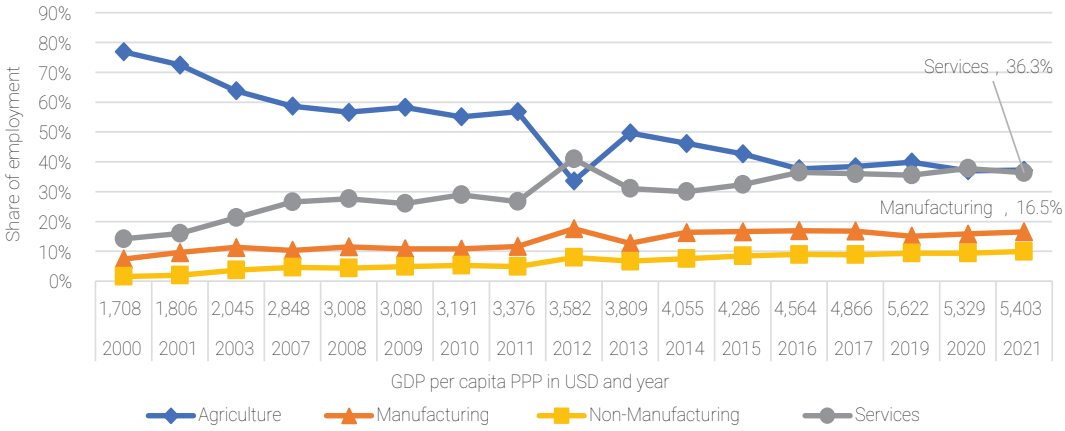
Figure 5 shows South Korea's structural transformation between 1970 and 2018, and Figure 6 shows Cambodia's ongoing structural transformation. South Korea's experience indicated that the employment in the service sector exceeded that of agriculture (37.2 percent) when GDP per capita (in purchasing power parity, PPP) was about USD6,000. Following that, employment in manufacturing was higher than that of agriculture (24.1 percent) when GDP per capita was USD8,720. For Cambodia, the most recent GDP per capita was around USD6,000 with the employment rate in service equal to that of agriculture (35.6 percent). Thus, Cambodia's 2021 sectoral employment was similar to South Korea's in that employment in service exceeded that of agriculture when the countries had a GDP per capita of around USD 6,000. Interestingly, Cambodia's employment rate in manufacturing in 2021 was 16.5 percent, which was well below that of South Korea at 24.1 percent when South Korea's GDP per capita was around USD 6,000.

Figure 5: Structural transformation and GDP per capita PPP of South Korea (Percent)



Source: Author's Calculation from ETD Data (2024)

Figure 6: Structural transformation and GDP per capita PPP of Cambodia (Percent)

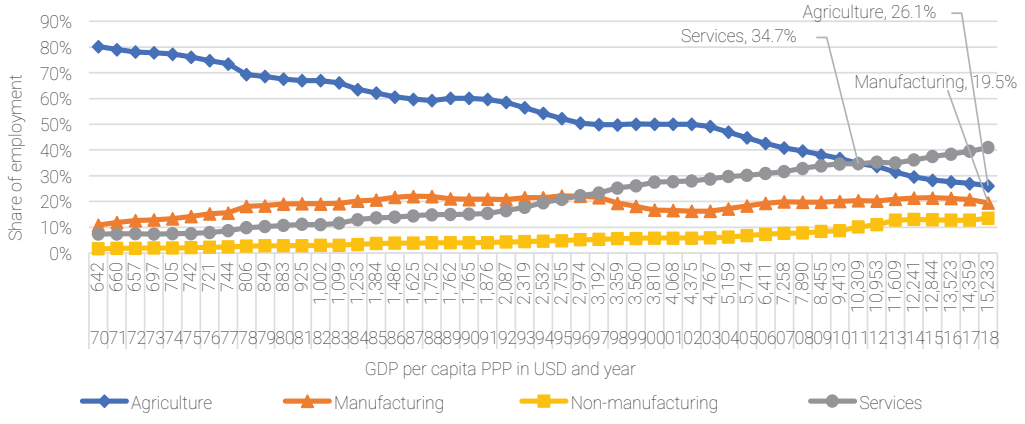


Source: Author's Calculation from Cambodia's Rebased Data using ETD format (2024)

Assuming Cambodia follows a pattern similar to South Korea's, Cambodia would need to increase its manufacturing employment rate from its current level by about 7.6 percentage points—from 16.5 percent to 24.1 percent.

Figure 7 provides a window into China's structural transformation. When China had a GDP per capital of USD10,309, employment in service was higher than that of agriculture (34.7 percent). These figures suggest it took longer for the service sector to grow in China than in South Korea. Considering China's manufacturing sector, its employment rate was just 19.5 percent when the country's GDP per capita reached USD15,233. Importantly, employment in manufacturing is also decreasing over time. This trend suggests that China might reach its industrialised peak at a much lower GDP

Figure 7: Structural transformation and GDP per capita PPP of China (Percent)



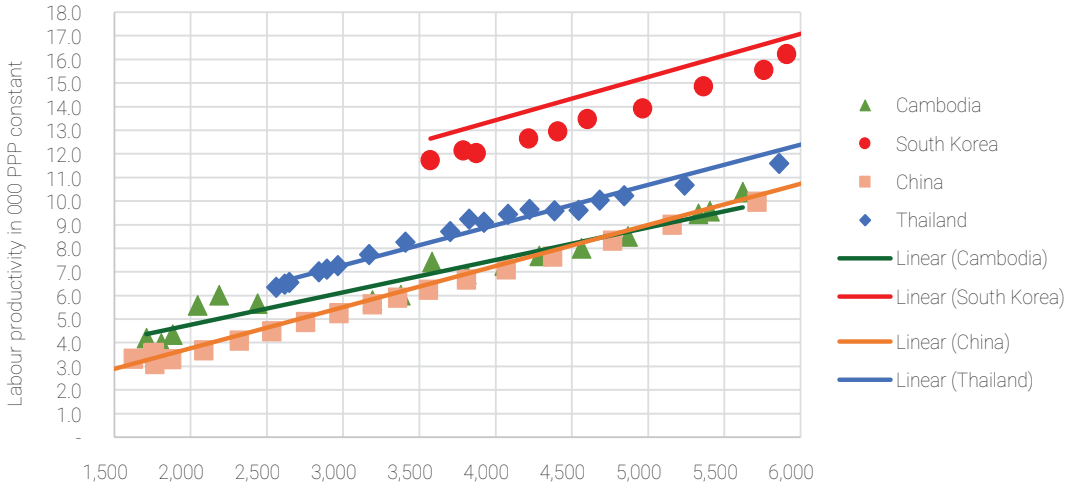
Source: Author's Calculation from ETD (2024)

per capita than South Korea, which is a phenomenon commonly called "premature de-industrialisation".

Premature de-industrialisation can pose challenges to growth. If Cambodia is to follow China's pattern, the employment rate in manufacturing would not increase as much; up to 19.1 percent from its current level of 16.5 percent. In other words, according to China's model, employment in manufacturing in Cambodia has almost reached its peak. Yet, such a change could present a challenge for Cambodia since the GDP per capita has been considerably lower than that of China even though the employment rate in manufacturing was very close to that of China.

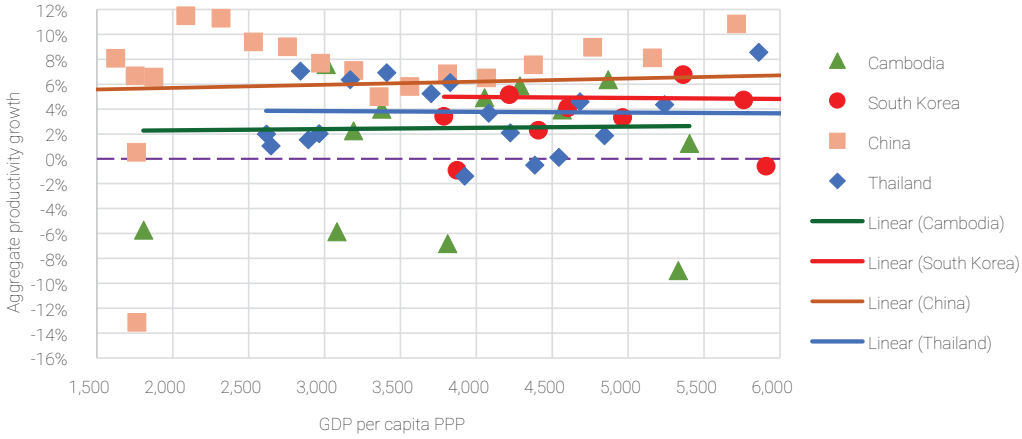
Figure 8 showed a comparison of the aggregate labour productivity between Cambodia and South Korea, China, and Thailand when these countries were at the same level of GDP per capita. As shown

Figure 8: Cross-countries aggregate labour productivity (Percent)



Source: Author's Calculation from ETD and Cambodia's Rebased Data (2024)

Figure 9: Cross-countries aggregate productivity growth rate (Percent)



Source: Author's Calculation from ETD and Cambodia's Rebased Data (2024)

in Figure 8, Cambodia's aggregate labour productivity was at a similar level to that of China but well below Thailand and South Korea, on average. However, Cambodia's estimated line for average productivity was flatter than that of other countries suggesting its aggregate productivity growth was at a lower rate than other countries' even though they were all at the same level of GDP per capita.

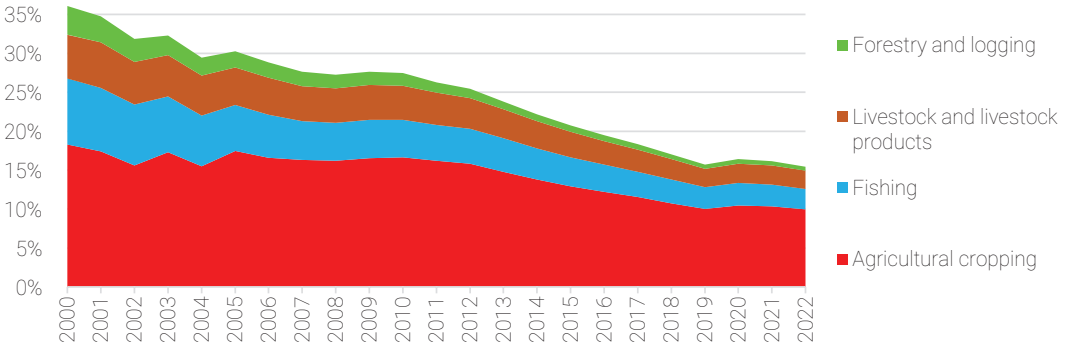
The difference in productivity growth rate was shown in Figure 9. By comparison, the aggregate productivity growth was between 6.0 percent and 8.0 percent in China, 4.0 percent and 6.0 percent in South Korea, 4.0 percent and 5.0 percent in Thailand and 2.0 percent and 3.0 percent in Cambodia. It is noteworthy that Cambodia's aggregate productivity growth rate was volatile compared to other countries, such as South Korea and China that maintained their positive growth rate over multiple consecutive years. A possible explanation for Cambodia's growth rate volatility was that it has experienced constraints in export basket and market diversification. Figures 30, 31, 32 and 33 in the Appendix compare sectoral productivity growth. The results indicate that while agriculture, manufacturing, and non-manufacturing show a convergence with other countries, the service sector's productivity growth was lower and even stagnated compared to the sector's productivity growth in other countries. The lower aggregate productivity growth rate and volatility imply that Cambodia could take longer to reach its desired growth goals

4.4. Sub-sector analysis

4.4.1. Agricultural sub-sectors

Over the last two decades, the contribution of the agricultural sector to Cambodia's economy (through GDP) has declined from around 37.5 percent in 2000 to only 15.5 percent in 2021. Labour movement from agriculture to other sectors, especially the fast-growing manufacturing and construction sector, has played an essential role in this decline. Another contributing factor has been the shift to more modern and mechanised agricultural practices. The growth of mechanised agriculture in Cambodia has led to lower workforce demands in the sector and freeing people previously employed in this sector to find other sources of employment. Two key sub-sectors that contributed

Figure 10: Share of agriculture sub-sectors to GDP (Percent)



Source: Author's calculation based on MEF rebased data 2023 (Constant price 2014)

most to agriculture's output were agricultural cropping and fishing, which accounted for about 10.0 percent and 2.6 percent, respectively (Figure 10).

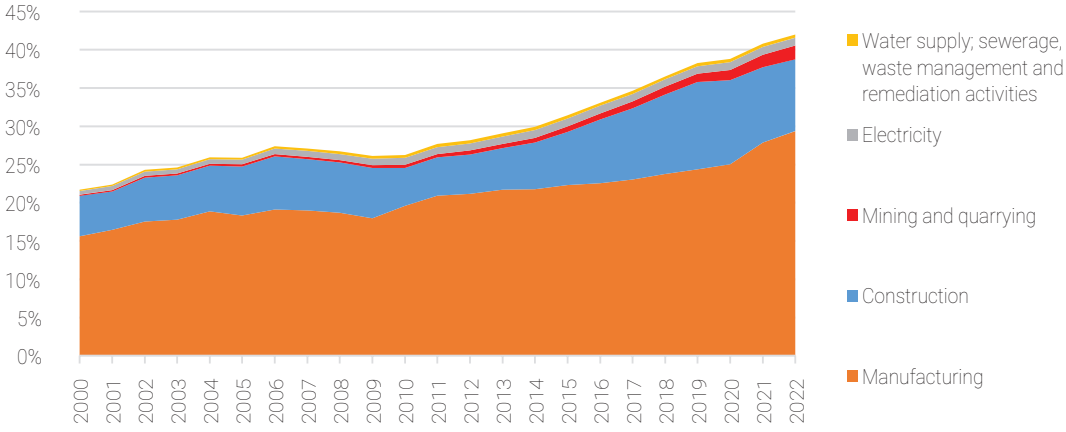
Further examining Cambodia's agricultural exports revealed that it has a strong, persistent growing export of a few agricultural products, including rice (HS10), edible fruit and nuts including banana and cashew nuts (HS08), product, mill, industrial; malt; starches, inulin; wheat, cassava and potatoes (HS11) as shown in Figure 28 in the Appendix. Although the agricultural sector faces declining employment and contributions to GDP, it still employs a greater proportion of the population than other sectors. Therefore, agriculture remains a vital sector for reducing poverty and encouraging rural development. Moreover, environmentally friendly agricultural production is essential for sustainable growth. Many studies show the importance of the agriculture sector on rural development. For instance, Menon and Roth (2022) analysed the opportunities and challenges for Cambodia's agricultural exports to China, which is one of the largest markets for Cambodia's agricultural products and is a significant value chain of potential agricultural exports, such as cassava and sugarcane.

As shown in the Appendix, Figure 34 illustrates how the annual growth rate of the agriculture sector has decreased, particularly after 2006. In 2022, the agriculture sector's growth rate was just 1.1 percent. Most of the sub-sectors within agriculture converged to a **steady and small growth rate of around 5 percent**. For instance, the growth rate of crop production was volatile, ranging between 0.3 percent and 8.4 percent after 2006. Livestock has had an average growth rate of about 3.1 percent, while fishing has had a 1.7 percent growth rate per year. Moreover, the dominant sector, agricultural cropping, also has a marginal growth rate and did not increase during the last decade. Thus, agriculture has had a steady and small growth rate.

4.4.2. Industry sub-sectors

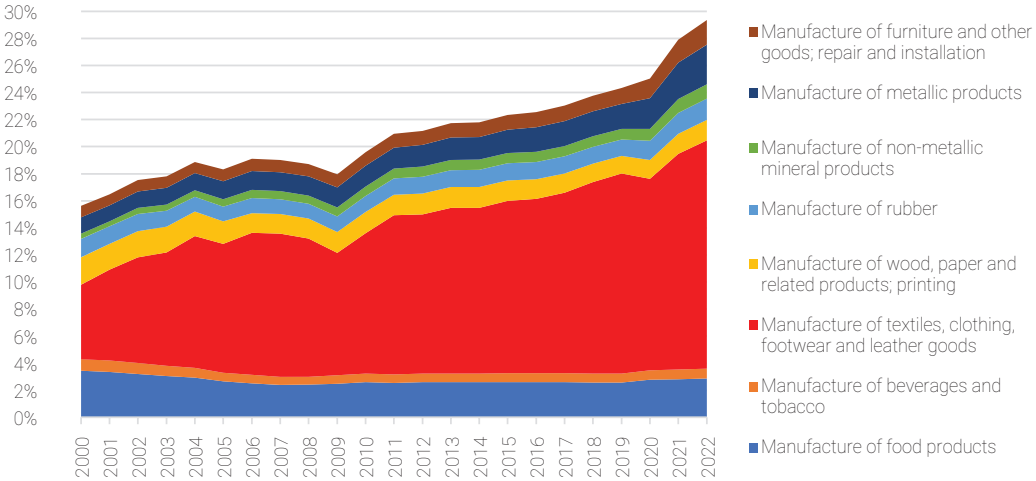
Figure 11 illustrates the share of sub-sectors in the industry sector, and shows

Figure 11: Industry sub-sector share to GDP (Percent)



Source: Author's calculation based on MEF rebased data 2023 (Constant price 2014)

Figure 12: Share of value-added within the manufacturing sector (Percent)



Source: Author's calculation based on MEF rebased data 2023 (Constant price 2014)

that manufacturing and construction make up the largest proportion of this sector. The other sub-sectors were resource-based, such as mining and quarrying, electricity and water, sewage and waste management, which accounted for only small share (approximately 3.2 percent) of the total GDP. For instance, in 2022, the share of manufacturing value-added to GDP was 29.4 percent while that of construction was 9.4 percent.

Figure 12 further breaks down the performance of each sub-sector within manufacturing. We found that **textiles, clothing, footwear, and leather goods contributed the largest share** (approximately 16.9 percent) to GDP in 2022 and have recently acted as the engine of economic growth. We also found an emerging pattern of diversification since 2018 to include manufacturing food products, metallic products, rubber plastic, and other goods. However, their shares remained minimal. Further analysis revealed Cambodia's export composition of manufacturing goods, such as electric and machinery, transport bicycles, and plastic products, is growing strongly. Among them, the growth rate of electronics and automobile parts production maintained a positive and persistent growth rate since 2018 (Figure 29 in the Appendix).

In addition to GDP contributions, we also considered the speed of output growth within the manufacturing itself since this is also beneficial. Figure 35 in the Appendix illustrates the annual growth rate of value-added within manufacturing sector which was positive and the rate was approximately equal across sub-sectors exhibiting a steady average growth rate of around 10.4 percent between 2001 and 2022. Among them, textiles, clothing, footwear, and leather goods had the highest annual average growth rate of 13.2 percent, which was followed by non-metallic and metallic products at 12.3 percent and 11.7 percent, respectively, during the same period. It should also be noted that the textile and garment sectors experienced negative

growth rates during the global financial crisis (GFC) in 2009 and the COVID-19 pandemic in 2020 due to their heavy dependence on the export market.

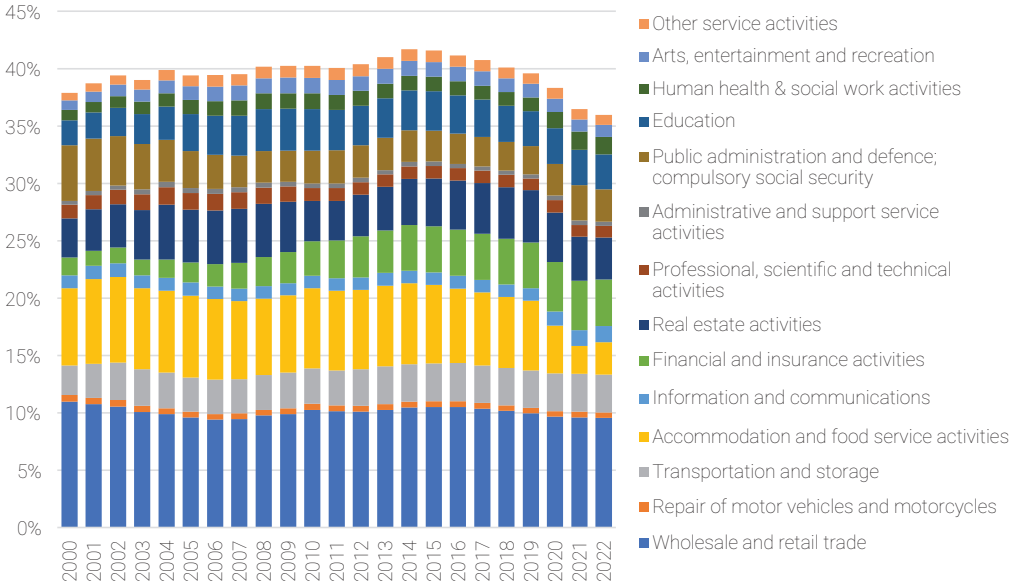
Unlike manufacturing, which maintained stable growth, non-manufacturing was primarily driven by the construction sub-sector. Despite its substantial growth performance, this sub-sector has had high volatility. During 2001-2022, this sub-sector had an average annual growth rate of 10.8 percent but quickly experienced negative growth of -20.9 percent in 2010 and -7.6 percent and -8.0 percent in the aftermath of the GFC in 2009 and during the COVID-19 pandemic in 2020 and 2021, respectively (Figure 36 in the Appendix). While construction has played an important role in promoting growth in developing countries, it can easily lead to a bubble crisis caused by speculation. Other sectors, such as energy and mining, have maintained steady and positive growth in the last two decades.

In summary, manufacturing textile, clothing, footwear, and leather goods remained the biggest contributors to manufacturing output despite their declining growth rate. Moreover, the growth of nascent sectors signals manufacturing diversification. The rising share of manufactured food, metallics, and other products demonstrates how Cambodia's industry sector is diversifying. However, the trend is still inchoate. Cambodia's growth in the past two decades has also been driven by growth in the construction sector, albeit with a small share compared to manufacturing. Yet, the growth of construction quickly caused the economy to be vulnerable to external shocks and crises. For instance, most construction in Cambodia depended on Chinese foreign direct investment (FDI), and when China experienced an economic slowdown, the effect spilt over to Cambodia.

4.4.3. Service sub-sectors

Figure 13 shows the breakdown of the service sub-sector between 2000 and

Figure 13: Share of value-added within service (Percent)



Source: Author's calculation based on MEF rebased data 2023 (Constant price 2014)

2022. Among them, two leading sub-sectors emerged: (1) wholesale and retail sales, food accommodation, which accounted for 12.8 percent of GDP in 2022; and (2) finance, insurance, and real estate, which accounted for 7.8 percent of GDP in 2022 and was the highest contributing sub-sector.

Using UNCTAD ISIC Rev 4 classification, we found that the **tradable services** (including transport and storage, finance and insurance, real estate, information and communication, professional scientific and professional and administrative support services activities) accounted for about 13.9 percent in 2022. **Non-tradable service**, on the other hand, (including wholesale, retail sale, food and accommodation) accounted for 12.8 percent of GDP, and **non-market service** (including public administrative and defence, education, health, art and entertainment and others) contributed approximately 9.2 percent of GDP. Figure 37 in the Appendix shows the annual average growth rate of each service sub-sectors between 2000 and 2022. It revealed that government services, including public defence, health, education and other services, had an average growth rate of between 4.7 percent to 10.1 percent. Tradable services had a growth rate of between 6.6 percent and 12.3 percent. Among them, the highest growth rate was in the finance and insurance sector that had an average growth rate of 12.3 percent. The non-tradable services had the lowest average growth rate between 4.3 percent and 6.6 percent.

Thus, our study shows that the Cambodian service sector is dominated by tradable services, which also have a high average growth rate. The tradable services are potential sources for navigating long-term growth rates in structural transformation because these services have a larger market due to their exportable characteristic. Moreover, tradable services such as information and communication technology (ICT) or the digital sector also require high-skilled labour which could provide high-paid employment and learning opportunities (UNCTAD 2016).

4.5. Sectoral productivity trends

While generating employment and income is necessary for economic growth, high productivity is essential for sustaining long-term development. Therefore, an increase in employment, especially in the high-productivity or growth sector, is critical for long-term economic development. This can be done by facilitating the movement of people from a low-skill to a higher-skill sector by upgrading their skills through training and the introduction of technology.

Figure 14 shows the level of sectoral labour productivity from 2007 to 2021 and Figure 15 shows the annual productivity growth rate by sector. The average productivity growth rate was 3.2 percent as shown in Figure 15. However, there were expected drops in productivity in 2009 due to the GFC, in 2013 due to the disruption in the manufacturing sector during the general election4, and in 2020 due to the COVID-19 pandemic. The industry sector had the highest productivity wherein its sub-sectors of manufacturing and non-manufacturing both outperformed the service sector. The agriculture sector

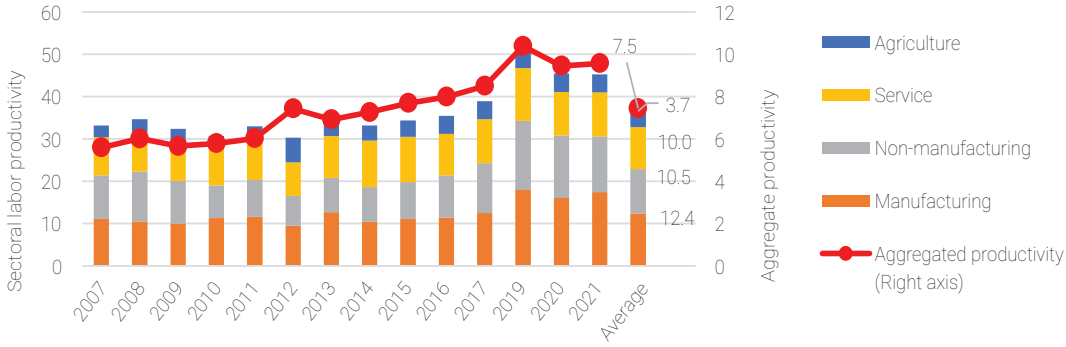
4 Refer to the Cambodia National Election Committee (NEC) and its website here. https://www.nec.gov.kh/english/

has the lowest productivity. As shown in Figure 15, the average labour productivity growth rate was 3.2 percent between 2008 and 2021. During that time, manufacturing had an average annual productivity growth rate of 2.0 percent, and non-manufacturing and service both had an average of zero productivity growth. As shown in Figure 12 above, garment and textile contributed the largest share to manufacturing sector. Thus, the growth of the manufacturing's labour productivity is probably due to the low-skill, labour-intensive garment and footwear, travel goods and bicycle industries, which comprise the largest employment for the manufacturing sector. In the service sector, a large chunk of employment has been in non-tradable services and its labour productivity growth rate was volatile and average to almost zero growth rate. Additionally, the agriculture sector has had an average annual labour productivity growth of 7.6 percent, resulting from either agriculture productivity or technology enhancement within the agriculture sector.[5]

According to our data, productivity growth in Cambodia remains small, especially in the

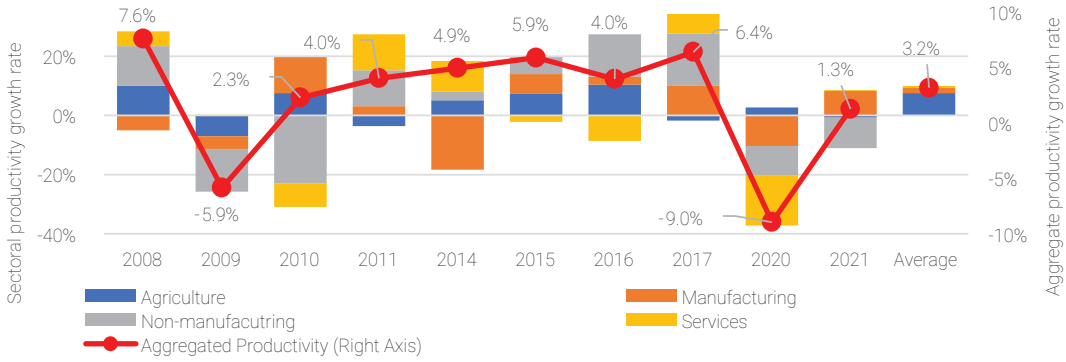
5 Sectoral labour productivity (VA/L) is calculated as sectoral value-added (VA) divided by sectoral employment (L). Labour productivity would increase if growth rate of VA is larger than growth rate of L.

Figure 14: Sector labour productivity (Valued-added per worker in KHR 1,000, constant)



Source: Author's calculation based on MEF rebased data 2023 and NIS-ILO Employment Data (2024)

Figure 15: Annual sectoral productivity growth rate (Percent)



Source: Author's calculation based on MEF rebased data 2023and NIS-ILO Employment Data 2024 (Constant price 2014)

manufacturing sector, despite the fact that this sector contributes the most to GDP and has the highest productivity level. The service sector has also experienced stagnant productivity growth, and the agriculture sector shows positive productivity growth despite declining employment.

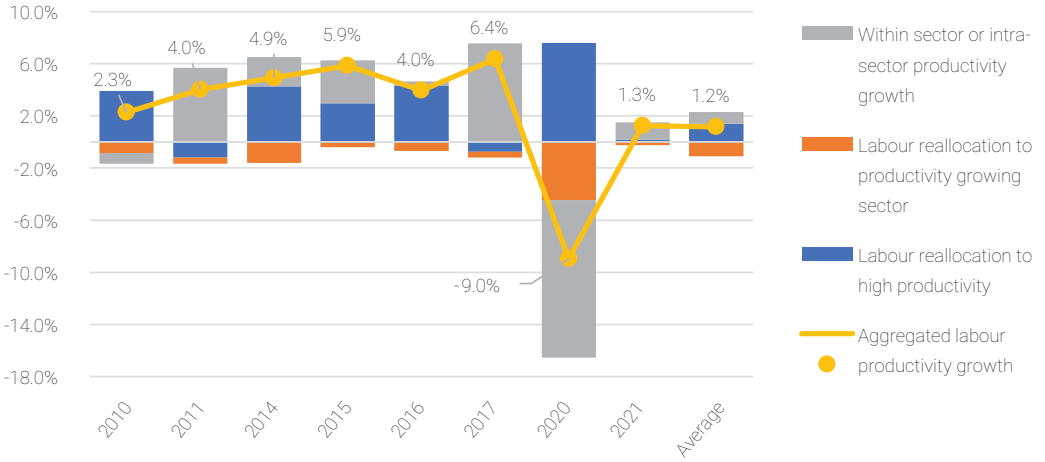
4.6. Decomposition of sectoral productivity: Shift share approach

In this section, we investigate the drivers behind aggregate productivity growth in Cambodia. Applying McMillan and Rodrik (2011) and Wong (2016), we obtained the results shown in Figure 16. The results indicate that from 2010 to 2021, the aggregate productivity growth rate was driven mainly by labour reallocation from low-productivity to high-productivity sectors as well as intra-sectoral productivity growth. Interestingly, the labour reallocation to the high productivity-growth sector was negative suggesting that labour declined in high productivity-growth sectors more than labour increased in low productivity-growth sectors.

The decomposition analysis results showed that Cambodia's average annual productivity growth was about 2.5 percent. The country's growth was driven mainly by **labour reallocation from the low-productivity sector to the high-productivity sector**, which contributed approximately 2.7 percent employment on average. The labour reallocation was mostly due to decreasing employment rates in low-productivity agriculture and increasing employment rates in higher-productivity sectors as (shown in Figures 24 and 25 in the Appendix).

Second, **intra-sectoral productivity growth** occurred in most sectors including the sectors with high employment such as agriculture, but sectoral productivity's growth rate was moderate. Intra-sectoral productivity growth contributed approximately 1.0 percent on average per year to increase aggregate productivity growth. We found that agriculture employed a large share of workers but had a moderate rate of productivity growth, manufacturing had moderate employment and rate of productivity growth, and service

Figure 16: Structural transformation and productivity growth (Percent)



Source: Author's calculation based on MEF rebased data 2023 and NIS-ILO Employment Data (2024)

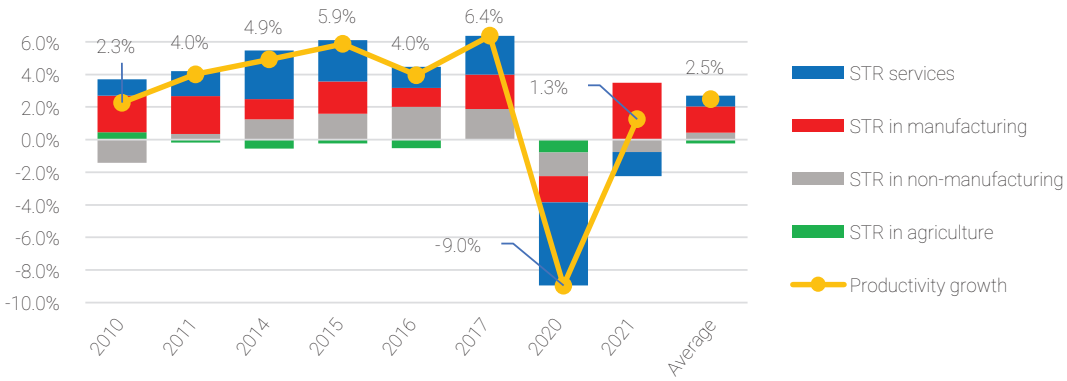
and non-manufacturing did not have productivity growth (Figures 24, 26 and 27 in the Appendix).

Finally, **labour reallocation to high productivity-growth sectors** was negative (about -1.1 percent) because the intra-sectoral productivity growth rate and the net change in employment share across sectors were small and negative on average (Figures 24, 25 and 26 in the Appendix).

In summary, structural transformation in Cambodia contributed little to improving the annual aggregate productivity growth because of the low sectoral-productivity growth rate and high employment concentration in the low-productivity sectors. Moreover, some barriers prevented labour mobility from low-productivity sectors to higher-productivity sectors. These barriers could be caused by a lack of skill readiness for labour mobility or by small-scale investment in high-productivity and high-productivity-growth sectors that limit the sectors from absorbing enough of the workforce. To increase aggregate productivity growth, Cambodia should facilitate labour mobility to high-productivity and high-productivity-growth sectors and increase intra-sectoral productivity growth. The intra-sectoral productivity growth can be achieved by smoothing the labour reallocation within the manufacturing or service sector. For instance, labour reallocation from low-skill industries such as garments and footwear to high-skill industries such as electronics and machinery or labour reallocation within the service sector such as from low-end services to high-end services serve this purpose. At the same time, intra-sectoral productivity growth can also be enhanced by increasing production technology, product upgrading, and product complexity and by supporting industrial research and development.

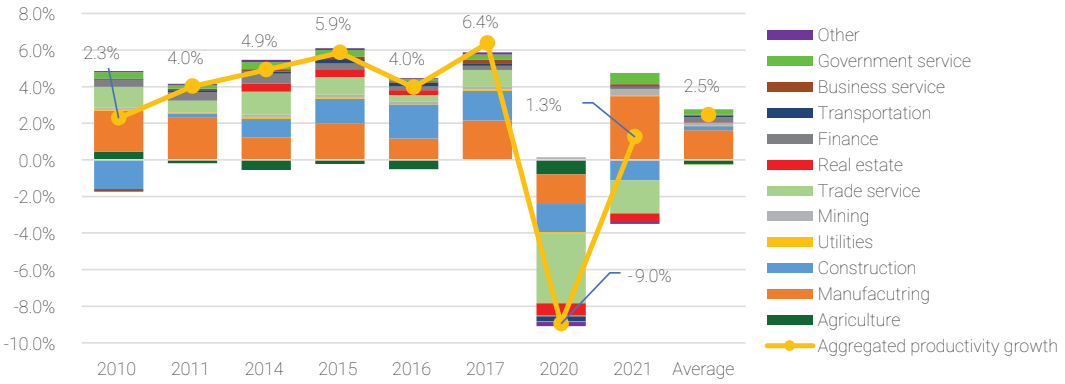
Figure 17 shows the total structural changes by sector (agriculture, manufacturing, non-manufacturing and service) driving aggregate productivity growth. We found that between 2010 and 2021 manufacturing sector was the main driver of growth with increased annual productivity growth of 1.6 percent on average closely followed by the service sector (0.6 percent). However, structural change in agriculture sector reduced aggregate productivity growth by

Figure 17: Total structural transformation in key sectors (Percent)



Source: Author's calculation based on MEF rebased data (2023) and NIS-ILO Employment Data (2024)

Figure 18: Productivity growth by sub-sectors (Percent)



Source: Author's calculation based on MEF rebased data (2023) and NIS-ILO Employment Data (2024)

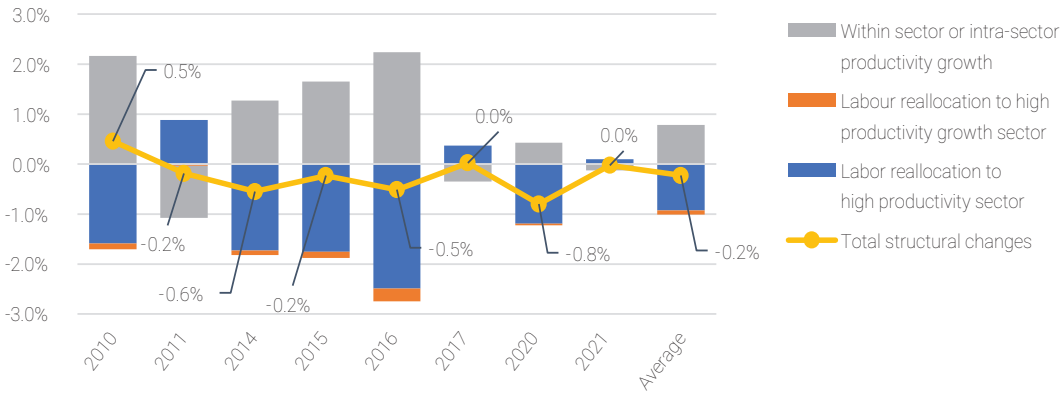
-0.4 percent on average. The structural shift in non-manufacturing sector was more neutral and increased aggregate productivity by 0.4 percent per year.

Figure 18 further differentiates the agriculture, manufacturing, non-manufacturing sub-sectors and service sub-sectors. We found that aggregate productivity growth was largely produced by manufacturing. However, the construction sector also strongly influenced the structural changes we observed and increased the aggregate productivity growth on average by about 0.2 percent per year. Within the service sector, non-tradable services increased aggregate productivity by 0.17 percent per year, and trade services increased the aggregate productivity growth minimally.

Figure 19 shows that total structural change in agriculture negatively impacted the aggregate productivity growth rate. The total structural change reduced aggregate productivity growth slightly (-0.2 percent on average per year) because agriculture experienced losses in employment that offset intra-sectoral productivity growth. From 2010 to 2021, labour reallocation to high-productivity sectors decreased aggregate productivity growth on average by -0.9 percent, labour reallocation to high-productivity-growth sectors decreased the aggregate productivity growth by -0.1 percent. Intra-sectoral productivity growth increased the aggregate productivity growth by 0.8 percent to offset this.

Figure 20 shows the total structural change in the manufacturing sector, which increased aggregate annual productivity growth by an average of 1.6 percent during 2010-2021. Labour reallocation to the high-productivity sector contributed the most to the rise in aggregate productivity growth. In fact, aggregate productivity growth was about 1.4 percent per year because manufacturing absorbed labour from lower-productivity sectors. Manufacturing also had intra-sectoral productivity growth but at a marginal rate of 0.4 percent during this period. The labour reallocation to the high-productivity-growth sector was almost zero, demonstrating that changes in labour employment and intra-sectoral productivity growth were small on average during the last two decades.

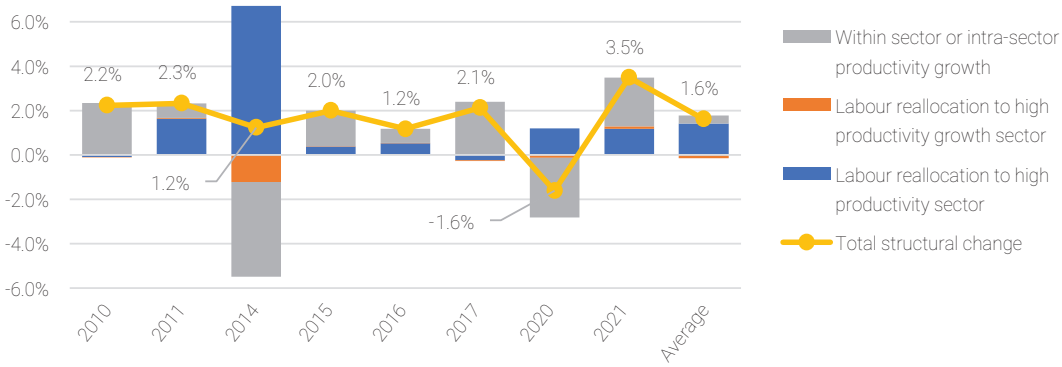
Figure 19: Structural change in agriculture (Percent)



Source: Author's calculation based on MEF rebased data (2023) and NIS-ILO Employment Data (2024)

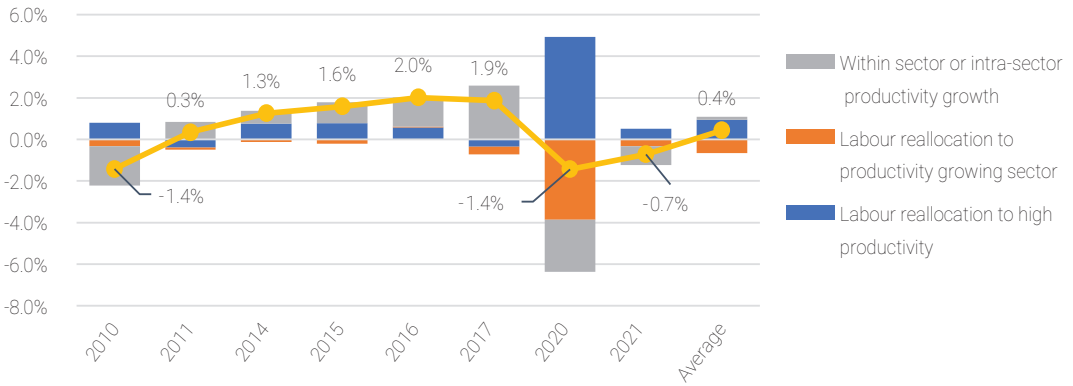
Figure 21 shows the total structural change in non-manufacturing which contributed little to the increase in aggregate productivity growth and was 0.4 percent on average per year. The construction, mining, and energy sectors mostly drove the structural change. Figure 21 showed that in terms of labour reallocation to high-productivity sectors, non-manufacturing absorbed only a small portion of employment from other sectors (average of 1.0 percent). Its intra-sectoral productivity growth was almost zero on average. Additionally, we found that labour reallocation to the high productivity-growth sectors (non-manufacturing) was negative on average (-0.6 percent per year). Two possible reasons for the negative labour reallocation in construction, mining, and energy sectors are (1) when non-manufacturing sector experienced productivity growth, they also experienced labour flow-out than labour flow-in which reduced benefit from productivity growth or (2) when non-manufacturing sector experienced productivity declined, they also experienced labour flow-out than labour flow-in which exacerbated the negative effect of productivity decline.

Figure 20: Structural change of manufacturing (Percent)



Source: Author's calculation based on MEF rebased data (2023) and NIS-ILO Employment Data (2024)

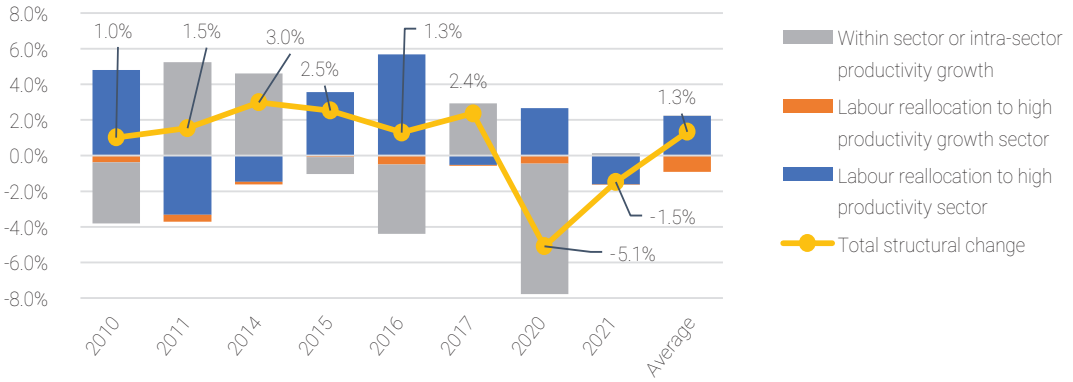
Figure 21: Structural change of non-manufacturing (Percent)



Source: Author's calculation based on MEF rebased data (2023) and NIS-ILO Employment Data (2024)

Figure 22 shows the total structural change in the service sector that increased aggregate productivity growth on average by 1.3 percent. Labour reallocation contributed to an increase in the aggregate annual productivity growth rate by 2.2 percent on average between 2010 and 2021. The service sector's intra-sectoral productivity fluctuated resulting in a zero average over this period. Therefore, intra-sectoral productivity growth did not contribute to aggregate productivity growth. The labour reallocation to high-productivity-growth sectors reduced the aggregate productivity growth by about -0.9 percent on average per year, indicating that either (1) when service sub-sectors experienced productivity growth, they also experienced labour flow-out than labour flow-in which reduced benefit from productivity growth or (2) when service sub-sector experienced productivity declined, they also experienced labour flow-out than labour flow-in which exacerbated the negative effect of productivity decline.

Figure 22: Structural change of services (Percent)



Source: Author's calculation based on MEF rebased data (2023) and NIS-ILO Employment Data (2024)

5. Conclusion and policy implications

The Cambodian economy achieved robust and rapid growth in the past two decades. It became a lower-middle-income country in 2015, and the RGC set ambitious growth goals for the future. Our study found that structural transformation has occurred, and Cambodia's workforce has begun to move from the low-skill agriculture sector to the higher-skill industry and services sectors. However, various challenges continue to slow Cambodia's pace of economic development.

This paper explored the structural change of Cambodia's economy using descriptive statistics, decomposition analysis of productivity on 12 economic sectors from 2000 to 2021, and a cross-country comparison to describe its structural transformation and its relation with aggregate productivity growth.

There are several key takeaways from this study. First, Cambodia's economic growth in the last two decades has been driven by the industry and service sectors, which is clearly demonstrated in the rising output and employment in the manufacturing sector and service sector, and accompanying decreases in output and employment in the agriculture sector. Our data showed that Cambodia was in the middle of industrialisation when labour was released from agriculture to manufacturing and service.

Second, Cambodia's manufacturing in the last two decades experienced negligible diversification, which needs further exploration. The key industries that had a high share of value-added to GDP are the manufacturing of textiles, clothing, footwear and leather (13.6 percent of GDP). As the dominant sub-sector within the manufacturing sector, garments and textiles have had a slow-productivity growth rate and need to be upgraded or diversified to a higher-productivity growth manufacturing sector to support long-term growth.

Third, Cambodia's service sector is still dominated by low-productivity, non-tradable services, mainly wholesale and retail sales. However, tradeable services, including financial and insurance, information and communication technology, and real estate, appear to have the potential to contribute to GDP. The service sector presents new drivers of growth, but market constraints of non-tradable and low productivity of tradable services present challenges to this new growth engine. The advancement of digital transformation could enhance cross-border trade and enlarge the market for service sectors.

Our analysis of decomposition of productivity growth showed that aggregate productivity growth in Cambodia was small over the past two decades. Moreover, it was constrained by both limited labour reallocation to high-productivity and high-productivity-growth sectors and limited intra-sectoral productivity growth. The analysis demonstrates the importance of structural change within and between the 12 sectors and the inter-sectoral factor movements (labour flow) on aggregated productivity growth. It should be noted that within each sector the intra-sectoral factor

movement (labour, capital, technology) could also increase the aggregated productivity of that sector. For example, within the manufacturing sector, labour reallocation from the low-productivity garment sector to the high-productivity electronic or machinery sector, as well as the upgrade toward high-value-added activities within garment, electronic or machinery sector can increase aggregate productivity. Additionally, from the experiences of countries such as South Korea, the inter-sectoral effect is important at an earlier stage of structural transformation while the intra-sectoral effect becomes more critical and requires governmental policy intervention at later stages of development.

Based on our data, Cambodia must facilitate labour reallocation to high-productivity and high-productivity-growth sectors by removing barriers and increasing labour skills. Both domestic investment and FDI should be directed toward high-productivity and productivity-growing sectors so that these sectors can absorb larger amounts of labour from low-productivity sectors. We recommend that technology and skill upgrading within sectors should be enhanced to increase overall productivity growth.

References

ETD (Economic Transformation Database). 2024. https://www.wider.unu.edu/database/etd-economic-transformation-database

Felipe Jesus, Mehta Aashish, and Rhee Changyong. 2014. "Manufacturing matters…but it's the jobs that count." *Asian Development Bank Economic Working Paper Series No. 420*.

Felipe, Jesus, Arnelyn Abdon, and Utsav Kumar. 2012. "Tracking the middle-income trap: What is it, who is in it, and why?" *Working Paper No. 715*.

Gomado, Kwamivi. 2022. "Reigniting labour productivity growth in developing countries." *WIDER Working Paper 2022/87*.

Hausmann, Ricardo, César A. Hidalgo, Sebastián Bustos, Michele Coscia, and Alexander Simoes. 2013. *The Atlas of Economic Complexity: Mapping Paths to Prosperity*. MIT Press.

Herrendorf, Berthold, Richard Rogerson, and Ákos Valentinyi. 2013. "Growth and structural transformation." *Working Paper 18996* (National Bureau of Economic Research).

Herrendorf, Berthold, Richard Rogerson, and Ákos Valentinyi. 2002. "New Evidence on Sectoral Labour Productivity: Implication for Industrialization and Development." *Working Paper 29834* (National Bureau of Economic Research).

Kruse, Hagen, Emmanuel Mensah, Kunal Sen, and Gaaitzen de Vries. 2023. "A Manufacturing (Re)Naissance? Industrialization in the Developing World." *IMF Economic Review* 71: 439–473.

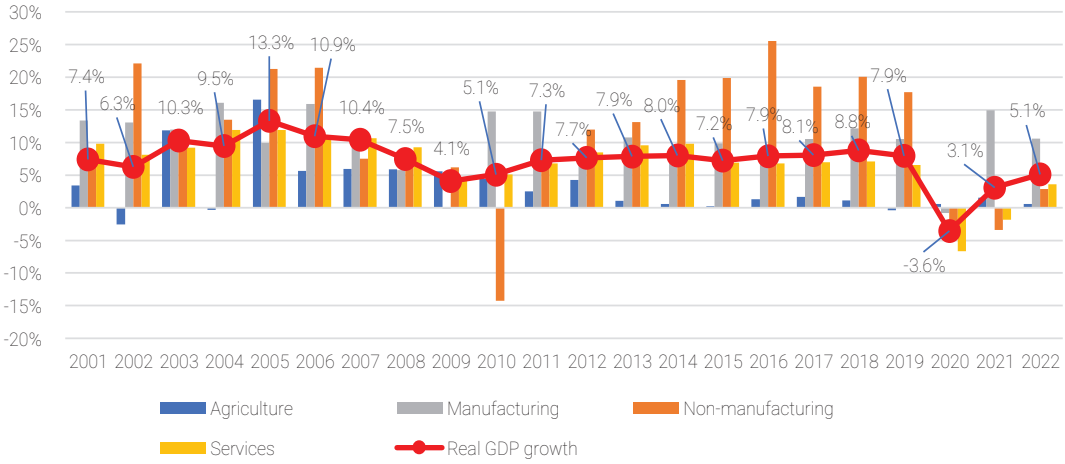
Lavopa, Alejandro. 2015. "Technology-driven structural change and inclusiveness: The role of manufacturing. Inclusive and Sustainable Development." *Working Paper 14/2015*.

Lavopa, Alejandro, and Adam Szirmai. 2014. "Structural modernization and development traps: An empirical approach." *UNU-MERIT Working Paper 2014-076*.

Lewis, William Arthur. 1954. "Economic development with unlimited supplies of labour." *The Manchester School,* 22 (2): 139–191.
McMillan, S. Margaret, and Dani Rodrik. 2011. "Globalization, structural change and productivity growth." In *Making Globalization Socially Sustainable*, by M. Bacchetta and M. Jansen. Geneva: International Labour Organization.
MEF (Ministry of Economy and Finance). 2023. *Macroeconomic Assessment and Forecast Cambodia Economy 2022*. Accessed 10 2, 2023. https://mef.gov.kh/macro-economic/macro-economic-2022-2023/.
Menon, Jay, and Vathana Roth. 2022. *Agricultural Trade between China and the Greater Mekong Sub-region Countries: A Value Chain Analysis*. ISEAS.
NIS (National Institute of Statistics). 2012. *Cambodia Standard Industrial Classification (CSIC)*. National Institute of Statistics.
NIS (National Institute of Statistics). 2024. https://www.nis.gov.kh/index.php/en/
Palma, José Gabriel. 2005. "Four sources of "de-industrialization" and a new concept of the "Dutch-disease"." In *Beyond Reforms, Structural Dynamics and Macroeconomic Vulnerability*, by J.A. Ocampo. Stanford, CA: Stanford University Press. https://openknowledgeworldbank.org/handle/10986/7378.
RGC (Royal Government of Cambodia). 2015. *Industrial Development Policy 2015-2025*. Royal Government of Cambodia.
RGC (Royal Government of Cambodia). 2023. *Pentagonal Strategy-Phase I*. Royal Government of Cambodia. https://mfaic.gov.kh/files/uploads/1XK1LW4MCTK9/EN%20PENTAGONAL%20STRATEGY%20-%20PHASE%20I.pdf.
Rodrik, Dani. 2009. "Growth after the crisis." *CEPR Discussion Paper 7480*.
Rodrik, Dani. 2016. "Premature deindustrialization." *Journal of Economic Growth* 21: 1–33.
Sen, Kunal. 2019. "Structural Transformation around the World: Patterns and Drivers." *Asian Development Review* 36 (2): 1-31. doi:https://doi.org/10.1162/adev_a_00130.
Sen, Kunal. 2018. "The Determinants of Structural Transformation in Asia: A Review of the Literature." ADB Economics Working Paper Series No. 478 .
Szirmai, Adam, and Bart Verspagen. 2015. "Manufacturing and economic growth in developing countries, 1950–2005." *Structural Change and Economic Dynamics* 34 (C): 46–59.
UN (United Nations). 2008. *International Standard Industrial Classification of All Economic Activities: Revision 4* (ISIC Rev. 4). United Nations.
UNCTAD. 2016. *Structural Transformation and Industrial Policy*. United Nations Conference on Trade and Development .
Warwick, Ken. 2013. *Beyond industrial policy: Emerging issues and new trends*. OECD Science, Technology and Industry Policy Paper No. 2, Paris: Organization for Economic Cooperation and Development.
Wong, Wei-Kang. 2006. "OECD Convergence: A Sectoral Decomposition Exercise." *Economics Letters* 2 (93): 210–14.

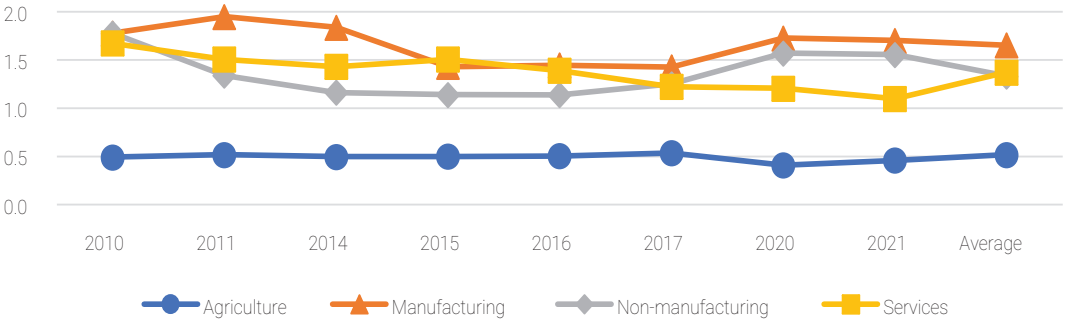
Appendix 1: Charts used in the study

Figure 23: Annual growth of value-added to GDP by sectors (Percent)



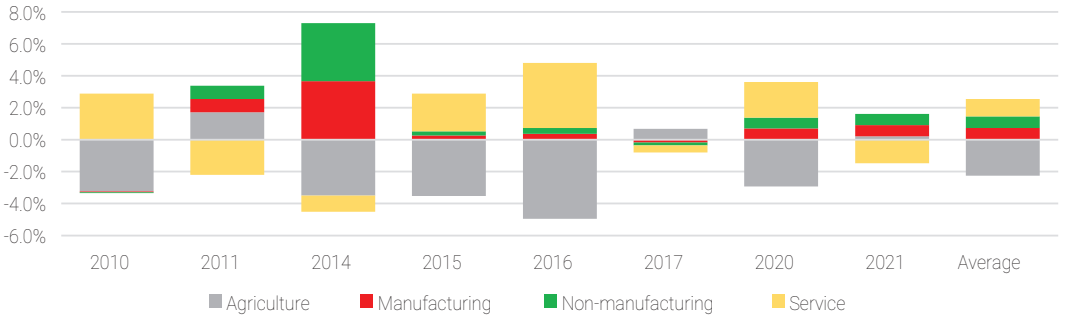
Source: Author's calculation based on MEF rebased data (Constant price 2014)

Figure 24: Relative productivity (Sectoral LP to aggregate LP)



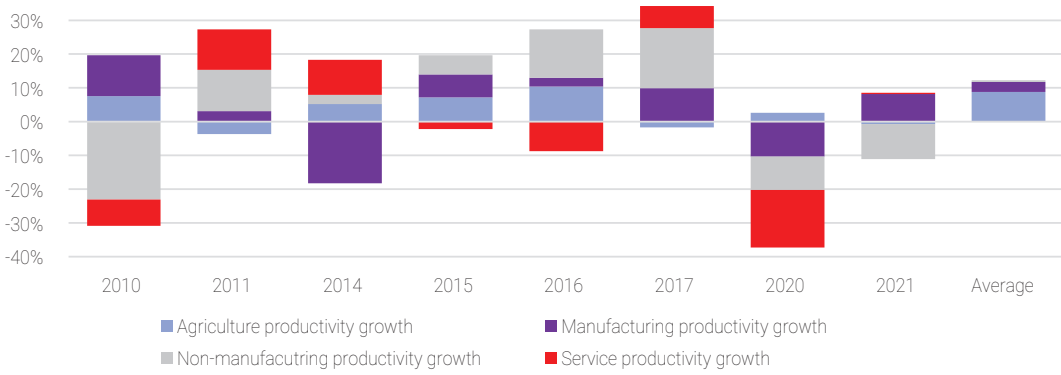
Source: Author's calculation based on MEF rebased data, NIS employment data

Figure 25: Labour reallocation (Percentage point change of employment)



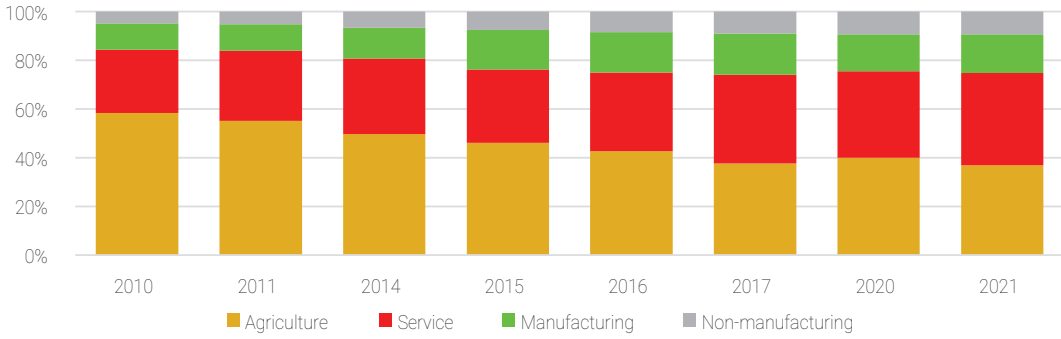
Source: Author's calculation based on MEF rebased data, NIS employment data

Figure 26: Sectoral productivity growth (Percent)



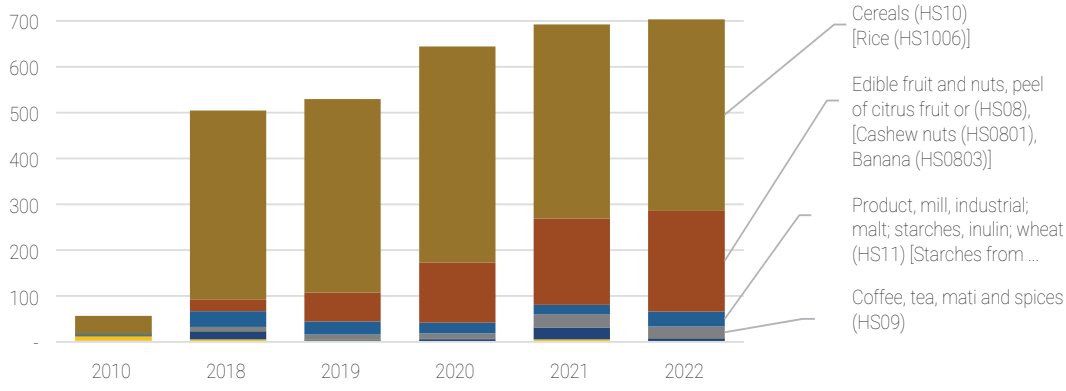
Source: Author's calculation based on MEF rebased data, NIS employment data

Figure 27: Employment share (Percent)



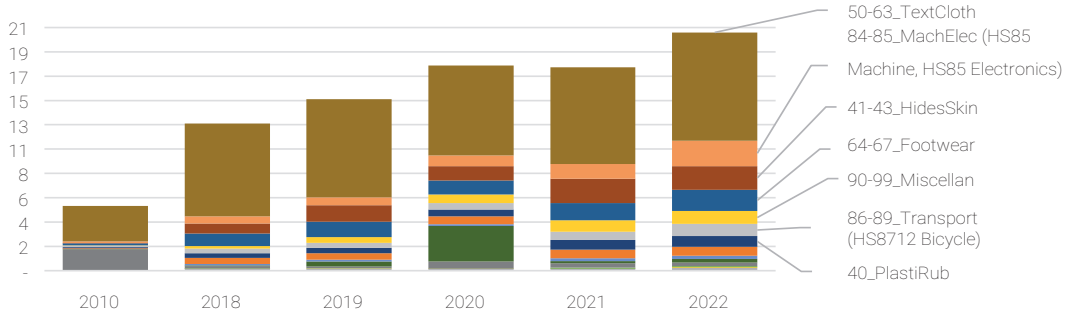
Source: Author's calculation based on MEF rebased data, NIS employment data

Figure 28: Export of agricultural products in million USD



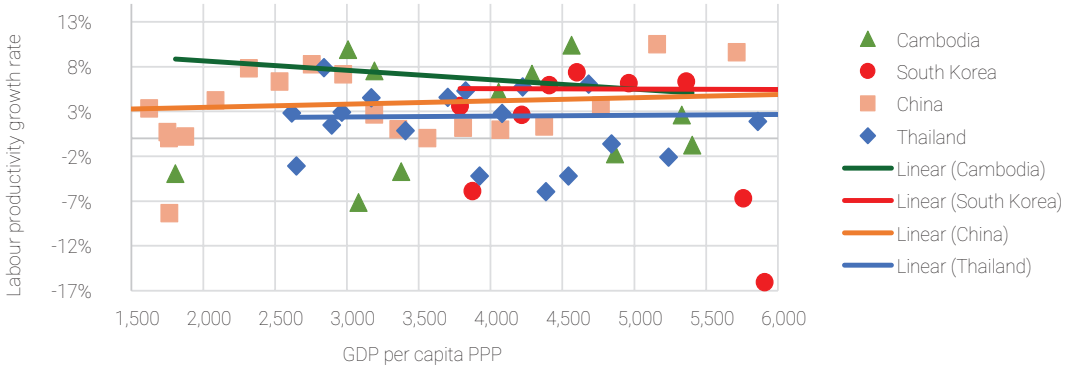
Source: World Bank's WITS-HS1988/9

Figure 29: Cambodia manufacturing export in billion USD



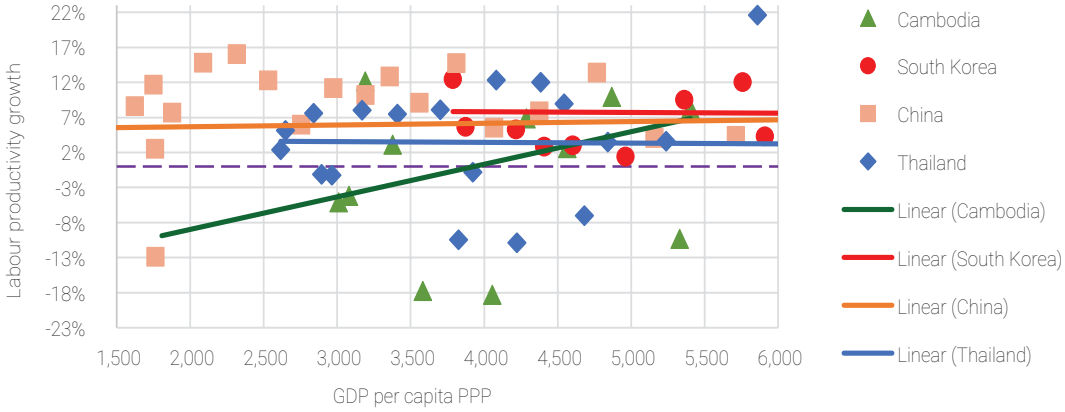
Source: World Bank's WITS-HS1988/92

Figure 30: Cross-countries productivity growth in agriculture (Percent)



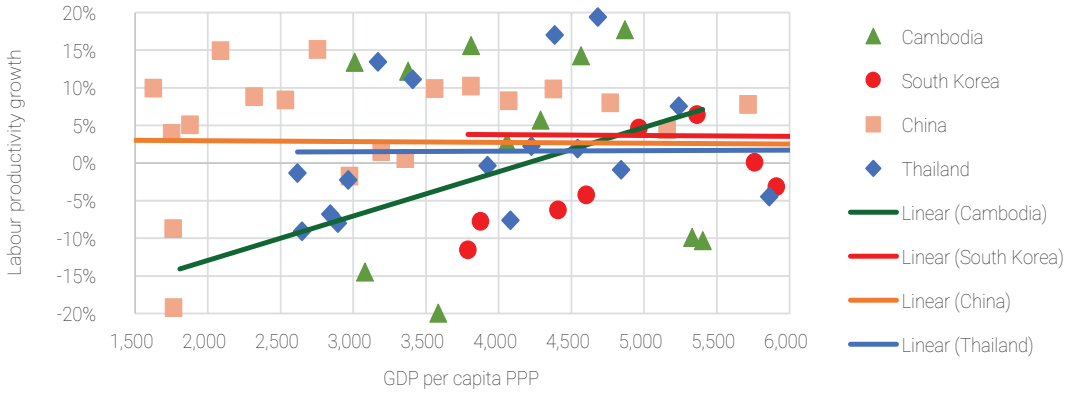
Source: Author's Calculation from ETD and Cambodia's Rebased Data

Figure 31: Cross-countries productivity growth in manufacturing (Percent)



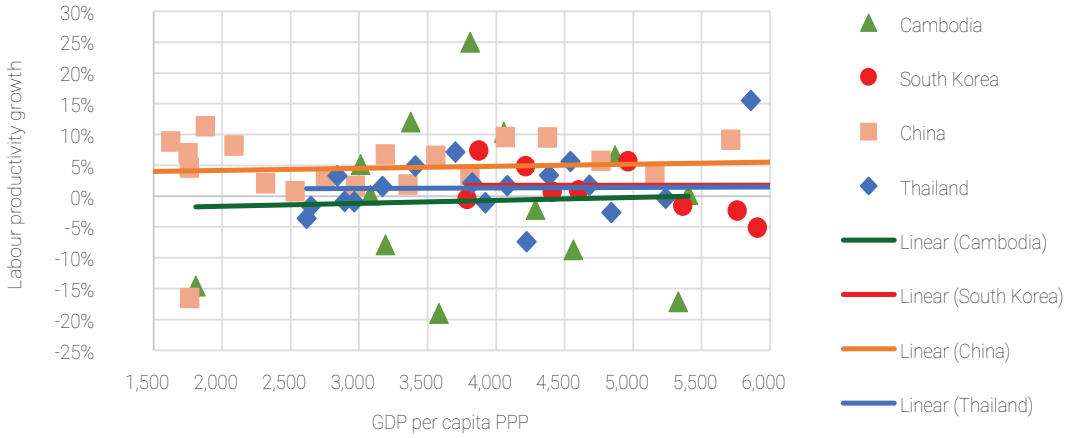
Source: Author's Calculation from ETD and Cambodia's Rebased Data

Figure 32: Cross-countries productivity growth in non-manufacturing (Percent)



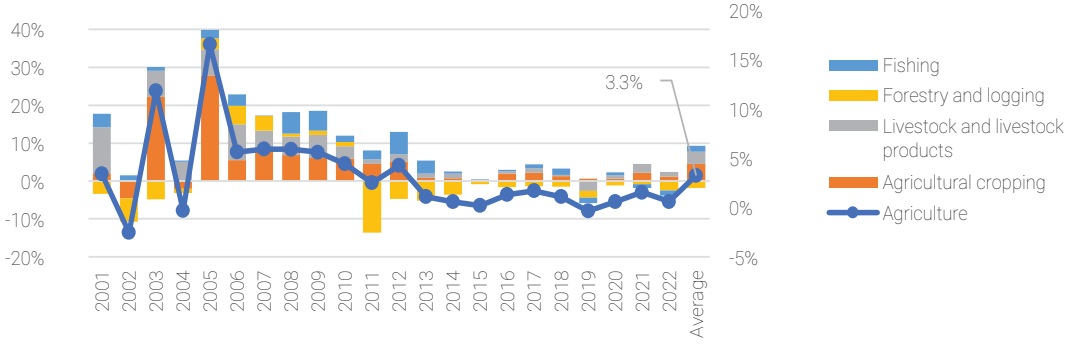
Source: Author's Calculation from ETD and Cambodia's Rebased Data

Figure 33: Cross-countries productivity growth in service (Percent)



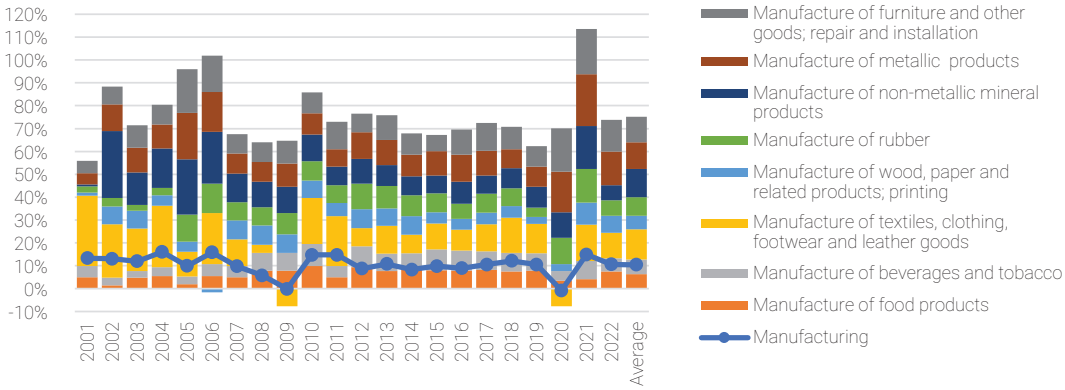
Source: Author's Calculation from ETD and Cambodia's Rebased Data

Figure 34: Annual growth rate of agriculture sub-sectors (Percent)



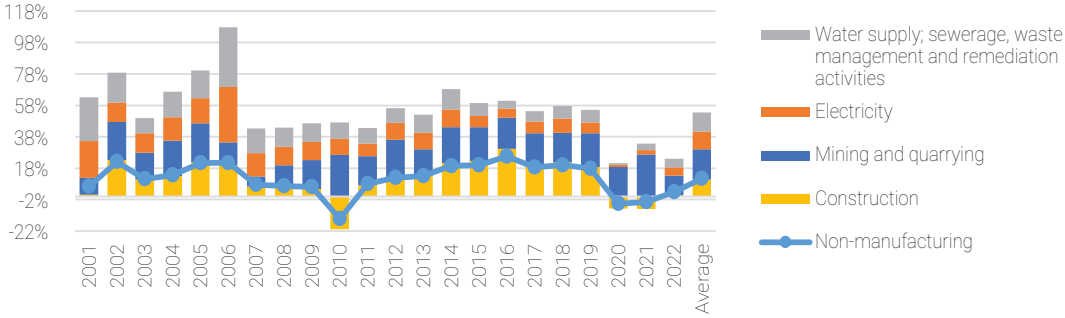
Source: Author's calculation based on MEF rebased data (Constant price 2014)

Figure 35: Annual output growth rate within manufacturing



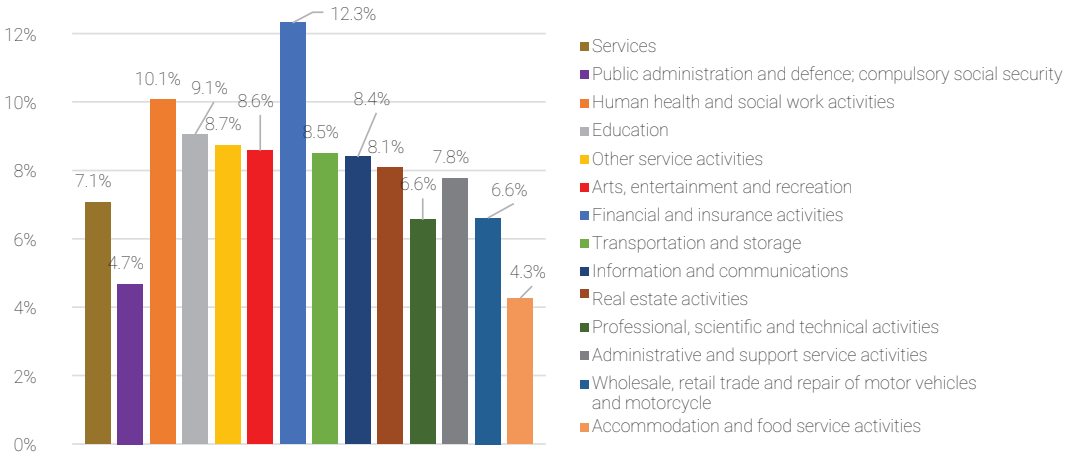
Source: Author's calculation based on MEF rebased data (Constant price 2014)

Figure 36: Annual growth rate within non-manufacturing



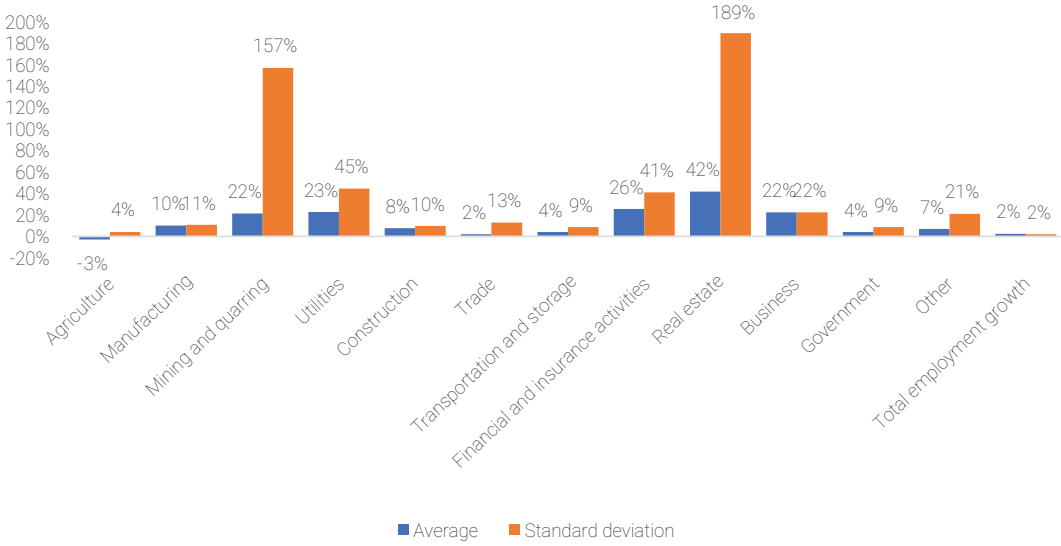
Source: Author's calculation based on MEF rebased data (Constant price 2014)

Figure 37: Average growth rate of service sub-sector: 2000-2022



Source: Author's calculation based on MEF rebased data (Constant price 2014)

Figure 38: Average employment growth rate 2008-2021 (Percent)



Source: Author's calculation based on MEF rebased data

Appendix 2: ISIC Rev 4.0 classification of economic activities

NIS classifies economic activities based on the ISIC. Recently, Cambodia has modified from ISIC Revision 3 to ISIC Revision 4. NIS adapted ISIC Rev 4 into CISIC by classifying economic activities into sections, divisions, groups, classes and items. Recently, most of Cambodia's available statistical reports still followed ISIC 3 since Cambodia is in the process of rebasing its GDP and transforming ISIC Rev 3 to ISIC Rev 4.

In this study, the sectoral output and employment are based on the official statistics of the reported format of NIS on its national account. These sectors include "A. Agriculture", "B. Mining and Quarrying", "C. Manufacturing", "D. Electricity", "E. Water Supply; Sewage, Waste Management and Remediation Activities", "F. Construction", "G. Wholesale and Retail Trade, Repair of Moto Vehicles and Motorcycles", "H Transportation and Storage", "I. Accommodation and Food Service Activities", "J. Information and Communication", "K. Financial and Insurance Activities", "L. Real Estate Activities", "M. Professional Scientific and Technical Activities", "N. Administrative and Service Support Activities", "O. Public Administration and Defense; Compulsory Social Security", "P. Education", "Q. Human Health and Social Work Activities", "R. Arts, Entertainment and Recreation", "S. Other Activities", "T. Activities of households as employers of domestic personnel", "U. Activities of extraterritorial organizations and bodies" (NIS, 2012). GGDC grouped these 21 sectors into only 12 sectors as follows: "A. Agriculture", "B. Mining", "C. Manufacturing", "D+E. Utilities", "F. Construction", "G+I. Trade Services", "H. Transport Services". "J+M+N. Business Services", "K. Financial Services", "L. Real Estate", "O+P+Q. Government Services", "R+S+T+U. Other services".

Appendix 3: Productivity growth decomposition method

The structural change also affects labour productivity. The total labour productivity or economy-wide productivity is

$$\frac{VA}{L} = \frac{\sum_{i=1}^{n} VA_i}{L} = \frac{L_1}{L} \times \frac{VA_1}{L_1} + \frac{L_2}{L} \times \frac{VA_2}{L_2} + \cdots + \frac{L_n}{L} \times \frac{VA_n}{L_n}$$

$$y = \frac{\sum_{i=1}^{n} VA_i}{L} = \theta_1 \times y_1 + \theta_2 \times y_2 + \cdots + \theta_n \times y_n \qquad (1)$$

Where y is aggregate labour productivity and y_i and θ_i is sectoral labour productivity and employment share. Subscript i represents sectors.

By using (1) above, we can rewrite as below:

$$\frac{VA}{L} = \frac{\sum_{i=1}^{n} VA_i}{L} = \frac{L_1}{L} \times \frac{VA_1}{L_1} + \frac{L_2}{L} \times \frac{VA_2}{L_2} + \cdots + \frac{L_n}{L} \times \frac{VA_n}{L_n}$$

$$P = \frac{VA}{L} = \frac{\sum_{i=1}^{n} VA_i}{L}$$

$$= \sum_{i=1}^{n} \frac{L_i}{L} \times \frac{VA_i}{L_i} = \sum_{i=1}^{n} (S_i \times P_i) \qquad (2)$$

Where P is labour productivity and S is the share of employment. By applying the differentiation for two different time periods (from *t=0* to *t=1*) where $\Delta P = P_1 - P_0$ and P_0 is aggregated productivity in period *t=0* and P_1 is aggregated productivity in period *t=1*. We obtain the following:

$$\frac{\Delta P}{P_0} = \sum_{i=1}^{n} \left[\frac{P_{i0}}{P_0} \Delta S_i + \frac{\Delta P_i \Delta S_i}{P_o} + \frac{S_{i0} \Delta P_i}{P_o} \right]$$

$$= \sum_{i=1}^{n} \left[\frac{P_{i0}}{P_0} \Delta S_i + \frac{P_{i0}}{P_0} \frac{\Delta P_i}{P_{i0}} \Delta S_i + \frac{P_{i0}}{P_0} \frac{\Delta P_i}{P_{i0}} S_{i0} \right] \qquad (3)$$

Where subscript *i* represents sector. $\frac{P_{i0}}{P_0}$ is the relative productivity ratio of each sector to aggregated productivity in period *t=0*.This ratio is greater than 1 if sectoral productivity is higher than that of aggregated productivity and less than 1 suggests the opposite. ΔS_i is the change in sectoral employment share between periods *t=0* and *t=1*, it is positive if the sector experiences increasing employment share and negative if the sector experiences decreasing employment share. $\frac{\Delta P_i}{P_{i0}}$ represents sectoral productivity growth between periods *t=0* to *t=1*. S_{i0} represents sectoral employment in period *t=0*.

In equation (3), the first term is the contribution of change in labour reallocation between sectors. If labour employment increases in high-productivity sectors, this term will be positive. The second term is the interaction between change in productivity and change in labour employment. This term is positive if the productivity-growing sector also employs more workers. The third term is productivity growth within each sector or intra-sectoral productivity growth. Wong (2016) grouped items 1 and 2 in equation (3) as inter-sectoral effect, while item 3 is called intra-sectoral effect. Item 1 is named as "static sectoral effect" and item 2 is named as "dynamic sectoral effect".

ឯកសារសារតារទី៣

ការបង្កើនបរិយាបន្ន ភាពធន់ និងនិរន្តរភាពកំណើនសេដ្ឋកិច្ចនៅកម្ពុជា

ជយន្ត មេនន

សេចក្តីសង្ខេប

ដើម្បីសម្រេចបានតាមបំណងប្រាថ្នានូវគោលដៅអភិវឌ្ឍន៍របស់ខ្លួន ប្រទេសកម្ពុជាត្រូវបន្តឆ្ពោះទៅរកកំណើនប្រកបដោយបរិយាបន្ន ចីរភាព និងភាពធន់។ នេះគឺជាប្រភេទកំណើនដែលបង្កើតការងារប្រកបដោយចីរភាព នៅក្នុងវិស័យកម្មន្តសាល និងសេវាកម្ម ហើយផ្តល់ផលចំណេញដោយសមរម្យ និងជាប់លាប់ សម្រាប់ស្ថិយនិយោជិត នៅក្នុងវិស័យសេដ្ឋកិច្ចក្នុងប្រព័ន្ធនិងក្រៅប្រព័ន្ធ។ ឧបសគ្គសំខាន់សម្រាប់កំណើននេះ គឺកង្វះការធ្វើពិពិធកម្មនៅក្នុងសេដ្ឋកិច្ច ដែលមិនប៉ះពាល់ដល់ល្បឿនកំណើនសេដ្ឋកិច្ចឆាប់រហ័សនោះទេ ប៉ុន្តែប៉ះពាល់លើបរិយាបន្ន និងចីរភាពនៃកំណើន។ ដំណាក់កាលដំបូងនៃការធ្វើពិពិធកម្មដែលនាំឱ្យមានការធ្វើចំណាកស្រុកពីជនបទមកទីក្រុង ពីវិស័យកសិកម្ម ទៅវិស័យឧស្សាហកម្ម និងសេវាកម្ម អាចនឹងឈានដល់ដែនកំណត់របស់វា។ ការធ្វើពិពិធកម្មក្នុងវិស័យនេះ នាំមកនូវការបង្កើនផលិតភាពនាពេលអនាគ។ នេះទាមទារឱ្យមានការផ្លាស់ប្តូរតាមខ្សែបញ្ជូរទៅជាផលិតផល និងសកម្មភាពដែលមានតម្លៃបន្ថែមខ្ពស់នៅក្នុងវិស័យនីមួយៗ។

ការធ្វើពិពិធកម្មក្នុងវិស័យ ទាមទារឱ្យមានការដោះស្រាយឧបសគ្គសំខាន់ពីរ។ ទី១ គឺភាពខ្វះខាតនៃជំនាញរបស់កម្លាំងពលកម្មនាពេលបច្ចុប្បន្ន ដែលទាមទារឱ្យមានការកែលម្អគុណភាពក្នុងការអប់រំនៅគ្រប់កម្រិត ចាប់ផ្តើមពីបឋមសិក្សា និងមធ្យមសិក្សា រហូតដល់ការអប់រំបច្ចេកទេស និងឧត្តមសិក្សា។ ទី២ គឺការចំណាយខ្ពស់ក្នុងការធ្វើអាជីវកម្ម ដែលបណ្តាលមកពីហេដ្ឋារចនាសម្ព័ន្ធរូបវន្ត និងភស្តុភារកម្មមានកម្រិត តម្លៃថាមពលខ្ពស់ និងការចំណាយហិរញ្ញវត្ថុខ្ពស់។ ដើម្បីដោះស្រាយឧបសគ្គទាំងនេះ កម្ពុជាត្រូវបង្កើនបរិយាបន្នកំណើនសេដ្ឋកិច្ច។ ដើម្បីធានាថាសមិទ្ធផលទាំងនេះមានភាពយូរអង្វែង កម្ពុជាត្រូវដោះស្រាយឧបសគ្គផ្សេងទៀតដែលប៉ះពាល់ដល់ភាពធន់ និងចីរភាព។ ការបង្កើនភាពធន់ រួមមានការដោះស្រាយផលប៉ះពាល់នៃ៖ ១) ការប្រែប្រួលអាកាសធាតុ និងសម្ភាធបរិស្ថានផ្សេងទៀត ២) ការប៉ះទង្គិច ឬវិបត្តិហិរញ្ញវត្ថុ សុខភាព និងវិបត្តិផ្សេងៗទៀត និង ៣) ការផ្លាស់ប្តូរនៃបច្ចេកវិទ្យា ជាពិសេសការពន្លឿនឆ្ពោះទៅរកសេដ្ឋកិច្ចឌីជីថល។ ការធ្វើឱ្យប្រសើរឡើងនូវចីរភាពនៃកំណើន និងកត្តាជំរុញរបស់វាទាមទារឱ្យមានការធ្វើពិពិធកម្មលំហូរពាណិជ្ជកម្ម និងការវិនិយោគ។ ការណ៍នេះនឹងកាត់បន្ថយការប្រឈមមុខរបស់ប្រទេសកម្ពុជាចំពោះការប៉ះទង្គិចតាមប្រទេសជាក់លាក់ និងគាំទ្រដោយប្រយោលចំពោះកំណើនសេដ្ឋកិច្ចដែលមានភាពធន់។

Background Paper 3

Increasing the Inclusiveness, Resiliency and Sustainability of Economic Growth in Cambodia

Jayant Menon

Abstract

To realise its development goals, Cambodia has to pursue inclusive growth that is also sustainable and resilient. This is the type of growth that generates sustainable jobs in the manufacturing and services sectors, and fair and consistent returns for the self-employed in the formal and informal sector. A key constraint of this growth is the lack of diversification within the economy, which has not affected the rapid pace of the economic growth but only the inclusiveness and sustainability of that growth. The early phase of diversification involving rural-urban migration from the agricultural sector into the industrial and service sectors may be reaching its limit; future increases in productivity must come from intra-sectoral diversification. This involves the vertical shift into higher value-added products and activities within each sector.

Intra-sectoral diversification requires two key constraints to be addressed. First is the limited skillsets of the current workforce, requiring improvements in the quality of education at all levels, starting with primary and secondary before technical and tertiary. Second is the high cost of doing business, which stems from limited physical and logistical infrastructure, high energy costs, and the high cost of finance. Addressing these constraints should increase the inclusiveness of economic growth. To ensure that these achievements are not short-lived, another set of constraints that affect resiliency and sustainability need to be addressed. Increasing resilience includes addressing the impacts of: (i) climate change and other environmental pressures; (ii) financial, health and other shocks or crises; and (iii) technological change, especially the acceleration towards a digital economy. Improving the sustainability of growth and its drivers involve diversifying trade and investment flows. This will reduce Cambodia's exposure to country-specific shocks and indirectly support resilient economic growth.

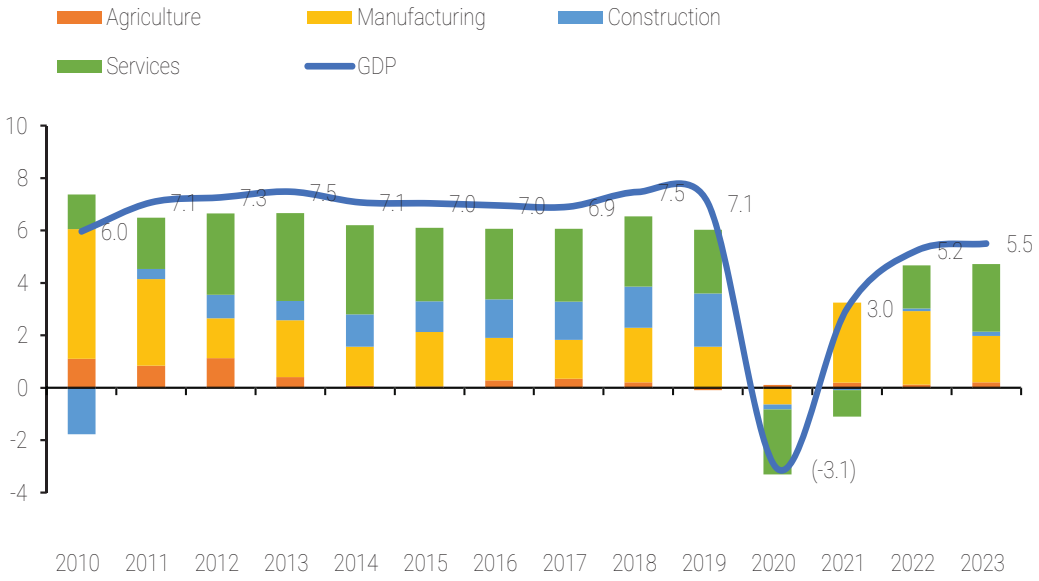
1. Introduction

In many ways, Cambodia is Asia's true miracle economy. It was only three decades ago when the Paris Peace Agreements were signed, ending the civil war that ensued following the removal of the genocidal Khmer Rouge regime in 1979. In just over a generation, Cambodia has built up its economy and institutions, almost from scratch, and transformed itself into a modern, thriving economy. Although many challenges remain, these achievements should be recognised and it bodes well for the future, given Cambodia's proven ability to overcome seemingly insurmountable odds.

Despite its tragic history, Cambodia has great aspirations for growth. However, in order to realise these aspirations, Cambodia has to pursue inclusive growth that is also sustainable and resilient. This type of growth should generate decent and sustainable jobs in the manufacturing and service sectors, and fair and consistent returns for the self-employed, either in agriculture or in the micro, small and medium enterprises (MSMEs) across sectors, formal or informal. To do this, the Kingdom must address a number of constraints.

A key constraint, which is highlighted in the Royal Government of Cambodia's Rectangular Strategy (Phase IV) and the new Pentagon Strategy Phase I, is the lack of diversification of the economy. This was also highlighted in the Asian Development Bank's (ADB) (2014) Country Diagnostic Study (CDS) but continues to be a major limitation. The continued lack of diversification has not affected the rapid pace of economic growth, although it may have hindered the quality of that growth, particularly

Figure 1: Sectoral contributions to GDP growth, 2010–2023 (percent year on year)



( ) = negative, GDP = gross domestic product.
Source: Asian Development Bank (2024) estimates.

in terms of its inclusiveness and sustainability. Cambodia has been able to grow at above an annual rate of 7 percent since the turn of the century, with the exceptions of the years afflicted by the 2007-8 Global Financial Crisis (GFC) and the 2020-21 COVID-19 pandemic (Figure 1). The high growth rate was mainly driven by trade preferences, tourism centered around Angkor Wat, and large capital inflows into construction and real estate. If Cambodia grows as anticipated, it will become a victim of its own success with trade preferences and aid flows likely to diminish. Therefore, it will need to pursue new drivers of growth, which will require greater diversification.

2. Defining inclusive, resilient and sustainable growth

Long-term strategic plans such as the Pentagon Strategy and the economic policies that underlie them all aim implicitly or explicitly to support inclusive economic growth. Bottom–up growth through sustainable employment within both the manufacturing and service industries, and self-employed MSMEs, is enabled through upskilling the working-age population by increasing education and skills development and by ensuring equal opportunity to participate in generating growth, irrespective of class, gender, or location.

'Decent' jobs are defined as those that provide a fair income, which is at least minimum wage, increased over time to keep pace with the cost of living and productivity improvement. Such jobs must protect labour rights and provide a safe work environment. To enable this, and to ensure equal opportunity and treatment for all, workers must be encouraged and helped to shift from informal to formal employment, and undocumented migrant labour must be regularised to warrant it legal. Sustainable jobs are those that provide safe and secure working conditions that facilitate extended working life in line with longer life expectancy. They are generally found in industries that are shock resilient, be the shock technological advances, climate change, or other. Sustainability allows workers to be able to respond to change by equipping them with the skills and flexibility needed to migrate from shrinking industries into expanding sectors of the economy.

To ensure that growth is more inclusive not just in the short term but extends into the long term, there is a need to reduce the risk of disruptions while increasing the versatility in managing and responding to all kinds of shocks. Increasing resilience includes addressing the impacts of: (i) climate change and other environmental pressures; (ii) financial, health and other shocks or crises; and (iii) technological change, especially the acceleration towards a digital economy. Improving the sustainability of growth and its drivers involves diversifying trade and investment flows. That is, diversifying export products and markets and import sources, as well as sources of Foreign Direct Investment (FDI) flows, which will reduce risk and increase the sustainability of economic growth.

Understanding inclusive growth requires consideration of how it is linked with several dimensions of diversification and changes in the composition of Gross Domestic

Product (GDP). Moving horizontally into higher-value products or activities must be distinguished from moving vertically up the value chain to products or activities with more value added. The horizontal shift into higher-value products usually entails inter-sector diversification, while the vertical shift into products with higher value added is intra-sectoral. The implications of intra-sector versus inter-sector diversification are critical to understanding development transitions and their ability to make growth more inclusive. These are considered in more detail below.

3. Inclusive growth and poverty reduction: Historical record

The early phase of diversification or structural transformation, involving rural-urban migration from the agricultural sector into the industrial and service sectors, has been ongoing and has delivered improvements in economic and social outcomes. This process, however, may be reaching its limit. This inter-sectoral transfer is the simplest phase of diversification, requiring minimal government intervention or policy reform, and takes place somewhat naturally with minimal disruption to factor markets (see Kaldor 1967; Herrendorf et al. 2013). The horizontal shift across sectors into higher value products and activities produces a one-off increase in the level of productivity, which raises incomes and living standards, but this increase may not be sustainable.

Nevertheless, the record on poverty reduction and improvements in human development is noteworthy, although significant challenges remain (Hill and Menon, 2011; 2014). Despite strong economic growth leading up to the COVID-19 pandemic, Cambodia remains one of the poorest countries in Southeast Asia, with gross national income per capita at USD1,400 in 2022, as measured in constant 2015 dollars, and USD1,690 in 2024 prices.

The Royal Government of Cambodia (RGC) has implemented programmes and policies to boost economic growth and reduce poverty, particularly in rural areas. These have included cash transfers, rural infrastructure development, and improvements in healthcare and education. The share of Cambodians living below the national poverty line of KHR 4,618 or about USD1.04 per day declined from 33.8 percent in 2009 to 17.8 percent in 2019 (Figure 2). The government aimed to reduce poverty further to below 10 percent by 2023 (Karamba et al. 2022).

Despite notable progress in recent years, poverty is still pervasive, particularly in rural areas of the Kingdom. In 2019, rural areas had a poverty rate of 22.8 percent based on the national poverty line, which was almost double the 9.6 percent rate in urban areas (Figure 2). The same disparity can be seen in food poverty, which has declined across the country but remains much higher in rural areas (Figure 3). While there have been notable achievements in reducing food and extreme poverty, a significant proportion of the population remains vulnerable. ADB estimates that about 30 percent of Cambodians are "near poor" or vulnerable to being pushed into poverty by illness,

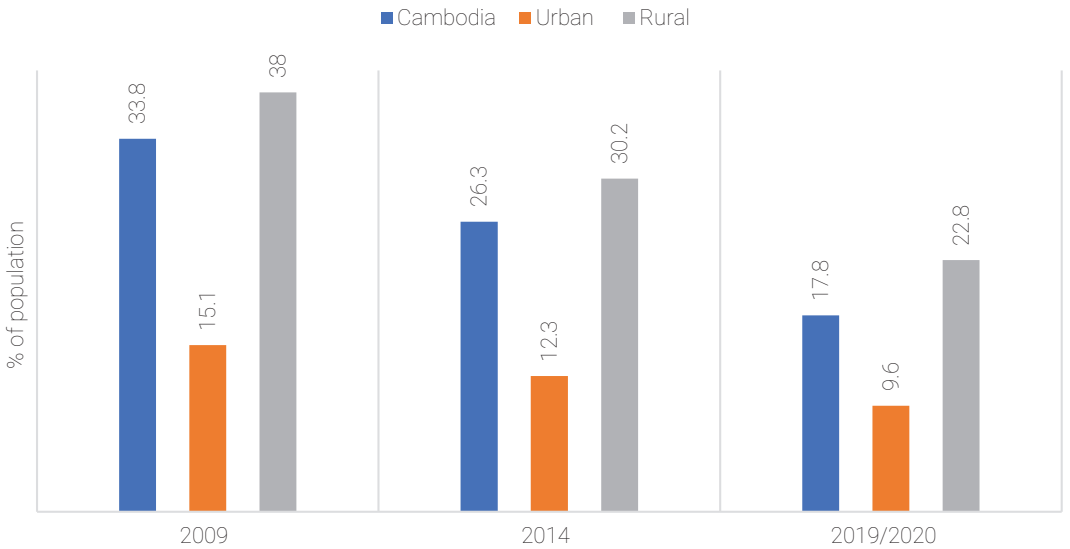
natural disasters, or economic shock. Using the higher World Bank poverty line of $3.20 a day, about a third of the population fall below it (Karamba et al. 2022).

More worryingly, income inequality, as measured by the Gini coefficient, worsened from 29.9 in 2014 to 32.2 in 2019, after remaining fairly stable in the previous 5 years (Figure 4). Further, data on consumption per capita by quintile show that, compared with 2014, average monthly consumption by the bottom fifth increased by only 23 percent in 2019/20, while that of the top fifth increased by 60 percent. This is a drastic reversal from the period from 2009 to 2014, when average monthly consumption by the bottom 20 percent rose by 71 percent and of the top fifth by 28 percent (Table 1). It is likely that asset and wealth inequality is also high and rising, but data on these measures are sparse.

Progress in reducing poverty and improving human development outcomes were reversed under the COVID-19 pandemic, with an estimated 460,000 people falling into poverty in 2020, raising the poverty rate by 2.8 percentage points. The World Bank estimated that, without government intervention, the pandemic would have increased poverty by 4.7 percentage points in 2020, undoing 3 years of poverty reduction progress.

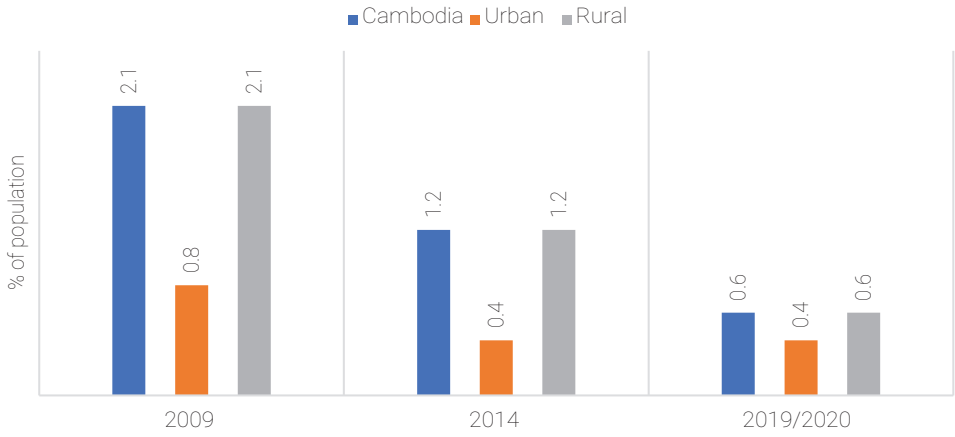
Cambodia's performance on the Human Development Index (HDI) has likewise suffered a reversal in recent years. From 1990 to 2018, the HDI showed a positive trend, increasing from 0.378 to 0.598. However, from 2018 to 2021, it declined to 0.593, categorising Cambodia as a country with medium human development, ranked 146th out of 191 countries in terms of its human capital development. Significant gaps remain in health and education. Cambodia performed poorly in the Global Competitiveness Report 2019, ranking 119th out of 141 economies in terms of overall competitiveness.

Figure 2: Poverty rate, 2009, 2014, and 2019/2020 (percent)



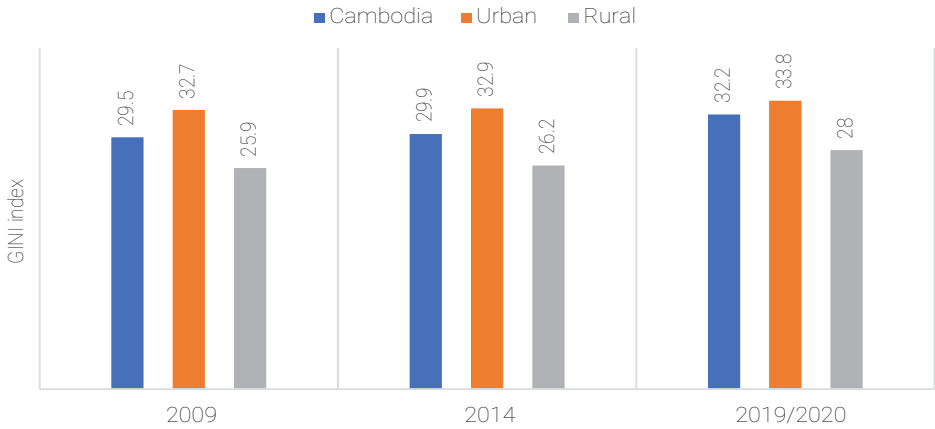
Source: Karamba et al. (2022).

Figure 3: Food poverty, 2009, 2014, and 2019, (percent)



Source: Karamba et al. (2022).

Figure 4: Gini index 2009, 2014, and 2019/2020



Source: Karamba et al. (2022).

Table 1: Consumption per capita, by quintile, 2009, 2014, and 2019

Quintile	KR'000			% of total			% increase	
	2009	2014	2019/ 2020	2009	2014	2019/ 2020	2014 vs. 2009	2019/ 2020 vs. 2014
Lowest fifth	97	166	204	8	9	7.7	71	23
Second fifth	144	240	304	11	13	11.5	67	27
Middle fifth	192	309	403	15	17	15.3	61	30
Fourth fifth	269	407	559	21	22	21.2	51	37
Highest fifth	570	731	1,166	45	39	44.2	28	60

Note: Values are monthly averages.
Source: Cambodia Socio-economic Surveys, 2009, 2014, and 2019.

4. Key constraints to inclusive growth

Cross-country comparisons suggest that Cambodia may already have realised most of the benefits from shifting workers across from agriculture into manufacturing or services. While the inter-sector transfer increases productivity, this boost is likely to be a one-off and unable to sustain growth over time. While rice farmers, for example, may increase the value of their output per hour by moving into an electronics factory and assembling wire harnesses, they are unlikely to assemble wire harnesses markedly more efficiently over time.

Future growth in productivity will require a new phase of structural transformation featuring intra-sector specialisation. This second phase is the vertical reallocation of factors to produce goods with more value added within existing supply chains. In Cambodia, this would require greater participation by the private sector to generate new forms of involvement in global supply chains for manufacturing. Unlike the early phase of industrialisation, this upgrading process is unlikely to happen spontaneously but will require government intervention and policy reform. It will also likely require new forms of investment, especially FDI with embedded technologies, and skilled labour will be required to facilitate intra-sector specialisation and upgrading.[1]

1 The opportunities available to Cambodia to diversify its product mix and export basket though structural transformation can be identified for the short and long run using product space analysis (see Menon and Naqvi, 2024).

There are two major constraints that need to be addressed through policy reforms and government support to enable greater intra-sectoral diversification (ADB, 2024). The first is limited human capital and skills mismatches. Second is the high cost of doing business, which limits development of the private sector and domestic and foreign investment. Addressing these two sets of constraints should result in economic growth that is more inclusive. To ensure that these achievements are not short-lived, another set of constraints need to be addressed. These involve measures designed to increase resilience and sustainability, which would otherwise threaten current and future growth.

To address these constraints, there are three accompanying sets of policy reforms and government interventions that are recommended.

4.1. Human capital

Nine out of ten Cambodian workers are employed in elementary or low-skilled jobs (NIS, 2021). This reflects the poor state of human capital in the labour force. There is an urgent need to improve the quality of education at all levels, and not just Technical and Vocational Education and Training (TVET) or tertiary education. TVET and tertiary education can only succeed if students have a strong educational foundation in primary and

secondary schooling.[2] Results from the 2022 Programme for International Student Assessment (PISA) show Cambodia lagging behind its ASEAN peers in math, science, and reading despite improvement since 2017 (Figure 5). Similarly, Cambodia lags in the share of its labour force with advanced education (Figure 6).

Quality improvements also need to be accompanied by measures to improve access to education and retention rates, which are currently low. For instance, Warr and Menon (2016) found that more than 30 percent of new employees in the Japanese multinational firm, Denso, had never attended school and could neither read nor write, with limited numeracy skills. Although firms like Denso were willing to provide their own tailored on-the-job training, these workers found it challenging and could only be employed to undertake routine manual tasks.[3]

Cambodia needs to invest in skills development and training in close collaboration with the private sector to avoid skills mismatches. TVET and tertiary education institutions need to align their curricula more closely with the needs of the private sector. There is also a pressing need to address the various barriers, and push and pull factors, that limit access to formal employment, and strengthen social protection systems.

4.2. Business costs

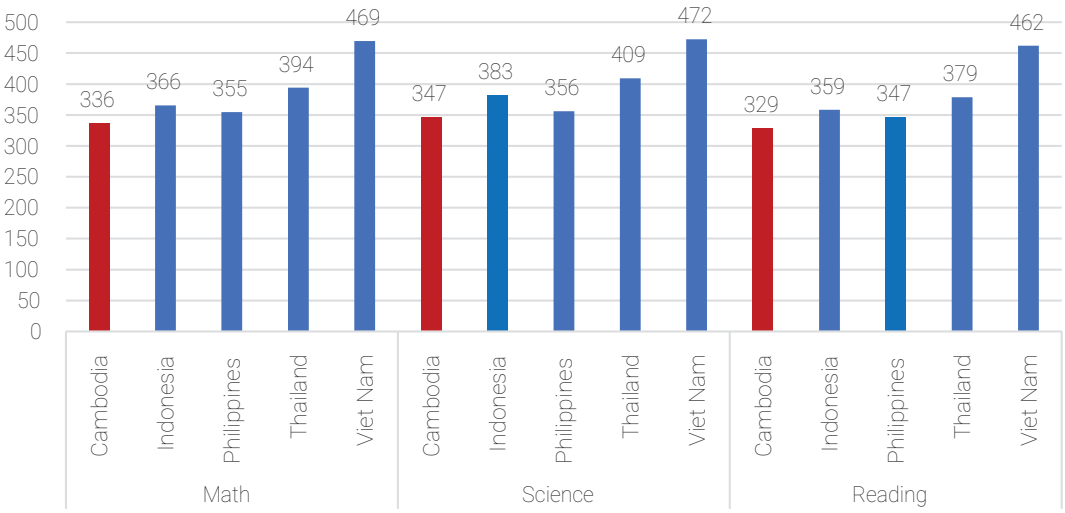
The second constraint is the high cost of doing business. Cambodia has long fared poorly in the World Bank's composite Ease of Doing Business Index (Table 2). Before the index was discontinued in 2020, Cambodia had a low ranking in Southeast Asia, usually performing better than only Laos and Myanmar. The high cost stems from limited physical and logistics infrastructure (Table 3), high energy costs, and the high cost of finance. For a developing economy like Cambodia that is rapidly transforming, transport and related infrastructure needs are a moving target. Despite notable achievements in building infrastructure, a deficit that continues to add significantly to business costs remains. There is a need to prioritise investments both within the transport sector, as well as economy wide. Within transport, chokepoints such as port capacity, high-cost centres such as logistics infrastructure, and inter-modal connectivity should be prioritised. Red tape, inadequate port facilities, and other inefficiencies also undermine trade. Cambodia compares poorly with its neighbors in the time and cost required to export and import (Table 4).

Since infrastructure development relies on foreign involvement, increasingly from China through the Belt and Road Initiative (BRI), there is a need for better vetting of

2 In fact, the problem needs to be addressed even earlier, staring with overcoming malnutrition among infants and children that affect both mental and physical development. Despite progress over the years, UNICEF (2023) reports that almost a third of children in 2022 were stunted. Such effects are largely irreversible and can permanently affect the ability to absorb education and training in future years.

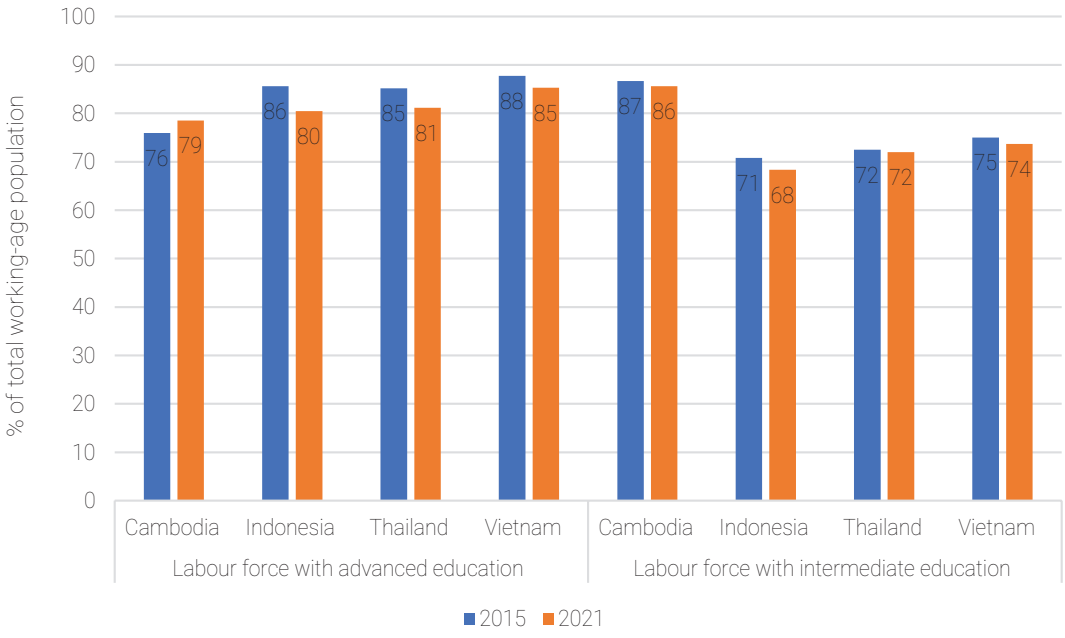
3 These fundamental challenges in the education sector need to be addressed concurrently with the skills development challenges to reverse the COVID-19 pandemic's impact on employment in Cambodia.

Figure 5: PISA scores for mathematics, science, and reading at age 15 comparing Cambodia with regional peers, 2022



Sources: OECD Programme for International Student Assessment (PISA) 2022; PISA 2022 Results, Volume 1, Reader's Guide, and Annex 4.

Figure 6: Labour force educational attainment, 2015 versus 2021 (percent of working-age population)



Source: World Bank World Development Indicators (accessed 11 April 2024).

project proposals through comprehensive cost-benefit analyses conducted by an independent body. The creation of an independent Foreign Investment Review Board, operating as a non-statutory body with inter-ministerial and multi-stakeholder representation, would be useful to assess individual proposals in a purely advisory capacity. Inter-ministerial representation would ensure that sector priorities are considered in the approval process (see Menon, 2023).

The cost of electricity in Cambodia is one of the highest in the region, with a kilowatt hour costing USD 0.14 relative to 0.11 in Thailand and 0.08 in Vietnam. The high cost is limiting vertical upgrades within electronics and automotive supply chains, from labour-intensive assembly activities to higher value added, energy intensive production of parts and components. Greater investment in renewable energy and energy efficiency is required to reduce costs and the reliance on diesel and heavy fuel oil in electricity generation. Investment in grid extension and addressing the fragmented nature of transmission and distribution would reduce the cost of electricity. There is also significant potential to scale up investment in solar energy, which could significantly reduce business costs for MSMEs that are off grid.

The high cost of finance, especially for small scale farmers and MSMEs, perpetuates poverty (Karamba et. al. 2022). Limited access to formal avenues of finance, with more than 70 percent of the population estimated to be unbanked, is closely related to its high cost. The potential for digital innovation, including fintech and blockchain, presents significant opportunities for Cambodia's financial sector to enhance financial inclusion. Increasing digital literacy and access to digital infrastructure, which is still low in rural areas, is required to increase access to finance at a reasonable cost for low-income communities.

There are also a host of long-term development challenges that need to be addressed that will affect trust in the system, and therefore both the access to and the cost of finance. These include issues relating to governance and corruption, the quality of institutions including the legal system, and the development of the finance sector and capital markets.

Table 2: Ease of doing business: Cambodia versus comparator countries, 2015–2019

Indicator	Country	2015	2016	2017	2018	2019
Ease of doing business rank (1 = most business-friendly regulations)	Cambodia	...	...	...	...	144
	Laos	...	...	...	...	154
	Thailand	...	...	...	...	21
	Vietnam	...	...	...	...	70
	Lower-middle income	...	...	...	...	...
Ease of doing business score (0–100, worst to best)	Cambodia	52.9	53.2	53.4	53.8	53.8
	Laos	48.2	49.1	50.0	49.8	50.8
	Thailand	71.9	72.8	78.5	79.5	80.1
	Vietnam	62.6	65.3	67.0	68.6	69.8
	Lower-middle income	52.8	53.7	54.8	56.1	57.4
New business density (new registrations per 1,000 people aged 15–64)	Cambodia	0.4	0.4	0.5	0.7	0.9
	Laos	0.1	0.1	0.1	0.1	0.2
	Thailand	0.9	1.0	1.1	1.5	1.5
	Vietnam	1.1	1.3	1.5	1.6	1.7
	Lower-middle income	0.3	0.3	0.4	0.4	0.4

... = unavailable
Source: World Bank Ease of Doing Business (accessed 25 April 2023).

Table 3: Logistics performance index: Cambodia versus comparators, selected years

Index feature	Country	2010	2012	2014	2016	2018	2022
Overall	Cambodia	2.4	2.6	2.7	2.8	2.6	2.4
	Laos	2.5	2.5	2.4	2.1	2.7	2.4
	Thailand	3.3	3.2	3.4	3.3	3.4	3.5
	Vietnam	3.0	3.0	3.2	3.0	3.3	3.3
	Lower-middle income	2.6	2.5	2.6	2.5	2.6	2.6
Ability to track and trace consignments	Cambodia	2.5	2.8	2.9	2.7	2.5	2.8
	Laos	2.5	2.5	2.2	1.8	2.9	2.4

	Thailand	3.4	3.2	3.5	3.2	3.5	3.6
	Vietnam	3.1	3.2	3.2	2.8	3.5	3.4
	Lower-middle income	2.6	2.5	2.6	2.5	2.6	2.6
Competence and quality of logistics services	Cambodia	2.3	2.5	2.7	2.6	2.4	2.4
	Laos	2.1	2.5	2.3	2.1	2.7	2.4
	Thailand	3.2	3.0	3.3	3.1	3.4	3.5
	Vietnam	2.9	2.7	3.1	2.9	3.4	3.2
	Lower-middle income	2.4	2.5	2.5	2.5	2.5	2.6
Ease of arranging competitively priced shipments	Cambodia	2.2	2.6	2.8	3.1	2.8	2.3
	Laos	2.7	2.4	2.5	2.2	2.7	2.3
	Thailand	3.3	3.2	3.3	3.4	3.5	3.5
	Vietnam	3.0	3.1	3.2	3.1	3.2	3.3
	Lower-middle income	2.7	2.5	2.6	2.5	2.5	2.6
Efficiency of customs clearance process	Cambodia	2.3	2.3	2.7	2.6	2.4	2.2
	Laos	2.2	2.4	2.4	1.8	2.6	2.3
	Thailand	3.0	3.0	3.2	3.1	3.1	3.3
	Vietnam	2.7	2.7	2.8	2.8	3.0	3.1
	Lower-middle income	2.2	2.3	2.4	2.3	2.4	2.4
Frequency with which shipments reach consignee within scheduled or expected time	Cambodia	2.8	3.0	2.8	3.3	3.2	2.7
	Laos	3.2	2.8	2.7	2.7	2.8	2.8
	Thailand	3.7	3.6	4.0	3.6	3.8	3.5
	Vietnam	3.4	3.6	3.5	3.5	3.7	3.3
	Lower-middle income	3.2	3.0	2.9	2.9	2.9	2.9
Quality of trade and transport-related infrastructure	Cambodia	2.1	2.2	2.6	2.4	2.1	2.1
	Laos	2.0	2.4	2.2	1.8	2.4	2.3
	Thailand	3.2	3.1	3.4	3.1	3.1	3.7
	Vietnam	2.6	2.7	3.1	2.7	3.0	3.2
	Lower-middle income	2.2	2.3	2.3	2.4	2.3	2.4

Note: Ranking is 1–5, low–high. Source: World Bank World Development Indicators (accessed 11 December 2023).

Table 4: Cost and time to export and import: Cambodia versus comparator countries, 2019

Indicator	Cambodia	Laos	Thailand	Vietnam	Lower middle income
Cost to export, border compliance ($)	375	140	222.6	290	438.7
Cost to export, documentary compliance ($)	100	235	96.9	139.2	142.1
Cost to import, border compliance ($)	240	223.5	232.5	373	542
Cost to import, documentary compliance ($)	120	115	43.5	182.5	211.1
Time to export, border compliance (hours)	48	9	44	55	69.8
Time to export, documentary compliance (hours)	132	60	11.3	50	61
Time to import, border compliance (hours)	7.5	10.5	50.2	56	110.3
Time to import, documentary compliance (hours)	132	60	4	76	71.7

Source: World Bank Ease of Doing Business (accessed 25 April 2023).

5. Long-term inclusive growth: Increasing resilience and sustainability

5.1. Climate change and other environmental pressures

Climate change impacts the livelihoods of millions, as well as threatening longer-term goals. ADB (2023) estimates that Cambodia's GDP could be up to 2.5 percent lower in 2030, and 10 percent lower in 2050, without effective climate adaptation. Improved adaptation policies and practices could reduce the impact by 66 percent by 2050 (MEF and NCSD, 2019).

Economic growth and environmental protection are often considered trade-offs but there can be complementarity. The intersection between the two is green growth, where ecologically sustainable economic growth that fosters low carbon but socially inclusive development is the outcome. Green investments are not only one way to unlock growth potential but also create decent and sustainable jobs for the future. There is significant potential to scale-up investment in renewable energy and energy efficiency using Cambodia's abundant solar energy resources.[4] Significant parts of Cambodia remain without access to electricity and solar power carries the potential of transforming remote and often poor communities by providing them with affordable, clean energy and the opportunity to improve living conditions.

Transitioning away from the heavy reliance on fossil fuels, reducing the rate of deforestation and adopting more sustainable agricultural and fishing practices will be critical in protecting the environment and ensuring the future prospects of these industries.

As green and sustainability aspects of production become increasingly important in business and investment decisions of international firms, reducing Cambodia's carbon footprint would present new growth opportunities that arise from increasing global demand for environmentally sustainable products and services.

5.2. Financial, health, and other shocks or crises

Financial risks

Cambodia will need to strengthen its financial sector's resilience by enhancing regulatory and supervisory frameworks, improving asset quality and risk management practices, and addressing weaknesses in the banking system. There is a need to implement regulations to deal with bank and debt restructuring, and corporate insolvency. Rising private debt following the collapse in the property market has also become a concern that could threaten the stability of the economy and its future growth. The IMF (2024) notes that its share of GDP at around 160 percent is high for a country at its level of development.

With the growth in shadow banking and the increase in non-bank financial institutions,

greater regulatory oversight and supervision will be required. Cambodia's authorities will also need to accelerate work on a deposit protection scheme, implement measures to prevent money laundering, and clarify the framework for bank resolution.

Cambodia's authorities will need to carefully monitor the health of banks and microfinance institutions as the forbearance measures are phased out, especially the systemically important banks with high exposure to the construction and real-estate sector. A staged increase in minimum capital requirements could also be used to promote consolidation in the banking and microfinance sectors.

Health crisis

Although Cambodia did remarkably well in managing the COVID-19 pandemic, it highlighted a number of vulnerabilities in the healthcare system that need to be addressed before the next health emergency occurs. Government spending on healthcare needs to be significantly increased in preparation for the next pandemic or major public health outbreak. This was a key limitation in managing the COVID-19 pandemic, requiring more stringent controls than in countries with more robust healthcare systems.

There is great variation in access to quality healthcare in the urban versus rural areas. Increasing both the access and the quality of healthcare in remote regions, that are currently poorly served, are vital to address. Unless there is greater investment to increase the quality and quantity of healthcare services, any future health crisis requiring mass hospitalisation could quickly overwhelm the healthcare system, inflicting a larger than necessary human and economic toll.

5.3. Technological change, especially the acceleration towards a digital economy

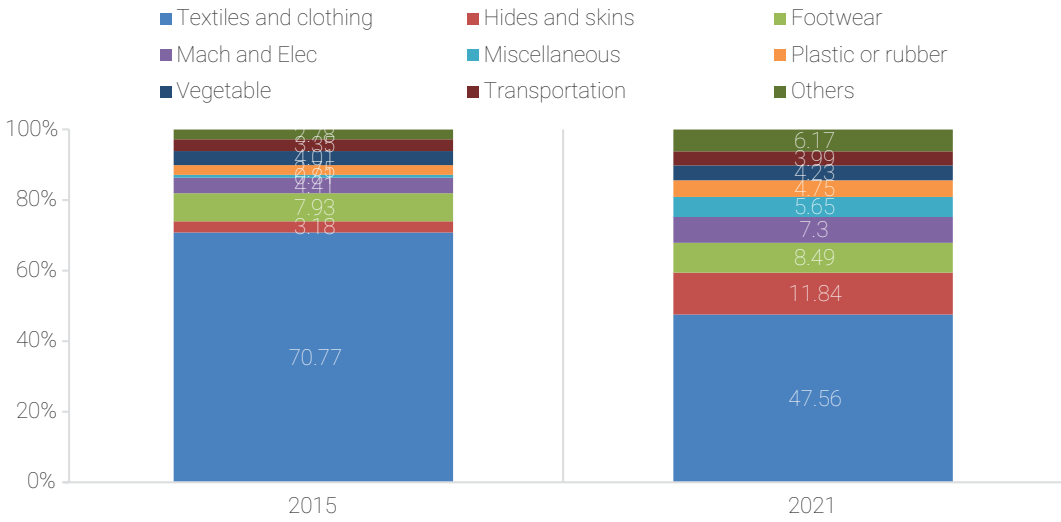
The acceleration towards a digital economy will produce many benefits, but it will also create new challenges. Many low- and medium-skilled jobs may be lost initially, although Artificial Intelligence threatens even highly skilled positions. It will not be easy to redeploy low-skilled workers and reskilling and retraining will be required. Despite the anti-globalisation backlash elsewhere, Cambodia must remain open to importing skills and technology to help catch-up in the short term. In the long- run, the challenges posed by digitalisation and rapid technological change will require a fundamental transformation in systems of education and learning. That is, the digital transition reinforces the need to address the underlying problems associated with human capital and skills development, discussed earlier. Augmenting cognitive skills such as maths and sciences will be critical for the transition to a more innovative, knowledge-based economy. New and innovative approaches to public-private collaboration are also needed, particularly in areas such as research and development.

Diversifying export markets and import sources

Cambodia's trade patterns – both the commodity and country composition of its exports and imports - are highly concentrated (see Figures 7, 8, and 9). This raises Cambodia's vulnerability to country- or commodity-specific shocks. As the major constraints to structural diversification, such as limited human capital and high business costs are addressed, trade and investment

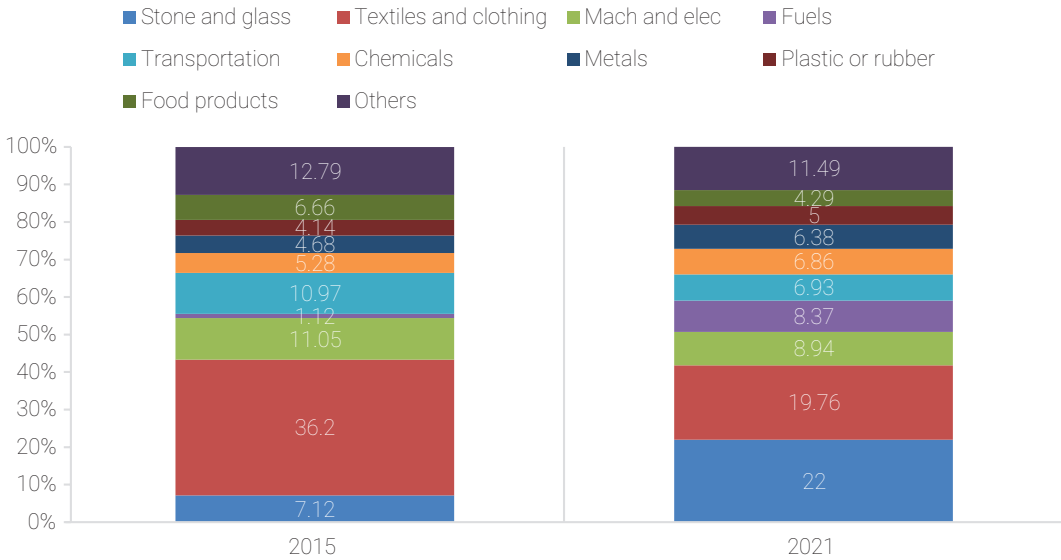
flows will also diversify. For instance, if the price of electricity could be reduced, this may attract new types of FDI from different source countries, which would result in new outputs, such as electronic parts and components. This alters both the commodity and country composition of exports and imports, helping diversify trade and investment patterns.

Figure 7: Cambodia's export products, 2015 and 2021 (percent of exports)



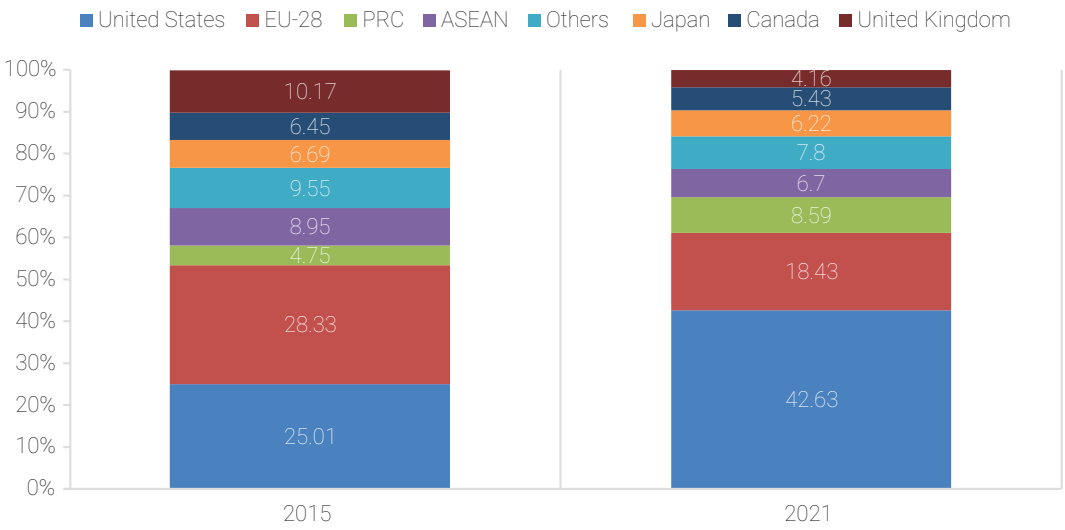
Source: World Bank World Integrated Trade Solution (accessed 11 December 2023).

Figure 8: Cambodia's import products, 2015 and 2021 (percent of imports)



Source: World Bank World Integrated Trade Solution (accessed 11 December 2023).

Figure 9: Cambodia's export partners, 2015 and 2021 (percent of exports)



ASEAN = Association of Southeast Asian Nations, EU = European Union, PRC = People's Republic of China.
Source: World Bank World Integrated Trade Solution (data downloaded 11 December 2023).

This is one of a number of indirect channels involving policy reform that can affect trade and investment patterns.

There are specific policy changes that can be pursued to deliberately diversify trade and investment flows, and directly improve its sustainability.

Preferences are also present in the many FTAs that Cambodia is engaged in that skew the commodity and country composition of its imports (see Table 5). The margin of preference (MOP) — the difference between preferential and Most-Favoured-Nation (MFN) rates — is still high for many tariff lines and across different FTAs in Cambodia. When MOPs are high, trade patters can be distorted through trade diversion. It increases the concentration of trade flows by diverting them from non-FTA partners to FTA partners. Trade diversion is also welfare reducing because imports are no longer sourced from the lowest cost producer. Pursuing open regionalism through multilateralisation of FTA preferences – i.e., offering its preferences to all countries on an MFN basis - is in Cambodia's national interest. It would promote domestic competitiveness and welfare, while reducing the concentration in trade patterns (see Menon, 2022).

Diversifying sources of FDI

Cambodia needs to attract FDI or incur external debt if it is to grow at a rate faster than that determined by its low domestic savings rate. There is a sustainability element associated with both FDI and debt. The need for long-term debt sustainability is widely recognised and better understood than the need to ensure that FDI inflows do not exceed absorptive capacity. The latter is associated with ensuring that external competitiveness of the tradable goods sector is not impaired by a sharp appreciation of the real exchange

Table 5: Cambodia's 17 free trade agreements and their status

Type	Proposed/under study	Negotiations launched	Signed but Not Yet in Effect	Signed and in Effect
Bilateral			Cambodia–Korea Free Trade Agreement (2021)	Cambodia–People's Republic of China Free Trade Agreement (2022)
Plurilateral	• East Asia Free Trade Area (ASEAN+3) (2004) • Comprehensive Economic Partnership for East Asia (2005) • ASEAN-EU Free Trade Agreement (2007) • ASEAN-Pakistan Free Trade Agreement (2009) • ASEAN–Eurasian Economic Union Free Trade Agreement (2016) • Cambodia–Eurasian Economic Union FTA (2017)	ASEAN–Canada (2021)		• ASEAN Free Trade Area (1993) • ASEAN–People's Republic of China Comprehensive Economic Cooperation Agreement (2005) • ASEAN–Republic of Korea Comprehensive Economic Cooperation Agreement (2007) • ASEAN–Japan Comprehensive Economic Partnership (2008) • ASEAN–Australia and New Zealand Free Trade Agreement (2010) • ASEAN–India Comprehensive Economic Cooperation Agreement (2010) • ASEAN–Hong Kong, China Free Trade Agreement (2019) • Regional Comprehensive Economic Partnership (2022)

ASEAN = Association of Southeast Asian Nations, EU = European Union, FTA = free trade agreement.
Source: ADB Asian Regional Integration Center FTA database (accessed 25 April 2023).

rate due to massive inflows of FDI, resulting in Dutch Disease type effects. The relevant point here is that an economy like Cambodia should be selective in its choice of projects, whether financed by foreign investment or borrowings, if it is to grow in a sustainable and inclusive manner. In addition, increasing the share of new investors that can help plug Cambodia into new markets and global manufacturing supply chains will also support domestic structural changes by diversifying sources of growth.

6. Conclusion

To realise its long-term aspirations, Cambodia must pursue inclusive growth that is also sustainable and resilient. A key constraint is the lack of diversification of the economy, which has not affected the rapid pace of economic growth but only the inclusiveness and sustainability of that growth. Future increases in productivity must come from intra-sectoral diversification.

Two key constraints limit the extent of intra-sectoral diversification. First is inadequate human capital, requiring improvements in the quality of education at all levels, starting with primary and secondary schooling. Second is the high cost of doing business, which stems from limited physical and logistics infrastructure, high energy cost, and the high cost of finance. Addressing these constraints should increase the inclusiveness of economic growth.

To ensure these achievements endure beyond the short term, another set of constraints affecting resilience and sustainability must be addressed. Increasing resilience includes addressing the impacts of climate and technological change, and reducing the risk of financial, health and other crises but, should they occur, mitigating their worst impacts. Improving the sustainability of growth and its drivers involve diversifying trade and investment flows. This will reduce Cambodia's exposure to country-specific shocks and indirectly help with diversification of the economy.

References

ADB. 2014. *Country Diagnostic Study: Cambodia, Diversifying beyond Garments and Tourism*. Manila. https://www.adb.org/sites/default/files/publication/149852/cambodia-diversifying-country-diagnostic-study.pdf.

———. 2023b. *Asian Development Outlook, April 2023*. Manila. https://www.adb.org/publications/asian-development-outlook-april-2023.

———. 2024. *Country Diagnostic Study: Cambodia, Diversifying by Addressing Constraints to Inclusive Growth*, Manila, forthcoming.

Herrendorf, Berthold, Richard Rogerson, and Ákos Valentinyi. 2013. *Growth and Structural Transformation*. *NBER Working Paper* 18996. Washington, DC: National Bureau of Economic Research. http://www.nber.org/papers/w18996

Hill, Hal and Jayant Menon. 2014. "Cambodia: Rapid Growth in an Open, Post-conflict Economy." The World Economy, 37, 1649–1668. https://www.adb.org/sites/default/files/publication/111031/reiwp-141-trade-policy-challenges-cambodia.pdf

Hill, Hal and Jayant Menon. 2011. "Reducing Vulnerability in Transition Economies: Crises and Adjustment in Cambodia", *ASEAN Economic Bulletin*, 28 (2), pp. 134-59

IMF. 2024. Cambodia: 2023 Article IV Consultation-Press Release; and Staff Report. 31 January. Washington, DC. https://www.imf.org/en/Publications/CR/Issues/2024/01/29/Cambodia-2023-Article-IV-Consultation-Press-Release-and-Staff-Report-544276

Kaldor, Nicholas. 1967. Strategic Factors in Economic Development, Ithaca, NY: Cornell University.

Karamba, Wendy, Kimsun Tong, and Isabelle Salcher. 2022. Cambodia Poverty Assessment: Toward a More Inclusive and Resilient Cambodia. Washington, DC: World Bank. http://hdl.handle.net/10986/38344.

Menon, Jayant. 2022. The CLMV Countries and RCEP: Will They Grasp the Opportunities? *Fulcrum*. 18 February. https://fulcrum.sg/the-clmv-countries-and-rcep-will-they-grasp-the-opportunities/

———. 2023. The Belt and Road Initiative in Cambodia: Costs and Benefits, Real and Perceived. *Economics Working Paper,* 2023-1, Singapore: ISEAS-Yusof Ishak Institute. ISEAS_EWP_2023-1_Menon.pdf.

Menon, Jayant and K. Naqvi. 2024. Structural Transformation and Growth Opportunities in Cambodia: A Product Space Analysis, Paper presented to the Striving for Inclusive Economic Growth in Asia and the Pacific Conference, ADB and ADB Institute, Manila.

MEF and NCSD. 2019. Addressing Climate Change Impacts on Economic Growth in Cambodia.

UNDP. 2019. *Cambodia: Derisking Renewable Energy Investment*. New York: United Nations Development Programme. https://www.undp.org/sites/g/files/zskgke326/files/2022-09/DREI% 20Cambodia%20Full%20Report%20%28English%29%20%28Jun%202019%29%20%28FINAL%29.pdf.

UNICEF. 2023. *An analysis of the situation of children and adolescents in Cambodia*. Phnom Penh: UNICEF. https://www.unicef.org/cambodia/reports/analysis-situation-children-and-adolescents-cambodia

Warr, P. and J. Menon. 2016. "Cambodia's Special Economic Zones." *Journal of Southeast Asian Economies*. 33 (3), 273–90. https://www.adb.org/sites/default/files/publication/175236/ewp-459.pdf.

World Bank. 2019a. Improved energy technologies for rural Cambodia. Phnom Penh: World Bank.

World Bank. 2019b. Exploring the Opportunities for Women-owned SMEs in Cambodia. Phnom Penh: World Bank.

ឯកសារសារតារទី៤

ការពិនិត្យម៉ាក្រូសេដ្ឋកិច្ចកម្ពុជា៖ ស្ថានភាពបច្ចុប្បន្ន និងទស្សនវិស័យអនាគតរបស់កម្ពុជា

មុត សុមន្តធានី

សេចក្តីសង្ខេប

- **សមិទ្ធផលសេដ្ឋកិច្ច និងទស្សនវិស័យ៖**
  - សេដ្ឋកិច្ចជាក់ស្តែងរបស់កម្ពុជាបានកើនឡើង ៥,១% នៅឆ្នាំ២០២២ ដែលបានជំរុញដោយសមិទ្ធផលខ្ពស់ក្នុងវិស័យកាត់ដេរ និងឧស្សាហកម្មមិនមែនកាត់ដេរដែលកំពុងរីកចម្រើន ទន្ទឹមនឹងការស្ទុះងើបឡើងវិញដោយសន្សឹមៗនៃវិស័យទេសចរណ៍។ ម៉្យាងវិញទៀត វិស័យសំខាន់ៗ ដូចជាវិស័យសំណង់នៅមិនទាន់អាចងើបឡើងវិញទេ។
  - អតិផរណាឈានដល់កម្រិត ៥,៤% នៅឆ្នាំ២០២២ ដោយសារការកើនឡើងថ្លៃម្ហូបអាហារ អតិផរណាស្នូល និងតម្លៃប្រេង។
  - វិស័យធនាគារនៅរក្សាភាពរឹងមាំ និងភាពធន់ ប៉ុន្តែធនាគារស្រមោលនៅតែជាការព្រួយបារម្ភជាពិសេសនៅក្នុងវិស័យអចលនទ្រព្យ។
  - ឱនភាពសារពើពន្ធបានថយចុះមកត្រឹម ១% នៃផលិតផលក្នុងស្រុកសរុបនៅឆ្នាំ២០២២ ដែលគាំទ្រដោយការបង្កើនការកៀរគរប្រាក់ចំណូល និងកាត់បន្ថយចំណាយរបស់រដ្ឋាភិបាល។ លើសពីនេះ បំណុលសាធារណៈបានថយចុះបន្តិចមកត្រឹម ៣៨,៨% នៃផលិតផលក្នុងស្រុកសរុបនៅឆ្នាំ២០២២ បន្ទាប់ពីបានកើនឡើងកាលពីឆ្នាំមុនៗ។
  - សម្លឹងឆ្ពោះទៅមុខ ផលិតផលក្នុងស្រុកសរុបរបស់កម្ពុជាត្រូវបានព្យាករ ថានឹងកើនឡើងប្រមាណ ៥,៣% នៅឆ្នាំ២០២៣ និងប្រហែល ៦% ចាប់ពីឆ្នាំ២០២៤ តទៅ។
- **ហានិភ័យខាងក្រៅ និងខាងក្នុង៖**
  - កំណើនរបស់កម្ពុជា ប្រឈមនឹងហានិភ័យខាងក្រៅ ដោយសារការថមថយនៃកំណើនសេដ្ឋកិច្ចរបស់ប្រទេសជាដៃគូមួយចំនួន ដូចជាប្រទេសចិន និងសហរដ្ឋអាមេរិក និងហានិភ័យផ្ទៃក្នុងទាក់ទងនឹងភាពទន់ខ្សោយនៃវិស័យអចលនទ្រព្យ និងបញ្ហាទាក់ទងនឹងធនាគារស្រមោល ដែលអាចបង្កហានិភ័យដល់ស្ថិរភាពហិរញ្ញវត្ថុ។

- **អនុសាសន៍៖**
  - **លើកកម្ពស់ការធ្វើពិពិធកម្មការនាំចេញ៖** ពង្រឹងតម្លាភាពបរិយាកាសធុរកិច្ច សិទ្ធិកម្មសិទ្ធិបញ្ញា និងសមត្ថភាពក្នុងការធ្វើវិញ្ញាបនប័ត្រថ្នាក់ជាតិ ទន្ទឹមនឹងការកែលម្អហេដ្ឋារចនាសម្ព័ន្ធ កាត់បន្ថយថ្លៃអគ្គិសនី និងកាត់បន្ថយរបាំងពាណិជ្ជកម្ម ដើម្បីបង្កើនផលិតកម្ម និងទីផ្សារ។ វិនិយោគលើមូលធនមនុស្ស ដើម្បីបង្កើនជំនាញកម្លាំងពលកម្ម និងពង្រីកទីផ្សារនាំចេញ តាមរយៈកិច្ចព្រមព្រៀងពាណិជ្ជកម្មសេរី ដើម្បីកាត់បន្ថយការពឹងផ្អែកលើទីផ្សារប្រមូលផ្តុំមួយចំនួន។
  - **ការស្តារវិស័យទេសចរណ៍៖** ធ្វើពិពិធកម្មទៅលើទេសចរណ៍ លើសពីប្រាសាទអង្គរវត្ត ដោយលើកកម្ពស់ទេសចរណ៍ធម្មជាតិ និងដោះស្រាយបញ្ហាប្រឈមផ្នែកហេដ្ឋារចនាសម្ព័ន្ធ។ ធ្វើពិពិធកម្មទីផ្សារទេសចរណ៍ ដោយផ្តោតលើយុទ្ធនាការផ្សព្វផ្សាយ ដើម្បីបង្កើន និងពង្រីកមុខមាត់របស់ប្រទេសកម្ពុជាលើសកលលោក។
  - **ការស្តារលំហសារពើពន្ធឡើងវិញ៖** បង្កើនការកៀរគរប្រាក់ចំណូលតាមរយៈកំណែទម្រង់ពន្ធដារ ខណៈធានាដល់ការចំណាយប្រកបដោយសក្តិសិទ្ធិភាព។ កែលម្អចំណាយមូលធន និងការរៀបចំថវិកាផ្អែកលើសមិទ្ធផល។
  - **ការពារស្ថិរភាពហិរញ្ញវត្ថុ៖** ពង្រឹងការត្រួតពិនិត្យលើធនាគារ តាមរយៈការវិភាគសមត្ថភាពឆ្លើយតបនឹងវិបត្តិ (stress tests) អធិការកិច្ចនៅទីតាំងផ្ទាល់ និងការធ្វើឱ្យស្របគ្នារវាងក្របខ័ណ្ឌបទប្បញ្ញត្តិនិងបទដ្ឋានអន្តរជាតិ។ ត្រៀមខ្លួនសម្រាប់ការកើនឡើងឥណទានមិនដំណើរការ ដោយបង្កើនជម្រើសដំណោះស្រាយ ពង្រឹងបទដ្ឋានគតិយុត្តិស្តីពីភាពក្សីយធន និងបង្កើតច្បាប់ស្តីពីការធានារ៉ាប់រងប្រាក់បញ្ញើ និងដំណោះស្រាយធនាគារ។

Background Paper 4

A Macroeconomic Review: Cambodia's Current State and Future Outlook

Muth Sumontheany

Summary

- **Economic Performance and Outlook:**
  - Cambodia's real economy grew by 5.1% in 2022, driven by strong performance in garment and emerging non-garment industries, alongside a gradual tourism recovery. On the other hand, key sectors such as construction are yet to recover.
  - Inflation reached 5.4% in 2022, driven by rising food prices, core inflation, and oil prices.
  - The banking sector remains sound and resilient, but concerns persist over shadow banking, particularly in real estate.
  - The fiscal deficit decreased to 1% of GDP in 2022, supported by enhanced revenue mobilisation and reduced government spending. In addition, public debt slightly decreased to 34.8% of GDP in 2022, after increases in previous years.
  - Looking ahead, Cambodia's GDP is projected to grow by around 5.3 percent in 2023 and approximately 6 percent from 2024 onwards.
- **External and Internal Risks:**
  - Cambodia's growth faces external risks from slowdowns in key partners like China and the US, and internal risks related to the weak real estate sector and shadow banking practices, which threaten financial stability.
- **Recommendations:**
  - **Promote Export Diversification**: Strengthen business environment transparency, intellectual property rights, and national certification capacities, while improving infrastructure, reducing electricity costs, and lowering trade barriers to enhance production and market access. Invest in human capital to upgrade workforce skills and expand export markets through free trade agreements to reduce reliance on a few concentrated markets.
  - **Revitalise Tourism**: Diversify tourism offerings beyond Angkor Wat by promoting ecotourism and addressing infrastructure challenges. Diversify tourist markets with a focus on promotional campaigns to enhance and expand Cambodia's image globally.
  - **Restore Fiscal Space**: Increase revenue mobilisation through tax reforms while ensuring efficient spending. Improve capital expenditure disbursement and performance-based budgeting.
  - **Safeguard Financial Stability**: Strengthen bank supervision through stress tests, onsite inspections, and aligning regulatory frameworks with international standards. Prepare for rising amount of non-performing loans by enhancing resolution options and strengthening insolvency regimes, while developing legislation on deposit insurance and bank resolution.

1. Introduction

After two decades of rapid economic progress, Cambodia was able to transform itself from low-income economic status to lower-middle-income status. This success has inspired a more ambitious growth for the future. However, emerging challenges such as the COVID-19 pandemic, geopolitical tension, and persistent internal structural weaknesses—including low competitiveness, lack of diversification, infrastructure deficiencies, and limited human capital development—potentially pose threats to achieving the medium and long-term growth vision.

Given these challenges, it is crucial to analyse the current macroeconomic performance and explore Cambodia's short-term macroeconomic outlook and strategies. This paper draws on a comprehensive review of existing literature, including the Cambodian government's strategic frameworks, policies, and major macroeconomic monitoring reports from international and national institutions.

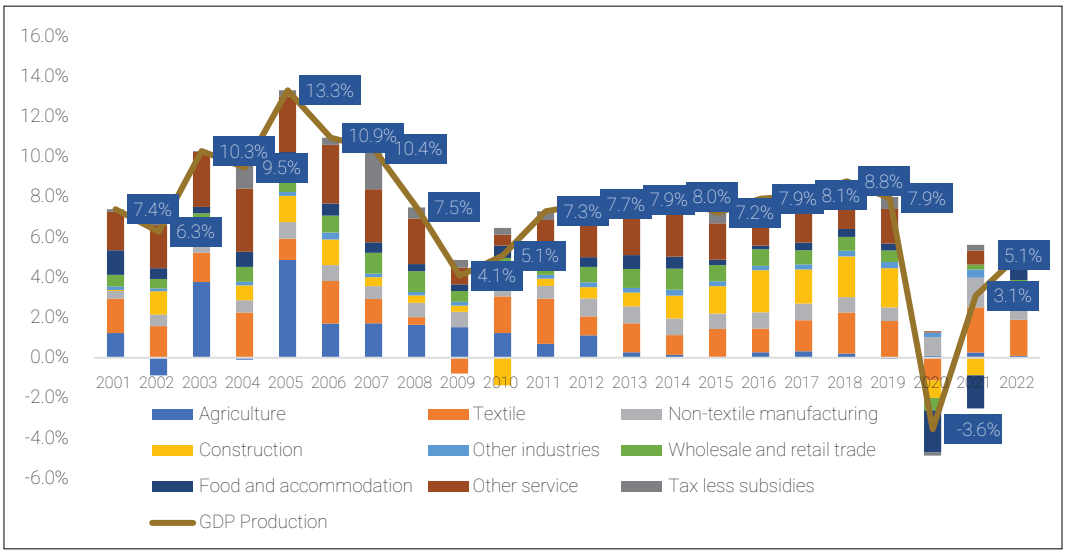
The paper examines the current macroeconomic situation, including sectoral performance, government finance and debt performance, and monetary and financial performance. Additionally, challenges within these sectors are identified, the short-term macroeconomic outlook is explored, the risks that may threaten Cambodia in the short term are assessed, and policy recommendations to address these issues are offered.

2. GDP Performance

The Cambodian economy is recovering but has not yet reached the levels seen before the COVID-19 pandemic. The real Gross Domestic Product (GDP) growth rate in 2019 was 7.9 percent. After the spread of Coronavirus, Cambodia's GDP fell to 5.1 percent in 2022, but this was a moderate increase from the 3.1 percent growth in 2021. Despite the recent recovery, the current growth rate, as of 2022, remains below the pre-pandemic level of 7 percent (Figure 1).

Growth is not even across sectors. Growth is driven mainly by strong performance in both the garment and non-garment industries and the return of tourism activities given that the travel restrictions have been lifted and the pandemic has subdued. In comparison, the construction sector, the growth driver before the pandemic, has not yet recovered. The agriculture sector's contribution to growth remains the same. The following section will discuss in detail the growth rates and performance of each sector.

Figure 1: Different sectors contributions to real GDP growth in Cambodia



Source: Rebased national accounts (base year 2014), National Institute of Statistics (NIS)

3. Sectoral Performance

This section provides a detailed analysis of the performance of Cambodia's key industries, their challenges, and future prospects. Notably, it focuses on the garment, footwear, and travel (GFT) industry, the construction sector, the tourism industry, and the emerging non-garment manufacturing sector.

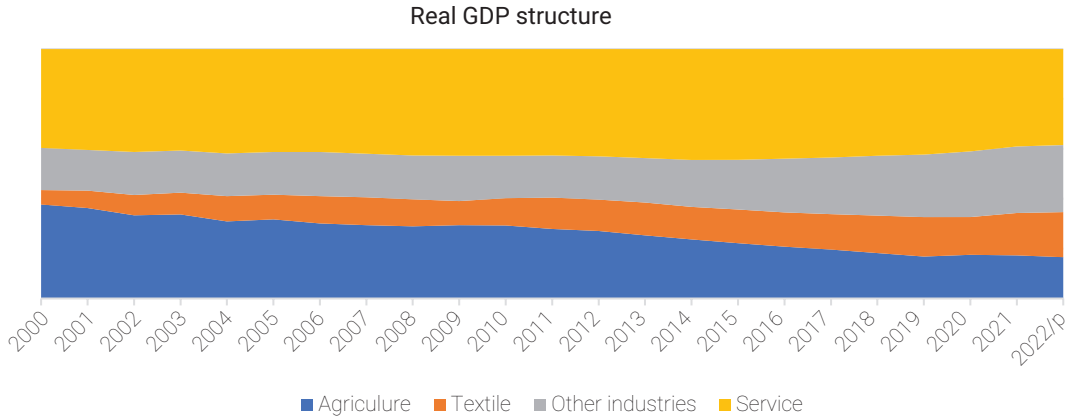
a. GFT industry

The GFT industry has been the backbone of Cambodia's economy for the past two decades. This industry, which began as "Cut, Make, and Trim" in the mid-1990s, has attracted significant foreign direct investment (FDI) from East Asian countries. The industry's growth can be attributed to a young and abundant workforce, low labour costs, and favourable investment conditions such as generous investment incentives and trade privileges.

Over the past twenty years, the industrial sector, particularly the GFT industry, has played a crucial role in driving economic development in Cambodia. The industry's contribution to the real GDP has increased from 6 percent in 2000 to 18 percent in 2022 (Figure 2). The number of factories surged from 64 to 1218 between 1997 and 2020, resulting in a tenfold increase in employment from 82,000 to 808,223. Additionally, it is estimated that this industry creates approximately 80,000 jobs indirectly, providing a significant source of employment in the country (SNEC 2022).

Given the export-oriented nature of the textile industry, it has been highly

Figure 2: Real GDP structure for Cambodia



Source: NIS, Rebased National Accounts, Base Year 2014

vulnerable to external shocks and has experienced significant declines twice - in 2009 and 2020. In 2009, the industry's performance caused a 0.8 percent drop in the real GDP growth rate, driven by reduced demand in the EU and US markets following the global financial crisis. Similarly, in 2020, the industry's downturn had even more severe effects, causing a 1.1 percent drag on growth (Figure 1). This was due to two primary factors: first, in early 2020 there was a complete lockdown in China, Cambodia's major garment material supplier, which led to disruptions in the global garment supply; second, decreased demand from key export markets like the EU and US, as a result of the COVID-19 crisis (Sean 2023). As a result, the export value of the GFT decreased from about USD 10.8 billion in 2019 to about USD 9.8 billion in 2020, a decline of 10 percent (Table 1).

After the COVID-19 pandemic, the industry quickly recovered. Due to an increased demand from the US and other countries, Cambodia was able to compensate for the decline in demand from the EU market. As a result, the export of GFT grew by approximately 15 percent in 2021, reaching a total export value of USD 11.2 billion and surpassing the pre-pandemic levels (Table 1). This recovery played a significant role in driving economic recovery that year, accounting for about two-thirds of the growth. Other major forces behind this quick recovery include the shift in orders from Myanmar due to rising political instability and the resumption of logistics regarding the supply of raw materials from China.

Despite the long existence of the garment industry in Cambodia, there are still significant weaknesses that need to be addressed. First, the industry primarily focuses on low-value activities such as cutting, trimming, and making, which limits technology transfer and skill development for Cambodian workers. In addition, although Cambodian labour costs are low compared to other GFT producer countries, the productivity level of its workers is relatively low, which could erode its competitiveness (SNEC 2022). Secondly, only about 5 percent of investors

Table 1: Export of GFT goods from Cambodia

	Export value (million USD)					Share					Contribution to growth				
	2012	2016	2019	2020	2021	2012	2016	2019	2020	2021	2012	2016	2019	2020	2021
Total GFT Export	4,582	7,636	10,840	9,768	11191	100%	100%	100%	100%	100%		67%	42%	-10%	15%
To US	1,960	1,914	3,462	3,585	4827	43%	25%	32%	37%	43%		-1%	20%	1%	13%
To EU	1,565	3,425	4,257	3,410	2726	34%	45%	39%	35%	24%		41%	11%	-8%	-7%
To Rest of the World (ROW)	1,057	2,298	3,121	2,773	3638	23%	30%	29%	28%	33%		27%	11%	-3%	9%

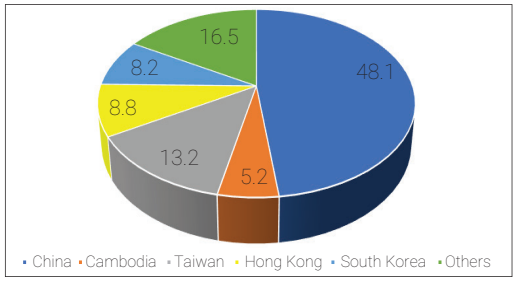
Source: United Nations Conference on Trade and Development (UNCTAD) database and General Department of Customs and Excise of Cambodia (GDCE)/ NIS as cited in Eurocham 2022

in this industry are Cambodian, leading to a high reliance on foreign investor sentiment, geopolitical tensions, and competition from other countries (Figure 3). Additionally, the industry's heavy reliance on imported materials, mainly from China, contributes to high production costs. Finally, although there is some diversification in export markets, the US and EU still account for 67 percent of the total Cambodian GFT goods products. This heavy dependence on limited markets has become a concern, especially with the partial withdrawal of duty-free and quota-free access to the EU market under the Everything But Arms initiative, affecting a significant portion of Cambodia's exports.[1]

There are some promising outlooks for the future of the GFT industry. Cambodia can potentially expand its share of the global GFT market as there is still significant room for growth. Despite ranking 6th among the top 15 GFT exporting countries in 2021, Cambodia accounted for just 1.6 percent of the global GFT market, while China and Vietnam captured 37.2 percent and 5.2 percent of the market share, respectively (Table 2). With rising labour costs in these countries, there is an opportunity for production to transition away from them, potentially benefiting Cambodia. Additionally, the Kingdom has been increasingly entering trade agreements with various economies, which could help eliminate trade barriers and attract investors to establish production facilities. Yet, how much Cambodia can capitalise on these opportunities will depend on how fast and competitive it will be able to address the challenges mentioned above.

1 The partial withdrawal concerned approximately 20 percent of Cambodia's exports to the EU market, affecting 64 tariff lines. Of the 64 affected tariff lines, 5 relate to travel goods, footwear products and 46 to garment products. The remaining 80 percent of Cambodia's exports still have preferential (duty-free, quota-free) access to the EU market.

Figure 3: Share of GFT investor nationalities in Cambodia



Source: Ministry of Commerce (MoC) and Garment Manufacture Association in Cambodia (GMAC), as cited in SNEC 2022

Table 2: Top 15 travel goods exporters as a share of the world's travel goods markets (%)

	1995	2005	2015	2018	2019	2020	2021
1. China	19.2	31.1	46.6	40.1	37.6	35.2	37.2
2. Vietnam	0.7	1.3	4.2	4.3	4.5	4.4	5.2
3. Hong Kong, SAR, China	31	20.3	7.8	6	5.5	5.6	4.5
4. India	2.1	2.2	2	2.1	2	1.8	1.8
5. Singapore	0.4	0.7	0.9	1.4	1.4	1.5	1.7
6. Cambodia	0	0	0.2	0.8	1.3	1.8	1.6
7. Indonesia	0.6	0.3	0.4	0.7	0.9	1	0.9
8. Philippines	0.7	0.3	0.7	0.8	1	0.7	0.9
9. Thailand	3	0.9	0.5	0.5	0.6	0.4	0.5
10. U.A.E	0.1	0.3	0.3	0.4	0.4	0.4	0.4
11. Myanmar	0	0	0	0.2	0.5	0.6	0.4
12. Turkey	0.2	0.3	0.3	0.3	0.3	0.3	0.3
13 Mexico	0.6	0.3	0.3	0.2	0.3	0.3	0.3
14. Bangladesh	0	0	0.3	0.3	0.3	0.2	0.3
15. Taiwan, China	3	0.2	0.2	0.2	0.2	0.2	0.2
Others	36.1	40.1	34.4	40.8	42.3	44.7	43.1
World	100	100	100	100	100	100	100

Source: UNCTAD database, as cited in Eurocham 2022

b. Construction

In recent years, the construction and real estate sectors have been the main drivers of economic growth, particularly before the 2020 pandemic. This expansion has been fuelled by the development of buildings related to commercial, industrial, and tourism activities, as well as various types of residential buildings such as condominiums, serviced apartments, and landed property. From 2008 to 2018, Cambodia's Ministry of Land Management, Urban Planning and Construction (MLMUC) reportedly approved 43,136 projects, totalling more than $43.3 billion in investment capital. In terms of financing, the construction industry has experienced a significant increase in funding from FDI inflows, with an estimated 40 percent of Cambodia's total FDI coming from mainland China (Sean 2023).

The construction industry experienced a significant downturn during the COVID-19 pandemic and has yet to recover. The number of approved projects declined from 4,919 in 2019 to 4,841 in 2020, especially in the tourism and commercial segments (Sean 2023). The impact on the economy was profound, with the construction sector contributing a negative 0.9 percent to the real GDP growth rate in 2020. Unlike the textile industry, which rebounded quickly, the construction industry continued to face challenges, maintaining a negative 0.9 percent contribution to real GDP growth in

2021. It was only in 2022 that the sector showed signs of recovery, albeit modestly, contributing approximately 0.1 percent to GDP growth (Figure 1).

Looking ahead, it's doubtful that Cambodia can rely on construction as a driver of economic growth in the future. The construction boom of the past years was driven by external demand and speculation of high returns especially in the coastal province of Preah Sihanouk, rather than by domestic demand. As a result, this led to an excessive construction supply, which will take time to correct (World Bank 2023).

c. Tourism

In 2019, Cambodia's tourism sector demonstrated significant growth, directly employing approximately 630,000 individuals. Tourism revenue peaked at USD 4.9 billion, contributing 18.2 percent to the nation's GDP and representing about 78 percent of the country's total service exports.2

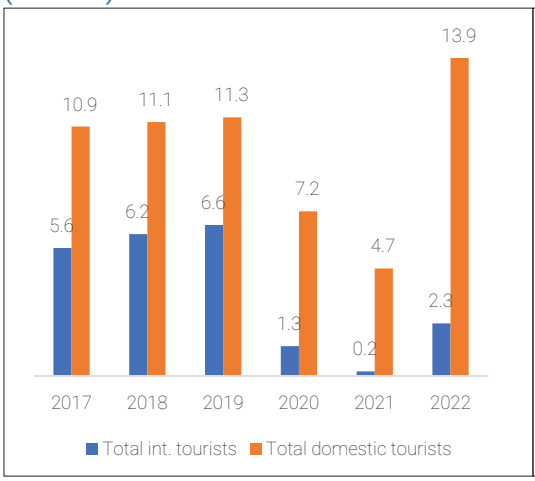
The tourism sector was severely impacted by the COVID-19 pandemic as a result of lockdowns and global travel restrictions. The number of international tourists dropped from 6.6 million in 2019 to 1.3 million in 2020 and further down to only 0.2 million in 2021, indicating a decline of 80.2 percent and 97.0 percent compared to the 2019 figures. Similarly, the number of domestic tourists decreased from 11.3 million in 2019 to 7.2 million in 2020 and further to 4.7 million in 2021, representing decreases of 36.1 percent and 58 percent, respectively (Figure 4, Figure 5).

In 2022, the tourism industry had bounced back and contributed about 0.5 percent to the overall 5.1 percent real GDP growth. This is evident in the significant increase in domestic tourists, which reached 13.9 million in 2022, surpassing the 2019 levels. At the same time, the number of international tourists also saw a sharp increase in 2022, reaching 2.3 million, up from 0.2 million in 2021. However, international tourist arrivals are still at only 35 percent of the 2019 level, indicating there is still room for improvement needed in this sector (Figure 4, Figure 5).

The majority of international tourists come from neighbouring countries, with about 57.9 percent of visitors in 2022 originating from Thailand and Vietnam (Figure 6). This type of tourist tends to spend less and have shorter lengths of stay than further nations. Another issue is the limited number of tourist attractions in the country. To increase the average length of stay for tourists, Cambodia needs to diversify its industry beyond temple visits and offer more entertainment options. Furthermore, there are significant infrastructure and transportation challenges, particularly in areas outside popular destinations. Many remote tourist areas exhibit inadequate roads, limited electricity, and underdeveloped water and sanitation facilities, which may not meet tourists' expectations (AMRO 2023). Additionally, reputational issues related to tourist safety need to be carefully monitored, as these can influence tourists' destination choices.

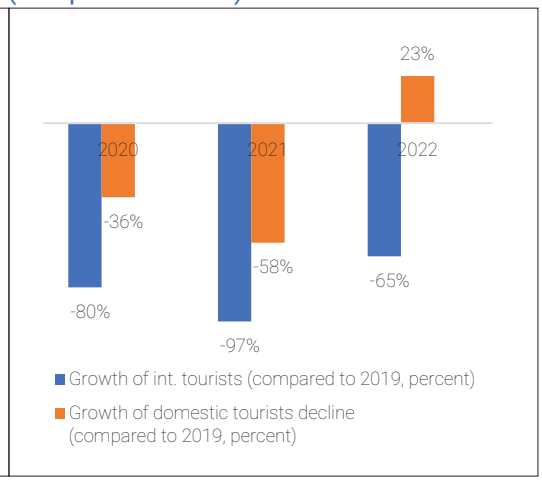
2 Personal travel export and business travel export amounts, respectively, USD 3.42 billion and USD 1.35 billion. The total service export is USD 6.08 billion (OEC 2019).

Figure 4: Number of tourists (millions)



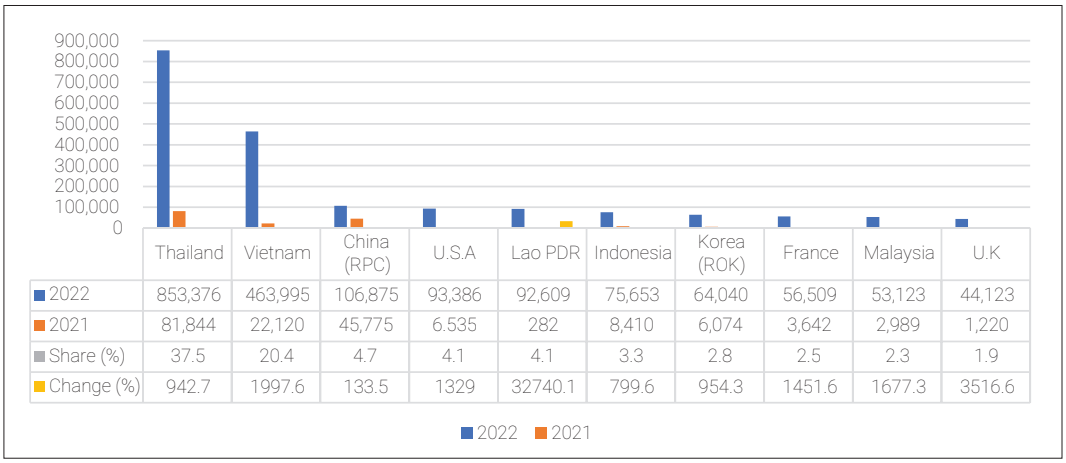
Source: Ministry of Tourism (MoT)

Figure 5: Growths of tourists (compared to 2019)



Source: Ministry of Tourism (MoT)

Figure 6: Share of tourist origin visiting Cambodia in 2021 vs 2022



	Thailand	Vietnam	China (RPC)	U.S.A	Lao PDR	Indonesia	Korea (ROK)	France	Malaysia	U.K
2022	853,376	463,995	106,875	93,386	92,609	75,653	64,040	56,509	53,123	44,123
2021	81,844	22,120	45,775	6.535	282	8,410	6,074	3,642	2,989	1,220
Share (%)	37.5	20.4	4.7	4.1	4.1	3.3	2.8	2.5	2.3	1.9
Change (%)	942.7	1997.6	133.5	1329	32740.1	799.6	954.3	1451.6	1677.3	3516.6

Source: Ministry of Tourism (MoT)

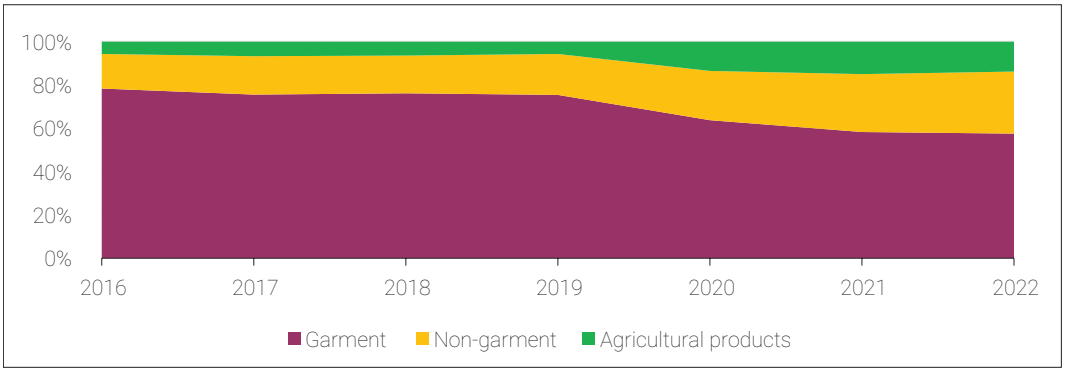
d. Non-garment manufacturing sector

The non-garment manufacturing sector emerged as a new growth driver after the pandemic. Garment product shares in the export basket decreased from 78.4 percent in 2016 to 57.6 percent in 2022, replaced by agriculture products and non-garment products. Over the same period, the share of non-garment products increased significantly from 16 percent to 28.7 percent, indicating emerging export diversification (Figure 7). These products include the automotive industry, bicycles, solar panels, electronic gadgets, tyre production, furniture, fur skin, and other non-garment manufacturing products.

During the pandemic crisis, the non-garment manufacturing industry showed strong resilience, serving as a critical source of growth and export despite the downturn in traditional economic drivers. In 2020, non-garment manufacturing stood out as one of the few sectors that experienced expansion. This is in contrast to traditional sectors such as textiles, construction, wholesale and retail trade, and tourism, which all faced sharp declines. Similarly, the export of non-garment products, along with agricultural products, contributed to a 14 percent growth rate of export, while garment product exports experienced a decline (Figure 8).

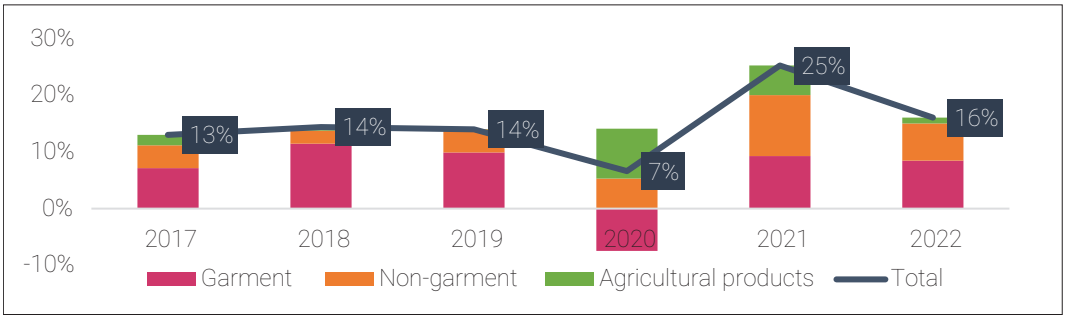
In 2022, there was a significant increase in FDI in the non-garment industry. The total FDI value reached USD 1.15 billion, marking a 75.4 percent increase compared to 2021. The non-garment sector received the largest share of investment, which accounted for 68.6 percent of the overall FDI value. The garment industry followed with 22.8 percent, while agriculture and food processing received 5.1 percent, and wholesale and retail trade obtained 2.5

Figure 7: Share of exports for garment, non-garment and agricultural products from 2016-2022



Source: General Department of Customs and Excise of Cambodia (GDCE)

Figure 8: Contribution of garment, non-garment and agricultural sectors to export growth from 2017-2022



Source: General Department of Customs and Excise of Cambodia (GDCE), Eurocham 2022

percent. The source of the FDI originates mainly from the East Asian Pacific region. The top five countries - China (including Hong Kong SAR), South Korea, Singapore, Japan and Taiwan - accounted for more than two-thirds of the total FDI investment in 2022 (USD 44.5 billion) (World Bank 2023).

The non-garment sector, notably the electronics industry in Cambodia, has been influenced by some external factors. Firstly, the industry has benefited from the "plus-one" strategy adopted by neighbouring countries. For instance, major electronics component manufacturers and assemblers such as Minebea, SVI, and Sumitronics have successfully established operations in Cambodia, particularly in Phnom Penh or along the Cambodia-Thailand border. They have expanded their production into Cambodia as part of the country's broader supply chain diversification, leveraging the abundant and low-cost labour force (Royal Government of Cambodia 2022). Secondly, the US-China trade tensions have also driven investment in this industry. From January 2022 to January 2023, Cambodia exported USD 1,174.38 million worth of solar panels, modules, and accessories to various countries. Additionally, on June 6, 2022, president at the time, Joe Biden, announced a two-year waiver, allowing cells and modules from Southeast Asia to enter the US duty-free until the exemption ends on June 6, 2024. This waiver has significantly boosted Cambodia's exports and attracted further investment into the sector (Van 2023).

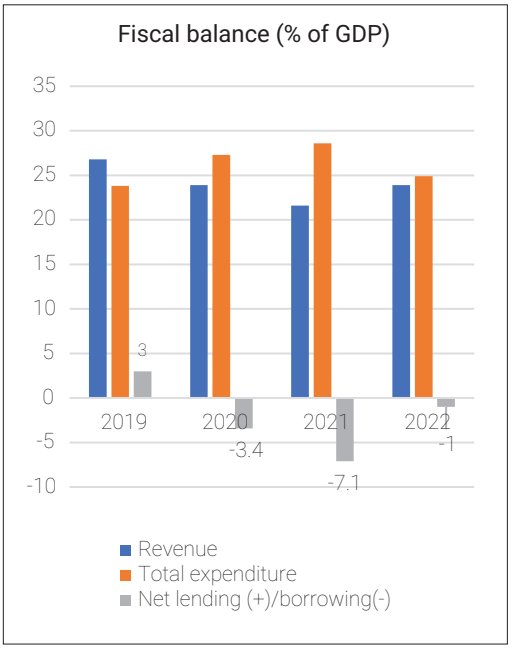
Despite significant opportunities, the industry faces several challenges. First, the majority of production is concentrated on mostly simple, labour-intensive components. While this creates numerous jobs, it limits the industry's potential to move up the value chain. Second, there is a significant lack of local content in production. For instance, although locally assembled vehicles account for over 80 percent of the two-wheeler demand in Cambodia, most of the component parts for these vehicles are currently imported. In fact, local content makes up only about a quarter of the total value of two-wheelers assembled in Cambodia, compared to over 80 percent in other countries in the region. This gap presents an opportunity for Cambodia to increase its manufacturing of local content and strengthen its role in the two-wheeler assembly value chain by improving the local supplier base. Lastly, the potential return of tariffs on solar panels poses a risk to the competitiveness of Cambodian products. The uncertainty around this tariff reintroduction could make Cambodian products less attractive in the global market. Therefore, building the necessary infrastructure is crucial to improving competitiveness such as by lowering production costs in Cambodia.

4. Government finance and debt

In 2022, the fiscal stance of Cambodia was evaluated as broadly neutral. The estimated fiscal deficit for the year is projected to be approximately 1 percent of GDP, marking a substantial decrease from the 7.1 percent deficit recorded in 2021 (Figure 9). This reduction was predominantly driven by a notable upturn in revenue mobilisation across all channels, particularly through taxes on goods and services, as well as income, profits, and capital gain (Figure 10). This increase reflects the resurgence of economic activities following the pandemic-induced downturn experienced in 2021. On the other hand, government expenditure decreased across several categories, including purchases of goods and services, social spending, and wages (Figure 11). This decline occurred as targeted fiscal measures aimed at supporting households and businesses affected by the pandemic were gradually phased out. Additionally, measures to constrain government spending, such as the suspension of hiring new government officials, also contributed to this decrease.

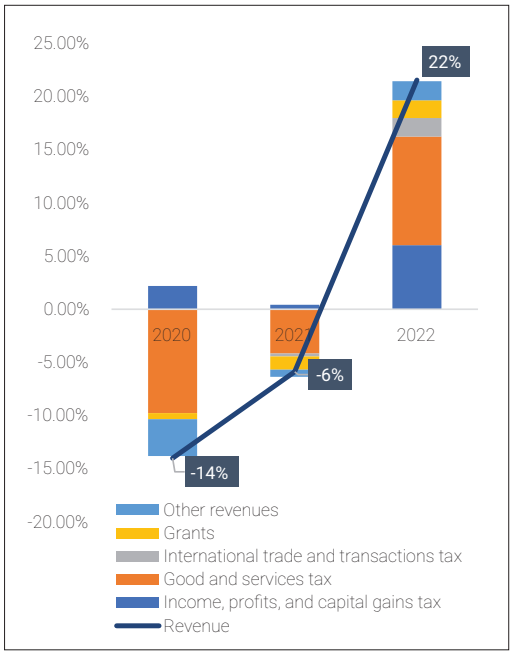
Cambodia's public debt has fluctuated in recent years. Before the onset of the pandemic, the public external debt as a percentage of GDP was recorded at 28.2 percent in 2019. Subsequently, it rose steadily to 34.4 percent and 35.9 percent in 2020 and 2021, respectively. This was due to expansive fiscal interventions aimed at safeguarding vulnerable households and stimulating economic recovery, although well below the 40 percent threshold. However, in 2022, the figure decreased slightly to 34.8 percent due to robust revenue generation and reduced health expenditures as the pandemic improved (Figure 12). The total public external debt stock in 2022 reached USD 9,971 million; the top five sources included - China (40 percent), followed by multilateral sources from the ADB (21 percent), Japan (11 percent), World Bank (9 percent), Republic of Korea (5 percent) and France (5 percent) (MEF 2023).

Figure 9: Fiscal balance (% of GDP)



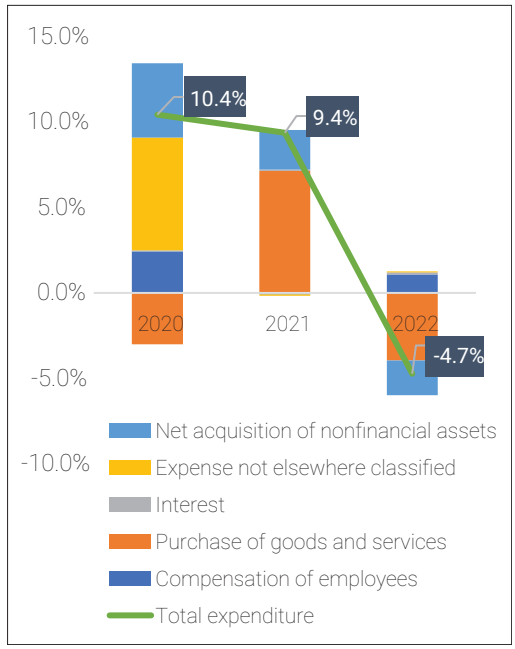
Source: IMF 2024

Figure 10: Contribution to the change in revenue



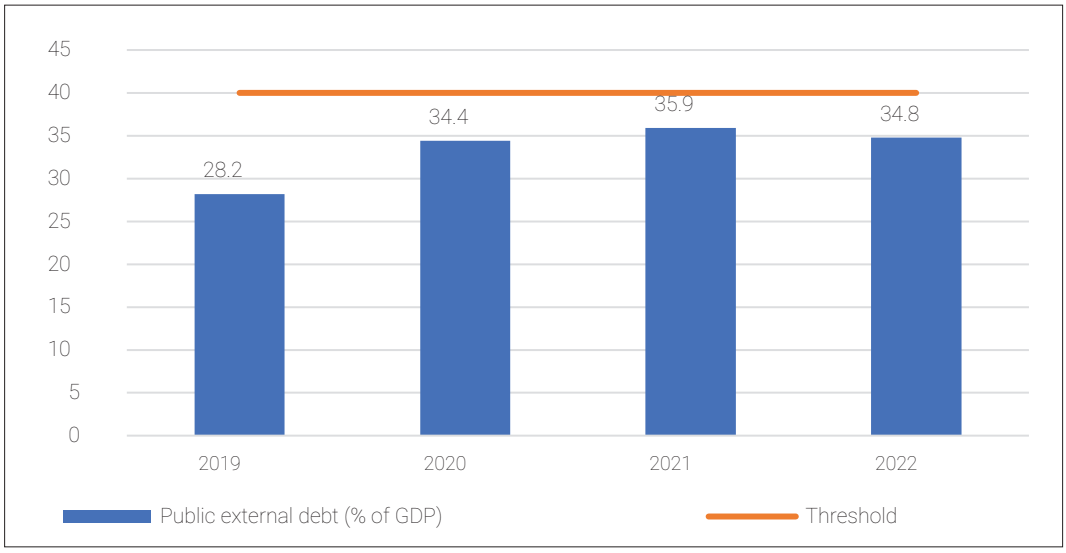
Source: IMF 2024

Figure 11: Contribution to change of expenditure



Source: IMF 2024

Figure 12: Public external debt (% of GDP)



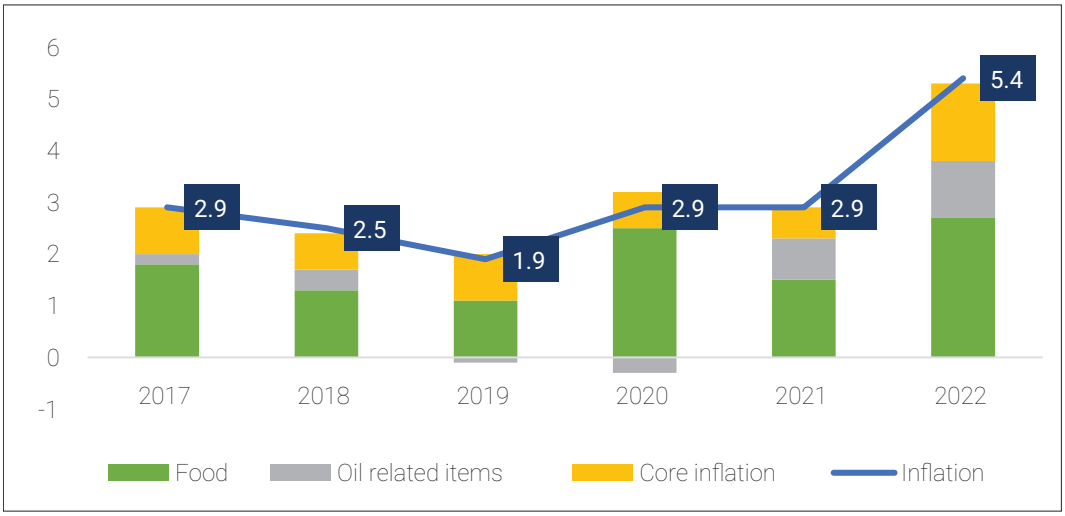
Source: IMF 2024

5. Monetary and financial sector

In 2022, inflation surged to its highest level in the past five years, reaching 5.4 percent. This increase was driven by inflationary pressures across multiple categories, including food prices, core inflation, and oil prices. Globally, the conflict arising from Russia's invasion of Ukraine caused a significant spike in energy and food prices. Consequently, the price spike in food and oil-related items contributed 50 percent and 20 percent, respectively, to the headline inflation. Moreover, the resumption of economic activities following the pandemic crisis added to inflationary pressures, particularly in core inflation, which contributed about 30 percent. This combination of global and domestic factors contributed to the inflation peak observed in 2022 (Figure 13).

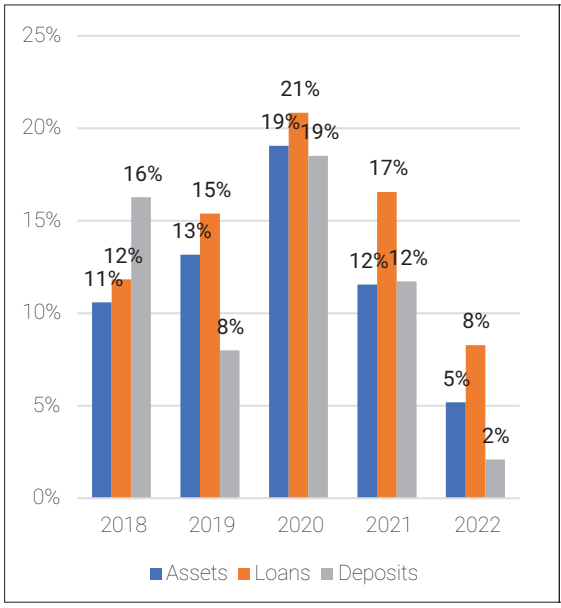
The banking sector remains sound and resilient. The share of assets, loans, and deposits as a percentage of GDP increased by 5 percent, 8 percent, and 2 percent, respectively, although at a slower pace compared to pre-pandemic levels (Figure 14). The overall credit expansion is uneven, with commercial banks expanding their credit more slowly at 18.1 percent, while microfinance institutions (MFIs) are experiencing a faster credit expansion at 23 percent (Figure 15 and 16). Overall asset quality remained high, with strong liquidity and capacity conditions. The average capital adequacy ratio was 22.2 percent and 18.6 percent for commercial banks and MFIs, respectively; this is well above the minimum threshold of 15 percent (Figure 17). In addition, both commercial banks and MFIs still continue to maintain the liquidity coverage ratio above the 100

Figure 13: Inflation in Cambodia from 2017-2022



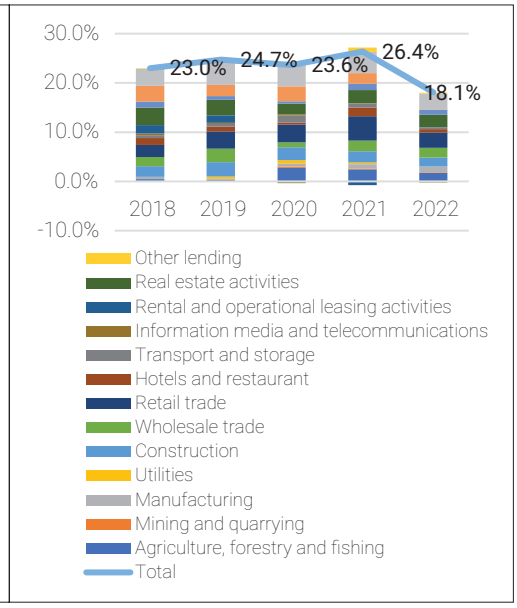
Source: NBC 2023

Figure 14: Growth of Banking indicators (compared to GDP %) from 2018-2022



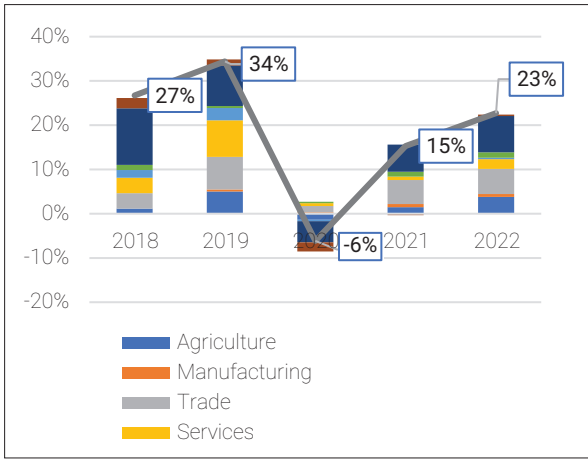
Source: NBC 2023

Figure 15: Contribution to commercial banks' credit expansion from 2018-2022



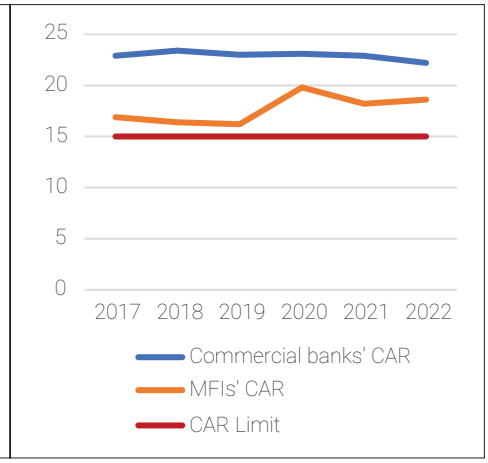
Source: NBC 2023

Figure 16: Contribution of different sectors to MFI's credit expansion from 2018-2022



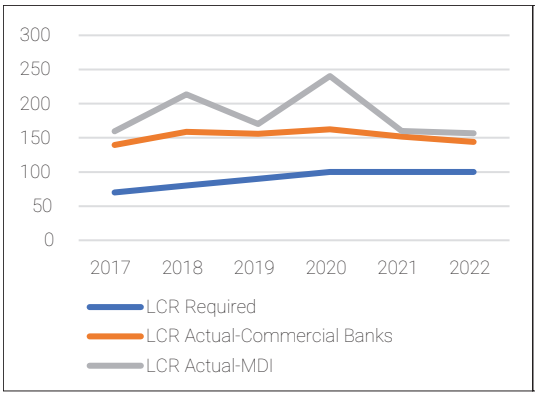
Source: NBC 2023

Figure 17: Capital adequacy ratio from 2017-2022



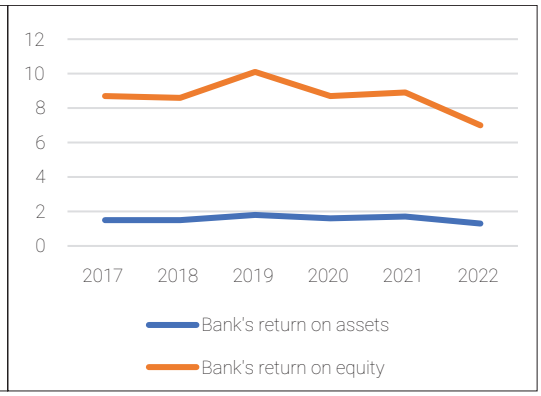
Source: NBC 2023

Figure 18: Liquidity coverage ratio from 2017-2022



Source: NBC 2023

Figure 19: Profitability between bank's return of assets vs return on equity between 2017-2022



Source: NBC 2023

percent threshold, with commercial banks' LCR at 143.8 percent and 156.6 percent for MFIs (Figure 18). Due to more stringent requirements imposed by the National Bank of Cambodia (NBC), the banking system's provision coverage ratio surged to 144.8 percent in 2022 from below 100 percent in 2021 (AMRO 2023). As a result, these increased provision expenses contributed to a slight reduction in banks' return on assets and return on equity (Figure 19). In terms of loan quality, on the other hand, the share of non-performing loans of total loans increased from 1.8 and 0.8 in 2019 to 3.1 and 2.5 in 2022 for commercial banks and MFI, respectively (NBC 2023). These figures represent a huge increase compared to the pandemic, but are still at a manageable level.

The shadow banking industry, particularly in real estate, is currently causing concern. Credit issued by official financial institutions for real estate activities constitutes only a portion of the actual credit in this sector. This is because most payments between buyers and developers are made through stage payments and instalment plans directly with residential developers. These plans often include higher interest rates than those offered by commercial banks and are not regulated by the NBC. Shadow banking is highly connected to the formal banking sector. According to estimates by the ASEAN+3 Macroeconomic Research Office (AMRO), the size of shadow banking linked to real estate lending is approximately 60 to 70 percent of GDP or up to 112 percent of GDP. This is dependent upon a moderate or total level of interconnectedness assumption between the shadow banking and the formal banking sector (AMRO 2023)

The shadow banking industry is experiencing an increasing tension. Amidst the economic downturn, buyers are increasingly defaulting or making late payments on instalment plans, leading to developers seizing their properties. Developers also face significant financial losses when forced to sell defaulted properties and struggle with completing projects and meeting handover deadlines.

Additionally, land ownership disputes have emerged as some developers initiated projects without securing full land ownership, heavily relying on buyer instalments to fund their projects. This situation has eroded buyer trust. According to the Non-Bank Financial Services Authority, as of Q1 2023, 63 percent of developers reported negative cash flows, indicating potential liquidity shortages and an increased risk of defaults if market conditions do not improve (AMRO 2023). **Given the high level of interconnectedness between shadow banking and the formal banking sector, tensions in the real estate sector pose a significant risk to overall financial stability**. In terms of value, non-performing loans (NPLs) linked to real estate activities are among the highest compared to other sectors, with a value of KHR 573 billion (NBC 2023). Therefore, any increasing default of these developing projects could result in unreported NPLs from shadow banking, which would be transferred to the traditional banking sector.

6. Short-Term Economic Outlook and Risk

Cambodia's economy is expected to recover steadily, largely thanks to the gradual return of tourism and increased domestic activity, which will boost the service sector. However, the garment sector's growth might decelerate because of the weakening of major export markets such as the US and EU. On the other hand, the non-garment manufacturing sector is set to grow rapidly. The construction and real estate sectors, which used to drive growth, are not expected to regain their previous momentum in the near future. Looking forward, Cambodia's GDP growth is projected to grow by 5.3 percent in 2023 and around 6 percent from 2024 onwards (Table 3).

Table 3: GDP growth forecast (%)

GDP Growth Forecast (%)	2023	2024	2025
IMF (2024)	5.3	6	6.4
World Bank (2023)	5.5	6.1	6.3
AMRO (2023)	5.3	6.2	-
ADB (2023)	5.3	6	-

Source: Author's compilation from various reports.

The slowdown in the growth of Cambodia's major economic partners is a key contributor to risks that may threaten Cambodia. First, China is the primary import country and a major source of tourism and FDI in Cambodia, therefore it has a significant impact on the Kingdom's economy. According to the International Monetary Fund (IMF), a one percentage point increase in China's GDP is associated with an increase in Cambodia's GDP of approximately 0.6 percent after one year (IMF 2024). China set its target for economic growth for 2024 at 5 percent, a figure below the usual double-digit growth that has powered the world's second-largest economy for decades (Xuanmin and Jingjing 2024). In the future, this may affect Cambodia's growth by reducing the inflow of FDI and tourists. The same study by IMF also analysed the spillover effect from the US and found that the correlation between output shocks in the US and Cambodian GDP is more immediate but smaller in magnitude (about 0.5 percent). As a

result, any economic recession in the US, Cambodia's major export partner, or in the EU, could significantly dampen Cambodia's growth by reducing exports.

A continued financial tightening may pressure domestic banks' funding costs and undermine export competitiveness in non-US markets. Although the financial tightening may not affect capital outflows due to Cambodia's high concentration on FDI and concessional loans, rising FED rates could lead to higher funding costs for banks. This may in turn translate to higher interest rates, potentially burdening the already high private debt level in Cambodia. In addition, the relatively stable exchange rate of the riel against the US dollar means that the riel would appreciate in value. This is in tandem with the US dollar, against other currencies, which may adversely affect the competitiveness of Cambodia's goods and service exports (IMF 2024).

Prolonged weakness in the real estate sector could put pressure on the financial sector and the broader economy. In addition, the common practice of shadow banking in the real estate sector could result in a negative spillover effect on the formal financial sector as a whole. People faced with indebtedness or liquidity problems related to this sector may depress their consumption and thus reduce the overall economic activities, primarily affecting the service industry.

In short, Cambodia's economic growth is vulnerable to several external and internal risks. The slowdown of key economic partners like China and the US could significantly impact Cambodia's GDP growth through FDI, tourism and export channels. In addition, financial tightening and rising interest rates could strain domestic banks and elevate the existing private debt levels, affecting overall economic stability. The persistent weakness in the real estate sector and prevalent shadow banking practices could also pose a threat to the financial system and economic activity as a whole. Therefore, addressing these challenges through targeted policy measures will be crucial for long-term growth.

7. Conclusion and Recommendations

In conclusion, Cambodia's real economy grew by 5.1 percent in 2022 driven by the strong performance in both garment and emerging non-garment industries and the gradual resurgence of tourism activities. However, traditional growth sectors such as construction are yet to recover, and the agricultural sector's contribution to growth remains stagnant. Looking ahead, Cambodia's GDP is projected to grow by around 5.3 percent in 2023 and approximately 6 percent from 2024 onwards.

On the fiscal front, the deficit decreased to 1 percent of GDP in 2022 due to enhanced revenue mobilisation as economic activities resumed and government expenditures reduced. Despite this improvement,

public debt only marginally decreased to 34.8 percent of GDP in 2022, following continuous increases in the preceding two years.

Inflation in 2022 surged to its highest level in five years, reaching 5.4 percent. This increase was driven by inflationary pressures across multiple categories, including food prices, core inflation, and oil prices. On the other hand, the banking sector remains sound and resilient, although concerns persist regarding the shadow banking industry, particularly in real estate.

In addition, Cambodia's economic growth is vulnerable to several external risks, such as the slowdown of key economic partners such as China and the US, and internal risks, such as persistent weaknesses in the real estate sector and prevalent shadow banking practices, which could pose substantial risks to the financial system and economic activity.

Given the current performance and risks, Cambodia's short-term strategies should focus on leveraging its emerging growth drivers, particularly in the non-garment industry, and reviving past growth drivers such as the tourism sector, which has not yet recovered to pre-pandemic levels. Additionally, it is crucial to address existing risks and challenges, particularly in restoring fiscal space and safeguarding financial stability. Below are detailed short-term recommendations, as extracted from macroeconomic monitoring reports of major institutions:

- Promote export production diversification and broaden the export market

  Although there are some signs of diversification, more efforts are needed to drive the potential. First, Cambodia should ensure a conducive business environment. This is done by improving the transparency of the law, regulations and its implementation, strengthening protected intellectual property rights, enhancing national certification and testing capacities to ensure adherence to international standards. Second, improving the infrastructure and logistics, lowering electricity costs, and ensuring its stability, especially in the special economic zones, are critical to lowering production costs and making the existing zones more attractive to investors. This is particularly important for higher valued added industries such as agro-processing and electronic assembly industries. Third, reducing trade barriers and improving market connectivity will expand market access for Cambodian products and facilitate access to necessary production inputs. Fourth, ongoing investment in human capital is crucial to continue improving the education and skills of Cambodia's labour force (World Bank 2023). On the other hand, expanding the export market through free trade agreements with broader countries could also help to diversify the export market and thus cut down Cambodia's reliance on a few concentrated markets.

- Strengthen the revitalisation of the tourism industry

  Cambodia must diversify its tourism offerings beyond Angkor Wat to strengthen the industry. Expanding ecotourism, despite existing challenges

such as limited investment and poor infrastructure, can provide additional income for local communities. Moreover, diversifying tourist markets can protect against external shocks, as the industry heavily relies on visitors from China and ASEAN countries. In this regard, ongoing financial support and investment are needed to address structural issues in the tourism sector, including upgrading transport infrastructure and improving labour skills. Digitisation should also be leveraged to modernise immigration processes and facilitate tourist activities during visitors stays in Cambodia. In addition, Cambodia should also focus on promotion, primarily through digital marketing, to expand its presence and, therefore grow its recognition globally (AMRO 2023).

- Restore fiscal space

  To finance the plan for social protection-related expenses, Cambodia needs to restore its fiscal space even though its debt distress remains low. This could be done by increasing revenue mobilisation and maintaining spending efficacy. While past tax administration reforms have successfully increased tax revenue, further gains necessitate a comprehensive review of the tax system. The new personal income tax framework is a positive step. Still, the planned capital gains tax on real estate needs careful implementation to avoid harming the weak real estate sector. In addition, improved revenue collection should be paired with performance-based budgeting and faster capital expenditure disbursement (AMRO 2023).

- Safeguarding financial stability

  Ensuring financial stability is essential due to high private debt levels, increasing NPLs, and decreasing returns on banking assets. The recent credit surge has resulted in significant private-sector debt, particularly in real estate, with increasing shadow banking practices. To safeguard financial stability, the immediate priority should be enhancing bank supervision, including stress tests for individual banks, systematic onsite inspections, aligning the regulatory framework with international standards, and conducting comprehensive assessments of loan portfolios. Preparing for rising NPLs involves ensuring that resolution options are ready and strengthening the insolvency regime. In addition, ongoing efforts are needed to develop legislation on deposit insurance and bank resolution (World Bank 2023).

References

Asian Development Bank [ADB]. 2023. "Asian Development Outlook (ADO), September 2023." https://www.adb.org/sites/default/files/publication/908126/asian-development-outlook-september-2023.pdf

ASEAN+3 Macroeconomic Research Office [AMRO]. 2023. "AMRO's 2023 Annual Consultation Report on Cambodia." https://amro-asia.org/wp content/uploads/2024/01/AMRO-2023-Annual-Consultation-Report-on-Cambodia-_-for-publication_format-revision.pdf

Eurocham.2022."Cambodia Garment, Footwear and Travel Goods Sector Brief." https://www.eurocham-cambodia.org/uploads/abe7a-en-cambodia-garment,-footwear-and-travel-goods-sector-brief-(1).pdf

International Monetary Fund [IMF]. 2024. "Cambodia: 2023 Article IV Consultation." Country Report No. 24/36

Ministry of Economy and Finance [MEF]. 2023. "Cambodia Public Debt Statistical Bulletin." Vol.17. Phnom Penh.

National Bank of Cambodia [NBC].2023. "Financial Stability Review 2022." https://www.nbc.gov.kh/download_files/publication/fsr_eng/FSR%202022%20ENG%20Publish.pdf

Royal Government of Cambodia. 2022. "Cambodia Automotive and Electronics Sectors Development Roadmap."

Sean, Monorith. 2023. *Macroeconomic and Sectoral Effects: Long-Term Constraint and Transition to the New Normal*. Working Paper on COVID-19 Series No.03. Phnom Penh: CDRI

Supreme National Economic Council [SNEC]. 2022. "Cambodia Garment, Footwear and Travel Goods (GFT) Sector Development Strategy 2022-2027."

Van, Socheata. 2023. "Solar Exports up in Wake of US Tariff Exemption." *The Phnom Penh Post*, 15 March 2023. https://www.phnompenhpost.com/business/solar-exports-wake-us-tariff-exemption

World Bank. 2023. "Cambodia Economic Update: Post-COVID-19 Economic Recovery."

Xuanmin, Li and Jingjing Ma. 2024. "China's GDP expands 5 percent in H1 2024, on track to hit full-year economic growth target". Global Times, 15 July 2024.https://www.globaltimes.cn/page/202407/1316072.sht

ឯកសារសារតារទី៥

ការប្រែប្រួលអាកាសធាតុ យេនឌ័រ និង ការរិភាគសង្គមសម្រាប់យុទ្ធសាស្ត្រកំណើនថ្មីរបស់កម្ពុជា

អេង-នេត្រា ខេរ៉ូឡាញ-ហ្សូដ ជា-ផល ងិន-ច័ន្ទរិទ្ធ និងសិស្ស-គ្រូស

សេចក្តីសង្ខេប

ដើម្បីបន្តរក្សានិរន្តរភាពកំណើនសេដ្ឋកិច្ច ប្រទេសកម្ពុជាក៏បានខិតខំពង្រឹងភាពធន់ បរិយាបន្ន និង ចីរភាពរបស់ខ្លួន។ ឯកសារសារតារនេះ ពិភាក្សាអំពីបញ្ហាអាកាសធាតុ យេនឌ័រ និងសង្គមសំខាន់ៗ ដែល ចាំបាច់ត្រូវដោះស្រាយ ដើម្បីសម្រេចបាននូវគោលដៅនេះ។ ជាពិសេស កម្ពុជាចាំបាច់ត្រូវដោះស្រាយ បញ្ហាដូចខាងក្រោមនេះ៖ ១) កម្រិតខ្ពស់នៃដានកាបូនក្នុងវិស័យកំណើនទាំង ២) គ្រោះធម្មជាតិដែល បង្កឡើងដោយអាកាសធាតុ (ជាពិសេសទឹកជំនន់ និងគ្រោះរាំងស្ងួត) ៣) វិសមភាពយេនឌ័រក្នុងផ្នែកការ ងារ និងប្រាក់ឈ្នួល ៤) លទ្ធភាពទទួលបានការថែទាំសុខភាព និងការអប់រំមានកម្រិត ជាពិសេស ក្នុងចំណោមកម្មករក្រៅប្រព័ន្ធ និង ៥) ការគាំពារសង្គម និងការបែងចែកអភិបាលកិច្ចឡើងវិញនៅ មានកម្រិត។ ដើម្បីដោះស្រាយបញ្ហាទាំងនេះបាន អាទិភាពចំនួនប្រាំបីត្រូវកំណត់៖ ១) ការបង្កើនមូលនិធិ អាកាសធាតុបន្ថែមទៀត ដើម្បីកាត់បន្ថយការបំភាយឧស្ម័នផ្ទះកញ្ចក់ពីវិស័យថាមពល សាធារណការ ឧស្សាហកម្ម និងកសិកម្ម។ ២) កាត់បន្ថយការបំភាយឧស្ម័នពីវិស័យថាមពល និងកសិកម្ម ដើម្បី បានជាប្រយោជន៍ដល់សហគ្រាសធុនតូច និងកសិករ។ ៣) ពង្រឹងការសម្របខ្លួនក្នុងវិស័យកសិកម្ម ធនធានទឹក រុក្ខាប្រមាញ់ និងសុខាភិបាល ដោយផ្តល់មូលនិធិបន្ថែមដល់អាជ្ញាធរមូលដ្ឋាន និងសហគមន៍ ការលើកកម្ពស់ការសម្របខ្លួនតាមធម្មជាតិ និងការលើកកម្ពស់ការស្រាវជ្រាវផ្នែកអាកាសធាតុ។ ៤) ជំរុញការអប់រំស្មើមសម្រាប់ក្មេងស្រី និងផ្តោតលើការបណ្តុះបណ្តាលជំនាញបៃតងសម្រាប់ស្ត្រី។ ៥) លើកទឹកចិត្តដល់ការវិនិយោគអាជីវកម្មនៅតំបន់ជនបទ ដើម្បីកាត់បន្ថយការធ្វើចំណាកស្រុក។ ៦) ពង្រីក ការគ្របដណ្តប់នៃការថែទាំសុខភាពសាធារណៈ ការធានារ៉ាប់រងសុខភាព និងការគាំពារសង្គម ដើម្បី រួមបញ្ចូលសមាជិកគ្រួសាររបស់កម្មករនិយោជិត។ ៧) ពង្រឹងកំណែទម្រង់ហិរញ្ញវត្ថុសាធារណៈ ដើម្បី បង្កើនចំណាយលើការវិនិយោគសង្គមនៅតាមតំបន់ជនបទ និង ៨) ផ្តល់ការគាំទ្រ និងការលើកទឹកចិត្ត គ្រប់គ្រាន់ដល់សហគ្រាសធុនតូចក្រៅប្រព័ន្ធឱ្យចុះបញ្ជី។

Background Paper 5

Climate Change, Gender, and Social Analysis for Cambodia's New Growth Strategy

Eng Netra, Caroline Hughes, Ngin Chanrith, Chea Phal, and Cesci Cruz

Summary

In pursuit of sustaining growth in the economy, Cambodia also strives to enhance resilience, inclusiveness and sustainability. This paper discusses the key climate, gender and social issues that need to be addressed in order to achieve this goal. Specifically, the following issues need to be tackled: (i) high carbon footprints of the growth sectors; (ii) climate-induced natural disasters (especially floods and droughts); (iii) gender disparity in employment and wages; (iv) limited access to healthcare and education, particularly among informal workers; and (v) limited social protection and redistributive governance. To address these issues, priorities should be placed on: (i) raising more climate funds to reduce greenhouse gas emissions from energy, transport, industry and agriculture sectors; (ii) mitigating emissions from the energy and agriculture sectors in the interests of small enterprises and farmers; (iii) strengthening the adaptation in agriculture, water, forestry and health sectors by providing more funds to local authorities and communities, promoting nature-based adaptation and enhancing climate research; (iv) bolstering STEM education for girls and targeting green skills training for women; (v) incentivising business investments in rural areas to reduce outmigration; (vi) expanding public healthcare coverage, health insurance and social protection to include workers' family members; (vii) enhancing the public financial reform to spend more on social investments in rural areas; and (viii) providing sufficient support and incentives to informal small enterprises to register.

1. Introduction

Increasing economic activity to raise income is crucial for Cambodia's development. Yet, non-economic issues such as climate, gender and social disparity can influence economic growth in both positive and negative ways. Climate change can hamper the growth of key economic sectors if left unaddressed. Gender disparity in labour force and sectoral employment can slow down the potential of growth. If social protection and skills training are insufficiently provided to unskilled and low-skilled workers, particularly in the informal sector, the economy cannot rise up the value chains or yield inclusive benefits.

This paper highlights the key climate, gender and social issues that need to be addressed before Cambodia can sustainably growth in a resilient and inclusive manner. The following section presents the main climate challenges and suggests ways to mitigate and adapt to these challenges. Next, access to livelihoods, healthcare and education are discussed; and ways to increase access for vulnerable groups are presented. Section 4 discusses how to reduce gender disparity in the workforce to enhance the growth potential, and examines ways to improve public governance for more equitable distribution of services and benefits. The last section concludes the discussion and offers the key areas for reform.

2. Climate challenges in the pursuit of green growth

Cambodia's economic growth has substantially reduced poverty but has also caused greater environmental impacts, including reduced forest coverage, increased waste volumes, and exacerbated air and water pollution, and caused associated health risks (UN Cambodia 2023). To achieve economic growth goals, the Cambodian economy needs to become greener, climate-resilient and more inclusive. This section provides the key mitigation and adaptation strategies that Cambodia must implement in order to respond to climate change in an inclusive way.

2.1. Mitigation strategies

Cambodia is a low emitter of greenhouse gases (GHGs), contributing about 0.16 percent of the total global emissions (Climate Watch 2020); nevertheless, it does have the fastest emissions growth in Southeast Asia (World Bank 2023a). During 1990-2022, GHG emissions from domestic production increased by 121 percent, and the country's carbon footprint by 172 percent (Climate Watch 2020). The forestry and other land use (FOLU) sector is the largest emitter (43.4 percent), primarily caused by deforestation and forest degradation. The other key emitters include agriculture (28 percent), energy (19.2 percent), industrial processes (8.6 percent), and waste sectors (.77 percent) (Climate Watch 2020).

In its Intended Nationally Determined Contribution (INDC) under the United Nations Framework Convention on Climate

Change (UNFCCC), Cambodia has made the following commitments to mitigate climate change impacts: (i) reducing GHG emissions by 47 percent by 2050; and (ii) focussing mitigation efforts on energy, transport, industry, agriculture, and waste management (RGC 2022).

How to meet these commitments is outlined in the following key policies and strategies: (i) the National Strategic Plan on Green Growth 2013-2030; (ii) the Long-Term Strategy for Carbon Neutrality (LTS4CN); (iii) the Power Development Plan 2022-2040; (iv) the National Energy Efficiency Policy 2022-2030; (v) the Production Forest Strategic Plan 2018-2032; (vi) the National Forest Programme 2010-2029; (vii) the Circular Strategy on Environment Sector 2023-2028; (viii) the Climate Change Strategic Plan for Climate Change Adaptation and Greenhouse Gas Mitigation in Transport Sector 2018; (ix) the National Agricultural Development Policy 2022-2023; (x) the Roadmap for Food Systems for Sustainable Development 2030; (xi) the National Waste Strategy and Action Plan for Cambodia 2018-2030; and (xii) the Circular Economy Strategy and Action Plan 2021.

The LTS4CN aims to achieve carbon neutrality by 2050 by decarbonising the power sector, promoting energy efficiency, and encouraging low-carbon agriculture, industrial processes, and waste management (MOE 2021). This strategy is intended to increase the production and consumption of renewable energy at both industry and household levels. In 2022, renewable energy comprised 61.06 percent of the domestic power production, and hydropower accounted for 53.89 percent of the renewable energy (EAC 2023). As per the Power Development Plan 2022-2040, Cambodia aims to have a renewable energy mix of 35 percent in 2050, of which 12 percent will be from solar (MME 2022). This target is feasible since the government has stopped granting new approvals for coal power plants and planned for early closures of the existing ones. Further, solar and wind power provide a huge potential to attract both domestic and foreign investments (CAPRED and MSC 2023). Increasing solar and wind energy will boost both the renewable energy mix and environmental sustainability since they will reduce adverse impacts (especially water stress) of hydropower dams.

However, to distribute clean energy in an equitable way is challenging. While the green industry in Cambodia is growing, small enterprises still struggle with sustainability in their businesses (UNDP 2019). The key challenge is limited access to clean energy for their production due to financial and regulatory barriers (Sean and Ngin 2023). Hence, maintaining and enhancing their productivity and competitiveness is critical during the green transition. Doing so will enhance inclusiveness since small businesses (over 60 percent of which are run by women) dominate the private sector and are a main source of employment in the informal economy (World Bank 2019b).

Another way to achieve inclusiveness is to increase impoverished households' access to clean energy. While access to the national power grid is high - 98.27 percent of villages connected in 2022 (EAC 2023) - most rural households use fossil fuels like charcoal for cooking and other consumption. In 2019, wood and charcoal made up more than 90 percent of the total

household energy used in rural areas (World Bank 2019b). Thus, policies need to make clean energy attractive, accessible and affordable for rural households to reduce their dependence on fossil fuels. This can be done through subsidies, financial incentives, and innovative financing models that reduce the upfront costs of clean energy technologies (Rizzetti 2024).

Along with the generation of renewable energy, decarbonising key economic sectors will assist in Cambodia's vision of becoming carbon-neutral by 2050. Although it is possible, like the transition to green energy, it needs to consider marginality. Among the other sectors, the LTS4CN signifies the key role of the FOLU sector in achieving this target (MOE 2021). The LTS4CN suggest that Cambodia could be zero-carbon by 2050 if this sector provided a total carbon sink of 50 megatons of carbon dioxide equivalent (MtCO2e) by that year. To this end, the strategy aims to increase the forest cover from the current 42 percent to 60 percent of the total land area by 2050, and to reduce emissions from agriculture by 30 percent by 2050. Cambodia is likely to achieve the 60 percent forest cover target since it has expanded the size of protected areas to over seven million hectares (Flynn 2023b), made a commitment to plant one million trees annually, and ramped up law enforcement to curb illegal logging and forest land clearing. Cancellations of mining projects in protected areas are another positive contributor.

The focus on the FOLU sector is crucial since it is the largest source of GHG emissions, as mentioned above. Improving the FOLU sector will thus yield high benefits since it plays a critical role in adaptation to climate change. Particularly, improved forestry management will reduce the effects of floods and droughts that are the key climate events and will benefit rural communities through enhanced agricultural productivity and water resources.

Hence, increasing the forest cover and reducing emissions from agriculture will enhance the capacity for carbon sinks and carbon offsets from other sectors. But this needs to be done in an inclusive manner, considering the significant role of agriculture in reducing poverty. About 75 percent of Cambodians live in rural areas and many of whom depend on agriculture and natural resources for their livelihoods (NIS 2022). Despite the structural transformation of the economy, agriculture is still crucial for economic growth and poverty reduction, contributing 22 percent of GDP in 2022 (World Bank 2024c) or 16.5 percent based on the rebased GDP (MEF 2024). Smallholder farmers, who operate through subsistence farming in traditional ways that are prone to climate change, dominate the sector. While climate change has rendered labour productivity losses and damage of assets for all key sectors, agriculture is the most affected (MEF and NCSD 2019). Small farmers cannot afford smart technologies that are environmentally friendly and climate-resilient. Approximately 26 percent of farmers apply climate-smart technologies and practices to tackle climate risks (Thomas et al. 2013). Lack of capital, lack of awareness of and limited access to extension services, and lack of financial services are the key reasons for this low adoption. Thus, promoting sustainable agriculture that balances production and emission targets is challenging if

Table 1: Key strategies to avoid heavy carbon dependence and move towards a sustainable, low-carbon future

No.	Strategy	Description
1	Long-term strategy for carbon neutrality	Achieve carbon neutrality by 2050 by decarbonising the power sector, promoting energy efficiency, and encouraging low-carbon agriculture, industrial processes, and waste management
2	Renewable energy expansion	Invest in renewable energy sources (solar, wind, hydropower) to reduce reliance on fossil fuels
3	Energy efficiency improvements	Improve energy efficiency in industries, transport, and buildings by adopting energy-efficient technologies and practices
4	Sustainable forest management	Increase forest cover and prevent deforestation by maintaining and expanding forest areas through reforestation, conservation and law enforcement
5	Green transportation	Promote the use of electric vehicles and improve public transportation infrastructure

Sources: Compiled by authors from Cambodia's *Long-Term Strategy for Carbon Neutrality by 2050, Power Development Plan 2022-2040, National Energy Efficiency Policy 2022-2030, Production Forest Strategic Plan 2018-2032, and National Forest Programme 2010-2029.*

comprehensive and well-coordinated policies are not in place. In other words, the move to smart and sustainable agriculture needs to address smallholders' persistent challenges.

2.2. Adaptation strategies

Cambodia is extremely vulnerable to climate change, ranking 144 out of 185 countries for vulnerability and 159th for readiness for climate change (University of Notre Dame 2022). Agriculture is the most vulnerable sector. Changes in rainfall patterns, floods and droughts have led to significant agricultural losses, threatening food security and rural livelihoods (World Bank 2023a). Further, climate change has affected the availability and quality of water resources for both agricultural production and household consumption in rural areas. Forests and fisheries, which are vital for rural livelihoods, have also been degraded.

Without effective adaptation, climate change could reduce GDP by 10 percent by 2050; improved adaptation policies and practices could reduce the impact by 66 percent by 2050 ((MEF and NCSD 2019). The Climate Change Strategic Plan (2014-2023) outlines a framework for integrating adaptation and mitigation into national development plans. The National Adaptation Plan provides an overarching approach to reducing vulnerability and integrating adaptation into sectoral policies and planning.

Despite the current adaptation efforts, there remains huge gaps that need to be filled. First, the present adaptation projects are small-scale and scattered. Cambodia needs a substantial amount of funding for large-scale climate action for better impact, which cannot be sufficiently sourced from the state budget. The Nationally Determined Contribution (NDC)

Table 2: Key impacts of climate change

No.	Affected Sector	Description
1	Agriculture	Droughts and floods reduce crop yields
2	Water	Droughts reduce availability and quality of water; floods contaminate water supplies
3	Health	Extreme heat and changing weather patterns cause heat stress, waterborne diseases, and malnutrition, particularly among children and the elderly
4	Economy	GDP could be reduced up to 10 percent by 2050
5	Biodiversity	Forests and fisheries are degraded, leading to losses of habitats and species

Sources: Compiled by authors from Cambodia: *Country Climate and Development Report and Addressing Climate Change Impacts on Economic Growth in Cambodia*

Table 3: Key sectoral adaptation strategies to address climate change impacts

No.	Sector	Strategy
1	Agriculture	o Develop high-yield, climate-resistant crop varieties o Improve crop management practices o Develop early warning systems for extreme weather events o Enhance climate resilience of irrigation systems
2	Water	o Develop climate-resistant technologies for waterworks o Climate-proof rural infrastructure such as roads, irrigation systems, wells, and culverts to withstand floods and droughts
3	Forestry	o Increase forest plantations o Enhance conservation of protected areas o Improve forest management practices
4	Health	o Strengthen the health system to handle the rise in tropical diseases o Address increased exposure to heat stress

Sources: Compiled by authors from *The Climate Change Strategic Plan (2014-2023) and The National Adaptation Plan*

commitments are estimated at USD 5.8 billion for mitigation and USD 2 billion for adaptation (RGC 2020). Yet, about USD 8 billion is needed to meet an updated NDC commitment, which aims to reduce GHG emissions by 47 percent by 2050.

In 2019, the government allocated approximately USD 600 million for climate action, but mainly for climate-proofed infrastructure projects and climate change resilience co-benefits during COVID-19 (CAPRED and MSC 2023). Multilateral climate adaptation funds have contributed about USD 149 million, with 30 percent for agriculture. As for mitigation finance, Cambodia has received only USD 38 million by 2022, with 80 percent for renewable energy and energy generation. In March 2024, the Green Climate Fund approved a concessional funding of USD 100 million to bolster Cambodia's green economy (Niem 2024).

The limited public climate finance means the private sector needs to provide and channel the financing commitment. Besides domestic financial institutions, international capital is a crucial source of green finance for Cambodia. But not many local financial institutions have proper environmental and social management systems to attract and disburse competitive international climate capital (CAPRED and MSC 2023). Without environmental, social and governance policies and practices in place, access to foreign climate finance is limited.

Second, for further impact, more climate funds need to be directly provided to local authorities (particularly communes) and community-based organisations (CBOs). While these institutions need to improve their technical capacity to implement and manage adaptation projects, they have local knowledge and better understanding of their regions and conditions. Community-based adaptation meets local needs and contexts. Climate action needs to be mainstreamed in commune development plans that outline a multi-actor partnership, including the private sector, to address climate challenges.

Third, more effort is needed to promote ecosystem-based adaptation using nature-based solutions. Natural ecosystems, especially forests and water, need more protection and restoration to enhance resilience to climate impacts and co-benefits for biodiversity.

Finally, more investment is needed to do climate research and innovation to enhance adaptive capacity. This is urgently needed in agriculture where more resistant crops and better-managed irrigation, particularly green technologies, require substantial research and development.

2.3. Green transition

As part of mitigation, greening the manufacturing and services sectors will spur further growth. The global green transition provides Cambodia with new trade opportunities, particularly for the production and export of low-carbon goods and services. The total value of global trade in green goods rose from USD 100 billion in 2021 to USD 1.9 trillion in 2022 ((World Bank 2023a). Cambodia's export of solar panels, modules, and accessories was valued at USD 1.2 billion in 2022, or 5 percent of the total export. Another

emerging sector is electric vehicles. The government plans to electrify 70 percent of motorcycles and 40 percent of cars and urban buses by 2050 (World Bank 2024c).

To enhance Cambodia's niche for trade in green products, more investments are needed in the following areas: (i) providing financial and technical support to local businesses to produce eco-friendly products, such as organic foods, sustainable textiles, and green-packaged goods; (ii) creating more eco-business platforms to promote environmentally-friendly business practices and to connect eco-conscious consumers and investors; (iii) encouraging businesses to adopt sustainable practices such as using renewable energy, reducing waste, recycling materials, and using ethically-sourced materials; (iv) promoting green certifications (such as Fair Trade, Organic, and other eco-labels) to enhance the credibility of Cambodian products in international markets; (v) providing incentives to businesses that adopt green practices, such as tax breaks or exemptions, grants, and subsidies; and (vi) seeking more foreign trade agreements that emphasise sustainability to expand new markets for Cambodian green products.

However, to realise the potential of a green economy, there is a need to focus on creating and preparing for green jobs. It is estimated that the investments to be made under the LTS4CN have the potential to create 449,000 green jobs and contribute 2.8 percent to the annual GDP by 2050 (MOE 2021). However, the sectoral demand and types of green jobs needed by specific industries are relatively unknown (Rizzetti 2024). More investment is needed to prepare workers, especially women, who will lose their jobs in unsustainable occupations, to reskill or upskill in order to compete within the green job market. Green jobs require a high technical competency and an ability to operate complex systems. Nine out of ten Cambodian workers are employed in elementary or low-skilled jobs (NIS 2022). Given current workers' limited education and skills, green skills may be challenging to achieve. Thus, the potential of green jobs is more likely to be realised if it was embedded in the overarching human resource development plan and targeted the lower skilled workforce. Presently, green skills are fragmented within the formal education and training curricula. A green skills development roadmap is needed for planning, coordination and skills provision among the key stakeholders, specifically the private sector and training institutions.

Finally, the pursuit of clean energy (such as hydro, solar and wind power) should engage local communities in the planning, implementation and assessment processes. Poor engagement could result in non-reception, missed priorities and needs, resource conflicts, environmental and biodiversity damage, and increased energy inequities. Early and genuine involvement of communities, giving them real voices in the decision-making processes, in environmental and social impact assessments would mitigate these pitfalls. Lessons can be drawn from the existing hydro power investments.

3. Social resilience

Further to climate action, social resilience at a household level is critical in ensuring that growth will leave no one behind. Cambodia's high level of integration into global value chains renders the Kingdom vulnerable to shocks arising from global events, such as the 2007-8 Global Financial Crisis and the 2020 COVID-19 pandemic. Promoting resilience in the face of episodic shocks is a central concern for social policy (strategies for promoting economic resilience are discussed in Background Paper No. 03). This section details priorities for promoting social resilience among Cambodian households.

3.1. Access to livelihoods

An important pathway to promote the resilience of Cambodian households is by improving access to jobs and business opportunities that do not require migration. Much of Cambodia's growth strategy has been focused on relocating workers from agricultural areas to urban centres to participate in industrial manufacturing and construction. While this creates a flow of remittances that can boost the income of rural households, these payment flows are vulnerable to shock, and risk creating social dislocation effects in villages that are left behind. Promoting access to jobs and business opportunities, particularly in rural areas, can strengthen households as well as build a more diversified economy.

Support for micro, small and medium enterprises (MSMEs) is central to this task. MSMEs constituted 99.8 percent of businesses in Cambodia in 2018 (UNDESA 2018), they provided more than 70 percent of Cambodia's jobs, and contributed about 58 percent of GDP (UNDESA 2018). However, they contributed less than 10 percent of Cambodia's exports. To promote further growth, MSMEs need to be supported to prosper, and a number of priorities have already been identified by the Cambodian government that can assist with this (MEF 2023).

One key area is training and vocational education. Promotion of skills amongst both employees and business owners can improve the level of productivity in small firms. It can also enable strategic planning on the part of business owners to take advantage of opportunities for growth. A particularly important area for small firms is digitisation. Small firms can benefit from maintaining an online identity that allows them to promote their brand and their products amongst a wider audience, both within the country and internationally. Reaching a wider set of clients and customers is central to MSME growth. A second area for government policy is in encouraging foreign-owned firms, such as hotels, large stores or construction companies, to source goods from small, local enterprises instead of importing them. This promotes better links between MSMEs and the Foreign Direct Investment (FDI) sector. Digitisation can promote such links, along with strategies to encourage FDI-funded firms to locate in a wider range of areas across Cambodia. Efforts to create infrastructure that are targeted towards MSMEs as well as towards foreign investors

and building more flexibility for small firms into logistics systems for transportation and export processing can also build better links between small rural companies and urban and international markets.

Implementing policies to promote MSME growth and prosperity require a closer relationship between MSMEs and the government. In 2024, about 88 percent of MSMEs are informal. Because they are not registered, they do not benefit from government policies, and also face barriers in developing contractual relationships with private entities such as banks. The government already has a number of incentives and processes in place to promote MSME registration, such as tax breaks and a one-roof service process. However, encouraging MSME owners to come forward and register requires a more active outreach effort on the part of government. This includes a carefully designed plan to educate informal business owners about the benefits of registration; a strong stance on transparency to reassure MSMEs that they will not be asked for bribes or fees if they register; and a commitment to listening to the concerns of MSME owners to build trust in the relationship between the businesses and the government.

3.2. Access to land

Cambodia remains an agricultural country. Although the contribution of this sector to GDP and employment are steadily declining, almost 40 percent of the working population are still employed in agriculture, with more than two thirds of these working on their own land or for their family. Over the past two decades, agricultural policy has focused on the modernisation of farming practices to increase productivity and to cultivate cash crops for export. However, during the COVID-19 pandemic, agriculture was also regarded by the Cambodian government as an important sector for promoting economic and social resilience domestically, including as a prop for food security (RGC 2022). The inter-censal agricultural survey conducted in 2019 (NIS 2019) underlines the continued importance of household food production in Cambodia. The survey counted 1.72 million households engaged in agricultural production, of which 61 percent produced mainly for subsistence/household consumption and 39 percent for sale. More than half of those surveyed reported that agricultural production provided 40 percent of their income or more.

Access to land for rural Cambodian communities is an important issue for promoting social resilience at the household level, since it diversifies income sources and promotes food security. Promoting access to land requires policies designed to ensure that vulnerable Cambodians are better able to retain their property. In recent years, Cambodia has seen high rates of rural-urban migration and high rates of land conflict. The government has made efforts to promote security of tenure through formal land titling. These are important in supporting agricultural households and need to be reinforced by a more robust and transparent cadastral system that is trusted by small landowners. Titling initiatives should be underpinned by schemes to prevent impoverished families from having to sell their land in times of financial distress. Two factors have been identified as contributing to the high rates of land loss by low-income households. One is high, out-of-pocket healthcare expenses, which amount

to 60 percent of healthcare spending, double the average for other countries at a similar income level (World Bank 2024b). These healthcare expenses have been linked to distress sales of landholdings by poorer households (Beban and Pou 2014). A second area is excessive household debt: some studies suggest that debt incurred through microfinance contributes to distress land sales, signifying that better regulation of this industry is required (Bliss 2022).

Promoting access to land also requires ensuring that small farmers can make a living. Orienting infrastructure towards the needs of small farmers is important in this respect. Working to link agricultural products to markets by building better communication, transport and logistics links between small farms and consumers in urban areas and tourist sites is one aspect of this. Another is irrigation; Cambodia's high vulnerability to climate change requires renewed investment in irrigation schemes. Provincial irrigation departments are severely understaffed and require significant investment of resources. Irrigation schemes should include the needs and concerns of small farming households, as well as the interests of large landowners. The government has delegated the responsibility for local water-resource management to subnational authorities and has established farmer and water-user committees at the local level to address this concern, but these institutions have not been adequately supported with finance, expertise, or links to the provincial levels. As a result, progress in setting up effective local water management systems has been slow (World Bank 2024a). Finally, the Economic Land Concession policy of the early 2010s led to the clearing of millions of hectares of forest, but in some cases the land was subsequently abandoned rather than cultivated (Flynn 2023a). Cancelling declining economic land concessions and redistributing land to impoverished households, while supporting their agricultural activities with better extension services, public services and infrastructure can contribute to the inclusion and resilience of poor rural households in the agricultural sector.

3.3. Access to healthcare

Improving access to affordable healthcare and increasing the proportion of health costs that are borne by insurers is vital to increasing social resilience. Cambodia has made strong progress in promoting key health measures such as infant mortality, and responded effectively to two major epidemics - HIV in the 1990s and COVID-19 in 2020-2021. However, access to healthcare remains unevenly distributed across the country, and public health facilities are under-used by the public. This contributes to the high level of out-of-pocket expenditure on healthcare reported above.

Life-changing and onerous health costs contribute to poverty and inequity in Cambodia. According to the World Bank, almost 17 percent of Cambodians spend 10 percent or more of their budget on health, including 6 percent who spend more than a quarter of their budget on out-of-pocket health expenses. Furthermore, almost 1 in 4 of the poorest 20 percent of households reported having experienced catastrophic health costs, compared to only 1 in 12 of the richest 20 percent (World Bank 2024b)

The government is expanding health insurance, including through the Health Equity Fund which reimburses public clinics that treat Cambodians who qualify as ID-Poor. This scheme was extended in 2023 to cover five million Cambodians. The government also offers voluntary health insurance to other citizens. However, although about a third of Cambodians were covered by some kind of health insurance as of 2023, only about 3 percent of health expenditures were covered by insurers. In part this is due to the widespread availability of private healthcare provision, which is not covered by government insurance schemes, as compared to the limited availability of public healthcare facilities.

As with irrigation, the healthcare sector suffers from a lack of infrastructure and qualified personnel in rural areas. In part this is a result of absolute shortages. In 2021, Cambodia had the lowest number of qualified doctors per capita of any ASEAN country: four times lower than Vietnam and five times lower than Thailand (WHO 2021). This is partly due to a lack of government funding; the RGC spend only 6.1 percent of general expenditure on health, which is below the ASEAN average of 8.5 percent (WHO 2016). To achieve the goal of universal coverage and reduce the burden of out-of-pocket expenditure, the government need to prioritise healthcare in resource allocation, particularly public healthcare in rural areas, promote trust in public provision, and better regulate the private sector so that it serves the public well. The government should plan for a significant expansion in the use of public facilities as the policies promoting universal healthcare coverage are rolled out.

3.4. Family-friendly policies

Family-friendly policies are defined as "policies that help to balance and benefit both work and family life that typically provide three types of essential resources needed by parents and caregivers of young children: time, finances and services" (UNICEF 2019). Early childhood nutrition, care and education are important for Cambodia's youthful population to play their part in promoting ongoing economic and social development in the years to come, and lays the foundation for long-term productivity. Assistance in caring for children can also help boost the productivity of their parents. In Cambodia, care-giving responsibilities are a major determinant of poverty (OECD 2017).

Rights to paid parental leave are detailed in the Constitution and the Labour Law but there are persistent concerns that employers in Cambodia routinely lay off pregnant women. For women in the garment industry, there is reportedly high awareness amongst workers of their rights; for example, the right of nursing mothers to a paid hour off each day for breastfeeding. In addition, the Labour Law stipulated that large employers should also provide daycare facilities in or near factories, but few do so. Even where such facilities are provided, parents do not want to use them because the standards are low and the daily commute is long and dangerous (IFC 2020). More employers provide a childcare allowance to employees with children, but generally the childcare industry in Cambodia is underdeveloped and poorly regulated. Furthermore, affordable family housing is in short supply with many workers accommodated in single or shared dormitories, or in unsanitary informal housing.

Cambodia's growth model has been heavily based on the migration of adults in their 20s and 30s from rural areas to cities, special economic zones, or overseas for work. The difficulties in finding housing and childcare means that often children are left behind with grandparents as the primary caregiver (UNICEF 2023). A study by CDRI suggested that there are negative effects on the education of children who are left behind when parents migrate, with such children completing fewer years of schooling than their peers due to lack of supervision and encouragement (Marchetta and Sim 2021). This further affects the quality of the workforce over the long term.

The Cambodian government needs to better enforce the existing provisions in the Labour Law and develop stronger policies and strategies for childcare and housing for working and, especially, migrating parents. This includes regulating or contracting private suppliers of childcare and housing. These strategies would reduce commuting time, allowing parents to spend more time with their children, improve living environments, and decrease the likelihood of children being left behind in underserved rural communities. Crucially, effective planning requires far better data on the problems migrating and working parents face and the needs of their children.

3.5. Social protection and social insurance

Although Cambodia has made rapid progress in reducing poverty over the last twenty years, almost one in five Cambodians still live in poverty, and many more are just above the poverty line, vulnerable to falling back into the cycle. Adequate social protection mechanisms that keep households out of poverty are essential to economic growth since they conserve and enhance productivity levels amongst the labour force, even during economic downturns or periods of economic restructuring. They do so by allowing adult workers to maintain their health, continue to educate their children, and retrain or upskill for new jobs, preventing a long-term decline in productivity driven by a decline in human capital following an economic shock. In this context, the Cambodian government has been committed since 2017 to expanding social protection and social insurance schemes.

The ID-Poor scheme, initiated in 2011, forms the foundation of the government's social protection planning since it provides a robust database of poor households across the country. The database is regularly updated by commune/sangkat officials in response to requests by households. It provides data for disaster management agencies and for the Health Equity Fund, which facilitates free medical care from public clinics to poor households, and is considered to have played a significant role in allowing the government to roll out a cash transfer campaign to ameliorate the worst of the COVID-19 pandemic effects. The ID-Poor scheme covers an estimated 17 percent of the population. A second approach to social protection is the provision of social and health insurance to workers through payroll-based contributions, under the National Social Security Fund (NSSF). As of 2021, more than 1.5 million workers were contributing to NSSF health insurance scheme, translating to approximately 13 percent of the population (ILO 2024a).

Recent evaluations suggest that the two schemes are working well, but the priority is to find ways to reach the 70 percent of the population that is not covered by them. There are four main ways to expand coverage: include dependents; expand ID-Poor to include the near-poor; deepen collaboration between the Ministry of Commerce (MOC) and the NSSF so that businesses registered with the MOC can automatically be enrolled in the programme; and promote formalisation of informal enterprises.

Including dependents in NSSF: Expanding NSSF health coverage to include dependents of workers would increase the coverage by almost four million additional people, but in so doing would add a substantial financial burden on the scheme. This would require either an increase in workers' contributions or an increase in government funding to ensure sufficient capitalisation.

Expanding Health Equity Funds (HEF) to include the near-poor: Although Cambodia has made great strides in reducing the proportion of the population living in poverty, there remains a large number of households who hover just above the $1.25-a-day poverty line, and could be plunged into poverty by a natural disaster, economic downturn or adverse life event such as a serious illness. During the COVID-19 pandemic, almost 460,000 Cambodians fell back into poverty, and nearly three quarters of the population lived on less than $3 a day (World Bank 2022). Expanding the HEF to include near-poor households using a process similar to the ID-Poor process could, depending on the definitions and thresholds applied, bring large numbers of people into the programme. The potential for using this approach to move closer to universal health coverage, as well as to manage cash transfers and humanitarian deliveries in the context of disasters, is currently being studied. Since HEF is funded through the government budget rather than through contributions, this would have fiscal implications.

Deepening collaboration: Not all businesses registered with the MOC are enrolled in the NSSF. From 2023, the MoC and the Tax Department began sharing data with NSSF through the CamDX data platform. This kind of collaboration should be prioritised in order to maximise the coverage of the scheme amongst registered enterprises. The International Labour Organisation (ILO) also reported in 2024 that almost one in ten enterprises who are registered with NSSF do not actively contribute to the scheme, and that almost 50 percent of individuals registered with the NSSF are not active (ILO 2024b). The NSSF has an Inspections Department whose job is to intervene where enterprises are failing to contribute, but this department has not yet established standard operating procedures for effective intervention (ILO 2024a).

Encouraging formalisation: Around 90 percent of the non-civil service workforce are employed in the informal sector (ILO 2024b). Over half of these (56 percent) are own-account or family-employed workers. Another 44 percent are wage-earners employed by an enterprise, but more than two thirds of these are also informal, because their enterprises are not registered with the government (ILO 2024b). These figures align with the very low number of businesses that are formally registered - 87.6 percent are not registered, most of

these being micro-enterprises, of which only about 10 percent are registered with the government. These figures have increased steadily in recent years but from a very low base – with only 3.4 percent of enterprises were registered in 2015 (ILO 2024a).

Expanding the NSSF to reach workers in the informal sector is a challenge. The government has recently made voluntary versions of the scheme available, but these need to be better advertised and potential scheme members need to be more proactively engaged. The government has also linked expansion of social protection schemes to formalisation of enterprises. Informality is caused by low levels of trust between citizens and government. This reflects past legacies as well as contemporary problems such as complexity and lack of transparency in the tax system, fear of interacting with state authorities, scepticism surrounding the quality of social protection schemes and relatively high registration costs (ILO 2024b; Oxfam 2022). There is also a lack of enforcement, and in the case of micro-enterprises, registration is not legally required. The government is offering incentives to promote formalisation, including term-limited tax holidays for registering enterprises and the creation of one-roof service centres that can ease the process of business registration. However, formalisation efforts have been slow to make progress, and require broader attention to the quality of service that the government offers to businesses (ILO and UNDP 2023).

Efforts to promote formalisation should proceed with an emphasis on outreach, education and support, rather than enforcement, especially for micro-enterprises whose proprietors may be unfamiliar with the law, and who may find interaction with state authorities intimidating at the best of times. Business registration for micro-enterprises could be facilitated by elected commune-level authorities who frequently have closer relationships with their constituents than district-level ministry staff. Formalisation not only assists with social protection, but also with strategies to support the growth and development of micro-enterprises, as outline in Section 3.1 above.

3.6. Promoting resilience through education

Education plays an important role in promoting the resilience of a labour force. Despite remarkable economic growth, the Cambodian economy is struggling with a productivity problem, with within-sector productivity in manufacturing and services being modest. Barriers in labour mobility and skills mismatches have hindered the efficient reallocation of labour to more productive sectors. To sustain economic gains, Cambodia needs to enhance the resilience of its workforce by addressing challenges in the education system and corresponding learning poverty. This must start from the early years to develop well-rounded human resources and a highly skilled workforce necessary for intra-sectoral diversification and for moving up the value chains.

3.6.1. Addressing learning quality

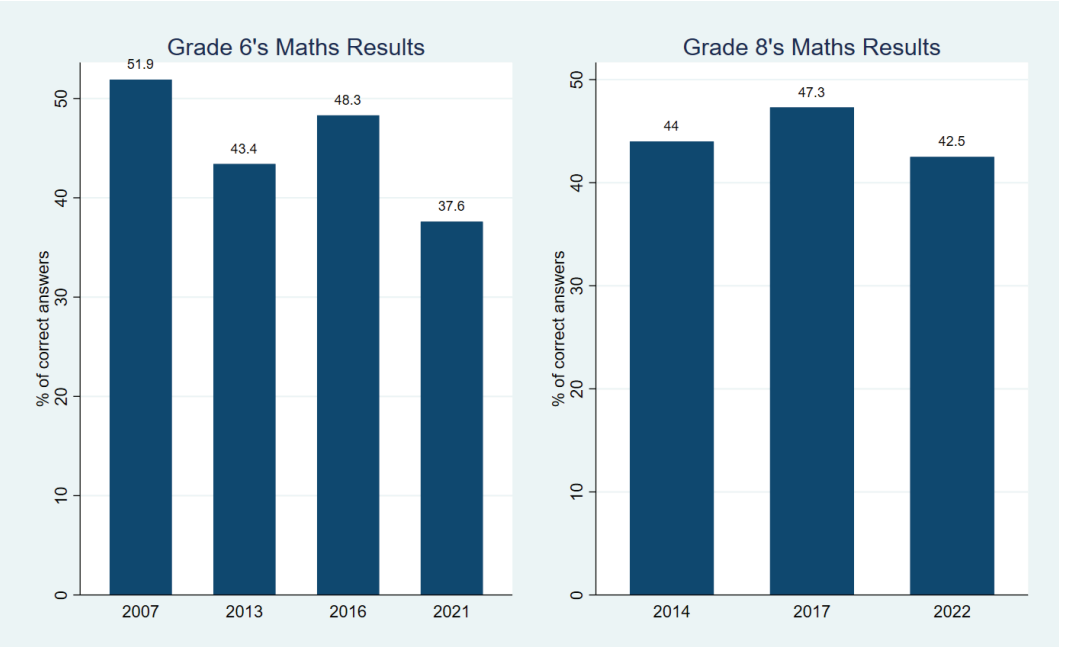
Cambodia has been applauded for its progress in expanding access to basic education and narrowing gender disparities. However, it lags behind surrounding nations in terms of learning outcomes

(OECD 2023; UNICEF and SEAMEO 2020). Despite government efforts to attract high-performing students to careers in education by sustainably increasing teacher salaries over the past decade and implementing the Teacher Policy Action Plan (TPAP) to better prepare and support teachers, results from the National Learning Assessments (NLA) indicate that these investments have had little impact on student learning. As shown in Figure 1, Grade 6 students' maths performance has been declining since the Ministry of Education, Youth and Sport (MOEYS) began the Grade 6 NLA in 2007, with a notable drop in 2021 following the COVID-19 pandemic. A similar trend is observed in the Grade 8 NLA.

A strong educational foundation is crucial for Cambodia to develop a highly skilled workforce capable of sustaining long-term economic growth. To enhance the quality of education, the government has implemented several education reforms. MOEYS has expanded access to early childhood education to better prepare students for primary school. However, enrolment in pre-school for children aged 3-5 remains very low at 37 percent compared to other countries in the region (MOEYs 2024). Additionally, many pre-school teachers are former primary school teachers without proper pre-school training.

To strengthen teacher quality, MOEYS has implemented reforms to enhance qualifications by transforming regional teacher training centres into teacher education institutes, extending the basic teacher training programmes from two to four years, and establishing a continuous professional development framework and career pathways for teachers. A recent survey by CDRI in 2023 involving more than

Figure 1: National learning assessment's maths results



Sources: MOEYS's national learning assessment reports

1,400 Grade 11 and 12 students revealed that teaching is the most popular career choice, with 15 percent of students aspiring to become teachers (Khantey et al. 2023). Nevertheless, based on the NLA results, it is unclear if more qualified teachers have translated into better student learning.

Recent efforts have also focused on school reform through the New Generation School (NGS) initiative, school-based management, and the introduction of model schools. These reforms aim to give schools more autonomy in planning and decision-making while holding them more accountable for students' learning outcomes. The NGS initiative seeks to improve the quality of education and develop skilled human resources by introducing an innovative full-day curriculum and eliminating the practice of private tutoring by teachers. While the NGS initiative has shown positive results, challenges remain, such as ensuring sustainable funding, maintaining high standards across all NGS, and scaling up the model to benefit more students.

Despite numerous educational reforms over the past decade, there is insufficient evidence on what has been effective and what has not. The NLA was intended to enhance learning quality, but it remains underutilised, and its data sets are not available to public researchers. Using rigorous evidence in decision-making and designing interventions is essential for Cambodia to achieve its educational goals.

3.6.2. Skills development

Skills development is crucial in helping Cambodia achieve its economic vision. However, Cambodian youth find skills training less attractive due to unfavourable perceptions, perceived irrelevance, and low quality of training programmes. According to the 2019 national census, only 0.7 percent of the Cambodian population aged 15 years or older had participated in technical and vocational training programmes (NIS 2020). Technical and vocational education and training institutes, provided by MOEYS and the Ministry of Labour and Vocational Training (MLVT), respectively, have the potential to address the skills gaps and mismatches by offering targeted training for medium-skilled occupations needed in the labour market.

To make training programmes more attractive and relevant to labour market demands, training providers need to modernise their programmes to include a broad set of transferable skills, such as digital and socioemotional competencies. Responsible agencies and training providers must ensure that training programmes respond to market demands and provide a conducive learning environment by regularly monitoring labour market trends, engaging employers in designing training curricula, and connecting students with opportunities for internships, apprenticeships, or work-based learning.

4. Inclusive Growth

Another important aspect of growth is inclusiveness. Inclusive growth requires paying attention to the ways in which the benefits are distributed. In this section, we discuss three main areas: reducing discrimination against particular groups, focussing on gender discrimination; inclusion in the benefits of growth through improved conditions of work, in both the formal and informal sectors; and inclusion in the benefits of growth through progressive distribution of resources, focussing on strengthening transparency, redistribution through taxation, and improved delivery of social services and public goods.

4.1. Gender: Evaluating and reducing discrimination

Inclusive growth in Cambodia hinges significantly on maximising the potential of the workforce, with women playing a pivotal role. Despite commendable progress, such as a relatively small gender gap in labour force participation, challenges such as disparities in wages, job security, and sectoral employment remain. Addressing these issues is critical for leveraging women's full economic potential.

Figure 2: Wage and salaried workers by gender 1990-2022

Source: GIDA Survey in 2020

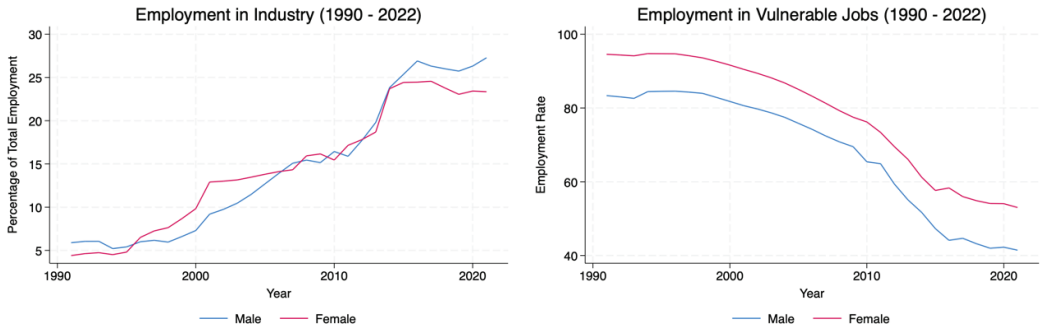
Cambodian women have a labour force participation rate of 69.6 percent compared to men's 82.1 percent, yielding a gender gap of 12.5 percentage points. This is notably smaller than the average for lower-middle-income countries and reflects the importance of women in the labour force. At the same time, these high participation rates do not fully reflect gender equity, as occupational segregation and wage disparities remain significant challenges.

First, the high rates of labour force participation can mask problems of wage disparities and occupational segregation. Women are less likely to be employed in more stable and salaried positions (Figure 2).

Women are also concentrated in lower-paying sectors like textiles and garments, while men dominate higher-paying industries such as construction and manufacturing (Figure 3). Even within industries, women often hold lower-paying positions and are more likely to be employed in vulnerable jobs with poor working conditions. This segregation perpetuates gender-based wage gaps and limits women's career advancement opportunities.

Third, inadequate resources, maternity support and entrenched cultural norms can also inhibit women's economic activities. This includes direct barriers to women's economic participation, such as limits on their ability to work or biases in hiring and promotion practices. For example, household survey data shows that while

Figure 3: Type of employment by gender 1990-2022



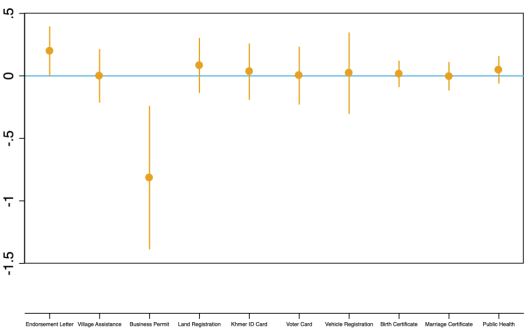
Source: GIDA Survey in 2020

women and men do not significantly differ in their perception of access to most government services, women report more perceived difficulty in getting a business permit than men (Figure 4).

Social expectations and other indirect limitations can also inhibit women's economic participation. For example, women spend significantly more time on housework, shopping, and childcare, and significantly less time on paid work and maintenance/outdoor household tasks (Figure 5). Women also spend less time on leisure in all forms than men do, and slightly more time doing voluntary work.

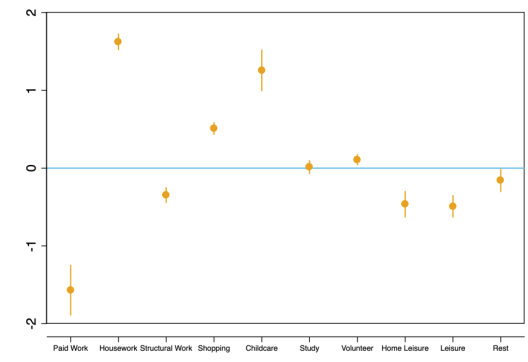
Women also report differing perceptions of safety and experiences of discrimination. Women feel less safe than men while walking (both during the day and at night), while at work, and while in their villages (Figure 6). The greatest differences are while walking at night and while at work, suggesting that efforts to support women's safety should focus on public and work spaces.

Figure 4: Gender differences in perceived ease of accessing government services (Women vs men)



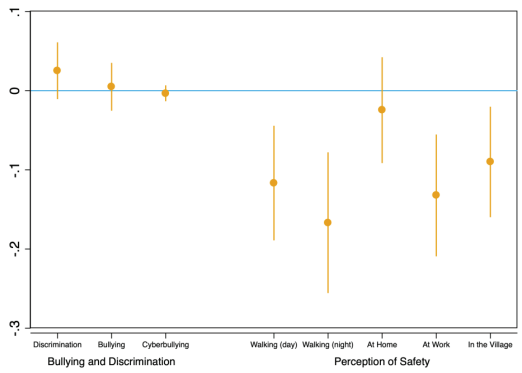
Source: GIDA Survey in 2020

Figure 5: Gender differences in time allocation across activities (Women vs men)



Source: GIDA Survey in 2020

Figure 6: Gender differences in perceptions of safety and experiences of discrimination (Women vs men)



Source: GIDA Survey in 2020

Strategic recommendations

The gender challenges to inclusive development require a multi-faceted approach:

1. **Education and training**: Invest in early STEM education for girls and provide targeted skills training for women. Programmes should be subsidised and include support services such as childcare to increase retention in high-skilled jobs.

2. **Policy interventions**: Implement policies to reduce occupational segregation, address wage disparities, and improve job security. This includes creating safer, well-paid workplaces with clear growth opportunities for women.

3. **Public and private sector collaboration**: Both sectors must work together to foster an inclusive work environment, ensuring that women have equal opportunities to contribute across various industries.

Cambodian women are already a cornerstone of the country's economic framework, and maximising their potential is essential. By addressing gender disparities in employment and wages, and providing targeted support and opportunities, Cambodia can enhance its economic growth trajectory and move closer to long-term goals. Investment in women's skills and employment conditions will not only boost individual livelihoods but also drive broader economic development.

4.2 Improving conditions of work

Cambodia's manufacturing industry has been the centre of innovative efforts in promoting better conditions of work, including the Better Factories initiative for monitoring standards and the Arbitration Council established to manage industrial disputes. There is also a strong legal framework establishing workers' rights, active union representation of workers and a minimum wage that is renegotiated annually between employers, unions and government. However, enforcement of workers' rights has nevertheless been varied and there is some evidence that conditions of work have declined in the garment industry over recent years, particularly since the pandemic.

Several recent surveys conducted since the COVID-19 pandemic (summarised in Asia Floor Wage (2023)) suggest that levels of pay in the garment industry have failed to keep pace with inflation, with the gap between median wage and median expenditure increasing, associated with high levels of debt amongst garment workers. Although the minimum wage in Cambodia is not the lowest in the region,

basic food costs are higher in Cambodia than in neighbouring countries. The industry experienced large scale job losses during the pandemic, and buyers in some cases failed to pay wages and severance fees owed (Clean Clothes Campaign et al. 2023). Despite the government's response through the cash transfer programme, this pushed a number of workers into debt as a means to pay for basic living expenses (Clean Clothes Campaign et al. 2023). Furthermore, there are reports that even before the pandemic, subcontracted or piecework was an increasing feature of the Cambodian garment industry (Human Rights Watch 2015). Although pieceworkers are covered by minimum wage legislation, this form of employment is far more difficult to monitor, and arrangements are more likely to be informal. Currently there is a drift towards informalisation in the garment sector; a theme which is regressive with respect to the government's formalisation agenda.

Holding down real wages, reducing labour standards, refraining from enforcing laws and allowing creeping informalisation may boost short-term competitiveness, but these factors do not promote inclusive growth over the long term. Rather, they reduce the conditions of workers, exacerbate their vulnerability to poverty and debt, and impede their ability to upgrade their own skills and those of their children. Thus, all of the aforementioned points reduce the prospects of achieving high-income status by 2050. Remaining competitive while ensuring social inclusion in the benefits of growth, there is an urgent need to find ways to upgrade productivity. Upgrading productivity includes promoting more technologically sophisticated industries by providing a better environment for foreign investors through better infrastructure, governance, logistics and through nurturing the skills and talents of the workforce, as outlined in Section 3.6 above.

The informal sector is very varied, comprising own-account workers, family workers and employees. Strategies for promoting the resilience and growth of MSMEs have already been outlined in Section 3.1. As far as MSME employees are concerned, three key policy priorities require immediate attention. First, conditions of work go unmonitored in this sector, and consequently there is little available data to build from. There is an urgent need to generate more detailed knowledge about this sector. Second, basic social protection, including health coverage, should be extended to informal workers. Third, there is a need to enforce the Labour Law with respect to minimum wages and conditions in this sector. Efforts to formalise the informal sector have been described above. In the immediate future, there is also a need to consider ways of ameliorating conditions in the informal sector even before formalisation is achieved, for example through expansion of the ID-Poor scheme.

4.3. Improving redistributive governance

Improving governance is a key strategic priority of the RGC. Significant achievements have already been made in public financial management (PFM) reform, and last year the government announced a new round of public administration reform designed to promote the capacities and effectiveness of the civil service. Improving the effectiveness and integrity of the government fosters the

smooth functioning of social services and delivery of public goods that benefit the poor. Meanwhile promoting the transparency, predictability, efficiency and progressive impact of the tax system allows for more effective revenue generation while directly promoting the wellbeing of impoverished communities.

PFM and public administration reform are essential to ensuring that public revenues are not diverted towards private entities or wasted due to ineffectual processes within government, but instead made available to fund policies that can lift people out of poverty. PFM reform is considered to be one of the flagship reform programmes implemented by the government over the past 15 years, with significant achievements made through a combination of technical reforms relating to the way in which money is moved and handled, and administrative reforms in the way that budgets are planned and approved. The use of a platform approach, in which a number of specified milestones were set out against which to track progress has been considered to be a key factor driving the success of this reform programme. The RGC has also partnered with the international Public Expenditure and Financial Accountability programme, which provides regular independent assessments of PFM reform progress. The key components of success here are strong leadership by MEF; strengthening of data through the use of new automated reporting systems; a clear path for reform with graduated milestones along the way, and independent monitoring of progress.

As a result of economic growth and successful PFM reform, including implementation of a Revenue Mobilization Strategy, tax revenues have increased from 12.8 percent of GDP to 22.5 percent in 2022, peaking 25.1 percent of GDP in 2019 (World Bank 2024a). This permitted an expansion of government spending from 20.2 percent of 2011 to 27.9 percent of GDP in 2021 (World Bank 2024a). Spending on healthcare and education increased in particular, from a combined total of 4.6 percent of GDP in 2011 to 10.5 percent in 2021, although this is still low in comparison to the region. The share of spending on economic and infrastructure sectors declined between 2011 and 2021.

A large part of the increase in social sectors was spent on increasing the wages of civil servants, including teachers and healthcare workers. The public wage bill increased from just over a quarter of government spending in 2005 to a third of government spending in 2020 (World Bank 2024a). According to the recent World Bank public expenditure review, this increase has not yet translated into better outcomes - for example, better teaching in schools or greater public trust in the national healthcare system (World Bank 2024a). It also does not significantly address the redistributive aspect of public service delivery - i.e. the extent to which service delivery can be used to benefit the poor in particular.

With respect to the redistributive effects of public service delivery there are four key areas that require attention: better use of data, increasing meritocracy, tax reform and decentralisation.

Better use of data: A study conducted by the Asian Development Bank in 2021 concluded that the RGC and development partners collect a lot of data regarding

development trends in Cambodia, but that the data collected is not used sufficiently to inform policy making. The study found that where policies explicitly set out a monitoring and evaluation process, data is collected and used, but that this is not utilised in policy-making. Data is not routinely shared, either between ministries, nor between government and non-government agencies, and there is no clear process by which researchers outside government can access government data. This limits the ability to cross-check the government's own accounts of its policy achievements using different techniques and approaches, conducted by independent researchers. It also reduces the ability of the government to draw on the wider pool of in-country research expertise in non-governmental organisations to help define policy strategies and goals. The government is making progress on the use of data to inform policy internally, including through the establishment of the CamDX database for information sharing between ministries. However, the government needs to address issues of transparency and access to data around policy formulation and implementation.

Increasing transparency: Reducing the lack of transparency is considered to be a key factor in promoting service delivery outcomes (IMF 2019). Raising salaries to provide public servants with a living wage is necessary but not sufficient, and in fact, Cambodia's Corruption Perceptions Index score has recently declined by two points between 2022 and 2023 (Transparency International 2023). This leaves Cambodia two points higher than before the pandemic, but still 158th out of 180 countries worldwide, ahead only of Afghanistan, Myanmar and North Korea in the Asia-Pacific region. Other measures required to tackle effective governance include:

- Insistence on effective enforcement of the law and punishment of violators even when they are well-connected, as urged by the Prime Minister recently with respect to hit-and-run traffic accidents (Soth 2023);
- Routine incorporation of transparency and accountability mechanisms in public service provision and procurement processes, particularly those which allow the public to make complaints about incidents without fear of retaliation;
- Deployment and mandatory use of technology that can track transactions, for example the Financial Management Information System deployed by the Ministry of Economy and Finance as part of the PFM reform programme;
- Continued efforts to design processes throughout government so as to reduce the number of permissions required and the discretionary power of officials, in line with the ongoing effort to simplify transactions using the One Window Service Office approach;
- Increased emphasis on merit and integrity in the recruitment, training and promotion of individuals to the public service, as envisaged in the Pentagonal Strategy and other public administration reform strategies.

Tax reform: A key concern in the World Bank's recent public expenditure review for Cambodia was the high level of tax

exemptions offered by the Cambodian government (World Bank 2024a). This results in a loss of almost a third of potential revenues from imports, while disincentivising foreign firms from seeking to source inputs locally. The 2021 Law on Investment aims to promote the predictability and transparency of taxation of foreign investments, but the World Bank suggests that the law is generous to investors, likely reducing the government's profits tax take (World Bank 2024a). The new Law on Taxation that passed in 2023 closed some loopholes in existing tax arrangements, thereby broadening the tax base, and increased penalties for non-compliance or non-payment, as well as strengthening the ability of the Department of Taxation to investigate tax-related crimes.

As with the enforcement of labour standards, levels of taxation are closely related to views about competitiveness, particularly in relation to foreign firms. High levels of taxation are considered to deter foreign investment, and the Cambodian government has followed a policy of using tax incentives to encourage investors to establish enterprises in Cambodia. However, there is a need to assess the point at which this policy becomes counter-productive: lower tax revenues mean less funding for the government to use to upgrade other aspects of the business environment, particularly public infrastructure and human capital, therefore making growth less inclusive. The IMF (2022) suggested a review of Cambodia's tax holiday policy which it regards as "particularly attractive to relatively short-lived or footloose investment and encouraging rent-seeking behaviour." The same report also suggested that tax incentives should be costed in terms of revenue lost, and responsibility for approving and monitoring them should be solely in the hands of MEF (IMF 2022).

Decentralisation: Cambodia has a highly centralised public administration system, with financial and human resources concentrated at the national level. Less than 10 percent of total government budgetary resources go to the subnational level (World Bank 2024a). Provincial line ministry offices are understaffed, while ministry headquarters in Phnom Penh are overstaffed, and rural services, particularly healthcare services, suffer from acute shortages. The redistributive impact of public spending would be increased if more budgets and services were decentralised and if more civil servants were deployed to rural areas. This would allow greater responsiveness and accountability at local levels, as well as reduce the sharp disparity in resources between Phnom Penh and provincial areas.

5. Conclusion and key areas for reform

Climate, gender and social factors influence the potentiality of the Cambodian economy achieving desired growth in an equitable way. The key factors include: (i) high carbon footprints of the growth sectors; (ii) climate-induced natural disasters (especially floods and droughts); (iii) gender disparity in employment and wages; (iv) limited access to livelihoods, healthcare and education, particularly among informal workers; and (v) limited social protection and redistributive governance. To address these issues, we propose the following:

1. Mobilise more climate funds, especially from the domestic private sector, to reduce GHG emissions from energy, transport, industry, agriculture and waste management sectors.
2. Focus the mitigation on the energy and agriculture sectors, prioritising the benefits of small enterprises and farmers.
3. Enhance the adaptation in agriculture, water, forestry and health sectors, focussing on allocating more funds to local authorities and communities, promoting ecosystem-based adaptation, and investing more in climate research and innovation particularly in agriculture.
4. Invest in early STEM education for girls and target green skills training for women, along with childcare support and progressive career pathways.
5. Incentivise business investments in rural areas, particularly in agriculture, to reduce outmigration, focussing on forging partnerships between community enterprises and large investors.
6. Expand public healthcare coverage, health insurance and social protection to include workers' family members, especially those in the informal economy, to reduce impacts from external shocks and to prevent them from falling back into poverty.
7. Keep reforming public financial management to reduce leakages and waste and to spend more on social sectors, especially health, education and agriculture investments in rural areas.
8. Enhance the tax collection system through digitalisation and improvement of the business environment to raise revenues for social investments, yet prioritising support and incentives for informal small enterprises.

References

Asia Floor Wage. 2023. "Key Findings: Declining Income, Rising Living Costs, and Spiralling Debt Post-COVID." https://asia.floorwage.org/wp-content/uploads/2023/10/comp_CENTRAL_English_Key-Findings_Declining-incomes-rising-living-costs-and-spiralling-debt-post-Covid.pdf.

Beban, Alice, and Sovachana Pou. 2014. "Human Security & Land Rights in Cambodia." Cambodian Institute for Cooperation and Peace. https://cicp.org.kh/wp-content/uploads/2021/02/HSLR-report-Final-3-29-2015.pdf.

Bliss, Frank. 2022. "'Micro' Finance in Cambodia: Development, Challenges and Recommendations." AVE Study 30/2022, Ways out of Poverty, Vulnerability and Food Insecurity. Institute for Development and Peace (INEF), University of Duisburg-Essen. https://www.licadho-cambodia.org/reports/files/INEFReport-MicrofinanceInCambodia2022.pdf.

CAPRED and MSC. 2023. "Scoping Report: Climate Finance Scoping Study."

Clean Clothes Campaign, Cambodia Alliance of Trade Unions, Coalition of Cambodian Apparel Workers' Democratic Union, and Center for Alliance of Labor and Human Rights. 2023. "Stitched under Strain - Long Term Wage Loss across the Cambodian Garment Industry." https://cleanclothes.org/file-repository/stitched_under_strain_-_long_term_wage_loss_across_the_cambodian_garment_industry.pdf/view.

Climate Watch.2020."Climate Watch Data." https://www.climatewatchdata.org/countries/KHM?end_year=2020&start_year=1990.

EAC. 2023. "Salient Features of Power Development in the Kingdom of Cambodia until December 2022." Phnom Penh: Electricity Authority of Cambodia (EAC).

Flynn, Gerald. 2023a. "Calls Grow to Repurpose Land Squandered in Cambodia's Concession Policy." Mongabay, 2023. https://news.mongabay.com/2023/11/calls-grow-to-repurpose-land-squandered-in-cambodias-concession-policy/.

———. 2023b. "Skepticism as Cambodia Expands Protected Areas by More than a Million Hectares." Mongabay, 2023. https://news.mongabay.com/2023/08/skepticism-as-cambodia-expands-protected-areas-by-more-than-a-million-hectares/.

Human Rights Watch. 2015. "'Work Faster or Get Out'. Labor Rights Abuses in Cambodia's Garment Industry." Human Rights Watch. https://www.hrw.org/sites/default/files/reports/cambodia0315_ForUpload.pdf.

IFC. 2020. "Tackling Childcare: Employer-Supported Childcare in Cambodia." Washington, D.C.: International Finance Corporation. https://www.ifc.org/content/dam/ifc/doc/mgrt/tackling-childcare-cambodia.pdf.

ILO. 2024a. "Assessment of the Cambodian National Social Security Fund's Health Insurance Schemes." Phnom Penh: International Labour Office. https://www.ilo.org/publications/assessment-cambodian-national-social-security-funds-health-insurance.

———. 2024b. "Extending Social Protection for Workers in Cambodia: A Study to Understand the Characteristics of Workers and Enterprises in the Informal Economy." Phnom Penh: International Labour Office. https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@asia/@ro-bangkok/documents/publication/wcms_920120.pdf.

ILO and UNDP. 2023. "Understanding The Paths to Formalization in Cambodia: An Integrated Vision." Phnom Penh: United United Nations Development Programme (UNDP). https://www.undp.org/sites/g/files/zskgke326/

files/2023-12/Understanding%20the%20Paths%20to%20Formalization%20in%20Cambodia_An%20Integrated%20Vision.pdf.

IMF. 2019. "Fiscal Monitor: Curbing Corruption." April. Washington, D.C.: International Monetary Fund (IMF). https://www.imf.org/en/Publications/FM/Issues/2019/03/18/fiscal-monitor-april-2019.

———. 2022. "Cambodia: Selected Issues." IMF Staff Country Reports. International Monetary Fund (IMF). https://doi.org/10.5089/9798400228643.002.

Khantey, You Saokeo, Alvin Leung, In Leavsovath, and Song Sopheak. 2023. *A quantitative study on entrepreneurial intention of university students in Cambodia*. Working Paper Series No. 136. CDRI: Phnom Penh

Marchetta, Francesca, and Sokcheng Sim. 2021. "The Effect of Parental Migration on the Schooling of Children Left Behind in Rural Cambodia." World Development 146. https://doi.org/10.1016/j.worlddev.2021.105593.

MEF. 2023. "National Strategy for Informal Economic Development 2023-2028." Phnom Penh: Ministry of Economy and Finance (MEF). https://data.opendevelopmentcambodia.net/library_record/national-strategy-for-informal-economic-development-2023-2028.

———. 2024. "Change in 2014 Rebased GDP and Implications for Macroeconomic Indicators and Policy." Ministry of Economy and Finance (MEF).

MEF and NCSD. 2019. "Addressing Climate Change Impacts on Economic Growth in Cambodia." https://ncsd.moe.gov.kh/resources/document/addressing-climate-change-impacts-economic-growth-0.

MME. 2022. "Power Development Plan 2022-2040." Phnom Penh: Ministry of Mines and Energy (MME). https://ncsd.moe.gov.kh/resources/document/power/development/master/plan/2022-2040.

MoE. 2021. "Cambodia: Long-Term Strategy for Carbon Neutrality (LTS4CN)." Phnom Penh: Ministry of Environment (MoE). https://ncsd.moe.gov.kh/resources/document/cambodia-LTS4CN-En.

MoEYs. 2024. "The Education, Youth, and Sport Performance in the Academic Year 2022-2023 and Goals for the Academic Year 2023-2024." Ministry of Education, Youth and Sport (MoEYS).

Niem, Chheng. 2024. "GCF Approves $109M to Tackle Global Warming Consequences." Phnom Penh Post, 2024. https://www.phnompenhpost.com/national/gcf-approves-109m-to-tackle-global-warming-consequences#:~:text=A%20UN%20Framework%20Convention%20on,in%20Rwanda%20on%20March%207.

NIS. 2019. "Cambodia Inter-Censal Agriculture Survey 2019." Phnom Penh: National Institute of Statistics (NIS). https://www.nis.gov.kh/nis/Agriculture/CIAS2019/Statistical%20Release%20CIAS%202019_Final_EN.pdf.

———. 2020. "General Population Census of the Kingdom of Cambodia 2019: National Report on the Final Census Results." Phnom Penh: National Institute of Statistics (NIS). https://www.nis.gov.kh/nis/Census2019/Final%20General%20Population%20Census%202019-English.pdf.

———. 2022. "Report of Cambodia Socio-Economic Survey 2021." Phnom Penh: National Institute of Statistics (NIS). https://www.nis.gov.kh/nis/CSES/Final%20Report%20of%20Cambodia%20Socio-Economic%20Survey%202021_EN.pdf.

OECD. 2017. "Social Protection System Review of Cambodia." OECD Development Pathways. Paris: OECD Publishing. https://doi.org/10.1787/9789264282285-en.

———. 2023. "PISA 2022 Results (Volume I): The State of Learning and Equity in Education." PISA. Paris: OECD Publishing. https://doi.org/10.1787/53f23881-en.

Oxfam. 2022. "Study Report on Contributory Capacity of Informal Economy Workers to National Social Security Fund." Phnom Penh: Oxfam in Cambodia. https://oi-files-cng-v2-prod.s3.eu-west-2.amazonaws.com/cambodia.oxfam.org/s3fs-public/file_attachments/Contributory%20Capacity%20of%20Informal%20Economy%20Workers%20to%20NSSF_En_0.pdf.

RGC. 2020. "Cambodia's Updated Nationally Determined Contribution (NDC)." Phnom Penh: Royal Government of Cambodia (RGC). https://unfccc.int/sites/default/files/NDC/2022-06/20201231_NDC_Update_Cambodia.pdf.

———. 2022. "Cambodia's Intended Nationally Determined Contribution." Phnom Penh: Royal Government of Cambodia (RGC). https://www.ajne.org/sites/default/files/resource/agreements/7176/cambodia-indc-unfcc.pdf.

Rizzetti, Dean. 2024. "Briefing Paper: Delivering the Skills for the Clean Energy Transition." Phnom Penh: Cambodia Development Resource Institute.

Sean, Chanmony, and Chanrith Ngin. 2023. "Summary Report on Green SMEs in Cambodia." Phnom Penh: Cambodia Development Resource Institute.

Soth, Koemsoeun. 2023. "Ending Impunity: Public Backs PM's Order to Nab Hit-and-Run Offenders without Fear or Favour." Khmer Times, December 26, 2023. https://www.khmertimeskh.com/501412900/ending-impunity-public-backs-pms-order-to-nab-hit-and-run-offenders-without-fear-or-favour/#google_vignette.

Thomas, Timothy, Tin Ponlok, Ros Bansok, Thanakvaro De Lopez, Cathy Chiang, Nang Phirun, and Chhim Chhun. 2013. "Cambodian Agriculture: Adaptation to Climate Change Impact." SSRN Electronic Journal. https://doi.org/10.2139/ssrn.2343170.

Transparency International. 2023. "Corruption Perceptions Index." https://www.transparency.org/en/countries/cambodia.

UN Cambodia. 2023. "Cambodia Common Country Analysis: Building Forward Better Towards Transformative Growth and Development." The Common Country Analysis Report. Phnom Penh: United Nations in Cambodia. https://cambodia.un.org/sites/default/files/2023-07/FINAL_CCA%202022_CAMBODIA.pdf.

UNDESA. 2018. "Supporting Micro-, Small and Medium-Sized Enterprises (MSMEs) to Achieve the Sustainable Development Goals (SDGs) in Cambodia through Streamlining Business Registration Policies." https://sdgs.un.org/publications/supporting-micro-small-and-medium-sized-enterprises-msmes-achieve-sustainable.

UNDP. 2019. "Cambodia: Derisking Renewable Energy Investment." New York: United Nations Development Programme (UNDP). https://www.undp.org/sites/g/files/zskgke326/files/2022-09/DREI%20Cambodia%20Full%20Report%20%28English%29%20%28Jun%202019%29%20%28FINAL%29.pdf.

UNICEF. 2019. "Family-Friendly Policies Redesigning the Workplace of the Future." Policy brief. New York: UNICEF Early Childhood Development. https://www.unicef.org/sites/default/files/2019-07/UNICEF-policy-brief-family-friendly-policies-2019.pdf.

———. 2023. "Children Affected by Migration in ASEAN Member States. Country Brief: Cambodia." https://www.unicef.org/eap/media/13376/file/UNICEF%20Migration%20Country%20brief%20Cambodia.pdf.

UNICEF and SEAMEO. 2020. "SEA-PLM 2019 Main Regional Report: Children's Learning in 6 Southeast Asian Countries." Bangkok: United Nations Children's Fund (UNICEF) & Southeast Asian Ministers of Education Organization (SEAMEO. https://www.unicef.org/eap/media/7356/file/SEA-PLM%202019%20Main%20Regional%20Report.pdf.

University of Notre Dame. 2022. "ND-GAIN Country Index." https://gain.nd.edu/our-work/country-index/rankings/.

Veung, Naron, and Chanmony Sean. 2023. "Firm Performance in Cambodia. Key Drivers and Strategies from Survey Data." Working Paper on COVID-19 Series No.01. Phnom Penh: Cambodia Development Resource Institute. https://cdri.org.kh/storage/pdf/WP01_Firm_Performance_1683883394.pdf.

WHO.2016."Global Health Expenditure Database". https://apps.who.int/nha/database.

———. 2021."Global Health Workforce Statistics Database." https://www.who.int/data/gho/data/themes/topics/health-workforce

World Bank. 2019a. "Exploring the Opportunities for Women-Owned SMEs in Cambodia." Phnom Penh: World Bank. https://documents1.worldbank.org/curated/en/654951573044863479/pdf/Exploring-the-Opportunities-for-Women-owned-SMEs-in-Cambodia.pdf.

———. 2019b. "Improved Energy Technologies for Rural Cambodia." Phnom Penh: World Bank. https://documents1.worldbank.org/curated/fr/570931468036882999/pdf/696390ESW0P1010ECHNOLOGIES0Cambodia.pdf.

———. 2022. "Cambodia Poverty Assessment. Toward A More Inclusive and Resilient Cambodia." Phnom Penh: World Bank Group. https://documents1.worldbank.org/curated/en/099155111222239793/pdf/P1735940c0e8b508d0b80e0c7375c89d9c0.pdf?_gl=1*o24vyq*_gcl_au*MTQ4MTI2MTU4Ni4xNzIzNjkzODUz.

———. 2023a. "Cambodia: Country Climate and Development Report." Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/099092823045083987/P17887106c6c2d0e909aa1090f3e10505c1.

———. 2023b. "Enterprise Surveys : Cambodia Country Profile 2023." Washington, D.C.: World Bank Group. https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country/Cambodia-2023.pdf.

———. 2024a. "Cambodia - Public Finance Review : From Spending More to Spending Better." Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/099010924061015226/P1784151f4daed0d5196401b5c9896a7aeb.

———. 2024b. "Cambodia-Climate and Health Vulnerability Assessment." Washington, D.C.: World Bank. https://hdl.handle.net/10986/41849.

———. 2024c. "Recommendations to the National Roadmap for Electric Mobility Transition." Washington, D.C.: World Bank Group. https://documents1.worldbank.org/curated/en/099031924073537111/pdf/P176906144457da0e71a4501e8dcdea2d59d.pdf?_gl=1*119gesn*_gcl_au*MTQ4MTI2MTU4Ni4xNzIzNjkzODUz.

ឯកសារសារតារទី៦

ការជម្នះឧបសគ្គនានាលើ ការអនុវត្តគោលនយោបាយឱ្យមានប្រសិទ្ធភាព

អេង-នេត្រា ខេរ៉ូឡាញ-ហ្សូជ និងប៉ក់-គឹមជឿន

សារគន្លឹះសំខាន់ៗ

- ក្នុងរយៈពេលបីទសវត្សរ៍កន្លងមកនេះ កំណែទម្រង់គោលនយោបាយជាក់ស្តែង គឺជាផ្នែកមួយនៃស្ថិរភាពនយោបាយ និងជោគជ័យផ្នែកសេដ្ឋកិច្ចរបស់កម្ពុជា។
- វាក៏មានឧទាហរណ៍ខ្លះៗដែរ ដែលការផ្លាស់ប្តូរគោលនយោបាយ ត្រូវបានលើកមកបង្ហាញ និងដាក់ឱ្យអនុវត្តប្រកបដោយប្រសិទ្ធភាព និងបង្ហាញពីសមត្ថភាពខ្ពស់ក្នុងការកៀរគរ ការរៀបចំ ការគ្រប់គ្រង និងការអនុវត្ត។
- ការសម្រេចបាននូវគោលនយោបាយ និងយុទ្ធសាស្ត្រថ្មីៗ មានសារៈសំខាន់ ប៉ុន្តែការយកឈ្នះលើឧបសគ្គដើម្បីការអនុវត្តប្រកបដោយប្រសិទ្ធភាព គឺកាន់តែចាំបាច់នៅក្នុងបរិបទបច្ចុប្បន្ន ដោយសារមានតម្រូវការជាបន្ទាន់នៃរបកគំហើញថ្មីៗ ដើម្បីកសាងមូលដ្ឋានគ្រឹះសម្រាប់ការអភិវឌ្ឍរយៈពេលវែង។
- ការណ៍នេះអាចត្រូវបានជម្រុញលើកកម្ពស់តាមវិធីសាស្ត្រចំនួនបី៖
  - ទីមួយគឺតម្រូវការក្នុងការកែលម្អកិច្ចសហប្រតិបត្តិការអន្តរក្រសួង។ កិច្ចខិតខំប្រឹងប្រែងត្រូវផ្តោតលើការផ្លាស់ប្តូរដំណើរការគ្រប់គ្រង និងការកំណត់អាទិភាពនៃការបញ្ចូលទិន្នន័យក្នុងការតាក់តែង ការអនុវត្ត និងការត្រួតពិនិត្យគោលនយោបាយ។
  - ទីពីរគឺតម្រូវការក្នុងការប្រមូលការគាំទ្រ ការប្តេជ្ញា និងការអនុលោមនៃភាគីពាក់ព័ន្ធដែលទាក់ទងនឹងការផ្លាស់ប្តូរគោលនយោបាយ។
  - ទីបីគឺតម្រូវការលើកកម្ពស់គុណាធិបតេយ្យ និងសមិទ្ធផលការងារក្នុងសេវាសាធារណៈ។

Background Paper 6

Overcoming Constraints for Effective Policy Implementation

Eng Netra, Caroline Hughes and Pak Kimchoeun

Key messages

- Over the past three decades, practical policy reform has been part of Cambodia's political stability and economic success.
- There are also examples where policy changes were introduced and effectively implemented, and demonstrate strong capabilities for mobilisation, organisation, management, and implementation.
- Actualising new policies and strategies are important but overcoming the constraints for effective implementation is even more pronounced in the current context as breakthroughs are urgently needed to lay the foundation for long-term development.
- This can be promoted in three ways.
  - First is the need to improve inter-ministerial cooperation and collaboration. Efforts should be focussed on changing management processes, and prioritisation of embedding data in policy making, implementation and monitoring.
  - Second is the need to mobilise support, enthusiasm and compliance of stakeholders relevant to the policy change.
  - Third is the need to promote meritocracy and performance within the public service.

1. Introduction

The government already has in place a framework of strategies, laws and action plans that could be successful in facilitating a new growth strategy. The challenges identified in previous background papers are already comprehensively addressed within the government's existing policy framework. The Pentagonal Strategy Phase One, announced in August 2023, is organised in such a way as to integrate and sequence needed reforms in order to realise "a new growth model that is built on skills, technology and innovation" (RGC 2023, 17). Annex 1 maps the progress of the Pentagonal Strategy's implementation with the list of existing laws, strategies, policies as well as action plans that are already in place.

Strategies that are more concerned with the quality than the quantity of economic growth require a higher level of attention on the government's part. The task of government, as set out in the Overview Report, can be subdivided into three categories. The first category of government action is a proactive investment in particular sub-sectors. This pro-active investment is essential to ensure that new capital formation - including infrastructure, human capital and investment in the establishment of new productive industries- is oriented towards boosting factor productivity in a manner that promotes higher quality and more diversified forms of growth.

The second category of government action defined in this study is the implementation of policies that ensure that such growth is green, resilient and inclusive, protecting existing environmental resources, such as soil fertility and biodiversity, and societal resources, such as families and communities. Forms of economic activity that strip these resources are unsustainable in the long run. Thus, the task of government is to introduce policies such as environmental protection laws, social security schemes, family-friendly workplace regulations and affordable urban housing policies to support and renew ecological and societal systems.

The third task of the government is to regulate its own activities so as to promote stable, predictable and fair systems of governance, from fiscal policy to service delivery, policing and the judicial system. This requires the regulation of government institutions to ensure they are properly staffed with skilled officials and operate with integrity. It also requires that different institutions are capable of coordinated effort to ensure that different plans and strategies work coherently together rather than at cross-purposes.

Earlier papers of this study have discussed needs with respect to investing in higher quality growth, and promoting the green, resilient and inclusive aspects of growth. This background paper examines the question of governance and the challenges of implementation.

2. Key implementation constraints

The Pentagonal Strategy Phase One document notes that the Royal Government of Cambodia (RGC) is aware of a number of challenges with respect to policy implementation. The document specifically refers to "gaps in the implementation activities of ministries/institutions, which have not been properly aligned with the policy objectives of the RGC." Other areas of focus mentioned in the document include "Challenges related to the capacity and quality of institutions"; "the effectiveness of inter-ministerial/institutional coordination in introducing and implementing actual policy measures and action plans under their respective jurisdiction"; and challenges in "outreach and dissemination… affecting the effectiveness of participation and support for the implementation of these strategies".

In the remainder of this background paper, we discuss each of these three problems and offer recommendations.

2.1. Challenges related to the capacity and quality of institutions

When Cambodia first entered the era of high growth back in the early 2000s, severe shortages of qualified technical, professional and administrative personnel still existed as a legacy of the preceding decades of war. The political settlement at the end of the war was to merge pre-existing administrations, combined with a tendency towards labour intensive employment and a desire to provide jobs to promote political stability to create a large, low-tech and highly centralised public administration. Today, a new generation of well-trained professionals exist, and substantial recent increases in civil service pay and training make government service more attractive as a career option. However, the entrenchment of hierarchies within the civil service, and a culture that prioritises loyalty over innovation, means that the best trained and most competent personnel often lack decision-making power within institutions and find it difficult to implement solutions that challenge rigid systems. At the same time, the concentration of budgets, power and other resources in Phnom Penh deters ambitious public servants from pursuing careers in provincial or district level of government. This is leading to a lack of qualified professionals at sub-national levels, where public servants are often disincentivised from working. These problems are compounded by limited oversight and transparency.

Addressing these challenges will require not only improving the clarity of roles and responsibilities but also adopting performance-informed budgeting and better aligning human resource deployment to support cross-sectoral reforms. The lack of staff training and clarity on roles, particularly in provincial administrations, results in inefficiencies in public service delivery, especially in sectors like agriculture and infrastructure.

To modernise public administration, a national committee was established in late 2023 to guide ministries and institutions in conducting functional reviews aimed at enhancing operational efficiency without

increasing government costs. These reviews encompass national, decentralised, and sub-national agencies, targeting the streamlining, adjustment, merging, or abolition of specific organisational units within each agency to align their services with their mandates and structures better. Key areas of focus for the reviews include:

- Resolving overlaps in mandates and improving the prioritisation of activities, resource allocation, and human resource management.
- Addressing challenges in cross-ministerial cooperation.
- Responding to complaints from service recipients, including citizens and businesses.
- Exploring the potential of new technologies to enhance public administration efficiency.[1]

2.2. The effectiveness of inter-ministerial and institutional coordination

The effectiveness of inter-agency coordination is a further area identified in the Pentagonal Strategy as requiring improvement. There are three key aspects to this: the importance of data; the importance of prioritisation; and the importance of clear distribution of roles and responsibilities.

Data

The collection of adequate data that is robust, reliable, accessible and timely is the foundation of effective coordination because it facilitates inter-institutional discussions and agreements. Adequate data is essential for framing the problem, articulating solutions, tracking implementation, and evaluating the extent to which goals have been achieved. Sharing data across institutions thus facilitates the emergence of a common understanding of problems and progress. Where implementation programmes are public facing, the participation of the public in generating data can assist in promoting accountability and in legitimising policy interventions.

Although Cambodia has made strides in developing data systems, several challenges still persist. The country's data governance framework is fragmented, leading to issues with data quality, sharing, and accessibility. To address these challenges, the government must strengthen the capacity of institutions such as the National Institute of Statistics (NIS). Providing the NIS with greater autonomy and resources would enable it to become the central authority for data collection, analysis, and dissemination. Furthermore, the development of a legal framework that promotes standardised data practices, data sharing, and the use of advanced technologies like artificial intelligence would help to ensure that data is not only high-quality but also widely usable across institutions. Collaboration with non-state actors would further enrich the data ecosystem by providing diverse perspectives on key policy challenges. Finally, linking data systems with monitoring and evaluation frameworks, particularly the National Strategic Development Plan (NSDP), would enhance the ability to track performance, promote accountability, and support evidence-based policymaking.

An example of a programme that has been highly successful in Cambodia because of a well-executed data collection programme is the ID-Poor programme (De Riel 2017; Kaba 2018). This programme has been widely praised internationally for its transparency and robustness, and for the level of public support it has achieved. The programme aimed to create a comprehensive register of poor families in Cambodia to serve as the basis for social security and anti-poverty service delivery by the government. As initially set up, the programme combined two modes of data collection: technical and participatory. In the technical phase, trained evaluators at a local level used interviews with household heads to establish the status of the household with respect to a set of metrics related to income, assets, debt, education, and health. This was followed up with a participatory phase in which communities discussed the results of the technical assessment and gave input as to the accuracy. The combination of the two phases established the register, which has subsequently been elaborated and regularly updated. The data it provides is widely accepted by the public, and by local and central government as the foundation of social policy for poverty reduction (ibid). It was vital to the effective roll-out of the government's COVID-19 response.

Similar bottom-up approaches to data collection could be used to inform strategies for tracking the impacts of climate change; supporting and formalising small and medium-sized enterprises (SMEs); better understanding the detrimental effects of migration on families; and promoting better housing.

Prioritisation

The process of prioritisation entails a series of steps. The final goal is established, and a theory of change by which the goal can be achieved is articulated. This theory of change provides the basis for analysing in specific detail the process by which change will be achieved over time. This then lays the basis for breaking down the overall implementation process into a coherent series of steps, each of which provides a platform for the next, and each of which has a substantive and clearly articulated outcome.

Prioritisation improves coordination by providing clearer information on what is required to achieve a goal, over what timeframe, and who needs to be involved in making it happen. An example of where this has been achieved in detail, laying the basis for success in a complex long-term reform process is the RGC's public financial management (PFM) reform programme. This programme set out a series of reform "platforms" at the outset, which needed to be achieved for the next stage of reform. The clarity with which the process was laid out allowed for clear articulation of interim goals, and this in turn allowed detailed and robust monitoring of progress. Although not all the PFM goals have been achieved, there is transparency and consensus within government, and between government and development partners, as to areas of progress, and areas where more needs to be done. This in turn promotes trust, shared understanding and common effort (World Bank 2023).

Effective prioritisation is essential to achieving Cambodia's reform goals. The government should shift from an output-based to an outcome-based approach, ensuring that each prioritised reform directly contributes to measurable national development outcomes. A key tool for this is Performance-Informed Budgeting (PIB), which links budget allocation to the achievement of prioritised outcomes, incentivising line ministries to focus their resources on high-impact initiatives. Prioritisation also requires a clear assignment of roles and responsibilities across institutions to ensure that different agencies are aligned and working toward the same goals. This is particularly important in the context of Cambodia's ongoing reforms, such as decentralisation and human resource management, which must be coordinated with national development priorities.

Clear distribution of responsibilities

Whereas PFM reform has largely operated under the auspices of the Ministry of Economy and Finance (MEF), other types of reform programmes require complex interactions over time between different government agencies. Again, clearly set out and detailed priorities can assist in creating agreements between government agencies over distributions of responsibilities, resource requirements and jurisdictional issues. These kinds of agreements can lay the basis for productive cooperation. A recent successful example of this in Cambodia is the government's COVID-19 response (Hyder and Ly 2020; Mugali et al. 2024; Tao et al. 2022) .

Cambodia's COVID-19 response combined four goals: reducing and delaying transmission; minimising serious disease and reducing deaths; ensuring ongoing essential health services; and minimising social and economic impact. The first three of these goals fell largely under the remit of the Ministry of Health, particularly in terms of testing, vaccinating and treating COVID-19 cases. However, the COVID-19 response also required the involvement of other agencies, for example: the Ministry of Education in closing schools; the Ministry of Religion and Cults in overseeing restrictions on religious festivals; the Ministry of Transport in imposing border restrictions; the Ministry of Information in promoting public health messages; and local authorities in distributing assistance on the basis of the ID-Poor register. All activities were coordinated by the COVID-19 National Steering Committee, chaired by the prime minister and including representatives of all key ministries. Each province also established a Provincial Steering Committee to oversee local level implementation. This allowed a high degree of coordination, facilitating effective prioritisation of actions and resources in line with technical advice received from other countries who had already weathered the virus. It also allowed consistent messaging to the public, contributing to a high degree of compliance with government advice.

The COVID-19 response is a special case, since the scale of the emergency and the threat that it posed were extreme. It is not possible to convene a national committee chaired by the prime minister for every policy innovation. However, the lessons of the COVID-19 response can provide guidance.

First, the COVID-19 response shows that where there is strong leadership with a high level of political will, ministries can work together effectively. There is a need to develop a culture within the government whereby the formal appointment of leaders with specified powers, who head inter-agency implementation programmes, is taken more seriously in counterpart ministries. Second, the COVID-19 response built on earlier effective programmes, including the HIV response of the 1990s and the SARS and bird flu responses of the early 2000s. These programmes had developed pools of expertise within the Ministry of Health, and particularly the Department for the Control of Communicable Diseases and had also built strong relationships with international partners that could provide technical assistance. This shows the importance of retaining competent and experienced staff within the public service, and empowering them to take the lead in advising on issues arising within their area of expertise. In the socio-economic sphere, the COVID-19 response built on the ID-Poor register to rapidly transfer resources to families most likely to be in need, again emphasising the importance of accessible, reliable and up-to-date information. The successful integration of data, depth of technical expertise, international advice, and domestic political mobilisation should be studied to draw lessons for other kinds of policy implementation.

2.3. Outreach, dissemination and change management

Implementing reform programmes requires interacting with constituencies of people who will be affected by the change. For reforms, the key constituencies will be the government officials themselves whose day-to-day ways of working will be affected by said reforms. For reforms to support public services, it is the wider community of citizens who will notice that things are now working differently.

Whether the constituency of stakeholders is internal to the government or comprises the wider community, their cooperation will almost invariably be required for reforms to be successful. Public officials and citizens alike need to be convinced that it is worth their time to learn the new system, and to engage with it, rather than attempting to avoid or subvert it. Where the constituencies concerned are public officials, apprehensions may relate to whether it will affect their status in the public service hierarchy - including the extent to which their jobs could be made redundant altogether; whether they will have the expertise and competence to manage the new system; and possibly whether it will close off or expose any informal and/or illegal money earning opportunities they may be engaged in. These are reasonable concerns for public officials to have, and for public servants to engage enthusiastically in learning and using new systems and technologies requires these concerns be lessened by information, training and outreach programmes.

A successful example of this within the Cambodian government was the deployment of the Financial Management Information System (FMIS) within the MEF. This entailed the simplification of money transactions within the ministry and between the ministry and provincial treasuries. Records of transactions were changed from paper receipts to electronic

records. This greatly improved the speed, transparency and accuracy of finances, while also enhancing accountability since users needed to be logged in to move money and hence the individuals authorising individual transactions could be easily traced.

The introduction of FMIS initially caused some concerns within MEF departments. There were concerns that jobs would be cut as a result of the reduced need for clerks and that this would affect the budgets and status of different departments. There were also apprehensions about the capacities of provincial treasury staff to use the new system. This led to some resistance to the implementation of the project. Change management programmes and their corresponding teams greatly assist companies in implementing new processes, systems, and strategies. When the resistance to FMIS became evident, a change management team was convened to try to mobilise greater enthusiasm for the project. This was to some extent successful, and once the FMIS system went live, provincial staff in particular came to see considerable advantages in the online system compared to the manual system. Introducing a more systematic change management programme at an earlier stage could have advanced the project more quickly (Hughes et al. 2017).

Where reforms affect citizens, even more concerted efforts are required to explain and promote policies, mobilise participation and support, and receive feedback on progress. The COVID-19 vaccination programme in Cambodia offers an example of success in this respect. Cambodia was able to swiftly vaccinate 95 percent of its population through a combination of: clear prioritisation of different population groups dependent upon vulnerability levels as vaccines became available; effective tracking of vaccines delivered through digital databases; and clear and consistent messaging on the dangers of COVID-19 and the benefits of vaccination. Through these means, the government was able to identify, communicate with and deliver services to the population quickly and effectively.

The management of SMEs in Cambodia offers a contrasting example. The majority of enterprises in Cambodia (87 percent) are informal as of 2023, despite government efforts to convince business owners of the benefits of registration. In contrast with COVID-19, where the case for vaccination seemed to have been largely accepted unquestioningly by the population, business owners continue to be sceptical about the benefits of formalisation. The financial and time costs of registration are cited as barriers to formalisation, as is the unpredictability of the tax system. These issues need to be addressed, and public perceptions of them need to be tackled in order to make strides in business formalisation in Cambodia.

3. Recommendations

Following the above analysis, the paper makes the following recommendations:

1. The government needs to follow through on its commitment to promote a culture of meritocracy within the public service, promoting the most effective officials.
2. The government needs to find ways to improve inter-ministerial cooperation and collaboration significantly, and three areas are paramount to this effort:
    a. Emphasising the role of robust, timely and accessible data and evidence in policy making, implementation and monitoring. The availability of adequate data as a basis for discussions can promote a shared understanding of problems and a greater commitment to solutions across agency boundaries. The utility of the ID-Poor register as a vehicle for promoting multi-sectoral approaches to poverty reduction and disaster response is an example.
    b. Conducting analytical work to produce a theory of change for every policy intervention that can inform prioritisation. Detailed analyses of the change processes, and the prerequisites for each stage, can help in developing a timeline for reform with intermediate goals clearly stated. This in turn promotes accountability and helps to achieve a sense of momentum towards the ultimate goal. The platform approach of MEF's Public Financial Management Reform Program is a successful example of this.
    c. Analysis of change management processes can also assist in clearly establishing areas of jurisdiction and responsibility between institutional partners at different stages in the process, as well as highlighting where leadership is most likely to be effective. An example where strong leadership and close collaboration was successful was the RGC's COVID-19 response. The challenge is to build collaboration into the functioning of government in a more routine manner, and at lower levels in the political hierarchy.
3. A key aspect of successful policy information is mobilising the support, enthusiasm and compliance of stakeholders. This requires an assessment of who is likely to be affected by the policy, and what level of input is required from them. The COVID-19 vaccination programme was highly effective at identifying vulnerable sections of the population and rolling out vaccines to them as they became available. The programme was also very effective in presenting a unified public message about the benefits of becoming vaccinated. Evaluating the likely attitudes of stakeholders inside and outside the public service and establishing a change management plan at an early stage is essential to successful implementation.

References

De Riel, Emily. 2017. *Leave No One Behind Insights from Cambodia's National Poverty Identification System*. GIZ. Berlin: Federal Ministry for Economic Cooperation and Development (BMZ). https://health.bmz.de/wp-content/uploads/studies/ID_POOR_Final_lowres.pdf.

Hughes, Caroline, Sokbunthoeun So, Erwin Ariadharma, and Leah April. 2017. "Change Management That Works: Making Impacts in Challenging Environments." Policy Research Working Paper. Washington, D.C.: World Bank Group. https://doi.org/10.1596/1813-9450-8265.

Hyder, Ziauddin, and Nareth Ly. 2020. "What Explains Cambodia's Effective Emergency Health Response to COVID-19 (Coronavirus)?" World Bank Blogs. 2020. https://blogs.worldbank.org/en/health/what-explains-cambodias-effective-emergency-health-response-covid-19-coronavirus.

Kaba, Mary White. 2018. "IDPoor: A Poverty Identification Programme That Enables Collaboration across Sectors for Maternal and Child Health in Cambodia." *BMJ:British Medical Journal* 363. https://www.jstor.org/stable/26964678.

R. Mugali, Raveesha, Hedy Ip, Amos Zikusooka, Lenin Vong, Savy Bou, Sarath Kros, and Or Vandine. 2024. "Striving for Equitable Vaccination Coverage: Leveraging Rapid Coverage and Community Assessments during the COVID-19 Pandemic to Reach Missed Populations in Cambodia." *Vaccine*, June. https://doi.org/10.1016/j.vaccine.2024.05.064.

RGC. 2024. "Instruction No. 01 on the Review of Functions and Structure of Line Ministries and Institutions."

RGC. 2023. "Pentagon Strategy Phase I." Royal Government of Cambodia.

Tao, Ngoc Phuong Hong, Dang Nguyen, Le Huu Nhat Minh, Veasna Duong, Chey Beaupha, Tareq Al Ahdal, and Nguyen Tien Huy. 2022. "Cambodia Achieved a High Vaccination Coverage for Its Population: A Good Example of a Lower Middle-Income Country." *Journal of Global Health* 12 (December):03088. https://doi.org/10.7189/jogh.12.03088.

World Bank. 2023. "Cambodia: Toward Performance Accountability in Public Finance Management." Washington, D.C.: World Bank Group. https://documents1.worldbank.org/curated/en/099080002162352463/pdf/P168407085146100020a6030fe4e4ee00cd4.pdf?_gl=1*1x0uidf*_gcl_au*MTQ4MTI2MTU4Ni4xNzIzNjkzODUz.

Annex 1: Emphasis should be placed on implementation of existing laws and strategies (see table below).

Annex 1: Emphasis should be placed on implementation of existing laws and strategies to promote a new phase of quality growth

Policy area in the PS Phase 1	Challenges	Solutions	Existing policies
1. Private sector development including MSME and informal economy (PS-3: Development of the private sector and labour market PS-5: Digitalisation of the economy and society)	Narrow manufacturing base	Promote digitisation, branding and entrepreneurship amongst SMEs; reduce energy costs; attract higher tech FDI industries	PS-Priority 2; Industrial Development Policy 2015-25; Cambodian Digital Government Policy 2022-35; Sub-decree No.84 on Business Registration through Information Technology System; Automotive and Electronics Sectors Development Roadmap 2022; 2021 Law on Investment and establishment of One-Stop Service Mechanism.
	Narrow range of export markets	Diversification of trade links through "+1" strategies, multilateralising tariff preferences; greening economy	Pentagonal Strategy Priority 2; Entry into Regional Comprehensive Economic Partnership and FTA strategy; Cambodia Export Diversification and Expansion Programme (CEDEP); National Skills Development Roadmap; Cambodian Digital Economy and Social Policy Framework 2021-35; Cambodian Textile and Garment Industry Development Map 2023-27; Cambodian Digital Government Policy 2022-35; National Agricultural Development Strategy 2022-30; Agricultural Sector Master Plan 2030
	Lack of GVC integration	Reduce trade, transport, and logistics costs; Promote trade facilitation; Integrate National Single Window into Regional (ASEAN) Single Window); Invest in human capital and skills development; (Increase emphasis on regional trade partnerships; and increase its use of e-commerce, among other measures, to strengthen its trade resilience.	Pentagonal Strategy I -P2 / Side 1: Development of Key Sectors and New Sources of Economic Growth; PS1-OE5: Integration into the regional and global economy; The launch of Cambodia National Single Window and the Automated Customs Data System (ACYUDA); Strategy for Customs Reform and Modernization 2019-23; E-commerce Law; Cambodia Trade Integration Strategy 2019-23; Industrial Development Policy 2015-25; Automotive and Electronics Sectors Development Roadmap 2022; Industrial Transformation Map for Textile and Apparel Industry 2023-27; Cambodia GFT Sector Development Strategy 2022-27; National Cassava Policy 2020-25; National Cashew Policy 2022-27; Past trade facilitation reforms such as the removal of Cambodia Import-Export Inspection and Fraud Repression Directorate General (CAMCONTROL) from border crossings and elimination of Kampuchea Shipping Agency & Broker (KAMSAB); elimination of Certificates of Origin (CO) for countries where they are not required and reduction of costs in logistics, lift-on/lift-off services and service charges at ports

Policy area in the PS Phase 1	Challenges	Solutions	Existing policies
	FDI industry poorly connected to SME ecosystem/ SMEs not growing	Promote formalisation, digitisation, branding and entrepreneurship amongst SMEs: building and strengthening domestic firms' – particularly SMEs – and relevant local actors' capabilities, which involves improving access to finance, enhancing skills and human capital, and speeding up the shift of SMEs from the informal to the formal sector; develop a local research, science and technology base.	PS-Priority 1 / Side 2. Technical Skills Training; PS-Priority 2 / Side 3: Improvements of Business and Investment Environment; PS-Priority 3 / Side 2. Promotion of Micro, Small, and Medium Enterprises, Startups, Entrepreneurship, and Development of Informal Economy Law on Investment 2021; Sub-Decree No. 139 ANKr. BK on the Implementation of Law on Investment; One-Roof Service Policy National Strategy for Informal Economic Development 2023-28; Creation of SME Bank; Enterprise Development Fund; Skills Development Fund program; creation of Techo Startup Center; The launch of TVET 1.5 Million Training program; National Policy on Science, Technology and Innovation 2020-30; Cambodia's Science, Technology & Innovation Roadmap 2030; The National Research Agenda 2025; Digital Economy and Social Policy Framework MISTI Science and Innovation Roadmap; Enterprise Digitalization and Technology Adoption Program; National ICT Masterplan 2020; Cambodia Trade Integration Strategy 2019-23; E-Commerce Strategy; Cambodian Digital Government Policy 2022-35; Sub-decree No.84 on Business Registration through Information Technology System; Sub-decree no. 50 on Customs Incentives for Small and Medium Enterprises; Sub-decree no 17 on Tax Incentives for SME who Voluntarily Register for Tax; UNDP E-Commerce Acceleration Program.
2. Infrastructure (PS-2: Diversification and competitiveness of the economy In the section: Enhancement of Connectivity and Efficiency in Transport and Logistics, Energy, Water Supply and Digital Sectors)	Infrastructure constraints esp. electricity	Investment in core infrastructure; promote multi-modal connectivity; accelerate green transition.	Pentagonal Strategy Priority 2; Power Development Masterplan 2022-40; Energy Tech Roadmap; Comprehensive Masterplan on Cambodia's Transit and Logistic System 2023-33
	Lack of zoning master plan for infrastructure	Develop a zoning master plan, rather than tying infrastructure to investors' needs.	PS-Priority 4 / Side 4: Strengthening of Urban Management and Modernisation; National Policy on Land Management of The Kingdom of Cambodia (2011); Master Plan to Transform Preah Sihanouk Province into a multi-purpose model Special Economic Zone (SEZ) 2022-38

Policy area in the PS Phase 1	Challenges	Solutions	Existing policies
	Cross-border logistics poorly developed	Develop better relations with regional partners and upgrade bureaucracy and infrastructure	PS Priority 2; Cambodian Digital Government Policy 2022-35; Comprehensive Masterplan on Cambodia's Transit and Logistic System 2023-33
3. Green development (PS-4: Development with resilience, sustainability and inclusiveness)	Climate-related trade restrictions and locking in of carbon emissions	Promote transition to green economy	PS- Priority 4; Energy Tech Roadmap; National Strategic Plan on Green Growth; National Policy on Green Growth; National Roadmap on Green Growth; Phnom Penh Green Strategic Plan; National Energy Efficiency Policy 2022-30; Long-Term Strategy for Carbon Neutrality; Circular Economy Strategy and Action Plan 2022.
	Limited sustainable or green investment projects	Be selective on particular industries or groups of industries that provide the potential to environmentally upgrade or produce existing products more sustainably Target incentives based on industry competitiveness	PS-Strategic Objective 5: Sustainability; PS-Priority 2 / Side 5: Innovation of Financing Mechanisms and Financial Products to Support Investment; Law on Investment 2021; Sub-Decree No. 139 ANKr. BK on the Implementation of Law on Investment; National Strategic Plan on Green Growth 2013-30; Circular Strategy on Environment Sector 2023-2028
4. Human development competitiveness and resilience (PS-1: Human Capital Development)	Factor productivity is low	Increase educational outcomes, skills and innovation, starting with primary and secondary education; recognise the health-education nexus by addressing child malnutrition.	Pentagonal Strategy (PS) Priority 1; Education Strategic Plan 2024-28; Cambodia's Education Development Roadmap for Sustainable Development 2030; National Skills Development Roadmap; National Policy on Lifelong Learning; Cambodia Secondary Education Blueprint 2030; Policy on Higher Education 2030; Policy on Inclusive Education; New Generation Schools Policy; Cambodian Digital Economy and Social Policy Framework 2021-35; National Employment Policy 2015-25; National Social Protection Framework 2016-25; Policy on Continuous Professional Development for Education Staff; Teacher Policy Action Plan 2024-2030; Teacher Career Pathway Framework; Master Plan on Upgrading Education Personnel 2021-2025; National Technical Vocational Education and Training Policy 2017-2025; Modernising TVET Strategic Action Plan 2019 – 2023s; Cambodia Skills Development Road Map 2023-2035; National Policy on Science, Technology and Innovation 2020-2030

Policy area in the PS Phase 1	Challenges	Solutions	Existing policies
5. Social policy reform (PS-4: Development with resilience, sustainability and inclusiveness. PS-1: Human Capital Development)	Lack of linkage between skill development and industrial sector:	Promoting School-Industry Linkages through PPP between TVET schools and industrial sectors, establishing TVET parks in industrial zones, involve private sector in curricula development.	PS Priority 1 / Side 2. Technical Skills Training; P3 / Side 1. Development of Labor Market; National Technical Vocational Education and Training Policy 2017-25; Strategic Plan for Employment and Vocational Training Development 2019-23
	Addressing building social resilience	Concentrating on both quality and scope of health and social protection systems' development in order to respond to unexpected crises, increase the quantity and quality of healthcare services.	PS Strategic Objective 3: Poverty, PS-Priority 1 / Side 4. Strengthening of social protection system and food system; PS-Priority 4 / Side 1: Optimisation of Demographic Dividends, Strengthening of Demographic Resilience and Promotion of Gender Equality; Roadmap for Universal Healthcare Coverage in Cambodia 2024-35; National Social Protection Framework 2016-25; National Strategy on the Digitalisation in Social Protection Framework 2024-28; establishment of Social Security Regulator; establishment of National Social Security Fund.
	Disparity in regional development	Implementing region-specific policies, creating long-term provincial development plans; prioritising agro-processing investment, improving access to urban and international markets	PS Priority 4 / Side 3: Promotion of Agriculture and Rural Development Rural Development Strategy, Action Plan 2019 – 23; National Policy for Agricultural Development 2022-30; Strategic Development Plan for Cambodian Agro-industries; Koh Kong Development Plan 2020-24.
6. Institutional reform: governance aligning fiscal management and the evolving role of public sector (PS-CORE-Governance)	Building a more resilient financial system	Maintaining financial products diversification, developing financial system infrastructure, particularly financial technology; building a financial safety net. e.g., deposit insurance scheme	PS-Ensuring Macroeconomic and Financial Stability; PS-Priority 3 / Side 5. Strengthening of the Banking System and Non-Bank Financial Sector; PS-Priority 5 / Side 5. Development of Financial Technology; PS-Priority 4 / Side 5: Ensuring Environmental Sustainability and Readiness for Responding to Climate Change, as well as Promotion of Green Economy; National Financial Inclusion Strategy 2019-25; Financial Sector Development Strategy 2016–25; Policy Framework on the Development of Government Securities (2023-28)

Policy area in the PS Phase 1	Challenges	Solutions	Existing policies
	Strengthening the public financial system	Modernising and reforming the tax system, the budget management system, and public debt management in order to be more progressive, effective and sustainable while also building state savings for intervention in times of crisis Strengthen linkages between fiscal management and overall policy outcomes by adopting performance-informed budgeting (PIB) across key government sectors. This will improve resource allocation and promote accountability, ensuring that budget decisions are tied to national development outcomes.	PS-Core 2 Improve work efficiency; PS-OE3: Ensuring Macroeconomic and Financial Stability; Law on Taxation; Revenue Mobilisation Strategy 2019-23; Public Financial Management Reform Program; Public Investment Management System Reform Strategy 2019-25; Public Debt Management Strategy 2019-23
	Promote capacity for implementation	Promote coordinating capacity of government to implement and evaluate policies and mobilise support and participation from citizens Enhance human resource management by shifting from a training-centric approach to a "learning by doing" model, ensuring alignment between staff skills and agency functions. Rationalise staff deployment, particularly in decentralized roles, to increase operational efficiency. Establish a Delivery Unit within the Office of the Council of Ministers to ensure effective enforcement of reforms and hold agencies accountable through M&E systems. This unit will track performance, rewarding success and penalising non-compliance to improve overall policy outcomes.	Pentagonal Strategy Core; Cambodia Digital Economy and Society Policy Framework 2021-35; Cambodian Digital Government Policy 2022-35; National Strategic Plan of Anti-Corruption Phase III (2020-25); Public Financial Management Reform Program Phase IV 2023-27; Public Administration Reform Program 2023-28.

ឯកសារសារតារទី៧

ការផ្តល់ជំនាញចាំបាច់សម្រាប់អន្តរកាលថាមពលស្អាតរបស់កម្ពុជា

ឌីន រីហ្សេទិ

សេចក្តីសង្ខេប

អន្តរកាលថាមពលស្អាតបង្ហាញពីឱកាសដ៏សំខាន់មួយ ដើម្បីបង្កើតកម្លាំងពលកម្មថ្មីប្រកបដោយថាមវន្ត សម្រាប់ប្រទេសកម្ពុជា ដែលរាប់ចាប់ពីអ្នករៀបចំផែនការទីក្រុងដែលមានឯកទេសខ្ពស់រហូតដល់វិស្វករបច្ចេកទេស។ ទោះជាយ៉ាងណាក៏ដោយ បច្ចុប្បន្ន កម្ពុជាត្រូវដោះស្រាយភាពខ្វះខាតជំនាញសំខាន់ៗ ប្រសិនបើកម្ពុជាចង់ទទួលបានអត្ថប្រយោជន៍ជាអតិបរមាពីការផ្លាស់ប្តូរទៅថាមពលបៃតង។

ប្រទេសកម្ពុជាបានប្តេជ្ញាចិត្តដ៏មុតមាំ ក្នុងការជំរុញការពង្រីកថាមពលកកើតឡើងវិញ ធ្វើឱ្យប្រសើរឡើងនូវប្រសិទ្ធភាពថាមពល និងបង្កើនការប្រើប្រាស់រថយន្តអគ្គិសនី។ ជាលទ្ធផល ការស្រាវជ្រាវបានបង្ហាញថា កម្ពុជាមានតម្រូវការថាមពលស្អាតខ្ពស់រួចទៅហើយ។ អាជីវកម្មកំពុងជួបការលំបាកក្នុងការស្វែងរកបុគ្គលិកកម្ពុជាដែលមានបទពិសោធន៍ និងមានជំនាញបច្ចេកទេស ជាហេតុនាំឱ្យក្រុមហ៊ុនត្រូវធ្វើការវិនិយោគសំខាន់ៗ លើការបណ្តុះបណ្តាលនិស្សិតដែលបានបញ្ចប់ការសិក្សាពីស្ថាប័នអប់រំ។ តម្រូវការនេះនឹងបន្តកើនឡើងជាលំដាប់។

ដើម្បីដោះស្រាយបញ្ហានេះ ចាំបាច់ត្រូវមានការកែលម្អការសម្របសម្រួលនៃការអប់រំបច្ចេកទេស ការអភិវឌ្ឍជំនាញ និងការធ្វើផែនការ។ កម្ពុជាអាចដោះស្រាយបញ្ហានេះបាន តាមរយៈការបង្កើតផែនទីបង្ហាញផ្លូវជំនាញថាមពលស្អាត ការបង្កើតវេទិកាជំនាញឯកទេស ការរៀបចំកម្មវិធីសិក្សា ការផ្សព្វផ្សាយឱកាសដល់យុវជន សហការជាមួយក្រុមហ៊ុនថាមពលស្អាតអន្តរជាតិ និងការកសាងសមត្ថភាពរដ្ឋាភិបាលក្នុងការរៀបចំផែនការជំនាញថាមពលស្អាត។

ប្រសិនបើគ្មានវិធីសាស្ត្របុរេសកម្មសម្រាប់ការអភិវឌ្ឍជំនាញនោះទេ កម្ពុជាអាចជួបហានិភ័យក្នុងការបោះបង់ចោលអត្ថប្រយោជន៍ដែលអន្តរកាលថាមពលស្អាតនឹងផ្តល់ឱ្យ។ នៅពេលដែលការផ្លាស់ប្តូរកើតឡើងក្នុងរយៈពេលជាច្រើនទសវត្សរ៍ជាបន្តបន្ទាប់ ការវិនិយោគនាពេលបច្ចុប្បន្នក្នុងការបណ្តុះបណ្តាលធនធានមនុស្ស នឹងផ្តល់ផលចំណេញនៅពេលខាងមុខ។

Background Paper 7

Delivering the skills required for Cambodia's clean energy transition

Dean Rizzetti

Abstracts

The clean energy transition presents a significant opportunity to create a dynamic new workforce for Cambodia, spanning roles from highly specialised urban planners to technical engineers. However, there is currently a significant skills gap that must be addressed if Cambodia is to maximise the benefits from the shift to green energy.

Cambodia has made ambitious commitments to drive renewable energy expansion, improve energy efficiency, and increase electric vehicle adoption. As a result, research has shown that there is already a high demand for clean energy roles in Cambodia. Businesses are struggling to find experienced local staff with technical expertise, forcing companies to make significant investments in training in addition to onboarding graduates from educational institutions. This demand will only increase.

To address this, there needs to be significant improvements in the coordination of technical education, skill development and planning. Cambodia can address this by developing a Clean Energy Skills Roadmap, creating a specialised Skills Forum, tailoring curricula, promoting opportunities to youth, collaborating with international clean energy companies, and building government capacity to plan for clean energy skills.

Without a proactive approach to skills development, there is a risk that Cambodia will forego the benefits that the clean energy transition will bring. As the shift unfolds over subsequent decades, investments made now in upskilling human resources will pay dividends for years to come.

The clean energy transition offers a once-in-a-generation opportunity to create a dynamic new workforce for Cambodia. Roles required in the clean energy transition range from highly technical professions such as grid engineering and urban planning, to skilled workers erecting solar farms, installing energy efficiency technologies or maintaining electric motorbikes. These roles require a high level of technical fluency, with the ability to operate systems and machinery and solve complex problems.

Addressing the skill demand for clean energy requires foresight, strategic planning, and ambition. Many of the jobs in the clean energy economy are not yet at the scale they will ultimately be at when the transition accelerates. This means that the government and the private sector need to work together to estimate future demand, enact ambitious policies to ensure the development of new clean industries and establish robust coordination mechanisms between the private sector, universities, Technical Vocational Education and Training (TVET) institutions and government.

Addressing the current skills gap will require a major improvement in the quality of technical education and the way in which education is planned and executed in Cambodia. Skill providers will require a clear assessment of demand, and students must be assured that their newly acquired skillsets will lead to stable employment. For this to take place, the government must provide definite plans to unlock the opportunities for clean energy skills.

Trends in clean energy skills

The Liechtenstein Development Service (LED) has undertaken important scoping work that has identified a number of trends in the clean energy industry:

- **There is already a high demand for many clean energy roles, such as electrical engineers specialising in high-voltage systems**. These roles are likely to increase significantly in the coming years, as renewable energy, energy efficiency and electric vehicle markets are all required to grow significantly in response to the government's climate and energy goals.
- **Businesses find it relatively easy to recruit local early-career technical specialists, but find it much more challenging to source experienced local staff with several years of technical expertise and business development skills**. There is also a challenge in finding candidates for highly specialised roles - while it is relatively straightforward for companies to fill positions such

as solar system designers it is far more challenging to fill more technical roles such as automation engineers. Consequently, Cambodians are missing out on higher-paying jobs and companies are limited in the complexity of systems they can installed. This is exacerbated by the lack of opportunities for students to access work-realistic training while studying and a shortage of experienced professionals in the energy sector who can serve as mentors and role models. There is also a lack of training in key proprietary software, such as AutoCAD, which can lead to the need for additional in-company training and learning on the job.

- **Businesses are making significant investments in training their staff, due to a perception that universities and training programmes have not provided sufficient preparation.** Cambodian employers stated that a new graduate typically requires between 5 to 7 months of training to become fully operational. However, job retention rates are low, which makes training investments risky for clean energy businesses. It was also found that the lack of adequate training within the industry has resulted in a dependence on international companies to provide necessary services.

What are the key occupations to facilitate the transition to clean energy?

To understand the types of skills that will be required in the clean energy transition, LED has undertaken detailed interviews with businesses currently working within clean energy field. Through these interviews, key sectors have been identified that will need to be addressed as a priority for the transition to clean energy, and the fundamental roles to fill within these sectors.

This analysis identified solar energy deployment, energy efficiency and electric vehicle (EV) deployment as the core sectors to be addressed in the clean energy transition. Of course, there are many subsequent skills opportunities created by the clean energy transition, such as hydrogen production, wind energy, and facilitating regional power trades. However, these are more complex, with technologies that are not currently operational in Cambodia whereas solar, energy efficiency and EV deployment all have existing policy frameworks and a current demand for workers now and into the future.

Solar energy: This sector's positions include solar system designers who have qualifications in electrical and mechanical engineering with experience designing, installing and connecting solar systems, solar PV installers with practical experience and automation engineers. They would be responsible for developing, testing and implementing software tools or programmes to automate technical operations. Maintenance staff would also be required on an ongoing basis to operate new solar installations.

Energy efficiency sector: The roles within this sector include energy auditors (who evaluate energy usage and suggest

ways to improve efficiency), monitoring & verification (M&V) specialists (who verify and document energy savings) and mechanical engineering and plumbing (MEP) engineers (who design and oversee the installation of new equipment).

Electric vehicles: This sector requires electrical engineers, manufacturing workers and maintenance mechanics. Cambodia's EV sector is relatively new, and many companies operating in this industry are branches of international corporations.

Cambodia needs an action plan to maximise the skills opportunities created by clean energy

The opportunities created by clean energy are significant, but realising this opportunity requires extensive coordination, planning and collaboration. Universities and training facilities need to have total confidence that their graduates will be required in the employment market, and this means the government must set firm targets and policy deployment processes to ensure the demand for these skills. Policy coordination is also vital - training facilities need to understand energy policy, and energy policymakers must understand the timeline, processes and constraints of training facilities. Pursuing this will require an evidence-based, coordinated approach, which is outlined below:

Understanding the clean energy skills opportunity

The scale of the clean energy transition in Cambodia and worldwide is immense. The International Energy Agency's Net Zero Roadmap says that limiting global warming to 1.5 degrees Celsius will require an investment in clean energy of $4.5 trillion per year by 2030.

The first step in taking advantage of the clean energy skills opportunity is mapping Cambodia's current training pathways and estimating the workforce that will be required in each of the key clean energy sectors, such as renewable energy deployment, electric vehicles and energy efficiency. EnergyLab has worked with LED to begin to analyse key sectors and identify priority occupations in Appendix 1. However, more analysis is required to rank these opportunities fully.

Develop and endorse a clean energy skills roadmap for Cambodia

Cambodia needs a central roadmap to guide clean energy skills development. This roadmap should clearly articulate the current skills gaps and identify priority areas that should be the focus of investment to maximise the benefits of the clean energy transition for Cambodians. The roadmap should outline a phased approach to enhance skills training, standardisation, and efficiency. It will also propose targets and timelines for development to ensure that Cambodia has the skills it needs in place to meet energy and climate goals in a timely way. The roadmap should also be designed to inform development partners' investments in skills development. The roadmap should be based on a detailed

analyses of the current skills gaps in clean energy and the suitability of currently available courses. This would include an analysis of how companies currently deliver internal training efforts and whether this could be better incorporated into formal training programmes.

The roadmap should also provide clarity on the institutional interactions required for the clean energy transition by articulating the roles and responsibilities of public institutions and private actors. This will help harmonise the delivery between government ministries and across public and private providers. This will lead to consistent, standardised engagement between content-driven line ministries (e.g. Ministry of Mines and Energy, and the Ministry of Public Works and Transport) and skills focused ministries such as the Ministry of Labour and Vocational Training (TVET institutions) and the Ministry of Education, Youth and Sport (technical high schools, universities).

Create a specialised clean energy skills forum

Developing the Clean Energy Skills roadmap will require a series of structured dialogues between industry, government, and educational institutions on clean energy skills requirements and opportunities. These forums can be designed to operate on an ongoing basis, providing a platform to review emerging policies and to ensure that Royal Government of Cambodia is being provided with timely articulation of industry needs.

This forum should grow as the clean energy sector expands - with new industry players actively encouraged to join. This will help RGC agencies plan their skill priorities and, most importantly, will ensure that emerging professions such as 'EV mechanics' evolve in line with industry needs.

Tailor the curriculum to deliver clean energy skills

Following the clean energy skills roadmap, Cambodia needs to undertake a coordinated process of delivering comprehensive clean energy curriculum development. This should draw on international experience, and be reviewed and endorsed through the new Clean Energy Skills Forum.

Promote clean energy opportunities to Cambodia's youth

Once training pathways are well established, it will be necessary to increase awareness amongst Cambodian students about the opportunities to focus on clean energy as a career path. Concern about climate change is widespread, but relatively few understand how they can focus on clean energy through their studies and, in doing so, become part of the solution.

Collaborate with international operators to improve skills transfer

Countries from across the region have successfully managed the growth of skills development in the clean energy sector, and Cambodia needs to actively learn from these examples. Cambodia can also use its Clean Energy Skills Roadmap and Clean Energy Forum to specifically target high-value companies to expand their training

aspirations - making the Kingdom both a destination for investment and a leader in clean energy skills.

Build the government's capacity to plan for clean energy skills

Skills development is a relatively marginal component of energy policy. However, if Cambodia is wants to maximise a skills dividend from the transition to clean energy, then skills development needs to become embedded in policy making. This is best done by ensuring that the ministries responsible for delivering policy have the experience incorporated within their teams. These ministries can then collaborate with, and lead, other ministries to ensure that the skills required for the clean energy transition are being delivered. To facilitate this process, government officials must be provided with training in skills development to understand how to embed skills development in their broader programmes.

Conclusions

Cambodia has an incredible opportunity to create thousands of new jobs. However, without a proactive approach that ensures the development of the required skills, there is a real risk that the clean energy transition will be delivered by an international workforce. The clean energy transition will take decades, so investments made now will pay dividends for years to come. Therefore, a clear pathway, opportunities for collaboration, and capacity development must be supported now to build the foundations for this vital sector.

Appendix 1: Summary of clean energy employment opportunities

Sector	Key Occupations	Labour market potential	Importance in the sector	Availability of local labour	Adequacy of existing training programmes	Key observations
Solar sector	Solar system designer	High	High	Low to medium	Low	The government's commitment to renewable energy and ongoing solar projects creates a need for solar system designers. There is a shortage of professional solar designers in the local labour market.
	Solar PV installer	High	High	Low to medium	Low	The role of local solar installers is crucial in the solar industry, and there is a need for more professionals in this field. This often results in outsourcing installation tasks to international consultants, which increases project costs.
	Automation engineer	Medium to high	Medium to high	Low to medium	Low	Solar projects require automation engineers and local companies still lack expertise in modern automation technologies. While some local companies already provide these services, formal training in automation is inadequate.
Energy efficiency sector	Energy auditor	High	High	Low	Low to medium	There is a growing need for energy audit professionals in Cambodia as there is great potential for energy efficiency. The approval of the National Energy Efficiency Policy is driving growth in the energy efficiency market, creating a demand for energy auditors.
	MEP Engineers	High	High	Medium	Medium	There is a high demand for MEP engineers due to their essential role in handling mechanical and electrical interventions of Energy Efficiency or Renewable Energy projects. Therefore, there is a need for more experienced and local MEP engineers. Qualified MEP engineers can also offer energy audit and M&V services, highlighting the importance of providing them with training. Although local technical institutes offer MEP engineering courses, feedback suggests that experienced professionals in this field still require further training.
	M&V Specialists	High	High	Low	Low	M&V plays a crucial role in every Energy Efficiency project, and its importance will become more apparent as the market expands. Only a few companies can provide good Monitoring and Verification services, and international companies are typically contracted to verify energy savings. There are no dedicated programmes or courses to train individuals in undertaking M&V, nor are there any M&V training centres in Cambodia.

Sector	Key Occupations	Labour market potential	Importance in the sector	Availability of local labour	Adequacy of existing training programmes	Key observations
Electric vehicle sector	Electrical engineer	Low to Medium	Medium	Medium	Low to Medium	Although the electric vehicle industry is still in its early stages, there is potential for job opportunities to expand in electrical engineering. As the industry grows, there may be an increased demand for experienced workers. To address the current shortage of workers, Electric Vehicle suppliers are providing training programmes to graduates from local technical schools. As the industry continues to expand, it will be necessary to develop additional training programmes or curricula.
	Electronics engineer	Medium	Medium	Medium	Low	Compared to the Energy Efficiency and Renewable Energy sectors, the market for electronic engineers in Cambodia is relatively small as the country relies on imported electronic products. However, the expertise of electronic engineers is just as crucial as electrical engineers in the Electric Vehicle industry, and their contribution is expected to become more valuable in the future. The number of graduates in electronics and automation engineering is lower than that of electrical engineering, so it is recommended to increase training on Electric Vehicles in technical schools to fully realise their market potential in the Electric Vehicle sector.
	Electric vehicle mechanic	High	High	High	Medium	Many Cambodians are already employed in maintaining motorcycles. Expanding their skill-set to incorporate electric vehicles will be relatively straight-f orward. As part of this, stewardship of used batteries and safety can be improved. However, many mechanics do not receive formal training, so improving this sector will require a formalisation of mechanic training.

ឯកសារសារតារទី៨

មាគ៌ាធ្វើពិពិធកម្មសេដ្ឋកិច្ចកម្ពុជា

ខេល្លី វ៉ាយអេត

សេចក្តីសង្ខេប

កំណើនសេដ្ឋកិច្ចកម្ពុជាយ៉ាងឆាប់រហ័ស ក្នុងរយៈពេលពីរទសវត្សរ៍ចុងក្រោយនេះ បានជំរុញជាចម្បងដោយសារបរិវត្តកម្មរចនាសម្ព័ន្ធ ពីព្រោះកម្លាំងពលកម្មបានផ្លាស់ប្តូរពីវិស័យកសិកម្ម ទៅការងារដែលមានផលិតភាពខ្ពស់ក្នុងវិស័យផលិតកម្ម និងសេវាកម្ម។ ទោះជាយ៉ាងណាក៏ដោយ គំរូកំណើនដែលគ្របដណ្តប់ដោយផលិតកម្មកាត់ដេរ ទេសចរណ៍ និងសំណង់ ឥឡូវនេះកំពុងប្រឈមនឹងកំហិតនានា ដែលទាមទារឱ្យមានការផ្លាស់ប្តូរឆ្ពោះទៅរកសេដ្ឋកិច្ចដែលកាន់តែមានពិពិធកម្ម និងភាពធន់។ របាយការណ៍នេះស្វែងយល់ពីមាគ៌ាធ្វើពិពិធកម្មសេដ្ឋកិច្ចកម្ពុជា ដោយកំណត់ពីឧបសគ្គ និងឱកាសសំខាន់ៗ ដើម្បីជំរុញកំណើនប្រកបដោយចីរភាព និងបរិយាបន្ន។

ការសិក្សានេះបានគូសបញ្ជាក់ពីសារៈសំខាន់នៃពិពិធកម្មសេដ្ឋកិច្ច ដើម្បីលើកកម្ពស់ភាពប្រកួតប្រជែង និងភាពស្មុគស្មាញសេដ្ឋកិច្ចរបស់កម្ពុជា។ ការធ្វើពិពិធកម្មក៏កាត់បន្ថយការពឹងផ្អែកលើវិស័យមួយចំនួន ធ្វើឱ្យប្រសើរឡើងនូវភាពធន់នឹងការប៉ះទង្គិចពីខាងក្រៅ និងជួយសម្រួលដល់ផលិតកម្មទំនិញ និងសេវាកម្មដែលមានតម្លៃខ្ពស់។ របាយការណ៍នេះ អនុវត្តក្របខ័ណ្ឌសេដ្ឋកិច្ច ដែលស្មុគស្មាញ និងការវិភាគគម្លាតផលិតផលដើម្បីកំណត់មាគ៌ាធ្វើពិពិធកម្មដែលអាចសម្រេចបាន ដោយដកស្រង់ករណីសិក្សាពីអាស៊ាន និងតំបន់ផ្សេងទៀត។ របាយការណ៍គូសបញ្ជាក់ថា អន្តរកាលយឺតរបស់កម្ពុជាពីផលិតកម្មកាត់ដេរ ទៅជាឧស្សាហកម្មដែលស្មុគស្មាញ ដូចជាគ្រឿងអេឡិចត្រូនិច និងការផលិតរថយន្ត គឺដោយសារតែមានឧបសគ្គទាំងការប្រមូលផ្តុំចំណេះដឹង និងភាពប្រកួតប្រជែង។

ពិសេសជាងនេះទៅទៀត ឧបសគ្គក្នុងការប្រកួតប្រជែង រួមមាន ការអនុវត្តបទប្បញ្ញត្តិមិនច្បាស់លាស់ និងមិនស៊ីសង្វាក់គ្នា ថ្លៃភស្តុភារកម្មនិងថាមពលខ្ពស់ និងគម្លាតជំនាញក្នុងតួនាទីបច្ចេកទេស និងអ្នកគ្រប់គ្រង។ ការប្រមូលផ្តុំចំណេះដឹង ត្រូវបានរារាំងដោយទំនាក់ទំនងខ្សោយរវាងក្រុមហ៊ុនក្នុងស្រុក និងក្រុមហ៊ុនបរទេស (ជាពិសេសក្រុមហ៊ុនផលិតដែលផ្តោតលើការនាំចេញ)។ ទោះបីជាមានការទាក់ទាញការវិនិយោគផ្ទាល់ពីបរទេស (FDI) ក៏ដោយ ប៉ុន្តែក្រុមហ៊ុនបរទេសភាគច្រើនមិនបានរួមចំណែកដល់ការធ្វើពិពិធកម្មឧស្សាហកម្មទេ ដោយសារក្រុមហ៊ុនបរទេសដំណើរការជាចម្បងក្នុងរចនាសម្ព័ន្ធដាច់ដោយឡែក ដោយមានការផ្ទេរបច្ចេកវិទ្យាតិចតួចបំផុតទៅឱ្យក្រុមហ៊ុនក្នុងស្រុក។

ដើម្បីដោះស្រាយបញ្ហាប្រឈមទាំងនេះ របាយការណ៍បានកំណត់មាគ៌ាធ្វើពិពិធកម្មបឋមចំនួនពីរ៖ ១) ការធ្វើអន្តរកាលពីកសិកម្ម ទៅការកែច្នៃកសិកម្ម និង ២) ការពង្រីកពីផលិតកម្មកាត់ដេរទៅជាអេឡិចត្រូនិច ផលិតរថយន្ត និងគ្រឿងម៉ាស៊ីន។ ការកែច្នៃកសិផលផ្តល់នូវរិធីសាស្ត្រ “ការព្យួរផ្លែឈើទាប” ដោយប្រើមូលដ្ឋានកសិកម្មដែលមានស្រាប់របស់កម្ពុជា ដើម្បីអភិវឌ្ឍចំណីអាហារ និងផលិតផលកសិកម្មដែលមានតម្លៃខ្ពស់ជាង។ ទន្ទឹមនឹងនោះ ការផលិតគ្រឿងអេឡិចត្រូនិក និងរថយន្តបង្ហាញពីឱកាសជាយុទ្ធសាស្ត្របន្ថែមទៀត ក្នុងការធ្វើសមាហរណកម្មទៅក្នុងបណ្តាញផលិតកម្មសកល និងលើកកម្ពស់ភាពស្មុគស្មាញសេដ្ឋកិច្ចកម្ពុជា។ ការសិក្សាក៏សង្កត់ធ្ងន់លើសក្តានុពល “ឧស្សាហកម្មបៃតង” ជាពិសេសនៅក្នុងការផលិតគ្រឿងបន្លាស់រថយន្តអគ្គិសនី (EV)។

អនុសាសន៍ខាងគោលនយោបាយផ្តោតលើ គោលដៅសម្របសម្រួលរបស់រដ្ឋាភិបាល ការលើកកម្ពស់ FDI គោលនយោបាយឧស្សាហកម្ម និងការបើកដំណើរការកំណែទម្រង់បរិស្ថាន។ វិធានការសំខាន់ៗ រួមមាន ការកំណត់គោលដៅលើកទឹកចិត្ត FDI ដល់ក្រុមហ៊ុនឈានមុខគេក្នុងឧស្សាហកម្មអាទិភាព ការកែលម្អបរិយាកាសវិនិយោគសម្រាប់ឧស្សាហកម្មដែលជាយុទ្ធសាស្ត្រ ការពង្រឹងទំនាក់ទំនងរវាងក្រុមហ៊ុនក្នុងស្រុក និងសាជីវកម្មពហុជាតិ ការពង្រីកអន្តោប្រវេសន៍ដែលផ្អែកលើជំនាញ ការកែលម្អសេវាវិញ្ញាបនប័ត្រ និងហេដ្ឋារចនាសម្ព័ន្ធគុណភាពផ្សេងទៀត និងការទាញយកប្រយោជន៍ពីតំបន់សេដ្ឋកិច្ចពិសេស (SEZs) សម្រាប់ឧស្សាហកម្មអាទិភាព។

Background Paper 8

Cambodia Economic Diversification Pathways

Kelly Wyett

Abstract

Cambodia's rapid economic growth over the past two decades has been driven primarily by structural transformation, as labour shifted from agriculture to higher-productivity jobs in manufacturing and services. However, the country's growth model—dominated by garment manufacturing, tourism, and construction—is now facing limitations, necessitating a shift towards a more diversified and resilient economy. This report explores pathways for economic diversification in Cambodia, identifying key constraints and opportunities to foster sustainable and inclusive growth.

The study underscores the importance of economic diversification in enhancing Cambodia's competitiveness and economic complexity. Diversification also reduces dependency on a few sectors, improves resilience to external shocks, and facilitates the production of higher-value goods and services. The report applies an economic complexity framework and product space analysis to identify viable diversification pathways, drawing on case studies from ASEAN and beyond. It highlights that Cambodia's slow transition from garment manufacturing to more complex industries, such as electronics and automotive production, is due to constraints in both knowhow accumulation and competitiveness.

More specifically, competitiveness constraints include uncertain and inconsistent regulatory enforcement, high logistics and energy costs, and a skills gap in technical and managerial roles. Knowhow accumulation is constrained by weak linkages between domestic and foreign firms (especially export-oriented manufacturing firms). Despite attracting significant foreign direct investment (FDI), much of it has not contributed to industrial diversification, as foreign firms primarily operate in enclave-like structures with minimal technology transfer to local firms.

To address these challenges, the report identifies two primary diversification pathways: (1) transitioning from agriculture to agro-processing; and, (2) expanding from garment manufacturing into electronics, automotive, and machinery production. Agro-processing offers a "low-hanging fruit" approach, leveraging Cambodia's existing agricultural base to develop higher-value food and agricultural products. Meanwhile, electronics and automotive manufacturing present a more strategic opportunity to integrate into global production networks and enhance Cambodia's economic complexity. The study also emphasises the potential of "green industries," particularly in electric vehicle component production.

Policy recommendations focus on targeted government facilitation, FDI promotion, industrial policy, and enabling environment reforms. Key measures include targeting FDI incentives to pioneer firms in priority industries, improving the investment climate for strategic industries, strengthening linkages between local firms and multinational corporations, expanding skills-based immigration, improving certification services and other quality infrastructure, and leveraging SEZs for priority industries.

1. Introduction

1.1. Motivation

Cambodia's economy has experienced rapid growth over the past two decades. Such growth was mostly driven by increased factors of production,[1] with more moderate improvements in productivity (Figure 1). Improvements in productivity in turn mostly came from structural transformation as workers left agriculture for higher-productivity jobs in manufacturing, services and other industries (Penn World Table 2021; World Bank 2021).[2]

However, there are clear signs that the current growth strategy has reached its limits. Cambodians are already among the hardest working populations in the world, with very high annual working hours (Figure 2) and very high rates of employment. Growth has been heavily reliant on a few sectors— garment manufacturing, tourism and construction—and dominated by large firms, many of them foreign-owned. This growth pattern has been neither inclusive nor resilient, leaving the economy vulnerable to external shocks.

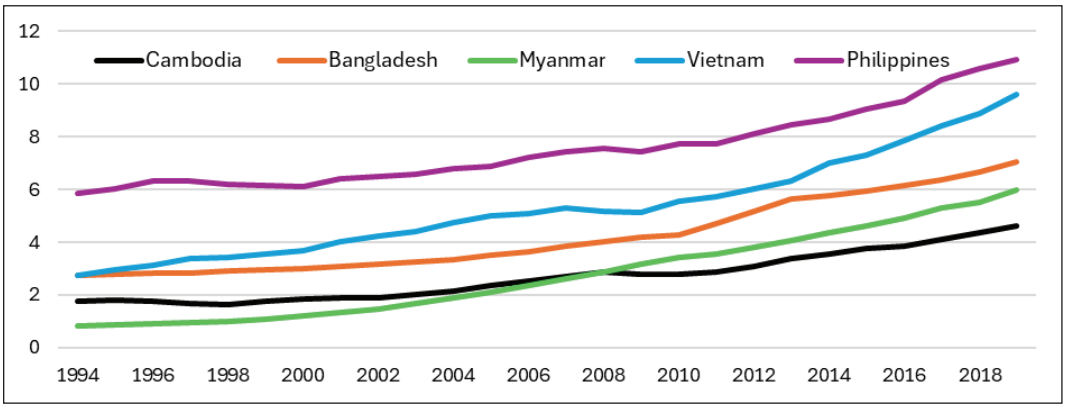
Indeed, Cambodia's exports are dominated by the garment sector, which accounted for 42 percent of exports in 2022. Services, primarily tourism, contributed 21 percent, while agriculture made up 13 percent (Atlas of Economic Complexity 2024) (Figure 3). In contrast to exports, Cambodia imports a wide range of products, partly due to undiversified local production (Figure 4).

In the medium-term, faster growth depends on activating a new phase of structural transformation through increased productivity within sectors, especially the manufacturing sector, and diversification into higher complexity sub-industries.

1 Specifically, average hours worked have increased around 8 hours and the capital-output ratio has more than doubled since the early 1990s. Source: Penn World Table (2021).

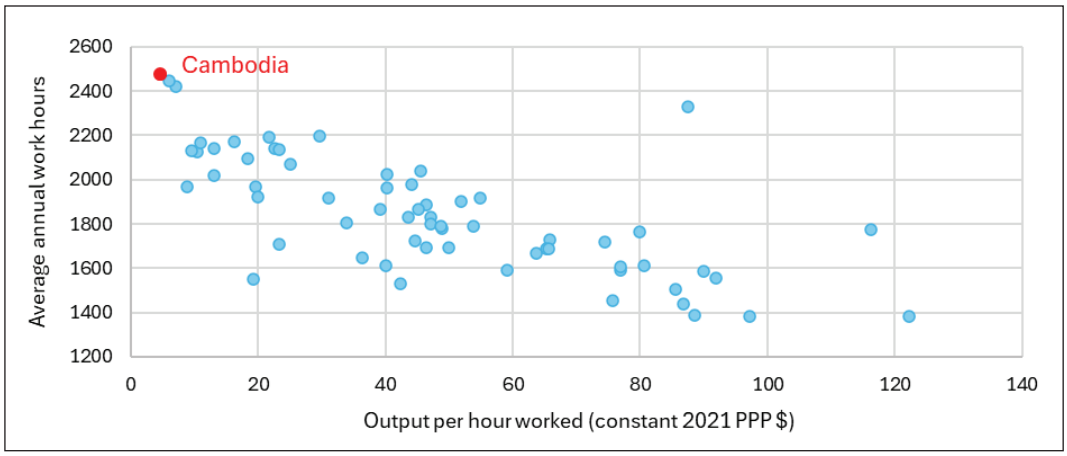
2 Total productivity grew by 178 percent over 1997-2019, while within-sector productivity grew significantly slower, indicating a large contribution from employment shifts between sectors.

Figure 1: Cambodia's productivity growth trails comparator countries (output per hour worked; constant 2021 international PPP $)



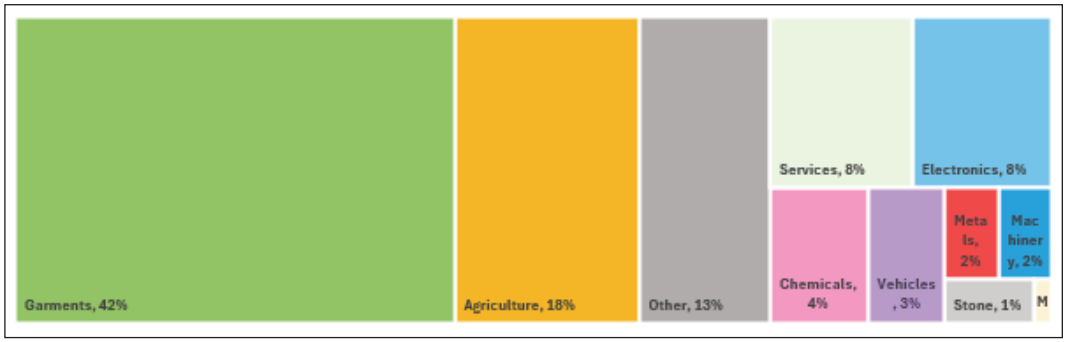
Source: Authors' calculations based on Penn World Table (2021) and World Development Indicators by World Bank (2021)

Figure 2: Cambodians work long hours at low productivity



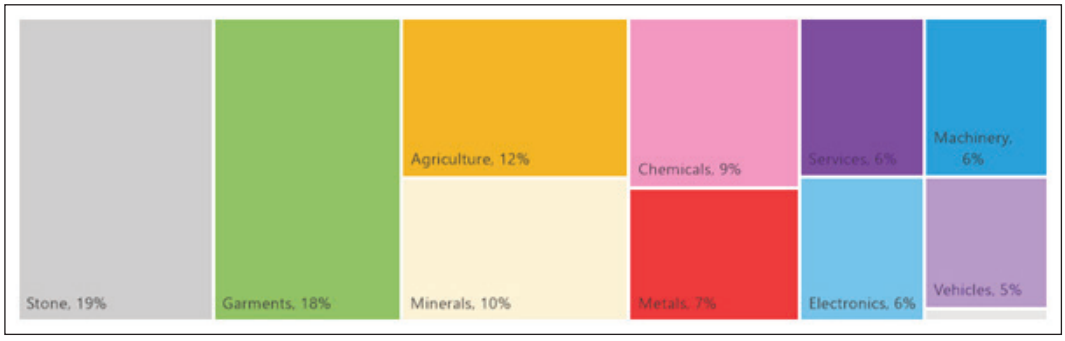
Source: Authors' calculations based on World Bank World Development Indicators and Penn World Table (2021).
Note: Showing all countries for which data was available.

Figure 3: Cambodia's exports are dominated by garments, 2022 (% total)



Source: Authors' calculations based on international trade data from the Atlas of Economic Complexity (2024).

Figure 4: Imports are very diversified, reflecting undiversified domestic production, 2022 (% total)



Source: Authors' calculations based on international trade data from the Atlas of Economic Complexity (2024).

1.2. About this report

This report summarises research conducted by the Cambodia Australia Partnership for Resilient Economic Development, or CAPRED, to support CDRI's study entitled "Cambodia's New Growth Strategy: An Assessment of Medium and Long-term Growth for Resilient, Inclusive, and Sustainable Development." This report aims to guide CAPRED and CDRI's policy dialogue on diversification and identify potential activities where these organisations can support the Royal Government of Cambodia's (RCG) efforts to diversify the economy.

This report is a summary of a more detailed paper to be subsequently published on CAPRED's website.[3]

This report is organised as follows:

- Chapter 1 discusses the methodology.
- Chapter 2 details why diversification is important, how it happens and what facilitates diversification, and then assesses economic diversification in Cambodia.
- Chapter 3 evaluates Cambodia's constraints to diversification.
- Chapter 4 discusses how Cambodia can overcome these constraints.
- Chapter 5 proposes priority industries for diversification.
- Chapter 6 recommends policies to facilitate diversification in Cambodia.

1.3. Methodology

We employ an economic complexity framework (a measure of a country's productive knowledge) and apply this lens to industry prioritisation. We undertake product space analysis to help identify feasible diversification pathways and apply the growth diagnostics methodology (Velasco, Rodrik and Hausmann 2005) to understand the constraints to achieving competitiveness.

Our analysis is also based off of dozens of case studies[4], especially from other member countries of the Association of Southeast Asian Nations, or ASEAN, that illustrate how countries have successfully developed, or failed to develop, new industries and diversify their economies. These case studies explain how countries accumulate the knowhow needed to develop new industries and how government intervention supports diversification.

This analysis was validated by CAPRED's field experience working with the government and private sector in Cambodia on issues ranging from trade and investment attraction to agro-processing promotion, renewable energy, SME development, climate finance, public-private dialogue and women's economic empowerment.

3 See www.capred.org

4 Only a limited number of case studies are directly cited in this report.

2. The importance of economic diversification

Economic diversification involves expanding a country's economy by developing a wide range of industries and sectors, rather than depending on one or a few dominant industries. This process reduces economic risks, enhances resilience and dynamism, enables the production of more complex products and fosters higher employment and economic growth.

Diversification contributes to increasing economic complexity—the diversity and sophistication of an economy's productive output, which reflects its underlying productive "knowhow." Empirical evidence shows a strong correlation between a country's complexity (measured by the economic complexity index [ECI]) and the income per capita it can generate. Indeed, complexity can explain about 75 percent of the variation in income between countries after controlling for a country's natural resource rents (as countries with natural resources can be rich without being complex) (Figure 5). Economic complexity is also important for future growth. That is, countries whose economic complexity is greater than what we would expect, given their level of income, tend to grow faster than those that are 'too rich' for their current level of economic complexity (Figure 6).

Our research indicates that while Cambodia's exports are still dominated by garments, they have diversified significantly over the past 15 years, particularly due to the emergence of the electronics and vehicle (primarily bicycle) sectors. This diversification has improved Cambodia's economic complexity. By 2022, Cambodia ranked as the 77th most complex country on the Economic Complexity Index (ECI), climbing 42 places since 2009 (Figure 7).

However, the diversification from garment manufacturing to more complex manufactured products has been slower in Cambodia compared to other Asian

Figure 5: Relationship between a country's ECI and GDP per capita

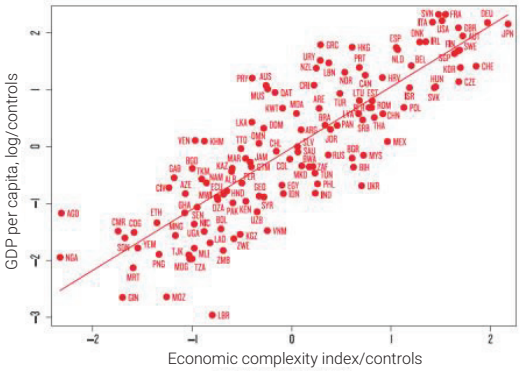
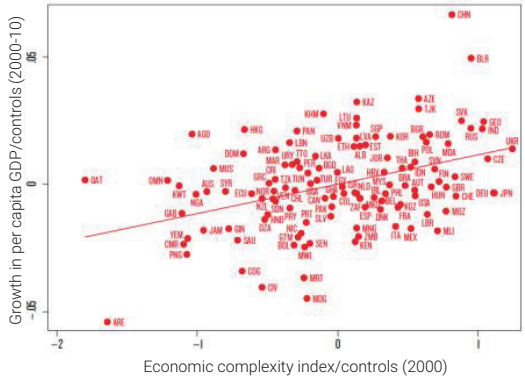
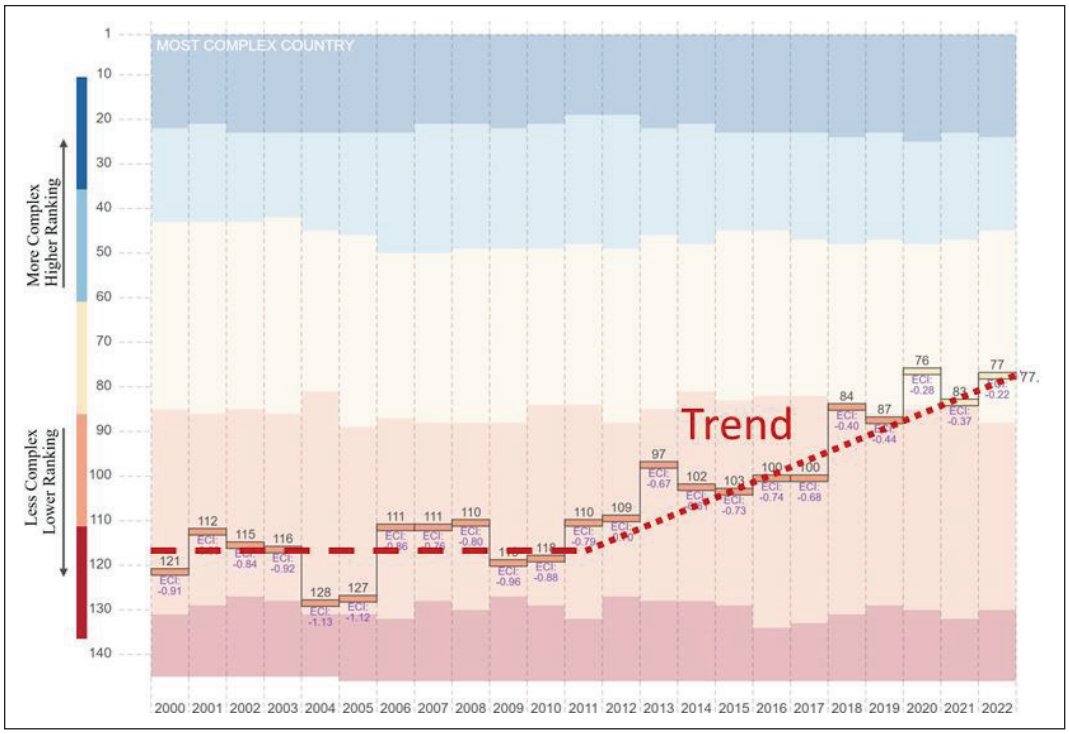


Figure 6: Relationship between a country's ECI and GDP per capita growth



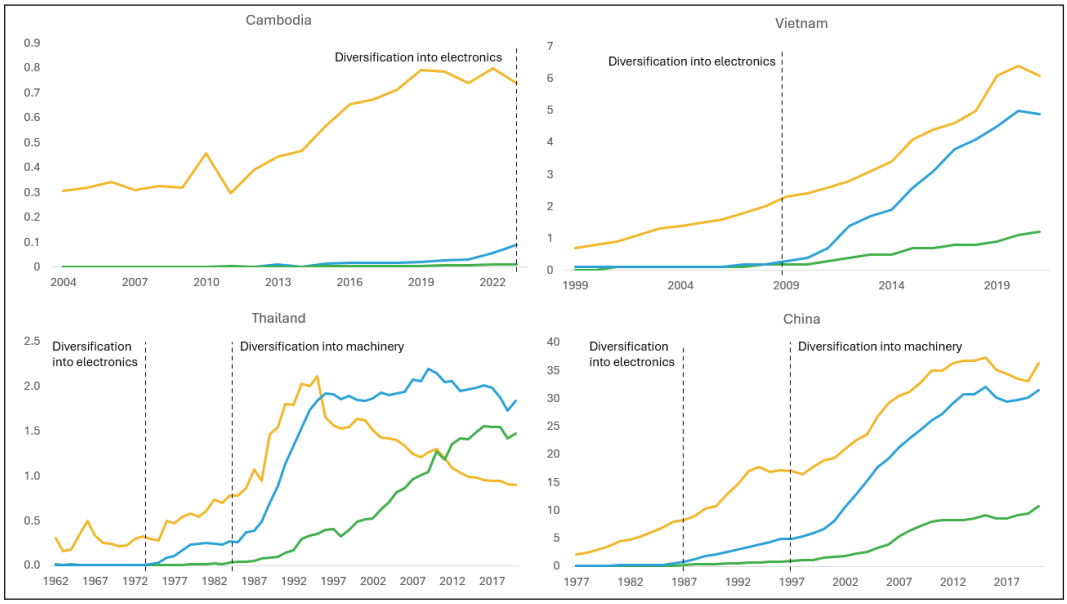
Source: Hausmann et al. (2014)

Figure 7: Cambodia's economic complexity ranking (out of 145 countries)



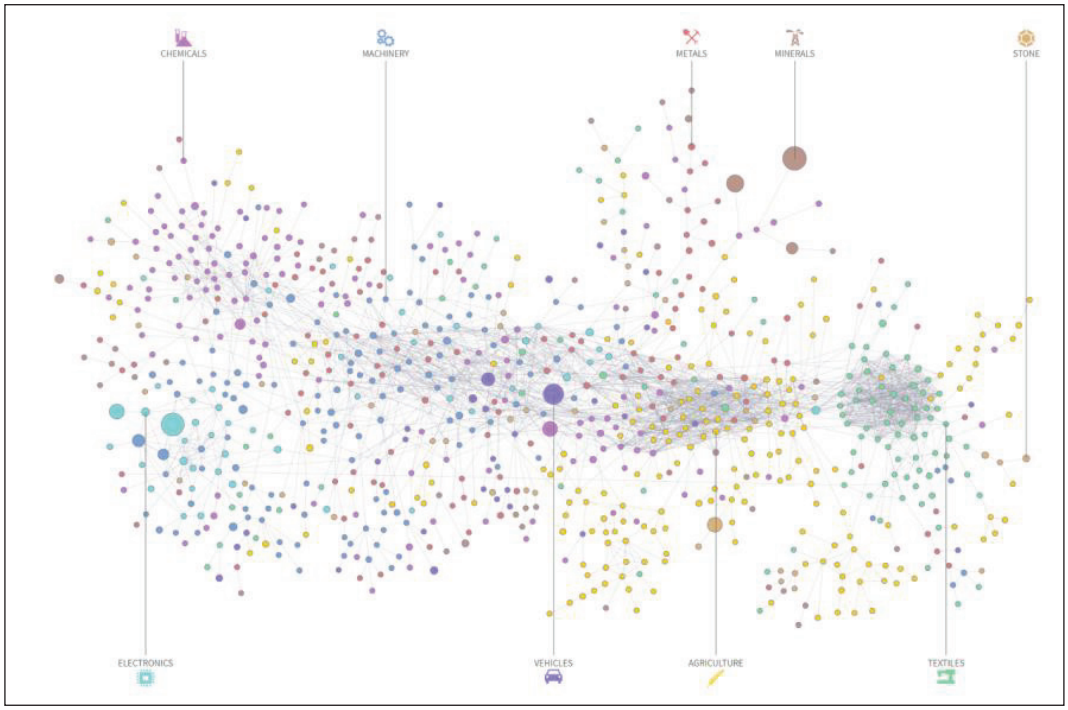
Source: Atlas of Economic Complexity (2024)

Figure 8: Diversification away from garment manufacturing is occurring slower in Cambodia than in other Asian countries (% world trade)



Source: Authors' calculations based on international trade data from the Atlas of Economic Complexity (2024).

Figure 9: The product space

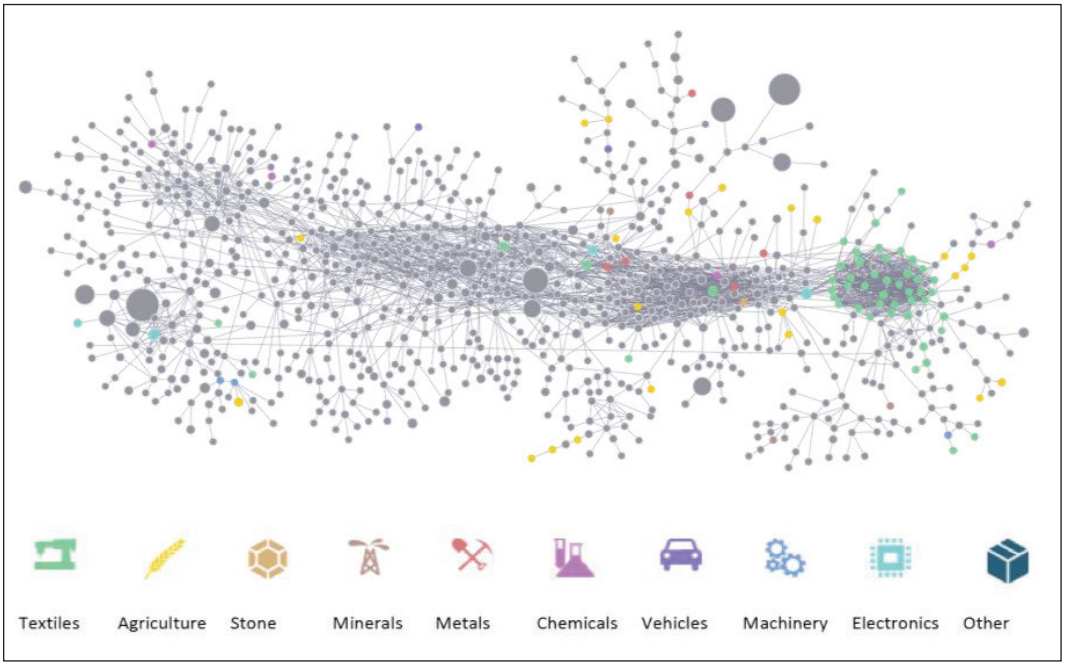


Source: The Atlas of Economic Complexity (2024)
Notes: Each node is a product, and its size is determined by its share of world trade. The structure of the product space is defined by links between products based on the probability that both are exported by the same countries. The colour of each product node corresponds to its sector, defined empirically as collections of products that are

countries that industrialised in previous decades (Figure 8). This is likely due to greater global competition and stricter constraints on industrial policy from trade agreements, which limit protective measures for new industries. Additionally, Cambodia's slower accumulation of industrial knowhow, evidenced by the limited number of Cambodian-owned garment factories and low share of Cambodians in senior positions (around 45 percent), contributes to this slow diversification (Ministry of Labour and Vocational Training 2024). Indeed, across all industries, most exports are produced by foreign firms, while Cambodian-owned firms mainly serve the domestic market (National Institute of Statistics 2022; World Bank 2023).

The key obstacle to diversification is the difficulty of acquiring new productive knowhow in the absence of supporting industries. To overcome this, countries typically expand into industries that are "adjacent" to their existing strengths—producing goods that require similar capabilities, such as moving from shirts to pants, rather than from shirts to engines. Therefore, the most effective diversification strategies focus on leveraging current industries as a foundation for developing new, related industries.

Figure 10: Cambodia's position in the product space (2021)



Source: Atlas of Economic Complexity (2024).
Notes: Coloured nodes show products that Cambodia exports with an RCA>1. Grey nodes show all other products.

The product space is a visual representation of the similarities between products covering all exported goods, but not services (Figure 9). A tightly connected product space implies that neighbouring products differ in only a few of their requisite capabilities, making them more viable candidates for diversification.

Cambodia's position in the product space reflects the dominance of garments in its export basket (Figure 10). Of Cambodia's exports, those in the more densely connected and central areas of the product space provide the best opportunities for diversification (including electric motors, solar panels, tyres and bicycles).

Emerging research (see Hausmann 2018) shows how countries accumulate the knowhow required to diversify and the role of government policies and strategies in attracting, developing and retaining this invaluable resource. Importantly, it shows that knowhow flows through incredibly slow and narrow channels. Traditional tools like urbanisation, education and digital connectivity fall short in effectively disseminating the knowhow necessary for diversification and improving productivity. The policy takeaway is straightforward: knowledge resides in people. The path forward lies in attracting skilled individuals through foreign direct investment (FDI), skills-based immigration and other labour mobility (such as returned migrants, diaspora and labour exchanges between firms).

3. Cambodia's constraints to diversification

Diversification requires knowhow and competitiveness. That is, a country needs to know how to make a product and to be able to do so at a competitive price-quality point.

- **Knowhow**: The productive knowledge that goes into producing products (goods and services), as well as the knowledge of what can be produced competitively in a country
- **Competitiveness**: A country's ability to sell its products on global markets, taking into account product quality, price, innovation and market access

3.1. Lack of knowhow

Diversification is path dependent; a country's ability to accumulate new knowhow and diversify into higher-complexity industries depends on their existing level of diversification and connectedness to other products (measured by the Complexity Outlook Index [COI]). Cambodia's COI is slightly below average, reflecting the dominance of garment exports and limited diversification into other industries. However, Cambodia's COI has been steadily improving in line with recent diversification into electronics and vehicles. Overall, Cambodia has a moderate number of opportunities to diversify using existing knowhow.

Cambodia also faces constraints in terms of utilising labour mobility to accumulate new knowhow. While Cambodia has attracted significant FDI over the last 20 years (equivalent to 10 percent of its GDP, one of the highest rates across ASEAN), a minority of this has been invested in new industries.[5] Furthermore, productivity spillovers and linkages between foreign and domestic firms are rare. Most FDI firms rely on imported inputs and do not create backward linkages or share knowledge, which restricts technology transfer and productivity growth through global value chain participation. This is especially apparent in the garment industry, where over 95 percent of exporters are foreign-owned (World Bank 2021).

Immigration, another key path for accumulating knowhow, is also not especially restricted. Cambodia is the second most open country to migrants according to one measure, allowing 99 percent of nationalities to enter without a prior visa (Henley Openness Index 2024). However, government policy does not target migrants with new skills or actively facilitate other forms of targeted labour mobility, such as returned migration.

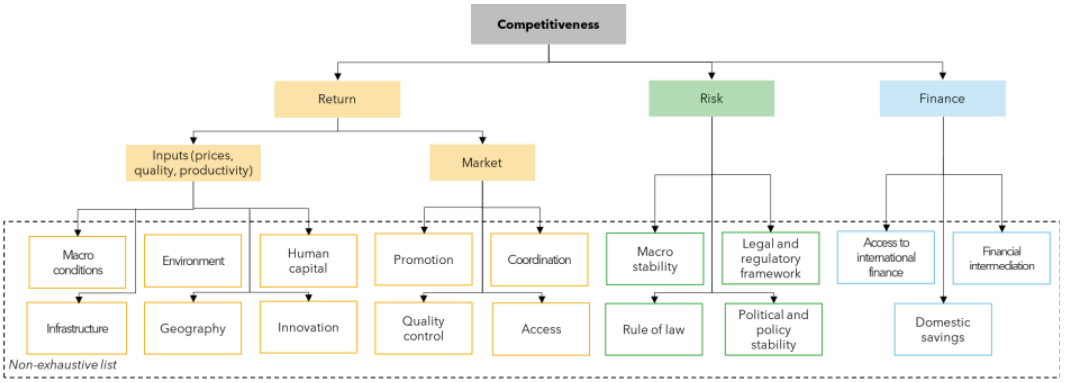
3.2. Poor competitiveness

Given the many constraints to Cambodia's competitiveness, there is a need to identify the most binding constraints, and hence the policies that are likely to provide the 'biggest bang for the reform buck.' CAPRED has developed a framework for doing so based on the growth diagnostics literature (Velasco, Rodrik and Hausmann 2005) (Figure 11).

The framework highlights that investors' decisions to start or expand a business, as well as their profitability, depend on

5 National Bank of Cambodia data on FDI by sector

Figure 11: A framework for identifying constraints to competitiveness



Source: Based on Hausmann, Rodrik and Velasco (2005)

investment attractiveness (encompassing risk and return), and their ability to finance that investment at an appropriate cost.

As discussed above, productivity growth has been slower in Cambodia than competing countries. Unsurprisingly, we find the most binding constrains in the country to be directly or indirectly about productivity.

High infrastructure costs

High infrastructure costs (specifically, poor logistics and high energy costs) are a significant but not always binding constraint to Cambodia's competitiveness. Poor logistics, especially regarding transportation infrastructure, significantly raise operational costs and risks for investors, particularly in manufacturing. While projects like the Phnom Penh-Sihanoukville Expressway have improved connectivity, rural areas remain poorly connected, increasing business costs outside urban centres and special economic zones. Indeed, Cambodia ranks 115th out of 138 countries in the Logistics Performance Index. Lengthy border and export formalities further hinder trade, limiting Cambodia's ability to integrate into global value chains. High energy costs and unreliable power supplies also raise operational costs and risks, especially in energy-intensive manufacturing.

Skills gap

Cambodia's skills gap is another significant but not always binding constraint. This gap is characterised by both quantity (a shortage of workers in specific technical areas) and quality (inadequate preparedness among graduates for high-demand sectors) constraints. According to a recent survey, 74 percent of businesses report challenges in hiring qualified staff, with 30 percent citing under-qualification as a critical barrier. The gap is especially prevalent in construction, manufacturing and engineering, where there is a persistent lack of workers with technical skills, management experience and quality control expertise. "Soft skills" are another critical gap identified in all sectors (EuroCham 2024).

Cambodia's labour productivity, although showing improvement, remains significantly lower than that of its regional and global peers. This undermines the country's competitive advantage derived from its relatively low labour costs.

Weak rule of law

The rule of law ensures the consistent and transparent application of a country's legal and regulatory framework, creating a stable foundation for property rights, contract enforcement, and accountability. However, in Cambodia, significant gaps exist between the legal framework and its implementation. While reforms such as the 2021 Investment Law have improved regulations on paper, domestic and foreign investors face persistent challenges, including unclear laws, inconsistent application of regulations and prolonged legal dispute resolutions. Such challenges are consistently cited as the number one constraint faced by domestic firms and foreign investors alike. Cambodia also scores lower than other middle-income countries for the following World Bank governance indicators: rule of law, control of corruption, and regulatory quality.

Inconsistent implementation of taxation is a major pain point for the private sector. Foreign firms in particular report frequent audits, informal payment demands, unclear laws and inconsistent tax burdens. The unpredictability of tax policies and enforcement, especially compared to more stable tax environments in Vietnam and Thailand, deters compliance and raises perceived risks.

While weak rule of law directly undermines competitiveness by increasing risks for investors, the way firms adapt to this constraint indirectly affects Cambodia's productivity. This adaptation promotes informality and drives large domestic firms to concentrate on non-tradable sectors such as construction and banking.

Industry-specific constraints

As well as the economy-wide constraints discussed above, there are binding constraints specific to the industries we recommend Cambodia target for diversification.

In agriculture,[6] these include:

- The dominance of smallholder farming, characterised by inconsistent production volumes, variable quality of raw materials, outdated machinery, inadequate skills and restricted access to capital collectively hinder the efficiency and scalability of their operations.
- The absence of a reliable market and fragmented value chains, characterised by weak linkages between farmers, processors and buyers, and the lack of long-term contracts limit the development of economies of scale and reduce competitiveness.
- Missing inputs essential for improving product quality, including quality infrastructure (QI), regulatory frameworks for food quality standards, modern technology and skilled labour limit the ability of producers to meet international market requirements.

These constraints are exacerbated and taken advantage of by importers of raw agricultural products in Cambodia's neighbouring countries.

6 See World Bank (2021) "A Strategy to Diversify Cambodia's Growth Model"; ADB (2021) "Cambodia Agriculture, Natural Resources, and Rural Development Sector Assessment, Strategy, and Roadmap"

The electronics industry faces two additional constraints, including the lack of primary domestic production and a shortage of skilled workers (see Ven and Hing 2019; Royal Government of Cambodia 2022; Botineau, Monti and Pocock 2023).

These constraints partly explain why Cambodia's transition from a garment-dominated economy to one that includes electronics has been slower compared to other countries.

4. Overcoming Cambodia's constraints to diversification

4.1. Overcoming constraints to knowhow accumulation

As discussed above, Cambodia's economy is characterised by a moderate level of complexity (measured by the Economic Complexity index [ECI]) and moderate opportunities for diversification (measured by the Complexity Outlook Index [COI]). This situation suggests a dual approach to knowhow accumulation:

- **Take strategic bets**: Fully exploit multiple policy levers and public investment to achieve diversification in targeted strategic industries
- **Exploit low-hanging fruit**: Address bottlenecks to jump the small distances to nearby new industries

We use the product space methodology to identify the most suitable "strategic" and "low-hanging" industries, taking into account an industry's relatedness, complexity and connectivity (Figure 12). Doing so shows that:

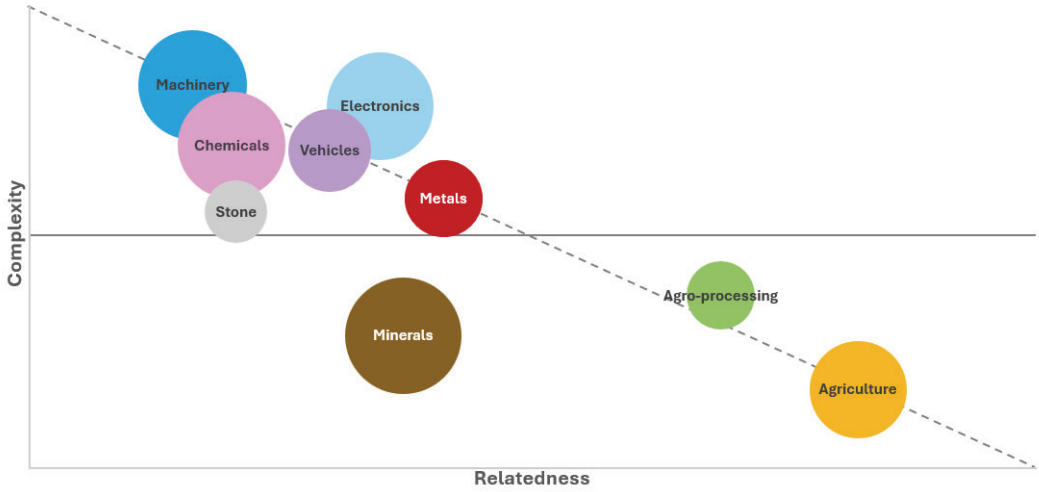
- **Agro-processing** is the best industry for a "low-hanging fruit" approach, given its high relatedness and moderate complexity.
- **Electronics** is the best industry for a "strategic bets" approach, given it has the highest relatedness score of the high-complexity industries.

4.2. Overcoming constraints to competitiveness

Given Cambodia's constraints to international competitiveness and diversification, it is important to consider what diversification approaches might be possible. We identified three overlapping strategies. Priority industries should align with at least one of these strategies, and ideally, all three.

- Promote specialty, niche and premium products where international competition is low and demand is less price-sensitive; that is, industries where **the constraints are less relevant**.
- Promote industries that exploit Cambodia's potential competitive advantages; that is, **compensate for constraints**.
- Promote industries where the constraints to competitiveness are less binding; that is, **avoid constraints**.

Figure 12: Cambodia's sector diversification frontier by industry in 2022



Source: Authors' calculations using the latest data from the Atlas of Economic Complexity (2024)
Note: Bubble size relates to the size of global trade

Of course, longer term, Cambodia will need to tackle its binding competitiveness constraints to sustain growth; that is, it will need to **address constraints**. We recommend several policies for doing so in the recommendations section below.

Promote specialty, niche, and premium products

Such products tend to fulfil a specialist demand, enabling high margins to be charged on relatively simple products. Such products often have a 'high quality' or a 'cultural' brand value. Examples include Fiji water, Italian fashion brands like Gucci, luxury Swiss watch brands like Rolex, premium Korean cosmetic brands like Sulwhasoo and Scottish Whiskey brands like Glenfiddich.

Cambodia has been successful in adopting this strategy for several agricultural products, although such products make up only a small fraction of Cambodia's agricultural exports. Examples include organic rice, specialty rice varieties, organic moringa and Kampot pepper. Results include:

- Certified organic rice exported to Europe and the US, typically receives a 20–30 percent price premium compared to conventional rice (Grow Asia 2022)
- Following Geographical Indication registration in the EU, Kampot pepper exports surged by over 250 percent in 2017 compared to the 2013–2016 average (FAO 2023a)

Garment manufacturing is another industry where firms can receive premium pricing through ethical and environmental standards. However, the adoption of such standards remains limited in Cambodia due to barriers such as the cost and complexity of obtaining certifications, reliance on imported textiles and the focus on low and mid-tier consumer markets.

Exploit Cambodia's potential competitive advantages

We recognise several potential competitive advantages that Cambodia is already using to attract investors seeking a production base for new export-oriented industries, including:

- **Macroeconomic and Political Stability**. Cambodia's dollarised economy, with 80-90 percent of transactions in USD, supports macroeconomic stability by minimising exchange rate risks and maintaining low inflation. This stability enables better long-term business planning, especially for export-driven industries like manufacturing (AMRO 2024a). Political stability over the past two decades has further enhanced the country's investment appeal by delivering relatively consistent and predictable policies. Indeed, a 2024 AmCham survey highlighted political stability as a key draw for 74 percent of investors.

- **Market Access**. Historically, Cambodia's Least Developed Country (LDC) status has provided reduced or zero tariffs for most exports to most countries. However, Cambodia aims to graduate from such status in the future. In the absence of LDC status, Cambodia will still benefit from several preferential trade agreements, including the ASEAN Economic Community and the Regional Comprehensive Economic Partnership, offering access to over 2.2 billion consumers (ASEAN Secretariat 2023). Existing free trade agreements with countries like China, South Korea and Japan also enhance its ability to integrate into global supply chains (GIZ 2023; AMRO 2024a).

- **Growing Workforce and Domestic Market**. With over 50 percent of the population under 30, Cambodia has a young and affordable workforce ideal for labour-intensive industries like garments, agro-processing and electronics assembly. This demographic dividend, supported by a growing 30-49 age group, boosts consumer spending and credit markets. Unlike aging neighbouring countries, Cambodia's youthful population offers long-term labour supply and economic growth potential (World Bank 2023; Mekong Strategic Capital 2024).

- **Agricultural Potential**. As one of the top ten global rice producers and the world's second-largest producer of raw cashews, Cambodia has an agricultural surplus that positions it well in regional markets, particularly in food-importing countries. This foundation presents a compelling opportunity for FDI, especially as demand grows in neighbouring economies (FAO 2023b). Plans for agri-food industrial parks aim to enhance agro-processing and attract sustainable investment in higher-value segments, positioning agriculture as a key growth area.

- **Renewable Energy Opportunities**. Cambodia's abundant solar and hydropower resources support its renewable energy potential, with 62 percent of energy already from renewables (UNFCCC 2023). The government's commitment to net-zero emissions by 2050 and the growing global interest in sustainable projects offer early-stage opportunities for investors in solar energy and renewable exports within ASEAN (AMRO 2024b).

- **Strategic Location**. Cambodia's central location in ASEAN makes it a competitive manufacturing hub amid global supply chain shifts, and a suitable candidate for "Country +1"[7] strategies, where firms establish secondary factories near existing operations to enhance resilience and sustainability (GIZ 2023).

Promote industries where the constraints to competitiveness are less binding

To identify new industries capable of thriving within Cambodia's constraints, it is essential to examine sectors and firms that have already demonstrated competitiveness and analyse the strategies underpinning their success. The garment industry offers valuable insights in this regard. Its reliance on foreign ownership and export-oriented markets significantly reduces interactions with the domestic regulatory environment. Firms in this sector predominantly use imported inputs, minimising dependence on local supply chains, and frequently operate within Special Economic Zones (SEZs), which provide streamlined regulations. Additionally, the industry has capitalised on international partnerships that enforce best practices in governance. Effective industry representation through the Garment Manufacturers Association in Cambodia has further strengthened the sector by facilitating structured engagement with the government on rule of law and regulatory matters, ensuring a more predictable business environment (Ear 2009).

To address logistical challenges, garment producers, and other export-oriented manufacturing firms, often locate near key trade routes, such as Sihanoukville port or the borders with Vietnam and Thailand. To mitigate the risk of power outages, they operate in SEZs with independent electricity supplies or invest in private generators.[8]

Other export-oriented manufacturing industries that could apply these strategies include the assembly of electronics, vehicles and other low-complexity products like toys and furniture.

However, such strategies are neither optimal nor sustainable in the long term. In particular, operational isolation reduces opportunities for technology transfer, domestic supplier linkages and broader economic spillovers. As such, Cambodia must ultimately address its constraints to improve competitiveness, integrate domestic firms and maintain ongoing diversification into more complex industries.

7 For example, many multinational companies and their suppliers, particularly in electronics and garments (including Samsung, Apple and Nike), have adopted a "China +1" approach by maintaining production in China while shifting part of their operations to Vietnam. This move is driven by lower labour costs, trade agreements (e.g., CPTPP, EVFTA) and Vietnam's growing infrastructure.

8 CAPRED interviews with manufacturing firms across several SEZs (2025)

5. Proposed diversification pathways

Given the constraints, opportunities and suggested strategies discussed above, we recommend Cambodia pursue the two diversification paths discussed below. Here we provide an indicative view of what is possible and how diversification from current production to more complex industries can occur.

Throughout this report, we define short-term as within five years, medium-term within a decade and long-term as over a decade.

5.1. Agriculture to agro-processing

Industry overview

Cambodia's agro-processing sector remains underdeveloped, despite the country's abundant agricultural resources and diverse agricultural base. Most existing processing is of relatively low complexity, such as rice milling, cassava starch production and processing pepper. More complex processed products include cereal preparations, dairy products and vegetable oils. Estimates of the share of processed products in agricultural exports range from 5 to 12 percent (see Sok, Yang and Tynarth 2021; General Department of Customers and Excise Data 2024).

Justification for prioritisation

Our decision to recommend agro-processing for diversification is driven by the following considerations:

- Agro-processing is the best industry for a "low-hanging fruit" approach given its high relatedness and moderate complexity.
- Diversification into agro-processing typically facilitates ongoing diversification into chemical products that rely heavily on inputs derived from agriculture (including cosmetics, biofuels, bioplastics, cleaning products, vitamins and pharmaceuticals).
- Agro-processing offers opportunities to promote specialty, niche and premium products.
- Agro-processing offers opportunities to use the following competitive advantages: unprocessed agricultural production, market access, a growing workforce, macroeconomic and political stability, renewable energy potential and strategic location and proximity to key manufacturing hubs.

Agro-processing also offers opportunities for job creation, alignment with trade and FDI trends in the ASEAN region and integration with global and regional value chains.

Diversification opportunities

Agro-processing presents two broad diversification pathways in Cambodia.

- **Short term: scale up and increase the complexity of existing agro-processing industries**. Cambodia currently processes small portions of its key crops, such as rice, cassava, maize, cashew, banana, mango and pepper. However, much of this processing is limited to small-scale and low-complexity operations. The figure highlights value chains in ASEAN for three of Cambodia's

major crops, detailing typical products, processing steps, complexity levels and major firms, showcasing room for growth in both market share and value addition.

- **Medium term: developing new agro-processing industries**. Using the product space methodology, we identify diversification opportunities that balance viability (relatedness to current capabilities) and favourability (higher complexity and connectivity). Promising new agro-processing sub-industries include beverages and liquids (such as beer and vinegar), processed cereal products (such as noodles and rice paper) and other processed foods (such as coffee concentrates, baking powder and sauces).

5.2. Garments to electronics, automotive and machinery

Industry overview

The electronics industry in Cambodia emerged around 2011, driven by FDI from Japanese firms seeking to diversify production from Thailand. By 2023, the industry had grown significantly, with 99 firms operating and employing around 54,000 people (Botineau, Monti, and Pocock 2023), and electronic products accounting for 7.5 percent of exports in 2022 (Atlas of Economic Complexity 2024).

The vehicles and machinery sectors are relatively less established in Cambodia. In 2022, vehicles and machinery accounted for 3.3 and 1.6 percent of exports respectively, with bicycles making up 85 percent of vehicle products (Atlas of Economic Complexity 2024).

As is typical across other countries, Cambodia's electronics, vehicle and machinery production includes low-complexity products (such as insulated wires and cables), and final product assembly. These entry points align with Cambodia's competitive advantages of low labour costs and market access.

All three industries are dominated by foreign firms and rely heavily on imported components, resulting in low value addition and weak integration within the domestic economy. For example, local content accounts for only 26 percent of bicycle and motorcycle manufacturing (CDC 2022). Similarly, around 75 percent of electronic exports are offset by imported components (Botineau, Monti, and Pocock 2023).

Justification for prioritisation

Our decision to recommend electronics (and subsequently, vehicles and machinery) for diversification is driven by the following considerations:

- Electronics is the best industry for a "strategic bets" approach given it is the most viable of the high-complexity industries.
- Diversification into electronics typically facilitates ongoing diversification into other high-complexity manufacturing industries like vehicles and machinery.
- Electronics offers opportunities to take advantage of the following competitive advantages: favourable trade agreements with major export markets, a growing workforce, macroeconomic and political stability, renewable energy potential and strategic location and proximity to key manufacturing hubs.

- Like garment manufacturing, electronics is also an industry where the constraints to competitiveness are less binding

Electronics, vehicles and machinery also offer opportunities for job creation, alignment with trade and FDI trends in the ASEAN region and integration with global and regional value chains.

Finally, all three industries overlap significantly with "green industry." In particular, the shift toward electronic vehicles, or EVs, presents a significant opportunity for Cambodia. Unlike internal combustion engine vehicles, EV components are of moderate complexity and relatively lightweight, making them suitable for cost-competitive production in Cambodia. By leveraging its existing base of wiring harness manufacturers and implementing supportive policies, Cambodia can position itself as a regional hub for EV component production.

Diversification opportunities

Diversification opportunities over time in electronics, vehicles and machinery are summarised in Figure 13 and explained in more detail below.

Electronics

In the short term, Cambodia can expand its presence within the electronics value chain to establish a resilient foundation by producing versatile components that cater to a wide range of end products.

In the medium term, Cambodia can advance up the value chain by focusing on higher-value assembly and targeting more complex product segments, especially consumer, industrial and network electronics.

In the long term, Cambodia can pursue more complex products including:

- Automotive electronics: targeting advanced components to integrate further into the regional automotive value chain, particularly in response to the rise of EVs
- Medical technology : Developing entry-level electronics components for this high-growth global sector

Cambodia could also work towards becoming an integrated electronics production hub, spanning the entire value chain from design and component manufacturing to sub-assembly and final assembly.

Vehicles and machinery

In the short to medium term, Cambodia can focus on realising the potential of recent FDI deals in vehicle assembly, especially the announced BYD EV assembly plant. Cambodia can also build its manufacturing base by cementing the foundation in nascent industries and establishing itself as a regional assembly hub. Focus areas include:

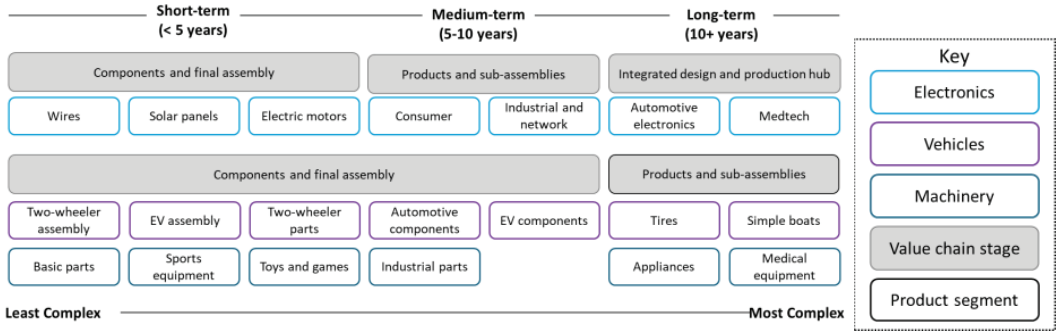
- Simpler, labour-intensive vehicle components, such as wiring harnesses, tyres, seats and basic electronics and electrical components (like sensors, switches and basic communication devices)
- Basic parts (like pumps, pulleys and ball bearings)
- Basic equipment (such as sports equipment, toys and games)
- Simple machines like appliances
- Domestic production of the inputs to bicycles and motorcycles to increase

value addition and strengthen domestic supply chains

In the long term, Cambodia can move up the value chain into more complex, higher value-added components. Key focus areas include:

- Traditional automotive components such as radiators, thermal systems and safety electronics
- EV components such as converters, inverters, vehicle control units, electric motor casings and battery pack assembly
- More complex industrial parts such as turbines, valves and filters
- More complex equipment, such as medical devices

Figure 13: Diversification pathways in electronics, vehicles and machinery



Source: Modified from Royal Government of Cambodia (2022).

6. Recommendations

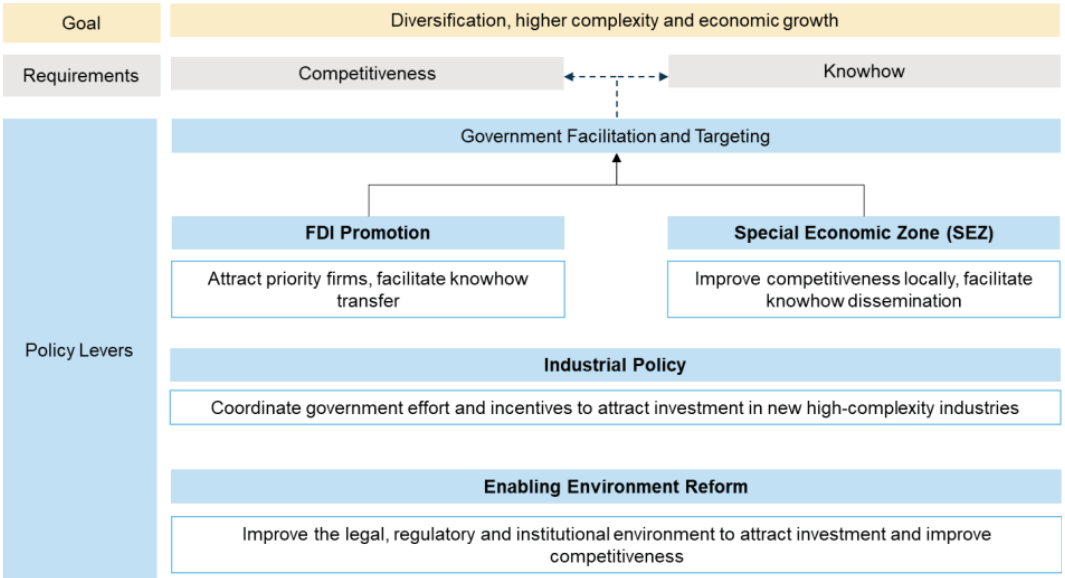
A wide body of research and strategies already exists on economic diversification and the constraints to private sector development in Cambodia (e.g. OECD 2018; World Bank 2021; AMRO 2024c). While these documents comprehensively address Cambodia's competitiveness challenges and the industries with diversification potential, they do not sufficiently discuss how to achieve diversification. Relatedly, their recommendations focus on improving competitiveness with limited emphasis on facilitating diversification through the accumulation of knowhow.

Another challenge with the existing literature is the sheer volume of recommendations. While reform prioritisation is usually discussed, dozens of recommendations still end up on the high-priority list. This 'laundry list' approach can encourage 'policy reform fatigue' (Velasco, Rodrik and Hausmann 2005).

Given these findings, we offer a tailored, non-comprehensive list of both high impact and "low-hanging" recommendations.[9] We add to the existing literature by focusing our recommendations on:

9 Referring to policy actions that are relatively easy to implement, quick to achieve, and potentially provide immediate benefits.

Figure 14: Policy levers to accelerate growth through diversification into higher complexity industries



Source: Authors

- How to acquire **knowhow** and facilitate diversification
- Alleviating the **binding constraints** to competitiveness, discussed above
- How the government can best use **financial incentives and other industry support** to facilitate diversification
- What is **politically supportable and administratively feasible within the short to medium term**, (or close to feasible with assistance from organisations like CDRI or other development partners)

Note that the Overview Report, as well as its background papers, include detailed recommendations addressing several of the constraints identified by this report, especially skills, governance and effective policy implementation. As such, we cover these constraints in less detail.

As shown in Figure 14, the government has several policy levers to achieve these goals. Each is discussed in turn below.

6.1. Government facilitation and targeting

Further target government reforms and fiscal support to priority industries

Currently, government agencies and strategies prioritise many industries. Such broad priorities effectively result in little to no actual targeting. In other words, if everything is a priority, nothing is a priority.

Instead, the government should consider providing more support to fewer firms. This support should go to industries discussed above to compensate for the market failures in the diversification process and other competitiveness constraints. This applies to all government support, especially regarding: FDI promotion, fiscal incentives like tax breaks, trade promotion,

subsidised loans and grants and skills development programmes. Existing firms in well-established exporting industries have already demonstrated that they are internationally competitive and therefore do not require ongoing government support.

Recommendation: RGC (led by Ministry of Economy and Finance) should proceed with the planned evaluation of tax expenditures, focusing on the effectiveness of fiscal incentives in attracting FDI, promoting diversification, and boosting competitiveness. The evaluation should:

- Identify which sectors gain the most from existing incentives and whether these translate into tangible benefits such as technology transfer, skills upgrading, and domestic value addition.
- Benchmark Cambodia's incentives with regional competitors to ensure alignment with global best practices and avoid unnecessary tax losses.
- Identify redundant incentives.
- Assess whether firms can easily access incentives for knowhow accumulation and competitiveness (e.g., for labour exchanges, skills development, or technology adoption), and identify barriers such as lengthy or complex application processes that may deter use.

Based on the findings, RGC should then:

- Retarget incentives to pioneer investors in priority sectors.
- Adopt performance-based incentives to further tie expenditure to outcomes such as job creation, local sourcing, and skills development.
- Improve transparency and access by simplifying and clarifying the incentive regime and application processes to reduce investor uncertainty and increase uptake of effective incentives.
- Establish ongoing monitoring and adjustment to keep incentives aligned with evolving priorities.

6.2. FDI promotion and SEZs

FDI is a tried and trusted path for accumulating the knowhow required to diversify into new industries. It can also generate demand for goods and services from domestic firms. We recommend strategies and policies to not only attract FDI, but ensure that it facilitates knowhow transfer to domestic workers and firms.

Attract and facilitate FDI in agro-processing and electronics, including through the use of SEZs

Cambodia has attracted significant FDI over the last 20 years; however, a minority of this has supported diversification into new priority industries. The required policy response is therefore to improve FDI quality by targeting pioneer firms in priority industries. FDI incentives are also a critical tool, but they are not sufficient on their own.

The RGC should not only seek higher quality FDI, but also actively encourage the transfer of knowhow from foreign firms to domestic firms and workers to drive ongoing diversification and sector growth. This requires targeted policies that: (1) promote labour mobility through expatriate visas and exchange programmes; (2) encourage foreign investors to invest in skills development and promote local workers to senior technical and managerial

positions over time and (3) establish stronger linkages with local firms.

Several existing government policies set out similar recommendations. In particular, the Council for the Development of Cambodia's (CDC) "Automotive and Electronics Sectors Development Roadmap" makes the case for prioritising electronics and contains a detailed plan for attracting FDI in this sector.

Recommendation: We recommend that the RGC scale up their efforts (primarily through the CDC) to identify and then support pioneer entrepreneurs looking to invest in priority industries that can generate the greatest knowhow and other positive spillover effects. Specifically, the CDC should:

- Receive additional resources and capacity for investment promotion and facilitation
- Leverage Article 28 of the Law on Investment to offer additional flexible incentives for pioneer firms in priority industries
- Better coordinate with the Ministry of Commerce (MOC) and pool resources to conduct joint investment and trade promotion activities abroad
- Ensure existing incentives (from the Law on Investment) are easier to access and delivered on time
- Actively encourage foreign investors to use existing tax incentives for skilled labour exchanges and on-the-job training
- Focus investment facilitation efforts on common constraints like land availability and tenure, infrastructure (especially renewable energy), QI) and logistics (especially through the use of SEZs), as well as expediting approvals (such as Environmental Impact Assessments)
- Establish and regularly update a database of state-owned or otherwise available land suitable for investors in priority industries (both individual-purpose plots and dedicated SEZs)
- Digitise FDI-associated processes to enhance efficiency and fairness (by automating tasks, reducing bureaucratic delays and ensuring transparent procedures)
- Coordinate with the Ministry of Labour and Vocational Training to make flexible long-term visas available for senior technical expatriates employed by foreign investors in priority industries
- Promote cross-border collaboration through programmes such as Thailand Plus One

Recommendation: The RGC, led by the Ministry of Economy and Finance, should proceed with the planned evaluation of the Skills Development Fund and investigate how the fund could better target the skills needed by foreign investors in priority industries. Depending on the results of the evaluation, pilot initiatives could be developed to improve such targeting.

Fast track the approval and implementation of the planned agro-processing industrial park

Ongoing cross-ministry efforts to establish Cambodia's first agri-food industrial park are an excellent example of the government effort to attract FDI and establish SEZs in a priority industry (agro-processing). Indeed, a recent feasibility study found that an agri-food industrial park could contribute an additional USD5.1 billion to the Cambodian

economy by 2045 and employ over 100,000 people while lifting over 20,000 people out of poverty each year.

Recommendation: Fast track approval of the government's plans to develop an agro-processing industrial park led by the Ministry of Economy and Finance. Specifically, the government should:

- Offer a targeted FDI incentive package, including supporting infrastructure
- Promote the "private sector led, government-linked" industrial park model
- Attract internationally experienced industrial park operators to run the agro-processing park
- Provide an on-site one-stop facilitation service for permits, taxes, customs, certifications, etc.

6.3. Industrial policy

Industrial policy refers to strategic efforts by the government to promote the competitiveness, innovation and expansion of key industries. Typical industrial policy tools include tax incentives, funding, subsidising research and development, trade policy (such as tariffs or free trade agreements) and targeted infrastructure investment.

Industrial policy also includes more direct industry interventions through dedicated public agencies; Such approaches can be especially successful when targeted and coordinated to address market failures.

Promote linkages to SMEs

Cambodia's economy has grown rapidly over the past two decades. However, this growth has been primarily driven by large firms, many of which are foreign-owned, in only a few sectors: garment manufacturing, tourism and construction. This growth has been far from inclusive and has made the economy less resilient to external shocks.

Small and medium-sized enterprise (SME) linkages refer to supplier-buyer relationships between large firms and SMEs along industry value chains. SME linkages support broad-based economic growth by fostering SME competitiveness, innovation, employment and export growth. Strong linkages also facilitate productivity transfer while serving as attractive signals for new FDI.

Moreover, fostering stronger linkages with SMEs could offer Cambodia several advantages for the future, particularly as the country will face stricter requirements around local content requirements and rules of origin. By enhancing SME linkages, Cambodia could increase local production, which supports meeting the local content thresholds necessary to access preferential trade agreements.

Ideally, such linkages should be built with Cambodian-owned firms. However, in the short-term, foreign parts suppliers can also be encouraged to invest in Cambodia.[10]

10 For example, a Chinese electronics manufacturer already located in Cambodia plans to relocate more elements of his supply chain to Cambodia. He noted Cambodia's competitive advantages, including lower labor and land costs compared to Vietnam and China. However, the shortage of local suppliers remains a key challenge, forcing the firm to import most inputs from China and Vietnam, increasing costs and lead times. To address this, the investor plans to encourage his Chinese suppliers to establish operations in Cambodia, streamlining the supply chain and reducing dependencies. CAPRED (2025) interview with a Chinese electronic manufacturing firm in the Bavet SEZ.

The business environment and the limited capabilities of both local firms (especially SMEs) and local workers are cited by foreign firms as the main reasons for limited linkages (Phurik-Callebaut 2020). Recommendations to improve the enabling environment are discussed below, while this section recommends policies to improve SME capacity.

Recommendation: Establish a SME linkages programme, potentially under Khmer Enterprise (led by the Ministry of Industry, Science, Technology and Innovation). Essential elements of this plan include:

- Focus on industries that support Cambodia's larger diversification and competitiveness goals and provide the greatest opportunities for SME linkages and knowhow transfer. As discussed above, these include electronics and agro-processing.
- Work with industry associations to understand the needs of larger firms and ensure that SME support programmes are aligned with these needs
- Identify SMEs with the potential to reliably supply larger firms. Provide these SMEs with end-to-end support including financial aid, capacity building and matchmaking
- Provide market research and information services to help SMEs understand market demands and identify potential opportunities
- Establish platforms or events for matchmaking between SMEs and larger firms, such as trade fairs, networking events and online platforms
- Improve support on access to finance, including through partnerships with the Credit Guarantee Corporation of Cambodia, the Agriculture and Rural Development Bank (ARDB), SME Bank and the recently established Cambodia Climate Financing Facility
- Better coordination with the CDC and MOC on FDI and export promotion

Renewable energy support for targeted firms and industries

As discussed above, electricity costs are a commonly cited constraint to competitiveness. While much of Cambodia's electricity supply and associated costs are locked in over the medium term, small adjustments to energy policy can help reduce electricity costs and improve reliability for industries targeted for diversification.

An immediate policy to improve competitiveness is to adjust the rooftop solar compensation tariff. While it is important for Cambodia not to 'open the floodgates' and potentially destabilise the grid, the current law does not allow the government to adjust the compensation tariff flexibly across industries and geographic locations. Such policy flexibility for industrial parks is currently being pursued by Vietnam (The Investor 2025).

This proposal serves to improve competitiveness by reducing electricity costs and support diversification into new manufacturing industries, while also promoting climate resilience and green growth. At the same time, it does not require direct government expenditure, can be implemented rapidly and is not administratively difficult to implement.

Recommendation: The RGC, led by the Ministry of Mines and Energy, should significantly lower or remove the compensation tariff for strategic industries, such as agricultural processing (which has large economic multiplier effects), electronics manufacturing and other priority FDI sectors. For example, such an exemption is part of the incentive package for the government's proposed agro-industrial park. This would encourage new investment while avoiding grid destabilisation.

Expanding the nighttime electricity tariff is another policy move to reduce the impact of high electricity costs on Cambodia's competitiveness. Currently, the nighttime tariff—set at almost half the daytime rate—is available from 9 pm to 7 am. However, its impact is limited as the complex application process deters firms from taking advantage of the reduced rates, and the current start time is too late for many businesses to adjust their operations.

Recommendation: Cambodia's electricity utility (Electricité du Cambodge, EDC) should amend the nighttime electricity tariff. Specifically, EDC should extend the tariff start time to 6 pm to better suit business operations and simplify the application process to encourage broader participation. Additionally, EDC should prioritise access for key industries, such as agro-processing and electronics, and conduct awareness campaigns to increase uptake.

Improve quality infrastructure

QI refers to the system of public and private institutions, policies and services that ensure products, services and processes meet established standards of quality, safety and efficiency. This includes elements of standardisation, accreditation, metrology, conformity assessment and market surveillance.

Quality control (including sanitary and phytosanitary measures) are essential for helping firms access and maintain access to export markets and target niche markets with higher prices.

Certification measures, including organic fairtrade, ethical and other sustainability certifications, are also essential for product differentiation and accessing niche markets with higher prices. This applies to both processed and unprocessed agriculture and forestry products.

Shortfalls in Cambodia's QI are currently constraining exports in the priority industries like electronics and agro-processing.

Recommendation: The RGC, led by the Ministry of Industry, Science, Technology and Innovation, should continue with plans to develop a government-wide Roadmap for QI to improve standardisation, compliance and efficient certification of product quality. The roadmap should identify gaps and impediments across Cambodia's QI institutions and regulations, recommend specific improvements and detail the budget and staff required to implement the recommendations.

Promote skilled immigration, returned migration, and diaspora investment

Immigration is one of the fastest and most direct ways to bring in knowhow. Immigration policies should focus on attracting foreigners bringing needed knowhow to generate new industries.

In particular, foreign investors almost always need to fill senior technical and managerial roles with experienced foreign workers while establishing a new business. For example, Thailand has made liberal immigration a key aspect of its FDI promotion. By enabling the growth of new industries, skilled migrants will create far more jobs for Cambodian workers than the few positions filled by foreign specialists. Over time, even these jobs can be transferred to Cambodian workers once the knowhow has been transferred. While Cambodia does not impose especially high barriers to immigration currently, it could do more to encourage skills-based immigration.

A country's migrants and diaspora also have the potential to create new industries by bringing knowhow and market connections. This process is already partly underway in Cambodia, where many returned migrants have started businesses upon their return. However, such businesses are usually not focused on new industries or exporting.[11] Several countries have launched successful programmes to repatriate skilled migrants or leverage large diaspora, including India, Taiwan, and China (World Bank 2006). Cambodia could learn from these experiences and implement a similar but contextualised programme.

Recommendation: The Ministry of Industry, Science, Technology and Innovation, together with the Ministry of Labour and Vocational Training, should develop and implement a talent attraction plan targeted at skilled immigrants, and Cambodian migrants abroad diaspora with manufacturing knowhow.

6.4. Enabling Environment Reform

Business-enabling environment reform refers to the process of creating or improving legal, regulatory and institutional frameworks to support private sector development. Such reform is essential for lowering business costs, attracting new FDI, and ultimately, sustaining robust economic growth.

Although the CDC's introduction of the Single Portal System aims to streamline business registration, implementation at local levels needs to be more consistent. Provincial authorities often need more capacity and resources to process investment applications efficiently, leading to further delays and frustration. Similarly, efforts have been made to improve Cambodia's legal infrastructure, such as establishing the National Commercial Arbitration Centre. However, many foreign investors who prefer international arbitration lack confidence in Cambodian legal institutions and judicial independence.

Prioritise the regulatory environment improvements required to enhance competitiveness in priority industries

The regulatory requirements on businesses in Cambodia, delivered through services like registration, licensing and permits, are burdensome and lack clear policy objectives, necessitating comprehensive reform. As of 2023, approximately 5,105 services are provided by line ministries, state agencies and subnational administrations, managed through inter-ministerial Prakas

11 CAPRED case study collection based on interviews, news articles, and other media.

with the Ministry of Economy and Finance. Many of these services were established primarily to collect non-tax revenue, with little justification for their necessity or support for business sectors. The lack of a comprehensive review has led to a proliferation of non-functional services that impose unnecessary burdens on businesses.

Recommendation 7: Conduct a regulatory review and impact assessment (led by the Ministry of Economy and Finance, with collaboration from line ministries and the Ministry of Interior) with the goal of streamlining processes, decentralising services to the subnational level through One Window Service Offices and promoting digitalisation via online platforms at both national and subnational levels.

One Window Service Offices at the subnational level are a key mechanism for delivering administrative services to SMEs and citizens, but have yet to reach their full potential due to several challenges. These include uncoordinated functional transfers from line agencies, unclear legal frameworks (e.g., issues for street vendors without a permanent address) and complicated application processes imposed by line ministries. Additionally, efforts to digitalise these services by the Ministry of Interior have been hampered by insufficient funding and poor integration with national digitalisation initiatives.

Recommendation 7: Realise the potential of One Window Service Offices through a combined approach of functional assignment and regulatory streamlining (led by the Ministry of Economy and Finance, Ministry of Interior, and Ministry of Industry, Science, Technology and Innovation regarding the informal economy policy). Functions transferred to these offices should be reviewed and justified, and the application processes streamlined to reduce compliance burdens. Furthermore, increased support from the Ministry of Economy and Finance and development partners is essential to expand and strengthen digitalisation at One Window Service Offices and link them with national efforts, such as the CamDX business registration platform. Specifically, the government should:

- Link remaining ministries to the Single Window Service Offices and ensure clear approval procedures and cost transparency
- Digitise and streamline processing of registration, licensing, certification, taxation and customs systems/permits
- Accelerate the decentralisation of One Window Service Offices at the subnational level

7. References

ADB. 2021. *Cambodia Agriculture, Natural Resources, and Rural Development Sector Assessment, Strategy, and Roadmap*. Manila: Asian Development Bank.

———. 2024. *Cambodia's Economic Diversification*. Manila: Asian Development Bank.

AmCham Cambodia. 2024. *Business Climate Survey: Opportunities and Challenges in a Rapidly Growing Economy*. Phnom Penh: American Chamber of Commerce in Cambodia.

AMRO. 2024a. *Annual Consultation Report on Cambodia*. Singapore: ASEAN+3 Macroeconomic Research Office.

———. 2024b. *The Reconfiguration of Foreign Direct Investment in ASEAN+3*. Singapore: ASEAN+3 Macroeconomic Research Office.

———. 2024c. *Pathways for Diversifying Exports and Enhancing Comparative Advantages*. Singapore: ASEAN+3 Macroeconomic Research Office.

ASEAN Secretariat. 2023. *RCEP Agreement Highlights*. Jakarta: ASEAN Secretariat.

Atlas of Economic Complexity. 2024. *Economic Complexity Index Data*. Harvard Growth Lab.

Botineau, Monti, and Pocock. 2023. *Sector Brief Cambodia: Electrical and Electronic Equipment Industry*. Phnom Penh.

CDC. 2022. *Automotive and Electronics Sectors Development Roadmap*. Phnom Penh: Council for the Development of Cambodia.

———. 2023. *Handbook on Investing in Cambodia*. Phnom Penh: Council for the Development of Cambodia.

EuroCham Cambodia. 2024. *Skills Gap Assessment*. Phnom Penh: European Chamber of Commerce Cambodia.

FAO. 2023a. *Regional Knowledge Platform on One Country One Priority Product (OCOP) in Asia and the Pacific*. Bangkok: Food and Agriculture Organization.

———. 2023b. *Cambodia's Agriculture Investment Framework*. Bangkok: Food and Agriculture Organization.

General Department of Customs and Excise. 2024. *Trade and FDI Data*. Phnom Penh: Ministry of Economy and Finance.

GIZ. 2023. *Survey Report: Cambodia's Attractiveness for EU Foreign Direct Investments*. Phnom Penh: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

Grow Asia. 2022. *Amru Rice: A Case Study on Responsible Investment into Rice in Cambodia*. Singapore: Grow Asia.

Hausmann, Ricardo, César A. Hidalgo, Sebastián Bustos, Michele Coscia, and Alexander Simoes. 2014. *The Atlas of Economic Complexity: Mapping Paths to Prosperity*. MIT Press

Hausmann, Ricardo. 2018. *Accessing Knowhow for Development*. Cambridge, MA: Harvard Center for International Development.

Henley Openness Index. 2024. *Global Openness Index Data*.

Mekong Strategic Capital. 2024. *Demography Is Destiny: Cambodia's Workforce Potential*. Phnom Penh: Mekong Strategic Capital.

Ministry of Labour and Vocational Training. 2024. *Employer Skills Need Survey*. Phnom Penh: Ministry of Labour and Vocational Training.

National Bank of Cambodia. 2024. *FDI by Sector Report*. Phnom Penh: National Bank of Cambodia.

OECD. 2018. *Competitiveness and Diversification in Cambodia: Challenges and Opportunities in the Manufacturing Sector*. Paris: Organisation for Economic Co-operation and Development.

Penn World Table. 2021. *Economic Growth Data*. Groningen Growth and Development Centre.

Phurik-Callebaut. 2020. *SME Internationalisation in Cambodia*. Phnom Penh.

Royal Government of Cambodia. 2022. *Cambodia Automotive and Electronics Sectors Development Roadmap*. Phnom Penh: Royal Government of Cambodia.

Sok, Yang, and Tynarth. 2021. *Cambodia's Agri-Food Trade: Structure, New Potentials, Challenges & Impacts of COVID-19*. Phnom Penh: CDRI.

Sophal Ear. 2009. *Sowing and Sewing Growth*. Stanford Center for International Development Working Paper No. 384.

The Investor. 2024. "Vietnam Allows 20 Percent Offtake from Self-Use Rooftop Solar Power Installations." *The Investor*.

———. 2025. "Vietnam to Amend Power Development Plan VIII." *The Investor*.

UNFCCC. 2023. *National Statement by Head of the Cambodian Delegation at the 28th United Nations Climate Change Conference*.

Velasco, Andres, Dani Rodrik, and Ricardo Hausmann. 2005. *Growth Diagnostics*. Cambridge, MA: Harvard Growth Lab.

Ven Seyhah and Hing Vutha. 2019. *Cambodia in the Electronic and Electrical Global Value Chains*. Phnom Penh: CDRI.

World Bank. 2006. *Diaspora Networks and the International Migration of Skills*. Washington, DC: World Bank.

———. 2021. *A Strategy to Diversify Cambodia's Growth Model*. Washington, DC: World Bank.

———. 2023. *Cambodia Enterprise Survey*. Washington, DC: World Bank.

World Bank - World Development Indicators. 2021. *Global Economic Data*.

National Institute of Statistics. 2022. *Economic Census of Cambodia*. Phnom Penh: National Institute of Statistics.

ឯកសារសាវតារទី៩

យុទ្ធសាស្ត្រកំណើនថ្មីរបស់ប្រទេសកម្ពុជា៖ សេណារីយ៉ូសេដ្ឋកិច្ច

រ៉ូឡែន រ៉ាចាហ៍ និង អាមេត អាបាយរ៉ាក់

មុនពេលមានជំងឺរាតត្បាត កម្ពុជាគឺជាប្រទេសមួយក្នុងចំណោមប្រទេសដែលមានសេដ្ឋកិច្ចរីកចម្រើនលឿនបំផុតនៅលើពិភពលោក។ ដោយមើលឃើញពីលទ្ធផលដ៏រឹងមាំនេះ យុទ្ធសាស្ត្រចក្ខុវិស័យឆ្នាំ២០៥០របស់រាជរដ្ឋាភិបាលកម្ពុជា មានគោលបំណងធ្វើឱ្យកម្ពុជាក្លាយជាប្រទេសមានប្រាក់ចំណូលខ្ពស់នៅពាក់កណ្តាលសតវត្សរ៍នេះ។ ការរាតត្បាតនៃជំងឺកូវីដ-១៩ ការឈ្លានពានរបស់ប្រទេសរុស្ស៊ីលើអ៊ុយក្រែន និងបញ្ហាវិស័យអចលនទ្រព្យក្នុងស្រុក បានធ្វើឱ្យប្រទេសកម្ពុជាមានការលំបាកក្នុងការរក្សាអត្រាកំណើនជាប្រវត្តិសាស្ត្រដូចពីមុន។ បញ្ហាប្រឈមបន្ថែមផ្សេងទៀត រួមមានកំណើនសេដ្ឋកិច្ចសកលយឺតជាងមុន ការបែកបាក់ភូមិសាស្ត្រសេដ្ឋកិច្ច ការកើនឡើងស្ថិយកម្ម និងការកើនឡើងនៃផលប៉ះពាល់អាកាសធាតុ។ ដើម្បីឈានទៅដល់ហាន:ជាប្រទេសមានចំណូលខ្ពស់ក្រោមលក្ខខណ្ឌមិនល្អទាំងនេះ ប្រទេសកម្ពុជាចាំបាច់ត្រូវកែលម្អគន្លងកំណើនរបស់ខ្លួន។ នៅក្នុងឯកសារសាវតារនេះ យើងយកគំរូពីសេណារីយ៉ូចំនួនបីផ្សេងៗគ្នា។ នៅក្នុងសេណារីយ៉ូតាមដំណើរការធម្មតា ប្រទេសកម្ពុជានឹងជាប់គាំងក្នុងអន្ទាក់នៃប្រទេសដែលមានចំណូលមធ្យម។ ផ្ទុយទៅវិញ សេណារីយ៉ូនៃការពន្លឿនកំណែទម្រង់ នឹងកំណត់គោលដៅលើវិស័យដែលមានសក្តានុពលខ្ពស់ដូចជាកម្មន្តសាលគ្រឿងអេឡិចត្រូនិក និងការកែច្នៃកសិផល ដែលត្រូវបានព្យាករថានឹងផ្តល់កំណើនសេដ្ឋកិច្ចប្រចាំឆ្នាំជាមធ្យម ៦,៤ភាគរយ សម្រាប់រយៈពេលនៅសល់ក្នុងទសវត្សរ៍នេះ។ ទោះជាយ៉ាងណាក៏ដោយ ក្នុងរយៈពេលវែង ត្រូវបានទាមទារឱ្យមានកំណែទម្រង់គ្រប់ជ្រុងជ្រោយបន្ថែមទៀត ដើម្បីកែលម្អអភិបាលកិច្ច និងការគាំទ្រដល់ការអភិវឌ្ឍមនុស្ស។ នៅក្នុងសេណារីយ៉ូកំណែទម្រង់គ្រប់ជ្រុងជ្រោយមួយ ប្រទេសកម្ពុជាអាចរក្សាបាននូវអត្រាកំណើនសេដ្ឋកិច្ចពី ៥-៦ភាគរយក្នុងមួយឆ្នាំក្នុងរយៈពេលជាច្រើនទសវត្សរ៍ខាងមុខ ដោយឈានដល់ហាន:ជាប្រទេសដែលមានចំណូលខ្ពស់នៅប្រហែលឆ្នាំ២០៦០ ឬនៅប្រហែលពាក់កណ្តាលសតវត្សរ៍នេះ។

Background Paper 9

A New Growth Strategy for Cambodia: Economic Scenarios

Roland Rajah and Ahmed Albayrak

Abstract

Cambodia was one of the fastest growing economies in the world prior to the pandemic. Given this strong performance, The Royal Government of Cambodia's Vision 2050 aims for the country to reach high-income country status by mid-century. The COVID-19 pandemic, Russia's invasion of Ukraine, and a troubled domestic real estate sector have made it challenging for Cambodia to sustain historic growth rates. Further challenges on the horizon include slower global economic growth, geoeconomic fragmentation, rising automation, and increasing climate impacts. To reach high-income country status under these adverse conditions, Cambodia needs to overhaul its growth trajectory. In this paper, we model three alternative scenarios. In a business-as-usual scenario, Cambodia would find itself stuck in the middle-income trap. By contrast, an accelerated reform scenario would target high potential sectors such as electronics manufacturing and agro-processing which is projected to deliver annual economic growth averaging 6.4 percent for the rest of this decade. In the long run however, more comprehensive reforms to improve governance and support human development are required. In a comprehensive reform scenario, Cambodia can sustain economic growth rates of 5-6 percent per year over the decades ahead, reaching high-income country status by around 2060 or broadly mid-century.

1. Introduction

Cambodia has achieved rapid economic progress over the past three decades. Economic growth has been among the fastest in the world while basic development outcomes have improved significantly. The Royal Government of Cambodia (RGC) aims to sustain this rapid progress. Vision 2050 aims for Cambodia to reach high-income country (HIC) status by mid-century. This is a challenging task which few countries in history have been able to match. It is made even more challenging given the recent global shocks including the COVID-19 pandemic starting in early 2020 and economic spillovers from Russia's invasion of the Ukraine beginning in 2022, both of which have imposed large economic costs on Cambodia. Looking ahead, the global economic environment has become less favourable while Cambodia also faces internal economic challenges that together imply a difficult immediate growth outlook, most notably related to the end of the real estate boom.

This paper assesses Cambodia's prospects for delivering Vision 2050 based on quantitative modelling and a systematic policy gap analysis. The main conclusion is that returning to rapid growth and a pathway towards reaching HIC status by broadly mid-century is feasible but will require a new strategy. Like the previous East Asian miracle economies, Cambodia's growth strategy must inevitably adjust to continue along the path of rapid development. Conversely, failing to recalibrate would put Cambodia's growth story at risk, potentially seeing it join the ranks of many other countries that have ultimately become mired in the middle-income trap (Kharas and Gill 2020).

The scenario modelling undertaken in this paper suggests that in a business-as-usual (BAU) projection, economic growth would be considerably slower than before the pandemic. Between 2024-2030, the BAU scenario would see economic growth stuck at about 5.4 percent per year, similar to its current pace. This would still place Cambodia as a relatively fast-growing economy by international standards. However, it would be well below the rate of progress desired by Cambodia and its political leadership. Over the longer term the costs of continuing as BAU would be even higher and could see Cambodia stuck in the middle-income trap and possibly never able to reach high-income status.

Cambodia's existing growth strategy – built on political stability, prudent macroeconomic policy, and economic openness – has allowed the country to take advantage of its key competitive advantages in low-cost labour, world class tourism assets, and its geographic position in the dynamic East Asia region. However, these pillars alone are no longer enough. For instance, real wages for low-skilled workers have already risen substantially over the past decade as the pool of cheap labour from the countryside has dried up. This means higher incomes for many workers but has also outpaced improvements in productivity, eroding Cambodia's export competitiveness.

Cambodia needs a new growth strategy. When considering the required growth strategy we draw on the work of Rodrik et al. (2017, 2024) who emphasise several key points regarding growth strategies for developing countries. First, rapid economic growth is almost always primarily generated through structural change, rather than improvements in general policy fundamentals, such as governance. Second, though manufacturing is typically the most important driver of rapid growth through structural change, its power is diminishing due to automation and heavy international competition. Third, increasingly the major source of non-farm employment is traditional services (e.g. trade, hospitality, personal services etc.), therefore boosting productivity in services is a key imperative for both growth and inclusion. Finally, improving core fundamentals, e.g. governance and human capital, remains crucial for sustaining growth over the long run, even if these play a more limited role in generating fast growth in the short-to-medium term.

This paper therefore recommends Cambodia adopt a new growth strategy focused on two streams of policy effort. The first and more immediate policy stream focuses on accelerating Cambodia's medium term economic prospects through prioritised sector policy efforts. This should be targeted at a limited subset of high potential industries (notably electronics, agro-processing, and tourism) together with policies to support small and medium enterprises (SMEs) and the informal sector. Recognising the fact that rapid growth usually relies on achieving strong performance in a few key sectors, while achieving inclusiveness requires economic growth reach the majority of lower income workers in traditional services and the informal sector. If Cambodia can succeed in this regard, economic growth would be considerably faster, averaging 6.4 percent a year over the rest of this decade.

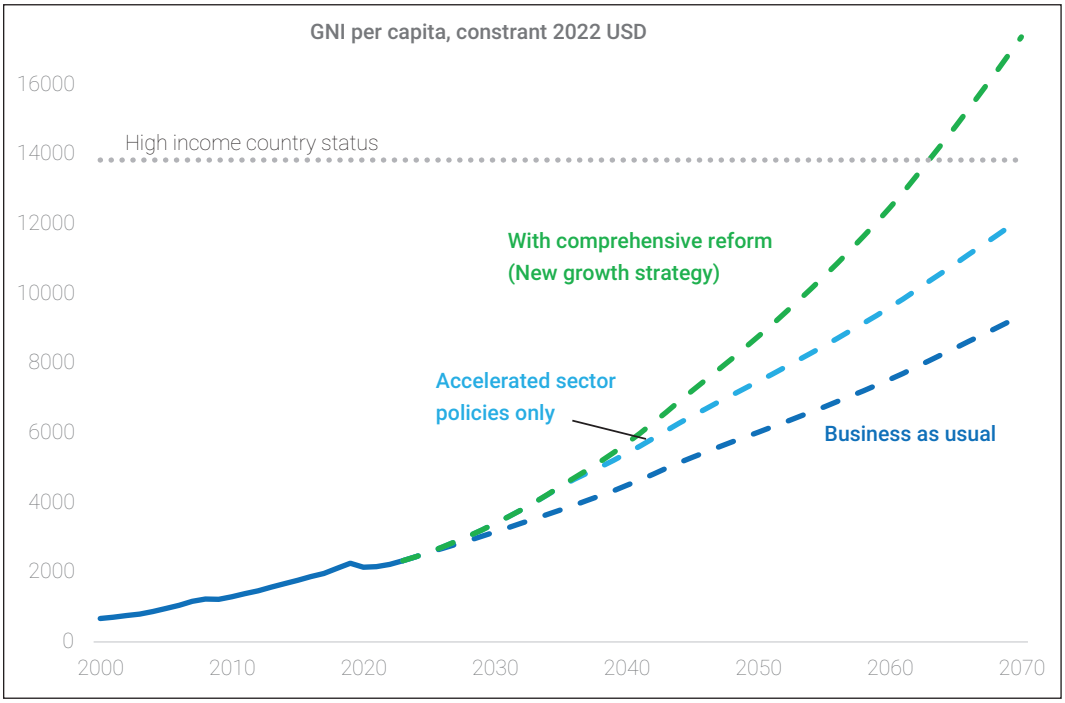
Note that our modelling indicates that returning to the rates of economic growth achieved before the pandemic (7 percent or higher), appears not realistic due to both changes in the external economic environment as well as domestic changes, most notably the end of the real estate boom. From a more theoretical and modelling perspective, economic catchup effects can also be expected to dissipate as income per capita rises. With that in mind, the government should also be careful to avoid setting excessively high growth targets. This would likely damage future growth prospects or risk an eventual crisis, for example due to a return to unsustainable real estate investment, credit growth, and environmental degradation.

The second part of the growth strategy recognises that comprehensive reform is needed to sustain fast growth over the long term and ultimately make the transition to HIC status. The focus here is on human capital development (education and health) and improving institutional quality (or governance) as well as addressing key environmental sustainability and social resilience. Reform in these areas will take time to bear fruit. However, growth will inevitably slow without progress on these key fundamentals. With success in these areas, Cambodia is projected to achieve rapid and broad-based growth sustained

at 5-6 percent in later decades. This would be enough to reach HIC status by the early 2060s. However, preliminary GDP updates by the government indicate that income per capita may be 15 percent higher than current figures suggest. Incorporating this into our projection suggests that high-income status could therefore be reached a few years earlier or enough to claim the objective as achieved by broadly mid-century. Figure 1 and Table 1 below summarise the key results of the growth modelling carried out for this paper.

The rest of this paper is organised as follows. Section 2 first presents a policy gap analysis to assess Cambodia's reform progress and the risks of falling into the middle-income trap. Section 3 discusses the overall approach to modelling taken in this

Figure 1: Scenario development pathways



Source: Authors projections and national accounts statistics

Scenario	Projected economic growth		
	2024-2030	2031-2040	2041-2050
1. Business-as-usual (BAU)	5.4%	4.3%	3.4%
2. Accelerated sector policies only	6.4%	5.1%	3.1%
3. With comprehensive reform	6.4%	6.3%	5.3%

Source: Authors projections and national accounts statistics

paper and introduces the two approaches that are used. Section 4 introduces the neoclassical growth model as the first approach used in this paper. Section 5 does the same for the structural transformation model as our second approach. Section 6 then presents the BAU scenario projection and a comparison with Cambodia's pre-COVID-19 trajectory. Section 7 presents the 'accelerated sector policies only' scenario that could deliver faster growth over the coming decade. Section 8 presents the "comprehensive reform" scenario that will be needed to sustain growth in the 5-6 percent range over the longer term and reach high-income status by around 2060. Section 9 concludes.

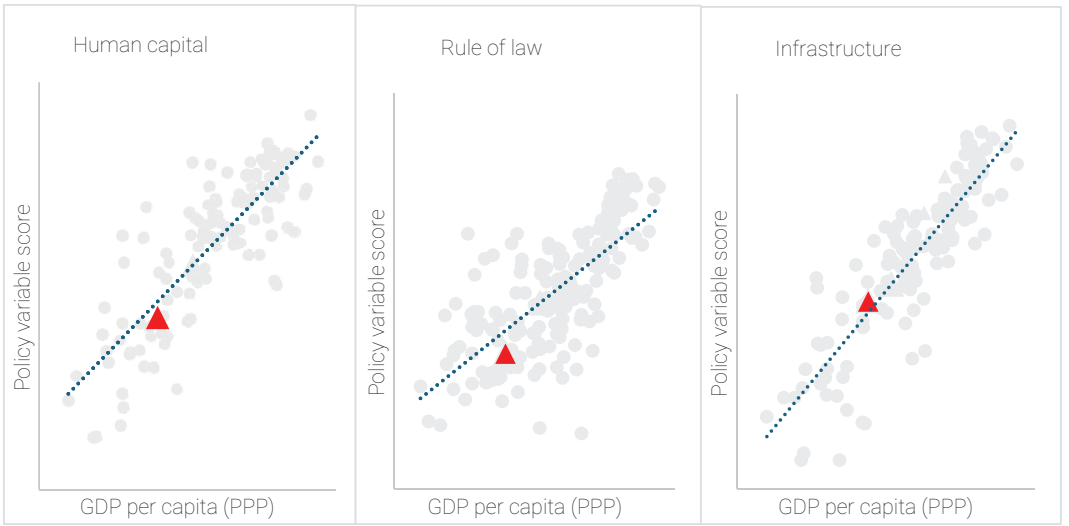
2. Policy gaps and avoiding the middle-income trap

Before we delve into the modelling of Cambodia's future growth prospects, we first review Cambodia's performance in key policy domains important to its future economic growth and the related risks of it falling into the middle-income trap (Kharas and Gill 2020). Whether a specific "trap" exists or not is debatable (Pritchett and Summers 2014). What is clear however is that the reform requirements for sustaining rapid growth get harder to successfully deliver as countries develop, at both a technical and political level, while new growth strategies must be developed and effectively implemented.

To investigate the risk of Cambodia falling into the middle-income trap, we conduct a policy gap analysis to examine Cambodia's performance across key policy and institutional domains widely considered important growth fundamentals. The analysis draws upon commonly used variables measuring key policy domains and compares Cambodia's performance to: 1) countries at a similar level of GDP per capita; 2) whether Cambodia's score is improving; 3) the gap between where Cambodia is today and the norms for high-income countries; and 4) the year that Cambodia would reach these norms given present trends. As an example, Figure 2 illustrates how the analysis was conducted for several key variables – human capital, rule of law, and infrastructure – by comparing Cambodia's position relative to the estimated relationship between policy variable scores and GDP per capita across all countries with available data. The full results of the analysis are presented in Table 2 as a heat map.

The policy gap heat map points to the risk of Cambodia getting stuck in the middle-income trap given its present trajectory. Cambodia does well in terms of several key areas closely linked to manufacturing – such as trade policy (tariffs), infrastructure quality, openness to FDI, political stability, and government effectiveness. This explains Cambodia's strong ability to generate rapid growth to date via structural transformation. However, Cambodia faces challenges in terms of the broader business environment, with worsening logistics performance, regulatory quality, and digital restrictiveness. Hence, the regulatory reform agenda to support Cambodia's

Figure 2: Cambodia's relative performance in three key policy domains



Source: Penn World Table, World Bank, World Economic Forum

manufacturing competitiveness is incomplete and not progressing fast enough in all areas.

In terms of human capital – which affects both manufacturing competitiveness and longer term growth potential – Cambodia is making progress in education quantity as shown by the lower secondary completion rate and human capital index (based on years of schooling for the average worker). However, the gap in education quality is large, while basic health outcomes are improving very slowly. Note that the available data also does not yet reflect the impact of the COVID-19 pandemic, which imposed significant education and health losses.

In terms of deep institutional factors critical to sustaining long term growth – such as rule of law – the picture is less promising. Cambodia underperforms relative to its peers and there is a large gap across all areas relative to HIC norms. Importantly, while Cambodia's scores are improving in some dimensions over time, this is not occurring at the required pace to bridge the gap.

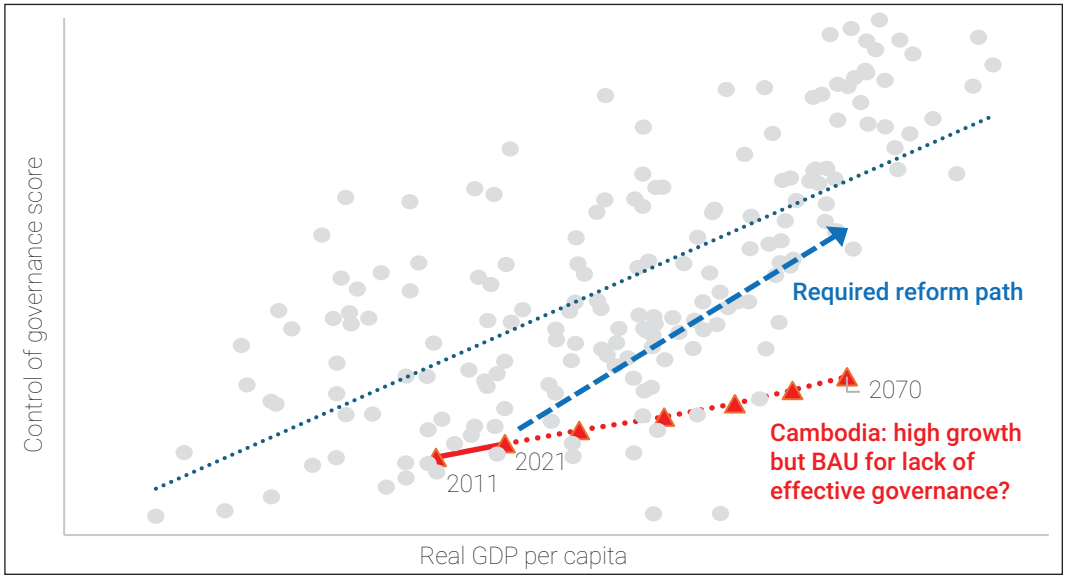
The most significant institutional challenge is enhancing governance and transparency. Cambodia currently ranks among the lowest globally in measures of governance effectiveness, both in general and compared to other lower middle-income countries, with progress remaining slow (Figure 3). Hypothetically, if Cambodia managed to sustain high growth in line with the comprehensive reform scenario but continued with only its current level of governance improvements, it would face significant challenges in maintaining institutional integrity at HIC levels. The only countries with similarly limited governance indicators along this hypothetical growth pathway are resource-rich (e.g. Russia, Iran, Iraq) and/or countries experiencing prolonged difficulties advancing beyond middle-income status (e.g. Mexico,

Table 1: Policy gap analysis – How adequate is Cambodia's pace of reform?

Variable	Relative to peers	Direction of change*	Gap with HIC norm	Expected year to reach HIC norm**
Human Capital Index***	Worse	Improving	-47%	2051
Lower secondary completion rate	Worse	Improving	-34%	2057
PISA	Worse	N/A	-28%	N/A
Maternal mortality rate	Worse	Improving	-285%	2141
Average tariffs	Better	Improving	-3%	2030
FDI restrictiveness	Better	Improving	2%	Already above
Infrastructure quality	Better	Improving	-37%	2031
Logistics Performance Index	Worse	Worsening	-31%	Negative trend
Digital restrictiveness	Worse	Worsening	-97%	Negative trend
Tax revenue % GDP	Better	Improving	-2%	2024
Political stability	Better	Improving	-10%	2048
Government effectiveness	Better	Improving	-21%	2041
Regulatory quality	Better	Worsening	-25%	Negative trend
Rule of law	Worse	Improving	-30%	2091
Control of governance	Worse	Improving	-37%	2197

*Change in level of policy variable score over past decade based on closest available data.
** Assuming continuation in the annual pace of change over past decade.
***Pre-pandemic trend

Figure 3: Control of governance vs GDP per capita



Source: authors, Worldwide Governance Indicators

Paraguay). To achieve its long term economic ambitions, Cambodia will need to accelerate efforts to strengthen its institutional effectiveness and transparency.

The policy gap analysis reveals that Cambodia has outperformed in openness and stability measures that enabled the manufacturing sector to thrive. However, the regulatory reform agenda is incomplete while underperformance on human capital and institutional quality is likely to inhibit sustainable growth in the long run.

3. Modelling approach

It is worth noting the inherent limitations of growth modelling. Despite much work in the academic literature, the precise determinants of economic growth are still not well understood, and it is not possible to say with much certainty what the precise growth effects of specific policies might be (Growth Commission 2008). Even measurable reform has empirically proven a weak explanator of sustained changes in the pace of economic growth (Haussman et al. 2004). Much also depends on changes in technology, the effects of which are impossible to predict. Future shocks are almost inevitable. For instance, experts warn that future pandemics are highly likely (Penn 2021). Most fast-growing economies have experienced financial crises that have set back their progress significantly (Aizenman et al. 2017). Finally, all countries are unique and there are very few countries that have achieved the kind of economic growth Cambodia has in the past and which it hopes to achieve in future. The list is limited to the original East Asian miracle economies (South Korea, Taiwan, Hong Kong, and Singapore) and China and Vietnam more recently. Cambodia is already an outlier and its vision for continued economic success is premised on remaining one.

This paper therefore relies on modelling approaches that capture the broad forces driving economic growth. It aims to establish realistic expectations for future economic growth based on alternative scenarios and a useful framework for determining the overall growth strategy required. Two projection methodologies are employed. First, a standard neoclassical growth accounting model whereby growth is disaggregated and projected based on its proximate sources: the number of workers employed, how skilled they are (education), the availability of public capital (e.g. infrastructure) and private capital (e.g. factories and equipment), and Total Factor Productivity (TFP) which captures all other factors and is often interpreted to reflect market efficiency, technology and innovation, and institutional quality. The second model is a more sophisticated structural transformation model involving a series of estimated regressions determining employment and productivity in each sector of the economy (e.g. agriculture, manufacturing, mining, construction, etc.). These are then brought together into a single economy-wide model.

Future growth is projected using both models under several scenarios, including

a 'BAU' scenario, an 'accelerated sector policies only' scenario to capture the key strategy required to realise faster growth, and a 'comprehensive reform' scenario capturing the additional reforms required to sustain rapid longer term growth and ultimately the achievement of HIC status. The average of the two model projections are used for all scenarios allowing our projections to capture the insights of each model while avoiding overreliance on a single projection framework. Since both models focus on estimating underlying trends growth potential, we use short-run growth forecasts by the IMF for 2023-2025 to reflect short-run cyclical factors before switching to our model forecasts from 2026 onwards.

Both models capture the idea of 'conditional convergence' – that poorer countries tend to grow faster than richer ones, as there are more opportunities to catchup to the global frontier (Barro 2012). Conversely, as countries develop, growth typically slows. The advantage of the neoclassical model is that it is a very widely used approach with clear theoretical foundations and several key policy variables directly incorporated into the model (education, public and private investment). The key limitation is that the most important factor is usually growth in TFP, which as a residual is difficult to interpret and forecast. Of note, in fast-growing economies, structural change (the shifting of workers from less to more productive sectors) is usually a major driver of both growth in TFP and private capital accumulation. However structural change is not explicitly modelled in the neoclassical framework. This is where the structural transformation model is useful in addition to its ability to provide a more sector specific explanation of growth. The main disadvantage of the model is that it is difficult to directly incorporate specific policy variables into the framework given the aforementioned issues in the literature in credibly estimating causal effects.

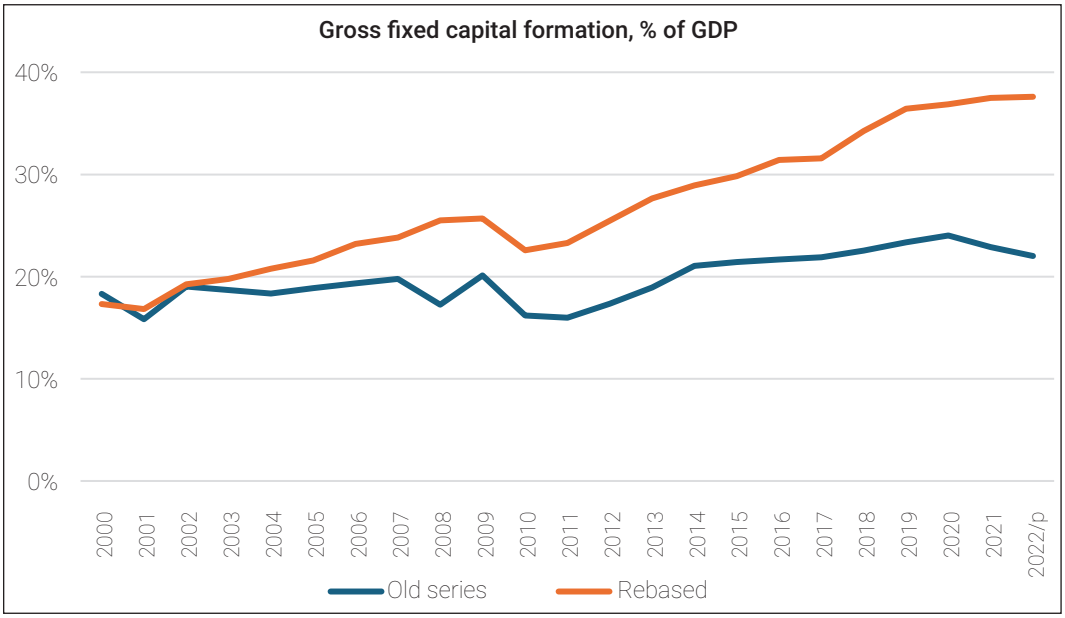
A general word on data. We use the recently released rebased national accounts data as provided by the Cambodian National Institute of Statistics (NIS). According to the rebased data, Cambodia's economic growth has been higher than previously estimated. Economic growth is estimated to have averaged 8.1 percent from 2000 to 2019, compared to 7.6 percent using the older GDP series. The latter already implied that Cambodia had been one of the fastest growing economies in the world, prior to COVID-19. The rebased GDP series suggests that Cambodia's economic performance is estimated to be about one third higher than previously thought. Overall, the rebased data imply that Cambodia has been progressing much faster towards, and is much closer to realising its long term development vision than previous numbers suggested.

The rebased data also carries implications important to the modelling exercises undertaken in this paper. First, and most obviously, the significant differences between the rebased and old GDP series mean that any modelling undertaken to project future growth using either data series will produce different results and policy implications. Hence, the rebased GDP data not only affects our understanding of Cambodia's past performance and current level of income but also our projections of future growth. Second, the rebased data

is not yet reflected in key international databases which the models used in this paper draw upon. Adjustments have therefore been made by the authors to integrate Cambodia's rebased data with these international datasets. Third, the rebased investment data is much higher than previously reported as a share of GDP and the ratio has also been rising rapidly over the past decade, compared to a flatter trajectory under the older GDP series (Figure 4). This has important implications particularly for the neoclassical growth model. In this, the rate of investment is a key input variable and creates an important point of differentiation from previous studies of Cambodia's potential growth, such as that completed by the World Bank in 2019 when inadequate investment (and national savings) was identified as the key policy issue.

Finally, it is worth noting that the government is currently completing work for a further GDP rebasing exercise. This is expected to increase GDP and GDP per capita by 15 percent compared to the current series. We do not incorporate this into our modelling exercise as we do not have the complete updated national accounts data. However, we incorporate GDP and GNI per capita being 15 percent higher than current estimates when considering the implications for Cambodia's ability to reach HIC status by mid-century.

Figure 4: Investment has been revised much higher



Source: National Institute of Statistics

4. Neoclassical growth model

The first approach uses a neoclassical growth accounting framework first conceptualised by Solow (1956) and Swan (1956). In the traditional neoclassical growth accounting framework, there is only labour, physical capital and TFP (Solow 1956). In this version, we disaggregate physical capital into public and private capital and also augment labour with human capital. The approach is similar to that in Rajah and Leng (2022) and Devadas and Penning (2018).

The neoclassical growth accounting framework is given by the equations below.

$$Y_t = A_t \cdot (K_t^{public})^{\varphi} \cdot (K_t^{private})^{1-\varphi-\beta} \cdot (h_t \cdot L_t)^{\beta} \quad (1)$$

$$g_Y = g_A + \varphi \cdot g_{K\_public} + (1-\varphi-\beta) \cdot g_{K\_private} + \beta \cdot g_h + \beta \cdot g_L \quad (2)$$

Where: *Y* the real output is decomposed to capital (K), human capital per worker (*h*) and the number of workers (*L*) and total factor productivity (*A*); measured as the residual of economic growth denoting unexplained factors such as technology and institutional quality. β and φ are the elasticities of output to labour and public capital respectively. β is set at 0.6 while φ is set at 0.14 following Devadas and Penning (2018). The elasticity of output to private capital is taken as 1-φ-β, reflecting the standard assumption of constant returns to scale. *g* refers to the growth rate of respective variables.

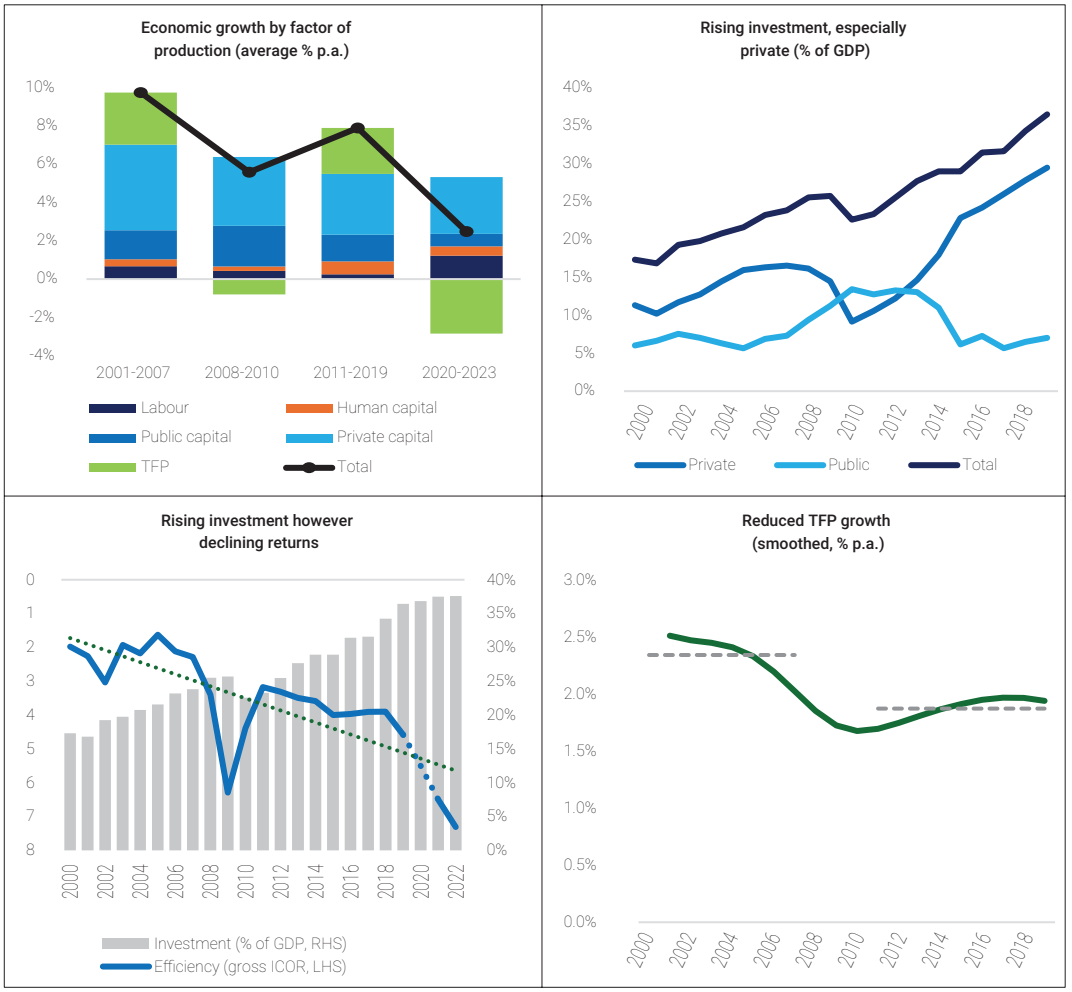
To obtain the data required in these equations, we consult several sources. We obtained the historical output and investment rates from NIS. For public and private capital stock we begin with the IMF capital stock database. However given the substantial changes in Cambodia's national accounts data with the recent rebasing, we recalculate the public and private capital stock numbers utilising the latest data based on the same methodology as the IMF. For human capital and the number of workers, we use the Penn World Tables (PWT) and United Nations Population Division respectively.

Using the neoclassical growth framework, we can break down Cambodia's stellar historical growth performance into its proximate sources (Figure 5, top left panel). The most notable aspect of Cambodia's growth story is the large contribution from physical capital, most notably private investment but with public investment also playing a very sizeable role. Over 2000-2019, physical capital accounted for about two thirds of total economic growth, with private capital contributing almost two thirds to economic growth. Moreover, the pace of investment has been rising rapidly, going from 17 percent of GDP at the turn of the century to 23 percent of GDP by 2010 and reaching 38 percent of GDP in 2022 (Figure 5, top right panel). At this level, Cambodia's investment rate is now one of the highest in the world. It also presents a dramatically different picture to that using the old national accounts data, which had investment peaking at 24 percent of GDP in 2020.

Despite a rapidly rising investment rate, it is notable that there was no commensurate rise in the pace of economic growth. This is captured by the deterioration in the incremental capital output ratio (ICOR).

The ICOR measures how much additional capital is required to generate an additional unit of output and is usually interpreted as measure of efficiency or the economic return of investment at the macroeconomic level. A rising ICOR implies less efficient investment in that more and more capital is required to generate an additional unit of output. In Cambodia's case, the ICOR has risen quite sharply, indicating declining investment efficiency (Figure 5, bottom left panel). Partially related to this has been a slowdown in TFP growth (bottom right panel), though at about 2 percent per year before the pandemic it remained at a decent level by international comparison. A plausible interpretation of declining investment efficiency and TFP growth is that rising investment has been increasingly channelled into less productive areas, notably real estate. It is also, however, likely a reflection of convergence effects and the declining ability to realise easy catch-up gains in capital deepening and TFP, for instance through structural change.

Figure 5: Cambodia's growth story using the neoclassical framework



5. Structural transformation model

The second modelling exercise draws on more recent literature (Rajah and Albayrak forthcoming; Zhu et al. 2019; Sasaki et al. 2021). The approach estimates a series of individual regression models for employment and labour productivity for all sectors of the economy – i.e. agriculture, manufacturing, mining, utilities, construction, trade services, transport services, financial services real estate services, business services, government services and other services. We use an extended version of the GGDC/UNU-WIDER Economic Transformation Database for labour productivity and employment for 12 sectors. We use data for 51 countries that were considered developing countries during the period from 1970 to 2018. See Appendix I for a full list of countries and sector definitions. For Cambodia, we use the rebased sector output shares from NIS and sector employment numbers from ILO. The approach involves estimating a series of individual regressions for the employment share for 11 economic sectors contained in the GGDC database. Agriculture is treated as the residual sector of employment reflecting the idea of Lewis (1954) of surplus traditional agricultural workers. We also estimate regressions for the growth of labour productivity for all 12 sectors.

The utility of the overall model lies in capturing within a single integrated model several key facts well established in the literature on structural transformation and economic growth in developing countries. The first is that of conditional convergence, whereby countries and sectors with lower productivity levels exhibit faster growth, catching up over time to richer ones after adjusting for country-specific factors (Barro 2016; Rodrik 2012; Dieppe and Matsuoka 2021). Second, is the evolving relationship between manufacturing employment and development as documented by Rodrik (2015), Felipe (2014), and Kruse et al. (2022), among others. Specifically, the share of manufacturing in total employment tends to rise with higher levels of GDP per capita before declining as the economy matures and labour costs rise, following a hump-shaped pattern. Critically however, there is also evidence of 'premature de-industrialisation, whereby employment de-industrialisation now sets in at lower levels of development compared to earlier decades, generally thought to reflect technological changes (automation) and China's role in crowding out other countries in manufacturing. The final key stylised fact is of rising 'servicification' of the economy (Nayyar et al. 2021; Rodrik et al. 2017; Baldwin 2019; Buera and Kaboski 2012), reflecting the movement of workers from agriculture into traditional services, the rising value-added role of services as inputs within global value chains, and advances in information communication technology which have made trading services across borders increasingly possible.

We begin by estimating labour productivity growth within each sector using a fixed effects model with robust standard errors. The key aspect in line with the literature being that labour productivity in each

sector is expected to exhibit 'conditional convergence' – whereby countries with lower sector labour productivity exhibit faster growth after controlling for other relevant factors. The regression is given by the following equation:

$$\hat{Y}_{ijt} = \alpha_i + \beta^i lny_{ijt} + Y_j D_{ij} + \varphi_t D_{it} + \varepsilon_{ijt} \quad (3)$$

Where $\hat{Y}_{ijt}$ is the annual labour productivity growth rate in sector *i*, country *j* and year *t*. lny_{ijt} is the natural log of the labour productivity level in 2015 PPP terms[1], D_{ij} is a set of country fixed effects, D_{it} is a set of time fixed effects, α_i is the constant term and ε_{ijt} is the error term. The coefficient β^i represents the convergence rate in sector *i* and is expected to have a negative sign, indicating that countries with lower productivity levels will exhibit faster growth. The inclusion of country fixed effects provides a simple and standard method of controlling all other country specific factors, including geography and institutions.

We also estimate the relationship between sectoral employment shares and GDP per capita whilst controlling for population with the following fixed effects model with robust standard errors using the same methodology as Rodrik (2015). The key aspect being that sector employment shares follow a non-linear (quadratic) relationship with the level of GDP per capita, which can be interpreted as capturing how sectoral employment shares generally evolve in line with the economic development process. The regression is given by the following equation:

$$empshare_{ijt} = \alpha_i + \beta_1 lnydp_{jt} + \beta_2 (lnydp_{jt})^2 + \beta_3 lnpop_{jt} + \beta_4 (lnpop_{jt})^2 + Y_{ij} D_{ij} + \varphi_t D_t + \varepsilon_{ijt} \quad (4)$$

Where $empshare_{ijt}$ is the employment share of the sector *i,* in country *j* and year *t*. $lngdp_{jt}$ is the natural log of the GDP per capita of country *j* in year *t* in 2015 PPP terms, $lnpop_{jt}$ is the population of country *j* in year *t, D_{ij}* is a set of country fixed effects, D_{it} is a set of time fixed effects, α_i is the constant term and ε_{ijt} is the error term.

Econometric results for both sets of equations are contained in the appendix. Similar to other studies in the literature, all coefficients are found to be highly statistically significant with the expected signs. Bringing these individual models together and combining this with demographic projections (for total and working age population) from the United Nations Population Division allows us to construct an integrated economy-wide model with employment and output growth in all sectors. The time effects in Equation 4 follow a consistent linear trend so we extrapolate these for future years. In Equation 3, we found no trends in the time effects, so we do not make any adjustments. To more finely calibrate the model, we include 5-year average error terms in all individual regression equations.

1 We used PPP conversion factors from the World Bank.

6. Scenario 1: Business-as-usual (BAU)

The need for a new growth strategy reflects a confluence of internal and external factors. Internally, economic growth before the pandemic was overly reliant on an unsustainable real estate boom that has come to an end while saddling domestic firms with high debts and banks with poor assets. Economic growth has also been driven by unsustainable land expansion and an overly narrow export base while exhibiting little industrial upgrading and slowing productivity growth. Recent economic shocks have left the government with less fiscal space due to lower revenues and higher debt. Meanwhile, the international environment is considerably more difficult than before amid weak global economic growth, rising protectionism and geoeconomic fragmentation, accelerating automation, and increasing climate impacts. Cambodia's expected graduation from LDC status will also reduce the country's access to markets and foreign assistance. Learning losses due to school closures during the pandemic will weigh on future workforce productivity. In the longer term, an ageing population will create a rising source of fiscal pressure. Environmental limits (e.g. forest loss, soil erosion, unsustainable land expansion) and accelerating climate change are also increasingly weighing on agricultural productivity while substantial new investments are required for mitigation and adaptation. This translates into reduced future growth prospects under a BAU scenario using both modelling approaches in this study.

Within the neoclassical framework, private investment will be weaker due to the end of the real estate boom, elevated corporate debt, and with banks facing high non-performing loans. Public investment in infrastructure is also expected to be lower due to tighter fiscal conditions and fewer projects funded by external development partners. The need to invest in adaptation is also increasing investment costs. Overall, total investment is projected to return to its long run average during 2000-2019 of 25 percent of GDP, considerably lower than the recent peak of 38 percent of GDP seen in 2022. Human capital improvement is assumed to follow its 2000-2019 average while TFP growth slows gradually in line with its smoothed long term trend, from 2 percent per year in 2019 to 1.1 percent by 2050. The main cause of slower growth in the neoclassical framework is sharply reduced contributions from future capital accumulation due to both lower public and private investment rates and diminishing returns after decades of high investment.

The structural transformation model largely produces a baseline projection without requiring any further assumptions. The end of the real estate boom alone is expected to reduce future growth compared to the pre-pandemic pace by 1.2 percentage points. Meanwhile, the share of manufacturing in total employment has been stagnant at about 16 percent for some time and is projected to remain at this level over the coming decade before gradually declining as Cambodia's economy matures and labour costs rise. A key problem however is that there has been relatively little productivity growth within manufacturing. Industrial upgrading has been occurring but is proceeding slowly. Concurrently, non-farm employment creation has been dominated

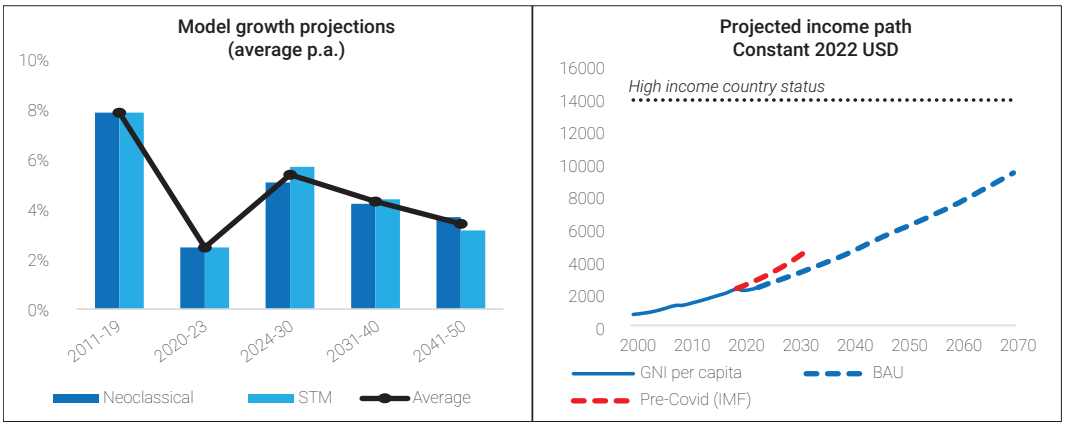
by construction and traditional services (e.g. trade and hospitality). Increases in the former have come to an end while growth in the latter is projected to continue but with weak productivity benefits. Overall, the key insight from a structural transformation perspective is that employment in Cambodia is no longer rapidly industrialising and is instead increasingly dominated by services with weak labour productivity performance.

We take the average of the two models as our baseline projection, Figure 6 presents the results. Growth is projected to remain robust by international standards but slow, setting back Cambodia's path to HIC status into the horizon[2]. Overall, the baseline scenario sees economic growth averaging about 5.4 percent over the rest of this decade, falling to 4.3 percent in the 2030s and 3.4 percent in the 2040s. This is well below the 7 percent per annum growth the Cambodian government hopes to return to in the medium term. Even allowing GNI per capita to be revised by 15 percent higher than current figures would still render HIC status out of reach.

This baseline projection is much below Cambodia's pre-COVID-19 trajectory and reflects a combination of the costs of recent global shocks and the country's more constrained growth outlook in the aftermath. As of 2023, the costs of recent global shocks have already set income per capita in Cambodia back by about 19 percent compared to the pre-COVID-19 trend. Figure 3 (right panel) shows Cambodia's pre-COVID-19 trajectory. It is based on a medium-term growth forecast released by the IMF in October 2019 of almost 7 percent per year while incorporating the subsequent increase in the level of Cambodia's GDP with the recent rebasing exercise. Note however that, given the unsustainable real estate boom prior to the pandemic, earlier pre-pandemic growth forecasts were arguably overly optimistic in the absence of stronger reform and the arrival of new growth drivers.

2 To assess progress towards the HIC guidelines – set by the World Bank based on Gross National Income (GNI) per capita measured in nominal USD terms each year – we follow the approach used in World Bank (2019) by treating all variables in real terms, assuming a constant KHR-USD exchange rate, and assuming GNI grows in line with GDP.

Figure 6: BAU projections (Scenario 1)



7. Scenario 2: Accelerated sector policies only

Ambitious policy efforts are required if Cambodia is to do better in meeting its development vision. In this section we construct a scenario for accelerated growth based on the previously discussed idea that rapid economic growth in the medium term typically comes from faster structural transformation based on a few key sectors, usually manufacturing. In addition, achieving more inclusive economic growth will require traditional sectors to also play a role, given this is where the bulk of non-farm employment is likely to lie.

The central finding of the modelling under this scenario is that considerably faster growth of above 6 percent a year is possible in the medium term. This is below the government's current hopes for returning to 7 percent growth in the medium term. It should be viewed as providing a more realistic medium term growth ambition for Cambodia given it is based on Cambodia meeting assumptions that, while within reach, are nonetheless quite optimistic.

Achieving faster medium-term growth will depend on activating a new phase of structural transformation. This can most feasibly be done through a renewed expansion in manufacturing via the diversification into promising new subindustries. Analysis conducted in other background papers connected to this study suggests that agro-processing and electronics are the most promising manufacturing subindustries that would not only allow Cambodia to move into higher value-added activities but ones that are feasible based on current capabilities and competitive advantages (i.e. in labour-intensive basic manufacturing) while also providing a basis for future industrial upgrading over the longer term (for instance into machinery and automobiles). This is broadly the path followed by other successful Asian economies that Cambodia is seeking to emulate, including the original East Asian miracles and more recently Vietnam and China. When it comes to traditional services, Cambodia can also leverage its already established tourism industry to generate stronger productivity growth.

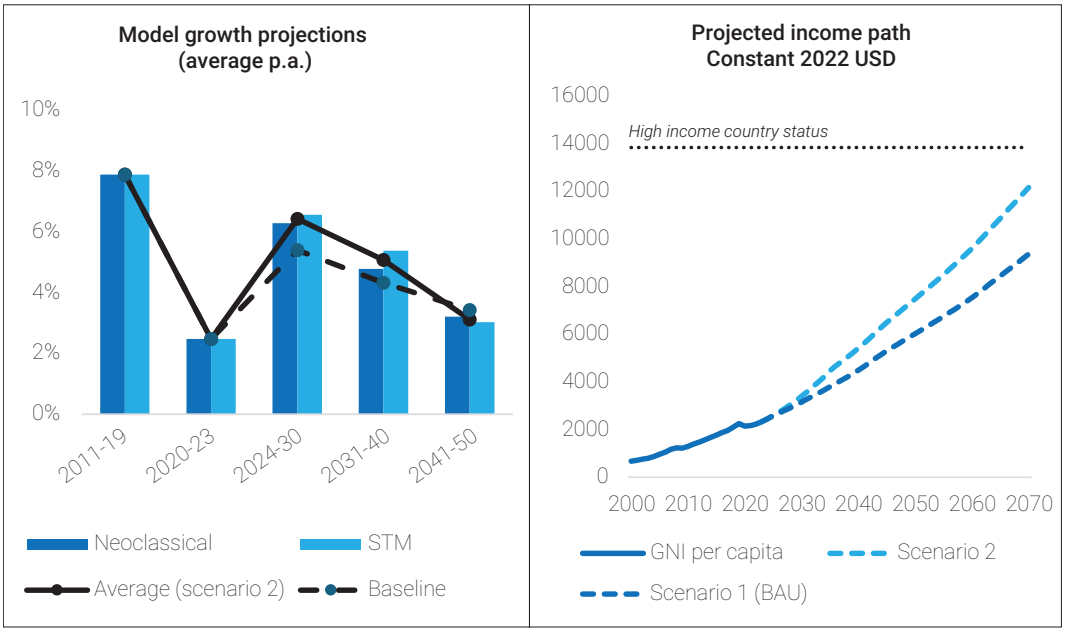
To construct the accelerated sector policies only scenario, we start with the structural transformation model. For manufacturing, we assume Cambodia can match the recent success of countries such as Vietnam and China when these countries were at a similar stage of development to Cambodia today. This would mean lifting manufacturing from about 16 percent of total employment at present to around 20 percent and boosting labour productivity within the manufacturing sector (which also captures industrial upgrading within manufacturing) by one standard deviation within our sample of 51 countries. For traditional services, we similarly assume a one standard deviation improvement in labour productivity growth but do not adjust the share of employment since this is likely to be more constrained by demand. The above adjustments are integrated into the structural transformation model over the period 2025-2035, with key variables

thereafter evolving over time based on the standard calibration of the model (e.g. with manufacturing employment remaining permanently elevated but declining over time in line with the standard model prediction).

We complement the scenario results of the structural transformation model with an analogous projection utilising the neoclassical model. This involves adopting more optimistic assumptions for several key policy variables until 2035 before reverting to similar assumptions as in the BAU scenario thereafter. First, we assume investment remains elevated at about 38 percent of GDP until 2035, thereafter reverting to the 2000-2019 average of 25 percent of GDP in line with the BAU scenario. Second, accelerated structural transformation is assumed to allow TFP growth to be sustained at 2 percent per year, its average pace during 2000-2019, defying standard convergence assumptions until 2035 before reverting to the BAU pace.

Figure 7 presents the scenario results, with economic growth accelerating to 6.4 percent a year on average between 2024-2030 before declining to 5.1 percent in the 2030s and 3.1 percent in the 2040s. With this, Cambodia would reach HIC status by 2077. If GNI per capita is revised higher by 15 percent, the country could reach HIC status by 2070.

Figure 7: Accelerated sector policies only projections (Scenario 2)



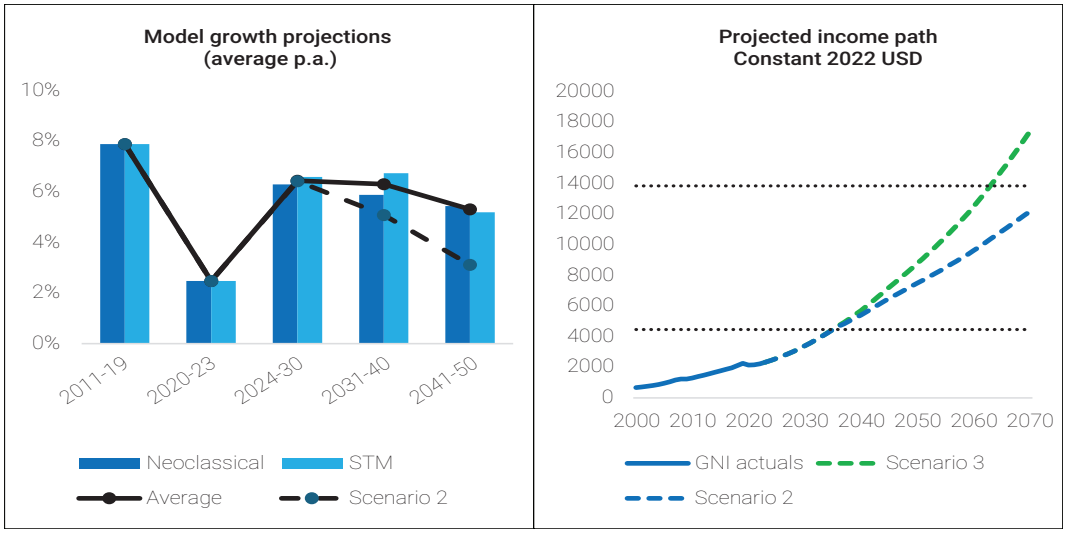
8. Scenario 3: Comprehensive reform

In the final scenario we create a projection whereby Cambodia is not only able to achieve the above in the medium-term via accelerated sector policies but is also able to address key longer term reform priorities to sustain rapid growth beyond 2035. These in particular relate to improving human capita (health and education) as well as institutional reform, as per the policy gap analysis presented in Section 2.

We operationalise this in our two models as follows. Within the neoclassical framework, investment is assumed to remain sustained at the high level of 38 percent of GDP going forward. Human capital improvement is assumed to gradually improve, from the current long term average increase of 0.8 percent per year to 1.2 percent per year from 2035 onwards, reflecting success with education reform. Finally, TFP growth is assumed to remain at 2 percent per year. Within the structural transformation framework, the model incorporates the assumptions until 2035 using the accelerated sector policies only scenario while adding a gradual improvement in sector labour productivity across all sectors, except where this would see Cambodia outperform any other country in our sample, in which case a smaller adjustment is made. In other words, we assume Cambodia undertakes reforms that would enable it to be amongst the best performing countries in our sample in terms of sector labour productivity across all sectors.

Figure 8 presents the scenario results, with economic growth accelerating to 6.4 percent a year on average between 2024-2030 similar to Scenario 2 but thereafter being sustained at 6.3 percent in the 2030s and 5.3 percent in the 2040s rather than decelerating sharply as per the other scenario. With this, Cambodia would reach high-income status by 2063. If GNI per capita is revised 15 percent higher, HIC status would be 2059.

Figure 8: Comprehensive reform projections (Scenario 3)



9. Conclusion

This paper has sought to model and assess Cambodia's prospects for fulfilling its Vision 2050 ambition to reach high-income status over the coming decades. The main conclusion is that reaching high-income status by 2050 is no longer feasible however realistically it can be achieved by around 2060. This would be enough for Cambodia to be able to claim reaching high-income status by broadly mid-century. This would see Cambodia remain amongst the most successful economic development stories in world history. Like the previous East Asian miracle economies, Cambodia's growth strategy will however need to adjust. Conversely, failing to recalibrate would put Cambodia's growth story at risk, potentially seeing it join the ranks of many other countries that have ultimately become mired in the middle-income trap.

This paper recommends that Cambodia adopt a two-pronged growth strategy focused on accelerated sector policy efforts aimed at achieving faster economic growth of above 6 percent over the medium term, compared to just over 5 percent growth projected in the BAU scenario. Sustaining growth in the longer term and achieving high-income status will however require this to be complemented by a more comprehensive reform strategy, aimed particularly at improving human capital and institutional quality. With this, Cambodia could feasibly sustain economic growth in the 5-6 percent range over the coming decades, ultimately reaching high-income by around 2060.

References

Aizenman, Joshua, Yothin Jinjarak, Gemma Estrada, and Shu Tian. 2017. "Flexibility of Adjustment to Shocks: Economic Growth and Volatility of Middle-Income Countries Before and After the Global Financial Crisis of 2008." *Emerging Markets Finance and Trade* 54, no. 5 (2018): 1112-1131.

Barro, Robert J. 2012. *Convergence and Modernization Revisited,* Working Paper 18295. National Bureau of Economic Research. https://doi.org/10.3386/w18295

Devadas, Sharmila, and Steven Michael Pennings. 2018. "Assessing the effect of public capital on growth: An extension of the World Bank Long-Term Growth Model." *Journal of Infrastructure, Policy and Development*, *3*(1), 22.

Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer. 2015. "The Next Generation of the Penn World Table." *American Economic Review*, 105(10), 3150-3182

Hausmann, Ricardo, Lant Pritchett, and Dani Rodrik. (2004). *Growth Accelerations*, Working Paper Series No. 10566, Massachusetts: National Bureau of Economic Research

IMF. 2024. Cambodia: 2023 Article IV Consultation-Press Release; and Staff Report (Country Report No. 2024/036). Retrieved 10 May 2024, from https://

www.imf.org/en/Publications/CR/Issues/2024/01/29/Cambodia-2023-Article-IV-Consultation-Press-Release-and-Staff-Report-544276

Kharas, Homi, and Indermit Gill. 2020. "Growth Strategies to Avoid the Middle-Income Trap." *Trapped in the Middle?: Developmental Challenges for Middle-Income Countries*: 24.

Kruse, Hagen, Emmanuel Mensah, E, Kunal Sen, and Gaaitzen de Vries. 2022. "A Manufacturing (Re)Naissance? Industrialization in the Developing World." *IMF Economic Review*, *71*(2), 439–473.

Ly, Sodeth, Miguel Eduardo Sanchez Martin, Runsinarith Phim, Linna Ky, Kimsun Tong, Anne Marie Provo, Somil Nagpal, S, and Ekaterine Vashakmadze. 2019. *Cambodia Economic Update: Recent Economic Developments and Outlook.* Cambodia Economic Update Washington, D.C.: World Bank Group

OECD Data Explorer. n.d. The Organisation for Economic Cooperation and Development https://www.oecd.org/en/data/datasets/oecd-DE.html

Penn, M. 2021. "Statistics Say Large Pandemics Are More Likely Than We Thought. Duke" *Global Health Institute*. https://globalhealth.duke.edu/news/statistics-say-large-pandemics-are-more-likely-we-thought

PISA Database. Paris: The Organisation for Economic Cooperation and Development. https://www.oecd.org/en/about/programmes/pisa.html

Pritchett, Lant, and Lawrence H. Summers. 2014. *Asiaphoria Meets Regression to the Mean.* Working Paper Series No. 20573. Massachusetts: National Bureau of Economic Research.

Rajah, Rajah, and Alyssa Leng. 2022. *Revising Down Rise of China, Lowy Institute Analysis.*

Rodrik, Dani. 2015. *Premature Deindustrialization.* Working Paper Series No. 20935. Massachusetts: National Bureau of Economic Research.

Rodrik, Dani, Margaret McMillan, and Claudia Sepulveda. 2017. *Structural change, fundamentals, and growth.* Washington DC: International Food Policy Research Institute.

Rodrik Dani, and Joseph Stiglitz. 2024. A New Growth Strategy for Developing Nations, https://drodrik.scholar.harvard.edu/sites/scholar.harvard.edu/files/dani-rodrik/files/a_new_growth_strategy_for_developing_nations.pdf

Solow, Robert. M. 1956. A Contribution to the Theory of Economic Growth. *The Quarterly Journal of Economics*, *70*(1), 65.

Swan, Trevor Winchester. 1956. Economic Growth and Capital Accumulation. *Economic Record*, *32*(2), 334–361.

World Development Indicators. n.d. Washington, D.C.: The World Bank. https://databank.worldbank.org/source/world-development-indicators

Appendix I

Region	Countries
Developing Asia (14)	Bangladesh, Cambodia, China, India, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, Viet Nam
Advanced Asia (6)	Hong Kong (China), Israel, Japan, Korea (Rep. of), Singapore, Chinese Taipei
Latin America (9)	Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru
Middle East and North Africa (4)	Egypt, Morocco, Tunisia, Turkey
Sub-Saharan Africa (18)	Botswana, Burkina Faso, Cameroon, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia

ISIC Rev. 4 code	Economic Transformation Database sector name	ISIC Rev. 4 description
A	Agriculture	Agriculture, forestry, fishing
B	Mining	Mining and quarrying
C	Manufacturing	Manufacturing
D+E	Utilities	Electricity, gas, steam and air conditioning supply; Water supply; sewerage, waste management and remediation activities
F	Construction	Construction
G+I	Trade services	Wholesale and retail trade; repair of motor vehicles and motorcycles; Accommodation and food service activities
J	Transport services	Transportation and storage
J+M+N	Business services	Information and communication; Professional, scientific and technical activities; Administrative and support service activities
K	Financial services	Financial and insurance activities
L	Real Estate	Real estate activities
O+P+Q	Government services	Public administration and defence; compulsory social security; Education; Human health and social work activities
R+S+T+U	Other services	Arts, entertainment and recreation; Other service activities; Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use; Activities of extraterritorial organizations and bodies

Appendix II: Econometric results

Labour productivity convergence results

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Agriculture	Mining	Manufac-turing	Utilities	Construc-tion	Trade services	Transport services	Business services	Financial services	Real Estate services	Government services	Other services
convergence rate	-0.0768***	-0.0860**	-0.0199***	-0.0624***	-0.0821***	-0.0433***	-0.0279***	-0.0164*	-0.0278**	-0.0238*	-0.0309*	-0.0354*
	(0.00881)	(0.0322)	(0.00406)	(0.0138)	(0.0219)	(0.0112)	(0.00555)	(0.00710)	(0.00874)	(0.0105)	(0.0123)	(0.0156)
_cons	0.282***	0.518*	0.121***	0.218***	0.336***	0.163***	0.114***	0.0667	0.140**	0.140*	0.129**	0.0883
	(0.0331)	(0.212)	(0.0254)	(0.0447)	(0.0883)	(0.0487)	(0.0249)	(0.0376)	(0.0516)	(0.0616)	(0.0485)	(0.0473)
N	2180	2178	2180	2175	2180	2180	2180	2180	2180	2012	2180	2180
R-sq	0.109	0.079	0.159	0.068	0.100	0.067	0.129	0.175	0.118	0.107	0.081	0.091
adj. R-sq	0.067	0.036	0.119	0.024	0.057	0.023	0.088	0.136	0.076	0.062	0.038	0.048

* p<0.05
**p<0.01
***p<0.001”

Employment shares

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Agriculture	Manufac-turing	Construc-tion	Trade services	Business services	Financial services	Government Services	Other services	Mining	Real estate services	Utilities	Transport services
lngdp	-0.179***	0.308***	0.0158**	0.0912***	-0.114***	-0.0547***	-0.0501***	-0.0386**	0.0187***	-0.0312***	0.00453***	0.0302***
	(0.0327)	(0.0214)	(0.00535)	(0.0141)	(0.00468)	(0.00394)	(0.0128)	(0.0120)	(0.00247)	(0.00247)	(0.00134)	(0.00310)
lngdp2	0.00629**	-0.0170***	0.000596	-0.00510***	0.00700***	0.00357***	0.00317***	0.00220**	-0.000919***	0.00202***	-0.000209**	-0.00158***
	(0.00203)	(0.00134)	(0.000321)	(0.000897)	(0.000291)	(0.000244)	(0.000788)	(0.000724)	(0.000151)	(0.000150)	(0.0000793)	(0.000188)
lnpop	0.119*	0.0740***	-0.0862***	0.0412*	0.0540***	0.0213***	-0.0190	-0.131***	-0.0262***	-0.000192	-0.00235	-0.0440***
	(0.0561)	(0.0213)	(0.0152)	(0.0189)	(0.00874)	(0.00309)	(0.0295)	(0.0219)	(0.00643)	(0.00152)	(0.00338)	(0.00481)
lnpop2	-0.00644***	-0.000663	0.00371***	-0.00119*	-0.00260***	-0.000720***	0.000231	0.00497***	0.00105***	-0.0000727	0.000313**	0.00142***
	(0.00163)	(0.000725)	(0.000475)	(0.000569)	(0.000288)	(0.0000923)	(0.000832)	(0.000725)	(0.000174)	(0.0000496)	(0.000119)	(0.000159)
_cons	1.187*	-2.268***	0.249	-0.626***	0.326***	0.0420	0.627*	1.070***	0.0556	0.138***	-0.0563	0.255***
	(0.554)	(0.202)	(0.131)	(0.188)	(0.0769)	(0.0336)	(0.300)	(0.199)	(0.0689)	(0.0175)	(0.0288)	(0.0451)
N	2231	2231	2231	2231	2231	2231	2231	2231	2231	2231	2231	2231
R-sq	0.971	0.833	0.879	0.904	0.931	0.889	0.934	0.903	0.773	0.837	0.776	0.921
adj. R-sq	0.969	0.825	0.874	0.900	0.928	0.884	0.931	0.899	0.762	0.830	0.765	0.917

* p<0.05
**p<0.01
***p<0.001

Background Papers (BP)

BP 01) Hing Vutha and Kruy Narin. February 2025. *Cambodia's Economic Trajectory: 2000-2022 Macroeconomic Analysis*.

BP 02) Ngov Penghuy and Cheng Savuth. February 2025. *Structural Transformation and Economic Growth in Cambodia*.

BP 03) Jayant Menon. February 2025. *Increasing the Inclusiveness, Resilience and Sustainability of Economic Growth in Cambodia*.

BP 04) Muth Sumontheany. February 2025. *Cambodia's Macroeconomic Review: Current State and Short-Term Outlook*.

BP 05) Eng Netra, Caroline Hughes, Ngin Chanrith, Chea Phal, and Cesci Cruz. February 2025. *Climate Change, Gender, and Social Analysis for Cambodia's New Growth Strategy*.

BP 06) Eng Netra, Caroline Hughes and Pak Kimchoeun. October 2024. *Overcoming Constraints for Effective Policy Implementation*.

BP 07) Dean Rizzeti. February 2025. *Delivering the skills for the clean energy transition*.

BP 08) Kelly Wyett. February 2025. *Cambodia Economic Diversification Pathways.*

BP 09) Roland Rajah and Ahmed Albayrak. February 2025. *A New Growth Strategy for Cambodia: Economic Scenarios.*

Cambodia Development Resource Institute

56 Street 315, Tuol Kork,
PO Box 622, Phnom Penh, Cambodia
+855 23 881 701/881 916/883 603
cdri@cdri.org.kh
www.cdri.org.kh