

CAMBODIA OUTLOOK BRIEF

THE 14TH CAMBODIA OUTLOOK CONFERENCE

“Revitalising Cambodia: Sustaining Development After COVID-19”

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“The government has been trying to transform the [COVID-19] crisis into opportunities, by accelerating in-depth reforms to improve the business climate and strengthen Cambodia’s competitiveness.”

*Keynote speech by Samdech Akka Moha Sena Padei Techo Hun Sen
Prime Minister of Cambodia at the 14th Outlook Conference*

Cambodia’s development is at a crossroads

The 14th Outlook Conference held on 6 October 2022 brought together leaders in government, business, development, and academics to discuss these important issues. The conference focused on exploring possible ways forward for Cambodia to achieve inclusive and sustainable development in the context of post-COVID-19 recovery in order to achieve upper-middle income country status by 2030. This policy brief outlines the policy considerations which emerged from the conference, beginning with risks and opportunities facing Cambodia, changes that should be made to Cambodia’s pre-COVID economic strategy, and the urgent actions that public private partnerships should undertake to achieve economic development.

Prior to the COVID-19 pandemic, Cambodia’s economic development strategy was exemplary. Beginning in 2010 through 2019, the Cambodian economy grew 7% annually making it one of the fastest growing countries in the world and enabling it to achieve lower middle income country status in 2015. However, by 2020, Cambodia experienced its first recession in 30 years placing increased burden on Cambodia’s most vulnerable populations.

COVID-19 and other global pressures, such as environmental degradation, geopolitical instability, and economic nationalism, continue to impact the nation’s development. As a result, Cambodia needs a new direction for growth which will thrive through the new challenges of a continuously changing world.

On the economic front, Cambodia’s growth model needs greater diversification and industrial upgrading, particularly focusing on digital opportunities. Cambodia’s gross domestic product growth in 2020 and 2021 was smaller in comparison to other countries in the region with more diversified export bases. Cambodia also faces geopolitical risks stemming from the war in Ukraine and maintaining a balanced position in the emerging new world order.

On the environmental front, climate change, deforestation, and agricultural water resource governance in the Mekong River threaten the agriculture-dominated rural population. Environmental changes brought about by climate change and governance of water resources is a key issue considering the agricultural sector’s importance for livelihood resilience in Cambodia.

Finally, any future development strategy will need to broaden its horizons to consider a range of multi-dimensional poverty and social indicators. Livelihoods are determined not just by income, but also by food security, access to basic infrastructure, opportunities for education, and a sense of empowerment.

Impacts of the global mega trends on Cambodia

The conference identified four mega trends that Cambodia needs to consider in formulating its development strategy. These mega trends include geopolitical tensions, climate change, the Industrial Revolution 4.0 and digitalisation, and increased regional protectionism coupled with the global economic slowdown.

Geopolitical tensions

Rising US-China tensions and the war between Ukraine and Russia form the backdrop of the present geopolitical landscape and pose risks to Cambodia's security, stability, and economic growth, particularly as smaller countries feel the reverberating effects. These issues put increased pressure on the lives and livelihoods of the Cambodian people, especially the poor and vulnerable, as the cost for goods increases. It is in Cambodia's best interest to find a way to help keep global peace while at the same time maintaining its autonomy. Multilateralism and collaboration with international partners are key to peacefully resolving challenges and deriving benefits from global and regional platforms.

Climate change

Climate change has increasingly affected the health and livelihood of the Cambodian people and the Cambodian economy in general. Poor management of Cambodia's natural resources will have serious repercussions on the country's future development. Effectively and efficiently achieving Cambodia's economic goals should involve the promotion of a green economy and a climate resilient strategy. In designing future green development projects, Cambodia has opportunities for funding renewable energy projects and climate mitigation and adaptation projects. Funding such projects will create a resilient environment that supports existing economic sectors and results in high economic returns. In addition to establishing a broader investment in climate, Cambodia should also seek funding from private sources and Official Development Assistance.

Industrial Revolution 4.0 and digitalisation

The Industrial Revolution 4.0 brings with it an increased focus on digitalisation that will require Cambodia to find innovative solutions to present and future challenges in order to boost economic growth. Continuing to invest in digitalisation and improving the education of its workforce are measures necessary to overcome and adapt to emerging challenges. Key priorities moving forward should be improving sustainable infrastructure to increase digital opportunities in rural areas could reverse rapid urbanisation, greening the economy, and promote economic resilience. Such measures will strengthen communities and support small-scale farming by integrating rural economies into the national and international value chains.

Regional protectionism and the global economic slowdown

The COVID-19 pandemic and unfolding global events have generated health and social impacts on an unprecedented scale. The global economic crisis and recent trend toward nationalism and regional protectionism has led to significant reshoring of manufacturing from developing countries to higher income countries.

Cambodia can overcome this series of turbulent economic and geostrategic shocks that it currently faces if its future economic development strategy is based on rapid, durable, inclusive, and environmentally sustainable growth. One factor relevant to achieving a sound development strategy that still needs to be addressed would be the evolution of Cambodia's unorthodox monetary policy settings alongside intensified resource mobilisation efforts as the country graduates from least developed country

status supplemented by measures to enhance supply-side competitiveness, phasing out

the 'dual' commercial incentives regime, and reforming the fiscal incentives framework.



Photo credit: <https://www.google.com/search>

Cambodia's pre-COVID development and strategic shifts to secure high-quality future development

Cambodia's pre-COVID development was very successful, however the uncertainties and disruptions at both regional and global levels exposed the cracks of this model. The reliance of the economy on four sectors (tourism, construction and real estate, agriculture, and manufacturing) was destabilised when all four were significantly impacted by COVID-19 and the global recession. Increases in wages were not matched by increases in productivity and quality of goods, which lessened Cambodia's competitiveness in the global market. Revising pre-COVID policy directions would ensure greater economic recovery and achieve the government's goals for inclusive and sustainable development.

Build local resilience for sustainable sources of livelihoods

The COVID-19 pandemic has underlined the importance of building resilience in health security, which involves strengthening the healthcare and social protection systems to reduce the toll on the economy and people's livelihoods. Providing solid foundation based in education and skills training for the current and future workforce will build much-needed resiliency within healthcare.

The increased level of debt taken on by banks and households as a result of the pandemic and economic slowdown has damaged financial resilience. If indebtedness is addressed by a gradual winding back, this

may avert a financial meltdown. In addition, increased regulation and supervision of banks and microfinance institutions could achieve long-term financial sustainability.

Cambodia's large youth population and the adoption of digital technology offers opportunities to support new sources of jobs and industries for economic diversification moving forward. By increasing government investment in digital infrastructure development and offsetting the emerging disparity between both rural and minority populations and urban populations, Cambodia can forge new pathways to post-COVID recovery.

Enhance institutional accountability and transparency of public services and financial sector

Cambodia's public services still require improvements. Such improvements are key to maintaining independent institutions that can operate free of political pressures and interference. One key area to focus on is fostering a well-managed banking system, taxation system, and competition commissions in order to ensure a reasonably level playing field. Another key area of concern, particularly for small-scale farmers and communities, is the judicial system, which covers disputes concerning land ownership.

Continuing to implement the public financial management reform program, which began prior to the pandemic, is crucial to establishing a sound business environment that will in turn power economic growth. Furthermore, good governance is the basis of Phase 4 of the Royal Government of Cambodia (RGC)'s Rectangular Strategy. The foundations of a healthy business environment rest upon having: governance responsive to the needs of all strata of society; a commercial environment where competitiveness influences business success; and the development of transparent checks and balances on public sector malfeasance. Cambodia can learn from its neighbours in East and Southeast Asia that have developed models where limited direct political accountability can co-exist with responsive and representative governance.

Expand new industries for broad and diversified sources of growth

With the construction and real estate boom ending, future growth must come from diversification within agriculture and manufacturing, particularly by moving towards higher value-added activities. A revival in

tourism catered to higher-spending tourists will boost that sector's recovery. The agricultural and manufacturing sectors can be further strengthened if the RGC takes advantage of currently available opportunities, such as processing agricultural goods inside the country to gain more value as well as growing crops that are sought after in the export market to increase opportunities and directly benefit farmers. If the quality of products from traditional industries is improved, Cambodia could be known as a country that exports high quality products thereby enabling access to new markets. Once the country strengthens its business ecosystem, local businesses can be connected to regional and global value chains to further strengthen post-COVID development.

Foster regional and local development to tackle inequality

Regional disparity is widening, particularly the inequality between rural and urban economies. Most Cambodians live in rural areas, and poverty remains concentrated in rural and remote locations. The relationship between rural and urban economies—specifically the small-scale agriculture sector, the informal business sector, and the formal urban manufacturing/service sector—may need to be reconfigured to expand options for the millions of households that combine livelihood strategies across these three sectors. The post-COVID development strategy should capitalise on Cambodia's comparative regional advantage in agriculture and its large young population to actualise Cambodia's vision to achieve upper middle-income country status by 2030, and to promote a better balance between three important sectors: the rural-based economy; export-oriented and low-skill manufacturing; and an emerging high-skill industry propelled by the Industrial Revolution 4.0.

Urgent priorities and actions for government-business partnership to foster inclusive longer-term development

Public-private innovation partnerships could identify and prioritise economic challenges faced by Cambodia and would be well-equipped to develop solutions to meet these challenges. These partnerships rely on the engagement of local actors and require building their capabilities and establishing a trust-based collaborative culture. Public-private partnerships can also strengthen the implementation of existing laws and policy, the ongoing reform of the taxation system, the support for women entrepreneurs and small and medium-sized enterprises (SMEs), and the environment for research and development.

Private sector support for macro-economic policy

The “Strategic Framework and Programs for Economic Recovery in the Context of Living with COVID-19 in a New Normal 2021-2023” document guides Cambodia’s longer-term strategy actions, including strengthening the four existing economic pillars (tourism, construction and real estate, agriculture, and manufacturing). By collaborating with each other and conducting research, relevant ministries, academia, and think tanks can identify ways to revitalise the four economic pillars. For example, areas of potential research could focus on factors hindering local production of vegetables and on diversification of crops to increase the productivity of the agricultural sector.

While tax reform has improved dramatically, many improvements still need to be made. As taxation is a major source of funding for the government, having an efficient, equitable, and professional taxation system is key for future development. The General Department of Tax has a strategy targeting revenue collection based on good governance, particularly focusing on human resource reform and professionalisation. These reforms have led to success and sustainability in tax value. However, further cooperation from both the private and public sectors is needed to improve the performance of tax officials and strengthen the system. In order to achieve development targets, the government, private

sector, and producers must not solely rely on tax incentives, but instead should jointly address other issues, such as improving market access and transportation of goods to markets. Lastly, greater cooperation between relevant government ministries would resolve issues faced by the private sector and other stakeholders more quickly and efficiently.

Strengthening of SMEs

The contribution of SMEs to Cambodia’s economic growth has been recognised by the government. However, women entrepreneurs and SMEs face many challenges that have been exacerbated by COVID-19 and the global recession. If the government works together with SMEs to build their capacities by providing support, training, and access to technology, SMEs can continue to contribute to the recovery of the economy and future economic growth.

Research and development (R&D) and industry linkage

Increased support for R&D will help Cambodia’s economic growth in the long term. Providing government funds will be crucial to promoting partnerships focusing on R&D between universities and the private sector. Universities have a unique role to play in fostering partnerships with the private sector. Specifically, universities can cultivate an entrepreneurial culture by creating mechanisms and ecosystems to incentivise faculty and

students to cooperate with the private sector.

An ecosystem of technology and innovation has been steadily emerging in Cambodia. Laws and policies that support technology and innovation, promote partnerships between

universities and the private sector, and establish ongoing dialogue between the government and universities will push Cambodia into a strong, inclusive, and sustainable development trajectory.

Summary of policy priorities emerging from the 2022 outlook conference

The following policy priorities were raised at the outlook conference.

1. The impact of climate change and poor management of natural resources on the country has been significant. Taking proactive steps to adapt and mitigate the effects of climate change through policy implantation is imperative for the next stage of Cambodia's development model.
2. Cambodia should build resilience by creating a solid economic system and developing its human resources. Human resources within the country would benefit from broad-based access and quality services in education, health, skills training, and social protection. Governance should be responsive to the needs of all levels of society and be open, transparent, and accountable.
3. Continuing dependence on external markets and commodity exports is not sustainable in the "new normal" development trajectories. Future economic growth must come from diversification within agriculture and manufacturing with a move towards higher value-added activities and less reliance on the tourism and the construction and real estate sectors.
4. Focusing on rural and regional economic development is key to fostering connections between rural producers and regional markets. Any development in this area should include support for SMEs, develop infrastructure, and increase digitalisation.
5. Public-private partnerships, particularly in research and innovation, are crucial for boosting economic recovery and fostering longer-term development. Collaboration across relevant government ministries, the private sector, and universities through strategic R&D will foster innovative solutions to current and future development challenges.

Future directions for policy research

The conference outlined the following areas of future research.

Climate change and the green economy:

- Identifying viable climate mitigation and adaptation projects in which the government and investors should develop and invest. Investing in such projects will combat the negative impacts of climate change, support existing economic sectors, and result in high economic returns.

Digital technology and Industrial Revolution 4.0:

- Researching opportunities for foreign direct investment that focuses on the digital economy and innovation to further incorporate Cambodia in the Industrial Revolution 4.0.
- Given the current economic outlook, researching potential opportunities for Cambodia to directly leapfrog into a digital economy and finding ways to stimulate innovation in a small and developing state.

New industries for quality growth:

- Taking stock, sector by sector, of the business ecosystem to identify factors hindering the development of each sector and proposing solutions to deal with these issues.
- Researching new possible areas of growth that will support Cambodia’s main economic pillars of agriculture, manufacturing, tourism and new emerging industries.

Key policy priorities for government:

- Researching and identifying the RGC’s key policy reform priorities to achieve upper-middle income country status by 2030.

For more information of this conference, please refer to this website: <https://coc2022.cdri.org.kh>

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