

CAMBODIA'S ECONOMIC TRAJECTORY: 2000-2022 MACROECONOMIC ANALYSIS

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FEBRUARY 2025

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

Background Paper 1

Cambodia's Economic Trajectory:
2000-2022 Macroeconomic Analysis

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CDRI – Cambodia Development Resource Institute
Phnom Penh, February 2025

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Citation:

Hing Vutha and Krui Narin. 2025. *Cambodia's Economic Trajectory: 2000-2022 Macroeconomic Analysis*. Cambodia's New Growth Strategy—An Assessment of Medium and Long-term Growth for Resilient, Inclusive, and Sustainable Development. Background Paper No. 01. Phnom Penh: CDRI.

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Layout and cover designed: Oum Chantha and Tim Borith

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Acknowledgements

This research paper is the first in a series of background papers supporting the main overview report. Collectively, these works contribute to CDRI's research study, *Cambodia's New Growth Strategy—An Assessment of Medium and Long-term Growth for Resilient, Inclusive, and Sustainable Development*, which is funded by the Department of Foreign Affairs and Trade (DFAT) through its flagship programme, the Cambodia-Australia Partnership for Resilient Economic Development (CAPRED).

The author wishes to express sincere appreciation to DFAT and CAPRED for their support. Further gratitude is extended to all individuals and stakeholders who contributed to this work, whether through direct collaboration or indirect assistance, whose contributions were essential to its completion.

List of acronyms and abbreviations

AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
CCFTA	Cambodia-China Free Trade Agreement
CKFTA	Cambodia-Korea Free Trade Agreement
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HCI	Human Capital Index
IMF	International Monetary Fund
KHR	Khmer Riel
LPI	Logistics Performance Index
PISA	Programme for International Student Assessment
RCEP	Regional Comprehensive Economic Partnership
TFP	Total Factor Productivity
USD	United States Dollar
WTO	World Trade Organization

ឯកសារសារការទី១
គន្លងសេដ្ឋកិច្ចកម្ពុជា៖
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សារគន្លឹះសំខាន់ៗ

មាតិកាកំណើនសេដ្ឋកិច្ច

- ចាប់តាំងពីឆ្នាំ១៩៩៨មក ប្រទេសកម្ពុជាបានផ្លាស់ប្តូរពីសេដ្ឋកិច្ចដែលពឹងលើវិស័យកសិកម្ម ទៅជាសេដ្ឋកិច្ចមួយដែលជំរុញដោយវិស័យឧស្សាហកម្ម និងសេវាកម្ម ដោយសម្រេចកំណើនមួយដ៏រឹងមាំ ប្រមាណ ៧ ភាគរយ ជារៀងរាល់ឆ្នាំ ចាប់ពីឆ្នាំ២០០០ ដល់ឆ្នាំ២០១៩។ វឌ្ឍនភាពនេះបាននាំឱ្យប្រទេសកម្ពុជា ទទួលបានឋានៈជាប្រទេសមានចំណូលមធ្យមកម្រិតទាបនៅឆ្នាំ២០១៥ ក្នុងការត្រៀមលក្ខណៈសម្រាប់កំណើនរយៈពេលវែងប្រកបដោយគុណភាព និងមហិច្ឆតាក្នុងការសម្រេចបាននូវការអភិវឌ្ឍប្រកបដោយចីរភាព បរិយាបន្ន និងភាពធន។
- 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 វាយនភណ្ឌ សំណង់ អចលនទ្រព្យ និងឧស្សាហកម្មម្ហូបអាហារ និងភេសជ្ជៈ បានជំរុញកំណើនសេដ្ឋកិច្ច ដែលទ្រទ្រង់ដោយការវិនិយោគពីបរទេស និងការធ្វើសមាហរណកម្មទៅក្នុងទីផ្សារក្នុងតំបន់ និងសកលលោក។ លំនាំកំណើននេះឆ្លុះបញ្ចាំងពីមូលដ្ឋានសេដ្ឋកិច្ចតូចចង្អៀតដែលអាចបង្កបញ្ហាប្រឈមដល់ភាពធន និងចីរភាពរយៈពេលវែង។
- ទោះបីជាមានបញ្ហាប្រឈមពីវិបត្តិហិរញ្ញវត្ថុសកលនៅឆ្នាំ២០០៧-២០០៨ និងជំងឺរាតត្បាតកូវីដ-១៩ នៅឆ្នាំ២០២០ក៏ដោយ ក៏សេដ្ឋកិច្ចរបស់ប្រទេសកម្ពុជា បានបង្ហាញពីភាពធន ដោយការស្ទុះងើបឡើងវិញយ៉ាងខ្លាំង ក្រោយវិបត្តិនីមួយៗ។

កត្តាជំរុញកំណើនសេដ្ឋកិច្ច

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

- កត្តាផលិតភាពសរុប (TFP) បានដើរតួនាទីយ៉ាងសំខាន់ក្នុងការបង្កើនសក្តិសិទ្ធិភាពនៃការប្រើប្រាស់កម្លាំងពលកម្ម និងមូលធន ទោះបីជាបានជួបប្រទះការប្រែប្រួលក្នុងអំឡុងពេលមានការវិវឌ្ឍន៍ផ្នែកសេដ្ឋកិច្ច ដូចជា វិបត្តិហិរញ្ញវត្ថុសកល និងវិបត្តិកូវីដ-១៩ ក៏ដោយ។ ទោះបីជាមានចំនួនតិចជាងការវិនិយោគឯកជន ការវិនិយោគមូលធនសាធារណៈ មានសារៈសំខាន់សម្រាប់ការអភិវឌ្ឍហេដ្ឋារចនាសម្ព័ន្ធ ដែលកសាងមូលដ្ឋានគ្រឹះដ៏រឹងមាំសម្រាប់កំណើនវិស័យឯកជនប្រកបដោយចីរភាព។
- ការរួមចំណែកនៃកម្លាំងពលកម្ម និងមូលធនមនុស្សក្នុងកំណើនសេដ្ឋកិច្ច នៅមានកម្រិតតិចតួចដែលឆ្លុះបញ្ចាំងពីការវិនិយោគតិចតួចក្នុងការអភិវឌ្ឍកម្លាំងពលកម្ម។ ឥទ្ធិពលមូលធនមនុស្សដែលមានកម្រិតនេះ បានបញ្ជាក់ពីតម្រូវការកែលម្អការអប់រំ និងការបណ្តុះបណ្តាលជំនាញឱ្យប្រសើរឡើងដើម្បីបំពេញតម្រូវការ និងរចនាសម្ព័ន្ធសេដ្ឋកិច្ចកម្ពុជាដែលកំពុងរីកចម្រើន។

បញ្ហាប្រឈម និងទិសដៅគោលនយោបាយ

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

Cambodia's Economic Trajectory: 2000-2022

Macroeconomic Analysis

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.

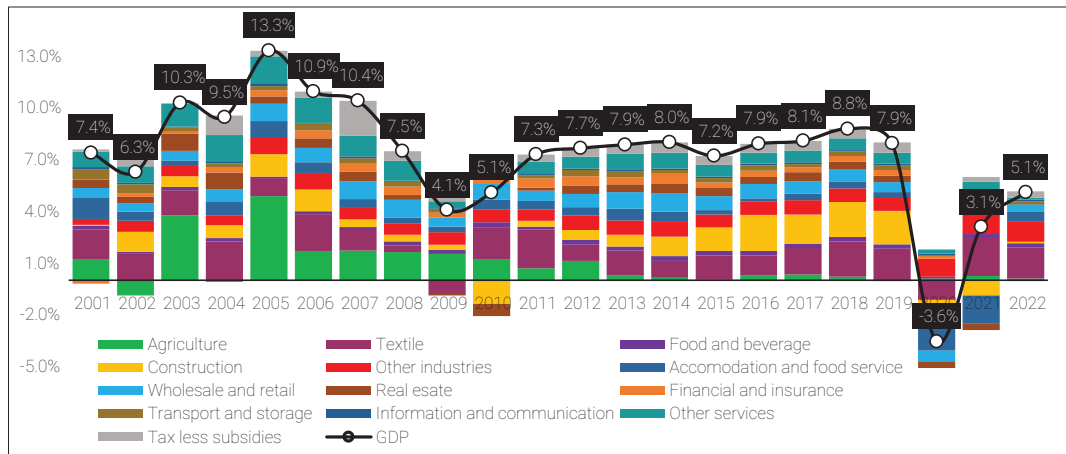
Despite these achievements, the COVID-19 pandemic dealt a significant blow to development efforts by stalling Cambodia's growth. The pandemic's impact has highlighted the vulnerability of Cambodia's narrowly focused economy characterised by a heavy reliance on a few sectors and lack of diversity in export 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 2023¹. 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).

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

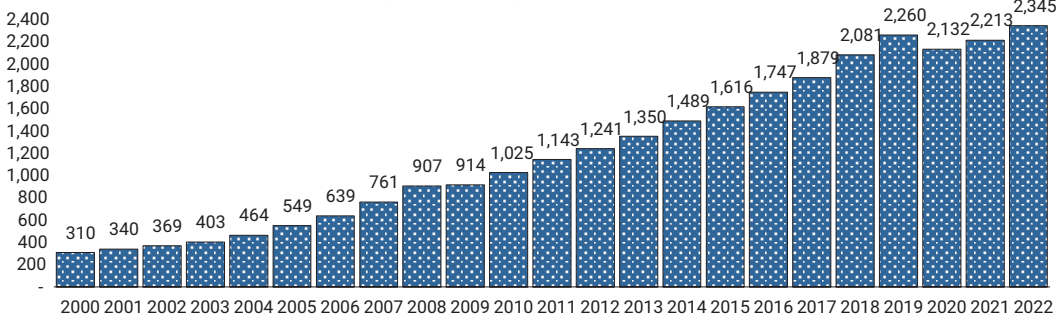
Despite fluctuations in growth rates, Cambodia has experienced significant growth in its GDP per capita, which has increased more than sevenfold from USD310 in 2000 to USD2,345 in 2022 (Figure 2). Higher GDP per capita has been accompanied by an improvement in living standards, a reduced poverty rate,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

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

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.

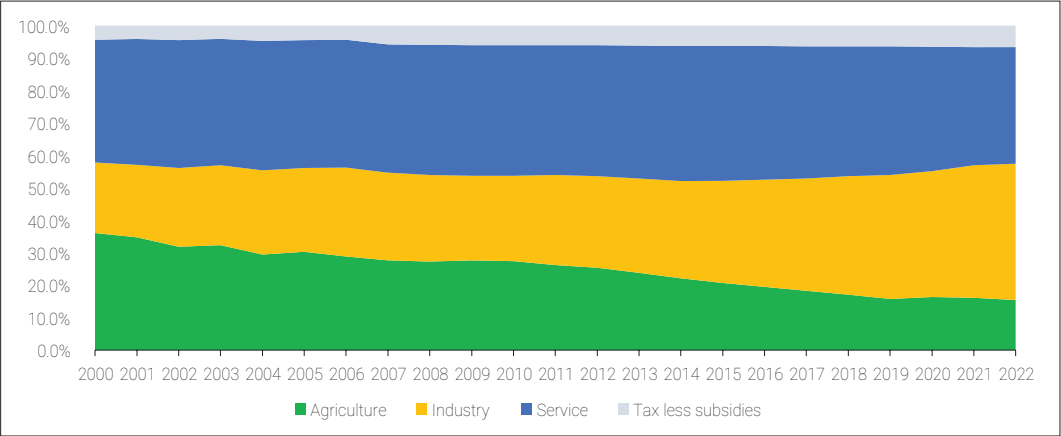
Within other industries, such as garments and textiles, footwear, construction, and food and beverage, contributions to Cambodia's GDP have expanded rapidly from 22 percent in 2000 to 41 percent in 2022. Causes for this expansion can be attributed to various factors. For instance, Cambodia's vision in 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).

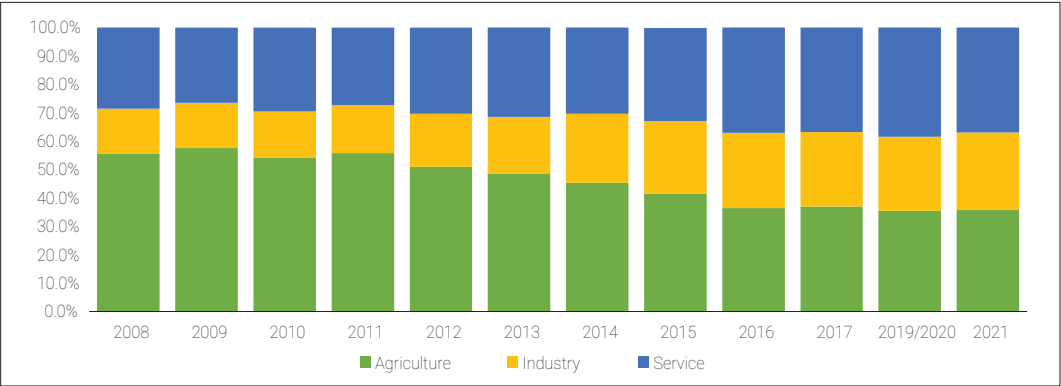
The service sector (i.e., accommodation and food service, real estate, financial and insurance, transportation and storage, and information and communication) largely maintained its contribution to Cambodia's GDP between 2000 and 2022, from 38 percent to 36 percent, respectively. Despite the pandemic's 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)



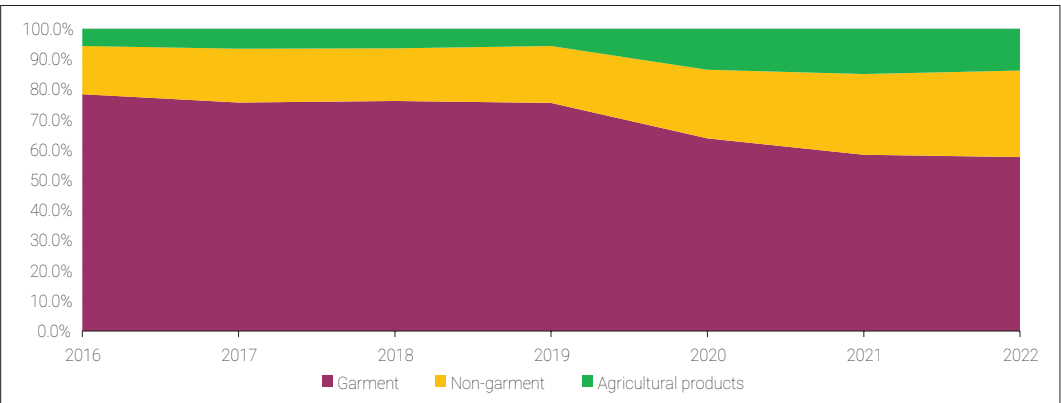
Source: National Institute of Statistics (NIS 2024)

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

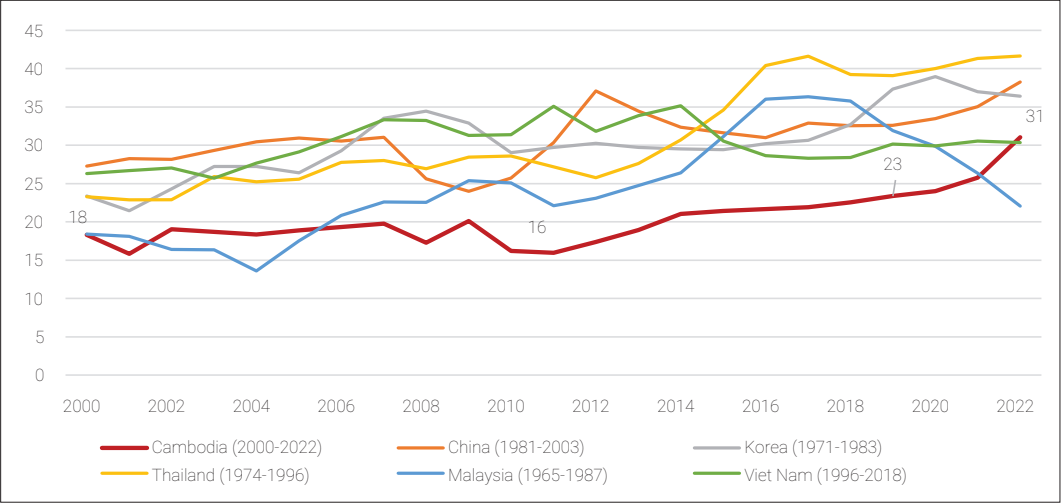
4.1. Investment-to-GDP ratio

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)

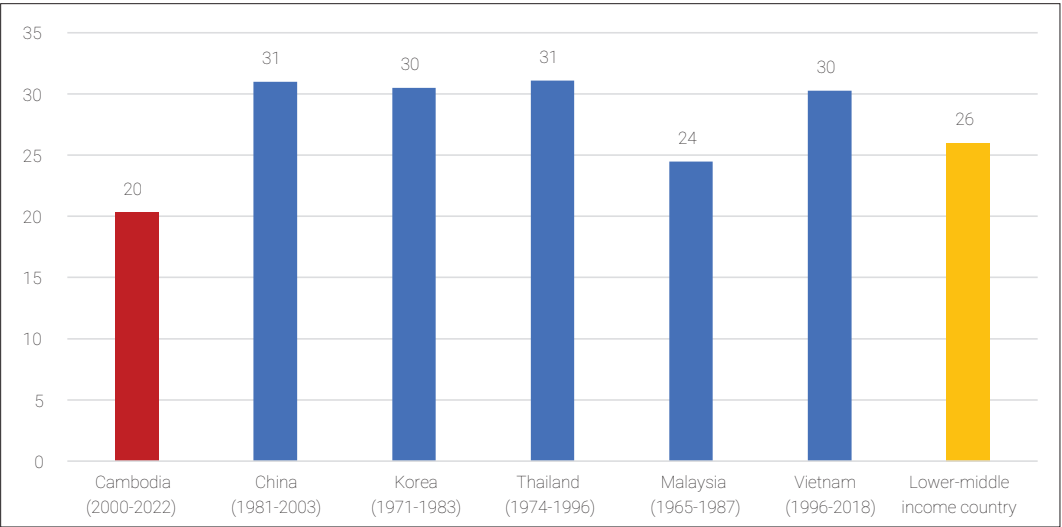
The comparison between Cambodia and other Asian countries reveals significant implications for Cambodia’s economic strategy. Most importantly, it emphasises the opportunity for Cambodia to raise its investment-to-GDP ratio thereby aligning it with the higher levels that fuelled the strong growth of other 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



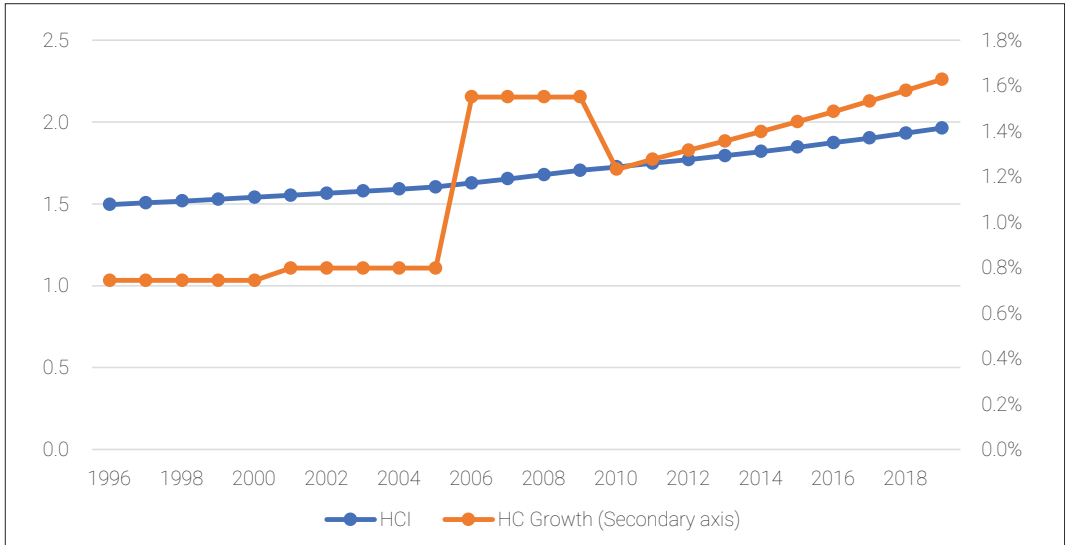
Source: World Development Indicator (2024)

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

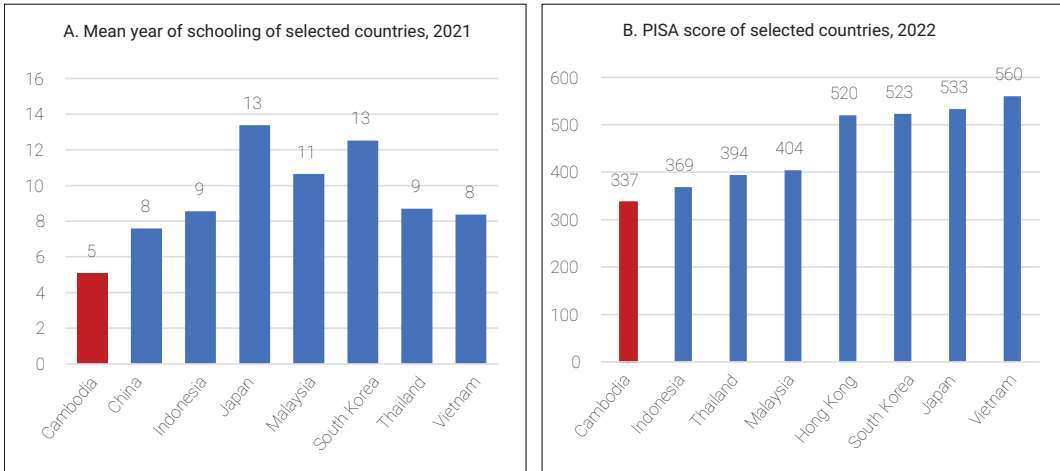
proficiency compared to Cambodia. The disparity becomes even more stark when comparing Cambodia to the top performers in the region. Hong Kong, South Korea, and Japan boast PISA scores of 520, 523, and 533, respectively, indicating highly developed education systems that produce students who excel in 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)

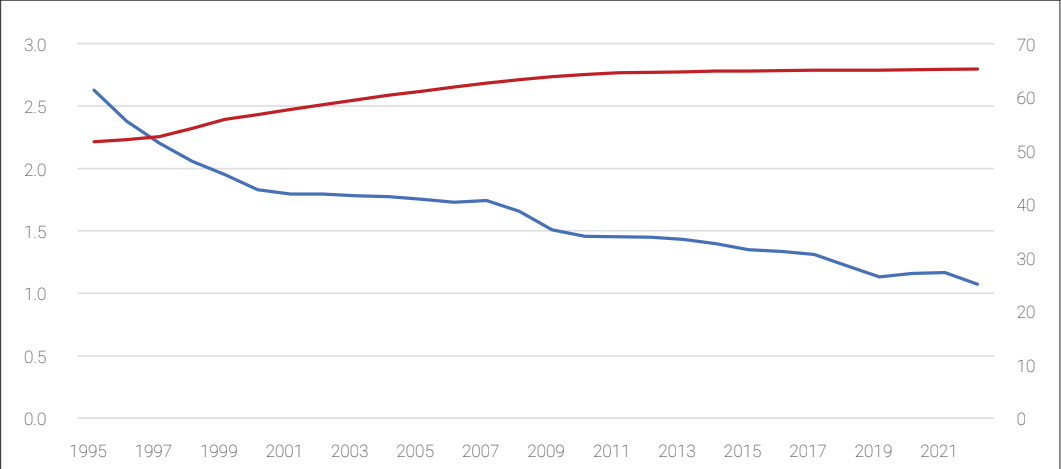
Source: World Development Indicator and OECD (2022)

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 in 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)

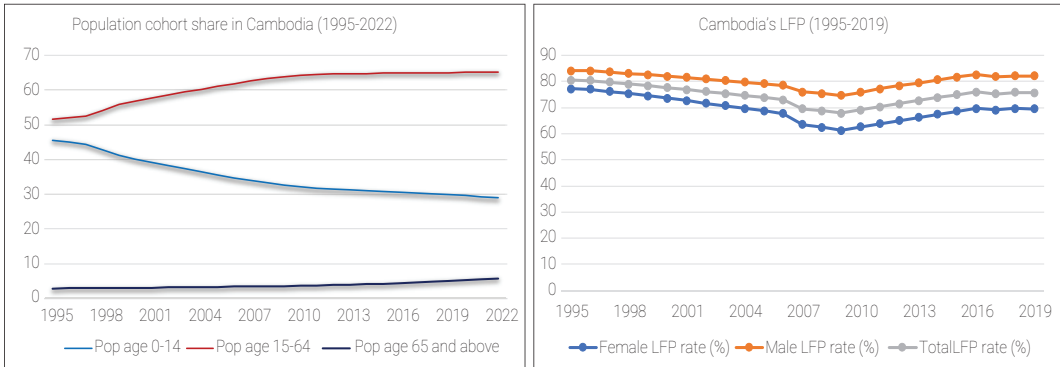
decline in participation among men was less significant, having any decline still suggests underutilisation of the working-age population.

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 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

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



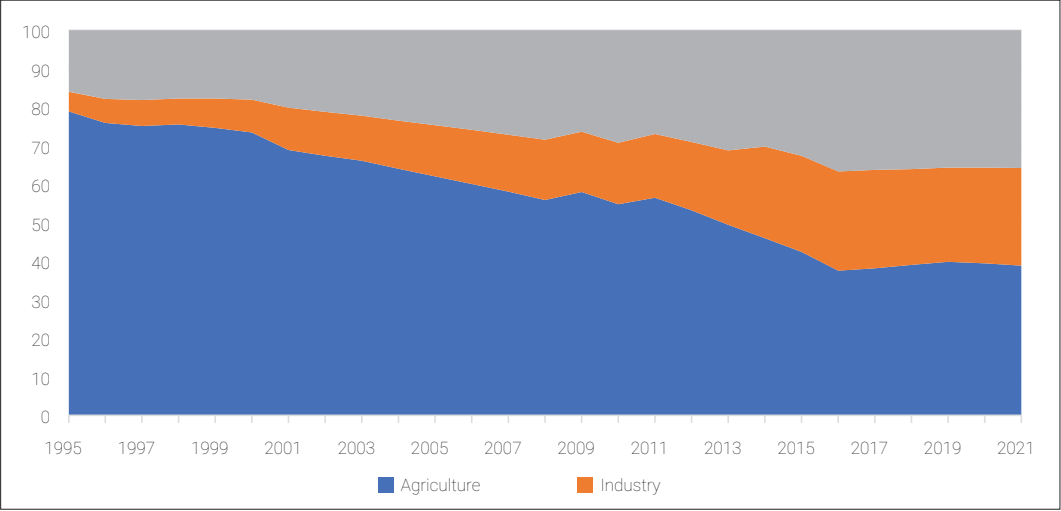
Source: World Development Indicator (2024)

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.

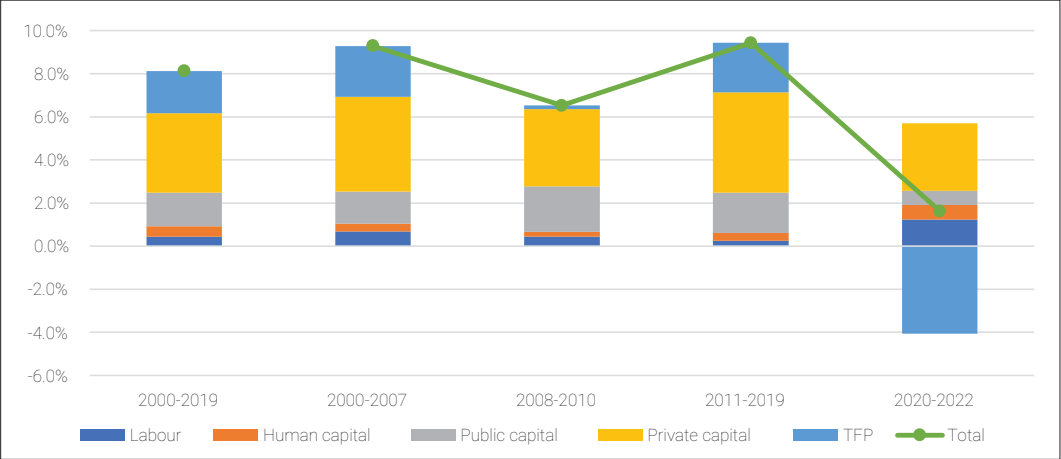
During the global financial crisis (2008-2010), the growth rate declined to 6.5 percent. Public capital contribution increased to 2.1 percent, which reflects a possibly strategic

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.

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