

CAMBODIA OUTLOOK BRIEF
THE 15TH CAMBODIA OUTLOOK CONFERENCE 2023



Cambodia Vision

2030

and Beyond: Charting A Path for Resilient,
Sustainable, and Inclusive Prosperity

“The Royal Government of Cambodia steadfastly adheres to its commitment in realising the aspiration of becoming an upper middle-income country by 2030 and ultimately achieving a high-income country by 2050. [...] Cambodia must adhere to the spirit of ‘continued reform and stay proactive’ by trying to build resilience and promote economic diversification.”

***Keynote speech by Samdech Moha Borvor Thipadei Hun Manet,
Prime Minister of Cambodia at the 15th Outlook Conference***

The 15th Annual Cambodia Outlook Conference held on 23 November 2023 brought together 500 influential decisionmakers in government, business, development, civil society, and higher education to discuss critical topics surrounding Cambodia’s development policies. The 2023 Conference drew upon CDRI’s on-going research study entitled “Cambodia Vision 2030: An Assessment of Cambodia’s Upper middle-income Target for Resilient, Inclusive and Sustainable Growth,” which asks whether, when, and how Cambodia can achieve its Vision and analyses Cambodia’s short-, medium-, and long-term priorities for 2030 and beyond. The focus of the 2023 Conference was to discuss emerging challenges and identify policy directions and strategies that key stakeholders will need to understand in order to realise Cambodia’s Vision of becoming an upper middle-income country. This brief presents the underlying context discussed during the Conference beginning with risks and opportunities facing Cambodia before turning to the urgent policy actions required to move Cambodia closer to its ambitious Vision.

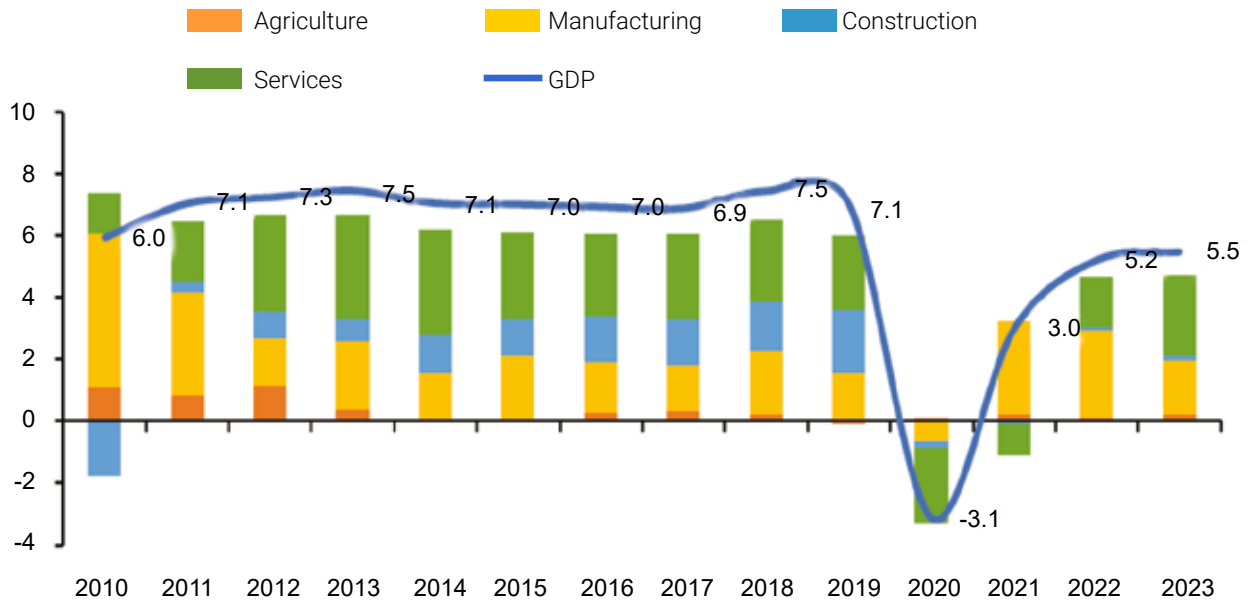
Cambodia aims to become an upper middle-income country by 2030 and high-income country by 2050.

For Cambodia to move from a lower middle-income country (LMIC) to upper middle-income country (UMIC) status, its national income per capita (GNI per capita of current US\$) needs to increase from the current level of \$1,700 (its 2022 figure) to at least \$4,046 in 2030 (according to the World Bank 2022 classification¹). Prior to the COVID-19 pandemic, Cambodia’s impressive economic growth rate over the past two decades made the vision for UMIC status by 2030 a viable target. However, the Cambodian economy was hard hit by the pandemic and subsequent regional and global economic shocks that resulted in rising inflation and growing geopolitical instability.

Leading up to the pandemic, Cambodia’s limited economic diversification had not greatly affected the rapid pace of growth (see figure below) but did limit its inclusiveness in who participated in that growth. Between 2010 and 2019, Cambodia went through a structural transformation involving rural-to-urban migration as workers transitioned from agriculture into industry and services. However, those structural economic changes may be reaching their limits. The horizontal shift into sectors producing higher value-added products and services has generated a one-off increase in productivity that is not sustainable long-term. Therefore, in the future, Cambodia’s economic growth will have to come from intra-sectoral diversification,

¹ Based on 2022’s World Bank requirements, economies with a Gross National Income (GNI) per capita between \$1,036 and \$4,045 are classified as lower middle-income countries, and economies with a GNI per capita between \$4,046 and \$12,535 are considered upper middle-income nations.

GDP Growth and Supply-side Contributions, 2010-2023 (y-o-y, %)



which requires a vertical shift into higher value-added products and activities within all sectors. This type of diversification is often referred to as moving up the value-chain. Within manufacturing, moving up the value-chain involves greater participation in global supply chains, which Cambodia has initiated but needs to increase. This new type of structural transformation will require overcoming binding constraints related to human capital, business costs, and the quality of institutions and governance.

CDRI's preliminary analysis and consultation workshops with relevant national and international stakeholders completed so far regarding its research on Cambodia's 2030 Vision suggest that achieving the 2030 target is an ambitious task amidst current geopolitical challenges and volatile regional and global economic climate. Achieving UMI status also requires substantial reforms addressing the underlying constraints for long-term growth and development.

Participants at this year's Outlook Conference reached a consensus around two additional goals that must be met in order to meet the 2030 Vision. First, reaching the 2030 Vision genuinely and sustainably will require Cambodia to go beyond merely generating economic growth. Instead, Cambodia must ensure its growth is inclusive, sustainable, and resilient. Prioritising policies that explicitly include women and people with disability by combatting discrimination in hiring and promotion, providing childcare subsidies, and ensuring higher wages and workplace security will only serve to strengthen Cambodia's future workforce. Second, Cambodia must prioritise not only reaching the 2030 Vision but also build the foundations for future progress towards becoming a high-income country by 2050. Building in this awareness now will allow Cambodia to avoid the so-called middle-income trap experienced by many countries around the world. Both goals will require sustained attention to strengthening the foundations of human capital and institutions that underpin long-term development.



7

Key Reform Priorities

The conference generated seven reform priorities that are critical to support the implementation of the government's Pentagonal Strategy as well as its 2030 Vision and beyond.

Priority 1: Reversing the economic scarring effect from the COVID-19 pandemic by implementing short-term priorities.

- Providing remedial programmes would combat students' learning loss due to the prolonged school closures during the pandemic. Additionally, addressing the recent spike in the school dropout rate must be a priority to support Cambodia's future educated workforce.
- Building up social protection programmes would reduce the impacts of poverty.
- It is imperative that Cambodia secures more manufacturing FDI and repositions itself in the global supply chain. Cambodia could do this by improving its immediate competitiveness through reforms and demonstrating credible commitments to on-going reform efforts around business regulation, infrastructure, skilled workforce, and strengthening environmental and labour standards.

Priority 2: Promoting more inclusive and accountable institutions to deliver effective and high-quality public services.

- Creating an inclusive and accountable government requires building the capacity of institutions so that they may create well-designed processes for formulating, implementing, and evaluating policies and their impacts from a variety of perspectives.
- Building better data management systems is crucial to instituting effective policy. The kinds of data management required would include defining the capacity and performance of individual officials, systematic collection of key socio-economic data, and more rigorous monitoring and evaluation of policies being implemented.
- Instituting the use of data and assessment tools to measure distributional impacts through standardised data collection concerning the basic needs of low-income households and vulnerable groups would enable Cambodia to effectively meet its inclusive development goals. Other data gathered by other actors, such as NGOs, international organisations, and social accountability mechanisms, should routinely and systematically be incorporated to inform policy.
- Promoting e-services and digitising government-to-citizen programmes, such as social protection, will also provide the foundation for a smarter and more efficient government. Additionally, digitalisation would enhance transparency and enable policymakers to use real-time, rapid data generation and analytics.

Priority 3: Strengthening and expanding the Social Protection System.

- Ensuring equitable progress towards the 2030 Vision will also require going beyond growth and towards government-facilitated redistribution. This will require building on the

solid progress Cambodia has already made in developing its Social Protection System by greatly expanding its reach and increasing the support it provides.

- Mobilising higher tax revenue through both policy changes and improving tax code administration will broaden the tax base and raise additional revenue. These proposals align with the kind of broader institutional progress Cambodia must make to comprehensively transition into upper middle-income and high-income standards of living.
- Enacting targeted government policies to protect and support lower-income households in both rural and urban areas is necessary to build human capital and encourage a willingness to innovate amongst workers and small firms.
- All relevant policies should prioritise ensuring lower-income households are able to secure basic needs—adequate food, childcare, education, housing, healthcare, and social security—as foundations for effective human capital development.

Priority 4: Sustainably investing in Cambodia's natural resources to ensure long-term growth and development.

- The quest for environmental sustainability and carbon neutrality must coincide with economic growth needs to maintain the livelihoods of the majority of Cambodians who live in rural areas and depend on agriculture and natural resources.
- Transitioning to clean and renewable energy for a green economy must consider rural households and small enterprises where women play key roles.
- Green skills training should be mainstreamed in both formal and informal education systems, targeting those with limited education and skills.

- Reaching the 2030 Vision must be embedded within the broader social and environmental progress of the country. If these social and environmental ambitions are not met, reaching the 2030 Vision will be a hollow achievement.

Priority 5: Continuing to expand, upgrade, and diversify the manufacturing sector is vital for Cambodia's economic success.

- Manufacturing remains key to realising Cambodia's growth and development aspirations because it offers inclusive growth through mass employment. At the current juncture, there is an important opportunity for Cambodia to expand, diversify, and upgrade its manufacturing sector by securing business that is moving out of China as labour costs there rise and businesses seek to diversify their supply chains. Cambodia should aim to embed itself into a greater and more sophisticated share of global manufacturing.
- Improving the business regulatory environment, reducing business costs by improving physical and logistic infrastructure, and strengthening the health, skills, and education of the workforce from early and secondary education will all be essential in improving Cambodia's manufacturing sector.
- Addressing more modern challenges within manufacturing, including improving environmental and labour standards. The US and Europe, which remain crucial export markets, are placing increasing emphasis on whether their trading partners meet higher environmental and labour standards. Although Cambodia remains a developing country, it must signal and provide credible evidence that it is making progress towards improving its standards over time. Doing so, would align with the social aspirations accompanying Cambodia's 2030 and, even, 2050 Visions.

Priority 6: Modernising the agricultural sector with government support remains critical.

- Agricultural production continues to provide an important basis for the manufacturing industry through agri-processing.
- Achieving agricultural growth remains critical to ensuring all income levels are included as Cambodia moves towards the 2030 Vision target. The majority of low-income people are still engaged in agriculture, and so initiatives targeting agricultural production provide inclusive development and work to reduce poverty in the country. However, the agriculture sector faces significant challenges, notably from environmental stress and degradation as well as the growing impacts of climate change. Therefore, addressing these challenges and ensuring inclusive agricultural governance will be central.

Priority 7: Investing in quality education, skills building, and digital infrastructure.

- Education from early childhood to high school-level remains critical to realising the 2030 Vision and long-term development of the country. However, educational interventions take time to see the fruits of that investment. Any interventions must also consider educational disparities women face in accessing training and

sectoral segregation to ensure a diverse and adaptable workforce.

- Immediate attention is urgently needed to improve the quality of education at all levels but most especially K-12 education. Without a strong educational foundation, skill trainings and tertiary education will not produce the desired results.
- Quality education also provides key support to the government's climate action by boosting the resilience of students, their households, and their communities to adapt and respond to future crises and economic changes. Reforming the secondary school tracking system should be considered to encourage more students to pursue STEM majors and careers.
- Enhancing digitalisation can boost all productive sectors from manufacturing to agriculture to services. Cambodia already has a dynamic emerging digital economy sector, but there is room for improvement in what the government can do to enhance digital infrastructure, digital skills and literacy, and close the digital gap between low-income and wealthy households. Improving Cambodia's digitalisation will not only ensure inclusive process but will also maximise the potential economic benefits to the nation.

Cambodia is at critical juncture in its next phase of development.

Cambodia will need to build on its considerable strengths—a refreshing new generation of capable leaders, adaptive and young labour force, and rapid urbanisation—and seize on external opportunities—continued regional and global integration, the rapid growth of regional and emerging economies, and promising new technologies—to realise its ambitious 2030 Vision. At the same time, Cambodia will need to address several significant challenges and risks, such as unpredictable global

economic changes, rising inequality, growing environmental degradation and climate change, and training a new generation for the modern workforce. Cambodia must continue its structural and institutional reform agenda outlined in the Pentagonal Strategy, and closely collaborate with national and international stakeholders, including independent research institutions like CDRI, to analyse and identify relevant policy priorities.

“Achieving resilient, sustainable and inclusive socio-economic development is a long journey that requires the involvement of all stakeholders, high commitment, and cohesive cooperation and the upholding of national interests.”

*Keynote speech by HE Dr Aun Pornmoniroth
Deputy Prime Minister and Minister of Economy and Finance
at the 15th Outlook Conference.*

Summary of key messages and policy recommendations.

- Cambodia’s pre-pandemic rapid economic growth provided a foundation for reaching LMIC status while having limited economic diversification and inclusion in who had access to that growth. However, the country’s future economic growth must come from strong and diversified sources and be equitably distributed among its citizens.
- In addition to the 2030 Vision’s goals, Outlook Conference participants agreed that two goals must be met simultaneously:
 - o Cambodia must ensure all future economic growth is inclusive, sustainable, and resilient by intentionally including women and combatting gender discrimination as well as addressing challenges raised by climate change.
 - o Cambodia must build the foundations now for future progress towards becoming a high-income country by 2050 thereby avoiding the so-called middle-income trap.
- Seven Key Reform Priorities:
 - o Priority 1: Reversing the economic scarring effect from the COVID-19 pandemic by implementing short-term priorities, such as creating remediation classes, providing more social protection programmes, and securing more FDI in manufacturing.
 - o Priority 2: Promoting more inclusive and accountable institutions to deliver effective and high-quality public services by standardising data collection and improving data management.
 - o Priority 3: Strengthening and expanding the Social Protection System by improving the tax code to increase government revenue and ensuring low-income families have access to fundamental services.
 - o Priority 4: Sustainably investing in Cambodia’s natural resources to ensure long-term growth and development by expanding clean, renewable energy and maintaining the environment to support the large number of Cambodians who rely on agriculture.
 - o Priority 5: Continuing to expand, upgrade, and diversify the manufacturing sector by securing manufacturing opportunities that are leaving China and bolstering government regulation of business to meet international demands for better labour and environmental protections.
 - o Priority 6: Modernising the agricultural sector with government support by providing government support for agri-processing and minimising agricultural degradation and stress.
 - o Priority 7: Investing in quality education, skills building, and digital infrastructure by reforming the secondary school tracking system, combatting bias against women entering particular fields, like STEM, and building out digital platforms that increase government-to-citizen communication.

For more information of this conference,
please refer to this website: <https://coc2023.cdri.org.kh>

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