



# **CAMBODIA'S NEW GROWTH STRATEGY**

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

### **THE OVERVIEW REPORT**

FEBRUARY 2025



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

**The Overview Report**



**CDRI – Cambodia Development Resource Institute**  
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## List of acronyms and abbreviations

BAU	Business-as-usual
CAPRED	Cambodia Australia Partnership for Resilient Economic Development
CDRI	Cambodia Development Resource Institute
DFAT	Department of Foreign Affairs and Trade
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HIC	High-Income Countries
IDPoor Programme	Identification of Poor Households Programme
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
RGC	Royal Government of Cambodia
SEZ	Special Economic Zone
SMEs	Small and Medium Enterprises
TFP	Total Factor Productivity
US	United States



## Key messages

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

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

A comprehensive policy analysis of Cambodia's economic performance across key growth determinants reveals both progress and critical gaps. Encouragingly, the country's performance indicators have generally improved over time. However, this progress remains insufficient to bridge

the gap with peer economies, thereby jeopardising the realisation of Cambodia's economic vision. Persistent weaknesses in the business environment—particularly in regulatory quality, institutional capacity, and human development—present formidable barriers to accelerated growth.

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

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

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

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

## 2. Comprehensive Structural Reforms –

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

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

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

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

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

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

## Accelerated sector reforms

### 1 Target policy support at high potential sub-industries



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

### 2 Drive the green transition for sustainable growth



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

### 3 Prioritise reforms that support inclusive medium-term growth



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

## Fundamental reforms

### 4 Build human capital to sustain economic progress



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

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



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

### 6 Overcome constraints in policy implementation



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

### 7 Set objectives for Cambodia's long-term vision



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

## 1. Introduction

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

However, there are two important questions that need to be addressed. Can Cambodia recover adequately from the COVID-19 pandemic to realise its aspiration toward an advanced economy, given an increasingly uncertain world economic order? And, can Cambodia's growth become more inclusive, sustainable, and resilient in the future? This report answers "yes" to both questions with commitments to embark upon major reforms. This projection is conditional on faster reforms in line with a new growth

strategy scenario involving accelerated reforms, while a business-as-usual (BAU) reform scenario will deliver slower growth and delay reaching the targets. The report outlines future scenarios for a new growth strategy to capitalise on its past success, seize new emerging opportunities and tackle head-on the fundamental weakness the country faces, and embrace new challenges within an uncertain future.

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

## 2. Historical growth and development trajectory

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

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

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

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

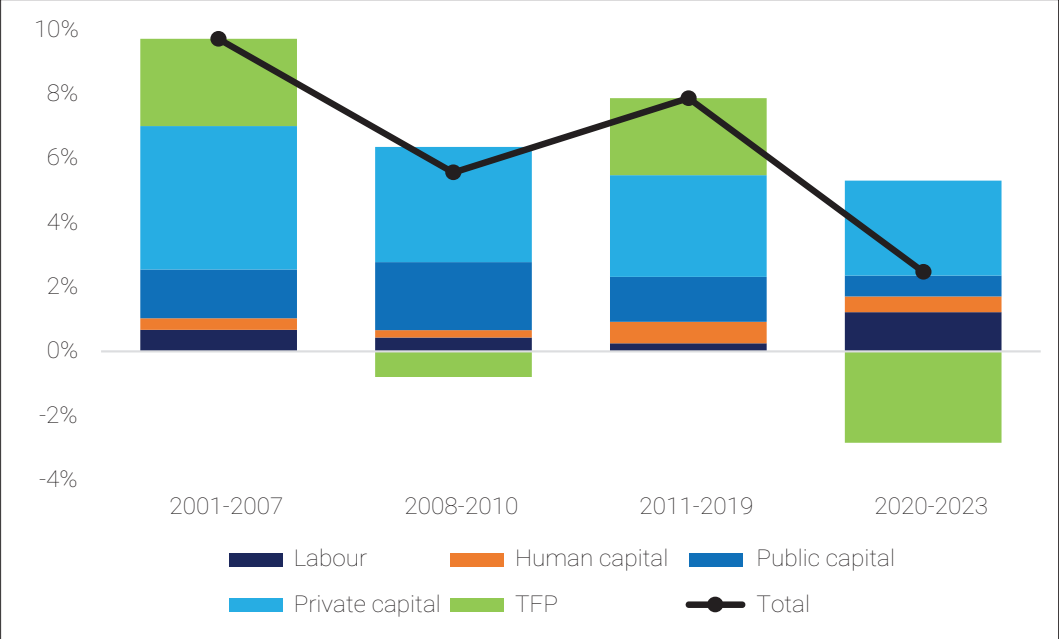
The rapid economic growth of the past has also occurred at the expense of the environment, which is unsustainable. For instance, forest cover has shrunk dramatically, from above 62 percent in

1990 to below 45 percent in 2021, because of uncontrolled land-use conversion, and rapid urbanisation, exacerbating climate change vulnerability. Land-use conversion is not sustainable as a source of growth. New drivers of growth must pay attention to sustainability.

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

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

Figure 1: Contributions to economic growth



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

### 3. Modelling Cambodia's growth pathways

The modelling undertaken for this study analyses the key drivers of economic growth and uses this as the basis for understanding Cambodia's future economic prospects. This study has employed two approaches to modelling Cambodia's future economic growth. First, a reasonably traditional neoclassical model is employed, where economic growth depends on increases in the number of workers, human capital improvements, private and public capital investment, and increases in TFP. TFP is typically interpreted as representing market efficiency, knowledge and technology, and the quality of institutions. The second model employed takes a sectoral (structural transformation) approach whereby economic growth depends on increases in the workforce, the movement of workers

from low to higher productivity sectors (e.g. from agriculture to manufacturing) and increases in value-added labour productivity within individual sectors (including via industrial upgrading). The two models combine to provide different insights into Cambodia's future growth prospects and improve the robustness of the exercise, with the average results of the two models used to construct each scenario projection.

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

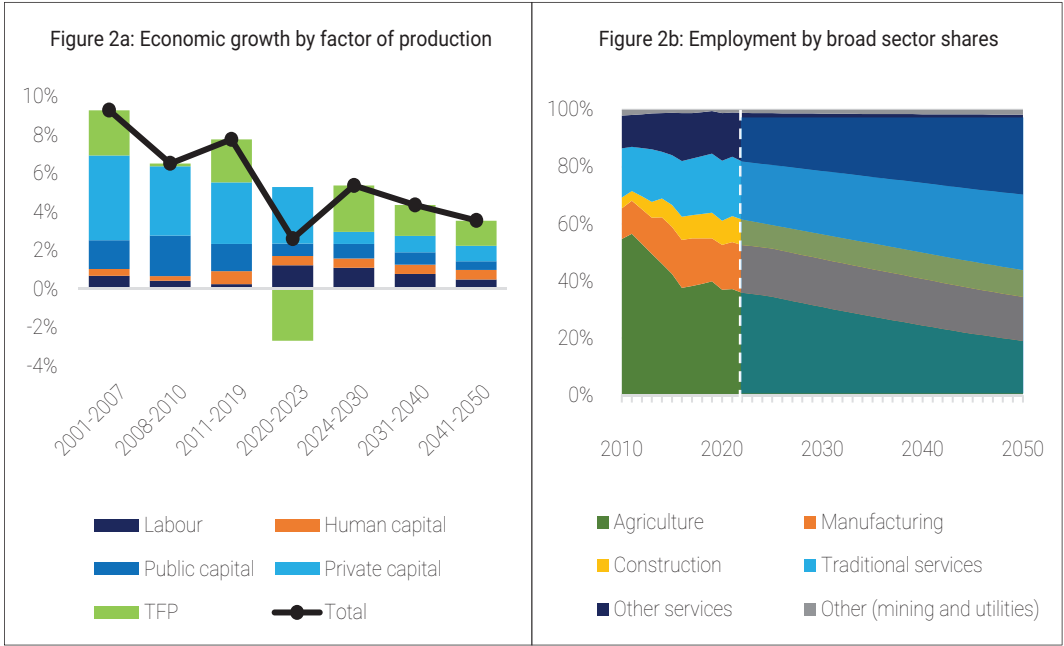
**Neoclassical model:** Private investment will be weaker due to the end of the real estate boom, elevated corporate debt, and with banks facing high non-performing loans. Public investment in infrastructure is lower

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

**Sectoral perspective scenario:** The end of the real estate boom alone reduces future growth compared to pre-pandemic by 1.2 percentage points. The share of

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

Figure 2: BAU scenario growth and employment projections



Source: Authors projections and national accounts statistics

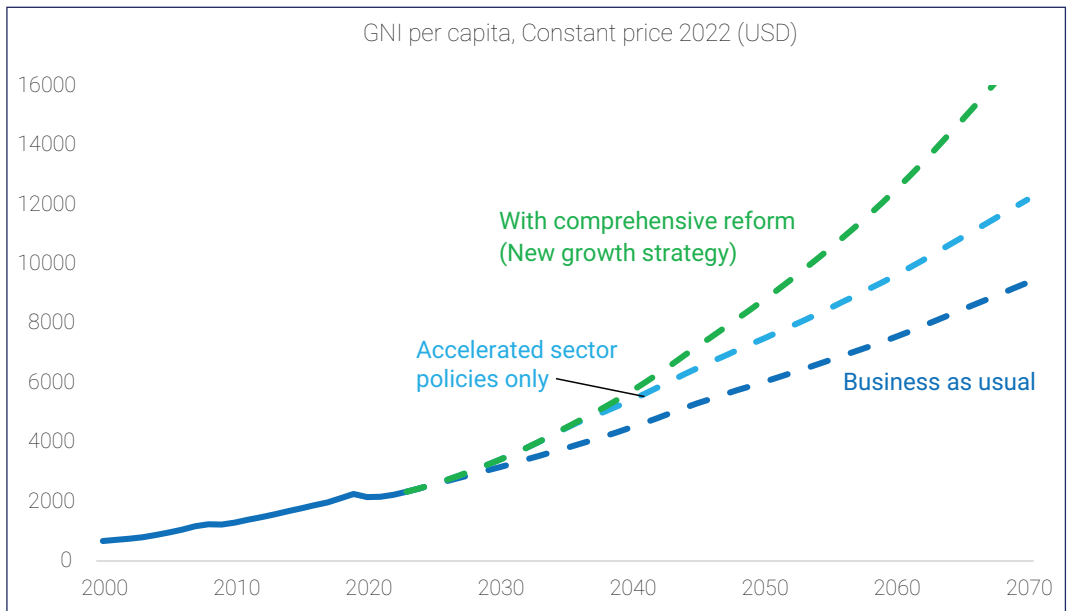
## 4. A new growth strategy for Cambodia

Cambodia's existing growth strategy – built on political stability, prudent macroeconomic policy, and economic openness – has allowed the country to take advantage of its key competitive advantages in low-cost labour, world class tourism assets, and its geographic position in the dynamic East Asia region. However, these pillars alone are no longer enough. Scenario modelling discussed above indicates that in a BAU projection, economic growth would be considerably slower than before the pandemic. Between 2024-2030, the BAU scenario would see economic growth stuck at about 5.4 percent per year, similar to its current pace. This would still place Cambodia as a relatively fast-growing economy by international standards. However, it would be well below

the rate of progress desired by Cambodia and its political leadership. More important, over the longer term the costs of continuing BAU would be even higher and could see Cambodia stuck in the middle-income traps. Figure 3 and Table 1 below summarise the key results of the growth modelling carried out for this report.

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

Figure 3: Scenario development pathways



Source: Authors projections and national accounts statistics



**Table 1: Key economic growth modelling results**

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

Source: Authors projections and national accounts statistics

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

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

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

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

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

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

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

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

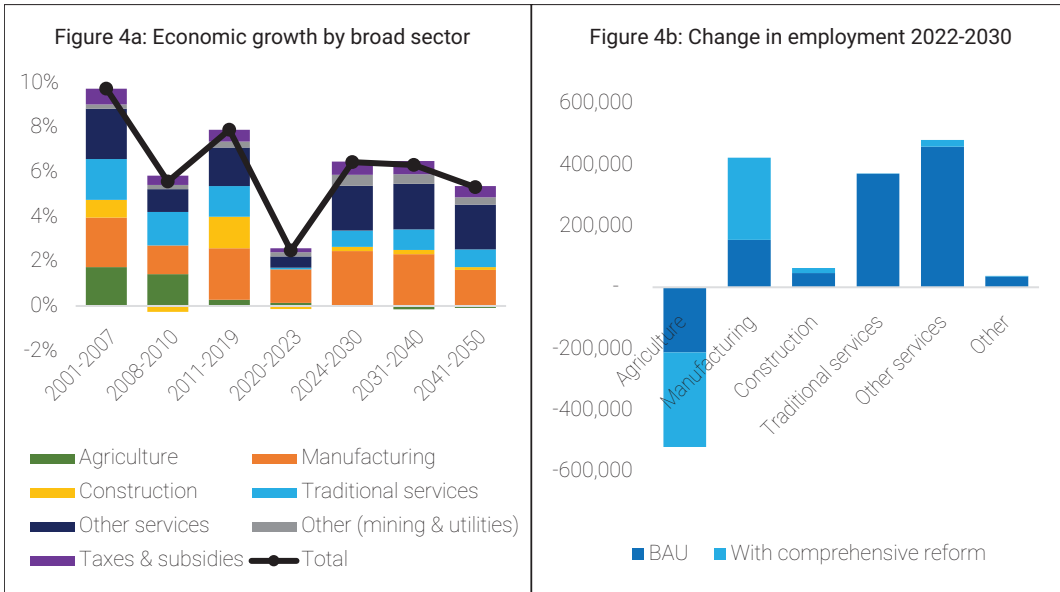
With successful accelerated sector policy efforts, it would be feasible for Cambodia to achieve growth upwards of 6 percent over the coming decade. This would also generate greater non-farm employment (Figure 4b). However, the bulk of non-farm employment creation is likely to remain in the services sector,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

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

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

Comprehensive reforms should focus on human capital development and governance,

Figure 4: Growth and employment projections with comprehensive reforms



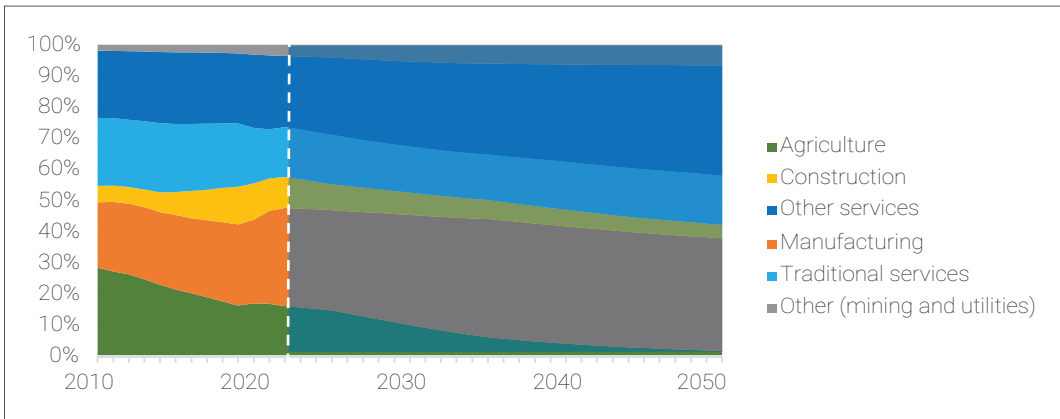
Source: Authors projections and national accounts statistics

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

If Cambodia succeeds in improving its long-term fundamentals, then achieving sustained and more broad-based growth

will be possible. In the Comprehensive Reform scenario modelled in this study, growth would remain sustained in the 5-6 percent range over the long-term, with greater industrialisation as well as gradual diversification into modern digital and business services (Figure 5).

Figure 5: Output by sector - comprehensive reforms



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

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

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

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

Improving the sustainability of growth and its drivers also involves diversifying trade and investment flows. That is, diversifying

export products and markets and import sources, as well as sources of FDI flows, will reduce risk and vulnerability to country-specific and other external shocks and increase the sustainability of economic growth.

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

### **4.4. Summary of key recommendations**

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

<p><b>A</b></p> <p><b>Target policy support to high potential new sub-industries</b></p>	<ul style="list-style-type: none"> <li>● <b>Attracting anchor foreign investors</b> in priority sectors, including agro-processing, electronics, tradeable services, and tourism, to strengthen industrial clusters and enhance global integration.</li> <li>● <b>Addressing regulatory, infrastructure, and skills bottlenecks</b> through structured engagement with the private sector to improve investment attractiveness.</li> <li>● <b>Activate the FDI review board</b> to assess industrial policies, SEZs, and strategic investment incentives.</li> </ul>
<p><b>B</b></p> <p><b>Respond to green transition for more sustainable and resilient growth</b></p>	<ul style="list-style-type: none"> <li>● <b>Expanding green financing mechanisms</b>, particularly for renewable and energy efficiency projects.</li> <li>● <b>Supporting green industries</b> by promoting clean energy adoption, carbon capture technologies, and energy-efficient solutions.</li> <li>● <b>Encouraging sustainable agricultural practices</b> that minimise carbon footprints while improving productivity.</li> </ul>
<p><b>C</b></p> <p><b>Reforms to support broad-based and inclusive medium-term growth</b></p>	<ul style="list-style-type: none"> <li>● <b>Accelerating digitalisation</b> in public services to improve efficiency and transparency.</li> <li>● <b>Expanding digital infrastructure in rural areas</b>, with a focus on smallholder farmers to enhance productivity and market access.</li> <li>● <b>Enhancing the business regulatory environment</b> to facilitate MSME formalisation, digital transformation, and access to affordable finance.</li> </ul>
<p><b>D</b></p> <p><b>Build human capital to sustain long-term economic progress</b></p>	<ul style="list-style-type: none"> <li>● <b>Deepening reform in the education system</b> from early childhood to higher education, with a strong focus on quality, accountability and workforce alignment.</li> <li>● <b>Expanding social protection programmes</b> and introducing family-friendly policies to support workers and MSMEs.</li> <li>● <b>Strengthening healthcare access</b> to ensure universal coverage and improved service quality.</li> </ul>
<p><b>E</b></p> <p><b>Improve governance as the key foundation for long-term development</b></p>	<ul style="list-style-type: none"> <li>● <b>Implement a comprehensive public administration and legal system reform</b> to enhance efficiency and transparency.</li> <li>● <b>Increasing tax system transparency and predictability</b> to improve compliance and revenue generation.</li> <li>● <b>Deploying technical experts to rural areas</b> to support economic activities and ensure equitable service provision.</li> </ul>
<p><b>F</b></p> <p><b>Overcome constraints in policy implementation</b></p>	<ul style="list-style-type: none"> <li>● <b>Promoting a culture of meritocracy</b> by empowering the most qualified public sector professionals.</li> <li>● <b>Enhancing inter-agency coordination</b> through robust data-driven decision-making and clear responsibility allocation.</li> <li>● <b>Developing outreach and change management strategies</b> to engage stakeholders in policy reforms.</li> </ul>

## G

### Set objectives for Cambodia's long-term vision

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

## 5. Overcoming constraints for effective implementation

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

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

### 5.1. Challenges related to the capacity and quality of institutions

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

## 5.2. The effectiveness of inter-ministerial/institutional coordination

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

## 5.3. Monitoring and evaluation

The lack of attention and investment in monitoring and evaluation (M&E), particularly

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

## 5.4. Outreach, dissemination and change management

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

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

To drive reform and accelerate development, the government should undertake the process to develop a new vision strategy for growth toward a more complex and dynamic economy and society. The new vision should outline the long-term development plan, core values, and guiding

principles for policy reforms. Policy makers need to address six objectives: 1) realistic targets for inclusive development via economic growth and job creation; 2) identification of the level of public services and social protection the state should aim to achieve in line with reaching medium

and long-term growth goals and the revenue sources required to finance this; 3) requirements for domestic environmental sustainability and the transition to a low-carbon economic trajectory; 4) a strategy for managing Cambodia's international economic relationships to support its

development agenda; 5) targets for steadily improving governance and institutions in line with the requirements of becoming a more advanced economy; and 6) a credible platform for public participation in public policy formulation, implementation, and oversight.

## 7. Conclusion

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

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

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

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

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





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