



Evidence.
Ideas.
Change.

Cambodia's economic transformation – scoping new activities

Presentation at CDRI, ODI, DFAT workshop,
Phnom Penh, 26th February 2019

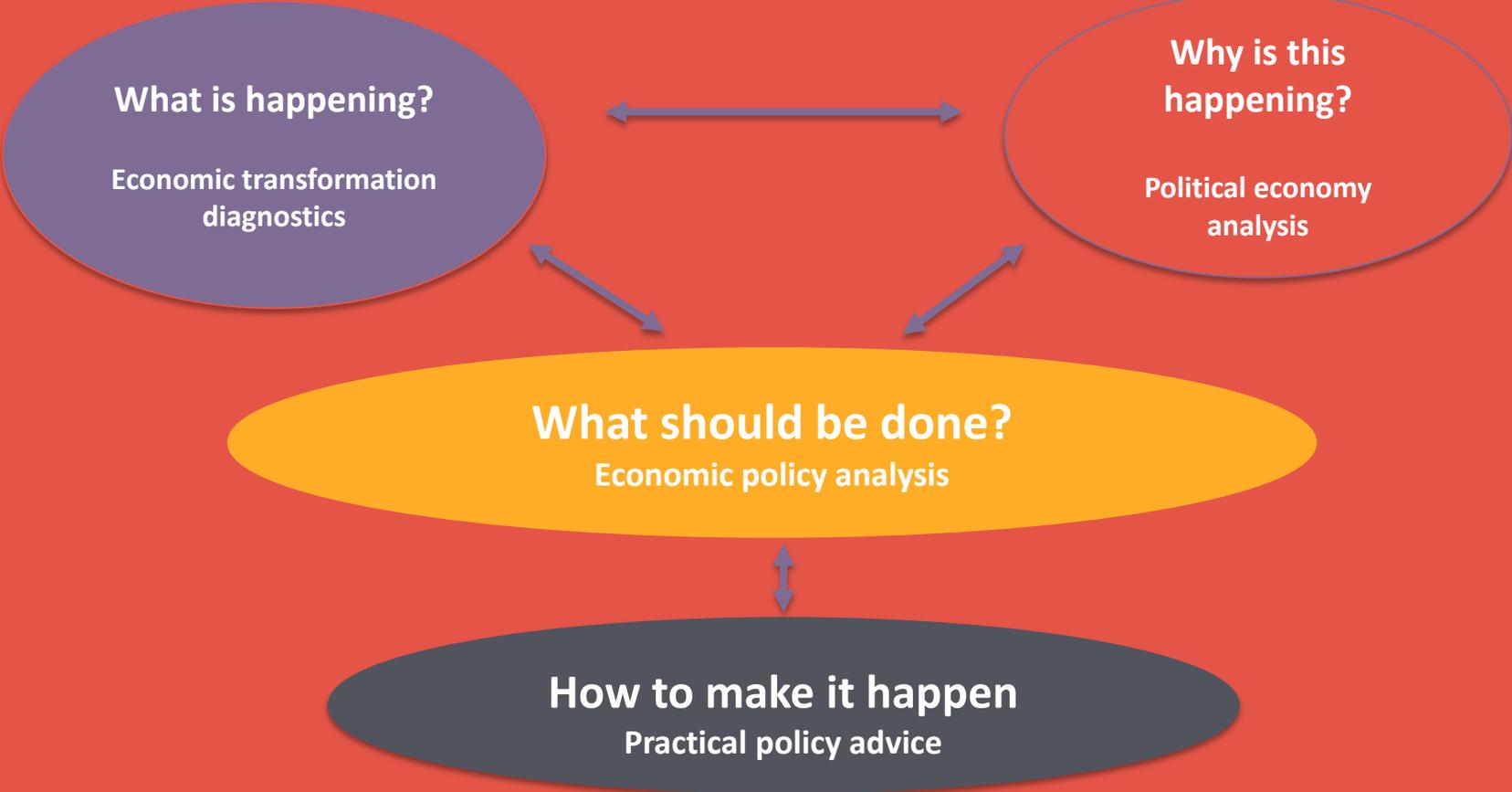
Overview of presentation

- Approach to Supporting Economic Transformation (SET)

economic transformation = broad based shift from low productivity to high productivity activities

- Cambodia's economic transformation; key features
- Possible options for further investigation (by Sept/Oct 2019)

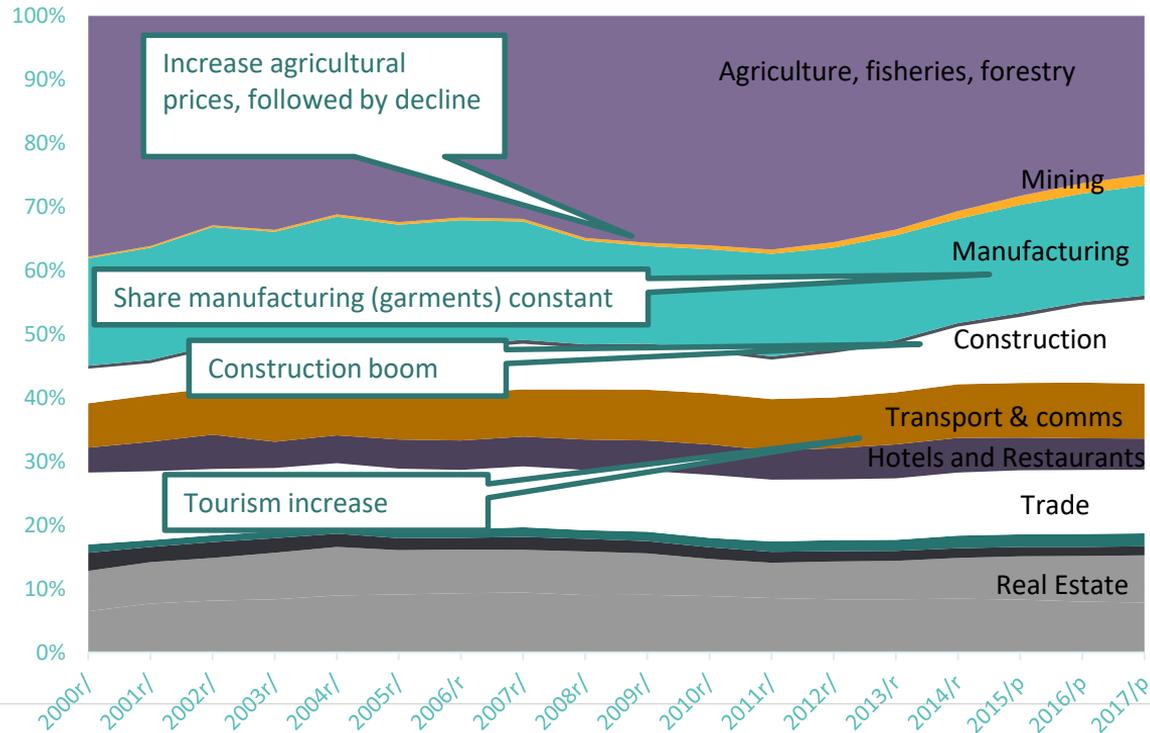
SET APPROACH TO ECONOMIC TRANSFORMATION



Lessons from SET work in 10 Asian and African countries

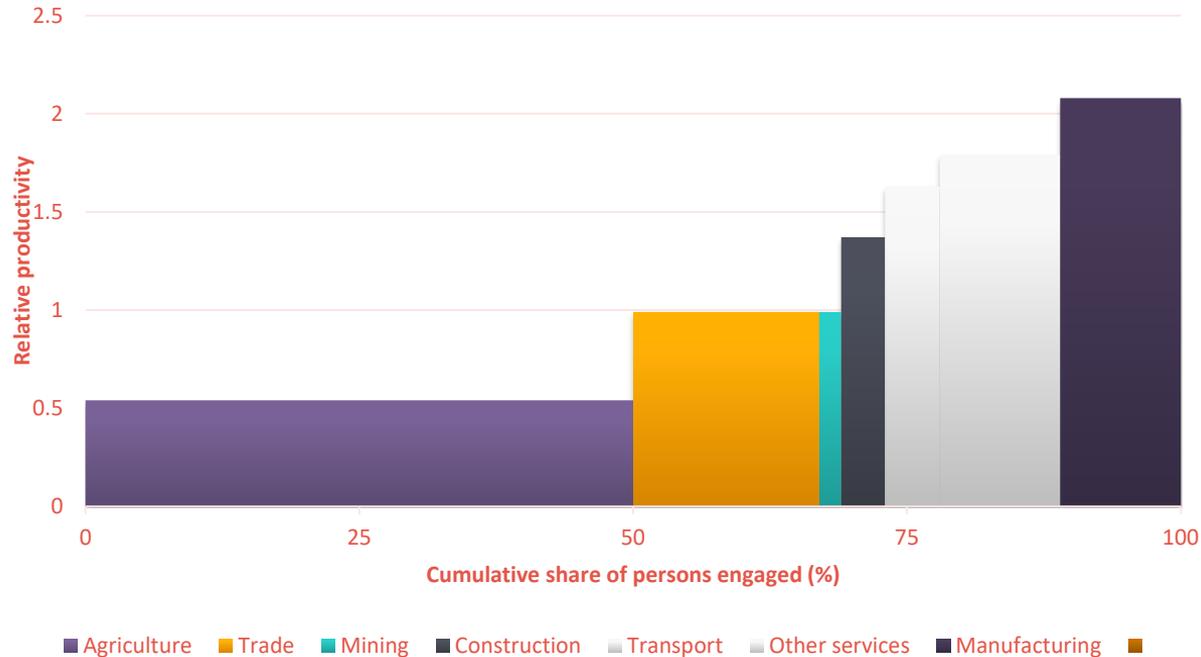
- 1. What.** Transformation potential (i) between sectors: (ii) within sectors; and (iii) within firms. Greater opportunities (differentials) at low incomes. Window of opportunity (China / automation). Usually a consensus exists on promising sectors.
- 2. Why.** Constraints to ET are often economic are political.
- 3. What next.** Policy options consider general enabling *and* targeted, and distinguish between more-of-the-same vs. transformational.
- 4. How.** Functions, implementation, political economy [Ansu et al. \(2016b\)](#)
 - Economic transformation as a shared ***nation-building project***.
 - Effective lead agency with ***sufficient autonomy, budgetary control and political authorisation***
 - Institutional arrangements that ***coordinate a set of powerful public and private actors***
 - Discovery through ***explicit experimentation, good feedback and timely correction***.

Cambodia's economic structure (sector % of GNI), 2000-2017



Source: Cambodia National Statistics

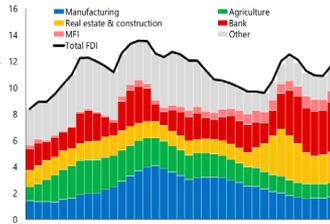
Potential for ET in Cambodia: Labour productivity gaps (2013)



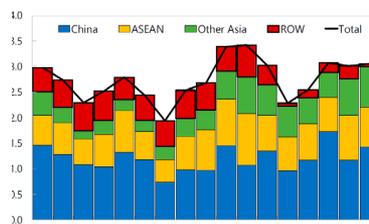
Cambodia's achievement

1. **Cambodia's hat-trick:** fast growth (7.6% for 2 decades), reduction in poverty (47.8% in 2007 to 13.5% in 2014) and inequality (Gini from 40 in 1997 to 28 in 2012).
2. **Concentration = vulnerability** (export products and destination, 75% of exports is garments, 50% from 5 countries –US/UK/JP/GE/FR ; 50% of FDI inflows from China (90% from Asia), much in construction recently).
3. **Little diversification**, hampering future growth (product space Cambodia/ Vietnam)
4. A few weak competitiveness indicators, unpredictable informal payments, lack of access/ high price of electricity, unfinished rural-urban transformation, high female labour participation rate, pros and cons of sector initiatives.

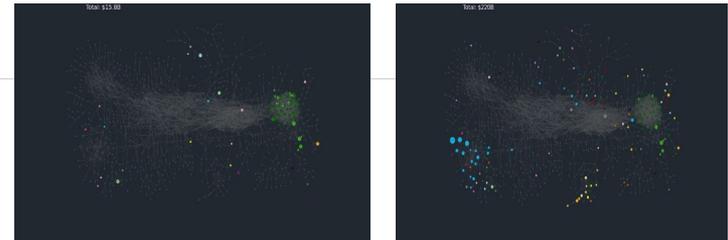
FDI by sector



FDI by source



Product space 2017: Cambodia vs Vietnam



Scoping options

- Which issues linked to inclusive economic transformation have been emphasised by the literature (over the past decade)?
 - How do these issues link to policy?
 - What is the analysis gap?
- today's meeting, some consultation and visits, and a scoping note

Scoping options

Area	Link to inclusive economic transformation	Link to policy	Examples of relevant studies in Cambodia
1. Fostering competitiveness in context of rapid trade preference erosion	Manufacturing; 800.000 female garments jobs; rural-urban migration; poverty reduction	Policy urgency; EU DFQF, US GSP, US-China trade war, LDC status	Not on current shocks
2. Diversification into high value manufacturing / services	Reduces vulnerability; productivity; and future job creation	Industrial Development Policy 2015-2025)	ADB, UNDP, UNIDO, CPAN
3. Preparing for a digital economy	Digitalisation changes development models; competitiveness and inclusion;	New digital economy task force Skills	CDRI World Bank
4. Developing corridors & clusters	Ability to trade goods and services crucial for competitiveness	Attention to Sihanoukville and Bavet	JICA China
5. Promoting agro-processing	Linking (rural) agriculture to ET	NTMs; Rice; Rural infra	World Bank CPAN
6. Improving the quality and co-ordination of policy actions	Effective leadership, targeted co-ordination, state-business relations crucial for ET	Sector initiatives (garment, rice); business climate /licenses	ESID

Conclusions

- Focus on (inclusive) ET for sustained growth, job creation and poverty reduction
- Distinguishing features of Cambodia's economy; goods news, but also challenges.
- Discuss options for future engagement of SET.