



# CAMBODIA 2040

*ECONOMIC DEVELOPMENT*

Edited by  
DETH SOK UDOM  
BRADLEY J. MURG  
OU VIRAK  
MICHAEL RENFREW



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# Chapter 2 | Economic Development Outlook

Mrs. KRUY Narin

## I. Economic Outlook: The Ideal Scenario

From being largely reliant on agriculture, in 13040 the Cambodian economy has developed into one that is industry-based; from being labor intensive and narrow, its economy is now skills-based and diversified. The population enjoys higher standards of living and better conditions in smart and green cities, with access to quality healthcare and education systems, inclusive social security, and efficient public services. Strong political will and bold reform efforts have been key in effectively addressing structural weaknesses to improve the investment climate, reduce business costs, enhance trade facilitation, and address skills shortages. This has provided a conducive environment for Cambodia to strengthen its competitiveness and attract more quality foreign direct investment for economic diversification, with a focus on higher value-added goods and services. Complications and costs regarding doing business in Cambodia have been reduced drastically, with investors well informed of the registration processes that turn over in a matter of a few business days. The removal of unnecessary formal and informal fees has substantially reduced the cost burden for investors, and in turn boosted the competitiveness of local firms so they can provide cheaper products to better compete in both domestic and foreign markets.

Given strong growth performance, the Royal Government of Cambodia (RGC) has been able to mobilize greater resources from tax collection. Public-Private



Partnership (PPP) infrastructure projects have been further expanded, with a robust regulatory framework and the necessary management capacity in place. The government's bond market stands firm and has grown rapidly due to higher domestic savings and substantial inflows of Foreign Direct Investment (FDI), which will have been used as a complementary financing source for public investments in the long term. Infrastructure projects are completed with greater efficiency and under stricter supervision and closer monitoring by a highly capable public investment management unit.

A streamlined and modernized customs administration supports investment and trade growth, with officials providing clearance times and fees on par with international best practice. Port facilities have been upgraded to allow large ships to dock without having to reload to smaller vessels. Systematic port management facilities have greatly improved loading and unloading times, with lower inventory and storage fees. With a well-managed system and capable officers in place, unnecessary customs and port fees are minimal, with the time to clear goods greatly reduced.

As part of the economic diversification process, a long-term agricultural sector development plan has been drafted to accelerate the growth of productivity (both labor and land); diversify other sub-sectors including livestock, poultry, and aquaculture; commercialize agro-processes to increase value in the sector and boost the impact of the investment in their development. Given this comprehensive plan, and improved institutional capacity and greater investment efficiency in the sector, agriculture has returned to strong growth, and now contributes substantially to the kingdom's economic development. In line with increasing living standards, the quality of education and public health services has improved considerably. The RGC has focused on the development of the digital economy by investing in technology and infrastructure to grasp the opportunities brought by the Fourth Industrial Revolution and to reduce the impacts of disruptive technologies, while minimizing cybersecurity risks by assessing the current state of Cambodia's digital economy to identify policies to develop it further. The private sector and large tech firms have been consulted to gather input as the government develops its digital strategy and prepares legal and institutional frameworks.

## II. Scenario Space and Key Factors for Cambodia's Economic Development

Cambodia has demonstrated remarkable economic performance over the past two decades, with an average annual growth rate of 7.7%. The kingdom's GDP per capita growth has outpaced the ASEAN average, with absolute poverty down to 2%. This extraordinary growth saw Cambodia achieve lower-middle-income status in 2015. Building on this solid performance with the aim of reaching the next level of development, the RGC has set a target of becoming an upper- middle-income country by 2030, achieving high-income status by 2050, with per capita gross national income of \$3,896 and \$12,056, respectively, based on the World Bank's new classification thresholds. People will enjoy enhanced infrastructure with a better education system and improved healthcare services. Social security will be provided for all, with better integrated and more effective social protection systems in place. Digital adoption will be high in most areas, with people living in smart and green cities.

Realizing such an ambitious plan will demand stronger and bolder reform efforts to address structural issues, such as limited economic diversification, low competitiveness, weak trade facilitation, poor infrastructure, and a lack of skilled workers. The concrete reform measures announced by Prime Minister Hun Sen in 2019 can be seen as the starting point for the government's long-term reform agenda to reduce investors' cost burden and improve trade facilitation, as well as provide an environment conducive for small to medium size enterprises (SMEs) to thrive.

Five sets of key factors underpin the successful transition towards upper-middle income: (i) political, security, and defense objectives to provide an enabling environment for sustainable economic development; (ii) socio-economic objectives in enhancing competitiveness, speeding up diversification process and emboldening reform efforts in all prioritized areas; (iii) socio-cultural objectives in having a national view on national and state development for inclusive growth; (iv) science and technological objectives in reaping the benefits of Industry 4.0 in promoting sustainable growth in the long term; and (v)

environmental objectives in ensuring sustainable development with the conservation of the environment and adaptability to climate change.

As stipulated in the Rectangular Strategy Phase IV, Industrial Development Policy (2015-2025), and SME Policy, the promotion of SMEs and entrepreneurship is viewed as indispensable for economic diversification and sustainable growth in the long term. This is due to their crucial role in driving growth and generating employment, with these entities providing employment to 70% of Cambodians, contributing 58% of national production, and accounting for 99.8% of all firms in the kingdom.

Several policy and regulatory support initiatives have been introduced recently to facilitate the creation of SMEs and enhance their competitiveness and production capacity to ensure they reach their full potential in the long term and further support economic growth. The Ministry of Economy and Finance (MEF) has provided various forms of support to the SME sector including: (i) domestic tax incentives (Sub-Decree No.124) and customs tax incentives (Sub-Decree No.50); (ii) building entrepreneurship ecosystems for potential SMEs and innovative start-up business incubators, and promoting an entrepreneurial culture through the Entrepreneurship Development Fund (\$5 million per year from the RGC); (iii) sourcing finance for SMEs from the SME bank (capital of \$100 million from the RGC); and (iv) co-financing grants for skilled labor training through the Skills Development Fund (\$5 million per year from the RGC in addition to \$9.6 million from the Asian Development Bank).

Further SME support from other government institutions has been complemented by the provision of capacity building and research and development in the ICT sector through the Capacity Building Research and Development fund (CBRD) (\$12 million from the Ministry of Posts and Telecommunications); providing startup development mentorship, technical assistance, and talent accelerators linked to investment by the Techo Startup Center; providing a platform for SMEs to be listed on the Cambodia Securities Exchange's (CSX) growth board to raise funds from capital markets; and promoting inclusive business through strategic mechanisms including coordination, awareness, accreditation, incentives, public procurement,

technical assistance, finance, monitoring, and reporting through the Inclusive Business Enabling Environment for Cambodia (IBeeC) strategy (under the Ministry of Industry and Handicrafts). Providing tax incentives to SMEs for the utilization of technology will be key to ensuring SMEs remain competitive and support growth through the adoption of digital technology to improve productivity and gain access to new markets through e-commerce and digital financial services.

Other regulatory frameworks have been adopted and drafted to provide protection and ensure competition, union rights, and the clustering of SMEs, including the Consumer Protection Law, E-Commerce Law, and Competition Law, as well as the Sub-Decree on Union of SME Association of Cambodia (drafted and in the process of incorporating inter-institutional inputs and finalization under the Ministry of Industry and Handicraft), and the *prakas* on SME Clusters and SME Policy (drafted under the Ministry of Industry and Handicrafts).

SMEs in prioritized sectors will have been incentivized via tax policy to promote development, backward linkages for FDI and exports, innovative startups in the digital and tech sectors, research and development, technology production, SME cluster development, and increased domestic production capacity, as well as to create jobs in agriculture and agro-industry, food processing, manufacturing for local consumption, recycling, and tourism.

Benefits will have included: (i) income tax exemption from three to five years; (ii) minimum tax and prepayment tax exemptions; (iii) deductible expenses allowed up to 150%-200%; (iv) tariff exemptions on imports of production and construction equipment, and raw materials for SMEs producing clean water and exporting raw materials and goods for domestic consumption; (v) tariff exemptions for equipment used for research and development, and innovative ICT development; (vi) tariff reductions for the export of agricultural products; (vii) the launch of the SME bank in 2019 with a start-up fund of \$100 million from the RGC to support potential SMEs for business expansion and employment generation, increased financial inclusion, and the formalization of the SME sector through increased registration; (viii) the launch of the entrepreneurship

development fund in 2019 with available funds of \$5 million per annum to provide financial support, technical support, and training and consulting services for new start-ups; and (ix) further incentive packages and the introduction of additional SME laws after studies by the Ministry of Industry and Handicrafts.

The Ministry of Education, Youth and Sports' (MoEYS) Higher Education Vision 2030 policy was developed and implemented to build a quality higher education system that develops human resources and provides the level of knowledge, skills, and moral values necessary to work and live in an era of globalization and a knowledge-based society resulting from higher standards of education. The policy calls for an updated curriculum that includes the provision of science and IT skills, improved teaching standards, and upgraded materials and facilities.

For skills development, the National Policy on TVET 2017 -2025 and the Skills Development Fund were piloted to deal with limited labor market information, as well as supply-driven quality, planning and capacity challenges to bridge the current skills gap by putting in place the necessary action plans and M&E mechanisms.

### **III. Policy Initiatives to Achieve the Ideal Scenario**

In an ideal scenario, Cambodia in 2040 will be in the latter stages of transitioning from upper middle income status in 2030 to achieving high income status by 2050, with a great deal of attention paid to investment attraction and SME development. Other sectors will have provided an enabling environment for investment to grow, competitiveness to be strengthened, and diversification to be sped up.

There are several overarching features that need to be addressed in the short-term to attract greater quality investment and create more SMEs to facilitate long term growth and achieve the ideal scenario in 2040. They include: (i) removing Kampuchea Shipping Agency and Brokers (KAMSAB) and terminating permanent role of CAMCONTROL checks from borders, airports, and ports; (ii) reducing logistics costs, and handling and port service fees and charges; (iii) reducing energy costs by two cents per kilowatt hour for industrial use, with

further reductions in the near future; (iv) improving trade facilitation by issuing computerized invoices for service charges by customs officers that can later be used as deductible expenses and to remove broker overcharge by being counted as an official fee, removing 50% of container scanning fees, allowing certain scanning exemptions for best traders and scanning done at dry ports, and reducing the number of restricted goods, while launching a national single window service and improving trade efficiency by using information and communications technology (ICT); (v) reducing repetitive auditing functions; (vi) providing tax incentives to boost agriculture development; (vii) finalizing amendments to the investment law and the law on special economic zones (SEZs); (viii) simplifying business registration processes by using IT platforms to consolidate procedures; and (ix) diversifying export markets in order to reduce vulnerability to external shocks. In addition to these features of change, each previously outlined key factor has a range of interventions that require discussion.

## Politics, Security and National Defense

Cambodia aims to have in place a democratic political system based on the rule of law and strengthened political institutions by 2030, with further democratic consolidation through 2040.

Necessary policy steps to ensure attainment of upper-middle income in 2040 require Cambodia to: (i) continue building a culture of democracy, underpinned by the necessary institutions and governance mechanisms; (ii) ensure a free, fair, and multi-party election system with international oversight; (iii) promote political equity through a culture of dialogue; (iv) continue ensuring freedom of the press and freedom of speech in accordance with the legal frameworks; (v) strengthen the capacity of political institutions, with the clear delegation of tasks within a system of checks and balances; (vi) strengthen the capacity of officials in each institution and the quality of policy discussion; and (vii) regularly improve the functional roles of the public institutions of government, at both the national and sub-national levels.

The RGC aims to have developed effective and transparent political institutions by 2030, and have in place robust, transparent, and accountable public

institutions. The government needs to ensure that it will: (i) establish suitable incentive mechanisms for public institutions; (ii) continue a campaign against corruption by promoting a culture of intolerance to all forms of fraudulent conduct; (iii) continue promoting public administration reforms toward the establishment of a performance-based system; (iv) enhance professionalism in the provision of public services; and (v) continue democratic reforms at the sub-national level through promoting accessible public services close to communities.

Fostering a climate of rule of law, especially regarding public order and criminal, civil, and business law based on regional standards, needs to be strengthened by 2030, with judicial system standards in line with international practices covering the entire legal framework developed by 2040. To this end the RGC can:

(i) continue formulating laws and regulations with suitability, consistency and enforceability; (ii) strengthen the capacity of law enforcement officers through promoting skills and integrity; (iii) strictly implement professionalism in the legal system; (iv) improve accessibility to legal services, especially for the poor; and (v) promote specialization in the provision of legal services, with a focus on quality and the eradication of corruption in the judicial system.

National defense institutions including the military will be reformed, with the strengthening of foreign affairs and international cooperation continuing until 2030, as the government aims to have national defense and foreign affairs institutions in place by 2040 that meet the requirements of the 21st century.

The RGC can: (i) implement policies to build the next generation of its armed forces; (ii) review national defense strategies, especially in the context of modern warfare; (iii) promote foreign affairs and international cooperation with regard to political and economic security between the kingdom and other countries in the region and the world; (iv) strengthen bilateral, multilateral, and international relations to protect Cambodia's interests; (v) improve information collection and analysis along with other mechanisms to be able to respond to an evolving international context; (vi) establish systems to share information and perspectives on foreign affairs; (vii) and promote bilateral collaboration by signing memorandums of understanding (MoU) on the sharing of information

on trade, human and drug trafficking, money laundering, double tax agreements, and terrorism.

## Socio-Economic Sector

To become an upper-middle income country by 2030 and achieve high-income status by 2050, the RGC will need to have pushed forward the necessary structural and governance reforms to maintain robust sustainable growth in the long term, with economic resilience against domestic and external risks and uncertainties. Key policy focuses can be prioritised to: (i) maintain political, macroeconomic and financial stability; (ii) increase competitiveness and encourage diversification through boosting the productivity and value of existing industries, as well as easing the setting up of new enterprises by lowering energy costs and removing unnecessary fees, improving the business climate and trade facilitation, strengthening economic and social infrastructure, addressing the skills gaps by improving the quality of education and promoting technical vocational training, and implementing growth-supporting tax policies;

(iii) fully commit to managing macro-financial risks, safeguarding fiscal sustainability, supporting inclusive growth, and addressing governance vulnerabilities; (iv) strengthening the rule of law and regulatory frameworks to encourage greater investment in the industrial sector; (v) enhance the capacity of the state in efficiently providing public goods and services, and to improve governance; (vi) strengthen public financial policies that focus on the equity of tax collection and revenue redistribution; (vii) maintain price stability and restore monetary policy independence through gradual de-dollarization; (viii) enhance domestic saving mechanisms to reduce the dependency on capital inflows for investment; (ix) continue strengthening the securities market to promote corporate governance, encourage domestic investment, and ensure business sustainability and (x) increase the use of Public Private Partnerships (PPP) for infrastructure and energy development to support sustainable growth.

In the ideal scenario, the Cambodian economy will be fundamentally competitive by 2030, and competitive at the regional and global levels by 2040. Key policy items to consider include: (i) the promotion of entrepreneurship and local business creation through human resource development and improved

knowledge and skills, as well as engendering a culture of entrepreneurship; (ii) the continued establishment and development of SMEs by creating joint public services to enable their swift creation; (iii) the improvement of product standards, with a focus on safety, quality, and the environment; (iv) the continued strengthening of competition based on regulatory and institutional frameworks, the protection of the rights of investors, and the implementation of competition and antitrust laws, supplying reliable consumer protection, the protection of intellectual property rights, and social and cultural protection, as well as environmental protection, among others; (v) the continued maintaining of job market stability; (vi) the further building of necessary infrastructure to reduce the cost of Cambodian products, and the development of new industries with high value and innovation; (vii) the strengthening of public institutional capability in market information collection, impact analysis, and assessment, the implementation of business-related laws, and involving the government in creating value and pushing market competition capability; and (viii) the encouraging of private businesses to invest in skills and innovation.

Cambodia will have continued to improve the quality of its education and public healthcare sectors to near that of the regional standard by 2030, supplying quality, trusted and professional services, while it will have matched or surpassed the regional standard by 2040 in an ideal scenario. The RGC will have continued to: (i) ensure access to basic education for all and improve learning at all levels; (ii) frequently update a curriculum that includes the acquisition of the skills, as well as the science and ICT learning, needed by the labor market; (iii) pay greater attention to teacher welfare and boost the performance of those in education; (iv) provide high-standard learning and teaching materials; (v) promote the role of higher education as a center of knowledge and research, leading new research aligned with Cambodia's economic development; (vi) maintain the achievements in the health sector, particularly in providing basic health care services; (vii) cut down on out-of-pocket healthcare expenses by strengthening the equity fund and increasing health insurance coverage; (viii) improve the quality of treatment and nursing available at public hospitals; (ix) promote medical research in the context of technological advances, and encourage the domestic production of drugs and medical equipment; and (x)

strengthen the overall management of the health sector in order to increase public trust and transform Cambodia into a medical tourism destination.

The RGC will have aimed to see poverty eradicated and social security for all in place by 2030, with social protection policies fully implemented, including social assistance and social security, by 2040. The RGC will (i) implement the National Social Protection Policy 2017-2025 step by step, focusing on universal pensions and health insurance, as well as the provision of workplace social assistance; (ii) ensure operational efficiency in the institutional mechanisms of social protection; and (iii) promote sustainable financing that supports social protection policies.

## Social-Cultural Sector

The RGC will want the Cambodian people by 2030 to have a unified view of national and state development, with a national perspective on the kingdom's position externally by 2040 as it participates regionally and internationally. The RGC will therefore need to: (i) prepare dissemination and communication frameworks for directing people's behavior in daily life, with business and governance rationalizing decision-making and the direction of future development; (ii) research, discuss, and build consensus on the "Cambodian dream" for the 21st century, especially among the young; (iii) research and discuss capacity building to improve the social progress open to different nationalities and cultures in the context of globalization and regionalization; (iv) manage the expectations of the Cambodian people so they understand their individual role in contributing to the national development process; (v) promote participation in building the nation through respecting laws, protecting national interests, building national institutions, and protecting the environment; (vi) assist those seeking further knowledge and skills to increase community and country development; (vii) champion the "role model" at all levels with the aim of creating upstanding citizens, businesspeople, police officers, and civil servants etc.

National identity and cultural heritage will be well preserved and developed by 2030, with Cambodian culture further developed through wider recognition at the international level by 2040. The RGC will: (i) promote the preservation and

development of national identity and culture; (ii) prepare legal frameworks, policies, and institutional mechanisms to embed all forms of culture into education, daily life, social institutions, new buildings, and other physical infrastructures; (iii) prepare national policy for the incorporation of positive elements of foreign culture into Cambodia's; (iv) prepare national policy as to the development and preservation of culture and art in line with societal evolution; (v) prepare mechanisms and policies aimed at enhancing ancient Khmer art forms and crafts; (vi) continue to invest in the preservation of Khmer culture to ensure its continuation; (vii) push for international cultural exchanges, and invest in artists and those skilled in cultural craftsmanship; (viii) strengthen activities promoting national identity and local culture; (ix) prepare a system for the management of national identity and culture, with the compiling and publishing of research, as well as launch further studies into cultural inheritance and national identity; and (x) reinforce the use and teaching of the Khmer language internationally, and strengthen human resources in promoting national identity and culture to be passed on to future generations.

In an ideal scenario, social infrastructure in both urban and rural areas will be comprehensive, better executed, and more efficient by 2030, and highly efficient and cutting edge in line with technological advances by 2040. The RGC will: (i) pay greater attention to urban infrastructure, particularly sewage, flood and waste management; (ii) implement an integrated urbanization master plan for smart cities to address urban challenges in the context of economic, social, and technological advancements, as well as climate change, with greater management of urban transportation and traffic measures; (iii) push for the creation of national programs to provide affordable housing in major urban areas; (iv) promote pleasant urban surroundings; and (v) protect the environment.

The RGC will have built the foundations for an inclusive society by 2030, with Cambodia a fully inclusive society by 2040. Priority areas should be: (i) to prepare specific frameworks and mechanisms to provide opportunities to engender dignity among the whole population, especially regarding women's participation in the economic, social, political, and cultural sectors; (ii) to prepare mechanisms for Cambodians abroad to contact and gather competent compatriots to take

part in the kingdom's development; (iii) to create programs to reintegrate Cambodians who have worked abroad for long periods; (iv) to continue paying attention to the welfare of the disabled; (v) to promote the rights of indigenous people; and (vi) to progressively support the welfare of prisoners.

## Science and Technology

The RGC aims to have built sufficient fundamental infrastructure for the development of the science and technology sector by 2030, and have developed a society based on science and technology to reap the benefits of Industry 4.0 by 2040. Policy priorities will be: (i) to reduce the gap in digital connectivity as much as possible by improving the availability of fast, low-cost internet connection; (ii) to continue expanding the energy network and move toward renewables for sustainable energy development; (iii) to enhance digital infrastructure management systems; and (iv) to increase investment to expand the establishment of public and private educational institutions providing training in science and technology.

The RGC will have to set up frameworks for science and technology and related research institutions by 2030, and will have increased the number of those involved in science and technology by 2040. Key policy items include: (i) to increase human resources in the science and technology sector; (ii) to enhance interdisciplinary research capacity at universities; (iii) to encourage and promote doctoral training programs at all public universities by focusing on priority majors; and (iv) to continue to increase training in science and technology in line with global trends.

Cambodia will need to have formulated policies and regulatory frameworks to develop technology and related industries by 2030, and will have put in place the necessary frameworks to support science and technology by 2040. The RGC will: (i) establish regulatory procedures for the management, support, and adoption of science and technology; (ii) create mechanisms for financing entrepreneurship and business innovation, and encourage public interdisciplinary research; (iii) direct employment policy to align with the changing global context, such as jobs being replaced by automation; and (iv) improve the governance of science and technology sector policy by creating

regulations and institutions that strengthen the management of data flows, data protection, digital security and privacy, licensing, and intellectual property rights, as well as boost research into artificial intelligence and financial technologies (Fintech), etc.

## Natural Environment

The RGC aims to see an end to water-resource disputes by 2030, and have effective management systems in place by 2040. In order to meet these targets it will be necessary to: (i) formulate effective policy frameworks for the entire water resources management system, for agricultural irrigation and climate change adaptation; (ii) implement long-term agricultural development plans using the latest technology to increase yields in line with developments in global production; and (iii) establish responsive crisis assistance mechanisms.

The kingdom's environment and ecological systems are to be stable and thriving by 2030, with their sustainability ensured by 2040. For this to be achieved, the RGC will need to: (i) accelerate the conservation of the environment and ecological systems; (ii) conserve ecosystems while utilizing natural resources sustainably and maintaining environmental systems; (iii) promote the management and use of low-carbon technologies to support sustainable development; (iv) reduce vulnerability and increase the resilience of communities impacted by climate change; and (v) improve knowledge and understanding on the responses to climate change.

If Cambodia is to be well prepared for climate change by 2030 and able to implement adaptability measures by 2040, further reforms are required. The key policy priorities are to: (i) manage social and economic infrastructures to mitigate the effects of climate change; (ii) build infrastructure, roads, transportation systems, and distribution channels that align with climatic conditions, and ensure sustainable economic trading processes; (iii) promote resilience to climate change through improving food, water, and energy security, and increase the resilience of infrastructure systems, as well as ensuring strategic production to meet the impacts of climate change; (iv) promote adaptations in social protection and participatory methods in reducing losses due to climate change; (v) build institutions and coordinating frameworks to

respond to climate change at the national level; and (vi) actively participate in regional and international efforts to tackle the effects of climate change.

#### **IV. Economic Development Under the Baseline Scenario: Business as Usual in 2040**

The business-as-usual scenario indicates that the kingdom will miss both the upper-middle-income and high-income status targets. By 2040, the country's economic outlook could be significantly worse off without the implementation of major reforms. Cambodia could remain a lower-middle-income country or even return to low-income status if the economic base has not been substantially broadened and diversified. Industry level competitiveness remains minimal partly due to inadequate physical infrastructure and trade facilitation. In this scenario, the kingdom has not brought about the requisite improvements in standards across public education, healthcare, and security.

With poor levels of technology adoption and a low-skilled labor force present in 2020, Cambodia needed to grow at the rate of China to meet the medium-term target of attaining upper-middle-income country status by 2030 (Spiess, 2018). Cambodian investment needed to increase to 33% of GDP, from the current level of 22% of GDP as in 2017, and savings needed to reach 28% of GDP from 13% for the kingdom to reach high-income status by 2050.

Achieving these ambitious long-term goals by sustaining strong growth has proven beyond the kingdom's capacity as a result of ongoing structural issues, limited fiscal space, and institutional capacity problems. In addition, Cambodia has undergone a number of undesirable transitions including: (i) the uncertainty of trade preferential treatment ; (ii) an escalation of U.S.-China trade tensions leading to prolonged global protectionism; (iii) slowed growth in China that disrupted investment; (iv) elevated financial sector vulnerabilities stemming from strong credit growth in the real estate sector, and (v) worsening extreme weather conditions that disrupted agricultural output.

Diversifying the economy while at the same time upgrading its value add is not an easy task, with public sector capacity realistically not able to match the stated ambitions and weakening investment sentiment in this scenario. The 2015-2025

industrial development plan has not yielded much progress due to limited institutional capacity in its implementation, as well as weak institutional coordination across the relevant agencies.

Attracting new quality investments and expanding existing ones has decelerated due to bureaucratic practices, less efficiently used fiscal incentives, the absence of amended investment laws, a low-skilled labor force, and weakening investment sentiment brought about by intensified trade tensions between the US and China. Meanwhile, integrated multi-year development plans in existing sectors (tourism, logistics, transportation, telecommunications, agriculture, urban development, and energy) have not been well developed, while implementation capacity remains questionable in stimulating better contributions to the economy.

Drastically improving infrastructure to better support growth in the long term would demand a huge amount of financing. This would most likely be viewed as impossible given Cambodia's limited fiscal space, declining concessional loans and grants, and limited financing sources from the private sector. Government revenue has very limited room for growth amidst a weakening investment position, while demand for spending will keep growing over time to meet the implementation of social protection systems, infrastructure needs, and improvements to public services. Going forward, Cambodia will depend more on external financing with higher costs of borrowing to respond to infrastructure development needs, while PPP schemes have only begun, regulatory frameworks and managing capacities newly developed, and government bonds still in their infancy. Consequently, the existing mechanisms introduced in 2019, in the absence of the substantial reforms, are unlikely to deliver the desired level of economic growth and development as stipulated in Cambodia's long-term visions.

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