



Will Cambodia be able to become an “Upper-Middle-Income” country by 2030?

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Executive Summary

- Cambodia is aspiring to become an upper-middle income country by 2030.
- There are many opportunities for Cambodia. As the Covid-19 subsides, the tourism industry has seen fresh momentum with the influx of foreign visitors to Cambodia. The Law on Investment has been adopted, paving the ways for foreign investors to come and further invest in Cambodia. Cambodia has signed many trading agreements and trade pacts with foreign countries like China, and the Regional Comprehensive Economic Partnership (RCEP).
- Despite various opportunities, there are still challenges for Cambodia. The partial withdrawal of the Everything but Arms (EBA) status of the European Union (EU) from Cambodia has slightly reduced Cambodia’s revenue annually. The ongoing war in Ukraine has caused disruptions in supply chain, affecting Cambodia’s ability to export and import. Furthermore, Cambodia still lacks skilled labor, and workers who are able work in the Industry 4.0.
- As Cambodia progresses, it is important that these challenges are addressed to move Cambodia forward and achieve its goal of being an upper-middle income country by 2030.

Upper-Middle-Income Level is defined as having a GNP (Gross National Income) per capita ranging from \$4,046 to \$12,535 (2021).¹ Given this, Prime Minister Hun Sen recently announced economic plans to achieve an "Upper-Middle-Income" position by 2030, despite global economic

¹ World Bank. 29 August 2022. "The World Bank in Middle Income Countries: Overview." Available at <https://www.worldbank.org/en/country/mic/overview#>.

challenges, the Russia-Ukraine war, and the climate change crisis.² Following the COVID-19 outbreak, the Cambodian government has worked tirelessly to open the country up to more foreign investment, trade, and the tourism industry. To achieve the upper-middle-income level, some key considerations must be made, including the current state of the global economy, particularly the economic aspect of Cambodia as a whole in terms of microeconomics and macroeconomics.

In this context, this will examine both the opportunities and the challenges that Cambodia might encounter on its way to achieving "Upper-Middle-Income Level" status by 2030.

The reopening of the economy and high vaccination protection will make way for a gradual revival in tourism, which will support consumer demand for lodging, food, transportation, and additional services provided in person. As a result of the border opening, Cambodia has gained significant opportunities for tourism growth within Cambodia, as tourism is one of the four key components supporting the Cambodian economy.³ According to the Asian Development Bank (ADB), Cambodia's economy will grow 5.5 percent in 2023 and 6 percent in 2024, owing to a stronger rebound in tourism and greater expansion in the service sector.⁴ Cambodia's Tourism Minister also predicted that 4 million international tourists would visit the country in 2023 after China enhanced its anti-COVID-19 tactics and continued outbound group tours earlier this year. According to the plan for the recovery and promotion of the tourism industry in Cambodia during and after the COVID-19 pandemic, Cambodia is projected to receive approximately 7 million foreign visitors by 2025.⁵

² Kang Sohear.01 February 2023. "CPP sets strategies for upper-middle income by 2030." Khmer Times. Available at <https://www.khmertimeskh.com/501230305/cpp-sets-strategies-for-upper-middle-income-by-2030/>.

³ Switch For Asia. "Cambodia National Context for SCP and Connection to the Global Agenda" further details. Available at: <https://www.switch-asia.eu/countries/southeast-asia/cambodia/>

⁴ Khmer Times. 05 April 2023. "China's Reopening to Give Big Boost to Cambodia's Tourism, Growth." Available at: <https://www.khmertimeskh.com/501268285/chinas-reopening-to-give-big-boost-to-cambodias-tourism-growth/>.

⁵ Asian Development Bank (ADB). n.d. "Sector Assessment Summary: Tourism in Cambodia." Available at: <https://www.adb.org/sites/default/files/linked-documents/53243-001-ssa.pdf>.

In addition, in late 2021, Cambodia adopted an updated investment law, officially known as the Law on Investment in the Kingdom of Cambodia (the "Law").⁶ By updating this investment law, Cambodia tends to provide more ease for the foreign investors in terms of simplify Cambodia's investment environment by aligning rules with ASEAN's highest standards, which would attract more investments due to less complexity as well. This result Cambodia in accomplishing highly in terms of foreign direct investment (FDI), performing a total of three times higher than anticipated, with an index of 3.6, placing it in the top 25 in the world. As a result, Cambodia Foreign Direct Investment (FDI) increased by 12.1% of the country's nominal GDP in December 2022.⁷ Despite the negative impact of the COVID-19 pandemic, Chinese investment in Cambodia elevated substantially in 2021. According to a study from the Council for the Development of Cambodia, Cambodia captured fixed-asset investment from China worth US\$2.32 billion in 2021, up 67% from US\$1.39 billion in 2020. China continued to be Cambodia's top foreign investor, contributing 53.4% of the total investment of US\$4.35 billion authorized by the kingdom in 2020.⁸ Further to that, Singapore came in second main FDI in Cambodia with 8.3% and amounting to US\$2.7 Billion from 1994 to 2021, and South Korea came in third 8.1 percent in 2021.

Simultaneously, Cambodia has expanded its comprehensive economic partnership and free trade agreement with other nations, as signing trade agreements will allow Cambodia to boost trade with low tariffs in particular, and contribute effectively to the economy as a whole. Cambodia is currently a member of the Regional Comprehensive Economic Partnership (RCEP) as well as the ASEAN Free Trade Agreement (FTA)⁹. According to a Ministry of Commerce report, Cambodia's trade with nations that are part of the Regional Comprehensive Economic Partnership (RCEP) attained 31 billion US dollars in 2022, up 4% from the previous year.¹⁰ Cambodia also has two

⁶ Alexander Chipman Koty. 16 June 2022. "Cambodia's Law on Investment: What Foreign Investors Need to Know." Available at: <https://www.aseanbriefing.com/news/cambodias-law-on-investment-what-foreign-investors-need-to-know/>.

⁷ CEIC Data. n.d. "Cambodia Foreign Direct Investment: % of GDP." Available at: <https://www.ceicdata.com/en/indicator/cambodia/foreign-direct-investment--of-nominal-gdp>.

⁸ May Kunmakara. 12 February 2023. "Cambodia-China Action Plan Expected to Boost FTA Benefits." Phnom Penh Post. Available at: <https://www.phnompenhpost.com/business/cambodia-china-action-plan-expected-boost-fta-benefits#>.

⁹ Invest in ASEAN. n.d. "ASEAN Free Trade Area Agreements". Available at: <https://investasean.asean.org/asean-free-trade-area-agreements/view/757/newsid/872/asean-trade-in-goods-agreement.html>.

¹⁰ Khmer Times. 18 January 2023. "Cambodia's Trade with RCEP Countries Hit \$31 Bln Last Year." Available at <https://www.khmertimeskh.com/501221471/cambodias-trade-with-rcep-countries-hit-31-bln-last-year/>.

bilateral free trade agreements (FTAs) with China and Korea, which entered into force in January and December 2022, respectively.¹¹ In relation to China's FTA, Cambodia has a recently signed Action Agenda on Trade and Economic Cooperation 2023-2024, which is anticipated to promote the use of preferential provisions provided by free trade agreements (FTAs) and similar regional agreements to promote trade and investment between Cambodia and China.¹² The process of implementation will also focus on offering more Cambodian agricultural goods to China and persuading Chinese investors to allocate resources to projects that will encourage the Kingdom's exports to the Chinese market. At the same time, Cambodian exports to South Korea increased by 20.38 percent to \$233.638 million.

Therefore, to boost the economic growth to the upper-middle income level by 2030, these are the significant aspects in terms of tourism growth, investment law development, and potential trade agreements. The higher tourism growth, the more income will be put into the national's income as well, and at the same time. At the same time, investment law shapes Cambodia to be a better place for the foreign investment due to its simplification that has been updated, as well as Cambodia always kept its bond with the potential parts to enhance the trade agreements. However, this is not a utopian world, where we can reach everything smoothly; therefore, there are also key concerns that Cambodia may encounter including the withdrawal of Everything but Arms (EBA), indirect impact from the Russia-Ukraine war, and lack of human resources that may fit with the development of the industry 4.0.

On the other hand, on 12 February 2020, the Commission adopted a Delegated Regulation on a temporary and partial withdrawal of tariff preferences granted to Cambodia under the Everything but Arms (EBA). The Regulation entered into force on 25 April 2020 and takes effect as of 12 August 2020. Cambodian exports to the EU (primarily shoes and clothing) have increased by 630% since 2008, accounting for 39% of total exports; however, the withdrawal of EBA will have impacts on the trade.¹³ Suspension of the EBA could jeopardize some of these gains by making

¹¹ Ibid.

¹² Ibid.

¹³ Daniel Schmücking. 2020. "Why Cambodia? EU's incoherence in trade preferences under the EBA scheme." KAS Cambodia. Available at: <https://www.kas.de/documents/264850/8651571/Chapter+5.pdf/e27236ff-8726-0f3d-2ade-85d4e6b12410?version=1.2&t=1591609834392>.

the country's exports less competitive, meaning that the trade between Cambodia and the EU will be less competitive, affecting one part of economy in Cambodia. The textile industry employs approximately 2 million Cambodians, including 750,000 workers.¹⁴ Therefore, even though the withdrawal may not have a big impact on Cambodia's economy, Cambodia still loses its one part of the export as well, as under EBA, Cambodia's goods could enter the EU market 99% tariff-free, so the withdrawal of EBA will lose this benefit as well.

Given the tension between Russia and Ukraine, it has indirectly impacted on Cambodia as an economic interdependent. The European Union's slowing economic growth may have an impact on Cambodia's tourism industry. The conflict had disrupted output and threatened the global food supply, but Cambodia, as a rice producer and consumer, was spared the worst of the consequences.¹⁵ Cambodia is also relatively immune to food crises because of its agricultural economy and reliance on imports from regional allies, as well as rapidly rising oil prices and transportation costs, which have resulted in inflation. This has a significant negative impact on Cambodians' daily lives because they may not earn much, but they must increase their expenditures, lowering their standard of living.

Likewise, because the majority of Cambodian workers are classified as unskilled labor, a lack of human resources remains a major concern.¹⁶ According to the World Bank, more than 66 percent of jobs are in agriculture, forestry, fisheries, or occupations that require little education, such as security guards, office cleaners, and tuk-tuk drivers.¹⁷ Growing the economy's GDP alone is not enough to achieve upper-middle-income status; human resources also play an important role. Cambodia must significantly increase its human resources to achieve upper-middle-income status,

¹⁴ Lim Tola. 9 May 2019. "The Suspension of the 'EBA' Scheme in Cambodia: Everything but a Good Idea." Available at: <https://cambodianess.com/article/the-suspension-of-the-everything-but-arms-scheme-in-cambodia-everything-but-a-good-idea>.

¹⁵ Un Kheang. 05 August 2022. "The Causes of the Russia-Ukraine War and Its Impact on Cambodia - Cambodia Development Center." Cambodia Development Center. Available at: <https://www.cd-center.org/the-causes-of-the-russia-ukraine-war-and-its-impact-on-cambodia/>.

¹⁶ Mischele Bruni, Likanan Luch, & Somean Kuouch. November 2013. "Skills Shortages and Skills Gaps in the Cambodian Labour Market: Evidence from Employer Skills Needs Survey." ILO. Available at https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_231_862.pdf.

¹⁷ Wendy Cunningham and Claire H. Hollweg. 19 November 2019. "Cambodia's Future Jobs: Linking to the economy of tomorrow. Available at : <https://documents1.worldbank.org/curated/en/224811567668159930/pdf/Main-Report.pdf>.

as this is related to the productivity of the country's economy. In this regard, the emergence of the digital revolution in the economic sector would be difficult for Cambodia due to a shortage of skilled labor; a lack of specific instances of how technological innovations can benefit businesses; high financial demands; and a lack of access to specialized expertise and guidance. According to the results of the firm survey, while more than half of the firms are already using at least one technology from Industry 4.0, the majority (83%) view themselves as having little knowledge of, or apprehension with, the concept of “Industry 4.0.”¹⁸

As such, given the current economic situation following the outbreak and the impact of global tension, as well as the nations' limited resources, these are the barriers or challenges that should be considered as concerns that may prevent Cambodia from reaching the upper-middle-income status by 2030 as planned. As the withdrawal of Everything but Arms (EBA) could cause Cambodia to be less competitive within the market while the conflict between Russia-Ukraine further impacts on Cambodia's economy indirectly in terms of the rising price of oil and food. Also, Cambodia still has the limited human resources, which will allow Cambodia to have the barrier in developing the country to fit with the industry 4.0, and these may result Cambodia some key obstacles to reach the upper-middle-income level.

As a result of these key considerations, it cannot be officially concluded that Cambodia is completely incapable of reaching that level given that the Cambodian government has also been working diligently to expand our economy; however, there are some significant barriers along the way for Cambodia to overcome to ensure that the entire nation, particularly the people, will have access to basic education, a higher standard of living, and be equipped with higher skills, which are essential steps to reaching upper-mid-income status. Therefore, the government and related ministry play such significant role in terms of human resource development within the country as this is known to be the important resource benefiting in the long run for the whole country economy in terms of fitting in the industry 4.0 particularly.

¹⁸ UNDP Cambodia. 01 December 2021. “How Industry 4.0 Can Boost Cambodia's Economy after COVID-19: Opportunities for Industrial Upgrading and Equitable Development.”. Available at <https://www.eurocham-cambodia.org/uploads/875b1-how-industry-4.0-can-boost-cambodia%E2%80%99s-economy-after-covid-19.pdf>.

Based on opportunities such as the opening to international trade and investment, as well as comprehensive economic partnership and trade agreements with potential partners, Cambodia's economic growth may be boosted to achieve the desired status. However, Cambodia may face challenges in reaching the upper-middle-income level by 2030, such as the current tensions between Russia and Ukraine, a reduction in EBA, which may have a negative impact on Cambodia's exports, and the need for more human resources within the country.

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