

Chapter 7

Cambodia's Development Strategy: Connecting Neighbors

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Abstract: Cambodia is a small country lying between two big neighbors, Thailand and Vietnam. During the era of isolation, it was completely closed, and the history of conflict and war among neighbors was outdated and finished. Cambodia has to implement a development strategy with peaceful development to integrate her economy into the region and the world with connectivity for the infrastructure, institutions, people, and others. This paper explores Cambodia's development strategy with the focus on connectivity with her neighbors. With a clear-sighted and long-term development plan for regional connectivity, Cambodia will gain social, economic, and political benefits from its own efforts and regional development, at least from the spillover effects.

Keywords: Cambodia, development strategy, connectivity, regional development.

JEL Classification:

1. Introduction

After overcoming much hardship, including a protracted civil war, political genocide, and international isolation, Cambodia has transformed from a centrally planned economy into a free market economy, whose main tasks are to maintain macroeconomic stability, to implement structural reforms, and to alleviate poverty. As a result, Cambodia has achieved significant success in stabilizing its macroeconomic foundation with rapid economic growth and low inflation. In line with peace, political stability, and social order, the country has transformed from a war zone into a dynamic and emerging country with fast development. Cambodia is integrated into the regional and global community and advancing toward a brighter future.

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With national reconciliation and international assistance, Cambodia is a role model for post-war peace settlement for countries suffering from civil wars and armed conflicts in the world. After the new coalition government was established following the first democratic general election in 1993, the Royal Government of Cambodia started implementing macroeconomic and structural reforms to reconstruct and develop the country. To ensure success for such reforms, the government is strongly committed to be part of the regional and global economic integration.

According to many research findings it is believed that free trade significantly contributes to reduce poverty and improve people's living standard. Thus, the Royal Government has continued to liberalise trade and ensure the free flow of goods and services both within the country and between Cambodia and the key regional and global partners. Such would provide Cambodia with the economies of scale and opportunities that attract investment, create employment, increase incomes, and accelerate economic growth, thus reducing poverty. Cambodia's participation in ASEAN in 1999, and in the World Trade Organization (WTO) in 2004, constitutes strategic and historical steps towards its miracle of national rehabilitation and development.

The Royal Government recognises that Cambodia's membership in regional organizations, especially ASEAN, requires great effort in the formulation, adoption, and implementation of laws, regulations, procedures, in order to increase the country's capability in production and competitiveness to reap the maximum benefit from such membership.

All the above successes and achievements have resulted from active participation with great efforts from all the stake holders including the government, private sector, development partners, and academia that have realized effective development strategies, plan and policies.

2. Rectangular Strategy

The main driving force for Cambodia's national development is the "Rectangular Strategy" (The Rectangular Strategy for Growth, Employment, Equity and Efficiency in Cambodia), which started in 1998, and has continued up to the present in four phases each of which parallels with the term of office of the Legislature of the National Assembly or five years.

For its part, Phase 4 of the strategy was adopted in 2018, immediately after the new government was formed, and will end in 2022.

The Rectangular Strategy is set out to guide implementation of the agenda of the Royal Government, by building on the achievements attained in the second legislature of the

National Assembly through implementation of the Rectangular Strategy. The Rectangular Strategy selects key elements from the Millennium Development Goals, the Cambodia Socio-Economic Development Program 2001-2005 (SEDP2), the Cambodia National Poverty Reduction Strategy 2003-2005 (NPRS), and the various policies, strategies, plans, and other important reform programs, all of which have been formulated through broad consultation with all national and international stakeholders - including government ministries and institutions, representatives of civil society, and the donor community. The resulting comprehensive agenda is ultimately aimed at improving and building the capacity of the public institutions, strengthening good governance, and modernizing the national economic infrastructure, with the objective of promoting economic growth, generating employment for all citizens, ensuring social equity, enhancing the efficiency of the public sector, and protecting the nation's natural resources and cultural heritage; this is crucial for promoting sustainable development and poverty reduction.

2.1. Structure of the Rectangular Strategy

The Rectangular Strategy is an integrated structure of interlocking rectangles, as follows:

First, the core of the Rectangular Strategy is **good governance**, focused on four reform areas: (1) Anti-corruption, (2) Legal and judicial reform, (3) Public administration reform including decentralization and deconcentration, and (4) Reform of the armed forces, especially demobilization.

Second, the environment for implementation of the Rectangular Strategy consists of four elements: (1) Peace, political stability, and social order; (2) Partnership in development with all stakeholders, including the private sector, donor communities, and civil society; (3) A favorable macroeconomic and financial environment; and (4) *The integration of Cambodia into the region and the world.*

Third, the four strategic "growth rectangles" are: (1) Enhancement of the agricultural sector; (2) Private sector growth and employment; (3) Continued rehabilitation and construction of the physical infrastructure; and (4) Capacity building and human resource development.

Fourth, each strategic "growth rectangle" has four sides:

- Rectangle 1: Enhancement of the Agricultural Sector covers: (1) Improved productivity and diversification of agriculture; (2) Land reform and clearing of mines; (3) Fisheries reform; and (4) Forestry reform;
- Rectangle 2: Continued Rehabilitation and Construction of the Physical Infrastructure, involving: (1) Continued restoration and construction of the

transport infrastructure (inland, marine, and air transport); (2) Management of water resources and irrigation; (3) Development of energy and power grids, and (4) Development of Information and Communication Technology.

- Rectangle 3: Private Sector Growth and Employment covers: (1) Strengthening the private sector and attraction of investments; (2) Promotion of SME development; (3) Creation of jobs and ensuring improved working conditions; and (iv) Establishment of social safety nets for civil servants, employees, and workers; and
- Rectangle 4: Capacity Building and Human Resource Development, including: (1) Enhanced quality of education; (2) Improved health services; (3) Fostering gender equality, and (4) Implementation of a suitable population policy.

2.2. Achievements from Implementing the Rectangular Strategy

Cambodia has achieved remarkable progress in all fields including political, security, social order, and socioeconomic development, despite facing political challenges, uncertainties of the global economy, threats to its national sovereignty and territorial integrity, repeated natural disasters, and new demands by the people of all classes.¹

The firm implementation of the “**Rectangular Strategy-Phase 3**” during the fifth Legislature of the National Assembly (2013-2018) has resulted in major achievements that include:

2. Full peace, territorial integrity, and political stability have been maintained and strengthened, combined with the firm observance of the principle of the rule of law and democracy, effective prevention of the color revolution aimed at toppling the legitimate government, and prevention of the recurrence of internal divisions and war. At the same time, security and social order have been strengthened through the crackdown on all kinds of crime, including illegal drug and human trafficking, which helped create a favorable environment for national development and investment as well as people’s safety.
3. High economic growth of around 7% per annum enabled Cambodia to graduate to be a lower middle-income country; the economic growth base has been further diversified; poverty rate has been reduced to below 10%; and the income gap among the people has been reduced through the distribution of the fruits of economic growth

¹ Cambodia New Vision at <http://cnv.org.kh/wp-content/uploads/2012/10/Rectangular-Strategy-Phase-IV-of-the-Royal-Government-of-Cambodia-of-the-Sixth-Legislature-of-the-National-Assembly-2018-2023.pdf>

to people from all walks of life, particularly the Royal Government's policy decision to increase the salary of civil servants and members of the armed forces and the minimum wage for workers and employees, as well as attention to their welfare through lowering electricity and water prices, expansion of the National Social Security Fund and Equity Fund, the provision of public transport services, and the implementation of a conflict resolution mechanism, have all played a significant role.

4. Remarkable progress in governance reform has been achieved through implementation of Public Administration Reform, Public Financial Reform Program, the Sub-National Democratic Development Reform Program, the fight against corruption, legal and judicial reform, and reform of the armed forces. In particular, the Royal Government increased the salary of civil servants and members of the armed forces to more than 1 million riels per month in 2018, disbursed salary on time at the fourth week of each month, and improved the quality and effectiveness of public services at both the national and sub-national level.
5. Notable progress in public financial management has been made. Between 2013 to 2018, the state's current revenue has increased more than twofold, from USD 2,264 million to USD 4,560 million, and the total expenditure has been upped nearly twofold as well. While the budget for the Ministry of Education, Youth and Sport has been increased by more than threefold, the budget for the Ministry of Health was increased by nearly 2.5 times, the budget for the Ministry of Agriculture, Forestry, and Fisheries increased by nearly threefold, and locally financed direct investments increased by nearly 2.5 times. Moreover, the national budget system has been improved through better and more effective management of the budget at both the allocation and operational level.
6. Major social indicators, in both the education and health sectors, have been achieved. The public health situation has been improved through the notable reduction in the mortality rate of mothers, infants, and children; reduction in the HIV-AIDS prevalence rate; and reduction in the mortality rate caused by malaria. The coverage of the "Equity Fund" has been expanded to lessen the burden of medical expenses on the poor. The educational reform created a new environment and hope for an improved supply of quality human resources and skills to the job market through establishment of new-generation schools, strengthening of the teaching quality, improving the management of schools, updating the schools' curricula, and creating a good studying environment that have been gradually promoted.
7. Active participation in regional and international affairs on an equal footing and with equal rights as other nations on both the political and economic front. With regard to trade, Cambodia exported goods to 147 countries, worth 60% of GDP, and imports

from 135 countries, worth 65% of GDP. Within the UN framework, Cambodia has contributed 5,486 personnel to join peacekeeping missions in 8 countries since 2006. Moreover, the reputation of Cambodia has been further elevated through its successful coordination in its capacity as head of the LDC Group coordinator within the WTO framework, by ensuring the country's trade interest from membership of this organization, its election as vice-president of the 73rd United Nations General Assembly, and as a member of the United Nations Economic and Social Council. Within the regional cooperation framework, Cambodia has actively participated in ASEAN affairs and other regional initiatives, including the "One Belt, One Road" initiative, as well as bilateral and multilateral cooperation, including double taxation agreements.

8. Cambodia has become a popular tourist destination, and received around 5.6 million international tourists from 110 countries in 2017. This increase in inbound tourists stems from Cambodia's integration, nationwide infrastructure connectivity, stable electricity supply, improved security for tourists, as well as diversification of the tourist market and products.
9. Cambodia is one of the 10 biggest rice exporting countries, and exported around 635 thousand tons of milled rice in 2017, nearly a twofold increase compared to 2013. Moreover, Cambodia's total agricultural export increased from 3.66 million tons in 2013 to 5.14 million tons in 2017. In this sense, the agriculture sector has achieved positive growth in spite of the decline in agricultural products in the international markets, a shrinking labor force in the agriculture sector, and the vulnerability to natural disasters etc.

3. National Strategic Development Plan

The Royal Government of Cambodia (RGC) outlined its long-term vision for the future in the National Program to rehabilitate and develop Cambodia (NPRD) in 1994, in order to initiate the process of rebuilding and rehabilitating the social, physical, and institutional infrastructure. Based on this vision, the First Five-Year Socio-Economic Development Plan (SEDPI, 1996-2000) was formulated, setting clear goals to be reached by 2000. This Plan's focus was on establishing macro-economic fundamentals, social development contours, and poverty alleviation strategies. At the same time, a 3-year rolling Public Investment Program (PIP) was evolved for 1996-1998, so that domestic and external development cooperation resources could be channeled into priority areas to achieve the goals set out in the plan. Since then, the PIP is updated annually.

The Second Socio-Economic Development Plan (SEDP II 2001-2005) was prepared by focusing on economic growth and poverty reduction. For the RGC, the most formidable

development challenge was to develop the private sector as the engine for economic growth: to transform the economy, and to achieve poverty reduction (as well as improve people’s wellbeing). Following the preparation of SEDP II, there were two important developments: First, after the United Nations Millennium Summit in 2000—which declared the Millennium Development Goals (MDGs)—Cambodia developed its own set of MDGs, called the Cambodia Millennium Development Goals (CMDGs), focusing on poverty alleviation and human development. Second, a National Poverty Reduction Strategy (NPRS) was adopted in December 2002. Since that time, achieving the CMDGs and alleviating poverty have assumed centrality in Cambodia’s development strategies.

The Third Five-Year Development Plan for 2006-2010 was formulated as an overarching national policy document to pursue the prioritized goals, targets, and actions for the next five years. The new plan was renamed the National Strategic Development Plan (NSDP) 2006-2010. The RGC of the Third Legislature attempted to create a favorable environment and the necessary conditions to enable Cambodia to step forward on the road to further reforms and progress. The RGC adhered to the principle of national solidarity to rally the citizens from all walks of life to follow the motto “Nation-Religion-King” in order to build the nation and ensure national independence, integrity, sovereignty, peace, democracy, and progress.

Following the General Election in 2008, the RGC announced the Socio-economic Policy Agenda of the RGC for the Fourth Legislature 2008-2013. With this, another plan was drawn up to replace NSDP 2006-2010 to synchronize the planning process with the political mandate. The new plan was named the NSDP Update 2009-2013, and was the implementation tool for the RGC’s priority policies during the Fourth Legislature. The NSDP Update 2009-2013, was launched at the same time as the international financial crisis and the economic recession in advanced economies (starting in 2008-2009), resulting in a declining demand for Cambodia’s exports on the one hand, and increased macroeconomic and financial risks on the other. These (external) developments presented unexpected new challenges for Cambodia, for which the RGC took systematic and sequenced measures to mitigate the negative impact of the international financial cataclysm and global economic recession. The planning methodology in NSDP 2009-2013 was so defined to prepare the country for any shocks and yet progress on the path to development.

At present the NSDP 2014-2018 has been implemented with success as planned. The new Plan (NSDP 2019-2023) is being drafted and will be adopted soon.

NSDP 2014-2018 has been formulated for implementation of the Rectangular Strategy Phase III, with the identification of the priorities, indicators, and timeframe for its implementation and with identification of the mechanism for the Monitoring and

Evaluation of the Result Framework, especially setting the responsibility of the line ministries and agencies within each angle in order to gain high benefits from the ASEAN Economic Integration in 2015, and to move out of the Least Developed Country status and become an Upper-Middle-Income Country by 2030. For preparation of NSDP 2014-2018, the RGC has used the existing procedures and mechanism to prepare the NSDP Update 2009-2013, and it has spent a longer time period improving this national plan.

The plan presents the main targets in figures for each year. As example, the GDP was planned with an annual growth rate of 7 percent. This target was achieved successfully.

4. Transport Infrastructure Development Strategy

Policy priority for the present time is to respond to the needs of the next higher stage of development, and the objective of the Royal Government of the Fifth Legislature (2013-2018) is to promote further development of all modes of transport infrastructure as well as the urban infrastructure, and supported with a vibrant, safe, and efficient logistical system aimed at contributing to the enhancement of national competitiveness and the people's welfare. RGC will place priority on:

- 1) Stepping up the construction of national, provincial, and rural roads, particularly by targeting the paving of 300 to 400km of additional roads per year with asphalt or concrete pavement.
- 2) Directing more attention to the repair and maintenance of the transport system, particularly the roads, through strengthening the mechanisms and enhancement of the road repair and maintenance system, including effective and strict enforcement of punitive measures against overloading.
- 3) Further, focusing on traffic safety through the improvement and stricter enforcement of the "Law on Land Traffic", including strict enforcement of measures against traffic rules' violations, strengthening the vehicle safety inspection standard and the system for issuance of vehicle roadworthiness certificates, the mechanism for issuing driving licenses, installation of traffic signs, facilitation of traffic flow, professional ethics and competence by the law enforcement officers, as well as promotion of public awareness and dissemination of information on traffic safety in accordance with the slogan: "Today and tomorrow there should be no traffic accidents!".
- 4) Designing and implementing the Master Plan for Transport Infrastructure Development, in order to connect all parts of the country and with the neighboring countries through developing multi-modal and cross-border transport systems

combined with an efficient and competitive logistical system aimed at promoting investment, trade, tourism, and rural development, with the focus on completion of railway restoration and development, further development of the airport and seaport infrastructure, assessment of the potential for investment in inland waterway transport, as well as finding alternatives to monopolistic transport services, and intensified implementation of various cross-border agreements and protocols signed by Cambodia.

5. Special Economic Zones

5.1. Legal Frame for the Special Economic Zone (SEZ) Scheme

Examination of introducing the concept of economically promoted zones/areas in Cambodia was originally started back in the 1960's, and the SEZ scheme was finally introduced to Cambodia for the first time in December 2005. "Sub-Decree No.147 on the Organization and Functioning of the CDC" was issued on 29 December, 2005, to restructure the organization of the CDC and a new wing of the CDC, called the "Cambodian Special Economic Zone Board (CSEZB)", was established to manage the SEZ scheme. To govern the SEZ scheme, "Sub-Decree No. 148 on the Establishment and Management of the Special Economic Zone" (the SEZ Sub-Decree) was issued on 29 December, 2005. In addition, the "Law on the Special Economic Zones" was drafted by the CDC in 2008, and is now under examination by the RGC.

5.2. Basic Concept and Conditions for the SEZ

Regarding the basic concept and conditions for the SEZ, the SEZ Sub-Decree defines these as follows (Article 2 and 3.1.3).

- SEZ refers to a special area for the development of the economic sectors, which bring together all industrial and other related activities, and may include General Industrial Zones and/or Export Processing Zones. Each Special Economic Zone shall have a Production Area which may have a Free Trade Area, Service Area, Residential Area, and Tourist Area.
- It must have land of more than 50 hectares, with precise location and geographical boundaries.
- It must have a surrounding fence (for an Export Processing Zone and Free Trade Area, and premises for each investor in each zone).
- It must have a management office building and Zone Administration offices and all the necessary infrastructure must be provided.

- It must have a water sewage network, waste water treatment network, location for storage and management of solid waste, effective environment protection measures, and other related infrastructure as deemed necessary.

5.3. Application Process for Development of the SEZ

A Special Economic Zone may be established by the State, private enterprise, or as a joint venture between the State and private enterprise (Article 3.1.2, the SEZ Sub-Decree).

The zone developer has to have the following abilities and duties (Article 4.4, the SEZ Sub-Decree).

- Have sufficient capital and means to develop the infrastructure in the zone, including the human resources to manage the activities of the zone
- Have the legal right to possess the land to establish the SEZ
- Construct the infrastructure in the zone
- Lease the land and provide services to the Zone Investors
- Arrange security personnel to ensure good public order in the zone at all times, etc.
- The application process for development of the SEZ is summarized in the following table (Article 3.2, The SEZ Sub-Decree).

Table 7-1: Application Process for SEZ Development

Item	Description
1. Application for development of the SEZ	Zone Developer submits a request for approval for the development of a Special Economic Zone to the CSEZ and applies for the QIP (Application fee: 7 million Riels).
2. Examination of the application	The CSEZB shall notify whether to approve or reject the request to the Zone Developer within 28 working days. When approved, a CRC shall be issued.
3. Feasibility study	The Zone Developer conducts the detailed economic feasibility study, infrastructure master plan, and other certified documents as stipulated in the CRC within 180 working days.
4. Final Registration Certificate (FRC)	Within 100 working days after it receives the above project materials, the CSEZ obtains all the necessary approvals and authorization from the government and issues the FRC.

Item	Description
5. Declaration of establishment of the SEZ	Upon issuance of the FRC by the CSEZB, the Sub-Decree is issued to define establishment of the SEZ and its boundaries.
6. Withdrawal of approval	The CSEZB has the right to withdraw the approval for the establishment of the zone and the incentives which were granted through the FRC on the basis that the Zone Developer has not implemented at least 30% of the total investment capital of the project within 365 working days after receiving the FRC.

Source: Council for Development of Cambodia

5.4. Management Structure of the SEZ

The CSEZB under the CDC, is the “One-Stop Service” organization in charge of the development, management, and supervision of operations of the SEZ, and the SEZ Administration is the State administration management unit, which is the “One-Stop Service” mechanism at the site of the SEZ, and set up by the CSEZB in order to be permanently stationed in each SEZ (Article 2, Article 4.2 and 4.3, The SEZ Sub-Decree).

The “Special Economic Zone Trouble Shooting Committee (SEZ TSC)”, which is located at the CDC, has the duty to settle all issues occurring in the SEZ promptly, whether pertaining to technical or legal aspects, or issues under the joint jurisdiction of the ministries or institutions if beyond the competence of the SEZ Administration or the CSEZB. It has the further duty to be a mechanism to receive complaints, and find solutions to such complaints filed by the Zone Developers as well as by the Zone Investors. The composition of the SEZ TSC is as follows (Article 4.1, The SEZ Sub-Decree):

- | | |
|--|-----------|
| • Chairmen of the CDC | Chairmen |
| • Minister of the Council of Ministers | Member |
| • Minister of Economy and Finance | Member |
| • Minister of Commerce | Member |
| • Minister of Land Management, Urbanism and Construction | Member |
| • Minister of Environment | Member |
| • Minister of Industry, Mines and Energy | Member |
| • Minister of Public Works and Transportation | Member |
| • Minister of Labor and Vocational Training | Member |
| • Secretary General of the CDC | Member |
| • Secretary General of the SEZB | Secretary |

5.5. Other Regulations

- Rules for the Export Processing Zone (EPZ)
- In the EPZ, such special rules are applied as follows (Chapter 5, The SEZ Sub-Decree):
- The EPZ has specific entrances/exits, which are determined by the CSEZ.
- Nobody can stay after working hours except for the permanent guards and persons authorized by the SEZ Administration.
- Scheduled time for entry and exit from the EPZ for the authorized persons, including the import-export of goods, shall be determined by the internal rules of the SEZ Administration and according to the agreement between the Zone Developer and the SEZ Administration.
- Import/export of goods to/from the EPZ shall be considered as the import/export of goods to/from Cambodia, which requires the owner of the goods to comply with the formalities of import-export with the competent authority in the EPZ prior to such import-export.
- The aforementioned competent agent shall prepare all the forms, which should be simplified, transparent, and do not cause any difficulty for control of such goods.
- The goods shall be sealed correctly by the Customs officers before import/export.
- No retail business can locate in the EPZ, even though it is conducted to serve the public or social interests.
- The Zone Investor, although being the owner, shall not use Output Materials of Production produced in the EPZ without permission of the Administration of the SEZ.
- Workforce: Foreign managers, technicians, or experts may be employed, provided that the number of foreign staff does not exceed 10% (Ten percent) of the total number of its personnel (Article 11, The SEZ Sub-Decree).
- Vocational Training: The Zone Developer has the duty to cooperate with the Ministry of Labor and Vocational Training (MLVT) to facilitate the training of Cambodian workers and employees, and to promote new knowledge and skills for them with specific and effective programs (Article 12, The SEZ Sub-Decree).

Sihanoukville Special Economic Zone to become the "Shenzhen" of Cambodia

After completing its initial phase of development, the Cambodia Sihanoukville Special Economic Zone (SSEZ) is planning to turn itself to be a fully-functional ecological model industrial zone by adding an additional 300 enterprises in the area. In doing so, the SSEZ aims to become the 'Shenzhen' of Cambodia in the future.

The upcoming 300 factories will help create at least 80,000 to 100,000 jobs for locals and will also help boost the economy of Sihanoukville as well as of the Kingdom as whole.

This announcement was made at a meeting between the Council for the Development of Cambodia (CDC), the United Nations Industrial Development Organization (UNIDO), and a high-level delegation from the Shenzhen Foundation for International Exchange and Cooperation (SFIEC) during their official visit to Cambodia on 9 May.

The official visit of the SFIEC delegation was organized to share experiences on the development of the Shenzhen Special Economic Zone (SEZ), and also to explore investment opportunities in education, trade, commerce, agro-industry, and infrastructure development in Cambodia.

The SSEZ is an economic and trade cooperation zone constructed by Chinese and Cambodian enterprises, and is a landmark project of the "One Belt, One Road" initiative, which aims to create the ideal trading platform for investment in ASEAN and exporting to the world.

Located 3km from the Sihanoukville airport and 12km from the deep water seaport, the SSEZ comprises a total planning area of 11.13km². Since its establishment in 2012, the SSEZ has completed the initial phase of the development area of 5.28km², with a total number of 118 investors, 89 factories, and 21,000 workers.

"With the support of Shenzhen, we will improve our understanding of the challenges and opportunities in developing the SEZ, especially in Sihanoukville, and to support Cambodia's Industry Development Policy (IDP); this will greatly enhance our cooperation with China," said Mr. Nut Unvoannra, Deputy Secretary General of the Cambodia Investment Board, who chaired the meeting.

However, the meeting has yet to confirm when the second phase of development will start.

Source: Cambodia Constructors Association at <https://www.construction-property.com/read-news-1158/> accessed on 24 August 2018

6. Linking the national strategy with the regional development strategies

Cambodia cannot develop alone without participation and dependence on regional efforts. At present, Cambodia benefits from cooperation with the regional development strategies and its neighbors' strategies.

6.1. Cambodia and the Master Plan on ASEAN Connectivity 2025 (MPAC 2025)

On 6 September, 2016, the ASEAN Leaders adopted the Master Plan on ASEAN

Connectivity 2025 (MPAC 2025) in Vientiane, Lao PDR. The MPAC 2025, which succeeds the Master Plan on ASEAN Connectivity 2010, focuses on five strategic areas:

- Sustainable infrastructure
- Digital innovation
- Seamless logistics
- Regulatory excellence
- People's mobility

Cambodia is actively participating in the framework, and expects to achieve benefits from the regional connectivity. Although there is no documented plan, many activities and groundworks have been implemented through other national plans, such as the National Strategic Development Plan, trade, transportation, tourism development, infrastructure, and other plans.

As clearly spelt out in the Rectangular Strategy (Phase 4), Cambodia regards its integration into the regional and global economy as an important strategy to promote economic development. In the fifth Legislature of the National Assembly, major achievements of the Royal Government include its participation as a member of the "ASEAN Economic Community", which is a free trade area with a total population of 622 million, and as a signatory of Free Trade Agreements between ASEAN and partner countries or regions; enhanced physical and non-physical infrastructure connectivity with countries in the region; steady improvement in the regulatory and institutional frameworks, as well as market diversification, etc.

There has been some awareness regarding regional connectivity in terms of media and workshops. As an example, on February 16-17, 2012, in Phnom Penh, the Economic Research Institute for ASEAN and East Asia (ERIA), together with the Supreme National Economic Council (SNEC), and the Ministry of Commerce, Royal Government of Cambodia, jointly hosted a workshop on "Implementing the Master Plan on ASEAN Connectivity: Enhancing Institutional Connectivity in Cambodia", to discuss various types of institutional connectivity problems for implementation of the Master Plan on ASEAN Connectivity. Key speakers and panelists were policy makers from the relevant governments' sectoral bodies, the ASEAN Secretariat, dialogue partners, academia, ERIA's researchers, and representatives from the private sector. More than 150 participants attended the workshop.²

6.2. Cambodia Laos Vietnam Development Triangular Area

² ERIA at

<http://www.eria.org/ERIA%20Organizes%20a%20Workshop%20on%20Implementing%20Master%20Plan%20on%20ASEAN%20Connectivity.pdf> accessed on 21 December 2018

The Cambodia Laos Vietnam Development Triangular Area (CLV-DTA) is a physical, institutional, and political construct launched at the first informal leaders' meeting in 1999, which initially covered 10 border provinces. In 2009, three more provinces were added. At the 10th Summit in 2018, Vietnam proposed that the CLV-DTA be expanded to cover the entire territory of the three countries, but so far the proposed coverage has not yet been confirmed by Cambodia and Laos. The working mechanism of CLV-DTA includes a summit (biannually), which is hosted in rotation, a Joint Coordination Committee (JCC) meeting (annually), and a Senior Officials Meeting (SOM) to support the JCC. Four working groups or sub-committees were formed under SOM, namely the economic sub-committee, the social and environmental sub-committee, the provincial coordination sub-committee, and the security and foreign affairs sub-committee. The member countries appoints a minister as the co-chairman and member of the Coordination Committee. In addition, in 2016, the leaders agreed to strengthen collaboration between the CLV-DTA and other regional cooperation mechanisms in the Mekong region, particularly the Mekong-Japan Cooperation.³

The CLV-DTA has evolved beyond merely relying on economic and political collaboration, into a more comprehensive platform covering a wide range of issues under three main areas – political security, economics, and social and cultural cooperation. At the 10th CLV Summit in 2018, the leaders endorsed the Action Plan for CLV Economic Connectivity up to 2030, to serve as a guiding document for regional cooperation. The Plan, modelled on the Master Plan on ASEAN Connectivity, has three main pillars: institutional connectivity, infrastructure and economic connectivity, and people-to-people connectivity.

6.3. Southern Economic Corridor

The Southern Economic Corridor (SEC), is one of the many development projects initiated in the Greater Mekong Sub-region (GMS). The GMS is a natural economic area loosely connected by the Mekong River – the 12th longest river in the world. The GMS spans an area of 2.6 million square kilometers with a total population of 339 million as of 2015. In 2015, trade within the GMS amounted to US\$444 billion.

In partnership with the Asian Development Bank, the GMS Program for sub-regional cooperation was established in 1992, to facilitate economic cooperation and growth between Cambodia, China's Yunnan Province, and the Guangxi Zhuang Autonomous Region, Laos, Myanmar, Thailand, and Vietnam.

The SEC's principle route extends eastwards from Dawei (Myanmar) and passes through

³ ISEAS Perspective at https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2018_30@50.pdf accessed on 20 December 2018

Bangkok (Thailand), Phnom Penh (Cambodia), and Ho Chi Minh City (Vietnam) before terminating at Vung Tau (Vietnam). Additional sub-routes provide improved connectivity between Cambodia and its neighbors:

- With Laos through Dong Kralor
- With Thailand through Poipet and Cham Yeam
- With Vietnam through An Dong Pech, Bavet, and Kep.

Additionally, a SEC sub-route connects Cambodia's capital Phnom Penh with the country's Sihanoukville Port.

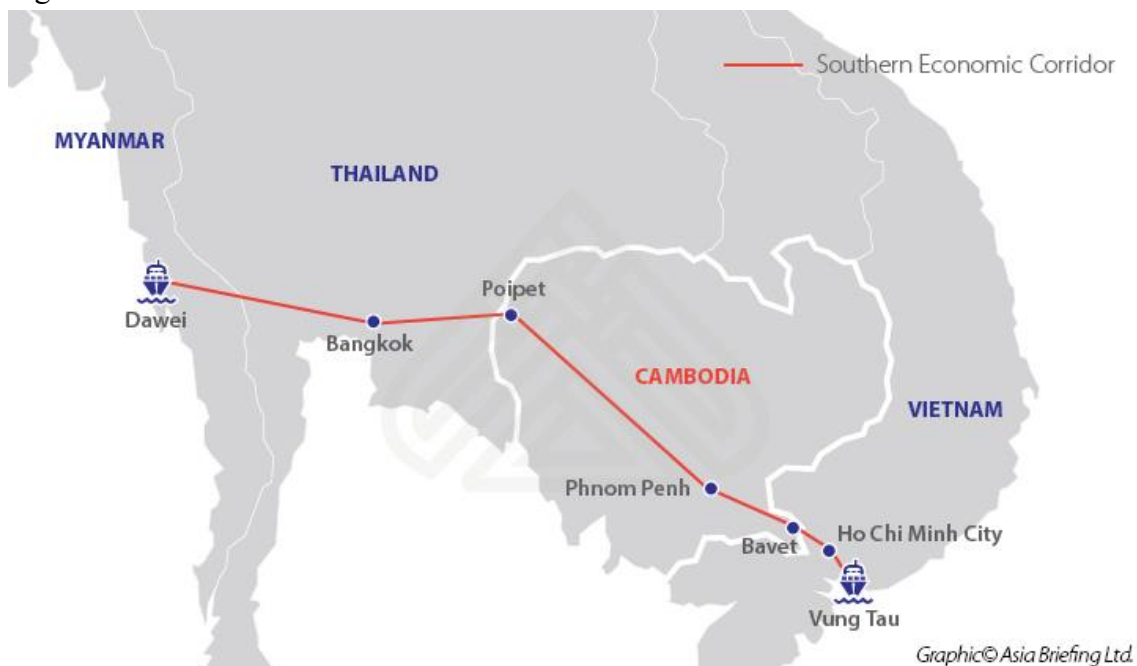
The SEC (one of the three ongoing economic corridor projects in the region) will make it easier for both domestic and foreign businesses to do business and access markets along its route.

This vital passageway links Cambodia with six provinces in Thailand, including Bangkok, four regions in Vietnam, including Ho Chi Minh City, and six provinces in Lao People's Democratic Republic (Lao PDR). It also reaches Dawei in Myanmar.

It covers the development of the following sub-corridors:

- The Central Sub-corridor: Bangkok-Phnom Penh-Ho Chi Minh City-Vung Tau;
- The Northern Sub-corridor: Bangkok-Siem Reap-Stung-Treng-Rattanakiri-O Yadov-Pleiku-Quy Nhon;
- The Southern Coastal Sub-corridor: Bangkok-Trat-Koh Kong-Kampot-Ha Tien-Ca Mau City-Nam Can; and
- The Inter-Corridor Link: Sihanoukville-Phnom Penh-Kratie-Stung Treng-Dong Kralor (Tra Pang Kriel)-Pakse-Savannakhet, which links the three SEC sub-corridors with the East-West Economic Corridor.

Figure 7-1: Southern Economic Corridor



Source: Mekong Tourism

(<https://www.mekongtourism.org/wp-content/uploads/Southern-Economic-Corridor-Vietnam-Cambodia-Thailand-Myanmar-01-006.jpg>)

6.4. Belt and Road Initiative

The Belt and Road Initiative (BRI) is an ambitious effort to improve regional cooperation and connectivity on a trans-continental scale. The initiative aims to strengthen infrastructure, trade, and investment links between China and some 65 other countries that account collectively for over 30 percent of global GDP, 62 percent of the population, and 75 percent of the known energy reserves. The BRI consists primarily of the Silk Road Economic Belt, linking China to Central and South Asia and onward to Europe, and the New Maritime Silk Road, linking China to the nations of South East Asia, the Gulf Countries, North Africa, and on to Europe. Six other economic corridors have been identified to link other countries to the Belt and Road. The scope of the initiative is still taking shape—more recently the initiative has been interpreted to be open to all countries as well as international and regional organizations.⁴ The BRI seems to have been widely accepted as an initiative to facilitate trade across the Eurasian continent, as well as geo-political, geo-economic integration, and global prosperity.

Cambodia is also part of the scheme, and the BRI is now very popular among government officials, scholars, as well as business community. Although the real impact has not been

⁴ World Bank at <https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative> accessed on 2 January 2019

seen, the effects have already been felt by many workshops related to the topics that were organized, and some of which were conducted by governmental bodies and the flow of Chinese tourists and investors increased.

6.5. Thailand Plus One

The initiative was launched by Japan with the aim to connect Cambodia and Thailand with mutual benefits and a win-win approach. The establishment and ongoing improvements to the SEC are nurturing manufacturing clusters that benefit from the improved logistics and connectivity.

Rising wages and labor shortages in Thailand lately, have prompted some Japanese manufacturing companies to turn to the CLMV (Cambodia, Laos, Myanmar and Vietnam) for new low-cost production sites in the ASEAN region. This is not entirely bad news for Thailand. Although labor-intensive processes have shifted to the CLMV, Japanese companies still choose to keep the main production base in Thailand. This is often known as the “Thailand-Plus-One” strategy, by which Japanese companies extend the supply chain network developed in Thailand to the neighboring countries.⁵

Two elements are helping to turn this strategy into reality. The first, is progress in achieving political stability and improved economic conditions within the CLMV. The other, is the active effort made by the CLMV's governments to invite foreign direct investment (FDI), as they have established many special economic zones (SEZ) offering various investment incentives in areas around their capitals and the border regions. As a result, FDI from Japan to Thailand and the CLMV, collectively known as the Mekong sub-region, has tripled from approximately \$4 billion in the early 2000s to more than \$10 billion recently.

Foreign businesses looking to establish manufacturing facilities in Southeast Asia can benefit from the incentives in Cambodia while simultaneously taking advantage of reliable sourcing of inputs and electricity supply from the neighboring countries.

Furthermore, the success of the Southern Economic Corridor (SEC) will stimulate intra-ASEAN trade – creating new access to an array of emerging markets. With increased activity along the SEC, Cambodia’s clusters will continue to grow, making Cambodia a new manufacturing hotspot within ASEAN.

6.6. Thailand’s East Economic Corridor and its impacts to Cambodia

⁵ SCB Economic Intelligence Unit at <https://www.scbeic.com/en/detail/product/2176> accessed on 24 December 2018

On February 1, 2018, the Thai parliament approved the law for trade and investment in the Eastern Economic Corridor (EEC). With the EEC, Thailand hopes to develop its eastern provinces into a leading ASEAN economic zone. The EEC straddles three eastern provinces of Thailand – Chonburi, Rayong, and Chachoengsao – along the coast of the Gulf of Thailand, and spanning a total of 13,285 square kilometers. The government hopes to complete the EEC by 2021, turning these provinces into a hub for technological manufacturing and services with strong connectivity to its ASEAN neighbors by land, sea and air. As of January 1, 2018, the EEC has attracted US\$9.3 billion in promised FDI, according to data provided by Thailand's Board of Investment (BOI).⁶

The government expects US\$43 billion (Thai Baht 1.5 trillion) for realization of the EEC over the next five years. This funding will come from a mix of state funds, public-private partnerships (PPPs), and foreign direct investment (FDI). The government has identified four "core areas" essential to make the EEC a renowned economic zone: (1) Increased and improved infrastructure; (2) Business, industrial clusters, and innovation hubs; (3) Tourism and; (4) The creation of new cities through smart urban planning. The government predicts the creation of 100,000 jobs a year in the manufacturing and service sectors by 2020 through the EEC.

Although it may be hard to quantify the impact, it is assumed that there would be a spillover effect in development from Thailand's EEC to Cambodia, especially in the bordered provinces as Cambodia is a neighbor with Thailand.

At least 2 impacts will be affected:

- a) Competition: As Cambodia has some SEZ along the border provinces, the EEC could attract some investors who are already invested in a Cambodia SEZ to move to the EEC if there are better incentives and facilities. However, it is also a good wake-up call for Cambodia to prepare itself for competition, such as improving the condition of the SEZ along the borders to attract investors to invest more.
- b) Labor mobility: About one million Cambodian workers are already working in Thailand, especially in the border provinces. The EEC will attract more workers from Cambodia as the wage rate in Thailand is higher than in Cambodia. It will be seen as a sign of lacking a labor force in Cambodia, especially in the border areas.

7. Challenges for the Development Strategy

⁶ Asean briefing at <https://www.aseanbriefing.com/news/2018/06/29/thailand-eastern-economic-corridor.html> accessed on 20 December 2018

In the medium term, Cambodia will be on the path to become an upper middle-income country, and go through economic structural transformation and changing demography. In this context, Cambodia will face a number of challenges as follows:

- 1) the regional and global economy will remain uncertain due to the **"trade war"** caused by protectionism policy, normalization of monetary policy in developed countries, rapid credit growth in China, increase in the oil price, and other issues related to geopolitics, terrorism, and global security. This situation can have an adverse effect on the Cambodian economy, which depends on international trade to accelerate the country's development.
- 2) The assurance of peace, political stability, and social order will remain a big challenge due to the fragility caused by both internal and external factors.
- 3) The need to develop high quality and competent and productive human resources to respond to the socio-economic development demand, which is a key factor underpinning the country's economic growth and competitiveness at present and in the longer-term. Although the target for coverage of primary education has been achieved successfully, challenges remain in the learning outcome, completion of high school, which is the foundation for vocational training and higher education, in order to fully capitalize on the current technical advancement and industrial innovation.
- 4) Diversification and creation of value added in the industrial and the service sectors. Challenges include wage growth pressure, employment relations, high transport costs, and the needed improvement in the efficiency of the logistical system, a high electricity price compared to the neighboring countries, informal fees, and a complicated business environment.
- 5) Promoting diversification and productivity of the agricultural sector remains a challenge that must be addressed urgently at a new pace and on a new scale, because agriculture still plays an important role in the national economy, in particular, its contribution to poverty reduction, improvement in people's livelihoods, and job creation. Moreover, agriculture helps prevent people from falling back into poverty and reduces the income gap of the people as well as the development gap between urban and rural areas. More importantly, investment in the agricultural sector will contribute to ensuring food security in the long-term, as well as maintaining food prices at a low level to ensure a positive effect on real wages.

- 6) The provision of public and judicial services has not earned sufficient trust from the public, an insufficient institutional and regulatory framework, officials' understanding and ability to enforce the law are below the level required by the Royal Government. At the same time, the structural arrangement as well as the transfer of the function and resources to a sub-national administration have not fully responded to the needs of democratic development at the sub-national level.
- 7) The quality of healthcare services still remains a challenge, in spite of a remarkable improvement in public healthcare services. While the livelihoods and living conditions of the people have changed, the health policies must be reviewed from all aspects, including supply, service delivery, service quality, financing, and coverage.
- 8) Challenges in the financial sector include high interest rates, low domestic savings, and rising household debt. While the banking and finance sector has experienced significant progress, credit growth and interest rates still remain high in spite of a gradual decline. In addition, low domestic savings have made Cambodia rely on external sources of capital for investment. As Cambodia gradually loses access to concessional loans, domestic savings will be the key source of capital for both public and private investment.
- 9) Although the environment and natural resources management has been improved through strengthening of the mineral resources management; implementation of the forestry and fisheries sector reform, including fisheries conservation, as well as land reform; improvement in the management of water resources, including the ecosystems of Tonle Sap lake and the Mekong river, there are still challenges that require more effort and initiatives to ensure sustainable development. Additionally, climate change has been causing adverse effects on the ecosystem as well as the socio-economic development of Cambodia.
- 10) Cambodia is gradually graduating from LDC status, which may lead to the reduction or complete loss of favorable treatment by key development partners. Therefore, Cambodia needs to take full advantage of the current opportunities to ensure new favorable markets, as well as enhance competitiveness to further promote diversification of products for export.

8. Opportunities

The current global and domestic context provides Cambodia with the following opportunities.

- 1) In the context of global economic recovery, which is expected to be better than in previous years, especially with its major trading partners, Cambodia is expected to maintain a concrete growth momentum in the medium-term, reflected through flourishing business activities, continued growth in FDI, continued increase in domestic demand, and improvement in international trade.
- 2) The shift of the economic center of gravity to Asia, especially East Asia, continues to be the **"golden opportunity"** for Cambodia to develop and modernize its industries, production, and services, along with the other regional countries, as Cambodia is located at the center of a region enjoying vibrant economic growth and it might become an important part of the production chains in East Asia.
- 3) Fierce competition between trade blocs in Asia-Pacific, such as the Regional Comprehensive Economic Partnership, the Trans-Pacific Partnership, as well as other cooperation initiatives will result in massive trade liberalization of goods, services, and investment in the region. This trend will give Cambodia, as an ASEAN member, the opportunity to absorb investment and expand its export markets through promotion of its industry and trade linkages, physical and institutional connectivity, along with integration into the regional and inter-regional production and supply chains.
- 4) Cambodia has a vast potential for further financial sector development, including deepening of financial intermediary operations, promotion of the insurance industry, and development of the securities market.
- 5) Demographic dividend and a low dependency ratio along with the increase in the number of people in the middle-class will create favorable conditions for Cambodia to achieve high economic growth during the next three decades.
- 6) Technological advancement in the current stage of industrial revolution 4.0 will result in the creation of new kinds of jobs and businesses. The digital economy, which is advancing very quickly, will provide a great opportunity for Cambodia to improve its economic structure, thanks to the high rate of telephone and Internet users.

9. Conclusion

With a strong political will and trust in outward looking with free trade and investment, Cambodia has already integrated her economy into the region and the world by its membership of many regional mechanisms, especially the WTO and ASEAN. There are

many initiatives and plans from individual countries and regional bodies for regional connectivity and development that the country can participate in. Although there are some challenges, such as lack of funding and domestic concerns, the regional projects will have positive impacts on the local development.

Although Cambodia is still facing many challenges in its development strategy, there are also many opportunities for the country to take advantage from its favorable location and status. With clear-sighted and long-term development plans for regional connectivity, Cambodia will gain social, economic, and political benefits from its own and the regional development efforts, and at least from the spillover effects.

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