Cambodia's Economic Transformation:

Pathways to Diversification, Competitiveness, and Resilience

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Cambodia's Economic Transformation:
Pathways to Diversification, Competitiveness, and Resilience

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Profound thanks to our KAS & IISPP Team and all of our esteemed authors.

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Freedom, justice and solidarity are the basic principles underlying the work of the Konrad-Adenauer-Stiftung (KAS). The KAS is a political foundation, closely associated with the Christian Democratic Union of Germany (CDU). As co-founder of the CDU and the first Chancellor of the Federal Republic of Germany, Konrad Adenauer (1876-1967) united Christian-social, conservative and liberal traditions. His name is synonymous with the democratic reconstruction of Germany, the firm alignment of foreign policy with the trans-Atlantic community of values, the vision of a unified Europe and an orientation towards the social market economy. His intellectual heritage continues to serve both as our aim as well as our obligation today. In our European and international cooperation efforts, we work for people to be able to live self-determined lives in freedom and dignity. We make a contribution underpinned by values to helping Germany meet its growing responsibilities throughout the world. KAS has been working in Cambodia since 1994, striving to support the Cambodian people in fostering dialogue, building networks and enhancing scientific projects. Thereby, the foundation works towards creating an environment conducive to social and economic development. All programs are conceived and implemented in close cooperation with the Cambodian partners on central and subnational level.

www.kas.de/cambodia

The Royal University of Phnom Penh (RUPP) has been a bastion of Cambodian intellectual training and talents cultivation for the past thirty-two years since its reopening in 1980. Particularly, it has significantly contributed to the building of human and institutional capitals, and practical knowledge in Cambodia's development. While the country is playing an increasingly important role in the regional and global economic, political and cultural dynamics, the past thirty-two years of integration into the international political, capital and cultural flows have brought about challenges and opportunities specific to Cambodia but highly relevant in various ways to countries in both the region and of the world. This Cambodian development experience – of negotiating cultural (knowledge) exchange and identity, confronting the (new) order of international capitalism, western ideologies and dominant knowledge, and engaging in various forms of regionalism and internationalism – and the Cambodian development perspectives of the increasingly connected world remain inadequately understood and under-theorized. Knowledge production on Cambodia in the globalizing world remains undertaken largely by non-Cambodians, and there remain few locally based institutions engaging in studying Cambodia and its regional dynamics. Therefore, it is high time that RUPP, in the name of Cambodia, established an indigenous knowledge application and production base for furthering the country's development and promotion to the world.

www.rupp.edu.kh/iispp/

The Royal Government of Cambodia of the 7th Legislature of the National Assembly launched the Pentagon Strategy Phase I during the first cabinet meeting on 23rd August 2023. The strategy aims toward realizing Cambodia's 2050 vision of a robust society with a higher income status. Outlined on top among the "Five Strategic Pentagons" is "Human Capital Development" followed by Pentagon 2: Economic Diversification and Competitiveness Enhancement, Pentagon 3: Development of Private Sector and Employment, Pentagon 4: Resilient, Sustainable and Inclusive Development, and Pentagon 5: Development of Digital Economy and Society. Under the first Pentagon, the government recognized the indispensable significance of fulfilling the growing needs of Cambodia's socio-economic development through investment in human capital development. The Konrad-Adenauer-Stiftung (KAS) Cambodia and the Institute for International Studies and Public Policy of the Royal University of Phnom Penh supported this vision. KAS Cambodia has 30 years of experience working in the Kingdom of Cambodia and recognizes the importance of public policy education as a supporting mechanism to promote the country's human capital development.

In 2022, KAS Cambodia and IISPP entered a cooperation framework in the field of public policy. Our partnership envisions the future of Cambodia driven primarily by enthusiastic and professional policy leaders, as well as by well-informed, participatory, and proactive citizens. In the past three years, both institutions successfully conducted the public policy training program that has resulted in the improvement of knowledge, network, and skills among its fellows. Following the conclusion of the training program KAS and IISPP have continued to work with its 14 fellows on two major publications namely 1) Cambodia's Economic Transformation: Pathways to Diversification, Competitiveness, and Resilience and 2) Adenauer Young Scholars' Perspectives: Economic Diversification in Cambodia. We are committed to continuing this capacity-building program in years to come. In the efforts to promote public policy education, awareness, and networking, both institutions provided a diverse set of activities as prescribed above which include the comprehensive capacity-building program, publication, and finally the policy forum at the end of the year.

Adenauer Young Scholars for Excellence (AYSE) is a public policy training program of the Konrad-Adenauer-Stiftung and the Institute for International Studies and Public Policy of the Royal University of Phnom Penh. The program equips young scholars with a foundational knowledge of public policy and an understanding of important public policy issues in Cambodia. Besides, the program provides the fellows with a better understanding of the key roles of public and private organizations in contributing to policy formulation, implementation, monitoring, and evaluation. Additionally, the program offers the fellows insight into what impact public policies have on social, economic, and political spheres. The fellows are given opportunities to develop their leadership, research, critical-thinking, and analytical skills to propose practical policy recommendations and contribute to addressing common policy-related challenges in Cambodia. This program also provides the chance for fellows to expand their networks which are instrumental in shaping their careers.

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FOREWORD

Cambodia stands at a pivotal juncture in its economic development. As the country approaches graduation from Least Developed Country (LDC) status and adapts to rapid changes in global supply chains, the need for forward-looking, evidence-based policy research has never been more vital. In this spirit, the Institute for International Studies and Public Policy (IISPP) of the Royal University of Phnom Penh (RUPP) and the Konrad Adenauer Stiftung (KAS) Cambodia are proud to jointly present the third issue of the Policy Brief (November 2025).

This publication brings together concise and policy-relevant analyses by fourteen fellows of the Adenauer Young Scholars for Excellence (AYSE) program. Their work draws from Cambodia's development context and strategic aspirations, offering fresh perspectives and practical recommendations on economic diversification, human capital development, and institutional reform. The briefs reflect a strong awareness of national priorities as Cambodia prepares for LDC graduation in 2029 and seeks a resilient, inclusive, and competitive economy.

The issue explores a wide array of themes central to Cambodia's long-term prosperity, including:

Pathways to Diversification and Resilience: Examining strategic options for Cambodia to move beyond overreliance on garments and tourism, with sectoral analyses on agro-processing, electronics manufacturing, and maximizing international partnerships such as the China Plus One strategy. These briefs underscore how diversification can shield the economy from external shocks and create new opportunities for sustainable development.

Driving Competitiveness and Industrial Transformation: Focusing on the structural foundations necessary for Cambodia's next growth phase, including industrial upgrading, human capital development, and strategic positioning within global production networks. Policy briefs in this theme address the urgent need to reform technical and vocational education (TVET), foster innovation, and bridge the gap between education and industry needs.

Building a Resilient and Inclusive Economic Future: Exploring the broader enablers of long- term competitiveness and self-sufficiency, such as empowering rural communities, supporting SMEs and startups, and integrating environmental stewardship and social equity into the national development agenda. Articles highlight the importance of effective policy implementation, institutional reform, and leveraging Cambodia's connectivity and trade potential.

While these briefs provide clear and actionable recommendations, they primarily serve as agenda-setting and strategic guidance documents. Further research, stakeholder engagement, and detailed implementation planning will be essential to translate these policy options into concrete results. We encourage policymakers, researchers, and development partners to build on these insights, deepening the evidence base and refining strategies for Cambodia's future.

We extend our sincere appreciation to all fellows, editors, and reviewers for their intellectual contributions, and to KAS Cambodia for its enduring partnership and support in advancing policy-oriented research, training, and dialogue. We hope this publication will stimulate informed debate and inspire collective efforts toward a prosperous and sustainable future for Cambodia.

Assoc. Prof. Neak Chandarith
Director, Institute for International Studies and Public Policy
of the Royal University of Phnom Penh

FOREWORD

It is with great pleasure that we present the third volume of the annual Policy Brief, "Cambodia's Economic Transformation: Pathways to Diversification, Competitiveness, and Resilience", a joint publication of the Konrad-Adenauer-Stiftung Cambodia and the Institute for International Studies and Public Policy of the Royal University of Phnom Penh.

Cambodia stands at a pivotal moment in its economic development journey. As the country moves closer to graduating from Least Developed Country (LDC) status in 2029, the need to diversify its economy, upgrade its industries, and build long-term resilience has never been more urgent. This publication is the fruit of a ten-month learning and research journey undertaken by the Adenauer Young Scholars for Excellence (AYSE) 2025 Cohort, who have engaged with leading experts and participated in policy discussions to explore the opportunities and challenges of Cambodia's economic diversification.

Our fellows explore a wide range of topics shaping the country's economic future. Several examine pathways to expand Cambodia's economic base beyond traditional sectors—through capitalizing on the green economy (Lor Rossika), diversifying tourist destinations (Laim Lyana), leveraging the China Plus One strategy (Sao Sovan Panha), fostering intra-sectoral growth (Touch Sou Hong), and boosting rice exports through the Fish and Rice Corridor (Pheng Thean).

For Cambodia to reach its ambitious economic objective, it must climb the ladder of the global value chain and strengthen the foundations for high-value growth and increase its competitiveness. These include shifting investment from real estate to manufacturing (Chea Peter), upgrading the electronics and electrical sector (Meng Lyhor), reinforcing TVET (Moeung Cheery), and nurturing innovation through startup ecosystem development (Srey Bormey).

Looking beyond LDC graduation, several contributions address how Cambodia can build inclusive and resilient economy by enhancing transport and connectivity (Chhun Menghak), transforming the garment sector (Chhim Noppon), expanding agro-processing capacity (Ongchamroeun Kanha), and cultivating a more diverse and export-oriented economy (Nou Sei Hak).

These contributions are more than just individual policy briefs. Together, they provide a collective vision for the future of Cambodia's economic development: one that is more diversified, competitive, and resilient. This volume also reflects the commitment and intellectual rigor of young Cambodian scholars to contribute meaningfully to national policy debates and development strategies.

We extend our sincere gratitude to all AYSE Fellows for their dedication, and to our academic partners, trainers, and reviewers for their invaluable support. We hope this publication will inspire meaningful dialogue and inform practical solutions for Cambodia's continued economic transformation.

Daniela Braun
Country Director
Konrad-Adenauer-Stiftung (KAS) Cambodia and the Phillipines

EDITORIAL NOTE

Over the past two decades, Cambodia has achieved impressive economic growth, yet this progress remains narrowly based on a few sectors such as garments, agriculture, construction, and traditional tourism. As global markets evolve and external shocks become more frequent, economic diversification is no longer a policy option but an imperative.

This book includes three major themes. The first theme, Pathways to Diversification and Resilience, explores strategic areas for broadening Cambodia's economic base and strengthening economic resilience. The featured policy briefs present actionable policy options for tourism diversification, agricultural upgrading, regional repositioning, and green industrial growth. Together, they highlight the need for policy coherence, sustainability-focused investment, and innovation across sectors to secure long-term resilience.

As Cambodia nears its transition from LDC status, sustaining competitiveness will require moving up global value chains, enhancing industrial foundations, and nurturing human capital. The second theme, Driving Competitiveness and Industrial Transformation, examines how Cambodia can leverage technology, education, and investment to propel this transformation. Through analyses, the theme highlights how industrial upgrading, skills development, and investment mobilization can drive the next phase of growth. It calls for stronger coordination between the public and private sectors and for reforms that align industrial, educational, and investment policies with digitalization, green transition, and regional integration.

Looking beyond LDC graduation, the third theme, Building a Resilient and Inclusive Economic Future, emphasizes the structural transformation needed to sustain inclusive and sustainable growth. This part focuses on industrial upgrading, logistics modernization, and agricultural transformation as critical drivers of competitiveness and self-reliance.

Together, these three themes offer a coherent roadmap for Cambodia's economic future, which is grounded in diversification, innovation, and resilience. They collectively envision a Cambodia that is a participant not only in regional value chains but also in a dynamic and promising economy built on sustainability, connectivity, and inclusive growth.

We would like to thank all fellows and reviewers whose contributions made this publication possible. Their collective effort reflects a strong commitment to advancing Cambodia's economic transformation through evidence-based research and policy dialogue.

We hope this publication provides an insightful and constructive contribution to ongoing discussions among policymakers, researchers, private sector leaders, and development partners on Cambodia's path toward sustainable and inclusive growth in the years ahead.

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Lor Rossika holds a Bachelor's degree in International Relations from Paragon International University. She has professional experience in sustainability, corporate social responsibility, and foreign affairs, having interned with multiple international organizations, including the U.S. Embassy in Phnom Penh, Smart Axiata, and the Ministry of Foreign Affairs and International Cooperation (MFAIC). Her research focuses on green diplomacy, sustainable economic transformation, and ASEAN–EU environmental cooperation, particularly in the context of industrial and environmental policy alignment. For her bachelor's thesis, she conducted a comparative analysis of Cambodia's and Vietnam's sustainable textile industries in relation to the EU Circular Economy Action Plan. Through her academic and professional experiences, she continues to contribute to advancing policy dialogues on sustainable development and regional economic competitiveness.

Laim Lyana is a senior Accounting and Finance student at CamEd Business School and a recent graduate of the English Language-Based Bachelor of Law program at the Royal University of Law and Economics. Her academic and leadership experiences span international moots, youth diplomacy, and research. She was part of one of the Best Teams Overall at the 2024 Foreign Direct Investment International Arbitration Moot in Germany and a winner of the ASEAN–China–India Youth Leadership Summit 2023. She currently serves as the Vice President of Internal Affairs for the Asian Law Students' Association (ALSA Cambodia). Her interests lie at the intersection of international law, public policy, and finance.

Sao Sovan Panha is a junior analyst with a Bachelor of Arts in International Studies from the Institute for International Studies and Public Policy, Royal University of Phnom Penh. During her studies, she gained international exposure through summer training programs in the United Kingdom and France, and participated in various programs both nationally and internationally. Her research interests focus on international relations, global governance, and sustainable policy strategies that promote inclusive and sustainable development. Drawing on her experience in project coordination, external affairs, and policy advocacy, she strives to contribute to policy initiatives that support Cambodia's development and strengthen its role in regional and global cooperation.

Touch Sou Hong is a junior student pursuing a dual degree in International Relations and Diplomacy from the American University of Phnom Penh and Political Science from Fort Hays State University. She is an aspiring researcher in conflict analysis and genocide studies, having conducted original research on cognitive dissonance in the perpetration of genocide. She has represented her country and university at international Model United Nations conferences in Singapore and Indonesia. As a 2025 AYSE Fellow, she explores public policy pathways for resilient, sustainable, and inclusive economic diversification in Cambodia.

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Chea Peter is a MERL and GEDSI intern at the Cambodia Australia Partnership for Resilient Economic Development (CAPRED) and a member of the United Nations Youth Advisory Panel (UNYAP). He holds a Bachelor of Arts in International Relations (Honors) and a Bachelor of Education in Teaching English as a Foreign Language (TEFL) from the Royal University of Phnom Penh. His dedication to global citizenship is reflected in contributions to national and regional institutions, including Transparency International Cambodia, the Foreign Policy Community of Indonesia, and the ASEAN-Korea Centre, as well as youth-led projects supported by UNICEF and UNESCO. Peter believes that addressing economic challenges is essential to unlocking greater transformation in Cambodia.

Meng Lyhor is a recent graduate of the Institute for International Studies and Public Policy with a Bachelor's degree in International Economics. She currently serves as a Cooperation Officer at the Council for the Development of Cambodia, in the Department of Bilateral Relations with Europe, the European Union, and the United States. She has participated in several international exchange programs, including the ASEAN People's Forum 2023 (Indonesia), NUS–AUS 2024 (Singapore), the Seminar on Natural Reserve and Protection 2024 (China), and the YSEALI Academic Fellowship 2025 (United States). Her research focuses on industrial development, economic policy, public policy, and foreign affairs. As an AYSE Fellow, she draws on international experiences to contribute to policy discussions on Cambodia's economic diversification.

Moeung Cheery holds a Bachelor's degree in International Relations from the Institute for International Studies and Public Policy. He has contributed to several book projects by Konrad-Adenauer-Stiftung Cambodia (KAS) and the Cambodian Center for Regional Studies (CCRS). He currently serves as a Junior Research Associate at KAS Cambodia. Previously, he worked as a Research Associate at CCRS and as a Research Assistant at the Center for Southeast Asian Studies, Royal University of Phnom Penh. His research interests include Cambodia's foreign and public policy, bilateral relations with Thailand and the EU, the ongoing crisis in Myanmar, and ASEAN political-security issues. He also regularly contributes opinion pieces to local media outlets and youth-led platforms.

Srey Bormey holds a Bachelor of Arts in International Studies (International Relations) and a Bachelor of Education in Teaching English as a Foreign Language from the Institute of Foreign Languages, Royal University of Phnom Penh. She currently works as a Program Associate at Techo Startup Center. Her interests center on public policy, innovation, and inclusive economic development.

Chhun Menghak is a Legal Intern at KHS & Partners and a Research Intern at the Center for Southeast Asian Studies (CSEAS), where he contributes to regional policy analysis and legal research. He is currently completing dual degrees in Law and International Relations at the Royal University of Law and Economics (RULE) and the Royal University of Phnom Penh (RUPP), studying law under a full scholarship from the Raoul Wallenberg Institute (RWI). In 2025, he represented Cambodia at the 17th Nelson Mandela World Human Rights Moot Court in Geneva, ranking among the Top 24 globally—a national first. His research interests span international law, human rights, ASEAN affairs, and Cambodia's investment and governance landscape. His AYSE commentary explores the long-term impact of abandoned Chinese investments in Sihanoukville, drawing on firsthand experience and policy critique. Menghak is passionate about youth-led reform, legal empowerment, and regional integration. He believes that bridging academic rigor with inclusive policy dialogue is key to building resilient institutions and amplifying Cambodia's voice in global forums.

Chhim Noppon is a Bachelor of Business Administration student at the American University of Phnom Penh (AUPP) with a strong interest in public policy, economic development, and education, emphasizing data analytics and econometric approaches. He has worked as an Economic Intern at the U.S. Embassy in Phnom Penh, in Revenue Growth at Heineken Cambodia, and as a Public Relations Administrator at the Union of Youth Federations of Cambodia (UYFC). Noppon has also contributed to youth consulting projects with UNICEF and the International Labour Organization (ILO). An active youth leader, he has spoken at ASEAN regional events in Malaysia and Indonesia and was part of the Best Policy Team at the Young ASEAN Leaders Policy Initiative (YALPI) hosted by Chulalongkorn University. As a 2025 AYSE Fellow, his policy commentary focuses on data-driven strategies to transform Cambodia's garment sector beyond LDC graduation.

Ongchamroeun Kanha holds a Bachelor of Arts in International Relations from Paragon International University. She was recently awarded the 2025 Global Korea Scholarship to pursue a Master's degree in Global Studies at Yonsei University, Republic of Korea. She is currently enrolled in the Korean Language Program at Yonsei University in preparation for her graduate studies. As a fellow of the Adenauer Young Scholars for Excellence (AYSE) Program at the Konrad-Adenauer-Stiftung, she focuses her research on Cambodia's agro-processing sector. Her policy brief explores how value-added agricultural production can enhance Cambodia's competitiveness amid ongoing border tensions with Thailand and contribute to the country's broader economic diversification agenda.

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THEME I:
PATHWAYS TO DIVERSIFICATION AND RESILIENCE

ONiON Mobility Co., Ltd. officially inaugurated its ONiON Mobility Factory, a $20 million electric motorcycle and electric three-wheeler assembly plant investment.
Photo: onionev.com

Accelerating the Green Economy: Cambodia's Path Toward Sustainable and High-Value Industrial Growth

Lor Rossika

EXECUTIVE SUMMARY

- Cambodia's economy remains heavily dependent on low-cost and labor-intensive sectors such as garment and agriculture. This strong reliance leaves it vulnerable to shifts in trade preferences and global economic changes.
- The electric vehicle (EV) industry offers Cambodia a strategic opportunity to diversify its economy, advance technological capabilities, and support environmental sustainability.
- This policy brief explores the role of EV development in Cambodia's economic transformation, with a particular focus on BYD's market entry as a catalyst for automotive growth, technology transfer, and skilled job creation.
- Drawing policy lessons from Thailand and Vietnam, the paper highlights how Cambodia can strengthen its EV sector through clear production targets, investment incentives, workforce development, and robust charging infrastructure.
- With well-designed and targeted policies, Cambodia has the potential to become a competitive EV manufacturing hub, reduce its reliance on low-value sectors, and enhance long-term economic resilience.

Introduction

Historically, Cambodia's economy has relied heavily on low-cost and labor-intensive industries, particularly in agriculture and garment, footwear, and travel goods (GFTs) sector, which accounted for approximately 52% of the total exports in 2024 (GDCE).[1] According to the Cambodia GFT Sector Development Strategy 2022-2027, garments have consistently comprised over 70% of the total exports since 2009.[2] Although this growth model has created significant employment opportunities, particularly for women who comprise 75.6% of the sector's workforce, it leaves Cambodia vulnerable to global supply chain disruptions, shifting trade preferences, and tariff policies imposed by major powers.

According to the International Labor Organization's ASEAN in Transformation in 2016, Cambodia's GFT sector contributed around 88% of total manufacturing output and accounted for 57% of national employment that is at high risk of technology replacement.[3] As global production shifts toward sustainability, digitalization, and automation, Cambodia must urgently diversify into high-value and green industries to ensure long-term economic resilient and inclusive growth.

The emerging EV industry offers Cambodia a strategic opportunity for industrial upgrading and environmental sustainability, aligning with the UN Sustainable Development Goals (SDGs). In recognition of this, the Royal Government of Cambodia (RGC) has adopted the National Policy on the Development of Electric Vehicles 2024-2030, which demonstrates the country's strong commitment to green mobility and industrial modernization. This policy aims to accelerate

1 General Department of Customs and Excise of Cambodia, "Data Search", https://stats.customs.gov.kh/en/data-search

2 Royal Government of Cambodia, "Garment and Shoe Development Strategy for Cambodia 2022–2027," Open Development Cambodia, https://data.opendevelopmentcambodia.net/library_record/garment-and-shoe-development-strategy-for-cambodia-2022-2027/resource/e21a3061-0ada-4535-8066-ebf4670f4e8d

3 Jae-Hee Chang, Gary Rynhart and Phu Huynh, ASEAN in Transformation (Geneva: International Labour Organization, 2016), https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_dialogue/@act_emp/documents/publication/wcms_579553.pdf

EV adoption, promote local manufacturing and assembly capabilities, and foster sustainable industrial growth.

With ambitious targets, such as achieving 40% electric cars and 70% electric motorcycles by 2050,[4] this EV policy provides a clear roadmap that supports Cambodia's broader goal of economic diversification and climate commitments and resilience. This national EV framework forms a critical foundation for Cambodia's transition toward a high-value and technology-driven economy. Moreover, the recent entry of major companies such as BYD, a world leader in EV technology, has the potential to position Cambodia as a regional hub for EV assembly, battery innovation, and clean energy logistics.

The Case for EV Industry Development in Cambodia

The electric vehicle (EV) industry represents a crucial opportunity for Cambodia to align its industrial development with both national priorities and global sustainability goals. Cambodia's EV Policy (2024-2030) provides a strategic foundation for EV adoption, infrastructure development, and local assembly. This reinforces the country's commitment to decarbonization, industrial modernization, and green economic growth.

The surge in EV interest is already evident. According to the Ministry of Public Works and Transport (MPWT), EV registrations increased by over 620% in 2024, reaching 2,253 vehicles compared to only 313 in 2023.[5] This sharp rise reflects both growing consumer awareness and a policy-driven market shaped by favorable incentives and supportive regulatory frameworks.

Beyond environmental benefits, the EV industry supports economic diversification by generating higher-value employment opportunities in the emerging fields such as automotive engineering, logistic, digital technologies, and mechanical design. These sectors offer significantly higher productivity and income levels than traditional garment manufacturing.[6] Furthermore, the development of EV manufacturing can catalyze technology transfer in critical areas such as robotics, battery systems, AI-enabled transport, and clean energy R&D.

Role of BYD and Potential as a Regional EV Assembly Hub

BYD, founded in 1995 in Shenzhen, China, began as a battery manufacturer before evolving into a global EV leader. Leveraging its expertise in battery technology, BYD entered the automotive industry in the early 2000s and produced its first electric vehicle in 2008. Over the years, BYD has established more than 30 industrial parks across Europe, the Americas, and Asia, and Cambodia is among its latest destinations for EV assembly investment.[7]

BYD entered the Cambodian market in 2022 as part of its broader Southeast Asia expansion strategy. The company's assembly plant, expected to begin operations by late 2025, will have an

4 Open Development Cambodia, *National Policy on the Development of the Electric Vehicle Sector 2024–2030*, https://data.opendevelopmentcambodia.net/laws_record/national-policy-on-the-development-of-the-electric-vehicle-sector-2024-2030/resource/1cd2f7e5-69ff-41fd-9d1c-07ef18721e40

5 Ministry of Public Works and Transport. (2023, February). OVER 600 ELECTRIC VEHICLES REGISTERED IN 2023. https://www.mpwt.gov.kh/en/press/37159

6 ASIAN DEVELOPMENT BANK. (2024). CAMBODIA'S ECONOMIC DIVERSIFICATION A COUNTRY DIAGNOSTIC STUDY. https://www.adb.org/sites/default/files/publication/1009916/cambodia-economic-diversification.pdf

7 *BYD, "About BYD," accessed April 21, 2025,* https://www.byd.com/en/about-byd

initial annual production capacity of 10,000 EVs and a total investment of approximately USD 30 million.[8]

BYD's presence can contribute to Cambodia's ambition to move beyond traditional, low-value sectors such as garments toward automotive and high-technology industries. The assembly plant is expected to generate skilled employment in engineering, logistics, and green technologies that contribute to human capital development and industrial upgrading.

As a global pioneer in clean transport, BYD introduces low-emission technologies to Cambodia's market while facilitating the country's integration into the global EV value chain. This integration is likely to attract more foreign direct investment (FDI) in high-value industries and promotes industrial diversification and technological capacity enhancement.

The expansion of high-value industries such as EV manufacturing plays a critical role in reducing Cambodia's dependence on a narrow export base. It fosters industrial capabilities, improves industrial competitiveness, and exposes local firms to new technologies, management practices, and international standards.[9] Additionally, by creating skilled and better-paid jobs, Cambodia can strengthen its domestic market, boost income levels, and reinforce economic stability.

As the economy continues to diversify and advance technologically, Cambodia is well-positioned to foster a more robust, resilient, and competitive economic structure capable of sustaining long-term growth and innovation.

Comparative Policy Insights: Lessons Learned from Other Countries

To design an effective and competitive EV industrialization strategy, Cambodia can benefit from examining the experiences of regional peers that have successfully developed EV production ecosystems. This section highlights key lessons from Thailand and Vietnam that offer relevant key takeaways to guide Cambodia's path toward sustainable and high-value industrial growth.

Thailand

Thailand has emerged as one of the region's leading EV manufacturing hubs through its "30@30" initiative, which targets 30% of total vehicle production to be EVs by 2030, equivalent to approximately 725,000 EVs annually. This initiative provides a clear national roadmap supported by cross-ministerial coordination and private sector participation.

The EV 3.5 package, the second phase of the 30@30 initiative, offers targeted investment incentives to attract both domestic and foreign investors. Batteries used in both imported and domestically manufactured EVs are required to meet Industrial Product Standards (TIS) and comply with international testing protocols. The Board of Investment (BOI) supports these goals

8 "Cambodia's EV Registration Sees Big Jump in 2024," *Khmer Times*, January 16, 2025, https://www.khmertimeskh.com/501624421/cambodias-ev-registration-sees-big-jump-in-2024

9 Ben Sokhean, "Cambodia Shifts Focus to High-Tech Industries amid Strong Economic Growth," *Khmer Times*, February 28, 2025, https://www.khmertimeskh.com/501646640/cambodia-shifts-focus-to-high-tech-industries-amid-strong-economic-growth/

by offering up to eight years of tax holidays, exemptions on import duties for EV components, and the land-use benefits for qualifying investors.

Thailand's EV roadmap is further enhanced by aggressive tax incentives, charging infrastructure expansion, and logistics network planning, which together have successfully attracted major global EV companies like BYD and Great Wall Motors. As a result, Thailand has positioned itself asthe regional EV hub within ASEAN. The success of this policy is evident in the participation of 15 companies under the EV 3 programs and a substantial increase in new EV registrations nationwide.

Vietnam

Vietnam's approach demonstrates the effectiveness of government-led incentives and the strategic use of national flagship industrial champions. The case of VinFast, a subsidiary of the Vingroup conglomerate, is instructive. Founded in 2017, VinFast launched its first EV production line in 2021, with robust government support in the form of regulatory alignment, land allocation, and export facilitation.

The Vietnamese government's proactive approach positions VinFast as the country's flagship EV brand and facilitates its entry into the international market.[10] Notably, the government reduced vehicle registration fees for EVs by 50% and granted exemptions from the excise taxes until 2027 to make EVs more price-competitive with conventional gasoline vehicles.[11] As a result, domestic EV sales increased rapidly. VinFast delivered around 97,399 vehicles which accounted for approximately 192% from 2023.[12]

Vietnam has promoted this growing industry through TVET partnerships to develop EV and mobility-related skills. For instance, through the SOLUTIONSplus e-mobility training programs in Hanoi, the government has enhanced the integration of e-mobility planning, charging infrastructure development, and urban transport electrification.[13] Furthermore, collaboration among ADB, VinFast and various public institutions have led to technical training programs and factory visits as part of the national green transport roadmap launched in December 2024.[14]

Challenges

The transition from low-value to high-value industries presents Cambodia with several structural and institutional challenges. The key concerns include infrastructure limitations, workforce skill gaps, technological advancement, and growing regional competition. Addressing these constraints is important to ensure that Cambodia's industrial transformation toward sustainable and high-value sectors, such as EV, is both viable and resilient.

10 VIETNAM.VN and Báo Khoa học và Đời sống, "VinFast, the 'Big Brother' Leading the Way for Vietnam's Supporting Industry," https://www.vietnam.vn/en/vinfast-nguoi-anh-ca-dan-loi-cong-nghiep-phu-tro-viet-nam

11 Vu Nguyen Hanh, "Vietnam Extends EV Registration Fee Exemption Until 2027," Vietnam Briefing, March 11, 2025, https://www.vietnam-briefing.com/news/vietnam-extends-ev-registration-fee-exemption-until-2027.html/

12 "VinFast Reports Fourth Quarter and Full Year 2024 Financial Results," *VinFast, April 24, 2025,* https://vinfastauto.us/investor-relations/news/vinfast-reports-fourth-quarter-and-full-year-2024-financial-results

13 SOLUTIONSplus, "29th and 30th November 2022: National Training on E-Mobility in Hanoi City," accessed October 13, 2025, https://www.solutionsplus.eu/vietnam2022

14 Vietnam News, "Eight Localities Join ADB, VinFast to Follow Green Transport Transformation Roadmap," December 2024, https://bizhub.vn/eight-localities-join-adb-vinfast-to-follow-green-transport-transformation-roadmap-post364068.html

First, limitations in infrastructure, such as transformation networks, logistics facilities, and energy supply, pose a significant challenge to this transition. Inadequate roads, ports, and power grids increase operational costs and reduce efficiency for investors. A critical issue is the high cost of electricity, which substantially raises production expenses and weakens Cambodia's competitiveness in manufacturing. Addressing these infrastructure gaps will be essential for attracting and sustaining investment in high-value industries.

Second, a shortage of skilled technical workers presents a significant challenge. High-value industry sectors demand a workforce equipped with advanced technical expertise, digital competencies, and engineering capabilities to effectively move up the value chain. However, Cambodia's current education and training systems remain heavily oriented toward low-skill manufacturing. Expanding and strengthening STEM education, alongside TVET programs, is therefore crucial. Building a future-ready workforce will ensure that Cambodia's domestic labor pool can meet the demands of a modern, technology-driven economy.

Third, regional competition continues to pose a significant constraint. Neighboring countries such as Vietnam and Thailand are strong contenders in high-value industries, benefiting from greater economic complexity and well-established industrial bases. Their investor-friendly policies, coupled with superior infrastructure and a more skilled workforce, make them attractive destinations for foreign investment. For Cambodia to position itself as a competitive manufacturing hub, it must differentiate itself through policy consistency, strategic incentives, and a supportive investment environment that can rival or complement regional peers.

According to Khmer Times, Permanent Deputy Prime Minister Vonsey Vissoth emphasized that while Cambodia has achieved substantial economic diversification over the past decade, continued efforts are needed to enhance competitiveness. He stated that "Cambodia needs to continue to strengthen the investment climate and further enhance competitiveness to attract both domestic and foreign investment, especially by attracting industries that are changing their production bases to prepare to become alternative manufacturing hubs." He further noted that "Cambodia also increases labor productivity by strengthening and developing human capital through health promotion, education and technical skills training, with the aim of attracting non-traditional and high value-added industries."[15]

His remarks underscore the urgent need to improve Cambodia's investment climate and human resource development, particularly in education, technical training, and healthcare, to make Cambodia more attractive to high-value industries and sustain its long-term economic transformation.

Policy Recommendations

Building on the comparative analysis of Thailand and Vietnam's EV development strategies, Cambodia can accelerate its EV industrialization through a phased and cross-sectoral strategy. The following recommendations outline short-, medium-, and long-term priorities for the Royal Government of Cambodia and its development partners.

15 Ben Sokhean, "Cambodia Shifts Focus to High-Tech Industries Amid Strong Economic Growth," Khmer Times, February 28, 2025, https://www.khmertimeskh.com/501646640/cambodia-shifts-focus-to-high-tech-industries-amid-strong-economic-growth/

1. Expand the National EV Roadmap with Specific Targets and Timelines

Cambodia's National Policy on EV Development (2024–2030) provides a valuable baseline to promote EV adoption and build domestic assembly capacity. This policy outlines ambitious goals, such as achieving 40% electric cars and 70% electric motorcycles by 2050. However, it lacks quantified production targets, implementation timelines, and specific investment incentives.

To strengthen this roadmap, Cambodia should introduce annual benchmarks and measurable production targets. For example, Cambodia could adopt a framework similar to Thailand's "30@30" initiative, aiming for 30% of total domestic vehicle production to be electric by 2030 (equivalent to approximately 725,000 EVs annually). Such clarity would ensure accountability, encourage private sector engagement, and guide infrastructure and workforce planning.

2. Introduce Competitive Tax Incentives to Attract EV Investment

Following Thailand's successful model, Cambodia should design a comprehensive EV investment package to attract both domestic and foreign direct investors. This package includes:

- Up to eight years of corporate income tax exemption for EV manufacturers and component suppliers.
- Zero import duties on EV components, batteries, and charging equipment to lower production costs.
- Land lease reductions and other preferential terms for investors operating in Special Economic Zones (SEZs).
- Streamlined investment approval procedures to facilitate ease of doing business and reduce bureaucratic delays.

3. Reform EV Taxation and Registration Policies to Increase Market Demand

Drawing lessons from Vietnam, Cambodia should reform its EV taxation and registration policies to incentivize consumers. Recommended measures include:

- Introducing a 25% reduction in excise tax on EV until 2028.
- Implementing a 50% reduction in EV registration fees until 2030 to encourage early adoption.
- Offering temporary consumer subsidies or rebates for electric motorcycles and small EVs, particularly for urban users and delivery services.

4. Expand Green Skills Training through TVET and Industry collaboration

Human capital development is crucial to sustaining EV industrialization. Cambodia should launch an EV Skills Accelerator Program, co-designed by government, private sector, and development partners, focusing on:

- Battery assembly, EV maintenance, and repair technologies
- Urban mobility planning and charging infrastructure installation.
- Strengthening TVET and STEM programs through partnership with EV firms to align training with real industry needs.
- Engaging external partners such as ADB and World Bank to co-finance green TVET initiatives.
- Providing hands-on learning opportunities and factory internships for students enrolled in technical and engineering programs.

5. Develop EV Infrastructure and Urban Mobility Corridors

As of April 2025, Cambodia has 154 EV charging stations installed across the country.[16] While this marks encouraging progress, charging coverage remains limited and uneven across provinces. To address this, the government should:

- Installing charging stations every 50–100 km along national highways and major urban routes.
- Prioritizing infrastructure expansion in underserved provinces to support nationwide EV adoption.
- Promoting public-private partnerships (PPPs) for financing, operation, and maintenance of charging networks.
- Integrating EV infrastructure development into urban mobility planning, especially in Phnom Penh, Siem Reap, and Sihanoukville, where demand is growing rapidly.

Summary Table: Policy Matrix

Policy Area	Thailand Approach	Vietnam Approach	Cambodia Action Steps
National EV Roadmap	"30@30" strategic plan	Fast-track support for VinFast	Build on National EV Roadmap (2024-2030)
Investment Incentives	EV 3.5 tax and land incentives	Land, tax, and export support	Tax holidays & investment package
Market Demand Stimulus	Charging network & subsidies	Tax and fee reductions	Excise tax reduction, fee discounts
Workforce Development	Skill upgrading via BOI	ADB–VinFast TVET programs	EV training with industry partners
Infrastructure Development	EV corridors, logistics network	Urban electrification, planning	Develop more charging stations
Standards & Regulations	TIS battery certification	Emerging alignment with ASEAN/ISO	Adopt ASEAN EV and battery standards

Conclusion

Cambodia stands at the edge where the transition toward high-value and sustainable industries is no longer optional but imperative. The EV industry offers a unique dual benefit, which drives both environmental sustainability and economic modernization. The government's commitment, as reflected in the national EV policy, provides a strong foundation for this strategic shift.

16 Vannak Khan, "Cambodia's Electric Vehicle Landscape in 2025," LinkedIn, June 2025, https://www.linkedin.com/pulse/cambodias-electric-vehicle-landscape-2025-vannak-khan-xkqmc/

However, without clearly defined production targets, robust market incentives ,and a skilled technical workforce, these commitments and aspirations will remain difficult to achieve. Learning from the successful models of Thailand and Vietnam, Cambodia must pursue a comprehensive, multi-pronged approach that integrates policy reforms, investment incentives, human capital development, and infrastructure expansion.

By implementing these coordinated actions, Cambodia can position itself as a competitive regional hub for EV assembly, green technology innovation, and sustainable industrial growth. This transformation will not only enhance Cambodia's economic resilience but also reaffirm its role as an active contributor to the global green economy in the emerging era of automation and decarbonization.

EV Charging Station.
Photo: Shutterstock

A giant crab statue welcomes visitors to Krong Kaeb 'Kep' in Southern Cambodia.
Photo: Shutterstock

Beyond Angkor: Policy Options for Diversifying Cambodia's Tourism Sector to Strengthen Economic Resilience

Laim Lyana

EXECUTIVE SUMMARY

- Nearly 80% of international visitors are drawn to Angkor Wat and Siem Reap, and this highlights Cambodia's overreliance on a single destination.
- This concentration exposes Cambodia to external shocks such as pandemics and global travel disruptions threatening tourism that contributed to approximately 9.4% GDP in 2024.
- Despite strong cultural and natural assets, rural, coastal, and ecotourism destinations remain underdeveloped, poorly connected, and lack market exposure.
- The Tourism Recovery Roadmap, Cambodia Sustainable Landscape and Ecotourism Project (CSLEP), and provincial master plans (e.g., Mondulkiri, Kep) have set a strategic foundation for sustainable tourism growth.
- Implementation gaps persist:
    - Fragmented coordination between ministries and provinces
    - Limited financing for SMEs and community-based tourism (CBT) operators
    - Weak digital marketing and visibility of local destinations
    - Insufficient skills and institutional capacity at local levels
- Cambodia must shift from policy design to effective delivery, and this emphasizes implementation, local ownership, and measurable outcomes.
- Key policy priorities:
    - Digitally empower rural and community-based tourism sites through e-marketing and data platforms.
    - Streamline Tourism Recovery Co-Financing Scheme (TRCS) access for small and rural tourism providers to improve financing and resilience.
    - Leverage Siem Reap as a regional tourism gateway, dispersing visitors to secondary destinations.
    - Integrate Community Protected Areas (CPAs) into tourism master plans to align conservation and livelihood goals.
- Cambodia does not need to reinvent its tourism identity. It needs to connect, scale, and sustain its existing assets through smart policies, digital inclusion, and collaborative governance.

Introduction

Cambodia's tourism industry remains disproportionately centered around its cultural heritage, most notably the world-renowned Angkor Wat complex, a UNESCO World Heritage site that has long defined the nation's global tourism identity. While Angkor Wat has cemented Cambodia's international profile, this over-reliance on temple-based tourism has inadvertently created a fragile and geographically narrow tourism economy. It is not a surprise that most international tourists who come to Cambodia concentrate their visits around Siem Reap and the Angkor Archaeological Park. This spatial and thematic concentration makes the tourism sector acutely vulnerable to external shocks, seasonal fluctuations, evolving tourist preferences, and environmental degradation.

Despite Cambodia's abundant natural diversity from pristine coastal destinations such as Koh Rong and Kep to ecotourism hubs in Ratanakiri and Mondulkiri, these destinations remain underutilized, underdeveloped, and poorly integrated into national tourism circuits. Consequently, Cambodia continues to be perceived as a "secondary" or "add-on" stop within broader Southeast Asian itineraries, further limiting its ability to compete as a standalone destination *(Figure 1)*.

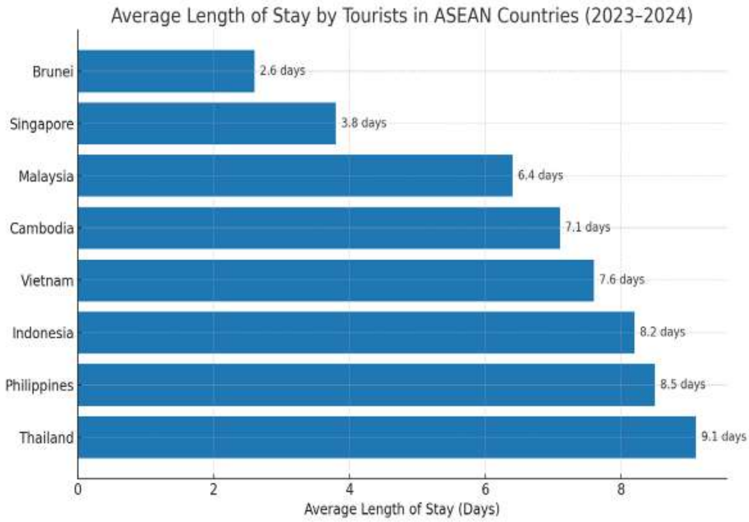


Figure 1: Average Length of Stay in Cambodia, Tourism Statistics Report April 2025

Tourism remains crucial to Cambodia's economy. In 2024, the sector brought in over USD 3.6 billion, accounting for nearly 9.4% of the country's GDP[1] from only six million international tourists *(Figure 2)*.[2] This represents a significant contribution relative to the number of arrivals.

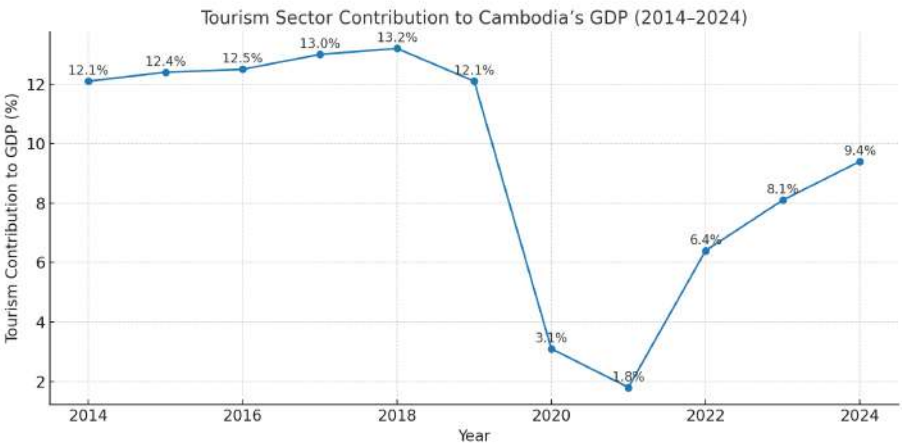


Figure 2: Tourism GDP, Tourism Statistics Report April 2025

1 Tourism Statistics Department, Tourism Statistics Report April 2025 (Phnom Penh: Ministry of Tourism, 2025), https://www.nagacorp.com/eng/ir/tourism/tourism_statistics_202504.pdf

2 Pisey Hin, "Just Three Nations Account for Two-Thirds of International Guests in 2024," The Phnom Penh Post, January 31, 2025, https://www.phnompenhpost.com/business/just-three-nations-account-for-two-thirds-of-international-guests-in-2024#:~:text=Ministry%20data%20showed%20that%20Cambodia,for%2064.7%25%20of%20the%20total.

To ensure Cambodia's tourism sector remains sustainable in an era of economic diversification, the country must reduce its over-dependence on temple tourism. Any disruption in Siem Reap, whether from over-tourism, climate issues, or global crises, could place the entire sector at risk. Moreover, this concentration limits domestic tourism: many Cambodians remain unfamiliar with lesser-known provinces, community-based tourism experiences, or natural assets beyond a handful of coastal and religious sites. Cambodia urgently needs a tourism strategy that builds on its rich cultural heritage, while creating new reasons for visitors to stay longer, explore more, and return. Without such a shift, the country risks falling behind more diversified and resilient tourism economies in the region.

Lessons from Other Countries

Across Asia, several countries face geographic, cultural, or historical constraints. However, they have successfully managed to build robust, multi-faceted tourism economies by investing in infrastructure, experiences, and inclusive branding.

Thailand, Vietnam, and Singapore demonstrate the potential of diversified tourism ecosystems. Thailand, despite sharing similar cultural roots with Cambodia, has evolved into Southeast Asia's leading tourism economy.[3] In 2023, it attracted around 28.15 million international tourists, ranking among the world's most visited countries.[4] Thailand's success stems from a multi-layered approach: island destinations such as Phuket and Koh Samui, urban tourism in Bangkok, and cultural circuits in Chiang Mai. private-sector engagement, strategic infrastructure, and aggressive marketing of lifestyle, wellness, and entertainment experiences have enabled repeat visitation and diversified revenue streams. Cambodia's current Siem Reap-centric approach demonstrates the strategic value of Thailand's regional dispersal and varied visitor offerings.

Singapore offers an even more instructive example. Without ancient temples or extensive natural landscapes, it consistently ranks among Asia's top destinations, welcoming over 16.5 million visitors in 2024.[5] Singapore's success stems from world-class infrastructure, experiential design, and innovative branding. Developments such as Marina Bay Sands, Gardens by the Bay, and the Jewel Changi Airport have transformed it into a model urban tourism hub, combining shopping, business travel, family entertainment, culinary experiences, and health services.[6] Its focus on "high-quality" rather than "high-volume" tourism aligns well with Cambodia's goals of attracting longer-staying and higher-spending tourists beyond temple areas.[7]

Vietnam has also expanded its appeal through beaches, vibrant cities, and low-cost domestic travel, drawing around 17.5 million visitors.[8] These examples demonstrate the importance of offering a diverse range of tourism products, cultural, natural, culinary, community-based,

3 Road Genius, "Thailand Tourism Statistics," Road Genius, June 18, 2025, https://roadgenius.com/statistics/tourism/thailand/#4ffcaf1a-08a7-4938-9dbe-e4270763ea45

4 WP Travel, "Most Visited Countries in the World 2020–2024: Statistics," WP Travel, 2023,https://wptravel.io/most-visited-countries-in-the-world/

5 Singapore Tourism Board, "Singapore Achieves Historical High in Tourism Receipts in 2024," press release, 4 February 2025, https://www.stb.gov.sg/about-stb/media-publications/media-centre/singapore-achieves-historical-high-in-tourism-receipts-in-2024

6 Pusat Studi Sosial Asia Tenggara, "Tourism in Singapore," Pusat Studi Sosial Asia Tenggara Universitas Gadjah Mada, October 3, 2019, https://pssat.ugm.ac.id/tourism-in-singapore/

7 T. C. Chang and B. S. A. Yeoh, "Singapore's Tourism Landscape: Cultural Strategies and Urban Redevelopment," Tourism Management Perspectives 26 (2018): 142–150, https://doi.org/10.1016/j.tmp.2017.09.003

8 "Vietnam Looks to Welcome 23 Million Foreign Visitors This Year," *Vietnam Law and Legal Forum,* February 16, 2025, https://vietnamlawmagazine.vn/vietnam-looks-to-welcome-23-million-foreign-visitors-this-year-73567.html

and experiential, to appeal to different age groups and travel purposes. Younger generations increasingly seek experiences beyond historical sightseeing, including nature, culture, community, food, and nightlife.[9] Without broadening its offerings, Cambodia risks losing out on these new emerging segments of global travelers.

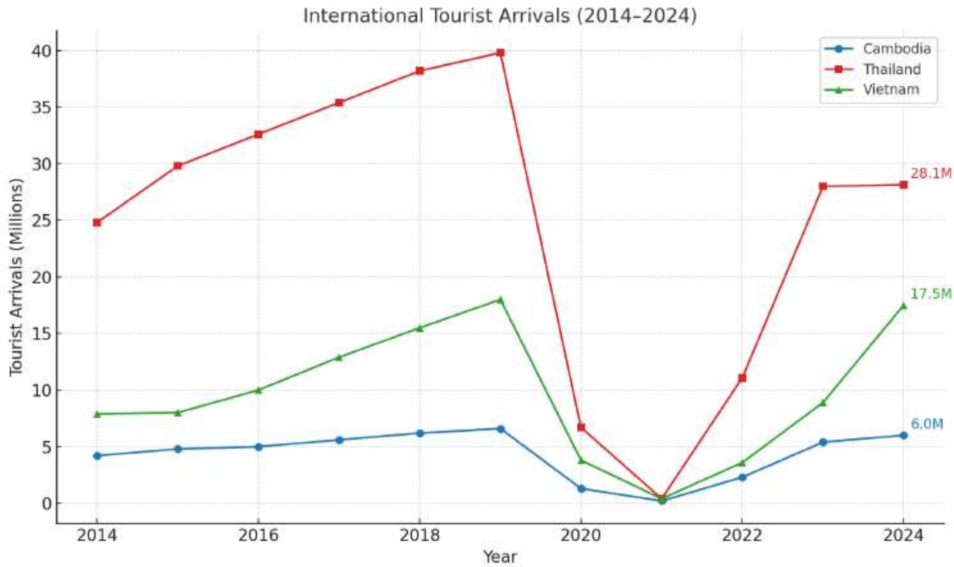


Figure 3: International Tourist Arrivals

Analysis of Recent Policy Initiatives

Over the past decade, Cambodia has increasingly recognized the urgent need to diversify its tourism offerings beyond Angkor Wat. This recognition has translated into a number of policy initiatives, strategic frameworks, and recovery plans, particularly in response to the economic shock of the COVID-19 pandemic.

The pandemic exposed the structural vulnerability of Cambodia's tourism sector, heavily dependent on temple-centered heritage. In response, the Royal Government of Cambodia launched a series of policy interventions aimed not only at recovery but also at structural transformation. Key initiatives include the Tourism Recovery Roadmap 2020-2025, the Tourism Recovery Co-Financing Scheme (TRCS), the Strategic Framework for Economic Recovery 2021-2023, the Cambodia Sustainable Landscape and Ecotourism Project (CSLEP), and long-term regional development strategies such as the Siem Reap Tourism Master Plan. Together, these measures represent an ambitious blueprint for a more diversified, resilient, and inclusive tourism sector. Yet implementation has revealed a mixture of promise, fragmentation, and unmet potential.

9 "Vietnam, Rewound: How Gen Z Is Travelling Back in Time," *Australian Hospitality Alumni Network Vietnam*, May 19, 2025, https://ahavietnam.org/2025/05/19/vietnam-rewound-how-gen-z-is-travelling-back-in-time/#:~:text=It%20is%20not%20just%20sightseeing,is%20time%20travel%2C%20through%20feeling.&text=What%20makes%20this%20connection%20to,portray%20a%20slower%2C%20softer%20Viet

The flagship policy during the crisis was the Tourism Recovery Roadmap (2020-2025), adopted in 2021 to stabilize the sector and guide its evolution over a five-year period.[10] The roadmap outlined three phases: immediate crisis response (2020-2021), phased reopening and active recovery (2022-2023), and long-term structural transformation (2024-2025). Early achievements included one of Southeast Asia's fastest vaccination campaigns for tourism workers, the reinstatement of visa-on-arrival services by late 2022, and the launch of the "Cambodia: Safe and Green Tourism" campaign to rebuild international confidence.[11] While these measures helped restore flows to Siem Reap and Phnom Penh, they have so far failed to meaningfully alter Cambodia's geographic or thematic concentration in heritage tourism.

A longer-term vision for regional transformation is embedded in the Siem Reap Tourism Development Master Plan (2021–2035).[12] This 15-year strategy aims to reposition Siem Reap as a "smart cultural city" with diversified tourism offerings, improved urban infrastructure, and enhanced cultural and creative industries. A key development under this plan is the Siem Reap–Angkor International Airport (SAI), which officially opened in October 2023. Tourism has also been integrated into broader economic recovery through the Strategic Framework for Economic Recovery 2021-2023, a cross-sectoral initiative that positioned tourism alongside agriculture, manufacturing, and digital transformation.[13] The framework identified specific geographic areas for tourism expansion, including coastal provinces of Kampot and Kep, the northeastern highlands of Mondulkiri and Ratanakiri, and river corridors of the Mekong and Tonle Sap. Investment in connective infrastructure, such as the Phnom Penh-Sihanoukville expressway and the expansion of Siem Reap International Airport, further shows genuine political will to shift tourism beyond Angkor Wat.

Among Cambodia's most innovative initiatives is the Cambodia Sustainable Landscape and Ecotourism Project (CSLEP), a USD 50.66 million collaboration between the Ministry of Environment and the World Bank launched in 2020.[14] CSLEP aims to link forest conservation with sustainable tourism in areas such as Phnom Aural, Koh Kong, and the Tonle Sap biosphere. Its holistic approach which links environmental safeguards, indigenous rights, ecotourism product development, and small-scale infrastructure, marks a notable departure from the heritage-centric focus of earlier tourism plans. Community consultations and resettlement frameworks were completed by 2021, and several pilot sites began limited operations in 2022.

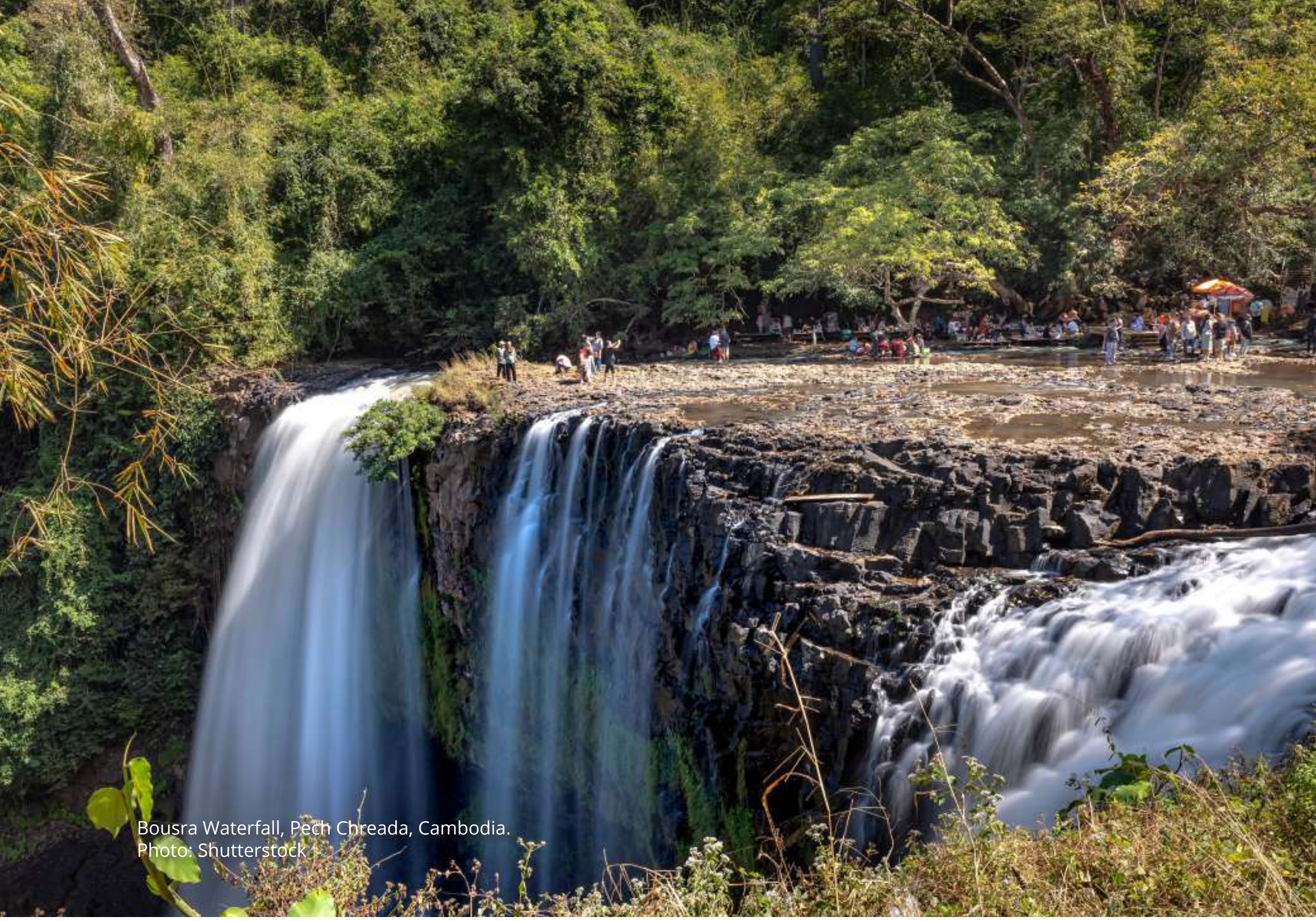
10 Ministry of Tourism, Roadmap for Recovery of Cambodia Tourism during and Post COVID-19 (Open Development Cambodia, 2021), https://data.opendevelopmentcambodia.net/en/library_record/roadmap-for-recovery-of-cambodia-tourism-during-and-post-covid-19/resource/2122a598-9592-4182-be8e-7765bf80392e

11 "Cambodia's Campaign to Revive Pandemic-Hit Tourism Industry Sees Increase in Flights", Khmer Times, January 31, 2022, https://www.khmertimeskh.com/501016042/cambodias-campaign-to-revive-pandemic-hit-tourism-industry-sees-increase-in-flights/

12 Royal Government of Cambodia, Tourism Development Master Plan Siem Reap 2021–2035 (Cambodia, March 30, 2021), https://data.opendevelopmentcambodia.net/dataset/45a65d2c-cfef-43ff-a326-6780390f3aad/resource/a5b6d7a0-afed-4148-9f06-333ef0c0b94e/download/tourism_dev_master_plan_sr__30.03.2021.pdf

13 General Secretariat of Committee on Economic and Financial Policy, *Strategic Framework and Programs for Economic Recovery and to Promote Cambodia's Economic Growth in Living with COVID-19 in the New Normal for 2021–2023* [English] (OpenDevelopmentMekong, December 2021), https://data.opendevelopmentmekong.net/library_record/strategic-framework-and-programs-for-economic-recovery-and-to-promote-cambodia-s-economic-growth-in/resource/64c09657-279c-4ff7-a6bb-6e23dd31a8b7

14 Ministry of Environment and Ministry of Rural Development, Process Framework of the Cambodia Sustainable Landscape and Ecotourism Project (Cambodia, March 13, 2020), OpenDevelopment Cambodia, https://data.opendevelopmentcambodia.net/en/library_record/process-framework-of-the-cambodia-sustainable-landscape-and-ecotourism-project



Bousra Waterfall, Pech Chreada, Cambodia.
Photo: Shutterstock

Community-Based Ecotourism and Provincial Master Plans

To coordinate grassroots ecotourism efforts, the government established the National Committee for the Management and Development of Community-Based Ecotourism (NCDCBE) in 2021.[15] Since its inception, the NCDCBE has since approved more than 300 community-based tourism projects, often collaborating with environmental NGOs and provincial authorities. According to Open Development Cambodia, over 131 agricultural communities have been identified for tourism transformation.[16] These efforts have gained traction among domestic travelers, especially during pandemic-related international travel restrictions.

However, serious bottlenecks persist. Most community-based tourism initiatives lack access to online booking platforms, foreign-language marketing materials, and sustainable finance models.[17] As a result, they remain largely invisible to international audiences, and their economic contribution continues to be marginal.

15 Royal Government of the Kingdom of Cambodia, Decision No. 99 on the Appointment of the National Committee for Management and Development of Community-Based Tourism and Ecotourism (Cambodia, October 12, 2021), OpenDevelopment Cambodia, https://data.opendevelopmentcambodia.net/en/laws_record/decision-no-99-on-the-appointment-of-the-national-committee-for-management-and-development-of-commu

16 Open Development Cambodia, "Tourism," Open Development Cambodia, February 2, 2023, https://opendevelopmentcambodia.net/topics/tourism/

17 Siphannara Phe, Overview of Community-Based Ecotourism for Sustainable Development in Cambodia – Briefing Note Regional Fellowship Program (Phnom Penh: Parliamentary Institute of Cambodia, September 2019), https://pcasia.org/pic/wp-content/uploads/simple-file-list/20191014_Overview-of-Community-Based-Ecotourism-for-Sustainable-Development-in-Cambodia.pdf

Mondulkiri Tourism Development Master Plan (2021-2035)

The Tourism Development Master Plan for Mondulkiri Province (2021-2035) is a provincial-level strategic blueprint developed by the Ministry of Tourism in collaboration with subnational authorities, to unlock the eco-tourism and cultural potential of one of Cambodia's most ecologically rich yet underdeveloped provinces.[18] Launched in 2021, the plan aligns with broader national goals, including the Tourism Development Strategic Plan 2021-2035, the Cambodia Sustainable Landscape and Ecotourism Project (CSLEP), and the post-COVID economic recovery framework.

The master plan has multiple goals:

- Economically, it aims to increase tourist arrivals by improving accessibility, diversifying tourism products, and enhancing service quality.
- Socially, it seeks to empower local communities, particularly indigenous Bunong groups, through training, capacity-building, and community-based tourism governance.
- Environmentally, it commits to low-impact development, placing conservation at the core of infrastructure planning and destination management.

The plan also proposes to link Mondulkiri with nearby provinces such as Ratanakiri and Kratie through eco-tourism corridors, promoting regional integration and equitable distribution of tourism benefits.

Early progress has been modest but significant. Basic infrastructure, especially road connections between Sen Monorom and surrounding districts, has improved.[19] Certain tourism products have begun to take shape, often with support from NGOs or development agencies. Notable examples include the Elephant Valley Project,[20] which offers ethical wildlife experiences without riding or shows; Pu Chrey Community Tourism, where indigenous guides lead visitors through forest trails; and the emerging agro-tourism routes around Bousra waterfall and coffee plantations.

Kep Tourism Master Plan (2023-2035)

The Kep Tourism Development Master Plan, launched in 2023, is part of Cambodia's broader strategy to diversify tourism beyond the Angkor-centric model.[21] The plan seeks to transform Kep into a high-end, eco-cultural coastal destination. The plan emphasizes the preservation of colonial heritage, maritime conservation, and community-driven tourism.[22] Proposed initiatives include marine ecotourism, agro-tourism, cultural villages, and slow-living concepts that distinguish Kep from more mass-market destinations like Sihanoukville. Infrastructure upgrades such as coastal

18 Royal Government of Cambodia, *Official Draft of Mondulkiri Tourism Development Master Plan 2021–2035* (Cambodia, August 26, 2021), OpenDevelopment Cambodia, https://data.opendevelopmentcambodia.net/en/library_record/an-official-draft-on-master-plan-of-mondulkiri-tourism-development-for-2021-2035

19 Vibol Torn, "Significant Progress Highlighted in Border Ring Road Construction," Khmer Times, March 4, 2025 https://www.khmertimeskh.com/501648239/significant-progress-highlighted-in-border-ring-road-construction/

20 John Cannon, "A Forest Gave Cambodia's Captive Elephants a New Life. Now They're Paying It Back," Mongabay, August 31, 2023, https://news.mongabay.com/2023/08/a-forest-gave-cambodias-captive-elephants-a-new-life-now-theyre-paying-it-back/

21 Royal Government of Cambodia, *Kep Tourism Master Plan 2023–2035* (Cambodia, August 10, 2023), OpenDevelopment Cambodia, https://data.opendevelopmentcambodia.net/library_record/kep-tourism-master-plan-2023-2035

22 Royal Government of Cambodia, Kep Tourism Master Plan 2023–2035 (Cambodia, August 10, 2023), OpenDevelopment Cambodia, https://data.opendevelopmentcambodia.net/library_record/kep-tourism-master-plan-2023-2035

roads, sanitation systems, and eco-friendly accommodation guidelines are central to the plan.[23] Implementation remains at an early stage as of mid-2024.[24]

Important Challenges

The pace and scale of implementation have so far fallen short of the master plan's aspirations. Primary constraints include:

- Limited fiscal and administrative capacity: Unlike Siem Reap or Phnom Penh, Mondulkiri lacks a mature tourism infrastructure ecosystem: few hotels meet international standards, local tour operators are rare, and hospitality services remain largely informal. The lack of institutional coordination exacerbates these constraints. According to the ReDI-RUPP Feasibility Study (2024), there is a lack of structured mechanisms to facilitate public-private partnerships or to oversee integrated tourism planning.[25] In effect, many local tourism initiatives especially community-based ecotourism (CBET) and agro-tourism projects are being driven by NGOs, donor agencies, or isolated community actors without alignment to a broader market strategy. This results in a patchwork of promising but disjointed efforts that struggle to scale or attract meaningful investment.
- Digital and promotional limitations: Despite its enormous potential, Mondulkiri remains largely invisible on major tourism platforms. Most community-based tourism (CBT) sites lack websites, booking systems, or even geolocation on platforms like Google Maps. National promotion efforts, such as the "Visit Cambodia" campaigns, have prioritized other destinations. Consequently, international tourists rarely discover Mondulkiri through official tourism channels.
- Human capacity dimension: Many indigenous communities face significant barriers to meaningful participation in tourism due to language differences, limited education, limited access to finance, and weak institutional representation. While the plan emphasizes training and community engagement, implementation has been ad hoc and dependent on external donors. Without a robust, long-term investment in education, vocational training, and cooperative governance, local communities' risk being marginalized in development projects intended to empower them.

Policy Recommendations

To move beyond its over-reliance on temple-based tourism and position itself as a diversified, resilient, and experience-rich destination, Cambodia must adopt a coordinated yet flexible strategy that builds on existing strengths, empowers rural areas, and facilitates access to financing, markets, and institutional support. The following recommendations emphasize feasibility, local ownership, and implementation ease, drawing on lessons from ASEAN neighbors and Cambodia's recent policy initiatives.

23 James Whitehead, "Kep, the Next Big Tourism Destination in the Making," *Khmer Times,* December 25, 2023, https://www.khmertimeskh.com/501412151/kep-the-next-big-tourism-destination-in-the-making/

24 Chea Sokny, "Koh Tonsay Tourism Port 90% Complete: Kep Governor," *The Phnom Penh Post,* March 21, 2024, https://www.phnompenhpost.com/national/koh-tonsay-tourism-port-90-complete-kep-governor

25 Naret Heng, Soriya Yin, Chanrith Ngin, and Rido Thath, *Feasibility Study for Indigenous Tourism Project in Northeast Cambodia: Mondulkiri and Ratanakiri Provinces* (ResearchGate, January 2016), https://www.researchgate.net/profile/Chanrith-Ngin/publication/318768930_Feasibility_Study_on_Indigenous_Ecotourism_Development_in_Ratanakiri_and_Mondulkiri_Provinces/links/597ce873a6fdcc1a9ac5b5d3/Feasibility-Study-on-Indigenous-Ecotourism-Development-in-

1. Accelerate Digital Visibility and Market Access for Emerging Destinations

Despite growing investment in tourism infrastructure, many of Cambodia's eco-tourism sites, cultural villages, and community-based tourism (CBT) projects remain digitally invisible.

Actions:

- Establish a "Digital Tourism Accelerator" program that provides CBTs, homestays, and rural tourism operators with training, digital toolkits, and technical support to register on platforms like Booking.com, TripAdvisor, and Google Maps.
- Collaborate with ethical travel influencers, Khmer bloggers, and platforms like Klook and Intrepid Travel to promote regional circuits and lesser-known destinations.
- Partner with universities and youth groups to map and geotag CBT sites, with content available in multiple languages.

2. Simplify Access to Tourism Recovery Co-Financing Scheme (TRCS) for Rural Operators[26]

Small rural operators often face barriers to TRCS due to complex documentation and lack of collateral.

Actions:

- Create a dedicated micro-loan window within TRCS for rural tourism SMEs, offering loans under USD 10,000 with community asset-based guarantees (e.g., village trust groups or rotating savings).
- Develop a mobile-friendly loan application portal in Khmer and indigenous languages, integrating voice support, simplified forms, and NGO-assistance.
- Pilot the program in Mondulkiri, Kampong Thom, and Preah Vihear, expanding based on uptake, repayment rates, and satisfaction metrics.

3. Leverage Siem Reap as a Launchpad for Regional Tourism Circuits

Instead of replacing Angkor, Cambodia can use it as a hub to disperse tourists to other regions.

Actions:

- Design "Siem Reap +1" travel packages promoting 2-5 day trails to nearby provinces such as Battambang, Preah Vihear, and Kampong Thom.
- Launch shared shuttle services or tourism minivans with fixed schedules and multilingual guides to reduce travel friction.

26 Vanne Khut, "Recharging Cambodia's Tourism Sector," *ASEAN+3 Macroeconomic Research Office*, March 20, 2024, https://amro-asia.org/recharging-cambodias-tourism-sector

4. Promote Regional "Trails" and Multi-Day Thematic Itineraries

Connecting fragmented tourism offerings through thematic circuits can appeal to modern travelers.

Actions:

- Design and promote 3-5 day circuits, such as:
  - The Highland Nature Trail: Kratie-Mondulkiri-Ratanakiri
  - Sacred Cambodia Circuit: Angkor-Koh Ker-Preah Vihear
  - Coastal Wellness Route: Kep-Kampot-Rabbit Island
- Provide CBTs and small operators with standardized trail marketing kits, itinerary templates, and digital map tools.

5. Mainstream Community Protected Areas (CPAs) into Tourism Development[27]

CPAs offer untapped potential for sustainable tourism while supporting conservation and local empowerment.

Actions:

- Develop national CPA tourism guidelines in coordination with the Ministry of Environment and the Ministry of Tourism to clarify permissible activities and safeguards.
- Train CPA committees in tourism readiness, pricing, environmental protection, and basic hospitality.
- Formally integrate CPA-based tourism into provincial master plans in Kratie, Mondulkiri, and Koh Kong with zoning maps and conservation targets.

6. Promote Domestic Tourism Awareness and Access

Many Cambodian citizens, especially youth and urban families, remain unaware of accessible and meaningful domestic travel options.[28]

Actions:

- Develop a national "Travel Cambodia First" campaign highlighting community-based, eco, and cultural destinations in Khmer across TV, social media, and public schools.
- Offer seasonal fare discounts or tour vouchers in collaboration with bus companies and travel operators to promote domestic travel to provinces like Mondulkiri, Preah Vihear, and Kep.
- Integrate local tourism awareness into school curricula and university programs to cultivate national pride and encourage responsible travel.

27 *"Streamlining the Establishment of Community Protected Areas (CPAs) in Cambodia – Policy Brief," Mekong Region Land Governance*, October 2022, https://data.laos.opendevelopmentmekong.net/en/dataset/505e2319-d1ad-4532-9ff7-c6586aa365d4/resource/a5e97481-b0a7-4f80-89af-a34f094ed288/download/mrlg_policy-brief_october2022-number01.pdf

28 *"Cambodians Learning to Value Exploring Cambodia," Cambodianess,* October 8, 2020, https://www.cambodianess.com/article/cambodians-learning-to-value-exploring-cambodia

Conclusion

As global tourism rebounds, Cambodia stands at a crossroads. Continuing to rely on Angkor as the singular anchor of its tourism economy may provide short-term gains, but it risks long-term stagnation and vulnerability. Diversification must become more actionable and people-centered, supporting actors closest to the ground, from community cooperatives and rural businesses to local guides and youth entrepreneurs. This requires practical support in financing, digital visibility, training, and flexible administrative pathways. Rather than launching new initiatives, Cambodia should focus on making its existing strategies work better, connecting the dots between plans, platforms, and people to build a resilient and diversified tourism economy.


A factory inside SSEZ in Sihanoukville.
Photo: B2B Cambodia

Cambodia Plus Policy: Leveraging the China Plus One Strategy for Economic Diversification and Sustainable Industrial Growth

Sao Sovan Panha

EXECUTIVE SUMMARY

- Cambodia's economic growth remains constrained by over-reliance on low-value-added garment exports and a limited pool of investment partners, leaving the country highly vulnerable to external shocks. In an increasingly interdependent and uncertain global environment, the ongoing recalibration of supply chains, especially under the China Plus One (C+1) strategy, presents a critical and time-sensitive opportunity for Cambodia to reconfigure its economic model.
- Although national development plans articulate ambitious goals for structural transformation, tangible progress has been affected by internal challenges and external vulnerabilities.
- To address these challenges, this policy brief proposes the Cambodia Plus Policy (CPP), a forward-looking, multi-pronged policy framework designed to accelerate Cambodia's economic diversification and upgrade its position within regional value chains.
- The CPP focuses on four core pillars:
    - Cultivating higher-value-added sectors, particularly in electronics, agro-industrial processing, and sustainable manufacturing;
    - Reforming FDI governance through institutional innovations such as an Investment Intelligence Unit and Strategic Relocation Zones;
    - Enhancing human capital via Sectoral Talent Councils and industry-specific roadmaps; and
    - Diversifying diplomatic and economic partnerships.
- By aligning national priorities with global supply chain shifts and complementing existing government policies, the CPP aims to attract diversified investment, foster resilient and inclusive growth, and position Cambodia toward achieving high-income status by 2050.

Introduction

The global economy is now undergoing an unprecedented restructuring driven by a worldwide shift in supply chains. This realignment, termed the "China Plus One" (C+1) strategy, is not only an external phenomenon but also a domestic imperative for the recalibration of Cambodia's economic growth.

Despite decades of robust development, Cambodia's growth model remains vulnerable due to its heavy reliance on traditional partners and low-value-added garment exports. According to the World Bank's June 2025 Economic Update, post-pandemic Foreign Direct Investment (FDI) inflows have become increasingly concentrated in a few industries, namely garments, travel goods, and footwear, which together rose from 22.6% to 25.4% of the total real-sector FDI inflows in 2024. This trend demonstrates deepening economic concentration rather than diversification within the Garment, Textile, and Footwear (GTF) industry.

Similarly, Chinese FDI accounted for 65% of the total inflows in 2024, going up from 41.3% in 2019.[1] In addition, as of mid-2023, Cambodia had borrowed USD 3.96 billion out of a total foreign

1 Sodeth Ly and Ildrim Valley, Cambodia Economic Update: Navigating Uncertainty – Strengthening Revenues for Cambodia's Future (Washington, D.C.: World Bank Group, 2023), 11, p.11,http://documents.worldbank.org/curated/en/099060925065018354.

debt of USD 10.23 billion, most of it for infrastructure and national development projects.[2] While such investments are crucial, they raise concerns about debt sustainability, particularly amid global economic uncertainty.

Compounding these challenges, Cambodia is preparing to graduate from Least Developed Country (LDC) status in 2029, which will result in the loss of preferential trade benefits, including access to the International Support Measures (ISMs) such as trade preferences, concessional financing, and WTO's Special and Differential Treatment (SDT) provision. In anticipation, both the public and private sectors have proactively engaged to strengthen the economy to ensure a smooth and sustainable transition.[3]

Externally, the evolving global environment presents both challenges and opportunities. The C+1 strategy, which is the main focus of this paper, is propelled by a complex interplay of economic and geopolitical forces. Increasing production costs in China, stemming from soaring labor costs and stricter environmental regulations, are forcing multinational companies to look for new manufacturing bases.

At the same time, "de-risking" policies by major economies such as the European Union and the United States, coupled with China's domestic political tightening, have accelerated the relocation of supply chains. As a result, FDI into China went negative for the first time in decades, while Southeast Asia saw investment surged to a record USD 222.5 billion in 2022.[4]

Another component of this realignment is the evolving role of Chinese firms themselves. The C+1 strategy, formerly a private-sector response to geopolitical risks, has evolved into a geopolitical instrument. This "China Through One" phenomenon involves Chinese enterprises embedding their production bases across ASEAN nations. This phenomenon is illustrated by the sheer explosion of Chinese outward FDI into ASEAN manufacturing from USD12.5 billion in 2017 to USD 37.3 billion in 2023, which saw ASEAN's share of US imports increasing from 6.8% to 12.2% from 2017 to 2024.[5]

This dual nature of the C+1 strategy, Western companies looking for real diversification and Chinese companies pursuing trade obstruction, necessitates a sophisticated, multi-dimensional policy response from Cambodia. The country must position itself to appeal to both types of Western investors: those seeking to reallocate from China and those expanding through China.

Recognizing its limited fiscal capacity for large-scale public investment, Cambodia must rely on FDI as a key driver of development. As the nation strives to achieve upper-middle-income by 2030 and high-income by 2050, leveraging the opportunities offered by China Plus One strategy will be crucial to expanding its investment base, diversifying its economy, and accelerating sustainable industrial growth.

2 Chandarith Nheak and Chhay Lim, "Cambodia Recalibrates Its China Policy, Rather Than Realigns," The Interpreter (blog), Lowy Institute, April 29, 2025, https://www.lowyinstitute.org/the-interpreter/cambodia-recalibrates-its-china-policy-rather-realigns.

3 Rada Khoy, *Cambodia's Graduation from Least Developed Country (LDC) Status: Policy Brief*, based on reports by Sothea Oum and Bazlul Haque Khondker (Phnom Penh: United Nations Development Programme (UNDP), November 11, 2024), accessed June 22, 2025, https://www.undp.org/sites/g/files/zskgke326/files/2024-11/final_ldc-policy_brief.pdf.

4 Aya Adachi, "Economic Drivers of Diversification," Mercator Institute for China Studies (MERICS), January 17, 2024, https://merics.org/en/comment/economic-drivers-diversification.

5 Marcus Loh, "'China Plus One' Should Be a Strategic Win for America in Southeast Asia," The Diplomat (Opinion), April 2025, https://thediplomat.com/2025/04/china-plus-one-should-be-a-strategic-win-for-america-in-southeast-asia/.

Policy Implications

The global supply chain landscape is being reshaped at an unprecedented pace, and countries that act proactively will gain the most significant benefits. Southeast Asia, for example, has become a key battleground for redistributing FDI. Vietnam, in particular, has been a standout success, which attracted more than USD 36.61 billion in FDI in 2023, a tenfold comparison to Cambodia's FDI. Much of Vietnam's success stems from its strategic investment incentives, well-integrated Special Economic Zones (SEZs), and proactive industrial upgrading programs.[6]

By contrast, despite Cambodia's favorable geographic location, political stability, and investment potential, it continues to remain on the sidelines without a coherent national strategy to capitalize on this unprecedented global realignment. Consequently, the country risks falling behind regional peers in attracting high-quality investment. Thus, it is necessary that the proposed Cambodia Plus Policy (CPP) be implemented with urgency, supported by clear institutional leadership and a defined implementation timeline.

Assessing Cambodia's Preparedness and Competitive Landscape

A comprehensive evaluation of Cambodia's readiness to attract higher levels of investment requires a critical analysis of its current policy environment and competitiveness relative to regional peers.

At present, Cambodia lacks a formal and integrated strategy to capitalize on the ongoing supply chain diversification under the China Plus One (C+1) trend. Though national development plans, such as the Pentagonal Strategy (Phase I)[7] and the Industrial Development Policy (IDP 2015–2025)[8], outline ambitious goals for structural transformation and economic diversification, they fall short of leveraging the dynamics of the C+1 strategy or provide institutional mechanisms for real-time monitoring of global production shifts.

The IDP, for instance, aims to shift Cambodia's industry base from a labor-intensive to a skill-based manufacturing by 2025. However, what remains missing is a focused, and actionable framework that is designed to capture and respond to supply chain reallocation opportunities.

Additionally, Investment promotion efforts also remain moderate and generalized lacking sector-specific roadmaps that align with emerging relocation trends. Furthermore, the existing skills development frameworks and SEZ policies remain loosely connected to industry needs. As of 2024, Cambodia hosts 26 operational SEZs that provide a wide range of incentives.[9] Yet,

6 Ryo Ikebe, "Foreign Direct Investment and the Industrialisation of Viet Nam," in *Viet Nam 2045: Development Issues and Challenges*, ed. Fukunari Kimura et al. (Jakarta: Economic Research Institute for ASEAN and East Asia [ERIA], 2023), 123–151, https://www.eria.org/uploads/9_ch_5-FDI-and-Industrialisation-VietNam.pdf.

7 Royal Government of Cambodia, *Pentagonal Strategy – Phase I: The First Phase of the Rectangular Strategy for Growth, Employment, Equity and Efficiency Building the Foundation Toward Realizing Cambodia's Vision 2050* (Phnom Penh: Ministry of Foreign Affairs and International Cooperation, August 2023), https://www.mfaic.gov.kh/files/uploads/1XK1LW4MCTK9/EN%20PENTAGONAL%20STRATEGY%20-%20PHASE%20I.pdf.

8 Council for Development of Cambodia for the Royal Government of Cambodia, *Cambodia Industrial Development Policy 2015–2025: A National Policy Paper* (Phnom Penh: Council for Development of Cambodia, March 6, 2015), https://cdc.gov.kh/wp-content/uploads/2022/04/IDP-English.pdf.

9 Council for the Development of Cambodia, SEZ Smart Search [online tool] (Phnom Penh: Council for the Development of Cambodia), https://cdc.gov.kh/sez-smart-search/.

fragmentation, weak coordination, and inadequate investment aftercare have limited their effectiveness.[10]

This decoupling between policy design and implementation has resulted in institutional inefficiency, which weakens Cambodia's competitive edge and deter potential investors. To remain competitive, Cambodia must strengthen its investment governance, ensure policy coherence across ministries and agencies, and integrate data-driven decision-making to monitor regional trends in real time.

A Strategic SWOT Analysis

Cambodia, while endowed with certain advantages, remains insufficiently prepared to attract and retain firms who seek to diversify their operations under the C+1 strategy. The country's competitiveness is shaped by both intrinsic advantages and persistent structural weaknesses that must be addressed through targeted reforms.

A strategic SWOT analysis reveals the current landscape:

Strengths	**Weaknesses**
Low labor costs, proximity to Vietnam/ Thailand, China	Limited value chain integration, logistics inefficiencies
ASEAN & RCEP membership, Investment law reform	SEZ policy, and weak investor aftercare
Political stability and open FDI regime	No targeted investment relocation strategy
	Skills gap
Opportunities	**Threats**
China Plus One FDI shifts	Losing out to ASEAN peers
Green manufacturing, agro-industrial transformation	ESG is still new concept
Cross-border SEZs and value chains	Geopolitical squeeze between China and the West, US

Strengths

Cambodia has several comparative advantages, including competitive labor costs, strategic geographic location, and strong engagements in regional and bilateral trade frameworks, and a stable political environment. These attributes collectively provide a foundation for industrial growth and integration into regional production networks.

Weaknesses

Despite these advantages, Cambodia faces significant internal bottlenecks that undermine its attractiveness to global investors. The most pressing challenges include limited value chain integration and logistics inefficiencies, which hinder competitiveness. The the Cambodian Transit

10 Ayman Falak Medina, "Cambodia's Special Economic Zones: A Guide for Foreign Investors," *ASEAN Briefing*, April 8, 2025, accessed June 22, 2025, https://www.aseanbriefing.com/news/cambodias-special-economic-zones-a-guide-for-foreign-investors/.

and Logistics System (CITLS) Master Plan 2023-2033[11] outlines ambitious plans to overhaul the country's transport infrastructure. However, logistics costs remain prohibitively high, 26% of the country's GDP compared to 14% in Thailand and 20% in Vietnam.[12] In addition, according to the World Bank's 2023 Logistics Performance Index[13] Cambodia ranks 115th among 138 countries, with a score of 2.4, far behind its regional neighbors. This reflects structural weaknesses in customs procedures, transport infrastructure, and supply chain coordination.

Moreover, weak linkages between domestic SMEs and foreign companies result in limited technology transfer and skill upgrading. Local enterprises often operate in isolation, lacking access to information, markets, and collaborative networks, which restricts Cambodia's role to that of a low-cost assembly base rather than an integrated value chain participant.[14]

Opportunities

The global realignment of supply chains, driven by geopolitical tensions and efforts by firms to de-risk from China, presents Cambodia with a strategic opening to reposition its economy. The country's integration within ASEAN, its participation in regional trade pacts, and its improving investment climate could be leveraged to attract both Western firms seeking diversification and Chinese firms expanding regionally.

Furthermore, Cambodia can draw lessons from its regional peers. Vietnam has successfully captured C+1 investment through selective incentives, SEZs, and industrial upgrading. In 2023, Vietnam attracted USD 36.6 billion in FDI, nearly ten times Cambodia's figure. Likewise, Indonesia has diversified its economy through downstream industrialization, notably in nickel processing for electric vehicle (EV) batteries, and fostered its digital economy with tax holidays and simplified permit systems within SEZs.

Threats

The shifting global supply chain is deeply intertwined with geopolitical tensions, particularly between the US and China.[5] While ASEAN has benefited from the relocation of investment, emerging risks such as reciprocal tariffs and geopolitical polarization have posted challenges. For Cambodia, its close relationship with China requires careful management of perceptions and strategic balance to avoid being viewed as overly dependent on a single partner.

Another emerging threat lies in the Environmental, Social, and Governance (ESG) domain. Cambodia currently lacks comprehensive legal frameworks and standardized guidelines for ESG performance, reporting, assessment, and rating.[15] As global investors, especially in

11 General Department of Logistics, Ministry of Public Works and Transport, *Comprehensive Master Plan on Cambodia Intermodal Transport and Logistics System 2023–2033*, (Phnom Penh: Ministry of Public Works and Transport, August,2023), https://logistics.gov.kh/en/documents/other/CITLS_2023-2033-EN.

12 World Bank, *Additional Financing to Road Connectivity Improvement Project (P181396): Project Information Document (PID)*, Report No. PIDA36868, Appraisal Stage (Washington, D.C.: World Bank, December 18, 2023),p.3, https://documents1.worldbank.org/curated/en/099121823033047720/pdf/P18139609be42b060886805ff4a6d4ec16.pdf.

13 World Bank. "Cambodia." In *Logistics Performance Index (LPI)*. Washington, D.C.: World Bank, 2023. Accessed June 22, 2025. https://lpi.worldbank.org/international/global.

14 Cambodia Development Resource Institute (CDRI), *Cambodia's New Growth Strategy: An Assessment of Medium and Long-Term Growth for Resilient, Inclusive, and Sustainable Development* (Phnom Penh: CDRI, February, 2025), https://www.cdri.org.kh/storage/pdf/Book_New%20Growth%20Strategy10Apr_1745562714.pdf.

15 Dr. Sao Socheata, *ESG, Legal Framework, and Incentives in Cambodia*, presentation to the Multi-Stakeholder Dialogue on ESG Reporting for Sustainable Development (Phnom Penh: Open Development Cambodia, August 8, 2024), https://data.opendevelopmentcambodia.net/km/dataset/918fcbb5-1263-48b9-b48a-fbd7dd0d4f89/resource/5ac1b1ea-82f2-4ba2-ae3a-7413e648e534/download/dr.-sao-socheata_odc-multistakeholder-dialogue_08082024.pdf.

Europe, become increasingly intolerant of ESG violations, this gap could undermine Cambodia's integration into global value chains unless addressed through policy reform and institutional strengthening.

Policy Recommendations

This brief proposes a flagship policy, the Cambodia Plus Policy (CPP), a national, inter-ministerial program aimed at positioning Cambodia strategically within the "China Plus One" global value chain landscape.

The CPP focuses on four core pillars: (1) cultivating higher-value-added sectors, particularly in electronics, agro-industrial processing, and sustainable manufacturing; (2) reforming FDI governance through institutional innovations such as an Investment Intelligence Unit and Strategic Relocation Zones; (3) enhancing human capital via Sectoral Talent Councils and industry-specific roadmaps; and (4) diversifying diplomatic and economic partnerships to expand market access and strategic resilience.

Key Components of the CPP:

1. Investment Intelligence Unit (IIU)

Under the Council for the Development of Cambodia (CDC), the IIU will examine global relocation trends, analyze competitor strategies like Vietnam's PLI, and monitor sectoral FDI flows linked to China Plus One. As an analytical hub, it will evaluate market risks, identify high-potential sectors and firms, and assist with location decisions based on regulations, workforce skills, and supply chain dynamics, resulting in smart focused investment outreach.

2. Strategic Relocation Zones (SRZs)

SEZs will create sector-specific ecosystems for electronics, agro-processing, and green manufacturing in strategically located corridors like Phnom Penh, Bavet, and Sihanoukville. Moving beyond present incentives, SRZs will provide specialized, based packages that include critical infrastructure (logistics, energy, and digital connectivity), helping to create competitive, investment-ready ecosystems.

3. Sectoral Talent Councils (STCs)

STCs will connect TVET and university curricula with the evolving needs of Cambodia's CPP sectors. They will contribute to the development of a labor force suitable for high-value added sectors by addressing significant skill gaps. Their responsibilities include conducting curriculum audits, fostering industry-academia collaboration, and utilizing technology to keep track of labor market developments and skills in demand.

Sector-Specific Investment Roadmaps

1. Electronics & Light Engineering

CPP will target mid-tier component assembly firms and help them with specific incentives like customs rebates, establishing IP-protected zones, and encouraging collaborative ventures. The adapting elements of India's successful Production Linked Incentive (PLI) Scheme (the framework for how transforming India into a net exporter of mobile phones and boosting FDI)[16], will be used for this sector roadmap by implementing the turnover-linked incentives for sub-assemblies, bare components, and capital expenditure incentives to support broader supply chain ecosystems.

2. Agro-Industrial Upgrading

Developing regional agro-processing clusters connected with SRZs and key export logistics corridors. To improve competitiveness and fulfill international food safety standards, proposed measures include establishing robust traceability systems like blockchain-based platforms, to ensure transparency and compliance with EU/US requirements. Additional goals include investing in cold-chain infrastructure and leveraging digital platforms such as TraceX to consolidate product data, automate compliance, and provide real-time traceability, thereby speeding up reporting processes and increasing buyer confidence.

3. Sustainable Manufacturing & Circular Economy

Launching a national "Green Investment Protocol" to certify and promote ESG-compliant investors, offering priority processing and extended incentives. Pilot "Net-Zero Industrial Parks" supported by development partners like the ADB, IFC, or other NGOs/IGOs to work on renewable energy integration and zero-waste SEZ models. Moreover, Blockchain technology can further enhance transparency by tracking carbon footprints and improving calculation accuracy for digital low-carbon management platforms.

Institutional and Regulatory Enablers

1. High-Level National CPP Councils

The councils will work to enhance best practices among high-level governments to define success through strategic planning, priority goal setting, and focusing on a limited number of priority goals. Key Performance Indicators (KPIs) for the CPP must be integrated into the National Strategic Development Plan (NSDP), Ministry of Economy and Finance (MEF) budgeting, and National Investment Facilitation (SNIF) targets to ensure accountability and resource allocation.

2. Add Detail on Investment Law Phase II[17]

Phase II of investment law implementation should define the roles and responsibilities of the CDC, provincial investment bodies, and SRZ authorities, which is important to simplify procedures and reduce bureaucratic hurdles for investment facilitation best practices. This helps to improve the investment climates.

3. FDI Performance Contracts

Linking Incentives to measurable outcomes to ensure that investment incentives translate into tangible benefits for Cambodia. The CPP proposes introducing mandatory legal agreements, or FDI performance contracts, that tie incentives (e.g., tax holidays) to concrete, measurable outcomes. These mean that it develops a tiered incentive structure that rewards not just the volume of investment, but also the level of value addition, technology transfer, and backward/

16 Government of India, Prime Minister's Office, "Cabinet Approves Electronics Component Manufacturing Scheme for Making India Atmanirbhar in Electronics Supply Chain," PMIndia.gov.in, March 28, 2025, accessed June 22, 2025, https://www.pmindia.gov.in/en/news_updates/cabinet-approves-electronics-component-manufacturing-scheme-for-making-india-atmanirbhar-in-electronics-supply-chain/.

17 Royal Government of Cambodia, *Law on Investment of the Kingdom of Cambodia*, Royal Kram No. NS/RKM/1021/014 (Phnom Penh: Council for the Development of Cambodia, December 13, 2021), https://cdc.gov.kh/wp-content/uploads/2022/04/LOI_English-Updated-13Dec21.pdf.

forward linkages within Cambodia, which move beyond simple tax holidays to performance-based incentives that encourage specific manufacturing processes, R&D, and local content development, thereby maximizing the economic impact.

Infrastructure and Digital Enablers

1. Prioritizing Logistics Corridors "The Sihanoukville – Phnom Penh – Bavet Axis"

Incorporating the development of intermodal terminals and bonded warehouses into the Industrial Transformation Master Plan (CIT-MP) and Cambodia Industrial and Trade Logistics Strategy (CITLS). Tax benefits and expedited customs processes should be part of this integration, and backed by performance-based incentives. Adopting models like Vietnam's bonded warehouse system,[18] can improve supply chain efficiency and lower trade costs for Cambodia.

2. Digitizing Investor Services "A Unified CPP E-Portal"

Expanding the Single Portal into a fully integrated CPP e-portal that digitizes the entire investment lifecycle including customs, permits, licensing, and compliance. One-time document submissions, consolidated online payments, and real-time application monitoring across all prominent agencies will all be put on this platform. This extension helps to improve transparency, cut down on processing times, and save administrative expenses by building on the current Online Business Registration System (OBRS) system.

3. Leveraging Technology for Efficiency "Smart SEZs"

To address Cambodia's infrastructure and administrative challenges, "Smart SEZs" are piloted in key corridors that integrate reliable utilities, cutting-edge 5G connectivity, and IoD-enabled technologies for logistics, water, and energy management, all integrated into those areas. Doing so helps to expedite procedures, cut down on delays, and improve transparency when combined with a fully integrated digital single-window platform for permits, compliance, and customs.

Strategic Diplomacy and Risk Mitigation

The following table summarizes risks and proposed responses:

Risks	Proposed Response
Losing out to ASEAN peers	Implement proactive, targeted CPP with performance-based incentives
Lack of comprehensive legal requirements or guidance on ESG could affect Cambodia future Global Value Chains	Launch national Green Investment Protocol; Pilot Net-Zero Industry Parks; strengthen ESG regulatory framework and enforcement
Geopolitical squeeze between major power, global uncertainty	Diversify diplomatic and economic partnerships.

In response to growing geopolitical squeeze and global uncertainty, Cambodia should leverage its bilateral and regional Free Trade Agreement Agreements (FTAs), including the Regional Comprehensive Economic Partnership (RCEP) and ASEAN Plus frameworks, to facilitate market access and diversify its trade partnerships across the ASEAN region.

18 Vietnam Post Logistics, "Navigating Vietnam's Bonded Warehouse Procedures in 2025," June 4, 2025, https://vietnampostlogistics.com/en/navigating-vietnams-bonded-warehouse-procedures-in-2025/.

Conclusion

The China Plus One opportunity is not a permanent phenomenon. It will be fully absorbed only by countries that act swiftly, coordinate effectively, and systematically build productive industrial ecosystems. The proposed Cambodia Plus Policy (CPP) aligns global FDI realignments with Cambodia's vital domestic development priorities, proposes innovative institutional mechanisms, and integrates green growth with industrial upgrading. Cambodia's next phase of growth must be strategic, deliberate, and forward-looking. By implementing the CPP in synergy with existing national policies, Cambodia can secure a diversified, resilient, and sustainable path to prosperity for the next generation.

Ariel view of container terminal of Sihanoukville Autonomous Port.
Photo: Shutterstock

Towards A Resilient and Inclusive Economic Growth: The Importance of Intra-sectoral Diversification

Touch Sou Hong

EXECUTIVE SUMMARY

- For two decades, Cambodia has achieved rapid economic growth driven by structural transformation shifts from agriculture to low-skilled manufacturing and services.
- However, with limited ability to leap across the product space and expand the industrial portfolio across sectors, the initial phase of structural transformation is showing signs of exhaustion.
- With the looming LDC graduation in 2029, Cambodia must be strategic in investing in economic diversification pathways that will make its trade composition resilient to market competition and the loss of preferential trade agreements - that is by intra-sectoral diversification.
- This policy brief highlights the importance of intra-sectoral diversification for a complex, resilient and inclusive economy where productivity in manufacturing is knowledge-based, and high job-creation industries like agriculture will bring inclusive growth for domestic producers.
- This policy brief uses the product space and economic complexity index to analyze Cambodia's current productive capabilities and highlights the strategic investment approach - short and medium-term investment - to venture to higher-complex and value-added sub-industries in manufacturing and agriculture.
- Despite the benefits of intra-sectoral diversification, limitations persist such as weak competition in the business environment and the lack of knowhow.
- Policy recommendation calls for government incentives and support to: 1) upscale the 'one-roof' service to formalize and commercialize Cambodia's business environment and 2) promote strategic linkages between foreign and domestic firms. Streamlining business registration and conduct will make the business environment accessible to newcomers especially start-ups, pioneer entrepreneurs, and foreign investors. Having more firms participate in industries also widen the pool of skill sets, allow more room for growth, and provide more options for linkages between foreign and domestic firms.
- Furthermore, promoting linkages between foreign and domestic firms through inter-firm relations in the supply chain will enable the transfer of foreign technology that is part of the global production network, as well as the acquisitions and improvement of modern technical and operational capabilities.

Introduction

Cambodia's economic growth over the past two decades has been largely driven by structural transformation from agriculture-based economy to manufacturing and services. This shift enables the country to benefit from inter-sectoral diversification across agriculture, garment, tourism, construction, and more recently the Electrical and Electronics (E&E) sector. However, these sectors are low-complex assembly-based, are reliant on imported components, and constrained by gaps in know-how and competitiveness. While this limited diversification has not significantly affected the economy, it does not guarantee that the growth will remain inclusive and sustainable, particularly as the traditional structural transformation has been exhausted and affected by Cambodia's expected graduation from the "Least Developed Country" (LDC) status in 2029.

Cambodia's graduation represents an important milestone in socio-economic development, but it also brings new challenges. The country may face the loss of preferential trade agreements, stringent trade rules, specifically the rules of origin, and reduced access to Official Development Assistance (ODA).[1] In preparation for the risks, Cambodia must strategically invest in economic diversification that enhances and expands the complexity and competitiveness of its trade composition, even in the absence of trade preferences. Achieving this will require a shift from inter-sectoral diversification toward intra-sectoral diversification.

This policy brief underscores the importance of intra-sectoral diversification for enhancing Cambodia's competitiveness and building a resilient economic growth. Specifically, this paper will 1) address the exhaustion of inter-sectoral diversification; 2) apply the product space analysis to identify opportunities available to diversify the product mix and export basket; 3) analyze pathways and limitations for intra-sectoral diversification; and 4) provide policy recommendations.

Scope of Problem

Exhaustion of the Initial Phase of Structural Transformation

Over the past two decades, Cambodia's economy has seen improvements in productivity from structural transformation, characterized by inter-sectoral shifts of employment from agriculture to low-skilled jobs in manufacturing and services.[2] However, there are clear indicators that this initial phase of transformation is reaching exhaustion, as reflected in low productivity.[3] Two signs highlight this challenge:

1. Changes in sectoral contribution to GDP growth are disproportionate to sectoral employment shares and long work hours at low productivity. The first sign is most evident in the agriculture sector. According to figure 1 and 2, in 2021 the sector employs 36% of the labor force while its contribution to the GDP growth is less than 1% (GDP shares is 24.4% of the entire economy), this is a dramatic contrast to the manufacturing sector which employs almost 20% less and has a greater contribution to GDP growth of an average 3%.

2. The average workday in Cambodia is eight hours while the average value of goods and services produced by each hour of labor remains below USD 4 by 2023.[4] This indicates that most goods and services are low-complex and nascent in the global value chain.

The initial phase of transformation has centered on four main sectors to which the country's export basket is dominated by garment and rising electronics manufacturing, agriculture, tourism,

1 Neth Kosalthanan, *Navigating Uncertainty: How Cambodia Can Hedge Against Post-LDC Vulnerabilities*, Working Paper No. 1. China-ASEAN Studies Centre, May 2025, https://camtech.edu.kh/wp-content/uploads/2025/05/Formatted_NAVIGATING_UNCERTAINTY_LDC_Graduation_Kosalthanan_Neth.pdf

2 Inter-sectoral diversification also means the diversifying horizontally to the production of higher-value goods.

3 Productivity means the amount of goods is produced per worker within the given means of production. Thus, in this policy brief, productivity encapsulates both the output of goods and the efficiency of the tools and infrastructure available to produce those goods.

4 Our World in Data, "Productivity: output per hour worked," November 2022, https://ourworldindata.org/grapher/labor-productivity-per-hour-pennworldtable?tab=chart&country=~KHM&tableFilter=selection

and construction.[5] Tourism is highly vulnerable to external shocks as the COVID-19 pandemic demonstrated. Construction and real estate rely heavily on foreign investment and are prone to the boom-and-bust cycles, exemplified by the Sihanoukville real estate collapse in 2019. Garment manufacturing, which accounted for 42% of exports in 2022, is dominated by large firms, most of which are foreign-owned.[6] This growth pattern is neither resilient nor inclusive[7], and paired with low productivity as was mentioned previously, future growth will have to depend on a new phase of structural transformation through intra-sectoral diversification.

( )= Negative, GDP = Gross Domestic Product
Figure 1. Sectoral Contributions to GDP Growth (% year on year)
Source: Asian Development Bank estimates.

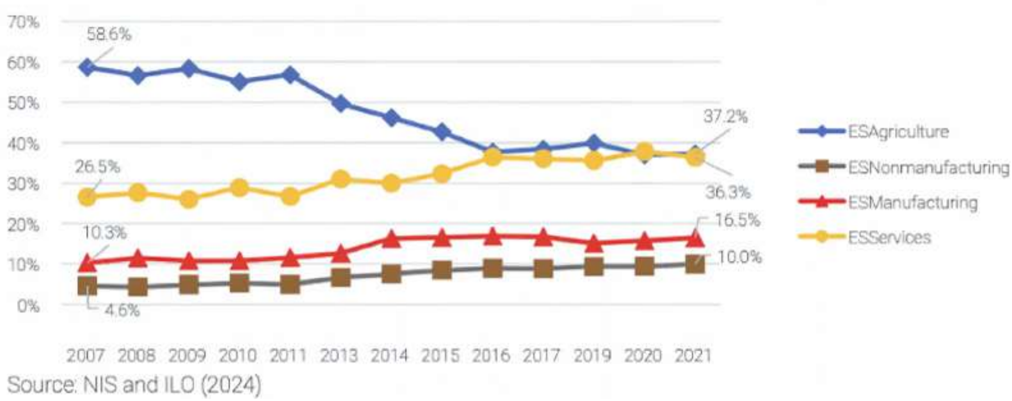


Figure 2. Employment share by sector (% total employment)

5 Cambodia Development Resource Institute, *Cambodia's New Growth Strategy: An Assessment of Medium and Long-Term Growth for Resilient, Inclusive, and Sustainable Development* (Phnom Penh: Cambodia Development Resource Institute, February 2025), https://www.cdri.org.kh/storage/pdf/Book_New%20Growth%20Strategy10Apr_1745562714.pdf

6 Ibid.

7 Inclusive growth must generate decent and sustainable jobs in manufacturing and services while also providing fair and sustainable returns for the self-employed in micro, small, and medium-sized enterprises across sectors.

Implications of Strict Trade Regulation on Inter-Sectoral Diversification

Cambodia has gained a lot of trade benefits during its times as an LDC country, notably under the WTO framework for Preferential Market Access and unilateral trade preferences, in particular the General System of Preference (GSP) provided by the US and the Everything But Arms (EBA) provided by the European Union. These trade-related support measures allowed the country's exports, particularly in agriculture and manufacturing, to remain competitive due to low labor costs and lenient trade requirements. Moreover, these measures allowed the country to enjoy inflows of foreign direct investment which enabled horizontal shifts toward higher-value production, as seen in the emerging Electronics and Electrical (E&E) sector.

However, Cambodia's expected graduation from LDC status brings new challenges. Cambodia's post-graduation products may face higher tariff rates, stringent rules of origin, and increased market competition, all of which could reduce the competitiveness of its manufacturing and agriculture sectors.

The potential impacts of these changes vary by diversification pathways. Although tariffs may reduce demand for high-value goods produced in the country, it does not necessarily prevent foreign firms from investing in high-value production such as vehicle assembly, solar panels, or goods of the E&E sector. In contrast, stringent rules of origin can result in complete market obstruction for high-value products,[8] especially the implications from the preferential rules of origin, and in turn affect the inflow of capital going into nascent albeit promising sectors. The preferential rules of origin determine whether the exported merchandise is entirely or largely produced in the exporting country without using non-originating primary components or materials, or whether the goods uses non-originating materials but a significant share of production is done in the exporting country.[9] In the current business climate, Cambodia still faces limitations in supplying domestically-sourced primary components to manufacture higher-value goods[10] which makes higher-value sectors reliant on stable imports and vulnerable to trade regulations - that is, the criteria of the preferential rules of origin.

In this context, Cambodia must not let its ambition of climbing the global value chain for faster structural transformation hinder economic growth in the short and medium terms, especially for high job-creation sectors like agriculture and manufacturing. Therefore, Cambodia must also actualize the importance and realistic growth spaces for intra-sectoral diversification by up-scaling production and specialization in better preparation for its LDC graduation.

Current Economic Diversification Landscape

Choosing the right products for diversification is inherently risky, especially in an uncertain global trading environment. Therefore, Cambodia's diversification strategy should adopt a "hanging-fruit" approach in which adding new sectors to the product space portfolio must be done by adapting existing knowhows, capabilities, and comparative advantage.

8 Paras Kharel, Kshitiz Dahal, and Nyingtob Pema Norbu, "Non-Tariff Measures in the Context of LDC Graduation: Cambodia, Lao PDR and Timor-Leste," CSS Working Paper No. 24-5, United Nations Economic and Social Commission for Asia and the Pacific (September 2024), https://www.unescap.org/sites/default/d8files/event-documents/ESCAP-2024-WP-Non-tariff-measures-context-LDC-graduation.pdf

9 Ibid.

10 Open Development Cambodia, "Imports," August 2021, https://opendevelopmentcambodia.net/en/topics/imports/#:~:text=Textiles,the%20Chinese%20Embassy%20in%20Cambodia

Product Space Analysis

The product space analysis is used to identify feasible diversification pathways for Cambodia in the short, medium, and long term. It illustrates how vertical shifts along the value chain within sectors can improve productivity and enhance economic complexity.[11] Therefore, this section evaluates Cambodia's productive knowledge[12] using the Economic Complexity Index (ECI) and maps the current export basket to highlight potential diversification opportunities.

As of 2023, Cambodia's ECI stands at -0.33, ranking 80th most complex country.[13] This indicates two things: firstly, Cambodia's exports are concentrated in a few low-complexity products that are situated in the periphery of the product space, are weakly connected to other sectors, and are not unique to the country despite comparative advantages; and secondly, Cambodia's persistently low ECI suggests that the country has not developed sufficient capabilities[14] to expand and sustain production into the higher-value sectors or sophisticated services. As such, Cambodia's productive knowledge and productivity remains low.

The product space is a visual representation of a country's exported goods, but not services, and the similarities the products have with one another are based on the capabilities and knowledge needed to produce them. So the product space is used to visualize potential products for export based on the idea that products requiring similar capabilities can be exported together whether in the same or different product areas.[15] According to figure 3, Cambodia's current export basket reflects the dominance of low-complex goods in the agriculture sector, followed by a saturated value-added but assembling-based garment products and intermediate goods in the periphery areas of the agriculture, construction, metalworking and machinery, and electronics sector of the product space. Although there are many sectoral shares of the trade composition, the global market share of each sector still faces the issue of over-saturation (garment), stagnation (electronics), and decline (agriculture).

The product space can be divided into three sections based on connectivity and complexity: the right-hand side of the space is sparsely populated, less connected areas with low product complexity; the center has more connected areas with products of higher complexity and value-added in which production requires the use of other materials and goods; and lastly, the left-hand side is the dense part of the product space that generally have high-complex products with higher-values.

Given Cambodia's low ECI, the country can engage in the manufacturing of high value addition goods by upscaling production toward the central region - that is, manufacturing products with similar capabilities to current export products categorized within the agriculture and electronics goods with high opportunity gains and medium complexity.

11 Jayant Menon, *"Structural Transformation and Inclusive Growth in Cambodia: Country Diagnostic and Product Space Analyses,"* ISEAS – Yusof Ishak Institute (October 2024), https://www.iseas.edu.sg/wp-content/uploads/2024/09/ISEAS_EWP_2024-2_Menon.pdf

12 Productive knowledge refers to the role of innovation, information, technology, and learning as drivers of labor productivity or the efficient creation of goods and services to drive economic growth.

13 The Atlas of Economic Complexity, "Economic Complexity Index Data," Harvard Growth Lab, https://atlas.hks.harvard.edu/countries/116

14 Capabilities are skills, knowhows, and physical attributes that countries can pair with complementary skills and inputs to produce complex products of value-added or higher-value.

15 Jayant Menon, *"Structural Transformation and Inclusive Growth in Cambodia: Country Diagnostic and Product Space Analyses,"* ISEAS – Yusof Ishak Institute, October 2024, https://www.iseas.edu.sg/wp-content/uploads/2024/09/ISEAS_EWP_2024-2_Menon.pdf

Cambodia needs to diversify its export mix by expanding investment into products that have high opportunity gain of medium to high complexity and requires capabilities that are relatively close to the existing knowhows. Thus, future investment plans can be mapped out in the short, medium, and long term. In the short term, investment should expand into nearby products within the same product group that are of medium complexity, value-added, and can be used as primary components to produce existing products. This would be moving agricultural production up the value chain, from raw agricultural commodities to agro-processing. Although this short-term investment will bring modest improvement to the product basket but will remain insufficient to accelerate structural transformation. On the other hand, moving towards the central area of the product space is a viable investment for the medium term as it supports the accumulation of existing and new knowhows to further expand production into the higher-value left-hand side in the future. An example of this would be aggregating assembling-based knowhows from the textile and garment sectors to the construction and electronics sectors. Finally, long-term investment is moving production to far-away products on the left-hand side of the product space. This will ensure sufficient spillover to the economy to accelerate structural transformation, not only intra-sectoral but inter-sectoral diversification as well.

Given current capabilities, Cambodia's immediate focus should be on short- and medium-term investment, which emphasizes intra-sectoral specialization, upskilling, and adoption of knowhows in emerging sectors. This approach maximizes feasible gains while laying the foundation for future high-value expansion.

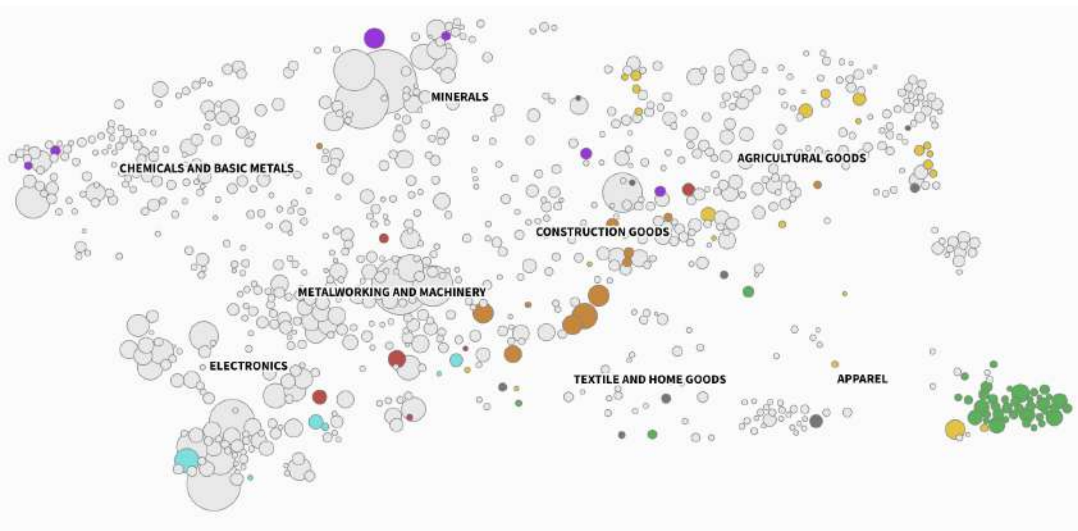


Figure 3. Cambodia Product Space, 2023
Source: The Atlas of Economic Complexity Database

Notes: Each node is a product and the size is determined by its shares in global export. The proximity of the nodes represent the similar capabilities that each node has to others in the same or different category of goods. The colored nodes represent high export and grey nodes represent low or no export.

Intra-Sectoral Diversification: Pathways and Benefits

Intra-sectoral diversification means within-sector specialization and upgrading in which there is a reallocation of factors and adaptation of existing knowhow to produce value-added goods within existing and emerging supply chains.[16]Although intra-sectoral diversification identifies potential areas for investment based on the products' relative closeness to current capabilities, despite the minimal spillover benefits, producing and processing these products can equip firms with complementary capabilities to expand to products with greater potential.

Identified products for intra-sectoral diversification are based on products with high opportunity gain but remain within the average distance of existing capabilities. Therefore, the best strategic approach rests in transitioning from agriculture to agro-processing using the low-hanging fruit strategy and diversifying into the sub-sectors of the manufacturing sector through the transfer of knowhow.[17]

1. Primary Farming to Agro-Processing

Despite fluctuation in the agriculture sector, it remains a dominant sector that employs a large proportion of the labor force. Therefore, the most suitable strategy to support rural-economy is to adopt the low-hanging fruit approach to move from primary agriculture production to agro-processing. The low-hanging fruit approach is an investment path that leverages Cambodia's existing agriculture know-how and inputs to develop value-added goods.

Identified products for agro-processing includes processed cereal products, ready-to-eat products, food preparation, beverages, tobacco, and advanced farming for processed animal products.[18] Besides producing agro-processed goods for immediate benefits such as broader market outreach, sales, and consumption, diversification into agro-processing can help firms, investors, and entrepreneurs to actualize the forward linkage between agro-processing and the chemical and construction sectors given that inputs derived from agriculture can be modified into chemical products like cosmetics, cleaning products, and medicaments, as well as into construction goods such as paper and plastic products and wood buildings for carpentry.[19]

2. From Assembly to Components Production in the E&E Sector

Expanding manufacturing by diversifying into high-performing sub-industries that can generate strong productivity gains, is located close to the relatedness of Cambodia's productive capabilities, and have competitive advantage (i.e., young workforce, pro-reform government, low-labor costs, and non-saturated market) is a medium-term investment that will naturally evolve into long-term growth.

16 Ngov Penghuy and Cheng Savuth. "Structural Transformation and Economic Growth in Cambodia." *Cambodia's New Growth Strategy: An Assessment of Medium and Long-term Growth for Resilient, Inclusive, and Sustainable Development. Background Paper No. 02*. Cambodia Development Resource Institute. February 2025. https://cdri.org.kh/storage/pdf/BP02_Structural%20Transformation_1740978403.pdf

17 The Atlas of Economic Complexity, "Potential Growth Opportunities," Harvard Growth Lab, https://atlas.hks.harvard.edu/countries/116/growth-opportunities

18 Jayant Menon, "Structural Transformation and Inclusive Growth in Cambodia: Country Diagnostic and Product Space Analyses," ISEAS – Yusof Ishak Institute (October 2024), https://www.iseas.edu.sg/wp-content/uploads/2024/09/ISEAS_EWP_2024-2_Menon.pdf

19 Kelly Wyett, *Cambodia Economic Diversification Pathways*, Background Paper No. 08, Cambodia Development Resource Institute, February 2025, https://cdri.org.kh/storage/pdf/BP08%20Eco%20diversification_1745563999.pdf

RMA Cambodia Inaugurates New Ford Automotive Assembly Plant in Pursat, presided over by Prime Minister Hun Manet.
Photo: RMA Cambodia

According to Cambodia's Automotive and Electronics Sectors Development Roadmap, the vision for Cambodia is to become a components manufacturing hub with a resilient domestic supply-chain for assembly-based production in the medium term into high-complex novel production in the long-term - with the ultimate goal of increasing the share of local content in the production chain and inclusive benefits in the economic growth pattern.[20]This diversification should manifest in the form of commercial technology transfer through licensing and FDI from transnational corporations (TNCs) and foreign firms in the electronics sector to encourage positive knowledge spillover of foreign technology.[21]Facilitating cooperation between local firms and TNCs or foreign firms through licensing technology knowledge can help local manufacturers acquire the skills and knowledge needed to operate and manage production facilities, and to innovate beyond assembling primary and intermediate components.

Limitations to Intra-Sectoral Diversification

To actualize the highlighted pathways for diversification, two main constraints must be addressed: weak business competition amongst domestic agro-businesses and the lack of knowhow.[22] Weak competition amongst domestic agro-businesses refers to the inability of local producers to meet market demands due to limited input and costly output of goods, as well as an unfavorable business environment due to procedural and logistical barriers. Despite Cambodia being an agrarian country with sufficient raw agriculture commodities to support agro-processing, the

20 The Council for the Development of Cambodia, *Cambodia Automotive and Electronics Sectors Development Roadmap* (Phnom Penh: Council for the Development of Cambodia, December 2022), https://cdc.gov.kh/wp-content/uploads/2023/04/ENG_Auto__Electronics_Roadmap.pdf

21 United Nations Conference on Trade and Development, *Transfer of Technology for Successful Integration into the Global Economy*: *A Case Study of the Electronics Industry in Thailand* (Geneva: United Nations Conference on Trade and Development, 2005), https://unctad.org/system/files/official-document/iteipc20056_en.pdf

22 Kelly Wyett, *Cambodia Economic Diversification Pathways*, Background Paper No. 08, Cambodia Development Resource Institute, February 2025, https://cdri.org.kh/storage/pdf/BP08%20Eco%20diversification_1745563999.pdf

problem of insufficient low-complex agricultural goods is one of the problems domestic agro-processing enterprises face. A large quantity of raw agricultural commodities is exported to neighboring countries with more competitive processing capacity and can purchase a larger quantity at a better price from Cambodian farmers. In turn, local processing businesses have fewer goods to process which limits their production output. As a result, domestic agro-processed goods are more expensive compared to imports which makes agro-processing a less attractive sub-sector for investors to venture into.

Furthermore, unfavorable business environments such as the lengthy and complex bureaucratic process for business registration and operation, unsystematic export procedural requirements, ambiguous tax obligations, informal expenditures for trade facilitation through border checkpoints, and weak logistical competencies are burdens for start-ups and foreign investors.[23]

For Cambodia to adapt and modify productive knowledge to expand its economy beyond assembly, the country must address the constraints that impede the spillovers of knowledge and the inability to accumulate new knowhow.

Two constraints are highlighted: The skill gaps which limit the emergence of new industrial portfolios and the lack of technology and productive spillovers between outsourcing foreign firms to domestic manufacturers.[24]

Despite having attracted many FDI over the last two decades, Cambodia faces the problem of FDI clusters in few robust industries with visible comparative advantage and fast less-risky returns such as real-estate, financial sector, and garment.[25] With investment going into low-tech manufacturing with minimal opportunities for industrial upgrading, the accumulation for new knowhow seems farfetched. The investment pattern indicates that the limited investment into high-risk but high-returned sectors is due to the skill gaps in the labor force.

On the other hand, the lack of technology and productive spillovers between foreign and domestic firms also hinder the accumulation of new knowhow. This is due to the weak supply chain linkages between foreign firms and domestic suppliers because production relies heavily on imported primary components since robust and emerging industries like garment and electronics are assembly-based production.[26]

Without "Cambodian-made parts", the foreign firm will have less incentive to transfer the technology and productive knowledge required for efficient production and compatibility within the production process since the firm is consuming components made abroad and Cambodia is just an intermediate player in the production chain.

23 Sou Hong Touch, "Made in Cambodia: Bridging the Gaps in Agro-Processing for a Stronger Export-Oriented Industry," *Khmer Times*, May 5, 2025, https://www.khmertimeskh.com/501678940/made-in-cambodia-bridging-the-gaps-in-agro-processing-for-a-stronger-export-oriented-industry/

24 Ibid.

25 Simona Iammarino, Muth Sumontheany, and Nith Kosal, *20 Years of FDI in Cambodia: Towards Upper Middle-Income Status and Beyond*, CDRI Working Paper Series No. 149 (Phnom Penh: Cambodia Development Resource Institute, October 2024), https://www.cdri.org.kh/storage/pdf/WP149_FDI%2020%20yrs_1750315585.pdf

26 Roberta Piermartini and Stela Rubínová, *Knowledge Spillovers through International Supply Chains* (Geneva: World Trade Organization, July 2014), https://www.imf.org/external/np/seminars/eng/2014/trade/pdf/piermartini.pdf

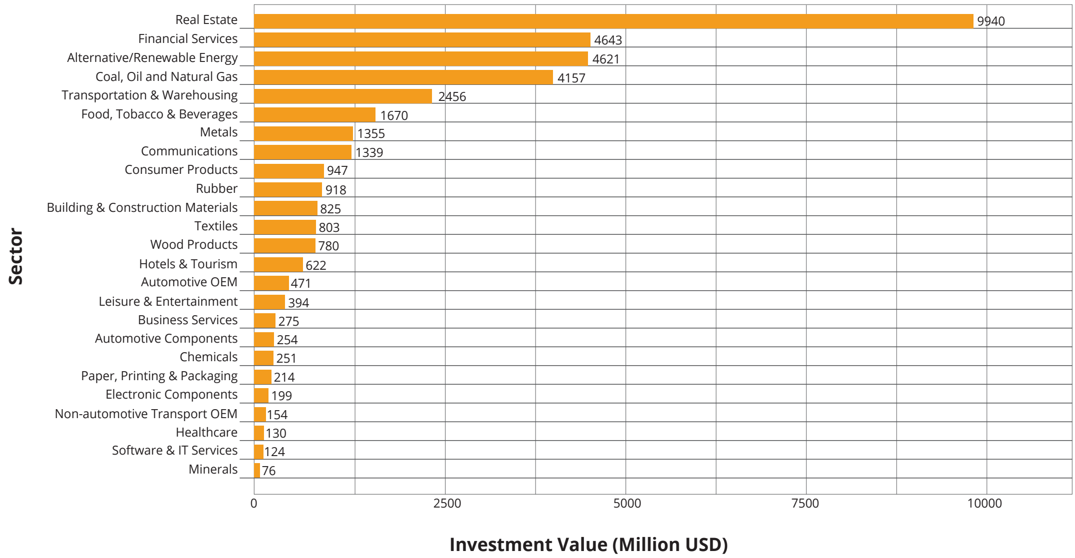


Figure 4. Investment value by sector (2003-2022)
Source: CDRI Working Paper Series No. 149

Policy Recommendations

Unlike inter-sectoral diversification, intra-sectoral diversification requires active support through policy reforms and government incentives. Two policy recommendations are highlighted as follows:

1. Upscaling the 'One-Roof' Service to Formalize and Commercialize Cambodia's Business Environment

Formalizing and commercializing Cambodia's business environment involves streamlining business registration and eliminating redundancy in business conducts. Streamlined business registration involves expediting the processing of registration, licensing, certification, and taxation, as well as disseminating information on manufacturing regulations and eliminating unnecessary fees for business operation.

A recommended approach is to upscale the "one-roof" service. The 'one-roof' service for businesses provides a centralized platform for different registration needs, such as filing for licenses and extensions, all of which can be accessed under one governmental institution.[27] This reduces procedural delays, eliminates miscellaneous spending that may constrain businesses from operating in the country, and makes the business environment accessible to newcomers. Easy access to the business environment can encourage start-ups and foreign investors to compete in the market and a larger pool of firms also enable the tracking of skill sets, areas for growth, and more options for linkages between foreign and domestic firms.

27 Nitin Madan, *Policy Guidelines on Increasing Business Registration and Access to One-Roof Service for Women-led MSMEs* (Bangkok: United Nations Economic and Social Commission for Asia and the Pacific, n.d.), https://repository.unescap.org/bitstream/handle/20.500.12870/4316/ESCAP-2022-SDD-RP-Policy-Guidelines-Increasing-Business-Registration-Access-One-Roof-Service-Women-led-MSMEs-Cambodia.pdf?isAllowed=y&sequence=1

2. Promote Linkages between Foreign and Domestic Firms

Promoting linkages between foreign and domestic firms (large and SMEs) can be in the form of inter-firm relations in the supply chain with domestic firms as primary component suppliers or be subcontractors of TNC affiliates to produce intermediate products needed by the TNC.[28] Although this is a short leap as domestic growth is still reliant on an external actor, fostering close contractual linkages allows for the transfer of foreign technology that is part of a global production network, as well as the acquisitions and improvement of modern technical and operational capabilities.

Therefore, it is recommended that key government actors like the Council for the Development of Cambodia (CDC), Ministry of Commerce, and the Ministry of Labor and Vocational Training assist in the following: 1) redirect FDI to priority sub-industries by supporting entrepreneurs and investors through tax incentives, business facilitation efforts such as the use of the Special Economic Zones (SEZs), and expedite procedural requirements like the environmental impact assessment (EIA) and investment risk assessment and 2) build a dynamic and on-trend skills ecosystem to cater towards investors in the highlighted sub-industries through the Skills Development Fund for Cambodia.[29]

Conclusion

With Cambodia's aspiration to make the economy resilient and inclusive comes the looming LDC graduation, the government must be strategic with the diversification pathway that should be pursued. To realize this aspiration, Cambodia must ensure that its ambition to climb the global value chain through broad-based investment across different sectors does not impede short- and medium-terms economic growth, especially for high job-creation sectors like agriculture and manufacturing.

Therefore, Cambodia must actualize the importance and realistic growth spaces available through intra-sectoral diversification. Intra-sectoral diversification allows for the accumulation and modification of productive capabilities and knowhow of high-potential sub-industries which allows for a natural spillover of productive knowledge to the rest of the economy.

However, unless limitations to intra-sectoral diversification such as weak business competition and lack of knowhow are addressed, the ability to move up the value-chain will be impeded. Therefore, government initiatives and prioritization are important to advance the growth of the highlighted sub-industries and to propel the economy towards resilience and inclusivity.

28 United Nations Conference on Trade and Development, *Transfer of Technology for Successful Integration into the Global Economy: A Case Study of the Electronics Industry in Thailand* (Geneva: United Nations Conference on Trade and Development, 2005), https://unctad.org/system/files/official-document/iteipc20056_en.pdf

29 Kelly Wyett, *Cambodia Economic Diversification Pathways*, Background Paper No. 8, Cambodia Development Resource Institute, February 2025, https://cdri.org.kh/storage/pdf/BP08%20Eco%20diversification_1745563999.pdf

Cambodian workers harvesting a crop of rice in the fields outside of Siem Reap, Cambodia.
Photo: Shutterstock

Why the Fish and Rice Corridor Matters for Maximizing Cambodia's Rice Export Potential

Pheng Thean

EXECUTIVE SUMMARY

- The Cambodia-China Fish and Rice Corridor aims to boost rice production and export capacity through cooperation in agricultural modernization, infrastructure development, and technical training, supported by substantial Chinese financial commitments and expertise exchanges.
- Cambodia continues to face structural challenges, including low productivity, reliance on traditional farming methods, weak irrigation systems, and high electricity costs, all of which constrain its ability to meet growing export demand and fully utilize available trade quotas.
- Maintaining, securing, and expanding preferential export quotas with China is critical, as they ensure duty-free access to a vast market, provide essential foreign exchange earnings, and support rural livelihoods.
- Establishing and enhancing stable market linkages through initiatives like "Rice for China" can guarantee predictable demand, incentivize increased production, and provide integration into value supply chains. As a result, this will improve product quality, financial stability, and rural development outcomes.

Introduction

Rice remains the backbone of Cambodia's rural economy. It accounted for over 70% of Cambodia's agricultural cropped areas and about 50% of the total agricultural output.[1] Provinces like Battambang and Banteay Meanchey could each produce up to 200,000 tonnes of milled rice annually, contributing significantly to the country's export volumes.[2]

In 2023, Cambodia exported more than 656,000 tonnes of milled rice, earning over USD 465 million.[3] China has emerged as the largest buyer benefiting from duty-free access under bilateral trade arrangements and a growing strategic partnership. This relationship has enabled Cambodia to secure a significant foothold in China's growing rice import market, driven by urbanization and changing consumer preferences.

Building on this trade foundation, the Cambodia-China Fish and Rice Corridor was established during former Prime Minister Hun Sen's 2023 visit to China, with the shared goal of enhancing and advancing Cambodia's agricultural modernization and export capacity.[4] Under the agreement, both countries committed to (1) accelerating Cambodia's agricultural modernization, (2) promoting the export of high-quality Cambodian products, (3) streamlining trade through the "Single Window" system, and (4) encouraging local governments to leverage their comparative advantages for deeper agriculture, trade, and economic cooperation.

1 Asian Development Bank, "Is Cambodian Rice Ready for the World Market," 2022, https://www.adb.org/multimedia/partnership-report2021/stories/is-cambodian-rice-ready-for-the-world-market/

2 EuroCham Cambodia, "Sourcing from Cambodia – Rice," January 10, 2024, https://www.eurocham-cambodia.org/uploads/d0986-sourcing-from-cambodia-maize-2023.pdf

3 "Cambodia Earns $65 Million from Rice Exports," Khmer Times, March 12, 2024, https://www.khmertimeskh.com/501454141/cambodia-earns-65-million-from-rice-exports/

4 Ministry of Foreign Affairs and International Cooperation of Cambodia, "Joint Statement between the Kingdom of Cambodia and the People's Republic of China on Building a Cambodia-China Community with a Shared Future in the New Era," February 11, 2023, https://www.mfaic.gov.kh/files/uploads/VQQYVPGVCLG6/Final_Joint%20Statement%20(ENG)%20(1).pdf

The initiative took another step forward after President Xi Jinping's visit to Cambodia in April 2025, when both sides agreed to build an "all-weather" partnership across six key areas. A major outcome of this visit was China's approval of a 500,000-tonne rice export quota for Cambodia, showing strong trade ties and commitment to shared prosperity.[5]

However, despite these promising developments, many Cambodian farmers continue to struggle to fully benefit from these opportunities due to persistent structural barriers and limited access to modern technologies and financing.

Expectations and Delivery

Despite having open doors to China's vast market, Cambodia continues to face persistent rice production constraints that undermine its capacity to gain available export opportunities. The country has struggled to fully utilize the export quotas granted by China since 2019.

That year, China increased its rice import quota for Cambodia to over 400,000 tonnes, yet Cambodia managed to export only about 225,000 tonnes, approximately only a mere 56% of the available quota.[6] Notably, the 2024 figure marks the lowest volume level of rice exports to China in nearly a decade, at only a mere 120,000 tonnes (see *Table 01*).

Even with the recent additional 100,000-tonnes increase in quota, bringing the total to 500,000 tonnes, Cambodia has managed to fulfil less than one-quarter of this allocation. The growing gap highlights Cambodia's ongoing difficulties in scaling up production to meet rising demand. Structural barriers such as low yields, inadequate irrigation, limited access to modern inputs, and weak post-harvest infrastructure continue to impede the country's ability to fully benefit from China's expanding market under the Fish and Rice Corridor initiative.

Table 01: Cambodia's Rice Exports to China Compared to Quota Allocation (2017–2025)

Year	Export Volume (tonnes)	Export Quota (tonnes)	Utilization Rate (%)
2017	≅ 179,441	200,000	89.72%
2018	≅ 162,845	300,000	54.28%
2019	≅ 224,893	400,000	56.22%
2020	≅ 232,787	400,000	58.19%
2021	≅ 301,366	400,000	75.34%
2022	≅ 291,704	400,000	72.92%
2023	≅ 209,354	400,000	52.33%
2024	≅ 117,925	400,000	29.48%
2025	N/A	500,000	N/A

Source: *Author's Compilation from World Integrated Trade Solution (WITS) & Various Sources*

5 Chea Vanyuth, "Kingdom, China up Rice Export Quota," Khmer Times, January 1, 2025, https://www.khmertimeskh.com/501617134/kingdom-china-up-rice-export-quota/#google_vignette

6 "Cambodia's Rice Export to China Reaches a New High in 2019," Lancang-Mekong Cooperation, February 17, 2020, http://www.lmcchina.org/eng/2020-02/17/content_41450286.html

This decline is indeed concerning, as Cambodia's rice exports have kept falling since 2022, despite having shown resilience and even growth during the pandemic years. Notably, the sharp decrease in rice exports to China in 2024 coincided with Cambodia's strategic push to diversify its export destinations, expanding into Vietnam, Indonesia[7], and the United Arab Emirates[8], each of which scaled up import quotas by approximately 100,000 tonnes.

While this diversification strategy strengthens Cambodia's partnerships and reduces overdependency on a single market, it has also come at the cost of losing momentum with China. Rather than generating new export growth, this shift has resulted in a redistribution of existing exports, undercutting the potential for overall export volume expansion. For example, even though Cambodia produced around 650,000 tonnes of milled rice for export in 2024, only a fraction of this output was redirected to the Chinese market (see *Figure 02*).

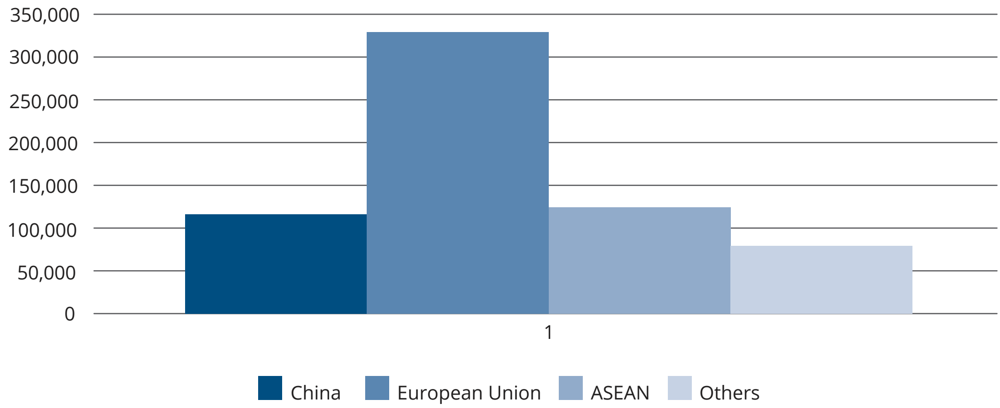


Figure 02: Cambodia's Rice Exports Destination in 2024
Source: *Author's Compilation from The Better Cambodia*

The European Union currently imports nearly three times more rice from Cambodia than China, while ASEAN countries are also emerging as competitive markets. This trend shows that, despite strong bilateral agreements and ongoing cooperation, China is gradually losing its ground as a primary buyer of Cambodian rice.

While the market opportunity is there, Cambodia has yet to fully capitalize on them or sustain consistent export progress. To maximize long-term benefits, diversification efforts should not come at the expense of established markets. Instead, it must be complemented by initiatives to expand exports to China, ensuring the rice sector delivers new growth and value addition rather than simply redistributing existing trade volumes.

7 USDA, "Grain and Feed Update in Cambodia," November 6, 2024, https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Grain%20and%20Feed%20Update_Phnom%20Penh_Cambodia_CB2024-0004

8 "Cambodia Exports 60,000 Tonnes of Milled Rice to UAE for 1st Time," Khmer Times, January 13, 2024, https://www.khmertimeskh.com/501422304/cambodia-exports-60000-tonnes-of-milled-rice-to-uae-for-1st-time/

Barriers to Maximizing Rice Export Potential

Efforts to diversify Cambodia's rice exports have not often fallen short of meeting set quotas, instead of resulting in a reallocation of shipments. This situation adds to the structural challenges already facing Cambodia's rice sector. As a result, it becomes even harder for the country to fully take advantage of export opportunities and achieve steady growth.

In 2019, the Minister of Agriculture pointed out that one key reason for this gap is the higher price of Cambodian rice in the Chinese market.[9] This stems slightly from the value-added aspect and substantially from the high cost throughout the production chain. Factors include poor infrastructure, which causes delays and increases costs, high electricity prices, and insufficient water supply for farming. Additionally, Cambodia faces strong competition from neighbouring rice-exporting countries like Thailand and Vietnam, further constraining its ability to expand market share globally.

On the production front, many farmers continue to rely heavily on traditional farming methods, which limit both crop yields and overall productivity. According to data from the United States Department of Agriculture (USDA), Cambodia's average rice yield was approximately 3.34 tonnes per hectare in 2023/24, with projections of only 3.49 tonnes per hectare in 2025/26 (see *Figure 03*). These figures remain relatively low compared to our regional neighbours. By comparison, Vietnam's average rice yield is roughly 6.08 tonnes per hectare over the same period, with projections of 6.16 and 6.10 tonnes per hectare for 2024/25 and 2025/26 respectively.

A report from the Cambodian Development Research Institute (CDRI) attributes Cambodia's low yields to limited use of modern farming tools, inadequate irrigation, and small-scale farms that rely mostly on manual labour.[10] In contrast, Vietnam invests heavily in irrigation and water management, while promoting intensive rice cultivation, and this results in significantly higher yield and more competitive export capacity.

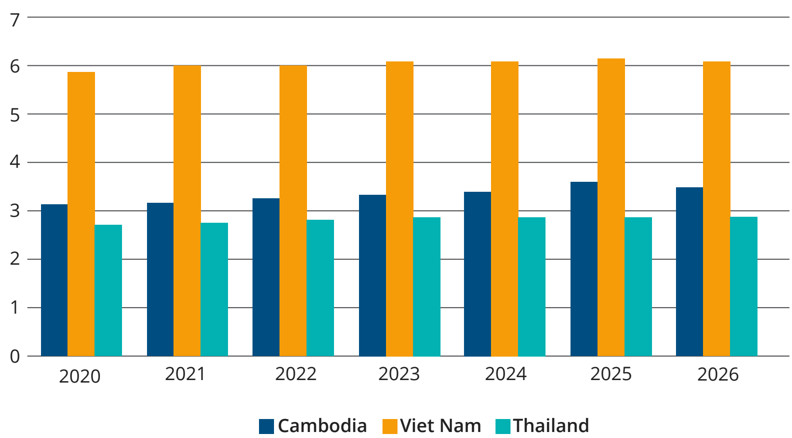


Figure 03: Crop Yield per Hectare in Cambodia, Viet Nam, and Thailand (2020-2026)
Source: *Author's Compilation from The United States Department of Agriculture (USDA)*

9 "Special Report: How China Becomes Cambodia's Largest Rice Market," Fresh News, April 8, 2021, https://en.freshnewsasia.com/index.php/en/17772-2020-04-10-10-03-29.html/

10 Rice Policy Study: Implications of Rice Policy Changes in Vietnam for Cambodia's Rice Policy and Rice Producers in South-Eastern Cambodia, CDRI Report, December 2017, https://www.cdri.org.kh/storage/pdf/wp113e_1617248657.pdf

At the same time, high electricity costs pose a significant challenge for Cambodia's rice sector, which limits farmers' ability to operate modern irrigation systems and processing machines. Access to advanced farming tools and inputs also restricts efforts to increase yields and improve productivity. In September 2024, electricity prices in Cambodia ranged from about USD 0.15 to USD 0.19 per kilowatt-hour, compared with USD 0.07 in Vietnam and USD 0.13 in Thailand.[11]

These higher electricity costs affect farmers especially during the dry season, when irrigation demand peaks. As a result, farmers are forced to spend more just to maintain production. Consequently, farmers' profit margins shrink, while the cost of Cambodian rice increases. This reduces the country's competitiveness in global markets and makes it harder to capitalize on export opportunities.

The Corridor's Efforts

Albeit the complexities facing Cambodia's rice sector, China and Cambodia are pursuing pragmatic cooperation across multiple areas to achieve more substantive outcomes under the Fish and Rice Corridor initiative. These efforts aim to boost Cambodia's rice production and export capacity, particularly to the Chinese market.

Infrastructure Development

China has committed substantial financial support to enhance Cambodia's rural infrastructure. A major step forward came during the ASEAN Summit in Vientiane in October 2024, where the Chinese government pledged approximately USD 42 million grant to design a comprehensive master plan for agricultural and industrial modernization.[12] As Prime Minister Hun Manet noted, this commitment reflects the positive outcome of bilateral talks with Chinese Premier Li Qiang and demonstrates China's ongoing support for Cambodia's rural development goals.

The grant is expected to fund improvements in irrigation systems, post-harvest storage, rural roads, and agricultural logistics infrastructure, core components needed to reduce crop losses, enhance year-round production, and improve the flow of rice from farms to export markets. These upgrades are directly linked to Cambodia's ability to meet rising demand under the expanded export quota with China. Analysts view the investment as part of a broader strategy to strengthen regional integration through the Belt and Road Initiative.[13] Experts have also stressed the need for transparency and accountability to ensure sustainable and inclusive outcomes.[14]

11 "Cambodia Electricity Stays Higher than Neighbours," ASEAN Energy Database System, https://aseanenergy.org/news-clipping/cambodia-electricity-to-stay-higher-than-neighbours-as-eba-jitters-emerge/

12 Nealmalay Uy, "China Offers $42M Grant for Infrastructure, Construction in Cambodia," Kiripost, October 12, 2024, https://kiripost.com/stories/china-offers-42m-grant-for-infrastructure-construction-in-cambodia

13 "China's Comprehensively Deepening Reform to Inject New Momentum into Global Economic Growth," Xinhua, August 8, 2024, https://english.news.cn/20240808/11bffb03c201457abc5e8541e540b0da/c.html

14 "Jiangsu Gears up for Fish and Rice Corridor in Cambodia," ChinaDaily, April 19, 2025, https://www.chinadaily.com.cn/a/202504/19/WS68027a29a3104d9fd382052c.html

Many Kinds Of Rice Selling In Cambodia Siem Reap Old Market.
Photo: Shutterstock

Modern Rice Industry Cooperation

The Cambodia–China Guangxi Modern Rice Industry Cooperation Project, set to run from June 2025 to June 2027, represents a more targeted initiative to boost rice production.[15] The project will establish a 70-hectares modern rice industry cooperation zone, including model industry sites, agricultural machinery hubs, and drying service centres. These facilities are designed to improve post-harvest handling, increase processing efficiency, and scale up production to meet market demand.

Technical Training and Capacity Building

Under the same Guangxi initiative, training programs will focus on key areas such as rice crop maintenance, agricultural machinery use, cultivation techniques, and rice-vegetable crop rotation. These efforts aim to increase production efficiency, promote better use of farm inputs, and support the scaling-up of yields, particularly to meet rising Chinese demand.

In parallel, Jiangsu Province is preparing to launch additional training programs in Phnom Penh, including technology lectures and skill exchange sessions delivered by Chinese agricultural experts. Themes will cover post-harvest loss reduction, quality improvement, and value addition in agricultural processing. The initiative is designed not only to transfer technical knowledge but also to enhance business capacity in Cambodian cooperatives and agri-businesses.[16]

As part of the exchange, Cambodia will also send key agricultural personnel to Jiangsu for targeted visits and technical training, engaging directly with Chinese research institutions and agri-businesses. For example, in January 2025, representatives from the Asian Vision Institute (AVI) visited Suqian North Jiangsu Grain and Oil Company to explore potential collaboration opportunities in automation and processing. In addition, 12 Cambodian students participated in a 13-day study exchange across four cities in Jiangsu, such as Nanjing, Yangzhou, Zhenjiang, and Taizhou, further underscoring the emphasis on people-to-people exchanges and sustainable technical cooperation.

15 "Cambodia-China Project to Promote Modern Rice Industry Launched in Kampong Chhnang," Cambodian People's Party, June 4, 2025, https://www.cpp.org.kh/en/details/419002

16 "Jiangsu Gears up for Fish and Rice Corridor in Cambodia," ChinaDaily, April 19, 2025, https://www.chinadaily.com.cn/a/202504/19/WS68027a29a3104d9fd382052c.html

Cross-SWOT Analysis

To assess the strategic position of Cambodia's rice sector under the Fish and Rice Corridor, a Cross-SWOT analysis offers a valuable framework for linking internal capacities with external policy dynamics. Rather than simply listing strengths, weaknesses, opportunities, and threats, this approach examines how these factors interact, shaping the policy space Cambodia must navigate to unlock its export potential.

	Opportunities	Threats
Strengths	*Leverage Strengths to Seize Opportunities* • Use China–Cambodia bilateral ties to secure infrastructure investment (e.g. USD 42M master plan). • Capitalize on growing Chinese consumer demand for quality rice through duty-free export quotas.	*Use Strengths to Offset Threats* • Lock in stable quota access ("Rice for China") to reduce reliance on volatile ASEAN/EU markets.
Weaknesses	*Address Weaknesses to Exploit Opportunities* • Modernize irrigation and farming tools to improve yields and meet quota volumes. • Lower electricity costs through China-supported rural electrification (linked to 2030 universal access).	*Mitigate Weaknesses to Avoid Threats* • Invest in smallholder support to prevent losing ground to Thailand/Vietnam. • Reform high-cost production systems to ensure price competitiveness in China and other markets

On the positive side, Cambodia's strategic partnership with China, anchored in duty-free quotas, infrastructure grants, and technical cooperation, offers a significant external opportunity. These strengths must be leveraged to channel investments into rural energy, post-harvest handling, and irrigation upgrades to enhance production capacity. The expanding 500,000-tonne export quota is valuable only if domestic production can match it.

Meanwhile, the diversification of export destinations, though necessary to reduce dependency, must not come at the cost of losing strategic focus. Redirecting rice exports to ASEAN or the EU may reduce over-reliance on one buyer, but unless production volumes increase, this simply redistributes existing supply, leaving quotas underutilized.

At the intersection of internal weaknesses and external threats, challenges such as high electricity prices, limited irrigation, and relatively low yields constrain the sector's ability to scale production and fully capitalize on export opportunities. Addressing these structural limitations is crucial to translating policy initiatives into tangible growth.

Agricultural scene, Khmer women planting rice. Portrait from Cambodia 2 Kak 0.2 Riel 1979 Banknotes.
Photo: Shutterstock

Policy Recommendations

To maximize Cambodia's rice export potential under the Fish and Rice Corridor, the following three key policies are recommended:

1. China-Supported Production Capacity Infrastructure and Assistance

This policy targets Cambodia's structural rice production challenges through focused cooperation with China. It involves introducing mechanization, improving irrigation systems, and providing technical training to enhance post-harvest handling, boost productivity, and increase efficiency. A critical component of this cooperation is to expand rural energy infrastructure, particularly in major farming zones, to ensure reliable and affordable electricity for irrigation, rice mills, and processing technologies. By reducing production costs and enabling the use of modern farming tools, this initiative empowers farmers to fully capitalize on export opportunities.

2. Maintain and Secure Export Quotas with China

Preferential export quotas remain critical to Cambodia's rice trade strategy, as these quotas ensure duty-free entry to one of the world's largest rice markets. While the quota has increased in recent years, utilization remains inconsistent due to production and logistical challenges. Securing these quotas is vital for foreign exchange earnings and rural livelihoods. Implementing transparent monitoring and reporting systems can enhance trust, making it more likely that China will maintain or increase quota allocations in the future.

3. 'Rice for China' Market Access Initiatives

This initiative seeks to establish a fixed, predictable market in China that incentivizes farmers to increase production and ensure continuous supply. Though potentially creating dependency on designated buyers, such schemes directly address Cambodia's chronic underuse of export quotas. Pilot efforts under the Guangxi cooperation zone, including model processing centres and drying facilities, have demonstrated improvement in product consistency and reduced losses. Expanding these initiatives nationwide would better integrate farmer cooperatives and smallholders into supply chains, enhancing bargaining power, financial stability, quality improvements, and rural development outcomes.

Conclusion

The Fish and Rice Corridor represents a pivotal opportunity for Cambodia to significantly enhance its rice production and export capacity, particularly in tapping into the growing Chinese market. Despite the availability of substantial export quotas and bilateral support, Cambodia's rice sector continues to face structural challenges that hinder full utilization of these opportunities. Low productivity, traditional farming methods, limited irrigation, and high energy costs collectively constrain the country's ability to meet rising demand.

By addressing these interlinked challenges and leveraging existing partnerships, Cambodia can not only fulfil its export quotas but also drive inclusive rural development, reduce poverty, and strengthen its position as a competitive rice exporter in the region. Effective implementation will require continued collaboration, transparency, and accountability among all stakeholders to achieve sustainable growth under the Fish and Rice Corridor framework.

THEME II:
DRIVING COMPETITIVENESS AND INDUSTRIAL TRANSFORMATION


Independence Monument Roundabout, Phnom Penh, Cambodia.
Photo: Shutterstock

Against the Backdrop of Economic Diversification and LDC Graduation: Mobilizing Investments from Real Estate to Manufacturing

Chea Peter

EXECUTIVE SUMMARY

- Despite its profitability, Cambodian tycoons' overemphasis on investments in real estate has constrained domestic production capacity. In the context of Cambodia's upcoming LDC graduation and 2050 vision, this trajectory risks undermining the country's transition to upper-middle and eventually high-income status.
- The Royal Government of Cambodia's efforts to galvanize greater investments in priority sectors have encountered challenges: the priority list is overly broad, resources risk being spread too thin, and there is a lack of an effective mechanism to channel the tycoons' capital into strategic areas.
- This paper recommends revising the investment law to narrow and prioritize key industries, while introducing and implementing "sequential conditionalities" that link real estate development to industrial development.

Introduction

Phnom Penh and its surrounding areas have seen substantial investment in real estate from Cambodian tycoons. In the first quarter of 2022, the capital city hosted around 310 boreys (gated communities), and by 2024, almost 170,000 units of landed property were built and sold.[1, 2] This sector is not only incredibly profitable but exceptionally so, with demand projected to remain strong as long as urbanization continues and disposable income rises.[3, 4]

Real estate is also attractive because it presents a comparably lower risk and greater return. Property rights are generally more secure than in other forms of investment domains in developing countries.[5] As an asset for lending or collateral, real estate is more transferable than production facilities or machinery, which are built for a specific purpose.[6]

Understandably, the singular pursuit of profit has created vulnerabilities. During the COVID-19 pandemic, a miniature bubble burst exposed oversupply issues that are expected to persist.[7, 8] More critically, the dominance of real estate investment diverts capacity away from industrial manufacturing and constrains Cambodia's long-term domestic production capacity.

1 Construction & Property News, "Phnom Penh Recorded 310 Boreys & 1,603 High-Rise Buildings by Start of 2022," Construction & Property News, June 8, 2022, https://construction-property.com/phnom-penh-there-are-310-borey-and-1603-high-rise-buildings-by-the-beginning-of-2022/.

2 CBRE Cambodia, "Market Insights: Q1 2025," (PDF, Slide show), April 10, 2025, https://www.cbre.com.kh/wp-content/uploads/2025/04/20250409_Market-Update-Q1-2025-Circulation-Compressed.pdf?download=2025-06-23.

3 Cambodia Investment Review, "Knight Frank Report: Growing Demand for Affordable Housing and Branded Residences in Cambodia and The," Cambodia Investment Review, January 10, 2025, https://cambodiainvestmentreview.com/2025/01/10/knight-frank-report-growing-demand-for-affordable-housing-and-branded-residences-in-cambodia-and-the-asia-pacific-region-for-2025/.

4 Nisha Sharda, "Phnom Penh: Beyond the Past, Towards the Future," Centre for Liveable Cities Knowledge Hub, March 1, 2025, https://knowledgehub.clc.gov.sg/publications-library/phnom-penh-beyond-the-past-towards-the-future.

5 Edward L. Glaeser, "Real Estate Bubbles and Urban Development," Asian Development Review 34, no. 2 (August 23, 2017): 114–51, https://doi.org/10.1162/adev_a_00097.

6 Ibid.

7 Senghong Thun, "The Real Estate Market in Cambodia Is Flooded," Cambodianess, June 25, 2023, https://cambodianess.com/article/the-real-estate-market-in-cambodia-is-flooded.

8 Marissa Carruthers, "CBRE Forecasts Tough 2025 for Cambodia's Real Estate Market," Kiripost, January 17, 2025, https://kiripost.com/stories/cbre-forecasts-tough-2025-for-cambodias-real-estate-market.

This paper attempts to examine the implications of this imbalance, discuss the government's response, and offer actionable policy recommendations to steer investment toward sectors that support sustainable economic growth.

An Overemphasis on Real Estate: Contextualizing the Issue and Its Significance

One of the implications is the absence of backward linkages in Cambodia's industrial base. For instance, garment and bicycle production lines remain heavily reliant on imported materials from China and Vietnam, respectively.[9, 10] This reliance highlights the country's low, limited domestic production capacity and contributes to a "high-cost structure" across the industry and service sectors. Of the USD 50.7 billion in annual sales, as much as USD 38.6 billion, about 76%, are absorbed by expenses, leaving only USD 12.1 billion, or 23%, as profit and loss.[11]

This structural weakness becomes even more pressing when set against the backdrop of Cambodia's looming LDC graduation in 2029. Once graduated, it is forecasted that Cambodia's high-cost structure would create a challenge of meeting the new Rule of Origin (ROO) requirement, in which Cambodia must contribute a minimum of 60% local value-added content to continue receiving preferential trade treatment.[12] Given current conditions, this poses significant challenges. Key sectors of agriculture, textiles, and bicycles face potential tariff hikes when the Everything But Arms (EBA) and Generalized Scheme of Preferences Plus (GSP+) expire.[13] Not only will the products lose their competitive edge, but the profit margins will also be reduced.

Compounding the issue is Cambodia's relatively low export complexity, which limits the country's ability to climb the value chain. Unless domestic manufacturing capacity expands into more sophisticated products capable of generating higher revenues, Cambodia will face severe obstacles in meeting the Royal Government's long-term ambition of achieving high-income status by 2050.[14, 15]

Responding with Investment Incentives

To galvanize greater investment from the private sector, the RGC adopted a Sub-Decree No.139 in June 2023 on the 'Implementation of Law on Investment.' This sub-decree provides an update to the existing legal and policy framework by recategorizing the 19 sectors and activities into

9 Khmer Times, "China Remains as Top Supplier of Raw Materials to Cambodia's Garment Industry," *Khmer Times*, March 23, 2023, https://www.khmertimeskh.com/501260728/china-remains-as-top-supplier-of-raw-materials-to-cambodias-garment-industry/.

10 Sothear Kang, "Cambodia, Vietnam Agree to Keep Bicycle Value Chain," *Khmer Times*, May 13, 2022, https://www.khmertimeskh.com/501074532/cambodia-vietnam-agree-to-keep-bicycle-value-chain/.

11 National institute of Statistics, Ministry of Planning, "Economic Census of Cambodia 2022," August 2023, https://www.nis.gov.kh/nis/EC2022/National%20Report%20on%20Final%20Census%20Results%20Economic%20Census%20of%20Cambodia%202022.pdf.

12 UNDP Cambodia, *"Cambodia's Graduation From Least Developed Country (LDC) Status: Preparedness and Potential Economic and Social Impacts,"* 2024, https://www.undp.org/sites/g/files/zskgke326/files/2024-11/final_ldc-policy_brief.pdf.

13 Ibid.

14 Ricardo Huasmann, "Cambodia," The Atlas of Economic Complexity-Harvard Growth Lab, 2022, https://atlas.hks.harvard.edu/countries/116/export-basket.

15 The Royal Government of Cambodia, "Pentagonal Strategy-Phase I for growth, employment, equity, efficiency, and sustainability: Building the foundation towards realizing the Cambodia Vision 2050." (Phnom Penh: The Royal Government of Cambodia, August 24, 2023), https://www.mfaic.gov.kh/files/uploads/1XK1LW4MCTK9/EN%20PENTAGONAL%20STRATEGY%20-%20PHASE%20I.pdf.

Real estate investment.
Photo: Shutterstock

three groups based on the level of technology employed in production processes.[16] Group 1 includes high-tech investments or those aligned with the RGC's strategic priorities, while Group 3 consists of low-tech activities. Each group then further deliberates on the investment activities that qualify.[17, 18]

To illustrate, Group 1 comprises a wide range of investment activities, including:

- Manufacturing and/or assembly or installation of aircraft, spacecraft, railway locomotives, ships, boats, motor vehicles, trailers or semi-trailers, machinery for use in other industries, electronic equipment, optical products, and solar cells or panels;
- Investment in secondary and higher education, hospitals, care centers for the elderly, physical infrastructure, industrial parks, special economic zones (SEZs), and technologies that contribute to climate change adaptation or mitigation;
- Agriculture-related support services, crop and animal production, and aquaculture;
- Manufacturing of textile products.[19]

16 The Royal Government of Cambodia, "*Sub-decree on Implementation of Law on Investment of the Kingdom of Cambodia,*" Press release, June 26, 2023, https://cdc.gov.kh/wp-content/uploads/2023/11/Sub-Degree-LoI-Implementation-English.pdf.

17 The Royal Government of Cambodia, "*Law on Investment of the Kingdom of Cambodia,*" Press release, December 13, 2021, https://cdc.gov.kh/wp-content/uploads/2022/04/LOI_English-Updated-13Dec21.pdf.

18 The Royal Government of Cambodia, "Sub-Decree on Implementation of Law on Investment of the Kingdom of Cambodia."

19 Ibid.

Table 1: List of Sectors and Activities Entitled to Investment Incentives According to Article 24 of the Investment Law

No	Investment Activities
1	High-tech industries involving innovation or research and development
2	Innovative or highly competitive new industries or manufacturing with high added value
3	Industries supplying regional and global production chains
4	Industries supporting agriculture, tourism, manufacturing, regional and global production chains and supply chains
5	Electrical and electronic industries;
6	Spare parts, assembly and installation industries;
7	Mechanical and machinery industries;
8	Agriculture, agro-industry, agro-processing industry and food processing industries serving the domestic market or export
9	Small and medium-sized enterprises in priority sectors and small and medium-sized enterprise cluster development, industrial parks, and science, technology and innovation parks
10	Tourism and tourism-related activities
11	Special economic zones
12	Digital industries
13	Education, vocational training and productivity promotion
14	Health
15	Physical infrastructure
16	Logistics
17	Environmental management and protection, and biodiversity conservation and the circular economy
18	Green energy, technology contributing to climate change adaptation and mitigation
19	Other sectors and investment activities not listed by this Law deemed by the RGC to have potential for socio-economic development

Source: The Council for the Development of Cambodia (CDC)

Article 14 of the sub-decree states that investments registered as a Qualified Investment Project (QIP) can choose between two "basic" incentive options: (1) Exemption on income tax and entitlement to pay income tax "at a progressive rate proportional to the total amount of tax due" after the exemption period. The duration of the exemption and the applicable rates vary depending on the investment group category; or (2) Entitlement to capital expenditure deduction and deduction of certain expenses of up to 200% within a set period, which also depends on the group category.[20]

Regardless of the choices, QIPs are guaranteed exemptions for minimum tax, export tax, and prepayment tax on income, with exemption periods varying by group.[21] Moreover, customs

20 Ibid.

21 Council for the Development of Cambodia (CDC), n.d., "Incentives and Schemes," https://cdc.gov.kh/incentives-and-schemes/.

duty, special tax, or value-added tax (VAT) for importing construction materials, construction equipment, and production equipment that serve the production line are waived for general QIPs, export-oriented QIPs, or Supporting Industry Export QIPs.[22]

Article 15 outlines that additional incentives are granted to companies in the form of VAT exemptions for purchasing locally produced inputs and a 150% deductible expense from the tax base for activities that strengthen domestic capacity, such as employee training and welfare, production waste management, and research and development.[23]

Meanwhile, QIPs looking to expand will receive income tax exemption within a specific period in accordance with Article 16, whereas those involved in assembling new motor vehicles are also entitled to receive a reduced income tax, special tax, and VAT rates.[24]

Challenges and Shortcomings of the Response

One major challenge surrounding the revised investment law is the sheer variety of activities and sectors available for investment. Of the total 19 sectors and activities, grouped into three categories, more than 150 specific investment activities are identified. In a situation where 'less may be more,' this presents a risk of prioritizing too many things at the same time that resources are likely to be spread thin across multiple sectors rather than concentrating them in a strategic few to create a tangibly recognizable set of high-priority industries. For Group 1, which receives the highest priority, evident by its access to more generous incentives, the implication is that at least five of the major long-term industries it identified (computers and electronics, aerospace, ship-building, trains, and machinery) will face difficulties in garnering adequate resources to develop and mature. This has not even accounted for the ambitious goal of setting five major simultaneous targets.

The law's incentive structure also presents another shortcoming. Beyond the absence of a crucial fast-track bureaucratic service, the incentives themselves, as a mechanism, appear insufficient to attract major domestic private investments. In practice, capital continues to flow predominantly into real estate development in and around Phnom Penh. When offered a choice between the two, any rational actor would settle for real estate development over industrial manufacturing, given the greater returns and lesser risks. While the RGC could introduce a more aggressive incentive scheme to redirect investments, doing so risks diminishing returns, where the cost of incentives could outweigh the benefits they generate.

Policy Recommendations

1. Separate Mapping of Key Industries for Economic Diversification

The investment law's priority sectors and activities should be revised. In other words, it should be reduced to a smaller pool of key priority areas, especially long-term industries that the RGC considers Cambodia's strategic future sectors. The rationale is that these priority areas will foster stronger industrial development rather than dispersing resources across too many sectors.

22 Ibid.

23 The Royal Government of Cambodia, "Sub-Decree on Implementation of Law on Investment of the Kingdom of Cambodia."

24 Ibid.

2. Conditionalities Linking Real Estate Development to Industrial Development

Completely prohibiting further real estate development to redirect resources to industrial sectors is unrealistic. A more feasible approach is to implement sequential conditionalities linking real estate projects to industrial development.

For instance, consider a real estate developer seeking government approval for a 500-hectare Borey on the outskirts of Phnom Penh. The government could outline that 150 hectares of the total land would be initially approved for residential housing only after an equivalent land area is dedicated towards the completion of a Special Economic Zone (SEZ) or an industrial park. Subsequent approval for each additional 100 hectares would be contingent on the developer establishing a joint venture with a foreign counterpart to produce goods in a priority sector and ensuring the SEZ or industrial park successfully attracts a set number of domestic and/or foreign firms.

Alternatively, real estate projects in central Phnom Penh or expansions elsewhere could be linked to land identified through expert consultations as having high industrial potential, following the same conditionality framework.

This approach generates mutual benefits. The government ensures that private capital supports the development of strategic industries, securing backward and forward linkages, creating more higher-skilled jobs, increasing profit margins from reduced imports of once-needed production materials, enhancing product complexity, and building a more resilient economy. Developers, in turn, continue real estate development activities while benefiting from higher property values owing to the economic activity. Moreover, they retain investment incentives for establishing and launching their joint ventures that generate long-term revenue alongside passive income from renting out the industrial area.

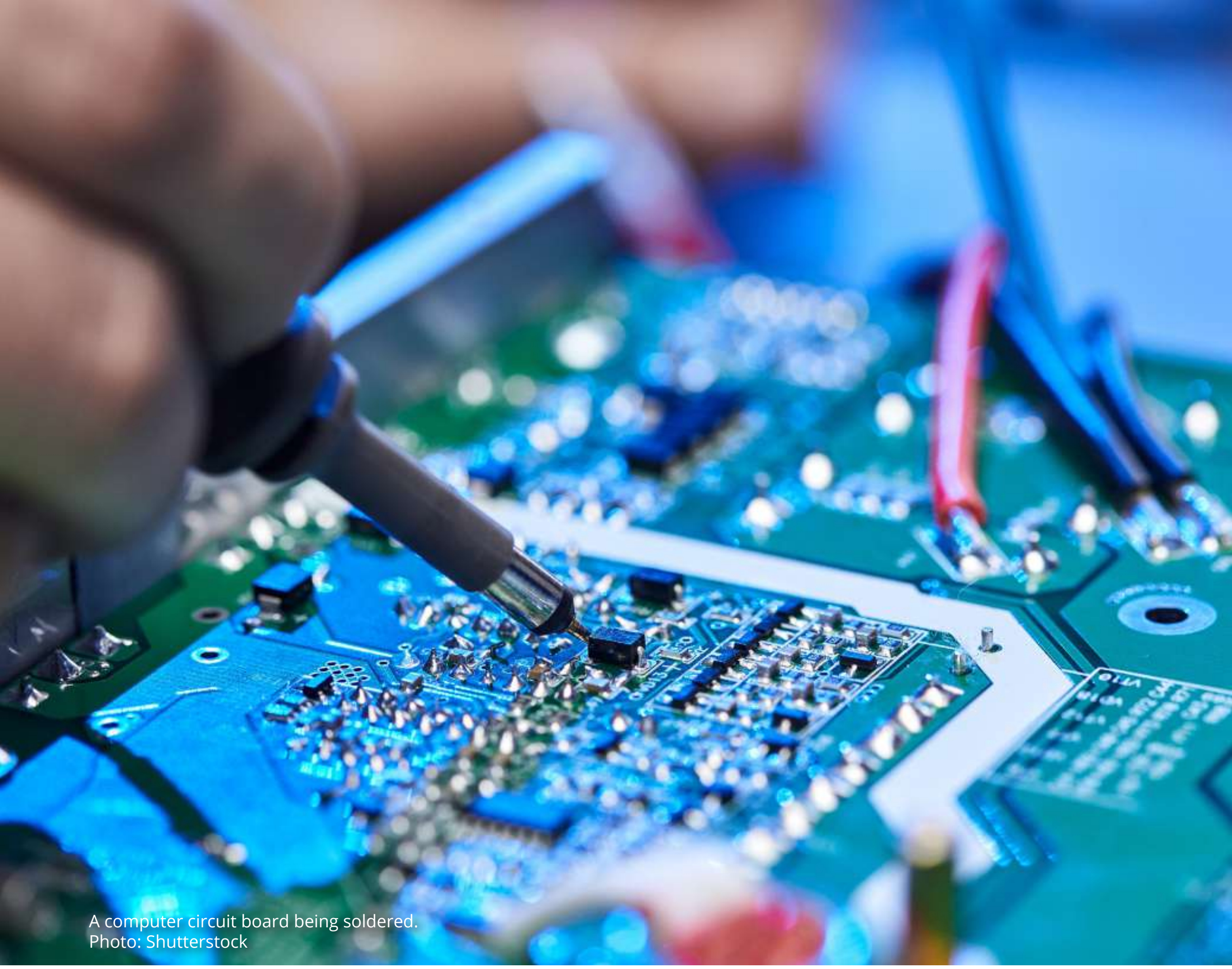
Conclusion

Cambodian tycoons' excessive focus on real estate development has constrained domestic production capacity. With the LDC graduation on the horizon, this trend poses significant challenges to Cambodia's economic trajectory, threatening to disrupt both the transition to upper-middle status and the long-term goal of achieving a high-income economy status by 2050.

The RGC's revised investment law, designed to galvanize greater private investments into priority sectors through incentives, has encountered difficulties: the extensive list of sectors risks spreading resources too thin, and there is no effective mechanism to channel capital from tycoons into strategic industries.

This paper proposes that the investment law be revised and shortened to concentrate resources in key industries, while implementing "sequential conditionalities" that link real estate development to industrial development to ensure mutual benefits for both the government and developer. These recommendations, however, are not a quick fix and cannot operate in a vacuum. Their success depends on complementary measures, including developing a skilled workforce, enhancing infrastructure, streamlining bureaucracy, and strengthening legal systems to create a resilient investment environment.

National Assembly of Cambodia and The Bridge, a high-rise apartment complex.
Photo: Shutterstock


A computer circuit board being soldered.
Photo: Shutterstock

From Parts to Powerhouse: Enabling Cambodia's Electronics and Electrical Future

Meng Lyhor

EXECUTIVE SUMMARY

- As Cambodia advances toward upper-middle-income status by 2030 and prepares for LDC graduation by 2029, diversifying into higher-value manufacturing is essential to sustain inclusive and resilient growth.
- The Electrical and Electronics (E&E) industry presents a promising sector for industrial upgrading, driven by rising automotive FDI, competitive labor costs, and a young workforce.
- Using the Growth Identification and Facilitation Framework (GIFF), the study identifies feasible E&E sub-sectors, wire harnesses, insulated cables, LED lighting, and printed circuit board assembly that align with Cambodia's current capabilities and comparative advantages.
- E&E exports under HS Code 85 surged by 56.6% in 2023 to USD 3.13 billion and reflects growing industrial potential. However, high import dependency, limited backward linkages, and weak supplier networks constrain deeper integration into global value chains (GVCs).
- Key structural constraints include limited domestic sourcing and supply chain coordination; inadequate industrial data, quality assurance systems, and supporting industries; and heavy reliance on imported intermediate goods, particularly from China, Thailand, and Vietnam.
- Key lessons drawn from other countries include:
    - Vietnam's localization strategy with Samsung demonstrates how targeted incentives and supplier upgrading can enhance technology transfer and local value-added.
    - Thailand's BOI "BUILD Unit" model shows the benefits of structured vendor development and industrial matchmaking for SME participation.
- Policy priorities are:
    - Map and match local producers with FDI demand to strengthen supply linkages and promote industrial clustering.
    - Introduce first-mover incentives to support Cambodian firms expanding into component production and higher-value product lines.
    - Promote domestic sourcing for Rule of Origin (RoO) compliance, leveraging RCEP and ASEAN FTAs to enhance export competitiveness.

Introduction

Structural transformation has long been viewed as a key driver of long-term economic development. Classical and contemporary development economists like Arthur Lewis, Simon Kuznets, and Dani Rodrik emphasize that moving into higher value-added, technology-intensive industries is essential for countries seeking to integrate more deeply into global value chains.

Cambodia, which is expected to graduate from Least Developed Country (LDC) status by 2029, will gradually phase out most benefits of preferential trade treatments and development assistance that had supported its growth over the past decades. The transition presents both challenges and opportunities, which is crucial for Cambodia to strengthen its industrial base to remain competitive in global markets.

The Royal Government of Cambodia has articulated ambitious long-term development strategies to achieve an upper middle-income country by 2030 and become a high-income nation by 2050. To realize these aspirations, Cambodia must diversify its economic structure that remains heavily reliant on garments, textiles, and agriculture, into higher-value sectors. Among the most promising candidates is the Electrical and Electronics (E&E) sector, which offers opportunities to expand the export basket, create skilled laborers, and promote technological upgrading.

Recent socio-economic development of Cambodia

According to World Bank[1], Cambodia sustained strong real GDP growth averaging around 7% annually between 2010 and 2019, driven primarily by agriculture, garments, tourism, and construction. However, the COVID-19 pandemic caused a contraction of -3.1% in 2020. Since then, the economy has gradually recovered, posting growth of 5.2% in 2022 and 5.6% in 2023.

The Asian Development Outlook (ADO) April 2025[2] estimates that Cambodia's GDP will expand by 6.1% in 2025 and 6.2% in 2026, following an estimated 6.0% growth in 2024, equivalent to approximately USD 45 billion.

Sector selection – The Growth Identification and Facilitation Framework (GIFF)

In line with Cambodia's economic diversification strategy, this analysis focuses on scaling up the E&E sector, which has begun to show early signs of export growth and alignment with global demand trends. Rather than promoting the sector in broad terms, this study applies the Growth Identification and Facilitation Framework (GIFF) to identify specific product groups within the E&E sector that align with Cambodia's comparative advantages and factor endowments.

The GIFF serves as a systemic, evidence-based approach to identifying industries with high growth potential. It helps policymakers recognize and address bottlenecks that limit industrialization, facilitate public-private collaboration, and guide policy interventions for economic transformation. The framework benchmarks potential industries against those in peer economies that are either at a slightly higher income level, typically 100% to 300% higher, or that had similar income levels about 20 years ago.[3]

Applying this framework allows Cambodia to focus on practical, high-potential sub-sectors within the E&E industry that can create strong backward and forward linkages, foster technology transfer, as well as integrate effectively into global value chains.

1 World Bank, GDP (current US$) – Cambodia (World Development Indicators), accessed June 25, 2025, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KH

2 Asian Development Bank, Asian Development Outlook (ADO) April 2025: Trade Uncertainty Challenges Resilience in Asia and the Pacific, April 2025, https://www.adb.org/outlook/editions/april-2025

3 Justin Yifu Lin and Célestin Monga, "Growth Identification and Facilitation: The Role of the State in the Dynamics of Structural Change," World Bank Policy Research Working Paper No. 5313, January 1, 2011,https://ssrn.com/abstract=1611526.

Country	GDP Per Capita	% of Cambodia
Cambodia	6,700	100%
Vietnam	13,400	200%
Indonesia	13,800	206%
India	9,100	135%
Thailand	21,100	315%
China	22,100	330%
Malaysia	32,800	490%
South Korea	50,000	746%
Japan	45,900	685%
Nigeria	5,600	84%
South Africa	13,600	202%

GDP Per Capita PPP in 2023 (Constant 2021 International $)
Source: World Development Indicator

In line with the GIFF application, benchmark countries were selected based on the timing of their E&E sector development, specifically those that experienced early-stage E&E growth when their income levels and industrial structures were similar to Cambodia's current stage. For example, Vietnam's E&E exports began to rise around 2005, a phase comparable to Cambodia's recent position. Examining transition offers practical insights on how Cambodia can promote the growth of its E&E sector through deeper integration into global value chains (GVCs) and the strategic development of domestic and regional linkages.

Identifying Sectors for Growth: Key Exports of Benchmarked Countries

Component	Function in E&E Value Chain	Feasibility	Benchmark Country	Cambodia's Potential
Wire/Wire Harnesses	Connect internal parts in devices & autos	High	Vietnam, Indonesia	Labor-intensive, easy to scale in SEZs; SME-friendly
Insulated Electrical Wires /Cables	Carry electrical current in all devices	High	India, Thailand	Ties to plastic/ rubber firms; needed in energy & construction
Printed Circuit Board Assembly (PCBA)	Main circuit board linking all components	Low	Vietnam, China	Requires skilled labor + SMT tech; future-ready export product
LED Lights & Small Appliances	Finished goods (bulbs, fans, small devices)	High	India, Vietnam	Easy setup, rising local demand, supports domestic brands
Electric Motors / Transformers	Power source for appliances, fans, EVs	Low	Thailand	Higher complexity, but connects to future EV/home appliance value chains

Product Selection Criteria:

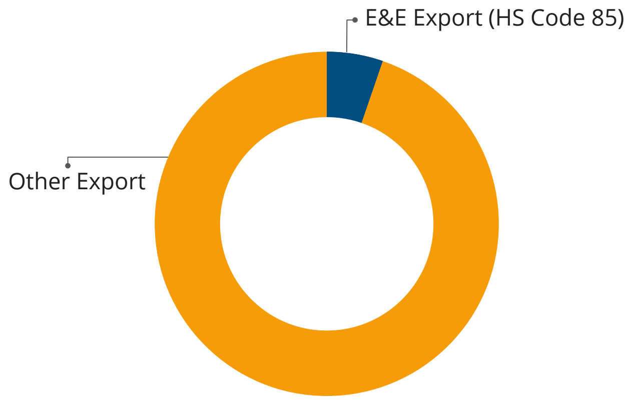
- C1 – Similar Capital Requirements: These selected products require low to moderate investment, suitable for Cambodia's current stage of industrial development. For instance, wiring and LED assembly do not demand highly complex or capital-intensive machinery.
- C2 – SME or FDI-led in Benchmark Countries: In countries like Vietnam, India, and Thailand, these sectors were often developed by SMEs or early-stage FDI, showing they are realistic entry points for Cambodia.
- C3 – Existing Factor Endowments Exist in Cambodia: Cambodia has key advantages including low-cost labor, SEZ infrastructure, geographic proximity to regional supply chains, and a growing domestic market for electronics and appliances.

Demographic of the E&E sector in Cambodia

Export Performance

The E&E sector has emerged as an important contributor to Cambodia's industrial development and a key driver of export diversification. In 2023, exports under HS Code 85, which includes electrical machinery, equipment, and parts, reach USD 3.13 billion, reflecting 56.6% year-on-year increase compared to 2022.

However, during the first eight months of 2024, the sector generated USD1.41 billion, presenting a 34.8% year-on-year decline.[4] This slowdown was largely due to the global economic downturn and weakened external demand. Despite this short-term contraction, Cambodia's overall export performance remained resilient: total exports increased by 16.9% in 2024, reaching USD 26 billion.[5] E&E products under HS Code 85 accounted for around 5.4% of the total exports during this period.



Cambodia Export Composition (Jan - Aug 2024)
Total Export USD 26 Billion

Import Performance

Cambodia's total imports reached approximately USD 7.4 billion in December 2024, marking a 19.0% year-over-year increase.[6] According to Atlas of Economic Complexity (Harvard Growth Lab) data, imports in the E&E sector (HS Code 85) surged to USD 2.5 billion in 2023, up from USD 1.46 billion in 2022.[7] This growth shows that by 2023, E&E products accounted for nearly 34% of Cambodia's total imports, presenting the sector's growing significance in driving both import demand and industrial development.

In 2021, Cambodia's major export markets included the USA (50.7%), Thailand (14.5%), and Japan (11.9%), while its major import sources were mainland China (61.9%), Thailand (17.6%), and Vietnam (6.3%), according to GIZ in 2023.[8] These trade patterns highlight Cambodia's strong dependence on regional supply networks, particularly China and Thailand, for intermediate goods and components critical to E&E manufacturing.

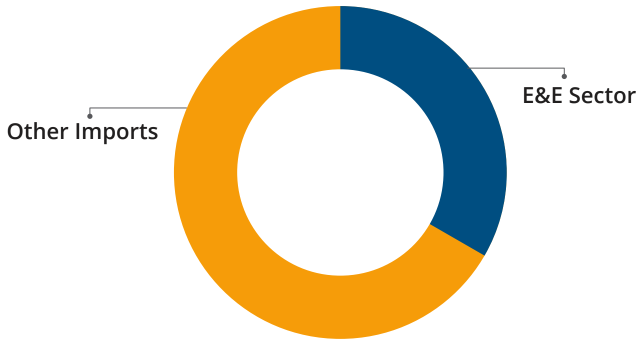
4 Hin Pisei, "Electrical Machinery, Equipment Export Revenue Exceeds $1.4B," Phnom Penh Post, October 4, 2024, https://phnompenhpost.com/business/electrical-machinery-equipment-export-revenue-exceeds-1-4b.

5 "Cambodia 2024 Economic Data In Review," B2B Cambodia, January 21, 2025, https://b2b-cambodia.com/news/cambodia-2024-economic-data-in-review/.

6 "Cambodia Total Imports Growth," CEIC Data, accessed June 25, 2025,https://www.ceicdata.com/en/indicator/cambodia/total-imports-growth.

7 "Cambodia – Exporter: Group 1, Importer: Cambodia," Atlas of Economic Complexity, Harvard Kennedy School, accessed June 25, 2025, https://atlas.hks.harvard.edu/explore/treemap?exporter=group-1&importer=country-116.

8 Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, *Sector Brief: Cambodia Electrical and Electronic Equipment Industry*, 2023, https://rbh-eurochamcambodia.com/wp-content/uploads/Sector-Brief-Cambodia-Electrical-and-Electronic-Equiptment-Industry.pdf.



Cambodia E&E Equipment Import Composition in 2023

Growth Potential

The surging of automotive investment project

Cambodia's E&E sector has emerged in recent years as a promising area of industrial development, though it remains in the early stages of growth. The sector demonstrates strong potential, driven by favorable factor endowments, rising FDI, and improving industrial infrastructure. With solid fundamentals, such as preferential market access, competitive labor costs, and increasing investment in wire harnesses, cables, and component assembly, Cambodia is well-positioned for long-term expansion and deeper integration into GVCs.

As of 2024, investments in the automotive sector in Cambodia have reached approximately USD 746 million, while exports have surpassed USD 1.1 billion.[9] This level of export achievement, driven by tire manufacturing, has exceeded expectations set for 2027, marking a significant milestone in Cambodia's industrial roadmap. Currently, seven tire manufacturing plants are operational, creating value across the domestic rubber supply chain and solidifying Cambodia's role in the global automotive ecosystem.

The country's industrial landscape is evolving into a dynamic ecosystem that encompasses not only tire production but also vehicle assembly plants producing Ford, Hyundai, ISUZU, Toyota, and BYD vehicles. These facilities now dot the Cambodian map in Special Economic Zones along coastal provinces, Bavet, and Phnom Penh. This further reinforces Cambodia's integration into regional manufacturing and logistics networks.

Labor as Factor Endowment

Cambodia's demographic profile presents one of the most significant competitive advantages. Over 60% of the population is under 35 years old, and with a labor force participation rate of around 80%, the country offers a young, energetic, and trainable workforce. The literacy rate has climbed to nearly 90%, while employment in secondary and tertiary industries has grown significantly since 2008.[10]

9 Ibid.

10 Jas Sohl, "Cambodia's Automotive Rise: A New Chapter in Industrial Transformation," The Better Cambodia, June 20, 2025, https://thebettercambodia.com/cambodias-automotive-rise-a-new-chapter-in-industrial-transformation/#google_vignette.

According to GIZ, as of 2020, the E&E sector employed approximately 54,000 workers which represent 1.43% of total national employment.[11] Compared to the neighboring countries, Thailand's E&E industry employed 600,000 workers (1.57%) and Vietnam's employs over 1 million workers (1.78%). 47% of Cambodia's E&E workforce are women, reflecting the sector's inclusiveness and its contribution to gender-based economic participation.

Moreover, the government targets to generate more than 16,000 additional E&E jobs by 2027, aligning with its broader vision to industrialize and expand the country's high-value manufacturing base. With a young and growing workforce, increasing investor interest in automotive and electronics assembly, and expanding SEZ infrastructure, Cambodia is well-positioned to scale up its E&E manufacturing capacity and become a competitive player in global value chains.

Key constraint to grow with case study of Vietnam

Despite the increasing more than USD 700 million inflow of FDI by 2024 especially in the automotive sector, Cambodia continues to face critical constraints in diversifying its E&E sector, particularly within HS Code 85. This category includes the high-demand components such as wire harnesses, electric motors, batteries, LEDs and lighting systems, all of which are essential inputs for automotive assembly lines.

While Cambodia's growing manufacturing base shows strong potential, a gap remains: the mismatch of local production capacity and component demand across backward and forward linkages. Even though local demand for E&E products is increasing, particularly in the construction, energy, and automotive sectors, most locally produced components are mainly export-oriented. This demonstrates the limited integration into national and global value chains.

For instance, Cambodia's construction sector, a major economic pillar of the economy, demands large volumes of cables, transformers, and ignition equipment. Similarly, automotive investment projects like the Ford assembly plant in Pursat province also present potential customers for locally produced E&E components like batteries, generators, and electronic systems. However, informal consultations with industry actors reveal that these sectors continue to import most inputs from suppliers in Thailand, Vietnam, or China instead of local producers.

This dependency is partly due to the lack of data of the share of locally made with the imported components, which limits the ability of policymakers and investors to map the full supply chain. Moreover, many Cambodian E&E firms remain dependent on imported materials like wires, diodes, and transistors due to limited quality standards, weak supporting industries, and the absence of domestic processing facilities for primary components.[12] As a result, Cambodia faces a structural constraint characterized by high E&E export volumes but equally high import dependence within HS Code 85. This imbalance reflects the sector's limited scope, scale, and sophistication, which hinder deeper integration into GVCs.

11 Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Sector Brief Cambodia: Electrical and Electronic Equipment Industry, 2023, https://www.giz.de/en/downloads/giz2023-en-sectorbrief-cambodia-electronics.pdf giz.de+15

12 Seyhah Ven and Vutha Hing, "Cambodia in the Electronic and Electrical Global Value Chains," *ResearchGate*, October 2019, accessed March 14, 2025, https://www.researchgate.net/publication/337622079_Cambodia_in_the_electronic_and_electrical_global_value_chains.

Case Study: Vietnam's Localization Strategy with Samsung

Vietnam's success with Samsung's localization strategy provides an outstanding example of how policies can foster strong linkage between multinational corporations and domestic suppliers. The Minh Nguyen Support Industry Joint Stock Company, established in 2015, became a Tier-1 supplier for Samsung and produced millions of spare parts for electronics and automotive components.[13] This company's success demonstrates how policy-enabled linkage strategies can promote higher local value-added, technology transfer, and integration into GVCs.

To facilitate such linkages, in 2005, the Vietnamese government enacted the Investment Law, which streamlined FDI procedures, encouraged technology transfer, and promoted joint ventures through incentives tied to domestic sourcing and R&D commitments. These reforms of FDI-related policy triggered a surge in foreign investment, reaching USD 65.7 billion across 8,625 projects during 2006-2016.[14]

Comparative Insight: Thailand's BOI "BUILD Unit" Model

Thailand offers another successful model for strengthening linkages between FDI-led industries and domestic suppliers in the E&E sectors. The BOI (Board of Investment) strategy established the BOI Unit for Industrial Linkage Development established in 1992, aiming to facilitate collaboration between multinational corporations and local part suppliers. The initiative organizes vendor-buyer meetings, offers productivity and quality enhancement services, and maintains the ASEAN Supporting Industry Database (ASID).

Major global companies like Toyota, General Motors, Samsung, and Fujitsu have participated in programs such as SUBCON Thailand, which promote direct sourcing from Thai SMEs.[15] This institutional support has been vital to upgrading Thailand's domestic supplier base, enhancing its E&E and automotive ecosystems, and making the country a regional manufacturing hub.

Policy Recommendations

To strengthen Cambodia's E&E sector and accelerate its integration into regional and global value chains, evidence-based policy interventions are needed. The following recommendations build on the insights from benchmark economies and Cambodia's ongoing industrial roadmap.

1. Mapping and Matching Local Producers with FDI Demand

A national initiative should be established to identify and connect local component producers with the needs of FDI manufactures, especially in HS85 product categories like electrical machinery and equipment. For example, the HS8544 components show high levels of both imports and exports, indicating a clear mismatch and potential for local substitution.

Through this mapping process, capable domestic firms already producing similar goods should

13 "Samsung encourage local firms in VN," Phnom Penh Post, January 22, 2019, https://www.phnompenhpost.com/business/samsung-encourage-local-firms-vn.

14 Le Thanh Hoa and Le Huynh Phuong Chinh, "The flows of FDI to Vietnam: From policy to implementation," *Tạp chí* Công Thương, January 22, 2018, https://tapchicongthuong.vn/the-flows-of-fdi-to-vietnam--from-policy-to-implementation-28323.htm

15 Nguyen Manh Tien and Do Tien Vuong, "International Experiences in Promotion of Linkages Between Domestic and FDI Enterprises and Lessons for Vietnam," *Journal SCIENCE AND TECHNOLOGY POLICIES AND MANAGEMENT* 7, no. 2 (July 26, 2018): 1–16, https://vietnamstijournal.net/index.php/JSTPM/article/view/252.

be connected with SEZ-based assemblers, which can encourage local sourcing, reduce logistics costs, and foster industrial linkages. Such initiatives could be coordinated through a joint platform led by the Council for the Development of Cambodia (CDC) in collaboration with the Ministry of Industry, Science, Technology and Innovation (MISTI).

2. First-Mover Incentives to Expand Domestic Component Capabilities:

To strengthen the domestic value chains and reduce reliance on imports, the government should introduce first-mover incentives for Cambodian E&E producers that are willing to expand into related components production using existing or similar technologies. For example, firms currently manufacturing insulated wire or plastic parts (HS8544) could be encouraged to diversify into cable connectors, sensors, or coil windings, which are in high demand among automotive and electronic assemblers.

Building on the strategic direction set by the CDC's Automotive and Electronics Sectors Development Roadmap to 2027, such incentives could include tax relief, access to concessional loans, subsidized R&D support and quality certificate programs, and industrial matchmaking platforms to connect local suppliers with multinational buyers.

Leveraging existing know-how, labor skills, and machinery within domestic firms and guiding them toward higher-value product lines can expand Cambodia's supplier base while supporting the localization needs of foreign investors.

3. Promote Domestic Sourcing for Rule of Origin Compliance

To capitalize on the benefits of Cambodia's various trade agreements, the government should promote domestic sourcing of components that support Rule of Origin (RoO) compliance. Encouraging FDI manufacturers to source more locally produced components, particularly those with strong export–import overlaps, would enhance both compliance and competitiveness.

Strengthening local sourcing not only supports RoO certification under agreements such as the RCEP and ASEAN FTAs, but also creates new opportunities for domestic suppliers and distributors to integrate into regional and global value chains.

Conclusion

Cambodia's Electrical and Electronics (E&E) sector presents a strong potential to drive industrial diversification, with exports growing by over 56% in 2023 and the rising of automotive foreign direct investment. However, high import dependence and linkages mismatch of primary components continue to limit the potential of Cambodia integrating into the GVC. By applying the GIFF implication and case study from Vietnam and Thailand, suggest that Cambodia should focus on fostering industrial linkages that promote local components, and supporting first-mover firms through targeted incentives. With this move, it will strengthen the Rule of Origin Compliance and meet the local content requirement which will boost Cambodia's competitiveness in the global market.

The Skills Development Programme (SDP) of the Swiss Agency for Development and Cooperation fosters vocational education and skills development training of young men and women in Cambodia.
Photo: Swisscontact

Strengthening TVET to Advance Cambodia's Industrial Development

Moeung Cheery

EXECUTIVE SUMMARY

- Despite a 10% increase in industrial investment in 2024, Cambodia's industrial output decreased by 7%, revealing inefficiencies and a persistent skills mismatch in the workforce.
- Failure to address this issue could hinder Cambodia's graduation from Least Developed Country (LDC) status by 2029. Building a skilled workforce is critical for enhancing competitiveness and supporting economic diversification.
- The Technical and Vocational Education and Training (TVET) system offers a critical solution to bridge the skills gap. However, the current participation in TVET remains low. Hence, there is a need to expand enrolment, improve accessibility, and rebrand its public image.
- A vibrant, dynamic, and inclusive vocational training system would ensure that Cambodia can smoothly graduate from the LDC status, move up the value chain, reduce reliance on low-wage competitiveness, empower SMEs, and promote resilient and inclusive growth.
- Key strategies include increasing investment in the Skill Development Fund (SDF), reshaping the public perception of TVET, strategically decentralizing TVET centers, and offering a dual-track apprenticeship system.

Introduction

Over the past three decades, Cambodia has made significant progress in transforming itself from an agriculture-based economy into one of Southeast Asia's fastest-growing nations, with an average annual GDP growth rate of 7.6% between 1995 and 2019.[1] Industrial expansion has been significant, contributing to the GDP rising from 22% in 2000 to 38% in 2022.[2]

However, Cambodia's growth trajectory now faces structural constraints. According to the Minister of Industry, Science, Technology, and Innovation, industrial output in 2024 decreased by 7%, from USD 16.36 billion in 2023 to only over USD 15 billion in 2024, despite a notable 10% increase in industrial investment.[3] This decline in output suggests inefficiencies in resource utilization and highlights the limited capacity of Cambodia's workforce to produce higher value-added goods.

Without strategically pushing for workforce development through TVET, Cambodia risks being trapped in low-skilled and low-waged sectors. With only 10.7% of workers engaged in medium- to high-skilled occupations, the country could miss its 2029 LDC graduation target and undermine its long-term economic resilience.

1 Hing Vutha and Kruy Narin, *"Cambodia's Growth Story: Key Lessons from Two Decades of Economic Progress"*, *Cambodian Development Resource Institute*, 28 February, 2025, https://coc2024.cdri.org.kh/blogs/cambodias-growth-story-key-lessons-from-two-decades-of-economic-progress

2 Ibid.

3 Manet, Sum, "Cambodia's Industrial Product Value Surpasses $15 Billion," Khmer Times, February 27, 2025, https://www.khmertimeskh.com/501646032/cambodias-industrial-product-value-surpasses-15-billion/.

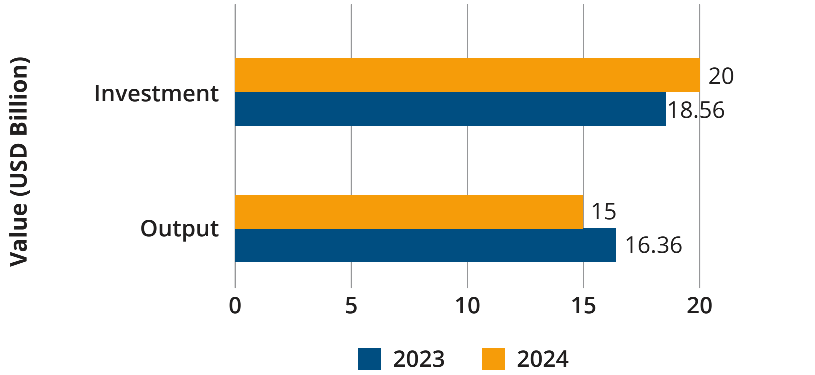


Figure 1: Cambodia's Industrial Investment and Output (2023-2024)
Data source:https://www.khmertimeskh.com/501646032/
cambodias-industrial-product-value-surpasses-15-billion/

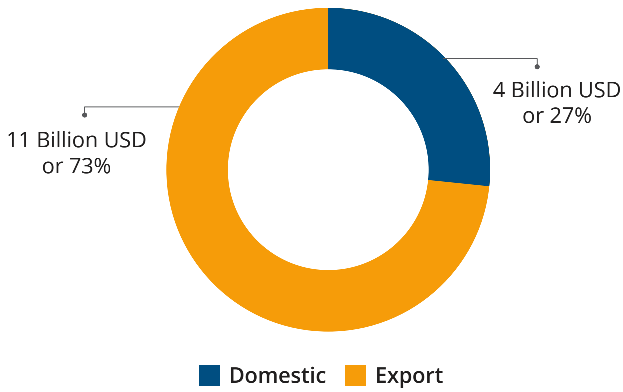


Figure 2: Industrial Production Value (2024)
Data source: https://b2b-cambodia.com/news/
cambodian-manufacturing-sector-sees-1856-billion-investment-surge-in-2023/

TVET: A Timely Solution

Supporting LDC Graduation

Cambodia's scheduled graduation from the LDC status in 2029 will test the nation's economic resilience. As preferential trade agreements like the EU's Everything But Arms (EBA) and the US Generalized System of Preferences (GSP) are phased out, Cambodia must boost productivity and competitiveness through a skilled workforce.

TVET can play a critical role in this transition by equipping Cambodian workers with technical competencies aligned with industry demand. This will allow businesses to move beyond low-cost labor advantages and embrace innovation-driven growth, which is an important step toward economic diversification and global competitiveness.

Moving Up the Value Chain

Upskilling Cambodia's workforce is essential to transition to higher value-added industries such as automotive manufacturing, bicycle production, solar assembly, electronics, and advanced agro-processing. While the industrial base has expanded, it remains concentrated in low-skilled, labor-intensive sectors.

According to the Asian Development Bank, the agriculture sector still employs 39% of the workforce, down from 55% in 2010[4], while the garment, footwear, and travel goods industry alone employs more than 925,000 workers.[5] With a minimum wage of USD 208, this heavy concentration highlights not only a significant skills gap but also presents an opportunity.

Strategic investment in TVET can help workers transition into higher-productivity industries, expand domestic value-added production (e.g., cashew processing or advanced automotive parts), and support Cambodia's move up the industrial ladder.

Shifting the Competitive Advantage

Relying on low labor cost as a competitive advantage is no longer sustainable. Regional competitors such as Myanmar and Bangladesh are already attracting cost-driven investors. Therefore, Cambodia must strategically shift its value proposition by building a higher-skilled labor force that can support complex manufacturing and higher productivity industries.

Through TVET, Cambodia can diversify its investment base, attract high-tech FDIs in electronics and agro-processing, and establish itself as a regional industrial hub for advanced manufacturing.

Empowering SMEs and Rural Integration

Enhancing and expanding TVET access supports SMEs by enabling them to integrate into regional and global value chains. In sectors like agro-processing, particularly cashew nut processing, training in technical, processing, and quality-control skills can help local firms compete internationally. This will not only stimulate rural development, foster inclusive growth, and reduce Cambodia's reliance on imported intermediate goods.

Driving Economic Diversification

Lastly, all of the skill development efforts will contribute to the ultimate goal of diversifying Cambodia's economy. Historically, Cambodia's extensive reliance on sectors, such as tourism, garment, and agriculture, has left the nation vulnerable to external shocks like the COVID-19. Developing technical skills enables Cambodia to develop more resilient and higher-value sectors capable of withstanding global volatility and sustaining inclusive growth.

4 Asian Development Bank, "Cambodia's Economic Diversification: A Country Diagnostic Study", November, 2024, https://www.adb.org/sites/default/files/publication/1009916/cambodia-economic-diversification.pdf

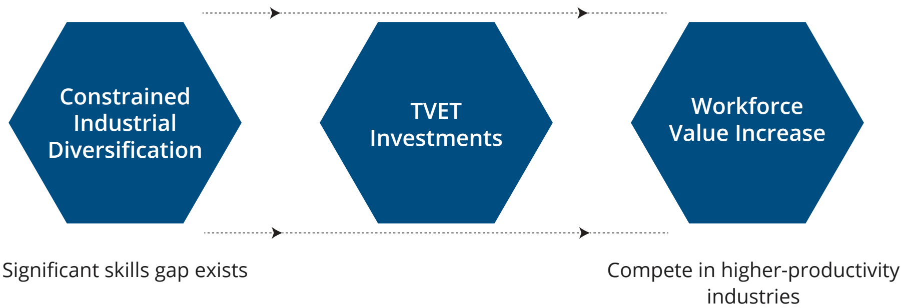
5 Asia Garment Hub, Cambodia Garment, Footwear, and Travel Goods (GFT) Sector Brief: Issue 3, September 2024 (Phnom Penh: Responsible Business Hub Cambodia, 2024) https://asiagarmenthub.net/resources/2024/cambodia-gft-sectoral-brief-issue-3.pdf

Cambodia's National Strategies for Industrial and Skills Development

The Royal Government of Cambodia (RGC) has made notable progress in tackling skills development issues through major policy frameworks, including:

- Rectangular Strategies,
- Industrial Development Policy (IDP) 2015-25,
- National Strategic Development Plan (NSDP) 2019-23,
- Education Strategic Plan (ESP) 2019-23,
- National Employment Policy 2015-25, and
- National TVET Policy 2017-2025, along with the Pentagonal Strategy Phase I.

Upskilling Workforce through TVET



A flagship initiative under the current administration is the "TVET 1.5M" program, launched by Prime Minister Hun Manet to upskill 1.5 million young people from poor and vulnerable families.[6] The RGC has proactively sought to transform human resources into valuable human capital in order to realize Cambodia's ambition to become an upper-middle-income country by 2030 and a high-income nation by 2050.

To support this vision, the Skills Development Fund (SDF), a demand-driven financing mechanism piloted since 2018, has played a catalytic role.[7] As of January 2025, over 35,000 trainees have benefited through 465 private sector entities and 61 training institutions, supported by the SDF's matching fund of approximately USD 16 million.[8] Scaling up this initiative will require greater private sector participation, multi-stakeholder partnership, and sustained financial support.

Understanding the Low TVET Enrolment

Despite strong government commitment, TVET enrollment remains low. For instance, as of December 2024, only 80,000 of the 1.5 million target had enrolled in TVET, accounting for just 5.33 percent of the overall objective.[9] This relatively low participation rate can be attributed to three key reasons.

6 Rinith, Taing, "Cambodia's Push to Empower Youth Through TVET Gains Momentum," Khmer Times, January 12, 2025, https://www.khmertimeskh.com/501607472/cambodias-push-to-empower-youth-through-tvet-gains-momentum/

7 Skills Development Fund, SDF Annual Report 2024 (Phnom Penh: Skills Development Fund), January 23, 2025), https://sdfcambodia.org/kh/resources/sdf-annual-report-2024

8 Ibid.

9 Rinith, Taing, "Cambodia's Push to Empower Youth Through TVET Gains Momentum," *Khmer Times*, January 12, 2025, https://www.khmertimeskh.com/501607472/cambodias-push-to-empower-youth-through-tvet-gains-momentum/.

First, many Cambodian students, particularly those in rural areas, lack access to reliable information about potential career pathways and the long-term benefits of pursuing TVET upskilling classes. Public awareness campaigns about TVET remain limited, and high schools' curricula rarely integrate TVET-related guidance or career orientation. This information gap has led many potential workers to continue remaining in low-paying and vulnerable sectors, such as traditional farming. Moreover, the perception that TVET is only for students with low academic performance, combined with the limited availability of training institutions in rural areas, continues to discourage participation.

Second, participation in the TVET 1.5M scheme remains low largely due to the deeply ingrained negative perceptions of vocational training in Cambodia. TVET is often viewed as a second-choice option for students with low grades, even though the system offers eight progressive levels of training, including four certificate programs as well as associate, bachelor's, master's, and doctoral degrees. University education is still seen as the primary pathway to success and upward mobility. Many Cambodian families continue to associate technical and vocational education with low-status jobs and poor wages, despite growing evidence of strong demand and competitive jobs in many skilled sectors. These societal attitudes discourage even high-performing students from pursuing technical and vocational tracks, perpetuating both low enrolment and the misconception that TVET is only for "less capable" students.

Another factor exacerbating the low participation rate is the uneven geographical distribution of TVET training centers, which are heavily concentrated in urban centers such as Phnom Penh. Rural provinces, by contrast, have limited access to training facilities, which creates significant barriers for youth who cannot afford the costs of relocation or daily commuting. The lack of accessibility for rural communities undermines efforts to promote inclusive workforce development and limits opportunities for rural communities to benefit from upskilling initiatives. Additionally, since TVET trainees do not earn an income during their training, providing financial support would reduce the pressure to choose immediate low-skilled employment over long-term skills investment.

Policy Recommendations

To enhance participation in TVET and enhance Cambodia's human capital development, the RGC should consider the following four policy measures:

1. Enhancing the SDF and Expanding Financial Support Mechanisms

There is a strong need to increase investment in the SDF, as doing so would yield long-term benefits that far outweigh short-term costs. Experiences from other countries show that many industry leaders are initially reluctant to invest in skills development due to limited confidence in fund mechanisms and uncertain outcomes. An ADB Brief on Cambodia's TVET reiterates this challenge, as it revealed that the private sector participation in the SDF remains limited.[10]

To build confidence, additional pilot programs should be launched to demonstrate tangible benefits and best practices. Enhancing financial support for the SDF would also incentivize participation in TVET, particularly by easing the burden on the trainees who often face financial

10 Asian Development Bank, Toward Adopting a Skills Development Fund for Cambodia, ADB Brief No. 90, https://ecommons.cornell.edu/server/api/core/bitstreams/63eb2b24-051e-49b5-aff6-74a898a06a63/content

constraints during their studies. Since TVET trainees do not often earn an income while undergoing training, providing financial support would reduce the pressure to choose short-term, low-skilled employment over long-term skills investment.

2. Decentralizing and Strategically Clustering TVET Centers

TVET centers should be decentralized and strategically located to align with Cambodia's industrial geography. While nationwide expansion of TVET access is important, a targeted and data-driven approach would maximize relevance, efficiency, and impact. Many trainees currently face financial and logistical barriers when required to travel long distances for training.

Therefore, the RGC should conduct a comprehensive feasibility study to establish regional TVET clusters. For instance, Banteay Meanchey, home to five Special Economic Zones and an industrial park focused on jewelry, textiles, and agricultural processing, deploying over 20,000 workers, could serve as a focal TVET hub for Banteay Meanchey, Oddar Meanchey, Battambang, and Pailin.[11] Similarly, Kampong Cham could serve as a regional center for Kampong Thom, Kampong Chhnang, and Tbong Khmum, given their proximity and shared industrial base.

Strategic regional clustering would not only enhance accessibility and reduce costs for trainees but also strengthen linkages between training institutions and industry needs to ensure that TVET programs remain responsive, inclusive, and regionally relevant.

3. Reshaping the Public Narrative around TVET

Changing societal perception of TVET requires constant and coordinated efforts across government, the private sector, and civil society. Public awareness campaigns should emphasize the dignity, stability, and upward mobility that vocational careers can offer.

Germany provides a compelling model. The Federal Ministry of Education and Research (BMBF) launched the campaign "Du + Deine Ausbildung = Praktisch unschlagbar!" (You + Your Apprenticeship = Practically Unbeatable).[12] This initiative combines storytelling with media outreach to highlight TVET success stories. Apprenticeships are seen as prestigious opportunities that can lead to advanced qualifications such as Industriemeister (Industrial Master) and Handwerksmeister (Master Craftsman).[13]

For Cambodia, similar campaigns should strategically leverage local influencers, respected industry figures, and successful TVET alumni to inspire confidence among students, parents, and communities. Regularly showcasing TVET success stories through media, schools, and industry events can gradually shift public attitudes and elevate the status of technical and vocational careers.

11 "Five special economic zones in the Banteay Meanchey Province provide employment for more than 20,000 people", KhmerTimes, July 19, 2023, https://www.khmertimeskh.com/501310595/five-special-economic-zones-in-the-banteay-meanchey-province-provide-employment-for-more-than-20000-people/

12 "Good chances of finding an apprenticeship", deutschland.de, 11 July, 2016, https://www.deutschland.de/en/topic/business/careers-work/good-chances-of-finding-an-apprenticeship

13 Cedefop, Germany – European Inventory on NQF, 2019, https://www.cedefop.europa.eu/files/germany european_inventory_on_nqf_2018.pdf.

4. Introducing Viable Incentive Mechanisms for Industry and Trainees

For Cambodia's TVET system to become a credible and competitive pathway for workforce development, it must incorporate effective incentive mechanisms for both industry leaders or employers and trainees. Switzerland offers a strong example. Its dual-track apprenticeship system alternates between classroom learning (one to two days per week) and on-the-job training, during which they earn an income. This model provides flexibility, bridges the gap between theory and practice, and makes TVET financially viable and socially respected.[14]

Cambodia could adopt a "Cambodian-style dual-track system" for local economic structure and institutional capacity. Allowing students to earn income while learning would reduce the financial burden and reinforce the perception of TVET as a stable and dignified career path. At the same time, offering structured incentives to companies, such as subsidies, training credits, or recognition awards, could boost industry engagement in curriculum design, mentorship, and apprenticeship hosting.

Conclusion

Cambodia has made significant progress in advancing TVET through both policy reform and policy implementation. However, further efforts are needed to raise the participation rate and improve overall system quality. Making vocational training an attractive and credible option for Cambodian workforces requires substantial investment and strategic interventions.

Enhancing Skill Development Fund (SDF), decentralizing TVET Centers, shifting societal perceptions and awareness, and providing viable incentive mechanisms will be key to building a skilled, adaptable, and inclusive workforce. By doing so, Cambodia can not only accelerate its industrial development and competitiveness but also foster human capital that supports its transition toward a more advanced and diversified economy.

14 Isobel Leybold, Johnson, "Can you study after an apprenticeship?", The Swiss Voice, August 29, 2019. https://www.swissinfo.ch/eng/society/your-education-questions-answered-_can-you-study-after-an-apprenticeship/45120328

Nurturing Talent for Innovation: Strengthening Cambodia's Startup Ecosystem Through Human Capital Development

Srey Bormey

EXECUTIVE SUMMARY

- Startups serve as key drivers of innovation, productivity, and inclusive economic growth. They generate employment, diversify markets, attract investment, and enhance competitiveness. Additionally, they act as catalysts for digital transformation and new business models across multiple sectors.
- Cambodia's startup ecosystem has expanded rapidly in recent years, with a growing number of startups emerging across key sectors such as technology, agribusiness, creative industries, and green innovation.
- Collaboration among government institutions, private sector actors, academia, and development partners has also become more dynamic, fostering stronger linkages and knowledge exchange across the ecosystem.
- The Pentagonal Strategy and initiatives such as Techo Startup Center and Khmer Enterprise underscore national commitment to entrepreneurship-led growth.
- However, key structural challenges of Cambodia's startup ecosystem include (1) shortages of skilled professionals in technology, digital literacy, and business management; (2) weak coordination among incubators, accelerators, investors, and policymakers; (3) concentration of support and opportunities in Phnom Penh, leaving rural innovators behind; and (4) limited peer-to-peer learning and collaboration, restricting the spread of best practices and innovation.
- It is crucial for stakeholders to place strong emphasis on building talent within Cambodia's startup ecosystem, as these are among the most critical factors driving startup growth and sustainability. Despite ongoing efforts to develop a skilled workforce, significant gaps remain in both technological and entrepreneurial skills.
- The ecosystem also faces issues such as concentrated support in certain areas and limited opportunities for peer-to-peer learning and collaboration among startups. The challenges limit the diffusion of knowledge and innovation across the ecosystem.
- To address these issues, stakeholders should work collaboratively to expand the pool of skilled professionals, enhance cooperation between startup support organizations, boost quantity and quality of support programs, and improve the capacity of local trainers while maintaining active engagement with foreign experts.

Introduction

Cambodia has emerged as one of the fastest-growing economies in Asia, driven by its impressive economic performance over the past decades. Nevertheless, its high degree of economic integration also renders it highly vulnerable to external shocks. Prior to the global pandemic, Cambodia sustained an average annual growth rate of approximately 7% from 1995 to 2019 [1]. Although the economy quickly recovered in the post-pandemic period, it has yet to regain its pre-crisis momentum.[2]

Amid growing global uncertainties and the potential imposition of tariffs imposed on Cambodia's exports by the United States, the World Bank has projected the country's GDP growth to slow to

1 National Bank of Cambodia, National Financial Inclusion Strategy 2019–2025, accessed July 25, 2025, https://www.nbc.gov.kh/download_files/publication/blueprints_eng/Final_NFIS_in_English.pdf

2 The World Bank, "Overview," *World Bank*, last modified December 2023,

4.0% in 2025.[3] This demonstrates how Cambodia's economy has heavily depended on external factors. Moreover, as a least developed country (LDC), Cambodia currently benefits from preferential trade agreements.[4] With LDC graduation anticipated in 2029, the country stands to lose some of these advantages that pose additional challenges to its export competitiveness.

Cambodia's economic structure is also narrowly based, with a few dominant sectors and limited export markets. In 2019, manufacturing, agriculture, services, and construction accounted for 70% of the GDP. While manufacturing was the leading contributor to GDP for years, the services industry surpassed it in 2024.[5] Additionally, export destinations remain concentrated as well, with the US market absorbing nearly USD10 billion worth of exports in 2024, followed by Vietnam, China, Japan, Canada, and Spain.[6] Such concentration exposes Cambodia to significant external risks, which highlights the need for diversification to sustain long-term growth.

In response, the Cambodian government has committed to promoting entrepreneurship and startup development as new engines of innovation and economic resilience. Startups can drive growth by introducing innovation, creating jobs, fostering competition, and attracting investment. Nevertheless, Cambodia's startup ecosystem remains relatively young compared to other more developed ecosystems in the region. A number of challenges persist, including limited funding, inadequate regulatory support, and most critically, a shortage of skilled human resources, continue to constrain its potential.

This policy brief seeks to provide insights for policymakers and startup ecosystem stakeholders to enhance human capital and foster startup development. The paper is structured into four sections: introduction, overview of Cambodia's startup ecosystem, human resource gap within the sector, and policy recommendations.

Overview of the Startup Ecosystem in Cambodia

The startup ecosystem can be broadly defined in various ways. For the purpose of this paper, the startup ecosystem is viewed as the network of interactions and interconnections among various actors that work together to develop high-growth ventures.[7] These actors often include startups, mentors, investors, incubators and accelerators, entrepreneurial support organizations (ESOs), academic institutions, and other relevant stakeholders who collectively nurture the ecosystem. The success of the ecosystem depends on the performance and collaboration of each of these actors within it.

3 The World Bank, Poverty and Economic Policy Global Departments, Macro Poverty Outlook, April 2025, https://thedocs.worldbank.org/en/doc/c6aceb75bed03729ef4ff9404dd7f125-0500012021/related/mpo-khm.pdf.

4 United Nations Development Programme, Cambodia's Graduation from Least Developed Country (LDC) Status: Preparedness and Potential Economic and Social Impacts (2024), https://www.undp.org/sites/g/files/zskgke326/files/2024-11/final_ldc-policy_brief.pdf.

5 Asia Development Bank. "CAMBODIA'S ECONOMIC DIVERSIFICATION A COUNTRY DIAGNOSTIC STUDY". 2024. https://www.adb.org/sites/default/files/publication/1009916/cambodia-economic-diversification.pdf.

6 Khmer Times. "Cambodia's exports to US touch nearly $10 billion." Last modified 2025. https://www.khmertimeskh.com/501623274/cambodias-exports-to-us-touch-nearly-10-billion/.

7 Grow Advisors. "Startup Ecosystem" Startup Commons. Accessed July 25, 2025. https://www.startupcommons.org/uploads/2/1/0/9/21090978/whitepaperstartupsecosystems.pdf

Cambodia's startup ecosystem is young but promising. It has been supported by a large youth population and increasing internet penetration.[8] In Cambodia, a startup is often defined as a business entity that incorporates innovation into its business model to demonstrate strong growth potential and operate under uncertain and high-risk conditions.[9]

The ecosystem is on a steady growth trajectory, as more than 200 startups were officially listed by 2024.[10] Tech startups represent a significant proportion, including numerous tech-enabled ventures. Moreover, Cambodia benefits from sectoral diversity, with startups operating across various industries including, software as a service, digital media and advertising, e-commerce, fintech, edtech, and more.[11]

While Cambodia has fewer high-profile investment success stories compared to more mature ecosystems, a few startups, such as PillTech, Jalat Logistics, and HUSK CBE PTE. LTD, secured investment from venture capital in 2024.[12] Moreover, the startup ecosystem in Cambodia also saw an increasing access to grants and cash prizes. In 2024, it was reported that the ecosystem collected up to 2.4 billion riels in grants from various institutions, including government entities and ESOs.[13]

Despite these positive developments, Cambodia's startup ecosystem faces a number of challenges. A major concern is the funding gap. From investors' perspective, startups in the early stage are often deemed inexperienced and high-risk for investors. Therefore, most founders rely on personal funds or competition grants to support business operations. Despite this, many startups struggle to survive long enough to reach an investment-ready stage. Talent shortage remains another most critical barrier that requires coordinated intervention from the government and ecosystem stakeholders. Moreover, Cambodia currently lacks a comprehensive startup-specific policy that outlines government support and provides a clear framework for startup ecosystem development.[14]

Understanding Human Capital Challenges in Cambodia's Startup Ecosystem

Startup Heatmap Europe and Swisscontact proposed a self-assessment framework that details a set of key indicators for ecosystem builders to evaluate ecosystem performance. One critical

8 Sokhuy Lay et al., "Connecting the Cambodia Startup Ecosytem: Phnom Penh, Siem Reap, Battambang." 2024. https://www.swisscontact.org/_Resources/Persistent/b/e/e/c/beec4e5e5c164f7922b2abc62f58ecf42628fe97/Social%20Network%20Analysis%20Study%202024.pdf.

9 Royal Government of Cambodia, Supreme National Economic Council, Cambodia Digital Economy and Society Policy Framework 2021 - 2035. 2021. https://asset.cambodia.gov.kh/mptc/media/EN-Policy-Framework-of-Digital-Economy-and-Society.pdf.

10 Techo Startup Center. "Startup Cambodia Insight 2024." Last modified 2025. https://media.startupcambodia.gov.kh/platform/core/resource/files/Startup_Cambodia_Insight_2024.pdf.

11 Then Yanuth and Srey Bormey. 2025. "Cambodia's Startup Ecosystem: Health Check 2024." https://api.techostartup.center/media/files/Assessing_the_State_of_Cambodias_Startup_Ecosystem_2024.pdf

12 Techo Startup Center. "Startup Cambodia Insight 2024." Last modified 2025. https://media.startupcambodia.gov.kh/platform/core/resource/files/Startup_Cambodia_Insight_2024.pdf.

13 Techo Startup Center. "Startup Cambodia Insight 2024." Last modified 2025. https://media.startupcambodia.gov.kh/platform/core/resource/files/Startup_Cambodia_Insight_2024.pdf.

14 Sopheara Ek and Paul Vandenberg. "Cambodia's Ecosystem For Technology Startups," 38. 2022. https://www.adb.org/sites/default/files/publication/804931/cambodia-ecosystem-technology-startups.pdf

dimension is the pool of entrepreneurs, including their inclusivity and skills.[15] Research shows that founders are among the most important factors that influence startup success, as their capabilities, experiences, and even personality significantly shape their entrepreneurial journey.[16]

Although the number of startup founders in Cambodia is growing rapidly, there is a need to ensure their skills and innovation capacity are crucial for both startup and ecosystem success. Currently, the supply of skilled talents is insufficient, both in entrepreneurial and technical competencies.[17] Effective startup development, especially for tech startups, requires a combination of these skills. However, many startups consist of talents from only a single field and necessitate the hiring of personnel to fill gaps.[18] Recruiting remains challenging, as employment in startups is often viewed as unstable compared to larger, established companies.[19]

In Cambodia, the demand for tech-skilled founders in the startup ecosystem is high, yet the supply remains limited. In 2024, more than 50% of founders possessed tech-related or engineering skills.[20] Nevertheless, due to increasing demand and fast transformation of technology, the country as the whole requires up to 70% of tech-skilled personnel each year.[21] Moreover, the Roadmap for Digital Skills Development in Cambodia 2024-2035 highlights that only 10% of students pursued higher education in digital skills in 2021-2022, compared to 60% in other fields such as social sciences, business, and law. Despite this, the proportion of students studying digital skills has grown since 2017-2018. This demonstrates that there was an increasing recognition of the field's importance.[22]

At the higher education level, around 40 universities, both public and private, offer computer science and engineering courses out of more than 100 institutions nationwide.[23] At the upper-secondary level, the government has made notable efforts to integrate Science, Technology, Engineering, and Mathematics (STEM) education into curricula. However, challenges remain, including a shortage of skilled trainers, limited funding, inadequate equipment, and a concentration of STEM programs primarily at the upper-secondary level.[24]

15 Sokhuy Lay et al., "Connecting the Cambodia Startup Ecosytem: Phnom Penh, Siem Reap, Battambang." 2024. https://www.swisscontact.org/_Resources/Persistent/b/e/e/c/beec4e5e5c164f7922b2abc62f58ecf42628fe97/Social%20Network%20Analysis%20Study%202024.pdf.

16 Aryadita, Himawat, Badri Munir Sukoco, and Maurice Lyver. "Founders and the success of start-ups: An integrative review." Cogent Business & Management. Last modified 2023. https://www.researchgate.net/publication/375696715_Founders_and_the_success_of_start-ups_An_integrative_review.

17 Phong Kimchhoy et al., "Tech Startup Ecosystem in Cambodia." 2022. https://digitaleconomy.gov.kh/public/images/mediahub/Tech_Startup_Ecosystem_in_Cambodia_2022_Challenges_Opportunities__l6RPInh.pdf.

18 Sopheara Ek and Paul Vandenberg,"Cambodia's Ecosystem For Technology Startups," 38.

19 Muhammad M Ma'aji et al., "Challenges Cambodian Startups Face When Scaling Up Their Operation," Kurdish Studies 12, no 1. (2024): 615-628. https://www.researchgate.net/publication/377085275_Challenges_Cambodian_Startups_Face_when_Scaling_up_their_Operations

20 Techo Startup Center. "Startup Cambodia Insight 2024." Last modified 2025. https://media.startupcambodia.gov.kh/platform/core/resource/files/Startup_Cambodia_Insight_2024.pdf.

21 Hang, Punreay. "Cambodia needs 70% digital technology professionals annually." Khmer Time. Last modified 2024. https://www.khmertimeskh.com/501469157/cambodia-needs-70-digital-technology-professionals-annually/

22 Ministry of Post and Communication. "Digital Skill Development Roadmap 2024-2035." Last modified 2024. https://data.opendevelopmentcambodia.net/km/dataset/732662ee-a0c6-4dd4-9a97-aa524b9f1ed0/resource/49b19c76-db3f-4fe7-a9d9-0c2e0c9c96b7/download/roadmap_for_digital_skills_development_in_cambodia_2024_2035_00.1.2024.pdf.

23 Sopheara Ek and Paul Vandenberg. "Cambodia's Ecosystem For Technology Startups," 38. 2022. https://www.adb.org/sites/default/files/publication/804931/cambodia-ecosystem-technology-startups.pdf

24 Puthsereymony Vann. "STEM Education in Cambodia: Progress and Challenges." Cambodian Education Forum. Last modified September 18, 2023. https://cefcambodia.com/2023/09/18/stem-education-in-cambodia-progress-and-challenges/.

Beyond technical skills, many founders lack knowledge in business planning, revenue models, and entrepreneurship, which hinder startup growth. While business-related majors remain popular among university students, investors note persistent gaps in practical business skills.[25] Startups often lack experiences in negotiation, have limited valuation records, and sometimes hold overgeneralized expectations.[26] Additionally, universities play a limited role in fostering entrepreneurship, with few institutions offering structured support or cultivating a culture of risk-taking.[27]

Recognizing these capacity limitations, ecosystem stakeholders have implemented various support initiatives. However, support remains unevenly distributed, as many businesses have limited engagement with the ecosystem. Most entrepreneurial support organizations (ESOs) provide general support rather than specific-sector assistance. Additionally, peer-to-peer exchanges remain underdeveloped, and although the number of mentors is growing, the demand for qualified mentors continues to outpace supply.[28]

Policy Recommendations

Fostering startups offers a promising pathway for driving economic growth and diversifying beyond traditional sectors. To build a strong startup ecosystem, stakeholders should continue to emphasize capacity development not only for founders but also for support programs and mentors. Key recommendations include:

1. Strengthening Technical and Entrepreneurial Skills

Enhancing tech skills in education requires a comprehensive and inclusive approach that begins at the foundational level. Integrating digital literacy and STEM education as compulsory components of early schooling can build essential skills for the future workforce and foster a culture of innovation from a young age. Ensuring equal access to quality education across both urban and rural areas is crucial to prevent digital and skill divides. Continued collaboration with development partners can further strengthen STEM initiatives and help expand such programs to lower-secondary or even primary levels, nurturing early interest in technology and problem-solving. Moreover, investing in the quality of STEM education through teacher training, provision of adequate learning resources, and international exchange programs will enable Cambodia to learn from more advanced education systems and equip students with the competencies needed to thrive in an increasingly digital and interconnected world.

Embedding entrepreneurial skills across curricula is essential to cultivate innovation and self-reliance among students. Introducing an entrepreneurial mindset and practical training across all levels of formal education can prepare learners to think creatively and act proactively. Project-based learning should be promoted to encourage students to develop innovative

25 Ministry of Post and Communication. "*Digital Skill Development Roadmap 2024-2035*." Last modified 2024. https://data.opendevelopmentcambodia.net/km/dataset/732662ee-a0c6-4dd4-9a97-aa524b9f1ed0/resource/49b19c76-db3f-4fe7-a9d9-0c2e0c9c96b7/download/roadmap_for_digital_skills_development_in_cambodia_2024_2035_00.1.2024.pdf.

26 Sopheara Ek and Paul Vandenberg. "*Cambodia's Ecosystem For Technology Startups,*" 38. 2022. https://www.adb.org/sites/default/files/publication/804931/cambodia-ecosystem-technology-startups.pdf

27 World Bank Group. *"Entrepreneurial Cambodia."* The World Bank. Last modified 2018. https://documents1.worldbank.org/curated/en/603641543599469665/pdf/128265-REVISED-Nota-Entrepreneruship-web.pdf.

28 Sokhuy Lay et al., "*Connecting the Cambodia Startup Ecosytem: Phnom Penh, Siem Reap, Battambang*." 2024. https://www.swisscontact.org/_Resources/Persistent/b/e/e/c/beec4e5e5c164f7922b2abc62f58ecf42628fe97/Social%20Network%20Analysis%20Study%202024.pdf.

solutions and business models addressing real-world challenges. Strengthening collaboration between universities and startup support organizations can provide students with access to startup programs, competitions, and mentorship opportunities. Furthermore, universities should actively guide students in exploring diverse career paths within startups and the broader entrepreneurial ecosystem, fostering a generation of capable and opportunity-driven innovators.

2. Enhancing Collaboration Among Startup Support Organizations and Improving Program Quality

Ecosystem actors, particularly ESOs, should enhance both the quantity and quality of their support programs to improve founders' skills and knowledge. Emphasis should be placed on inclusivity and accessibility to ensure support reaches startups outside the capital and major cities. Programs should offer comprehensive support, including post-program follow-ups, and be tailored to the specific stage of each startup to align expectations and address actual needs.

While Cambodia offers many support programs for early-stage startups, there is a need to support engagement in regional or international support programs. Specific funds should enable startups to participate in such competitions, with collaboration from the private sector, which can provide expertise and financial support.

Stronger collaboration among ESOs is crucial for effective program delivery. This includes better information sharing, joint participation, and collaborative planning. Establishing a working network of ecosystem stakeholders could serve as a focal point for information exchange, allow members to share insights and activities, coordinate support more effectively, and extend assistance to underserved areas.

3. Improving the Quality of Local Trainers and Engaging Regional Experts

With the majority of Cambodian startups at an early stage, having a strong network of qualified mentors is critical for guiding startups through their growth journey. Expanding and enhancing the mentor network will be beneficial for ecosystem connectivity. Platforms and events that facilitate engagement between mentors and startups should be promoted, and mentors should be encouraged to leverage national resources, such as the Startup Cambodia digital platform, to increase visibility.

Mentors should also have opportunities to enhance their skills and adopt a collaborative, contribution-oriented mindset to support both startups and ecosystem development. Public recognition, awards, and other incentives can motivate mentors and encourage broader engagement.

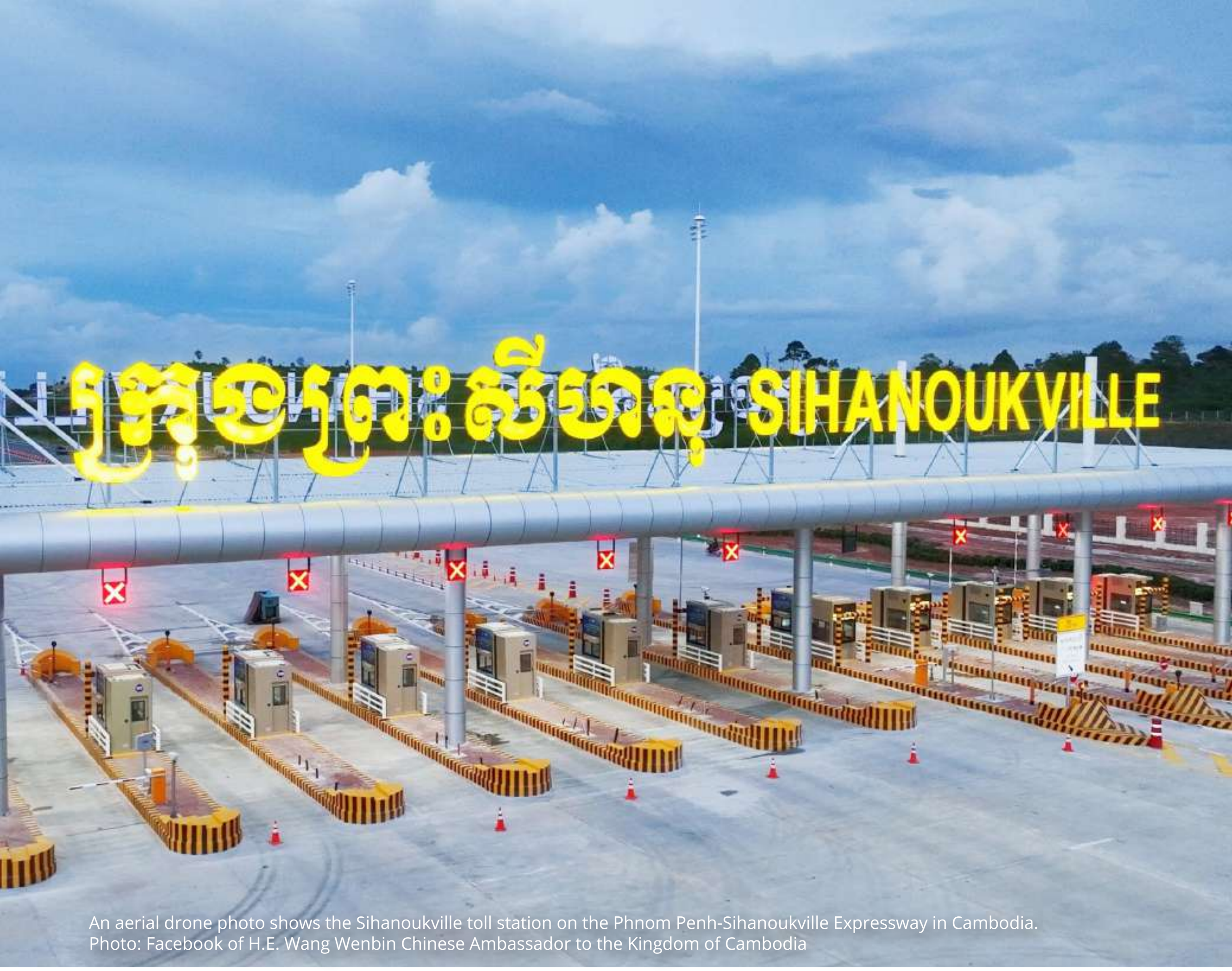
Given the limited local mentor pool, cross-ecosystem collaboration is essential. Bringing in expertise from more developed ecosystems can provide valuable real-world insights, including success and failure experiences. Support should also be provided to startups seeking guidance from international mentors, including facilitating connections, networking opportunities, and, where appropriate, financial support to access external expertise.

Conclusion

Cambodia's startup ecosystem presents a significant opportunity to drive economic growth, diversify beyond traditional sectors, and foster innovation. While the ecosystem is young and growing, it faces key challenges, particularly in human capital, mentorship, and access to quality support programs. Addressing these gaps, through strengthened technical and entrepreneurial education, enhanced collaboration among support organizations, and engagement with both local and regional mentors, will be critical to building a robust and sustainable ecosystem.

By investing in skills development, promoting inclusive and high-quality support programs, and fostering connectivity within and beyond the local ecosystem, Cambodia can empower startups to thrive, create jobs, attract investment, and contribute meaningfully to the country's long-term economic resilience. Strong coordination among stakeholders and strategic policy interventions will ensure that the startup ecosystem becomes a central engine of Cambodia's future growth.

THEME III: BUILDING A RESILIENT AND INCLUSIVE ECONOMIC FUTURE



An aerial drone photo shows the Sihanoukville toll station on the Phnom Penh-Sihanoukville Expressway in Cambodia.
Photo: Facebook of H.E. Wang Wenbin Chinese Ambassador to the Kingdom of Cambodia

From Krong Chaktomuk to the Sea: Can Cambodia Utilize and Improve Its Existing Road and Rail Infrastructure for Better Trade Competitiveness among Its Neighbors?

Chhun Menghak

EXECUTIVE SUMMARY

- Cambodia's trade is projected to increase tenfold by 2030, but this growth depends on the strained Phnom Penh-Sihanoukville corridor.[1]
- High logistics costs, equivalent to 26% of GDP, and a weak Logistics Performance Index ranking of 115th in 2023 reflect significant inefficiencies, including narrow two-lane highways and an underutilized rail network.[2]
- International experiences from Lao PDR, Tanzania, ASEAN, and the EU demonstrate the success of Public-Private Partnerships (PPPs), dry ports, and digital systems in improving and transforming logistics.
- Recommended priorities include expanding rail freight capacity, developing multimodal hubs through PPPs, enforcing road weight limits with technology, implementing a digital single-window system for trade, and completing ASEAN transit agreements.
- With financing drawn from a blend of public, private, and donor support, these measures would boost trade competitiveness and advance Cambodia's long-term development goals.

Introduction

Following its independence in 1953, Cambodia rapidly sought to reduce reliance on foreign ports by building the deep-water port at Sihanoukville, which opened in 1960.[3] To ensure seamless connectivity, the Southern Railway was constructed in the late 1960s, linking the capital Phnom Penh directly to the port.[4] The integrated port-rail system formed the backbone of Cambodia's economic vision in that period, providing a critical infrastructure for trade and development.

Today, as Cambodia pursues more ambitions trade goals, the adequacy of its transport network has come under renewed scrutiny. This policy brief examines the limitation of the country's road and rail infrastructure and outlines ways to enhance trade competitiveness and regional integration.

Infrastructure Challenges

Firstly, Cambodia's railway network is outdated, with single-track lines limiting speed, capacity, and frequency. Less than 1% of freight currently travels by rail[5], despite the Phnom Penh-Sihanoukville-Poipet corridor's potential to link Thailand and Vietnam.[6] Rail remains a missed opportunity for cost-effective and sustainable cargo transport. However, this is set to change

1 World Bank Group, Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors (Washington, D.C.: World Bank, 2024), 1, para. 1. Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors.
2 Ibid., pp.2, para. 4.
3 Sihanoukville Autonomous Port, "Port History," January 7, 2025, Sihanoukville Autonomous Port, Port History | Sihanoukville Autonomous Port.
4 Surya Narayan, "Cambodian Railways – History, Establishment, Distribution, Challenges," *The Better Cambodia,* July 9, 2022,
https://thebettercambodia.com/cambodian-railways-history-establishment-distribution-challenges/.
5 World Bank Group, Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors (Washington, D.C.: World Bank, 2024), 7, para. 1. Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors.
6 Ibid.


Workers check the train before departure at Royal railway station Cambodia at Phnom Penh, Cambodia.
Photo: Shutterstock

with a major feasibility study launched in 2025. Supported by a USD 300 million Japanese grant, Cambodia plans to upgrade the Phnom Penh-Poi pet railway. This project will enable passenger trains to reach speeds of up to 80 km/h and freight trains up to 50 km/h, while also incorporating advanced signaling systems and renovating and modernizing stations.[7]

Secondly, floods and storms significantly pose several challenges to Cambodia's transportation infrastructure. Over 75% of the country's roads are located in flood-prone basins[8], with seasonal floods capable of isolating up to 90% of provinces for several days.[9] A study estimated that a week-long closure of major roads due to a 50-year flood event could increase trade costs by approximately 5% for each day of closure.[10] This highlights the urgent need for resilient infrastructure design and the development of alternative transportation networks, including expedited repairs to rail lines and greater resilience on waterways during road floods.

As a result, the infrastructure bottlenecks, limited rural access, and fragmented policy frameworks continue to keep Cambodia's logistics costs at 26% of GDP, compared with 14% in Thailand and 20% in Vietnam.[11]

7 Simran Ahuja, "Feasibility Study Commences for Phnom Penh–Poipet Railway Upgrade - Southeast Asia Infrastructure," Southeast Asia Infrastructure, May 7, 2025, Feasibility study commences for Phnom Penh–Poipet Railway upgrade - Southeast Asia Infrastructure.

8 GFDRR. "A Pathway to Resilient Rural Roads in Cambodia," December, 2022, para.1. A pathway to resilient rural roads in Cambodia | GFDRR.

9 World Bank Group, Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors (Washington, D.C.: World Bank, 2024), pp.7, para.3. Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors.

10 Ibid.

11 World Bank Group, Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors (Washington, D.C.: World Bank, 2024), pp.3. Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors.

Table: Transport and Trade Metrics, Cambodia vs. Neighbors

Indicator	Cambodia	Vietnam	Thailand
Logistics Performance Index (2023)	115/133(2023)	43/139 (2023)	34/139 (2023)
Logistics cost (% of GDP) (2020)	26%	20%	14%
Total road network (km)	~ 67,902.19 km[12]	~209,650 km[13]	390,026 km[14]
% of national roads paved	85% (2022)[15]	(Data varies) ~80%[16]	>98.5%[17]
Railway network (km)	650km[18]	2,600 km[19]	4,000 km[20]
Rail freight modal share (all freight)	<1%[21]	4% (est.)[22]	20% (est.)[23]
Exports via Sihanoukville Port	70%[24]	–	–

Optimizing Cambodia's Transportation Infrastructure

Cambodia has three main economic corridors linking Phnom Penh to international markets: Phnom Penh-Sihanoukville (south to the deep-water port), Phnom Penh-Bavet (east to Vietnam), and Phnom Penh-Poi Pet (west to Thailand).[25] Among these, the Phnom Penh-Sihanoukville corridor is overwhelmingly dominant, handling over two-thirds of Cambodia's exports and imports through the Sihanoukville Autonomous Port,[26] where containerized traffic has risen over 400% since 2010.[27] By contrast, cross-border trade through Thailand and Vietnam remains limited, with exports accounting for only a few percent of the total and import at 13% and 11%, respectively.[28]

12 Phalla. "Transport Infrastructure and Facilities | Open Development Cambodia (ODC)." Open Development Cambodia (ODC), March 19, 2025. Transport infrastructure and facilities | Open Development Cambodia (ODC).
13 LCA."2.3 Viet Nam Road Network | Digital Logistics Capacity Assessments," Digital Logistics Capacity Assessments, n.d., 2.3 Viet Nam Road Network | Digital Logistics Capacity Assessments.
14 BOI : The Board of Investment of Thailand, "Highway," n.d, BOI : The Board of Investment of Thailand.
15 The World Bank, "Project Information Document (PID)," December 23, 2023, pp.3. https://documents1.worldbank.org/curated/en/099121823033047720/pdf/P18139609be42b060886805ff4a6d4ec16.pdf.
16 LCA."2.3 Viet Nam Road Network | Digital Logistics Capacity Assessments," Digital Logistics Capacity Assessments, n.d., 2.3 Viet Nam Road Network | Digital Logistics Capacity Assessments.
17 BOI : The Board of Investment of Thailand. "Highway." n.d. ○ BOI : The Board of Investment of Thailand.
18 MPWT, "Railway Services | MPWT," n.d., Railway Services | MPWT.
19 Thinh, Nguyen Tien and Vietnam Railway Authority, "Planning and Financing for Viet Nam Railway Infrastructure and the Connection in GMS," January 2021, PLANNING AND FINANCING FOR VIET NAM RAILWAY INFRASTRUCTURE AND THE CONNECTION IN GMS.
20 Admin, "Thailand Infrastructure," Aster Lion | EOR Thailand, May 28, 2025, Overview of Thailand's Infrastructure Development | Aster Lion.
21 World Bank Group, Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors (Washington, D.C.: World Bank, 2024), pp.7, para.1. Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors.
22 Úbeda, Aristarco Tomás, "Freight Transport in Vietnam - Current Situation and Future Prospects," April 24, 2025, https://www.linkedin.com/pulse/freight-transport-vietnam-current-situation-future-tom%C3%A1s-%C3%BAbeda-9kc7f/.
23 Statista, "Rail - Thailand | Statista Market Forecast," n.d., Rail - Thailand | Statista Market Forecast.
24 General Department of Logistics, "Economic Corridors | General Department of Logistics," n.d., Economic Corridors | General Department of Logistics.
25 Ibid.
26 Asian Development Bank, Cambodia: Transport Sector Assessment, Strategy, and Road Map, September 30, 2019, pp.17, para.1. Cambodia: Transport Sector Assessment, Strategy, and Road Map | Asian Development Bank.
27 World Bank Group, Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors (Washington, D.C.: World Bank, 2024), pp.2. Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors.
28 General Department of Logistics, "Economic Corridors | General Department of Logistics," n.d., para.2, Economic Corridors | General Department of Logistics.

To maximize the efficiency of its current transport assets, Cambodia can draw lessons from its biggest trade partner. China's experience shows how decisive policy measures can shift long-haul freight transport from road to more cost-efficient and sustainable modes. In 2018, the Chinese State Council mandated that bulk commodities, particularly coal, ores, and construction materials, be transported by rail or waterways rather than trucks.[29] This policy, coupled with structural reforms, reduced logistics expenses significantly—by March 2025, Transport Minister Liu Wei reported savings of CNY 400 billion (USD 55 billion) in 2024 alone.[30] Similarly, Ethiopia's new Ethio–Djibouti railway, which runs a length of 728 km, replaced most truck traffic along the corridor. This railway slashes export delays and fosters higher-value exports. Today, Ethiopia now moves 98% of its coffee by rail, contributing to significant revenue growth.[31] For Cambodia, the World Bank has emphasized that electrified or improved freight rail could carry heavy cargo away from crowded highways, which in turn significantly reduces its logistic costs and improves competitiveness.[32]

Nonetheless, building an extensive rail network is capital-intensive and requires long-term planning. Therefore, Cambodia should simultaneously prioritize more cost-effective strategies, such as improving road asset management. International experience suggests that systematic maintenance can extend road life and optimize limited budgets. For example, Japan's "Kyoto Model" uses GIS-based data and asset management to allocate resources efficiently.[33] Bangladesh's Rural Roads Improvement Project, supported by ADB, has paved tens of thousands of km of village roads, raising all-weather access and household incomes.[34] Cambodia could adopt similar measures, including systematic road condition monitoring using mobile apps or drones, climate-resilient designs, and community-based maintenance funds. Such practices ensure that every riel of investment yields maximum durability and socio-economic return.

Moreover, Cambodia can draw valuable lessons from its landlocked neighbor, Laos, which is developing the Vientiane Logistics Park (VLP), an integrated dry port connected to the new Laos-China railway. This project is developed through a PPP led by Vientiane Logistics Park Co. Ltd.[35] It aims to shift up to 70% of Laos's trade onto rail, significantly enhancing cross-border trade efficiency with Thailand, China, and other regional partners.[36] Cambodia could adopt a model of establishing privately funded inland ports in strategic locations such as Phnom Penh and Sihanoukville, leveraging PPP frameworks to attract investment, technical expertise, and operational efficiency. A comparable success story is Tanzania, where a USD 250 million

29 Shao, Zhenying, "Environmental Impacts of Modal Shift to Rail in Tangshan," INTERNATIONAL COUNCIL ON CLEAN TRANSPORTATION, March 2020, pp.3, para.2, Environmental impacts of modal shift to rail in Tangshan.

30 Ke, Zhang. "China's Logistics Costs Fell by USD55 Billion in 2024, Minister Says,"5 March, 2025. China's Logistics Costs Fell by USD55 Billion in 2024, Minister Says.

31 Slocat, "Ethio-Djibouti Railway: A Line for People, Goods and the Planet - SLOCAT," SLOCAT, November 1, 2022, para. 5, Ethio-Djibouti Railway: a Line for People, Goods and the Planet - SLOCAT.

32 World Bank Group, Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors World Bank. The World Bank, 2024, pp.7. para.1. Cambodia's Regional Connectivity: Unlocking the Full Potential of Transport Corridors.

33 GFDRR, "A Pathway to Resilient Rural Roads in Cambodia," December 2022, para. 1, A pathway to resilient rural roads in Cambodia | GFDRR.

34 Asian Development Bank, "ADB Increases Support for Rural Roads Improvement in Bangladesh," Asian Development Bank, July 18, 2023. https://www.adb.org/news/adb-increases-support-rural-roads-improvement-bangladesh.

35 Ministry of Public Works and Transport Lao People's Democratic Republic, Preparatory Survey on Vientiane Logistics Park (VLP) Project (PPP Infrastructure Project) in Lao P.D.R, July 2015, pp.24. https://openjicareport.jica.go.jp/pdf/12235594.pdf.

36 IFC, "IFC Advises on Developing Lao PDR's First Integrated Logistics Facility to Boost Trade and Competitiveness," 15 March, 2021, para.2, IFC Advises on Developing Lao PDR's First Integrated Logistics Facility to Boost Trade and Competitiveness.

PPP concession awarded to DP World modernized the Dar es Salaam port and its hinterland connections.[37] This partnership drastically reduced ship turnaround times and improved logistics performance by bundling port upgrades with corridor infrastructure under the management of a reputable international operator.

Lastly, Cambodia can benefit from regional digital facilitation initiatives such as the ASEAN Single Window (ASW). This digital platform, implemented across several ASEAN countries, streamlines customs clearance through the electronic exchange of trade and transport data.[38] The ASW has notably reduced cargo clearance times and paperwork and fostered smoother regional trade. By adopting and integrating a national single-window system harmonized with ASEAN standards, Cambodia could similarly expedite customs procedures, minimize logistical bottlenecks, and enhance the efficiency of both domestic and cross-border trade.

Policy Recommendations

In order to strengthen Cambodia's economic competitiveness and solidify its position as a regional logistics hub, the Royal Government of Cambodia should adopt a coherent policy framework aimed at developing a multimodal and digitalized national transport corridor. Therefore, an urgent modernization of the Phnom Penh-Sihanoukville railway is crucial. This upgrade should include selective double-tracking, improved signaling systems, and targeted financial incentives, such as tax credits, to shift freight transport from road to rail.

In parallel, modern multimodal logistics hubs, or dry ports, should be established in Phnom Penh and Sihanoukville through PPPs. These hubs would integrate the rail, road, and warehousing services into a harmonious and unified logistics ecosystem. To maintain infrastructure sustainability, the government should also enforce strict weight and speed regulations through the use of technologies, such as weigh-in-motion sensors, with revenues from fines and tolls dedicated to a ring-fence road maintenance fund.

Equally important, physical infrastructure investment must be supported and complemented by an ambitious digitization plan. Priorities should include the rollout of a national electronic single-window system for trade facilitation and the adoption of real-time cargo tracking to minimize delays, aligned with ASEAN's best practices. Active measures to operationalize regional transit agreements, especially the removal of barriers that are hindering the Cambodia-Thailand rail connection, are also crucial for ensuring free movement across borders.

Hence, effective implementation of these initiatives will require a blended financing model that combines national budget allocations, concessional loans from multilateral development banks, and private sector investment. Such a model will not only mobilize adequate resources but also ensure long-term financial and operational sustainability.

37 Mandra, Jasmina Ovcina, "DP World Pens 30-year Concession to Operate Dar Es Salaam Port," Offshore Energy, October 23, 2023, DP World pens 30-year concession to operate Dar Es Salaam Port - Offshore Energy.

38 ITU Publications, "Digital Policy Action Areas for a Connected ASEAN ASEAN Best Practice Benchmarking and an Action Plan for Regional Harmonization," 2024, pp.30, Digital policy action areas for a connected ASEAN.


Khmer labor worker producing clothes in garment factory.
Photo: Shutterstock

Stitching the Future: A Data-Driven Strategy to Transform Cambodia's Garment Sector Beyond LDC Graduation

Chhim Noppon

EXECUTIVE SUMMARY

- The Garment, Footwear, and Travel Goods (GFT) sector contributes over half of Cambodia's exports, nearly a third of GDP, and employs one in ten formal workers, making its modernization crucial for national economic growth and resilience.
- However, heavy reliance on labor-intensive production limits value creation and deters advanced investment. Upgrading to higher-complexity manufacturing is key to sustainable competitiveness.
- The expiration of trade privileges will raise tariffs (from ~5% to 12%) in key markets such as the US, the EU, and Canada, potentially reducing exports by USD 1.55 billion by 2030 unless diversification strategies succeed.
- Analysis from the Harvard Growth Lab and Trade Data identifies high-potential products and strategic export markets that can guide Cambodia's move toward value-added production and diversified trade partners.
- The government should prioritize targeted investment incentives, skills development, and trade facilitation, while companies focus on factory modernization, workforce upskilling, technology adoption, and sustainable practices.
- Through coordinated public-private action, evidence-based policymaking, and green innovation, Cambodia can absorb the shocks of Least Developed Country (LDC) graduation and transform the GFT sector into a high-value, resilient, and globally competitive manufacturing hub beyond 2029.

Introduction

Cambodia's garment sector is at a critical juncture. Without strong and collective action, more than 2 million workers will lose their job and garment export will shrink by USD 1.5 billion in 2030.[1] The preferential trade agreements that once boosted rapid growth are expiring, leaving the industry vulnerable to a low-value product trap. Leveraging data analytics, this policy brief outlines a strategic pathway for the sector to pivot toward diversified markets and higher-value products to enhance resilience, all of which are in alignment with national policy objectives, such as the Cambodia Industrial Development Policy 2015-2025. By grounding recommendations in evidence, this roadmap provides a clear and actionable strategy to strengthen the competitiveness, sustainability, and long-term growth of Cambodia's GFT industry.

GFT: A Pillar of Cambodia's Economy

The GFT industry is deeply woven into Cambodia's economic and social fabric. "It has evolved into a crucial pillar of the national economy," noted His Excellency Sun Chanthol, Deputy Prime Minister and First Vice-Chairman of the Council for the Development of Cambodia (CDC).[2]

1 UNDP Cambodia, *Cambodia's Graduation from Least Developed Country (LDC) Status: Preparedness and Potential Economic and Social Impacts* (Phnom Penh: United Nations Development Programme, November 11, 2024), https://www.undp.org/cambodia/publications/cambodias-graduation-least-developed-country-ldc-status-preparedness-and-potential-economic-and-social-impacts

2 Pengly Horng, "Cambodia's Textile Exports Hit $14 Billion", *Khmer Times - Insight into Cambodia*, March 31, 2025, https://www.khmertimeskh.com/501662741/cambodias-textile-exports-hit-14-billion/.

Built on a foundation of peace, political stability, competitive labor costs, and preferential trade access, the industry saw exponential growth. Since 2000, when the sector comprised just 200 factories exporting USD 900 million[3], it has grown into a manufacturing hub with over 1,500 factories generating nearly USD 14 billion in exports.[4] To contextualize its impact, the GFT industry now accounts for more than half of Cambodia's total exports[5] and contributes nearly a third of GDP[6], consistently outpacing overall national economic growth.[7] In 2024, approximately one in ten formal workers are directly employed by the sector, while an additional three million benefit indirectly.[8]

However, with Cambodia scheduled to graduate from LDC status in 2029, the sector faces mounting pressures from multiple directions. Labor costs now exceed Bangladesh[9] while productivity lags behind[10], eroding the wage advantage that once anchored the sector's growth. Simultaneously, global suppliers are automating the labor-intensive operations where Cambodia specializes, with buyers demanding greener production and ethical compliance that many factories lack the infrastructure to meet. Perhaps most critically, Cambodia captures a small percentage of the garment export value, with the majority flowing to foreign suppliers of fabric, accessories, and design inputs that leaves the sector vulnerable to external shocks.

As highlighted in the Cambodia GFT Sector Development Strategy 2022-2027, maintaining resilience, competitiveness, and sustainability will require a strategic pivot.[11] This policy brief examines how low-complexity manufacturing traps the sector in a cycle of vulnerability, compounded by the impending loss of preferential trade access following Cambodia's 2029 LDC graduation. It then presents an evidence-based roadmap identifying priority products and strategic markets to guide the sector's transition toward higher-value, resilient growth.

Escaping the Low-Complexity Trap as Key to Competitiveness

Cambodia's garment sector is caught in a self-reinforcing 'low-complexity trap.' The majority of factories focus on simple assembly, labor-intensive but skill-light operations that generate minimal value.[12] This structure attracts investment that seeks only low-cost labor, which in turn reinforces a low-skilled workforce. Consequently, global firms are hesitant to establish

3 International Labour Organization, "First Synthesis Report on the Working Conditions Situation in Cambodia's Garment Sector," (Kingdom of Cambodia, November 2001), https://www.ilo.org/resource/news/first-ilo-report-cambodian-garment-industry

4 AFTAC, *Cambodia Garment, Footwear and Travel Goods. Sector Brief*, March 2025 (TAFTAC/Eurocham Cambodia, March 2025), https://rbh-eurochamcambodia.com/wp-content/uploads/Cambodia-GFT-Sectoral-Brief-ISSUE-4.pdf

5 B2B Cambodia, "Cambodia 2024 Economic Data in Review," B2B Cambodia (February 8, 2022), https://b2b-cambodia.com/news/cambodia-2024-economic-data-in-review/

6 Aaron O'Neill, "Cambodia - Gross Domestic Product (GDP) 2026," Statista, June 18, 2025, https://www.statista.com/statistics/438180/gross-domestic-product-gdp-in-cambodia/

7 Data for Economy and Finance, "Cambodia's GDP Growth (Annual %) from 1983 to 2023," *Data for Economy and Finance*, December 17, 2024, https://data.mef.gov.kh/datasets/pd_67612ac9255e6c0001248242

8 TAFTAC, *Cambodia Garment, Footwear and Travel Goods: Sector Brief, March 2025* (Phnom Penh: Textile, Apparel, Footwear & Travel Goods Association in Cambodia, March 2025), https://rbh-eurochamcambodia.com/wp-content/uploads/Cambodia-GFT-Sectoral-Brief-ISSUE-4.pdf

9 Cambodia's minimum wage is $208 USD/month while Bangladesh is $102 USD/month.

10 Sebastian Eckardt, "Unfinished Business – Closing Cambodia's Productivity Gap," *Cambodia Outlook Conference,* CDRI, 2023, https://coc2025.cdri.org.kh/blogs/unfinished-business-closing-cambodias-productivity-gap

11 EuroCham Cambodia, *Cambodia Garment, Footwear and Travel Goods (GFT) Sector Development Strategy 2022–2027*, Royal Government of Cambodia, March 21, 2022, https://www.eurocham-cambodia.org/legal_directory_index/detail/535

12 Ministry of Labour and Vocational Training (MLVT), *Industrial Transformation Map for Textile and Apparel Industry 2023–2027*, Royal Government of Cambodia, March 2023.

higher-value, more sophisticated manufacturing operations, which require substantial investment in modern machinery and human capital. The result is a vicious cycle: the sector remains trapped in low-margin production, making it highly vulnerable to price competition from other low-wage countries.

The low-complexity challenge becomes evident when comparing Cambodia to regional peers. Analysis of the top 20 GFT export products shows that Vietnam and India produce goods with significantly higher Product Complexity Index (PCI)[13] scores (-1.054 and -1.095, respectively) than Cambodia (-1.155).[14] Vietnam's lead in producing more sophisticated goods has made it a preferred destination for quality-focused global brands such as Nike, Adidas, and Uniqlo[15], whose products demand skilled labor and complex manufacturing processes.

Through analysis of the PCI score of key exporting products, these five products represent the sector's most vulnerable export lines, characterized by exceptionally low complexity and high substitutability. Their simple production processes make them prime candidates for either relocation to lower-cost markets or full automation. Factories specializing in these categories face an urgent imperative: pivot toward higher-value products or risk production shift elsewhere.

Table 1: Cambodia's Top Low-Complexity Exports

HS Code	Label	PCI	Export to World
6105	Men's shirts	-1.52	$164,437,000
6108	Women's slip	-1.48	$456,873,000
6109	T-shirts	-1.41	$754,511,000
6402	Footwear (rubber outer soles & uppers)	-1.35	$516,773,000
6110	Jerseys, pullovers	-1.32	$1,836,035,000
6103	Men's suits	-1.29	$620,630,000

Cambodia now faces a pivotal choice: continue along the 'low and easy' path of basic assembly, or pursue the 'high and challenging' path of value-added manufacturing, which is an essential move to enhance competitiveness, attract higher-quality investment, and secure sustainable growth in the global market.

The End of Trade Preferences Threatens Key Export Markets

Cambodia's upcoming graduation from LDC status will eliminate the trade advantages that have underpinned its GFT sector. The country will face higher tariffs and stricter compliance requirements related to product origin, environmental standards, and labor conditions. According to a joint policy brief by UNDP and Australian Aid, without timely policy action and

13 Product Complexity Index (PCI): A measure developed by Harvard's Growth Lab that ranks how sophisticated a product is based on the diversity and complexity of the capabilities required to produce it.

14 This analysis, conducted by Mr. Noppon Chhim, examines the country's top 20 export products within HS Codes 5000-6400 for the year 2024. Each product was matched with its corresponding PCI score to calculate an overall country's average.

15 Trinh Nguyen, "Seizing Investment Opportunities in Vietnam's Garment and Textile Sector," *Vietnam Briefing News*, October 27, 2023, https://www.vietnam-briefing.com/news/seizing-investment-opportunities-vietnams-textile-garment-industry.html/

sectoral upgrading, Cambodia's GFT exports could contract by an estimated USD 1.55 billion by 2030 compared with 2027 levels, representing a nearly 10% decline in export earnings. Under standard Most-Favored-Nation (MFN) treatment, average tariff rates in these markets are projected to more than double, increasing from roughly 5% today to about 12%.[16]

Table 2: Potential Rise of Tariffs After LDC Graduation[17]

Exporting Markets	Current Effective Tariffs	Average Tariff Faced (MFN)
United States of America	19%[18]	11.5%
European Union	0%	11.5%
Canda	0%	16.4%

The challenge extends beyond rising tariff rates. Cambodia also faces a vulnerability of an asymmetric trade relationship that leaves it with virtually no leverage to negotiate favorable terms with major economies. While almost three-quarters of Cambodia's garment exports are destined for the EU and US markets[19], these supplies represent merely 3% of total garment imports for these superpowers, a negligible share that can be seamlessly replaced by alternative suppliers.

The negotiating power disparity becomes stark when examining trade data across HS codes 42, 61, 62, and 64. Cambodia accounts for just 7% of total US imports in these categories, while Vietnam commands 20% and China 26%.[20] This distribution creates clear incentives for the superpowers to engage in trade negotiations with Vietnam and China, the indispensable partners. Cambodia, by contrast, lacks this strategic importance, rendering bilateral negotiations a low priority.

A closer product-level analysis reveals the extent of this exposure. Saddlery exhibits over 96% market concentration in the EU and the US combined, making them acutely vulnerable to any deterioration in trade relations or preferential access. These products represent the sector's most precarious export lines in the coming years, requiring urgent market diversification strategies.

Table 3: Cambodia's Export Dependence on the US and the EU: Top Products

HS Code	Label	Value exported to the US and the EU	Percentage of product exported to the US and the EU
6210	Felt or Coated Fabric Garments	$185,528,000	92%
4201	Saddlery	$63,305,000	96%
6113	Garments of Impregnated Fabric	$46,408,000	85%
4203	Leather Apparel	$29,795,000	86%
4205	Other Leather Articles	$1,097,000	87%

16 UNDP Cambodia, "Cambodia's Graduation from Least Developed Country (LDC) Status: Preparedness and Potential Economic and Social Impacts," UNDP, 2024, https://www.undp.org/cambodia/publications/cambodias-graduation-least-developed-country-ldc-status-preparedness-and-potential-economic-and-social-impacts.

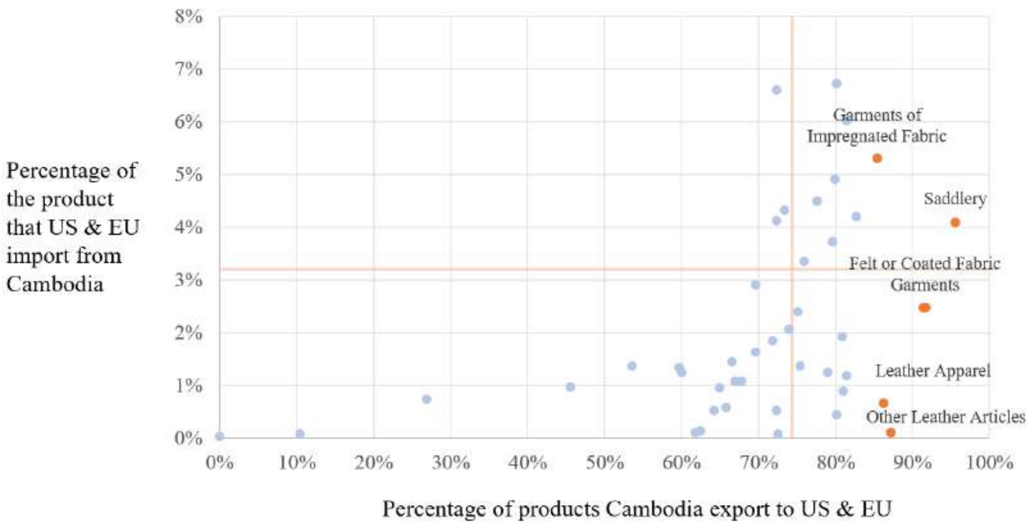
17 Ibid.

18 Sebastian Strangio, "Trump Cuts Tariffs on Cambodia and Thailand to 19% after Border Ceasefire," *The Dipl*omat, August 2025, https://thediplomat.com/2025/08/trump-cuts-tariffs-on-cambodia-and-thailand-to-19-after-border-ceasefire/

19 TAFTAC, *Cambodia Garment, Footwear and Travel Goods: Sector Brief, March 2025*, TAFTAC, March 2025, https://rbh-eurochamcambodia.com/wp-content/uploads/Cambodia-GFT-Sectoral-Brief-ISSUE-4.pdf

20 This analysis, conducted by Mr. Noppon Chhim, examines the USA's shares of import products with HS Codes 42, 61, 62, and 64 from partner countries, Cambodia, China and Vietnam for the year 2024.

Chart 1. Cambodia's Export Concentration and Import Dependence with the US and the EU



Diversifying to Resilient Markets Beyond Traditional Partners

Understanding the need for market diversification, the Royal Government of Cambodia has proactively sought to safeguard market access by negotiating new trade agreements[21] and pursuing additional partnerships[22], including potential accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).[23] The key challenge ahead is no longer whether to expand Cambodia's trade network, but rather which partners to prioritize in order to build a resilient, diversified, and future-ready export portfolio that can sustain growth beyond LDC graduation.

Analysis of HS code 6210 reveals fifteen countries (excluding the US and EU) that currently import less than 1% from Cambodia, most below 0.05% of their total imports. This minimal penetration signals substantial growth potential.

21 Trade Intelligence and Negotiation Advisor, "TINA: Trade Intelligence and Negotiation Adviser," *TINA*, 2025, https://cambodia-stage.tina.trade/home

22 Pengly Horng, "Cambodia and US Inch Closer to New Trade Framework," *Khmer Times - Insight into Cambodia*, July 7, 2025, https://www.khmertimeskh.com/501712797/cambodia-and-us-inch-closer-to-new-trade-framework/"Cambodia, Canada Enhance Trade and Negotiations on ASEAN-Canada Free Trade Agreement," *Khmer Times - Insight into Cambodia*, May 29, 2025, https://www.khmertimeskh.com/501691901/cambodia-canada-enhance-trade-and-negotiations-on-asean-canada-free-trade-agreement/

23 Phal Niseiy Sao, "Cambodia Weighs Joining CPTPP Trade Pact," *Cambodianess*, 2025, https://cambodianess.com/article/cambodia-weighs-joining-cptpp-trade-pact

Table 4: Export Opportunities for Cambodia's HS 6210 Products: Global Import Shares and Tariff Rates[24]

No	Importers	Total Import	Import from Cambodia	Percentage from Cambodia	Tariff Rates
	World	$11,399,997,000	$202,426,000	1.78%	
1	Japan	$612,509,000	$5,276,000	0.86%	0%
2	Republic of Korea	$366,597,000	$400,000	0.11%	0%
3	China	$315,600,000	$3,454,000	1.09%	0%
4	Mexico	$228,897,000	$637,000	0.28%	20%
5	Russian Federation	$158,176,000	$10,000	0.01%	13%
6	United Arab Emirates	$98,426,000	$140,000	0.14%	0%
7	Saudi Arabia	$89,853,000	$268,000	0.30%	5%
8	Chile	$83,881,000	$359,000	0.43%	0%
9	Hong Kong, China	$76,714,000	$188,000	0.25%	0%
10	Ireland	$54,844,000	$326,000	0.59%	5%

These markets are divided into two strategic categories. First, countries where Cambodia already enjoys tariff-free access: Japan, South Korea, China, and the UAE all offer 0% tariffs through existing agreements yet remain severely underutilized. These represent immediate opportunities where barriers have been eliminated but commercial relationships remain underdeveloped.

Second, emerging frontiers such as Mexico, and Russia, where diplomatic efforts for FTAs could unlock export potential. By strategically targeting both categories, leveraging existing preferential access and pursuing new agreements, Cambodia can diversify its export base and reduce dangerous market concentration.

Pinpointing High-Potential Products for a High-Value Future

This policy brief translates government strategy into actionable guidance by leveraging trade data to identify high-potential products for Cambodia's GFT sector. The approach is two-pronged: short-term resilience through 2029 LDC graduation, and long-term transformation toward higher-value manufacturing.

To minimize vulnerability during the transition period, analysis identifies products that balance feasibility with defensibility. Selection criteria target products with:

(1) Product Complexity Index (PCI) scores at or above -1.15 (Cambodia's current average) indicating sufficient complexity to resist automation while having the technical know-how, and

(2) Revealed Comparative Advantage (RCA) above 10, demonstrating strong productive efficiency and low opportunity cost.

24 International Trade Centre (ITC), "Trade Map - List of Importing Markets for a Product Exported by Cambodia," *Trademap.org*, 2025, https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1%7c116%7c%7c%7c%7c6210%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c2%7c1%7c1%7c1

These products, listed in Table 5, represent immediate diversification priorities that leverage existing capabilities while offering greater resilience.

Table 5: Short-Term Priority Products

HS Code	Name	Cambodia Export to World	RCA	PCI
4202	Trunks, suitcases	$1,953,419,000	19.6	-0.6
6102	Women's overcoats	$266,872,000	51.8	-1.1
6101	Men's overcoats	$205,825,000	58.6	-1.1
6210	Felt or Coated Fabric Garments	$202,426,000	15.1	-1.2
6112	Track-suits	$155,408,000	23.5	-0.9
6208	Women's singlet	$82,017,000	23.4	-1.1
4201	Saddlery	$66,230,000	23.0	-0.1
6113	Knitted garments	$54,326,000	39.6	-1.2

For sustained competitiveness beyond LDC graduation, the framework identifies products using Harvard Growth Lab data across three parameters:

(1) PCI above 0, signaling genuine technological upgrading potential;

(2) Opportunity Gain above 0.5, indicating strong spillover effects and growth pathways; and

(3) RCA above 0.01, establishing minimal current capability while allowing for ambitious capacity building.

Table 6: Long-Term Target Products

HS Code	Label	World Trade	RCA	PCI	Opp. Gain
5906	**Rubberized textile fabrics**	$1,629,631,726.00	0.85	1.22	1.24
5309	**Woven fabrics of flax**	$2,015,808,256.00	0.82	0.66	0.85
6506	**Other headgear**	$4,521,919,466.00	0.55	0.34	0.92
5503	Synthetic staple fibers	$6,436,851,023.00	0.38	0.49	0.60
9406	Prefabricated buildings	$11,116,576,445.00	0.26	0.23	0.60

This evidence-based framework provides clear direction for investment promotion, policy alignment, and enterprise transition into higher-margin GFT segments.

A Three-Point Plan for Government to Catalyze the Transition

To effectively steer this transition, the Royal Government of Cambodia can build upon the policy successes and lessons learned from regional peers. An evidence-based approach, informed by experiences from countries such as Vietnam, will help ensure that policy interventions are targeted, efficient, and capable of attracting high-quality, value-added investment.

Key areas for government action include:

- **Strategic Investment Incentives:** Develop customized incentive packages that encourage firms to move up the value chain, modernize production processes, and adopt advanced manufacturing technologies.
- **Workforce Development:** Strengthen human capital through targeted training, industry partnerships, and skill development programs that align with the needs of higher-complexity manufacturing.
- **Trade and Market Access Facilitation:** Proactively leverage bilateral and multilateral trade agreements to secure access to diversified, high-demand export markets for Cambodia's priority products.

By prioritizing these policy areas, the government can cultivate a conducive environment for industrial upgrading, enabling Cambodia's GFT sector to transition from low-complexity assembly toward competitive, innovation-driven, and sustainable manufacturing.

A Roadmap for Companies to Invest, Upskill, and Grow

Private sector engagement is critical to Cambodia's GFT sector pivot. Companies and investors are encouraged to adopt a multi-pronged approach that combines investment, workforce development, innovation, and market expansion:

Align Investment with Strategic Opportunities:

- Retool existing factories or establish new operations in Special Economic Zones (SEZs) to produce the 10 priority products.
- Leverage government incentives, tax breaks, and SEZ benefits to reduce the cost of upgrading machinery and production lines.
- Consider joint ventures with foreign investors to bring in advanced manufacturing technology and expertise.

Foster a High-Skilled Workforce:

- Collaborate with the Skill Development Fund (SDF) and Cambodian Garment Training Institute (CGTI) to co-design training programs for advanced skills.
- Implement continuous on-the-job training programs to upskill existing employees.
- Offer scholarships or apprenticeships for younger talent, creating a sustainable talent pipeline for high-value manufacturing.

Invest in Technology and Automation:

- Adopt Industry 4.0 solutions, such as digital production monitoring, automated cutting and sewing, and AI-driven quality control.
- Use data analytics to optimize production efficiency, reduce waste, and improve product quality.
- Consider environmentally sustainable technologies to meet global green standards and enhance export market access.

Diversify Product Lines and Markets:

- Expand beyond basic assembly into higher-value, more complex garments, footwear, and travel goods.
- Target the 10 high-demand export markets identified in this brief, diversifying revenue streams and reducing dependency on traditional buyers.
- Explore niche or premium segments (e.g., eco-friendly, technical apparel, or luxury accessories) to increase margins.

Strengthen Supply Chain Resilience:

- Build relationships with local suppliers to reduce dependence on imported materials.
- Invest in supply chain traceability to meet international compliance requirements and appeal to sustainability-conscious buyers.
- Collaborate with industry associations to create shared logistics or sourcing hubs that improve efficiency.

Engage in Innovation and R&D:

- Establish small-scale research and development units to experiment with new fabrics, designs, or sustainable materials.
- Partner with universities, vocational institutes, or international brands for knowledge transfer and joint innovation projects.

Leverage Financing and Risk Mitigation Tools:

- Utilize government-backed credit schemes, export financing, and investment guarantees to de-risk capital-intensive projects.
- Consider blended financing models (public-private partnerships) to fund factory modernization or sustainable production initiatives.

By following this roadmap, private sector actors can actively contribute to Cambodia's transition toward a more competitive, resilient, and high-value GFT industry while benefiting from new growth opportunities, workforce upskilling, and long-term profitability.

Conclusion

Cambodia's GFT sector stands at a decisive moment. The loss of preferential trade advantages and intensifying global competition demand a bold shift from a labor-cost-driven model toward one anchored in innovation, skills, and value creation. This policy brief has outlined a data-driven roadmap to guide that transition, identifying ten high-potential products, ten promising export markets, and actionable strategies for both government and industry stakeholders.

The path forward is clear: Cambodia must move beyond low-complexity assembly and embrace higher-value, technology-enabled, and sustainable production. Achieving this transformation will require strategic coordination, combining targeted government incentives, forward-looking trade policies, and private sector commitment to modernization, workforce development, and green innovation.

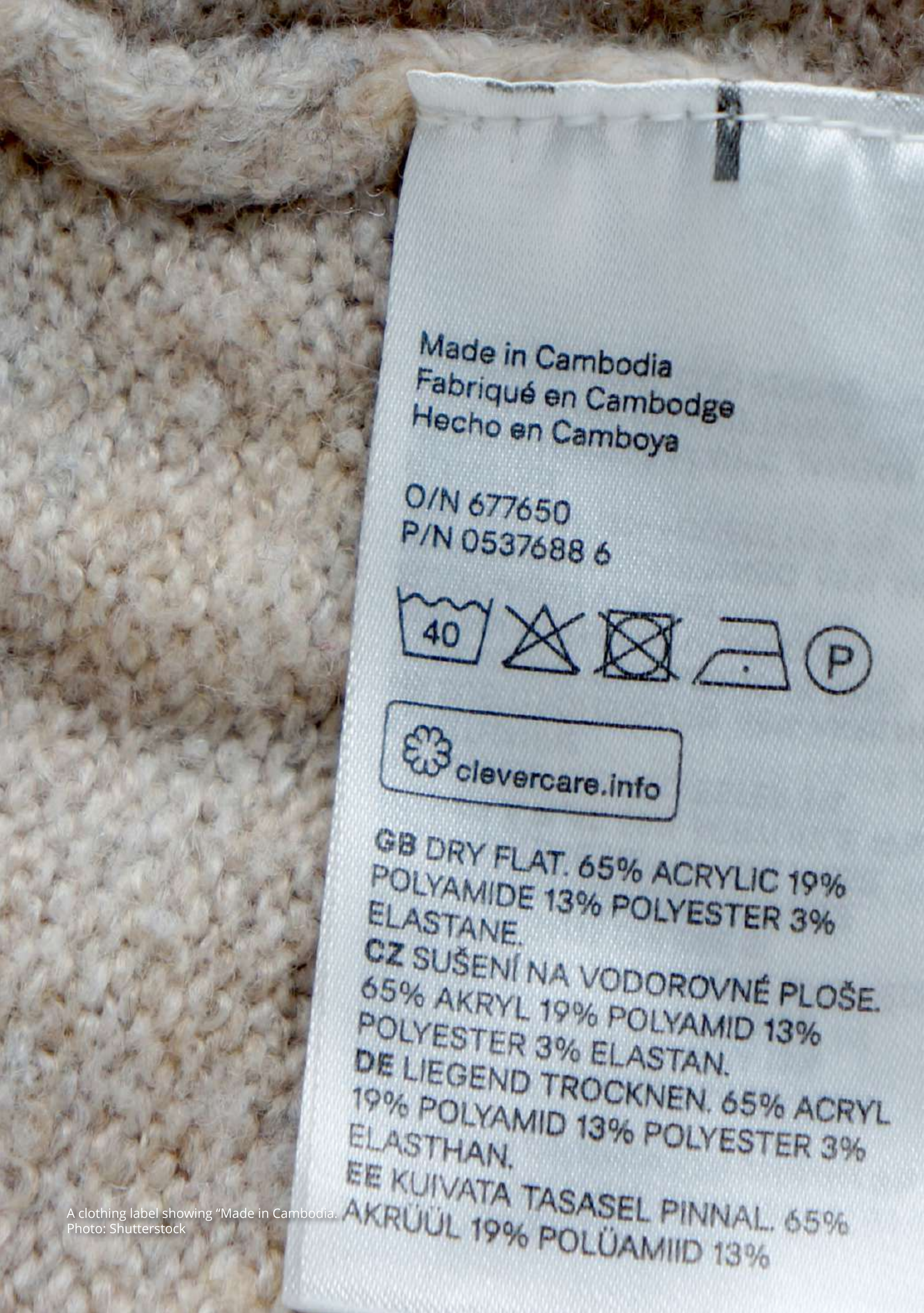
If pursued decisively, this shift can redefine Cambodia's position in the global value chain, transforming the GFT sector from a low-cost producer into a competitive, resilient, and future-ready manufacturing hub. In doing so, Cambodia will not only safeguard one of its most vital industries but also strengthen the foundation for inclusive, sustainable economic growth well beyond its 2029 LDC graduation.

Considerations and Avenues for Further Research

This policy brief offers a strategic, data-driven foundation for Cambodia's GFT sector to enter its next phase of growth. By focusing on the critical questions of what products to prioritize and which markets to target, it provides actionable guidance for both policymakers and industry stakeholders.

To strengthen this analysis and support long-term competitiveness, further research is recommended in several areas:

- **Fiscal Incentives Modeling:** Detailed assessment of government incentives to optimize their impact on investment and sector upgrading.
- **Skills-Gap Analysis:** Comprehensive evaluation to inform TVET curricula and workforce development programs aligned with higher-value production needs.
- **Local Input Supply Chains:** Strategies to develop domestic suppliers and reduce dependence on imported inputs.
- **Sustainable Production and Green Financing:** Exploration of circular economy practices, eco-friendly manufacturing, and financing mechanisms for green factories to ensure environmental sustainability and global market relevance.



A clothing label showing "Made in Cambodia."
Photo: Shutterstock

Kirirom Food Production aims to compete on a global scale through volume of quality.
Photo: Focus Cambodia

Strengthening Cambodia's Agro-Processing Capacity for Economic Self-Sufficiency

Kanha Ongchamroeun

EXECUTIVE SUMMARY

- Cambodia's economy remains heavily reliant on agricultural products. However, economic diversification is one of the main priorities of the Pentagonal Strategy-Phase I, adopted by the Royal Government of Cambodia. Gaps in agro-processing capacity have hindered the country's potential and ability to transform raw agricultural products into high-value-added products.
- This policy brief seeks to identify the missing links in Cambodia's agro-processing industry, which not only limit the supply of locally made products but also undermine national efforts toward economic self-sufficiency.
- The paper also offers practical initiatives to expand agro-processing capacity, which could reduce the reliance on imports, boost rural farmers' incomes, generate new employment opportunities, and build a more resilient and self-sustaining agricultural economy.

Introduction

The agricultural sector remains the backbone of Cambodia's economic growth. Despite being endowed with abundant agricultural resources, the country continues to rely heavily on imports. This reality is evident in most local markets and supermarkets, where shelves are filled with Thai canned goods, Korean instant noodles, and Vietnamese ingredients and sauces, while Cambodian-made products are scarcely visible. This issue does not stem from a lack of raw materials, but rather from Cambodia's limited capacity to process these raw materials into finished products. Much of Cambodia's agricultural output is exported to neighboring countries, particularly Thailand and Vietnam, with minimal value addition, while the country imports the finished goods at a higher cost.[1] Therefore, strengthening the agro-processing capacity is not only beneficial for Cambodia's economic diversification, but also a strategic move to enhance food security, generate employment opportunities and income for farmers and workers, and reduce dependency on neighboring countries' products.

Promoting high-value-added production is a key pillar of the Pentagonal Strategy-Phase I, adopted by the Royal Government of Cambodia (RGC). Specifically, Pentagon 2: Economic Diversification and Competitiveness Enhancement highlights the RGC's commitment to increasing value addition in agriculture and the agro-industrial sector through the continued implementation of the National Development Plan on the Agriculture Sector 2022-2030.[2]

This focus on agro-processing capacity has become even more urgent as Cambodia prepares for graduation from its Least Developed Country (LDC) status in 2029, which will result in the withdrawal of the international support measures, including the preferential trade

1 Sok, Piseth, Monyoudom Yang, and Tynarath Houn, 2021, "Cambodia's Agri-Food Trade: Structure, New Emerging Potentials, Challenges & Impacts of Covid-19," (East Lansing: Michigan State University, November 2021), PRCI Research Paper 5, https://www.canr.msu.edu/prci/PRCI-Research_Paper_5_Cambodia_updated.pdf.

2 The Royal Government of Cambodia of the Seventh Legislature of the National Assembly. 2023. *"Pentagonal Strategy-Phase I for Growth, Employment, Equity, Efficiency and Sustainability: Building the Foundation Towards Realizing the Cambodia Vision 2050."* (Phnom Penh: Ministry of Foreign Affairs and International Cooperation, August 24, 2023), https://mfaic.gov.kh/files/uploads/1XK1LW4MCTK9/EN%20PENTAGONAL%20STRATEGY%20-%20PHASE%20I.pdf.

arrangements.[3] This transition will demand greater self-sufficiency, improved productivity, and stronger export competitiveness within the region.

Accordingly, this policy brief examines the current state of Cambodia's agro-processing capacity, assesses the implications of its limitations for economic self-sufficiency, and proposes actionable policy solutions to strengthen the agri-industrial sector. The primary objective is to shift Cambodia's economic trajectory from reliance on exporting raw agricultural products toward producing higher-value-added goods. In doing so, the country will be better positioned to meet domestic demands, reduce its dependence on foreign imports, and contribute to its overall economic growth.

Current Status of Cambodia's Agro-Processing

Agro-processing serves as a crucial link between the agricultural and manufacturing sectors to transform raw agricultural products into higher-value finished goods.[4] Such products, ranging from rice, milk, dried fruits, and dried meats, are integral to daily food consumption. However, Cambodia's performance in this sector remains limited. According to a report by the Asian Development Bank (ADB), only 10% of Cambodia's agricultural output is processed domestically, and processed products account for only 8% of the country's total exports.[5] The same report indicates that, as of 2019, manufactured agricultural products contributed only 3.4% of Cambodia's overall Gross Domestic Product (GDP).[6]

Compared with its neighbours, particularly Thailand and Vietnam, Cambodia's capacity for food processing lags significantly. Data from the Ministry of Industry, Science, Technology, and Innovation (MISTI) shows that as of 2023, there were 28,966 medium enterprises engaged in food and beverage processing, covering approximately 65% of Cambodia's registered SMEs.[7] However, many of these are family-run businesses with limited technological capacities and production capacity, unable to meet growing consumer demand. Consequently, the majority of processed foods consumed in Cambodia are predominantly imported goods, which highlights the country's heavy reliance on foreign products. This dependency also limits economic gains, as much of the value addition is captured by processing companies in the neighbouring countries.

A clear example is the cashew nut industry. Cambodia exported 790,000 tonnes of raw cashew nuts to Vietnam, yet domestic processing covered only 10% of the production. The remaining 90% was processed in Vietnam and subsequently re-imported into Cambodia as finished products, according to the Cashew Nut Association of Cambodia (CAC).[8] Between 2014 and 2018, imports

3 UNDP and Robert McDougall. 2024. "Cambodia's Graduation from Least Developed Country (LDC) Status: Preparedness and Potential Economic and Social Impacts." United Nations Development Programme. https://www.undp.org/sites/g/files/zskgke326/files/2024-11/final_ldc-policy_brief.pdf.

4 Nith, Kosal. 2020. "Kingdom's agro-processing potential." The Phnom Penh Post. https://www.phnompenhpost.com/opinion/kingdoms-agro-processing-potential.

5 Asian Development Bank (ADB), Cambodia Agriculture, Natural Resources, and Rural Development Sector Assessment, Strategy, and Road Map (Manila: ADB, July 2021), https://www.adb.org/sites/default/files/publication/718806/cambodia-agriculture-rural-development-road-map.pdf.

6 Asian Development Bank (ADB), Cambodia Agriculture, Natural Resources, and Rural Development Sector Assessment, Strategy, and Road Map (Manila: ADB, July 2021), https://www.adb.org/sites/default/files/publication/718806/cambodia-agriculture-rural-development-road-map.pdf.

7 Vanyuth Chea, "SMEs Registration Inches Up to 443,628 Last Year," Khmer Times, February 23, 2024, https://www.khmertimeskh.com/501444697/smes-registration-inches-up-to-443628-last-year/

8 Chantha, Chhum. "Cambodia Earns $1.11 Billion From Raw Cashew Nut Exports to Vietnam." Cambodianess, November 28, 2024. https://cambodianess.com/article/cambodia-earns-111-billion-from-raw-cashew-nut-exports-to-vietnam.

of agri-food products accounted for around 84% of Cambodia's total food trade value, while exports of processed food comprised only 12%.[9]

These limitations undermine Cambodia's pursuit of economic self-sufficiency and constrain opportunities for employment generation and income stability for farmers. More critically, they weaken Cambodia's ability to secure its food security and diversify its markets, which are essential for long-term economic resilience and competitiveness.

Impact of Agro-Processing on Cambodia's Economic Self-Sufficiency

Enhancing the agro-processing capacity is a critical driver of Cambodia's long-term economic self-sufficiency. Strengthening this sector directly affects several key dimensions of the economy, including food security, rural employment, and trade balance.

Firstly, expanding the high-value-added production is essential to secure Cambodia's food security. By strengthening domestic agro-processing, the country can reduce its reliance on imported processed goods, stabilize food prices, and safeguard against any supply chain disruption caused by global or regional uncertainty. For example, during the recent conflict between Cambodia and Thailand, border closures and restrictions delayed the flow of goods, people, and services, including agricultural exports.[10] These disruptions underscored Cambodia's vulnerability to external shocks. At the same time, they revealed opportunities to accelerate investment in agro-processing and strengthen domestic supply chains. By reducing reliance on imports and promoting Made-in-Cambodia products, Cambodia would be better positioned to maintain a sufficient and stable food supply even in times of regional trade disruption.

Secondly, transforming raw agricultural commodities into processed goods creates more employment opportunities and generates income for farmers and rural communities. Agro-processing is already a significant contributor to job creation: registered small and medium enterprises (SMEs) in the sector provide over 400,000 jobs.[11] Beyond direct employment, the sector stimulates growth in related industries such as transport, packaging, and retail. Additionally, stronger processing capacity would help absorb surplus agricultural produce, reduce waste, and stabilize prices. Farmers in several provinces currently face difficulties marketing their products, forcing them to sell at low prices or abandon unsold crops. For instance, in Preah Vihear province, pumpkin farmers have struggled to export to Thailand amid recent trade disruptions, leading to falling prices. By shifting from the export of raw commodities to higher–value-added products, Cambodia can ease farmers' burdens, expand job opportunities, and capture greater economic returns.

Lastly, fostering agro-processing capacity will strengthen Cambodia's trade balance and reduce economic leakage. At present, Cambodia exports raw materials at low prices to Vietnam and Thailand, while importing higher-value processed products. This leads to persistent trade

9 Sok Piseth, Monyoudom Yang, and Tynarath Houn, "Cambodia's Agri-Food Trade: Structure, New Emerging Potentials, Challenges & Impacts of Covid-19," PRCI Research Paper 5 (East Lansing: Michigan State University, December 24, 2021), https://www.canr.msu.edu/prci/PRCI-Research_Paper_5_Cambodia_updated.pdf.

10 Chamrong Nhean, "Can Cambodia Turn the Border Crisis into an Opportunity?" Khmer Times, June 23, 2025, https://www.khmertimeskh.com/501704858/can-cambodia-turn-the-border-crisis-into-an-opportunity/.

11 Vanyuth Chea, "SMEs Registration Inches Up to 443,628 Last Year," Khmer Times, February 23, 2024, https://www.khmertimeskh.com/501444697/smes-registration-inches-up-to-443628-last-year/.

deficits. According to data from the Ministry of Economy and Finance's General Department of Customs and Excise, Cambodia exported USD 3615.55 million to Vietnam in 2024 but imported USD 4,169.687 million, resulting in a trade deficit exceeding over USD 500 million.[12] Similarly, with Thailand, the trade deficit was even larger, at USD 2,598.421 million, as the export amounted to just USD 844 million compared to USD 3,443.321 million.[13] Thus, expanding domestic high-value-added production would help reduce such deficits, retain greater value within the economy, and support more self-resilient growth.

Challenges of Agro-Processing Capacity in Cambodia

Despite Cambodia's abundant agricultural resources, the country's agro-processing capacity continues to face significant constraints in transforming raw products into high-value final goods. These challenges include a shortage of skilled laborers, inadequate infrastructure, high production costs, and limited access to food certification.

A persistent shortage of skilled laborers remains one of the main challenges to developing agro-processing capacity. Currently, only 13 large companies operate in the food and beverage industry[14], while the vast majority of food processors are small and medium-sized enterprises, or family-run businesses. Interviews with the food processors highlight technical limitations and knowledge gaps as critical obstacles.[15] Since most processing machinery is imported, repairing equipment is particularly challenging and disrupts production capacity. Moreover, family-run food processors often produce in very small volumes, making it difficult to meet domestic demand.

Infrastructure deficiencies also limit the sector's growth. Food distribution faces logistical challenges due to lack of cold-chain and dry-storage facilities, along with inconsistent electricity access.[16] Without adequate access to storage, products spoil quickly, and this leads to financial loss. Electricity shortage in some areas further disrupts the production chain and reduces the ability of processors to consistently supply the domestic market. High production costs is another challenge. Locally made products often remain less competitive compared to cheaper imported goods, shaping consumer preferences toward foreign brands.. The high cost is mainly derived from reliance on imported machinery, limited economies of scale, expensive electricity, and the relatively high cost of skilled labor in Cambodia.[17]

Lastly, access to food certification remains a major constraint for Cambodian agro-processors. Compliance with international food safety standards such as Good Manufacturing Practices

12 General Department of Customs and Excise of Cambodia, "Trade Balance Statistics by Top 20 Countries from January to December 2024 (Provisional)," General Department of Customs and Excise of Cambodia, October 9, 2025, https://stats.customs.gov.kh/publication.

13 General Department of Customs and Excise of Cambodia, "Trade Balance Statistics by Top 20 Countries from January to December 2024 (Provisional)," General Department of Customs and Excise of Cambodia, October 9, 2025, https://stats.customs.gov.kh/publication.

14 Raksmey Chhorn, "Cambodia's F&B Sector Valued at $901M," Kiripost, October 13, 2025, https://kiripost.com/stories/cambodias-fb-sector-valued-at-90171m.

15 Modern Energy Cooking Services (MECS), "SMEs and Food Processing Markets in Cambodia," January 14, 2022, https://mecs.org.uk/wp-content/uploads/2022/01/SMEs-and-food-processing-markets-in-Cambodia.pdf.

16 Amanda Brondy and Kent Sisson, "Cold Chain in Cambodia: Emerging Markets Program Assessment," Global Cold Chain Alliance, December 2020, https://www.gcca.org/wp-content/uploads/2024/02/2022-GCCF-Cambodia-Cold-Chain-Assessment.pdf.

17 Modern Energy Cooking Services (MECS), "SMEs and Food Processing Markets in Cambodia," January 14, 2022, https://mecs.org.uk/wp-content/uploads/2022/01/SMEs-and-food-processing-markets-in-Cambodia.pdf.

(GMP), Hazard Analysis and Critical Control Points (HACCP), and International Organization for Standardization (ISO) standards requires extensive documentation and multiple laboratory testing. For instance, ISO 22000 certification is valid for three years but requires full documentation of the supply chain. The initial audit alone costs between USD 1500 and USD 3000, with additional expenses for subsequent steps. This makes certification unaffordable for many SMEs.[18]

Policy Recommendations

While Cambodia is rich in agricultural resources and has high potential to transform raw agricultural goods into high-value agro-processed products, several actions are required to turn these potentials into a sustainable driver for economic self-sufficiency. Effective collaboration among the government, private sector, and relevant stakeholders is crucial to achieve this goal.

Establishment of Tax Incentives and Affordable Credit

Tax incentives should be introduced to encourage investment in agro-processing. By reducing the tax rates for the firms engaged in agri-food processing would lower operational costs and motivate increased production. In parallel, access to affordable credit through occasional loans or low-interest financing should be made available to small-scale and start-up processors with limited collateral.. These short-term incentives would reduce production costs, boost profitability, and lay the foundation for long-term growth.

Provide Subsidies and Logistical Support for Farmers

The government should subsidize key agricultural inputs such as fertilizer, seeds, and technical support to help secure reliable raw materials. Additionally, transportation subsidies or the establishment of community-based collection hubs would reduce logistical costs and ease the burden on rural farmers, ensuring the timely delivery of raw materials to processors. This would both stabilize production chains and enhance the competitiveness of local agro-processing firms.

Creating a Nationwide Digital Platform to Link Farmers and Processors

A centralized digital platform should be created to connect farmers with agro-processing firms. Managed by provincial agricultural officers, the platform would provide real-time updates on the availability, prices, and quantities of raw materials within each province. Collaboration between the Ministry of Agriculture, Forestry, and Fisheries (MAFF) and the Ministry of Posts and Telecommunications will be essential to ensure reliable design, timely updates, and accurate data. This platform would strengthen market linkages and reduce information asymmetry.

18 Ibid.

Strengthening Vocational and Technical Training (TVET)

Expanding vocational and technical training is critical to address Cambodia's shortage of skilled labor. Training programs should focus on food processing techniques, quality control, and machinery maintenance. Partnerships with the private sector and technologically advanced countries such as China, Japan, and South Korea would provide expertise and best practices. This would help build a more capable workforce, reduce dependence on foreign machinery expertise, and improve production efficiency.

Implement Standardized Evaluation and Food Certification Systems

The government should implement standardized evaluation and certification processes to ensure product quality. Certification would enhance consumer trust, boost credibility of Cambodian-made products, and facilitate access to international markets. Beyond national standards, firms should be encouraged and supported to pursue international certifications such as ISO, HACCP, and HALAL, which are critical for export competitiveness.

Promote National Branding and Launch a "Buy Locally Made" Campaign

Promoting Cambodian branding is vital to increase consumer confidence and demand for domestic products. National campaigns such as "Buy Locally Made" should be launched using social media, influencers, and public figures to target younger consumers and foster national pride in Cambodian products. Expanding the presence of Made-in-Cambodia products in supermarkets and retail chains would further raise visibility and market share.

Conclusion

Cambodia's agro-processing industry holds significant potential to reduce the reliance on imported goods and strengthen the country's path toward economic self-sufficiency. Despite Cambodia's richness in raw agricultural products, structural limitations have hindered the accessibility, affordability, and competitiveness of domestically processed goods. This leaves the country heavily dependent on imports.

Addressing these challenges requires a concerted effort from policymakers, government agencies, the private sector, and relevant stakeholders. This paper has outlined practical policy solutions, including tax incentives and access to affordable credit for agro-processing firms, subsidies and logistical support for farmers, the creation of a nationwide digital platform linking producers and processors, strengthened vocational and technical training, the implementation of standardized food certifications, and the promotion of national branding through "Made in Cambodia" campaigns.

By adopting these measures, Cambodia can transform its agro-processing sector into a key driver of sustainable economic growth, food security, and job creation. More importantly, it will enable the country to gradually shift from exporting raw commodities at low value to producing high-value-added goods, positioning Cambodia as a more resilient and competitive player in the regional economy.

A worker sorting cashew nuts at modern industrial agriculture factory in Cambodia indoors.
Photo: Shutterstock

Electronic components production at Shiningmoon Lighting in Kampong Speu Province.
Photo: Shiningmoon

Cultivating Cambodia's Future Beyond Garments: Strategic Development of a Diverse and Resilient Export-Oriented Economy in Cambodia for 2029 and Beyond

Nou Sei Hak

EXECUTIVE SUMMARY

- Cambodia's anticipated graduation from Least Developed Country (LDC) status in 2029, as recommended by the Committee for Development Policy (CDP), underscores the urgent need for a transformative economic restructuring.
- Despite experiencing two decades of robust growth, the economy remains significantly dependent on the low-value Garment, Footwear, and Travel goods (GFT) sector, which constitutes approximately 44.6% of total exports.
- The graduation will result in the loss of preferential trade benefits, such as the EU's Everything But Arms (EBA) initiative and the US Generalised System of Preferences (GSP). Consequently, this will pose immediate challenges to the competitiveness of the GFT sector and heighten susceptibility to external supply chain disruptions.
- To achieve resilient and sustainable growth beyond 2029, Cambodia must adopt a dual-track national strategy emphasising vertical upgrading and horizontal diversification.
    - Cambodia should enhance existing sectors by transitioning the Garment, Footwear, and Textile (GFT) industry from a Cut-Make-Trim (CMT) model to a higher-value Original Design Manufacturing (ODM) approach while substantially boosting agro-processing sectors, such as cashew and rice production.
    - Concurrently, the country must expedite its entry into new, high-value manufacturing areas, particularly in Electronics and Automotive Components.
- Although existing policies, including the Cambodia Industrial Development Policy (IDP) and the Automotive and Electronics Roadmap, establish a solid strategic foundation, their implementation faces challenges due to limited value addition, an emerging supplier ecosystem, and a significant gap in human capital skills.
- To ensure success, targeted policy recommendations include:
    - Invest in vocational training aligned with Industry 4.0 standards;
    - Implement a reskilling initiative for garment workers and returning workforce;
    - Bolster digital and STEM-related education;
    - Prioritize investments in strategic infrastructure with local industries in mind; and
    - Actively engage in trade diplomacy with existing and potential partners to secure new market access.

Current Landscape

In May 2024, the Committee for Development Policy (CDP) recommended that Cambodia graduate from its LDC status in 2029. This recommendation followed the CDP's 26th plenary session, held from March 4 to 8, 2024.[1] The CDP highlighted that Cambodia meets all three criteria for graduation: a gross national income per capita of USD 1,590 (2020-2022 average), exceeding the USD 1,306 threshold; a human assets index of 77.8, surpassing the minimum index of 66; and an economic and environmental vulnerability index of 24.1, well below the maximum of 32.

1 United Nations. Committee for Development Policy. Report on the twenty-sixth session (4–8 March 2024). Economic and Social Council Official Records, 2024, Supplement No. 13 (E/2024/33). New York: United Nations, 2024. https://docs.un.org/en/E/2024/33

This marked the second consecutive time Cambodia has achieved substantial margins across all criteria. The CDP report further suggested that while Cambodia has effectively utilized preferential market access and intellectual property arrangements, the country now faces the imperative of advancing both product and market diversification and developing productive capacity that can withstand geopolitical and geoeconomic shifts.

Cambodia's economic transformation began with market liberalization in the late 1980s, marked by the elimination of the state monopoly on foreign trade in 1987 and the implementation of the foreign investment law in 1989.[2] This progress continued following Cambodia's accession to the Association of Southeast Asian Nations (ASEAN) in 1999 and its membership in the World Trade Organization (WTO) in 2004. Between 2000 and 2022, the economy experienced remarkable growth, averaging over 7% annually although the post-COVID growth has fallen below this average.[3]

Despite this growth, Cambodia's economy remains largely dominated by the garment sector, which is critical to its overall performance. Currently, exports of garments, footwear, and travel goods (GFT) constitute approximately 44.59% of Cambodia's top 20 exports, amounting to around USD 11.68 billion in 2024, according to the General Department of Customs and Excise (GDCE). Since 2000, the value of exports has surged from just USD 962 million (with garments accounting for 97%) to USD 11.191 million in 2021 (where garments represented 74% of the total).[4] Compared with other sectors such as manufacturing and agriculture, the GFT sector plays a pivotal role in supporting the Cambodian economy.

Risk of Low-Value Garment Sectoral Dependency

Cambodia's heavy reliance on GFT exports poses a double-edged sword as the country approaches graduation from LDC status. This transition entails certain costs, particularly the anticipated loss of preferential trade benefits. These benefits include the European Union's EBA initiative and the United States' GSP.[5] Additionally, it affects the World Trade Organization's (WTO) Special and Differential Treatment (S&DT) provisions as well as various preferential market access schemes.

LDC status also provides flexibilities and extended transition periods for implementing WTO agreements, which will be phased out following graduation. Moreover, post-graduation, the stricter rules of origin (ROO) associated with standard GSP or other non-LDC schemes could lead to higher production costs, making it more challenging for Cambodian exports to qualify for any remaining preferential tariffs.[6]

2 Asian Development Bank. Cambodia's Economic Diversification: A Country Diagnostic Study. Mandaluyong, Philippines: Asian Development Bank, 2024. https://doi.org/10.22617/TCS240493-2

3 Vutha, Hing, and Kruy Narin. "Cambodia's Growth Story: Key Lessons from Two Decades of Economic Progress." Cambodia Outlook Conference. February 28, 2025. https://coc2025.cdri.org.kh/blogs/cambodias-growth-story-key-lessons-from-two-decadDespitees-of-economic-progress

4 General Department of Customs and Excise of Cambodia. Export Statistics by Top 20 Commodities (Chapter), December 2024 (Provisional). Phnom Penh: Ministry of Economy and Finance, 2024. https://stats.customs.gov.kh/en/publication

5 WTO Secretariat and Enhanced Integrated Framework (EIF). Trade Impacts of LDC Graduation. Geneva: WTO/EIF, 2020. https://www.wto.org/english/res_e/publications_e/ldc_graduation_e.htm.

6 United Nations Development Programme (UNDP) Cambodia. Cambodia's Graduation from Least Developed Country (LDC) Status: Preparedness and Potential Economic and Social Impacts. Phnom Penh: UNDP Cambodia, November 11, 2024. https://www.undp.org/cambodia/publications/cambodias-graduation-least-developed-country-ldc-status-preparedness-and-potential-economic-and-social-impacts

The political and economic landscape has already experienced significant turbulence this year. Early in the year, the second administration of President Donald J. Trump implemented a reciprocal tariff as high as 49%.[7] This was subsequently paused for further consideration and reduced after several negotiation rounds between the Royal Cambodian Government and representatives of the Trump administration.[8] In parallel, ongoing tensions with Thailand has severely curtailed Cambodian exports to the neighboring market.

Cambodia's reliance on low-value garment manufacturing leaves it highly vulnerable to external shocks, including rapidly changing trade policies and evolving global supply chains. The country imports a substantial proportion of raw materials for garment production; in 2022 alone, the value of imported fabrics reached an astonishing USD 4.4 billion, leaving it highly susceptible to supply chain disruptions.[9]

Opportunities in High-Value Export-Oriented Sectors

Cambodia's economic trajectory post-graduation from LDC status will depend on its capacity to harmonize diversification with export competitiveness. As preferential trade advantages are gradually phased out, the nation must actively pursue strategies that safeguard existing export benefits while facilitating the entry into new, higher-value industries and enhancing established sectors.

Cambodia's strengths in the garments and agricultural sectors, paired with the burgeoning electrical and manufacturing industries, present a dual-track framework for sustainable growth. This framework encompasses both the elevation of current sectors (garments and agriculture) to higher-value outputs within established industrial domains, as well as the expansion into novel industries (such as electronics and automotive components) to achieve greater export diversification.

Existing Sectors' Expansion

Prior to its graduation from LDC status, Cambodia must diversify its economic base beyond garment manufacturing while enhancing competitiveness in the short- to medium-term. Presently, the majority of garment production in Cambodia relies on imported raw materials and adheres to a Cut-Make-Trim (CMT) model[10], which offers limited value addition. The transition towards Original Design Manufacturing (ODM) and the integration of more sophisticated production processes are essential steps in enhancing this sector.

Key strategic directions include (1) expanding beyond basic apparel to encompass higher-value items, such as sports jerseys, athletic wear, and technical textiles; (2) encouraging ODM will enable local firms and brands to design and manufacture higher-value products tailored to global

7 United States. President. Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits. Executive Orders, April 2, 2025. https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-I.pdf

8 Office of the United States Trade Representative. Ambassador Greer Issues Statement on Trade Negotiation Progress with Cambodia. Press release, October 10, 2025. https://ustr.gov/about/policy-offices/press-office/press-releases/2025/october/ambassador-greer-issues-statement-trade-negotiation-progress-cambodia

9 Khmer Times. "China's share in Cambodia's fabric imports logged at 80 percent in 2022." March 25, 2023. https://www.khmertimeskh.com/501262006/chinas-share-in-cambodias-fabric-imports-logged-at-80-percent-in-2022/

10 Association of Southeast Asian Nations (ASEAN). Garment Industry in CLMV Economies. Jakarta: ASEAN Secretariat, 2024. https://asean.org/wp-content/uploads/2024/12/Textiles-Industry-in-CLMV-Economies.pdf

market demands, extending beyond mere consumer needs; and (3) increasing local sourcing of inputs (e.g., cotton, textiles) to reduce import dependence and fortify domestic linkages. This initiative is vital for sustainability and for promoting green and ethical fashion to address the rising consumer and regulatory demands in key export markets, including the EU and the US.

Furthermore, Cambodia's agricultural sector presents significant untapped potential for value addition and export diversification. While the country is a strong exporter of raw crops, the majority are exported in unprocessed or semi-processed forms. In 2024, Cambodia's natural rubber exports reached USD 671.7 million, with most products consisting of raw rubber.[11]

Developing agri-processing can transform Cambodia from a supplier of raw materials to a producer of higher-value finished goods. Focus areas may include cashew, rice, fruits (dried fruits, purees, and juices), and spices (notably Kampot Pepper).

Establishing domestic processing facilities will link rural production with industrial manufacturing, ensuring a more equitable distribution of export gains and enhancing resilience against external shocks in the garment sector and beyond.

Comparative High-Value Sectoral Integration

Beyond its traditional industries, Cambodia must diversify into new sectors such as electronics, automotive components, and advanced manufacturing. These sectors are central to the country's long-term economic resilience and competitiveness

Electronics and component production have been identified as key priorities in Cambodia's diversification roadmap. Strategic opportunities lie in progressing upstream toward higher-value electronics production, along with integrated hubs for assembly, testing, and design.

Automotive component manufacturing complements this strategy effectively. Cambodia is already home to global firms engaged in producing labor-intensive components such as wire harnesses for export to regional assembly plants.[12] With the advent of Industry 4.0, the country's emerging niche in component-level assembly, including semiconductor devices, can be enhanced through the development of industrial infrastructure and workforce training.

The subsequent step should involve a broader range of components and subsystems, particularly targeting the Electric Vehicle (EV) market. This entails the establishment of industrial clusters, the enhancement of logistics, and the upgrading of technical skills necessary for precision manufacturing. Coordinated investments in infrastructure, vocational training, and incentives are crucial for advancing beyond basic assembly.

Electronics, agribusiness, and services represent long-term potential for economic resilience. However, it is notable that electronics exports decreased from 16.02% of total exports in 2023 to

11 ពិសី, ហ៊ីន. "ទឹកប្រាក់នៃការនាំចេញផលិតផលកៅស៊ូក្នុងឆ្នាំ ២០២៤ កើនឡើងជាង ៣៦ ភាគរយ [The value of rubber product exports in 2024 increased by more than 36 percent]." *Phnom Penh Post*, January 23, 2025. https://www.postkhmer.com/business/2025-1-23-1431-261169

12 Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. SECTOR BRIEF CAMBODIA: Electrical and Electronic Equipment Industry. Phnom Penh: GIZ, 2023. https://rbh-eurochamcambodia.com/wp-content/uploads/Sector-Brief-Cambodia-Electrical-and-Electronic-Equiptment-Industry.pdf

9.18% in 2024.[13] Strengthening these capabilities could render Cambodia an attractive base for regional supply chains, especially as firms adopt "China +1" strategies across ASEAN.[14]

Existing Policies Addressing Sectoral Diversification

The Royal Government of Cambodia (RGC) has implemented essential policies to foster industrial growth, align with global trends, and prepare for graduation from least-developed country status while mitigating external shocks. These policies have been formulated with an emphasis on export-oriented sectoral diversification.

Cambodia Industrial Development Policy (IDP) 2015-2025[15]

The primary framework implemented is the Cambodia Industrial Development Policy 2015-2025 (IDP), driven by a long-term vision toward 2030, as articulated in the third phase of the former Rectangular Strategy. The IDP sets three key targets: (1) increasing the share of industry's GDP to 30% by 2025 (up from 24.1% in 2013), with manufacturing rising to 20%; (2) diversifying exports so that non-textile goods reach 15% and processed agricultural products 12% of total exports by 2025; and (3) formalizing 80% of small enterprises and 95% of medium enterprises, ensuring proper accounting for half of small firms and 70% of medium firms.

The scope and key priorities encompass: (1) fostering new industries or manufacturing sectors capable of entering markets, providing high value-added, innovative, and competitive outputs; (2) promoting small and medium enterprises (SMEs) across all sectors; (3) increasing agricultural production for both export and domestic markets; (4) encouraging various support industries for farming, tourism, and garments, as well as industries integrated into the global production value chain; and (5) supporting industries linked to the regional production chain and those strategic for nurturing future sectors.

Under the IDP, priority sectors for industrial development, which serve as new pillars alongside the garment sector, include emerging fields such as automotive parts and electronics manufacturing, agro-industrial processing (notably for rice, cassava, rubber, cashew, and sugar), and light engineering industries that provide machinery repair, packaging, and maintenance services. Additionally, the policy highlights priority crops including rice, cassava, cashew nuts, sugar, maize, rubber, and palm oil. Key strategies for enhancing agro-processing value include developing modern processing facilities, improving quality control and certification to meet export standards, and fostering public-private partnerships (PPPs) for infrastructure and logistics to facilitate exports.

13 David, Rachel. "Drop in electrical goods, machinery export in line with global markets." Khmer Times, Business, February 19, 2024. https://www.khmertimeskh.com/501442021/drop-in-electrical-goods-machinery-export-in-line-with-global-markets/

14 Angeline, Tan, Driving factors of China Plus One, Research note (Kuala Lumpur, Malaysia: Institute of Strategic & International Studies (ISIS) Malaysia, 2025). https://www.isis.org.my/wp-content/uploads/2025/05/Driving-factors-of-China-Plus-One.pdf

15 Royal Government of Cambodia. Cambodia Industrial Development Policy 2015 – 2025. Phnom Penh: Council of Ministers, 2015. https://cdc.gov.kh/wp-content/uploads/2022/04/IDP-English.pdf

Cambodia's Automotive and Electronics Sectors Development Roadmap[16]

Cambodia's development roadmap for the automotive and electronics sectors is designed to leverage the country's cost-competitive labor, strategic location, and favorable trade agreements, while progressively moving up the value chain.

In the near term, the automotive sector in Cambodia emphasizes the ongoing opportunity to enhance the manufacturing of simpler, more labor-intensive components for export, including wiring harnesses, seats, and basic electronic and electrical components, while simultaneously increasing backward linkages for locally assembled two-wheelers. For the electronics sector, the immediate focus is on expanding Cambodia's presence in simple components and sub-assembly, such as cables, connectors, and PCB assembly. This strategy maximizes Cambodia's competitive advantages, including a cost-effective and skilled workforce, a strategic location near rapidly growing automotive manufacturing hubs in Thailand and Vietnam, and favorable trade agreements with key export markets.

In the mid-term, Cambodia aims to elevate its position in the value chain by advancing into the manufacturing of more complex automotive components and higher value-added electronics assembly and design.

In the long run, the objective is for Cambodia to establish itself as a manufacturing hub for automotive components, producing a diverse array of low-to-medium complexity components for export, alongside becoming an integrated electronics production hub that spans the entire value chain, including design, component manufacturing, sub-assembly, and final assembly.

To achieve this vision for the development of Cambodia's automotive and electronics sectors, the Royal Government of Cambodia (RGC) is dedicated to implementing a comprehensive cross-ministerial action plan designed to facilitate investor operations and enhance the cost-competitiveness of business activities in Cambodia. This combined action plan consists of 20 initiatives across five areas:

- **Cross-Ministerial Strategies and Coordination:** Key initiatives include identifying locations and Special Economic Zones (SEZs) for automotive and electronics sector clusters, as well as strengthening collaboration with neighboring countries such as Thailand and Vietnam.
- **Human Capital and Innovation:** Key initiatives encompass the development of a labor upskilling program in partnership with the private sector, alongside expanding and enhancing job matching services through public-private collaboration.
- **Infrastructure:** Critical initiatives involve reviewing electricity tariffs and reliability targets, as well as harmonizing cross-border transport regulations to reduce logistics costs.
- **Trade Facilitation:** Essential initiatives include the implementation of ratified Free Trade Agreements, the adoption of automated systems for public service provision, and the simplification of export-import procedures.

16 Royal Government of Cambodia. Cambodia's Automotive and Electronics Sectors Development Roadmap. Phnom Penh: Royal Government of Cambodia, 2022. https://cdc.gov.kh/wp-content/uploads/2023/04/ENG_Auto__Electronics_Roadmap.pdf

- **Business and Investor Friendliness:** Important initiatives comprise the enforcement of the Law on Investment of the Kingdom of Cambodia, which provides additional investment incentives, and the development of a local supplier ecosystem through a supplier matchmaking platform and quality improvement programs.

Gaps in Sectoral Development Policies

The IDP and the Automotive and Electronics Roadmap present an ambitious vision for diversification and export upgrading; however, implementation gaps persist that hinder the pace and depth of structural transformation. These gaps are evident in policy coherence, economic capacity, and human capital.

Limitation in Value-Added Policies

Despite the implementation of strategic road, Cambodia's progress in value addition remains constrained. The garment sector continues to operate primarily under Cut-Make-Trim (CMT) arrangements, wherein domestic firms engage in assembly work utilizing imported materials and designs from foreign buyers. This situation underscores a broader challenge: although diversification is emphasized in national strategies, policy execution tends to be fragmented across ministries and governmental institutions, lacking effective coordination mechanisms to align sectoral objectives.

Limited Economic Capacity for Cambodia's Expansion

The limited productive capacity to support higher-value manufacturing has caused FDI inflows to remain concentrated in low-value assembly activities, such as garments, footwear, and simple electrical components, rather than in more complex, technology-driven production. This concentration reflects structural issues within the investment environment, including underdeveloped supplier networks, high logistics costs, and limited domestic sourcing, which deter firms from relocating advanced production stages to Cambodia.

While special economic zones (SEZs) have successfully attracted export-oriented FDI, they have yet to establish strong backward linkages with local firms. As a result, Cambodia's export structure remains vulnerable to shifts in global supply chains and tariff modifications following its graduation from LDC status.

Human Capital Un-readiness

Human capital development represents a significant bottleneck in Cambodia's economic progress. Despite recent expansions in Technical and Vocational Education and Training (TVET), their scale and relevance have not yet aligned with the demands of emerging industries such as electronics, automotive components, and agri-processing. Especially, with this misalignment, there have also been issues such as outdated training methodologies, misalignment between technical trainers and their experience in the industry they're teaching about, and infrastructure issues.[17]

17 Cambodia Development Resource Institute (CDRI), Economic Return to Investment in Education and TVET: Micro and Macro Perspectives (Phnom Penh: CDRI, 2019), https://files.acquia.undp.org/public/migration/kh/Economic-Return-to-Investment-in-Education-and-TVET-Micro-and-Macro-Perspectives.pdf

Cambodia's labor productivity per worker in 2020 was approximately USD 2,890, far below that of regional peers: Thailand (USD 14,780), Indonesia (USD 12,040), and Vietnam (USD 6,580)[18]. This gap underscores limited access to advanced technical skills, inadequate coordination between training institutions and industry needs, and the lack of consistent upskilling pathways for workers transitioning from low-skill to higher-skill occupations.

A critical concern during the diversification process is the social cost associated with structural transformation. The garment sector employs nearly one million Cambodians, approximately 80% of whom are women, many of whom have limited alternative employment options[19]. Rapid industrial upgrading, without sufficient social safeguards, poses a risk of displacing significant segments of this workforce.

To mitigate these risks, Cambodia requires a gradual and well-planned transition, supported by retraining programs, social protection mechanisms, and inclusive labor policies, is essential to ensure that economic diversification does not exacerbate inequality or increase unemployment among vulnerable communities.

Export Orientation Limitation

Although national industrial policies emphasize diversification, the integration of export development across sectors remains incomplete. Many diversification initiatives concentrate on enhancing domestic industrial capacity but lack complementary measures to bolster export readiness, such as trade facilitation, market intelligence, and compliance support for emerging industries.

To maintain competitiveness post-LDC graduation, Cambodia must ensure that diversification strategies are explicitly export-oriented, thereby enabling emerging sectors, such as electronics, agri-processing, and automotive components, to extend beyond domestic markets and effectively integrate into regional value chains.

Policy Recommendations

The Royal Government of Cambodia should adopt a multi-pronged strategy that links human capital development, targeted foreign investment, improved infrastructure, and aggressive trade diplomacy to ensure sustainable economic diversification.

1. Investment in Human Capital and Innovation

Aligning Future-Ready Vocational Training with the Incoming Industry 4.0 Needs: This establishes or significantly expands industry-led vocational training centers and polytechnics specifically tailored to high-value sectors. These programs must integrate digital literacy (particularly with the recent advancement of artificial intelligence in industrial development[20]) and basic automation skills to prepare the workforce for the technological demands of modern

18 Asian Development Bank. Cambodia Economic Diversification. Mandaluyong City: Asian Development Bank, 2024. https://www.adb.org/sites/default/files/publication/1009916/cambodia-economic-diversification.pdf

19 International Labour Organization (ILO). Cambodia Garment and Footwear Sector Bulletin, Issue 8. December 2018. https://www.ilo.org/media/411391/download

20 Organisation for Economic Co-operation and Development (OECD), Building Future-Ready Vocational Education and Training Systems, OECD Reviews of Vocational Education and Training (Paris: OECD Publishing, 2023), 20, https://doi.org/10.1787/28551a79-en.

manufacturing and logistics, ensuring that training is directly relevant to industry needs, providing a ready pool of skilled labor for new investments and preparing the workforce for Industry 4.0 demands and incoming challenges.

Fostering Innovation and Knowledge Transfer via Strategic FDI: This includes the enhanced, performance-based incentives to foreign investors in high-value parts of the existing sectors or other high-value sectors (e.g., electronics, auto assembly), importantly during and after skill upgrading within the existing human capital, who commit to (a) technology transfer and structured, on-the-job training programs for local employees; and (b) partnerships with Cambodian educational institutions, such as higher educational institutions and TVET institutions. Simultaneously, the Royal Government of Cambodia, through the Ministry of Industry, Science, Technology & Innovation (MISTI), should establish innovation hubs or industrial parks focused on specific high-value sectors, equipped with shared research and development (R&D) facilities to encourage university-industry collaboration on applied research.

Transition Programs for Garment Workers and Returned Cambodians: Arguably the most important aspect of diversification, there should be the implementation of targeted, government-supported reskilling and upskilling programs for garment workers (especially women) at risk of unemployment or displacement to informal sectors due to LDC graduation, as well as returning Cambodians from other countries, including those recently returned from Thailand. These programs must include minimally sustainable stipends or financial support during training, in collaboration with National Social Assistant Fund (NSAF), to mitigate social impact and channel the existing workforce into the new high-value sectors.

2. Enhancing Physical and Digital Enablers

Prioritizing Strategic Infrastructure and Investment Zones: Infrastructure investments, from the Royal Government of Cambodia or from public-private partnerships, particularly in logistics (e.g., Sihanoukville Autonomous Port expansion, Funan Techo Canal utilization, and connecting road and rail routes with neighboring countries) and green energy sources should be prioritized, to ensure low-cost, reliable connections between industrial zones, production areas, and with the outside world. This particularly must also be implemented with opportunities for local industries to leverage the expanded infrastructure's advantages in mind. SEZs should be actively leveraged, with targeted incentives to attract FDI in emerging non-garment industries to accelerate job creation.

3. Accelerating Trade and Market Access

Maximizing Existing and Pursuing New Trade Agreements: The Royal Government of Cambodia may strengthen the utilization of existing agreements, such as the Cambodia-China Free Trade Agreement (CCFTA) and the Regional Comprehensive Economic Partnership (RCEP), to further reduce tariffs and smooth trade flow with key Indo-Pacific partners (Japan, South Korea, Australia, New Zealand). Concurrently, the Ministry of Commerce may also prioritize new trade liberalization agreements with developed markets (like the EU and Canada) and emerging economies (such as African countries of Ethiopia, Nigeria, and South Africa) to broaden Cambodia's global export base and reduce market concentration risk.

4. Strengthening Implementation and Accountability

Coordinated Oversight and Measurable Goals: Implementation should involve coordinated oversight between the Ministry of Economy and Finance (MEF), private sector associations, and development partners (like ADB and ITC) to ensure measurable progress. Progress must be tracked using clear Key Performance Indicators (KPIs), including:

- The percentage share of high-value non-garment manufacturing (e.g., electronics, auto parts) in total exports
- The ratio of processed vs. raw agricultural exports, and
- Total FDI inflows to targeted electronics and machinery sectors.

Conclusion

Cambodia's pathway to sustainable economic growth is characterized by its capacity to implement a coordinated structural transformation both prior to and following the 2029 LDC graduation deadline. The vulnerabilities inherent in an over-reliance on the GFT sector and the imminent loss of preferential trade access are significant; however, they also provide a Cambodia's impetus for reform.

By integrating seven key policy recommendations focused on human capital development, strategic FDI attraction, and robust trade diplomacy, Cambodia can effectively transition from a low-value assembly hub to a resilient, diversified, and high-productivity participant in the regional value chain.

This transformation necessitates a concerted cross-ministerial effort, particularly through the Coordinated Oversight and Accountability framework. Success will be assessed not merely by increases in GDP, but by the tangible advancement of workers into higher-wage, higher-skill positions, thereby ensuring the sustainable cultivation of Cambodia's economic future.


Automobile Assembly Plant.
Photo: Shutterstock

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