

Chapter 1 | Introduction

DETH Sok Udom, Bradley J. Murg,

OU Virak, Michael Renfrew

Cambodia has experienced drastic changes since the signing of the Paris Peace Accords in 1991. Twenty-five years later, Cambodia is a lower middle-income country with consistently high GDP growth rates and concomitant improvements in human security as measured by the Human Development Index (HDI). The question that Cambodia confronts today is a seemingly simple one, but which is in fact remarkably complex: Whither Cambodia? From energy to industrialization to agriculture, how are the diverse sectors of Cambodian society and the Cambodian economy likely to develop over the next two decades?

As a relatively small country in a region of growing geopolitical and economic importance, how is the kingdom to respond to an assortment of global trends? From the continued rise of China to the effects of climate change to the transition towards a digitalized global economy, Cambodia is set to develop within a rapidly changing global landscape that offers both new challenges and new opportunities.

Set at the intersection between domestic development and global change, will Cambodia in 2040 be a middle-income state with growing prosperity or will it have stagnated at its current, lower middle-income level, or indeed have dropped back to the status of a low-income state? Will the kingdom have adapted to climate change or will it be a victim of its topography? Will a social

welfare system be developed to ensure the dignity and security of all of within the kingdom?

In order to address these and other important questions, Future Forum has partnered with the Konrad Adenauer Stiftung to produce a series of edited volumes examining a number of different areas of socio-economic development, ranging from fiscal policy to the fourth industrial revolution to healthcare. There are three thematic scopes that the series covers: (i) economic development; (ii) culture and society; and (iii) foreign policy and governance.

This is the first book that brings together a collection of experts, utilizing a single methodological framework, in order to set out the potential scenarios that Cambodia is likely to confront two decades from now. Broadly employing a shared foresighting approach each author examines their particular area of expertise in order to illustrate the potential paths that Cambodia could follow. Additionally, as befits a book about the future of Cambodia, each of the substantive chapters has been developed and written by a Cambodian analyst.

Methodology and Structure

Foresighting is grounded in the view that society is neither predictable nor evolutive. According to this perspective, future developments cannot simply be calculated, totting up sums to yield precise predictions as to outcomes in the long term. However, at the same time, foresighting recognizes that the world is not a chaotic place wherein the analysis of potential future trajectories is ultimately impossible. Rather, in this methodology, the future is best understood as “malleable.” Agency exists but diverse macrosocial variables, institutions, and trends ultimately structure the decisions taken by actors. In this middle ground between perfect prediction and pure chaos, it is possible to capture and analyze processes of change.

Based on a focused and systematic analysis of contemporary trends, across a diverse set of societal and technological sectors, these trends can be extrapolated into the future. Hence, by following their respective trajectories it is possible to develop probabilistic scenarios as to the paths that societal change can take. A “scenario” is understood in this context as a description of a possible

future situation inclusive of the path that leads to that situation. At the same time, scenarios are not developed in a way that presents a full and precise picture of the future; rather these are hypothetical constructs built to highlight certain key factors that will drive future developments. These scenarios can then be used to drive discussions concerning contemporary politics and policies such that actors are able to “clear away the brush” and grapple with the key factors that will most significantly impact the development of a particular topic.

Owing to constraints of space, rather than projecting a series of potential scenarios – each author sets out an ideal and a baseline scenario. Defining a particular set of key factors and then utilizing a funneling method, each chapter analyses its area’s salient factors in order to generate the respective ideal and baseline scenarios.

As a methodology, foresighting has historically had diverse applicability across different fields of research – with some being more amenable to such an approach than others. Rather than “boxing in” analysts, this volume recognizes that diversity and approaches foresighting as a methodological toolbox from which analysts can draw in order to best explore the future development of their particular areas of research. Following the foresighting analysis presented, outputs are specified in the form of a set of policy recommendations. Each chapter follows the same narrative, four-part structure:

- 1) ***The Ideal Scenario***, describing the plausible ‘best-case’ outcome for the topic at hand, given that the prescribed policy recommendations are undertaken.
- 2) ***Scenario Space and Key Factors***, containing an analysis of the topic space as defined by the author.
- 3) ***Policy Initiatives to Achieve the Ideal Scenario***. Having defined the topic space and considered the interplay of global trends and local development needs, the author outlines their policy roadmap.
- 4) ***Baseline Scenario: Business as Usual in 2040***. The final section presents the hypothetical outcome for the topic if current practice is to remain in motion.

In addition to these four sections, in order to bring these analyses “to life,” each chapter begins with a brief narrative setting out what one day in 2040 for a random Cambodian citizen might look like under the ideal scenario developed.

Beyond its contribution in the policy arena, we visualize this book as having a second and equally important benefit: supporting the training and development of Cambodian scholars. To this end we utilize foresighting as a guide and structure for a diverse set of local, Cambodian experts to examine key policy questions over the long term. It is not intended to be read as a definitive construction of the Cambodian development pathway. Rather, Cambodia 2040 represents a promotion of analytical hypotheses and outcomes, intended to encourage discourse and debate amongst stakeholders from government to aid partners to citizens.

The Kingdom in Retrospect: Cambodia in 2000

The new millennium ushered in a period of relative stability in war-torn Cambodia. Less than a year earlier, in March 1999, the last Khmer Rouge commander, Ta Mok, was arrested, thereby effectively ending the guerrilla movement that had posed security threats to Cambodia throughout the 1990s. In April 1999, Cambodia was also admitted as the tenth member of the Association of Southeast Asian Nations (ASEAN) after decades-long delay caused by Cambodia’s civil wars, bloody regime changes, and domestic instability.

Thanks to the fragile peace achieved by 2000, the country began to witness signs of modest socio-economic growth. This was evident, for instance, in the rise of official tourist arrival to the kingdom. While 118,183 tourists officially visited Cambodia in 1993, the number rose to 466,365 by the end of 2000. In 2000, there were already 240 hotels and 292 guest houses operating in Cambodia catering to the rising tourist demands (Sharpley & McGrath, 2017, pp. 90–91). Likewise, urbanization and the expansion of Phnom Penh as the capital city began to accelerate: “The real estate market took off significantly after 1998 and grew at a rapid rate between 2004 and 2008. The price of land in central Phnom Penh increased great between 2004 and 2007, from around US\$250 to over US\$2000 per square meter in some key locations” (Percival, 2017, p. 182). At the

time, however, traffic congestion and waste management were presumably not the pressing issues as they are today.

While provision of public general education began almost immediately following the collapse of the Khmer Rouge regime, the establishment of private secondary and higher education institutions only began to mushroom during the early 2000s (the first private university was officially established in 1997), though at the time, quality control and accreditation regulations were scant.

In 2000, only 80,000 persons were estimated to own a mobile phone (CIA World Factbook 2001: Cambodia, 2001); by 2019, mobile subscription has jumped to more than 18.5 million users (when the total population is only approximately 16.5 million). Cambodia also began its e-government initiatives by establishing the National Information Communications Technology Development Authority (NiDA) in 2000, but poor technology infrastructure, low literacy rates, and a high turnover of government IT staff members were the main challenges of such efforts (Richardson, 2017).

According to official statistics, Cambodia's GDP per capita had increased from \$288 in 2000 to over \$1500 in 2018, making Cambodia one of the best performers in poverty reduction (Ministry of Economy and Finance, 2016) – even if, as Young Sokphea pointed out, “[...] the poverty measurement and calculation remain contested” (Young, 2017).

As the Khmer Rouge threat diminished by the late 1990s, “land disputes became the most high profile source of potential threat to peace and stability. Regular disputes occurred, typically between groups of villagers and well-connected companies or individuals whose identity was difficult to pin down” (Biddulph & Williams, 2017). Similarly, thanks to weak governance, the country's natural resources have also become collateral damage of Cambodia's embrace of a market economy. Since the early 2000s, the country has continued to witness rapid deforestation, high profile cases of land evictions, mineral extraction, and environmental degradation. Political tension has also continued to simmer throughout the 2000s, culminating in the dissolution of the main opposition party – the Cambodian National Rescue Party (CNRP) in 2017.

Noting these vast changes – both positive and negative, anticipated and unanticipated – experienced in the kingdom over the course of the last twenty years, the future development of Cambodia will be anything but dull.

The Kingdom at Present: Cambodia in 2020

The utility in this project is derived from the observation that a great deal of growth and development has been achieved in the previous twenty years of Cambodian history. The recommendations made within this series are set against the circumstances of Cambodia as it enters 2020; with a view to the exceptional development it may undertake by 2040. Accordingly, it is necessary to provide an overview of Cambodia at this moment in time.

As noted above, the last twenty years of change in the kingdom have seen Cambodia undergo a considerable economic transition towards the lower middle-income status reached in 2015 (WorldBank, 2019). This growth has been primarily driven by large demands in the garments and tourism industries (ODC, 2019). With an average growth rate of 8% between 1998 and 2018, Cambodia is one of the fastest-growing economies in the world (WorldBank, 2019). The latest figures at the time of writing show that Cambodia's international trade reached \$24.9 billion (MEF, 2019). The kingdom's three biggest export markets are the United States, the United Kingdom, and Germany; while its largest import partners are China, Thailand, and Vietnam (WITS, 2019). With ambitions to break into the upper middle-income bracket by 2030, the policy recommendations made in this book seek to support the continued achievement of this goal.

The poverty rate in Cambodia has continued to fall as economic growth continues to provide an engine for development. With a population sitting just over 16 million, and according to official estimates by the World Bank, the poverty rate has fallen from 47.8% in 2007, to 13.5%. Of this group, over 90% are based in the countryside. The kingdom met its obligation to the Millennium Development Goal of halving poverty. Currently, 76% of the population remain rural.

Cambodia has made substantial improvements in health since its continued policy efforts that began in the 1990s (WorldBank, 2019). The infant mortality

rate has dropped to 46 deaths per 1000 live birth, while the life expectancy has increased to 65 years (63 years for males and 68 years for females). The fertility rate is currently at roughly 2.5 children born per woman, while the maternal mortality rate has fallen to 160 deaths per 1000 live births. Regarding developments in education, net enrolment in primary education has increased from 82% in 1997 to 97% in 2016 (WorldBank, 2019). On average, children complete 11 years of formal education and 80 percent of the population are literate (CIA, 2019). As of 2019, the average age in Cambodia remains young at 24 years old. Prospects for employment remain rooted in garments, tourism, construction, and agriculture.

Beyond Cambodia's internal status at this time, several prevalent mega-trends will determine the future of growth and development within the kingdom. Whereas a trend captures a general direction of change over time, a megatrend captures the major forces in societal development that are predicted to affect all areas over a ten-year timeframe (EFP, 2019). At this time, five megatrends have been identified that will shape the development of global society and economy (PWC, 2019): rapid urbanization; climate change and resource scarcity; a multipolar structure of global power; population growth and demographic change; and technological breakthroughs. Each of these megatrends will have a direct impact on the form and function of Cambodian growth and development.

The Kingdom in Future: Cambodia in 2040

The first volume in this series begins with a wide-ranging analysis as to the economic development of the kingdom. Cambodia is undergoing a rapid economic transformation supported by two decades of strong growth performance. In chapter one, author KRUY Narin provides a comprehensive review of the kingdom's economic development in line with the strategic plans in place to support its continued proliferation. Leaning into the established 'Rectangular Strategy' frameworks, the chapter explores the roles of small and medium enterprises, foreign investment, and trade-related governance, in delivering Cambodia into the upper-middle-income bracket. The chapter well depicts the enormous challenges that confront the kingdom across myriad sectors if upper middle-income status and eventually high income status are to

be attained while also providing a comprehensive perspective highlighting various key factors that are subsequently developed in the following chapters.

In its development towards upper-middle-income status, Cambodia will necessarily reduce its foreign aid dependence and seek to enhance its sovereign fiscal system. In chapter three, CHEAN Sithykun provides an across-the-board overview of the fiscal policy priorities that will support the development of this system. Acknowledging the opportunities presented by new technology, this chapter champions the implementation of a SMART taxation system that will manage efficient revenue capture and encourage a flourishing business and investment environment. With an eye firmly on resilience to economic shocks and the changing Cambodian employment landscape, fiscal policy recommendations are considered through a decidedly Cambodian lens.

In its pursuit of upper middle-income status Cambodia cannot afford to ignore the rapid, global economic transition triggered by the emergence of new technologies in communication, production, and energy. In chapter four, PHU Leewood provides a compelling discussion of the opportunities available to the kingdom for its future industrialization, set within this transition. Topics covered include opportunities for improving the productive means of agriculture, the role of new communications in delivering a more efficient labor matching market, and how industry 4.0 provides new vehicles of energy for enhanced production. Both economic and social implications are examined and make for necessary reading in the kingdom.

Author SOK Kha explores the future of regional economic integration in chapter five and the potential in Cambodia's increased integration within the global value chain as the kingdom continues its economic growth and development. Rooted in the strategic advantage of its Southeast Asian location, the chapter covers the importance of liberalizing trade and market access, and the subsequent role of investment in securing a more dynamic and capable nation. In addition, the role of human capital improvement is discussed as a means of ensuring a sustainable, adaptive, and innovative economy.

Reconceptualizing the topic of economic diplomacy to incorporate changing global economic realities, in chapter six DARAVUTH Sithy Rath and VRAK Thanit

explore the kingdom's options for economic diversification under industrialization 4.0 and set it within the potential for utilizing the machinery of city diplomacy. They explore the role of economic adaptation under new technologies to empower Cambodian development and to deliver a smart, innovative, and digital transformation to Cambodia's urban centers. Subsequent empowerment of the kingdom's diplomatic and economic functions, ushered in under digital-city revolutions, is subsequently highlighted as a means of further economic development opportunity. Through strategic investment and governance in strengthening Cambodia's cities (beginning with Phnom Penh), the authors identify opportunities for an economic and technological "center of gravity" to instigate a reinforcing cycle of entrepreneurialism, foreign investment, national development, and global smart-city collaboration. Drawing on examples from Bristol to Nanjing, this chapter provides important insight as to the powerful nexus between city infrastructure, digitalization, diplomacy, and economic empowerment.

Industrialization and climate change are two decidedly crucial factors determining Cambodia's potential economic growth and development. Emerging at the intersection of the two, and of crucial importance, is energy. In chapter seven, HENG Pheakdey and Maureen Boyle explore the required changes to the Cambodian energy space in pursuit of equitable and sustainable coverage. Of primary interest within the chapter is the need to ensure an affordable, efficient, and accessible electricity supply within the kingdom, underpinned by a complimentary mixture of renewable and traditional sources. Beyond coverage, a comparative reduction in energy demand is considered in line with developing and governing for energy efficient practices within energy intensive sectors.

Cambodia is one of the most vulnerable countries to be affected by climate change; despite its position as one of the lowest contributors thereto. In the kingdom's pursuit of economic growth and development it must find ways to both adapt to and mitigate the challenges both at present and in the future. In chapter eight, OUNG Ty Keithya sets about identifying these opportunities and how they can be implemented. Due to its global implications, Keithya sets his vision for the future within a framework that considers Cambodia's ability to

respond, and the global collectives responsibility to address. He outlines his vision for a prosperous nation against the needs to ensure suitably designed domestic policies for 'green industry', as well as the importance of effective land management governance between agriculture, industry, forestry and residence. With roles identified for the public, the government, and business this chapter provides a comprehensive review of the opportunities available and the policy responses required to take advantage of them.

As Cambodia continues its trajectory towards upper-middle-income, there are a number of changing socio-economic features that raise difficult questions for policymakers. How does Cambodia support an ageing population? How can an economy protect its population in a recession? What are the necessary safety mechanisms to manage external shocks and domestic stresses? In the final chapter, YOU Sotheary sets out to answer these questions. Drawing on examples from Thailand to Kuwait to Brazil, she outlines the future of social welfare protection set amid a growing economy and rapidly changing world. In particular, questions and answers are provided as to the benefit of pension schemes, universal health converge, paternal work leave, and income security for the working age population. Taking into account the competing economic and social arguments, this chapter offers an intriguing overview of the needs for Cambodia as a developing economy.

We expect that this series will be of considerable interest across a range of constituencies, from government ministries to NGOs to bilateral and multilateral aid agencies and could ultimately help to facilitate greater cooperation among these diverse actors while contributing to resolving the perpetual challenge of aid fragmentation and the absence of coordination among the various stakeholders in Cambodia's development.

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