

Chapter 6 | Economic Diplomacy

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At 26 years old, Ms. Sovann was recently appointed as the first Tech Ambassador to Phnom Penh. On a particularly pleasant Tuesday morning she is on route to attend a business meeting at the Sokha Hotel with representatives and serial entrepreneurs from major tech companies from Silicon Valley. They are interested in expanding their connections with domestic digital FinTech companies in the city.

Following the conclusion of the meeting, she takes a quick lunch while making a phone call to city officials in Beijing to agree on the specifics of setting up a tech exhibition with Chinese counterparts in Phnom Penh. She then takes a cashless public bus and proceeds to an afternoon meeting, where she will meet with Smart Cities representatives from ASEAN and other major metropolitan areas, such as Sydney and London, to discuss potential smart city collaborations in the areas of safe and sustainable transport, 5G networks and digital connectivity.

After the meeting is finished, Sovann escorts the participants to tour Phnom Penh City Centre, which is now a vibrant innovation center hosting numerous scexhibition centers, clusters of digital companies, and a newly established business school alongside policy labs and specialist research and training institutions. In the evening she visits the “Factory Phnom Penh” to deliver a talk on “The Roles of Women in Maximising the Gig Economy” to a large crowd of independent local and international online workers with major companies in India, the U.S., and other countries. She then returns home to work on a collaborative research project with scholars and policymakers at the World Economic Forum (WEF).

I. Economic Diplomacy: The Ideal Scenario

The Fourth Industrial Revolution (Industry 4.0) is characterized by disruptive technological and digital revolutions and the adoption of emerging technologies and innovations. Given the promising economic benefits technologies can offer to both developed and developing societies, governments are continuously fashioning a variety of policy instruments and frameworks to capitalize on emerging opportunities.

In light of its embrace of new technologies in the context of Industry 4.0 combined with its expanding connectivity to the global economy, Cambodia's economic diplomacy – in our ideal scenario – will experience significant transformation in the lead up to 2040. This will occur at two levels. At the sub-national level, domestic technological development and digital transformation will enable non-state actors, such as cities and multinationals, to assume greater responsibilities for achieving the objectives of the state's economic diplomacy in 2040. At the international level, the government's economic diversification strategies and transparency-enhancing reforms provide an onramp for Cambodia's trade and investment activities to become much more significant in 2040. Overall, new actors with enhanced responsibilities and partnerships with expanded scope and areas of cooperation will materialize, providing more options and platforms for Cambodia to reinforce and expand the momentum of its policy actions geared towards fostering greater international engagement with other major actors in both Asia and other rising mega-regions.

The feasibility of this vision, however, is contingent on the following key factors, which will determine the path of Cambodia's economic diplomacy in 2040:

- The transformation of Phnom Penh, as well as other cities, into smart, innovative, and digitally connected commercial centers, providing a conducive platform for digital start-ups and tech companies to operate while also strengthening collaboration with overseas firms.
- The empowerment of Phnom Penh's diplomatic and economic functions, particularly in the area of public relations involving smart city collaboration or other forms of cooperation with major economic hubs across the globe.

- The development of the “gig economy” in Cambodia, which will provide a unique platform for ordinary Cambodian citizens to engage in flexible and independent work while also reinforcing people-to-people connectivity with other nations abroad within both online and offline communities.
- Continued GDP growth in Cambodia, which will lead to expanded trade and investment activities, resulting in increased participation in global value chains (GVCs) and other markets.
- Greater participation in regional and international economic arrangements due partly to intensive and sophisticated structural reforms and industrial/sectoral developments within the domestic economy.

These factors will develop in the broader context of Industry 4.0. According to Professor Klaus Schwab (2018), Industry 4.0 is a transnational force which centers the adoption of emerging technologies and digital innovations to critically redefine and transform the nature of economic progress and activities in diverse sectors of both developed and developing nations worldwide. Its continual penetration into our domestic communities also convinced many experts to label it as a counter-force to existing anti-liberal forces of trade protectionism and political populism (Schwab, 2018, Strait Times, 2019). With many nations now focused on transitioning their nations towards “smart” and “knowledge-based” economies, globalization 4.0 is indeed fast approaching (World Economic Forum, 2019). The core elements of economic diplomacy as conceptualized here include “economic statecraft, economic security, trade diplomacy, commercial diplomacy, financial diplomacy, aid diplomacy” (Amariei, 2014)

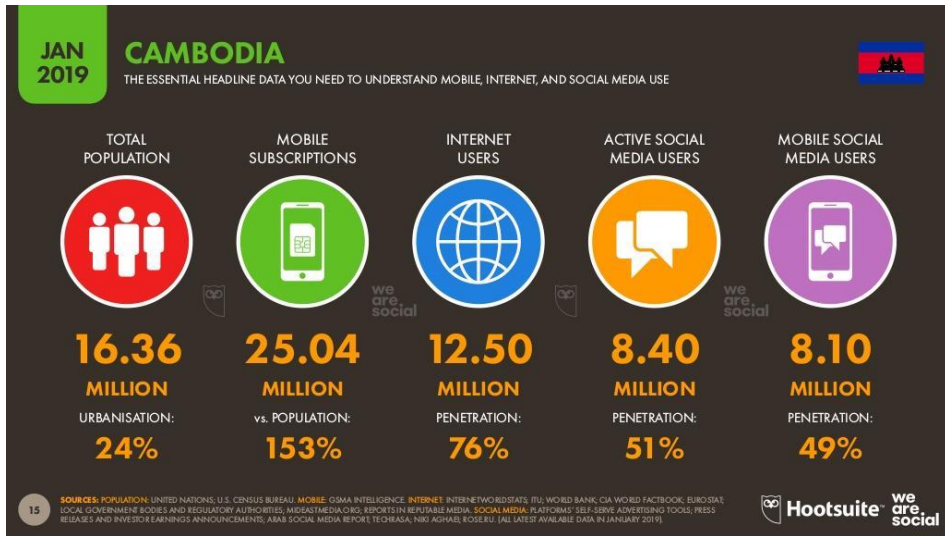
II. Scenario Space and Key Factors for Economic Diplomacy

In the domain of economic diplomacy, the government is currently pursuing a policy of “economic diversification” with the aim of expanding its economic partnerships abroad; to strengthening its integration into the global economy;

and to cementing its vulnerability against economic uncertainty (Vannarith, 2019; Heng, 2019).

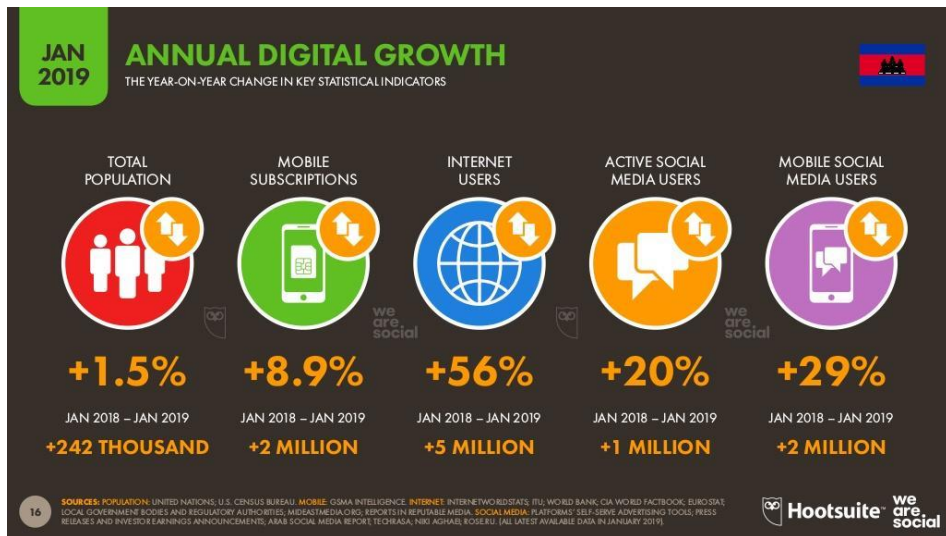
As part of its economic restructuring efforts to stiffen resilience against unpredictable shocks, the kingdom is now heavily focused on positioning its digital economy as a key driver of economic development (Vannarith, 2019). In the “Rectangular Strategy Phase IV,” nurturing readiness for the “digital economy and industry 4.0” was noted as an area of priority for the government (Royal Government of Cambodia, 2018). In the recent 13th Outlook Conference, convened by the Cambodia Development Resource Institute (CDRI) in March 2019, digital transformation was recognized as the “next growth engine” vital for transitioning the country towards middle-income status by 2025 and deepening its integration into the regional and global economic arrangements (Cambodia Development Resource Institute, 2019). With the goal of establishing a mature and full-fledged digital economy by 2023, the Royal Government of Cambodia (RGC) is now pursuing a host of activities, ranging from the organization of a “Digital Cambodia Conference” in March 2019 to the establishment and implementation of various policy initiatives and master plans (i.e Cambodia ICT Masterplan 2020), to speed up the process of technological adoption and economic digitalization (Khmer Times, 2019; Heng, 2019). Indeed, the practice of “going digital” to adapt to the evolving dynamics of the international economy has now become a staple priority in the national policy agenda. Major changes in policy directions and trajectories alongside new trends are therefore expected to emerge in Cambodia in the coming years.

Figure 1: Statistics of the Digital Economy in Cambodia



Source: Digital Cambodia 2019

Figure 2: Cambodia's Annual Digital Growth



Source: Digital Cambodia 2019

The key factors that are vital for shaping a positive outcome for Cambodian economic diplomacy briefly discussed above are explored in greater detail below.

City Diplomacy: A New Machinery for Cambodia in 2040

According to the Rectangular Strategy Phase IV (2019 – 2023), economic diplomacy is an integral component of Cambodia’s foreign policy, given its current standing as a small and underdeveloped nation in Southeast Asia (RGC, 2019). Despite frequent demands for multi-stakeholder cooperation and the decentralization of authority, the bulk of Cambodia’s current economic diplomacy is still primarily state-centric. This reality, however, will certainly experience a marked shift by 2040. The current wave of globalization is increasing the diffusion of power to a wide range of actors across all societal levels. New instruments of diplomacy continue to develop, one of which is ‘City Diplomacy’ – i.e. international activities carried out by autonomous cities functioning like sovereign states to represent themselves and advance their interests abroad (Jackson 2017).

In today’s multi-layered international environment, a variety of innovative cities, ranging from Bristol in the United Kingdom to Nanjing in China, have been actively pursuing their own international engagement strategies to expand their outreach abroad (City Nation Place, 2019). In 2015, the World Economic Forum estimated that 750 of the world’s largest cities contributed nearly 57% to global gross domestic product (GDP). By 2030, this figure is expected to increase to 61% (Santiago, 2015). For Cambodia, a city that could be capable of championing such diplomacy in 2040 is Phnom Penh. With a current population of 1.5 million people, Phnom Penh is Cambodia’s most vibrant and dynamic metropolis. Its economic environment provides fertile ground for various national champions, flagship educational centers, and active commercial areas to develop (World Population Review, 2019). The United Nations’ 2018 *World Urbanisation Prospects* report also projects that Phnom Penh’s demographic composition will continue to grow at a rate of 2.82% by 2035, the likelihood of further expansion through 2040 (United Nations DESA/Population Division, 2019).

In an ideal scenario, in 2040 the city of Phnom Penh will become a dynamic and innovative economic “center of gravity” in the country, providing a desirable market for a host of domestic and multinational tech companies to operate. These firms will also play central roles in driving collaboration with other

stakeholders abroad to stimulate national development while also strengthening Cambodia's relations with other states and integration into the global market economy in the context of globalization 4.0.

Smart City Collaboration: A New Engine of Diplomacy

In addition to transforming Phnom Penh into a center of gravity for technology firms, globalization 4.0 will also incentivize Phnom Penh to develop itself into a "Smart City" capable of leveraging technology to improve public service delivery and to catch up with other smart and knowledge-based cities in the region. The need for better knowledge as to smart city management will push Phnom Penh to foster greater collaboration with smart cities across the world.

During the 32nd ASEAN Summit in April 2018, ASEAN leaders designated Phnom Penh, as well as two other Cambodian cities, as 'pilot cities' for experimentation with smart city innovations in the "ASEAN Smart Cities Network (ASCN)" – a policy platform to facilitate cooperation on smart city developments and other relevant policy matters in the ASEAN region (ASEAN, 2018). Distinct from many of its predecessors, this network creates a unique institutional space for ASEAN's external partners, such as China or Japan, to partake in the customization of people-centered policies and initiatives alongside other ASEAN participating cities (Thuzar, 2018). In line with this agreement, Phnom Penh has begun to reach agreements to foster collaboration with other future-oriented cities – a move integral to promoting Cambodia's economic cooperation with the outside world. Acknowledging China as an emerging power in the tech industry of the Asia-Pacific region, Phnom Penh inked a "Sister City Relationship" agreement with Beijing in May 2018 to share technical resources and to connect Phnom Penh to Beijing's expanding digital ecosystem (Xinhua, 2018). Phnom Penh also has strong sister-cities relationships with such cities as Boston and Bangkok. During the Belt and Road Forum in April 2019, Prime Minister Hun Sen signed an agreement with China to allow Huawei to assist Cambodia in constructing "5G networks" to dispel digital and internet-based systems conducive for smart city innovations and operations (i.e. smart homes/offices) in Phnom Penh (Narin, 2019). In March 2019, Japan also agreed to support Cambodia's Ministry of Land Management to implement smart city principles centered on urban

management and the integration of IT technologies in the modernization of urban spaces (Manet, 2019). Recently in July 2019, Phnom Penh inked a partnership agreement with Ho Chi Minh City to collaborate on smart city developments and transforming both cities into active commercial hubs in the future (Senase, 2019). Continuity and expansion of such initiatives in the future will be essential to achieve the ideal 2040 scenario via the growth of Phnom Penh's smart city collaboration.

Income Status and Growth Pattern

Cambodia is currently a lower middle income country, defined by the World Bank as having a per capita gross national income (GNI) between \$996 and \$3,895. With a GNI per capita of \$1230 in 2017,¹⁷ the RGC plans for the country to become the upper middle income country by 2030 and a high income country by 2050. To reach an upper middle income level, a country needs to have a GNI per capita between \$3,896 and \$12,055. For the high income status, a GNI per capita of \$12,055 is required (World Bank, 2018).

In 2040, Cambodia could reach an income level of approximately \$7,000, halfway to reaching high income status in 2050. Economic growth in Cambodia has remained strong since 2000, averaging at slightly over 7% year-on-year (World Bank, 2018). As regards the demographic situation, more than two-thirds of the population are classified as within the working-age population between 2018 and 2048 (Table 1) (RGC, 2018).

¹⁷ Extracted from World Development Indicator

Table 1: Trends in Dependency Ratio, Cambodia¹⁸

Age Group	1998	2008	2018	2028	2038	2048
0-14	42.8	33.7	28.5	25.9	22.1	20.8
15-64	53.7	62.0	66.5	67.3	68.8	67.9
65+	3.5	4.3	5	6.9	9.1	11.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Dependency Ratio- Overall	86.1	61.2	50.3	48.7	45.4	47.2
Dependency Ratio- Young	79.7	54.3	42.8	38.5	32.1	10.6
Dependency Ratio- Old	6.4	6.9	7.5	10.2	13.3	16.5

Source: NIS, Ministry of Planning, RGC, 2011

Diversification and Modernization of Trade and Foreign Direct Investment

By 2040, products and services of the three sectors in Cambodia will, ideally, be more diversified. Cambodia will need to shift its focus from garment and footwear over the long run, in part due to price volatility in imported fabric and yarn production (Dezan, 2017). Although Cambodia has won the World's Best Rice Award four times, in 2012, 2013, 2014, and 2018 (World Bank, 2018), the country will also need to expand development of other potential higher-value crops such as pepper, durian, and coffee. According to Dubuis, the cohesion and mutual development of the agricultural and industrial sectors are essential as development in one sector will be beneficial to another and vice versa (Dubuis, n.d.). With regard to the service sector, there has been a rise of trade in services as a percentage of GDP in Cambodia from roughly 20 percent to 34.5 percent between 2000 and 2018. However, in the past 15 years, the average share of service exports as a component of the total exports of goods and services has

¹⁸ Calculated from Census Projection Report, 2010

been approximately 30 percent.¹⁹ Travel service contributes around 80 percent of service exports in addition to delivering a 50 percent share of total service imports. Nonetheless, the share of ICT in service export is still minimal, between 1 and 2 percent – illustrating the challenges in achieving the ideal scenario and for Cambodia to reach an upper middle income status.²⁰

FDI has accounted for about 10 percent of GDP over the last 10 years (World Bank, 2018). Chinese investors were the most active among foreign investors and accounted for three-quarters of total FDI in the construction sector (infrastructure, commercial, and residential real estate) in 2018. Cambodia granted significant land concessions and licenses to Chinese firms in mining, hydropower, garment, and agro-industry sectors between 1994 and 2012 (Touch, 2015).

Table 2: Investment Capital by Country

Year	2012		2013		2014		2015		2016	
Total	\$2.9 Billion		\$4.9 Billion		\$3.9 Billion		\$4.6 Billion		\$3.6 Billion	
Rank	Country	%	Country	%	Country	%	Country	%	Country	%
1	Cambodia	42,1	Cambodia	66,8	Cambodia	64	Cambodia	69,3	China	29,9
2	China	20,7	China	15,7	China	24,4	China	18,6	Cambodia	27,6
3	Korea	9,9	Vietnam	6,1	Malaysia	2,2	U.K	3	Japan	22,8
4	Japan	9,2	Thailand	4,4	Japan	1,7	Singapore	2,2	Thailand	4,6
5	Malaysia	6,0	Korea	1,8	Korea	1,7	Vietnam	1,9	Korea	4,6
6	Thailand	4,5	Japan	1,6	Vietnam	1,3	Malaysia	1,6	U.S.A	3,4
7	Vietnam	2,9	Malaysia	1,0	UK	1,1	Japan	1,3	Singapore	3,0
8	Singapore	2,6	Singapore	1,0	Singapore	0,9	Thailand	1,2	Vietnam	2,5
9	U.K	0,5	U.K	0,4	Thailand	0,9	Korea	0,2	Korea	0,2
10	U.S.A	0,4	France	0,3	Australia	0,5	Canada	0,2	India	0,6
11	Others	1,2	Others	0,9	Others	1,3	Other	0,5	Others	0,5

Source: The Council for Development of Cambodia

¹⁹ World development indicator, World Bank

²⁰ World Integrated Trade Solution

Table 3: Investment Capital by Sectors in Percentage

Sectors	2012	2013	2014	2015	2016	2012-2016
Agriculture	18,8%	22,7%	6,7%	10,4%	13,3%	14,5%
Industries	50,2%	22,3%	72,1%	19,8%	32,9%	37,5%
Infrastructure	7,7%	52,8%	9,0%	67,4%	15,1%	34,2%
Tourism	23,3%	2,1%	12,2%	2,4%	38,8%	13,9%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: The Council for Development of Cambodia

In the 2040 ideal scenario, Cambodia will have diversified its FDI and have reduced its dependence on China in this area.

High value-added knowledge-based services and activities clustering in global cities are sources of attraction to multinational corporations due to the cost advantages in terms of distance; a wide range of complementary services and sophisticated infrastructure; and a cosmopolitan environment welcoming of foreign investment (Estrin, Cote, et al., 2018; Goerzen, Asmussen, & Nielsen, 2013). Besides attracting investment from abroad, global cities could provide the advantage of digital platforms for the emergence of new global firms in marketing their services abroad.

Trade Agreements and Service Sector Development

In the global economy, the trade in services and data will play a more important role than the trade in goods based on recent trends.²¹ In comparison to trading in goods, trade in services is much more complicated in that it involves a wide range of transactions such as “IT services, transportation services, tourism services, local offices providing banking, insurance, and communications services, and the short-run movement of service workers in these industries”

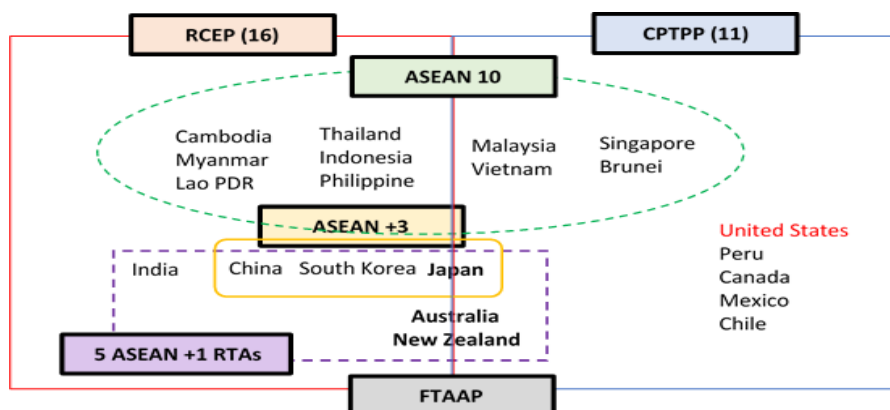
²¹ Trade in services has surpassed trade in goods in the past decade with the former achieving a 60% growth rate higher than the latter.

(Estrin, Cote, Li, Meyer, & Shapiro, 2018). Therefore, a new type of business model will be needed to facilitate the growth of the service sector.

In UNCTAD's estimation, the total value of both domestic and cross-border e-commerce transactions increased by 56% from 2013 to 2015, with a total value of \$25 trillion. There are a few key points to note about the future of trade. First, with digital technology, there will be an ease in market entry and a rise in product diversity, which could help to reduce production and distribution costs. Second, the structure of trade could be transformed by the Internet of Things (IoT), artificial intelligence (AI), 3D printing, and blockchain. Thus, new rules and frameworks for digital trade will need to be designed and implemented in the near future. New sources of comparative advantage in digital trade include the regulation of intellectual property rights, data flows, and privacy as well as the quality of digital infrastructure. Since storage devices, power supplies, and cooling systems are the most important in supporting digital technology, energy infrastructure is essential to the digital intensive sector (WTO, 2018).

In the Asia-Pacific region, there are many overlapping Regional Trade Agreements (RTA), known as "spaghetti bowl effect" or "noodle bowl effect" (Park, 2018)²² (Figure 4). However, the largest free trade agreement, Free Trade Area of Asia-Pacific (FTAAP) is still a vision since it was raised in 2014 (APEC, n.d.). However, if FTAAP could be realized, there will be a consistent and unified framework for each country in trade as well as a reduction of trade diversion. According to Egger and Larch (2008), however, expansion of existing RTAs is more likely than the new creation of a new RTA.

²² These include (1) East Asian Free Trade Area (EAFTA), comprising of ASEAN+3 countries; (2) Regional Comprehensive Economic Partnership (RCEP), including all ASEAN members and five ASEAN+1 RTAs; (3) Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[2], consisting of Brunei Darussalam, Singapore, Malaysia, Vietnam, Australia, New Zealand, Chile, Peru, Canada, Mexico, and Japan; (4) Free Trade Area of Asia-Pacific (FTAAP), including all APEC members.

Figure 3: Regional Trade Agreements in the Asia-Pacific Region

Source: Modified and updated from Park (2018)

The concept of gains from trade in terms of trade creation and trade diversion was initially developed by Viner (1950) and more recently expanded and applied by Park and Park (2017), Baier and Bergstrand (2004), Magee (2003), and Egger et al. (2008), and Baldwin and Jaimovich (2012). According to Meada (1955) and Salvatore (2013), gains of state from free trade agreement depends on the larger market size of the member state; high tariff, high trade volume, narrow development gap, and competitive industrial sector in the pre-RTA stage; and geographical proximity. However, gaps in the levels of economic development among members could hinder the progression of, and diminish the benefits, received from an RTA (Park, 2018).

Cambodia is part of many regional and bilateral trade agreements such as World Trade Organization (WTO), ASEAN Free Trade Area (AFTA), Regional Comprehensive Economic Partnership (RCEP), Belt and Road Initiative (BRI), ASEAN–Australia–New Zealand, ASEAN–China, ASEAN–Japan, ASEAN–India, ASEAN–Korea. With the proliferation of digital technology, future RTAs could be strengthened. In 2040, Cambodia could be part of a larger and more unified trade bloc – the Free Trade Area of Asia-Pacific (FTAAP) – with an extension of external members in the Americas and Europe.

Cambodia has sought to expand its trade agreements with other trading blocs in the past few years. Cambodia asked to join APEC during an informal dialogue

between APEC and ASEAN leaders in Vietnam in 2017 (Ven, 2017). Cambodia and the Eurasian Economic Union (EAEU) signed Memorandums of Understanding to enhance cooperation in trade in 2016; however, the volume of trade between the two regions remains small, and currently, Cambodia seeks to develop trade agreements with EAEU (Hor, 2019; Sok, 2019). The chief economist of the Cambodia-based research firm, Business Research Institute for Cambodia, suggested that Cambodia enter CPTPP if it wanted to maintain trade and business competitiveness relative to neighboring countries such as Vietnam (Hor, 2018).

III. Policy Initiatives to Achieve the Ideal Scenario

Developing City Diplomacy

Phnom Penh's digital economy is still in a nascent stage of development, but the above-mentioned discussions demonstrate that its current trends of development is already leaning towards an international dimension. It is imperative, however, to emphasize that these trends will only be sufficient to achieve the optimal scenario if there is significant effort from both the public and private sectors in maintaining an urban digital environment with stable infrastructures, transparent regulations, and resilient cybersecurity systems – all of which are necessary conditions for a vibrant digital economy to thrive. Yet, many, if not all, of these conditions are still either absent or sub-standard in the present interlude. The recent Rectangular Strategy Phase IV (2018 – 2023) has already outlined a long-term strategic framework for consolidating the digital economy, comprised of four pillars, but sound and effective policies, underpinned by vigorous implementation efforts, are needed to bring these prospects to fruition. For Phnom Penh to harness the full potentials of its digital prowess, therefore, the following policy measures should be set in motion:

Priority #1: Establishing a National Digital Economy Framework

First and foremost, the government needs to introduce a comprehensive, strategic, and innovative “Digital Economy Framework,” which will function to grant protections to the already operating digital companies in the form of technical assistance, cyber-security, competition principles, etc. Initiatives have

already been made by the Council of Ministers to enact a national “E-Commerce” and “Cyber Law,” both of which are pivotal components of a sound and comprehensive digital economy framework.

Priority #2: Developing Associations to Oversee the Digital Economy

Second, the government also needs to develop an institutional unit to oversee the progress and implications of the growing digital economy. Malaysia, for example, currently has its own “Malaysia Digital Economy Collaboration (MDEC),” spearheading progress towards “Digital Malaysia” via the development of five priority sectors: (i) ICT services, (ii) e-commerce, (iii) ICT manufacturing, (iv) ICT trade, and (v) content and media. A “Digital Free Trade Zone (DFTZ)” has also been established to facilitate the commercial activities of e-commerce companies and others (United Nations Development Program, 2018).

The National Bank of Cambodia (NBC), has already developed the “Cambodia Fintech Association (CFA)” to cooperate closely with similar associations in Thailand, Singapore, and Taiwan to support the growing fintech landscape in the kingdom (Kunmakara, 2018). Such a move is commendable and should be repeated in other critical areas aside from Fintech. In this regard, the government can work towards establishing associations to tackle pressing issues, namely the sharing economy or digital disruptions. These associations should have stakeholders from both the public and private spheres. In the future, support should be provided to develop these entities into national associations, working hand-in-hand with line ministries and relevant international bodies in overseeing the digital economy in Cambodia.

Priority #3: Fashioning an International Digital Engagement Strategy

Finally, the government should also consider fashioning an “International Digital Engagement Strategy,” similar to what France did in 2018. This strategy must seek to designate Phnom Penh as a center of excellence in digital transformation not only in Cambodia but also in the broader Southeast Asian digital community.

The strategy will be pivotal not only for attracting digital players into Cambodia but also bolstering its participation in global digital markets.

Enhancing Smart City Systems

The journey to effective, efficient, and sustainable smart city development requires prudent planning and implementation if it is to successfully contribute to the 2040 ideal scenario. In the current national policy agenda, smart city development is a priority for the government, but proper frameworks and action plans are still in progress. For Phnom Penh to become an internationally engaged smart city, the articulation of strategic and coherent policy measures is highly needed.

Priority #1: Development of a Smart City Roadmap

First, urban planners in Phnom Penh should develop a roadmap that outlines the vision and policy priorities of Phnom Penh over the next 10 to 20 years, aligning itself with the Rectangular Strategies and the ASEAN Smart Cities Framework. Presently, developments in the city follow a framework called “The Phnom Penh Masterplan for 2035,” which addresses issues pertaining to urbanization, land use, and other matters (Halim, 2016). Urban developers and investors have also dubbed Phnom Penh as a strategic hub of economic development in Southeast Asia (Kimsay, 2019). The absence of a clear and comprehensive smart city framework, however, will render such prospects null. Phnom Penh should look for assistance in developing a unified policy framework as soon as possible to capitalize on the coming opportunities. The framework, moreover, should outline actionable strategies for residents and policymakers of Phnom Penh to work towards encouraging the adoption of technological and digital solutions to urban problems; promoting urban development with respect to sustainability and long-term durability; integrating data science; encouraging public participation; and preserving socio-cultural authenticity in the midst of globalization.

Priority #2: Expand the Outreach of Smart City Engagements

Phnom Penh needs to also identify, in an outward-looking manner, a set of international smart city networks to which it can reach out for technical

assistance and support. Aside from the ASEAN Smart City Network, Phnom Penh should also look to other smart city networks in Europe and the U.S. to create central platforms for city officials to engage in city-to-city collaboration and multi-city coordination.

Improving the “Gig Economy”

The challenge of maximizing the gig economy lies in the task of establishing an enabling environment for it to operate effectively, underpinned by adequate government support and attractive incentive schemes. Meeting the preconditions set out below is thus a vital priority for the government to nurture a well-functioning and well-regulated gig economy in Cambodia in the lead up to 2040.

Priority #1: Boosting Internet Connectivity, Cyber Security, and Human Capital

Internet connectivity must be strengthened and amplified to secure a stable platform for a “human cloud” to operate. The Cambodian ICT Masterplan 2020 has already been set in place, so stringent efforts need to be invested into effectuating the priorities outlined. The rolling out of 5G networks to enhance the “Internet of Things (IoT)” is also an option to pursue given the country’s substandard internet connectivity. Second, a stable cyber-security system should be established to protect digital nomads from Internet frauds, online economic crimes, hackers, and other threats in the current digital sphere. Lastly, STEM education should be encouraged among the younger generation to continue the current progress of digital adoption for sustainable and effective national contributions.

Investment

Priority #1: Reducing the Cost of Doing Business

In recent years, there has been a slowdown of FDI from China to Cambodia. Cambodia’s rank in The Ease of Doing Business Index declined from 131st in 2017 to 138th out of 190 countries in 2019. In comparison to Vietnam and Thailand, ranked at 69th and 27th respectively, there are still many challenges

for firms operating inside Cambodia due to the absence of strong infrastructural development and regulatory weaknesses (Dezan, 2017; Ly et al., 2019). The price of electricity, as noted previously, is quite high in Cambodia compared to its neighboring countries as stated by the World Bank (2017). In addition, Cambodia's rank in logistics capacity declined from 73rd place to 98th out of 160 countries on the 2018 Logistic Performance Index (LPI) (World Bank, 2018). These are the trends that must be reversed in order to achieve the ideal scenario set out above.

Improving infrastructure inside the country is crucial and requires stronger cooperation between the private and public sectors. The private sector will need to be incentivized to work with government in designing, funding, and implementing infrastructure projects through private-public partnerships. In addition, demand for electricity is projected to rapidly increase with a predicted average annual growth rate of 9 percent between 2015 and 2040 (Shigeru, K. and H. Phoumin, 2019). Developing, installing, and operating the equipment for renewable energy such as wind, solar, photovoltaic, and hydropower is significant in fulfilling future electricity demand. Yet renewables rely on the existence of a skilled workforce able to engage in construction, engineering, installation, distribution, technical assistance, consultation, and equipment maintenance (Brockman, 2018) – which the kingdom currently lacks.

Priority #2: Strengthening Supply Chain Linkages

The concentration and quality of supply chain linkages between foreign and local firms are at present minimal (Chheang, 2017). Technological spill-overs are also limited due to the continued locus of management, coordination, and production design among foreign firms (International Labor Organization, 2017). Cambodia should begin to strengthen its institutional capacity and reduce the cost of doing business to strengthen the confidence of foreign investors. Also, enhancing human capital through STEM education and vocational training as well as entrepreneurship will support the development of local firms in the ability to access new technologies from abroad.

Trade Agreements

Priority #1: Expanding Entry, Increasing Capacity

APEC has not accepted any new members since 1998. India, which has sought membership in APEC for some time has been blocked due to its location beyond the Pacific Rim, its biased treatment of foreign investment, and its inability to complete certain economic reforms (Ayres, 2018; Mohamad, 2019; Singh, 2016). A report produced by the Asia Society Policy Institute (ASPI) suggested that India improve its business relations between foreign and local firms, make tax and land reform, show its enthusiasm to join, and create a support lobby (Singh, 2016). Cambodia could learn from the case of India, and take an active approach towards membership in APEC. Moreover, if Cambodia wants to be part of mega-regional trade agreement by 2040 or earlier, it needs to strengthen its capacity to absorb benefits from RTAs. Simultaneously, Cambodia needs to be well-prepared in tackling new issues arising from RTAs such as “electronic authentication, consumer protection, intellectual property, cross-border electronic transfer of information, data localization, and cybersecurity” (WTO, 2018).

IV. Economic Diplomacy Under the Baseline Scenario: Business as Usual in 2040

Under our baseline scenario, in 2040 the transformation of Phnom Penh into a smart and globally connected city has been underway for twenty years. It serves as the backbone for Cambodia’s national digital economy. Now in its twentieth edition, Startup Kingdom, the annual Tech Startup Report in Cambodia, has stated that around 500 digital startups are present in Cambodia, the majority of which are based in Phnom Penh. The relatively small growth of this sector is attributed to a growing global services sector.

These startups in the baseline scenario are operating primarily across services in the industries of fintech, digital media and advertising, and e-commerce. A number of policy mechanisms set forth by the government established an early pathway towards a more suitable city infrastructure in the kingdom. However, the lack of local innovations to smart city design proved to be a setback against

the potential growth opportunities. Reliance on foreign knowledge and experts – primarily from China - in the task of nurturing digital cities and innovation has significantly hampered the country's path towards invigorating its innovation system and has made the process of governing and managing these foreign smart city innovations costly. Fostering indigenous innovations through effective citizen empowerment and education would have been a much more suitable and risk-averting approach to developing a durable starting point for smart city development and city diplomacy in Cambodia.

Cambodia's economic structure in 2040 has continued to shift its focus from the agricultural to the industrial and service sectors, in particular growing its tourism market as the globe experiences a middle-income spending swell. However, agriculture still remains a crucial sector in the Cambodian economy for delivering development opportunities around poverty reduction. Cambodia's 2040 rural population still remains high at around 70%, with a high level of agricultural employment underpinning rural Cambodians' income. As predicted in 2019, the rural sector has become far more "productive, more competitive, and more market-oriented" ("The Future of Cambodia", 2019) – but this has not provided a sufficient basis to achieve upper middle income status.

Owing to the absence of a digital innovation strategy, the kingdom has focused on securing productivity improvements across established sectors. Due to limited technical capacity and human resources, it has been difficult for Cambodia to access advanced technology from abroad, which has delayed the diversification process in targeting digital trade and investment. Moreover, changes in trading patterns, the rise of trade in high value-added knowledge services, and the demand for new regulatory frameworks have resulted in further difficulties for Cambodia to reap the benefits of a digital economy in 2040.

Establishing a sustainable energy infrastructure, essential to support higher demand in a digital economy, has also not been an easy task. Supply still remains subject to unseasonal disruption when rainfall is low – a major barrier to development. This has resulted in minimal investment from firms seeking to operate in the region. Although Cambodia has undertaken some economic

diversification, dependence on China has led to a reduction of trading opportunities with Europe and America. Furthermore, the progression of mega-lateral RTAs formation has remained slow and with the new trade framework, more discussion and negotiation is required, which has further delayed the process of unification of regional trade.

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