

20 Years of FDI in Cambodia

Towards Upper Middle-Income Status and Beyond

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Road Map

- ➊ Motivation
- ➋ This Paper
- ➌ Literature
- ➍ FDI Data
- ➎ SWOT
- ➏ Policy Recommendations
- ➐ Conclusion

Motivation

- ▶ Although Cambodia has a **strong ambition** to become an upper middle-income nation by 2030 and a high income by 2050, it faces various challenges in achieving these goals.

Table: New World Bank country classifications by income level: 2022-2023

Group	2022/2023 (new)	2021 (old)
Low income	<1,085	<1,045
Lower-middle income	1,086-4,255	1,046-4,095
Upper-middle income	4,256-13,205	4,096-12,695
High income	>13,205	>12,695

- ▶ By **2023**, Cambodia GNI per capita was **\$1,810**, a 7.1% increase from 2022. How we can increase from \$1,810 to \$4,256 in 6 years? The answer is no possible.
- ▶ Net inflows (% of GDP) in Cambodia was reported at **12.46%** in 2023.

This Paper (1/3)

- ▶ This study investigates **Cambodia's progress and potential** in this regard by analysing its position and trajectory relative to **Greenfield Foreign Direct Investment (FDI) inflows and outflows** – where foreign firms establish new operations in Cambodia and Cambodian investors set up businesses abroad.
- ▶ This study also provides preliminary insights on Cambodia's integration into **Global and Regional Value Chains** (GVCs), using FDI as a proxy, considering sectoral, functional, and geographical trends and comparing them with those of its neighbouring countries – Lao People's Democratic Republic and Vietnam – over the 20 years between 2003 and 2022.

This Paper (2/3)

- ▶ Provides an analytical framework – informed by an **in-depth review of different streams of academic literature** – to detect opportunities and challenges of internationalisation through FDI for Cambodia.
- ▶ Reflects on the implications of Cambodia's growing interdependence within the current international division of labour through FDI and GVCs, given the current policy framework.
- ▶ Identifies **key lessons worldwide for public policies** targeting internationalisation through FDI, economic development and the achievement of the middle-income status.

This Paper (3/3)

- ▶ Present **key figures and trends** of inward and outward FDI over the last 20 years (2003-2022), based on fDiMarkets, a database created and maintained by the Financial Times, covering cross-border greenfield investments for all countries and sectors worldwide with respect to:
 - trends, sectors, GVC stage/function (headquarter, R&D, sales, production, logistic and distribution)
 - geography of origin/destination (subnational province)
 - comparison with Mekong region (Vietnam and Laos)
- ▶ Draw **policy recommendations** on the basis of Cambodia's SWOT.

Evidence from Literature

Benefits and Costs of Inward FDI

► FDI potential benefits

- Capital formation
- Employment generation
- Increased market competition
- Demonstration effects
- Technology transfer
- Knowledge diffusion
- Knowledge spillovers
- Improved (global and regional) economic integration and participation in GVCs
- Capabilities' upgrading
- Diversification of domestic economic structures

► FDI potential costs

- Crowding out of domestic firms
- Overdependence on foreign MNEs
- Poaching of human capital
- Rising demand and cost of production inputs and prices of local assets
- Increasing inequality and polarisation at both individual and spatial (subnational) level
- Exploitative and predatory actions
- Inability to meet development goals due to allocation of domestic resources to MNEs
- Falling into a mid-income trap

Key Policy Lessons

► Positive lessons:

- Skills and education system reform and upgrading.
- Regulatory reforms to strengthening investment agencies and legal bodies to fight corruption.
- Digitalisation and e-reform of public services to citizens and businesses.
- Articulation of incentives at provincial/sectoral level to avoid geographical concentration of FDI.
- Use of natural resources rent to finance domestic industries.

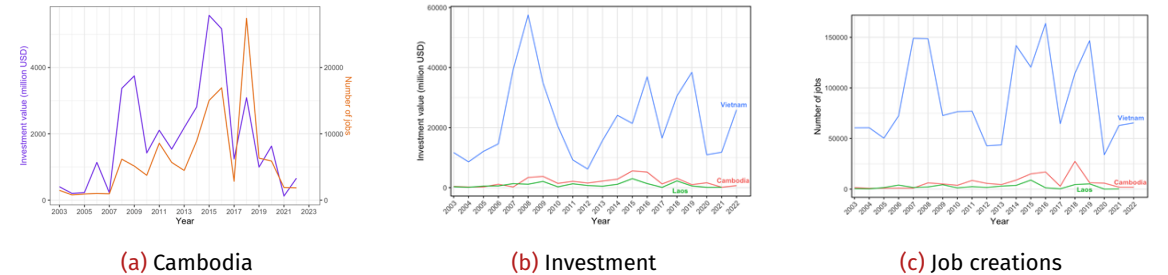
► Negative lessons:

- Over-reliance on sole or large investors/FDIs.
- Dependence on natural resources and FDI without green diversification.
- Tax exemptions are leading to unequal playing field, disadvantaging domestic firms and stifling innovation.
- Currency risk and high reliance on foreign creditors and currencies.
- Lack of integrated and aligned economic and social policies to complement FDI leads to unequal subnational development.

20 Years of FDI Data in Cambodia

FDI Trends Over 2003-2022

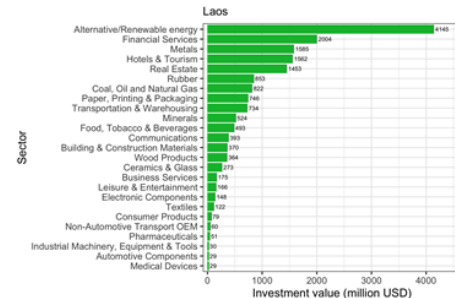
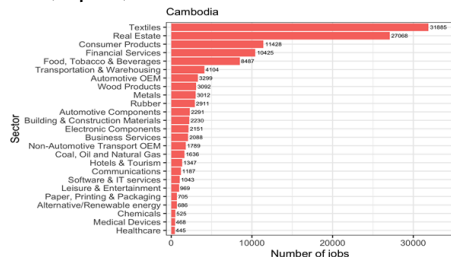
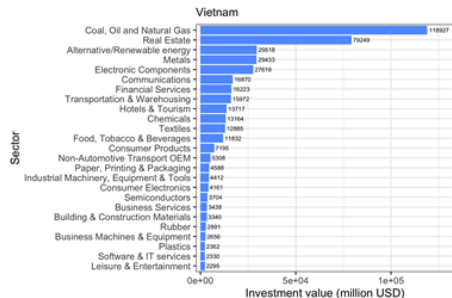
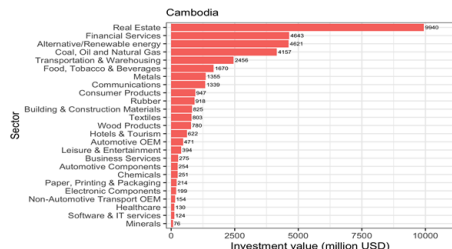
Figure: Investment value and estimated number of jobs



Cambodia’s internationalisation through FDI steadily grown in the past 2 decades, however, magnitude of FDI in Vietnam clearly far greater.

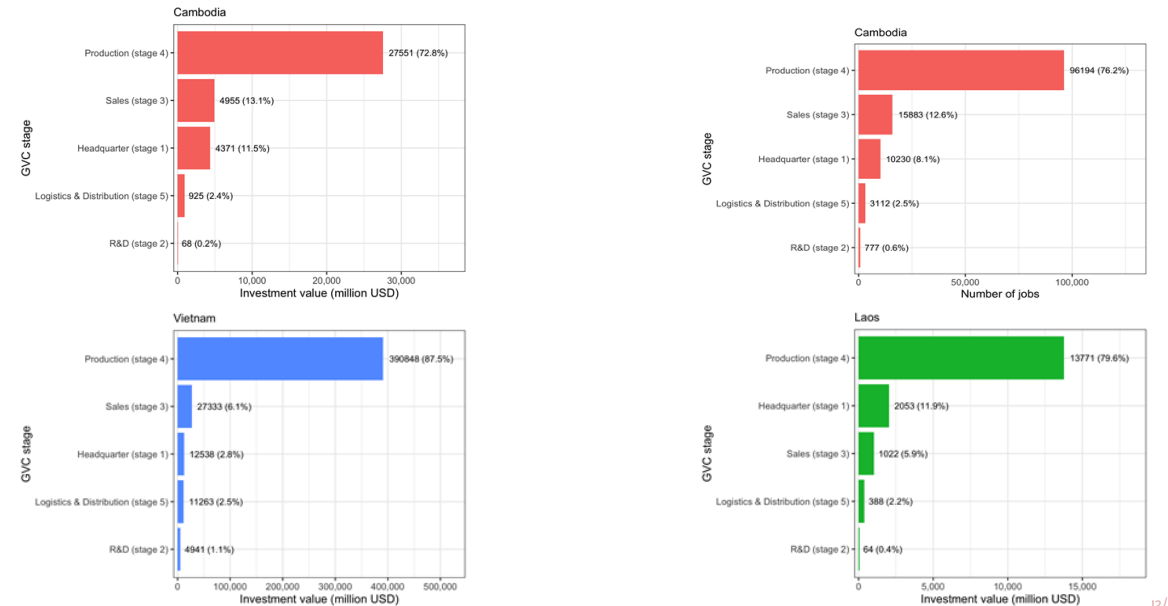
FDI Sectors Over 2003-2022

Figure: Investment value by sector (top 25)



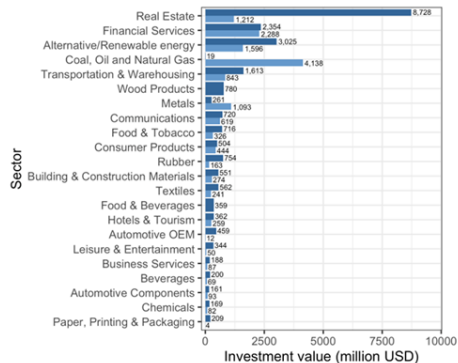
GVC Stages Over 2003-2022

Figure: Investment value by GVC stage, Vietnam and Lao PDR

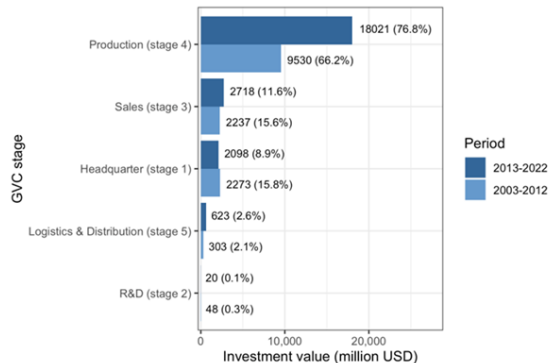


Changes in Sectors & GVC Stages

Figure: By sector and GVC stage, Cambodia



(a) Investment value by sector

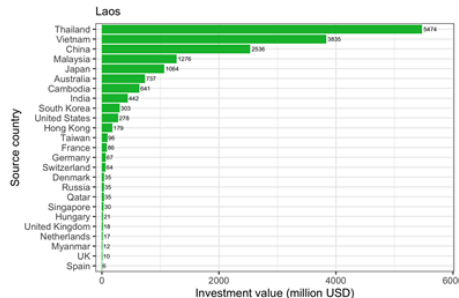
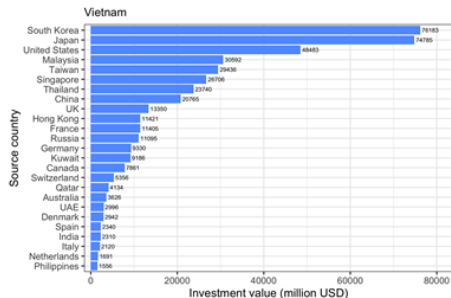
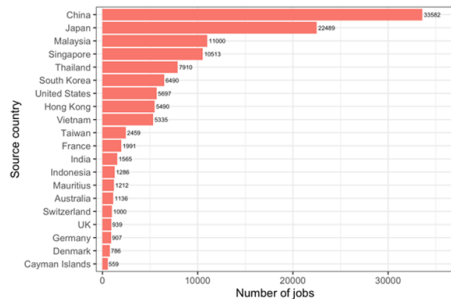
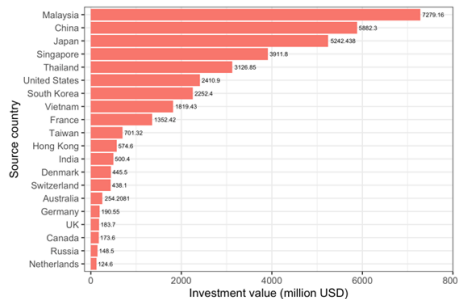


(b) Investment value by GVC stage

Real estate is a real “winner”

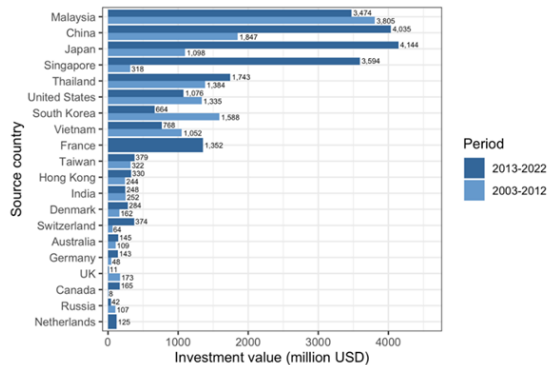
Source Country Over 2003-2022

Figure: Investment value by source country (top 25)

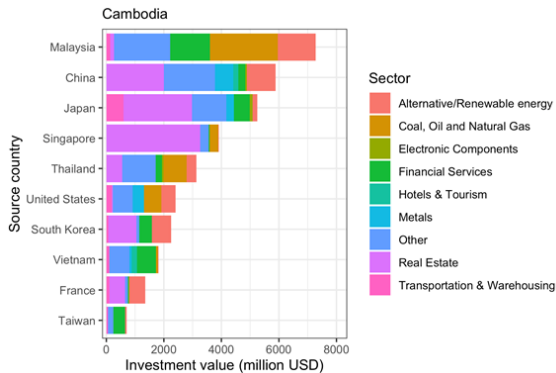


Source Country Change & Sectoral Target

Figure: Investment value by source country (top 20), Cambodia



(a) 2003-2012 and 2013-2022

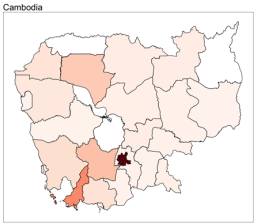


(b) 2003-2022

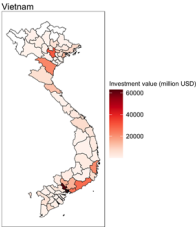
Strong and growing integration in wider Asian macro-region: biggest increases for Japan, China and Singapore. Sizable reductions from South Korea and Vietnam, some decline of USA investors.

Geographical Destination

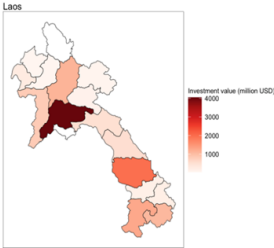
Figure: Geographical subnational distribution of inward FDI across provinces



(a) Cambodia



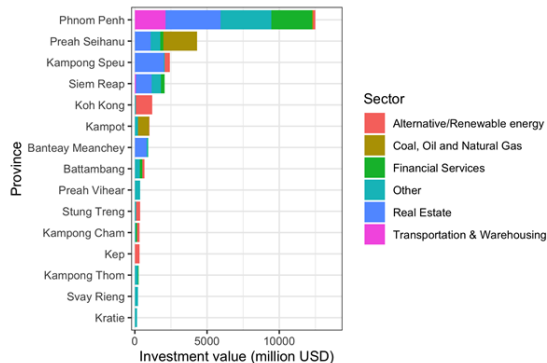
(b) Vietnam



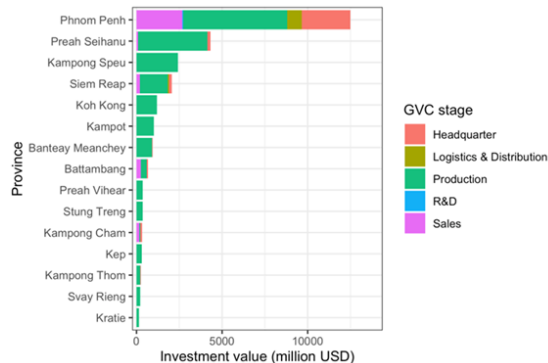
(c) Lao PDR

Subnational Province

Figure: Investment value by destination province, Cambodia



(a) Sector

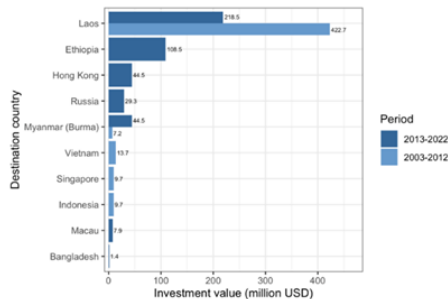
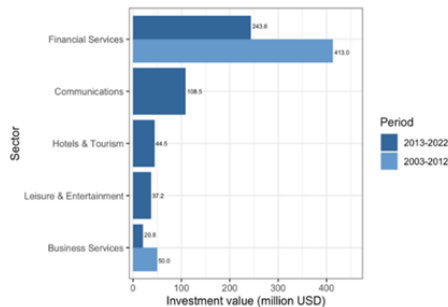
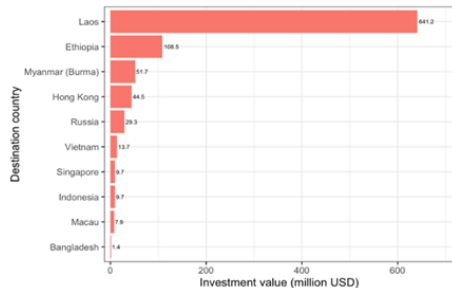
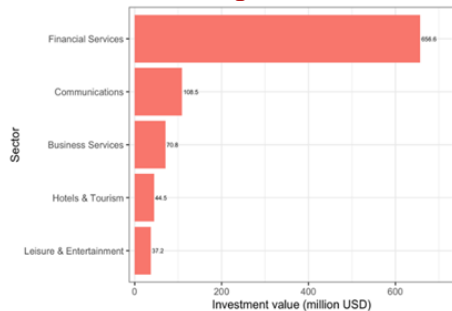


(b) GVC stage

Koh Kong has a large investment in alternative/renewable energy. R&D stage has 5 big projects in 20 years (Germany, UK, Switzerland, US and Japan MNEs) and all projects located in the capital.

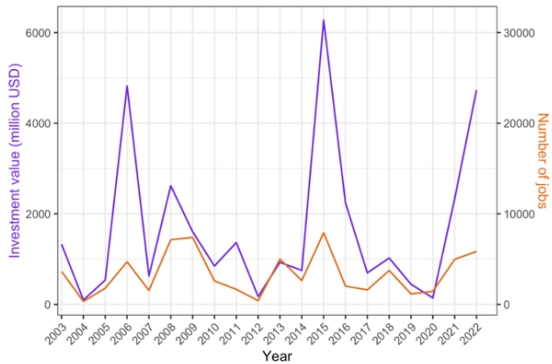
Outward FDI, Cambodia

Figure: Outward FDI value by sectors and countries of destination

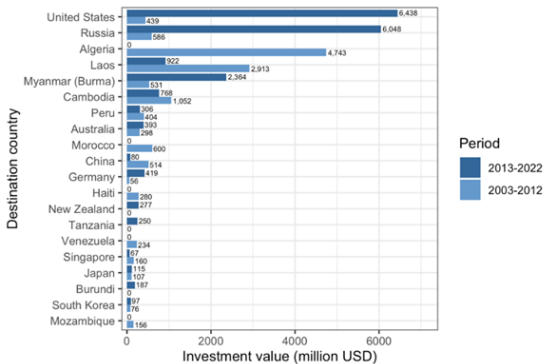


By Comparison: OFDI from Vietnam

Figure: Outward FDI values, Vietnam



(a) Investment value and number of jobs, 2003-2022



(b) Destination countries, 2003-2012 and 2013-2022

Internationalisation in Cambodia: SWOT (1/4)

► Strengths

- Rapid successful **economic transformation** with gains from FDI, GVCs, and economic regional integration.
- FDI helped to **moderately increase diversification** of exports into light manufacturing and service sectors.
- Favourable policy framework.
- Alternative/renewable energy increasingly very attractive.
- **New provincial locations** for FDI in most recent years may signal spillovers effects across spaces.
- Moderate growth in FDI has been observed in rubber, automotive OEM, leisure and entertainment, food, tobacco and beverages, and paper, printing and packaging.
- Recent OFDI trends, **mostly in the last 10 years**, indicate the emergence of active internationalisation strategies from large Cambodian companies.

Internationalisation in Cambodia: SWOT (2/4)

► Weaknesses

- Cambodia's internationalisation through FDI far **lower than in other Mekong sub-regions**.
- Structural lack of skills, weak human capital and public and private research; frail domestic firms' capabilities and capacity.
- FDI policy framework sectorally very broad.
- Disproportioned, and increasing, weight of **real estate** in FDI value; and **textiles** highest in estimated job creation, followed by real estate.
- Higher value-added sectors **still weakly attractive** to FDI.
- Specialisation in production GVC stage stronger over time.
- Negligible (and decreasing) investment in innovation and R&D stage, relative to neighbours.
- Concentration of FDI at the subnational level.
- Still negligible internationalisation of Cambodia's business firms.

Internationalisation in Cambodia: SWOT (3/4)

► Opportunities

- Exploit internationalisation and regional economic integration to achieve middle-income status and further economic development through FDI/GVCs (taking advantage of global geopolitical tensions).
- Creating goods and services inherently greener, and inserting in new “green” GVCs regionally and globally.
- Promote the use of AI and digital technologies for the global delivery of services.

Internationalisation in Cambodia: SWOT (4/4)

► Threats

- Cambodia's structural disadvantage in FDI/GVCs – and particularly skills, human capital, university and education system, and R&D – may detract from its ability to attain development targets and increase risk of middle-income trap.
- Strong growth in the Mekong sub-region – particularly in terms of skills and research – may push Cambodia in a peripheral position.
- Over reliance on Chinese FDI at a time of geo-political tensions and trade wars.

Policy Recommendations

- ▶ Developing skills, human capital and the education system
 - market demands, industry, and administrative needs
- ▶ Improving, monitoring and evaluating FDI, investment law and general business environment
- ▶ Developing zoning and subnational regional specialisation
- ▶ Identifying and strengthening intermediates industries and business linkages and networks
 - finance, entrepreneurship, skills and human capital, collaboration, networks, innovation, technology, and formalisation
- ▶ FDI sectoral and geographical selection and diversification
 - renewable energy, electrical components, and agro-processing
- ▶ Fostering economic development across subnational regions
 - infrastructure and administration

Conclusion

- ▶ FDI remains a potential mechanism for contributing to economic growth in Cambodia, but it may not propel the country to upper-middle-income status by 2030, as **many areas require improvement** for sustainable long-term development.
- ▶ Linked to this, several priorities must be addressed first, such as improving **labour skills** for high-tech industries, **mapping potential investment opportunities** by province, and promoting **good governance and strong institutions**. All of these require time, funding, and political will.
- ▶ Reaching upper-middle-income status by 2030 is unlikely. A study shows that, however, if the current trajectory continues, it may be possible by **2040**, with projected GDP growth of around 5.4% between 2024 and 2030 and 4.3% between 2031 and 2040. Alternatively, with **accelerated sectoral policies and comprehensive reforms**, this goal could be achieved by **2035**, with average GDP growth of 6.4% from 2024 to 2030 and 6.3% from 2031 to 2040.

Thank you!