

20 Years of FDI in Cambodia

Towards Upper Middle-Income Status and Beyond

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C-SEASD, October 21-22, 2024
Xi'an Jiaotong-Liverpool University

Road Map

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- ➋ This Paper
- ➌ Introduction
- ➍ Literature
- ➎ FDI Data
- ➏ SWOT
- ➐ Policy Recommendations

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.

This Paper

- ▶ 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.

Introduction (1/2)

- ▶ 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.

Introduction (2/2)

- ▶ 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

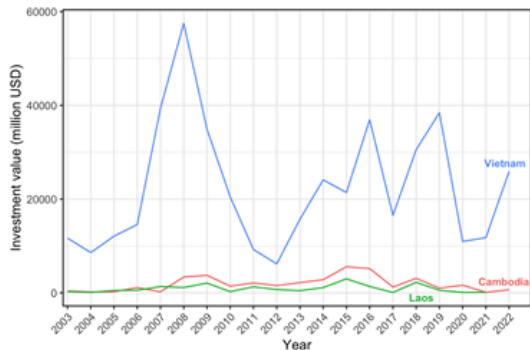
FDI Trends Over 2003-2022 (1/2)

Figure: Investment value and estimated number of jobs, Cambodia

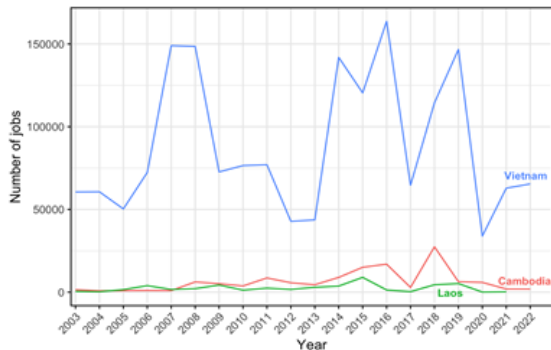


FDI Trends Over 2003-2022 (2/2)

Figure: Investment value and estimated number of jobs, Vietnam and Lao PDR



(a) Vietnam

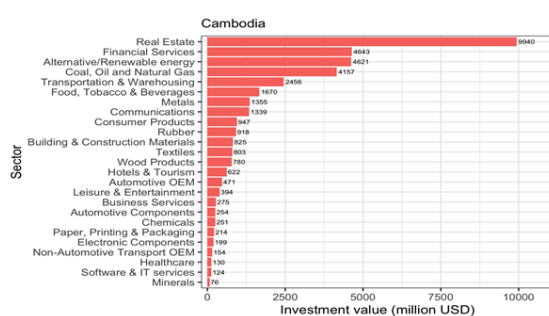


(b) Lao PDR

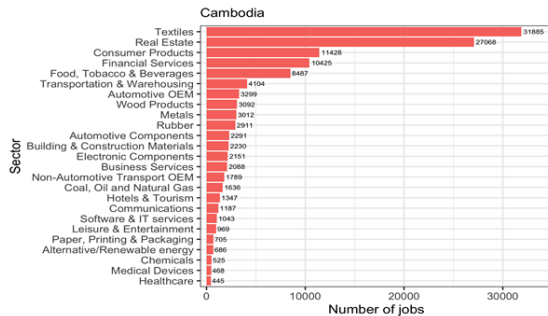
Cambodia's internationalisation through FDI steadily grown in the past 2 decades, however, magnitude of FDI in Vietnam clearly far greater.

FDI Sectors Over 2003-2022 (1/2)

Figure: By sector (top 25), Cambodia



(a) Investment value

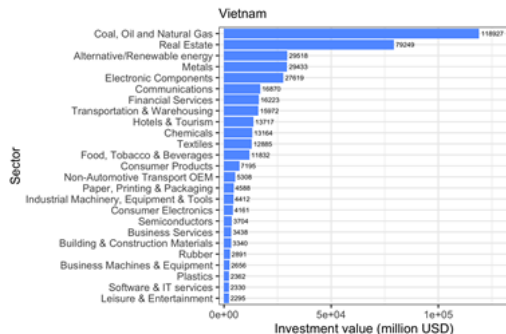


(b) Number of jobs

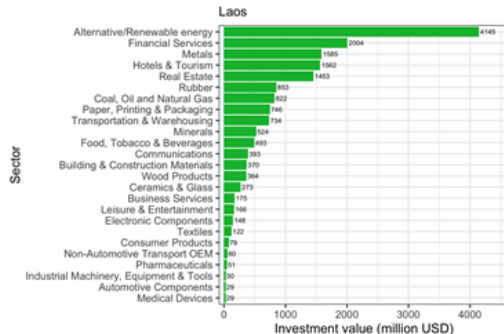
Common cross-country: (in USD) alternative/renewable. Energy in top 3, real estate in top 5. Higher value added sectors still at the bottom.

FDI Sectors Over 2003-2022 (2/2)

Figure: Investment value by sector (top 25), Vietnam and Lao PDR



(a) Vietnam

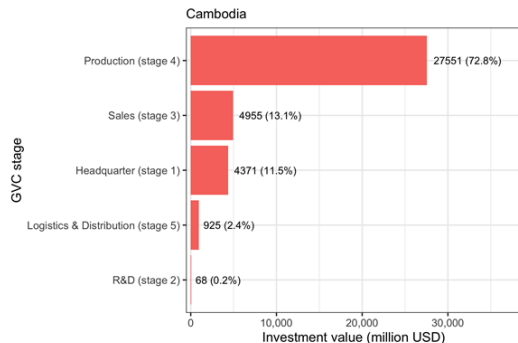


(b) Lao PDR

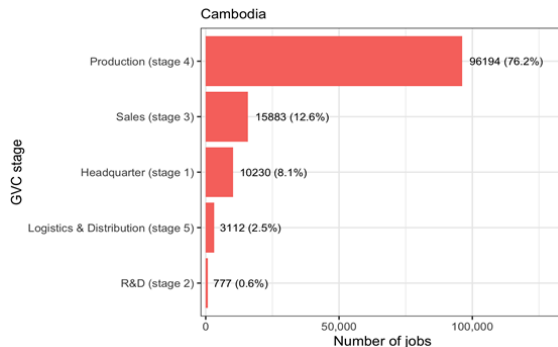
Coal, oil and natural gas in top 5 for Cambodia and Vietnam. Textiles are the highest in job creation in Cambodia and Vietnam while real estate also the main sector.

GVC Stages Over 2003-2022 (1/2)

Figure: By GVC stage, Cambodia



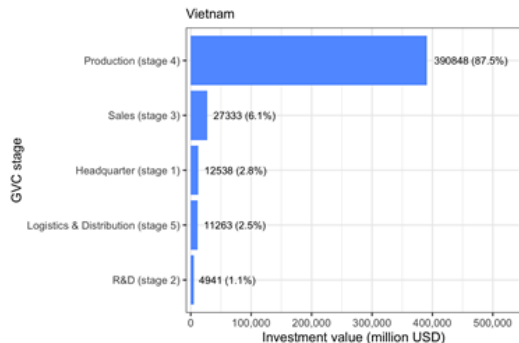
(a) Investment value



(b) Estimated number of jobs

GVC Stages Over 2003-2022 (2/2)

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



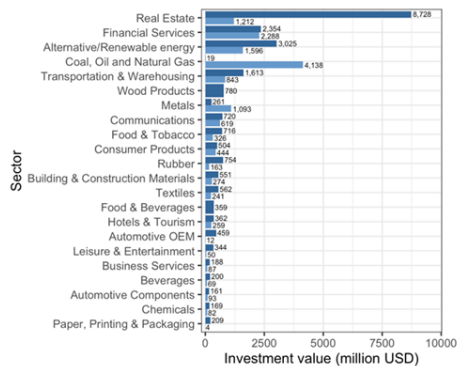
(a) Vietnam



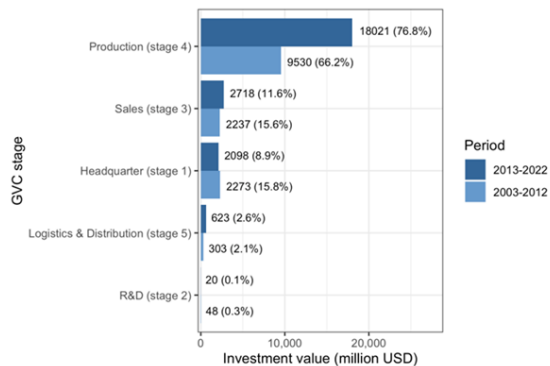
(b) Lao PDR

Changes in Sectors & GVC Stages

Figure: By sector and GVC stage, Cambodia



(a) Investment value by sector

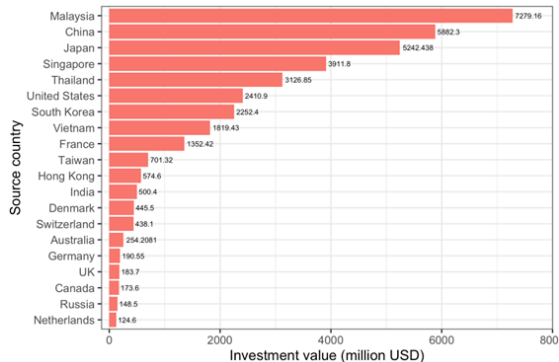


(b) Investment value by GVC stage

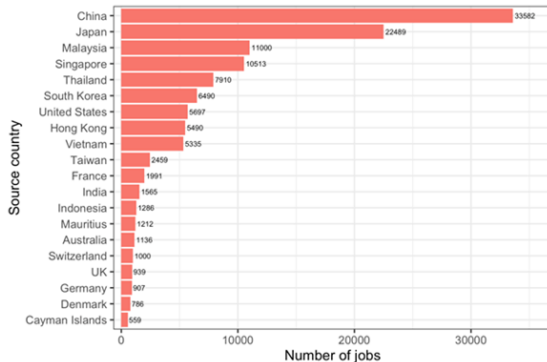
Real estate is a real “winner”

Source Country Over 2003-2022 (1/2)

Figure: By source country (top 25), Cambodia



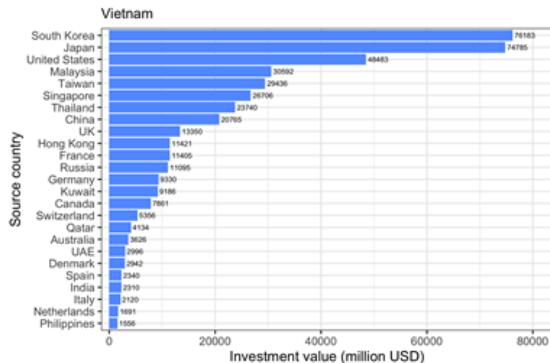
(a) Investment value



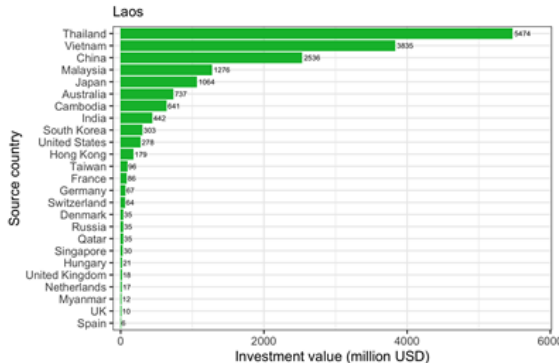
(b) Number of jobs

Source Country Over 2003-2022 (2/2)

Figure: Investment value by source country (top 25), Vietnam and Lao PDR



(a) Vietnam

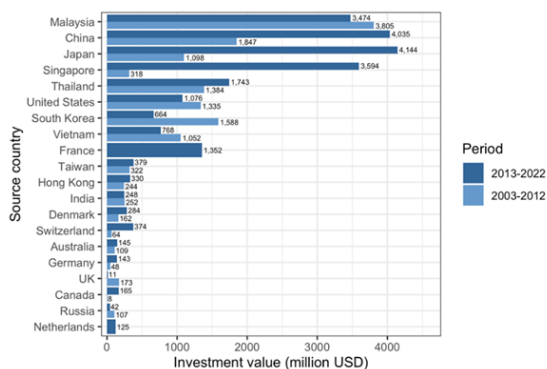


(b) Lao PDR

Malaysia and Japan are the top 5. Chinese investors more prominent in Cambodia and Laos, particularly in job creation. South Korea in Vietnam.

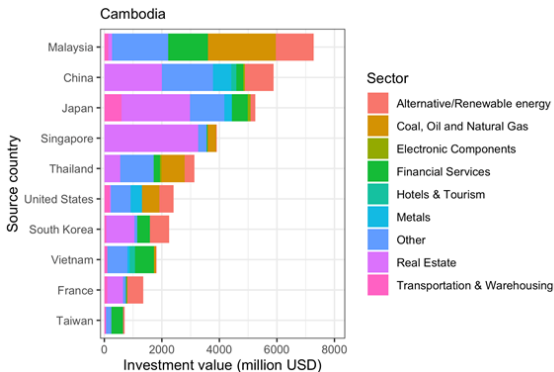
Source Country Change & Sectoral Target

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



(a) 2003-2012 and 2013-2022

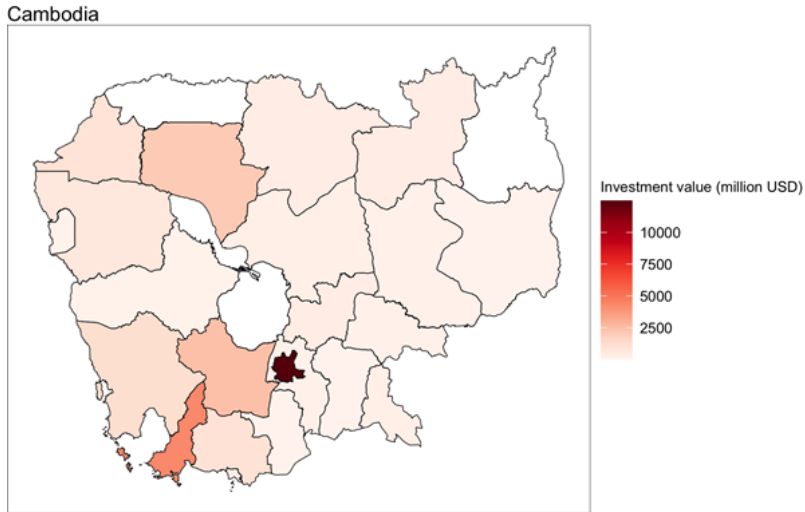
Strong and growing integration in wider Asian macro-region: biggest increases for Japan, China and Singapore. Sizable reductions from South Korea and Vietnam, some decline of USA investors.



(b) 2003-2012

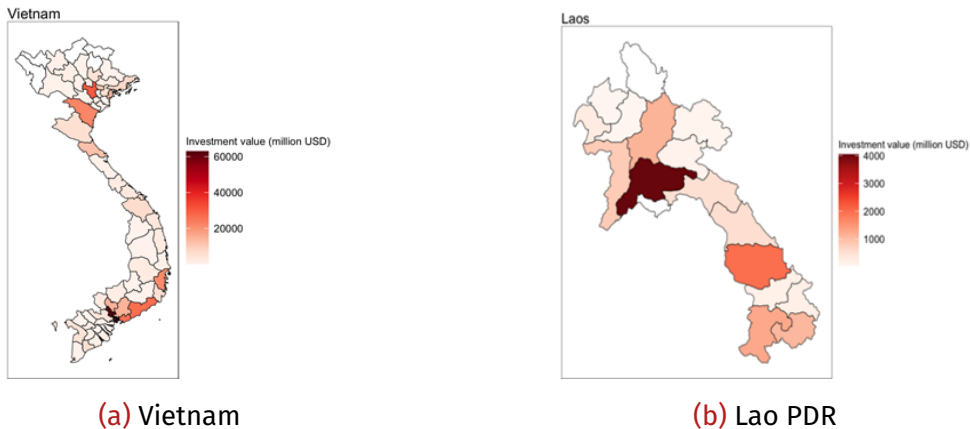
Geographical Destination (1/2)

Figure: Geographical subnational distribution of inward FDI across provinces



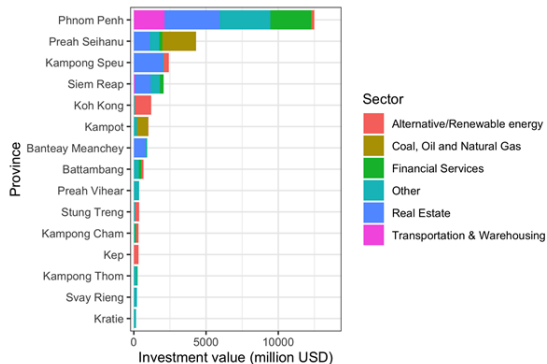
Geographical Destination (2/2)

Figure: Geographical subnational distribution of inward FDI across provinces

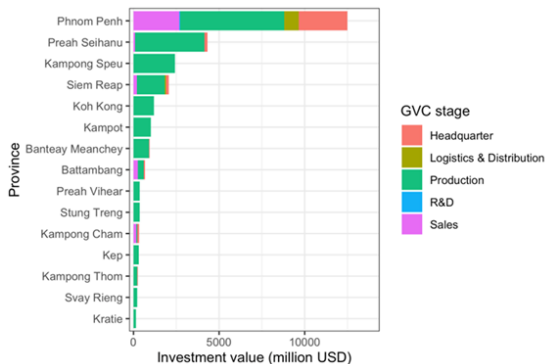


Subnational Province

Figure: Investment value by destination province, Cambodia



(a) Sector

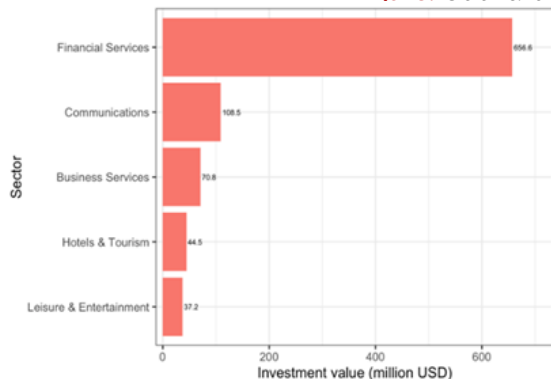


(b) GVC stage

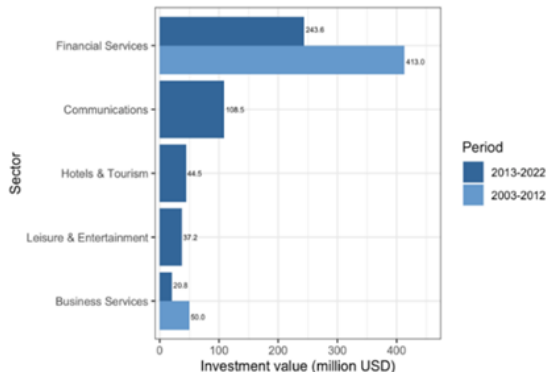
Koh Kong has a large investment in alternative/renewable energy. R&D stage has 5 big projects in 20 years (Germany, UK, Switzerland, US and Japan MNEs) and all projects located in the capital.

Outward FDI (1/2)

Figure: Outward FDI value by sector



(a) 2003-2022

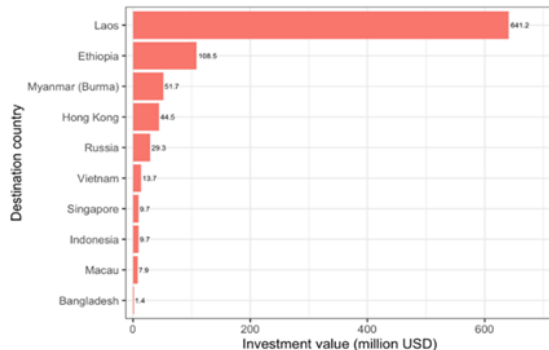


(b) 2003-2012 and 2013-2022

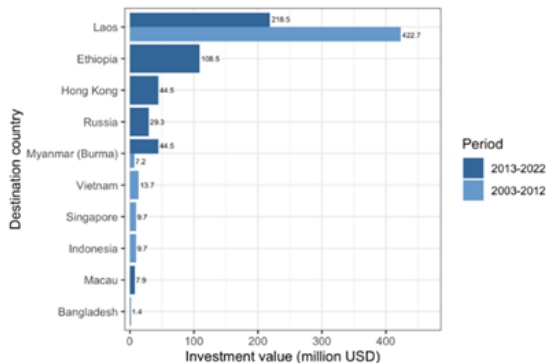
OFDI started from 2008 onward 31 OFDI projects from Cambodia, 917.6 million USD and an estimate of 1,659 jobs generated. Financial services is the dominant sector of origin for OFDI.

Outward FDI (2/2)

Figure: Outward FDI value by country of destination



(a) 2003-2022

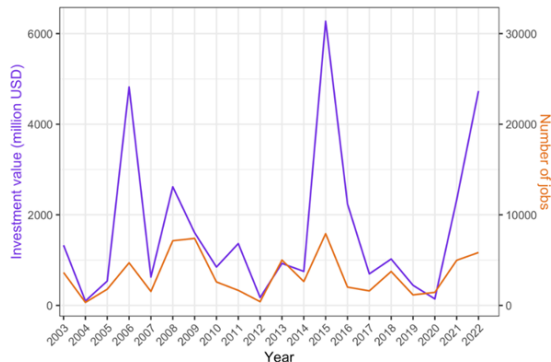


(b) 2003-2012 and 2013-2022

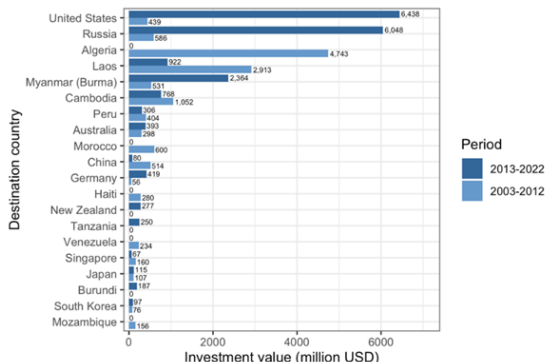
19 projects out of 31 are invested in Lao PDR. All OFDI originates from Phnom Penh.

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; 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 (1/2)

- ▶ Necessary (but insufficient) conditions:
 - **Local absorptive capacity** (i.e. capabilities and skills within the business sector, education/research sector and government sector).
 - **Capacity for systemic integration** (i.e. coordination of a diverse structure of 'value networks' and linkages, both local and global).
- ▶ Main mechanisms for development:
 - Backward linkages with MNEs customers
 - Imitation and adaptation
 - Skills upgrading and human capital formation

Policy Recommendations (2/2)

- ▶ 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

Thank you!