



Cambodia Outlook Brief*

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Policy Priorities For Cambodia's High Growth And Sustainable Development¹

1. Diversify between and within growth sectors

- Diversify the economy away from reliance on a narrow export product base.
- In agriculture, focus on increasing productivity in small farms and diversifying output to include high value and processed products, for example, milled rice.
- In industry, diversify out of garments and up the value-added chain, but also within garments to high-quality, high-value apparel.
- Diversify tourism to include beach and eco-tourism, as well as consolidating cultural tourism gains.

2. Improve frameworks for financial management

- Regulate rapidly expanding credit markets to ensure sustainability and stability of the financial sector.
- Ensure credit is extended where contributions to growth and poverty reduction will be greatest, e.g. small and medium enterprises (SMEs) and small rice farms.
- Develop frameworks to encourage private sector investment in public infrastructure: a useful model for replication is the railway rehabilitation project

3. Maintain stable macroeconomic outlook

- Create more fiscal space with a view to increasing public spending, particularly in health and education. Key is increasing rates of revenue collection.

¹ These policy priorities are derived from presentations given by speakers at the 2011 Cambodia Outlook Conference.

- Balance future growth – ensure that growth in emerging sectors is not at the expense of established sectors, through appropriate fiscal policy.
- Keep inflation manageable in the face of increasing pressures (growth, increasing public spending, investment, commodity prices and credit extension).

4. Strengthen policy apparatus for diversifying trade and investment

- Build capacity of research to identify appropriate policy interventions and evaluate policy outcomes, focusing on poverty reduction impact. Better link research findings to policy.
- Align government policy and private sector outlook by:
 - Increasing capacity for dialogue so policy represents the profile of the private sector
 - Providing incentives to the private sector for long-term and diversified investment.
- Coordinate government and develop partner recourse to achieve maximum impact, building on initiatives such as the Sector Wide Approach (SWAp) to trade policy.
- Replicate and build on policy frameworks that target specific growth sectors, for example, the Promotion of Paddy Production and Rice Export Policy Paper.

5. Improve institutional capacity for diversifying trade and investment

- Enable institutions to implement policy effectively, learning lessons from the success of special economic zone (SEZ) institutions in increasing investment.

- Manage expectations of development partners
 - be clear and firm about how long institutional capacity building will take and construct policies according to capacity to implement.
- Reduce uncertainties for investors by:
 - Developing transparent dispute resolution mechanisms distinct from the judiciary
 - Developing institutions with long-term outlook that are able to provide information useful for long-term investments e.g. price of electricity, structure of labour market.
- Continue drive to reduce corruption in key institutions such as the judiciary.
- Increase effectiveness of inter-ministerial coordination mechanisms.

6. Increase regional connectivity

- Focus on institutional and regulatory alignment with the rest of the region, as well as physical infrastructure development.
- Develop specific policy reforms that increase cooperation with key markets India and China.
- Increase cooperation on “soft” issues such as adaptation to and mitigation of climate change, conservation, and transnational crime and communicable disease.
- Focus on local ownership and participation in “bottom-up” regional initiatives.

7. Align labour force development with Cambodia’s changing economic profile

- Focus on providing Technical, Vocational and Educational Training (TVET) to provide Cambodia’s labour force with the skills necessary to drive Cambodia’s key sectors.
- Facilitate better lines of communication between industry and education policy by:
 - Coordinating market information and linking it to education policy
 - Mainstreaming and replicating successful TVET Training programmes.
- Change perceptions of TVET as undesirable professions through proper accreditation.
- Invest in social and education infrastructure relevant to up and coming SEZs.

8. Build capacity and widen reach of education

- Increase access to higher education by providing scholarships focusing on underrepresented groups (e.g. poor, women, ethnic minorities) as well as outstanding achievers.
- Coordinate public and private sector, and development partner resources, around set goals to optimise education policy outcomes.
- Improve quality of teaching, learning and research in higher education through implementing updated teaching methodology, developing curriculum and equipping HEIs with facilities needed to respond to the needs of teaching, learning and conducting research.

9. Develop logistical capacity for trade, focusing on market access for SMEs

- Modernise cross-border transport by encouraging higher vehicle standards and facilitating increased competition in the sector which will reduce costs and limit environmental impacts.
- Increase ease of access for SMEs to global markets through increasing number of Inland Clearing Depots (ICD).
- Save time and money at border crossings by reducing paperwork, extending customs’ opening hours with 24hr transit for bonded or ICD transit vehicles, and providing safe and efficient storage of un-cleared goods.

10. Secure Cambodia’s future power needs

- Secure Cambodia’s domestic power needs in the short to medium-term by streamlining frameworks for importing electricity from neighbouring countries.
- Develop capability of Cambodia in the medium to long-term to be self sufficient, and eventually a net exporter of power, through exploiting potential for hydropower.
- Focus on extending electricity to rural Cambodia, and driving down electricity prices through modernisation, to encourage increased and long-term investment.

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