

Labour Economic Conference 2024

Economic and Employment Recovery and the Path to LDC Graduation

Economic Policies for Inclusive Job-Rich Growth in ASEAN

Venue: Sofitel Phnom Penh Phokeethra, Phnom Penh

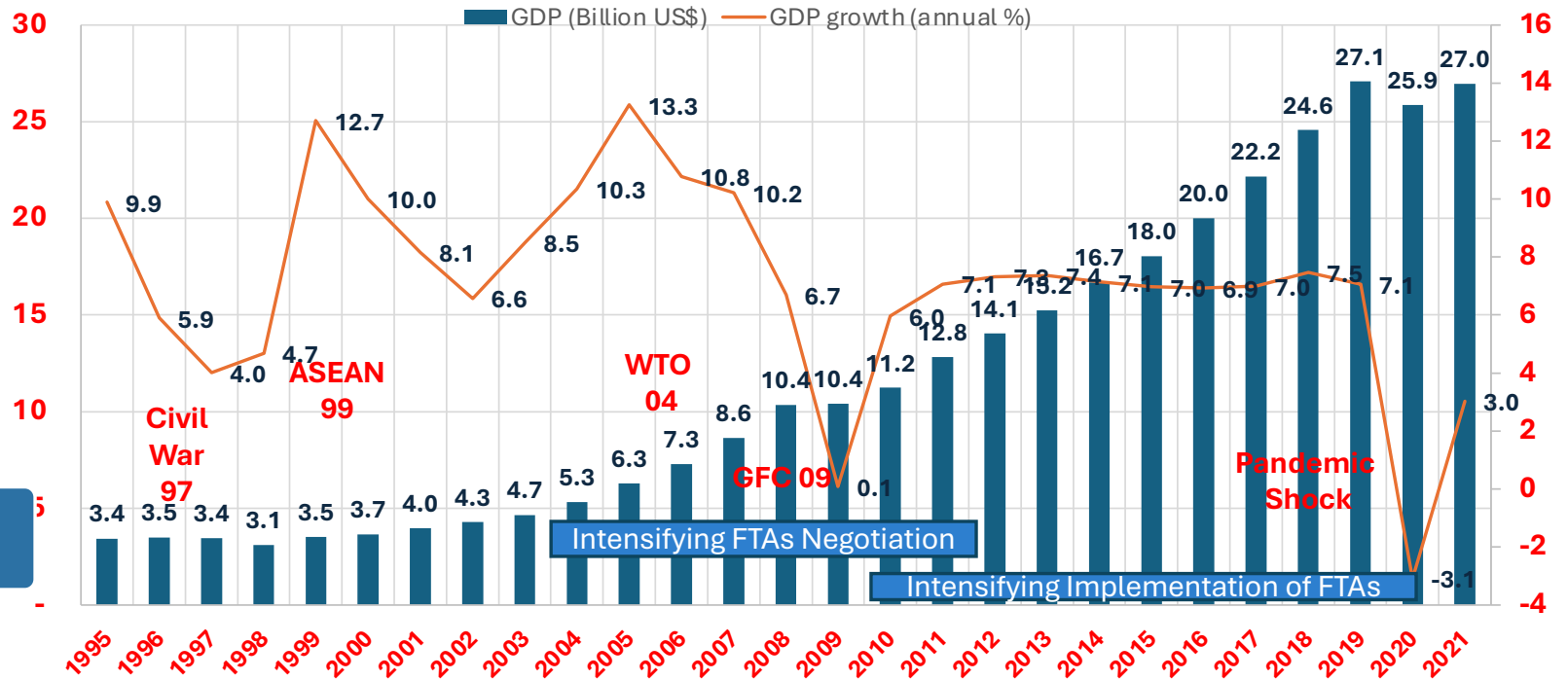
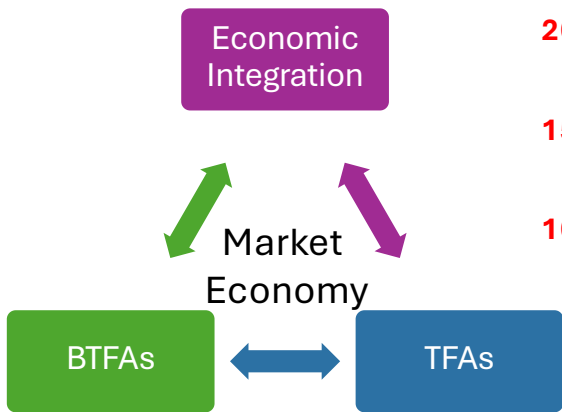
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Three Key Implications for Labour Market Dynamics and 'Creative-Destruction' in ASEAN and Cambodia

	Real GDP (US billion)		Trade (US billion)		FDI Inflows (US billion)		Population (Billion)	
		Share		Share		Share		Share
World	81,984.30		21,045.70		1,495.20		7.6	
United States	19,611.80	0.24	1,917.40	0.09	253.5	0.17	0.33	0.04
China	13,376.10	0.16	2,624.90	0.12	138.3	0.09	1.43	0.19
Japan	4,536.90	0.06	747.90	0.04	9.8	0.01	0.13	0.02
Germany	3,573.90	0.04	1,634.00	0.08	73.5	0.05	0.08	0.01
France	2,570.70	0.03	620.30	0.03	38.1	0.03	0.07	0.01
India	2658	0.03	366.80	0.02	42.1	0.03	1.35	0.18
Korea	1,598.10	0.02	616.90	0.03	12.1	0.01	0.05	0.01
Australia	1,340.00	0.02	325.00	0.02	68	0.05	0.02	0.00
Brunei	12.7	0.00	6.90	0.00	0.4	0.00	0.0004	0.00
Cambodia	22.2	0.00	15.90	0.00	3.2	0.00	0.016	0.00
Indonesia	999.1	0.01	195.70	0.01	15.5	0.01	0.267	0.04
Lao PDR	17.4	0.00	6.70	0.00	1.3	0.00	0.007	0.00
Malaysia	348.6	0.00	255.00	0.01	7.6	0.01	0.031	0.00
Myanmar	75	0.00	20.20	0.00	3.5	0.00	0.002	0.00
Philippines	354.6	0.00	75.90	0.00	6.6	0.00	0.106	0.01
Singapore	337.9	0.00	492.60	0.02	79.7	0.05	0.005	0.00
Thailand	449.2	0.01	263.20	0.01	10.3	0.01	0.069	0.01
Viet Nam	234.7	0.00	259.20	0.01	15.5	0.01	0.095	0.01
New Zealand	196.9	0.00	41.50	0.00	1.9	0.00	0.006	0.00
ASEAN	2,851.90	0.03	1,596.80	0.08	148.9	0.10	0.65	0.09
RCEP (less India)	23,899.90	0.29	5,953.30	0.28	379.10	0.25	2.29	0.30
ASEAN+3	22,363.00	0.27	5,586.80	0.27	309.2	0.21	2.26	0.30
ASEAN-China	16,228.00	0.20	4,221.70	0.20	287.20	0.19	2.08	0.27
ASEAN-Korea	4,450.00	0.05	2,213.70	0.11	161.00	0.11	0.70	0.09
ASEAN-Japan	7,388.80	0.09	2,344.70	0.11	158.70	0.11	0.78	0.10
ASEAN-ANZ	4,388.80	0.05	1,963.30	0.09	218.80	0.15	0.68	0.09
EU	14,511.10	0.18	6,343.20	0.30	349.8	0.23	0.51	0.07
NAFTA	22,516.70	0.27	2,897.10	0.14	331.7	0.22	0.49	0.06
CPTPP	10,384.40	0.13	3,246.10	0.15	274.8	0.18	0.5	0.07

Progressive Growth of Cambodia: 1995-2021



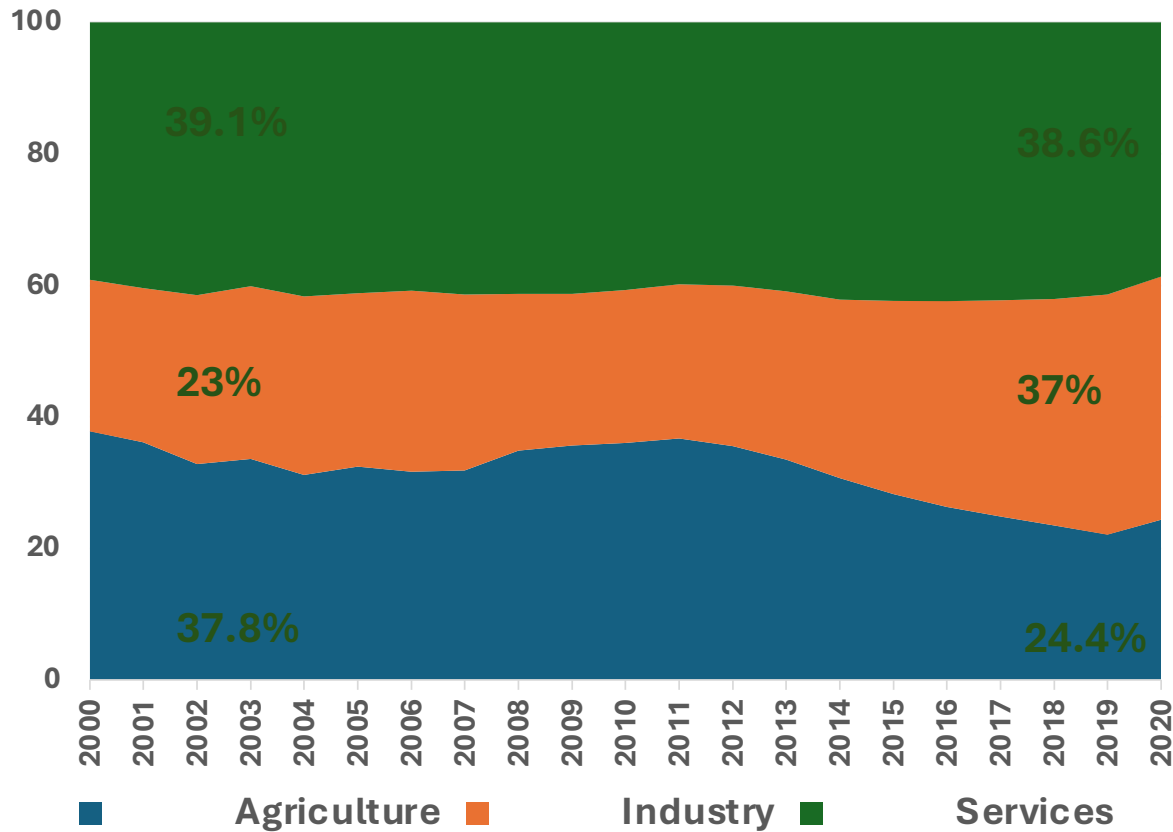
Cambodia Development and Industrial Strategies	2004-2008 Rectangular Strategy I	2009-2013 Rectangular Strategy II	2014-2018 Rectangular Strategy III	2019-2023 Rectangular Strategy IV
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Source: Databank, World Bank, 2022; Samnang, 2024

Cambodia

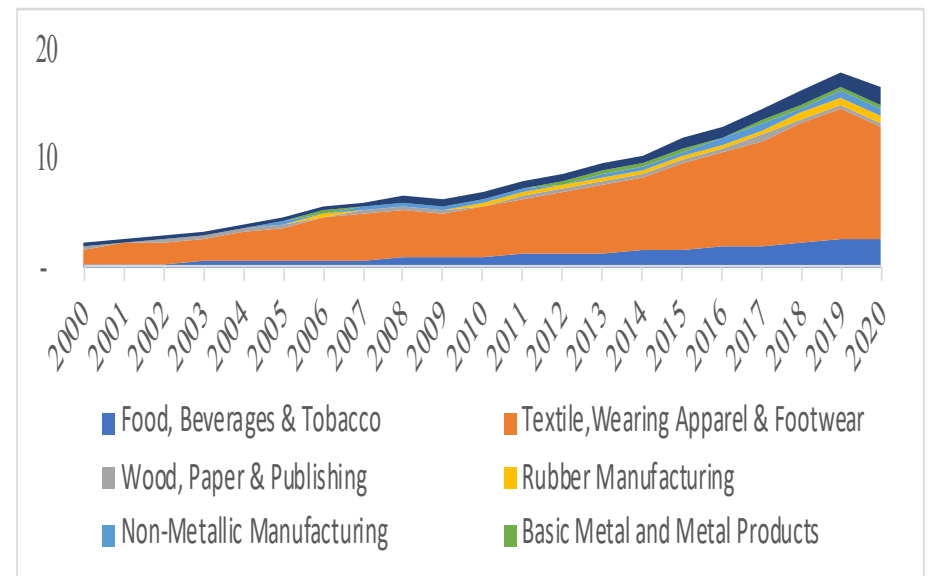
- Cambodia is one of the most progressive Association of Southeast Asian Nations (ASEAN) Member States in terms of its market access to regional and global activities.
- The Cambodian economy is one of the fastest-growing economies in ASEAN. The average annual growth of Cambodia has been around 7%–8% for the past decade.
- Cambodia is also in a transition and is transforming its economy into a lower middle-income growth economy in terms of its industrial transformation. Cambodia achieved lower middle-income country (LMIC) status in 2015 and aspires to become an upper middle-income by 2030 and a high-income country by 2050, along the pathway to graduate from the Least Developed Country (LDC) status in 2029
- There are other key factors affecting the structural transformation in the medium to long-term growth in terms of digital transformation, green transformation (ASEAN ESG taxonomy framework), and skills and human capital development – not mutually exclusive and reinforcing each other

Openness and Structural Transformation 2000-2020 (% Sector of GDP)



Source : Asian Development Bank, 2022

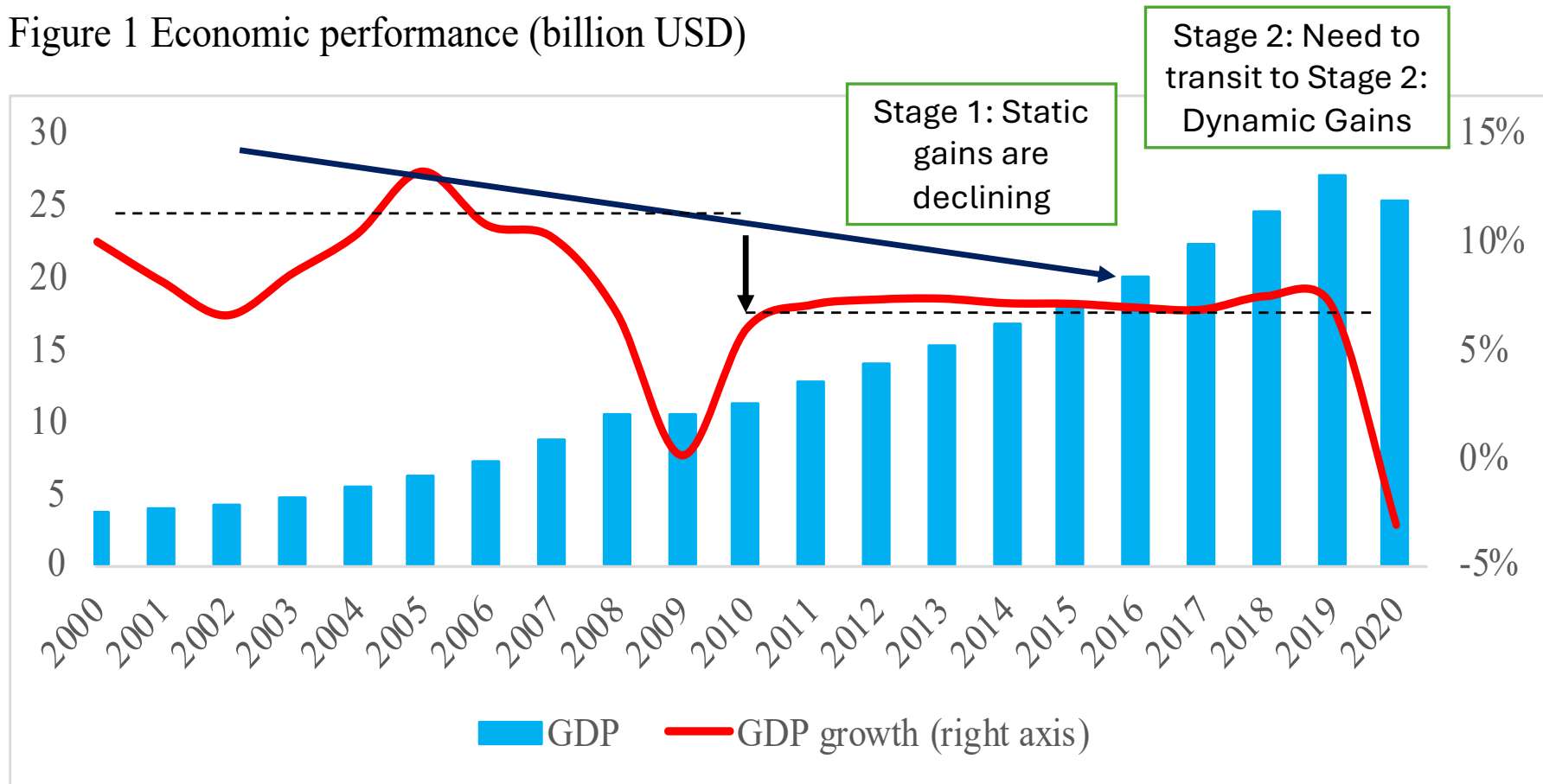
Figure 1. Cambodia's Manufacturing Subsectors (KR trillion)



Source: National Institute of Statistics.

1. Rebalancing as 'surplus labour' is used up the growth process (Lewis's Turning Point) Need to capture the Dynamic Gains: alignment of domestic and regional policies

Figure 1 Economic performance (billion USD)



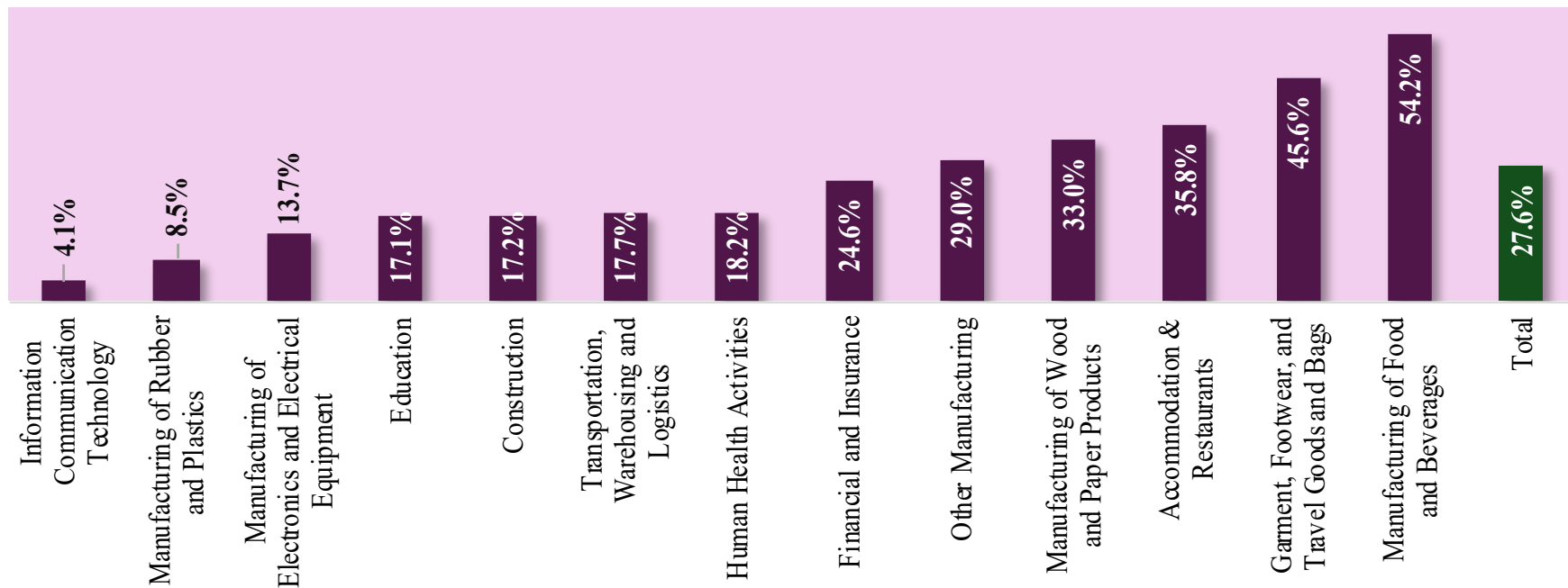
Source: World Bank

2. Skills Gap

- The transition to higher value-added activities has increased the demand for skilled jobs that complement the new technologies.
- We are observing different skills and human capital development in ASEAN. The pace of industrialisation is much faster than the rate of accumulation of human capital through the polytechnics and universities, resulting in a labour market mismatch in skills and hence the “skills-gap” in developing AMS of Indonesia, Malaysia, Singapore, Thailand, and Vietnam (Thangavelu, 2017).
- This indicates that the demand for new skills has outpaced the supply of workers with relevant skills to participate in the labour market.

Skills Gap by Sectors in Cambodia, 2024

Figure 3.10. Share of establishments affected by skills gaps by sector



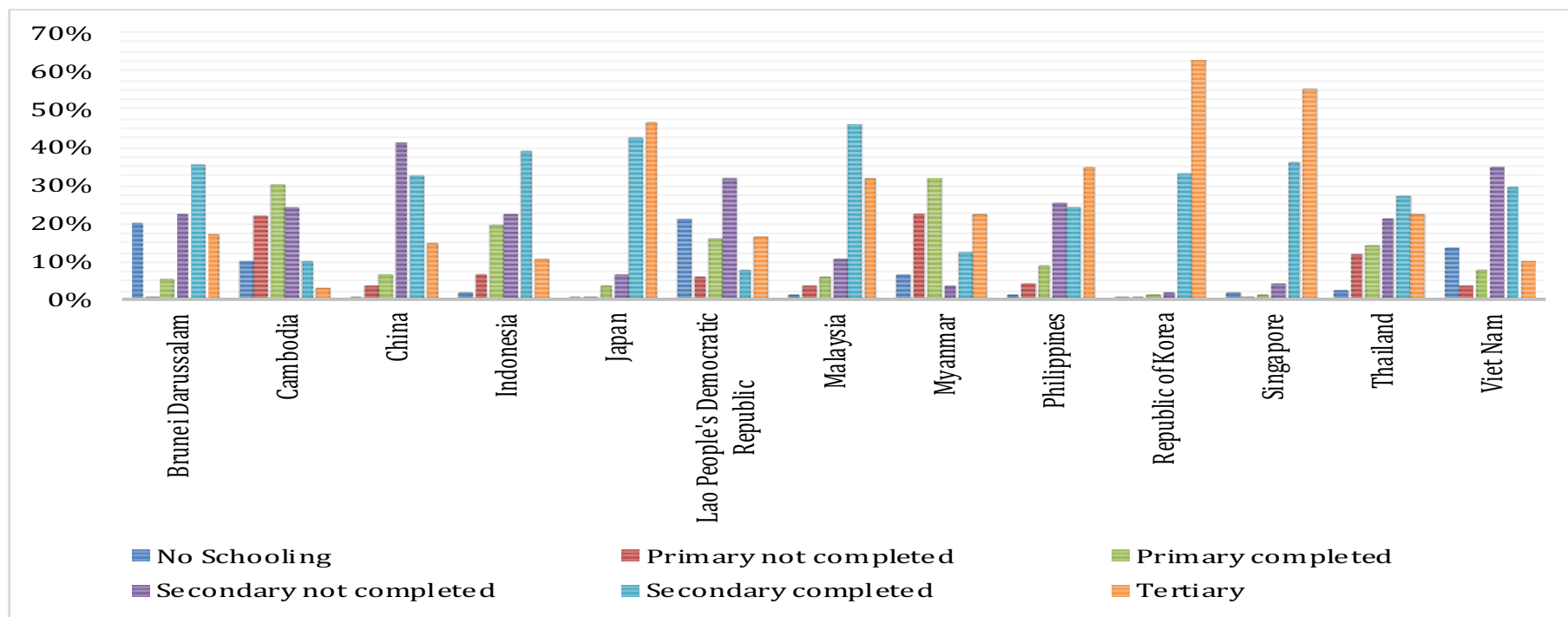
Source: Ministry of Labour and Vocational Training, 2024

3. Skills Trap

- ‘Skills-trap’ where unskilled workers could not reach the key threshold level of human capital in education and industrial skills to transit to higher level of training in technologies and competencies.
- These unskilled workers are ‘trapped’ in low-skilled jobs with low wages and gradually shift to the informal labour market.
- The ‘skills-trap’ equilibrium also indicates a ‘wage-trap’ equilibrium, where the wages of these vulnerable workers will stagnate with very low productivity.
- The bi-polar equilibria of ‘skills-gap’ and ‘skills-trap’ are occurring concurrently in the domestic economy as it participates in the regional and global production value chain (Thangavelu, 2023).

Average Educational Attainment is Primary and Lower for Cambodia

Main educational attainment structure of some Asian countries, 2025



Source: Barro, Robert and Jong-Wha Lee, April 2010, "A New Data Set of Educational Attainment in the World, 1950-2010." *Journal of Development Economics*, vol 104, pp.184-198. Updated: 2021 September.

ASEAN is Managing the ‘Creative-Destruction’ with Skills Development Strategies

Country	Key Skills Focus	Programs and Policies	Outcomes	Skills Gaps/Challenges
Malaysia	Digital skills, technical skills	Industry4WRD, TVET Reforms	Increased Industry 4.0 readiness	Persistent skills mismatch in ICT
Vietnam	STEM skills, technical skills	National STEM Day, TVET Reform	Improved participation in STEM sectors	Lack of infrastructure in rural schools
Singapore	Adaptability, lifelong learning	SkillsFuture, ALP	Globally competitive workforce	Access barriers for low-income workers
Philippines	Vocational skills, ICT skills	TESDA Programs, K to 12 Reform	Increased TVET participation	Skills mismatch in healthcare and ICT
Thailand	Vocational skills, technical skills	DVT, STEM Integration	Higher employability in manufacturing	Digital infrastructure limitations

Implications of 'Creative-Destruction' for Cambodia

LDC Graduation

- Cambodia is one of the fastest growing economies in Southeast Asian for the past decades with an average annual growth rate of 8 per cent. As Least Developed Country (LDC), Cambodia benefiting greatly from LDC trade preferences like the EU's GSP/EBA scheme since 2001, emerging from the civil war.
- In 2021, Cambodia met all three criteria for graduation from the least developed country (LDC) category for the first time at the Triennial Review of the United Nations Committee for Development Policy (CDP).
- According to WTO EIF report in 2023, if Cambodia meets the LDC graduation criteria for the second consecutive time at the 2024 UN CDP Triennial Review, it will be recommended for LDC graduation forgoing all the trade and investment preferences given for LDCs. After endorsement by the UN Economic and Social Council (ECOSOC) and General Assembly, graduation takes effect following a preparatory period determined by the latter.
- This period could vary depending on the consideration by CDP members. At the earliest, Cambodia may graduate from the LDC category in 2027, however, WTO members offer specific flexibilities to least developed country members, including Cambodia to adjust the domestic economy for the graduation. Following graduation, these flexibilities may not be available.

Key Elements of the Graduation: Cambodia meets all Criteria

Table 1: Performance vis-à-vis LDC graduation thresholds

	GRADUATION THRESHOLD	CAMBODIA, 2021
Gross National Income (GNI) per capita	US\$ 1,274	US\$ 1,377
Human Assets Index (HAI)	66 or above	74.3
Economic Vulnerability Index (EVI)	32 or below	30.6





Source: UN CDP Report on the twenty third session (2021), E/2021/33

Key Considerations for LDC Graduation

- The EU's GSP/EBA scheme has undoubtedly played a significant role in propelling Cambodia's economic growth over the past two decades, particularly in the manufacturing sector. Duty-free access to the EU market provided by GSP/EBA made Cambodian products highly competitive, leading to a surge in exports, especially in garments, and textiles.
- Losing GSP/EBA would make Cambodian exports less competitive in terms of the loss of the market access to EU and higher tariffs imposed by developed countries including EU and US.
 - EU Regulations especially CBAM and Green Regulations will have another impact: Tariff as well NTMs such as technical standards
- The implications of LDC graduation could have negative ripple effects on businesses, employment, and overall economic activity
 - We might also observe the decoupling effects of FDI activities in Cambodia to other neighboring countries of Thailand and Vietnam.
 - Decoupling to other LDCs
- There is a strong need to improve the competitiveness of the domestic industries in terms of reducing transaction cost of exchange and trade and improving the productivity of the domestic industries.
- There is an immediate need to adjust the cost structure and business environment of the Cambodian economy.

Key Products Affected by LDC Graduation (UNDP Study, 2024)

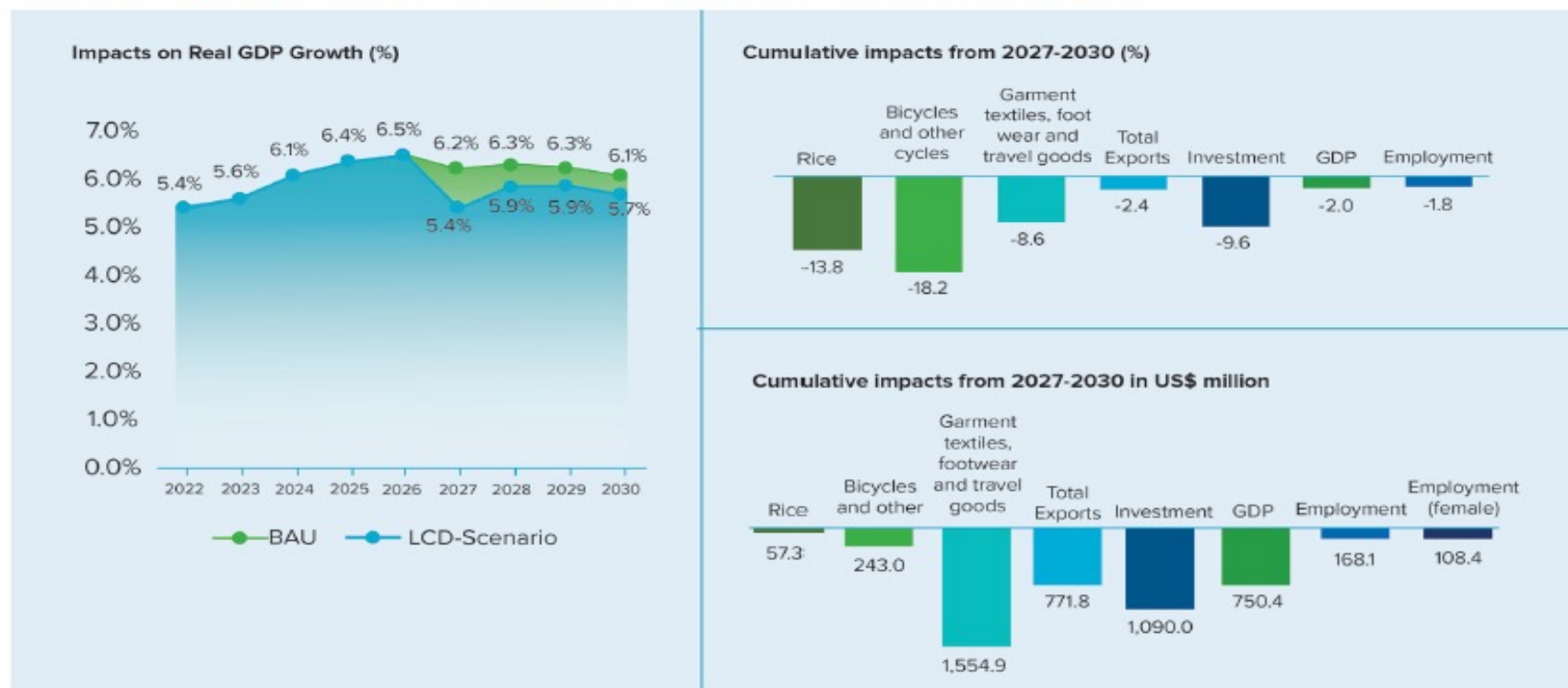
Table 1. Potential average rise of tariffs after graduation

Product	Exporting Markets*	Current Effective Tariffs (%)	Average Tariff Faced (%)	
			Standard GSP/GPT	MFN
Garment, textile, footwear, and travel goods 	EU (31%)	0	8.8 (0-GSP+)	11.5
	Canada (8%)	0	16.1	16.4
	US (40%)	11.5	9.8	11.5
Bicycles and other cycles 	EU (49%)	0	10.1, (0-GSP+)	14.5
	US (37%)	8	7.33	8.0
	Canada (2%)	0	8.5	13.0
Rice 	EU (38%)	0	EURO 175/ton and 65/ton for broken rice (0-GSP+)	EURO 175/ton and 65/ton for broken rice
	US (0.6%)	11.2 or US \$140/ton, 44/ton for broken rice	5.6	11.2 for US \$140/ton, 44/ton for broken rice
	Canada (0.1%)	0	0	0
All other products 	EU (3%)	0	0.3 (0-GSP+)	0.3
	US (60%)	4.9	1.0	3.2
	Canada (1.4%)	0	2.4	5.5

Source: Calculated from Trade Map (2023) and WTO Tariff Database (2021), * percentage in the brackets are market shares.

GTAP Simulations of (UNDP Study, 2024): 168,000 job loss from LDC Graduation (Destruction)

Figure 2. Potential impacts of LDC graduation from baseline 2027-2030



Source: Dynamic GTAP Model and Author's Estimate. BAU was based on IMF's World Economic Outlook (October 2023)

Simulation	Description	Implementation in the DCGE model
Business as Usual (BAU)	The business-as-usual scenario for 2026-2030 assumes a stable economy with GDP growth rates ranging from 7.3% in 2026 to 7.8% in 2030, aligning with the Ministry of Economy and Finance projections.	Serve as benchmarks for assessing the impact of export demand shocks.
SIM 1 (LDC Shock)	LDC graduation impacts Cambodia mainly through export loss. The simulation focuses on export demand shocks.	In 2027, key exports like rice (-15.6%), textiles (-7.4%), and bikes (-17.3%) will decline, while other products will increase (14.4%)

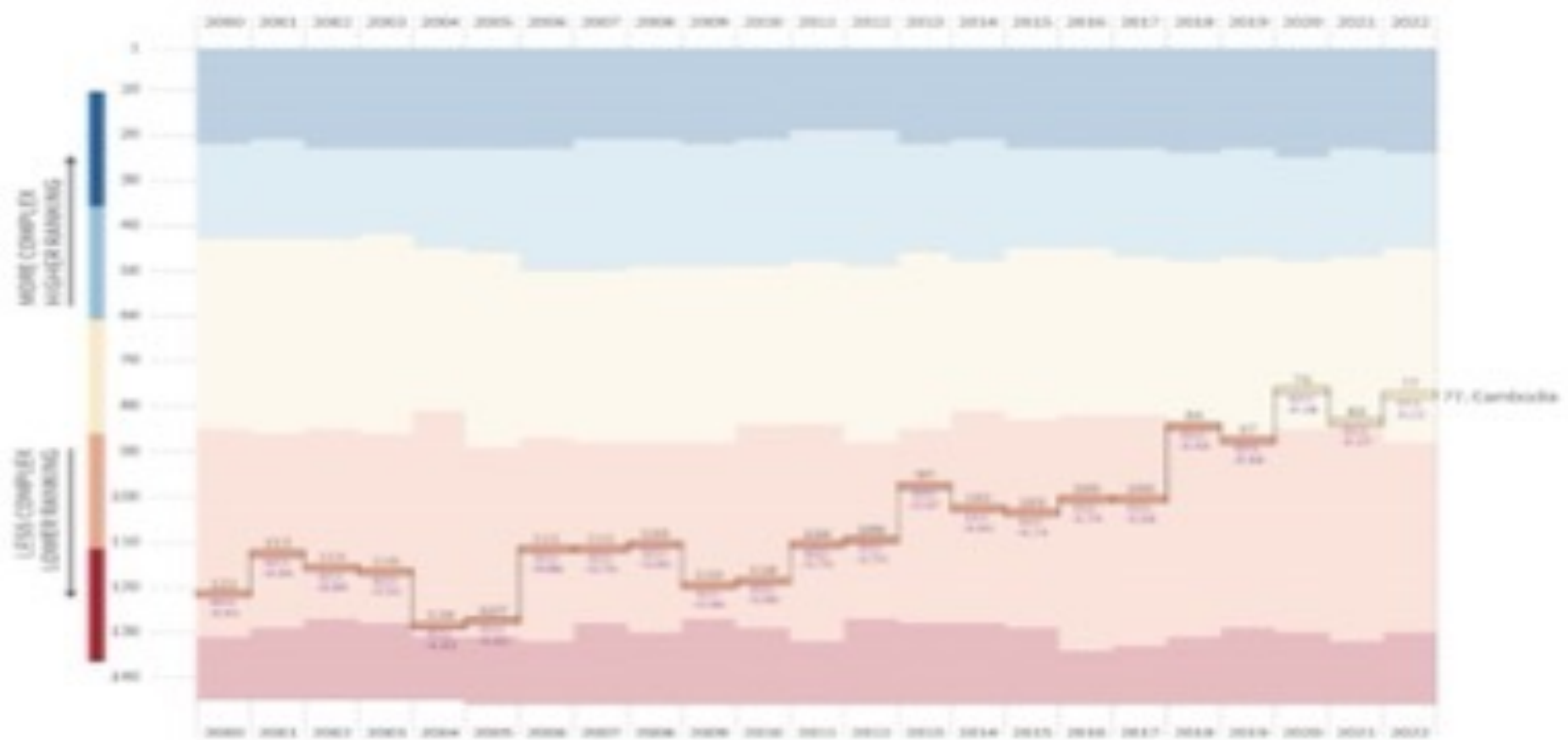
Double Transformation and ROOs: Need Skills

- Single and Double Transformation Requirements in Garment and Textile Under EUGSP
- RoO for textiles and clothing generally require a 'double transformation' in order to be considered by the EU as an originating product of the exporting (beneficiary) country.
- Materials must normally go through two distinct production processes, which in the case of clothing might entail the conversion (weaving) of yarn into fabric, and the conversion (cut, make and trim, or making up) of fabric into garments.
- Alternative transformation requirements apply to garments that are embroidered, or which fall into a category which is further differentiated (for example embroidered clothing, which as an alternative can be made up from unembroidered fabric provided the value of the unembroidered fabric used is less than a certain percentage of the ex-works price of the product).

Are there any Diversification (Creation) from Export Growth of Cambodia? Identify potential export growth and map the skills requirements

- **Economic Complexity Index (ECI) and Diversification:** The Atlas of Economic Complexity, Harvard Growth Lab's research and data visualization tool used to understand the economic dynamics and new growth opportunities for every country worldwide, construct Product Space with over 800 goods using real-world data to help define the path to diversity a country's economy based on connectedness of its knowhow.
- Cambodia's Economic complexity Index has been remarkable improved over the last two decades as Cambodia's ECI ranking has been improved by 44 places from 121 in 2000 to 77 in 2022. Cambodia's ECI has exhibited a significant upward trend over the period, signaling a notable improvement in its economic complexity from 1995 to 2022, reflecting the diversity and sophistication of its exported goods.
- From 1995 to 2000, growth was relatively gradual, indicating a steady development of the country's export base. However, from 2000 to 2010, the pace of growth has somewhat moderated, due to global economic factors and domestic challenges in economic diversification. Since 2010, a period of accelerated growth is observed, likely driven by economic reforms and increased globalization.

Cambodia is shifting to more economic complexity and diversify exports



Cambodia's Product Space: New Opportunities

- Cambodia has added 47 new products since 2007, and these products contributed \$373 in income per capita in 2022. Cambodia has diversified into a large enough volume of new products to contribute to sufficient income growth.
- Based on these new products, Cambodia is classified as grade A+ and its ranking has been improved 28 rank to 81 among 145 in 2022.

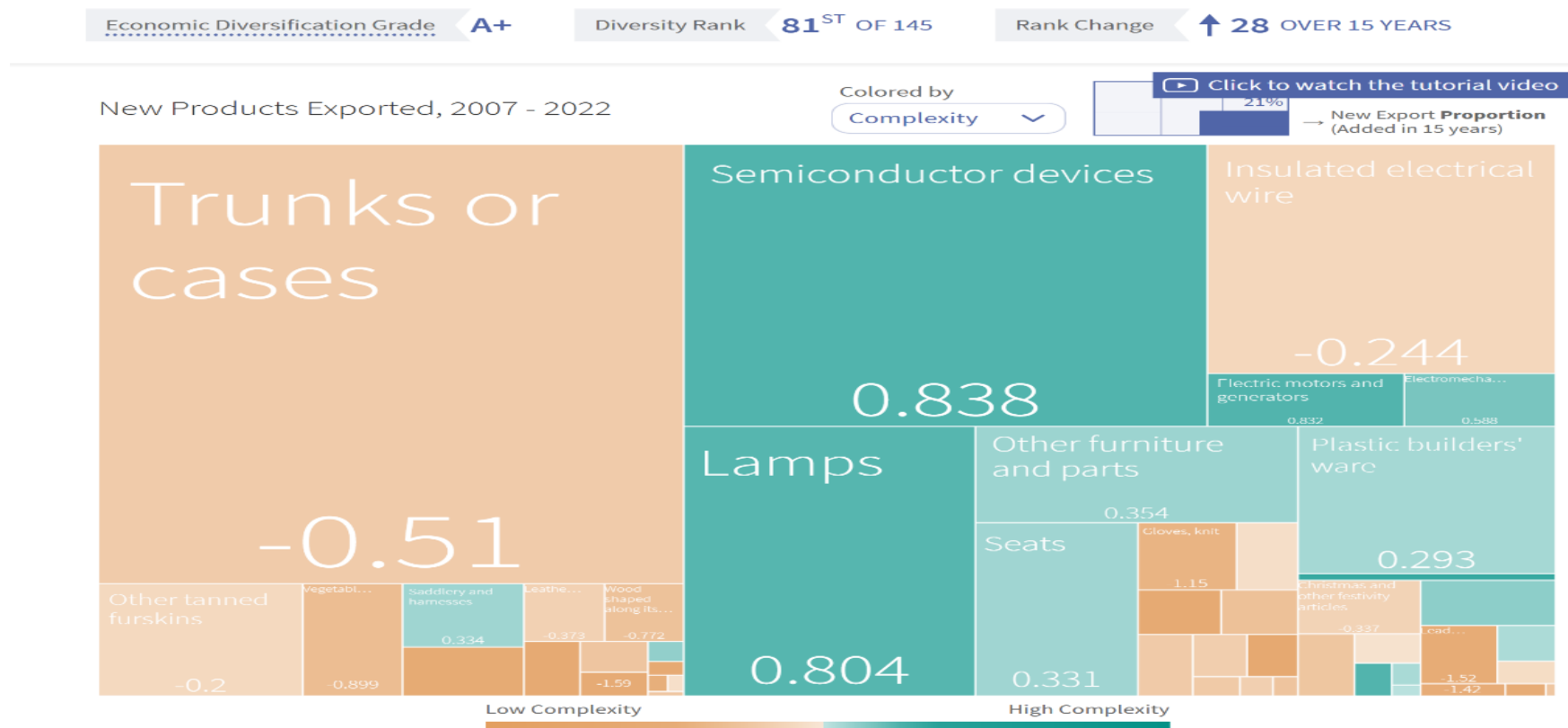
Table: Diversification into New Products, 2017-2022

Country	New Products	USD Per Capita	USD (Total Value)
Cambodia	47	373	\$6.29B
Thailand	32	99	\$6.90B
Indonesia	11	66	\$18.2B
Bangladesh	11	2	\$408M

Source: <https://atlas.hks.harvard.edu/countries/116/new-products>, 04 December 2024

Cambodia's Product Space

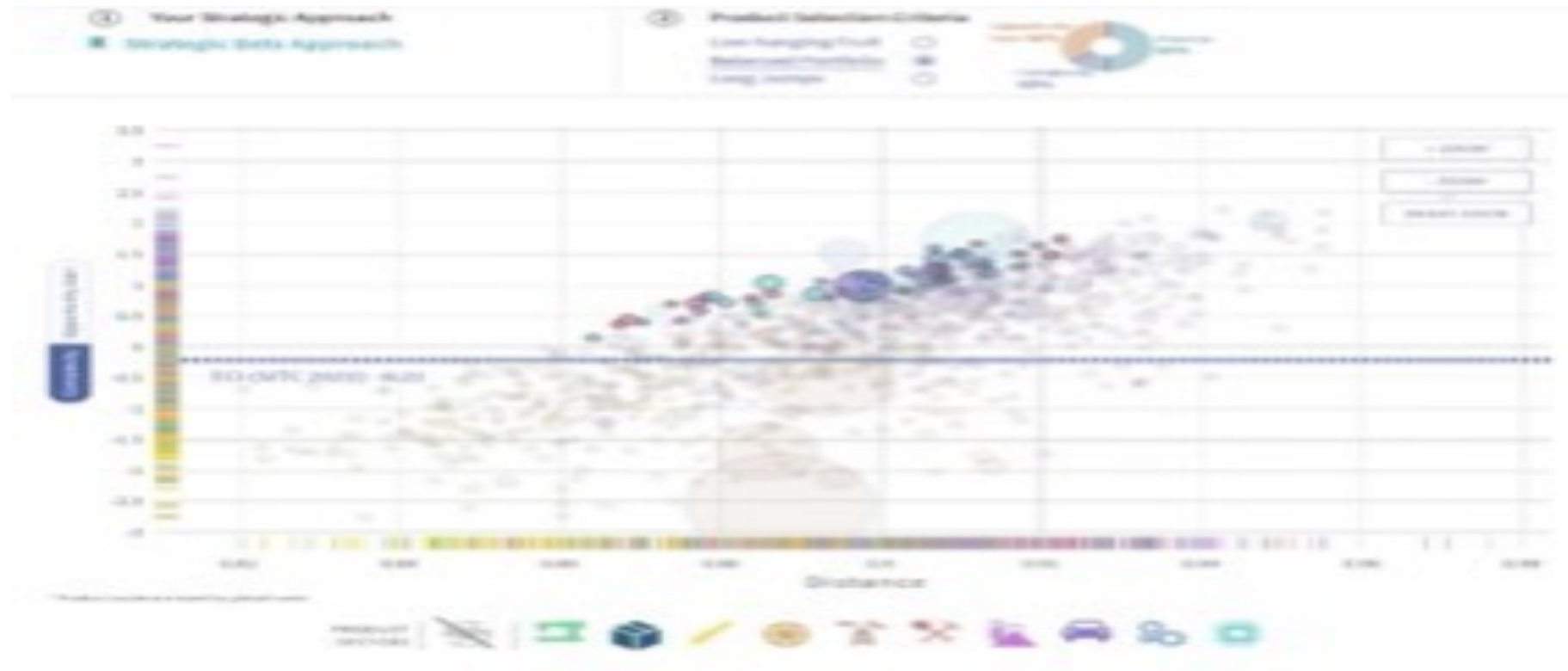
Figure: New Products Exported, 2017-2022



Source: <https://atlas.hks.harvard.edu/countries/116/new-products>, 04 December 2024

Strategic Product Diversification

- Strategic Belt Approach: The balanced portfolio identifies about 50 key products and services to diversity in the export by mixing the low-hanging fruit with a shorter distance of know-how and the long jumps with more complexity and more value-added.



Key Observations

- **Diversification Across Sectors:** The list encompasses a wide range of sectors, including machinery, electronics, textiles, metals, and plastics. This diversification reduces reliance on a single sector and mitigates risks associated with market fluctuations.
- **Balance of Low-Hanging Fruit and High-Potential Products:** The strategy includes both low-complexity, high-opportunity products (e.g., screws, springs, and other metal products) and high-complexity, high-value products (e.g., electrical transformers, electronic circuits, and machinery parts).
- **Focus on High-Growth Markets:** Many of the identified products are in sectors with significant global growth potential, such as electronics, machinery, and plastics.
- **Leveraging Existing Capabilities:** By targeting products that are closely related to existing industries like textiles and agriculture, Cambodia can leverage its existing workforce and infrastructure.

Key Observations

- Skills Strategy and Industrial Strategy are the key
- Skill and Technology Gaps: Many of the targeted products, especially those in the high-complexity category, require advanced technical skills and sophisticated manufacturing processes. Cambodia may need to invest heavily in education, training, and technology transfer to bridge these gaps.
- Infrastructure Constraints: A robust infrastructure, including reliable power supply, efficient transportation networks, and modern logistics facilities, is essential for successful export diversification. Cambodia needs to continue investing in infrastructure development to support its export ambitions.
 - Upgrading the SEZs

Product Sector	Global Size (USD)	Global Growth 5YR	Opportunity Gain	Product Complexity
Chain of iron or steel (7315 HS92)	\$6.14B	31.50%	High	Medium
Other machinery for making paper (8441 HS92)	\$7.82B	25.30%	Medium	High
Pumps, compressors, fans, etc. (8414 HS92)	\$82.8B	25.10%	High	Medium
Screws and similar articles of iron or steel (7318 HS92)	\$47.5B	36.70%	High	Low
Appliances for thermostatically controlled valves (8481 HS92)	\$98.2B	23.70%	High	Medium
Transmission shafts (8483 HS92)	\$62.0B	20.60%	High	Medium
Machines used in metallurgy (8454 HS92)	\$2.55B	0.80%	Low	High
Machinery parts, not containing electrical features, n.e.c. (8485 HS92)	\$12.3B	27%	High	Medium
Grindstones (6804 HS92)	\$4.95B	12.80%	Medium	Low
Industrial furnaces (8417 HS92)	\$4.76B	11.50%	Medium	High
Centrifuges (8421 HS92)	\$83.8B	44.70%	High	Medium
Other articles of plastic (3926 HS92)	\$147B	113.20%	Very High	Low
Equipment for temperature change of materials (8419 HS92)	\$44.1B	20.80%	High	Medium
Tube or pipe fittings of iron or steel (7307 HS92)	\$21.2B	34.50%	High	Low
Pumps for liquids (8413 HS92)	\$66.7B	16.30%	High	Medium
Machinery for processing fabrics (8451 HS92)	\$8.76B	12.90%	Medium	High
Auxiliary parts for use with boilers (8404 HS92)	\$1.42B	22.80%	Medium	High
Other lifting machinery (8428 HS92)	\$32.2B	17.50%	High	Medium
Parts for use with hoists and excavation machinery (8431 HS92)	\$63.0B	28%	High	Medium
Parts of musical instruments (9209 HS92)	\$1.61B	29.30%	Medium	High
Automatic goods-vending machines (8476 HS92)	\$1.72B	0.20%	Low	Medium
Electrical transformers (8504 HS92)	\$128B	60.50%	Very High	Medium
Ball or roller bearings (8482 HS92)	\$32.7B	9.50%	Medium	Medium
Parts of motor vehicles (8708 HS92)	\$394B	8.80%	High	Medium
Parts for electrical apparatus (8538 HS92)	\$40.1B	22.10%	High	Medium
Transmission belts or belting, of textile material (5910 HS92)	\$656M	25.10%	Medium	Low
Springs of iron or steel (7320 HS92)	\$7.24B	13.40%	Medium	Low
Vulcanized rubber plates (4008 HS92)	\$4.77B	21.70%	Medium	Low
Other articles of zinc (7907 HS92)	\$1.50B	9.80%	Medium	Low

Electrical apparatus for < 1k volts (8536 HS92)	\$109B	24%	High	Medium
Base metal mountings, fittings and similar articles (8302 HS92)	\$39.5B	32.90%	High	Low
Electrical lighting equipment used for motor vehicles (8512 HS92)	\$32.9B	11.70%	Medium	Medium
Electrical boards (8537 HS92)	\$76.0B	30.80%	High	Medium
Other articles of vulcanized rubber (4016 HS92)	\$28.7B	19.40%	Medium	Low
Railway track fixtures (8608 HS92)	\$918M	9.30%	Medium	Low
Padlocks and locks (8301 HS92)	\$14.4B	16.70%	Medium	Low
Refrigerators, freezers (8418 HS92)	\$56.8B	41.20%	High	Medium
Electronic printed circuits (8534 HS92)	\$50.8B	31.10%	High	Medium
Other articles of iron or steel (7326 HS92)	\$65.5B	49.80%	High	Low
Clasps, buckles etc. of metal (8308 HS92)	\$4.45B	45.40%	High	Low
Parts for use with electric generators (8503 HS92)	\$23.7B	48.80%	High	Medium
Other plastic plates, sheets etc. (3921 HS92)	\$32.4B	34%	High	Low
Other headgear (6506 HS92)	\$5.46B	76.10%	High	Low
Structures and their parts, of iron or steel (7308 HS92)	\$63.7B	43%	High	Medium
Baths, sinks etc. (3922 HS92)	\$5.04B	43.20%	High	Low
Gas, liquid or electricity meters (9028 HS92)	\$8.19B	15%	Medium	Medium
Aluminum structures (bridges, towers etc) (7610 HS92)	\$18.0B	56.70%	High	Medium
Seats (9401 HS92)	\$79.9B	12.40%	High	Medium
Synthetic filament yarn (5402 HS92)	\$19.0B	17.30%	Medium	Low
Sewing machines (8452 HS92)	\$5.36B	8.60%	Medium	High

Thank you