Over the past two decades Cambodia has experienced extraordinary economic growth, and become one of Asia's most open economies, especially in the services sector. Trade in services, including information technology, telecommunications and banking, now accounts for over one-fifth of global trade flows. In fact, Cambodia's impressive growth has been largely driven by a boom in the services trade: services exports have grown by more than 20 percent per year for most of the past decade, led by a rapid expansion in tourism.

In order to maintain its growth momentum in the services sector, Cambodia now needs to move beyond the pillars of tourism and transport, and diversify into the export of more modern services. For example, Cambodia has seen recent progress in the export of offshoring services relate to information technology, including high-value-added services like software development, and even 3-D animation. Yet, a number of limitations are currently limiting the potential of modern services exports from Cambodia. Services exports depend crucially on three main determinant: skills availability; infrastructure mainly telecommunications; and a sound and predictable legal and regulatory framework. Important challenges in all these three factors need to be addressed in order to attract investment in the services sector, and to succeed in making Cambodia a regional hub in services trade.

First of all, Cambodia's young population—dynamic, enthusiastic and capable—represents huge potential for developing modern services industries. But reaping these benefits requires major investment in improving the currently low level of domestic skills, while also addressing the skills mismatch. In addition to improving traditional education programs, Cambodia will need to develop technical education programs, in consultation with services industries, to provide the basis for an appropriately-skilled and market-ready workforce. Improving the skills also requires ensuring that curriculum of the education programs, and their titles and certifications, can compete in quality with that of other countries in the region. Adequate regulatory bodies are essential to standardize curricula and certifications, especially in professional services. This is also a necessary step in the implementation of WTO commitments and the ASEAN Economic Community, which provides for mutual recognitions within the region for seven professional services, including for the engineering, accountancy and legal professions. Meanwhile, Cambodia should also retain its open policy on employing foreigners, particularly highly skilled workers, to provide an attractive investment environment and facilitate the transfer of knowledge.

Second, there is a serious lack of infrastructure for services, particularly broadband internet. While mobile telephony has boomed, internet penetration is minimal, and Cambodia's broadband connectivity is the second lowest in the region after Myanmar. This is a major obstacle to services exports. The suggested first steps here include: (i) adopting a modern telecommunications law, and ensuring the independence of the regulator; and (ii) reinforcing progress towards a national broadband strategy, including the expansion of fixed-line broadband for commercial use.
Third, Cambodia needs to strengthen weak governance and regulation. While Cambodia’s services sector is highly liberalized, governance can be weak, and a lack of transparency and predictability in the implementation of regulations may have an impact on trade and investment in the services sector. Inaccessible (or no) regulatory information, inconsistent application and interpretation of the regulations across agencies, frequent changes in administrative practice, and discretionary application of the rules all make it very hard for services sector businesses to undertake major investment and to thrive. Not only is this situation largely responsible for limiting the penetration of broadband internet, and raising transport costs for moving goods around the country, but it also affects the ability of prospective investors to plan ahead.

Valuable opportunities lie within the grasp of Cambodia in the services sector, both by expanding current services exports and by developing new high-value-added niche services. But Cambodia needs to act quickly, as competition from other developing economies in the vibrant Southeast Asia region will soon attempt to erode Cambodia’s current comparative advantages. If Cambodia can build on its current efforts to improve governance and regulatory reform, the country should be able to increase and diversify foreign investment towards other services industries beyond tourism. This would be a crucial step towards becoming a sophisticated services-exporting country.