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TRADE DEVELOPMENT

Helping Cambodia to become a sophisticated services exporter



Significance

Cambodia has experienced extraordinary economic growth in recent years, and become one of Asia's most open economies. This impressive growth has been largely driven by a boom in the services trade, with services exports growing at over 20 percent annually for most of the past decade, led by a rapid expansion in tourism and transport services. Despite this, the size of the services sector in Cambodia's economy remains relatively small. Cambodia has high services exports, but low domestic services relative to GDP, because its main services industry, tourism, is export-oriented. There is, therefore, still considerable scope to develop the services sector, both domestically and internationally. However, in order to maintain growth momentum in the services sector, Cambodia now needs to move beyond the pillars of tourism and transport, and diversify into exports of more sophisticated, high-value-added modern services. But in order to make this transition successfully, Cambodia needs to address several major challenges, particularly in the area of information technology. In addition, Cambodia needs to act with a sense of urgency, as potential competition from other developing economies in the vibrant Southeast Asia economic region could erode Cambodia's advantage.

Background

Cambodia's decisive policies on economic openness and regulatory reform are conducive to sustaining foreign investment, diversifying services exports, and developing high-value-added services exports. This will help to support and maintain Cambodia's impressive economic growth rate over the past two decades, which has largely been driven by services exports in the form of tourism and transport. Services exports have been growing at more than 20 percent annually for the past decade. However, this growth rate comes from a very low base and is not sustainable. Therefore, if it is to take full advantage of the services sector, as both an input to other economic activities, and a potential source of trade diversification, Cambodia needs to expand its services export market beyond the traditional area of tourism. According to a recent World Bank report titled *Cambodia Trade in Services: Performance and Regulatory Framework Assessment*, improvements in three sectors could lead to higher levels of foreign investment and lead to enhanced economic growth.

Electronic infrastructure

The expansion of services in Cambodia will require better infrastructure, particularly in broadband telecommunications. Cambodia has the lowest broadband connectivity in the region apart from Myanmar. This issue needs to be addressed, given that there is empirical evidence that suggests that broadband connectivity is a major contributor to economic growth. Cambodia's institutional and regulatory framework in the telecom sector is not conducive to attracting foreign investors. Consequently, telecommunications services have grown at a meager 3 percent annually over the past seven years, compared with 18 percent annual growth for tourism. More worryingly, Cambodia's ICT infrastructure and connectivity are lagging behind those of other competing countries in Southeast Asia. Cambodia's regulatory framework in telecommunications has been described as inconsistent and difficult to understand. A new regulatory body has been established as the supervisory authority in the sector, but influences from other government agencies may have an impact on its deliberations. A country-wide broadband strategy, combined with reduced regulatory and de facto limitations to foreign investment in the sector, may attract

more investors. The adoption of a telecom law, in line with internationally accepted principles of telecom regulation, and in line with Cambodia's WTO obligations, would provide legal clarity for telecom providers. The activities of the regulator should be transparent, and its technical ability enhanced.

Human skills

Cambodia's large young population provides enormous potential, but needs to be better educated and trained if it is to contribute to the expansion of the services sector. Realizing this potential will require improving general education levels and addressing serious skills mismatches. A recent World Bank report, *Matching Aspirations: Skills for Implementing Cambodia's Growth Strategy*, provides recommendations that include expanding finance for early childhood development, strengthening institutional development, and promoting incentives for good results among skills providers, including in higher educational institutions.

Regulatory framework

A more transparent and predictable regulatory framework may allow Cambodia to capture the potential for services exports. One way of achieving this would be to adopt clear policy guidelines that set out principles and procedures to be followed in making laws and regulations. These guidelines could, at a minimum:

- provide for public disclosure of legal and regulatory drafts;
- indicate the timeframes for the private sector to provide comments and for agencies to process such feedback;
- indicate timeframes for receiving feedback from stakeholders;
- set out procedures for referring a matter to an overseeing authority;
- identify the agency in charge of conducting regulatory assessments; and
- identify the oversight body in charge of ensuring the observance of regulatory policy, as well as the internal agencies within each ministry to administer the regulatory procedures.

Adequate regulatory bodies are essential components in the implementation of WTO and ASEAN commitments.

Conclusion

Given the right environment, exports of modern services, including IT-related services, could play an increasingly important role as a source of employment, revenue and investment. Ensuring that they do so will require strong initiatives to foster the human resources and build the infrastructure needed to support higher-value-added services, in addition to improving governance and technical capacity in the regulatory framework.

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