

# Here Comes Cambodia: Asia's New Tiger Economy



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Cambodia, which was once a country synonymous with conflict and poverty, now has one of the fastest growing economies in Asia. The country's gross domestic product has grown by 7 percent or more since 2013 and is expected to keep up that pace through 2017, according to the Asian Development Bank's Asian Development Outlook 2016.

The country has embraced the "factory Asia" model of economic growth, deploying low-cost labor to manufacture products for export. As the price of labor increased in the People's Republic of China, and other Asian countries, Cambodia was able to attract many of these investors.

"Cambodia's large supply of inexpensive, low-skilled labor has attracted substantial foreign direct investment into the production of garments and footwear for export," notes the Asian Development Outlook 2016.

Throughout Asia, hundreds of millions of people have been lifted out of poverty through manufacturing jobs that allowed them to better educate their children who could then have a better life. Though Cambodia faces significant challenges, it is well on its way to replicating this model.

Cambodia, which was once a predominantly agricultural nation, saw the industry sector grow at 11.7% last year – the biggest overall contributor to GDP. This was bolstered by an increase in merchandise exports of about 14.1% to \$8.5 billion in 2015, and a 10.2%

increase in the shipments of garments and footwear, which comprise 70% of total exports.

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## Beyond factory Asia

But it is not factories alone that are driving the booming economy of Cambodia. Services, the second biggest contributor to growth, grew by an estimated 7.1%. The finance, transport and communications sectors all grew by about 8%, and tourist arrivals rose by 6.1% in 2015. Agriculture has shown minimal growth, largely due to droughts caused by the El Niño weather phenomenon, but it is projected to grow by 1.6% next year.

Cambodia’s competitiveness as a manufacturing hub is challenged by others in the region, particularly other low-cost garment producers such as Myanmar. The country needs to further diversify its economy if it hopes to maintain the high growth rates it has enjoyed in recent years.

“While the economy shows signs of becoming more diversified within and across sectors, including garments and light manufacturing, and in export destinations, the base for growth remains narrow,” states the Asian Development Outlook 2016.

To support diversification, the government has launched an industrial development policy aimed at upgrading industry from low-cost, labor intensive manufacturing to production with higher value added. The policy encourages the expansion and modernization of small and medium-sized enterprises, stronger regulations and enforcement, and a better environment for doing business.

Some progress is already being seen. Industry is seen growing next year by 9.5%, supported by diversification in garments and footwear toward products with higher value added.