

Cambodia's Economy, Sectoral Outlook, Employment, and Skills

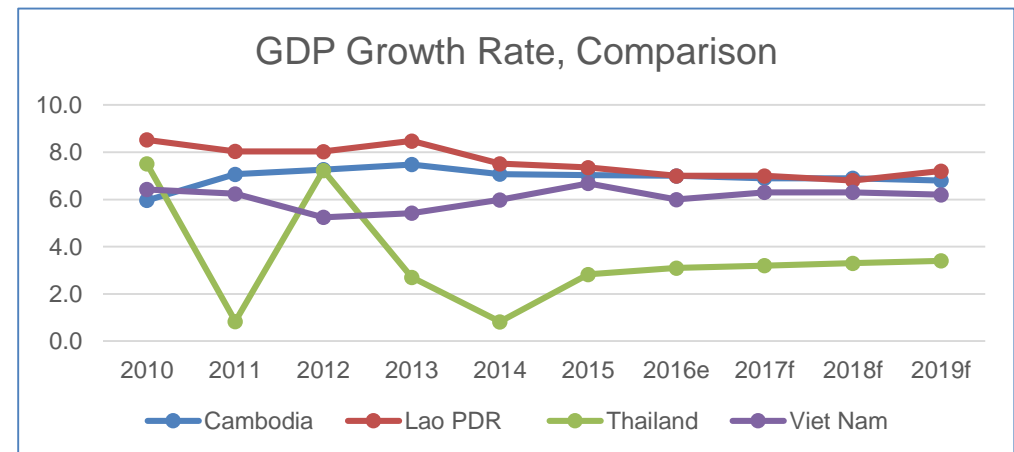
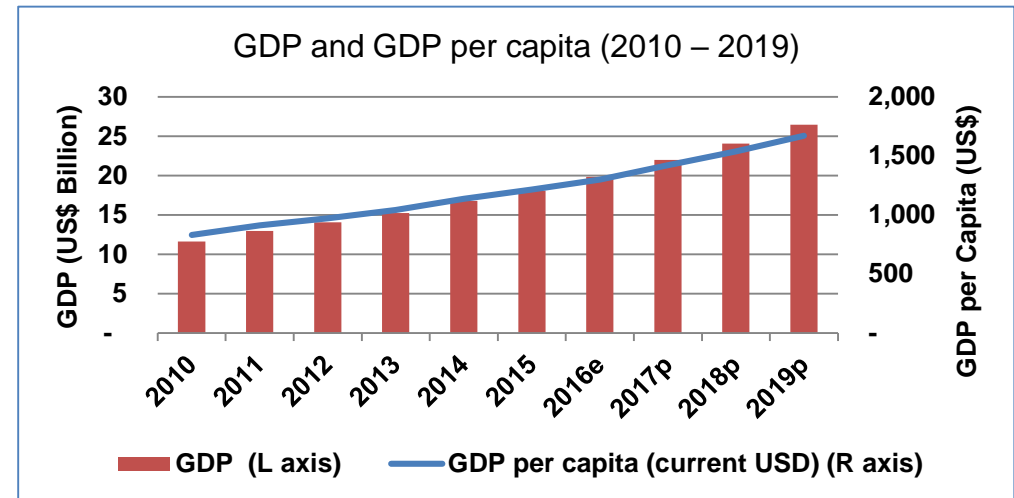
Chab Dai Bi-Annual Member Meeting
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This presentation will cover the following topics:

- Economic overview
- Export sector
- Service sector
- Employment
- Recruitment and skills
- Q&A

Cambodia's economy has been expanding, and retains a positive outlook for 2017-2018 with 6.9% forecasted annual growth.

- The high economic growth is a result of garment exports and construction activities.
- Garment sector secures an actual growth of 8.4% in 2016 compared to 2015 at 12.3% . The lower growth is a result of an increase in labour cost, and competition from other low-wage regional countries.
- Construction sector has increased 2.5 times in 2016 compared to 2015 due to an increase in foreign direct investment; however, there is a concern in regards to over-supply which causes some projects to delay. As a high surge in 2016, there is a decrease in investment value in the first quarter of 2017, 22.3% YoY.
- Due to better weather conditions, the agriculture sector expanded in 2016 with an actual increase of 8.9% from 2015.
- Tourism experienced 5% growth in 2016.



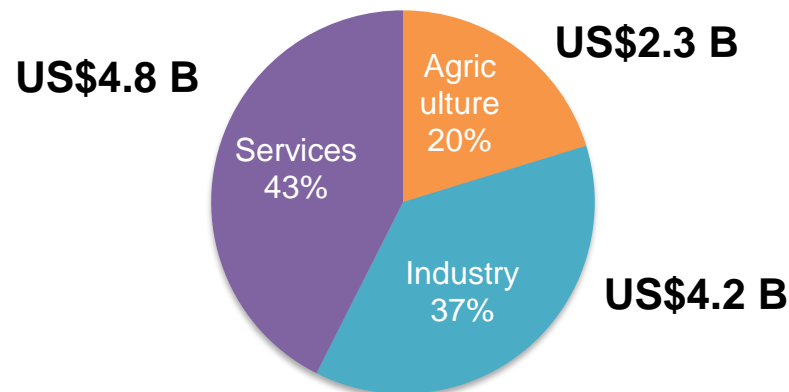
Source: World Bank 2016, World Bank 2017

The service industry was a major driver of economic growth in 2016, a result of growing construction and tourism sectors.

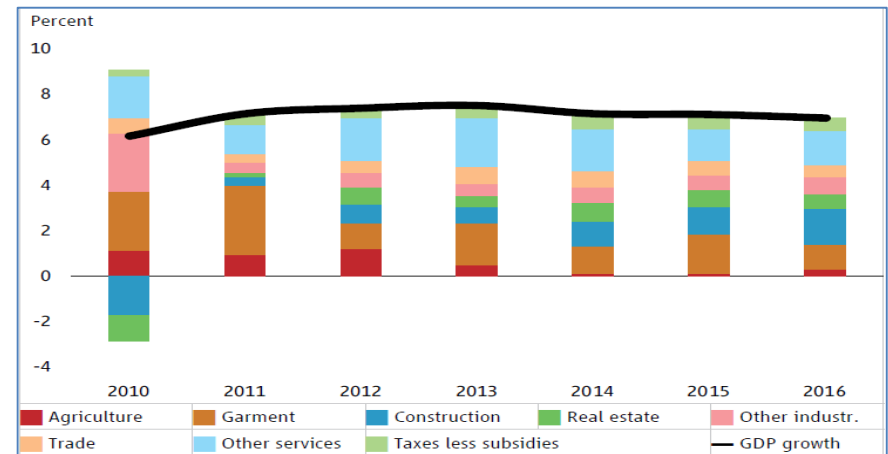
- Cambodia is going to sustain a considerably high growth rate in this year and next based on an increase in government spending.
- Garment sector growth is likely to decrease but would be offset by an increase in agriculture sector. Investment in construction sector might slow down but could be counterbalanced by tourism sector which requires government effort in increasing number of tourist visits.

	2015	2016e	2017p	2018 f	2019 f
Real GDP growth, at constant factor prices	6.9	6.8	6.8	6.8	6.6
Agriculture	0.2	1.2	1	0.8	0.7
Industry	11.7	10.4	9.8	8.9	8.8
Services	7.1	6.8	7.1	8	7.2
General government expenditures	20.5	21.4	23.3	22.5	21.6
FDI (% of GDP)	9.1	10.2	9.4	7.7	6.5

Sector Contribution to GDP, 2017p



Sector Contribution to GDP Growth

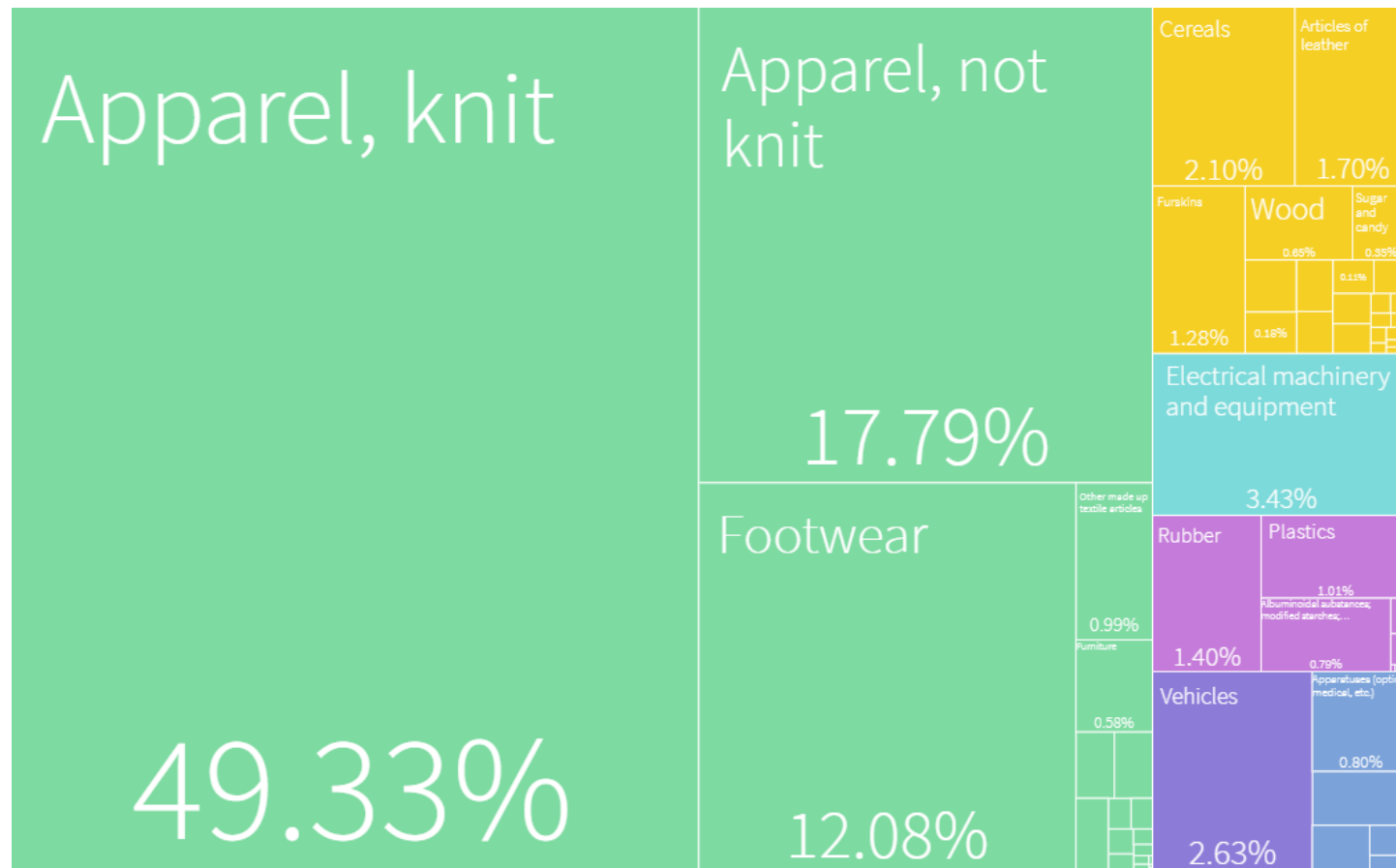


Source: Cambodia Macroeconomic Framework, Ministry of Economic and Finance , World Bank 2016, World Bank 2017

Cambodia sustained an average growth rate of 7.6 percent in 1994-2015, ranking sixth in the world, and has now become a lower-middle income economy.

- Historically, growth has been driven by
 - Exports of goods and services; primarily garments and hospitality
 - Large official development assistance (ODA); \$970 M in 2014 / \$830 M in 2015*
 - Foreign direct investment (FDI) inflows; 7.9 percent of GDP on average in 2005-15, among the highest in the world
- Future outlook, lower-middle income and LDC status
 - World Bank's lower-middle income economy alters ODA received
 - Cambodia aims for least-developed country (LDC) graduation by 2024
 - LDC graduation implies further phasing out of preferential treatment
 - After Cambodia meets the LDC graduation criteria in two consecutive triennial reviews, the EU will initiate a three-year process for phasing out its Everything-but-Arms Agreement (EBA) with Cambodia. The US may take similar steps.
- FDI inflows expected to remain a strong driver of growth
- Increased economic role of China is likely

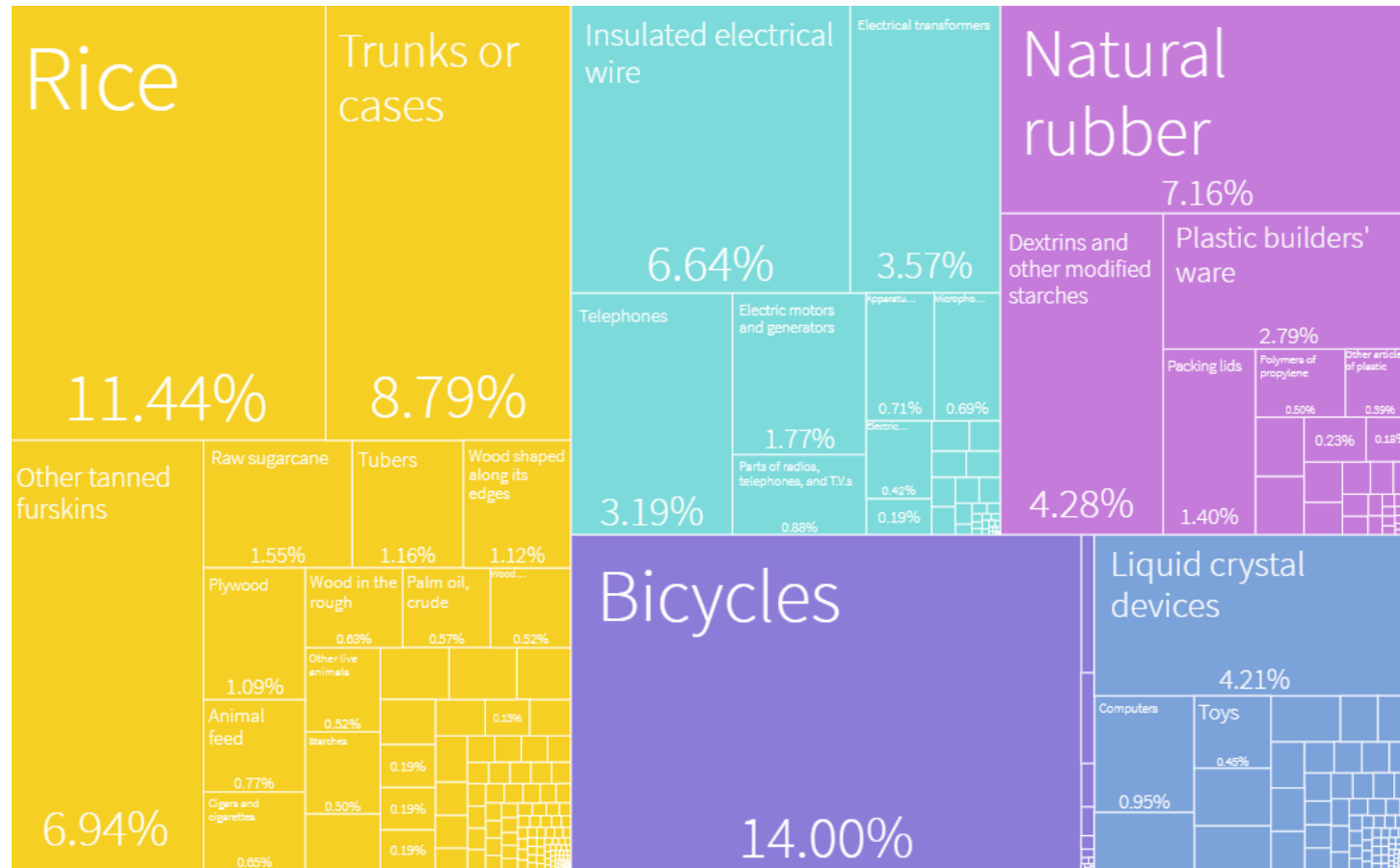
Cambodia's gross exports in 2016 reached \$12.5B, up from \$3.9B in 2006, dominated by the garment and footwear sectors.



Source: Atlas of Economic Complexity, Harvard Center for International Development.

Excludes extractives (stone and glass, minerals, and metals).

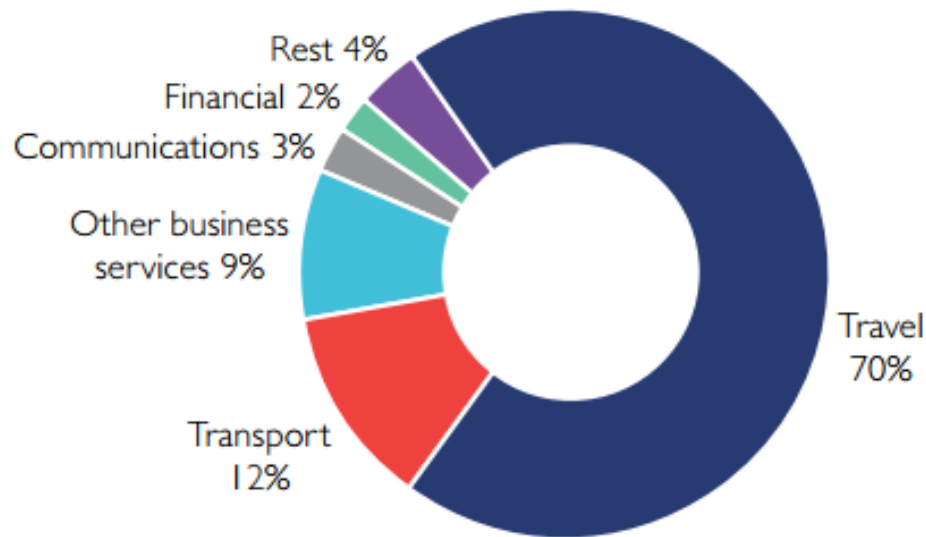
Export diversification is increasingly visible and will continue as the government's Industrial Development Policy 2015-2025 gains traction, especially in light manufacturing and agriculture.



Source: Atlas of Economic Complexity, Harvard Center for International Development.
Excludes extractives (stone and glass, minerals, and metals).

The service sector now constitutes around 43% of annual GDP, compared to 34% two decades ago, and is expected to keep growing.

Services exports by sector, 2013



- Major domestic components of the service sector include
 - Construction
 - Finance and banking
 - Retail and wholesale
 - Telecoms

Tourism and hospitality is the largest, as well as the most promising contributor for growth in the services sector.

- Hotel and Restaurants were estimated to share of 4.4% of total GDP in 2017.
- Tourism has grown significantly in the past decade:
 - There were more than **5 M** tourists in 2017 compared to 1.7 M in 2006.
 - Average length of stay is **6.3 days**.
 - Tourist revenue was **US\$3.2 B** in 2016 compared to US\$1 B in 2006.
- More than 40% of tourist arrivals were from Southeast Asia.
- Additionally, there estimated number of expatriates in Cambodia was 80,000 in 2015.

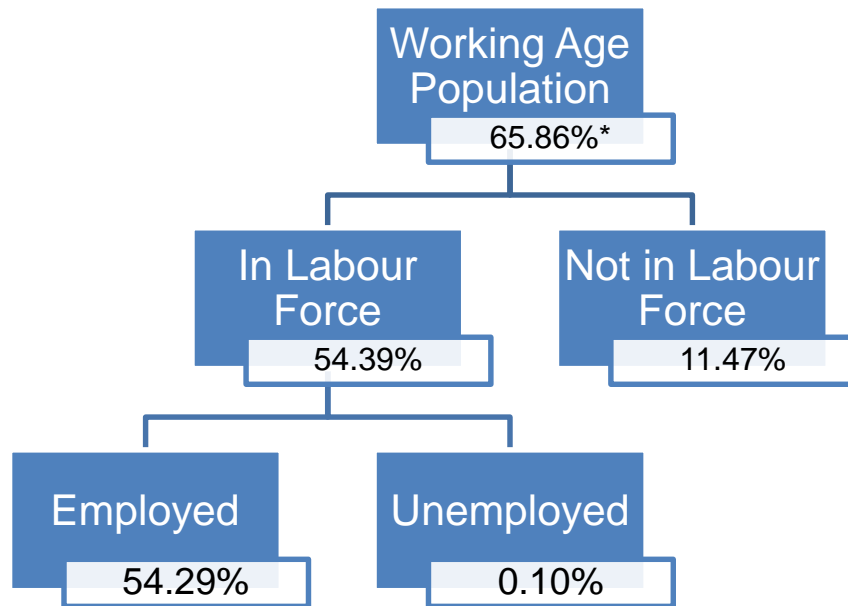


Source: Annual reports from 2006 to 2016 – Ministry of Tourism, Interior Ministry of Cambodia.

Cambodia has a working population of 10 million, 13% of which are in Phnom Penh with a majority working as service and sale workers as well as factory occupations.

- 13% of total employed population is based in Phnom Penh, 1.059 million.
- Of which, 71% are paid workers, 26.5% are self-employed.

- Major occupations of employed population in Phnom Penh are service and sale workers, craft and related worker, and clerical support workers.



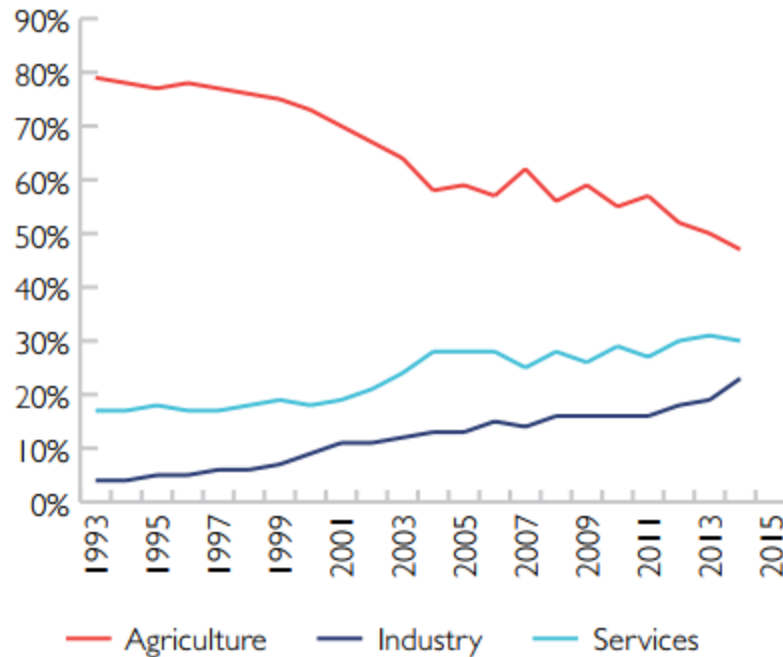
Main occupation	Phnom Penh	Est. *
Armed forces occupations	2	21,180
Manager	2.4	25,416
Professionals	6.6	69,894
Technicians and associate professionals	2.4	25,416
Clerical support workers	16.5	174,735
Service and sales workers	29.8	315,582
Skilled agricultural, forestry and fishery workers	2.4	25,416
Craft and related workers	26.5	280,635
Plant and machine operators and assemblers	6.8	72,012
Elementary occupations	4.5	47,655
Total	100	1,059,000

Note: Based on 2014 population. * Total Phnom Penh Employed Population x % of occupation.

Source: Cambodia Social-Economic Survey 2014

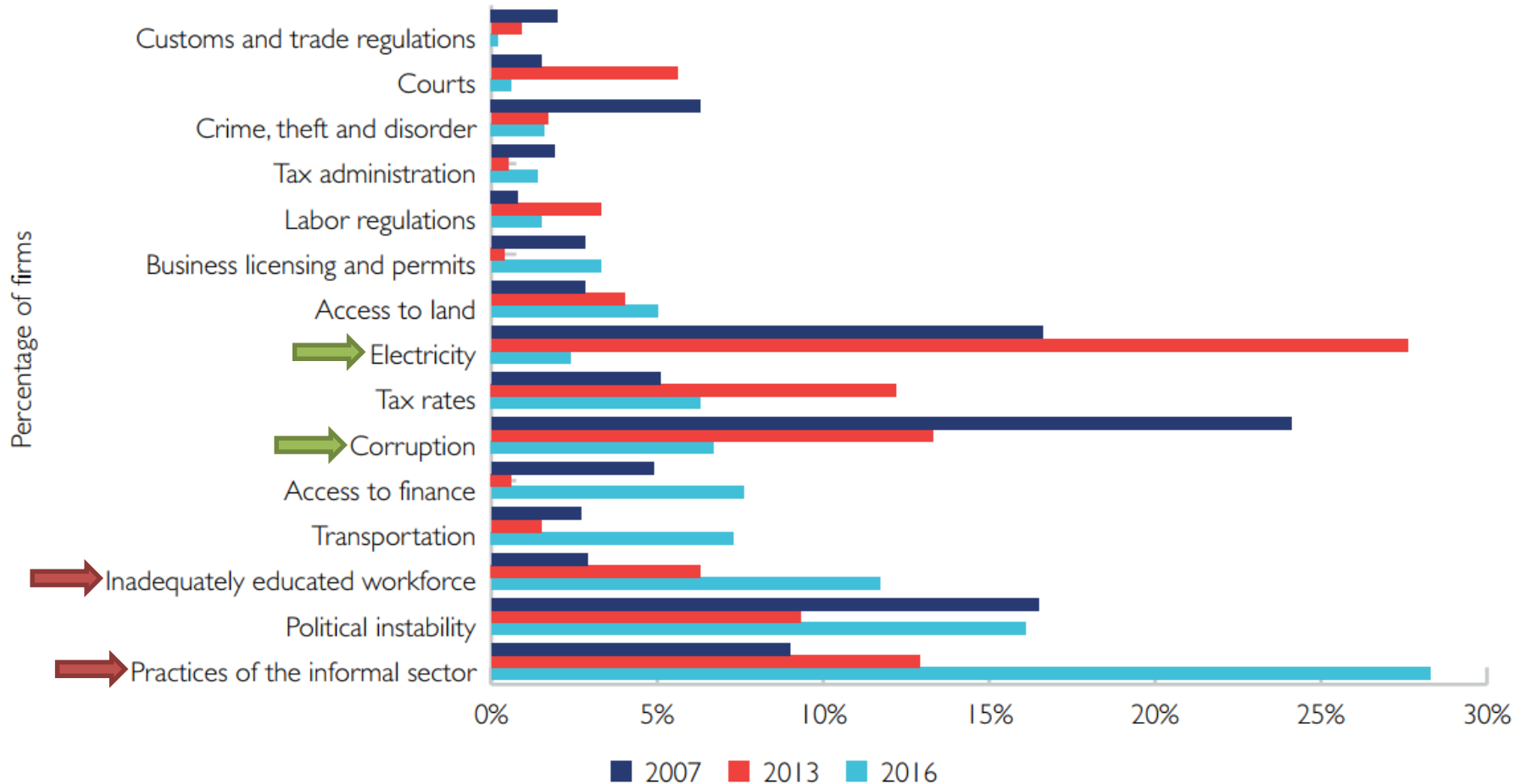
Available sectoral data on employment is spotty at best, but some traditionally large sectors dominate, while some emerging sectors are growing fast.

Employment share, by sector



Garments and footwear	• 400,000-500,000	↓
Tourism and hospitality	• 800,000 skilled workers by 2020	↑
Construction	• 200,000 (50,000 in Phnom Penh)	↓
Agriculture	• subsistence agriculture → modern agribusiness	↑
Light manufacturing	• 20,000+ in PPSEZ	↑
Retail service	• no estimate available, but thought to increase	↑

Firms increasingly report the lack of an adequately educated workforce as a major constraint to doing business in Cambodia.

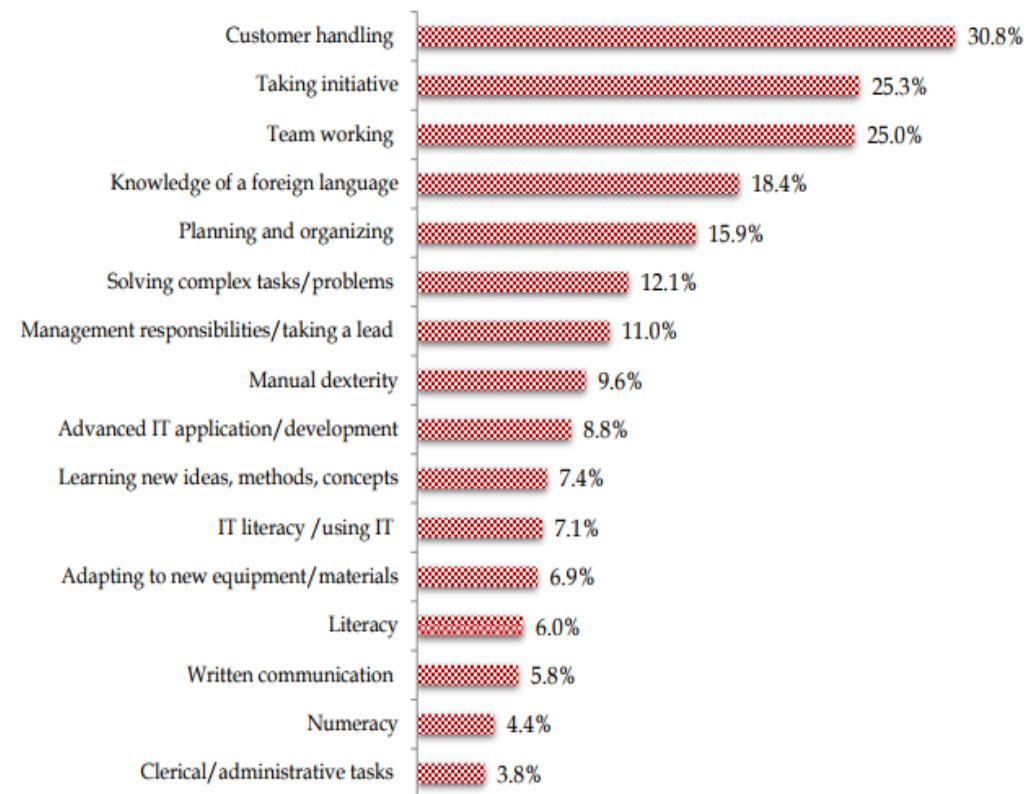


Source: WEF Executive Opinion Survey 2016.

The issue of an undereducated work force has resulted in a large perceived skill gap by employers, including many basic ‘soft skills’.

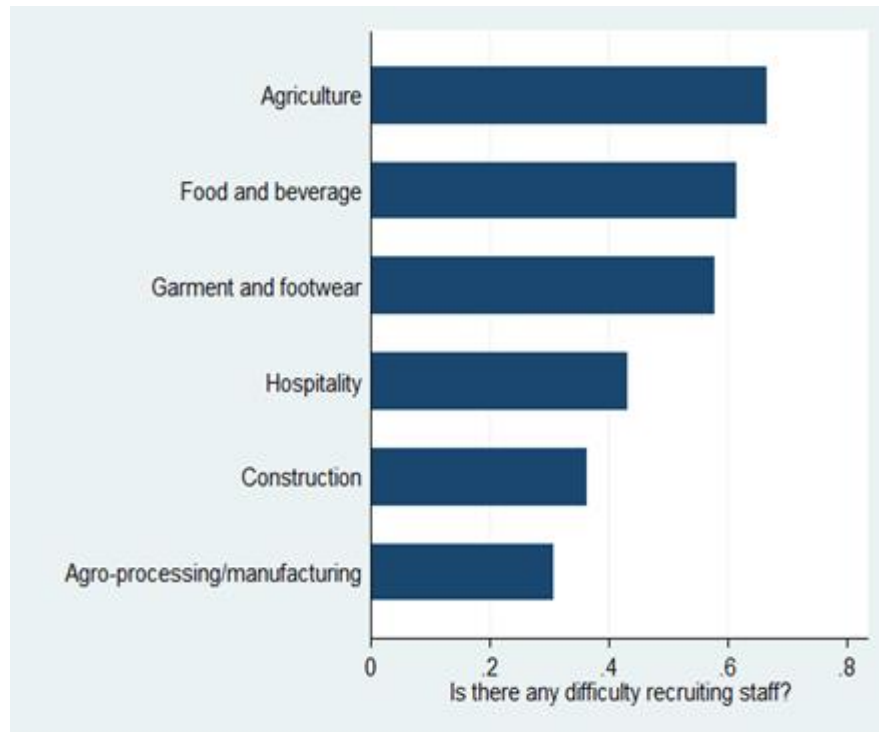
- Around 200,000 workers who enter the labor market each year are undereducated, with roughly 30 percent having completed primary school.
- The World Bank found that 46 percent of large businesses identified an inadequately educated labor force as a major constraint.

Skills that need to be improved

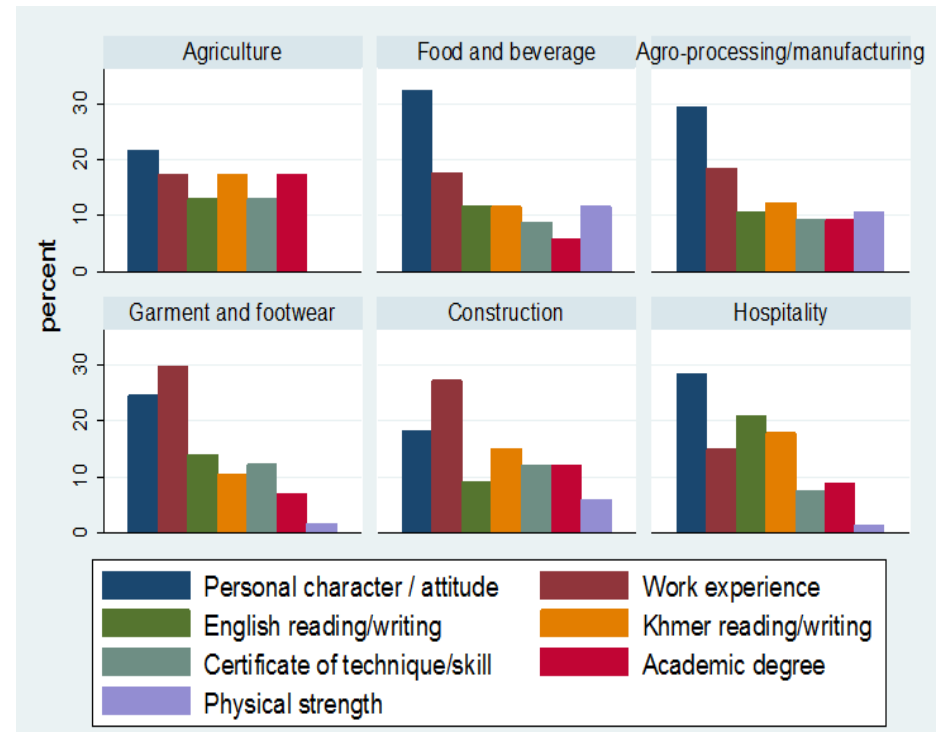


A recent survey in eight provinces plus Phnom Penh found significant recruitment challenges across sectors. Apart from previous work experience, soft skills and literacy were the most sought after in candidates.

Difficulty in recruiting



Desired attributes when recruiting



Q&A

KEY TAKEAWAYS