 ASEAN Community 2015: Managing integration for better jobs and shared prosperity

Will the AEC contribute to Cambodia’s quest for inclusive growth?

Cambodia Country Brief | November 2014

Cambodia’s formidable socio-economic improvements since the early 1990s followed the end of decades-long international embargoes and political strife, along with the country’s increasing integration in the global economy and regional and sub-regional cooperation initiatives. In 1993, trade corresponded to 29.8 per cent of GDP, in 2012 the share had risen to 136.5 per cent. As a result, since 1990, the country’s GDP rose on average 7.4 per cent per annum, reaching $15.6 billion in 2013. Per capita income tripled since the mid-1990s, and the share of workers living on less than $2 per day steadily declined, from 75.3 per cent in 1994 to 49.6 per cent of total employment in 2008.

The ASEAN Economic Community (AEC) will create a single regional market and production base by 2015. Trade and investment liberalization will impact the structure of the trade-led economy and labour market of Cambodia, ASEAN’s newest Member State. Deeper integration has the potential to accelerate growth and structural change, contributing to Cambodia’s poverty reduction efforts and transition to middle-income status, as outlined in the country’s strategic planning. However, if poorly managed, deeper integration could reinforce existing labour market weaknesses and hinder advances in poverty alleviation. Despite remarkable progress, one in two workers remains vulnerably employed and over 3.7 million still earn too little to escape poverty. Gender gaps persist, with women earning 23.4 per cent less than men, on average. Productivity and wages lag behind other ASEAN Member States, and without marked improvements in education Cambodia may miss the opportunity to capitalize on its demographic dividend and job prospects of the AEC.

Ensuring the AEC will benefit Cambodia’s 14.3 million women and men and that vulnerable groups are not left behind will require concerted policy action in a number of key areas. These include productivity-enhancing policies in agriculture and related value chains while diversified the industrial base; improving access to and quality of education and training; investing in industrial relations and collective bargaining; strengthening and extending the social protection system; and improving protection and skills recognition of migrant workers.

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<th>Table 1: Selected economic and labour market indicators in Cambodia</th>
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<td>GDP growth rate (%)</td>
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Note: All labour market indicators cover the population ages 15 and above and reflect 2012; vulnerable employment defined as own account and contributing family workers.
Source: ADB and ILO: ASEAN Community 2015: Managing integration for better jobs and shared prosperity (Bangkok, ILO, 2014), Annex F.

The AEC could generate 1.1 million additional jobs in Cambodia by 2025

Model simulations indicate Cambodia could be one of the countries to benefit the most from trade measures under the AEC, given the significance of trade for the economy (see Figure I). By 2025, GDP in Cambodia could be approximately 20 per cent higher than the baseline scenario without deeper integration, the highest relative change in the ASEAN region. In addition, estimates indicate a net increase of 1.1 million jobs over the baseline, which represents 9.8 per cent of total employment in 2025. Nevertheless, without policies to promote job quality and decent working conditions, job gains may contribute to a persistently

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1. This country brief is based on ADB and ILO: ASEAN Community 2015: Managing integration for better jobs and shared prosperity (Bangkok, ILO, 2014). Size of the Cambodia’s economy is based on IMF: World Economic Outlook Database (Apr. 2014), per capita income and trade data hail from World Bank: World Development Indicators (Aug. 2014).
2. Such as the Greater Mekong Subregion.
4. Vulnerable employment includes own-account and contributing family workers.
5. See ADB and ILO, op. cit., chapter 3.
6. The baseline scenario refers to what is forecast to happen in the absence of AEC trade liberalization measures.
high incidence of poverty; vulnerable employment accounts for over half of the forecast additional job gains. This highlights the need for careful management and monitoring of the impacts of the AEC in Cambodia.

**Figure 1: Change in various economic and labour market indicators under the AEC scenario relative to the baseline in Cambodia, 2025 (per cent)**

The significant economic progress in Cambodia in the past couple of decades has been driven by a structural shift. Agriculture as a share of total employment declined from 57.6 per cent in 2004 to 51.0 per cent in 2012. Conversely, the significance of the industrial sector rose from 13.3 per cent to 18.6 per cent in the same period; the service sector’s share remained relatively unchanged at approximately 30 per cent. However, the manufacturing base remains narrow – textiles and apparel account for 60.7 per cent of total manufacturing employment and 67.7 percent of total exports.7

Simulations indicate deeper integration has the potential to accelerate structural change. Employment in agriculture would contract an extra 1.7 percentage points relative to the baseline, and the service and industry sectors would expand correspondingly. Trade and transportation would account for 33.3 per cent of additional jobs relative to the baseline in 2025. Employment in construction would also rise significantly, accounting for 16.6 per cent of additional positions. Moreover, the model simulation indicates the AEC could provide significant impetus to further expansion of textiles and apparel (93 thousand or 8.5 per cent of additional workers) provided supportive investment and labour market policies are in place.

Although Cambodia has been striving to move to higher value-added activities, the bulk of job creation is expected to take place in agriculture, transportation, construction, and light manufacturing, where jobs can sometimes be informal, perpetuating poverty. This suggests a need for coordinated policies aimed at expanding the industrial base and enhancing job quality. In addition, comparatively large losses are forecast in food processing, one of the country’s main subsectors in terms of output, which indicates loss of competitiveness due to weak up- and downstream linkages.8 This calls for investments in infrastructure and support to agriculture-related value chains and off-farm agribusiness. Finally, despite a relative decline, agriculture would remain Cambodia’s main employer, accounting for 5.4 million workers, or 48.3 per cent of employment in 2025. In this context, advancing agricultural productivity will be crucial to further reduce rural poverty.

**Meeting the demand for skills will depend on improving education and training**

Structural transformation will drive demand for different skills (see Figure 2).9 Between 2010 and 2025, demand for low-skilled workers is projected to increase the most (71.2 per cent), followed by that for high-skilled workers (45.5 per cent). Yet, AEC’s biggest impact will be in the demand for medium-skilled workers, which could expand by an additional 722 thousand workers.

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7 Export data based on UNCTAD: UNCTADstat Database.
8 A previous study by the ADB found that the main bottleneck in terms of reducing the international competitiveness of the sector is the lack of supporting industries. See S. Hamanaka and V. Chheang: Impediments to growth of the garment and food industries in Cambodia: Exploring potential benefits of the ASEAN-PRC FTA. ADB Working Paper Series on Regional Economic Integration No. 86 (Manila, ADB, 2011).
9 See ADB and ILO, op. cit., chapter 4.
10 Primary education data from the Cambodia Socio-Economic Survey 2013.
Beyond primary schooling, meeting the expected demand for medium-skill employment, particularly in the garment, transportation and construction sectors, requires greater access to and quality of secondary education and technical and vocational education and training (TVET). Secondary net enrolment is 38.2 per cent, and only 2.3 per cent of total secondary enrolment are in TVET. Furthermore, approximately one in five students drops out of lower secondary education and one in six pupils abandons upper secondary education. In addition, a recent ILO survey on ASEAN employers found that only 20.0 per cent of employers agreed that skills of secondary graduates in Cambodia match enterprise needs.

Addressing gaps in education and training will be critical if Cambodia is to continue to reduce poverty and achieve middle-income status. If improvements in education and training are combined with increased opportunities for decent jobs, Cambodia’s demographic profile, with a large youth and rising share of working-age population, could facilitate accelerated growth and increases in income per capita. However, today, one-half of working youth are in informal employment and two-fifths do not have the right skills for the jobs they hold. These trends underline the importance of improving education and training to capitalize on Cambodia’s demographic dividend, fill skills shortages reported by employers, and ease possible future constraints on growth and investments.

**Stronger wage-setting would contribute to shared prosperity**

With accelerated structural change and a more skilled workforce, labour productivity, measured as value added per worker, is projected to more than double between 2010 and 2025 under the AEC (see Figure 3). This sizeable improvement would create tremendous potential for sustainable wage increases and raising living standards, but require strong wage-setting institutions.

Average wages in Cambodia ($121) are among the lowest in ASEAN, and women earn about 30 per cent less than men. In addition, only workers in the garment and footwear industries are entitled to the statutory $100 minimum wage set in early 2014. Weaknesses of minimum wage setting institutions have led to large-scale strikes and violence in the recent past, which could slow industrial production. This highlights the need for a more robust and evidence-based minimum wage setting process that takes due account of the interests of workers and employers.

![Figure 3: Change in labour productivity under the AEC in Cambodia, 2010-25 (per cent)](image)

*Source: ADB and ILO, op. cit.*

**Intra-regional disparities point to continued outward migration**

Every year, thousands of Cambodian workers seek employment and better wages abroad. Since joining ASEAN in 1999, the share of Cambodian outward migrants going to other ASEAN Member States rose from approximately 38 per cent to 69 per cent, notably to Thailand. The trend is likely to continue due to demographic and economic structural reasons which require strategic migration management. For instance, average wages in Thailand and Malaysia are roughly three and five times those in Cambodia, respectively. In addition, as the labour force continues to expand in Cambodia, outward migration may be driven by demand from ageing ASEAN Member States, such as Thailand and Singapore.

The majority of these migrants are low- and medium-skilled workers, particularly going into agriculture, construction, domestic work, and manufacturing. Therefore, current AEC provisions on free mobility of high-skilled occupations, which account for 1.0 per cent of employment in Cambodia, may have limited short-term impacts. If Cambodia and other ASEAN Member States are to reap the full benefits of labour mobility, regional and bilateral action should focus on low- and medium-skilled migrant workers.

**Conclusion**

The AEC has the potential to accelerate economic and social development in Cambodia contributing to its quest for middle-income status, poverty reduction, and the realization of Cambodia Vision 2030. To this end, concerted action in five key fronts is critical.

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(i) **Invest in agricultural productivity and widen the manufacturing and services base**

Cambodia’s largest employer in 2025, agriculture is prioritized in the country’s Rectangular Strategy. Despite efforts such as the policy on the promotion of paddy production and rice exports, agricultural productivity remains low. Increasing productivity and incomes is critical, not only to improve rural livelihoods, but also to support non-agricultural sectors. At the same time, it will be crucial to diversify manufacturing to reduce vulnerability to economic shocks and further develop services that cater to the expansion of both manufacturing and agricultural sectors. In this regard, mobilizing domestic resources to invest in physical and human capital could (i) promote continued growth and development along value chains in key sectors, such as textiles and apparel which are expected to grow further in the AEC scenario, (ii) help overcome bottlenecks that may drive up the transport, transaction and production costs, and (iii) support activities with high potential for direct or indirect job creation and productivity gains to promote inclusive growth and poverty alleviation as outlined in the draft Industrial Development Policy, if aligned with the ongoing Employment policy.

(ii) **Improve skill development systems to enhance school to work transition**

As stressed in the National Strategic Development Plan (NSDP) 2014-2018, it is critical to improve access to and quality of education at all levels. Substantive investments are needed in strengthening basic education, which remains paramount to build a foundation for other levels of training and to respond to the projected demand for low-skilled workers. In this context, Cambodia should strive to expand existing programmes such as the Child Friendly Schools policy, while also reforming the school curriculum. Furthermore, enhancing secondary education and TVET will be integral given Cambodia’s ambition to industrial upgrading and the required vocation-specific competencies deriving from the expected job growth in transportation, construction, and light manufacturing. To this end, focusing on improving secondary retention, strengthening linkages to industry demand, and expanding TVET access for poor and rural populations would be priorities; these would complement employment services offered by an established network of government-run job centres.

(iii) **Extend and harmonize social protection**

Mitigating costs associated with economic transformation necessitates robust and comprehensive systems of social protection, in particular to support mobility of workers out of agriculture and facilitate access to skills upgrading, with impacts on productivity, poverty reduction and economic growth goals. Updating Cambodia’s National Social Protection Strategy for the Poor and Vulnerable 2011-2015 would help harmonize and strengthen existing programmes, moving towards a comprehensive nationally-funded social protection system. It remains critical to improve delivery mechanisms, develop combined benefit packages of social protection and employment promotion services, and better monitor services and benefits. In addition, many women and men in the informal sector who remain largely uncovered by existing provisions would benefit from schemes that target them.

(iv) **Enhance wage-setting institutions**

Weak institutions for wage-setting and collective bargaining have led to industrial conflict in the recent past. Achieving the goals of inclusive development and poverty reduction requires improving the wage-productivity link through robust evidence-based processes and strengthening labour dispute mechanisms, as outlined in the NSDP. In addition, enhancing tripartite dialogue through capacity building may lead to improved wage-setting, sensitive to workers living needs while maintaining enterprises’ competitiveness, and promoting industrial harmony.

(v) **Strengthen protection and skills recognition of migrant workers**

Improving management and protection of Cambodian workers overseas would continue to be critical in the coming years, when the AEC is implemented. It is necessary to focus on formulating regional skill recognition agreements for low- and medium-skill migrant workers, which constitute the bulk of Cambodia’s émigrés, as well as developing agreements on the portability of social security. Enhancing and benchmarking the Cambodia national qualifications framework to the forthcoming ASEAN Qualifications Reference Framework would not only facilitate the placement of workers abroad, but also their reintegration domestically.

The full report “ASEAN Community 2015: Managing integration for better jobs and shared prosperity” can be accessed at: www.ilo.org/asia.

**Contact Information:**
ILO Regional Office for Asia and the Pacific
United Nations Building
Rajdamnern Nok Avenue, Bangkok 10200, Thailand
Tel.: +66 2 288 1234 | Fax: +66 2 288 3062
Email: BANGKOK@ilo.org