

Concluding Remarks

The question “How competitive is the Cambodian Economy?” has been critically addressed in this report. In terms of growth potential, Cambodia is the 112nd competitive country among the 117 countries assessed by the WEF, while Cambodia gains the 109th position out of 116 for its business competitiveness assessed by Prof. Michael E. Porter. The benchmarking of the 6 countries shows that Cambodia’s competitiveness lags far behind its main neighboring countries: Vietnam, Thailand, China and Indonesia but it has relative strengths as well as weaknesses in some areas when compared to Bangladesh.

- The macroeconomic environment of Cambodia is characterized by a modest growth expectation in the short-term although it is perceived negatively due to its high government deficit, high lending-borrowing interest rate spread, low country credit rating and difficulty for businesses to acquire credit.

- Cambodian public institutions are to the country’s disadvantage, which are believed to affect negatively the process of development. The perceived serious level of corruption and the weak enforcement of contracts and laws are not able to build confidence among business people, investors and the public. The judiciary is seen as hardly independent from external influences, while the legal framework is reported inefficient for private businesses to settle disputes or challenge the legality of the government’s actions. Government decision making is not seen as neutral.

- Cambodia is a technology follower/ absorber, while FDI is believed to be the main source of technology used in Cambodia. With an unclear policy towards promoting ICT, Cambodia’s weaknesses can be identified in various areas such as a low level of technological readiness; company spending on R&D, limited internet access in schools, insufficient competition among ISPs, unavailability of laws relating to ICT.

- The majority of companies in Cambodia are believed to derive their competitiveness in the international markets from local natural resources, which is an alarming situation as Cambodia’s natural resources have dramatically declined during the past decade. In addition, the perceived lack of value added, foreign control of international distribution, unsophisticated production processes and the limited extent of marketing are notable weaknesses of Cambodia in the area of company operations and strategies.

- *Corruption* is the most problematic factor for doing business in Cambodia. It has become more sensitive as compared to the parallel findings from the World Bank’s investment climate in 2004. The second most problematic factor is an *inefficient government bureaucracy*, followed by an *inadequate educated workforce, inadequate infrastructure, and poor access to financing*.

In order to remove business constraints and restore national competitiveness, critical reforms are necessary. The top three priorities, from the business executive's point of view, are *public administrative reforms, legal and judicial reforms and financial and banking reforms*. The study also identified that the Cambodian public institutional reforms are the most critical starting points to which the government should pay the most attention. Governance and the rule of law must be ensured to obtain public as well as investor confidence. Only then can Cambodia attract more investment, both domestic and foreign, that would bring in new, innovative technology.

Only when public institutions can deliver necessary services and corruption is curbed can the country's business environment be improved, which will provide opportunities for companies to upgrade their operations and strategies so that they become competitive in international markets. Without the proper functioning of its public institutions, Cambodia will not be able to become competitive.

Furthermore, some initiatives should be prioritized towards areas considered as the most competitive disadvantages of Cambodia. The quality of human resources can be improved through the strengthening the country's educational system. Educational quality should be high not only for the public schools but also for higher education, particularly in business/management schools in order to meet business requirements.

The establishment of a National Competitiveness Council should be another critical initiative so that the country's competitiveness can be monitored and policy recommendations can be sent out to improve the national competitiveness. The council could be established as an independent department or as part of the government's body but should come into existence on a permanent, rather than on a project-basis. This would allow Cambodia to know its competitive position vis-à-vis the other countries and thus be ready to compete in a globalized world.