



PAÑÑĀSĀSTRA UNIVERSITY OF CAMBODIA

**Social Sciences**  
and International Relations

# Cambodia's Economic Miracle

This paper examines the long-term trends in Cambodia's economic development and provides an analysis to account for Cambodia's success as an 'economic miracle', defined in term of consistent rate of growth over a specified period of time. The paper provides an explanation of Cambodia's success at achieving this miracle.

**Public  
Policy  
Papers  
No. 1**

# **Cambodia's Socioeconomic Miracle: Past Achievements and Emerging Challenges**

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**16 January 2024**

## **Key Words -**

Economic miracle; Human Development; Social progress; Skill Gap; Export Diversification; Land Reforms; Political Stability; Emerging Challenges.

## **Abstract -**

Over the quarter century since 1994, Cambodia posted an average annual economic growth of 7.3%. That indeed was Cambodia's economic miracle going by the simple yet highly measurable yardstick suggested by the 2008 Commission on Growth and Development: "an annual average compound growth in gross domestic product (GDP) of 7% or above by a country for a quarter century or more" (World Bank, p.1). This paper first documents Cambodia's economic miracle, the factors that contributed to that miracle, how it promoted the much broader socioeconomic objectives of human development and social progress, and examines the underlying factors that contributed to the miracle. It then assesses the policy challenges that the country will have to address to maintain robust socioeconomic development.

## **1. Introduction**

What is an economic miracle? The 2008 ‘Commission on Growth and Development (CGD)’ (chaired by Michael Spence, the 2001 Nobel Laureate in economics and well-known development economists and practitioners from various countries as its members) gave a simple, measurable definition of an economic miracle: “an annual average compound growth in gross domestic product (GDP) of 7% or more for a quarter century or more” (World Bank, 2008, p.1). At that pace of economic growth, the size of an economy doubles every 10 years.

The CGD then went on to add that since 1950, 13 economies have fulfilled that requirement (World Bank, 2008, p1). Mentioned on page 20 of the CGD report, these 13 economies (with the corresponding years in brackets) were: Botswana (1960-2005); Brazil (1950-1980); China (1961-2005); Hong Kong (1960-1997); Indonesia (1966-1997); Japan (1950-1983); South Korea (1961-2001); Malaysia (1967-1997); Malta (1963-1994); Oman (1960-1997); Singapore (1967-2002); Taiwan (1965-2002); and Thailand (1960-1997).

This paper attempts to first record the pace of economic growth that has been achieved by Cambodia, how that growth contributed to the socioeconomic development of the country and its people, emerging policy challenges, and the near-term outlook for the country. By gathering data from different sources, this paper reviews as well as synthesizes the many different pieces about Cambodia’s socioeconomic performance over more than two and half decades.

GDP growth in itself should not be the only yardstick for measuring a country’s development. To paraphrase CGD, robust economic growth is a major enabling factor for countries to attain many other socioeconomic goals of development, such as better health, better education, overall human development, and social progress, to name a few. For a somewhat similar study done on Cambodia around a decade ago, one may refer to a 2013 study by the Cambodia Development Resource Institute (CDRI) (CDRI 2013, September).

Following this introductory section, the paper analyzes Cambodia’s economic performance, poverty reduction, and the concomitant structural changes in the economy (Section 2). Then it goes beyond economic performance and examines trends and issues in the country’s human development and social progress (Section 3) Subsequently, it presents the emerging policy challenges for sustaining robust socioeconomic development (Section 4). Finally, it sums up the key findings of the paper and an assessment of the near-term outlook for the country (Section 5).

## **2. Economic Growth, Poverty Reduction, and Structural Changes**

The Paris Peace Agreement (the Paris Agreement), signed on 23 October 1991, established the basic principles for the creation of Cambodia as a democratic nation (USIS, 2020, 22 February).

The primary objective of the 1991 Paris Agreement was the advancement of the Cambodian nation and its people. The Paris Agreement laid the foundations for peace and stability in Cambodia, which are quintessential for economic growth, poverty reduction, and social justice. At the same time, the Paris Agreement emphasized that foreign aid to the country should be well coordinated.

Former Prime Minister Hun Sen has been the incumbent Prime Minister of Cambodia since 1985, although he co-shared that position twice – once with Norodom Ranaridh (1993-98) and a second time with Ung Hut (1997-1998). Under his leadership, the Cambodian economy has been kept open to trade in goods, services, and ideas.

Two major factors contributed to the miracle-like economic growth and inclusive development. First, the government kept the economy open to trade, foreign aid, foreign investment, and people, and second, the country de facto adopted the US. The dollar as the currency of the newly independent country Cambodia Development Resource Institute (CDRI, 2013, September; Hor, Rober (eds), 2020, March)

Any restrictive policies on external trade and foreign investment could have pulled Cambodia in the wrong direction. As per the Paris Agreement, Western countries provided development aid to help the country to rebuild its economy which had been ruined by the Khmer Rouge regime (1975-1979). Were also generous enough to bring in concessional foreign aid to Cambodia to help the country to rebuild its economy, once ruined by the Khmer Rouge regime (Reference).

As concessional aid slowed down gradually, Cambodia began attracting foreign direct investment from across the world, not just from the Western countries, especially from European Union, but also from Asian countries such as China, South Korea, and Singapore. Reinforcing this, the country also avoided a major development trap by adopting the US dollar as a medium of exchange and store of value. The dollarization had indeed removed a major constraint of volatile exchange rate fluctuations that would have created uncertainty for industrialists, business people, and the common man. In other words, dollarization worked as a safety value for Cambodia that contributed to investor confidence (Pianese, 2022, September 22). These two major factors reinforce each other, helping the country's rapid economic growth. Perhaps Cambodia could have been badly affected by the 1997-98 Asian Financial Crisis (Reference).

During the initial years after the Paris Peace Agreement, Cambodia posted lackluster economic performance. However, since 1994, Cambodia has posted remarkable economic growth and poverty reduction. Over the quarter century between 1994 and 2019 (just before the outbreak of COVID-19), Cambodia posted a 7.3% average annual growth in its GDP. Due mainly to the outbreak of Covid-19, Cambodia's GDP declined by 3.1% in 2020 but has picked up to 3.3% in 2021 and 5.2% in 2022 (Asian Development Bank (ADB), 2023).

Economic growth for 2023 and 2024 are now forecast to be 5.5% in 2023 and 6.0% in 2024 (ADB, 2023). Thus, except for the Covid-induced weakness, during the 26 years between 1994 and 2022, the economy grew at an annual average rate of 7.1%- a pace consistent with an economy moving up on a high growth path. Cambodia is forecast to grow at a more sustainable rate of around 6.0% to 6.5% over the medium term (World Bank, 2022; ADB, 2023). The International Monetary Fund made similar forecasts in its 31 October 2023 Press Release after it completed its Article IV consultations; it forecasts that GDP growth is likely to be 5.3% in 2023 and 6.0% in 2024 (IMF, 2023, October 31). The December 2023 Asian Development Outlook, published by ADB places GDP growth for 2023 at 5.3% and for 2024 at 6.0% (ADB, 2023, December).

Measured in terms of the US. Dollar, Cambodia's per capita GDP rose from about \$260 in 1994 to \$1,625 in 2021. The National Bank of Cambodia (NBC) – the country's central bank – estimates a per capita GDP of \$1,842 for 2022 (National Bank of Cambodia, 2022, Annual Report; also quoted in Vanyuth, 2022). Cambodia's per capita income at purchasing power parity (PPP) rose from about \$700 in 1994 to \$4,874 in 2021 (World Bank, 2022).

Cambodia's growth has been remarkably pro-poor (World Bank, 2022). The country's poverty rate, using a benchmark of 10 Riel, equivalent to about \$2.5 per day per person, fell from nearly 50% in 1993-94 to below 10% in 2022. Extreme poverty, using the benchmark of people earning \$1 per day, has been eliminated. The social assistance programs implemented by the government in June 2020 also cushioned the adverse effects of the outbreak of Covid-19 (World Bank, 2022).

Data on the Gini coefficient – a commonly used measure of inequality in consumption/income within a society, is not available on a continuous time-series basis. A 2019 Working Paper by the International Monetary Fund points toward a decline in the Gini coefficient for consumption from 40.4 in 1997 to 29.0 in 2012 - from 40.4 to 29.0 in 2012 (Hansen and Gjonbalg, 2019). The same study reports that the Gini coefficient for disposable income (household income minus net taxes and subsidies) decreased from 36.3 in 1997 to 33.9 in 2012.

Strong growth was accompanied by substantial structural changes within the economy. In the early 1990s, agriculture accounted for 50% of the country's GDP, followed by services (34%) and industry (15%). By 2022, agriculture's share fell to 23%, while the industrial sector's share went up to 37%, with the service sector's share more or less remaining unchanged at 38%. In terms of employment, by 2021, agriculture accounted for 23% (down from 57% in 2011), industry constituted 24% (up from 17% in 2011), and the services sector generated about 39% of employment (up from 27% in 2011). The garment industry which accounts for 40% of Cambodia's GDP, employs about 800,000 workers (Heng, 2019).

Until 2020, Cambodia had full access to duty-free exports of textiles and footwear to the European Union (EU) under the EU's Everything But Arms (EBA) program. Established in 2001, the EBA

program gives nearly 50 poor countries, including Cambodia, duty-free access to all exports but arms and ammunition (EBA is conditional on an exporting country complying with the core human and labor rights. Under the EBA, Cambodia's textile and footwear exports to the EU were cheaper by 11% and 17%, respectively. EBA thus helped grow Cambodian exports to the EU (Russel, 2019).

At present, Cambodia's main exports are knitwear, trunks, and leather goods. By destination, the U.S., EU, Vietnam and Japan account for most of these exports. Cambodia mainly imports petroleum products, yarn, automobiles, electrical communication equipment, and medicines. Its major import partners are China, Thailand, Hong Kong, Taiwan, and South Korea (<https://oec.world/en/profile/country/khm>).

In addition to favorable conditions for Cambodia's exports, concessional foreign aid, as well as foreign investment helped Cambodia to rebuild its economy after the Paris Peace Agreement. Net foreign aid/official assistance to the country rose from \$42 million in the 1990s to \$681 million by 2010 and stood at \$1.36 billion by 2021. At the same, net foreign direct investment was negligible in the early 1990s but then rose consistently, reaching \$3.48 billion in 2021 (National Bank of Cambodia, 2022). Cambodia has thus recorded a cumulative amount of \$41 billion of foreign direct investment over the last 27 years preceding 2022. Of the \$41 billion cumulative FDI stock, China accounted for over \$18 billion or 44% of the total, according to data released by the National Bank of Cambodia. Cambodia's financial sector accounted for the majority of FDI since 1994, with \$22.9 billion (22%) followed by manufacturing at \$8.5 billion (20%) and real estate at \$4.9 billion (12%). Other key foreign investors in Cambodia are South Korea, Japan, and Singapore.

Strong growth helped the country to graduate from a low-income category to a lower middle-income status in 2015. The Royal Government of Cambodia (RGC) has now set up a target of achieving the upper middle-income status by 2030 (RGC, 2018).

### **3. Beyond Growth – Three Intertwined Parts of Human Development**

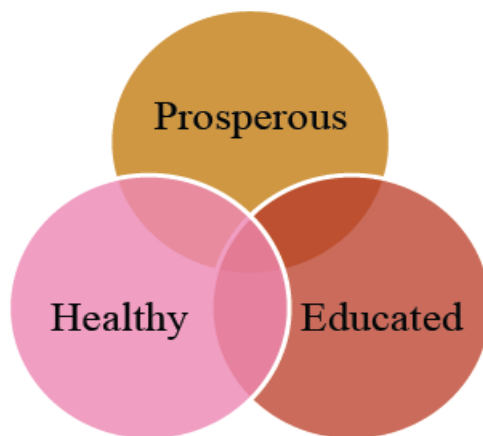
Moving beyond growth, poverty, and structural changes, Cambodia has made notable progress in the three intertwined parts of socioeconomic development depicted in Figure 1. Cambodia seems to have done reasonably well in ushering in a sustained increase in human development, reconfirming the findings of a 2013 study by the Cambodia Development Resource Institute (CDRI, 2013, September).

The country has made robust progress in terms of two major indicators of socioeconomic development – the Human Development Index and the Social Progress Index (Figure 2). The Human Development Index published yearly by the United Nations Development Program (UNDP) is a composite index that includes a country's per capita income at purchasing power

Parity, life expectancy at birth, and mean and expected mean years of schooling of a country's population. A non-profit organization named 'Social Progress Initiative' (SPI) brings out the Social Progress Index. This index is based mainly on the writings of three prominent economists -- Amartya Sen, Douglas North, and Joseph Stiglitz-- all three won the coveted Nobel Prize in economics. The index first aggregates 54 primary indicators of social progress into 12 sub-indexes of SPI and then derives the final index. The 12 sub-indexes of SPI are: nutrition and medical care, water and sanitation, shelter, personal safety, access to basic knowledge, access to information and communications, health and wellness, environmental quality, personal rights, personal freedom and choice, inclusiveness, and access to advanced education. Unlike the HDI, SPI does not include per capita income in its computation.

Cambodia has made reasonable progress in health outcomes (World Bank, 2022). The average life expectancy at birth was just over 50 years in the early 1990s. It has gradually moved up to about 70 years recently. Cambodia now has safe childbirth for mothers, healthier early childhood for children, and better infant mortality rates. Infant Mortality rate has now dropped to 19.3 from a whopping figure of 86.7 back in the early-to-mid 1990s. Some of these health-related improvements could be attributed to the provision of safe drinking water, better sanitation, and safer cooking facilities for most people.

**Figure 1.** Three Intertwined Parts of Human Development



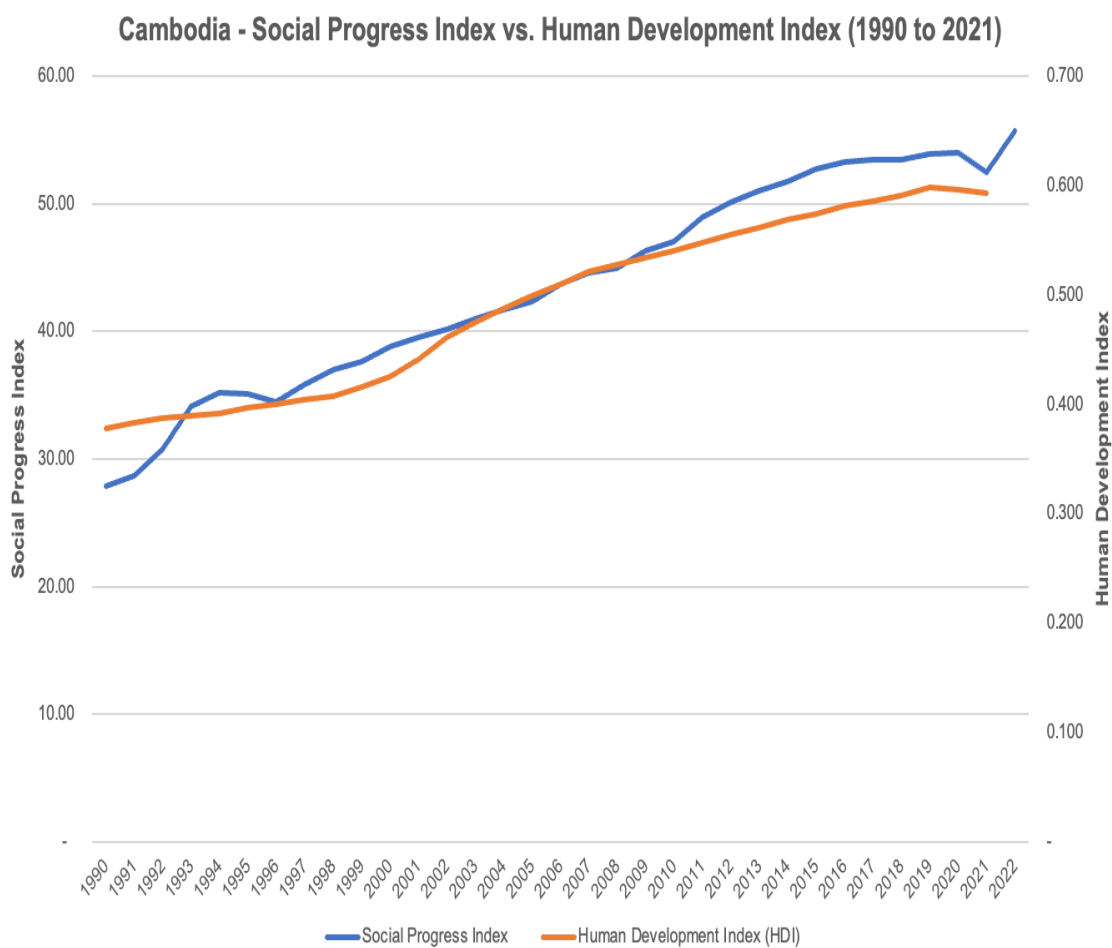
Source: Authors Design

The proportion of people having access to improved drinking water rose from 46% in 2004 to 80% in 2019/20. Improved sanitation was accessible to only about 25% of the people in 2004 but that figure rose to about 80% by 2019-20. The proportion of people having access to publicly-provided electricity accelerated from 14% in 2004 to 86% by 2019-20. The improved sanitation and drinking water helped the country to eradicate many contagious diseases (RGC, 2020). As nutrition improved, diseases such as Tuberculosis are now rare.



The adult literacy rate in the country has improved substantially, while other indicators of education have also improved significantly. Net enrollment rates have made huge strides. As a result, in the 2021-2022 academic year, net enrollment rates stand at 93% for primary education, 47 %, for lower secondary level, and 29% for upper secondary education (both public). Concomitantly, the primary education completion rate rose from 15% in the mid-1990s to 90% now; the lower-secondary education completion rate accelerated from 10% in the mid-90s to 58% now; primary education is up from below 10% in the mid-1990s to 58% now. Tertiary education enrollment edged up from 13% to near-zero in the mid-1990s (World Bank, 2022).

**Figure 2. Cambodia’s human development and social progress**



**Source:** Author's computations based on yearly data on the Human Development Index (published by UNDP and the Social Progress Index, published by the Social Progress Initiative) all from yearly data from various issues. .

These achievements are modest, but it is important to remind oneself that under the Khmer Rouge regime, anyone who had high school education or more was targeted, causing a huge skill gap (Madhur 2014). Those who survived the atrocities of that regime may have even experienced

traumas during childhood, affecting their learning capacities subsequently. Former Prime Minister Hun Sen did make a modest beginning with 'strategy of people with a little education teaching the ones with no education' (Madhur, 2014, p. vi).

## **4. Emerging Policy Challenges**

An assessment of the emerging policy challenges for sustaining robust socioeconomic development over the medium term by the authors points to five sets of issues; (i) diversifying the country's export base both in terms of the commodity composition and country-wise destination. (ii) strategically manage China's investment in the country under the Belt and Road Initiative; (iii) build up the educational skills to meet the labor market demands of a rapidly growing middle-income country; and (iv) more effectively address the perennial land disputes by fast-tracking land reforms (already mentioned this is based on authors)

### **4.1 Diversifying Exports**

A gradual diversification of the country's exports is a plausible policy challenge that the country will have to address effectively and some forward thinking on this by the policy makers will have huge merit. On February 12, 2020, citing mainly lapses in Cambodia's human labor standards, the EU has partially withdrawn its EBA facilities to Cambodia. The suspension affects one-fifth or €1 billion (\$1.08 billion) of Cambodia's annual exports to the EU, translating into Cambodia paying a tax of roughly \$100 million a year. With the partial withdrawal of EBA, Cambodia is estimated to pay taxes on 20% of Cambodia's exports to the EU; 80% of Cambodia's exports to the EU still remain tax-exempt (estimates by Kunmakara, May, 2020).

Immediately after the EU took that decision, the government announced a program to support the garment and tourism sectors. The Program gave a six-month to one-year tax moratorium for those factories that had to shut down their operations in the weeks following the huge shortfalls in access to raw materials. As a result, these factories were required to pay their workers only 40% of the minimum wage, which now stands at \$190 per month. The government paid workers 20% percent of the minimum wage. Put together, each worker then received about 60% of the minimum wage, amounting to \$120 per month (estimates by Kunmakara, May, 2020).

As per the new policy announcements, the government will extend its Green Lane customs clearance system to facilitate the imports of raw materials, accessories, and parts to the garment sector. The concerned government departments have also been instructed to work closely with the Garment Manufacturers Association in Cambodia (GMAC) on effective implementation of the newly issued government program (<https://www.phnompenhpost.com/business/policy-against-economic-risks-turns-action>). Building on these measures, this paper assesses that there is huge merit in the country preparing to adjust to a plausible complete withdrawal of EBA in the not-too-distant future by diversifying its exports base as well as export destinations.

Encouragingly, there are green offshoots of the economy gradually diversifying its exports. For example, sectors such as electrical parts and automobile parts, among others, have recently emerged as newly attractive industries for foreign investors. As per estimates from one expert, exports of electrical parts, wires and accessories, and vehicle parts posted robust growth in recent years, amounting to about \$456 million in 2020, while exports of bicycles also accelerated, reaching \$527 million, expanding at 27.7% in 2020” (Amarthalingham, 2021).

In terms of the composite measure of economic complexity index (ECI), developed and published by the Harvard Growth Lab, Cambodia’s rank moved up to 83 out of 132 countries in 2020 from its rank of 103 a decade ago (Harvard Growth Lab, 2021). The country’s improving complexity is an indicator of its progress in export diversification.

More recently, the country’s first Ford assembly plant, worth \$21 million, was inaugurated in Pursat, the easternmost province; the assembly plant will assemble Ford’s ‘Ranger Sports Utility Vehicle’ and ‘Everest Pickup Trucks’ in accordance with Ford’s international standards (Kunkamara, 2023). In addition, the Toyota Motor Company from Japan is also mulling over an investment of a \$40 million assembly plant in Royal Group Phnom Penh Special Economic Zone (Kunmakara, 2023).

These big foreign investments should not, however, come at the cost of the stunting the business environment for the country’s numerous small firms. Recent survey-based studies indicate that a very high proportion of these small firms continue to suffer from a lack of access to telecommunications, opaque legal and regulatory, and the requirement to pay informal payments to government officials (Naron and Chammony, 2023). Equally importantly, the country’s economic diversification is increasingly impeded by infrastructure gaps and connectivity constraints -- within the country as well as across the rest of the world (World Bank, 2022).

#### **4.2. Strategic Management China’s BRI Investments**

China’s BRI investment in Cambodia continues to help close this infrastructure gap, although it is important for Cambodia to be more strategic in project selection and implementation so as to maximize the benefits from these investments.

China’s BRI investments have certainly helped Cambodia in developing the country’s badly needed infrastructure (Sok, S. P.Nagoulpchan, P Keo, and T Chan (2023). Sihanoukville – one of the cities in Cambodia, is emblematic of the advantages as well as the disadvantages of BRI investments in Cambodia. Although the city has benefitted from the BRI investments, the local population has not benefitted much. Most of the businesses in the city are not only owned by the Chinese entrepreneurs but also employ Chinese workforce (Menon 2023, 3 March; 2023, 22 May; Menon, 2023,1 June). At times, the BRI investment in the country thus resembles a ‘closed loop’

or a ‘Chinese Silo projects’, in which the Cambodian workforce gets very limited employment opportunities (Madhur 2019, June; Calabrese et al. 2022, April).

Moreover, experts have expressed growing concerns over the environmental costs and the lack of acceptable levels of resettlements provided to the people dislocated from the BRI project areas. Encouragingly, the second BRI Forum held in 2019 committed to mitigating these problems through greater community consultation and stakeholder participation, although it is yet unclear if these promised improvements have indeed taken place or not ((Menon, 2023, 1 June).

The Council for the Development of Cambodia (CDC) is responsible for project evaluation as part of the process for obtaining Qualified Investment Status. Experts on the subject have pointed out that the CDC lacks the institutional capacity to do a thorough cost-benefit analysis of projects, including their environmental implications (Menon, 2023, 22 May). Therefore, this paper suggests that there is much merit in staffing the CDC with professionally competent staff, or within its purview create a separate entity for project evaluation and implementation staffed with such professionally competent staff.

It is also encouraging that in 2022, China seems to have made quite a few changes to the BRI structure – dubbed as BRI-2 in China’s internal government circles – which would evaluate new projects more rigorously (Dana, 2023 8 February). Be that as it may, at the 2022 ASEAN Summit held in Cambodia, the Chinese Premier Li Keqiang, who attended as an official guest member, announced China’s approval of significant infrastructure projects in the ASEAN region centered around Cambodia.

Among these projects there is a US\$1.6 billion expressway to connect Phnom Penh to Bavet at the Cambodian-Vietnamese border. Sun Chanthol, the Cambodian Public Works and Transport Minister, said during the signing ceremony that the Phnom Penh expressway would link up with Vietnam’s expressway between Ho Chi Minh City and the Moc Bai border gate with Bavet, providing direct access via highway between the Cambodian and Vietnamese capitals. (Devonshire-Ellis, Chris 2022, 14 November). China is also reported to be building a naval base in Cambodia. Cambodia has thus leased one-fifth of its coastline to China. The pier at the Ream Naval Base, financed by China, is almost nearing its completion. China admits to investing in the base, but claims that only Cambodia’s navy will have access to it (Challaney, 2023). One hopes that China will keep up this promise.

### **4.3. Upgrading Skills**

In terms of educational achievements, it is increasingly important for the country to meet the labor market demands of a strongly growing middle-income country. Cambodia’s skill gap can be seen as a sum of two gaps: a schooling gap is mostly about numbers – low enrollment rates, high dropout rates, and low completion rates --- and a learning gap which is about what the quality of learning

after enrolling in schools (Madhur 2014, p. IV). A more recent study on the same subject has come to somewhat similar conclusions (Vatana, 2023, 30 April).

Cambodia's low human capital index, recently developed by the World Bank, indicates that a child born in Cambodia would be only 49% as productive by the age of 18 (if the same child were to access higher quality education, better health and nutrition during childhood) (World Bank, 2022). Although privatization of education offers an alternative for improving the quality of education, it is also problematic in that mushrooming of private schools could potentially amplify inequitable access to high quality education for poor families (Vatana and Chen 2021, 30 April). Therefore, it seems that committing public resources for high-quality education through public schools would become a necessity.

Boosting investment in human capital is of utmost importance for the country if it were to achieve its ambitious goal of reaching upper middle-income status by 2030 and a high-income status by 2050 (World Bank, 2022). An early assessment of the need for Cambodia's education reforms for employment and empowerment across wide-ranging issues is available in a 2015 volume published by Cambodia Development Resource Institute in 2015 (Sothy et. al. 2015). A more recent analysis and policy suggestions on how best to build skills of both teachers and students but only at higher education level is available in an essay from Cambodia Development Resource Institute (Heng and Song, 2023 November).

Leading institutions in Singapore are expected to help Cambodian youth to fully embrace the Fourth Industrial Revolution. Singapore's leading institutes are already collaborating with the Cambodian government on a three-year program that is expected to equip local students with the knowledge and skills required to tackle challenges in the 21<sup>st</sup> century (Kihidir 2019).

In collaboration with Singapore, Cambodia has now introduced the concept of New Generational Schools (NGS). These schools are expected to use an innovative curriculum that focuses on STEM (science, technology, engineering, and mathematics). An effective implementation of this education reforms could help Cambodia to build 21<sup>st</sup> century skills for the local students (Vatana and Chen, 2022, 30 April). At the same time, under the NGS schooling system, students are enrolled full-time instead of attending shorter shifts as per current practices in Cambodia. It is important to note, however, that this investment is linked to performance, and the schools may lose their investment if they do not maintain the higher educational standards explicitly laid out in the standards of accreditation (Vatana and Chen, 2021, 30 April). Encouragingly, RGC's 2018 Rectangular Strategy is also cognizant of the need for better quality of education.

#### **4.4. Fast-Tracking Land Reforms**

Another issue that has been plaguing Cambodia and continues to do so is the whole gamut of issues relating to land titling. Some even go to the extent that “land titling is at the center of debates about Cambodia’s socioeconomic development” (Open Development, <https://opendevelopmentcambodia.net/topics/land/>).

It is a complex issue that would perhaps require a separate essay. In a nutshell, for farmers in fertile lowlands, private ownership rights have helped them acquire their livelihoods. However, the resource-rich uplands have had large-scale land acquisitions for cash crops and some mining and quarrying, often resulting in displacement and disputes spreading across even urban areas. The end result of all this has been that land inequality in Cambodia is one of the highest in Asia.

A lot of these issues arose from ‘land grabbing’ that followed the fall of the Khmer Rouge regime, while there was a huge confusion in general but especially in acquiring a fixed asset like land. The Sooner the country addresses the land-titling issue, the better it will be for the country to continue its high-growth path. A recent study by the Cambodia Development Resource Institute has addressed this issue in more detail and thus provides a more detailed analysis and policy options (Ojendal, et. al., 2023, November).

## **5. Summary and the Near-Term Outlook**

Cambodia’s rapid economic growth for more than a quarter century very well fits the adjective of being referred to as an ‘Economic Miracle’. Strong economic growth also enabled the country to significantly improve the country’s socioeconomic conditions. Hence, the economic miracle has also been a social miracle. Despite its socioeconomic miracle, Cambodia has, more often than not, been an unsung hero. *This paper fills that void.*

In that spirit, this paper identified the key factors behind the Cambodian socio-economic miracle since the early 1990s. Political stability and the government’s open economy policies have been the most important factors behind this miracle. It is the assessment of this paper that political stability played a key role in enabling the country’s socioeconomic development. Political stability led to policy certainty that is quintessential for economic growth and social development.

Against the backdrop of policy certainty, growth has been boosted by a highly open economy to trade in goods, services, people, and ideas; handsome amounts of foreign aid initially and foreign capital inflows, subsequently; the generous EBA entitlements for Cambodia by the EU; and domestic economic stability for long.

In Asia, one has witnessed countries with a democratic polity lurch from one crisis to another. For some of them like Pakistan, crisis is the only change they keep experiencing. In contrast, Cambodia, under the leadership of former Prime Minister Hun Sen and his administration,

maintained political stability for nearly three decades, which greatly helped to maintain socioeconomic policy stability.

As RGC's 2018 Rectangular Strategy so aptly explained that, Cambodia, a country that once received UN peacekeeping forces, is now contributing its forces to the UN's peacekeeping missions in other hotspot countries of the world and a country previously known as a killing field is now a country that receives millions of foreign tourists. As if echoing RoGC's description, Anthony Galliano, former President of the American Chamber of Commerce in Cambodia, went on to say: "Cambodia is perhaps the safest place on earth to live in ... Cambodia is one of the fastest-growing countries in the world and easily the new 'Asian Tiger' of the 21st Century" (Mathew, 2022).

Going forward, the country's socioeconomic development depends on how smoothly the transition of political power from Prime Minister Hun Sen to his son, Hun Manet, is managed, how socioeconomic policies would evolve under the new leadership of Hun Manet, who has been educated in the United States and the United Kingdom. As of now, the political power transition seems to be moving smoothly.

At the same time, some experts perceive that the administration under Hun Manet may gradually raise the probability of Cambodia developing better ties with Western Democracies, even as it maintains its close relationship with China (Hut 2023, 25 July; Kurlantzik 2023, 25 July). As one expert put it so very well: "Hun Sen, like a good pilot, knows the best time to exit the cockpit. Hun Manet has taken the helm at the right moment, as his father is still active in the background to ensure that Cambodia will continue to stay on the radar for its hard-earned strategic autonomy" (Chongkittavorn, 2023, August 8).

China has its huge presence in Cambodia across a wide range of issues, development aid, investment in infrastructure, and extensive security cooperation (Sevastopulo 2023, 24 July; Kurlantzik 2023, 25 July; Challaney 2023, 10 August). China has also reiterated that its support for Cambodia will continue, based on mutual friendship and a 'win-win cooperation' (Pudralette, 2023, 30 July). The new Prime Minister will have to thus strike a delicate balancing act in the country's external relations between the East and the West.

It is true that Cambodia's two neighboring countries – Laos and Vietnam – have also posted similar high growth rates during a quarter century sometimes between 1985-2022. However, unlike Laos and Vietnam, Cambodian political system is constructed on the basic elements of democracy (Vanarith and Wong, 2014, p.227). Although there is scope for improvements in its democratic system, it is good to remember that Cambodia is a rather young democracy that has delivered robust socioeconomic development to its people.

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