



KINGDOM OF CAMBODIA

**PERMANENT MISSION
TO THE UNITED NATIONS**

NATION - RELIGION - KING

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The Permanent Mission of the Kingdom of Cambodia to the United Nations presents its compliments to the Committee for Development Policy, and with reference to the letter from the Chair of CDP, dated 7 February 2024, has the honor to convey the following communication:

- Written statement from the Royal Government of Cambodia to be duly distributed to the CDP members for their plenary meeting, scheduled for 4-8 March 2024.
- Cambodia wishes to seek a longer preparatory period for LDC graduation of five years, to allow sufficient time for the country to prepare for a smooth transition and achieve sustainable graduation by 2029, with a strong momentum for further progress.

The Permanent Mission of the Kingdom of Cambodia to the United Nations avails itself of this opportunity to renew to the Committee for Development Policy the assurances of its highest consideration.

New York, 16 February 2024

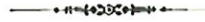


Committee for Development Policy
405 East 42nd Street, Room S-2528
New York, NY 10017

KINGDOM OF CAMBODIA

NATION RELIGION KING

National Committee for Cambodia's LDC Graduation



Statement of the Royal Government of Cambodia to the Committee for Development Policy (CPD) Plenary on LDC Graduation

The Royal Government of Cambodia (RGC) is pleased to express Cambodia's views and perceptions on its LDC Graduation to the United Nations Committee for Development Policy (CDP).

1. Demographic and socio-economic situation

Cambodia has rebuilt the country from ground zero since 1979. By 1998, Cambodia achieved full peace owing to the Win-Win Policy under the leadership of Samdech Akka Moha Sena Padei Techo Hun Sen. In the course of development, Cambodia reached the lower-middle income status in 2015 and the RGC has set an ambitious vision for the country to become an upper-middle income country by 2030 and a high-income country by 2050.

Cambodia's population was 16 million in 2019, with a total fertility rate of 2.5 and an annual growth rate of 1.4%. Currently, Cambodia's population aged 15-64 accounts for 65% of the total population and is expected to steadily increase to about 67% by 2050. Nevertheless, 33% of the population worked in the primary sector, 27% in the secondary sector, and 40% in the tertiary sector in 2019. The economic performance of Cambodia had been astonishingly well over the last decade before the COVID-19 pandemic. The GDP grew annually 7.0% on average for 2010-2019. After COVID-19, Cambodia's economic growth recovered from -3.1% in 2020 and picked up to 5.2% in 2022. The contribution of the agricultural sector decreased from 29.4% in 2010 to 18.1% in 2019, while that of the industrial sector increased from 28.6% in 2010 to 39.7% in 2019 and that of the services sector remained constant at around 42% for the same period. The poverty rate has impressively declined from 33.8% in 2009 to 17.8% in 2019/2020.

2. Country's Strengths

The RGC has set the top priority for Cambodia to graduate from the LDC category. As stated by Samdech Moha Bovor Thipadei Hun Manet, the Prime Minister of the Kingdom of Cambodia, "Cambodia must exit the LDC category". The RGC of the 7th Legislature of the National Assembly launched the Pentagonal Strategy Phase I: 2023-2028 (PS-I) in August 2023 a successor of the Rectangular Strategy Phases I-IV: 2004-2023 and a main development strategic framework for growth, employment, equity, efficiency, and sustainability, that builds the foundation towards realizing the Cambodia Vision 2050 to become a high-income country. The National Strategic Development Plan 2024-2028 is being developed as an operational tool for PS-I implementation and monitoring and evaluation, along with other sectoral strategic plans and policies.

In addition, Cambodia is in the middle of the demographic dividend period, where the working-age population outnumbers the dependent population. This translates into an optimal opportunity for Cambodia's faster economic growth. Harnessing the demographic dividend and building a demographic resilience has become one priority area in PS-I.

3. Potential impacts of LDC graduation and challenges

Cambodia was included in the LDC category in 1991. The 2021 triennial review revealed that Cambodia met for the first time all three objective criteria (Gross National Income - GNI per capita, Human Asset Index - HAI, and Economic and Environmental Vulnerability Index - EVI) to prepare for graduating from LDC status. The preliminary result of the 2024 LDC criteria review indicates that Cambodia will meet the second triennial review for 2024. Among all three criteria, however, Cambodia's 2021-2024 HAI improvement is minimal.

The potential negative impacts of LDC graduation are well documented. Despite the political will and development tools in place, the RGC will face the up-front costs associated with graduation. After graduation, Cambodia will face double challenges due to the country's narrow and commodity-dependent economy base and the loss of international support measures (ISMs), mainly in the areas of international trade preferences, official development assistance, and support for international forums.

First, the country's narrow and commodity-dependent economy base, relying on few growth drivers and concentrated exports of manufacturing and agricultural products, mainly unprocessed agricultural commodities, makes Cambodia vulnerable to unpredictable external shocks. In addition, Cambodia's economy has been based on agricultural and labor-intensive sectors, with a large proportion of the population engages in agriculture and in manufacturing, while Cambodia's labor force is still characterized with lower educational attainment, as well as technical and professional skills. Cambodia needs to promote economic and trade diversification and improve human capital and skilled labor.

Second, the loss of trade-related international support measures can be a substantial obstacle for socio-economic development after the graduation that requires Cambodia to be well prepared with appropriate effective policy measures and support from trade and development partners. Cambodia has gained a lot of benefits and market flexibilities under the WTO framework provided to LDCs, including Preferential Market Access, Special & Differential Treatment (S&DT) and other international trade-related support measures. After graduation, Cambodia's export would face higher tariff rates, stringent rules of origin, and market competition. As the graduation will have strong negative impacts on exports of agricultural products (especially rice) and manufacturing products (especially garments, footwear, travel goods, and bicycles), the loss of the above benefits could limit fiscal space for socio-economic development. As simulated in a study by UNDP, the preliminary findings show that graduation would drop Cambodia's nominal GDP by 2,947 million USD over the 4-year period from 2027-2030, requiring Cambodia to work towards counterbalancing losses related to post-graduation tariff increases by gathering relevant trade intelligence and exploring and preparing mitigation strategies, such as the transition to other preferential trade schemes and negotiating new free trade agreements, to unlock export potential and further enhance market access.

Last but not least, the long-lasting negative impact of COVID-19 not only interrupted the socio-economic development progress of the country and the well-being of the people, but also diminished the development resources. Despite the government's successful efforts in combatting the COVID-19 through a number of frameworks, directives, and measures, the targeted growth and development momentum have not yet been fully restored. Cambodia needs time to recover the key drivers of economic growth, especially tourism sector.

4. Strategic roadmap

Cambodia determines to graduate from the LDC category. The graduation is not an end in itself, but an important milestone in Cambodia's socio-economic development that can bring self-confidence, self-reliance, and self-governance in managing and mobilizing available resources for development. The RGC has established a number of policies, frameworks, programs, and action plans to address the challenges, including the Pentagonal Strategy Phase One for 2024-2028, the National Strategic Development Plan 2024-2028, and other laws, policies and sectorial strategic development plans.

Cambodia needs to promote and develop human capital, improve the labor productivity, and strengthen adaptive capacity by investing in technology and skilled labor to meet market demands for structural transformation and economic diversification, which are stated in PS-I as priority programs of the RGC. Currently, the RGC is implementing a nationwide vocational and technical trainings program, consisting of 38 skills in 10 priority sectors, for 1.5 million youth from the poor and at-risk households. Other specific activities have been clearly set in the 5-year strategic plan of the Ministry of Labor and Vocational Training, aiming at tackling skilled labor shortage and labor market mismatch through establishment and implementation of Active Labor Market Policies (ALMPs) and transformation of technical and vocational education and training (TVET) in response to the IR4.0, digital society and economy and green economy trend. The planned ALMPs involves labor market demand research and responsive capacity building or training programs in the labor market, as well as job search and matching services and career guidance. The promotion of the TVET system involves strengthening of governance, improving quality of TVET service provision through modernizing training and re-skilling and upskilling of teachers/trainers, enhancement of public private partnership and apprenticeship programs, and research and development (R&D). These strategic activities will shape the country's preparedness before and beyond graduation from LCD status.

Cambodia needs economic and trade diversification for structural transformation that can mitigate the effects of the loss of ISMs. RGC identifies a number of the certain priorities for economic diversification and competitiveness enhancement, including:

- Developing key sectors and new sources of economic growth
- Strengthening the efficiency and attractiveness of Special Economic Zones
- Promoting value chain diversification, with a number of key priorities for key sectors and new sources of economic growth
- Improving and transforming the garment sector into an environmentally sustainable, resilient, and high value-added industry to further develop Cambodia's economic diversification and competitiveness
- Promoting and increasing values added to agriculture and agro-industrial sectors
- Adopting technology and addressing the potential impact of technological change and automation on labor force, especially women workers in garment manufacturing sectors.

Regarding the garment sector, Cambodia officially launched "Cambodia Garment, Footwear and Travel Goods (GFT) Sector Development Strategy 2022-2027", aiming to improve and transform this sector into an environmentally sustainable, resilient, and high value-added industry to further develop Cambodia's economic diversification and competitiveness.

5. Conclusion

Cambodia is ready to move towards graduating from the LDC status. Should Cambodia meet the graduation criteria at the 2024 second triennial review, the RGC requests that the CPD recommend Cambodia for the LDC graduation with a longer preparatory period of 5 years. The 5-year preparatory period would allow Cambodia to address the challenges and potential negative impact of graduation

and to work toward the transition to other preferential trade schemes/market access; structural transformation; product, market, and trade diversification and promotion; reskilling and upskilling the labor force to increase productivity; building trade capacity; mobilizing resources; and equipping itself with measures to deal with the uncertainty surrounding global shocks. With a longer preparatory period, Cambodia will have a more adequate time to prepare for a smooth transition and to achieve an irreversible and sustainable graduation with momentum. Thus, the graduation will be effective in 2029.

For successful and sustainable graduation, Cambodia will also require generous support from the international community during the transition period. International support measures remain crucial for Cambodia as they fill the financial gap for achieving the development agenda and safeguard the sustainable socio-economic development. Members of the World Trade Organization would need to be flexible in terms of extending to graduated countries the existing special and differential treatment measures and exemptions available to least developed countries for a period appropriate to the development situation of the country in conformity with UN General Assembly Resolutions 59/209 of 2004 and 67/221 of 2012 on smooth transition for countries graduating from the list of least developed countries. In this regard, Cambodia is pleased with the WTO General Council Decision on extension of unilateral duty free and quota free preferences in favor of countries graduated from the LDC category adopted on 23 October 2023 that encourages Members to provide a smooth and sustainable transition period for withdrawal of unilateral tariff or duty-free and quota free (DFQF) preference programmes for graduated LDCs. Moreover, WTO Members would also need to look at other support measures, including LDC-specific technical assistance and capacity building programmes and facilities provided under the WTO system, LDC-specific support measures based on the provisions of WTO Agreements and Decisions and further extend those for graduated LDCs to mitigate additional impacts on graduation.

In conclusion, the RGC reaffirms its optimistic determination to graduating from the LDC category. The RGC commits to prepare a smooth transition strategy in consultation with national and local stakeholders – government line ministries and institutions, think tanks, private sector, civil society, and other sectors; and international stakeholders, especially bilateral and multilateral development and trade partners, by taking into account the mentioned challenges and recommendations. The National Committee for Cambodia's LDC Graduation will coordinate the process of developing the strategy and monitoring its implementation.