FDI AS A DRIVER OF CAMBODIA'S EXPORT SOPHISTICATION AND DIVERSIFICIATION

Presented by Maria YANG

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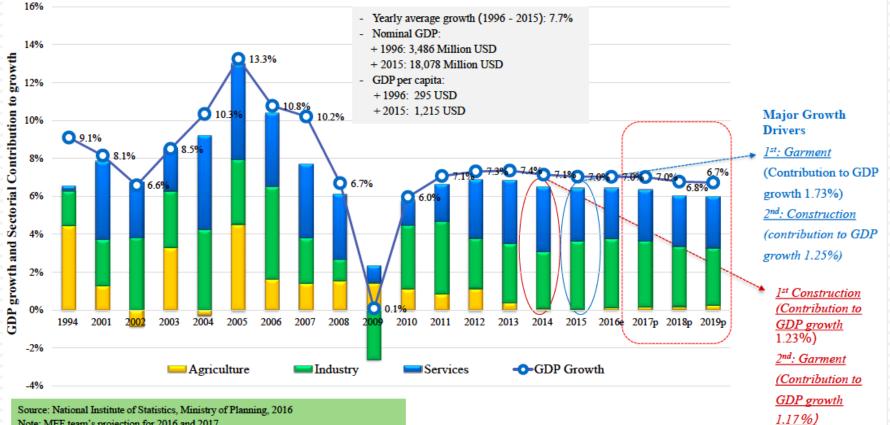


Why Upgrading Export Structure Matters for Cambodia?

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Robust economic growth of 7%

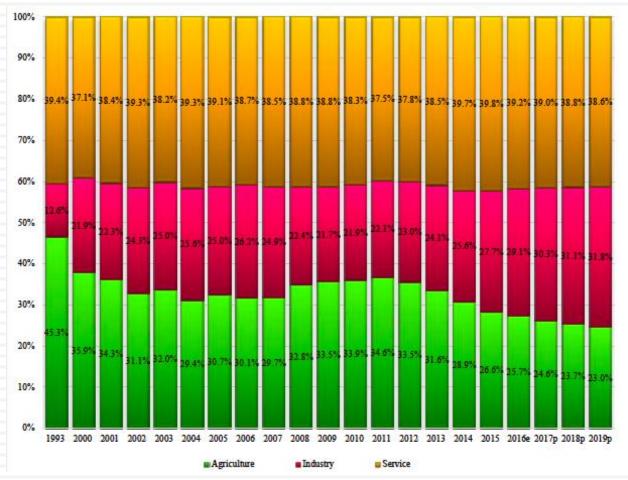
Key drivers: garment and construction



Note: MEF team's projection for 2016 and 2017

Why Upgrading Export Structure Matters for Cambodia?

Gradual industrialization process



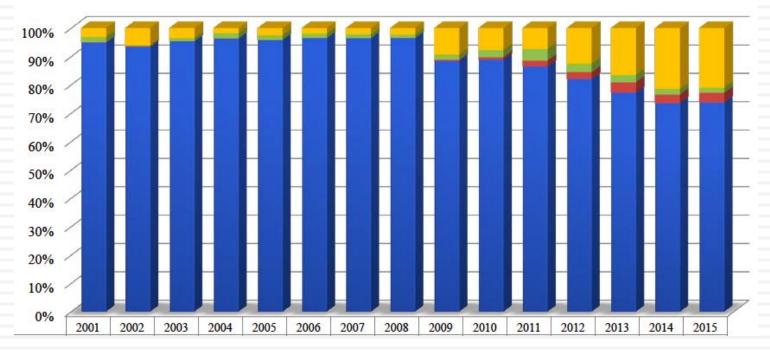
Source: Ministry of Economy and Finance, Cambodia

Why Upgrading Export Structure Matters for Cambodia?

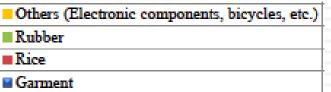
Less sophisticated and diversified export structure

Dominated by garment products

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Source: Ministry of Economy and Finance, Cambodia



Research Question

<u>Question:</u>

How to upgrade Cambodia's export structure?

Upgrading in terms of sophistication and diversification

Objective:

To understand what drives Cambodia's export sophistication and diversification

Hypothesis:

 Attracting FDI that participates in GVC can help Cambodia upgrade her export structure

Motivation

- Export promotes growth.
- □ What a country exports matter (Hausmann, Hwang,
 - and Rodrik, 2007)
- Cambodia's liberalized economic policies
 - Attracting FDI
 - Gradual industrialization => export secondary products
 - Participating in GVC



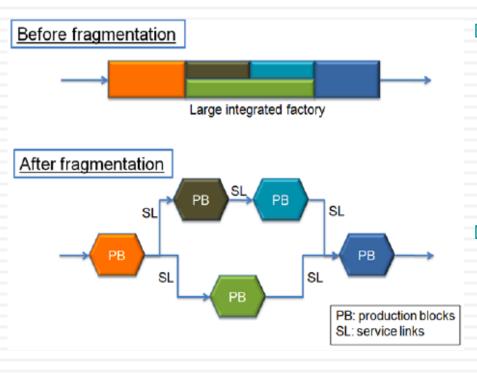
Data

- Cambodia's export lists from UN COMTRADE statistics
- Data on FDI from World Investment Report, (UNCTAD) and Investment Map-International Trade Statistics (ITC)
- Tariff rates from WTO
- Investment policies from
 - Council for the Development of Cambodia (CDC)
 - Thailand Board of Investment (BOI)

Theoretical Framework

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The Fragmentation Theory: Production Blocks and Service Links



Production blocks connected by services links of a given production process can be allocated in different locations (Jones and Kierzkowski,1990).

- Why fragmentation?
 - Save production costs/block
 - Save service-links costs connecting production blocks
- Labor-intensive blocks allocated to developing countries

Source: Kimura and Obashi, 2011

12 III. Evidence

Cambodia's Export Structure

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Top 10 Exports in 2001 (USD thousand)				Top 10 Exports in 2018 (USD thousand)				
Code	Product label	Exporte d value	Code	Product label	Exported value			
'61	Articles of apparel and clothing accessories, knitted or crocheted	1089198	'61	Articles of apparel and clothing accessories, knitted or crocheted	8834167			
'49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts,	204170	'62	Articles of apparel and clothing accessories, not knitted or crocheted	4047205			
'62	Articles of apparel and clothing accessories, not knitted or crocheted	41291	'64	Footwear, gaiters and the like; parts of such articles	2212296			
'64	Footwear, gaiters and the like; parts of such articles	28798	'42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles	892637			
'40	Rubber and articles thereof	25883	'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television	541974			
'44	Wood and articles of wood; wood charcoal	23150	'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	482033			
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	13397	'07	Edible vegetables and certain roots and tubers	442158			
'71	Natural or cultured pearls, precious or semi- precious stones, precious metals, metals clad	12862	'10	Cereals	416714			
'65	Headgear and parts thereof	12647	'08	Edible fruit and nuts; peel of citrus fruit or melons	347365			
'03	Fish and crustaceans, molluscs and other aquatic invertebrates	6078	'43	Furskins and artificial fur; manufactures thereof	283198			

Source: ITC calculations based on UN COMTRADE statistics

Cambodia's Inward FDI

Foreign Direct Investment (FDI) overview, selected years (Million of dollars)							
FDI flows	FDI flows 2005-2007 (pre-crisis annual average)		2016	2017	2018		
Inward	Inward 577		2476	2788	3103		
Outward	5	88	79	115	124		
Inward	Inward 356		18166	20838	23741		
Outward	Outward 139		623	869	993		
Cross-border merger and acquisition overview, 2005-2007 average, 2016-2018							
(Million of dollars)							
Sales (net)							
	2005-2007 (pre-crisis annual average)	2015	2016	2017	2018		
Cambodia	4	243	274	98	N/A		
Announced greenfield investment project overview, 2005-2007 average, 2016-2018							
(Million of dollars)							
As destination							
	1995	2015	2016	2017	2018		
Cambodia	516	4881	1905	3056	23741		

Source: World Investment report 2019, UNCTAD

Cambodia's Inward FDI

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FDI Foreign Affiliates 2018 by Industry		Cambodia		Vietnam	Thailand	
		Number 2001	Number 2018	Number 2018	Number 2018	
Total (merchandise and services)		27	120	2,309	2,422	
	Food, beverages and tobacco	3	6	136	64	
	Machinery and equipment	-	3	252	335	
	Electrical and electronic equipment	1	2	407	413	
	Precision instruments	-	-	87	68	
	Motor vehicles and other transport equipment	-	2	219	319	
	Other manufacturing	2	3	117	92	
	Recycling	-	-	10	24	
	Textiles, clothing and leather	13	34	306	136	
Secondary	Wood and wood products	2	6	115	39	
	Publishing, printing and reproduction of recorded media	-	3	31	23	
	Coke, petroleum products and nuclear fuel	-	-	46	65	
	Chemicals and chemical products	-	1	195	161	
	Rubber and plastic products	2	4	151	123	
	Non-metallic mineral products	-	2	72	48	
	Metal and metal products	-	5	275	220	
	Unspecified secondary	-	-	-	-	

Source: UNCTAD and Investment Map-International Trade Statistics, ITC

MFN Applied Duty Rate

Relatively high tariff rate => high service-links costs

Code	Description	Cambodia	Vietnam	Thailand
	Electrical machinery and equipment and parts			
	thereof; sound recorders and reproducers,			
85	television image and sound recorders and	15%	3%	5%
	reproducers, and parts and accessories of such			
	articles			

Source: World Trade Organization

Good Practice in Thailand

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Thailand Board of Investment (BOI)

	Example Activities	Exemption of Corporate income Tax	Exemption of Import Duty on Machinery	Exemption of Import Duty on Raw Material Imported for Use in Production for export	Non-tax
A1	Micro electronics design, embedded software/embedded system design, data center, cloud services, software park, training center	8 years (No Cap) + Merit	✓	~	~
A2	Telecommunication devices, electronics control and measurement instruments, security control equipment, solid state drives, automation machinery, high risked medical device, medical food, bio plastics	8 years + Merit	✓	✓	~
A3	Enterprise software, digital content, electrical appliances with internet of things, other telecommunication devices, HHD, semiconductor, flat panel display, thin film, photonics devices	5 years + Merit	V	\checkmark	~
A4	Audio visual, LED, PCBA, airlines, international distribution center, tourism related business, selected plastics products	3 years + Merit	✓	\checkmark	✓
B1	E-commerce, printing products	0 year + Merit (for some activities)	~	~	\checkmark
B2		-	-	-	_√

Source: Thailand Board of Investment (BOI)

18 IV. Conclusion & Recommendations

Conclusion

One of the keys to upgrade sophistication and diversification of export structure is to attract FDI into higher value-added industries, made possible by firms' fragmentation strategy.

Recommendations

- Further reduce the service link costs
 - Iower MFN applied tariff rate on products under code 85
- Set priority industries, particular those under code 85
- Design kind investment scheme to attract FDI inflow into those industries.



រាជដ្ឋោតិបាលកម្ពុជា เพอ : 190.4.4.815.06

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<u>ឱ្យប្រើច្បាប់ស្តីពីការរៀបចំនិងការប្រព្រឹត្តិទៅនៃគណៈរដ្ឋមន្ត្រី</u>

กะเอล็อาณ

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2กุร 9

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Thanks for Your Kind Attention!

Questions?