

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

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CONTENTS

2

- I. Introduction
- II. Data and Theoretical Framework
- III. Evidence
- IV. Conclusion and Recommendations
- V. References

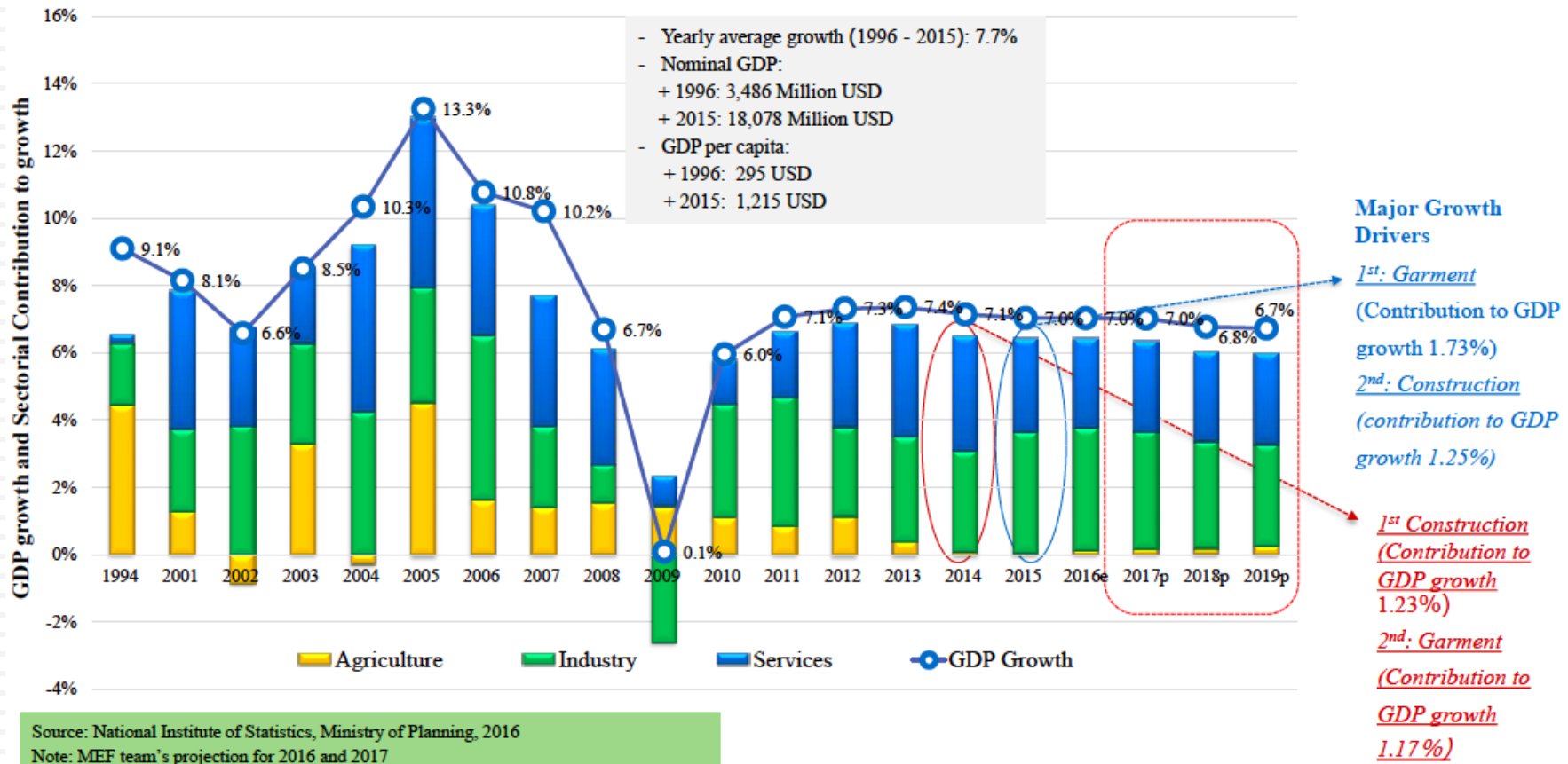
3

I. Introduction

Why Upgrading Export Structure Matters for Cambodia?

4

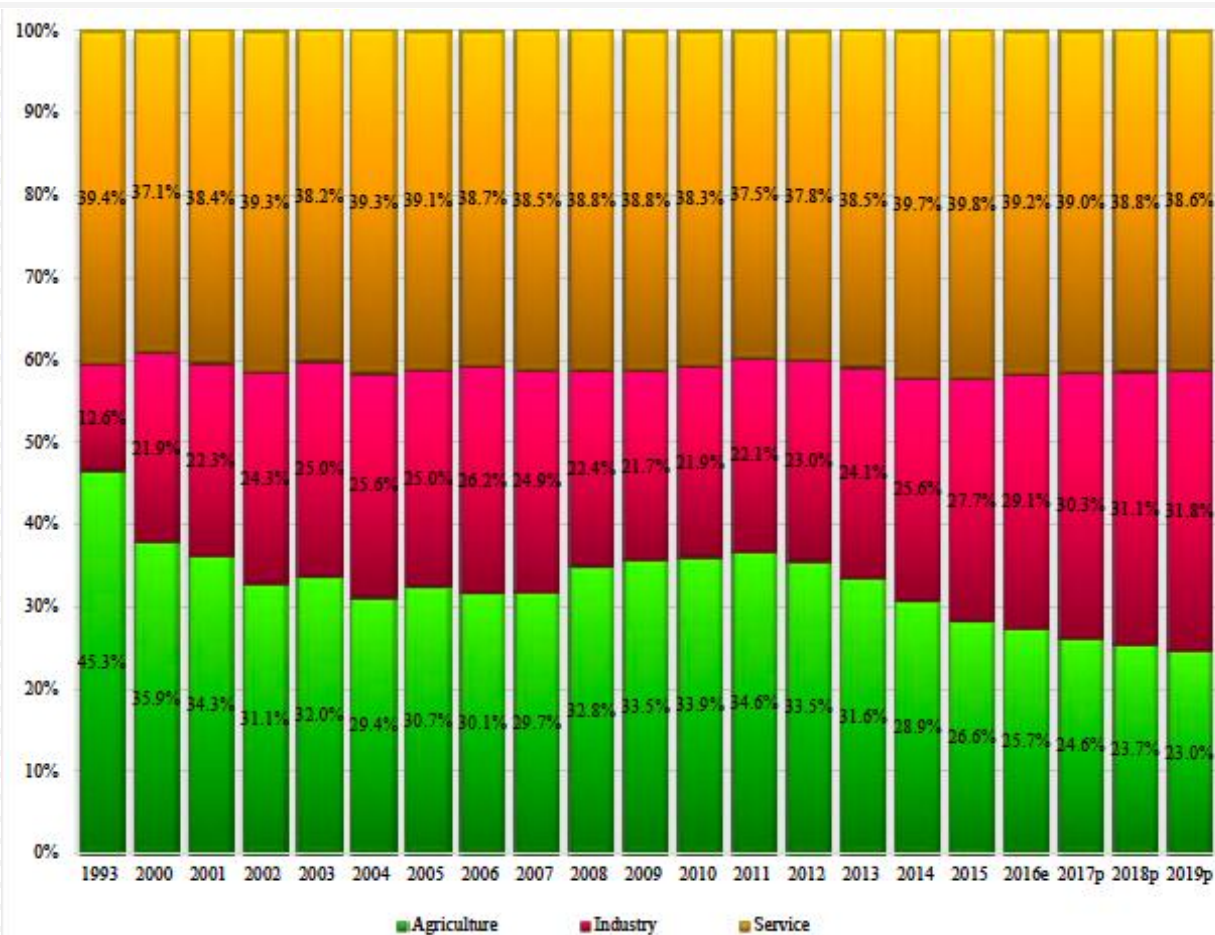
- Robust economic growth of 7%
- Key drivers: garment and construction



Why Upgrading Export Structure Matters for Cambodia?

5

□ Gradual industrialization process

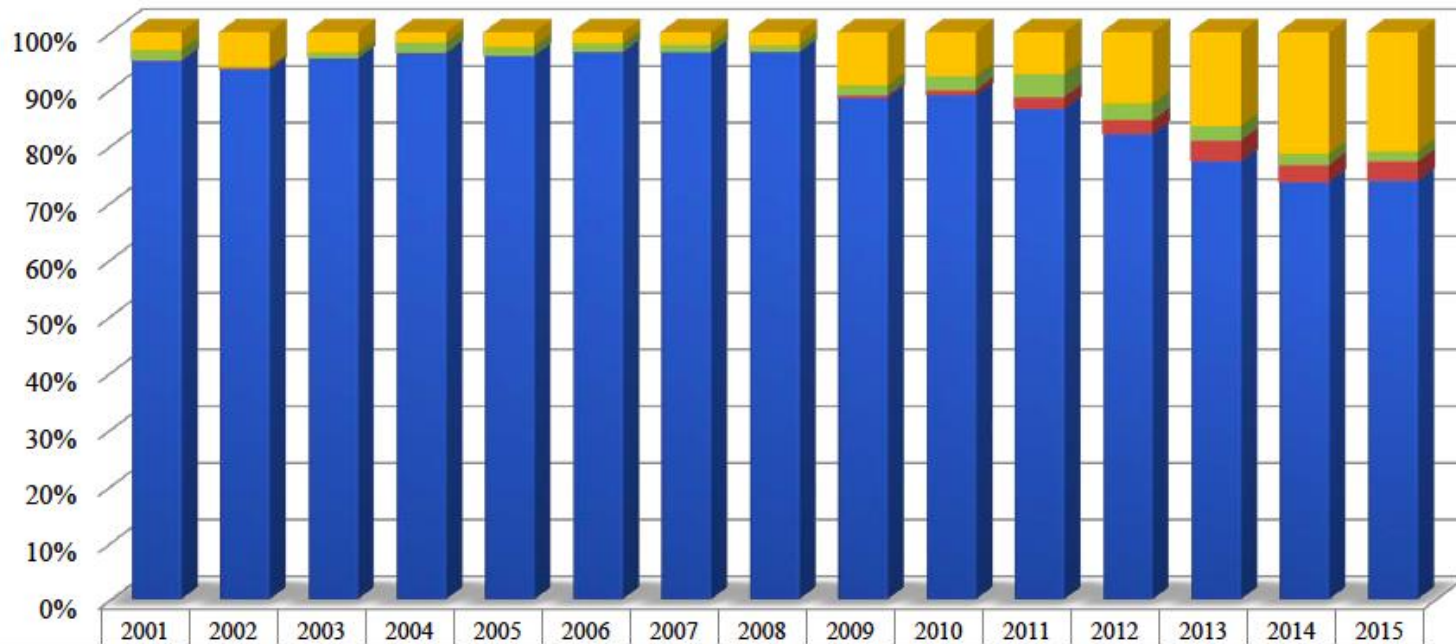


Source: Ministry of Economy and Finance, Cambodia

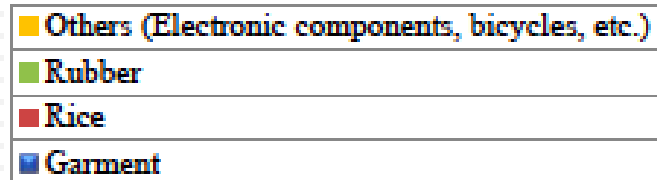
Why Upgrading Export Structure Matters for Cambodia?

6

- Less sophisticated and diversified export structure
- Dominated by garment products



Source: Ministry of Economy and Finance, Cambodia



Research Question

7

Question:

- 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

8

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

9

II. Data and Theoretical Framework

Data

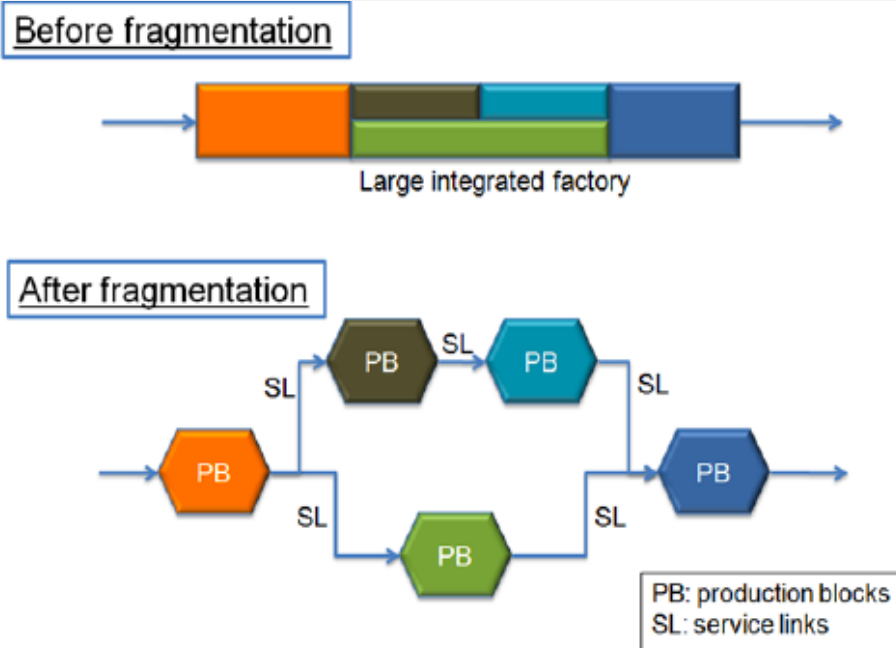
10

- 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

11

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

12

III. Evidence

Cambodia's Export Structure

13

Top 10 Exports in 2001 (USD thousand)			Top 10 Exports in 2018 (USD thousand)		
Code	Product label	Exported 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

14

Foreign Direct Investment (FDI) overview, selected years					
(Million of dollars)					
FDI flows	2005-2007 (pre-crisis annual average)	2015	2016	2017	2018
Inward	577	1823	2476	2788	3103
Outward	5	88	79	115	124
Inward	356	15690	18166	20838	23741
Outward	139	536	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

15

FDI		Cambodia		Vietnam	Thailand
		Number 2001	Number 2018	Number 2018	Number 2018
Foreign Affiliates 2018 by Industry					
Total (merchandise and services)		27	120	2,309	2,422
Secondary	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
	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	-	-	-	-	

MFN Applied Duty Rate

16

- Relatively high tariff rate => high service-links costs

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

Source: World Trade Organization

Good Practice in Thailand

17

□ 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	✓	✓	✓
A4	Audio visual, LED, PCBA, airlines, international distribution center, tourism related business, selected plastics products	3 years + Merit	✓	✓	✓
B1	E-commerce, printing products	0 year + Merit (for some activities)	✓	✓	✓
B2		-	-	-	-✓

Source: Thailand Board of Investment (BOI)

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

20

- Further reduce the service link costs
 - ▣ lower 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.

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23

Thanks for Your Kind Attention!

Questions?