



**ក្រសួងការបរទេស  
និងសហប្រតិបត្តិការអន្តរជាតិ**  
Ministry of Foreign Affairs  
and International Cooperation

# **ECONOMIC DIPLOMACY STRATEGY**

## **2021-2023**

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## INTRODUCTION

### 1. Overview

Over a decade following the 2008 Global Financial Crisis, the world economy and the multilateral trading system have been under immense pressure due to the rise of protectionism and unilateralism. The recent COVID-19 pandemic has acted as another driving force to transform in a very significant way the shift in the world economic order.

Two key factors that have destabilized the world as never but more so in the last three decades – nature-factor and human-factor. The COVID-19 pandemic, considered as one of the natural factors that affected seriously the global public health, is also responsible for driving a deep global recession, disrupting regional and global supply chains, and slowing down tourism flows around the globe to unprecedented levels. The implementation of various measures to contain and mitigate the impacts of COVID-19 have paralysed logistics and air travels and dampened both businesses and consumers' confidence. This pandemic has also magnified the risks of bankruptcies, resulting in the loss of millions of jobs. Moreover, its impacts has spilled over beyond the confine of public health onto the socio-economic and financial spheres due to the politicisation of the issue.

Human factors, on the other hand, have undermined recently over 70 years of stability and prosperity that emanated from a world order based on multilateralism and international law. They were brought about by a disregard and devaluation of foundational values that shape the current world order, a shift towards unilateralism, and the use of force or coercion upon less powerful countries. Furthermore, the intensifying geopolitical and strategic competition between great powers have signalled the start of a new Cold War, which could instigate extensive, rapid, unpredictable, and perilous changes. The global trade war between the two super powers has generated unintended spill-over effects onto other areas such as science and technology, military and espionage, human rights, democracy, and ideological issues. Such power rivalries were the source complications, challenges and concerns for least developed countries and developing countries, including Cambodia, particularly in political and economic aspects. The combination of the natural and human factors have had dramatic consequences on Cambodia as it faces the loss of 20% of duty-free access to the EU market under the Everything But Arms (EBA) initiative due to a double-standard disguised as human rights and democracy issues.

In terms of geo-economics, the interconnected economic system is systemically fragile as economic globalisation has outpaced political globalisation, which explains why a particular country may reconsider its degree of openness to the world economy in order to preserve some policy space with regards to its autonomy and sovereignty, especially in times of crisis. For their parts, digitalisation and technological advancement are accelerating their pace while globalisation struggled under the rising pressure of nationalism and protectionism. As a result, governments have had to assume a more proactive role in maintaining and enhancing international partnerships to ensure economic growth, long-term resilience, and an inclusive and sustainable recovery.

Without collective leadership and concerted efforts at the global level, economic recovery would certainly remain sluggish and uncertain with the prospect of the recession persisting and even worsening. It is expected that the global economy will continue to experience adverse impacts into the near future. While many countries in the world are prone to systemic risks and their negative side effects, developing countries are more vulnerable, partly due to their limited

capacity to absorb structural shocks and mitigate risks as they strive to integrate their respective economies into the regional and global economy.

Consequently, developing countries must develop policy responses capable of adapting to the new environment by building-up their capacity and competitiveness by ways of enhancing economic diversification, trade and investment promotion, agro-industry development, and innovative tourism development. They also need to reinforce their export-oriented growth model by initiating systematic reforms to attract foreign direct investment (FDI), innovate tourism products and services, reinforce human capital development, connect critical infrastructures, and promote private sector engagement to capture the benefits and opportunities made possible under the Fourth Industrial Revolution (IR 4.0).

In this context the proactive role of an “Economic Diplomacy” is essential for Cambodia to further its economic integration into the region and the world in order to deepen bilateral and multilateral cooperation, diversify its sources of growth, expand its economic potential, and take full advantage of new opportunities. The strategy behind Cambodia’s Economic Diplomacy is about protecting and promoting national interests at the regional and international level so as to secure economic prosperity and social development.

## 2. National Context

Under the wise leadership of **Samdech Techo Prime Minister Hun Sen**, the Royal Government of Cambodia (RGC) has transformed Cambodia from a country marred by war and unmeasurable suffering to one known for its dynamic growth, social development, and respect for democracy, rule of law and human rights. The national reconciliation stewarded by the “Win-Win Policy” of **Samdech Techo Prime Minister Hun Sen**, followed by sustained market reforms, have solidified the foundations for economic development and poverty reduction over the past three decades. As a result, Cambodia has secured peace and maintained political and macroeconomic stability, marked by an impressive average annual growth rate of over 7% (1998-2019), and the attainment of a lower middle-income status in 2015. Its poverty rate was reduced from 47.8% in 2007 to below 10% in 2019 while its GDP per capita was estimated to be approximately US\$1,700 in the same year. The international community has consequently dubbed Cambodia as “Asia’s New Tiger Economy” in 2016.

**Table 1: Macroeconomic Indicators (May 2020 Framework, inputs for Budget Law 2021)**

Macroeconomic Indicators	2017	2018	2019e.	2020p.	2021p.
GDP at current price (Million US\$)	22,208	24,610	27,130	27,221	29,013
GDP per capita (US\$)	1,430	1,563	1,700	1,683	1,771
Real GDP (%)	7.0%	7.5%	7.1%	-1.9%	3.5%
Inflation in Riel (%)	2.9%	2.5%	1.8%	2.8%	3.1%
National saving (% GDP)	23.0%	18.7%	16.9%	14.8%	13.7%

Foreign saving (% GDP)	7.9%	12.2%	15.5%	17.6%	17.3%
Gross international reserves (Million US\$)	12,201	14,629	18,763	16,937	16,981

Source: Ministry of Economy and Finance

Building on these achievements, the RGC has set a clear vision to attain the upper middle-income and high-income status by 2030 and 2050, respectively. Unfortunately, the adverse impacts of COVID-19 pandemic have considerably weakened Cambodia's economy, causing a projected negative growth rate for 2020 as well as severely affecting the national development prospects in key sectors such as tourism, manufacturing, transportation, and real estate.

In the face of this situation, the RGC has introduced urgent, comprehensive, in-depth, and effective measures to support the Cambodian economy and its society by maintaining the stability of production, the continuity of business, and the shoring up of livelihoods of affected people. Moreover, the RGC has initiated a series of focused reforms and measures, including a new investment law aimed of facilitating a favourable environment for business and investment.

The new investment law will provide a more favourable investment climate to attract more businesses, especially manufacturers that are relocating to the ASEAN region. Other government measures include the drafting of a law on the Public-Private Partnerships (PPP), a government credit guarantee scheme, an online business registration and a number of digital economy initiatives, etc. The signing of the Regional Comprehensive Economic Partnership (RCEP) in November 2020, the Cambodia-China Free Trade Agreement (CCFTA) in October 2020, and the conclusion of the negotiation of the Cambodia-Republic of Korea Free Trade Agreement (CKFTA) are the RGC's most recent accomplishments in mitigating risks, promoting recovery, and strengthening the economy in anticipation of the post COVID-19 period. All these factors reaffirm the significance and the need to shift from traditional diplomacy to a new and resilient type of diplomacy that stresses on the promotion of economic growth, tourism and culture, by ways of transforming challenges into opportunities for Cambodia's socio-economic development.

To that effect, the Ministry of Foreign Affairs and International Cooperation (MFAIC) has implemented since 2018 this “flexible and intelligent economic diplomacy” strategy, as one of the five priority reform areas with the full backing of **Samdech Techo Prime Minister Hun Sen**. Thus, economic diplomacy has since become a new strategic priority that has contributed to strengthening economic growth, reducing reliance on foreign assistance, and promoting Cambodia's interests regionally and globally.

The adoption of Cambodia's “Economic Diplomacy Strategy (EDS)” is vital for the enhancement of the scope, effectiveness, and efficiency of Cambodia's diplomatic activities. The objectives of the EDS are to promote international trade, attract foreign direct investment, promote tourism, cultural and sports exchanges. It will also serve as a powerful empowerment tool for our diplomatic officials to effectively carry out their economic diplomacy mandate with clear objectives and goals.

### 3. Cambodia's Economic Diplomacy

Amidst the fast-evolving regional and global economic landscape, characterised as uncertain and volatile, ensuring economic security and survival are of utmost importance for the

nation. In his address at the MFAIC Annual Conference on 7 March 2019, **Samdech Techo Prime Minister Hun Sen** reiterated that “Economic Diplomacy” is a priority for Cambodia’s foreign policy as it plays a critical role in diversifying sources of economic growth and trade partners. As such through its economic diplomacy, Cambodia could sustain its economic dynamism and resilience as well as elevate its prestige and presence on the international stage. In the same vein, the implementation of Cambodia’s economic diplomacy will strengthen and enhance its foreign policy to protect its core national interests by way of ensuring its own economic prosperity.

As an open economy, Cambodia is vulnerable to external changes and shocks, as evidenced by the recent COVID-19 pandemic. It is therefore crucial for Cambodia to redouble its efforts to enhance the resilience and responsiveness of its economic and social system so that it could overcome this crisis and its related challenges.

One of the key tasks under the EDS is to transform international challenges into opportunities, which would strengthen national growth and resilience. Thus, the shift to a modern diplomacy underscoring economic, tourism, culture, and innovative technology is a proactive response to the changing international environment. In order to realise this aspiration and advance Cambodia’s national core interests, the RGC will persevere to reinforce its human capital, expand its export markets, increase the competitiveness of Cambodian products and services, attract more foreign investors, enhance tourism, promote the value of Khmer culture and traditions, and capture all the opportunities arising under the Industrial Revolution IR 4.0 and the digital economy.

## **CHAPTER I**

### **ECONOMIC DIPLOMACY**

#### **1. Vision and Mission**

Economic diplomacy is the linkage between foreign policy and diplomacy and national economic development. It is the merging of economic aspects into foreign policy, and the use of diplomatic mechanisms to advance economic interests by ways of cooperation with national and international actors as well as with other countries around the globe.

***Vision:***

Economic diplomacy will strengthen Cambodia’s national prestige by advancing and maximising national economic interests.

***Mission:***

The mission of Cambodia’s economic diplomacy is to:

1. Contribute to achieving Cambodia’s vision of becoming a higher middle-income country by 2030 and a high-income country by 2050;
2. Strengthen cooperation, collaboration and partnerships with national and international actors and relevant stakeholders; and
3. Promote national socio-economic development.

#### **2. Objectives**

The objectives of Cambodia's economic diplomacy are to:

1. Promote international trade;
2. Attract foreign direct investment;
3. Promote tourism; and
4. Promote cultural and sports exchanges.

### 3. Goal

The goal of Cambodia's economic diplomacy is to establish a cohesive, effective, and efficient implementation mechanism to sustain and enhance the momentum of economic growth by promoting and strengthening cooperation across all sectors with national and international institutions.

### 4. Approaches

Under the economic diplomacy implementation framework, the MFAIC will assume the role of (i) a coordinating body with the mandate to maximise the use of existing mechanisms to attract FDI, promote the expansion of bilateral and multilateral trade, attract tourists by strengthening the value and awareness of Cambodian culture internationally; and (ii) a human resource developer with a mission to build of a professional and highly capable diplomatic corps fully committed to protecting and promoting Cambodia's core national interests.

### 5. Policy Framework

#### 5.1. Focus Areas

This economic diplomacy framework was developed in line with the key policy orientations as stipulated in the Rectangular Strategy Phase IV, the National Strategic Development Plan 2019-2023, the Industrial Development Policy 2015-2025, the Cambodia's Trade Integration Strategy 2019-2023, and other related tourism development plans. Accordingly, the implementation of Cambodia's economic diplomacy will emphasise on the following four priorities:

1. **Develop human resource with expertise in economic diplomacy** through: (1) strategic recruitment; (2) development of relevant training programs; (3) strategic internal human resources mobilization; (4) institutional development; and (5) research and development.
2. **Promote international trade** by ways of: (1) advancing and diversifying exports and export markets; (2) identifying and capitalising on new opportunities for Cambodian products and services; and (3) strengthening international economic cooperation and partnership with a focus on bilateral and multilateral FTAs.
3. **Attract foreign direct investment** by ways of: (1) promoting international awareness on the investment potentials, opportunities, and incentives in Cambodia; (2) facilitating visits and trade missions for potential investors; and (3) promoting public-private partnership.
4. **Promote tourism, culture, and sports** by ways of: (1) improving the quality and diversification of Cambodian tourism products and services; (2) enhancing the appeal and attractiveness of national heritage sites, cultural and natural assets; (3) promoting

awareness on Cambodian tradition, culture, and gastronomy; and (4) promoting exchanges and cooperation on culture and sports.

## 5.2. Action Framework

To achieve the plan outlined above, Cambodia's economic diplomacy will introduce a set of strategies focusing on key interventions to enhance Cambodia's economic competitiveness:

1. **Branding strategy:** a comprehensive public communication strategy will be developed to promote and propagate a positive and grand image of Cambodia. The main strategies include, among others, commercial advertising, information sharing, and immersive trips to Cambodia to enhance the reputation and branding of Cambodia as a crucial element for strengthening its competitiveness.
2. **Economic intelligence:** economic information and data collection, including analysis of policies and current affairs, will facilitate well-informed decision-making and thereby strengthening Cambodia's competitiveness. This timely gathered information will assist the government to tailor-make its policy in a manner that enables Cambodia to better compete with other countries. Moreover, building close contacts and consolidating relationships with key actors and institutions will further reinforce Cambodia's competitiveness.
3. **Business community engagement:** one of the direct beneficiaries of the economic diplomacy initiative is the business community. Constant nurturing of relations between the government and the private sector is a component of economic diplomacy, whereas professional and social networks as well as partnerships play a great role in cultivating the goodwill and trust necessary to establish common interests and strengthen synergistic relations between the government and the private sector.
4. **Economic agenda:** the promotion of economic interests is a priority in Cambodia's foreign relations. The main task under the economic agenda is to extract the maximum benefits from existing bilateral and multilateral mechanisms to advance Cambodia's economic interests. Various mechanisms under the purview of the MFAIC, such as the joint commissions for bilateral cooperation, political consultations, and other multilateral platforms, could be better utilised to serve the national economic interests. The provision of assistance for the organization of trade missions and business visits is also an integral part of the economic agenda.

## 5.3. Responsible Institutions

Currently, various ministries and institutions are involved in promoting national economic interests at varying levels and under different modalities. The MFAIC, through its broad network of overseas diplomatic missions, has long been engaged in economic diplomacy albeit on an *ad hoc* basis. To ensure maximum efficiency in the delivery of this strategy, the MFAIC has established the Economic Diplomacy Coordinating Unit (EDCU) to coordinate and lead the organisation of economic diplomacy activities.

Cambodia's diplomatic missions, including diplomats and attachés, will play a frontline role in promoting the country's economic interests abroad. The MFAIC, specifically the Economic Diplomacy Department, will work to enhance coordination between relevant government institutions, the private sector, and its network of diplomatic missions.



## 5.4. Challenges

Several major challenges have been identified as key obstacles to an effective, efficient, and successful implementation of Cambodia's economic diplomacy:

- Lack of institutional framework to set policies, directions, and strategies for economic diplomacy.
- Insufficient qualified human resource.
- Insufficient financial resource to carry out the implementation of relevant action plans.
- Lack of cross sectoral coordination and an effective information sharing platform between the relevant actors.
- Lack of branding/marketing campaigns and lobbying activities.

## CHAPTER II STRATEGIES

To achieve the goals set out above, the MFAIC has set out the Economic Diplomacy Strategy 2021-2023 as follows:

### 1. Human Capital Development

Human capital is the most important factor in national development, as emphasised in many development strategies, including the Rectangular Strategy Phase IV (2018-2023). It reflects Cambodia's determination to strengthen the quality of education, science and technology, and technical training. Human resource development in the field of diplomacy and foreign affairs has undergone remarkable improvement after the establishment of the National Institute for Diplomacy and International Relations (NIDIR) in 2016. However, further capacity development programs are needed to equip Cambodian diplomats with up-to-date knowledge and skills, especially in the field of economic diplomacy.

Therefore, it is important to develop a comprehensive training program and capacity development on economic diplomacy for Cambodian diplomats and relevant stakeholders in order to advance Cambodia's economic interests at home and abroad. The key topics to be delivered under the economic diplomacy training program include among others: communication skills, nation branding, trade negotiation and facilitation, investment promotion, tourism promotion, marketing strategies for Cambodian products and services, the law on investment, and other aspects of the Cambodian and international economy.

### 2. Communication and Information Sharing Mechanisms Enhancement

Building communications networks and information sharing mechanisms between ministries and other relevant stakeholders are vital for ensuring a seamless flow of timely information deemed crucial for the implementation of strategies aimed at enhancing trade, investment inflow, cultural exchange, and tourism. To that effect, pertinent information should be shared with the responsible line ministries for their direct feedback and cooperation, thus ensuring effective collaboration between the MFAIC and responsible line ministries.

Effective promotion of Angkor Wat as an icon of the “**Kingdom of Wonder**” is another essential driver for economic development as it could generate substantial revenues from millions

of tourist arrivals and creating jobs in the hospitality industry. Cambodian diplomats, professionally trained and well-versed in cultural diplomacy, could contribute to the action branding of Cambodia abroad. Other intangible culture heritages such as music, theatre, and cuisine will also be an integral part of the overall economic diplomacy strategy.

### **3. Public-Private Partnership Enhancement**

Public-private partnerships are powerful actors in national economic development as well as in international economic cooperation. Cambodia needs to enhance its engagement between the public and private sector through more efficient communication networks and well-structured partnerships that are capable of identifying opportunities, policy issues, and implementation gaps in the delivery of a shared vision towards the realisation of national interests.

## **CHAPTER III**

### **IMPLEMENTATION TIMELINE**

#### **1. Phase 1: 2021**

1. Improve the capacity of diplomats and relevant stakeholders to implement economic diplomacy.
2. Establish TORs for economic diplomacy.
3. Gather, formulate, and regularly disseminate socio-economic related information with relevant institutions.
4. Improve the coordination and collaboration between the public and private sector.
5. Initiate the implementation of the Economic Diplomacy Strategy 2021-2023.
6. Conduct monitoring and evaluation (M&E) and optimise the implementation.

#### **2. Phase 2: 2022**

1. Develop information sharing platform to store and share information.
2. Extend training programs on economic diplomacy for Cambodian diplomats and relevant stakeholders
3. Strengthen public-private partnerships and multi-stakeholder dialogues to promote Cambodia's economic interests.
4. Improve the performance of economic diplomacy.
5. Further conduct M&E and optimise the implementation.

#### **3. Phase 3: 2023**

1. Continue update training program curriculum and roll out courses on economic diplomacy for Cambodian diplomats and relevant stakeholders.
2. Regular update of tools to improve the information sharing platform.
3. Further improve the performance of economic diplomacy.
4. Consolidate overall M&E and achievements of the EDS 2021-2023.
5. Prepare the Cambodia's Economic Diplomacy Strategy 2024-2028.

- ❖ A detailed Action Plan for the implementation of the EDS 2021-2023 is attached in Appendix 1.

## **CHAPTER IV FINANCIAL RESOURCES**

### **1. Budget Requirements**

To ensure the successful implementation of the EDS 2021-2023, the MFAIC requires a total budget of approximately 13,700 million Riel, which includes the current budget of approximately 11,700 million Riel and an investment budget of 2,000 million Riel (see Appendix 1).

### **2. Budget Sources**

The budget for the implementation of the EDS 2021-2023 is sourced from:

- National budget;
- Grant funding from development partners;
- Private sector contributions; and
- Other contributions from miscellaneous sources.

## **CHAPTER V MONITORING AND EVALUATION**

A proper M&E mechanism is necessary to ensure the successful implementation of the activities and indicators set out under the EDS. In this regard, Target Indicators are introduced as effective tools for measuring, monitoring, and evaluating Outcomes & Outputs indicators for the mid-term and full-term implementation of the EDS 2021-2023. To this end, all relevant units are requested to prepare a detailed action plan with clear target outcomes, which will be monitored, implemented, and updated.

A standardised report on the implementation of the EDS 2021-2023 shall contain important inputs for M&E as “lessons learnt” to optimise the implementation of the EDS. The format of this report will be used by the Cambodian Missions Overseas and relevant parties to produce quarterly, biannual, and annual reports for the MFAIC (EDCU).

In order to ensure an effective, efficient, and accountable implementation of the EDS 2021-2023 in the medium term, the EDCU will play a key role in ensuring the coordination between the implementation of activities and the allocated budget, and benchmarking them against the attainment of the overall objectives. Based on the outcome report by the relevant parties, the EDCU shall conduct a comprehensive and detailed analysis and issue an evaluation report on the outcomes and propose potential measures to the Minister of the MFAIC for consideration and decision.

This evaluation report will serve as a useful feedback instrument for all parties involved in the implementation of the EDS 2021-2023, especially for the leadership of the MFAIC in their decision-making and their accountability toward the utilization of national resources.

## **CONCLUSION**

The EDS 2021-2023 is a policy tool for Cambodia to expand its international trade, attract foreign direct investment, promote tourism and Cambodian culture, and enhance the national competitiveness in support of the comprehensive reforms identified by the Royal Government of

the Sixth Legislature of the National Assembly and the Rectangular Strategy Phase IV. The EDS will establish a synergistic link between the Cambodian foreign policy and diplomacy and the national economic development. In other words, it incorporates Cambodia's economic priorities into its foreign policy objectives and employs the various diplomatic mechanisms available to the government to advance the integration agenda of the country by ways of strengthening and deepening bilateral and multilateral cooperation, with the ultimate aims of diversifying the sources of economic growth and transforming challenges into opportunities for social and economic development. Moreover, it will contribute to the national effort to secure sustainable development and the pursuit of the realisation of Cambodia's medium and long-term visions, including in the short-term the socio-economic recovery plans during and after the COVID-19 pandemic.

Indeed, the successful implementation of this economic diplomacy strategy will contribute to strengthening the economy growth, reducing dependence on foreign aid, promoting Cambodia's interests regionally and globally, and responding to the needs of the Cambodian people, both at home and abroad.

To achieve this goal, the MFAIC will continue to nurture a qualified diplomatic corps and strengthen its institutional capacity to support the implementation of Cambodia's economic diplomacy. Such an endeavour would require strong political will and commitment, enthusiastic participation, and earnest contributions from all relevant stakeholders, including both the public and private sector, to adapt and respond to changes and jointly come up with innovative solutions. Equally important is the adherence by civil servants, when performing their duty to serve the nation, to the five principles laid out by **Samdech Techo Prime Minister Hun Sen**, "self-reflection, shower, dirt scrubbing, treatment and surgery", along with the motto of "reform internally, build friendship externally in the spirit of independence".

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