The Future of Work in the Mekong Subregion

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A Report of the CSIS Project on Prosperity and Development

MEKONG FUTURE INITIATIVE
This report was made possible by the generous support of the Mekong Future Initiative
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202-887-0200 | www.csis.org
Acknowledgments

This report would not have been possible without the generous support of the Mekong Future Initiative. Special thanks to Blair Sullivan and Bo Carlson for their research support.
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Introduction

The authors would like to highlight that this report was completed prior to the military coup that took place in Myanmar on February 1, 2021. They acknowledge that as events unfold, instability in Myanmar will impact the future of work in the country in several ways, including trade, foreign investments, human rights, labor standards, and education. The situation will also affect diplomatic relations with other countries in the Mekong region.

With a total estimated population of 326 million, the Greater Mekong Region surrounding the Mekong River comprises six Asian countries, including China (specifically Yunnan Province and the Guangxi Zhuang Autonomous Region), Myanmar, Laos, Thailand, Cambodia, and Vietnam (Table 1). The southern part of the region, excluding China, is the Lower Mekong Basin (herein “Mekong Subregion”), the countries of which are members of the Association of South East Asian Nations (ASEAN). ASEAN is considered the fifth-largest economic bloc globally and is a key geostrategic and trade sphere of influence for the United States.
Table 1: Key Geographic Characteristics of the Greater Mekong Region

<table>
<thead>
<tr>
<th>Countries included</th>
<th>Area of country in basin (km²)</th>
<th>As % of total area of the basin</th>
<th>As % of total area of the country</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>165,000</td>
<td>21</td>
<td>2</td>
</tr>
<tr>
<td>Myanmar</td>
<td>24,000</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>202,000</td>
<td>25</td>
<td>85</td>
</tr>
<tr>
<td>Thailand</td>
<td>184,000</td>
<td>23</td>
<td>36</td>
</tr>
<tr>
<td>Cambodia</td>
<td>155,000</td>
<td>20</td>
<td>86</td>
</tr>
<tr>
<td>Vietnam</td>
<td>65,000</td>
<td>8</td>
<td>20</td>
</tr>
</tbody>
</table>

The Mekong River’s resources have been instrumental in establishing economic prosperity in the region by providing energy, food, and water to the 60 to 70 million people living along the river. Communities of the Lower Mekong Basin are mostly rural, relying on the river and adjacent land for their livelihoods. The basin is a vital economic resource for its encompassing countries, such as in Vietnam, where 18 percent (over $40 billion) of the country’s total GDP is produced in the Mekong Delta. Myanmar, Laos, Vietnam, Thailand, and Cambodia all rely on the rich sediment carried downstream by the river, which helps the countries collectively produce 15 percent of the world’s rice. Millions of people in the region also harvest the river’s fish, accounting for 25 percent of the world’s freshwater fish harvest.

While the five countries of the Mekong Subregion are culturally, economically, and politically diverse, they also share some common development trends. Over the last few decades, countries have liberalized trade and opened up their economies to foreign investment. This transition has led to extensive growth in the region, with average GDP growth in the range of 5 to 8 percent per year. Special economic zones (SEZs) have been set up, stimulating cross border trade and foreign investment. Moreover, given large energy demands, these countries have witnessed the development and construction of dams over the last few decades. However, the construction of such projects has led to deforestation, natural resource extraction, and many other environmental and community impacts.

Within this context, there are several labor market challenges for the region, including but not limited to a large informal economic sector where workers remain unskilled and persistent deficiencies in human and labor rights. Moreover, in recent years, China’s rising geopolitical power has impacted the economic and political stability in the Mekong Subregion and the long-established transboundary cooperation between the nations along the river. China’s geographical position (upstream) and massive buildup of hydropower dams is significantly affecting the river’s resources.

The Covid-19 pandemic has also consolidated some of the trends that these countries were experiencing before the crisis. In Cambodia, the economy was already facing difficulties: fewer foreign visitors were traveling to Angkor (the capital of the Khmer empire and home to one of the largest temples in the world); the agriculture sector was in decline; the garment industry was on the brink of facing suspension of preferential access to the EU market under the Everything But Arms (EBA) trade scheme; and the United States is reviewing and possibly withdrawing trade preferences under the General System of Preferences (GSP), especially for rice.

As a result of Covid-19, Cambodia will likely lose up to 70 percent of international tourists for 2020, closing thousands of businesses and affecting 45,000 workers. In the garment sector, 250 factories employing some 130,000 workers have suspended operations. Poverty in Cambodia could increase between 3 and 11 percentage points for households engaged in tourism, wholesale and retail trade, garment production, construction, or manufacturing. The main sector of the economy (garments and tourism) cannot be sustained by Chinese demand, and the agricultural sector is too underdeveloped to absorb the excess labor. In sum, the Covid-19 pandemic threatens to halt the economic gains made in the last 30 years. Furthermore, with the loss of income and trade disruptions created in global supply chains, Covid-19 has also increased food insecurity in the whole region.

Despite these developments, in the medium term there are also opportunities for these countries to better prepare their economies and workers to compete on the world stage by addressing competitiveness and lagging productivity issues, diversifying their economies toward higher value-added
supply chains, and strengthening education quality and skills mismatches. Technology adoption will also create significant disruptions in these labor markets but can also be an opportunity for countries to transform and upgrade their education systems and shift toward a knowledge-based economy.

The following CSIS case study analyzes the future of work in the Mekong Subregion, with a specific focus on Myanmar and Cambodia. It identifies the main long-term challenges and drivers impacting their labor markets and proposes key actions to prepare these economies for the changes ahead. The study draws upon a significant body of desk research and inputs from regional and subject matter experts.
Challenges and Drivers of the World of Work in the Mekong Subregion

About 61 percent (145 million people) of the population of the Mekong Subregion live in rural areas, with most engaged in traditional agriculture and subsistence farming for their livelihoods. Rice dominates agricultural production at all levels, provides jobs and food security throughout the Subregion, and makes a few of the countries—particularly Thailand and Vietnam—some of the largest rice exporters in the world. The region’s agricultural sector also drives crop exports such as natural rubber, sugar, corn (maize), soybeans, cassava, and coffee. The surge of mechanized farming is putting small-scale farms at a disadvantage through new and increased regulations, the acquisition of land and resources by companies and larger holdings, and the often-resulting effect of limited financial or land access. Moreover, the region is swiftly gaining traction as an industrial and manufacturing market. In 2017, the industrial sectors of the Mekong Subregion countries contributed about 32.3 percent to total regional GDP and approximately 20 percent to the region’s employment.

While there are large economic disparities among the countries in the Mekong Subregion, many are moving up the development ladder, with the least developed economies experiencing the fastest growth. Since 2011, the GDP per capita in Cambodia and Vietnam has been growing at an average rate of 5 percent per year. According to the World Bank’s development classification, Myanmar moved up from being a “low-income” country to “lower-middle income” in 2015, while Cambodia followed this trend in 2016.
Moreover, across Asia a rising consumer class is shifting demand for goods and services, which will have an impact on labor markets. The World Bank estimates that by 2030, more than 90 percent of developing Asian households will have more than enough money to cover their basic needs and spend on other items.\(^6\) According to other estimates, Myanmar’s middle class will nearly double from 5.3 million in 2013 to 10.3 million in 2020, although the Covid-19 pandemic will likely threaten this trend.\(^9\) Cambodia is also seeing a rapidly growing middle class, which currently stands at about 10 percent of its population.\(^20\)

**Challenges**

Despite these positive economic transformations, labor market challenges remain, including informality and labor rights abuses, economic competitiveness issues, and gaps in skills and education attainment. Moreover, economic growth has been uneven, mainly benefiting the urban population and widening inequality with rural communities. The region’s rural population is disproportionately poor and significantly relies on natural resources that are vulnerable to social and environmental threats. Rural migration has also accentuated the demographic changes taking place in the region as the young population moves to cities to find work, especially in Cambodia, Myanmar, and Laos.\(^21\)

Informality continues to dominate these economies (as high as 77.5 percent in Cambodia and 71.5 percent in Myanmar), mainly in agriculture and household enterprises.\(^22\) These workers are particularly vulnerable to economic shocks or environmental changes and do not qualify for social protection such as unemployment and pension benefits. The prominence of the informal sector in these countries also often results in an escalation of labor rights abuses and gender inequality issues. At the same time, workers in the Mekong Subregion earn extremely low wages. In 2018, for example, the monthly minimum wage was equivalent to $91 in Myanmar, $130 in Laos, and $118 in Vietnam.\(^23\)

These countries also face significant economic competitiveness challenges. Cambodia ranks 144th in the World Bank’s 2020 *Doing Business Index*, which evaluates business regulations in 190 countries.\(^24\) Entrepreneurs face an even greater challenge in Myanmar, which ranks 165th.\(^25\) The World Economic Forum (WEF) released its 2019 *Global Competitiveness Report*, which ranks Cambodia 106th out of 141 countries, remaining far below the East Asia and Pacific averages, with its lowest score of 30.9 in Innovation capability. Cambodia’s other lowest-scoring pillars are institutions at 41.9 and skills at 42.7.\(^26\)

While Myanmar was not included in the WEF survey, some of its biggest obstacles were featured in the World Bank Enterprise Surveys.\(^27\) These show the largest challenges facing private sector firms in Myanmar, with 17.8 percent of firms choosing access to finance, 15.8 percent choosing an inadequately educated workforce, and 14.3 percent choosing access to land. While the countries share the obstacle of an inadequately educated workforce—as claimed by 11.7 percent of Cambodian firms—obstacles in Cambodia also include practices of the informal sector (28.3 percent) and political instability (16.1 percent).\(^28\)

One of the main pillars of competitiveness is quality infrastructure. Following regional trends, many countries in the Mekong Subregion have expanded their infrastructure stock within the last two decades, with the Asian Development Bank (ADB) taking an active role as financier. However, despite investing heavily in infrastructure, the ADB forecasts that developing Asia will need to devote $26 trillion from 2016 to 2030, or $1.7 trillion per year, if the region is to maintain its growth momentum,
eradicate poverty, and respond to climate change. The infrastructure investment gap in Asia—that is, the difference between investment needs and current investment levels—equals 2.4 percent of projected GDP for the 5-year period from 2016 to 2020 when incorporating climate mitigation and adaptation costs.\(^{29}\)

At the same time, countries cannot be competitive without adequate human capital. Education quality, specifically levels of instruction and attainment of skills required by employers, remains one of the most significant problems for countries in the Mekong Subregion. Although a qualification framework has been developed to standardize national education in Cambodia, it has not been effectively implemented. Similarly, Myanmar has low adult literacy rates and low shares of the population that have completed secondary education, tertiary education, or any form of technical and vocational education and training (TVET), making the workforce ill-prepared for the needs of the private sector (see Boxes 2 and 3). Moreover, at the tertiary level, university curriculums are often not aligned with industry skill needs, which slows down countries’ ability to develop rapidly.

**Opportunities**

The region is also experiencing a set of demographic, technological, and geopolitical transformations that will impact the way people work in the future and, at the same time, provide new economic opportunities going forward.

Demographics in the Mekong Subregion will play a significant role in labor supply. Although most of Asia is aging, countries in the Mekong Subregion still have a significant demographic bonus (Table 2) with large youth populations in the coming years. According to the United Nations Population Fund, a large proportion of the population in these countries is less than 14 years old, accounting for 32 percent of the population in Laos, 31 percent in Cambodia, 26 percent in Myanmar, 23 percent in Vietnam, and 17 percent in Thailand.\(^{30}\) However, in order to flourish, this growing population will require governments to invest in education and create an enabling environment for jobs and entrepreneurship opportunities. In Myanmar alone, 1 million new jobs will have to be created in the next four years to keep up with labor force entrants.\(^{31}\) In Cambodia, 300,000 young people join the labor force each year, yet many end up in unskilled and low-paid work.\(^{32}\) Significant challenges remain with youth unemployment and underemployment across the region.

The youth of today have different job expectations and goals than earlier generations. With countries moving toward middle-class status, many young people do not envision their future in traditional agricultural activities like farming, unlike their parents and grandparents. Instead, youth are drawn to more modern sectors and possess entrepreneurial spirit and technological appetite, which need to be fostered by the educational system.

Digitalization and globalization are impacting youth both culturally and economically; most young people in the region are highly digitally connected, giving them access to global cultures. As a result, their lifestyle preferences are often determined by international trends, with strong Western influences in the form of music, television, food, language, medicine, and more.\(^{33}\) Digitalization and globalization can also provide significant economic opportunities for Cambodia’s growing youth by capitalizing on global supply chains and new technologies to create dynamic innovation and new entrepreneurial opportunities.\(^{34}\) For example, digital platforms such as the Cambodian app Tinh Tinh
allow retailers to have access to global markets. Youth are highly entrepreneurial, and supporting start-up ventures can offer meaningful economic opportunities for this group. Moreover, providing young people with the proper managerial and soft skills as well as linking them to business networks can better prepare youth to compete in the digital age.

Table 2: Demographic Trends in the Mekong Subregion (2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year that 65+ population reached 7% of total</th>
<th>Year that 65+ population reached 14% of total</th>
<th>Number of years between 7% and 14% share of 65+ (actual or projected)</th>
<th>Ageing status (as of 2019)*</th>
<th>Demographic grouping (2015–30 period)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2001</td>
<td>2025</td>
<td>24 p</td>
<td>soon aged</td>
<td>Late dividend</td>
</tr>
<tr>
<td>Thailand</td>
<td>2002</td>
<td>2022</td>
<td>20 p</td>
<td>soon aged</td>
<td>Late dividend</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>2017</td>
<td>2034</td>
<td>17 p</td>
<td>soon aged</td>
<td>Late dividend</td>
</tr>
<tr>
<td>Myanmar</td>
<td>2023</td>
<td>2050</td>
<td>&gt;27 p</td>
<td>not yet aged</td>
<td>Early dividend</td>
</tr>
<tr>
<td>Cambodia</td>
<td>2031</td>
<td>2050</td>
<td>&gt;19 p</td>
<td>not yet aged</td>
<td>Early dividend</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>2038</td>
<td>2050</td>
<td>&gt;12 p</td>
<td>not yet aged</td>
<td>Early dividend</td>
</tr>
</tbody>
</table>

* Note: Ageing status is determined as follows: “hyper-aged” – share of population aged 65+ is 20 per cent or more; “aged” – share of population aged 65+ is more than 14 per cent and less than 20 per cent; “soon aged” – share of population aged 65+ is more than 7 per cent and less than 14 per cent; “not yet aged” – share of population aged 65+ is less than 7 per cent. The categorization of demographic transition follows the World Bank definition. Post-dividend = total fertility rate in 1985 below 2.1 and shrinking working-age population share, 2015–30; late dividend = total fertility rate in 1985 above 2.1 and shrinking working-age population, 2015–30; early dividend = total fertility rate below 4 in 1985 and increasing working-age population share, 2015–30; pre-dividend = total fertility rate above 4 in 1985 and increasing working-age population share, 2015–30.


As technology is expanding in the region, the nature of work is changing, with employers demanding higher skill levels and greater human capital. The Mekong Subregion’s traditionally rural economies are feeling this trend: they are undergoing pressures to modernize along with the spread of automation and mechanized farming and with exports now driven by large-scale commercial cash crops. Adopting new technologies (also referred to as “Industry 4.0” (I4.0) or the “Fourth Industrial Revolution”) can potentially shift the manufacturing and agricultural sector from low-tech to medium- and high-tech industries.

In Cambodia and Myanmar, however, low-tech industries still contribute over 90 percent of manufacturing value added. With the inflow of labor migrants and the large rural labor supply, the wages in the countries’ manufacturing sector remain low to moderate, eliminating the need to invest for greater productivity. Adopting newer technology and skilling the population will subsequently improve export-oriented sectors through higher-value agriculture and manufacturing. However, in order to successfully accomplish this transition, there needs to be a strong focus on skill building for the workforce, which currently falls behind where it needs to be in many of the Mekong Subregion countries (see Annex A and B).
Moreover, external influences such as changing trade patterns and the rise of China are affecting the economies and labor markets of the Mekong Subregion. The removal of Cambodia’s preferential access to the EU market under the EBA trade scheme will negatively impact employment in Cambodia’s garment sector but will also pressure the government to invest in technology and education and to diversify their economy through other sectors that could absorb the idle labor. For example, the agricultural and food processing industry could be a strong avenue, so the Cambodian government is assessing the possibility of setting up “Special Economic Food Processing Zones” to provide incentives to this industry.

At the same time, the Cambodian government has been paying more attention to preparing workers for I4.0 and developing twenty-first-century, Fourth Industrial Revolution skills through entrepreneurship programs such as the National Entrepreneurship Fund, with aggregate funding of $5 million; the National Entrepreneurship Award under the National Institute of Entrepreneurship (NIEI); and the Cambodia Young entrepreneur Awards (CYEA) presented by the Young Entrepreneurs Association of Cambodia (YEAC). At the same time, the U.S. Agency for International Development (USAID) has been supporting these efforts through a program called HELIX, or Higher Education for Leadership, Innovation, and Exchange. Enacted under the Cambodian Information Technology Partnership for Workforce Development Activity, USAID hopes to engage locally with Cambodian youth to provide enterprise-specific skills development, resources, and training opportunities. This national grant would empower Cambodian youth to gain the proper education and qualifications to contribute and thrive in Cambodia’s economic and digital transformation.

Due to its location and economic power, China plays a direct role in influencing the flows of the Mekong River and the economies of the Lower Mekong countries. For example, in 2016, China dominated the path of the river—controlling about 54 percent of total flow in the wet season and 65 percent in the dry seasons. China is also a significant supplier of inputs to countries in the region, specifically to Laos and Vietnam. While Japan is one of the largest donors of official development assistance (ODA) to the region, China has also recently become a significant donor in the Lower Mekong countries, particularly in Cambodia, Myanmar, and Laos, in the form of grants, concessional loans, interest-free loans, and even pledges to lend (making Chinese development assistance difficult to track).

Yet China has taken a more narrow development focus by prioritizing its aid to natural resource and infrastructure projects. More specifically, China has a strong interest in securing access and connectivity to markets and economic development along the Mekong River. China’s development projects on the river, including the construction of hydropower dams, railways, grid extensions, roads, and bridges, have often had extensive environmental and social effects. Given China’s significant footprint in the region, there is a need for the other countries in the region and for the United States and its allies to counterbalance this influence and form partnerships to help economies become more competitive, fostering a strong private sector and preparing workers for upcoming labor market disruptions.
Preparing the Mekong Subregion for the Changing World of Work

Given this set of challenges and opportunities, to adapt to the future of work, governments in the Mekong Subregion and their development partners must address the factors that are currently inhibiting economic competitiveness. This includes economy-wide goals, such as investing in quality infrastructure and regional connectivity with ASEAN countries, increasing foreign direct investment (FDI) linkages with domestic firms, and diversifying the economy, as well as more specific labor market issues, such as improving education and skills training and strengthening labor market institutions.

Investing in Quality (or Sustainable) Infrastructure and Regional Connectivity

Developing quality infrastructure in the Mekong Subregion will be critical for both job creation and diversifying and strengthening the economy. Quality infrastructure (often also called sustainable infrastructure) is critical for growth, especially for disadvantaged communities. In its basic form, quality infrastructure is planned and executed in a way that ensures economic, social, environmental (including climate resilience), and institutional sustainability over the entire life cycle of the project. Quality infrastructure investment can have seismic impacts in developing countries by driving job growth, boosting local productivity and capacity, improving the demand and flow of goods
The Future of Work in the Mekong Subregion see the value of physical connectivity and development of quality infrastructure for the future of work. In this regard, there are two key areas where infrastructure improvement is critical: (1) increasing access to digital infrastructure and reliable energy, and (2) developing infrastructure for regional connectivity.

Digital connectivity is critical for the competitiveness of these economies and the future of work. As Cambodia's digital economy rapidly grows, the need for a sound foundational digital infrastructure is more crucial than ever. The Cambodian Ministry of Posts and Telecommunication, in coordination with public and private sector leaders, has taken this imperative development step by establishing Digital Cambodia 2020, the largest digital tech conference in Southeast Asia. While the event was postponed due to Covid-19, 120 speakers, 200 exhibitors, and more than 30,000 visitors were expected to attend from various private and public sector entities, including banks, NGOs, and governmental, diplomatic, and educational institutions around the world. Digital Cambodia 2020 serves as a national platform to demonstrate the importance and growth potential of digital technologies and attract investment in the nation’s digital economy.

Mobile phones are rapidly spreading across the region, with 96 percent of Cambodians reporting that they owned a phone in 2016 and 81 percent of households in Myanmar reporting that they own a mobile phone. Despite advancements in rolling out cellular phones, internet access remains a significant challenge. In 2017, only 30 percent of the population had internet access in Myanmar, and only 40 percent of the population in Cambodia had access in 2018.

Moreover, digital connectivity is also tied to a steady supply of energy. In Myanmar, only 42 percent of the population has access to electricity, making it one of the least-connected countries in Southeast Asia. Burmese firms interviewed in 2016 reported 11 power outages in a typical month, which makes starting and maintaining a business difficult. One reason for Myanmar’s underdeveloped electricity sector is a strong set of government regulations which sets prices lower than the cost of providing electricity and thereby discourages private investment in the sector.

Electricity production is one area in which the Mekong Subregion could put its immense natural resources, especially hydropower, to use. However, harnessing water for electricity can have unintended negative consequences. In the last several years, dams along the Mekong River have caused persistent droughts and sudden flooding downstream. Over 60 million people depend on the river for fishing, farming, clean water, and transportation. If the subregion’s governments choose to halt hydroelectrical development along the Mekong River, they must find an alternative way to provide low-cost electricity to the population. If they choose to go forward with dam projects, they must mitigate the environmental damage, compensate rural communities displaced by the projects, and train workers to transition from fishing and rice farming to a new set of industries.

Moreover, these economies are dependent on sound transportation networks to access inputs and market their products. Myanmar’s economy depends on agriculture and manufacturing, and Cambodia’s major sectors include agriculture, tourism, garments, and construction. All of these industries rely heavily on roads and waterways for delivery of materials. Farmers and factories rely on roads to export their goods, and builders depend on roads and waterways to deliver materials. A larger tourism sector will require air carriers as well as road transport for international visitors. To accompany these industries, Cambodia has been investing in transportation infrastructure, with its largest projects...
being the $1.5 billion replacement of the Phnom Penh International Airport—making it the ninth-largest airport in the world—and the construction of an $880 million new airport in Siem Reap.\textsuperscript{53}

In this regard, regional connectivity is a top priority for multilateral groups such as ASEAN, the ADB, and the World Bank and for countries such as the United States and Japan. All of the major development actors in the region are investing in improving the infrastructure between countries because it opens the economy and increases trade, thereby generating jobs and offering an alternative to Chinese investment in the region.

One of ASEAN’s most important goals is to achieve economic integration in the region, which can be accomplished through comprehensive, region-wide infrastructure development.\textsuperscript{54} Improving regional connectivity through infrastructure will increase access to electricity, water, and financial resources and increase trade for the entire region.\textsuperscript{55} It will also give greater mobility to people to move between countries and will foster regional tourism. The ADB has played a major role in planning and facilitating cooperation between countries. Between 2005 and 2019, the ADB has helped promote quality infrastructure through over 102 infrastructure projects and $15 billion in investment on priority projects.\textsuperscript{56} One of USAID’s programs, the Smart Infrastructure for the Mekong (SIM) also supports regional connectivity through technical assistance in smart infrastructure, clean energy development, and land and water resources use.\textsuperscript{57}

\section*{Increasing Linkages between FDI and Domestic Firms}

Besides investments in quality infrastructure, the Mekong Subregion requires increased linkages between FDI and domestic firms to make economies more competitive and provide more employment opportunities for the workforce. FDI can play a key role in developing new industries and often can be a source of funding when the state and private sector are unable to make long-term investments. Among countries in the Mekong Subregion, Cambodia received the largest net inflows of FDI in 2018, at 13.1 percent of GDP, while Myanmar received the smallest net inflow, at around 1.8 percent of GDP.

One reason that Myanmar remains far behind its neighbors in the level of foreign investment is that it only recently transitioned to a civilian-led government. Until 2011, Myanmar’s armed forces maintained control of the state, and as a result most industries were overly regulated. Foreign investment into Myanmar was highly regulated, which disincentivized or outright deterred investment into the country. Of the small amount of foreign investment that did make it into the country, the majority went into the mining, oil, and gas sectors.\textsuperscript{58} Myanmar’s civilian leadership began to liberalize the economy and since 2013 has allowed FDI in a broader range of sectors. Telecommunications, transportation, and manufacturing have become more important destinations for overseas investments.\textsuperscript{59} However, even as the economy opened, the government remains politically closed off. Repression of the Rohingya Muslim minority drew condemnation from international organizations and foreign governments.\textsuperscript{60} This year, Freedom House downgraded Myanmar’s status from “partially free” to “not free.”\textsuperscript{61}

Political risk, as well as concerns about international reputation, drives away foreign investors. In February 2020, the European Commission decided to partially withdraw Cambodia’s preferential trade access to the EU market due to political rights violations and limitations to the freedoms of expression and association.\textsuperscript{62} Beyond the direct impacts on trade, the European Union’s move could dissuade
potential investors. Currently, the largest sources of FDI to Myanmar and Cambodia include China, Singapore, and Hong Kong, which are less concerned by political repression.\textsuperscript{63}

Despite large sums of FDI, according to the World Bank, Cambodia is unable to develop a sound domestic industrial base because it has few links between FDI-based exporting firms and domestic input-supplying firms both regionally and globally.\textsuperscript{64} The absence of engagement between foreign firms and local suppliers, the majority of which only invest in Cambodia for its low labor costs, tariffs, and taxes, is largely a result of the dominance of the garment industry. This industry largely imports their supplies from neighboring countries, with only about 25 percent of firms buying from domestic input suppliers, as opposed to nearly 60 percent in Vietnam.\textsuperscript{65} The links between domestic small and medium-size enterprises (SMEs) and foreign based exporting firms must strengthen in order to expand local job growth, foster skills development, and develop a strong domestic industrial ecosystem in Cambodia.

**Diversifying the Economy**

Countries in the Mekong Subregion have been shifting their economic composition and diversifying their sectors in recent years. Cambodia, for example, has undergone a sharp transformation since the early-1990s. The five largest exports were rubber, scrap metals, wood, soya beans, and leather, but by 2013, the most common exports were garments, bicycles, rice, electronics, and rubber.\textsuperscript{66} Despite that change, Cambodia’s manufacturing and agricultural industries remain concentrated in a few sectors. Its dependence on garment manufacturing has made the country vulnerable to the decrease in global demand that followed the 2007–2008 global financial crisis.\textsuperscript{67} The Covid-19 pandemic and the European Union’s decision to partially withdraw trade benefits from Cambodia, particularly for garments, should be a strong signal and a push toward diversification.\textsuperscript{68}

Diversification can be achieved through investments in new sectors such as renewable energy, regional tourism, agroprocessing, electronics, and the care economy. Renewable energy is proven to create a boom in high paying jobs, with 9.8 million people employed in the sector globally.\textsuperscript{69} Hydropower, solar, and wind energy all have enormous potential in the region. The Mekong River has between 175 and 250 gigawatts of potential energy available, which if properly utilized could stimulate economic growth, provide jobs, produce steady supplies of energy, and lift people out of poverty by raising income.\textsuperscript{70}

Experts predict that over 70 dams could be built along the river by the year 2030. However, as previously mentioned, the development of dams could have detrimental effects on the environment and thereby impact agricultural employment along the river. Solar and wind energy provide less harmful alternatives to hydropower. In 2018 alone, 6,000 megawatts of wind and solar contracts were signed in the Mekong Subregion.\textsuperscript{71} Solar power is particularly lucrative for Cambodia because land is relatively cheap. Investment in solar and wind energy avoid the detrimental impact dams can have on the environment.

Beyond renewable energy, the Mekong Subregion has significant tourism potential, with beautiful beaches, mountains, and cultural sites. In the last year alone, Cambodia had 6.6 million international tourists, bringing in a total revenue of $4.9 billion.\textsuperscript{72} However, since about 25 percent of Cambodia’s economy depends on tourism and travel, shocks such as the Covid-19 pandemic can have detrimental
impacts on the economy as a whole.\textsuperscript{73} Since its emergence, Covid-19 has led to the suspension or closure of almost 3,000 tourism-related establishments in Cambodia, directly affecting over 45,400 workers.\textsuperscript{74} For 2020, international tourists are estimated to fall by 70 percent, accompanied by a $3 billion loss in tourism revenue.\textsuperscript{75}

Additionally, Cambodia’s tourism industry was already highly concentrated, with foreign visitors largely visiting just one site, Angkor Wat. The Cambodian government and private sector, however, realize the country’s tourism industry has much broader potential and are developing new areas, including tourist sites in Phnom Penh; the beaches of Kampot, Koh Kong, and Sihanoukville; and the mountains of Mondulkiri and Ratanakiri.\textsuperscript{76} This is a step in the right direction, but the government will have to supplement their projects with investment in transportation infrastructure. As Cambodia looks to attract tourists, it can draw on the expanding Asian middle class, especially from China, South Korea, Laos, Thailand, and Vietnam.\textsuperscript{77}

**Improving Education Quality**

Educational reform is an integral aspect of improving the future of work and competitiveness of the Mekong Subregion. Education and training can and should play a significant role in national economic development strategies. There needs to be more concerted effort to align the skills of the workforce with the types of skills needed by the labor market, especially in regard to digital skills. As part of this reform package, there should be an emphasis on the completion of secondary education, the development of soft skills, and the rebuilding the higher education sector.

Education should go beyond preparing youth to be good citizens and also aim to develop the skills needed to succeed in the labor market. In order to remain employed or run businesses, people will have to incorporate training and skilling throughout their lives—that is, learning will be ongoing and occur in different settings beyond school or university, what experts call “lifelong learning.” There will be more blurred lines between “work” and “training and learning”; these will not be distinct stages like in the past—they will be interconnected.\textsuperscript{78} The Fourth Industrial Revolution will change the role of government in education, requiring supporting educational systems that focus on lifelong learning.

In order to improve the quality of education in the Mekong subregion, there are five steps these countries could take:

1. increase overall investments in education, especially in rural areas;
2. shift more state funding to teachers’ training and pay;
3. change the teaching approach to combine flexible “soft” skills and vocation-specific “hard” skills, including STEM (science, technology, engineering, and mathematics) disciplines, and reform curricula in universities;
4. partner with the private sector to determine which skills need to be developed; and
5. invest in digital skills.\textsuperscript{79}

Although countries have been investing in education and making reforms (Box 1), spending in education remains low, with Myanmar and Cambodia ranking 164th and 170th out of 175 countries, respectively, in percentage of GDP spent on education each year.\textsuperscript{80} Although foreign aid can play
Foreign aid only makes up about 1.5 percent of the total educational budget in lower income countries. Domestic spending on education is therefore an essential investment. It is also important not to just increase spending but to invest in the right areas. Investing in teachers, such as having stricter eligibility requirements, but also providing them with a higher salary and better benefits, can play an important role in improving education. More resources need to be invested in encouraging students to complete secondary education, where most students drop out. In Myanmar, for example, more than 80 percent of young people are finishing primary school, but less than 20 percent are successfully completing upper secondary school. 

At the same time, the type of curriculum taught in schools is another area for improvement. Developing lifelong skills, such as financial literacy, health maintenance, and administrative skills, is an important aspect of improving education. This type of education has a positive impact on the social and economic well-being of students, rather than just focusing on standardized learning outcomes. Throughout the region, there also needs to be an increased emphasis on developing soft skills—such as critical thinking and communication—which are essential for effective participation in the economy.

Box 1: Cambodia’s Investments in Education Reform

It is important to note that the Cambodian Ministry of Education, Youth and Sport (MoEYS) has made significant improvements in education reform over the last decade. Through the New Generation Schools (NGS) reform, the ministry has been able to empower greater educational innovation by granting schools greater autonomy. Next Generation Schools are governed by performance accountability so they can “achieve ‘maximal’ standards of education.” Next Generation Schools prioritize the growing focus on STEM and information and communication technology (ICT) subjects to develop a workforce with fundamental twenty-first century skills.

The MoEYS and the Ministry of Post and Telecommunications have transformed the Covid-19 crisis into a revolutionary opportunity. At the same time, the Cambodian government released a new Distance Education app on July 15, 2020 aimed at providing free and equal learning materials for students and teachers in grades 9 through 12. The smartphone-based application is supported by the Cellcard Free Data Distance Education Programme, which provides students and teachers with free data between 6 a.m. and 11 a.m. to access and download the educational videos and materials. This digital learning platform not only allows for the continuation of education through the Covid-19 crisis but also accelerates the goals outlined in the Education Strategic Plan 2019–2023 to develop digital education as a modality for equitable and inclusive education. This is a crucial development particularly for underserved and transportation-challenged students in rural areas that do not have equal access to in-person, high-quality education. Digital education initiatives such as this app are instrumental in maintaining resiliency through the pandemic, transforming Cambodia’s digital economy, and, most importantly, providing equal, high-quality education to all students in Cambodia.

Moreover, curricula should be aligned with private sector needs. In Myanmar, 80 percent of employers feel as though the education system is failing to provide employees with the skills they need. The World Bank also reported that limited access to skilled employees is the second-greatest obstacle to
companies in Myanmar, especially SMEs. The workforce needs training in digital skills and STEM disciplines to be able to adopt technologies of the Fourth Industrial Revolution. Companies rely on technology to stay competitive in the global market but struggle to find employees that have the necessary skills. Without these educational investments, economies in the region will remain stagnant and undiversified. The USAID HELIX grant attempts to address some of these issues and is an important new development in this area.

Governments, education institutions, and the private sector often fail to effectively engage in dialogue on skill needs, and when they do, educational systems fail to make adjustments based on the feedback. In order for communication between these stakeholders to improve, a regular dialogue or forum could be developed that creates an enabling environment for this kind of exchange. This forum would convene all players in the employment ecosystem, including governments, companies, industry associations, unions, education systems, youth groups, and NGOs.

Strengthening Labor Market Institutions

Large portions of the workforce for countries in the Mekong Subregion are in the informal sector, and many of these workers are in vulnerable situations. Workers in the informal economy have low productivity and are not protected by labor rights, with migrants and women being particularly disadvantaged. One of the main challenges is to help SMEs formalize, since these companies are the backbone of economic activity and job creation. In Cambodia, the more than 500,000 micro-, small-, and medium-sized enterprises (MSMEs) are responsible for 70 percent of employment—but 95 percent of MSMEs are not formally registered. MSMEs must be formalized and registered to better integrate with the local, regional, and international markets and to attract foreign investment.

Migrants working in the informal sector in the Mekong Subregion often work under harsh conditions. They are vulnerable to human trafficking, forced labor, and exploitation. Migrants also experience systematic barriers to accessing healthcare, housing, and legal services. Migration in the Mekong Subregion is brought on by regional economic and demographic disparities such as labor shortages and aging populations in the most developed countries and labor surpluses in the least developed countries. Labor migration in the region often consists of irregular migration (movement in violation of regulatory norms) of low-skilled workers. Due to a lack of opportunities in countries such as Myanmar, migration and migrant labor will continue to be a significant part of the labor market. Improving opportunities for people in their home countries will reduce overall migration, but protections should also be in place for migrants in receiving countries.

Women also face unique challenges in the labor market. Employed women often work in the informal sector or in industries where labor protections are weak. Cambodia has robust legislation in terms of labor market institutions, but the problem lies mainly with the implementation of these laws. Moreover, institutions such as labor unions and employers’ organizations need to build up capacity to represent workers and employers more effectively and have stronger industrial relations. Programs such as Better Factories Cambodia and USAID’s Global Labor Program have been instrumental in improving workers’ conditions and advancing labor rights in the region (Boxes 2 and 3).

Adopting and enforcing international labor standards provides benefits to workers, including increasing incomes, reducing inequalities, and creating an inclusive foundation for the future.
of work. For companies, abiding by these standards can translate into trade benefits and better reputation and brand image.

**Box 2: IFC/ILO Better Factories Cambodia (BFC)**

The Better Factories program in Cambodia was launched in 2001 through a unique partnership between the United Nations’ International Labour Organization (ILO) and the International Finance Corporation (IFC). The program works with brands, retailers, governments, factory owners, workers, and unions with the goal to improve labor rights in factories as well as increase the competitiveness of the Cambodian garment industry. The program also has a transparency database which reports on factories’ compliance with legal requirements. One intention of the database is to improve the reputation of the Cambodian garments industry.

Data from 2001 to 2010 shows that the program has had significant impacts on labor rights, incomes, and gender gaps. First, factories subscribed to BFC consistently increase compliance with ILO core labor standards and national labor laws in the Cambodian apparel sector. By the fourth BFC assessment visit, average compliance rates ranged from a low of 52 percent to a high of 95 percent, with the mass of the distribution between 75 percent and 95 percent compliance. Second, increased compliance has led to income increases: Cambodian households that include one garment worker earn 36.3 percent more than the national average income for similar households with no garment worker(s). And third, in 1996, women workers earned nearly 40 percent less than men; in 2007, that gap decreased to 17 percent.

**Box 3: USAID’s Global Labor Program**

USAID’s current Global Labor Program (GLP) is active from 2016 to 2021 and is being implemented through the Solidarity Center. This program works in countries all over the world, including Cambodia. In Cambodia specifically, GLP focuses on both continuing and new challenges facing workers, especially women. GLP has a heavy emphasis on improving and informing people about legal protections for workers. These activities include building the capacity of unions to successfully advocate for higher wages and increased benefits. They also work with grassroot partners to advocate for increased coverage of minimum wage legislation. GLP provides groups with “legal assistance, research and analysis, and legislative advocacy.”

USAID GLP has an additional regional program for migrant workers in Asia, also with a special emphasis on women. This program looks to empower migrant workers both in their original countries and destination countries. The GLP program partners with the ASEAN Trade Union Council (ATUC) and the South Asian Regional Trade Union Council (SARTUC) to work with both governments and businesses to monitor labor recruitment. This program also includes advocacy work to push employers to implement ethical labor standards.
Similar to its growing influence in the rest of the world, China is developing its geostrategic power in the Mekong Subregion through aid, debt, and direct investments. In 2018, President Xi Jinping announced that China would be offering $1.1 billion worth of concessional loans to countries in the region. Unlike the West, China’s aid is not conditional on protecting human rights or building democratic institutions. At the same time, China’s investments still have some strings attached. Through its investments in the Mekong Subregion, China hopes to gain support for its territorial disputes in the South China Sea and for building dams that will have downriver affects.

The United States and other development partners have a geostrategic role to play in this region given China’s influence. This is an opportunity to sway these countries to adopt standards and values more aligned with those of the West. To this end, Japan and the United States have developed a framework to maintain security and prosperity in the region and counterbalance China’s influence: the Free and Open Indo-Pacific (FOIP). At the 2017 Asia-Pacific Economic Cooperation (APEC) Summit in Vietnam, President Trump announced the United States’ new vision for a free and open Indo-Pacific and its commitment to securing stability and prosperity to the benefit of all nations in the region.

Additionally, the U.S. Department of Defense released the Indo-Pacific Strategy Report in 2019, outlining the regional strategy according to three pillars: economics, governance, and security. The strategy focuses on supporting open investment environments, good governance, and freedom of the seas in the Indo-
Pacific region. With a sizeable and increasing consumer market, the growth of this region has economic relevance for U.S. companies. The kind of solutions that are needed to make economies of this region more competitive, provide better job opportunities, and prepare workers for the future will require more attention from the United States and other development partners. With a particular focus on private sector development, quality infrastructure, and skilling, the United States and other development agencies can provide aid, make investments, and offer technical assistance to these countries.

Helping Countries Craft a Vision or Strategy for the Future of Work

As a starting point, although countries in the Mekong Subregion are adopting policies and strategies to prepare economies for labor market disruptions (Table 3), a more holistic vision of the world of work is needed—one that brings together different stakeholders into a regular dialogue or forum. U.S. agencies and multilateral donors can play a convening role by involving all players in the employment ecosystem in the discussion, including governments, companies, industry associations, unions, education systems, youth groups, and NGOs. Development institutions can also help countries prioritize interventions since there are many areas that require attention. For example, should more funding be allocated to teacher training or to digitizing schools? Or should funding be allocated to setting up vocational education institutions and university tracks? Moreover, prioritization will also mean making investments in sectors that can make these countries more globally competitive and diversified and provide employment to a growing youth population. Candidates already mentioned in this brief include renewable energy, tourism, agroprocessing, and the care economy.

The multilateral development banks (MDBs) (e.g., the World Bank and the ADB) and other donors could work closely together to help developing country companies, officials, and educators better understand future labor market trends through multi-stakeholder dialogues on the future of work and virtual networks on workforce development. This would include educators, chambers of commerce, labor unions, government officials, and other stakeholders.
### Table 3: National Strategies Related to the Future of Work

<table>
<thead>
<tr>
<th>Country</th>
<th>I4.0 strategy</th>
<th>Other recent strategies and policies addressing adaptation to new technologies</th>
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</table>
| Cambodia   | No distinct plan                      | · Rectangular Strategy for Growth, Employment, Equity and Efficiency, Phase IV (September 2018)  
|            |                                      | · National Science and Technology Master Plan 2014–2020                        |
|            |                                      | · ICT Masterplan 2020                                                          |
| Laos       | No distinct plan                      | · Ten-year Socio-economic Development Strategy 2016–2025                      |
|            |                                      | · 8th Five-year National Social and Economic Development Plan 2016–2020       |
| Myanmar    | No distinct plan                      | · Myanmar Sustainable Development Plan 2018–2030                              |
|            |                                      | · Industrial Policy (2016)                                                    |
| Thailand   | Thailand 4.0                          | · Twelfth National Economic and Social Development Plan 2017–2021             |
|            |                                      | · Twenty-year National Strategy 2018–2037                                    |
| Vietnam    | National Industrial Development Policy until 2030 with a vision toward 2045 | · Directive No. 16 (Ct-Ttg) on Strengthening Vietnam’s capacity to leverage the 4th Industrial Revolution (2017)  
|            |                                      | · Socio-economic Development Plan 2016–2020                                  |
|            |                                      | · Strategy for Science and Technology Development 2011–2020                   |
|            |                                      | · Plan on economic restructuring in association with conversion of the growth model toward improving quality, efficiency and competitiveness 2016–2020 |


### Strengthening Private Sector Development

Another area where development partners, in particular the United States, can play a greater role in supporting these economies is in private sector development. In this regard, one key asset that the United States enjoys is having the most innovative and experienced private sector in the world, including a sophisticated financial sector, which can be leveraged to provide ideas and best practices for countries in this region. The value of U.S. companies abroad cannot be underestimated; aside from making significant financial investments, U.S. companies introduce product and process innovations, provide valuable goods and services to foreign consumers, employ and train workers in developing countries (directly and indirectly, via global supply chains), and transfer technology, know-how, and managerial best practices, among other benefits.
As mentioned, the links between domestic SMEs and exporting firms must be strengthened. Through partnerships, dialogues, and technical assistance, U.S. development agencies can bring together U.S., foreign, and domestic companies in the region to identify specific barriers to entrepreneurship and increase financing mechanisms to spur better linkages. As an example, WorldBridge Industrial Developments (WBID) has founded and led the development of the I4.0 SME Cluster project in Cambodia, which seeks to help SMEs reduce barriers to producing high-value goods, establish new business and foreign manufacturing investment opportunities, and help Cambodia “leapfrog” to an I4.0 environment.

Additionally, larger U.S. and foreign companies could prepare SMEs to become suppliers to larger companies by establishing joint venture partnerships. In the case of Cambodia, experts recommend that the government should foster private sector development and finance programs to maintain quality standards as well as establish more incentives for FDI firms to localize their imports in Cambodia. At the same time, venture capitalists—aside from financing these initiatives—can mentor the start-ups across their life cycles and encourage collaboration among them. More established firms have a larger role to play in terms of sharing experiences, offering mentorship, and assisting in the development of new products, ideas, markets, capital, and skills.

Moreover, U.S. development agencies could establish alliances with U.S. companies and youth groups to build education and training programs, such as USAID’s HELIX, that will enhance the local workforce and prepare local companies to compete globally. This includes promoting work-based learning (e.g., apprenticeships) in the region and school-based TVET as well as broader reforms to help bridge the gaps between educational institutions and the skills required by the labor market.

In this regard, the ADB is helping regional governments reform secondary education, tertiary education, and TVET via policy support and development projects. The top areas of reform suggested by the ADB for Cambodia and Myanmar include: realigning secondary and tertiary education and TVET to blend “soft” skills and vocation-specific “hard” skills; expanding access and improving quality of secondary education, including reforming curriculum, teaching, and student assessment; and establishing and enforcing proper standards for governance of the TVET and tertiary education subsectors, including strengthened private sector engagement.

### Coordinating Labor Market Analytics and Identifying Skills Demand

A third area where development agencies can support labor markets in these countries is in gathering data and good evidence for better policymaking. For example, one area where MDBs can collaborate more closely is on data and analytics by building joint country strategies, conducting labor market assessments, and carrying out joint evaluations of workforce projects. As already argued by CSIS in the Future of Global Stability project, the United States—as the major shareholder of the World Bank, the ILO, and the ADB—should push for a more focused and coordinated approach in the MDB system toward workforce development and creating an enabling environment for job creation.

MDBs could also help countries collect, report, and analyze labor market data in a standardized manner. Such coordination on existing projects between MDBs could help prevent overlap. For example, MDBs could work with the ILO when developing loan programs to ensure that they align
with labor standards and protections and help create decent and inclusive jobs. Moreover, these institutions could help identify and share best practices and lessons learned among developing countries, the MDBs, and bilateral donors.

At the same time, countries in the Mekong Subregion could benefit from the experience of donors and multilateral institutions in better mapping the skills needed for the future labor market. Companies and CEOs in these markets, especially SMEs, often do not know how to go about identifying and thinking through the current and future skills needed in their respective sectors. For example, one major gap that U.S. agencies are supporting in Asia is youth digital skills (Box 4). The MDBs and other donors have significant expertise in this area and could, for example, offer joint support providing technical expertise in setting up sectoral skills councils.

It is not easy to define and predict which future skills will be most in demand, but several tools help inform the discussion of anticipated skills demand. These range from quantitative methods such as econometric models to qualitative methods such as roundtables, labor market and employer surveys, and focus groups. These methods are prevalent in advanced economies and could be adopted in developing countries to better inform stakeholders about which future skills will be required. MDBs can be instrumental in helping developing countries adopt some of these techniques.

**Box 4: Closing the Digital Skills Gap**

Workers in the APEC countries represent nearly 60 percent of the global economy and 40 percent of the global population, yet they lack digital skills that are essential for economic growth and development. In 2017, the 25th APEC Economic Leaders’ Meeting Statement called for “up- and re-skilling to increase workers’ employability,” “preparedness for the digital age,” and “skills training and development.” The *APEC Roadmap to Closing the Digital Skills Gap by 2030* responded to this call by putting forward a shared definition of digital skills, setting aspirational targets, and detailing APEC-wide actions on a multi-stakeholder basis (e.g., governments, employer, and academia) for closing the digital skills gap and achieving lifelong employability. This roadmap was informed by inputs from governments, employers, and academia from 16 economies at the 2019 APEC Closing the Digital Gap Forum.

The U.S. Department of Labor oversees Project DARE (Data Analytics Raising Employment) and the APEC Forum on Closing the Digital Skills Gap, which addresses digital skills gaps in the workforce. This initiative involves broad participation from government, industry, and academia from nearly all APEC member economies, including participation from representatives from companies such as Visa, LinkedIn, and Google. The APEC Forum on Closing the Digital Skills Gap is co-chaired by Wiley and the Business Higher Education Forum (BHEF). This program is intended to help people in the Asia-Pacific region develop the technological skills necessary to prevent automation from taking over their jobs. Activities of this program include the forum; a digital readiness framework which helps countries, employers, and academia understand where gaps remain; and a report to measure the size of the digital skills gap.

**Adopting Sustainable Infrastructure Standards**

Lastly, infrastructure development is a high priority for governments worldwide and in particular the Mekong Subregion. Aside from providing increased financing for infrastructure in the region, one way that development partners can be more engaged is by helping countries adopt quality infrastructure or
sustainable infrastructure standards. More robust international quality infrastructure (or sustainable infrastructure) frameworks and standards—such as those developed by the G20, Organization for Economic Cooperation and Development (OECD), and Bretton Woods institutions—can be important tools to improve infrastructure planning in the Mekong basin. These frameworks focus on governance aspects such as strengthening institutional sustainability (including the planning and procurement processes) as well as the environmental and social impacts (such as consultation with communities, job creation, capacity building, and the transfer of expertise and know-how to local communities).

 MDBs such as the ADB and the World Bank have been promoting quality infrastructure investment in the Mekong Subregion, as have the ASEAN Infrastructure Fund and country-to-country financing primarily from Japan and China. Current U.S.-funded initiatives are also underway within the region, including the SIM program coordinated by USAID and the Sustainable Infrastructure Partnership (SIP) program under the Lower Mekong Initiative (LMI). The ADB’s Greater Mekong Subregion (GMS) program had a total of 102 investment projects (amounting to $22.9 billion) approved by GMS governments and multilateral and bilateral development partners from 1992 to 2019.105 Sustainable, high-quality infrastructure that provides transparency and adheres to environmental and social safeguards is essential to ensure the lasting prosperity of the economies, ecosystems, and livelihoods of the Mekong Subregion.
Despite rapid economic transitions and development within the region, labor market challenges remain, including informality and labor rights abuses, economic competitiveness issues, and gaps in skills and education attainment. In order to better prepare their economies and workers to compete in the global market, countries in the Mekong Subregion must address competitiveness and lagging productivity issues, diversify their economies toward higher value-added supply chains, strengthen education quality, and address skills mismatches. To do so, countries must capitalize on the various demographic, technological, and geopolitical transformations that will impact the way people work in the future.

Governments in the Mekong Subregion and their development partners must address these economy-wide factors as well as more specific labor market issues that are currently inhibiting competitiveness and sustainable growth in their economies. The first step includes investing in quality physical and digital infrastructure and regional connectivity with ASEAN countries in order to drive job growth, local productivity and capacity, and even greater FDI. Second, the region must also increase FDI linkages with domestic firms to make economies more competitive and provide more employment opportunities for the workforce. The third step they should take in diversifying the economy through investments is creating new sectors to mitigate risks of overdependence. The countries must also make investments in more labor-specific issues such as improving education and skills training to align the skills of the workforce with the type of skills needed by the labor
market and strengthening labor market institutions to curtail the low productivity and poor labor rights associated with the informal economy.

Significant efforts, such as the United States’ *Indo-Pacific Strategy Report*, have already been made to secure stability and prosperity in the Indo-Pacific region through supporting open investment environments, good governance, and freedom of the seas. The United States and other development partners, however, have a continued geostrategic role to play in these areas of development in order to make the region more competitive, provide better job opportunities, and prepare workers for the future, as well as offset China’s influential role and encourage standards and values more aligned with those of the West.

Some of the continued actions that the United States and other development partners can take include: (1) helping countries understand labor market trends and craft a prioritized strategy for the future of work through multi-stakeholder dialogues and through virtual networks on workforce development; (2) strengthening private sector development by mitigating barriers, establishing linkages and joint venture partnerships, and providing mentorship and education opportunities; (3) coordinating labor market analytics, sharing best practices and lessons learned, and identifying skills demand for more informed policymaking; and (4) helping countries adopt sustainable, high-quality infrastructure standards that provide transparency and adhere to environmental and social safeguards.
Cambodia has made significant economic and social progress in the last 16 years. The population living under the national poverty line has decreased from 50 percent in 2004 to 12.9 percent in 2018. This progress is attributed to an average growth rate of 8 percent driven largely by a surge in exports, primarily in the garments and tourism industries, which grew by nearly 20 percent annually. At the same time, there has been significant net job growth in the last decade largely attributed to the expansion of low-skilled service and industry jobs such as construction and manufacturing. However, most of the jobs are low quality with low productivity and persistent skills deficiencies.

Small household enterprises make up half of Cambodia’s jobs and are projected to continue growing, even with rapid urbanization. According to the World Bank, about 25 percent of rural households and 50 percent of urban households run their own enterprises. This means that 3 million people rely on family farming for their income and 1.4 million report household enterprises as their main source of income. A critical proportion of the population still relies extensively on agriculture and the natural resources of the Mekong Subregion. Agriculture makes up over 30 percent of the country’s employment, and while rice remains Cambodia’s primary crop, it is slowly decreasing in dominance through the expansion of “cash crops” such as cashew nut, corn, cassava, sugarcane, and rubber. The country still relies on fishing and other seafood as exports to China, Russia, Japan, and a few ASEAN countries. Increased industrial development
and dam construction affects fish breeding, migration, and fish supply, which is detrimental to the communities along the Mekong river.

Cambodia’s low productivity is in part due to the low education and skill levels of its labor force. Low-skilled occupations make up 94 percent of jobs in Cambodia. Women work in traditionally female industries that drive the country’s economy, such as garments. The World Economic Forum’s *Global Competitiveness Report 2019* shows Cambodia falling far behind in skills, ranking 120th out of 141. With an average age of about 25 and one-third of its citizens under 15, Cambodia has one of the youngest populations in Southeast Asia, making education even more important to national development.

While there have been many, often successful educational reforms over the last decade, Cambodia still has a long way to go. The quality of education is severely lacking: four-year-old Cambodian children, while expected to complete 9.5 years of school, will only receive the educational equivalent of 6.9 years of school in other countries. Moreover, by the age of 17, 55 percent of children will have dropped out of school. A recent report by the UN Children’s Fund (UNICEF) shows that a child starting first grade in school year 2016–2017 had a 51 percent chance of reaching ninth grade. Disparities in completion rate are prevalent for students from rural areas, where students are the most likely to drop out of school. OECD educational assessments on reading levels show urban students outperforming rural students by what is equivalent to over a year of schooling.

Cambodia still struggles due to a weak tertiary education sector, primarily a result of years of inadequate public funding as well as curriculum misalignment with market needs. Having the lowest enrollment rate of the ASEAN countries—at just 13.7 percent in 2018—Cambodian education hinders the development of the labor force, particularly in equipping students with the appropriate skills demanded by the labor market. An estimated 15 percent of Cambodian tertiary graduates have migrated to OECD countries as they struggle to integrate into the labor market.

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*Figure 1: Employment and Value Added (GDP) by Sector in Cambodia*

<table>
<thead>
<tr>
<th>GDP Sector Composition, 2018 (Value Added)</th>
<th>Employment by Sector, 2019 (% of Total Employment)</th>
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<tbody>
<tr>
<td>Agriculture: 42.1%  Industry: 23.5%  Services: 34.4%</td>
<td>Agriculture: 38.7%  Industry: 29.0%  Services: 32.3%</td>
</tr>
</tbody>
</table>

Myanmar has experienced democratic and socioeconomic transformation as it continues toward economic liberalization and opening up to FDI. Yet Myanmar’s economy and job market are largely agriculturally dependent (Figure 2). Rice is the primary crop, but Myanmar also produces sugarcane, lumber, sesame, beans, pulses, groundnuts, and fish.\textsuperscript{123}

As much as 80 percent of the workforce is informal, and about 70 percent of workers are in low-skilled and low-wage jobs in agriculture, with about 38 percent working unskilled manual labor jobs.\textsuperscript{124} Of Myanmar’s entire labor force, only about 17.5 percent are skilled and only 3 percent work as skilled technicians, managers, professionals, or associate professionals.\textsuperscript{125}

The quality of education is a challenge: Myanmar’s education system lags far behind global standards and poses one of the greatest setbacks to the nation’s labor force. In Myanmar, students only receive an average of five years of schooling, far below the average for developing countries (7.4 years).\textsuperscript{126} The poor national education standards are largely explained by lack of resources in schools. One such resource—access to the internet—is completely absent in primary schools and only available in 5 percent of secondary schools.\textsuperscript{127} Similarly, as in Cambodia, students are likely to drop out, even before finishing primary school. Low completion rates affect the economy for decades and the students into their adult life; only 25.8 percent of the adult population has at least some secondary education.\textsuperscript{128} The rural-urban gaps are present in both quality of and participation in education; whereas 69 percent of
urban children attended secondary school in 2014, only 34 percent of rural children did.\textsuperscript{29} The lack of physical schools, resources, and difficulties in transportation for rural students drive these trends.

Although a policy priority for the government, Myanmar also has weaknesses in higher education, with notable gaps in physical infrastructure and information technology, academic curriculum, quality of faculty, higher education administration and governance, and international engagement.\textsuperscript{130} These deficiencies manifest in a low graduation ratio in tertiary education of 13.1 percent.\textsuperscript{131}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure2.png}
\caption{Employment and Value Added (GDP) by Sector in Myanmar}
\end{figure}

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