

Labour Market and the Differences in Wages in Cambodia¹

Ao Leangchou, Phousovitou Phim, Yout Vathanak Cheat, Eminency Bunradar²

Abstract

Due to their implications for economic development and social welfare, the Cambodian labor market and wage differentials have been the topic of comprehensive research and analysis. The Cambodian labor market has experienced significant transformations over the past decades, driven by globalization, industrialization, and demographic changes. One notable aspect is the existence of substantial wage differentials across various sectors and occupations within the labor market. Studies consistently highlight the role of education and skills as important determinants of wage differentials in Cambodia. The level of education and the acquisition of specific skills are strongly associated with higher wages and better job prospects. Factors such as gender, age, and location also contribute to wage disparities. Women and older workers face lower wages than their male and younger counterparts, while individuals in rural areas generally make less than those in urban areas. The presence of foreign investment and the influence of the garment industry have also been significant factors affecting wage differentials in Cambodia. However, foreign investment companies have improved working conditions and wages for some workers. Understanding the dynamics of the Cambodian labor market and wage differentials is essential for policymakers, researchers, and stakeholders in promoting inclusive economic growth and reducing income inequality.

Keywords: Wage, differential, inclusive economic growth, wage disparity

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² Undergraduate student in Bachelor of Accounting and Finance, CamEd Business School, Phnom Penh, Cambodia

Introduction

The Cambodian labor market is undergoing significant changes due to rapid economic growth and industrialization, leading to wage disparities. Factors such as educational attainment, skills and training, gender inequality, and geographic disparities play crucial roles in shaping these differences. The level of education and skills individuals possess significantly influence wage differentials, highlighting the importance of quality education and training opportunities aligned with market demands (Patrinos & Psacharopoulos, 2018). Gender disparities persist, resulting in lower wages for women due to occupational segregation and discriminatory practices (UNDP, 2021). Geographic location further amplifies wage disparities, with urban areas offering higher wages due to industry concentration, while rural areas face lower wages due to limited job opportunities and lower productivity levels (Shambaugh & Nunn, 2018). FDI also plays a significant role in shaping the labor market by attracting investments and creating job opportunities; it can contribute to higher wages and improved working conditions, particularly in sectors that receive substantial foreign investment (Hale, 2021). In addition to FDI, the evolution of income inequality is an important aspect to consider. As Cambodia undergoes economic growth and industrialization, it is essential to monitor how income distribution patterns change over time. However, the effects of FDI on the labor market and household income can be complex. Therefore, careful analysis and policy measures are necessary to ensure that FDI contributes to inclusive growth and equitable worker outcomes. Nevertheless, the wage differential in Cambodia is still an issue, and this paper will provide insights into this problem.

Research Questions

1. The study seeks to provide answers to the following research questions:
2. What factors contribute to differences in earnings between workers in Cambodia?
3. What is the level of income inequality in Cambodia's labor market, and how has it evolved over time?
4. What is the impact of foreign investment on the labor market in Cambodia, and how does it affect wages and earnings differentials?

Research Objectives

- To identify the factors that contribute to differences in earnings between workers in Cambodia, including but not limited to education, experience, gender, occupation, and industry.
- To assess the level of income inequality in Cambodia's labor market using various measures such as the Gini index and to analyze its evolution over time by examining trends in wages, employment, and other relevant factors.
- To examine the impact of foreign investment on the labor market in Cambodia, including its effect on wages and earnings differentials. This will involve analyzing data on foreign investment flows, employment, and wage trends.

Literature Review

The labor market in Cambodia is a critical component of the country's economy, but there are notable differences in earnings between workers in different sectors, industries, and occupations. This literature review explores the factors contributing to earnings differences, including education, experience, gender, occupation, and industry. Additionally, the study assesses the level of income inequality in Cambodia's labor market over time, using measures such as the Gini index and analyzing trends in wages, employment, and relevant factors. Finally, the review examines the impact of foreign investment on Cambodia's labor market, including its effects on wages and earnings differentials, by analyzing data on investment flows, employment, and wage trends and conducting interviews and surveys with workers, employers, and stakeholders. By addressing these research questions and objectives, this literature review provides valuable insights into the labor market in Cambodia.

The study done by Wim van der Meer (2022) has identified the causes of income equality which we can use to help understand more about the current situation in Cambodia. It is stated that the factors that drive this inequality are globalization, technology, financialization, labor market regulation, tax and benefits, and other government interference. It also highlights the importance of tax and benefits, which, if not redistributed effectively, cause more income inequality. Overall, a few factors should be discussed to fully understand the cause of income inequality in Cambodia's labor market, and we need to emphasize the tax and benefits environment in the country.

The Cambodian labor market has undergone significant changes over the past few decades, transitioning from an agriculture-based economy to a more diversified economy with growth in the garment and tourism sectors (Sok, 2017). Although there may be significant growth in these sectors, the labor market still faces several challenges, including a high rate of informality, a lack of skilled labor, and job security and benefits for workers.

Like in any other country, education is critical for identifying workers' earnings in the Cambodian labor market. Workers who are highly educated or have higher levels of education tend to earn more than those with lower levels of education. Other factors that influence earnings in the Cambodian labor market include the sector of employment, region, and experience. Gender has also been identified as a significant factor, with women earning less than men in both the formal and informal sectors (Asian Development Bank, 2013).

This literature review provides insights into the factors contributing to earnings differences, income inequality, and the impact of foreign investment in Cambodia's labor market. Education, experience, gender, occupation, and industry are significant factors that affect earnings in the labor market. Various factors drive income inequality, including globalization, technology, financialization, labor market regulation, tax, and benefits. Despite significant growth in the garment and tourism sectors, the labor market still faces challenges such as informality, lack of skilled labor, job security, and worker benefits. Gender inequality persists in both the formal and informal sectors. To address these challenges, policymakers and stakeholders must implement policies and initiatives that promote skill development, job security, and gender equality in the labor market. This review provides valuable insights for labor economics researchers, policymakers, and stakeholders.

Methodology

This study's primary objective is to comprehensively examine the change in the labor market and its relationship with wage inequality in Cambodia. Secondary data was collected from reputable sources, including government statistical agencies, research institutes, and academic publications, to achieve this objective. The dataset incorporated various labor market indicators, such as average household income per capita, employment rate, and foreign direct investment (FDI) indicators. A descriptive analysis was conducted to gain a holistic understanding of labor market characteristics and provide a comprehensive overview of wage inequality measures. Additionally, regression analysis techniques, specifically the Pearson correlation test, were employed to explore the relationship between FDI and household income, shedding light on the impact of foreign investment on wage differentials. It is essential to acknowledge the limitations of this study, including potential biases associated with data availability and the reliance on observational data, which preclude establishing causality. Nevertheless, the findings of this research hold significant importance, as they contribute to a deeper comprehension of labor market dynamics and their influence on wage inequality in Cambodia.

Data Analysis

Factors that contribute to wage inequality

This section presents a comprehensive analysis of the factors contributing to wage inequality in Cambodia. The data utilized for this analysis was obtained from the 2019 Labour Survey conducted by the National Institute of Statistics under the Ministry of Planning.

One significant factor influencing wage inequality is the employment population's differences in education levels. According to the survey, in 2019, approximately 38% of the working population had only completed primary education, while a mere 6.6% had attained a university degree. This disparity in educational attainment is likely to impact wage differentials, as individuals with higher levels of education tend to possess specialized knowledge and skills that are in higher demand in the labor market.

Another contributing factor to wage inequality is skill and training disparities among occupational groups. The survey data reveals that professionals in Cambodia, on average, earned a monthly salary of 1,500,752 Khmer Riels in 2019. Conversely, individuals working in elementary occupations received an average monthly salary of 780,792 Riels. The discrepancy in earnings between these two occupational categories can be attributed to the disparity in the required skill sets and qualifications.

Although gender might impact the wage gap, the difference in earnings is not substantial. The survey findings indicate that in 2019, male workers earned an average monthly salary of 1,136,707 Khmer Riels, while their female counterparts earned an average of 1,002,341 Khmer Riels. The gender wage gap may arise due to various factors such as occupational segregation, discrimination, and differences in work experience and career progression opportunities. However, further investigation is required to explore these factors in detail.

Geographic location also plays a significant role in wage inequality within Cambodia. According to the survey, the average monthly salary in urban areas was 1,252,092 Riels in 2019, while in rural areas, it was 970,549 Riels. This disparity can be attributed to various factors, including differences in job opportunities, cost of living, and access to

resources and amenities. The higher average wages in urban areas may be influenced by the concentration of industries, services, and higher-skilled jobs, which offer more lucrative employment opportunities than in rural areas.

The 2019 Labour Survey data analysis highlights several key factors contributing to wage inequality in Cambodia. Differences in education levels, skills and training, gender inequality, and geographic disparities all contribute to wage variations among the employed population.

Effects of FDI on the labor market

Foreign Direct Investment (FDI) is a crucial economic growth and development source for many countries worldwide, including Cambodia. As a developing nation, Cambodia has heavily depended on FDI to drive its economic growth, particularly in the manufacturing sector. While FDI has brought many benefits to the country, including job creation and technological advancements, its impact on the wages and labor market has been a topic of intense debate. Some argue that FDI has improved wages and working conditions for Cambodian workers. In contrast, others contend it has contributed to labor exploitation and a widening wage gap. In this segment, we will explore the complex relationship between FDI and the Cambodian labor market, focusing on its impact on wages and working conditions.

Effect of FDI on Cambodia's household income

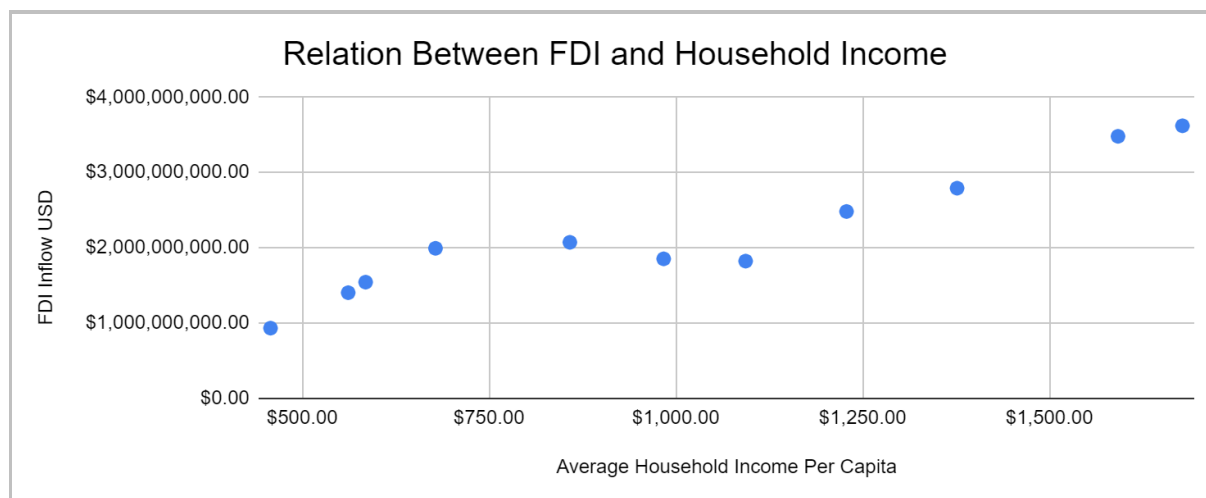
A correlation study needs to be conducted to know the effects of FDI on Cambodia's income size. Cambodia's FDI inflow has been collected from The World Bank from 2009 to 2021; this will be the independent variable of this study. Data on Cambodia's average household income per capita was collected from CIEC Data from 2009 to 2021, although data from 2018 and 2019 are missing.

Table 1: Household income per capita and FDI net inflows in Cambodia

Year	Household Income per Capita	FDI Net Inflows - USD
2009	\$457.57	\$928,393,617.00
2010	\$561.51	\$1,400,000,000.00
2011	\$584.86	\$1,540,000,000.00
2012	\$678.36	\$1,990,000,000.00
2013	\$858.20	\$2,070,000,000.00
2014	\$983.77	\$1,850,000,000.00
2015	\$1,093.47	\$1,820,000,000.00
2016	\$1,228.51	\$2,480,000,000.00
2017	\$1,376.49	\$2,790,000,000.00
2020	\$1,678.14	\$3,620,000,000.00
2021	\$1,591.88	\$3,480,000,000.00

Source: The data for household income per capita is from *Cambodia Household Income per Capita 2009-2021*, by CEIC DATA, ([Cambodia Household Income per Capita, 2009 – 2023 | CEIC Data](#)). The data for FDI net inflows - USD is from *Foreign direct investment, net inflows (BoP, current US\$)*, by The World Bank, ([Foreign direct investment, net inflows \(BoP, current US\\$\) | Data \(worldbank.org\)](#)).

Using the Pearson correlation coefficient formula, Rho is calculated to be 0.947, indicating a solid linear relationship between the two variables.



A T-test was also conducted to find the significance of the correlation. With a sample size of 11 and Rho of 0.947, T-value was calculated as 8.831, more significant than a critical value of 2.262. We then reject the null hypothesis and conclude that there is a significant correlation between the FDI inflow of Cambodia and the average household income in Cambodia.

In summary, FDI does affect Cambodia's household income. As FDI increases annually, so does the average household income per capita. However, this does not address the problem of wage inequality and the distribution of wages.

Effect of FDI on Cambodia's wage gap

Although the rise of FDI inflow increases the average household income in Cambodia, it does not positively affect income inequality. This is because the increase in FDI inflow results in the increase of foreign firms in the market. These foreign firms often pay more than domestic firms attracting more of the labor force (Chen et al., 2017). This movement impacts the wage inequality of a country. As FDI increases in a developing country, wage inequality also increases; however, in the long run, wage inequality slowly diminishes as FDI increases. This is because of the labor transfer effect, where skilled workers from foreign firms slowly move to domestic firms. The domestic firms would match the salary and wages of foreign firms, diminishing the wage gap. Technology spillover effects, where technology from foreign firms slowly makes its way to domestic firms, also impact the labor market. The technology spillover effect would eventually narrow down the wage gap between foreign and domestic firms (Chen et al., 2017). Therefore, the labor transfer effect and technology spillover effect will narrow wage inequality in the long term.

Evolution of income inequality in Cambodia

The evolution of income inequality in Cambodia has seen changes throughout the years caused by various factors. In the 1990s, Cambodia embarked on economic reforms and transitioned to a market-oriented economy. This period

saw an influx of foreign investment, economic growth, and urbanization. However, income inequality also increased, driven by factors such as unequal land distribution, limited job opportunities, and a concentration of wealth in certain sectors. As shown in research done by the Asian Development Bank, the Gini index increased from 0.38 to 0.42 between 1993 and 1997 (*Rural Development for Cambodia: Key Issues and Constraints*, 2012).

Since the early 2000s, Cambodia has made significant strides in poverty reduction and narrowing income inequality. The government, in collaboration with international partners, has implemented various policies and initiatives to address these challenges. Investments in education and vocational training programs have aimed to improve human capital development and provide individuals with better employment prospects. Social protection programs, including cash transfer schemes and targeted subsidies, have been introduced to alleviate poverty and reduce inequality.

Moreover, sustained economic growth, driven by industries such as garment manufacturing, tourism, and agriculture, has contributed to increased job opportunities and higher incomes for many Cambodians. Efforts to promote rural development, enhance infrastructure, and expand access to financial services have also played a role in reducing income disparities between urban and rural areas (*Reducing Poverty and Inequality in Rural Areas: Key to Inclusive Development* | DISD, 2021). However, despite these positive developments, income inequality still persists in Cambodia. Challenges remain in addressing the rural-urban divide, informal employment, and access to quality healthcare and education.

Additionally, due to the lack of data, Cambodia's current income inequality level is still unknown. However, assumptions can be made to find the progress or changes in recent years by taking the COVID-19 pandemic into account. A recent study by the World Bank has shown that Emerging and developing economies, as well as lower-income countries, have experienced an increase in in-country income inequality due to factors such as job loss and reduction in income (Adarov, 2022). As Cambodia also experienced similar factors and is among the study group too, we can assume that income inequality in Cambodia has also risen during the study period.

Conclusion

In conclusion, as a nation experiences economic development and rising wages, it is accompanied by an increase in wage inequality. This can be attributed to several factors, including disparities in education, skills, training, gender, and geographic location. Additionally, foreign direct investment (FDI) has a notable impact on the labor market, with our study revealing a positive relationship between FDI inflow and Cambodia's average household income per capita. However, it is important to note that wage inequality may persist initially but is expected to gradually diminish over time due to technological spillover and labor transfer effects. These findings emphasize the need for policies and interventions that address education gaps, promote skill development, address gender inequality, and reduce geographic disparities. By effectively managing FDI and implementing measures to mitigate wage disparities, Cambodia can work towards creating a more equitable labor market and fostering sustainable economic development.

Recommendations

The impact of Foreign Direct Investment (FDI) on the labor market is a significant factor, as evidenced by our study revealing a positive correlation between FDI inflow and Cambodia's average household income per capita. Despite

this positive trend, wage inequality has also expanded, although it is expected to gradually decrease due to the diffusion of technology and the transfer of labor effects.

In light of these findings, we propose three essential recommendations aimed at mitigating the rate of income inequality. Firstly, we emphasize the critical role of education policy. Recognizing that education is a cornerstone of economic development, fostering well-trained and skilled labor is essential for higher earning potential. Our suggested policies focus on equitable access to basic education, reducing dependence on socioeconomic factors. This involves upgrading and expanding educational infrastructure, particularly in remote areas, to provide modern tools, programs fostering 21st-century skills, and improved accessibility for differently-abled children. Enhancing teaching quality and methods is another focal point, including teacher training, professional development, and curriculum refinement for optimal learning experiences (*ADB developing project to improve Cambodian industry: Labour Minister, 2023*). Furthermore, expanding technical and vocational education and training programs aligning with labor market needs and encouraging entrepreneurship can equip youth with employable skills, boosting their prospects (*ADB developing project to improve Cambodian industry: Labour Minister, 2022*).

Secondly, labor policy assumes a pivotal role. Without effective labor policies, skilled labor might opt for alternative markets or migrate abroad. Gender equality and equal pay are crucial components promoting fairness and eliminating gender-based wage disparities. Strengthening labor rights by ensuring fundamental freedoms, collective bargaining, and protection against discrimination enhances workers' empowerment and negotiation capabilities. Additionally, extending social protection coverage to all workers, particularly those in the informal sector, fosters reduced income inequality and provides a safety net against economic fluctuations. This includes accessible social security benefits encompassing healthcare, unemployment insurance, and parental leave (*Reducing poverty and inequality in rural areas: key to inclusive development | DISD, 2012*).

Thirdly, as Cambodia is still an agriculture-based country, trying to improve the livelihoods and income of those in rural areas can reduce the income gap between city dwellers and rice farmers. Cambodia can move in directions that will help raise productivity and farmers' incomes by investing in improved irrigation and water management, strengthening extension services, and supporting farmers in learning modern, higher-earning, lower-cost farming practices, including organic and environmentally clean farming and product branding; and providing access to credit for farmers. These efforts aim to enhance agricultural productivity, create employment opportunities, and improve the livelihoods of rural communities. (*Rural Development for Cambodia: Key Issues and Constraints, 2012*).

In summary, our study underscores the importance of FDI's influence on Cambodia's labor market and income distribution. The recommendations we propose encompass robust education policies for skill enhancement and inclusive labor policies, both of which are pivotal for achieving sustainable economic growth and reducing income inequality. Successful implementation will require collaborative efforts from government bodies, educators, parents, and communities to ensure comprehensive policy success.

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