



Cambodia's Development Dynamics – Behind the Headlines

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Manila

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Cambodia's nation-branding: headlines one often hears

- ***Begins with three negatives* - post-conflict, aid-dependent, least developed**
- ***Shallow growth* – “growth without development” (Ear, 2013)**
- **“Cambodia’s Growth to continue, but development faces shortfall” - Cambodia Daily, 19 April 2013, referring to a UN-ESCAP Report**
- ***Increasingly inequality* – “falling poverty, rising inequality” Hill and Menon, 2013**
- ***Deforestation* - “loss of forest in Cambodia among the worst in the world”, Cambodia Daily, 19 November 2013 referring to a study by the Science journal**
- ***NGO Regulation* – “western donors must stand up to Cambodia’s government” The Guardian, Poverty Matters Blog, 9 May 2011**
- ***Ends with a bleak future too* – “Cambodia is one broken government away from disaster” – Ear, 2013**

Against that backdrop, three questions addressed here

- **How far has Cambodia come since the early-to-mid-1990s in its development journey?**
- **What to aim next? What should and could be the development destination over the next two decades?**
- **What would it take to reach that destination?**

CDRI's September 2013 report



CDRI - Cambodia's leading independent
development policy research institute

Cambodia's Development Dynamics: Past Performance and Emerging Priorities



A CDRI Publication
September 2013

Key messages

- **Cambodia travelled a long distance in its development journey – (growth, human development, poverty reduction, gender equity, health care, education, governance and democratization)**
- **But the distance to any ambitious yet pragmatic destination (of say, a poverty-free, upper-middle income, inclusive, healthy society, educated people, and a mature democracy) is quite long too**
- **The next part of the journey could be bumpier – keep the seats in upright position and the seatbelts fastened**
- **But before moving ahead, a flashback to the 1990s - “growth expectancy at Cambodia’s rebirth” then was very low; and the expected “under-five mortality rate” was very high too!**

A note on methodology – a method to madness

- **Done in a multi-country, comparative perspective**
- **Comparator countries – (Laos, Myanmar, Vietnam, Bangladesh, Nepal, Pakistan),**
- **Benchmark countries (Indonesia and Thailand)**
- **Choosing comparator and benchmark countries – a method to madness**

Per Capita GDP: 1950-1990 (1990 International Geary-Khamis dollars)

Year	Cam	Laos	Myan	VNam	Bangla	Nepal	Pakistan	Indo	TH
1950	482	613	396	658	540	496	643	803	854
1960	671	679	564	799	545	607	647	1012	1078
1970	647	748	642	735	630	653	952	1181	1694
1980	828	876	828	757	549	652	1161	1870	2554
1990	881	929	786	1025	631	825	1588	2514	4633

Growth and human development – remarkable performance

- **Fastest growth - CAM's 7.8% average GDP growth and 6% per capita income growth for 20 years (1994-2013) – the fastest among CCs**
 - **Largest increase in agricultural production and yield – 3.7 times and 2.1 times (1990-2011) – the highest among CCs**
 - **Second highest increase in HDI – 40% (1995-2012), lower than only Bangladesh (46%)**
 - **Lowest inflation - CAM's 5.5% average inflation rate (1990-2011) - lowest among CCs**
- (Since WWII, only 16 countries in the world have achieved an annual average GDP growth of 7% or more for 25 years or more; Vietnam joined this coveted country club of high performing countries in 2011 -- CAM could be next)**

Poverty reduction and inclusion – equally impressive (1994-2011)

- **Poverty reduction (\$1.25) – 2 pp a year (1994-2009), better than Laos, Bangladesh, and Pakistan but lower than Vietnam and Nepal (3.1pp)**
- **Largest reduction in income/consumption inequality – decline of consumption GINI by 7.3 pp; 28-31 range in 2011 (More recent WB estimate even lower at 28)**
- **Second largest improvements in income/consumption polarization – the ratio of consumption share of the richest 20% to the poorest 20% fell by 0.5 pp to 5.3 (More recent WB estimate even lower at 4)**
- **Gender equality - Outcomes (UNDP) better than South Asian comparators but worse than Southeast CSs; but ahead of all the CCs in terms of institutional framework (OECD)**

Health – substantial progress (1994-2011)

- **Largest reduction in HIV – 0.7 PP in 1994-2001**
- **Largest reduction in TB incidence – 19% during 1994-2011 - (537 to 424)**
- **Second largest reduction in infant and child mortality rates – 59% and 64% during 1994-2011 (only Bangladesh better)**
- **Second largest reduction in maternal mortality rate – 55% during 1994-2011 – (only Vietnam better)**
- **Third largest increase in life expectancy – 8 yrs during 1994-2012 (less than Laos and Nepal)**

Things to keep in mind – most of CAM's health infrastructure – hardware and software – destroyed in late 1970s – most of the 1000plus doctors were killed

Education – somewhat mixed record (1994-2011)

- **Second largest increase in primary enrollment (next to Pakistan)- now close to universal primary education**
- **Lower increase in secondary enrollment rate – now 47% - lower than Vietnam, Bangladesh, and Myanmar but higher than the other CCs**
- **Lower tertiary enrollment too – now 14% - lower than Southeast Asian CCs but higher than the South Asian CCs**
- **Impressive mean years of schooling - at 5.8 yrs the highest among the CCs – but with significantly shorter schooling hours**
- **Population with at least secondary education – at 16% lowest among the CCs, also at 47 primary student-teacher ratio the highest**

Once again things to keep in mind – 1975-79 – 75% of school teachers and 96% university students killed and most of the education hardware destroyed

Natural resources and the environment – depleted but robust still (1990-2011)

- **Highest deforestation rate, yet today's forest cover of second highest among the CCs - 56% (less than only in Laos -68%)**
- **Annual internal freshwater withdrawal the lowest among the CCs – 1.8 % in 2011**
- **Per capita fisheries production lower than only Myanmar and Vietnam – 39 kgs (Myanmar - 81kgs and Vietnam – 59kgs)**
- **Largest increase in CO2 emissions during, yet the level higher than only Laos and Nepal**
- **Particulate matter concentration now third lowest – higher than only Nepal and Myanmar**

Access to basic services – much less impressive (1994/1998-2011)

- **Poor drinking water – despite a 35% increase, only 64% of the population has access to improved water – the lowest among the CCs**
- **Poor sanitation – despite over 20% increase, only 31% of the population has access to improved sanitation (the lowest rate among the CCs, along with Nepal)**
- **Equally poor electrification – at 37% in 2011, the percent of the population with access to electricity higher than only Myanmar's 13%**
- **Also poor access to modern cooking fuel – at 10%, households with access to modern cooking fuel is higher than in Laos (2.6%), Myanmar (3.4%), and Bangladesh (8.8%) but lower than the other CCs.**

Governance - uneven progress - (2011 WB indicators)

- **Regulatory quality – ahead of all the CCs**
- **Govt. effectiveness – lower than only Vietnam**
- **Voice and accountability – better than the SE Asian CCs but not as much as the SA CCs**
- **Political stability – lower than Laos and Vietnam but higher than the other 4 CCs**
- **Rule of law and corruption control – better than only Myanmar**

Democratization – Cambodia’s democracy more mature to its age? (2012 EIU rankings)

- **Overall democracy Index – better than all CCs but Bangladesh**
- **Electoral Process and pluralism – only Bangladesh better**
- **Civil Liberties – lags South Asian CCs, but better than the Southeast Asian CCs**
- **Functioning of Government – better than all CCs**

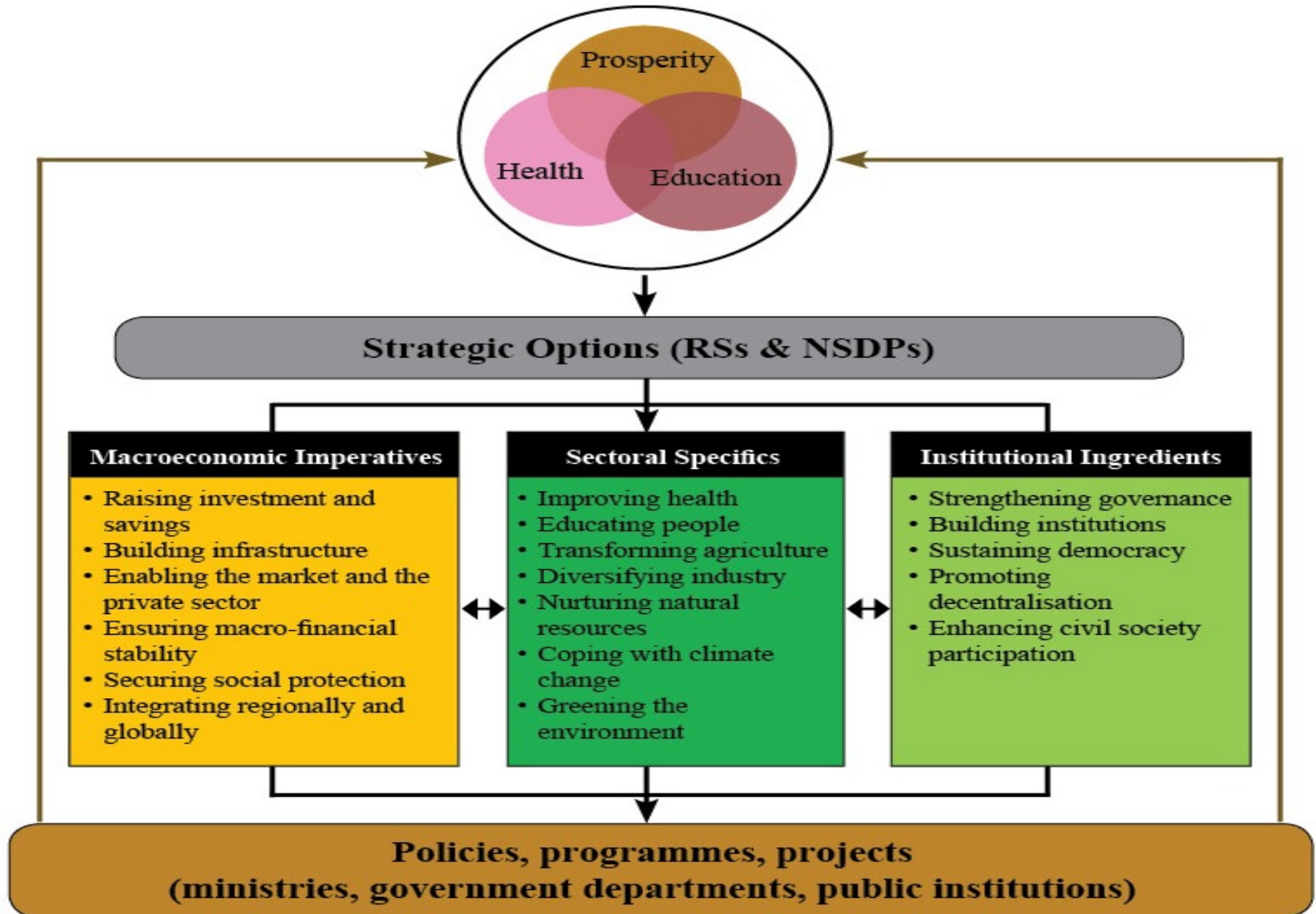
Overall, has travelled a long distance, but distance to destination equally long

- **Still low income country - per capita income lower than Laos, Vietnam, and Pakistan (could graduate to LMIC soon)**
- **Predominantly a rural economy – at 23% lowest share of urban population among the CCs**
- **High vulnerability of the near-poor – small fluctuations in income can push many back to poverty; recent improvements in inclusion difficult to sustain**
- **Significant health gaps still – TB incidence, reproductive health (especially child mortality and malnutrition)**
- **Inadequate education – at 47%, secondary enrollment is only higher than Bangladesh and Myanmar; at 14%, tertiary enrollment is higher than only Myanmar; large skill gaps**
- **Inadequate basic services – sanitation, water, electricity, and cooking fuel, social protection**

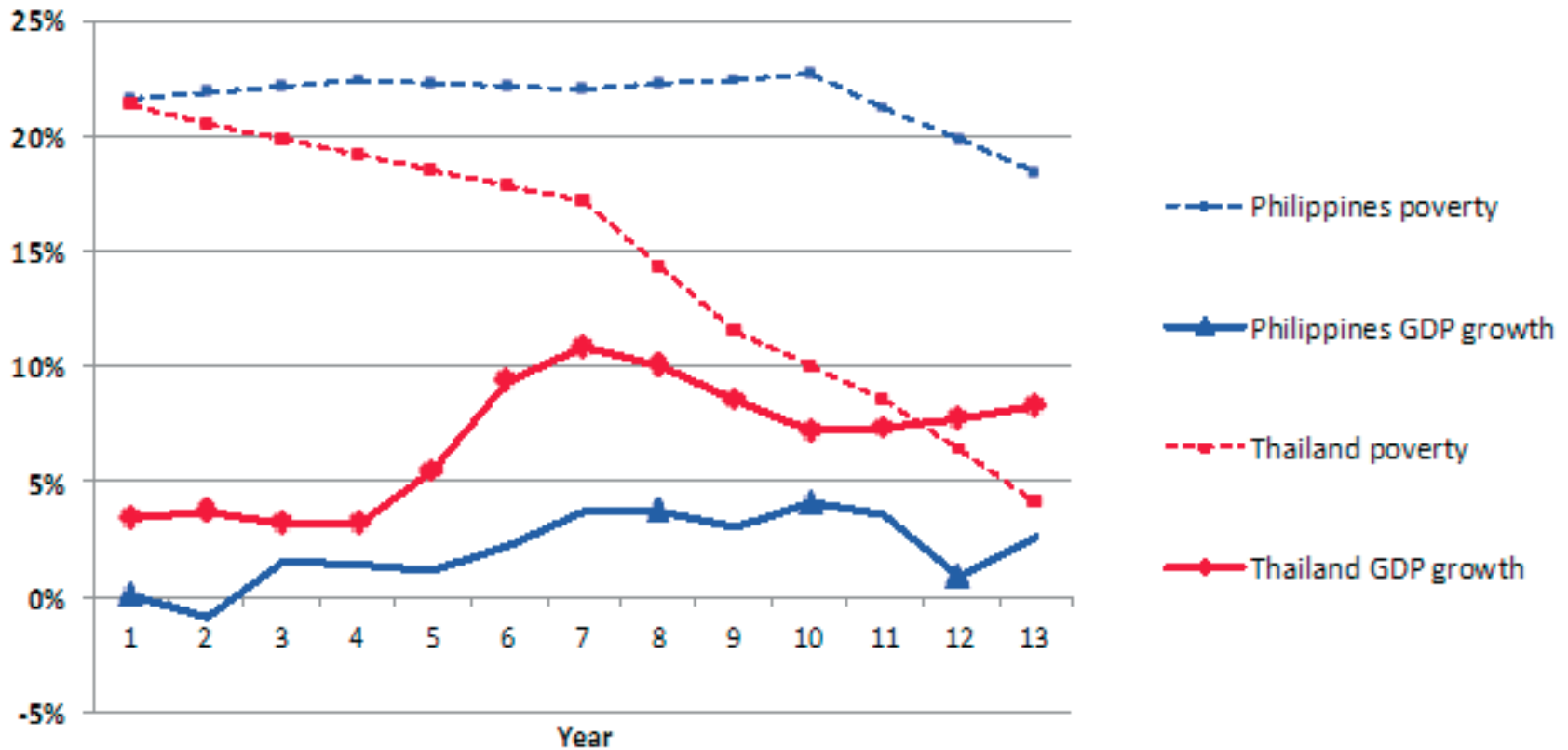
What to aspire for in the next two decades? ambitious but pragmatic enough

- ***Shared prosperity***
 - **upper middle income country; poverty eradicated by 2025; incomes of the bottom 40% grows faster than the rest; GINI kept below 40; basic services (safe drinking water, clean cooking fuel, modern sanitation and electricity) for most**
- ***A healthy society***
 - **longer, healthier life; safe child birth and healthy childhood; nutrition for all; and controlling contagious diseases**
- ***An educated people***
 - **quality universal primary education; quality secondary education for most; three-fold increase in people with at least secondary education; four-fold increase in tertiary education (and a six-fold increase in STEM subjects)**
 - **What role for TVET?**

What would it take to realize the aspirations?



Sustained growth crucial for poverty reduction even after the 20% mark - experience from two neighbors



Note: Thai. during 1981-1993 and Php. during 1997-2009
Source: World Bank staff estimates

Strong growth comes with a high price tag

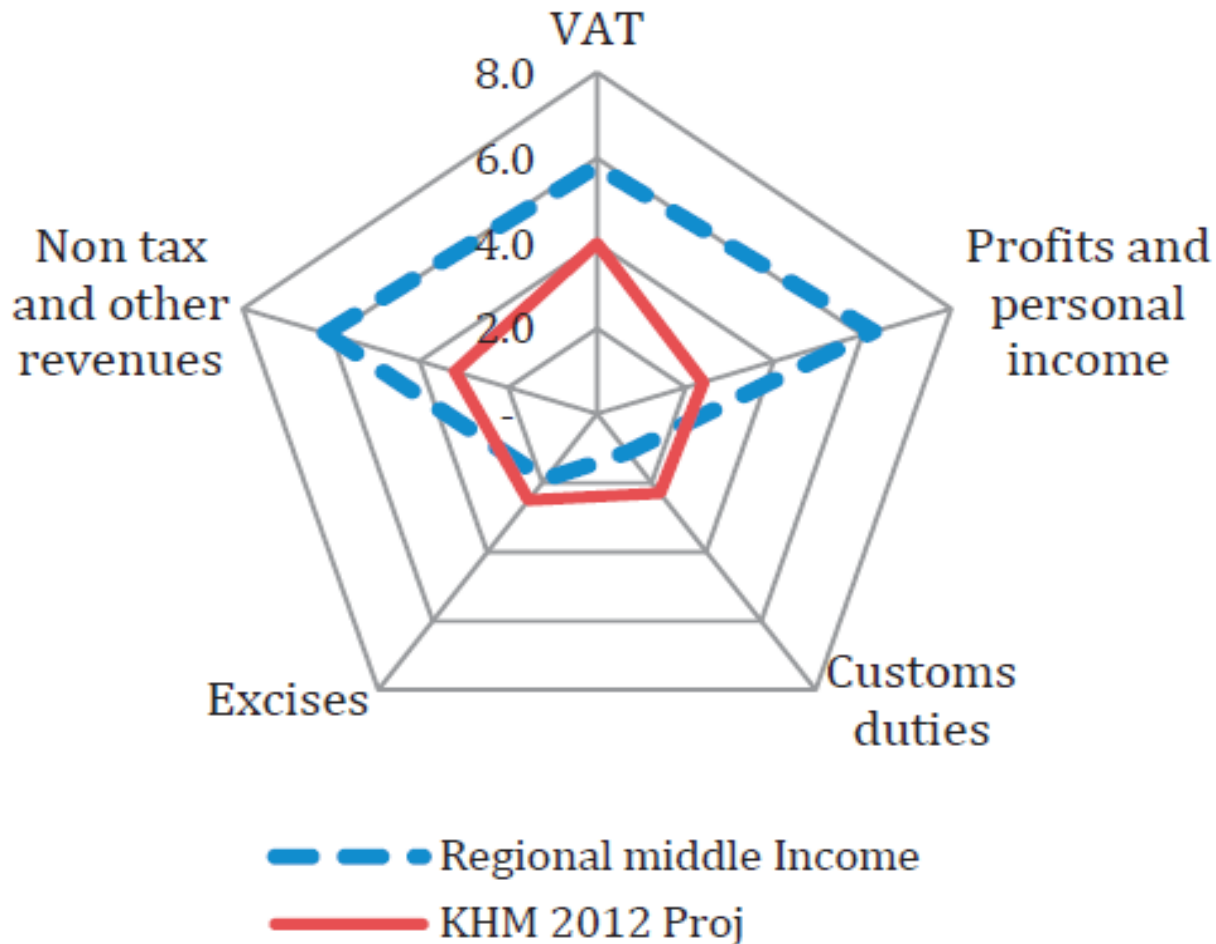
“Strong, enduring growth requires high rates of investment... If the sustained, high growth cases are any guide, it appears that overall investment rates of 25 percent of GDP or above are needed ... They often invested at least another 7-8 percent of GDP in education, training, and health, ... although this is not treated as investment in the national accounts”

Commission on Growth and Development (2008), “The Growth Report: Strategies for Sustained Growth and Inclusive Development”

Raising investment – back to basics

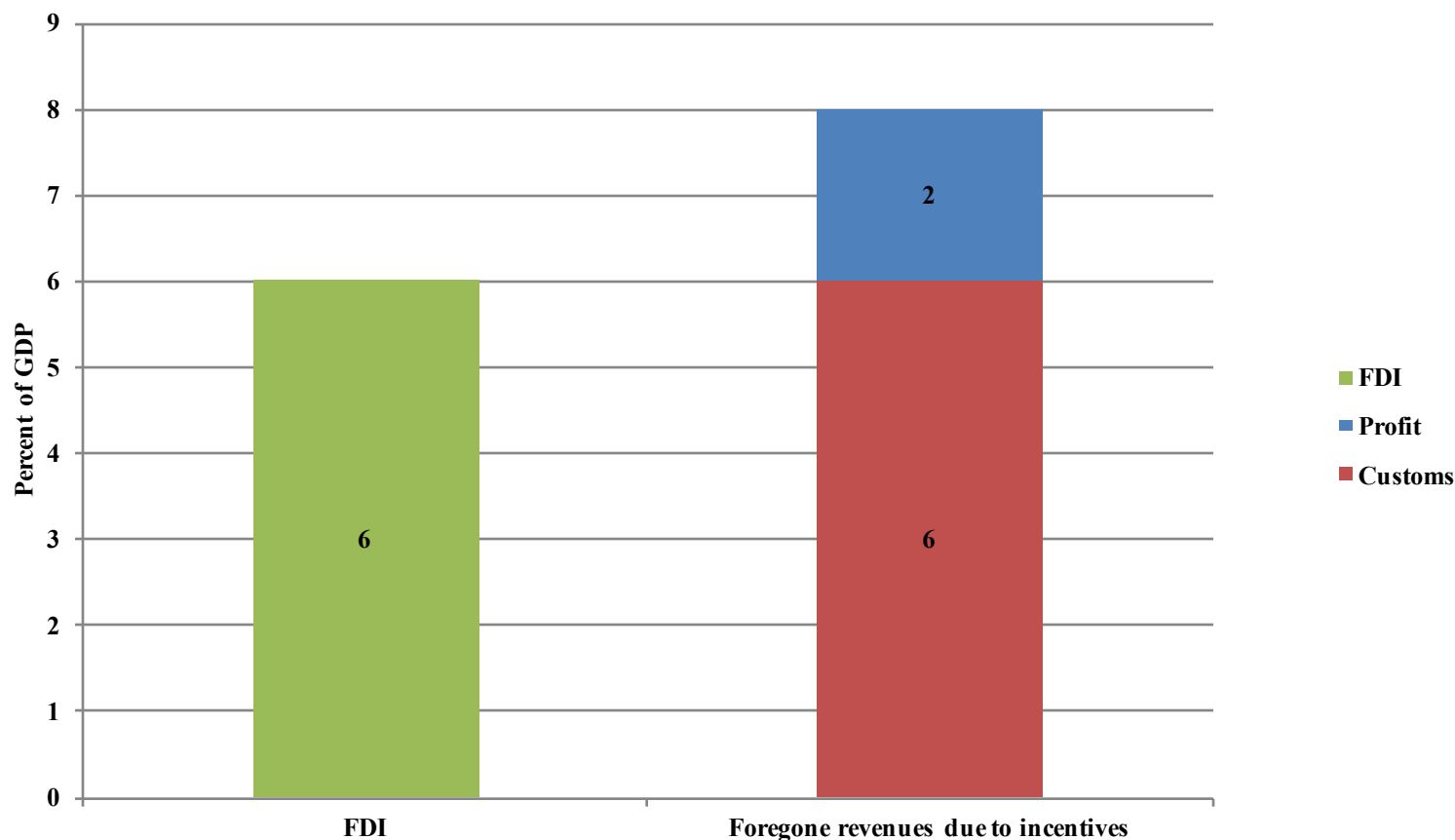
- ***Holding public investment stable***
 - **Raise both tax and non-tax revenues through tax rationalization and better compliance**
 - **Gradually phase out fiscal incentives for FDI – forgone revenues now about 8% of GDP - larger than the FDI inflows)**
- ***Raising private investment (including FDI)***
 - **Leverage the “cost advantage” to benefit from Factory Asia’s continued industrial relocation**
 - **Reduce cost of doing business – simplify the business processes (huge impact in a relatively short time)**
 - **Build infrastructure (electricity, transportation, and communication)**
 - **Skill the youth to match the demands of industrialization (Leverage AEC’s freer movement of labor across borders over the medium term)**

Raising fiscal revenues – large potential (% of GDP)



Source: Cambodia Vision 2030, Input Paper 2, P.7

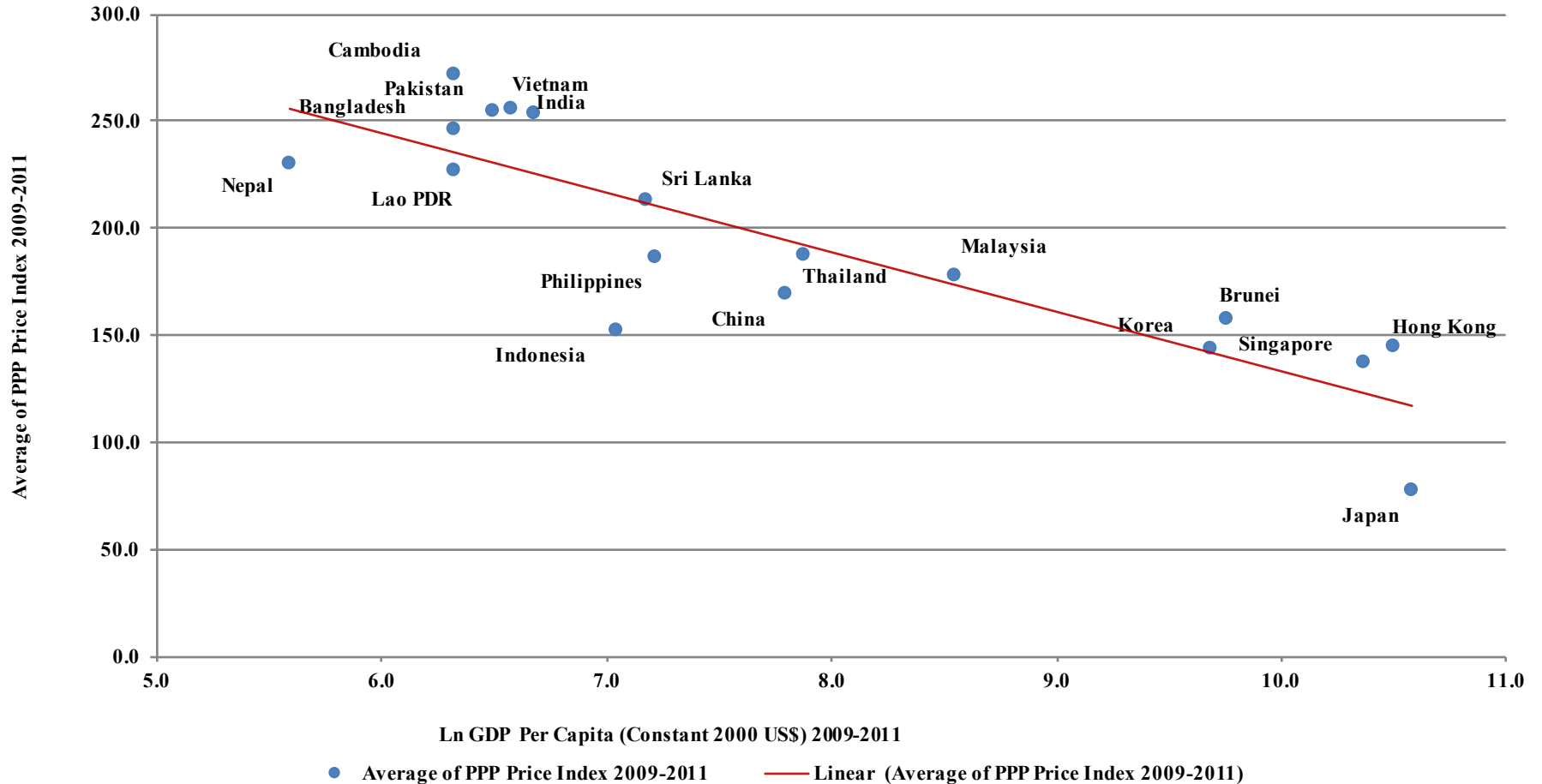
Phasing out fiscal incentives for FDI – an option?



Source: Cambodia Vision 2030, Input Paper 2, P.22

Leveraging the cost advantage – significant scope

GDP Per Capita (at 2000 USD) and PPP Price Index (2009-2011) - ASIA



Need a much better business environment (Rank out of 185 Countries), 2013

Economy	Ease of doing business rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Cambodia	133	175	149	132	115	66	118	142	152
Laos	163	81	87	138	74	126	160	114	185
Vietnam	99	108	28	155	48	138	74	44	149
Bangladesh	129	95	83	185	175	97	119	182	119
Nepal	108	105	97	96	21	114	171	137	121
Pakistan	107	98	105	171	126	162	85	155	78
Indonesia	128	166	75	147	98	131	37	144	148
Thailand	18	85	16	10	26	96	20	23	58

Far too much time wasted in doing business (duration), 2013

Economy	Ease of doing business rank out of 185 countries	Starting a business (days)	Dealing with construction permits (days)	Getting electricity (days)	Registering property (days)	Paying taxes (hours per year)	Trading across borders (days)		Enforcing contracts (days)	Resolving insolvency (years)
							Time to export (days)	Time to import (days)		
Cambodia	133	85	652	183	56	173	22	26	401	6
Laos	163	92	108	134	98	362	26	26	443	no practice
Vietnam	99	34	110	115	57	872	21	21	400	5
Bangladesh	129	19	201	404	245	302	25	34	1,442	4
Nepal	108	29	115	70	5	326	41	38	910	5
Pakistan	107	21	222	206	50	560	21	18	976	2.8
Indonesia	128	47	158	108	22	259	17	23	498	5.5
Thailand	18	29	157	35	2	264	14	13	440	2.7

Building infrastructure

- **Infrastructure – increased access to quality electricity, roads, railways, ports, airports, and IT at affordable prices**
- **Electricity – large potential for hydropower, but need credible socio-environmental impact assessments**
- **Move from directly negotiated IPPs to transparent, competitive bidding process**
- **Work towards a national power grid**
- **Expand port and road transport capacity**
- **Leverage GMS's infrastructure program**
- **Forge stronger ties with China in infrastructure development**

Schooling, learning, and skilling

- **Multiple problems – low enrollment, late entry, shorter school hours, and early exit (drop outs)**
- **Focus not just on schooling but on learning, and skilling too (putting education to work) -**
- **Shorter school hours, largely due to huge shortage of a teachers – an initial constraint on learning**
- **Import teachers/teacher trainers to bridge the gap in the medium term?**
- **Build on the recently initiated learning assessment for grade 3 and expand it.**
- **Strengthen higher education governance**
- **Leverage TVET in the medium term (Scope for PPP?)**
- **Gradually double public spending on education from 2.6% of GDP, but with better budgeting, execution, and monitoring**

Caring for health – need for integrated interventions

- **Draw on the HIV/aids control program to combat TB**
- **Make the Health Equity Fund more user-friendly**
- **Improve public provision of drugs and medicine**
- **Focus on reproductive healthcare – nutrition-based maternal and child health**
- **Build on the Baby-friendly healthcare program to have a nation-wide ECD program**
- **Increase public health expenditure (now 2.1% of GDP) and improve its efficiency (Eg., decentralization)**
- **Poverty-education-health-nexus – an integrated interventions needed (along with efforts at providing basic services - safe drinking water, modern sanitation and cooking fuel)**

Strengthening governance and modernizing institutions

- **Focus on corruption, regulatory quality, and government effectiveness – ADB’s trio in the governance-growth nexus**
- **Balance these with the other trio – voice and accountability, rule of law, and political stability**
- **Simplify business processes (will reduce corruption too)**
- **Develop a modern Public Financial Management system**
- **Hasten civil service reforms for better public administration**
Bring government and governance closer to the people – more scope for local self-governance
- **Support the ongoing political decentralization with administrative and fiscal decentralization**
- **The cure for the evils of democracy is more democracy?**
(The challenge is one of blending local realities and international best practices, with the AEC bringing in an added regional dimension)

Issues not covered – not because they are unimportant

- **Ensuring macro-financial stability (de-dollarization?)**
- **Managing structural change – agricultural transformation, industrial diversification, and urbanization**
- **Coping with climate change, nurturing natural resources (including extractive industries), and managing the environment**
- **Securing land ownership (land titling, ELCs, SLCS etc)**
- **Adjusting to the AEC, RCEP, and beyond**
- **Bringing about better policy coherence – coordination within the government and among policymakers**
- **Avoiding “a few bad ideas” in development**

Questions in conclusion!

- ***“The political problem of mankind is to combine three things: economic efficiency, social justice, and individual liberty” (John Maynard Keynes)***
- **Close to being an “impossible development trinity”?**
- **In the post-war years, few countries can claim to have achieved these three transformations simultaneously, albeit at varying degrees**
- **Is Cambodia one of those few? Is it on course to be one at least?**
- **A nation-rebranding and headline redrafting needed? Perhaps yes!**

Main sources

- **ADB, ADO Update, October 2013**
- **Cambodia Vision 2030: Input Papers, October 2013**
- **CDRI, Cambodia's Development Dynamics: Past Performance and Emerging Priorities, September 2013**
- **Hall Hill and Jayant Menon, Cambodia: Rapid Growth with Institutional Constraints, ADB Economics Working Paper Series no. 331, 2013**
- **Sophal Ear, Aid: How Foreign Assistance Undermines Democracy in Cambodia, Columbia University Press, New York, 2013**
- **World Bank, Where Have All the Poor Gone? Cambodia Poverty Assessment 2013, November 2013**



Thank you!

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