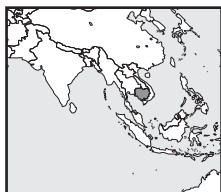


## Economic growth must be re-directed



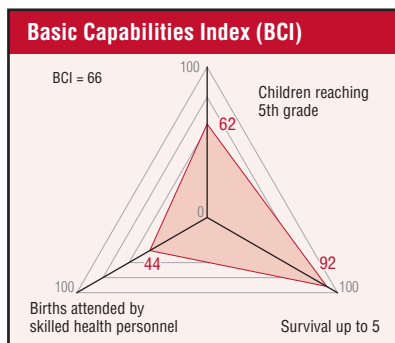
After two decades of war, Cambodia is rebuilding its State institutions. Economic growth has been high, but the country needs significant investment in human resources, especially in areas such as education and health. The global economic crisis is having a devastating impact, jeopardizing the realization of some national development programmes. Some NGOs are defending the rights of indigenous peoples, which have been threatened by government land concessions for plantations and development infrastructure. Other NGOs are demanding greater budget transparency.

SILAKA  
Gender and Development of Cambodia  
COMFREL  
NICFEL  
NGO Committee on CEDAW  
The NGO Forum  
CEDAC  
Thida C. Khus

From 1997 to 2007, Cambodia enjoyed an average economic growth of 9.5% annually, including a double-digit increase during the years 2005-2007. Although the gross domestic product (GDP) continued to climb quickly in the first half of 2008, in the final months of the year the economy was crippled by the global meltdown. The collapse of the local real estate market, along with a slowdown in garment exports and foreign tourism, dragged 2008 growth down to 5.5%. For 2009, the Government has predicted a 6% increase in GDP but international institutions are much gloomier about the country's prospects. The Asian Development Bank expects 2.5% growth; the International Monetary Fund a meagre 0.5%; and the World Bank predicts a contraction of -1%.

Cambodia's economy relies heavily on tourism, garment exports, construction and agriculture, all industries extremely vulnerable to the global meltdown. Services industries, mainly tourism, have been the main source of income, and the recent decline in foreign visitors – down 2% in January 2009 from a year earlier – is expected to worsen over the next two to three years.<sup>1</sup>

Cambodia also relies on remittances from exporting labour abroad, primarily to Thailand, Malaysia and South Korea. As of the first quarter of 2009, Thailand and Malaysia had cancelled all imports of labour, and Korea had cut the quota for Cambodian workers for 2009 to 1,000, one-quarter of the 2008 rate.<sup>2</sup> Employment has also plunged in the garment industry. By March 2009, 51,000 of 400,000 total jobs had disappeared. More than 90% of the workers laid off were women from rural communities, who typically send much of their income home to support siblings in school. Garment factories are operating at only

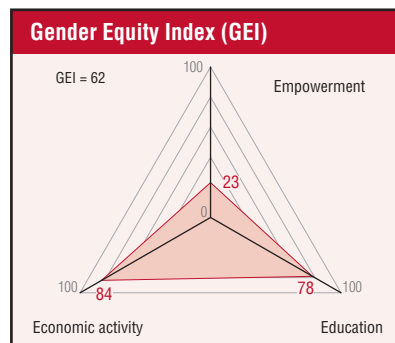


40%-50% of capacity, and more than 80 factories have shut down entirely. The Government has given garment manufacturers generous incentives to keep them in business, but has not provided significant support to the garment workers. Unable to survive on a minimum wage too meagre to cover living expenses, many of them have gone home to farm.

The cost of food and oil skyrocketed in the first half of 2008, accelerating a rise in the consumer price index (CPI) from 13.7% in January 2008 to 25.7% in May. However prices of basic commodities eased during the second half of the year, and CPI inflation slowly followed, hovering at 13.5% in December.

The sudden increase in the global price of rice provided a handsome profit for rice surplus traders, but cut deeply into the food security of 31% of the population<sup>3</sup> – nearly 4 million people who do not produce enough rice to meet their own needs.<sup>4</sup> People living around Tonle Sap, the country's major lake, are especially vulnerable, since they had already gone into debt to make ends meet. Last year they had to sell productive assets and pull their children out of school to go to work. The Government has responded with a USD 40 million food emergency programme for vulnerable populations in these provinces.

Real estate prices went through the roof from 2005 to 2008, and the Government responded by jacking up the bank security rate, from 8% to 16%



(later reduced to 12% as the global financial crisis began to bite) and introduced monetary measures to deter banks from extending credit for property development. Since 2008, real estate in Phnom Penh has been plunging, and is already down 30%-40% from its 2008 peak, causing heavy losses among investors.<sup>5</sup>

Compared to financial institutions in other parts of the region and in the West, Cambodian banks appear to be functioning quite well. Their interest rates range between 3% and 7%, depending on the amount and duration of the investment. However, some economists have expressed concerns about non-performing loans (those in or close to default), which have reached 3.4% in Cambodia, compared to 5.7% in the Asian Pacific and 1.8% in developed countries<sup>6</sup>, as well as about the inadequacy of the infrastructure for extending credit to agribusiness.

### The challenge to human development

Notwithstanding recent socio-economic progress, Cambodia remains one of the poorest countries in Asia. In the decade ending in 2007, the national poverty rate edged down from 34.8% to 30.1%, but given the high and rising levels of inequality and vulnerability, it is likely the food and energy crises of 2008 have set back efforts to alleviate poverty.

Due to the weakness of public health services, even families of modest means can fall into poverty when a member gets sick. The Government has introduced programmes to provide free

1 Tith Chinda, Director General of the Ministry of Tourism, 12 March 2009.

2 Ministry of Labor and Vocational Training, via Free Asia Radio, 7 April 2009.

3 Chan Sophal. "Impact of High Food Prices in Cambodia." *Annual Development Review 2008-09*.

4 In the nine villages studied by CDRI in 2001 and 2004, up to 65% of households did not cultivate enough rice for their own consumption.

5 Cambodia Reality. *Seng Bunna, Bunna Reality*, 20 March 2009.

6 *Ibid.*

medical care to poor families, but these tend to be inadequate and unreliable. Policy makers have been considering several safety net options for the general population, but none have been implemented.

Other development indicators are distressing, especially the maternal mortality rate. According to the Cambodia Demographic and Health Survey, it has remained stagnant at a high level: 432 per 10,000 live births in 2000 to 472 per 10,000 in 2005. Five women per day die giving birth, the same number as 9 years ago. Dr. Te Kuy Seang, Secretary of State of the Ministry of Health, declared that his office does not have the funds to implement its plan to increase the number of midwives by 300, from the current 3,000, and build facilities for expectant mothers in rural communities.

Girls still experience discrimination within both their families and the public educational system. In 2007, girls made up 47% of the enrolment in primary school, 46% in lower secondary school, 40% in upper secondary school and only 35% in higher education. To address this inequality, the Government and international organizations have been introducing programmes to provide school meals, free boarding for girls, scholarship awards and other incentives for girls, however these programmes have yet to reach the entire population.

At projected growth rates for 2009, the likelihood of raising sufficient revenues to finance the planned social programmes appears limited. For a variety of reasons, ranging from natural disasters to inadequate agricultural policies, both the distribution of food and access to it are becoming problems for a significant and growing portion of the population. The Government is providing food to the World Food Programme, which is currently assisting more than 1 million Cambodians. It is also altering the current budget to increase the allocation to the Rural Development Bank for farm credits. So far, however, it has provided little information on how much money will be provided and how it will ensure the benefit of those in need.

### Indigenous communities and NGO work

Government land concessions for rubber plantations have usurped the ancestral land of indigenous communities in the provinces of Stung Treng, Rattanakiri and Mondulkiiri. Despite a communal land law passed in 2001, none of these communities were able to register their communal land. The seizure violates these communities' right to their only source of survival and identity. Plans for hydropower plants are also threatening the livelihood of many indigenous communities across the country, which were not consulted on most of these plans. Local NGOs and international

organizations are working with these communities to help them learn about their rights and land ownership legislation.

While some civil society organizations are providing information to protect vulnerable populations, others are monitoring land grabbing and dislocations of rural communities that violate human rights. Some NGOs are monitoring the national budget, identifying discrepancies between policy priorities and budget allocations and demanding more transparency. Others are concentrating on building the capacity of civil society organizations to promote citizen engagement in local and national governance. A group of civil society organizations has demanded that oil, gas and mining be managed more effectively to ensure the transparency of revenues and sustainability for future generations.

Cambodia is still rebuilding its economic and political institutions, which have been shattered by two decades of war. The country achieved high economic growth but failed to diversify economic investments or make urgently needed investments in education and health services. Despite some slow progress in reducing poverty, a lack of transparency in decision-making and mismanagement of state affairs continue to be issues of concern. ■

**CHART 1. Share of Labour and Economic Contribution**

	Total	Agriculture	Industries	Services
% in the total economy	100%	31.9%	28.0%	40.0%
% total labor	100%	60.3%	12.5%	27.2%

Source: Heng Sour, Director General of Administration and Finance, Ministry of Labour and Vocational Training; *Human Rights, development and the impacts of the global economic crisis*, 12 March 2009

**CHART 2. Increase in basic food prices (USD 1 = KHR 4,100)**

Food Per kilo	March 07 in KHR	March 08 in KHR	Cost Increase %
Rice No. 2	1,770	2,933	66%
Pork Quality 2	9,000	15,750	75%
Chicken	12,000	21,000	75%
Mud fish	9,800	12,667	29%

Source: National Institute of Statistics, Consumer Price Index Bulletin, March 2007, and *Koh Santepheap* Newspaper, 4 March, 2008.