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“Cambodia, its Development, and Regional Integration in the GMS and ASEAN - A Work in Progress”

by
Larry Strange
Executive Director
Cambodia Development Resource Institute (CDRI)
. In international development-speak Cambodia is a ‘post-conflict, aid-dependent, least developed country’ – all negatives with associated academic literature and ‘industries’

. This presentation: Overview of Cambodia’s recent development, highlighting achievement, until setback of global financial crisis and economic downturn, of high levels of economic growth, significant socio-economic development, slow but steady poverty reduction, and significant but uneven progress in state institution building and reforms:

. Pre-1998-9 Historical, Political and Economic Legacy
. 1999-2008: A decade of growth, development and confidence
. Cambodia and the ‘Development Paradigm’: Benefits, liabilities
. The 2008-9 Crisis: Impact, responses, recovery, lessons, prospects
. Hard and Soft Infrastructure for ‘Connectivity’ in the GMS, ASEAN, ASEAN+3: Imperatives for Cambodia
. ‘Bridging the Development Gap’ in the GMS and ASEAN: Priorities for the GMS LDCs in GMS, ASEAN and East Asian regional cooperation and integration
. A Scenario - Cambodia Futures: Strengths and Weaknesses
. Pre-1998 Historical, Political and Economic Legacy

. Building back from ‘Year Zero’ – 1975-79 Khmer Rouge regime: Loss of a generation of educated professionals; destruction of infrastructure and productive economic activity; genocide and hardship; post-conflict trauma and recovery; the 1979 Vietnam ‘invasion or liberation’ – still ‘contested’

. 1980s Vietnam-backed regime; revelation of the ‘Killing Fields’; Cold War international embargo that brought further hardship, poverty and hunger to the survivors of the Khmer Rouge regime; basic humanitarian efforts by international NGOs and Soviet Bloc nations; stabilising, limited rehabilitation and reconstruction of infrastructure and basic agricultural activity; continued conflict with Khmer Rouge in many areas; KR leadership retained seat at UN; border conflicts and refugees to Europe, North America and Australia

. 1991 Paris Peace Settlement and United Nations Transition Administration in Cambodia (UNTAC); peacekeeping force; first national election under UN supervision 1993; beginning of international development assistance
. **Pre-1998 Historical… (contd.)**

. Rehabilitation 1989-1998: Rudiments of market economy established with introduction of private property, privatisation of state-owned companies; decollectivisation of agriculture

. 1998 Final armed political conflict resolved; last remnants of Khmer Rouge and its leadership neutralised and disarmed; successful policies to integrate former KR zones, dismantle political and military organisation; land distribution to former KR soldiers; some degree of economic autonomy to 2007; microfinance, infrastructure and market access

. Important to an understanding of dimensions of Cambodia’s recent record of development achievement post-civil war and Khmer Rouge that final cessation of conflict, establishment of peace and stability just over a decade ago!
1999-2008: A decade of reconstruction, growth, development and confidence

- Reconstruction 1999-2003

- Following set-back of 1998 constitutional, political and military crisis, achievement of political stability

- International recognition re-established; 1999 membership of ASEAN

- New democratic institutions rebuilt; national election 2003; strong ruling party with vocal opposition; sub-national governance reforms – decentralisation and deconcentration; 2002 local Commune Council elections

- Reforms focusing on macroeconomic management; public financial management and financial sector

- Rehabilitation and reconstruction of physical infrastructure especially national road networks
2004-8 Economic and Development ‘Take Off’

Second generation reforms – Implementation of 1st phase Public Financial Management Programme

Major infrastructure development – roads, bridges, dams, energy generation and telecommunications; continued investment in provincial and rural roads

Economic growth 2004-2008 average 10.3%; decade average 7%; narrow band of economic activity – garments, tourism, construction

Decade of poverty reduction from 47% to 35%; uneven, with concentration of poor in Tonle Sap (Great Lake) region in central Cambodia

2004 Accession to WTO
Cambodia and the ‘Development Paradigm’: Benefits and Liabilities

**Benefits:**

- Cambodia recipient of decade of generous multilateral and bilateral ODA (loans and grants); > USD 1 Billion committed 2010; ‘donor confidence’ despite specific concerns on governance issues

- Continued high levels, predictability and alignment of ODA with national Strategic Development Plan 2009-13 priorities

- Significant and continuing contribution to development outcomes in key areas – macroeconomic and public financial management, infrastructure, rural development, education and health

- China and Japan major ODA providers with recent change of US policy to provide ODA direct to Cambodian Government; domestic, subregional (GMS) and regional (ASEAN and East Asia) cooperation contexts
**Liabilities:**

- Despite The Paris Declaration on Aid Effectiveness still very uneven progress in donor harmonisation and coordination - competition, duplication, and waste; some progress in achievement of ‘sector wide approach’ to ODA delivery but little discernible change in ODA delivery practice
- Still too much ‘supply driven’ rather than ‘demand driven’ ODA; undermines local initiative and ownership
- ‘Short termism’; failure or incapacity to invest in long term strengthening of local institutions; ideological and institutional ‘favouritism’
- Over reliance on expensive international consultants and technical advisers, often short-term, rather than long term investment in building local capacity and ownership; entrenches ‘dependency’
- Creation of ‘parallel’ systems of development projects and service delivery between government and civil society
- Transparent and non-transparent ODA delivery
The 2008-9 Crisis: Impact, responses, recovery, lessons and prospects

- Followed decade of peace and stability, sound macroeconomic management, high levels economic growth (average 9%) and poverty reduction 45% to 30%

- Most negative impact in key pillars Cambodian economy – garments, tourism, construction

- Before crisis Cambodia among 10 fastest growing economies in world; 2008-9 one of steepest contractions East Asia; negative growth -2.5% 2009

- ‘Second-round’ effects – economic downturn, trade, exports to US/Europe, capital flows, growth drivers

- 1st quarter 2009 garment exports fell 18.7% re same period 2008; severe drop in high end tourism income; construction contraction; halving FDI flows
The 2008-9 Crisis: ... (contd.)

- Agriculture still strong performer; 5% growth; rice strong; government and development partners focus on agriculture and rural development for growth
- 3-year tax holiday for agricultural investment
- From early 2009 dramatic reduction in inflation; Riel-USD exchange rate relatively stable
- Government revenue Jan-July reduced 11.3% 2008 re slowed business activity; but revenue 2009 budget targets met re improved administration tax, customs and excise
- Total expenditure Jan-Aug 2009 increased 15.6% re 2008 - increased govt. wage bill, responses to mitigate impact of crisis, capital spending to stimulate growth
- Banking and finance sector well regulated; not significantly exposed; non-performing loans concern
- Significant impact on poor and vulnerable; decline in real incomes and consumption; increased vulnerability; social safety net options explored
- Unemployment and displacement young female workers in garment industry; economic and social impact on remittances and family livelihoods; some cases ‘reverse remittances’
Lessons of the crisis and its impact on Cambodia – key factors for growth and development:

- Stable well managed macroeconomic environment that enables and promotes economic diversification, competitiveness and productivity, domestic consumption;

- Strengthening of key export-oriented sectors such as agriculture and rural development, tourism, construction, energy and infrastructure, trade facilitation and investment;

- Govt policies NSDP 2009-13 to achieve high sustainable paddy growth; 2010 Policy on Rice production and Export promotion; keys - rural infrastructure, paddy productivity, crop diversification, credit, extension services, vocational education and training

- Strategic integration of Cambodia’s economy and its key trade and investment relationships in the Greater Mekong Sub-region (GMS), ASEAN the broader ASEAN, China, Korea and Japan region, and targeted international markets.
. **Hard and Soft Infrastructure for ‘Connectivity’ in the GMS, ASEAN, ASEAN+3: Imperatives for Cambodia**

. Cambodia involved in complex set of initiatives and processes to promote ‘connectivity’, achieve socio-economic development, reduce poverty, and bridge development gap in GMS and ASEAN – infrastructure, transport, logistics and trade facilitation, special economic zones and corridors, environmental and natural resource management, human resource development; but ‘soft’ infrastructure lagging behind ‘hard’ infrastructure.

. A major issue – complexity of ASEAN-GMS institutional arrangements has implications for pace and effectiveness of regional integration and on ‘absorptive capacity’ in CLMV GMS countries where institutional capacity still building; another ‘spaghetti/noodle bowl’ effect like proliferation of FTAs.

. Imperative for Cambodia – better coordination ASEAN-GMS integration initiatives, more realistic time frames for implementation of complex reforms and associated investment in long term institutional capacity building eg GMS Cross Border Transport Agreement; NB synchronicity of Master Plan on ASEAN Connectivity with GMS connectivity initiatives and processes.
‘Bridging the Development Gap’ in the GMS and ASEAN: Priorities for the GMS LDCs in GMS, ASEAN and East Asian regional cooperation and integration

- Cambodia MDGs: Poverty reduced from 47% in 1993 to 30% in 2007; reduction in child mortality; reduction HIV/AIDS, Malaria, Dengue and TB; strong ODA and ICT; lagging on primary education, literacy rates and gender equality; weak on poverty alleviation, maternal mortality, natural resource protection and land management

- Cambodia’s development still ‘a work in progress’; much to be done

- ASEAN LDC’s like Cambodia need GMS, ASEAN & ASEAN + 3 partnership to deliver on ASEAN charter commitment “to alleviate poverty and narrow the development gap within ASEAN through mutual assistance and cooperation”

- Benefits of ASEAN + China/Korea/Japan FTA’s especially provision like Early Harvest Programme ASEAN-China FTA as agricultural producer

- Ultimately East Asia FTA linked to or including East Asian cooperation and integration strategies to “narrow development gap” in East Asia

- Ensure coordination and synchronisation of GMS-ASEAN-East Asian development cooperation and regional integration processes to include focus on sustained growth ‘bridging development gap’; with investment in long-term institutional capacity development
A Positive Scenario Cambodia 2020

• A future Cambodia – No longer aid dependent, graduated from LDC-status to at least lower middle income status, high levels of inclusive growth (7% per annum) and socio-economic development through:

• Significant poverty reduction, agricultural and rural development, improved agricultural productivity, quality and quantity of rice production for domestic consumption and export, crop diversification, extension services, access to credit and markets, improved infrastructure for affordable energy and transport;

• High levels of inclusive growth based on economic diversification, competitiveness and productivity, strengthening of key export-oriented sectors such as agriculture and rural development, private sector development, tourism, construction, energy and infrastructure, trade and investment, strategic integration of Cambodia’s economy into GMS, ASEAN and broader ASEAN, China, Korea and Japan (East Asian) region;

• The strengthening of democratic development, public institutions, and national and sub-national governance, with progress in key areas of public sector reform including service delivery, civil service salaries, capacity building of civil servants, judicial reform, the rule of law and anti-corruption measures;
A Positive Scenario Cambodia 2020 (contd.)

• Improved management and governance of natural resources – land, water, forest and fishery – and environmental management, adaptively in response to climate change, particularly for the agricultural sector, and more transparent and equitable access to natural resources for rural livelihoods and poverty reduction, potential exploitation of oil and natural gas reserves with well managed contribution to national wealth and investment in development priorities;

• Greater commitment to and resources for social development in key areas of health care, particularly for women and children, access to affordable quality primary, secondary, vocational and tertiary education in response to market needs and changing demography, opportunities for youth, and broader human security and social protection;

• Cambodia and Region: Prospect of integrated Greater Mekong Sub-regional production network and market, extending from southern China, through the GMS countries to the rest of ASEAN, provides opportunities for Cambodia in terms of infrastructure, the movement of people, private sector development and trade and investment flows, and a more integrated production and marketing network, with significant benefits for Cambodian growth, prosperity, private sector development and poverty reduction.
Cambodia Futures: Strengths and Weaknesses

Strengths (Opportunities) to Exploit

- Strong stable political leadership and system with track record in macro-economic management and development planning and results

- Open market economy responsive to global and regional opportunity; dynamic entrepreneurial private sector, large and SMEs; continued ODA

- Young population hungry for education and employment opportunity; expanding ‘talent pool’ of young professionals with international experience but Cambodia and family oriented

- Abundant land, water and other natural resources – minerals, gas and oil, forest and fisheries, if well managed

- Strong national and cultural identity; high value tangible and intangible cultural heritage – ‘not just Angkor Wat’!

- Geo-political and economic ‘location’ - Beneficiary of China’s development and regional ‘competition’ China, US and Japan; genuine commitment to GMS, ASEAN and broader East Asian cooperation and integration
**Weaknesses (Challenges) to Address**

- Weak public institutions; low civil service salaries; poor taxation collection; overly complex decentralisation model for sub-national governance
- Narrowly based economy; unexploited potential for agriculture; poor private sector awareness of and engagement in regional integration
- Poor quality tertiary and vocation education that does not meet youth expectations or needs of growing private sector
- ODA dependency and the development paradigm; the ‘donor treadmill’
- Weak and uneven commitment to rule of law and ‘transparency’ in government, business and society; the ‘trust’ issue
- Grand and petty corruption; elite land and natural resource grabbing; deforestation; poor land policy and management - opportunistic administration of economic and social land concessions
- Water security and conflict management: Managing the Mekong
- Major gap between hard and soft infrastructure development in Cambodia and GMS constrains and slows ‘connectivity’ imperative and inhibits cross-border movement of people and goods
- Poor promotion exploitation of SMZs as key element of economic diversification and attraction of quality FDI; uneven business ‘certainty’ for investors
Conclusion: Cambodia and its Regional Future

- Cambodia is a small strategically important country at the heart of the Greater Mekong Sub-region, a member of ASEAN and the ASEAN + 3 configuration with China, South Korea and Japan, and the processes of subregional and regional integration in which it is both a committed player and a beneficiary.

- An integrated Greater Mekong Sub-region, extending from southern China through the GMS countries to the rest of Southeast Asia and beyond, provides great opportunities for Cambodia in infrastructure, the movement of people and goods, private sector development and trade and investment flows; an integrated production and market network, with benefits for Cambodian business, for growth, prosperity, and poverty reduction, and the future well-being of the Cambodian people. It may also prove to be ‘transformational’ for the least developed countries of the GMS – Cambodia, Lao PDR and Myanmar.
Thank You!