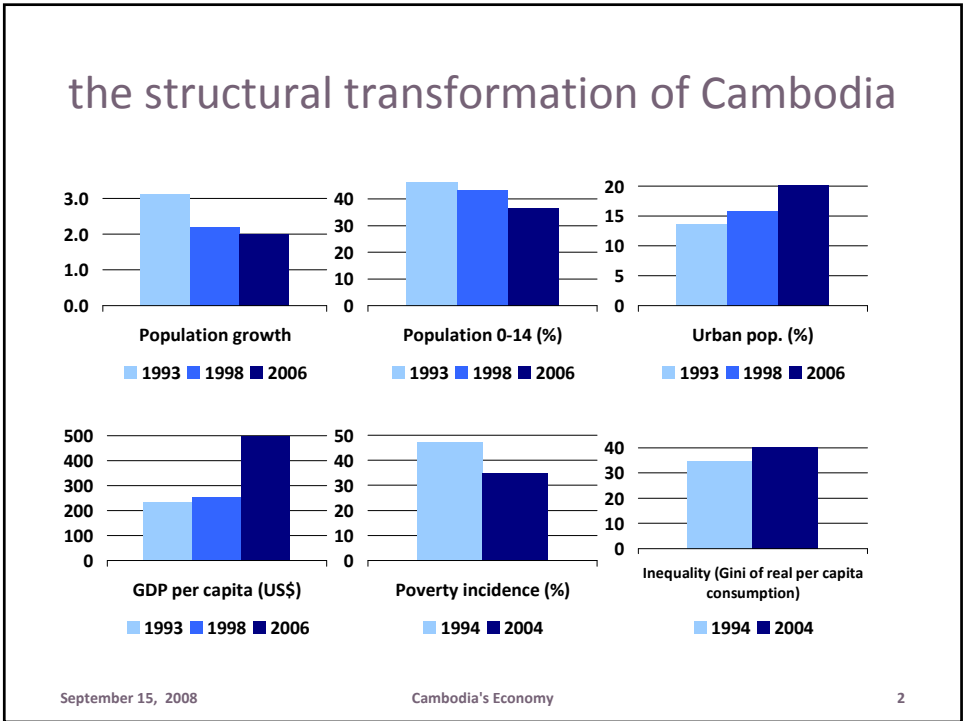


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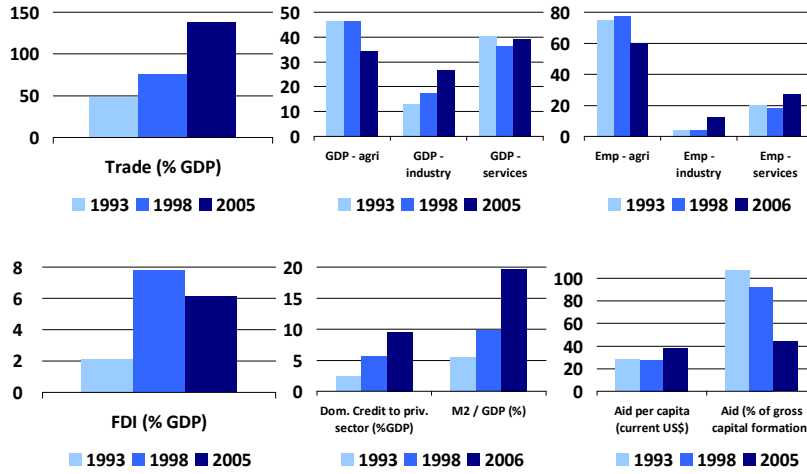
Sophal Ear, Ph.D.

US Department of State
Ambassadorial on Cambodia
DACOR Bacon House, Washington, DC
September 15, 2008

Acknowledgements: This presentation is adapted from a Harvard KSG workshop held earlier this year on the Political Economy of "Binding Constraints to Growth" Cambodia Pilot for which I served as an External Panelist/Resource Person.



the structural transformation of Cambodia, cont.

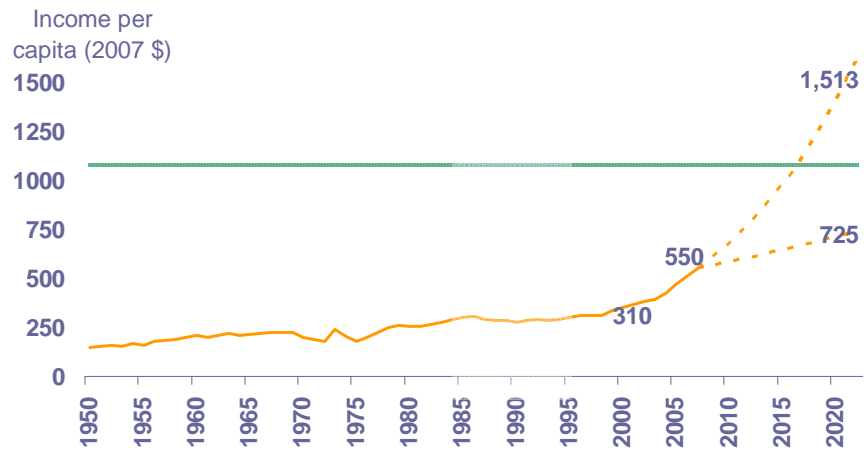


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reaching new heights?



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reaching new heights?

1

where are the sources of growth?

2

where are the constraints?

3

how to alleviate these constraints?

1

1. where are the sources of growth?

FACTS

- Narrow base of growth
- Export driven
 - Garment and tourism niches
 - Good location in South-East Asia and open economy
- Key role of the rural economy and agriculture
- Possible new sources of growth in oil, gas, and mining

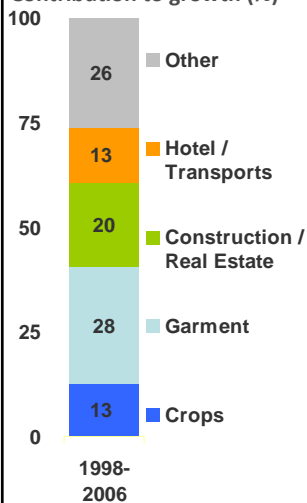
QUESTIONS

- How to diversify? What should be the approach? Can priority products be identified?
- What will / should be the role of agriculture?
- What are the employment implications of various sectoral scenarios?

1

growing with four fragile engines

Contribution to growth (%)



Tourism: rapid growth. Initially mainly to Siem Reap and Angkor – gradually to Phnom Penh and Sihanoukville, with further potential

Real estate / construction: very rapid growth, especially in Phnom Penh; talks of a bubble

Garments: main (only?) export; mainly to US market; slow growth in 2007 with competition from Vietnam; further competition (inc. China) in the future?

Crops: rain-fed; mainly rice

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1

19 priority products

Export potential	Products
High	Garments, tourism, footwear, rubber, cassava
Medium	Fishery, rice, fruits and vegetables, wood products, light manufacturing, labor services, soybeans
Low	Silk, livestock, cashew nuts, corn, beer, web-based services, transport services

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1

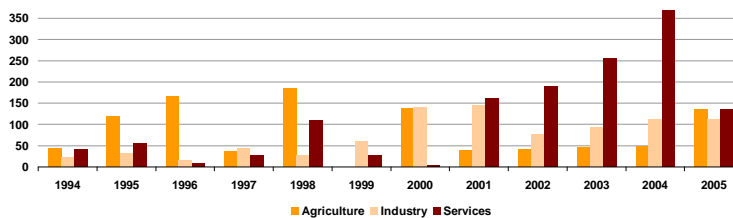
extractive industries—making it a blessing *instead* of a curse

- Oil, gas:
 - Some exploration (offshore), but no proven reserve yet
 - Hypothetical scenario (IMF) of revenues on-stream in 2011; net present value of oil wealth at \$15b (115% of 2011 GDP); revenue stream max at 4% of GDP in 2021
- Mining:
 - Bauxite, iron, gold
 - Just initial exploration
- Maximize revenues:
 - Legal and fiscal regime
 - Good investors
- Manage assets, volatility and macro
- Other impact:
 - Economic (downstream industry?)
 - Environmental (esp. artisanal mining)
 - Social, safety, etc.

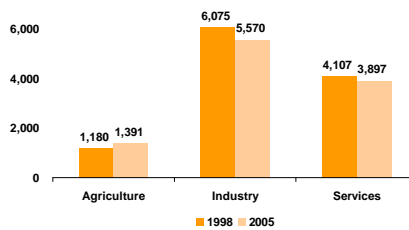
1

creating 200-250,000 jobs per year

Annual job creation ('000 jobs)



Value added per worker (constant riels)



2

2. what are the constraints?

FACTS

- Increasing investment especially in very recent years, but focused on real estate (how many high-rises does Phnom Penh need?)
- Weak productivity, limited diversification
- If one looks, constraints appear everywhere, but which really matter?

QUESTIONS

- How to identify constraints? Are some of them sector-specific?
- What are the stylized facts of private sector development that are symptoms of constraints? Where isn't money going?

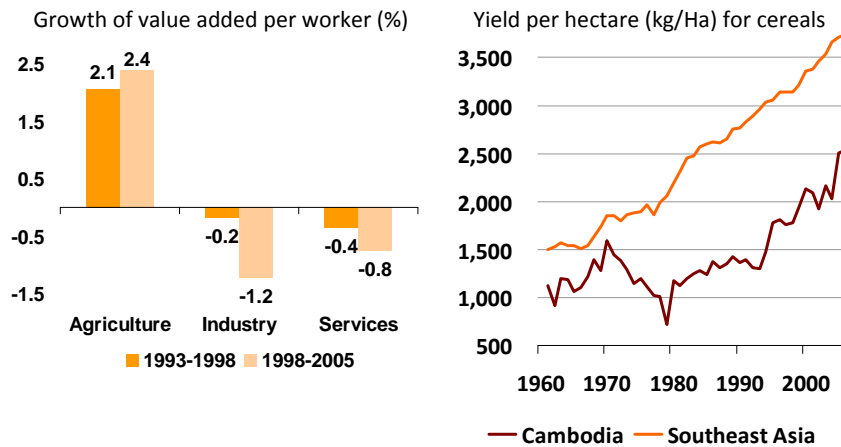
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2

productivity lagging behind



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2

good enough governance in garments?

Acceleration of growth in early 2000

- Political stability increased after 1998
- Inflation went down at that time; then first LDC to join WTO (2004): signal credible shift in policies and credible macro management

Garment

- Initial rents: quotas in US (linked to labor standards) plus tax incentives
- Then rent replaced by good industry coordination
- But enough competition? Now competition from Vietnam and, soon, China; plus recent real appreciation

A few fundamentals: political stability and signaling of commitment to good business environment; creating rents to pay for entry

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3

3. how to alleviate constraints?

FACTS

- Good macro management so far
- Limited fiscal space – large needs
- Growth is – and will – bring a number of issues to manage (equity; environment; cities; etc.)

QUESTIONS

- How to address upcoming macro challenges (inc. from oil)?
- How to increase fiscal space and best use it? (inc. in the context of oil production)
- Complementary policies to manage growth?

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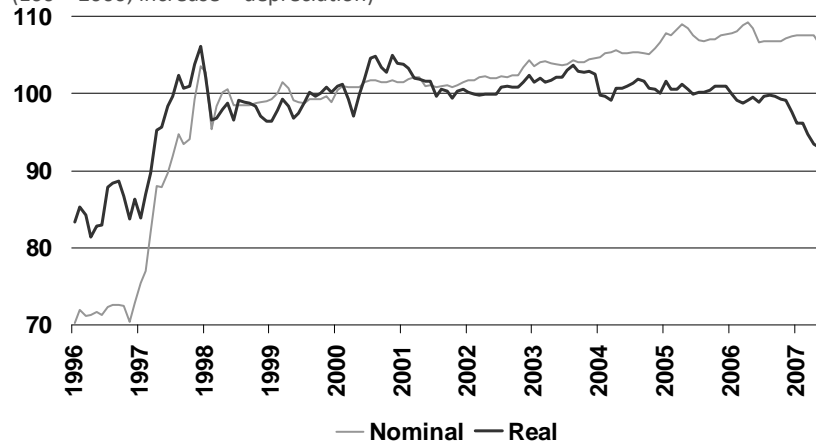
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stable exchange rate

Effective exchange rate with key trade partners
(100 = 2000; increase = depreciation)



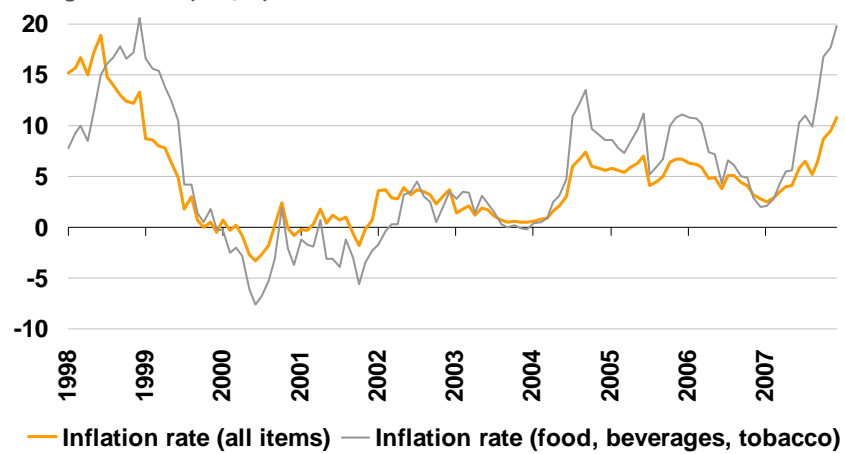
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inflation now picking up

CPI growth rate (YoY, %)



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creating fiscal space in a difficult political economy environment

- Limited fiscal space:
 - Low revenues (excluding grants) / GDP (9.8% only in 2006), due to a political economy mix of unofficial payments and generous tax incentives
 - Some room for expenditure reallocation
 - Despite generous aid (7.6% of Gross National Income in 2006, although mainly off-budget, a relative decline from previous years—which from 1993-2006 averaged nearly 11%)

Cambodia's Aid, Tax, and Domestic Revenues 2002-2006

	2002	2003	2004	2005	2006
Official development assistance and official aid (current US\$)	484,250,00	514,310,00	483,190,00	540,680,00	528,990,00
Aid (% of central government expenditures)	120.35	118.66	110.67	113.18	84.68
Aid (% of GNI)	11.79	11.50	9.49	8.99	7.59
Aid per capita (current US\$)	36.52	38.13	35.22	38.74	37.26
Tax revenue (% of GDP)	8.19	7.55	8.15	7.91	8.19
Revenue, excluding grants (% of GDP)	10.31	9.41	9.86	9.68	9.81
CPIA efficiency of revenue mobilization rating (1=low to 6=high)	N/A	N/A	N/A	3	3

Source: WDI Online. Accessed: 25 August 2008.

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in sum...



- Cambodia has enjoyed very rapid growth over the last decade, but on a narrow production base of four engines and despite innumerable constraints
- Some fundamentals are in place to sustain rapid growth – macro management, openness in a dynamic region, etc – although these may not be enough
- Sustaining rapid growth will also bring a number of challenges: increased inequality, environmental degradation (at least in the short-run), etc.

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Additional slides

Background data on various potential constraints to growth

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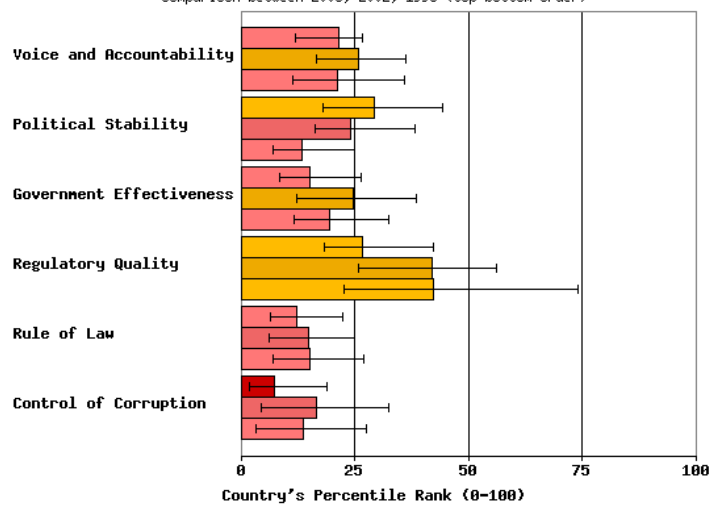
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weak governance

CAMBODIA

Comparison between 2006, 2002, 1998 (top-bottom order)

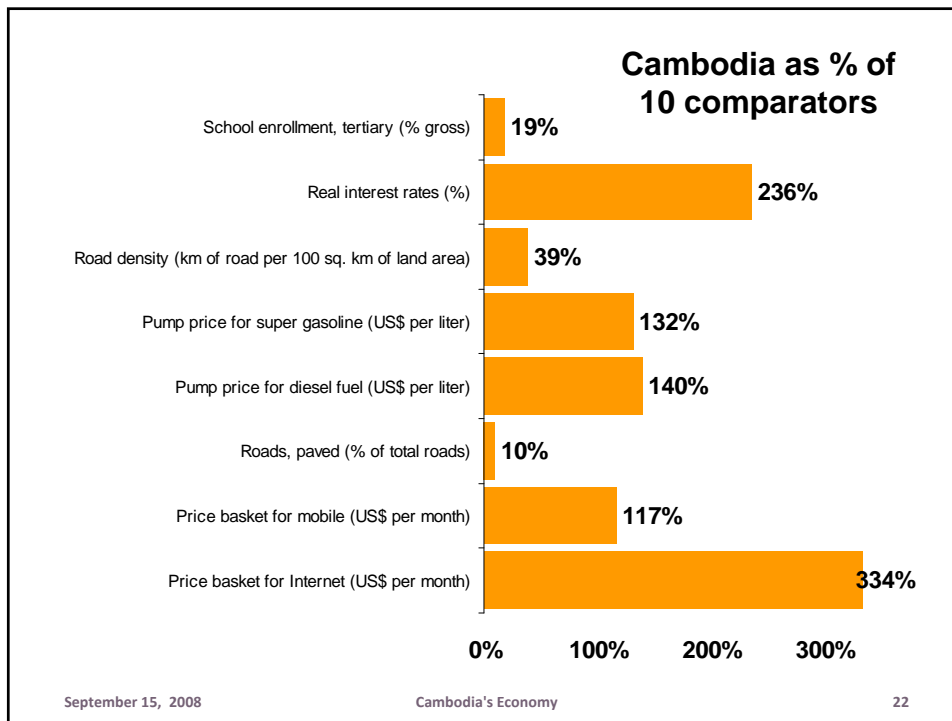
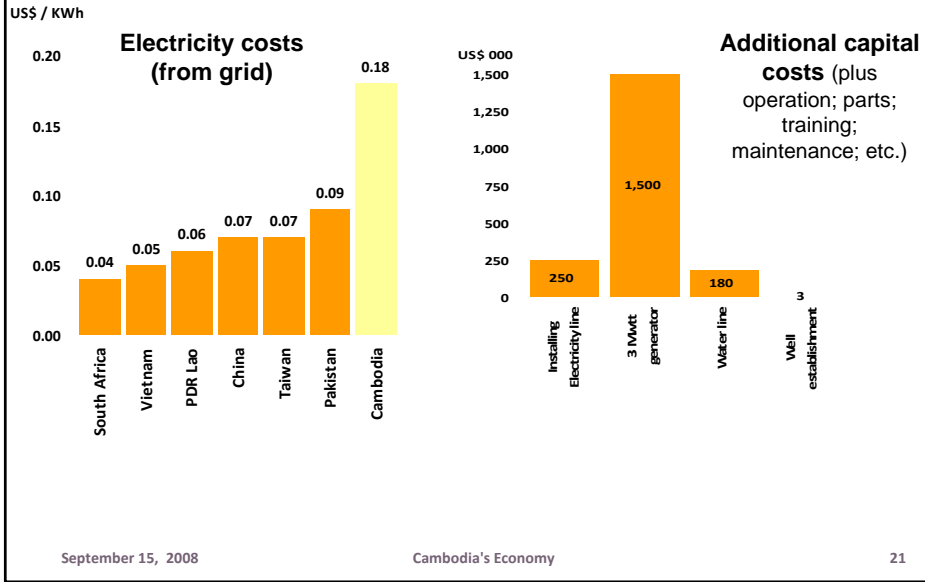


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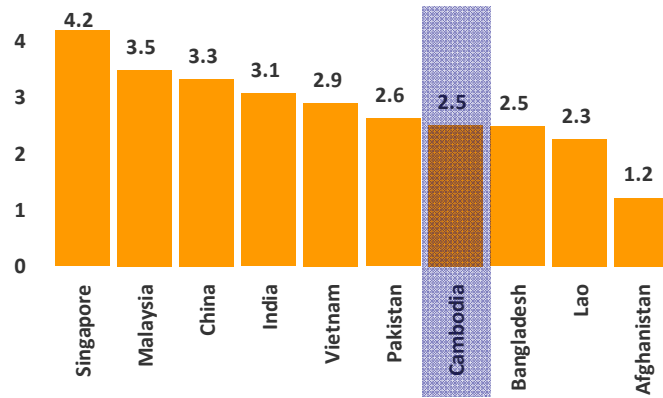
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infrastructure costs



connecting to compete

2007 Logistics Performance Index



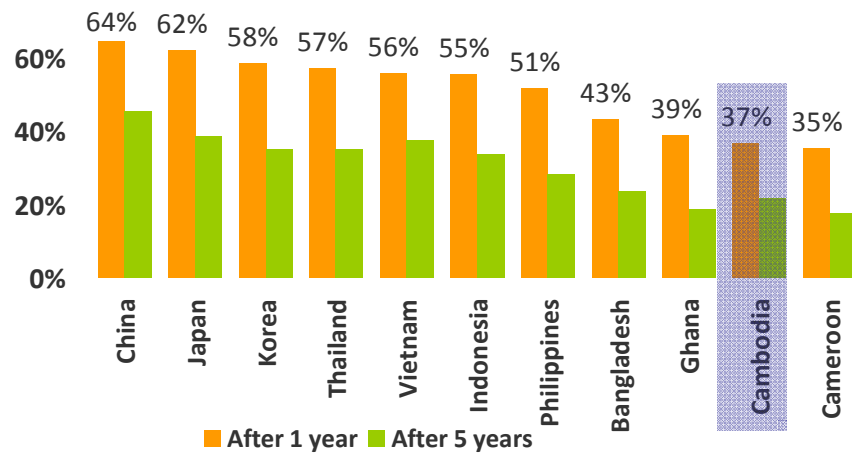
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sustaining discoveries

Survival Rate of New Exports After 1 or 5 Years



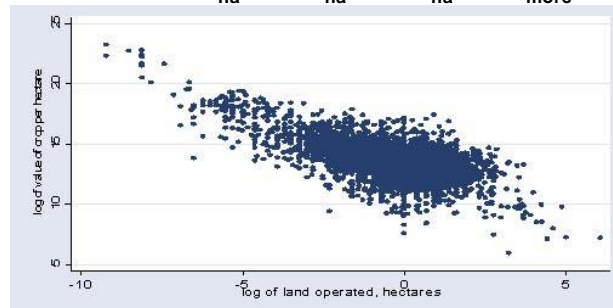
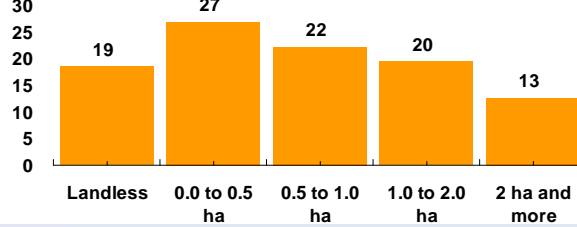
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size and productivity in agriculture

Distribution of households by land holding (%)



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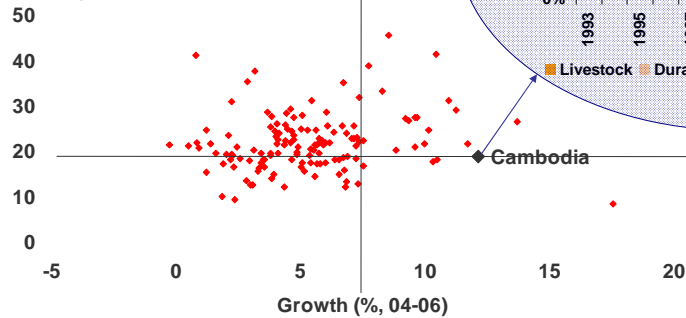
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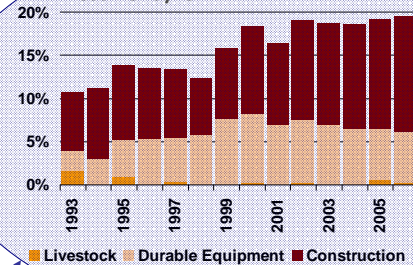
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investment

Investment / GDP (% 04-05)



Investment / GDP



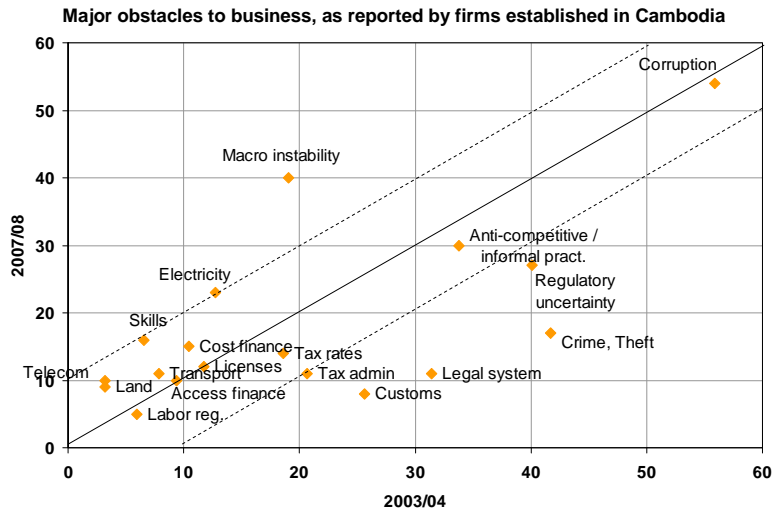
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corruption & governance



Sources: Investment climate surveys in Cambodia

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