

SUPREME NATIONAL

ECONOMIC COUNCIL

## Cambodia's Perspective Paper on

“INCLUSIVE GROWTH: A NEW DEVELOPMENT CHALLENGE AND A NEW GROUND FOR REGIONAL COOPERATION”

28<sup>th</sup> June 2012  
Singapore

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### **Honorable and Distinguished Participants Ladies and Gentlemen**

I am much honored to be here among many distinguished scholars and prominent practitioners; to share my views and thoughts on one of the most important issues of social development: Inclusive growth. Inclusive growth is indeed a very important topic because national progress and stability of society rests mainly on the participation of citizens; and even relations among states depend on the mechanism of inclusive growth in cooperation among states, the redistribution of national goods, assets and services are important for allocation of resources. The concept of inclusive growth varies and is not yet exclusively defined thus benchmark performance of inclusive growth policy is more daunting.

Nonetheless, inclusive growth should further understood in the context of an emerging Asia Century and regional integration. It must be understood in the context of economic policy and political implication of regional and development cooperation with our East Asia Community. Thus, I am very encouraged to have participated to in this meeting.

But before I go further into the details of Cambodia's perspective on inclusive growth, I would like to express my sincere appreciation to Dr. James Tan, Project Manager for Director, East Asian Institute (EAI), National University of Singapore; and Ms. Lian Wee Li, Senior Associate Director for Director of EAI, for extending the invitation for my participation; and to all the staffs for their sterling professionalism.

My presentation addresses Cambodia inclusive strategy in the context of policy implication: Policy implication not only for Cambodia but the region as well. International Financial Institutions, including the World Banks, Asian Development Bank and UNDP also observed that inclusive growth contributes to rebalancing the global economic down turn, reduces dependency on external markets, increase national spending and consumption; raises the level of income of the middle class and the poor, and strengthens performance of the regional economy thus enhances the stability of global economic system at large.

In some respect, the logic of the assumption has its merit but key to stability of regional economy, national, or even international economy is distribution; or in the case of national economy it is redistribution: sharing benefit or sharing cost. The global financial crisis is a concrete lesson to heed the catastrophe of economic exclusion.

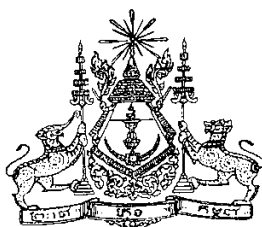
High economic performance alone no longer guarantees economic stability or sustainable growth. Regardless, stability is needed to sustain performance, growth, employment, skills development and social well-being, and above all social and political order. For this reason, Cambodia economic development very much depends on stability regional and global stability. In this spirit, Cambodia ASEAN Chairmanship also embedded the philosophy of inclusive growth for the whole region and its people therefore Cambodia works in concert with development and regional partners to ensure inclusive development and inclusive growth for the ASEAN people.

As ASEAN Chairmanship, Cambodia would like to see a stronger and empowered ASEAN to work more effectively at the regional and global levels, with stronger commitments by its members, and with better resources. Cambodia believes ASEAN should be playing more active role in the international issues and raised these ideas at the G20 Summit in Los Cabos, Mexico on behalf of ASEAN.

As for inclusive growth, Cambodia seeks to achieve GDP per capita of more than US\$ 1000 by 2013 with the achievement of lower middle income country status, and graduating from aid-dependency by:(i) further development of agriculture sector-including production and export promotion, agri-business: in rice and crops; (ii) expansion of industrial manufacturing; (iii) diversification of export products and regional markets; (iv) better investment management regime to attract quality investment; and (v) address mis-match between skills and labor market demand.

As a regional member, Cambodia is now is actively implementing the remaining components of the AEC. Cambodia has achieved more than 70% of the key deliverables required under the AEC, ranked third behind Singapore and Malaysia. At the present, Cambodia is coordinating implementation of the ASEAN Trade in Goods Agreements (ATIGA) component to remove non-tariffs measures (NTMs) which will give greater access and freer flows of goods into Cambodia markets.

Thus Cambodia's perspective on inclusive growth is very common: contribution, distribution, allocation, inclusive participation, cooperation, commitment, good governance and decisiveness.



SUPREME NATIONAL ECONOMIC COUNCIL  
CAMBODIA'S PERSPECTIVE ON INCLUSIVE GROWTH

WORKING GROUP OF EAST ASIAN THINK-TANK (NEAT)  
“Inclusive Growth: A New Development Challenge and a New Ground for  
Regional Cooperation”  
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**Abstract**

This paper presents Cambodia's perspective on 'inclusive growth'. It addresses features of the country's national development strategy as well as the successes and challenges of the strategy. It explains what strategy the government has adjusted and changed to achieve inclusive growth; and the programs in place for inclusive growth. It concludes that inclusive growth is sine qua non for the political and social wellbeing of citizens and the country.

**Cambodia Post Conflict Economic Strategy**

Cambodia socioeconomic has gone through several stages of metamorphosis; and most often violence change. The destruction of the economy in the 1970s of the country was due to civil war and Cold War politics. The collapse of the Sangkum Reast Niyum (Socialist Party) in that same year, and the rise Republicanism from 1970-1975; with the emergence of Maoism and Marxism from the 1975-1990s further decapitated basic economic development such as agricultural and trade. Cambodia socioeconomic then was razed to level zero. Then, inclusive growth and the distributions of public goods and services were to be achieved through revolutionary means, or any means other than the market system.

Not until the 1991 Paris Peace on the Comprehensive Settlement of the Cambodia Conflict that the national economy begin to receive international attention and the liberal market system was instituted with multilateral and bi-lateral arrangements, specifically for financing and planning the reconstruction and rehabilitation of physical infrastructure, universal accesses to basic public services such as food security, medical services, nutrition and education. At the same time informal trade and informal financial schemes sprouted with little and no regulation. Black markets were pervasive to the point economic

anarchy. The State was weak and National Reconciliation Plan was instable. In short, inclusive and national social security protection plans were far removed.

Every Khmer citizen shall be entitled to social protection and benefits, says Article 36 of the Cambodian 1993 Constitution, “Khmer citizens of either sex shall enjoy the right to choose any employment according to their ability and to the needs of the society.... Every Khmer citizen shall have the rights to obtain social security and other social benefits as determined by law”. Article 72 stipulates, “The health of the people shall be guaranteed.....Poor citizens shall receive medical consultation in public hospitals, infirmaries and maternity wards.....”

When the armed conflict ended in the middle of 1997, the country achieved stability and quickly instituted the Triangle Strategy in 1998 which embedded three national priorities: a) peace and stability, b) economic; and c) human resource development. Political stability was the top priority in adjacent to economic development but human resource development received least attention although it was one of the top priorities. The labor market was confined mainly to agriculture with a moderate degree of manufacturing: The garment industry. Strategic development plans were far from sight. Nonetheless, the Triangle Strategy was truly a milestone of Cambodia political history because of the principle of the ‘win-win’ approach: championed by Samdech Prime Minister Hun Sen. It’s philosophy was fundamental because it stressed the imperativeness of ‘live and let live’: there shall be no discrimination, no hatred, no vengeance and no prejudice. In other words, the Triangle Strategy embedded the tenet of inclusive growth.

That inclusive premise created a win-win solution that enabled Cambodia to form a coalition government consisted of the two ruling parties and the opposition. In spite of political differences, they worked toward a common purpose of national development and poverty reduction: ‘Poverty’ has always been enemy of the state, not the people, not democracy.

What then are the special features of Cambodia development strategy since the post conflict era? In the context of inclusive growth, employment, poverty reduction; and income generation were key features Cambodia development strategy. Economic development purely relied on the market activities for economic redistribution, for poverty reduction and for financing development programs. Poverty reduction and improved living standards of the people were the objectives of these features.

Moreover, Cambodia economic policy consists of a wide range of incentive structure, ranging from one-hundred percent of investment and businesses ownership and enterprises in the country, no discriminatory policy, no capital gain tax, ASEAN tariff tax schemes; Most Favored Nation (MFN) status, EU General System of Preference (GSP), ASEAN FTA, WTO Agreements, tax holidays; pro-poor development policy; and community based development schemes, universal access to health and education, participatory development schemes, decentralization and de-concentration, rural development priorities: infrastructure-roads, electricity, schools and health service centers, vocational and skill training centers.

The ‘win-win’ strategy was the key feature of Cambodia’s economic and political success story because of its constructivist approach to development strategy. The strategy resolved political imbalances and made possible for the market system to play its part in social and economic reconstruction. .

## **Macro Indicators**

To Cambodia has made a strong and sustained recovery from the crisis, with a return to annual GDP growth of almost 7 per cent. Growth for 2011 has recently been revised upward from 6.4% to 6.9% of GDP. The future outlook for Cambodia is positive – the economy is projected to grow between 6% and 7% annually over the medium term. It is expected that Cambodia will benefit from future global investment and credit flows, which will favor Asia due to the weakening of demand in the other parts of the world. With the growing regional cooperation and integration and faster growth of the Asian economies, Asian markets could offer more prospects of export and income growth to Cambodia. Thus, we have to diversify Cambodia's economic structure to focus not only on serving the US and EU markets, but also Asian market.

Real sectors of Cambodian economy are on the strong path of recovery. Agriculture, which has maintained sound growth even during the crisis, in 2011, grew at around 3.3% slightly lower than 4% in 2010. Asia's demand for agricultural products is set to grow rapidly. This would result with the prevailing high prices of food and persisting food security concerns. Price of raw materials for industrial use, for instance rubber, also expected to increase along with the increased trend of oil prices. The changing economic environment and its implications for food supply will likely also increase demand for agricultural products. Taking all this factors into account, the agricultural sector projected to maintain good performance in 2012 and in medium term. Agricultural product exports, including rice exports, are expected to increase owing to high priority has been given to this sector by the Royal Government.

Industry grew by 14.3% in 2011 as compared to negative growth of -9.5% in 2009 and positive growth of 13.6% in 2010. Main subsector, which underpins the growth in the industry sector, is the garment exports, which increased by 20.2% in 2011. Industry sector expected to grow robustly in 2012 as the textile exports projected to rise further as the result of the EU's "Everything But Arms" initiatives, where Cambodian garment exports, as from 1st of January 2011, will be subject to 0% of customs duties (compared to 12% previously).

The services sector expanded to 5% of GDP in 2011, supported by good performance in the tourism sector. Tourists' arrival into Cambodia increased by 15% in 2011 and reached around 2.88 million. In 2012, service projected to grow at around 5.7%. The government plans to develop a comprehensive tourism policy to transform the tourism industry to a high value added sector with linkages to the domestic economy.

On the other hand, financing and delivering social and inclusive policy is resource intensive and technically demanding: Cambodia is deficit in both prerequisites. The requirements for Cambodia to succeed in her inclusive growth policy and strategy have been daunting but achievable with the right paradigm.

## **Challenges: Accommodating Liberal Economy and the Problem of Redistribution**

Cambodia initially launched the free market based on classical liberalism and gradually moving towards neo-liberalism. At the present, Cambodia is institutionalizing neoliberalism to improve performance of policy intervention while steadily undertaking institutional rearrangements to improve service delivery. Thus far, the liberal and neoliberal paradigm has been working well but constraints must be unlocked for better social inclusion and protection, along with effective and efficient implementation of socioeconomic program. The remaining challenges are not policy factor but the delivery and redistribution of tangible goods generated by the policy.

In that respect, Cambodia development strategy has had many features, ranging from very attractive incentive structure to unabated trade liberalization and facilitation. But an outstanding feature is the level accommodation and friendliness with the private sector. Business leaders can approach government leaders to formalize to strengthen the public private partnership scheme. The Royal Government of Cambodia established the Government Private Sector Dialogue Forum (GPSD) Chairs by the Prime Minister. The significance of the forum is incorporating the private sector in the national development programs; giving them critical if not a leading role in the national development strategy.

They were made a part of the inclusive growth; the private sector was recognized as the engine of growth. They were made shareholders and stakeholders of national development agenda and projects therefore contribute to economic development, employment and income generation, hence poverty reduction. The private sector is given the privileges to manage the market system given their expertise and managerial skills in business and administrative management. Unfortunately, it turns out that capacity and competency of the local private sector is rather low. They lacked the experience in managing the modern economy best at conducting informal operation rather than formal operation.

For Cambodia, adopting the market economy is less difficult than adapting to the formalities of market and economic management. Much of the problems on hand are related to redistribution or remedying market failures, which occurs when economic incentives encourage overexploitation of natural resources; and where in local remote areas have little or no influences over the national laws, social changes and economic forces; or asymmetric information, or externalities. These market failures in effect generate negative externalities that adversely affecting social distribution and increasing social costs. Institutional weaknesses, in terms of capacity, experiences and resources compromised the quantity and quality of service delivery.

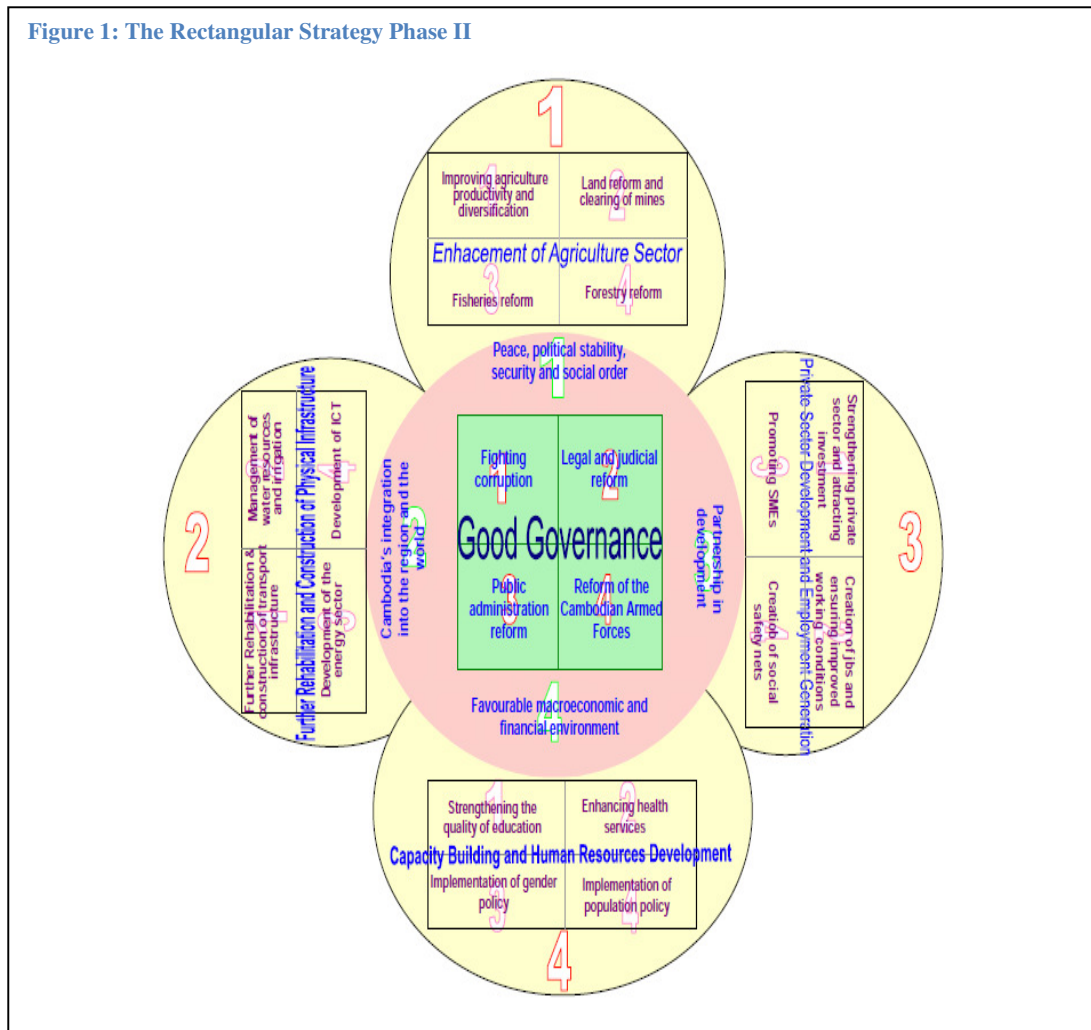
Other negative variables against inclusive growth are the levels of policy intervention and institutional coordination. Ministries by nature tend to work in an isolated manner due to jurisdictions; bureaucratic red tape and competing interest or conflict of interest among ministries hinders opportunities and objective of inclusive growth. And although the Royal Government of Cambodia has been showing strong commitment to materialize inclusive growth, the levels of implementation by inline ministries remain underperformed because of coordination and competency. Thus implication of bureaucratic and institutional weaknesses derail implementation of inclusive agenda due in part because of policy failure and in part because the lack of commitments from development partners and private sector.

The share of industry GDP increased from 18% to around 30% from 1998-2008. Yet, industry's share of employment has not grown at a similar rate, even though have been created, industry employs only around 8% of the population. Agriculture employment remained constantly at around two-thirds of the labor force. The service sector employs a fifth of the workforce. Total employment grew at an average of annual rate of 3.7% during 1998-2008. Most of the small medium enterprises (SMEs) are in the agricultural sector.

Capacity of local private sector is low with very minimal value added activities and operation. These problems have not gone unheeded and the Government introduced corrective measures with concrete policy and planning, namely the Rectangular Strategy-Phase II (RS-II) and the National Strategic Development Plan Update 2009-2013 (NSDP 2009-2013) along with strategic planning in line ministries including; and the National Social Protection Strategy for the Poor and Vulnerable (NSPS).

## Policy Responses: Cambodia Strategic Frameworks for Inclusive Growth

Social protection is a priority of the Royal Government of Cambodia (RGC). Central objective of the RS-II is the achieve growth, employment, equity and efficiency. It is a spin off from the RS that stressed the importance of: (a) promotion of economic growth; (b) generation of employment for all Cambodian government workers; (c) implementation of Governance Action Plan and thereby ensuring equity and social justice; and (d) enhancing efficiency and effectiveness of the Royal Government in implementing the reform programs in all sectors to reduce poverty and achieve sustainable development. Other social protection strategic policy document is the National Strategic Development Plan-Update 2009-2013, and the National Social Protection Strategy for the Poor and Vulnerable (NSPS).



Source: The Royal Government of Cambodia (2004)

## National Strategic Development Plan Update 2009-2013

The National Strategic Development Plan Update 2009-2013 (NSDP-Update) has been prepared to accomplish two primary goals; first, to synchronize the time period covered by the NSDP

Update with the term of the Fourth Legislature of the Royal Government in order to ensure that the actions, programs, and projects of all ministries and agencies are aligned to implement our prioritized policies that are outlined in the Rectangular Strategy Phase II; second, to ensure that the actions to be laid out by line Ministries and Agencies to implement these prioritized policies are formulated taking into account the potential impact of the global economic downturn on our economy.

The NSDP Update has been prepared based on the further refined methodology that is focused on identifying who is responsible for implementing the priority policy or policies in each area of the Rectangular Strategy II; what specific actions the responsible institution(s) has/have planned to implement the priority policy(ies); and the responsible institution(s) best estimate on how much it will cost to implement the planned actions during 2009-2013.

**The National Social Protection Strategy for the Poor and Vulnerable 2011-2015**, focuses on universalizing basic transfers and services. It based on a participatory consultation process led by the Council of Agriculture and Rural Development (CARD). The strategy envisions an integrated social protection system able to support the poorest, prevent impoverishment and help families to move out from poverty by building human capital and expanding opportunities. Specific policy instruments such as the health equity funds, public works, vocational training, conditional cash transfers and schools and school means are emphasized. The implementation of the NSPS begins with a pilot stage starting from 2011 to 2015. During this stage, schemes are developed and old ones improved: Coordination between different levels of administration fostered and unified.

**Table 1: NSPD Priorities**

1. The poor and vulnerable receive support including food, sanitation, water and shelter	<ul style="list-style-type: none"> <li>• Target food distribution</li> <li>• Distribution of farm inputs</li> <li>• Other emergency support operations</li> </ul>
2. Poor and vulnerable children and mothers benefits from social safety nets to reduce poverty and enhance the development of human capital by improving nutrition, maternal and child health, promoting education and eliminating child labor	<ul style="list-style-type: none"> <li>• Cash, vouchers, food or other in-kind transfers for children and women towards one integrated programs (cash transfer-maternal and children nutrition: Cash transfers promoting education and reducing child labor</li> <li>• Outreach services and second-chance programs for out of school youth, supporting social welfare services</li> <li>• Transfers of fortified foods to pregnant women, lactating mothers and children</li> <li>• School feeding, take home rations etc.</li> </ul>
3. <b>The working-age poor and vulnerable benefit from work opportunities to secure income, food and livelihoods, while contributing to the creation of sustainable physical and social infrastructure</b>	<ul style="list-style-type: none"> <li>• National labor intensive program</li> <li>• Food for work and cash for work schemes</li> </ul>
4. <b>The poor and vulnerable has effective access to affordable quality health care and financial protection in case of illness</b>	<ul style="list-style-type: none"> <li>• Expansion of Health Equity Funds for the poor and Community Based Health Insurance for the near poor</li> </ul>
5. <b>Special vulnerable groups receive income, kind and psycho-social support and</b>	<ul style="list-style-type: none"> <li>• Social welfare services for special vulnerable groups</li> </ul>



**adequate social care**

- Social transfer and social pensions for the elderly and people living with chronic illness and people living with disabilities

**Cambodia Social Security Schemes for Formal Workers and Civil Servants** is divided into two sub-components: (i) National Social Security Fund (NSSF); and (ii) the Social Security Fund for Civil Servants (NSSF-C). The NSSF was set up in 2008 to administer private sector worker's social security, active with companies of eight workers or more. The NSSF benefits are currently limited to employment injury insurance, which was introduced in 2008 and today covers over 700,000 employees in 14 provinces. Plans for health insurance and pension old age citizens already existed. Introduction of pensions is planned for 2015 and health insurance for 2013. The NSSF funding comes from employers' contributions and state budget.

On the other hand, pensions for civil servants are covered by the National **Social Security Fund for Civil Servants (NSSF-C)** was also established in 2008 was in full operation in May 2009. The scheme automatically covers full 180,000 active civil servants: An equivalent to 2% of the labor force. Retired or old age civil servants receive pensions in some form in lump-sum payments, work injury, funeral grants and paid maternity and sick leave financed from the government budget.

The National Fund for Veterans provides pensions for veterans in the Armed Forces and Police for Veterans. This Fund was established in 2010. It covers old age disability, survivors, benefits for military and police personnel, war veterans and their families. The Ministry of Social Affairs, Veterans and Youth manage this fund.

These three master plans set forth the policy authority and action plan for the national social protection priority. The Government rational is that investing in strengthened provision of social protection; the RGC can address the challenges involved in reducing long-term poverty and mitigating the negative impact of short-term crises. To achieve that end, the NSPS supports the poorest and most disadvantaged groups who cannot help themselves through social transfer and services; and the plan support the poor to move out of poverty through building human capital to harness opportunities<sup>i</sup>.

The NSPS also pays attention to the technical detail of implementation, for example, coordination institutional among the different social protection and employment policies and projects. The Government will responsible for administration and funding of social protection programs. Inline ministries are responsible for actual implementation, according to the area of specialization. For example, the Ministry of Health is responsible for improving health access, and Ministry of Labor is responsible for employment programs.

To ensure the quality of service and management quality, the government put into the Anti-Corruption legislation and Anti-Corruption Commission to combat corruption. Likewise, the Government working to improve the management of land and improving access and quality of Technical and Vocational Education and Training (TVET), providing skills training to match demands by the labor markets.

To sum up, Cambodia's inclusive policy came into shape in the 2<sup>nd</sup> Legislature of the Cambodian Government (1998-2003). The major emphasis was to accommodate the market economy to generate employment and income. Priority concerns were poverty reduction, revenue generation for the state and the people. By the 3<sup>rd</sup> Legislature, Cambodia inclusive growth strategy was become more streamlined by the Rectangular Strategy and Rectangular Phase II with the emphasis on *Growth, Employment, Equity and Efficiency*; and implementation action plan of national development program was prescribed in the

National Strategic Development Plan Update 2009-2013 Successive inclusive master plans including the National Social Protection Strategy 2011-2015 were subsequently followed other sector master plans for education and health. Thus what are the learned lessons from the Cambodia perspectives?

Peace and stability is sine qua non and good conflict management strategy is imperative: Win-Win policy of the Prime Minister Hun Sen created the flexibility and the dynamics for Cambodia to align her development agenda with the national and regional communities. It enabled Cambodia to institutionalize strategic policy (Triangle Strategy—Peace Security, Economic Development—Human Resource Development), and increase her opportunities to engage with the global and regional communities. With the Triangle Strategy, Cambodia was experimenting was liberal institutions and economy, particularly the liberal aspects of the market system.

Sounded Policy Framework: Balances inclusive policy with the market policy: Rectangular Strategy I and Phase II. In the Rectangular Strategy, the Royal Government started to increase national ownership of development initiatives by harmonizing policy with Development Partners. Rectangular Strategy Phase II (2003-2008) is a social inclusion document with priority attention to physical infrastructure development (accessibility, mobility, economic activity) and the government takes the leading initiative.

Inclusion and Participatory Process: Rectangular Strategy Phase II reflects greater option and greater government accountability and ownership of inclusiveness strategy: shifting from donor dependence toward a unified national and government owned social protection schemes and plan. This is in turn is a policy and strategic adjustment to sustain poverty reduction, improve national efficiency and productivity.

Integration-Regional and International: Economic diversification, examining exit strategy, improving sustainable growth and value added economy, concrete social inclusion policy. More policy space for social inclusion but because improve economic performance.

Rule of Law and Good governance: Prevents the abuse and misuse authority, of public assets, properties and resources: Reduce negative externalities and asymmetrical information.

Human Resource Development: Imperative for institutional competency: For effective and efficient implementation of social programs and public services.

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<sup>i</sup>The NSPS [envisions] that all Cambodians, especially the poor and vulnerable, will benefit from improved social safety nets and social security, as an integral part of sustainable, affordable and effective national social protection system. Its [goals] is that poor and vulnerable Cambodians will be increasingly protected against chronic poverty and hunger, shocks, destitution and social exclusion and benefit from investments in their human capital. The objectives are: (a) address the basic needs of the poor and vulnerable in situations of emergency and crisis; (b) reduce poverty and vulnerability of children and mothers and enhance their human development; (c) address seasonal under employment and unemployment and provide livelihood opportunities for the poor and vulnerable; (d) promote affordable health care for the poor and vulnerable; and (e) improve social protection for special vulnerable groups.

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