



Volume 2, Number 4

April 2004

East Asia on solid ground, set to grow by 6 percent in 2004

Cambodia records lower than expected growth; prospects look favorable for 2004

WASHINGTON, DC, PHNOM PENH April 20, 2004 – Fueled by growing exports, low interest rates, and high investment in China, Vietnam, and Thailand, East Asia's economy is expected to grow by more than 6 percent in 2004, the strongest since the beginning of the global slowdown in early 2000, according to the latest East Asia and Pacific Regional Update, the World Bank's twice-yearly look at the region's economies.

"With the strong recovery in the United States and Japan, increased demand for East Asian exports and the long-awaited rebound in the high-tech sector, the outlook for the region is very positive both for the big countries and for the smaller ones," said Regional Vice President for East Asia and Pacific Mr. Jemalud-din Kassum.

"By the end of 2003, the low and middle-income countries of the region were growing at a combined rate of 7.6 percent, their fastest rate since 1996. This strong recovery to pre-crisis levels of

growth also bodes well for the region's poor, with an estimated 3349 million moving above the \$2 a day line in this latest upsurge," Mr. Kassum said.

Global investment in information and communications technology and high tech electronics has rebounded and is rap-

continued on page 2



A vender sell her products at the market in Phnom penh

PHOTO: CHHOY PISEI

Cambodia needs to diversify and reform to help the poor

As part of the World Bank's outreach efforts to youth and students in Cambodia, the World Bank country manager for



Nisha Agrawal talks to students

Cambodia, Ms. Nisha Agrawal, recently spoke to nearly two hundred university students about Cambodia and how the World Bank is working to help in the fight against poverty.

She talked about how the Bank's work in Cambodia covers such areas as providing knowledge and ideas, technical assistance, and financing for projects aimed at reducing poverty. Aid coordination – and working in increased partnership with Cambodian counterparts and donor agencies – is an important part of the Bank's program as well, she noted.

"Cambodia has made some solid achievements in recent years, including establishing peace and stability, regional reintegration, and adoption of a reform agenda. But progress has been slow. And the poor have not been able to benefit much from these achievements in stabil-

ity and growth," she told students at the Build Bright University's Ph.D program, where students are from government, private sector and civil society. "Your roles – whether from the public or private sector – are important. If you are in the government you could prepare and help deliver strategies that will help people in need, especially the poor. And if you are in the private sector, you can help by creating more jobs and help people to earn a better living."

At the University of Cambodia, where more than 100 students participated in the discussion, Ms. Agrawal said that growth is coming mostly from the garment and tourism sectors. She warned, however, that depending on these two sectors alone is not enough for the country's growth, as the economic base remains fragile. The

continued on page 3

East Asia on solid ground ...

continued from page 1

idly growing, to the benefit of many Asian economies. This recovery will likely further growth in intra-regional production and trade networks, centered on China, which is taking in a growing number of its neighbors' exports.

Cambodia's growth was lower than expected in 2003, recording 4.8 percent compared to 5.5 percent in 2002, adversely affected by the anti-Thai riots and the SARS outbreak in the first part of the year, both of which hurt tourism, which fell by 11 percent from 2002. Growth was however, supported by a solid 23 percent gain in goods exports, underpinned by the continued strength of garment exports, which surpassed US\$1.6 billion, representing nearly 80 percent of total exports. At the same time prudent monetary policy contributed to continued expansion of net foreign assets, a stable exchange rate and a low inflation rate of 0.5 percent.

The anti-Thai riots, and SARS, and the gridlock resulting from the July 2003 elections affected Cambodia's fiscal standings as well, with total revenue reaching only 85 percent of the budget target, which contributed to an increase in the overall budget deficit to 7.1 percent of GDP, up from 6.8 percent in 2002. The revenue shortfall led to a reduction in priority sector spending in health, education, agriculture, and rural development.

Mr. Kazi Matin, Lead Economist for Cambodia, said, "Despite some of the setbacks, Cambodia achieved a major accomplishment with its accession to the WTO in September 2003, as well as made progress on the structural reform agenda in the financial and monetary sectors. Economic prospects for 2004 are positive, with an expected recovery and growth expectations of 5.5 percent, driven by construction, the fledgling tourism sector, and urban-based garment industries." He cautioned however that growth prospects could be challenged by the January 2005 scheduled phasing out of the textile and apparel quotas (under the Agreement in Textile and Clothing), since the bulk of exports to the US and the EU are channeled through the quota and special preferences system.

Commented Ms. Nisha Agrawal, Country Manager for Cambodia, "This risk can be managed if the government takes decisive action to improve the investment climate to boost competitive-

ness (and yield the 6-7 percent growth rates targeted in the 2003-2005 National Poverty Reduction Strategy); to mitigate poverty constraints and develop new opportunities in the rural business environment; and to cultivate new sources of growth, including export diversification." She noted that poverty remains a major concern, with \$1/day figures showing that 43 percent of the population is below the poverty line and \$2/day, nearly 78 percent. A concrete reform agenda – which includes a solid focus on governance reform – is needed to restore momentum in the medium-term and promote high quality growth necessary for greater poverty reduction. the market for a growing number of exports from East Asian economies.

China still driving the region, but for how long?

Long the driver of regional growth,

East Asia Economic Growth				
	2002	2003	2004	2005
East Asia	5.9	5.7	6.3	5.9
Develop E. Asia	6.6	7.6	6.9	6.5
S.E. Asia	4.4	5.1	5.4	5.4
Indonesia	3.7	4.1	4.5	5.4
Malaysia	4.1	5.2	5.5	5.5
Philippines	4.4	4.5	4.2	4.1
Thailand	5.4	6.7	7.2	6.5
Transition Econ.				
China	8.0	9.1	7.7	7.2
Vietnam	6.0	7.2	7.0	7.2
small countries	1.5	4.0	4.3	4.1
Newly Ind. Econ.	4.8	3.0	5.4	4.9
Korea	7.0	3.1	5.3	5.3
3 other NIEs	3.0	2.9	5.5	4.5
Japan	-0.3	2.7	3.1	4.4

China's imports surged 40 percent in 2003, and figures from the first quarter of 2004 show continued growth, fueled by demand for inputs to China's its manufactured exports, mostly from China's neighbors. Intra-regional trade still accounts for around 70 percent of the gross growth in exports of East Asia's developing economies, as has been the case for the past three years. But this trend will surely slow as China cools from its current torrid rapid growth rates. The Chinese authorities are working hard to slow the country's pace of growth to a more manageable level. To do this, they must balance the need to continue creating jobs and reforming the economy while keeping the economy stable and slowing down

excessive investment, the report says. Just what effect this slow down will have on China's neighbors remains to be seen.

"Although it is true that slower growth in China would hurt other economies in the region, our view is that the impact would be modest," said Mr. Homi Kharas, Chief Economist for the East Asia and Pacific Region. "Even a 10 percent reduction in the growth of China's imports would result in a loss of less than 1 percent of gross domestic product (GDP) in Korea and Taiwan (China) and less than half of one percent GDP in a country like Thailand. And if this slowdown took place in 2004, it would be offset by an acceleration of Japanese imports from the region and higher global trade growth.

"The real risk to the region," Mr. Kharas noted, "comes not from slower growth in China but from a hard landing, which will take skillful and coordinated policymaking to avoid."

In another positive sign for the region, domestic and foreign investment are also showing signs of recovery. Net portfolio flows to six large regional economies – China and the five post-crisis economies, Indonesia, Korea, Malaysia, Philippines and Thailand – are estimated to have jumped to around \$33 billion from a net outflow of \$9 billion in 2002. FDI into China has remained stable at about 4 percent of its GDP since 1990, while Korea, Malaysia, Philippines, and Thailand are receiving about 2 percent of GDP or about the same as the world average.

Increasingly other regional economies are also looking forward to solid investment growth. Looking forward, a combination of low interest rates, availability of credit, and higher corporate profits and productivity are an impetus to an upturn in investment spending around the region.

Foreign direct investment (FDI) inflows to six main East Asian economies are estimated at about \$60 billion in 2003, about \$1.5 billion higher than in 2002. But of this total, about \$53.5 billion went to China and only about \$6.5 billion to the other five economies, Indonesia, Korea, Malaysia, Philippines, Thailand, whose combined share of FDI continues to fall while China's share rises.

Rising commodities prices – good for the small economies

"In the present recovery Ggrowth and poverty reduction in the region is more

continued on next page

Workshop on participatory poverty assessment

Cambodia, April 6 – A one-day joint workshop hosted by the Asian Development Bank (ADB) and the World Bank on participatory poverty assessment (PPA) methodology was held in Phnom Penh; more than 100 participants from the Government, NGOs, Donors and local communities around the Tonle Sap participated.

The objective of the workshop was to consult on two proposed poverty assessments - the ADB's Tonle Sap participatory poverty assessment and the WB Moving out of Poverty research - as well as to gain a better understanding of the different analytical work currently under-

way and to identify gaps in research. Participants worked to generate concrete recommendations on key issues and priorities to include in the two studies, both in terms of content and process.

At the opening speech, Madame Khiev Bory, representative from the Ministry of Planning, stressed: "We do not see today's workshop as a one-off event, but as the start of an on-going dialogue with our development partners on the PPA initiative. We aim to reconvene with key stakeholders at all major steps along the way to share findings, refine the analysis and discuss policy implications."

The study will cover a range of factors affecting poverty including governance and political participation, economic trends and policies, natural resource management, social capital and institutions, and gender relations.

The World Bank Country Manager, Nisha Agrawal, presented the five steps in implementing the National Poverty Reduction Strategy (NPRS) such as poverty diagnosis, setting strategic targets, defining strategies, implementation, and monitoring outcomes and evaluation. She added that there are ongoing survey and

continued on 4

East Asia on solid ground ...

continued from page 2

widespread than in most other recoveries are being more widely shared around the region, thanks in large part to rising commodity prices, which are boosting incomes in several of the low income, commodity exporting countries," said Lead Economist Mr. Milan Brahmbhatt, lead economist and principal author of the Regional Update. Oil and primary commodity prices for cotton, rice, rubber, metals, and edible oils like palm oil, rice, rubber and metals rose 10 to 20 percent in 2003 and have continued to rise in early 2004.

"These increases are no threat to re-

gional growth, however, the present level of high oil prices is expected to drag down some of the key economies of the region, and significantly higher prices over an extended period could paint a grimmer picture for regional and global growth," he continued. Higher commodity prices will benefit others, however, particularly some of the smaller economies in the region, in particular, like Mongolia and Papua New Guinea as well as some of the larger ones like Vietnam and Indonesia. Higher prices will, on the other hand, tend to eat into the income of the more developed commodity importing economies, but so far not by enough to damage the overall recovery.

"To ensure that these windfalls truly benefit countries over the long term, particularly in the poorest countries, revenues must be managed well, which historically has not been the case," Mr. Brahmbhatt concluded.

The special focus section of the report looks at the lessons from China, Indonesia, Korea, and Malaysia in reducing poverty on a large scale, the subject of the upcoming Shanghai Poverty Conference, May 25-27, and an ongoing global dialogue on ways to accelerate poverty reduction.

For more information please contact visit: www.worldbank.org

Cambodia needs to diversify ...

continued from page 1

garment industry, she explained, grew by relying on the protection afforded by the MFA, which expires on January 1, 2005. The future of this industry is uncertain once Cambodia is no longer sheltered by quotas but has to compete with other countries, especially China.

The tourism sector, which has been dominated by travel to Angkor Wat, was hit by the SARS crisis in 2003 and is vulnerable to further declines due to the global threat of terrorism.

She added, however, that if Cambodia was to improve the investment climate, it has the potential to develop a wide range of industries such as agriculture and food processing, shoes, electronics, and many others.

Ms. Agrawal also discussed briefly the new Country Assistance Strategy (CAS), currently being developed by the World Bank in close partnership with the Asian

Development Bank (ADB) and the United Kingdom's aid agency, DFID. She said the strategy is centered on four key pillars to improve governance – ensuring a framework for private investment; access of the poor to productive assets; public administration and financial management systems; and improved local governance and

accountability.

As part of the discussion, many students asked questions. Concerns were raised about having to pay back loans (credits) which the Bank provides; how the World Bank deals with the corruption issues; and how Cambodia's joining the WTO will help the country's growth prospects.



Students at the University of Cambodia hear about Bank strategies to defeat poverty

Workshop on participatory poverty assessment

continued from page 3

studies such as the National Institute of Statistics *Household survey* to be completed by the end of 2004, which will provide reliable and current quantitative data on poverty, the WB's *Moving out of Poverty* study, and the ADB study on Tonle Sap on *Participatory Poverty Assessment*. She said other donors and NGOs should work together to address poverty issues and that "we should not separate the NPRS and Millennium Development Goals (MDG)," she said.

Deepa Narayan, Senior Advisor to the Poverty Reduction Economic Management Unit (PREM) said at the workshop that Cambodia is one of 20 countries conducting a global comparative study to learn retrospectively from those who were once poor but have moved out of poverty and stayed out of poverty and those who have remained poor in different political, social and economic environments.

"The value added in this study is that it will be explicitly policy-oriented, it will provide a historical perspective with a strong qualitative analysis from the perspective of the poor and those who have recently moved out of poverty, to understand the key factors influencing economic and social mobility."

Mia Hyun, World Bank poverty specialist, said the study will have a strong emphasis on supporting capacity building for participatory data collection and analysis skills, as well as evidence-based policy formulation, grounded in the realities and experiences of the poor themselves, and those who have successfully moved out of poverty, in Cambodia.

"This is an important step in the lead-up to the formulation of the next five-year national development strategy, which should be underpinned by a joint National Poverty Assessment," she said. "With the new WB and ADB initiatives on the Participatory Poverty Assessments (PPAs), we will be able to complement the quantitative analysis from the forthcoming household survey, the existing poverty assessment work with information and analysis based on direct consultation with the poor at local levels, on specific issues which affect their well-being and ability to move out of poverty."

Manoshi Mitra, Social development



Attendees at the Workshop on Participatory Poverty Assessment on April 6

Specialist at the said this workshop represents a significant step forward in government-donor-NGO partnership, as this is a joint initiative between WB and ADB, funded by DFID, and carried out in close collaboration with the Ministry of Planning and CDRI.

Naresh C. Saxena, head of the ADB research team on PPA of the Tonle Sap, said the study begins the process of strategic planning to ensure that poverty reduction and sustainable livelihoods are addressed in all stages of project planning, implementation, and monitoring and evaluation.

"The study should contain recommended actions in policy, programs, institution building, decentralization, local government, and public sector management, investment in physical infrastructure and human capital, and social-political arenas," he said.

Chan Sophal, the lead researcher from Cambodia Development Resource Institute (CDRI) said the research will be conducted in nine villages from different provinces where they have data from 1996 and 2001.

"The scope of our study is on the economic, social and political factors," he said.

The economic factors refer to asset ownership, sources of income, expenditure, credit, employment and services. The

social factors refer to membership in groups and networks, and the impact of local institutions in poverty reduction. The political or governance factors include control over decisions, political participation, access to information, vulnerability to crime and violence.

Chin Vuthy, project officer of the Fisheries Action Coalition Team, an NGO based in Siem Reap which is one of PPA participants, said this workshop gives local NGOs a chance to provide comments and documents related to poverty reduction as reference material to improve the quality of the studies.

"One concern we have is that the research team might not go to villages where access is difficult," he said.

Thay Somony, Chief of the Community Fisheries Development Office, Department of Fisheries, said the workshop was organized in a way that participants from various institutions can freely express and provide comments to the PPA research design.

"By doing this, it improves communication and enhances the research methodology as well," he said.

For more information contact:
Mia Hyun, Poverty specialist
Email: mhyun@worldbank.org

We Welcome Your Opinions and Comments

We welcome your opinions, comments and questions. Please send them to: Bou Saroeun, Communications Specialist, at 113 Norodom Blvd., Phnom Penh, email: sbou@worldbank.org. We very much appreciate your valuable assistance.