



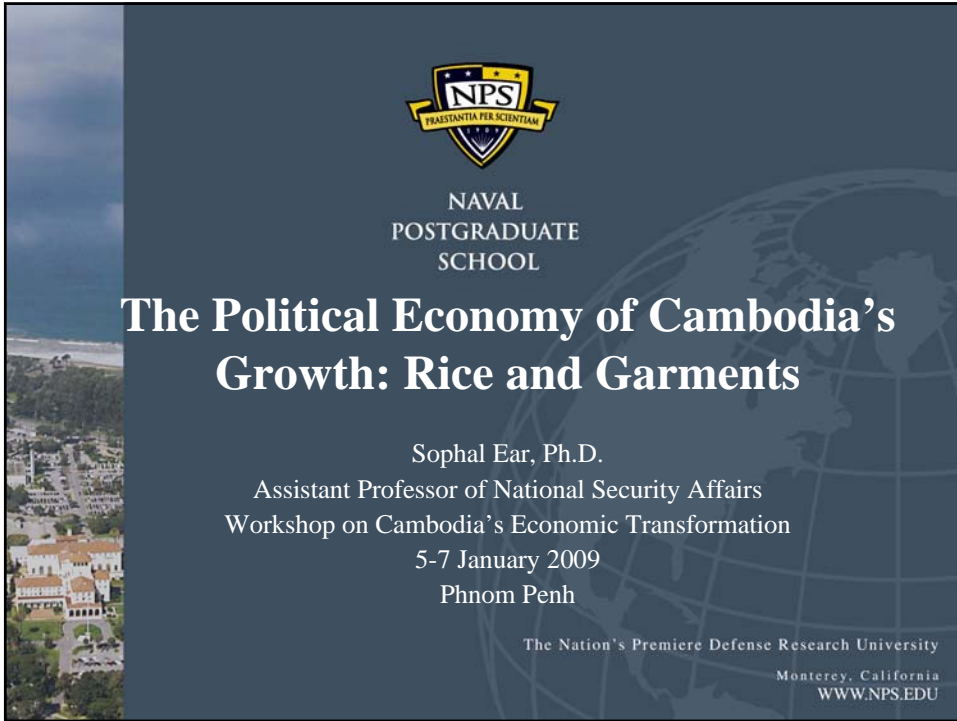
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# The Political Economy of Cambodia's Growth: Rice and Garments

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- The mystery: Growth despite poor governance
- Rapid economic since 1999, averaging near double-digits:
  - 2006, 2005, and 2004 saw 11%, 13%, and 10%, respectively
- Poor governance:
  - 162 out of 179 countries in the 2007 Corruption Perception Index, 151 out of 163 in 2006, 130 out of 158 in 2005
  - Govindicators.org (World Bank Institute) shows that Cambodia is poorly governed by peer-group comparison, while China and Vietnam are relatively well governed by peer-group comparison, but still rather poorly governed by international comparison.

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- What explains Cambodia's double-digit growth despite poor governance?
- Why do some sectors thrive while others fail under such conditions?

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- Review of the relevant literature
- Analysis of detailed semi-structured interviews with more than 50 firms/businessmen, government, non-government, and donor officials
- Two focused cases examined: Garments (established) and Rice (emerging)\*

\*Study from which this chapter is based also looked at Livestock as a stunted sector.

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- Nature of Cambodian Politics
- Functions the Regime Has “Provided”: Peace, Private Sector “Development”, and Patronage
- The Oknha Economy
- Advisors
- Politics and Business
- Aid, Taxes, and Revenues

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

	2002	2003	2004	2005	2006
ODA and official aid (current US\$ millions)	484.25	514.31	483.19	540.68	528.99
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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- Background to the sector
- Why has the sector been able to establish itself in a challenging governance environment?
- Outlook and implications for governance and growth



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## Agriculture in Cambodia 2000-2006



	2000	2001	2002	2003	2004	2005	2006
Agriculture, value added (% of GDP)	35.9	34.4	31.2	32.0	29.5	30.8	30.1
Agriculture, value added (annual % growth)	-0.4	3.6	-2.5	10.5	-0.9	15.7	5.5
Agricultural land (% of land area)	27.0	27.7	28.3	28.9	29.6	30.3	27.0
Employment in agriculture (% of total employment)	73.7	70.2	..	..	..	..	..
Rural population (% of total population)	83.1	82.5	82.0	81.4	80.9	80.3	79.7

Source: World Development Indicators Online. Accessed 11 November 2008.



## Rice sector: a nascent story?

- Background to the sector
- How is the sector establishing itself in a challenging governance environment?
- Export regime—Cambodian rice and the opportunity of Everything But Arms
- Outlook and implications for governance and growth



	1. Garments: “Successful”	2. Rice: “Nascent”
a. Oknha element		
b. Constraints (not all are governance-specific)		
c. Nature of the rents (and how they are/were shared)		




Economic rent is a measure of market power; for garments, quotas created rents  
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	1. Garments: “Successful”	2. Rice: “Nascent”
<p>a. Oknha element</p>  <p>No, this doesn't look like an Oknha or Lok Chumteav!</p>	<ul style="list-style-type: none"> <li>•Strong foreign involvement means that there is little to no use obtaining the title of Oknha</li> <li>•Garments likely has Oknhas, but none is known per se</li> <li>•Some Oknhas probably own the land which garment factories lease</li> </ul>	<ul style="list-style-type: none"> <li>•A leading rice miller is an Oknha</li> <li>•That state enterprise, Green Trade, is now one of two entities allowed to export 100 tons or more without the need to apply for a license.</li> <li>•Of the remaining rice millers, there is little evidence that they are themselves Oknhas, at least not at any higher rate than entrepreneurs of similar small and medium enterprises.</li> </ul>

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	<h3>1. Garments: “Successful”</h3>	<h3>2. Rice: “Nascent”</h3>
<p><b>b. Constraints (not all are governance-specific)</b></p>  	<ul style="list-style-type: none"> <li>•High labor turnover is a major constraint (48% at one of the best factories operating)</li> <li>•High number of strikes (though declining relative to a couple of years ago)</li> <li>•High electricity costs and unreliability (50% off the grid)</li> <li>•<b>High cost of export and facilitation</b></li> <li>•Low productivity (relative to Vietnam)</li> <li>•<b>High cost of transport</b></li> <li>•<b>US (and worldwide) recession is reducing demand</b></li> </ul> <p>WWW.NPS.EDU</p>	<ul style="list-style-type: none"> <li>•Lack of credit and high cost of capital</li> <li>•<b>High cost of transport and storage</b></li> <li>•Low yields relative to neighboring countries <ul style="list-style-type: none"> <li>o <b>Poor soils</b></li> <li>o Poor irrigation (rain-fed) and water management</li> <li>o Low extension services capacity and research capacity</li> </ul> </li> <li>•Inability to export to developed country due to hygiene standards and logistics</li> <li>•<b>Any enterprise above a certain level is heavily affected by informal payments</b></li> <li>•High cost of energy and unreliability (again, production is on diesel generators)</li> </ul> <p>13</p>

	<h3>1. Garments: “Successful”</h3>	<h3>2. Rice: “Nascent”</h3>
<p><b>c. Nature of the rents (and how they are/were shared)</b></p>	<ul style="list-style-type: none"> <li>•<b>Garment manufacturers must be members of GMAC to officially export</b></li> <li>•Participation in Better Factories</li> <li>•GMAC can collectively bargain with authorities</li> <li>•<b>Rents originated from export quotas to US and Europe</b></li> <li>•Now through WTO membership</li> <li>•Rents were shared with the economic police (Ministry of Interior) on the way to and from Sihanoukville port even though trucking companies act as agents; with customs officials (Ministry of Economy and Finance), with CamControl (MoC).</li> <li>•350,000 workers employed</li> </ul> <p>WWW.NPS.EDU</p>	<ul style="list-style-type: none"> <li>•Rents shared with economic police; customs; line ministries</li> <li>•MoC, through SOE Green Trade, seeks to capture rents</li> <li>•<b>With the National Cambodian Rice Millers Association, GTC can export in excess of 100 tons without license</b></li> <li>•Rents were high and relatively shared as the price of rice increased</li> <li>•Farmers reacted to economic opportunity by increasing output, to their benefit</li> <li>•<b>European Union’s “Everything But Arms” initiative will enable Cambodia to export rice duty-free to Europe.</b></li> </ul> <p>14</p>



- The garment industry, the leading growth sector, offers useful lessons for rice, which is newly emerging
- The role of international drivers, foreign investors, domestic collective action mechanisms, and high stakes seem to have been critical in these achievements
- This analysis of the growth / governance paradox points towards two future directions.

