

Chapter 5

Labor Force, Incomes, and Poverty

5.1. Labor Force and Under-employment

The share of employment in formal sectors such as garment industries, tourism, and other emerging new industries is small compared with that of the informal sector which accounts for more than 90 percent of the total employment. Therefore, improving productivity in the latter is vital to absorb new entrants into labor markets and to curb migration to cities and illegal border-crossings to seek employment in neighboring countries.

According to EIC's preliminary estimates, new entrants into the labor force have increased by 3.5 percent annually since 2001. However, job creation is lower than the increase in labor force, even though new jobs created by formal sectors have been quite strong. Low productivity and unpredictability of the informal sector has generated low employment opportunities. As a result, the unemployment rate has increased sharply since 2001.

In order for unemployment to decline, 300,000 new jobs have to be created every year. As formal sectors can generate about 50,000 jobs at best, the rest of the new entrants must go to the informal sectors or to seek job opportunities elsewhere. Only expansion in agriculture and other labor-intensive industries can absorb the oversupply of the labor force.

5.2. Income Distribution

Distribution of income reflects the share of gains from economic growth. Distribution patterns differ according to “capability”²⁰ of socioeconomic agents to directly participate in economic activities (the market mechanism) and indirectly through the legitimate reach of social benefits provided by the public sector (public service deliveries).

The main sources of income generation are from land tenure, labor participation, ownership of capital, and know-how technology. By itself “development will not change the distribution of innate ability, and therefore will not change the distribution of income”²¹. Complementary

²⁰ Sen, Amartya. (1999). *DEVELOPMENT AS FREEDOM*. p.87. Oxford University Press.

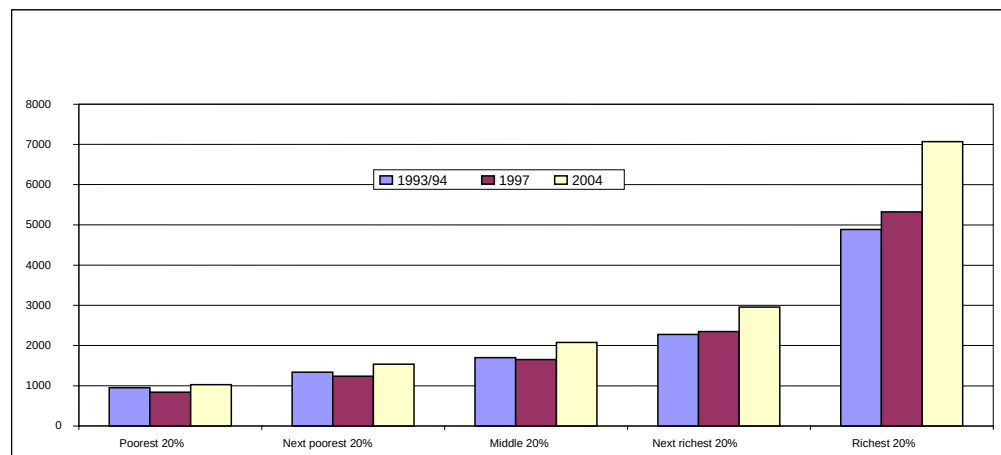
²¹ Meier, G.M., and Rauch, J.E. (2000). *Leading Issues in Economic Development*. p.375, 7th Ed. New York and Oxford: Oxford University Press.

reform measures by the government must be in place to redistribute gains from economic growths.

According to EIC studies, labor income in agriculture, on average, increased 3 percent during 1999 – 2004, slightly above the population growth rate, while that of industry and the service sectors grew by 14 percent and 8 percent respectively in the same period. Figure 5.1 reveals that while income reflecting by per capita consumption of 40 percent of the poorest increased slightly, that of the 20 percent richest increased sharply from 1997 – 2004. As growth in agriculture, where most of the rural poor depend on, was very low compared with urban industrial and service sectors, the gap between the rich and the poor has become wider

Obviously, income generation in Cambodia is largely from land use for agriculture and labor participation given cheap labor costs, scarcity of initial capital investment, poor infrastructure and lack of technology. Policy responses should be on land distribution, rapid infrastructure development, and greater emphasis on investment in health and education. Most importantly, failure to address appropriate land distribution and impediments to stable growth in agriculture will cause the income gap to widen and poverty reduction is unlikely to occur.

Figure 5.1: Mean Real Household Consumption Per Capita By Per Capita Consumption Quintile (1993/94 Phnom Penh Prices)



Source: Chan Sophal, *The World Bank*, presented at EIC Project Launch Meeting on “Trade, Development and Poverty Reduction, Aug 23, 2005.

5.3. Poverty

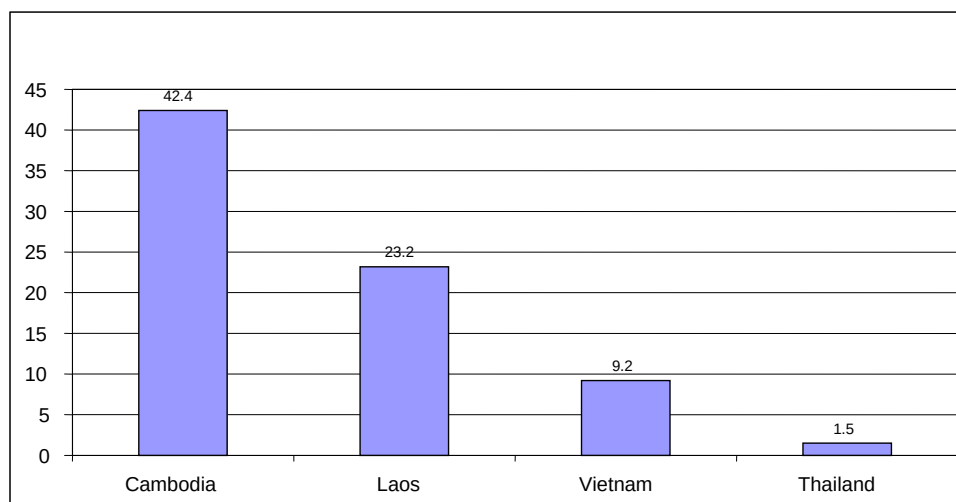
As analyzed above, low growth in the agricultural sector and concentration of growth in garments and tourism have a marginal impact on income distribution and poverty reduction in the country. The poverty

rate was 36 percent in 1999 and the latest rate is not yet available. Results from the socioeconomic survey for 2003-04 are under preparation.

Available estimates by the World Bank and other institutions suggest that poverty may be reduced indirectly by good performances in the garment and tourism sectors. However, if the US\$1 poverty line were applied, then the Cambodian poverty headcount would be 42 percent in 2004, the highest compared with her neighboring countries. The poverty line in Cambodia is set at around 2,350 Riel per capita per day for Phnom Penh, 1,950 Riel for other urban areas and 1,750 Riel for rural areas in 2004. Another year of severe drought and a forecast 5 percent of inflation in 2005, especially an increase in food prices, are another blow for the poor.

The main obstacles to poverty reduction are the same as identified by the government in 2002²². The most recent survey on four different districts across the country²³ suggests that parts of the country, especially new integrated regions formerly controlled by the Khmer Rouge, have enjoyed a high increase in income due to large distributions of land for each household. However, areas with a prevalence of landless and limited access to common property resources such as forest and fisheries are worse off.

Figure 5.2: Percentage of People Living on Less Than US\$ 1 a Day in 2004



Source: *The World Bank East Asian Update (April 2005).*

There are no other suggestions except furnishing the measures that have been already prescribed by the government itself in poverty reduction and the Rectangular Strategy. The most urgent actions, however, are the reforms in land management with particular emphasis on the landless,

²² Royal Government of Cambodia. (2002). *National Poverty Reduction Strategy 2003 – 2005*. p. iii

²³ EIC's Cambodia Poverty Assessment: Regional Case Studies, sponsored by the World Bank.

reforms in public finance to prevent revenue leakages and wastages, legal judicial and public administration to provide a viable environment for private sector development, and more investments are needed in physical and social infrastructure.