

Chapter 5

Labor Force, Incomes, and Poverty

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Poverty alleviation has been the overarching goal of the government and donor development plan. Although the country has experienced relatively strong economic growth, poverty does not appear to have been reduced. Several factors might explain this failure: high growth of labor force, and significant inequality of income distribution.

5.1. Labor Force and Under-employment

As mentioned earlier, external trade and FDI have played a great role in creating employment in Cambodia. Thanks to a sharp increase in garment exports and foreign visitors, about 300,000 jobs (or 5 percent of total workforce) have been directly created since 1997. A formal economy, with a minimum labor standard compliance, has been established. Although no comprehensive study is yet done to evaluate indirect impacts of garment and tourism sectors growth on other economic sectors, it not surprising that more than one million poor people have benefited directly or indirectly from this expansion.

Table 5.1: Population and Labor Force
(change in 000's, year average)

	2001-2004	2005-2008
Total Population	335	360
Total Labor Force	210	230
Formal Sectors	20	-10
Garment	25	-15
Tourism	5	5
Public Administration	-10	-
Informal Sectors	190	240
Agriculture	100	105
Non-agriculture	90	135

Sources: Ministry of Planning and EIC estimates

During the past four years, new entrants in the labor market were estimated to reach 210,000 people per year. The garment industry has directly created about 25,000 formal jobs per year, and could generate at least twice the number of informal jobs in transportation, house renting,

restaurant, etc. What will happen in the coming years when garment exports are expected to decline?

Based on the current productivity trend and speed of reforms, Cambodia's garment industry will lose about 15,000 jobs per year during 2005-2008, unless drastic reforms to curb corruption and improve productivity become effective now. In addition, the tourism sector remained fragile with external shocks; and jobs created by this sector are still very moderate because of limited supply linkage. With about 230,000 young people seeking jobs per year, it is not surprising that an additional 1 million jobless will be added to the already high stock of jobless (or underemployed) people. EIC also estimates that more than a half of million of young people (10 percent of total Cambodia workforce) will migrate from the rural to the urban areas during the next four years, even though there are no formal jobs available there for them.

5.2. Income Distribution

Indicators for household incomes and consumption are important to keep track of the development and changes in the livelihoods of Cambodia's citizens. Unfortunately, there are no fresh figures available, with those obtained from the Socio-economic Survey of 1999 the most recent.²⁵ According to round 2 of that survey which presented relatively optimistic figures, the main source of income for the average Cambodian was from self-employment, especially in the agricultural sector, accounting for 61 percent of total per capita income. However, the highest 10 percent of the income group depended less on self-employment and earned mainly from wages and other sources. Average household income at the national level was US\$106 per month.²⁶

The income of residents of the capital city, Phnom Penh, was higher than the monthly national average, reaching about US\$ 300 per household. Income in rural areas was only about US\$80. Based on economic growth by province statistics estimated by EIC, household incomes in rural areas have remained basically flat from 1999 to 2003, while those of Phnom Penh have significantly increased, thanks to high economic growth in the formal sectors such as tourism and garments.

The conventional measure of inequality of Cambodia using the Gini coefficient showed mixed results, varying with the quality of surveyed data. In a Poverty Profile of Cambodia –published in 1999 by the Ministry of

²⁵ Ministry of Planning, National Institute of Statistics, *Cambodia Socio-economic Survey 1999*

²⁶ The size of a Cambodian household is five persons, including two parents and three children

Planning, the Gini Index for the whole country was 0.40 for the round 1 survey, a high inequality, while for round 2, it was just 0.29, and for pooled data it stood at 0.35. In contrast, a recent World Bank report showed that the Cambodia Gini coefficient was 0.41 in 1999, and steadily increased to 0.45 in 2003.²⁷ Therefore, the distribution of income is not even and the gap has not narrowed given the general state of economic development. However, the core problem is not the inequality per se. Inequality can be tolerated as long as there is a significant and continuous increase in income, especially of the poor, even if the inequality gap becomes wider.

Though the current status of income and consumption is not available since there has been no new survey since 1999, it is likely that the strong performance of the agriculture and garment sectors in 2003 may help improve livelihoods of the poor in that year. The slowdown in tourism may not have caused a significant impact on income distribution given its high proportion of revenue repatriation overseas. Gains in agriculture are crucial for small income earners, and likewise, steady growth in the garment industry also boosts the income of workers and their dependents. It is estimated that about 75 percent of garment workers send about estimated 50 percent of their income home each month, supporting about 1 million rural lives.

However, it should be noted that regular income for the rural poor is not a given. Income may be interrupted by the seasonality of agricultural production and its low productivity, a lack of alternative cultivations and a long production cycle (mostly once a year for paddy). Enabling multiple production cycles of agriculture will result in a continuous increase in productivity, income and capital formulation, and finally reduce the risk of farmers falling into a poverty trap. Moreover, maintaining and expanding growth in non-agricultural sectors will simultaneously provide momentum for poverty reduction.

5.3. Poverty

Based on the Poverty Profile of Cambodia for 1999 that analyzed the results of the socioeconomic survey round 2, about 36 percent of the population lived below the basic needs poverty line in 1999. A sufficient expenditure to meet food requirements (Food Poverty Line) was US\$ 0.46 per capita per day for Phnom Penh, and US\$ 0.37 for rural areas. If this line adds a minimal allowance required for non-food consumption (Poverty Line), the required daily expenditure per capita was US\$ 0.63 for Phnom

²⁷ The World Bank: Strong Fundamentals to the Fore: Regional Overview, April 2004

Penh, and US\$ 0.45 for rural areas. At the national level, the Cambodia poverty line was US\$ 0.47 in 1999.

The poverty rate in rural areas was 40 percent, about four times higher than in Phnom Penh. The rural poor made up more than 90 percent of the total poor, and those who primarily depend on agriculture as their main source of income accounted for 79 percent of the total poor. Besides low income and consumption, the main causes of poverty in Cambodia include poor nutrition, low and restricted access to public services (schooling and health care), the prevalence of HIV/AIDS, deprivation from socio-economic opportunities and a vulnerability to external shocks.

Existing reports on poverty in Cambodia tend to conclude that the narrow based growth of the economy in recent years has had only a minimal impact on poverty reduction²⁸. In fact, the World Bank estimated that the poverty rate²⁹ actually increased from 41.5 percent in 1999 to 45.5 percent in 2003. Poor performance in the agricultural sector, low growth in income per capita³⁰, a slowdown in household consumption and persistent population growth in the last several years would all lend support to this claim. Measured by both income and broader human development indicators (health and education), Cambodia is among the poorest countries in the world. A UNDP Human Development Report (2004) ranks Cambodia at 130 of 177 countries in the world on the human development index.

Data compiled by the WHO showed that Cambodian public health indicators are among the worst in the world. The mortality rate of children under five was 138 per 1,000 live births in the year 2003, an appallingly high figure in relation to the estimated mortality rate in the East Asia region of 40 per 1,000 live births.³¹ The main causes of death for the general population are malaria, acute respiratory infection, tuberculosis, diarrhea and dengue fever. Gaining fast on those causes is the human immunodeficiency virus (HIV), which has been spreading rapidly in the kingdom. Even though the rate of new infections is trending downward, HIV is still a factor in the low life expectancy numbers for Cambodians. Life expectancy at birth is estimated at only 57 years, about 13 years less than the life expectancy average in the region.

²⁸ UNDP: The Macroeconomics of Poverty Reduction in Cambodia, 2004 (p. 14).

²⁹ The World Bank poverty line was 1 PPP\$ at the 1993 prices

³⁰ EIC estimate that average growth of income per capita during 2000-2003 was 2.3 percent per annum. Average growth of agriculture was 2.5 per annum at the same period.

³¹ http://www.unicef.org/infobycountry/cambodia_statistics.html.

These poor health statistics are a result of myriad problems that Cambodians face. Low levels of income and education are exacerbated by the woeful condition of the country's public health system, particularly in rural areas.

As far as education is concerned, there have been some improvements in the last several years in terms of gross data such as increases in the number of schools, enrollments, staffs etc. Even though building more educational infrastructures is important, more sensible quality improvement is a separate and more difficult challenge. According to the UNDP's Human Development Report 2004, the Cambodian education index was 0.66, the second lowest after Lao among ASEAN countries. The adult literacy rate (for age 15 and above) was 69.4 percent in 2002 compared with 90.3 percent for the East Asia/Pacific region. Combined gross enrolment for primary, secondary and tertiary schools was 59 percent, the same in Laos. Female adult literacy and the female gross enrolment ratio in all education levels were both reported to be low. Although on the surface there has been a mushrooming of the availability of universities in Cambodia, the accreditation of these institutions is an open question. The proposed national accreditation committee, that would ensure a spectrum of minimum standards, is not operational.