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Cambodia: Economic Growth and Sectoral Performance in 2006

Phim Runsinarith discusses the 2006 national accounts estimates of the NIS and describes some of the key outputs of those estimates and comments on a number of issues arising from them.*

This article discusses the 2006 national accounts estimates of the National Institute of Statistics (NIS), released in May 2007. It describes some of the key outputs of those estimates and comments on a number of issues arising from them, including the linkages of some key sub-sectors to the rest of the economy and the ongoing revisions to the national accounts.



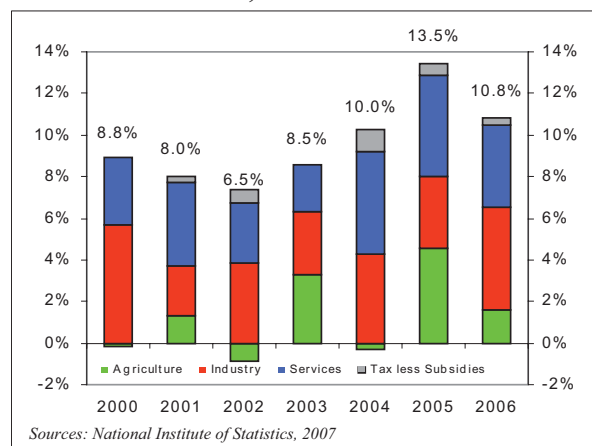
Farmers growing organic rice in Takeo province, 2006

Overall Real GDP Growth

Cambodia's economy continued to perform remarkably well in 2006. Real gross domestic product (GDP) increased by 10.6 percent in 2006, the third consecutive year of double digit growth. It was, however, down from 13.6 percent growth in 2005 due to slower growth in agriculture, as shown in Chart 1 and Table 1. Per capita GDP increased to 1718 m riels (\$419) in 2006, an 8.2 percent increase from 2005. The growth impetus came mainly from the industry sector, reflecting substantial increases in garments and construction, and from the services sector,

underpinned by significant increases in tourism, real estate and business services and other services. Agriculture grew significantly more slowly in 2006 than in 2005, following a typical bad-year good-year pattern that is often evident in Cambodia. This sector, however, plays an important role in livelihoods in rural areas, where most still depend on paddy cultivation for subsistence.

Chart 1. GDP Growth, 1994–2006



* Mr Phim Runsinarith is research associate at CDRI. This article is based on the 2006 national accounts estimates of the National Institute of Statistics (NIS), released in May 2007.

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Table 1. Real GDP and Growth by Sectors

	2000	2001	2002	2003	2004	2005	2006
Real GDP (bn riels)	14,083	15,215	16,210	17,589	19,351	21,956	24,334
Real Per Capita GDP (thousand riels)	1111	1180	1237	1320	1428	1588	1718
<i>Real Growth Over Previous Year (%)</i>							
Agriculture	-0.4	3.6	-2.5	10.5	-0.9	15.7	5.5
Industry	31.2	11.2	17.1	12	16.6	12.7	18.3
Services	8.9	10.8	7.6	5.9	13.3	12.7	10.3
Taxes on Products less Subsidies	4.5	2.5	12.6	0.6	21.2	11.7	7.6
GDP	8.8	8	6.5	8.5	10	13.5	10.8
GDP Per Capita	7	6.3	4.8	6.7	8.2	11.2	8.2

Source: National Institute of Statistics 2007

Agriculture

Cambodia's agricultural sector, which accounts for 28 percent of GDP and employs 57.4 percent of the labour force, contributed 1.6 percent to the overall GDP growth of 10.6 percent in 2006 (see Table 2). Agriculture comprises four sub-sectors: crops, livestock, fishing and forestry. In 2006, the sector's real gross value added rose by 5.5 percent, compared to 15.7 percent in 2005. This was due to crop production, the sector's main component, growing more slowly than in the preceding year as a consequence of floods, drought, disease or insects, which destroyed crops in some provinces.¹ In general, the growth rate of the crops sub-sector is highly variable, marked by peaks and troughs, reflecting the high reliance on rainfall and the susceptibility to adverse weather conditions.

Table 2. Performance of Agriculture Sector, 2005–2006 (%)

	Real Growth Rate		GDP Share		GDP Growth Contribution	
	2005	2006	2005	2006	2005	2006
Agriculture	15.7	5.5	29.5	28.1	4.5	1.6
Crops	27.6	5.3	15	14.3	3.7	0.8
Livestock & Poultry	5.6	8.2	4.5	4.4	0.3	0.4
Fisheries	5.6	3.8	7.8	7.3	0.5	0.3
Forestry & Logging	5.1	7	2.2	2.1	0.1	0.2

Source: National Institute of Statistics 2007

During the same period, livestock, fisheries and forestry increased significantly but together contributed less than 1 percent to GDP growth, about the same as the contribution of crops. Livestock and poultry production continued to be constrained by infectious diseases. According to the Ministry of Agriculture, Forestry and Fisheries, the number of avian influenza outbreaks increased to six in 2006, from only two in 2005, causing 7767 poultry deaths and 1113 birds to be culled. In the fishery sub-sector, small-scale and household aquaculture has increased notably during the past four years. Value added in the

forestry sub-sector could be underestimated due to illegal logging and an undercounting of the real value of non-timber forest products. For instance, a significant number of people living in poverty depend on forests not only for firewood but also for non-timber products for income generation and nutritional intake. Community pressures, in the form of fuel wood collection, swidden agriculture and permanent land conversion, are also important causes of deforestation and forest degradation. CDRI studies show that governance of natural resources is critical and must be sustainably managed for poverty reduction.²

Industry Sector

Industry provided 29 percent of GDP and employed about 14.5 percent of the total labour force in 2006. The contribution of this sector to GDP growth was 4.9 percent, up from 3.4 percent in 2005 (Table 3) largely due to higher gains in manufacturing, led by the garment industry, and a continuing boom in construction in Phnom Penh and Siem Reap.

Textile and apparel production has been the main pillar of growth of industry as well as of the whole economy. It has expanded rapidly since the late 1990s, largely due to favourable trade conditions created by the Multi-Fibre Agreement (MFA). After the MFA ended on 1 January 2005, some predicted that Cambodia's economy would be hit severely, but the latest figures have disproved such dire predictions. Cambodia's post-MFA garment exports

Table 3. Performance of Industry Sector, 2005–2006 (%)

	Real Growth Rate		GDP Share		GDP Growth Contribution	
	2005	2006	2005	2006	2005	2006
Industry	12.7	18.3	26.9	28.7	3.4	4.9
Mining	26.3	15.9	0.4	0.4	0.1	0.1
Manufacturing	9.7	17.4	19.6	20.8	2	3.4
Electricity, Gas & Water	12.5	31.3	0.5	0.6	0.1	0.1
Construction	22.1	20	6.4	6.9	1.3	1.3

Source: National Institute of Statistics 2007

have not yet been affected by the textile giant, China, as some predicted, due to the additional restrictions on Chinese garments put in place in May 2005 by the United States and European Union. These safeguard measures will expire in 2008, and this could cause problems for Cambodia.

The construction sub-sector has grown strongly over the past several years. The construction boom is driven by three major factors: political stability, robust economic performance and continuing assistance from the international community for infrastructure development. The construction comprises one-third public construction, including infrastructure, and two-thirds private construction, including factory buildings and expansion, hotels and housing. However, there is concern about over-investment in housing in Phnom Penh, where 8000 to 10,000 apartments are built each year.

Other sub-sectors, including mining, and electricity, gas and water, also registered steady positive growth from a year earlier, but their contributions to the expansion of industry and to the overall growth of GDP remained minimal. Nevertheless, mining has a significant potential. Geological and mineral surveys indicate that Cambodia has significant minerals including bauxite, gemstones, solid fuel, metallic and non-metallic minerals and quarry materials.³ As for electricity, there was an improvement in power supply in urban areas but residents still suffered from rolling blackouts, especially in the hottest months, April and May. The high cost of electricity affects all productive sectors and hinders industrial investment and competitiveness.

Services Sector

The services sector, which accounts for 38.2 percent of GDP and employs 28.1 percent of the labour force, grew by 10.3 percent in 2006, compared to 12.7 percent in 2005 (see table 4 below). All sub-sectors contributed to this growth but the main contribution came from the expansion in trade, hotels and restaurants, real estate and

business services, and other services. Tourism has forward and backward linkages to other sectors, yet, despite strong growth in tourism, local agricultural produce is not being widely used in restaurants because the supply is irregular and the quality variable. Cambodia could strengthen the linkages between tourism and agriculture by encouraging regular local supply of high quality food.

Real estate and business services posted healthy growth, but it was the expansion of real estate that mainly contributed to the growth of this sub-sector. Other services strengthened impressively; private education and health services, recreational services, community services and personal and other services were key contributors.

It should be noted that GDP figures are subject to revision as coverage is expanded and as more reliable data become available.

Revisions to GDP

The NIS has continued to refine GDP data annually to improve the accuracy of the estimates. The revisions are necessary because, as the NIS has become more proficient at estimating national income, it has been able to expand the economic activity included in the accounts and has also been able to obtain improved data. The ongoing revisions are a sign of better quality data and lead to better quality estimates of national income.

The latest changes mainly reflect expanded coverage of economic activities, revised data from government agencies, ministries and other organisations and revised compilation methods. The coverage was expanded to include palm oil production, hunting and wildlife and gathering of non-wood products. The improved compilation methodology encompassed more accurate estimates of non-metallic and metallic outputs to align better with observed construction industry demand, changes in trade and transport margins from 2000 onwards and changes in the price deflators used for the finance industry and public administration since 2003. In addition to the revisions due to changes to coverage

Table 4: Performance of Services Sector, 2005–2006 (%)

	Real Growth Rate		GDP Share		GDP Growth Contribution	
	2005	2006	2005	2006	2005	2006
Services	12.7	10.3	38.4	38.2	4.9	3.9
Trade	8.5	7.1	8.7	8.4	0.8	0.6
Hotels & Restaurants	22.3	13.2	4.3	4.4	0.9	0.6
Transport & Communications	13.3	4.3	6.8	6.4	0.9	0.3
Finance	19.6	24	1.1	1.3	0.2	0.3
Public Administration	5.9	-1.2	1.5	1.4	0.1	0
Real Estate & Business Services	7.8	10.9	7.6	7.6	0.6	0.8
Other services	17.4	16.7	8.3	8.7	1.4	1.4

Source: National Institute of Statistics 2007

Table 5: Revisions to Production Estimates in Constant Prices

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revision (bn riels)	26	20	13	20	18	25	-46	-7	46	101	96	117	143
Revised data	-23	-31	-39	-33	-36	-31	-103	-64	34	64	30	23	12
Improved coverage	49	51	52	54	55	56	57	57	0	0	0	0	0
Change in methodology	0	0	0	0	0	0	0	0	12	37	67	94	131
Revision %	0.3	0.2	0.1	0.2	0.2	0.2	-0.4	0	0.3	0.6	0.6	0.6	0.7
Real GDP Growth													
Preliminary 2006		9.1	6.4	5.4	5.6	5	11.9	8.8	8	6.5	8.5	10	13.5
Previously published		9.2	6.5	5.3	5.7	5	12.6	8.4	7.7	6.2	8.6	10	13.4
Revision		-0.1	-0.1	0.1	0	0	-0.6	0.3	0.4	0.3	-0.1	0.1	0.1

Source: National Institute of Statistics 2007

and compilation, the NIS also introduced changes related to data sources, including revised data obtained from a number of ministries and the National Bank of Cambodia.

As indicated in Table 5, the revisions to the previous estimates have resulted in the overall level of GDP at constant prices being revised upwards by an average of 0.3 percent, with revised levels increasing by 0.3 percent in 1993 and by 0.7 percent in 2005. The revisions have also resulted in minor changes in nominal and real growth rates.

Comments from data users, particularly those making use of time series analysis, caused the NIS to change its revision policy in 2005, when it proposed that in the future the data series would incorporate revisions only back to 2001. However, the current national accounts estimates incorporate changes in coverage and data revisions back to 1993 (Table 5). Ouch Chandarany and Keith Carpenter (2006) argued for a full revision of data series for improved national accounts estimates. It is pleasing to see that the full revision has occurred with the current estimates.

Despite the improved quality of the estimates, they remain hampered by the lack of comprehensive and reliable sectoral information. For the services sector estimates, there is apparently no accurate accounting of the number of government officials. Thus the contribution of the public administration sub-sector to GDP cannot be accurately measured, nor can its productivity be estimated. With recent improvements in civil administration and public accounting, an accurate estimate of the number of public servants should not be particularly difficult. The statistics law requires respondents to provide “accurate, complete and timely information to a designated statistical officer”; this is one small area where the government could provide a positive example to civil society.

In general, the national accounts for 2006 were still adversely affected by the lack of source data for critical areas, including annual establishment or enterprise survey data and annual labour force survey data, as well as the continuing lack of producer, trade, export and import price indices. The compilation of a producer price index (PPI), begun experimentally in 2005, has been discontinued due

to resource constraints. This will, in turn, have adverse effects on the quality of the GDP estimates.

Conclusion

Cambodia’s economy, despite its narrow base, continued to register solid growth in 2006. The economy was underpinned by the expansion in garment manufacturing and by a tourism boom. The linkages between these two sub-sectors and the rest of the economy remain thin. Given changes in international policies governing trade in textiles and clothing, ongoing efforts to increase productivity and competitiveness of the garment sector, as well as to diversify exports, are essential to promote further economic growth.

Endnotes

1. Ministry of Agriculture, Forestry and Fisheries (2007).
2. Eng Netra and Phim Runsinarith (2007).
3. Council for the Development of Cambodia, Investment Information, <http://www.cambodiainvestment.gov.kh/>

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