

Address
by

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Roundtable 2: Meeting the Challenges of Employment
Creation in Africa and the Least Developed Countries (LDCs)
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Your Excellency Chairman,
Excellencies, Ladies and Gentlemen:

1. I wish to take this opportunity to inform this distinguished audience about the efforts made by my government in creating employment and reduce poverty in Cambodia. My intervention is divided into three parts: (i) the Strategy to promote growth and employment creation; (ii) the achievements in employment creation in Cambodia; and (iii) future directions for employment creation.

I. The Strategy to Promote Growth and Employment Creation

2. Cambodia has one of the fastest growing and youngest populations in the region. The population has increased from an estimated 6.5 million in 1980, to 10.7 million people in 1993 to 13.1 million in 2004 and is expected to reach 15 million in 2010. Fertility rate peaked at over 6 in the 1980s, but have fallen rapidly in the past 10 years to 4.0 in 1998, to 3.3 in 2004.

3. As the large population cohorts born in the 1980's began to enter the working age in the mid 1990's the demographic development challenge has changed dramatically. As large number of young Cambodians began to enter the labor force, the economy came under enormous pressure to generate productive employment opportunities for the new entrants into the labor force. It was estimated that between 1998 and 2004, the labor force increased by around 221,000 people or 3.6% per annum.

4. In response to the above challenge, soon after its formation in July 2004, the Royal Government of Cambodia (RGC) adopted an Economic Policy Agenda, called «**The Rectangular Strategy for Growth, Employment, Equity and Efficiency in Cambodia**».

5. The Rectangular Strategy consists of four main pillars or four Strategic Rectangles, i.e. four strategies to accelerate growth. These are (i) enhancement of agricultural sector; (ii) further rehabilitation and construction of physical infrastructure; (iii) private sector development and employment; and (iv) capacity building and human resources development

6. One of the four major thrusts of private sector development and employment by creating more jobs and ensuring better working conditions for workers and employees.

7. The over-riding goals of the Royal Government of Cambodia are to promote the implementation of a systematic policy, aimed at:

- (i) creating more jobs for young people who reach the age of entering labor market, and for all Cambodian laborers through various measures which encourage domestic investment and attract foreign direct investment (FDI) in priority sectors, especially agriculture, agro-industry, labor-intensive industry and tourism;
- (ii) developing a network of skills training for the poor which links to an employment assistance center for young people, especially for new graduates in response to labor market needs; and
- (iii) developing a labor statistical system with an objective to create jobs for Cambodian citizens and to facilitate the transfer of new technology for the country's development.

8. The Royal Government of Cambodia established a new Ministry of Labor, aimed at promoting employment and training policy in order to provide opportunities for job mobility, information technology and vocational/skill training. Vocational/skill training has to be effectively linked to education policy. The Ministry is also responsible for promoting export of Cambodian workers to increase welfare, improve capacity, reduce unemployment, and increase income.

9. The RGC established a Government-Private Sector Forum, which comprises of different Joint Working Groups (JWG), a Steering Committee and Sub-committees, aimed at improving investment and business environment, promoting the private sector participation in infrastructure (PPI), trade facilitation and the development of Small and Medium Enterprises (SMEs).

10. The RGC has taken measures to promote investment in urban areas as the important policy tool to support the poor if the investment generates productive employment to absorb an in-flow of surplus laborers from the rural areas. The growth in labor-intensive industries, such as garment industries, creates a strong foundation to increase real per capita income, and thereby reduces poverty. At the same time, development of labor-intensive manufacturing has absorbed labor from rural areas and can increase agricultural productivity and income. This will help reduce poverty from the source.

11. The Royal Government has been introducing programs aimed at increasing agricultural productivity, which is a key to economic growth. The objective of this program is to increase the quantity of agricultural products and income, and improve the living standards, including job creation through agricultural intensification and diversification. This policy is better than overt mechanization that will make farmers losing jobs, and have to seek job in other sectors. The strategy for accelerated growth in agricultural products will have multiplied effects through increased demand for goods and service in those sectors.

12. The Royal Government has taken serious strides to enforce the Labor Law and other international conventions related to the role of trade unions in order to ensure the rights and benefits of workers, employees and employers. At the same time, the Royal Government especially continues to give priority to improving working conditions of workers and employees,

enhance the implementation of the Law on Social Security, implement the principles of pension funds namely, the pension for labor disability and dependents, and insurance for working accidents as stipulated in the Labor Law.

II. The Achievements in Employment Creation in Cambodia

13. In this second part, I wish to share with our distinguished meeting our experiences to promote employment creation in Cambodia.

14. Cambodia has made tremendous progress over the past decade, both in terms of economic development and in terms of supporting labor rights. Facing stiff competition from other low-cost producers, the RGC has adopted a policy to create more efficient factories, operating with less corruption, and with continued respect for labor rights to develop a vibrant garment industry. The infant garment industry in Cambodia grew rapidly from virtually nil in 1994 to more than US\$2 billion in 2005. The rational behind this exponential growth was partly attributable to the policy of linking garment exports to the workers' rights. I will dwell on this.

15. In 1999, Cambodia and the US signed a Bilateral Textile Agreement, a unique agreement that linked labor standards to trade. This agreement set the quota on the amount of garments that Cambodian producers could export to the US each year. However, what made the US-Cambodia textile agreement unique is that it allowed Cambodia to earn extra quota each year if it could demonstrate that it was making progress towards improving working conditions and supporting workers' rights in the garment industry. These rights include freedom of association and the right to bargain collectively; elimination of forced labor; nondiscrimination in employment; acceptable minimum conditions of work; and removal of children from work, especially that which is dangerous or degrading. These policies directly help alleviate poverty and produce more equitable income distribution.

16. Protecting worker's rights is a winning development strategy in itself, and one that becomes win-win if it also produces greater market access for Cambodian products. By adopting this strategy Cambodia continues to enjoy the comparative advantage of low-cost labor compared to more developed countries, but Cambodia would not face the beggar-thy-neighbor strategy, whereby investors, producers and buyers play one low-wage country off against another, putting continued downward pressure on wages and working conditions.

17. This was really a groundbreaking agreement--something that had never been tried anywhere else. And today it has become the model for similar agreements elsewhere. The International Labor Organization has been requested to set up a project to monitor factories. This project is now known as Better Factories Cambodia. It is the first time the ILO has done this anywhere in the world. The results have been very positive and have benefited Cambodia and its workers.

18. The ILO reports show that Cambodia has made good progress in key areas of basic labor rights: There was no forced labor; very few instances of child labor; and no gender discrimination. The reports also review the payment of wages, overtime work, health and safety conditions, the right to form union and collective bargaining.

19. The Cambodian government also felt that it wasn't enough to just monitor conditions in the factories. We had to make sure that if there was any disagreement in the workplace—about working conditions, about wages, or any other labor dispute—there had to be a fair and transparent way to settle the dispute. So the International Labor Organization was also asked to set up an Arbitration Council, which hears disputes between employers and workers and makes decisions about the cases. If either the employer or the workers objects to the decision, the decision is non-binding--meaning that the employer and workers are not legally obligated to comply with the decision and it is a recommendation only.

20. In short, there are two key innovation of the strategy of the Royal Government of Cambodia: (i) the creation of a trade agreement that provides positive market access incentives as a reward for improved labor conditions; and (ii) the inauguration of a new role in international governance for an international agency, the ILO. These innovations are highly significant policy instruments, valuable both for the results obtained in Cambodia and as new options for policy makers elsewhere.

21. The Bilateral Textile Agreement turned out to be incredibly successful. A booming garment industry developed after the Bilateral Textile Agreement was signed. In 1999, when the Bilateral Textile Agreement was signed, there were about 150 garment factories in the country. Today, there are nearly 300, and last year they exported more than \$2 billion worth of garments. The Bilateral Textile Agreement also contributed significantly to Cambodian economic development by generating jobs for over 300,000 workers--mostly women from rural areas.

22. So, for example, Cambodia received an additional 18% quota bonus in 2004 because the US government found that working conditions and labor rights in the garment industry were in substantial compliance with internationally recognized standards and Cambodia's own labor laws.

23. The transparency and comprehensive nature of the monitoring system changed the incentives facing private actors, including both the factories producing garments and the international apparel firms buying from them. The international buyers know the range of working conditions in garment factories. This enabled them to select partner firms with full knowledge of whether the factories complied with national and international minimum requirements. Under conditions of transparency, the factory owners now had the incentives to come into compliance with laws and improve working conditions.

24. However, Cambodia's garment industry has faced stiff competition with other low-cost countries after the end of global quota system on January 1, 2005. Firstly, the US-Cambodia quota bonus system will no longer provide incentives. Secondly, there will be more pressure from other low-cost countries like China. In response to this challenge, the RGC asked the ILO to continue the monitoring program. The basis for this strategy is that the ILO monitoring and reporting system provides a form of reputation risk insurance to global apparel retailers who source their goods in Cambodia.

25. Moreover, the RGC has adopted a fiscal policy that provides incentives to garment factories to maintain their presence in Cambodia. Firstly, the garment factories enjoy the exemption of import duties on the import of raw materials. Secondly, the RGC provides VAT

refund for all garment exports. Thirdly, starting from 2005, the RGC provided a two year exemption of corporate tax of 20% to all garment factories. In June 2006, the RGC prolonged this exemption for another 2 years until the end of 2008.

III. Future Directions for Employment Creation.

26. In the third section of my intervention I will review Cambodia's employment policy in the next decade.

27. The rapidly expanding human resource base should be perceived as an important development potential for Cambodia. At the same time, the country faces several challenges: (i) to equip human resources with education, health care and other training to enhance their productive capacity; (ii) to create an economic, political and social environment that enables the economy to generate productive employment opportunities for the rapidly increasing labor force; and to (iii) ensure equal access to productive employment for all.

28. In the past decade, the economically active population increased at an unprecedented rate of over 6% per year, from 4.9 million in 1999 to 7.5 million in 2004. However, the traditional role of agriculture as the main source of additional employment opportunities was marginalized. A mere 2.6 % (or some 51,000 people) of the increase in the labor force was absorbed in agriculture between 1999 and 2004, as against 64% between 1996 and 1999.

29. During this time, the role of the garment industry as a source of employment and income generation became crucial. The manufacturing sector absorbed almost a fourth of the increase in the labor force between 1999 and 2004, or some 453,000 people. In terms of income generation and poverty reduction the role of growing garment industry was even more important. It provide cash transfer to hundreds of thousands of primarily rural households, as the young women working the garment industries sent part of their wages back home to their families as remittance. Labor productivity in the garment industry is also higher than those in agriculture.

30. However, rapid expansion of employment generation in the manufacturing sector could not make up for absence of employment generation in agriculture. As a result, labor was pushed out of agriculture and the lower end of the service sector, primarily trade assumed the role of employment buffer. Thus, employment in trade increased by some 640,000, representing almost a third of the increment of the labor force, increasing the share of trade in total employment from 7 to 13% between 1999 and 2004.

31. The growth of employment in trade and other services can only be interpreted as a last resort for employment and incomes when no other options are available and as a diversification strategy to mitigate the high vulnerability that dependence on rain-fed agriculture.

32. Our government is conscious that to promote sustainable development, we must take decisive actions to widen the base of growth, which at present relies mainly on three sectors: garment industry, tourism and construction. With the rapid increase in the labor force, the RGC has taken actions to sustain economic growth at a high rate, sectorally and geographically broad-based, labor-intensive and pro-poor in order to generate sufficient employment opportunities at adequate and increasing levels of productivity.

33. For that reason, our future actions must focus on the employment creation in the agricultural sector. Intensification of agriculture will allow this sector to resume the role as a main contributor to employment and income generation. The present fluctuation of agricultural production is not only a cause of widening income and asset inequality and immediate obstacle of poverty reduction, but is also a main constraint to sustainable, broad-based development of the non-farm sectors of the economy.

34. For the above reason, our future actions during the next decade will consist of the following:

- Firstly, make agriculture a viable sector, so that the sector will generate substantial additional employment. Development of irrigation system, which together with market access will become the main thrust of our government policy. Intensification of agriculture and more investments in irrigation will greatly enhance the scope for full time employment in agriculture.
- Secondly, create opportunities for more productive non-farm employment, in the form of wage employment or successful non-farm entrepreneurship. Our policy is to promote a much more broad-based – branch-wise as well as geographically – industrialization, creating a manufacturing base in cities outside Phnom Penh, as well as strong economic linkages between the cities and the rest of the country. For that reason, the RGC has established Special Economic Zone in Sihanoukville, Svay Rieng Province, Koh Kong Province and in Poi Pet, Banteay Meanchey Province.
- Thirdly, continue to strengthen the tourism infrastructure and ensure backward linkages between tourism and agriculture. Our strategy is to create a green belt or agricultural development centers surrounding all major tourist sites to achieve a pro-poor tourism development. Attention has been given to upgrading tourism infrastructures, such as the development and improvement of airports in Phnom Penh, Siem Reap, Sihanoukville, Rattanakiri and other provincial towns.
- Fourthly, our RGC has embarked on higher education reform and vocational training in order to reduce the mismatch between the profiles of the new graduates and the requirements of the labor force.
- Fifthly, the Royal Government will continue to actively implement the population policy in consistent with Cambodian social and cultural context, which focuses on the following priorities:
 - Support all couples and families to be free and accountable for the decision on their desired number of children and birth control, and ensure their access to information, education, service delivery, and other means to fulfill their above decisions;
 - Reducing high rate of fertility and increasing the use of birth spacing services;
 - Reducing the morbidity rate and infantile and child mortality rate, and maternal mortality rate (MMR);

- Promoting gender equality and equity, and enhancing human resources development;
- Reducing the adverse impacts of population pressure on the environment and natural resources;
- Strengthening the prevention of the HIV/AIDS epidemics; and
- Consideration of population factors in all economic and social policies, plans and programs at all levels.

34. To sum up, an effective implementation of this employment creation policy is surely of importance for poverty reduction, especially in order to achieve the Millennium Development Goals (MDG).