



Ten Years After the Crisis, East Asia is Going Strong

Cambodia's robust economic performance continued in 2006 with real GDP growth projected at about 10.5 percent, marking a third consecutive year of double-digit growth

A decade after the financial crisis which devastated East Asia in mid-1997, the region is much wealthier, has fewer poor people and a larger global role than ever before, says the World Bank's latest East Asia & Pacific Update on April 2007 – a six-monthly report on the region's economic and social health. But with this success, comes a new wave of challenges for countries trying to avoid the 'middle-income trap.

The report finds that growth in Emerging East Asia reached 8.1 percent in 2006 – the strongest in the past 10 years and it is likely to slow only modestly to 7.3 percent in 2007 (see table 1, page 2). Per capita incomes in the former crisis-affected economies have significantly exceeded their pre-crisis levels and are growing steadily nearly everywhere. In China and low-income transition economies like Vietnam, Cambodia and Lao PDR, incomes have grown at 'exceptional rates', the report says.

"The region has grappled with and overcome the crisis to return to solid growth," says the report's principal author and lead economist for the World

Bank's East Asia and Pacific region, Milan Brahmbhatt. "The past 10 years have seen the emergence of China as a major global

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Agriculture in Cambodia expanded by 4.4 percent last year.

PHOTO: MAK REMISSA

Japan, World Bank Support Empowering Poor in Siem Reap



From Left: Ian Porter, World Bank Country Director, H.E. Takahashi Fumiaki, Japan's Ambassador, and Senior Minister Keat Chhon of the Ministry of Economy and Finance, signing the grant agreement on March 15, 2007.

On March 15, 2007, the Ministry of Economy and Finance (MEF) and the World Bank signed a Japan Policy and Human Resources Development (PHRD) grant agreement for the preparation of an Empowerment of the Poor in Siem Reap (EPSR) Project. The \$990,000 grant provided by the Government of Japan through the World Bank will help the Government of Cambodia prepare a new project that aims to improve the lives of the poor in Siem Reap province by linking them to the fast-growing tourism sector in that province.

Siem Reap province is a paradox. It is the home to Angkor Wat – a UNESCO World Heritage site drawing millions of tourists from around the world. It also borders Tonle Sap, one of the largest

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freshwater lakes in Asia, and the most important source of freshwater fish in Cambodia. Thus, the Province contributes greatly to the nation's wealth and income. Yet, Siem Reap is one of the poorest provinces in terms of the proportion of the population falling below the poverty line.

The new EPSR Project, to be financed by a grant from the World Bank, is intended to create backwards linkages between the fast-growing tourism industry and the poor population of Siem Reap province. The Project will be implemented by Siem Reap Province under the guidance of the Ministry of Interior. Noting the importance of the private sector as an engine for growth in Cambodia, H.E. Sar Kheng, Deputy Prime Minister and Minister of Interior said "This PHRD fund can provide the linkage opportunity between all stakeholders contributing to the development of tourism in Siemreap through the participation of the local people, the private sectors, civil societies and development partners in the province. This project concept is consistent with the priority as prescribed RGC's Rectangular Strategy for "Growth, Employment, Equity and Efficiency" and articulated in the National Strategy for Development Plan (NSDP), specifically under the strategic framework of the RGC's De-



A World Bank team visits a villager training center in Siem Reap. Though millions of tourists visit Angkor Wat, the province remains one of Cambodia's poorest.

work closely with NGOs, commune councils and government departments to create the backward linkages and the supply chains from the village to the province level and beyond. To link rural producers' groups and the market, the Project will work with private sector associations - including hotel and tour operators' associations, informal groups of master craftsmen and producers' group. Micro finance institu-

tralization and local governance on the one hand and the empowerment of the poor through bottom-up participation in growth and governance processes on the other".

PHRD grants finance technical assistance and other activities in the formulation and implementation of World Bank-financed projects. H.E. Keat Chhon, Senior Minister and Minister of Economy and Finance, expressed his hope that, "with the help of the Japan PHRD grant, we hope that the project will be designed effectively and that the funds will be used to help further reduce poverty in Cambodia and to ensure a more equitable pattern of growth in which the poor also share in the fruits of growth."

Preparation of the EPSR Project is planned to start shortly after the signing of this grant. The Project will be prepared during the next 12-15 months before it is expected to be submitted for approval by the World Bank Board of Directors in mid 2008. It is proposed that the EPSR Project will provide a \$15 million grant from the International Development Association.

"This PHRD fund can provide the linkage opportunity between all stakeholders contributing to the development of tourism in Siem Reap through the participation of the local people, the private sectors, civil societies and development partners in the province.

H.E. Sar Kheng

centralization and Deconcentration reform.

The Ambassador of Japan, H.E. Takahashi Fumiaki expressed the strong support of his government to assist poor people share in growth opportunities in Siem Reap, "I believe it is important to strengthen the connection between local groups of poor farmers and the market. I thus hope that this project will improve market access of those who until now could not enjoy the benefit derived from the growing tourism industry, thereby contributing to the increase of their income."

The EPSR Project is expected to

tions and other financial sources to deliver production and marketing capital to producer groups would also be involved.

The Project aims to empower poor people by enhancing their skills and knowledge, market access and bargaining power and to enable them to participate in the growth that is being generated by the tourism industry in Cambodia. As Ian Porter, the World Bank Country Director for Cambodia, explained "this project is a key component of the World Bank's Country Assistance Strategy for Cambodia that supports decen-

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economic power, a doubling in the value of regional output levels, a halving in poverty rates, a jump in global and regional integration and accumulation of over \$2 trillion in foreign reserves.”

But the report warns new challenges are arising which could slow or even derail growth if not handled properly. “The idea of a ‘middle income trap,’” says Brahmhatt “is that the strategies that allow countries to grow from low income to middle income are not enough to get them to high income. Historically, few countries have mastered the complex technical, social and political challenges that arise.”

East Asians. By 2010, more than nine in 10 East Asians will be living in a middle income economy. To move out of the middle-income trap, a key challenge is maintaining high growth in a sustainable way. In China, this means new strategies to tackle severe environmental problems and other stresses and imbalances that have emerged during the last 20 years of very rapid growth.

Elsewhere in East Asia, the challenges are different. In several economies which have been growing at 2 per cent less than before the crisis, investment has been relatively weak and firms have been facing big competitive pressures in world markets, not least from China’s booming economy. In these economies, a strong focus on strengthening the investment cli-



World Bank staff and journalists at the launching of the East Asia and Pacific update 2007 in Phnom Penh on April 15.

mate and improving labor force skills is key, allowing firms to find new competitive advantages.

Another challenge is to combine growth with equity. Before the crisis, half the people of East Asia lived on less than \$2 a day while today poverty is down to 29 percent of the population. But income inequality is rising in many East Asian economies – in some cases, sharply. “High in-

equality can hamper growth as poor people without access to credit may be unable to exploit investment opportunities,” says Brahmhatt. “It can also be a source of political and social unrest that stymies investment and growth.”

A third challenge is the need to manage vulnerability and prevent new crises. Since 1997, countries have built up

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Table 1. East Asia Economic Growth

	2005	2006	2007	2008
Emerging East Asia	7.6	8.1	7.3	7.0
Develop. E. Asia	9.0	9.5	8.7	8.1
S.E. Asia	5.1	5.4	5.5	5.7
Indonesia	5.7	5.5	6.3	6.5
Malaysia	5.2	5.9	5.6	5.8
Philippines	5.0	5.4	5.6	6.0
Thailand	4.5	5.0	4.3	4.5
Transition Econ.				
China	10.2	10.7	9.6	8.7
Vietnam	8.5	8.2	8.0	8.0
Small Economies	7.6	7.2	5.9	4.9
Newly Ind. Econ.	4.8	5.4	4.5	4.9
Korea	4.0	5.0	4.4	4.9
3 other NIEs	5.5	5.8	4.6	4.9
Japan	2.6	2.2	2.3	2.4

World Bank East Asia Region; March 2007. Consensus Forecasts for NIEs.



Sok Hach, Director of the Economic Institute of Cambodia, gives his views on the economy at the launch of the East Asia and Pacific update 2007.

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PHOTO: TANG CHHIN SOTHY

Cambodia's garment sector, which employed 10 percent of the total labor force and accounted for 14 percent of GDP in 2006, expanded further with exports rising by 20 percent in 2006.

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large foreign exchange reserves as a buffer against further crises but this could have the unwanted side effects – overheating economies and asset price bubbles, the report says. Further, while countries have been strengthening their financial and banking sectors since the crisis, many economies need to pick up the pace of this effort.

Cambodia's robust economic performance continued in 2006 with real GDP growth of about 10.5 percent, marking a third consecutive year of double-digit growth. Growth has continued to be underpinned by garment exports, tourism, construction, and agricultural expansion. The garment sector, which employed 10 percent of the total labor force and accounted for 14 percent of GDP in 2006, expanded further with exports rising by 20 percent in 2006. At the same time 20 percent growth in tourist arrivals resulted in a 26 percent jump in tourism receipts. Agriculture continued to expand (4.4 percent) while construction slowed slightly.

"Cambodia's economy is continuing its double-digit growth. However, its nar-

row growth base remains a concern. The garment sector is now facing stiffer competition from Vietnam's accession to the WTO and the possibility of greater competition from China in 2008. At the same time agricultural growth in Cambodia has been particularly volatile over the past several years, and is therefore somewhat unpredictable" noted Nisha Agrawal, World Bank Cambodia Country Manager. "Furthermore, as in the rest of East Asia, high and rising inequality has become a major concern since it could lead to slower growth and slower poverty reduction in the future."

A New Wave of Reforms in East Asia. The report says countries in East Asia need to push ahead with their reform programs, especially in improving the governance and investment climate; developing more diversified capital markets including credit access for the poor; liberalizing services trade; boosting education systems to address skilled labor shortages; and emphasizing prudent macroeconomic policies.

"Ten years after confronting the reforms needed to rebound from the financial crisis, East Asia must now confront a

new wave of reforms, some of which will be at least as challenging as those enacted in the months after July, 1997," says Brahmabhatt.

In a special focus section, titled "Sustainable Development in East Asia's Urban Fringe" the report analyzes the staggering projections for urbanization in the region. By 2025, the urban population is expected to jump by 65 percent or 500 million people, placing huge strains on already inadequate road, electricity, water and sanitation systems.

The report also looks at the smaller economies of the region, including those of the Pacific Islands, PNG and Timor-Leste. Growth has picked up in a number of these economies over the last few years, in part due to higher commodity prices. But political instability and social tensions continue to undermine the outlook in some countries.

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