

III. COUNTRY-SPECIFIC CHALLENGES

A. Introduction

47. As economies in transition from centrally planned to market economies, the CMLV countries face common problems. But each country is at a different stage in this transition, and other country-specific factors suggest differences in the types of challenges that each country must address. At the other end of the spectrum lies Thailand, a fully-fledged market economy, but one still grappling with many of the challenges of a developing Asian country. The fight against poverty is a common challenge that the CLMV countries and Thailand face. Although poverty has regional dimensions (high rates of poverty are often concentrated in bordering regions) (Figure A2.5), the challenge is essentially national, and the response to it usually requires country-specific actions.

48. Next we review the major, and sometimes unique, challenges that each CMLV country and Thailand face, before turning to some common transitions they are currently undergoing.

B. Cambodia

49. In many ways, Cambodia is still recovering from the devastation of the Khmer Rouge period. Effects of the destruction of social, economic, and political institutions, as well as physical infrastructure, during the Khmer Rouge period are still evident. Apart from rebuilding both social and physical infrastructure, the development of human resources is a significant challenge facing the country. But progress has been made, and Cambodia is now shifting its focus from rehabilitation or reconstruction to the pursuit of economic advancement through growth and development.

50. Poverty incidence remains high and social indicators are among the lowest in the region. Estimates of poverty incidence vary by source and method of measurement, but tend to range from 35% to 40%. An estimated 15% to 20% of the population lives in extreme poverty. Cambodia's urbanization rate is low, so almost 90% of the poor are rural (Table A2.5). The percentage of the population below the poverty line is lowest, from 10% to 15%, in Phnom Penh, and highest, from 40% to 45%, in rural areas. The Plains and the Tonle Sap Basin account for more than 80% of all poor. Poverty is most severe in both the urban and rural Plateau/Mountain Zone, despite the fact that incidence of poverty is relatively low there. Measured by the human development index (HDI), Cambodia's improvement of the poverty situation, since 1990, has been the least of all GMS economies (Table A2.6, Figure A2.6). The Government launched its first National Poverty Reduction Strategy in 2002.

C. Lao PDR

51. Lao PDR is the least developed of the GMS economies. The sparsely populated country is land-locked, with a difficult terrain. Laos has a narrow resource base, which limits its capacity to diversify its bases for production and export. Institutions remain weak and human resources underdeveloped. Laos has initiated a comprehensive reform program, but the pace has been slow, so transition to a fully-fledged market economy remains a long-term challenge. But things have improved over the past few years, with the Government implementing various revenue and expenditure measures, for instance, to address macroeconomic instability. After a number of delays, and partly as a reflection of these improvements, the IMF successfully concluded the third review of the Poverty Reduction Growth Facility in 2003.

52. The Lao Expenditure and Consumption Survey II (LECS II), conducted in 1997–1998, estimated that 39% of the population lived below the national poverty line of \$1.50 a day. Preliminary results from the LECS III survey (to be released in April 2004) suggest that poverty incidence has fallen to about 30%. This sharp reduction in poverty incidence, over 5 years, is associated with consecutive years of strong economic growth. Although Lao PDR's HDI remains the region's lowest, about 0.53 in 2001, it has increased the most, in percentage terms, since 1985 (Table A2.6, Figure A2.6).

53. Poverty in Laos is not evenly distributed, tending to be higher and more concentrated in the northern region. Although evidence suggests that economic growth has had a positive effect in reducing poverty, increased inequality has diluted the gains that the poor might have expected to receive from economic growth.

54. The National Poverty Eradication Program and the Poverty Reduction Strategy Paper include specific policies to address poverty. Prioritized action plans and their implementation are critical to their success.

D. Myanmar

55. The economy of Myanmar is fraught with distortions, ranging from a highly managed foreign exchange regime to a profusion of controls on production and exports in agriculture, its most important sector. The political situation causes Myanmar to have limited access to badly needed assistance from international donor agencies.

56. The only official headcount index of poverty in Myanmar, done in 1997, put its incidence at 22.9%. This is surprisingly low when compared with countries with similar per capita incomes. It also appears somewhat inconsistent with other human development indicators, such as life expectancy (Table A2.7). Although this low figure for poverty may reflect Myanmar's rich agricultural legacy, the data may be subject to error.

E. Thailand

57. In many ways, Thailand is the gateway to GMS. Thailand constitutes the subregion's most developed and largest market, and is an important source of knowledge and capital resources. Thailand is also a communication and transportation hub, and is the vantage point from which many potential foreign investors view GMS. Despite recent impressive growth, poverty remains a significant problem, particularly in the northeastern region bordering Lao PDR, and regions bordering Cambodia and Myanmar (Figure A2.5). There is also a need to continue reforms to further consolidate growth performance. Completion of the restructuring of the banking and corporate sector remains vital for the recovery of business investments and medium-term prospects for the economy.

58. Thailand has made substantial progress in reducing poverty over the past two decades. But the 1997 financial crisis interrupted this momentum. Its impact on the poor was severe. Estimates of poverty vary according to source, and how it is measured. Government estimates suggest poverty incidence increased from about 11.4% in 1996 to 15.9% in 2001. Poverty is likely to have fallen appreciably since 2001 with a return to strong economic growth. But rural regions, particularly in the northeast, have not benefited as much from economic growth as Bangkok. Measures to promote greater geographic balance in the creation of economic opportunities deserve priority attention from the Government. Thus, sustained poverty reduction will require more than rapid economic growth; in many ways, it will hinge on reversing growing

trends toward income inequality. Urban and rural poverty seemed relatively evenly distributed in 1993, by 2000 urban poverty incidence had dropped to 1.5% while rural poverty had increased to more than 17% (Table A2.5)

59. In the Ninth National Economic and Social Development Plan (2002–2006), the Government has committed itself to intensifying the fight against poverty, and has set a target of reducing the poverty incidence to less than 10% by 2006. With this target in mind, the Government is trying to address the poverty issue mainly through its fiscal spending program. For example, the Government introduced a substantial package of farm-, village-, and small enterprise-oriented programs designed to expand productive opportunities for low-income groups. Also, a low-cost universal health scheme has been introduced to cover the uninsured. The Government also introduced an unemployment security fund to provide a safety net for employees who are laid off, effective 1 January 2004.

F. Viet Nam

60. Viet Nam and Yunnan Province in PRC are the most economically advanced of the GMS's transitional economies. Viet Nam has steadily progressed toward a market economy. Nevertheless, the pace of reforms, including those relating to governance, should be accelerated.

61. Viet Nam approved its Comprehensive Poverty Reduction and Growth Strategy (CPRGS) in May 2002. The CPRGS has been considered an international best practice not only because of its emphasis on economic growth as a means to reduce poverty, but also for its inclusive, participatory process of preparation and implementation. Based on 2002 household survey data, about 29% of the population spent less than a dollar a day compared with 58% in 1993 and 37% in 1998. This implies that about 20 million people have been lifted from poverty in less than a decade. The broad improvement in living standards was largely due to job creation by the private sector, both formal and informal, and further commercialization of agriculture.

62. The rural poverty headcount index remains high, about 36% in 2002, but this is a sharp reduction from about 57% in 1993 and 45% in 1998 (Table A2.5). Improvement in the urban poverty rate is even more impressive, dropping from almost 26% in 1993 to 9% in 1998 to 6.6% in 2002. The HDI has also risen sharply, from about 0.58 in 1985 to almost 0.69 in 2001 (Table A2.6, Figure A2.6). Geographically, the most dramatic drop has occurred in the Mekong Delta, with incidence falling from 37% in 1998 to about 23% in 2002. But poverty in the Central Highlands remains high, at 52%. Demographically, the food poverty situation of ethnic minorities has changed little, remaining at about 40% of the populations, while the general poverty rate among ethnic minorities is almost 70%.