

Economy Watch—External Environment

Recent information suggests that the US might already be coming out of economic recession. Consumer confidence has rebounded and the unemployment rate has declined. Repeated interest rate reductions have been stopped and the inflation rate has stabilised. In Asia as well, there are signs of recovery. Commodity prices in the world markets have again begun to look up.

World Economic Growth

To help the US economy recover from recession, the Fed has cut its interest rate eleven times in 2001, a record in a calendar year. This brought the US Central Bank's interests on federal funds rate to 1.75 percent; the lowest in 40 years. The latest economic indicators appear to suggest that this aggressive monetary policy has begun to produce some positive results: consumer confidence is improving, business inventories are increasing, the labour market is stabilising and recession in the manufacturing sector is easing.

However, for a sustained recovery, consumer spending and business investment need to grow. The problem is that both consumers and companies in the US are in deep debt. The excessive expenditures incurred during the boom period in the 1990s, which are the cause of high household and corporate debt, still inhibit further expenditures. The Fed typically cuts short-term interest rates during periods of depression in a bid to spur spending and bolster the economy, and raises them when it wants to make money more expensive and ward off possible inflation. That process has a huge reverberation on the world economy, which is still overly dependent upon the health of the American economy. Japan appears to be sinking deeper into deflation. Except for Germany, Europe has avoided recession, but it is not as powerful an engine of global growth as is the US.

In Asia, economic trouble was more serious in 2001 than expected. According to IMF's projections updated in December, world output is likely to have expanded by just 2.4 percent in 2001, compared to a growth of 4.7 percent in 2000. For the Southeast Asian economies, that include Indonesia, Malaysia, the Philippines and Thailand, IMF expects a growth of 2.3 percent in 2001 compared to 5 percent in the previous year. For the region's newly industrialised economies, that include Hong Kong, Singapore, Taiwan and South Korea, the IMF is forecasting a growth of just 0.4 percent in 2001, in contrast to 8.2 percent in 2000. Even China, whose export share constitutes a smaller proportion of GDP, and who has greatly benefited from the investment boom so far, is expected to experience a 7.3 percent growth against 8 percent in 2000.

Nevertheless, with growing indications that the global slump might soon be over, Asia's economies are preparing for an economic turnaround. Data suggest that there are improvements in key variables, and soon the region may once again be exporting its way out of trouble. According to the *Far Eastern Economic Review*, signs of a revival in the demand of electronic products are already visible, with the prices of advanced chips

doubling from their November-2001 lows. After the sharp decline in 2001, the Semi-Conductor Industry Association is predicting a better year in 2002, with global key products forecast to rise by 6 percent in 2002. They are expected to reach a growth rate of around 20 percent in 2003. With the US dollar widely forecast to retain its strength in 2002, and the Asian currencies generally expected to weaken in line with the Japanese yen, the Asian producers are likely to be the chief beneficiaries of any revival in the demand of technology products. One closely-watched leading economic indicator is the shipment-to-inventory ratio, which in the last quarter of 2001 began to rise in both South Korea and Taiwan. Cambodia will obviously benefit from this worldwide economic recovery: primarily in garment exports and expansion of tourism. However, Foreign Direct Investment (FDI) will take time to rebound because of a tight competition for FDIs from other countries.

World Inflation and Exchange Rates in the International Markets

Prospects of worldwide economic recovery have resulted in mixed trends in inflation rates around the world. In the US, the inflation rate declined to 1.1 percent in January 2002 from 2.1 percent in October 2001. In Japan, the inflation rate declined to -1.4 percent in January 2002 from -0.8 percent in October 2001. In the Euro area, however, the inflation rate increased slightly to 2.5 percent in January 2002 from 2.4 percent in October 2001. In Asia, most economies experienced similar changes; in China and Taiwan, inflation rates increased slightly between October 2001 and January 2002, while in Hong Kong, Singapore and South Korea, inflation rates continued to decline.

In the exchange rate markets, between December 2001 and mid-March 2002, the US dollar remained stable against the euro and the Japanese yen, trading respectively at 1.12 euro and 132 yen per US dollar. However, on a day to day basis, fluctuations have been relatively strong, ranging from 1.10 to 1.15 euro per US dollar, and from 127 to 133 yen per US dollar. During the same period, the US dollar depreciated slightly against most Asian currencies. For example, the Singapore dollar traded at about 1.82 to a US dollar in mid-March 2002, down from 1.84 at the end of December 2001.

Commodity Prices in the World Markets

Commodity prices in the world markets seem to have reacted quickly to the prospects of worldwide economic recovery. Prices of almost all strategic commodities increased during the first quarter of 2002. The price of first quality rice in Bangkok recovered significantly, trading at \$190 per tonne in January 2002, up from \$170 per tonne in November 2001. The price of rubber followed the same trend, trading at \$610 per tonne in January 2002, up from \$560 in November 2001. The prices of soybean and palm oil have, however, essentially remained stable. Moreover, it is noted that prospects of a worldwide economic recovery have had a significant

Economy Watch—External Environment

upward impact on the prices of crude oil. Crude oil in Dubai traded at \$23 per barrel in mid-March compared to about \$17 per barrel in December.

By Sok Hach

Table 1. Real GDP Growth of Selected Trading Partners, 2000–2001 (percentage increase over the previous year)

	2000				2001				2000	2001*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1-Q4
Selected ASEAN countries										
Cambodia	-	-	-	-	-	-	-	-	4.0	4.5
Indonesia	3.2	4.1	5.1	5.2	4.0	3.5	3.5	4.1	4.8	4.0
Malaysia	11.9	8.7	7.7	6.6	3.2	0.5	-1.3	-0.5	8.6	0.8
Singapore	9.1	8.0	10.4	10.5	4.5	-0.9	-5.6	-7.0	9.9	-3.0
Thailand	5.2	6.6	2.6	3.1	1.8	1.9	1.5	2.1	4.3	1.5
Vietnam	-	-	-	-	-	-	-	-	6.8	5.0
Selected other Asian countries										
China	8.1	8.3	8.2	7.3	8.1	7.8	7.0	6.6	8.0	7.5
Hong Kong	14.1	10.8	10.8	6.8	2.5	0.5	-0.3	-1.6	10.5	-0.4
South Korea	12.7	9.7	9.3	4.6	3.7	2.7	1.8	-	8.8	2.0
Taiwan	7.9	5.4	6.6	4.1	1.1	-2.4	-4.2	-2.7	6.0	2.5
Selected industrial countries										
Euro-11	3.8	3.9	3.3	3.0	2.5	0.2	1.3	0.6	3.4	1.5
Japan	2.4	1.1	0.5	2.5	0.2	-2.9	-0.5	-1.9	1.7	0.0
United States	5.3	6.1	5.2	3.4	2.7	1.2	0.6	0.4	4.9	1.0

Source: the International Monetary Fund, The Economist, * CDRI Estimates based on the IMF, ADB and World Bank Projections

Table 2. Inflation Rate of Selected Trading Partners, 2000–2001 (percentage increase over the previous year)

	2000				2001				2000	2001*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1-Q4
Selected ASEAN countries										
Cambodia	0.1	-2.3	-1.4	0.5	-0.8	0.1	-0.4	-0.6	-0.8	0.0
Indonesia	-0.6	6.1	5.7	5.7	9.1	11.1	12.1	12.7	3.7	8.0
Malaysia	1.5	1.4	1.5	1.7	1.5	1.6	1.4	1.2	1.5	1.6
Singapore	1.1	0.8	1.5	2.0	1.7	1.7	0.8	-0.2	1.4	1.7
Thailand	0.8	1.6	2.2	1.6	1.8	2.6	1.7	1.1	1.5	2.5
Vietnam	-1.7	-2.4	-2.2	-0.4	-1.4	-0.8	-	-	-1.7	0.0
Selected other Asian countries										
China	0.1	0.1	0.3	0.6	1.3	1.6	0.8	-0.1	0.3	1.0
Hong Kong	-5.1	-4.4	-2.9	-2.2	-1.8	-1.3	-1.1	-1.3	-3.7	-1.5
South Korea	1.5	1.4	3.2	2.9	4.3	5.3	4.3	3.4	2.3	4.5
Taiwan	1.1	1.4	1.0	2.0	-1.0	-0.0	-0.5	-0.6	1.4	0.0
Selected industrial countries										
Euro-11	2.0	2.1	2.5	2.7	2.5	3.1	2.7	2.2	2.3	2.5
Japan	-0.7	-0.7	-0.7	-0.5	-0.1	-0.5	-0.8	-1.0	-0.6	-0.5
United States	3.2	3.3	3.5	3.4	3.4	3.4	2.7	1.9	3.4	3.5

Source: the International Monetary Fund, The Economist, * CDRI Estimates based on the IMF, ADB and World Bank Projections

Table 3. Exchange Rates of Selected Trading Partners Against the US Dollar, 2000–2001 (period averages)

	2000				2001				2000	2001*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1-Q4
Selected ASEAN countries										
Cambodia (riel)	3,822	3,845	3,912	3,906	3,925	3,932	3,953	3,932	3,871	3,935
Indonesia (rupiah)	7,391	8,287	8,712	9,297	9,780	11,242	9,558	10,365	8,422	10,236
Malaysia (ringgit)	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80
Singapore (\$)	1.69	1.72	1.73	1.74	1.75	1.81	1.77	1.83	1.72	1.79
Thailand (baht)	37.4	38.6	40.9	43.3	43.2	45.4	44.8	44.3	40.1	44.4
Vietnam (dong)	14,053	14,075	14,120		14,556	14,670	14,999	15,084	14,168	14,827
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.28	8.28	8.28	8.27	8.28	8.28	8.28
Hong Kong (HK\$)	7.78	7.78	7.79	7.79	7.80	7.80	7.79	7.80	7.79	7.80
South Korea (won)	1,125	1,116	1,115	1,167	1,272	1,306	1,295	1,290	1,131	1,901
Taiwan (NT\$)	30.7	31.7	32.8	32.1	32.4	34.6	34.6	34.7	31.8	34.1
Selected industrial countries										
Euro-11 (euro)	1.01	1.07	1.10	1.15	1.08	1.15	1.11	1.12	1.09	1.12
Japan (yen)	107	107	108	110	118	123	121	125.5	108	122

Source: the International Monetary Fund, The Economist, * CDRI Estimates based on the IMF, ADB and World Bank Projections

Table 4. Selected Commodity Prices on the World Market, 2000–2001 (period averages)

	2000				2001				2000	2001*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1-Q4
Hardwood (logs) - Malaysia (\$/m3)	189.4	192.7	192.1	186.0	171.0	163.8	159.4	146.2	190.1	160
Hardwood (sawn) -Malaysia (\$/m3)	641.0	633.2	592.7	529.8	507.0	492.2	482.0	471.8	599.2	488
Rubber - Malaysia (\$/ton)	729.9	744.4	712.2	696.6	632.0	628.9	597.7	549.4	720.7	602
Rice - Bangkok (\$/ton)	239.8	204.5	185.4	185.1	182.0	164.7	170.4	173.3	203.7	173
Soybeans - USA (\$/ton)	212.3	223.0	200.7	209.0	202.0	186.7	205.6	188.0	211.3	195
Crude oil - Dubai (\$/barrel)	24.3	25.0	27.6	27.5	24.0	25.1	23.9	18.2	26.1	23
Gold - London (\$/fine ounce)	290.2	280.2	276.5	269.2	264.0	267.7	274.7	278.4	279.0	271

Source: the International Monetary Fund, The Economist, * CDRI Estimates based on the IMF, ADB and World Bank Projections

Economy Watch—Domestic Performance

Cambodia's economic performance in 2001 was not particularly affected by the sluggish global economy or the terrorist attacks on September 11, 2001. Real GDP growth for 2001 is projected to be in the range of 4-5 percent, and total economic output at US\$3.2 billion. The prime movers behind this momentum have been the growth registered in exports, mainly apparel products, and tourism. Rice production, in spite of disruption by floods, reached 4.1 million tonnes in 2001 and there was a surplus of 0.36 million tonnes in 2001. The long awaited recovery in the construction sector, meanwhile, did not materialise, and foreign direct investment too continued to contract for the third-consecutive year in 2001. Even though there was increased money supply (in riels) in the market during 2001 to meet the expenses of the Commune Council Elections, the average inflation rate in Phnom Penh city continued to be negative for the second consecutive year in 2001. A price deflation thus prevailed, both in Phnom Penh (-0.6 percent) and the provinces (-1.6 percent), during 2001. The riel depreciated slightly against the US dollar but appreciated against the Thai baht and Vietnamese dong. In the meantime, foreign trade increased 5.1 percent to US\$3.3 billion; exports rose by 4.1 percent to US\$1.4 billion while imports increased by 5.8 percent to US\$1.9 billion. Gross foreign reserves with Cambodia's Central Bank reached US\$550 million at the end of 2001 (equivalent to 3.2 months of imports of goods and services), increasing from US\$484 million at the end of 2000. Gross investment, in contrast, declined to 17.6 percent of the GDP (down from 19.2 percent in 2000).

Economic Activity

The share of Cambodia's GNP from services and industry sectors has been rising continuously, while from agriculture, it is proportionately falling. The services sector in 2001, representing 46 percent of GDP and employing 17 percent of workers, was the strongest, with a growth of nearly 7 percent. The industrial and agricultural sectors rose by only 5 percent and 1 percent, respectively. The industry sector, representing 24 percent of GDP in 2001, employed about 7.6 percent of total workers; in contrast, agriculture contributed only 30 percent of the GDP though it absorbed up to 77 percent of the total workers. The industrial growth experienced a robust expansion due to export in the garment industry, while the services sector has been buoyant due to tourism accelerated by an open-sky policy.

The apparel industry, Cambodia's largest employer in the industry sector, has continued to grow despite apprehensions about possible adverse effects the event of September 11th, 2001, and the decline in the number of garment factories in Cambodia – they fell from 220 in 2000 to 186 in 2001. Although there was a reduction in the number of producers and the stock of capital, exports continued to surge ahead in 2001, with total exports reaching US\$1.1 billion (a 13 percent rise over 2000). This increase has mainly been achieved through an increase in productivity of capital (about 35 per-

cent) – many factories now operate two shifts. Of the total garment exports, US\$793 million (71 percent) worth were shipped to the United States, and US\$305 million (27 percent) worth to the European Union, while exports to other markets reached US\$14 million. In 2001, apparel exports to the US rose by 6 percent over 2000, while to the EU they rose by 38 percent over this period. There was no significant growth to other markets. Exports to EU markets have been rapidly rising in recent years; this growth may have resulted from Cambodian exporters increasingly recognising the depth of the EU markets, in addition to a three-year special preferential trading status that EU granted Cambodia in April 1999. For maintaining and expanding export capacity, however, Cambodia needs to think about reaching out to other apparel markets outside the US and EU. Fortunately, as of now, the US government has extended the garment-trading agreement with Cambodia for another three years, to be effective from January 1, 2002 through till December 31, 2004. The agreement allows Cambodia's garment products to enter the US under MFN status, though it limits apparel products to 12 categories. However, questions regarding the long term sustainability of the industry remain unanswered.

The garment industry has made a huge contribution hugely to Cambodian society; among its benefits are incomes from quota auction and employment of a large number of workers. The competition for export to the US and Europe, however, will soon intensify, as the number of garment producing countries, including China, join the WTO. Moreover, the Multifibre Agreement (MFA) terminates in 2005. The competition will thus become stiff even though that China will not be permitted full access to developed countries' markets immediately. Cambodia has so far not been able to take full advantage of having preferential access to the US and EU markets. This has been a shortcoming in itself. Next, high costs and low quality standards have remained impediments. Thus, it will be a daunting task to maintain this emerging industry in the future.

Tourism, the country's second foreign exchange earner, continued to grow in spite of the global economic downturn, the September 11, 2001 events, and the military response in Afghanistan that is likely to continue. Cambodia's tourism sector managed to maintain a moderate growth in 2001. The total foreign visitor arrivals to the country (by air, sea and land) reached 0.66 million persons (a nearly 30 percent rise over 2000). Of the total visitor arrivals, about 465,000 entered Cambodia by air, 29 percent of whom flew in via direct international flights to Siem Reap. Compared to 2000, the total visitor arrivals by air rose by 16 percent, while those flying directly to Siem Reap, by 54 percent. Other holiday-makers, who arrived by sea and land, rose by 71 percent, to 197,000 persons. Poipet (at the Cambodia-Thailand border) was gateway to the largest number of tourists not travelling by air.

CDRI's recent surveys in Siem Reap showed that most hotel owners and tour operators envision an opti-

Economy Watch—Domestic Performance

mistic and profitable time ahead with regard to tourist arrival and hotel occupancy. In Siem Reap, there were 47 hotels and 112 guesthouses at the end of 2001 - they rose from 36 hotels and 70 guesthouses in 2000. Hotel occupancy rates have also risen by about ten percentage points over 2000, but because of the growing number of hotels and guesthouses and the consequent competition, many hotel owners have reduced their tariff rates by between 5-15 percent. Despite rising the number of tourist volumes rising, the proportion of revenue accruing to Cambodians is not quite as high as that being accumulated to foreign investors. CDRI's preliminary estimates point at that only about 35-45 percent of the money spent by tourists remains in Cambodia. However, despite this disproportion between local and foreign investors, many Siem Reap inhabitants are enjoying the growing influx of tourists, as well as the advantages of the improving infrastructure.

Inflation and Foreign Exchange Rates

Deflation slows down economic performance. According to the National Institute of Statistics, Cambodia experienced deflation for the second consecutive year in 2001. The average consumer prices in Phnom Penh fell to -0.6 percent in 2001 (they fell -0.8 percent in 2000). The declining prices primarily resulted from a drastic drop in the core CPI, mainly food (-2.7 percent) and energy (-1.1 percent). The CPI in the provinces also declined; the average deflation rate hit a record low in the fourth quarter of 2001, reaching -1.6 percent. Declining prices of oil and rice have deepened the deflation in the provinces. Deflation could adversely affect producers' profits and employment.

The value of the riel continued to lose ground slightly against the US dollar through 2001, trading at an average of 3,935 riels per one dollar: it depreciated from 3,879 riels/US\$ in 2000. As stated earlier, the riel was generally strong against the Thai baht and the Vietnamese dong, which may have resulted from the dollar-pegged exchange rate policy being followed, and the large-scale dollarisation of the economy. Dollarisation could help reduce the risk premium, and avoid currency and balance of payments crises.

Prices of oil declined slightly in 2001; the average trading price of gasoline was 2,083 riels per litre and of diesel, it was 1,521 riels per litre. However, the oil price in Cambodia has remained higher than that in Thailand and Vietnam. High oil prices in Cambodia could have adverse effects on its economic growth.

Poverty Situation – Earnings of Workers

CDRI's survey of vulnerable workers conducted in February 2002 showed that there was a significant rise in their daily incomes compared to November 2001 in the city of Phnom Penh. However, only five out of the ten vulnerable groups surveyed, earned more daily income compared to February 2001.

The average income of motorcycle-taxi drivers in Phnom Penh increased by about 43 percent compared to

what it was in the same period last year; also it is higher now than at anytime in 2001. Likewise, restaurant workers earned about 36 percent more than they did a year ago. Possible reasons are the Chinese New Year in February 2002 and an increase in tourism. About 40 percent of motorcycle-taxi drivers interviewed reported that their income was enough to support their families. CDRI also conducted an income survey of motorcycle-taxi drivers and restaurant workers in Siem Reap town. The survey found that the daily income of the motorcycle-taxi drivers in Siem Reap was about 50 percent higher than that in Phnom Penh: earning approximately 23,400 riels (US \$6) per day. Also, the restaurant workers in Siem Reap earned twice as much (almost 6,000 riels per day) as those in Phnom Penh.

The Chinese New Year appears to have brought more business to Phnom Penh in 2002. The income of skilled construction workers, porters and cyclo-drivers increased by 2.9 percent, 11.5 percent and 15.2 percent, respectively, in February 2002 compared to February 2001. However, up to 40 percent of the porters and cyclo drivers interviewed reported being indebted; hence they had to work harder to both payback loans as well as feed their families. The incomes of unskilled workers, scavengers and small vegetable sellers rose somewhat since November 2001. However, they were lower than those in February 2001, partly due to excessive crowding of workers in this segment of the market.

Even though garment industry workers are still earning reasonable wages, CDRI's survey in February 2002 showed that wages of these workers declined by 6.4 percent between February 2001 and now, and dropped 13.3 percent between November 2001 and now. Two reasons were reported. First, overtime work has been reduced for the existing workers, and new workers are employed for the night shift. About 79 percent of the workers interviewed reported a decrease in overtime work compared to November 2001. Second, according to the workers, a number of factories have recently employed a new cost-reduction strategy. They recruit temporary workers and pay them lower wages. While the minimum monthly wage for a regular worker is \$45, the wage given to a temporary, floating worker is \$30. Temporary workers could easily be laid off. Nonetheless, 62 percent of the garment workers were optimistic about their future prospects. The expenditure of each worker for living was approximately US\$20/month, which was spent on food, accommodation, transportation, clothing and personal care. Eighty six percent of the garment workers reported that they saved some small amount to support their families. Each worker spent around 2,000 riels on food per day, which is just enough for low quality food.

In a survey of five markets, 48 percent of the vendors interviewed reported an increase in their sales in February 2002 compared to November 2001. Food sellers enjoyed the highest increase (64 percent), followed by clothes sellers (40 percent). Sales of luxury items and cosmetic goods, however, increased marginally.

Economy Watch—Domestic Performance

Monetary Developments

According to the National Bank of Cambodia (NBC), extra Cambodian riels were injected into the market through 2001, reaching 577.8 billion riels in December 2001, up from 494.6 billion riels in December 2000. Although the number of riels in circulation increased by 50 billion, the value of the riel against the dollar remained steady. Foreign currency deposits in Cambodia's commercial banks continued to increase gradually – the total deposits reached 1,545.8 billion riels in December 2001, up from 1,245 billion riels in December 2000. In contrast, the riel deposits with the commercial banks fell by 32 percent, to 30.9 billion riels, down from 45.0 billion at the end of 2000. The slump in deposits in riels could represent a sliding confidence in the riel. In sum, the total liquidity of the banking system (as of the end of 2001) rose by 20.6 percent compared to 2000.

Meanwhile, government deposits in NBC continued to rise, reaching 75 billion riels by the end of 2001. In 2000, in contrast, the government owed 3 billion riels to the bank. Credits extended to private sector, by the commercial banks, rose 4 percent, to 933 billion riels. This increase represented the growing activities of private sector companies in the recent years. Private sector development has recently become an important agenda of the Cambodian government. Development of private sectors is a key factor to boost economic activities.

Public Finance

Cambodia's budgetary policy has continued to aim at expanding revenue mobilisation, mainly through raising taxes and limiting expenditure on non-priority activities. According to revised figures of the Ministry of Economy and Finance, the total revenue receipts in 2001 reached 12.2 percent of GDP (1529.3 billion riels). They, however, represented only 93 percent of the planned-target of 2001, in spite of growing garment exports and tourism. This shortfall has apparently been caused by a drastic decline in custom duties on imports. Nevertheless, the 2001 total revenue receipt was 7.5 percent higher than that of 2000. Duty rates from imports would further decline in the future due to proposed reductions in tariff rates, which is a requirement of ASEAN/AFTA. According to Cambodia's 2002 *Finance Law*, the country's 2002 revenue is expected to rise to 13 percent of its GDP. A number of fiscal reforms introduced in mid-2001, it is believed, will help to achieve the target. The reforms include introducing a 10 percent tax to be levied on entertainment services, expanding VAT coverage to another 150 additional firms, improving visa-fee mobilisation through introducing a sticker system while stamping the Cambodian visa, reviewing the contract of ticket sales to Angkor Wat, and taking measures to tackle smuggling and tax evasion.

The government's total spending, including foreign financed spending, reached 2,332 billion riels in 2001. Of the total expenditure, social administration outlay amounted to 455 billion riels, military spending 405 billion riels, general administration 254 billion riels, and

economic administration 151 billion riels. The rest was spent on capital expenditure. Military spending continued to dwindle, amounting to only 3.2 percent of the GDP in 2001, down from 3.8 percent in 2000. The *Finance Law* plans to spend only 3 percent of the GDP on military in 2002.

Private Investment and Employment

Foreign and private investors, who are the key contributors to Cambodia's economic activities, suffered from a continuing slump for a third-consecutive year in 2001. According to the Council for Development of Cambodia (CDC), only 48 new investment and expansion projects were approved, worth US\$218 million, in 2001. Compared to 2000, new investment projects declined by nearly 50 percent and new fixed assets invested fell by 18 percent. New investment in garment factories, has reduced considerably. As per the CDC records, only 19 garment factory projects were approved, worth US\$26 million in fixed assets in 2001. Compared to 2000, the number of new garment making projects dropped by 62 percent, and incremental fixed assets declined by 66 percent in 2001. Sliding foreign direct investment has continued to put downward pressure on the expansion of garment factories, and hence industrialisation, in Cambodia. There may be more than one deterrent to investments in Cambodia. Many investors and domestic entrepreneurs alike have complained about smuggling, high cost of utilities, costs associated with the bureaucracy and unfair competition due to weak commercial laws or weak law enforcement: these are important impediments. Local producers demand that the government should nurture domestic industries and restrict imports of particular products. These issues have recently been acknowledged by the government, and the concerned governmental bodies have vowed to tackle the constraints. Despite this, the slowdown of foreign investments has continued to cast a dark shadow over the country's ability to provide productive employment to its emerging labour force. According to CDRI's estimates, Cambodia needs between US\$0.5 to US\$1.0 billion in productive investment annually to provide jobs for its rapidly growing domestic labour force – and only part is forthcoming.

Foreign Aid and External Debt

The World Bank and Asian Development Bank (combined) disbursed US\$89.3 million in the form of loans to Cambodia in 2001. Of this amount, US\$52.4 million are to be used for infrastructure rehabilitation (project aid), US\$31.4 million for social funds (project aid), US\$4.6 million for budget support and US\$0.9 million for technical assistance. Since 1993, Cambodia has borrowed continuously from the World Bank and ADB, and by the end of 2001, Cambodia's total official debt reached about US\$490 million.

By Chea Huot and Pon Dorina

Economy Watch—Indicators

Table 1. Cambodia: Main Macro-economic Indicators, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001*
GDP at current prices (billions of riels)	6,220	7,200	8,330	9,150	10,600	11,640	12,036	12,625
GDP at current prices (millions of dollars)	2,420	2,925	3,155	3,050	2,790	3,050	3,119	3,208
GDP per capita (dollars)	245	284	295	276	244	259	244	245
Growth rate of real GDP (1993 prices)	4.0	6.7	8.0	0.6	1.7	6.6	5.0	4.3
Agriculture	5.2	10.3	2.0	2.8	0.9	1.3	-2.4	1.0
Industry	4.8	9.0	19.3	0.4	14.0	8.9	14.6	6.9
Service	2.6	2.4	10.5	-1.5	-2.1	11.0	7.5	5.8
Inflation (in riels, final quarter basis)	17.8	3.5	9.0	9.1	12.6	0.0	0.5	-0.6
Riel/dollar parity (annual average)	2,569	2,462	2,641	3,000	3,800	3,820	3,859	3,935
Budget revenue (percentage of GDP)	9.5	8.9	9.0	9.6	8.9	11.3	11.8	12.1
Budget expenditure (percentage of GDP)	16.2	16.7	17.3	13.8	14.7	16.6	17.4	18.5
Current public deficit (percentage of GDP)	-1.4	-0.8	-1.2	0.7	-0.2	1.6	1.6	1.3
Overall public deficit (percentage of GDP)	-6.7	-7.7	-8.3	-4.1	-5.8	-5.3	-5.6	-6.4
Exports of goods (percentage of GDP)	10.6	10.8	11.4	17.9	21.8	24.8	36.1	38.3
Imports of goods (percentage of GDP)	22.6	24.4	29.3	31.8	41.4	41.2	48.4	50.6
Trade balance (percentage of GDP)	-11.9	-13.6	-17.8	-13.9	-19.6	-16.4	-12.3	-12.3
Current account balance (percentage of GDP)	-10.6	-14.0	-16.8	-12.1	-17.8	-13.6	-9.2	-8.3
External contribution to the economy (percentage of GDP)	16.9	21.0	21.2	14.5	18.3	16.4	14.5	13.4
Total savings (percentage of GDP)	19.2	22.1	27.6	22.3	26.3	23.6	19.3	18.3
Gross foreign reserves (months of imports)	1.4	1.7	2.0	2.3	3.1	3.1	3.1	3.3
Population (million)	9.9	10.3	10.7	11.1	11.4	11.8	12.8	13.1
Labour force (percentage of population)	41.1	41.2	41.4	41.6	41.9	42.2	42.5	42.9

Sources: Government data and CDRI. * Estimated by CDRI

Table 2. Destination of Garment Exports, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2000	2001			
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q4	Q1	Q2	Q3	Q4
	Millions of dollars											
United States	0.0	0.02	0.1	26.8	74.1	121.5	187.5	187.9	189.3	192.9	198.0	212.9
Rest of the world	1.0	6.6	19.6	30.0	20.5	17.0	58.8	77.3	62.8	68.8	102.7	89.0
Total	1.0	6.6	19.7	56.8	94.5	138.5	246.3	265.2	252.1	261.7	300.7	301.9
	Percentage change over previous year											
Total	-	560	200	187	66	47	78	100	29	16	0.5	13.8

Source: Ministry of Commerce, Department of Trade Preferences Systems (1994-2000, quarterly average)

Table 3. Passenger Arrivals by International Flights at Pochentong and Siem Reap Airports, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2000	2001			
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q4	Q1	Q2	Q3	Q4
	Thousands of passengers											
Tourist visas	27.9	38.7	55.3	46.3	38.1	44.9	57.4	66.6	64.6	53.2	53.5	58.1
Business visas	7.1	10.6	15.8	13.9	10.7	16.0	20.6	14.7	20.0	23.2	20.9	18.3
Official visas	3.3	3.9	3.2	3.6	4.4	8.8	4.8	5.0	3.8	4.7	4.6	5.9
Total Pochentong	38.3	53.2	74.3	63.8	53.2	69.7	82.7	86.3	88.4	81.1	79.0	82.3
Total Siem Reap	-	-	-	-	2.6	7.15	33.4	32.2	41.9	23.6	30.5	36.6
	Percentage change over previous year											
Total Pochentong	29.7	38.9	39.7	-14.1	-16.6	31.0	18.7	9.1	8.2	12.2	8.2	-4.6
Total Siem Reap	-	-	-	-	-	175	367	166	111	59	52	13.7

Sources: Ministry of Economy and Finance and Ministry of Tourism (1994-2000, quarterly average)

Table 4. Consumer Price Index (CPI), Exchange Rates and Gold Prices, 1994-2001 (period averages)

	1994	1995	1996	1997	1998	1999	2000	2000	2001			
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q4	Q1	Q2	Q3	Q4
	Consumer price index (percentage change over previous year)											
Provinces	-	-	-	6.1	16.3	6.2	5.4	10.4	4.8	1.3	-1.1	-1.6
Phnom Penh - All Items	-0.5	7.8	7.1	8.0	14.8	4.0	-0.8	0.5	-0.8	0.1	-0.4	-1.3
- Foods	-13.4	4.9	7.6	6.7	14.1	7.6	-3.3	-1.3	-2.6	-2.2	-2.4	-3.8
- Energy	-1.2	19.4	20.7	20.0	15.1	3.5	6.6	6.7	0.5	1.5	-3.0	-3.4
	Exchange rates, Gold and Oil prices (Phnom Penh market rates)											
Riel per US dollar	2,582	2,479	2,666	3,029	3824	3832	3,879	3,906	3,925	3,931	3,953	3,932
Riel per Thai baht	102	99	105	98	88	101	96.3	90.3	88.5	86.6	88.2	88.7
Riel per 100 Vietnamese dong	23.5	22.3	24.0	25.6	28.6	27.8	27.4	27.3	26.9	26.8	26.4	26.1
Gold prices (US dollar per chi)	45.8	45.9	46.3	40.4	36.0	34.0	33.3	32.6	32.0	32.0	33.6	33.0
Price of Diesel (Riels/litre)	750	716	779	883	1,065	1,105	1,329	1,483	1,483	1,533	1,550	1,517
Price of Gasoline (Riels/litre)	698	847	1,118	1,378	1,613	1,760	2,113	2,233	2,100	2,100	2,100	2,033

Sources: CDRI, IMF, NIS, Ministry of Planning, Ministry of Economy and Finance

Economy Watch—Indicators

Table 5. Average Daily Earnings of Workers, 1997–2001

	Daily earnings (riels)									Change from last year (%)		
	1997 Pre-Jul	2000 May	2001			2002			2001 Aug	2001 Nov	2002 Feb	
			Aug	Nov	Feb	May	Aug	Nov	Feb			
Cyclo drivers	12,250	9,691	9,511	8,398	8,200	9,568	9,057	6,262	9,450	-4.8	-25.4	15.2
Porters	9,675	8,002	8,068	6,893	7,300	7,058	7,189	5,000	8,137	-10.9	-27.5	11.5
Small vegetable sellers	7,050	7,267	6,611	5,813	6,400	7,386	6,670	5,096	6,062	0.9	-12.3	-5.3
Scavengers	4,155	4,969	4,186	3,006	3,900	2,670	2,686	3,393	3,350	-35.8	12.9	-14.1
Waitresses*	–	2,030	2,250	2,335	2,600	2,600	2,683	2,358	3,543	19.2	1.0	36.3
Rice-field workers	–	4,000	4,443	4,184	4,100	3,613	4,500	3,618	3,916	1.3	-13.5	-4.5
Garment workers	–	8,272	8,500	7,410	8,300	7,500	9,165	8,968	7,772	7.8	21.0	-6.4
Motorcycle-taxi drivers	–	12,100	11,044	9,522	10,000	12,050	10,559	9,791	14,327	-4.4	2.8	43.3
Unskilled construction workers	–	6,900	8,220	5,970	7,500	8,261	5,625	4,841	7,025	-31.6	-18.9	-6.3
Skilled construction workers	–	15,600	14,891	14,517	11,200	10,306	12,375	9,866	11,530	-16.9	-32.0	2.9

Notes: Surveys on the revenue of waitresses, rice-field workers, garment workers, unskilled workers, motorcycle taxi drivers and construction workers began in February 2000; * Waitresses earnings do not include meals and accommodation provided by shop owners. Source: CDRI.

Table 6. Monetary Survey, 1994–2001 (end of period)

	1994	1995	1996	1997	1998	1999	2000	2000	2001			
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q4	Q1	Q2	Q3	Q4
	Billions of riels											
Net foreign assets	391	550	881	1,172	1,550	1,961	2,589	2,589	2,733	2,807	2,951	3,077
Net domestic assets	59	99	31	-109	-435	-591	-759	-759	-834	-821	-827	-868
Net claims on government	143	148	128	54	141	111	3	3	-69	-82	-73	-75
Credit to private sector	237	293	435	637	682	731	898	898	905	947	992	933
Total liquidity	450	650	912	1,063	1,116	1,370	1,831	1,831	1,899	1,985	2,124	2,209
Money	200	279	329	385	466	515	540	540	548	544	569	609
Quasi-money	250	371	583	678	655	855	1,291	1,291	1,351	1,441	1,555	1,600
	Percentage change from previous year											
Total liquidity	35.1	44.3	40.3	16.6	4.9	22.7	33.6	26.8	9.6	8.4	18.5	20.6
Money	-1.9	39.5	17.9	17	21	10.5	4.9	1.5	-0.4	-0.4	5.4	12.8
Quasi-money	93.2	48.1	57.2	16.4	-3.4	30.5	51.0	41.7	14.2	12.1	24.2	23.9

Source: National Bank of Cambodia.

Table 7. National Budget Operations on Cash Basis, 1994–2001 (billions of riels)

	1994	1995	1996	1997	1998	1999	2000	2000	2001			
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q4	Q1	Q2	Q3	Q4
Total revenue	148	161	187	220	230	329	382	377	366	400	360	403
Tax revenue	91	111	134	149	169	239	274	268	263	291	261	281
Customs duties	70	80	86	87	94	108	94	104	98	105	83	90
Non-tax revenue	56	47	44	68	51	87	106	85	100	107	97	120
Forest exploitation	22	13	7	9	5	9	7	13	10	9	8	2
Post & Telecommunications	15	14	16	21	22	27	31	25	23	28	30	41
Capital revenue	0	2	10	3	9	3	2	23	3	2	2	2
Total expenditure	252	300	360	315	324	448	583	653	472	547	578	735
Capital expenditure	84	128	157	113	92	156	244	223	217	239	253	268
Current expenditure	168	172	203	202	245	291	339	430	255	308	325	467
Education and Health	23	25	31	32	33	70	86	150	27	47	52	217
Defence and Security	98	106	102	105	110	116	101	164	63	88	89	165
Other Ministries	48	41	71	65	83	103	159	116	59	139	167	272
Overall deficit	-105	-139	-173	-95	-95	-119	-201	-276	-106	-147	-218	-332
Foreign financing	108	140	170	111	67	104	192	164	184	189	205	188
Domestic financing	-3	-1	3	-16	28	15	9	112	-77	-43	-13	144

Source: Ministry of Economy and Finance: Quarterly average (1994–2000, quarterly average)

Table 8. Investment Projects Approved, 1994–2001*

	1994	1995	1996	1997	1998	1999	2000	2000	2001			
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q4	Q1	Q2	Q3	Q4
	Number of investment projects											
Total	46	51	75	34	35	24	24	13	11	13	12	12
Garment	27	30	36	12	21	11	13	7	4	7	6	2
	Registered capital (millions of dollars)											
Total	116.0	89.0	97.8	69.5	104.1	61.7	25.6	24.5	5.1	15.2	15.2	93.4
Garment	26.8	28.0	39.2	8.6	22.9	13.9	6.4	4.0	1.0	6.0	8.8	2.0
	Fixed assets (millions of dollars)											
Total	303.0	76.2	186.7	190.4	212.3	118.5	66.6	56.0	10.1	29.1	16.5	161.7
Garment	25.1	25.4	39.6	9.7	30.2	19.9	19.2	7.5	5.7	8.2	10.0	2.0

Source: Cambodian Investment Board (1994–2000, quarterly average) * Including existing investment expansion projects