

## Economy Watch – External Environment

The most recent data show that economic recovery has begun in the US and Asia, but some doubts remain about economic recovery in Europe. Results of surveys indicate that consumer and business confidence rose almost everywhere in May. Interest rates have generally remained stable, though foreign exchange rates in the international markets have become more volatile. Commodity prices in the world markets have continued to increase gradually.

### World Economic Growth

Economic indicators, until as late as mid-June 2002, showed that the US economic recovery gained strength, although the pace of recovery remained slow. US economic activity - represented by its GDP - rose by 1.5 percent between the first quarter of 2001 and the first quarter 2002. Both consumer and business spending boosted this growth. According to the US Conference Board, the consumer confidence index rose to 109.8 in May from 108.5 in April. However, consumer confidence about the future remains uncertain, as the board's expectation index, which assesses consumers' six-month outlook, declined slightly for a second month, to 109.4 in May from 109.6 in April. This situation is a reflection of the fact that US consumers and companies are heavily in debt.

The US Federal Reserve drastically cut short-term interest rates during 2001 in a bid to increase spending and bolster the economy. There is, however, a lack of clarity about the shape of things to emerge in the future, which in turn has affected the labour and money markets. After a sharp increase in March and April, the unemployment rate in the US declined to 5.8 percent in May from 6 percent in April 2002. Factories in the US are currently operating at 75.5 percent of their capacity, against about 85 percent on average, the lowest in 20 years. The extent of unemployment will change in the near future, depending on how busy the factories become. Data also show that the US stocks, including shares, bonds and foreign exchanges, fluctuated a great deal during May and June 2002.

In Europe, key economic indicators for the first quarter of 2002 showed that the economic situation had worsened, as real GDP growth in Germany and France, the two biggest European economies, continued to decline. On a year to year basis, the GDP growth was at -1.5 percent in Germany and 0.3 percent in France in the first quarter of 2002, compared to -0.1 percent in Germany and 0.9 percent in France in the fourth quarter of 2001. The most recent information, released in June, though, suggests that the German economy has begun to recover. According to the IFO (a German survey institute) index computed from a survey of 7,000 firms, the index of German business confidence climbed to 91.5 in May from 90.5 in April. In Japan, however, the economic situation has remained weak, as all principal indicators such as real GDP and industrial production continue to experience negative growth.

In Asia, South Korea, Taiwan, Thailand and Malaysia exhibited unmistakable recovery. Singapore's economy, however, continued to be troubled, though compared to earlier, the situation has improved. The decline in economic activity slowed: Singaporean GDP growth was -1.5 percent in the first quarter of 2002, against -7 percent in the fourth quarter of 2001. On a year to year basis, the real GDP growth in the first quarter 2002 increased to 5.7 percent in South Korea, 1.1 percent in Malaysia and 0.9 percent in Taiwan, up from 3.7 percent, -0.5 percent and -2.7 percent respectively, in the fourth quarter of 2001. Data on Thailand's GDP for the first quarter 2002 are not yet available, but based on the industrial production index, economic recovery seemed confirmed, as this index grew by 8.4 percent in March against almost nil three months earlier. China also staged a recovery, as its GDP rose to 7.6 percent in the first quarter of 2002, up from 6.6 percent in the fourth quarter of 2001.

### World Inflation and Exchange Rates in the International Markets

Economic recovery in the US has pushed the inflation rate upwards, reaching 1.6 percent in April 2002, up from 1.1 percent in January. In Japan and the Euro area, the inflation rate remained stable during the first four months of 2002, reaching around 2.5 percent in the Euro area and -1.2 percent in Japan. In Asia, inflation varied considerably from one country to another. In Cambodia, Indonesia, Malaysia and Taiwan, the inflation rates increased slightly between January to April 2002, while in China, Hong Kong, South Korea, Singapore and Thailand, inflation rates continued their declining trend.

In the exchange rate markets, between January and mid-May 2002, the US dollar remained generally stable against the euro and the Japanese yen, trading respectively at around 1.12 euro and 130 yen per US\$. However, the US currency has depreciated against these two main currencies since then, trading at 1.06 euro and 124 yen per US\$ by mid-June. The US dollar experienced the same trend in Asia as well. Threats of further terrorist attacks in the US, continuing weakness in US stock markets, and uncertainty about the sustainability of the US economic recovery, have made US assets less attractive, and the dollar has been in gradual decline.

### Commodity Prices in the World Markets

Commodity prices in the world markets rose steadily during the first five months of 2002. The price of rubber in Malaysia recovered significantly, trading at US\$720 per tonne in April, up from US\$610 per tonne in January. The price of crude oil in Dubai followed the same trend, trading at US\$24 per barrel in mid-June, compared to about US\$20 per barrel in January. However, the prices of rice, soybean and palm oil remained stable during the second quarter of 2002, after rising sharply during the first quarter.

*by Sok Hach*

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**Table 1. Real GDP Growth of Selected Trading Partners, 2000–2002 (percentage increase over the previous year)**

	2000			2001				2002	2000		2001
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-Q4	Q1-Q4	
Selected ASEAN countries											
Cambodia	-	-	-	-	-	-	-	-	5.5	5.3	
Indonesia	4.1	5.1	5.2	4.0	3.5	3.5	4.1	2.5	4.8	3.8	
Malaysia	8.7	7.7	6.6	3.2	0.5	-1.3	-0.5	1.1	8.6	0.5	
Singapore	8.0	10.4	10.5	4.5	-0.9	-5.6	-7.0	-1.7	9.9	-2.3	
Thailand	6.6	2.6	3.1	1.8	1.9	1.5	2.1	3.9	4.3	1.8	
Vietnam	-	-	-	-	-	-	-	-	6.8	6.0	
Selected other Asian countries											
China	8.3	8.2	7.3	8.1	7.8	7.0	6.6	7.6	8.0	7.5	
Hong Kong	10.8	10.8	6.8	2.5	0.5	-0.3	-1.6	-0.9	10.5	0.3	
South Korea	9.7	9.3	4.6	3.7	2.7	1.8	3.7	5.7	8.8	3.0	
Taiwan	5.4	6.6	4.1	1.1	-2.4	-4.2	-2.7	0.9	6.0	-2.1	
Selected industrial countries											
Euro-11	3.9	3.3	3.0	2.5	0.2	1.3	0.6	0.1	3.4	1.2	
Japan	1.1	0.5	2.5	0.2	-2.9	-0.5	-1.9	-1.6	1.7	-1.3	
United States	6.1	5.2	3.4	2.7	1.2	0.6	0.4	1.5	4.9	1.2	

Source: The International Monetary Fund and The Economist

**Table 2. Inflation Rate of Selected Trading Partners, 2000–2002 (percentage increase over the previous year)**

	2000			2001				2002	2000		2001
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-Q4	Q1-Q4	
Selected ASEAN countries											
Cambodia	-2.3	-1.4	0.5	-0.8	0.1	-0.4	-0.6	3.4	-0.8	-0.4	
Indonesia	6.1	5.7	8.8	9.1	11.1	12.1	12.7	14.5	3.7	11.3	
Malaysia	1.4	1.5	1.7	1.5	1.6	1.4	1.2	1.5	1.5	1.4	
Singapore	0.8	1.5	2.0	1.7	1.7	0.8	-0.2	-0.9	1.4	1.0	
Thailand	1.6	2.2	1.6	1.8	2.6	1.7	1.1	0.6	1.5	1.8	
Vietnam	-2.4	-2.2	-0.4	-1.4	-0.8	-	-	-	-1.7	0.0	
Selected other Asian countries											
China	0.1	0.3	0.6	1.3	1.6	0.8	-0.1	-0.5	0.3	1.0	
Hong Kong	-4.4	-2.9	-2.2	-1.8	-1.3	-1.1	-1.3	-2.7	-3.7	-1.5	
South Korea	1.4	3.2	2.9	4.3	5.3	4.3	3.4	2.5	2.3	4.3	
Taiwan	1.4	1.0	2.0	-1.0	-0.0	-0.5	-0.6	-0.1	1.4	0.5	
Selected industrial countries											
Euro-11	2.1	2.5	2.7	2.5	3.1	2.7	2.2	2.5	2.3	2.6	
Japan	-0.7	-0.7	-0.5	-0.1	-0.5	-0.8	-1.0	-1.4	-0.6	-0.5	
United States	3.3	3.5	3.4	3.4	3.4	2.7	1.9	1.2	3.4	2.9	

Source: The International Monetary Fund and The Economist

**Table 3. Exchange Rates of Selected Trading Partners Against the US Dollar, 2000–2002 (period averages)**

	2000			2001				2002	2000		2001
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-Q4	Q1-Q4	
Selected ASEAN countries											
Cambodia (riel)	3,845	3,912	3,906	3,925	3,932	3,953	3,932	3,910	3,871	3,935	
Indonesia (rupiah)	8,287	8,712	9,297	9,780	11,242	9,558	10,365	10,078	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 (S\$)	1.72	1.73	1.74	1.75	1.81	1.77	1.83	1.83	1.72	1.79	
Thailand (baht)	38.6	40.9	43.3	43.2	45.4	44.8	44.3	43.8	40.1	44.4	
Vietnam (dong)	14,075	14,120	14,423	14,556	14,670	14,999	15,084	15,142	14,168	14,827	
Selected other Asian countries											
China (yuan)	8.28	8.28	8.28	8.28	8.28	8.27	8.28	8.28	8.28	8.28	
Hong Kong (HK\$)	7.78	7.79	7.79	7.80	7.80	7.79	7.80	7.80	7.79	7.80	
South Korea (won)	1,116	1,115	1,167	1,272	1,306	1,295	1,290	1,319	1,131	1,291	
Taiwan (NT\$)	31.7	32.8	32.1	32.4	34.6	34.6	34.7	35.1	31.8	34.1	
Selected industrial countries											
Euro-11 (euro)	1.07	1.10	1.15	1.08	1.15	1.11	1.12	1.15	1.09	1.12	
Japan (yen)	107	108	110	118	123	121	125.5	133.3	108	122	

Source: The International Monetary Fund and The Economist

**Table 4. Selected Commodity Prices on the World Market, 2000–2002 (period averages)**

	2000			2001				2002	2000		2001
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-Q4	Q1-Q4	
Hardwood (logs) - Malaysia (\$/	192.7	192.1	186.0	171.0	163.8	159.4	146.2	137.6	190.1	160.1	
Hardwood (sawn) -Malaysia (\$/	633.2	592.7	529.8	507.0	492.2	482.0	471.8	479.7	599.2	488.3	
Rubber – Malaysia (\$/ton)	744.4	712.2	696.6	632.0	628.9	597.7	549.4	622.3	720.7	602.0	
Rice - Bangkok (\$/ton)	204.5	185.4	185.1	182.0	164.7	170.4	173.3	193.7	203.7	172.6	
Soybeans – USA (\$/ton)	223.0	200.7	209.0	202.0	186.7	205.6	188.0	179.9	211.3	195.6	
Crude oil – Dubai (\$/barrel)	25.0	27.6	27.5	24.0	25.1	23.9	18.2	19.9	26.1	22.8	
Gold - London (\$/fine ounce)	280.2	276.5	269.2	264.0	267.7	274.7	278.4	281.0	279.0	271.2	

Source: The International Monetary Fund and The Economist

## Economy Watch – Domestic Performance

The Cambodian economy performed reasonably well in 2001 with a GDP growth rate of 5.3% – the second highest in the ASEAN region. Signs of economic recovery in the region are expected to further accelerate Cambodia's economy in the year 2002. As the economies of the ASEAN are on their way to recovery, Cambodia continued to register moderate economic growth in the first quarter of 2002, despite a slight decline in garment exports during this period. The garment industry, however, continues to be a key contributor to Cambodia's economic growth, along with tourism. The exchange rate, on average, was fairly stable, at 3,910 riels for a US dollar in the first quarter of 2002. Cambodia maintains a flexible exchange rate policy, with the spread between the official exchange and market rates limited to 1 percent. The Cambodian riel gained ground against the US dollar for the second consecutive quarter, ending March 2002. Consumer price inflation of all items rose slightly to 3.4% in Phnom Penh, though it was -3.4% in the provincial areas. A healthy macroeconomic performance has induced positive growth in the daily earnings of skilled workers, but unskilled workers continue to suffer from low and/or falling daily earnings (according to a survey conducted by CDRI in May 2002). In effect, therefore, unskilled and low skilled workers continue to struggle in poverty, as the benefits of economic growth appear to reach mainly the urban skilled people.

### Economic Activity

Cambodian economic growth continued to be strong in spite of weaker growth in the regional and global economies. This is led by the garment and tourism sectors, which have remained, and are expected to be, buoyant for all of 2002. The construction industry is also expected to recover soon, after a prolonged stagnation.

**The garment industry**, the country's biggest contributor to economic growth, experienced a decline in the first quarter of 2002, for the first time in 8 years. Exports during the first quarter of 2002 amounted to US \$232.4 million, lower by 7.8% compared to the same period in the previous year. Garments worth US\$158.7 million were exported to the United States (down by 16% compared to the same period in the previous year), Exports to European markets amounted to US\$67.5 million (up by 14%) and the rest were shipped to other markets. Cambodian apparel products are primarily produced for export, and the EU and US are their major market destinations. Cambodia has a special trading status to export garments to these two markets. Cambodian exporters, however, find it difficult to penetrate other markets, especially in the ASEAN region. Many economists question the long-term sustainability of the Cambodian garment industry; they say, for example, what would happen if Cambodia is not able to join the World Trade Organisation by 2005, and its special trading status to the EU and US is withdrawn? In the event of such an occurrence, the industry would grind to a halt, and investors, in their pursuit to seek a better in-

vestment environment, may prefer to shift their investments to other countries. Some other experts maintain that the industry, in its present status, is reaching a saturation point, and the country should now work to raise productivity in the industry. According to CDRI research, Cambodia's garment industry would continue to expand, if the country's quest to join WTO is successful. The Cambodian government, with support from key trading partner countries, is optimistic about gaining WTO membership before or in the year 2005. To gain WTO membership, however, Cambodia's Parliament has to pass at least 45 pieces of legislation, to make its legal system fall into line with WTO requirements.

**Tourism** has continued to make an increasingly important contribution to economic growth, and in the process contributes to poverty alleviation. The net revenue that the Cambodian government received from tourism in 2001 amounted to US\$15 million. According to the Ministry of Tourism and the Ministry of Interior, total tourist arrivals in the first quarter of 2002 was 217,700 persons (a 21% rise over the first quarter of 2001). Of the total arrivals, 91,100 persons entered Cambodia through Pochentong international airport, 54,700 persons came through Siem Reap (direct international flights), and another 71,900 persons arrived via waterways and land routes. Compared to the same period last year, the number of visitors arriving by air rose by 12% and by other means, by 43%. The international border checkpoints at Poipet and Osmach are the two main gateways for entry by road. During this quarter, Japanese tourists topped the list among the five countries (Japan, US, France, Taiwan and China) from where the largest numbers of tourists arrive. According to CDRI's projections Cambodia could receive up to a million international tourists by 2004.

**The construction industry**, which employs around 2% of Cambodia's labour force, rose impressively in the first quarter of 2002. According to the Department of Cadastre and Geography of the Municipality of Phnom Penh, 200 construction projects were approved in the first quarter of 2002 for Phnom Penh. Of the total approvals, 45 projects were for mansions, 132 for apartments and 23 for commercial buildings. Compared to the same quarter in the previous year, construction in Phnom Penh increased by 42%; the expansion was mainly in mansions and commercial buildings. However, apartment construction previously led the way. From 1993 till 2001, apartment construction in Phnom Penh accounted for 70% of all projects, mansions 20%, and commercial buildings 10%.

### Inflation and Foreign Exchange Rates

According to the National Institute of Statistics, the inflation rate in Phnom Penh City hit a high in the first quarter of 2002, reaching 3.4%. However, as the government has targeted its annual inflation rate at around 5% in 2002, the current inflation is still under control. Meanwhile, consumer price inflation in the provincial

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areas continued to be negative at -3.4% in the first quarter of 2002. The large difference between the inflation rates in Phnom Penh and provinces is partly due to assessment criteria used for calculating the inflation rates in the two locales. Despite a slight rise in consumer prices in the city, the Cambodian riel rallied significantly against the US dollar, trading at an average rate of 3,910 riels per dollar in the first quarter of 2002. Despite a moderate rise in the supply of riel in recent quarters, the riel continued to be strong against the US dollar. In the first quarter of 2002, the riel was stronger against the Vietnamese dong compared to the previous quarter (25.8 riels per 100 Vietnamese dong), but lost ground slightly against the Thai baht (89.3 riels per Thai baht). A Strong Cambodian riel could adversely affect exports. A strong riel is seen to have resulted from dollarisation and a dollar-pegged exchange rate system. An increasing number of economists no longer see dollarisation as a problem, instead it is seen as a remedy for inflation-prone developing countries. Some Latin American countries have recently adopted the US dollar as official tender in their economies. The debate over its benefits and costs, however, is far from conclusive, and it is hoped that more empirical studies will be carried out in the coming years.

Prices of petroleum products continued to be high – diesel and gasoline were sold for 1,480 riels (US\$0.38) per litre and 2,100 riels per litre (US\$0.54), respectively. Meanwhile, the price of gold in Phnom Penh rose dramatically in the first quarter, reaching US\$34.6 per chi (one chi = 0.12 ounce); gold is deemed as a safe investment during times of economic uncertainty.

### Poverty Situation – Earnings of Workers

CDRI's survey of vulnerable workers, conducted in May 2002, shows that, compared to February 2002, the earnings of workers in six categories of work have risen and, in the other four, fallen. Compared to last year, earnings rose in five categories of work while in the other five they fell. Earnings for all categories were at their lowest in November 2001. Since then, there has been an overall improvement: the minimum amount per day rose from 2358 riels in November 2001 to 3652 riels in May 2002, the maximum from 9866 to 13850 riels, and the mean, from 5919 to 7732 riels. Inequality in earnings between different occupations has fallen marginally – the coefficient of variation in all the four surveys conducted in 2001 was about 46 percent, which fell to 42 percent in May 2002.

In the context of poverty only moto-taxi drivers and construction workers earn more than \$2 a day, the moderate poverty line set by the World Bank. Scavengers, waitresses/waiters and rice field workers earn closer to a \$1 a day, the severe poverty line. Quarterly trends in aggregate earnings of vulnerable workers over the period 2000-02 show a gradual, albeit unmistakable, decline in daily earnings till November 2001 and a recovery thereafter. However, full recovery has not yet been achieved,

except in the case of garment workers and rice field workers. Slow growth/stagnation in the economy, along with continued rural-urban migration, and changing labour demand in favour of more skilled workers, are possible reasons for this trend.

Cyclo drivers' earnings marginally fell in May 2002 compared to a year ago and February 2002. Over the last two years the trend has been that of a gradual decline. An increase in the number of workers, coupled with decreased demand for cyclos due to the expansion of motorised transport, are possibly responsible for this. On average, cyclo drivers work for 7-8 months a year. Sixty percent in the sample felt that their incomes over the last year have fallen, and 83 percent said that their numbers have risen, thereby increasing labour supply. Cyclo drivers, though, are not as badly hit as some others, probably because theirs is a semi-skilled activity, and it also requires access to a machine. Porters (and unskilled workers) have faced a sharper fall in their incomes since February 2002 as well as over the two-year period 2000-02. Since most migrants have few skills demanded by the urban labour market, many join the ranks of porters and unskilled workers. Porters work for 6-7 months a year. Ninety five percent of the porters interviewed feel that their earnings have either decreased or are the same compared to a year before, and almost all felt their numbers have increased – the possible reason for stagnation in earnings. Unskilled workers find work for about six months a year. Again, over 85 percent in the sample felt that their earnings are the same or have declined compared to the last year. Over 80 percent felt that their ranks have swelled.

Although moto-taxi drivers experienced a 16 percent decline in incomes compared to February 2002 (when their earnings sharply rose due to travel demands for the Chinese New Year) and also a small decrease compared to a year earlier, the trend over the last two years is positive. This is one of the highest paying jobs in this group – it is skilled, and requires modern capital – but rapid growth in earnings cannot be expected from a relatively high base, unless other incomes (i.e. incomes of users of motos) also rise. Moto-taxi drivers work for 9-10 months a year. Ninety five percent of the sample feel that their earnings have either decreased or are the same compared to a year before, and over 90 percent felt that their numbers have increased. Small vegetable vendors, scavengers, waiters/waitresses and construction workers, all experienced an increase in earnings in May 2002 compared to February 2002, and other than that for waiters/waitresses, the rise was substantial. However, the income of small traders has still not equalled the level of a year ago. It appears that this recent rise in earnings is a part of recovery after the crash in November 2001. Since some jobs, e.g. in construction, are more in demand (the construction sector is picking up), the labour supply has not fully neutralised the rising tendency in earnings. For scavengers and waiters/waitresses, the recovery perhaps has originated from the fact that in the

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past, their earnings were very low in absolute terms, and an occupational shift may have triggered a wage correction. Only the construction workers, however, felt that their incomes have risen; others felt that they have either experienced stagnation or decline.

Garment workers experienced a 13 percent increase in their earnings in May 2002 over February 2002, and 17 percent over the last year. Political/social pressure has been partly responsible for this, despite the fact that 90 percent of workers in the sample reported not being members of unions. The average working hours per week exceeded 50. Over 90 percent of workers send money home (about half their earnings) to support their families. Over 80 percent feel that productivity is on the increase, and they feel optimistic about the future.

Rice workers, the only rural workers in the sample, experienced a huge increase in earnings compared to February 2002, as well as since May 2001. The survey could not assess the reason for this increase, though a large number in the sample felt that their ranks have either fallen or remained the same. In any case, since rice workers earn the bare minimum, any change would be in the direction of an increase, unless the occupation is rendered unviable.

### Monetary Developments

Although money supply into the markets has continued to rise, monetary performance has been well managed. According to the National Bank of Cambodia (NBC), the liquidity (M2) at the end of the first quarter of 2002, amounted to 2,408 billion riels (a 27% rise over the same period last year). Of the total liquidity, 676 billion riels were available in Cambodian currency (riel) and the other 1,731 billion riels were in foreign currencies (mainly the US dollar). The proportion of Cambodian riels in the total money supply (M1) has remained at around 28%, while that of foreign currencies at around 72%. Net foreign assets of the banking sector showed a large increase at the end of the first quarter of 2002, reaching 3,366 billion riels. They rose by 23% compared to the same period last year. The reasons behind this increase were the growing outflow of Cambodian savings. Net claims on the government, meanwhile, continued to grow, reaching 152 billion riels by the end of the first quarter of 2002.

### Public Finance

According to the Ministry of Economy and Finance (MEF), Cambodia's domestic budget revenues for the first quarter of 2002 reached 423 billion riels and the expenditure (on a cash basis) amounted to 469 billion riels. The gap was offset by official transfers and concessional loans provided to the government. The revenues in the first quarter of 2002 were close to the planned target (454 billion riels). Revenue receipts during this period rose by 16% compared to the same quarter in 2001. Revenue mobilisation in the recent quarters has shown some progress and the reason behind this

momentum stems from the (moderate) government fiscal reform programmes introduced in mid-2001, and new tax-collection measures introduced in early 2002. The new measures include extending tax coverage to five additional provinces, and raising excise tax on beer from 10% to 20%. The government is committed to additional taxes on petroleum products: 2 cents per litre on gasoline and 4 cents on diesel. The Tax Department and the Customs and Excise Department (CED) also plan to review taxation on motorbikes and motorbike parts.

On the expenditure side, total spending in this period amounted to 469 billion riels (including foreign financing). This was about 1% lower than the expenditure in the first quarter of 2001. Military outlays continued to fall, while more funds were earmarked for education and health (a 30% rise over the first quarter 2001). Some improvements have also been introduced in expenditure administration. The different measures include (1) strengthening government procurements, and (2) constituting a working group in the National Treasury to prepare reports on the stock of outstanding payment orders and for standardising accounting procedures for the public sector in line with international standards.

### Private Investment and Employment

Inflows of foreign investment into Cambodia continued to be low according to figures obtained from the Council for Development of Cambodia (CDC). Only nine new investment and expansion projects were approved in the first quarter of 2002, worth US\$27.2 million (in new fixed assets). Compared to the same period of 2001, new investment projects shrunk by 18%. Of the total new investment projects, five, worth US\$20.3 million, were in the garment sector. The value of investments stated here is only a pledge; it does not reflect actual investment. The investment environment in Cambodia continues to be hazy, some economists believing that a clearer picture will emerge only after a full global and regional economic recovery. Others suggest that the government needs to do more to address its internal constraints, ranging from greater enforcement of the law to stiffer measures on issues of unfair competition.

### Foreign Aid and External Debt

The World Bank and Asian Development Bank (combined) disbursed US\$22.53 million in loans to Cambodia in the first quarter of 2002. Of these loans, US\$11.62 million was used for infrastructure rehabilitation (project aid), and US\$10.91 million for social funds (project aid). No part of these funds was spent on technical assistance during this period. According to the Asian Development Bank, Cambodia's cumulative loan approvals from ADB reached US\$328.7 million as of 31 December 2001. At the same time, ADB's cumulative disbursements to Cambodia reached US\$251.4 million by the end of 2001. These funds were mainly used for social infrastructure, natural resources, and energy.

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## 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)	6,256	7,176	8,271	9,125	10,795	11,797	12,149	12,724
GDP at current prices (millions of dollars)	2,435	2,915	3,131	3,042	2,841	3,088	3,149	3,234
GDP per capita (dollars)	225	262	273	258	234	248	247	247
Growth rate of real GDP (1993 prices)	5.3	7.6	6.7	0.7	2.9	6.8	5.5	5.3
Agriculture	4.8	9.2	2.9	2.2	0.1	1.4	-2.4	0.7
Industry	7.3	11.8	19.5	0.6	16.8	12.6	16.7	11.2
Service	5.3	4.7	6.0	-0.6	0.1	9.4	7.5	6.1
Inflation (in riels, final quarter basis)	17.8	3.5	9.0	9.1	12.6	0.0	0.5	-1.3
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)	9.4	9.0	9.1	9.7	8.7	11.2	11.7	12.0
Budget expenditure (percentage of GDP)	16.1	16.7	17.4	13.8	14.4	16.4	17.3	18.4
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	-7.8	-8.4	-4.2	-5.7	-5.2	-5.6	-6.3
Exports of goods (percentage of GDP)	19.6	29.1	23.1	28.7	32.1	33.9	44.2	46.4
Imports of goods (percentage of GDP)	30.0	41.4	39.4	40.9	49.3	48.2	54.4	56.9
Trade balance (percentage of GDP)	-10.4	-12.3	-16.3	-12.2	-17.2	-14.3	-10.2	-10.5
Current account balance (percentage of GDP)	-9.1	-12.7	-15.3	-10.4	-15.5	-11.6	-7.2	-6.7
External contribution to the economy (percentage of GDP)	16.5	20.9	20.4	13.8	17.5	15.6	14.5	13.2
Total savings (percentage of GDP)	18.2	21.6	26.7	21.6	25.3	22.8	19.3	18.3
Gross foreign reserves (months of imports)	1.5	1.7	2.1	2.4	3.2	3.8	4.7	5.5
Population (million)	10.8	11.1	11.5	11.8	12.1	12.5	12.8	13.1
Labour force (percentage of population)	41.1	41.2	41.4	41.6	41.9	42.2	42.5	43.0

Sources: CDRI, Compiled from Government data

**Table 2. Destination of Garment Exports, 1994-2002**

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Millions of dollars											
United States	0.0	0.02	0.1	26.8	74.1	121.5	187.5	189.3	192.9	198.0	212.9	158.7
Rest of the world	1.0	6.6	19.6	30.0	20.5	17.0	58.8	62.8	68.8	102.7	89.0	73.7
Total	1.0	6.6	19.7	56.8	94.5	138.5	246.3	252.1	261.7	300.7	301.9	232.4
	Percentage change over previous year											
Total	-	560	200	187	66	47	78	29	16	0.5	13.8	-7.8

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, 1994-2002**

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Thousands of passengers											
Tourist visas	27.9	38.7	55.3	46.3	38.1	44.9	57.4	64.6	53.2	53.5	58.1	67.3
Business visas	7.1	10.6	15.8	13.9	10.7	16.0	20.6	20.0	23.2	20.9	18.3	18.1
Official visas	3.3	3.9	3.2	3.6	4.4	8.8	4.8	3.8	4.7	4.6	5.9	5.7
Total Pochentong	38.3	53.2	74.3	63.8	53.2	69.7	82.7	88.4	81.1	79.0	82.3	91.1
Total Siem Reap	-	-	-	-	2.6	7.15	33.4	41.9	23.6	30.5	36.6	54.7
	Percentage change over previous year											
Total Pochentong	29.7	38.9	39.7	-14.1	-16.6	31.0	18.7	8.2	12.2	8.2	-4.6	3.1
Total Siem Reap	-	-	-	-	-	175	367	111	59	52	13.7	30.5

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, 1994-2002 (period averages)**

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Consumer price index (percentage change over previous year)											
Provinces	-	-	-	6.1	16.3	6.2	5.4	4.8	1.3	-1.1	-1.6	-3.4
Phnom Penh - All Items	-0.5	7.8	7.1	8.0	14.8	4.0	-0.8	-0.8	0.1	-0.4	-1.3	3.4
- Foods	-13.4	4.9	7.6	6.7	14.1	7.6	-3.3	-2.6	-2.2	-2.4	-3.8	-0.6
- Energy	-1.2	19.4	20.7	20.0	15.1	3.5	6.6	0.5	1.5	-3.0	-3.4	-0.4
	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	3,925	3,931	3,953	3,932	3,910
Riel per Thai baht	102	99	105	98	88	101	96.3	88.5	86.6	88.2	88.7	89.3
Riel per 100 Vietnamese dong	23.5	22.3	24.0	25.6	28.6	27.8	27.4	26.9	26.8	26.4	26.1	25.8
Gold prices (US dollar per chi)	45.8	45.9	46.3	40.4	36.0	34.0	33.3	32.0	32.0	33.6	33.0	34.6
Price of Diesel (Riels/litre)	750	716	779	883	1,065	1,105	1,329	1,483	1,533	1,550	1,517	1,480
Price of Gasoline (Riels/litre)	698	847	1,118	1,378	1,613	1,760	2,113	2,100	2,100	2,100	2,033	2,100

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

## Economy Watch—Indicators

**Table 5. Average Daily Earnings of Workers, 1997–2002**

	Daily earnings (riels)									Change from last year (%)		
	1997	2000	2001			2002			2001	2002		
	Pre-Jul	Aug	Nov	Feb	May	Aug	Nov	Feb	May	Nov	Feb	May
Cyclo drivers	12,250	9,511	8,398	8,200	9,568	9,057	6,262	9,450	9,375	-25.4	15.2	-2.0
Porters	9,675	8,068	6,893	7,300	7,058	7,189	5,000	8,137	6,675	-27.5	11.5	-5.4
Small vegetable sellers	7,050	6,611	5,813	6,400	7,386	6,670	5,096	6,062	6,712	-12.3	-5.3	-9.1
Scavengers	4,155	4,186	3,006	3,900	2,670	2,686	3,393	3,350	4,231	12.9	-14.1	58.5
Waitresses*	-	2,250	2,335	2,600	2,600	2,683	2,358	3,543	3,652	1.0	36.3	40.5
Rice-field workers	-	4,443	4,184	4,100	3,613	4,500	3,618	3,916	5,167	-13.5	-4.5	43.0
Garment workers	-	8,500	7,410	8,300	7,500	9,165	8,968	7,772	8,775	21.0	-6.4	17.0
Motorcycle-taxi drivers	-	11,044	9,522	10,000	12,050	10,559	9,791	14,327	11,978	2.8	43.3	-0.6
Unskilled construction workers	-	8,220	5,970	7,500	8,261	5,625	4,841	7,025	6,912	-18.9	-6.3	-16.3
Skilled construction workers	-	14,891	14,517	11,200	10,306	12,375	9,866	11,530	13,850	-32.0	2.9	34.4

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, 1994–2002 (end of period)**

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Billions of riels											
Net foreign assets	391	550	881	1,172	1,550	1,961	2,589	2,733	2,807	2,951	3,080	3,366
Net domestic assets	59	99	31	-109	-435	-591	-759	-834	-821	-827	-877	-959
Net claims on government	143	148	128	54	141	111	3	-69	-82	-73	-75	-152
Credit to private sector	237	293	435	637	682	731	898	905	947	992	936	976
Total liquidity	450	650	912	1,063	1,116	1,370	1,831	1,899	1,985	2,124	2,204	2,408
Money	200	279	329	385	466	515	540	548	544	569	610	676
Quasi-money	250	371	583	678	655	855	1,291	1,351	1,441	1,555	1,594	1,731
	Percentage change from previous year											
Total liquidity	35.1	44.3	40.3	16.6	4.9	22.7	33.6	9.6	8.4	18.5	20.4	26.8
Money	-1.9	39.5	17.9	17	21	10.5	4.9	-0.4	-0.4	5.4	13.0	23.4
Quasi-money	93.2	48.1	57.2	16.4	-3.4	30.5	51.0	14.2	12.1	24.2	23.5	28.1

Source: National Bank of Cambodia.

**Table 7. National Budget Operations on Cash Basis, 1994–2002 (billion riels)**

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
Total revenue	148	161	187	220	230	329	382	366	400	360	403	423
Tax revenue	91	111	134	149	169	239	274	263	291	261	281	252
Customs duties	70	80	86	87	94	108	94	98	105	83	90	81
Non-tax revenue	56	47	44	68	51	87	106	100	107	97	120	156
Forest exploitation	22	13	7	9	5	9	7	10	9	8	2	1
Post & Telecommunications	15	14	16	21	22	27	31	23	28	30	41	34
Capital revenue	0	2	10	3	9	3	2	3	2	2	2	15
Total expenditure	252	300	360	315	324	448	583	472	547	578	735	469
Capital expenditure	84	128	157	113	92	156	244	217	239	253	268	208
Current expenditure	168	172	203	202	245	291	339	255	308	325	467	261
Education and Health	23	25	31	32	33	70	86	27	47	52	217	34
Defence and Security	98	106	102	105	110	116	101	63	88	89	165	36
Other Ministries	48	41	71	65	83	103	159	59	139	167	272	91
Overall deficit	-105	-139	-173	-95	-95	-119	-201	-106	-147	-218	-332	-46
Foreign financing	108	140	170	111	67	104	192	184	189	205	188	341
Domestic financing	-3	-1	3	-16	28	15	9	-77	-43	-13	144	-294

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

**Table 8. Investment Projects Approved, 1994–2002\***

	1994	1995	1996	1997	1998	1999	2000	2001				2002
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1
	Number of investment projects											
Total	46	51	75	34	35	24	24	11	13	12	12	9
Garment	27	30	36	12	21	11	13	4	7	6	2	5
	Registered capital (millions of dollars)											
Total	116.0	89.0	97.8	69.5	104.1	61.7	25.6	5.1	15.2	15.2	93.4	10.9
Garment	26.8	28.0	39.2	8.6	22.9	13.9	6.4	1.0	6.0	8.8	2.0	6.6
	Fixed assets (millions of dollars)											
Total	303.0	76.2	186.7	190.4	212.3	118.5	66.6	10.1	29.1	16.5	161.7	27.2
Garment	25.1	25.4	39.6	9.7	30.2	19.9	19.2	5.7	8.2	10.0	2.0	20.3

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