

Economy Watch – External Environment

Recent economic data suggest that economic recovery in the US and East Asia is rather slow. Although the Euro Area experienced some signs of economic recovery, this was only in the second quarter of 2002. Meanwhile, share prices in Wall Street continued to plummet. The Federal Reserve left its key interest rates unchanged at 1.75% in a bid to spur investments. Against major currencies, the US dollar continued to lose its value, though at a slow pace. Consumer price inflation in the US and Euro Area stabilised at under 2% in the second quarter of 2002, though Japan continued to experience negative inflation. Prices of some specific commodities in the international markets have been rising.

World Economic Growth

In the second quarter of 2002, the US economy appeared to confirm the Federal Reserve's confidence about economic recovery. According to the *Economist*, labour productivity grew and non-farm output per hour increased at an annual rate of 1.1% in the second quarter. The US enjoyed an expansion in its industrial production by 0.2% in the year ending in July 2002. GDP in the US grew by 2.1% in the second quarter of 2002 compared to 1.7% in the first. Compounded by corruption scandals and fears of a possible war with Iraq, the US stock markets tumbled significantly in September. Despite this, economists foresee positive growth due to increasing investment in durable goods (whose orders rose by 8.7% in July). Additionally, the US has enough options for exercising various monetary and fiscal policy instruments due to a low rate of inflation and a budget surplus.

Economic recovery continued to falter in the Euro Area, compounded by a strong Euro and slackening stock markets. GDP in the Euro Area grew by 0.6% in the year ending in the second quarter of 2002. According to the *Economist*, the Economic Climate Index for the Euro Area fell in the third quarter. According to surveys conducted by purchase managers, growth in both manufacturing and services nearly ground to a halt in August. Retail sales fell by 0.9% while industrial production shrunk to 1.2% by June 2002. The three biggest economies of Europe experienced marginal growth. In the year ending in the second quarter of 2002, the German economy grew by 0.1%, the French by 1.0% and the British by 1.2%; all slower than anticipated.

In Japan, there are some signs of recovery. GDP grew at a higher than expected annual rate of 1.9% in the second quarter. The main growth engine was a surge in exports, especially to the US and Asia. In the year ending in July, Japan achieved a surplus trade balance worth US\$ 83.8 billion. In the first half of 2002, companies stepped up production and consumer spending showed a welcome, if weak, sign of revival. Machinery orders, a widely watched indicator of capital spending, posted their first quarterly rise of the year in the April-June period; climbing by 7.1% over the previous quarter according to the *Far Eastern Economic Review*. Aver-

age household spending rose at annual rate of 1.1% in the second quarter of 2002. Despite this, there was concern that domestic consumer spending and business investment will not be able to fill the gap if the export demand falters. Economists forecast a 1.1% GDP growth in the fourth quarter of 2002 and 1.1% growth for 2003.

In Asia's emerging economies, e.g. China, South Korea, Singapore, Malaysia and Thailand, there was some recovery in the first half of 2002. In the year ending in the second quarter of 2002, China achieved a GDP growth of 8%, South Korea 6.3%, Singapore 3.9%, Malaysia 3.8% and Thailand an estimated 3.5%. Large public spending spurred growth in China, especially in the first half of the year. Public spending may not be maintained for long though, and exports will have to rise if China is to maintain its high growth momentum. According to the *Far Eastern Economic Review*, there might be a slight slowdown in export growth towards the end of the year as economic recovery in the US is slow. A recent survey predicts China's GDP will grow in the range of 7–8% for the whole of 2002.

Thailand's economic recovery may slacken because government spending, which was to pump prime the economy, might have to be reined in. Consumer spending, which was sparked by low interest rates, may also level off soon. The engine of recovery in Thailand lies in private investment and exports. According to the Bank of Thailand, there is less hope of increase in private investment owing to the fact that most private Thai banks are still reluctant to extend credit for new investments. Prospects for an export-led recovery are uncertain due to competition from low-cost producers in China and a possible double-dip recession in the US.

World Inflation and Exchange Rates in the International Markets

Inflation in the US remained low, rising by just 0.1% between June–July 2002. Prices were just 1.5% higher, in July 2002, compared to a year ago. According to the *Economist*, inflationary pressure remained concentrated in medical care and the education sector, while prices were falling in many other sectors such as clothing and automobiles. In the year ending in August 2002, inflation in the Euro Area rose by 2.1%, which was above the European Central Bank's ceiling of 2%. However, this could drop over the next year owing to weak growth. In Japan, consumer prices continued to fall. In July, consumer prices were 0.8% lower than a year ago, while producer prices fell by 2.2% over the same period. Both China and Singapore experienced a decline in prices, of 0.9% and 0.4% respectively, while consumer prices in South Korea rose by 2.4 percent and in Malaysia by 2.1% in the year ending in July. Inflation in Thailand remained low at 0.3% in the year ending in August.

The dollar has lost value against major currencies in the face of corporate scandals in the recent past. In July, the dollar was valued at its lowest, trading at 1.009Euro/dollar and 117.66Yen/dollar. In August, the dollar be-

Economy Watch–External Environment

gan to gain strength against key currencies, when it was priced at 1.02 Euro and 119.25 Yen, against the European and Japanese currencies, respectively.

Commodity Prices in the World Markets

During the period January–July 2002, there was an upward trend in commodity prices in the world markets.

The price of first quality rice in Bangkok rose by 4%, trading at US\$198/tonne, while the soybean price increased by 18%, trading at US\$221.7/tonne. Likewise, the price of rubber in Malaysia rose steeply by 48% to US\$859.21/tonne. Finally, the price of petrol in the US increased by 41%, trading at 19.98 cents/litre.

Prepared by Dr. Kang Chandararat

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

	2000		2001				2002		2000	2001
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1-Q4	Q1-Q4
Selected ASEAN countries										
Cambodia	-	-	-	-	-	-	-	-	5.5	5.3
Indonesia	5.1	5.2	4.0	3.5	3.5	4.1	2.5	3.5	4.8	3.8
Malaysia	7.7	6.6	3.2	0.5	-1.3	-0.5	1.1	3.8	8.6	0.5
Singapore	10.4	10.5	4.5	-0.9	-5.6	-7.0	-1.7	3.9	9.9	-2.3
Thailand	2.6	3.1	1.8	1.9	1.5	2.1	3.9	3.5	4.3	1.8
Vietnam	-	-	-	-	-	-	-	-	6.8	6.0
Selected other Asian countries										
China	8.2	7.3	8.1	7.8	7.0	6.6	7.6	8.0	8.0	7.5
Hong Kong	10.8	6.8	2.5	0.5	-0.3	-1.6	-0.9	0.5	10.5	0.3
South Korea	9.3	4.6	3.7	2.7	1.8	3.7	5.7	6.3	8.8	3.0
Taiwan	6.6	4.1	1.1	-2.4	-4.2	-2.7	0.9	3.0	6.0	-2.1
Selected industrial countries										
Euro-11	3.3	3.0	2.5	0.2	1.3	0.6	0.1	0.5	3.4	1.2
Japan	0.5	2.5	0.2	-2.9	-0.5	-1.9	-1.6	-1.2	1.7	-1.3
United States	5.2	3.4	2.7	1.2	0.6	0.4	1.5	2.1	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
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1-Q4	Q1-Q4
Selected ASEAN countries										
Cambodia	-1.4	0.5	-0.8	0.1	-0.4	-0.6	3.4	3.3	-0.8	-0.4
Indonesia	5.7	8.8	9.1	11.1	12.1	12.7	14.5	12.6	3.7	11.3
Malaysia	1.5	1.7	1.5	1.6	1.4	1.2	1.5	1.9	1.5	1.4
Singapore	1.5	2.0	1.7	1.7	0.8	-0.2	-0.9	-0.4	1.4	1.0
Thailand	2.2	1.6	1.8	2.6	1.7	1.1	0.6	0.2	1.5	1.8
Vietnam	-2.2	-0.4	-1.4	-0.8	-	-	-	-	-1.7	0.0
Selected other Asian countries										
China	0.3	0.6	1.3	1.6	0.8	-0.1	-0.5	-0.7	0.3	1.0
Hong Kong	-2.9	-2.2	-1.8	-1.3	-1.1	-1.3	-2.7	-3.1	-3.7	-1.5
South Korea	3.2	2.9	4.3	5.3	4.3	3.4	2.5	2.7	2.3	4.3
Taiwan	1.0	2.0	-1.0	-0.0	-0.5	-0.6	-0.1	-0.1	1.4	0.5
Selected industrial countries										
Euro-11	2.5	2.7	2.5	3.1	2.7	2.2	2.5	2.0	2.3	2.6
Japan	-0.7	-0.5	-0.1	-0.5	-0.8	-1.0	-1.4	-0.9	-0.6	-0.5
United States	3.5	3.4	3.4	3.4	2.7	1.9	1.2	1.3	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
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1-Q4	Q1-Q4
Selected ASEAN countries										
Cambodia (riel)	3,912	3,906	3,925	3,932	3,953	3,932	3,910	3,916	3,871	3,935
Indonesia (rupiah)	8,712	9,297	9,780	11,242	9,558	10,365	10,078	9,076.6	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\$)	1.73	1.74	1.75	1.81	1.77	1.83	1.83	1.81	1.72	1.79
Thailand (baht)	40.9	43.3	43.2	45.4	44.8	44.3	43.77	42.78	40.1	44.4
Vietnam (dong)	14,120	14,423	14,556	14,670	14,999	15,084	15,142	15,231	14,168	14,827
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.28	8.27	8.28	8.28	8.28	8.28	8.28
Hong Kong (HK\$)	7.79	7.79	7.80	7.80	7.79	7.80	7.80	7.80	7.79	7.80
South Korea (won)	1,115	1,167	1,272	1,306	1,295	1,290	1,319	1,273	1,131	1,291
Taiwan (NT\$)	32.8	32.1	32.4	34.6	34.6	34.7	35.1		31.8	34.1
Selected industrial countries										
Euro-11 (euro)	1.10	1.15	1.08	1.15	1.11	1.12	1.15	1.09	1.09	1.12
Japan (yen)	108	110	118	123	121	125.5	133.3	127.6	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
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1-Q4	Q1-Q4
Hardwood (logs) - Malaysia (\$/m3)	192.1	186.0	171.0	163.8	159.4	146.2	137.6	153.0	190.1	160.1
Hardwood (sawn) - Malaysia (\$/m3)	592.7	529.8	507.0	492.2	482.0	471.8	479.7	493.0	599.2	488.3
Rubber - Malaysia (\$/ton)	712.2	696.6	632.0	628.9	597.7	549.4	622.3	754.0	720.7	602.0
Rice - Bangkok (\$/ton)	185.4	185.1	182.0	164.7	170.4	173.3	193.7	196.6	203.7	172.6
Soybeans - USA (\$/ton)	200.7	209.0	202.0	186.7	205.6	188.0	179.9	189.8	211.3	195.6
Crude oil - Dubai (\$/barrel)	27.6	27.5	24.0	25.1	23.9	18.2	19.9	24.3	26.1	22.8
Gold - London (\$/fine ounce)	276.5	269.2	264.0	267.7	274.7	278.4	281.0	280.9	279.0	271.2

Source: The International Monetary Fund and The Economist

Economy Watch – Domestic Performance

The Cambodian economy performed reasonably well during the first six months of 2002 (on a year to year basis), despite a slight decline in garment exports during the same period. The tourism sector showed improvement and foreign fixed investments exhibited an upward trend. After stagnating for two years the construction sector also showed clear signs of recovery. According to government forecasts, Cambodia's GDP is expected to grow at a rate of between 5–5.5 percent during 2002, although this target may need to be revised downwards keeping in view the severe, two-month long drought that has affected agriculture in many provinces in the country. The drought might also affect the livelihoods of a large number of people, since more than 70 percent of the workforce earns its livelihood from agriculture and allied activities. Monetary performance appeared reasonable during the first half of 2002. The average exchange rate of the Cambodian riel against the US dollar remained stable with the riel trading at around 3,912 riels per dollar during the first half of 2002. On a year to year basis, the consumer prices of 'all items' rose slightly to 3.3% in Phnom Penh. Inflation, however, is well within the limit of 5% set by the government for 2002. At the end of June 2002, Cambodia's gross foreign reserves with the National Bank of Cambodia (NBC) stood at US\$617.9 million, equivalent to a four month import of goods and services.

Economic Activity

Cambodia's agricultural sector, which represents 30% of the country's economic product, is likely to face setbacks due to the severe drought of July and August, during the 2002 wet-season. This sector was also hit hard during 2000 and 2001, when devastating floods affected large parts of the country. In 2002, the drought hit a number of provinces, notably Battambang, Prey Veng, Pursat, Takeo and Kompong Cham. Other affected areas are located in Kompong Speu and Kandal provinces. According to the Ministry of Agriculture, Forestry and Fisheries (MAFF), rice planting at the beginning of the current wet-season was completed in only about 25% of the total area normally sown. At the same time, some areas are facing flooding due to the swelling of the main rivers, the Mekong and Tonle Sap. The combination of floods and drought can inflict considerable damage to agriculture. The MAFF says that it needs 5,000 tonnes of rice seeds immediately, to re-sow those areas where the crop has been destroyed by natural disaster.

The Garment industry continues to play an important role in Cambodia's economic development and poverty alleviation. The industry contributed about 12.5% to Cambodia's GDP in 2001 and employed around 200,000 workers — mostly young women who hail from the provinces. Cambodia's garment exports are critically dependant upon global markets, particularly the US and EU markets, to which most of the apparel is shipped. Despite the fact that the world economy has shown some signs of revival it has not yet fully recov-

ered and this slow, halting recovery is unfavourable to Cambodia's garment exports. According to data on exports obtained from the Ministry of Commerce, US \$503.5 million worth of garments were exported during the first half of 2002 (a fall of 2% compared to amounts exported in the same period last year). The US markets absorbed 72% of the exports from Cambodia, EU markets took 26%, with the remainder being shipped to other markets. Exports to the EU markets have continuously risen in the recent past, while exports to US markets appear to have stagnated owing to recession in that economy. Garment exports in 2002 were expected to grow by at least 10% over the previous year, an expectation based on the rapidly growing exports to EU markets. It is yet to be seen whether, and to what extent, the garment industry performs and exports during the rest of the year.

Tourism, Cambodia's other promising sector, is steadily gaining international status and recognition. According to the World Tourism Organisation, tourist arrivals to Southeast Asia rose by about 15% in the first half of 2002 compared to the same period in the previous year. Cambodia also benefited from this increase. According to Cambodia's Ministries of Tourism and Interior, the sector continued to grow during the first half of 2002: the total tourist arrival in the first half of 2002 was 390,245 persons, 20% more than the number who arrived in the same period last year. Of the total tourist arrivals, 255,596 visitors entered Cambodia by air (a 9% increase over the first half of 2001) and the other 134,649 came into the country using waterways and roads. Of the total visitors flying into Cambodia, 67% came through Phnom Penh and the rest through Siem Reap. Seen from data released by the Ministry of Economy and Finance (MEF), revenues earned from tourism amounted to US \$2.2 million in the first six months of 2002. This excludes the indirect revenues that result from the many activities associated with tourism.

The Construction Industry, which employs about 2% of Cambodia's labour force, exhibited distinct signs of recovery after a two-year slump. Data released by the Department of Cadastre and Geography of the Municipality of Phnom Penh, show that during the first half of 2002, 384 construction projects were approved for the city of Phnom Penh (compared to 316 projects approved in the same period last year — a 22 percent rise). Approvals for mansion construction accounted for 54 projects; for apartment construction, 219 projects; and for commercial buildings, 43 projects. Approvals for mansion construction rose by 54%, for apartments by 16% and for commercial buildings by 7%. CDRI's surveys in August 2002 show that the average daily wage rates of skilled construction workers rose from 12,375 riels–12,675 riels between August 2001–02, and for unskilled construction workers from 5,625 riels–6,525 riels. This two-point comparison of wage data, however, may not be sufficient to indicate an increase in the demand for labour as a result of a revival in the industry.

Economy Watch—Domestic Performance

Inflation and Foreign Exchange Rates

According to the National Institute of Statistics, consumer-price inflation in Phnom Penh was 3.3% for the 12-month-period ending in June 2002. Food prices increased by 1% while the price of energy fell by 0.02% in the year ending in June 2002. The Housing and Utilities Index, however, rose by 10.34% between June 2001–02. This rise is the main reason for the rise in inflation. Despite a slight increase in consumer prices and growth in the money supply (M1), the Cambodian riel was stable against the US dollar; it traded at an average rate of 3,912 riels per US dollar in the first half of 2002, with little deviation. The riel devalued slightly against the Thai baht, though it gained some ground against the Vietnamese dong.

Petrol sold at 2,100 riels (US\$0.54) per litre and diesel at 1,465 riels per litre (US\$0.37). Despite petroleum prices remaining unchanged during the entire first half of 2002, the absolute prices of petrol and diesel remained high in Cambodia in comparison with neighbouring countries. Meanwhile, the average price of gold in Phnom Penh rose by about 10%, to US\$35.3 per *chi* (one *chi* = 0.12 ounce), in the first half of 2002 (compared to US\$32 per *chi* in the same period last year).

Poverty Situation – Earnings of Workers

CDRI's survey of vulnerable workers conducted in August 2002, indicates that compared to May 2002, the daily earnings of workers in four categories of work have risen, while in the other six they have fallen. Compared to August 2001, daily earnings increased in eight categories of work and fell in two categories. November 2001 was the worst month in recent times with earnings being the lowest for all categories. Since then there has been an overall improvement: the minimum earning per day rose from 2,358 riels in November 2001 to 3,440 riels in August 2002, the maximum from 9,866–12,695 riels, and the mean, from 5,919–7,515 riels. The minimum, maximum and mean earnings in August 2002, however, were all lower than in May 2002. Inequality in earnings between different occupations fell marginally between 2001–02.

In August 2002, only cyclo drivers, garment workers, motor-taxi drivers and skilled construction workers earned more than US\$2 per day (a notional poverty indicator drawn to indicate the moderately poor). Waitresses, scavengers and rice field workers did not earn much more than US\$1 per day (below US\$1, people are indicated as severely poor). Scavengers and rice field workers earned higher amounts in May 2002, but their daily earnings were lower in August 2002. Compared to November 2000 the nominal daily wages of rice field workers and skilled construction workers were lower in August 2002; while for the other categories they had more than recovered.

By August 2002, the daily earnings of cyclo drivers

had fallen by 4.5 percent since May 2002, and 1.7 percent since August 2001. Over a relatively long period (since November 2000) there appears to be no discernible trend, though the average went up somewhat in 2002 compared to last year (average of first three quarters only, as earnings in the fourth quarter of 2001 were exceptionally low and excluded from the calculation in the whole section). Porters experienced a 13 percent increase in their daily earnings in August 2002 compared to May 2002 and a 5.7 percent increase compared to August 2001. Seen over a longer 1–2 year term, the daily earnings of porters exhibit a weak, rising trend. In November 2000 they earned 6,893 riels, the average for 2001 was 7,182 riels, and the average for 2002 was 7,171 riels.

Both skilled and unskilled construction workers have experienced a fall in their daily earnings since May 2002. The former experienced a 8.3 percent fall while the latter, a 6.5 percent fall. Although their daily earnings increased by 3 percent and 16 percent respectively, between August 2001–02. Seen in the longer term, the earnings of skilled workers (November 2000–02) showed a 12.3 percent rise. The earnings of unskilled construction workers, however, fell from an average 7,128 riels in November 2000–01 to an average 6,821 riels in 2002. The lull in construction activity in the recent past appears to have had more affect on the unskilled workers than the skilled. At the same time, it appears that the benefits of the recent revival in the industry are yet to trickle down to the labour market.

Moto-taxi drivers experienced a 5.6 percent decline in their daily earnings in August 2002 compared to May 2002, though in comparison with August 2001 they gained by 7 percent. Seen in the longer term of 2 years, their average daily earnings rose from 10,870 riels in November 2000–01 to 12,575 riels in 2002, a 15 percent increase. Small vegetable vendors and waiters/waitresses experienced an increase in earnings of 2 percent and 15.7 percent respectively in August 2002 compared to May 2002. Small traders gained about 3 percent in their daily earnings in August 2002 compared to a year before, while waiters/waitresses gained by a significant 57.5 percent in this period. In the longer term of 2 years, small traders have lost somewhat (by 4 percent), while waiters /waitresses have experienced some handsome gains (38 percent).

Garment workers experienced an 11 percent increase in their daily earnings between May 2002 and August 2002, and a 7 percent increase between August 2001–02. Seen in the longer term of 2 years, there has been a rise of 5.5 percent in their daily earnings.

The daily earnings of scavengers fell by 19 percent in August 2002 compared to May 2002, although they have risen by about 28 percent since a year previously. Seen in the longer term of 2 years, daily earnings of scavengers have risen by 19 percent. Rice workers, the only rural workers in the sample, experienced a huge decrease of 25.8 percent in their daily earnings in

Economy Watch—Domestic Performance

August 2002 compared to May 2002. Compared to August 2001, there has also been a fall of 14.8 percent. It appears that the impact of the recent drought is already being felt by this category of worker. Seen in the longer term of 2 years, there was a slight increase, but the rise may have been due to a kink in the data — earnings in May 2002 were unusually high.

In general, vulnerable workers appears to face a large volatility in their earnings. Their daily earnings fluctuate from one quarter to another, and in certain occupations they tend to also drop below a dollar a day. Only when there is some kind of sustained labour demand — or a social pressure as in the case of garment workers — can some stability be achieved.

Monetary Developments

Cambodia's Central Bank continued to release money supply (M1) into the markets through the first half of 2002. According to the National Bank of Cambodia (NBC), the total liquidity (M2) rose by 33% compared to the same period last year reaching 2,648 billion riels at the end of the second quarter of 2002. Of the total liquidity, approximately 70% was in the form of foreign currencies, mainly the US dollar, and the remaining 30% was in the riel. Money supply meanwhile, reached 748 billion riels at the end of the second quarter of 2002; this was 37.5% higher compared to the same period last year. Of the total money supply, 711 billion riels were in circulation in the market, and 37 billion riels were demand deposits with the commercial banks. Despite expansion in the money supply of riels, the value of the riel against the US dollar has remained stable over the past six months.

By the end of the first half of 2002, the net foreign assets of the banking sector rose dramatically, by 29 percent over the last year, to reach 3,614 billion riels. This rise is an indication of a growing outflow of Cambodian savings. Net claims on the government, meanwhile, rose to 165 billion riels by the end of the second quarter of 2002. Overall monetary performance, nonetheless, showed signs of stability during this period.

Public Finance

According to the MEF, total domestic revenues were 791 billion riels during the first half of 2002, about 87% of the planned target. Although the amount raised was short of the target, the revenue mobilisation in the first six months of 2002 was 3% higher compared to the same period in 2001. The main reason for the increase in government revenues during this period was the growth in non-tax revenues. Revenues from quota and export license, royalty fees and levies from seaport activities exhibited a steep rise. Incomes from value-added tax also rose to 206 billion riels in the first half of 2002,

a slight increase over the same period in 2001. Capital revenues obtained from privatisation of government-owned assets and government land sales increased to 15 billion riels in first half of 2002, from just 5 billion riels at the end of the first half of 2001. Capital receipts exceeded their target by 20% during the first half of 2002. Revenue mobilisation in recent times has shown continued progress despite criticism from some corners that large amounts are being lost due to smuggling and tax evasion. The reasons for increase in revenues are the stiffer revenue mobilisation mechanisms introduced by the MEF in recent years.

Meanwhile, total expenditure during the first half of 2002 reached 1,160 billion riels (128% of the target). Official transfers and concessional loans offset the consequent deficits. Military spending was around 153 billion riels (unchanged since the first six months of 2001), while spending for health and education nearly doubled.

Private Investment and Employment

Since 18 months ago when the US and other major economies began to experience recession, there has been a decline of foreign direct investment (FDI) in Cambodia and other Southeast Asian countries. A full-fledged recovery remains illusive, despite some recent indicators of economic revival observed in different parts of the world. The Council for the Development of Cambodia (CDC) approved 18 investment proposals worth US\$50.9 million in fixed assets during the first half of 2002. Of these, US\$ 23 million are meant for garment manufacture and related activities. Despite a 25% decline in the number of investment project approvals, the value of fixed assets apparently increased by 28% in 2002 compared to 2001. The Cambodian government continues to encourage investments in the garment sector because of its large labour absorption. Cambodia would experience healthier economic growth if labour-intensive industries grew rapidly.

Foreign Aid and External Debt

Foreign aid continues to play a crucial role in the economic sustainability and development of Cambodia. During the Consultative Group meeting held in Phnom Penh (19–21 June 2002), international donors pledged US\$635 million in aid to Cambodia for 2002 (31% more than the government requested). Aid pledges rose by 13% in 2002, in comparison to the pledges made at the Tokyo Consultative Group meeting held in June 2001. Aid disbursements to Cambodia have risen gradually since 1992 and on average, donors have disbursed 75% of their total aid pledges. Of the total disbursements (1992–2001) 83% have been grants and the remainder, concessional loans.

By Chea Huot, Pon Dorina and Sarthi Acharya

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: Quarterly average (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