

# Managing Through the Crisis— Strengthening Key Sectors for Cambodia’s Future Growth, Development and Poverty Reduction: Tourism

*This article summarises the presentations by H.E. Tith Chantha, Mr Jean-Daniel Gardère and Mr Ho Vandy<sup>1</sup> during session 3A(ii) of the 2009 Cambodia Outlook Conference.*

## **Cambodia’s Tourism Sector: Growth and Contributions to Economy**

Tourism is a key sector for socio-economic development. In Cambodia it has been one of the four propellers of growth. According to a World Bank study, it accounted for 0.5 percentage points of GDP growth over the period 1998–2007. In 2007, it accounted for 4 percent of GDP. Tourism is also a major generator of revenue for the national economy and plays a central role in employment, income creation and thus poverty reduction. It also promotes international friendship and cooperation and advances the conservation of cultural and natural resources.

The rapid expansion of tourism in the country can be attributed to several factors, primary among which is its natural or “built-in” competitive advantage, namely Angkor Wat. Apart from this unique asset, Cambodia’s other cultural legacies, natural endowment and position in the region anchored tourism’s rapid growth, while government policies such as the Open Sky Policy facilitated its rise. The establishing of peace and stability was of course another reason for the greater inflow of tourists.

An innate vulnerability of the tourism industry is its high sensitivity to unfavourable political, economic, socio-cultural or environmental developments. What this implies is that the sector must be managed with caution and in a sustainable

manner, lest it be itself a cause of a shock.

## **Impact of the Crisis on Global and Domestic Tourism**

The global economic downturn very well demonstrated the inherent vulnerability of tourism to external developments. World tourism nearly stagnated in 2008, growing by an estimated mere 2 percent, for a total of 924 million tourist arrivals. Tourism in the EU increased by a mere 0.1 percent, with 488 million arrivals, while in Asia and the Pacific it rose by 1.6 percent, with about 188 million arrivals. The same damping effect has been felt in Cambodia. While tourist arrivals grew by 5.5 percent in 2008 (Figure 1), this was lacklustre compared to the previous average annual growth of 25 percent. Growth was markedly lower starting in March 2008. The composition of tourists and modes of arrival also underwent some changes in 2008. The number of South Korean visitors fell by 19 percent

as that country sank deeper into recession. This decline was offset by surges in visits from EU and ASEAN citizens.

Arrivals by air dropped 4.4 percent last year, the Siem Reap airport in particular experiencing a decline of 12 percent. The decline in arrivals by air was compensated by an increase in arrivals by land and water.

Based on preliminary data, the slowdown continued in January 2009. Tourist arrivals for that month decreased 2 percent. Overall, 2009 is predicted to be a tough year for the tourism industry. One projection is that arrivals will shrink by as much as 3 percent. A reduction of 3 percent is roughly a loss of 63,000 tourists, USD53 million in revenue and 10,000 direct jobs. Another estimate is that tourist activity in the 2008–09 peak season will decline 15 percent. Travel agencies and hoteliers have already voiced concern about receiving far fewer queries and bookings this year. Some parties remain optimistic, however; the government has

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*“Tourism is a key sector for socio-economic development.”*

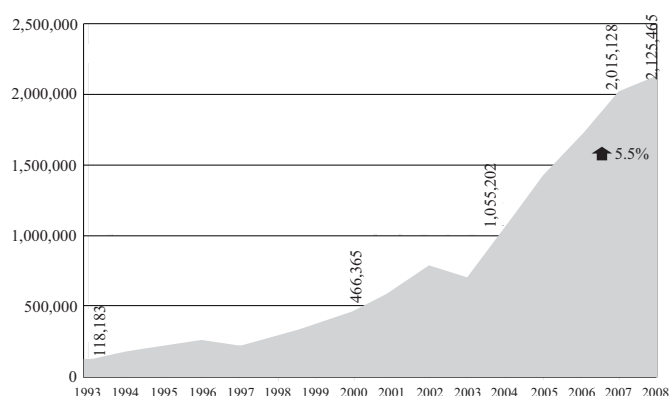
—Tith Chantha

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predicted that tourism will still expand this year. Some tourism analysts recognise the setbacks but do not expect them to be too alarming. The challenge this year is enormous but not insurmountable. There are in fact opportunities that can turn the gloomy situation around. For one, US Americans, Japanese and Europeans may be encouraged to travel more by the stronger dollar, yen and euro. Outbound travel from China and India is also anticipated to continue because those economies are still growing. Since more people may wish to stay closer to home, domestic travel and brief international trips are expected to increase. Thus the impact of the crisis is not likely to be homogeneous. The shock affects more the luxury end of the market. Those whose services and products cater to budget travellers are predicted to hold up much better.

**Figure 1: Visitor Arrivals to Cambodia 1993-2008**



### **Downturn in Domestic Tourism: Other Factors**

The global crisis, having diminished wealth, squeezed incomes and reduced confidence, is a key factor behind the country's tourism slowdown. However, other factors also contributed, one being the Thailand-Cambodia border skirmish, which must have affected cross-border trade. Another is Thailand's internal political conflict, which last year forced the closure of the country's main airport. Because Thailand is a major entry point for tourists to Cambodia, this political altercation had a negative impact on Cambodian tourism.

More importantly perhaps, a deeper analysis reveals that the previous boom in the tourism industry was not really sustainable. With or without the crisis, the bust was bound to take place within a few years. Angkor Wat actually forms part of the reason for this lack of sustainability. It may be where

the prime strength of Cambodia's tourism lies, but it has also become a major source of weakness. This is because it has so far nearly monopolised attention at the expense of other sites. One other cause of the lack of sustainability has been the focus on promoting mass tourism instead of increasing the value added of tourism services and products.

### **Outlook and Potential Policies**

By 2010, the industry is predicted to recover although there are obstacles. It will take some steps to support the recovery and even more steps to address sustainability. Policy options are available to the government and its partners in the tourism industry to address this issue (Figure 2). Two considerations underpin these options. First, it is important to remember that unique assets such as Angkor Wat are fragile; hence, they must be managed with great care. Their competitiveness must be sustained by enhancing their quality and distinctiveness. Second, it is equally important to note that too many tourists can kill tourism or at least lead to its stagnation or decline in places that are not suitable for big crowds or standardised and mass leisure activities. Mass tourism is not appropriate at all times, and promoting it unconditionally can harm rather than benefit the industry. The reduction of tourism fees and other costs as a measure to attract more tourists must be rethought. One assessment is that no substantial benefit is likely from this strategy for several reasons. The fees, taxes and other costs are not high by international standards. On top of this, the much needed Asian and Western tourists in the middle to high end of the market are willing to pay more for quality. Safety, cleanliness and speedy visa processing are factors that will entice repeat trips. Care must thus be exercised in relation to calls for fee reductions. A potential drawback of this proposition is that it may lead to cutbacks in funds for maintenance and innovation, blighting the quality of the tourist asset.

As can be seen in Figure 2, one of the recommended strategies is to promote eco-tourism. To be effective in Cambodia, this approach cannot be ambitious. This is because a comprehensive eco-tourism policy necessitates a huge amount of resources, which Cambodia does not have, and an abundance of flora and fauna, which Cambodia also does not have any more, having lost much of them

to wars. To make the most of ecological attractions, the government therefore should initiate a policy targeted at individuals and small groups. The further development of the Sihanoukville-Phnom Penh-Siem Reap triangle is another measure included in Figure 2. Sihanoukville lags behind the two other tourist destinations, and accordingly requires greater attention. The good news is that the Sihanoukville airport is ready but the bad news is that issues such as cancellation of connecting flights are yet to be addressed. Developing Sihanoukville will certainly be lucrative. In fact, it is estimated that offering stays in the Sihanoukville region can lengthen stays in Cambodia by two to four nights. A 15–25 percent increase in tourism activity and value over five years can be achieved even without an increase in the number of arrivals.

Angkor Wat is a splendour that justifies Cambodians’ pride. However, the sustainability of this splendour and of Cambodia’s tourism as a whole necessitates easing the dependence on it and increasing its exclusiveness. Indeed, Cambodia is a “kingdom of wonder” with numerous attractions that only await greater appreciation and attention.

**Figure 2: Proposed Comprehensive Strategy for Improving Tourism Sustainability**

