

**CAMBODIA  
DEVELOPMENT  
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# **CAMBODIA'S ANNUAL ECONOMIC REVIEW-2002**

**Issue  
2**

**Sok Hach and Sarthi Acharya**

# **Cambodia's Annual Economic Review 2002**

**Sok Hach and Sarthi Acharya**



**Cambodia Development Resource Institute  
Phnom Penh, August 2002**

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**Cambodia's Annual Economic Review 2002, Issue 2  
August 2002**

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*Responsibility for the ideas, facts and opinions presented in this research paper rests solely with the authors. Their opinions and interpretations do not necessarily reflect the views of the Cambodia Development Resource Institute.*

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Editing: Andrew Young  
Layout and cover design: Em Sorany  
Printed and Bound in Cambodia by Japan Printing House, 74 Street 99, Phnom Penh

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## **Acronyms and Abbreviations**

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Agreement
ASEAN	Association of Southeast Asian Nations
CDC	Council for the Development of Cambodia
CDRI	Cambodia Development Resource Institute
EU	European Union
FDI	Foreign Direct Investment
ILO	International Labour Organisation
MEF	Ministry of Economy and Finance
MFN	Most Favoured Nation
NBC	National Bank of Cambodia
NIS	National Institute of Statistics
WTO	World Trade Organisation





## Foreword

The Cambodia Development Resource Institute is pleased to bring out the second *Annual Economic Review*. These publications were initiated in 2001 with the aim of offering a comprehensive overview and analysis of Cambodia's economic performance from year to year. In addition, it aims each year to report in more depth on one specific sector of the economy. The first issue of *Cambodia's Annual Economic Review* (CAER) issued in 2001, reported on the State of the Economy in 2000 and provided an analytical summary for the period 1994-2000. The specific thematic study focused on modern sector development, highlighting the garment manufacturing sector and tourism.

The 2002 CAER reports on economic performance in 2001 including; economic growth; export performance; money, prices and inflation; the budget and public finance; international inflow of capital and aid; balance of trade and payments; land, agriculture and rural development; incomes, labour and poverty; and decentralisation. As is the practice in the *Annual Economic Reviews* of CDRI, this report also contains a research-based study, along with a statistical appendix that contains data on key economic variables. The topic chosen for the research-based report this year is private sector development. The basic assumption underlying this study is that development of a locally owned and controlled private sector, which is regionally dispersed across the length and breadth of the country, can ensure balanced and sustained growth. This is necessary for job-creation, poverty reduction, as well as to ensure lasting peace and stability in the country. The paper bases its findings on a small sample of in-depth case studies conducted with both large and small entrepreneurs in the country. This study can, by no means, claim to represent the views or performance of the private sector in the country. We believe it does, however, lay the foundations for further research and analysis in this area.

We sincerely believe that the findings of this *Review* will be of use to both policy makers and analysts of the Cambodian economy. We invite you, our valued readers and partners in Cambodia's development, to send us feedback so that we may continue to improve our work

*Phnom Penh, August, 2002*  
*Eva Mysliwiec, Director*  
*Cambodia Development Resource Institute*



## **Acknowledgements**

The authors of this publication would like to express their gratitude for the cooperation provided by the following: The Council for the Development of Cambodia, the Ministry of Economy and Finance, the Ministry of Commerce, the Ministry of Tourism, the Ministry of Planning, the National Bank of Cambodia and the National Institute of Statistics. From CDRI's Research Section, Chan Sophal, So Sovannarith, Kang Chandarot, Prom Tola, Chea Huot, Kim Sedara, Pon Dorina and Chim Charya provided useful assistance in the fieldwork. The authors are also grateful for the support and advice provided by the Director of CDRI, Ms. Eva Mysliwicz, and useful comments from, Adam Sack, Steven Schonberger and Bruce McKenney.

The authors would like to extend particular gratitude to the respondents of the case studies who provided invaluable information. Without their cooperation, this report would not have been possible.



## Chapter One

# Introduction

Cambodia has progressed rapidly in the decade since the Paris Peace Agreement was signed in 1991. With the return of peace, economic development in the form of the garment industry and tourism emerged prominently. At one time, in the 1990s, the garment industry grew at over 30 percent annually, and in the year 2001 exports of garments exceeded a \$1,000 million. The country has also made rapid strides in its transition from a centrally planned economy to a market driven one. The country has entered into strategic and significant partnerships with bilateral and multilateral donor agencies, for reconstructing physical and social institutions destroyed during 30-years of war and upheaval.

There has been some progress in the agricultural sector as well, though institutional factors such as land reform and cadastral measurements, and insufficient market linkages, still impede progress in this area. Thus the rice production sector, on which a very large majority of Cambodians depends for livelihood, yields among the lowest unit productivity in Southeast Asia. Other sectors too have not progressed as satisfactorily as the garment and tourism sectors. Lack of adequate infrastructure, low investor confidence, limited technological capacities and low savings rates are among the reasons that have kept the overall growth process stifled and unbalanced. Insufficient investments in the human development sectors - education, health, welfare, for example - are also responsible for this imbalance. It is probably because of these factors, that the distribution of gains has not reached the general population.

Although some information on Cambodia's economic performance is published in journalistic forums and reports of multi-lateral agencies, comprehensive and independent assessments emanating from a national source were almost absent until 2001. As a result, both, the informed audience and policy makers lacked a single document that could update them on different dimensions of development in the country. Of-course, there have been reports brought out by individual government departments and ministries, as well as by the donor agencies, but most of these are sectoral performance reports, and are largely produced for their internal purposes. Annual Economic Reviews are brought out in most major countries by their ministries of finance or central

banks. As stated above, in Cambodia this has been a shortcoming. To fill the void, CDRI first began to publish quarterly progress reports on the domestic and international economic performance in 1997. These are published in the Institute's quarterly journal, the *Cambodia Development Review*. In 2001, the Institute deemed it important to launch a new publication series, the *Annual Economic Review*. This *Review* is the second volume in a series intended to provide in-depth information and analysis on annual economic development in Cambodia. The first report, published in 2001, provided an analytical narration for the period 1994-2000. This year's *Annual Review* considers the economic performance of a single year, 2001, and has therefore been able to go into considerably more depth.

Chapter Two presents an overview of the broad developments in the Cambodian economy in 2001, along with a short-term forecast for the years 2002 and 2003. The forecast is based on intuitions derived from the economy's performance in 2001 and earlier. This chapter is really a shortened version of the detailed presentation made in Chapter Three. Its purpose is to provide a bird's eye view of the state and performance of the economy for those readers who may not find the time to read the full report, and yet need to know some facts about the current performance. Policy makers and business persons may find it a ready reference, for use at short notices. It presents three sections: the current political and social scenario, a statement on the recent economic developments, and prospects for the future.

The different topics covered in Chapter Three include; economic growth; export performance; money, prices and inflation; the budget and public finance; international inflow of capital and aid; balance of trade and payments; land, agriculture and rural development; incomes, labour and poverty; and decentralisation.

As was indicated in last year's *Annual Economic Review*, it is the intention of each *Review* to provide detailed discussion on one or more important sectors of the economy. Chapter Four presents the report of a research-based study on private sector development in the country. In-depth case studies have been conducted on both large and small local entrepreneurs, in different parts of the country. The research concludes that there are some key measures required to supplement and strengthen policies already being implemented by the government and the international community. These are in the areas of macroeconomics, finance, human capital and technology and business development services. Although this study can not claim to represent the views or performance of the entire private sector in the country, it does lay the foundation for further research in this important area.

The *Review* concludes with an Appendix that contains data on key economic variables, over four decades, ending with the year 2001. These tables include critical economic indicators such as employment, GDP, export revenues, imports, the national budget, revenues and expenditures, and current surpluses and deficits.

A word of caution on data needs to be mentioned. In Cambodia, as in other countries, different departments and ministries primarily generate data. However, the system of reconciliation and combining the primary data in a mutually consistent fashion is yet to be established. As an example, therefore, some sectoral growth figures do not add up to the aggregate growth rate. Such discrepancies point towards the need to establish a central bureau or directorate of economic statistics to collate and reconcile data from different sources. This is a common practice in most countries.





## Chapter Two

# The State of the Economy of Cambodia

### 2.1 Introduction

Since the signing of the Paris Peace Accords in 1991, which paved the way for peace in Cambodia, the country has made steady progress towards development. From the mid 1990s to the present Cambodia has deployed many efforts to reintegrate into the international economy and the international labour markets. After a brief isolation due to the fighting of 5-6 July 1997, Cambodia joined ASEAN and is now pursuing full membership of the World Trade Organisation (WTO).

A study of any economy must be in context, and 2001 was dominated by a global economic slowdown, a factor common to the world's major economies and more persistent than expected. World economic developments have had significant implications on the Cambodian economy. Economic slowdown in Cambodia's manufacturing sector, for example, was closely linked to the international markets, and this resulted in the creation of fewer jobs this year than last. However, the latest data published during the first quarter of 2002 seemed to indicate that some of the world's major economies might be on their way out of recession.

The social and political situation was relatively stable and calm in 2001, with the Commune Council Elections being successfully conducted on February 3, 2002. Aimed at decentralising the decision making process, these elections should herald a new era of local development. In the longer run, the decentralisation process is expected to boost the nation's economy, through an increased flow of resources and service delivery to rural areas.

### 2.2 Political and Social Situation in Cambodia

Political stability is a key factor to Cambodia's economic development. Following the Paris Peace Agreement, Cambodian political leaders have been committed to moving the country towards peace, democracy and prosperity. There has been some progress made, but much more still has to be done. Two general elections have been organised (May 1993 and July 1998), and the third is expected in July 2003. Although some intimidation was reported during the period preceding the commune elections held in February 2002, the elections

were conducted peacefully and the results have been accepted by all the participating political parties.

In rural areas, land disputes on the one hand, and extreme poverty on the other, have become more visible and may cause social unrest if appropriate solutions are not found. This is a major concern for the country. Labour conflicts, mostly concentrated in the garment industry, remain a potential issue of social contention. However compared to 2000, industrial relations disputes do seem to have significantly reduced in 2001. The improvement is likely because of a better understanding of the Cambodian Labour Law by both factory owners and unions. Although some of these sensitive issues could intensify sometime in the future, the risk of major political and social unrest is likely to be small and should not affect economic and social development, at least in the short term.

### **2.3 Recent Economic Developments**

Despite severe global economic slowdown, economic activity in Cambodia remained relatively dynamic, compared to most Asian economies. Cambodia's GDP growth should reach 5.3 percent in 2001<sup>1</sup>, which is slightly lower than 5.5 percent in 2000 and 6.8 percent in 1999, according to estimates made by CDRI. This slowdown was mainly due to slower expansion of the garment and tourism industries and a sharp decline in foreign direct investment (FDI). Despite widespread flooding, production of crops and livestock was relatively high in 2001 (about 3-4 percent increase), although agricultural production generated from natural resources such as fisheries and forests remained unchanged or fell. In nominal terms, exports of garment products increased by about 13 percent in 2001, against 78 percent in 2000. Activities in other manufacturing sectors experienced a similar slowdown. Despite a sharp decline in FDI, activities in the construction sector increased slightly, due to the government's infrastructure rebuilding programme preceding the commune elections. Following the same trend as the garment industry, the tourism industry continued to expand, but at a slower growth rate. The number of international tourists visiting Cambodia by air increased by about 14 percent in 2001, as against 31 percent in 2000. This growth was boosted by direct flights to Siem Reap, although international tourists arrived in about the same numbers to Phnom Penh. Activities in other service sectors also experienced a slowdown.

With regard to inflation, the consumer price index in Phnom Penh declined slightly in 2001. The yearly average was -0.6 percent when measured in riels

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<sup>1</sup> As this Review goes to press, the government has released data which suggests that GDP growth in 2001 exceeded 6%

and -2.5 percent, in dollars. Prices of domestic food products declined significantly, though prices of public utilities rose substantially. Despite a significant increase in government deposits at the National Bank, the riel depreciated by 1.9 percent (annual average) against the dollar, trading at 3,935 riels per dollar in 2001, as against 3,859 riels per dollar in 2000. This depreciation could have been caused by a sharp increase (+23 percent) in the liquidity in riels, circulated in the markets during 2001. However, the increase in the supply of riels did not affect inflation as the Cambodian economy is highly dollarised. Foreign currency deposits at commercial banks also increased at almost the same rate (+24 percent). Overall therefore, money supply increased sharply during 2001. On the demand side, credit to Cambodian residents declined. This implies that Cambodian savings continued to flow out of the country.

A decline in domestic credit is a signal of the weakness of private investment. In 2001, business investment in new equipment fell dramatically, possibly because of the global economic slowdown. However, investment into real estate remained broadly stable, thanks to the improved political and social stability. With respect to the figures for FDI, compiled by the Council for the Development of Cambodia (CDC), FDI continued to fall for the third consecutive year, casting a shadow over the country's strategy of attracting foreign investment. Compared to 2000, the new FDI projects approved by the CDC in 2001 dropped by about 50 percent. As a result, total private investment in the country declined by 25 percent.

On the public finance side, statistics from the Ministry of Economy and Finance (MEF) showed an improvement in the government's budget revenue in 2001. As a proportion of nominal GDP, domestic revenue increased by 0.3 percentage points (from 11.7 percent in 2000 to 12 percent in 2001), mainly resulting from enhancement in non-tax revenue collection. On the expenditure side, defence and security spending declined, although current expenditure on civil administration increased sharply, due to the expenditure on commune elections. Public investment funded through the national treasury also declined by 9 percent in 2001. However, public investment funded by foreign aid, particularly by loans from the World Bank and the Asian Development Bank (ADB), increased significantly (+17 percent). As a result, outstanding foreign debts recognised by the Cambodian government increased sharply (+22 percent) compared to 2000, reaching about \$525 million at the end of 2001.

As private investment declined sharply, job creation in the formal sectors was very low in 2001. In the garment industry, more than 30 factories closed down, though production in the industry continued to grow. To fulfil additional demand from abroad, some garment factory owners increased production by

doubling shifts. According to CDRI surveys, factory owners hired new workers to operate during the nights on temporary work contracts. As a result, about 10,000 precarious new jobs were created. In the tourism industry, the 14 percent increase in international tourists in 2001 has also led to the creation of about 3,000 new jobs. Overall, less than 20,000 new formal jobs were created in 2001, although about 200,000 new young Cambodians came into the labour market.<sup>2</sup> As a result, the number of underemployed may have dramatically increased, since informal sectors in their current state of development are unlikely to provide productive employment to many. In terms of incomes, CDRI surveys showed that wages in the formal sector continued to rise, while incomes in the informal sectors declined sharply in 2001.

#### **2.4 Conclusion: Economic Prospects**

The economic situation in Cambodia is not expected to change very much over the next year, since no radical policy change is in the offing. GDP growth is expected to follow the same path of about 5 percent per year during 2002 and 2003. The garment and tourism industries should continue to be the main engines of economic expansion. Dominated by the attitude of 'wait and see' during the period preceding the general elections, private investment is expected to remain weak in 2003. However, public investment may exhibit an upward trend during the coming two years.

In line with other countries in the region, inflation is expected to be moderate over the next two years. Although the government is expected to create additional liquidity for meeting the expenses of the next elections, the riel will remain more or less stable against the dollar, trading between 3,900 and 4,000 riels per dollar. Absolute predictions can only be issued with caution, however, as exchange rates are normally difficult to predict and estimates have to be interpreted with care. Money deposits at the commercial banks are expected to continue to expand faster than the nominal GDP, reflecting the recent growing public confidence in the banking system. However, credit to Cambodian business will remain restricted, as long as issues such as the weak framework for secularisation of collateral are not addressed.

On the public finance side, the government's planned budget for 2002 adopted by the National Assembly and the Senate was balanced. However, the implementation of the budget for 2002 and 2003 will be a difficult task for the

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<sup>2</sup> Although there is no definition laid down for the formal and informal sectors in Cambodia, researchers often consider large and multinational companies, which file tax returns and publish audited balance sheets for example, to be in the formal sector. These are typically the garment factories and large hotels. Subsistence agriculture, petty trades, self or wage employment in small to very small enterprises, are taken to be the informal sector.

MEF, as the next general elections are scheduled for mid-2003. As a result, the budget expenditure is expected to increase. However, the expenditure on civil administration, which includes travel and other expenses incurred by government officials, might exceed the budget target.

With the 5 percent economic growth expected in 2002 and 2003, some formal sector jobs are expected to be created, though not as many as Cambodia needs. Given the high proportion of young people aged between 15 and 25 years old, the new entrants in the labour markets are estimated to number more than 200,000 people annually. On a yearly average, however, no more than 20,000 new formal jobs may be created in the formal sectors. This means that most of the 180,000 new entrants to the labour market will be confined to work in agriculture in the countryside or accept low paying/low productivity jobs in the cities. To absorb the new labour force, Cambodia's economy would have to grow in double digits, as achieved by the newly industrialised Asian countries during 1985-95. To achieve this growth, Cambodia's productive investment should be about ten times higher than that which is expected in the near future. Success in institutional reforms is the key to promote investment in Cambodia.

With regard to household incomes, significant improvement of incomes can be expected in the service sectors alone. Wages in the primary sectors are unlikely to grow significantly and growth of wages in the garment sector may be moderate in comparison to previous years. It follows that rural poverty may not be significantly reduced. Large underemployment in rural areas may act as a further dampener to poverty reduction. This situation could be similar in the informal service sectors in the cities, as the number of migrants from the rural areas continues to grow.



## Chapter Three

# A Detailed Report on Cambodia's Economic Performance

### 3.1 Introduction: The World Economic Environment

The growth rate of the world economy declined sharply in 2001. The decline in the Information, Communication and Technology (ICT) sectors that began in the US in mid-2000 spread to other sectors of the economy by mid-2001, and deepened into a general global slowdown due to a weakening of demand. Compiled from the latest data obtained from the International Monetary Fund (IMF), the ADB, and *The Economist*<sup>3</sup>, Table 2.1 shows that world output grew by just 1.7 percent in 2001 compared to 4.7 percent in 2000. In the Southeast Asian economies, real GDP grew by only 2.4 percent in 2001 compared with 5.2 percent in the previous year. For the region's newly industrialised economies, which include Hong Kong, Taiwan, Singapore and South Korea, the latest data showed an average of zero percent economic growth in 2001 in contrast to 8.2 percent growth in 2000.

To boost the US economy, the US Federal Reserve cut its interest rate eleven times in 2001, a record for a calendar year, bringing the interest rate on US central bank's funds to 1.75 percent, the lowest in 40 years. The latest economic indicators published during the first quarter of 2002 seem to suggest that this aggressive monetary policy has begun to produce some positive results: US consumer confidence is improving, business inventories are increasing, the labour market is stabilising and recession in the manufacturing sector is ending. In anticipation of this recovery, Asia's economies are preparing for an economic turnaround. However, for a sustained recovery, both consumer spending and business investment need to rise. The problem is that US consumers and companies are deeply in debt. In the event that the US economy fails to recover quickly, there might be a minor crisis in the world economy, given the continued importance of US markets for exports. Japan appears to be sinking deeper into deflation. Except for Germany, Europe has largely avoided recession. Europe presently, however, has limited impact on

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<sup>3</sup> See IMF (2001), ADB (2002), and various issues of the Economist published in March and April 2002



economic growth in Cambodia or even Southeast Asia, accounting for a relatively small share of exports from the region.

**Table 3.1 World GDP Growth and Inflation Rate**

	2000	2001	2002	2003
	GDP Growth			
<b>World</b>	<b>4.7%</b>	<b>1.7%</b>	<b>2.0%</b>	<b>3.5%</b>
USA	4.9%	1.2%	1.7%	3.6%
Europe <sup>1</sup>	3.4%	1.2%	1.9%	2.8%
Japan	1.7%	-1.3%	-0.5%	1.1%
North Asia <sup>2</sup>	8.0%	4.0%	5.1%	6.8%
Southeast Asia <sup>3</sup>	5.2%	2.4%	3.3%	5.0%
	Inflation			
USA	3.4%	2.9%	1.5%	2.1%
Europe <sup>1</sup>	2.3%	2.6%	2.0%	2.3%
Japan	-0.6%	-0.5%	-1.0%	-0.5%
North Asia <sup>2</sup>	0.6%	1.4%	1.0%	1.3%
Southeast Asia <sup>3</sup>	4.7%	5.9%	5.3%	4.5%

Source: CDRI, compiled from IMF and ADB Outlook and The Economist Pools 1 Euro Area 2 Includes China, Hong Kong, Taiwan and South Korea 3 Included Indonesia, The Philippines, Malaysia, Singapore, Thailand and Vietnam.

The outlook presented in Table 3.1 shows that economic growth in the US is expected to be 1.7 percent in 2002, up from 1.2 percent in 2001 (against 4.9 percent in 2000). In the euro area, economic growth is predicted at 1.9 percent in 2002, up from 1.2 percent in 2001 (against 3.4 percent in 2000). In Japan, however, the economic situation might continue to worsen with an economic growth of -0.5 percent in 2002, against it being -1.3 percent in 2001 and 1.7 percent in 2000. In Asia, the economic situation will follow the recovery trend in the US and Europe. In North Asia, economic growth is expected to be 5.1 percent in 2002, up from 4.0 percent in 2001 (against 8.0 percent in 2000). In Southeast Asia, economic growth should be 3.3 percent in 2002, up from 2.4 percent in 2001 (against 5.2 percent in 2000). The main engine of economic growth in North Asia is the Chinese economy.

World inflation has declined as a result of the recession. In the US, the inflation rate declined to 1.6 percent in December 2001 compared to 3.4 percent a year earlier. In the euro area, the inflation rate declined to 2.1 percent in December 2001, from 2.6 percent a year earlier. Most economies in Asia experienced similar trends as well. Uncertainty about the economic future has caused exchange rate volatility in the international markets. Between January and December 2001, the US dollar significantly appreciated against the euro and the yen, trading at 1.13 euro and 133 yen in December, up from 1.06 euro

and 116 yen in January. The US dollar also significantly appreciated against most floating Asian currencies, such as the Singaporean dollar, the Korean won, the Taiwanese dollar and the Thai baht.

Except for gold, commodity prices in the world markets declined during 2001. The price of first quality rice in Bangkok dropped by 6 percent, trading at \$173 per tonne in the last quarter of 2001, down from \$185 per tonne a year earlier. The price of wood and rubber dropped by about 20 percent and the price of soybean declined by 10 percent during the same period. Moreover, it is noted that the global economic slowdown has had a significant downward impact on oil prices. Crude oil in Dubai traded at \$27 per barrel in early 2001, it then fell to \$25 per barrel in mid-2001, and then fell further to \$17 per barrel by the end of 2001. However, with the prospects of worldwide economic recovery and concerted efforts by OPEC to prop up petroleum prices, crude oil rebounded again in April 2002, to \$25 per barrel.

## **3.2 Cambodia's Economic Performance**

### **3.2.1 Overall Performance**

Cambodia's economic activity in 2001 was fairly favourable compared to that of most other Asian economies. Despite the adverse impact of floods in some parts of the country and the sharp global economic slowdown, real GDP growth in 2001 is estimated to be 5.3 percent, against 5.5 percent in 2000 and 6.8 percent in 1999. This slowdown was mainly due to the modest expansion of the garment and tourism industries and a sharp decline in FDI. After the flooding that occurred in 2000, crop production recovered significantly, though production generated from natural resources, such as forestry and fishing continued to remain unchanged or declined. Industry, however, remained relatively dynamic, despite a worldwide contraction in export markets. Export of garment products was the main driving force behind economic growth. Service sectors also expanded, thanks to the boom in tourism and telecommunications.

In terms of structure, with declining prices and slow expansion, the agricultural sector saw its share of the nominal GDP reduced significantly, from 33.9 percent in 1999 to 29.5 percent in 2000 and 28.4 percent in 2001. Industry seemed to have benefited the most in terms of share. The industrial sector's share (including construction) grew from 21.8 percent in 1999 to 25.1 percent in 2000 and 25.6 percent in 2001. The garment-manufacturing sector was the most dynamic, while the share of other industrial sub-sectors was on the decline. The service sector share also increased slightly, up from 44.3 percent in 1999 to 45.4 percent in 2000, and 46.0 percent in 2001. Tourism was the most dynamic industry in the service sector.

**Table 3.2 Real GDP Growth by Sector (in percent)**

	1999	2000	2001
<b>Agriculture</b>	<b>1.4%</b>	<b>-2.4%</b>	<b>0.7%</b>
Crops and Livestock	6.5%	-0.9%	3.3%
Fishing, Rubber and Forestry	-13.2%	-7.8%	-9.1%
<b>Industry</b>	<b>12.6%</b>	<b>16.7%</b>	<b>11.2%</b>
Garment	40.4%	59.5%	24.6%
Other Industry	3.2%	-2.9%	1.1%
<b>Services</b>	<b>9.4%</b>	<b>7.5%</b>	<b>6.1%</b>
Tourism	16.0%	13.4%	8.8%
Other Services	8.4%	6.5%	5.6%
<b>Total</b>	<b>6.8%</b>	<b>5.5%</b>	<b>5.3%</b>

Source: CDRI, compiled from government primary data

**Table 3.3 Structure of Nominal GDP (in percent)**

	1999	2000	2001
<b>Agriculture</b>	<b>33.9%</b>	<b>29.5%</b>	<b>28.4%</b>
Crops and Livestock	25.6%	22.2%	22.0%
Fishing, Rubber and Forestry	8.3%	7.3%	6.4%
<b>Industry</b>	<b>21.8%</b>	<b>25.1%</b>	<b>25.6%</b>
Garment	7.0%	11.5%	12.6%
Other Industry	14.7%	13.5%	13.0%
<b>Services</b>	<b>44.3%</b>	<b>45.4%</b>	<b>46.0%</b>
Tourism	6.6%	7.4%	7.8%
Other Services	37.7%	38.0%	38.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: CDRI, compiled from government primary data

### 3.2.2 Agriculture

The agricultural sector, which contributes about 30 percent of the country's GDP and employs 77 percent of the labour force, increased slightly (+0.3 percent) in real terms in 2001. This modest increase reflects weak access to the export market (and markets in general) for crop products, insufficient investment to increase productivity (particularly rubber but generally all crops) and previous over-exploitation of natural resources, such as forests and fisheries. Cambodia's agricultural output is also significantly influenced by the weather, in addition to factors like insecure land tenure.

Paddy production attained the level of food self-sufficiency in the country in 1995, rising to 3.5 million tonnes from about 2.0 million tonnes in the 1980s. This increase was due both to an expansion of the area sown and productivity

improvements. Paddy production continued to increase steadily thereafter, and reached the level of 4 million tonnes in 1999. About 300,000 tonnes of milled rice was exported in that year. Productivity rose from 1.3 tonnes per hectare in the early 1980s to 1.8 tonnes per hectares in 1995, and then to two tonnes per hectare in 1999, though it is still among the lowest in Asia. Although efforts have been made to improve farming techniques and promote new varieties of seeds and fertilisers, no perceptible progress has been made since 1999, because of successive floods, droughts and lack of development in the irrigation system. In 2001, less than 10 percent<sup>4</sup> of rice fields were irrigated and irregular rainfall and serious flood in the Mekong Basin River damaged approximately 250,000 hectares of rice crop. Extension of irrigation systems, better distribution of new land brought under the plough and improvement in marketing systems would significantly increase crop production in Cambodia.<sup>5</sup>

Vegetables and other crops play an important role in household food consumption and income generation in Cambodia. Vegetables are grown predominately in family plots and are considered as small-scale production in the country. The cultivated area and production have fluctuated from year to year due to pest and disease attacks, natural disasters and price fluctuations. The Food and Agriculture Organisation (FAO) recommends that each person should consume 200g of vegetables per day, but consumption in Cambodia averages about half the standard laid down by the FAO. It is estimated that the total consumption of vegetables is about 600,000 tonnes per year. Vegetables collected in the wild, provide about 25 percent of all vegetables consumed and local cultivated production provides another 25 percent. The remaining 50 percent are imported from neighbouring countries.<sup>6</sup> There are more than 40 local and international NGOs who work for the improvement of food security of rural people through promoting vegetable growing for both personal consumption and income generation. Through these activities, the production and productivity of some areas increased significantly, especially in 2001. Moreover, horticulture and livestock sectors should benefit from the high demand of the tourism sector (hotels and restaurants). However, poor infrastructure in rural areas and low competitiveness in terms of both quality and price, in contrast to imported vegetables, causes problems for the local growers. In addition, the distribution of land resources and the definition of rights and responsibilities over them are of fundamental importance to

<sup>4</sup> Ministry of Agriculture, Fishery and Forestry figures indicated that out of a potential 2.5 million hectares, 200,000 were irrigated. These figures differ from the government's Socio-economic Development Plan (SEDP II).

<sup>5</sup> Studies conducted by CDRI and others confirm this. See Sok, Sik and Chea (2001) and So *et al* (2001).

<sup>6</sup> See Helen Keller International (2000). The data pertains to the late 1990s.

Cambodia's development. Presently, Cambodia does not have clear land tenure rights, which inhibits business people from undertaking investments for longer term, sustained agricultural production. Nevertheless, the passage of the new Land Law in August 2001 marks a watershed in creating a legal platform for management of land in Cambodia.

As a rich common property resource, Cambodia's fisheries play an important role in rural areas through providing protein to Cambodian households. Approximately 85 percent of the Cambodian landmass lies within the Mekong River basin. Inundated lands occupy about one million hectares, representing about 5.5 percent of total land in the country. However, fish catch statistics have never been quantified accurately. According to an estimate made by the Mekong River Commission, the annual inland fish catch should be between 290,000 and 430,000 tonnes, making Cambodia's inland fisheries the most productive in the region (Van Zalinge et al 2000). Small-scale family fishing has expanded rapidly. However, other than rice field fishing, commercial fish production tended to decrease slightly between 1999 and 2001, due to over-exploitation in the past.<sup>7</sup> To ease access to common resources (under the fishery reform), the government released more than 50 percent of the fishing lots to local communities in 2001. The government decree on "Community Fishery", aiming at transferring the exploitation of fishery resources to the local community, became effective from June 2001. According to this decree, the fishing lots under private concessions decreased from 135 (954,000 hectares) to 82 (417,000 hectares). CDRI has identified 187 community fisheries in Cambodia, mostly established after 1998, with the assistance of NGOs and donors. However, the management of fishery resources by the village communities needs to be enhanced.<sup>8</sup>

Rubber production has been falling significantly, because most rubber trees are economically unproductive being more than 40 year old. In 2001, rubber production declined to 39,400 tonnes, from 46,200 tonnes in 1999. Even at that level, Cambodia is the fifth largest exporter of rubber in the world. Favourable soil conditions in some provinces could expand the area of cultivation from 61,000 hectares currently, to about 330,000 hectares and could yield about 500,000 tonnes of dry rubber per annum, which is about 10 times more than at present. The government is trying to promote small holders and medium sized rubber plantations by providing long term loans through the Rural Development Bank, with assistance from the French aid agency - AFD. This operation has not yet worked well because of strict regulations on loans. For

<sup>7</sup> McKenney, B. & Prom, T. CDRI, (2002)

<sup>8</sup> A comprehensive report on fishery management prepared by CDRI. See, McKenney, B. & Prom, T. (2002).

loans to be disbursed a necessary condition is for the borrower to have the proper land title.

Forestry, which is one of the principal additional sources of income for the poor in rural areas, declined sharply in the early 2000s due to extensive illegal logging, and over-exploitation during the 1990s. The Department of Forestry and Wildlife estimates that forests still covered about 10.5 million hectares land at the end of 1990s, representing 58 percent of the country's total area, against 73 percent in the 1960s. Private companies, which hold long-term logging concession contracts, control about 40 percent of this forestland. According to a World Bank-funded consultancy report prepared by DAI, the rate of forest extraction for the 1997 logging season was as high as seven times the sustainable yield level (estimated at 500,000m<sup>3</sup> per year), a rate that would exhaust the resource within 5 to 10 years. Furthermore, the quality of the existing forest has sharply deteriorated as most of the high valued wood has already been cut. To protect the forest from further deterioration, forestry reform has been initiated with the support of donors, and remedial measures have been implemented in the last 2-3 years. As a result, production of logs has steeply declined since 2000.<sup>9</sup> To ease access to the country's common property under the forestry reform, the government is contemplating permitting local populations access to some forestland – details on this are yet to be made public. Assisted by NGOs, about 200 community forests were established in over 16 provinces at the end of 2001. Yet, the management of forestry by the village communities still needs to be enhanced.<sup>10</sup>

In a major initiative to ensure secure tenure and hence investments on land, the government conducted cadastral exercises for providing titles to all land in the country, as well as demarking land use. This exercise, begun in 2001, is expected to take up to a decade to complete. The World Bank, GTZ (Germany) and the Finnish Government are supporting the process.

### ***3.2.3 Industry and Construction***

Industry, which contributed about 25 percent to the GDP and employed about 8 percent of the labour force in 2000, grew rapidly during 1995-2000 (about 10 percent per year in real terms), despite the fighting of 5-6 July 1997 and the Asian financial crisis in 1997-98. The garment industry, electricity and water were the most dynamic sub-sectors, though activities in the rest of industry grew relatively slowly. In 2001, the garment industry remained the dominant-

<sup>9</sup> Government statement during the Consultative Group in Tokyo, June 2001

<sup>10</sup> A comprehensive report on forestry management prepared by CDRI. See, McKenney, B. and Prom, T. (2002).

manufacturing sector in Cambodia, although production slowed down significantly owing to weak export demand. Activity in the non-garment manufacturing industry remained unchanged, due to a general decline in business investment and poor competitiveness. Production in the food and tobacco industries increased slightly in 2001 in line with the population growth, as these industries mostly provide for the local consumer markets. Activities in the timber sector declined significantly, an effect of the campaign against illegal logging, led jointly by the government and donors. Some small and medium enterprises, and an assembly plant of motorcycles for the domestic market, have emerged.

The initial fears of a decline in Cambodia's garment exports in 2001 did not come true. Cambodia's garment industry, the country's largest single industrial employer, has continued to grow in spite of an economic downturn in the United States. Cambodia's garment exports reached \$1,100 million in 2001 (a 13 percent rise compared to 2000), of which exports to the United States amounted to \$793 million, to the European Union \$305 million and other markets \$14 million. Compared to 2000, garment exports to the US rose by 6 percent and to the European Union by 38 percent. Although there has been no significant growth in the other markets, the figures indicate that exports to the EU markets have been rising dramatically in recent years. As reported from interviews in the Garment sector, the growth may result from better awareness among Cambodian exporters about the EU markets and EU standards. In April 1999, the EU granted a three-year special preferential trading status to Cambodia, by which Cambodia exporters could have access to EU markets without quotas and duties. However, only about 10 percent of Cambodian garment exports reached out to the EU markets under this preferential arrangement. The other 90 percent of exports have been subject to the Most Favoured Nation (MFN) tariff rates, at an average of 9 percent according to the Ministry of Commerce. Some factors that have hampered exports are the inability to meet EU quality standards, and not complying with the rules of importing countries.<sup>11</sup> In order to maintain and expand exports, Cambodia needs to find other garment markets outside the US and the EU as well as improve its cost competitiveness.

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<sup>11</sup> To fully benefit from the General System of Preference (GPS), Cambodia's garment must use at least 50 percent local inputs.

**Table 3.4 Structure of Cambodia's Garment Exports (million US\$)**

	1995	1996	1997	1998	1999	2000	2001
Total exports of goods	848	723	873	912	1,048	1,393	1,502
Garment exports	27	79	227	378	553	985	1,112
- to US markets	-	1	107	298	486	750	793
- to EU markets	26	75	112	76	58	221	305
- to other markets	1	4	8	4	9	14	14
US share of total garment exports (%)	-	1%	47%	79%	88%	76%	71%
Garment's share of total exports (%)	3%	11%	26%	41%	53%	71%	74%

Sources: CDRI, Ministry of Commerce and the Customs Department

The US government has extended the garment-trading agreement to Cambodia for another three years, for the period from January 1, 2002 until December 31, 2004.<sup>12</sup> The agreement means that Cambodia could export its garment products to the US markets under a restricted quota with average MFN tariff rates of 17 percent.<sup>13</sup> The US administration increased the quota for Cambodian garment products by 9 percent in 2001 and in 2000 the quota was increased by 15 percent. For the government, quotas create an opportunity to generate additional revenues. The government was able to get about \$17 million in 2000 and \$18 million in 2001, by selling quotas. The garment industry also plays a crucial role in reducing poverty in the country, as about 85 percent of Cambodian garment workers are young women and the majority of them hail from rural areas.

An option that could help prevent Cambodia's garment industry from a slowdown is to join the World Trade Organisation (WTO) as soon as possible. WTO membership would help Cambodia expand its clothing markets to other parts of the world. The removal of quota restrictions for garment exporters in the year 2005, which will apply to all WTO members (except China, which has to wait until 2008) is a significant opportunity. Despite the fact that Cambodia has been receiving preferential access to the US and EU markets for the last

<sup>12</sup> Increases in the garment quota are linked to "substantial compliance" from the Cambodian side on better working conditions. The International Labour Organisation (ILO) is monitoring labour conditions in the garment factories.

<sup>13</sup> Only 12 categories of garments are subjected to quota. See Sok, Sik and Chea (2001).



few years, its capacity to expand garment exports in the future will also depend on its cost and quality competitiveness. China's accession into the WTO in December 2001 and the Normalised Trade Relationship Agreement between the US and Vietnam in September 2001, are expected to result in increased competition for overseas markets for Cambodia's garment products.

**Table 3.5 Investment Projects and Employment in the Garment Industry**

	1995	1996	1997	1998	1999	2000	2001
Number of projects approved	120	144	48	83	45	51	19
Number of factories	20	35	72	143	201	220	186
Employment (000's)	48	58	90	120	150	200	210
The garment industry's share of the total labour force	1.1%	1.3%	1.9%	2.5%	3.1%	4.0%	4.0%
Government revenue generated from garment quotas (million US\$)	-	-	-	-	30	17	18

Sources: CDRI, CDC and Garment Manufacturer Association of Cambodia (GMAC)

The expansion in the construction sector has resulted from the development of public infrastructure, mainly financed by the government through bilateral and multilateral assistance. The market-driven economy is another principal factor that has pushed construction forward over the past seven years. Hundreds of garment factories have been built and hotel construction has expanded quickly in Phnom Penh, Siem Reap and other provincial towns. Because of a dramatic decline in private investment however, the construction industry experienced significant setbacks in 2000. In 2001, the construction industry was yet to fully pick up. A sharp decline in business investment led to a significant reduction in the construction of warehouses and factories. Residential construction also remained sluggish because of a lack of demand for houses. However, a sharp increase in public investment in roads and some small public infrastructure (initiated by the government during the period preceding the commune elections) largely compensated for the decline in house and building construction. To summarise, the construction industry recovered from a contraction of 8 percent in 2000 to an expansion of 3 percent in 2001.

### 3.2.4 Services

The service sector, which represents 45 percent of the GDP and employs about 15 percent of the labour force, is sensitive to political developments. This sector was growing fast (about 10 percent per year) between 1992 and 1996, thanks particularly to the expansion of transportation, telecommunication and

tourism. However, its growth was severely affected by the internal political crisis in 1997 and 1998. Thanks to the return of political stability, activities in this sector were booming again by 1999. In 2001, the service sector remained dynamic, although the activity experienced a slowdown compared to earlier periods. Transportation grew by 8.7 percent in 2001, against 12.3 percent in 2000. Activities in trading increased by 5.7 percent in 2001 against 6.4 percent in 2000. There was a similar slowdown in the tourism sector: the growth was 8.8 percent in 2001 against 13.4 percent in 2000. Overall, the service sector grew by 6.1 percent in 2001 against 7.5 percent in 2000.

According to preliminary results released by the World Tourism Organisation, the year 2001 was unfortunate for the world's tourist industry, as there was an overall slowdown. International arrivals slid by 1.3%, and the hardest hit regions were the Americas, the Middle East and South Asia. In 2001, arrivals to the Americas fell by 7.0%, to the Middle East by 8.8% and to South Asian countries by 6.4% (compared to the year 2000). All these downturns are believed to result from the world's weakening economy in 2001, coupled with the September 11 terrorist attacks in the United States and violence and political instability in the Middle East. Europe appeared less affected and France is still expected to continue to be the World's number one tourist destination.

**Table 3.6 Visitor Arrivals to some Selected ASEAN Countries (millions)**

	2000	2001 <sup>1</sup>	% Change
Malaysia	10.22	13.13	28.5
Thailand	9.58	10.15	6.0
Singapore	6.26	6.09	-2.7
Indonesia	5.06	5.36	6.0
Philippines	2.17	1.94	-10.4
Vietnam	1.38	1.52	10.2
Cambodia <sup>2</sup>	0.52	0.66	28.5

Sources: World Tourism Organisation, Cambodia Ministry of Tourism and Ministry of Interior. <sup>1</sup> Estimated by the World Tourism Organisation; <sup>2</sup> Actual figure

Despite incidents that adversely influenced global tourism in 2001, Cambodia appears not to be affected. The country's tourism industry continued to grow with international tourist arrivals to the country totalling 662,000 persons (an increase of nearly 30 percent compared to 2000). Of the total visitor arrivals, 465,000 persons entered Cambodia by air – 29 percent of them flew direct via international flights to Siem Reap. International tourists arriving by air rose by 16 percent in 2001 compared to 2000. The number of visitors entering by ship or road also gained momentum. Figures provided by Cambodia's Ministry of Tourism indicate the number of tourist arrivals by car

and ship reached 197,000 persons (up from 115,000 in the year 2000). Poi Pet, at the Cambodia-Thailand border, was the most common entry point.

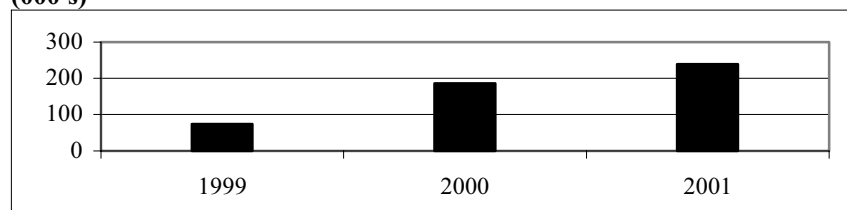
**Table 3.7 Number of International Tourists to Cambodia (000's)**

	1995	1996	1997	1998	1999	2000	2001
Phnom Penh	213	297	225	213	279	313	331
Siem Reap	-	-	-	10	28	87	134
Total by air	213	297	225	223	307	400	465
By ship and road	-	-	-	100	105	115	197
Total arrivals	-	-	-	323	412	515	662

Sources: CDRI, Ministry of Interior and Ministry of Tourism

According to CDRI's recent survey in Siem Reap province, most hotel owners and tour operators have painted an optimistic and rosy picture for the future (Sok, Sik and Chea 2001). The number of hotels in Siem Reap province increased from 36 in 2000 to 47 by the end of 2001 and these are mostly hotels of high quality. Guesthouses also grew impressively, from 70 in 2000 to 112 by the end of 2001. The overall occupancy rate rose from 65 percent in 2000 to about 80 percent in 2001. However, the duration of stay has remained about the same as earlier, about 3 days per visit in Siem Reap and 5 days per visit in Phnom Penh. Owing to the growing number of hotels and guesthouses, many hotel owners have reduced their tariff rates between 5-15 percent due to increasing competition.

Even though tourist arrivals increased in 2001 revenues did not increase proportionally. Preliminary estimates made by CDRI show that only about 35-45 percent of tourists' total expenditure in Siem Reap (those flying via direct international flights) stayed in Cambodia: the rest benefited foreign companies (Sok, Sik and Chea 2001). However, despite a minor proportion of tourist money reaching the locals, many hotel owners and tour operators are delighted with the growing number of holidaymakers and the government's open sky policy introduced in late 1997. They are also optimistic about a greater tourist influx in the coming years as a consequence of better infrastructure facilities (mainly roads and other services) and over-spill of international tourists from neighbouring countries. According to the CDRI survey, about 9-12 percent of international tourists entering Siem Reap, through direct international flights, continued their journeys to Phnom Penh.

**Figure 3.1 Number of International Tourists Entering the Angkor Temples (000's)**

Source: APSARA Authority

### 3.3 Prices and Money

#### 3.3.1 Prices and Exchange Rate

The consumer prices index (CPI) for Phnom Penh, compiled by the National Institute of Statistics (NIS), was largely invariant during 2001, finishing the year with a slight decrease of 0.6 percent (RGC 2001). The CPI for the provinces compiled by CDRI also confirmed the decline of inflation in Cambodia (-1.6 percent in the provinces). The NIS figures showed that, from December 2000 to December 2001, prices of food in Phnom Penh declined by 3 percent, reflecting a sharp drop in the price of agricultural products. For example, the price of rice in Phnom Penh markets declined by 19 percent and the prices of pork and chicken dropped, by 7 and 15 percent, respectively. Cambodia's agricultural commodity prices are linked to the international commodity prices as the country has opened its borders to the outside world. Since it opened its borders there has been an influx of agricultural goods from neighbouring countries. Because of the world wide economic slowdown, commodity prices in the world markets declined sharply in 2001, resulting in a decrease in Cambodian agricultural prices as well. The NIS data also indicates that the prices of public utilities increased sharply during 2001. For example, the price of water jumped by 88 percent and the price of electricity increased by 23 percent. The price of gasoline, however, increased at a modest rate (about 3 percent). The dramatic increases in the prices of utilities reflect measures taken by the government to adjust the consumer price to the cost of production.

**Table 3.8 Inflation and Exchange Rate in Phnom Penh**

	1999	2000	2001
Inflation rate in Riel (year average)	4.0%	-0.8%	-0.6%
Inflation rate in Riel (Q4/Q4)	0.0%	0.5%	-1.3%
Inflation rate in US\$ (year average)	3.5%	-1.8%	-2.5%
Exchange rate Riel/US\$ (year average)	3,820	3,859	3,950
Exchange rate Riel/US\$ (end of period)	3,775	3,895	3,930

Sources: Ministry of Planning and National Bank of Cambodia

On the exchange rate side, Cambodia has pursued a floating exchange rate policy since 1993 and has relied on tight financial policies to ensure a certain degree of stability in the foreign exchange market. Reserves in US dollars were used occasionally by the National Bank of Cambodia (NBC) to intervene and smoothen fluctuations in the exchange rate. The monetary system in Cambodia is characterised by a high degree of dollarisation and cash transactions, restricting the government's scope for running an active and effective monetary policy. Small transactions and wage payments confine the use of riels, largely to the government, while large financial transactions are conducted in foreign currencies such as the US dollar and the Thai baht. After experiencing a general stability in the exchange rate during 1998-2000, liquidity in riels rose sharply (+23 percent) in 2001, probably because of the increase in funds needed to finance the commune elections. It should be noted that this was the first such election, and much money was required for preparations prior to the elections. As a result, the riel gradually depreciated against the US dollar during the first three-quarters of 2001, though it reversed its direction during the fourth quarter. In the whole year, the riel depreciated 1.9 percent against the dollar (from 3,859 to 3,935 riels per dollar on yearly average). The riel also depreciated by about the same rate against the Vietnamese dong, but was stable against the Thai baht, trading at around 89 riels per baht in 2001.

### **3.3.2 Money Supply and Credit**

The total liquidity recorded by the NBC was about 18 percent of GDP at the end of 2001, which is double compared to that of 1995. Liquidity in riels represented about 5 percent of GDP, while the amount of dollars circulating through the banking system represented about 13 percent of the liquidity.<sup>14</sup>

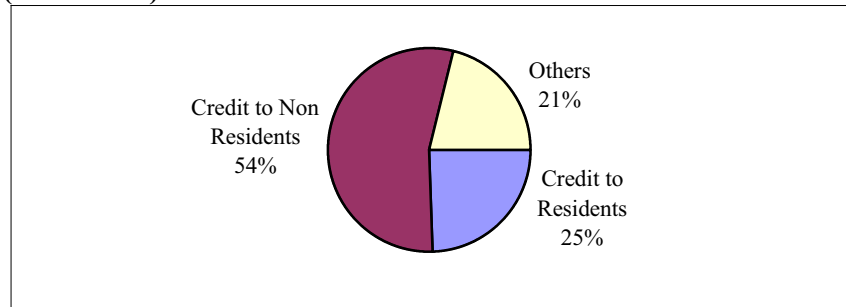
Foreign currency deposits by residents at commercial banks grew at 24 percent in 2001, against 42 percent in 2000 and 32 percent in 1999. However, Cambodian savings continued to fly abroad, as domestic credit declined (-5 percent) during the year. Measures taken by the National Bank to prevent capital flight have not borne fruit, as a clear policy that would protect the interests of lenders and depositors alike, has not been properly established yet. As during 2000, flows of new deposits and other liabilities of the commercial banks were significant, reaching about \$110 million in 2001. Foreign reserves at the National Bank also increased to about \$60 million. But much of this money gain flew out the country. According to figures compiled by the NBC, the amount of Cambodia's savings<sup>15</sup> transiting through the banking system is

<sup>14</sup> As Cambodia's banking system remains weak, foreign currencies circulating outside the banking system are very high.

<sup>15</sup> Cambodia's total savings are defined as the sum of assets owned by the commercial banks and

estimated to have reached about \$1,350 million at the end of 2001, of which about 54 percent (\$730 million) were lent to investors outside the country. This finding might surprise some, as the interest rate in Cambodia is quite high compared to other countries. But then, banks take into consideration factors other than interest earnings alone, such as lack of sufficient protection of lenders, or insufficient arbitration mechanisms in the event of dispute.

**Figure 3.2 Use of Cambodian Savings through the Banking System (End of 2001)**



Source: CDRI calculation based on the National Bank of Cambodia figures

There are 19 banks currently functioning in Cambodia. Two of them are state-owned; the Foreign Trade Bank of Cambodia and the Rural Development Bank. In 1998, there were 30 registered banks. The government owned the Foreign Trade Bank, local investors 22 banks, and seven others were branches of foreign banks. According to the National Bank of Cambodia, with the implementation of the New Law on Banking and Financial Institutions, 11 non-viable commercial banks have shut down as they were not able to meet the legal requirement for registered capital.<sup>16</sup>

### 3.4 Public Finance

#### 3.4.1 Overall Public Finance

According to official figures published by the MEF, Cambodia's budget revenue for 2001 reached \$389 million, though budget expenditure amounted to \$593 million. The deficit of \$204 million was financed by foreign aid (\$194 million) and by withdrawing cash from the national treasury (\$10 million). However, these figures do not seem to entirely reflect the reality of public

the NBC. Reserves of the commercial banks deposited at the NBC are excluded.

<sup>16</sup> The new banking law required an increase of capital held by banks from \$5 million to \$13 million.

expenditure. In fact, according to provisional data prepared by the CDC and the MEF, Cambodia received about \$528 million in foreign aid in 2001, of which \$437 million were grants and \$91 million were loans. In effect the total amount spent in the public sphere (i.e. development and non-development expenditure) totalled \$917 million in 2001.<sup>17</sup>

**Table 3.9 Cambodia's Total Budget for 2000 and 2001**

	Million US\$		Percentage of Total Revenue		Percentage of GDP	
	2000	2001	2000	2001	2000	2001
<b>Total Budget Revenue</b>	<b>846</b>	<b>917</b>	<b>100.0%</b>	<b>100.0%</b>	<b>26.9%</b>	<b>28.3%</b>
Domestic Revenue	369	389	43.6%	42.4%	11.7%	12.0%
Taxes	270	279	31.8%	30.4%	8.6%	8.6%
Non-Taxes	99	110	11.7%	12.0%	3.1%	3.4%
Foreign Aid	478	528	56.4%	57.6%	15.2%	16.3%
Grant	390	437	46.1%	47.7%	12.4%	13.5%
Loan	88	91	10.4%	9.9%	2.8%	2.8%
<b>Total Expenditure</b>	<b>839</b>	<b>927</b>	<b>99.1%</b>	<b>101.2%</b>	<b>26.6%</b>	<b>28.7%</b>
From Domestic Revenue	369	389	43.6%	42.4%	11.7%	12.0%
Investment	49	58	5.8%	6.3%	1.6%	1.8%
Current	319	331	37.7%	36.1%	10.1%	10.2%
From Foreign Aid	478	528	56.4%	57.6%	15.2%	16.3%
Investment	183	194	21.7%	21.2%	5.8%	6.0%
Current	294	334	34.8%	36.4%	9.3%	10.3%
<b>Change in Treasury</b>	<b>7</b>	<b>-10</b>	<b>0.9%</b>	<b>-1.2%</b>	<b>0.3%</b>	<b>-0.3%</b>

Source: Compiled from primary data of the Ministry of Economy and Finance and the Council for the Development of Cambodia.

The structure of Cambodia's total expenditure in the public sphere changed slightly in 2001 compared to 2000. As a proportion of the nominal GDP, it increased by 1.4 percentage points (up to 28.3 percent in 2001, from 26.9 percent in 2000). Of this increase, the foreign aid component was 1.1 percentage points, while the domestic revenue component was 0.3 of a percentage point. Compared to the total expenses in the public sphere, foreign aid represented 57.6 percent in 2001, up from 56.4 percent in 2000, meaning that Cambodia has marginally increased its dependence on foreign aid.

<sup>17</sup> Foreign aid recorded by the Ministry of Economy and Finance (\$194 million) in their budget papers represented only what was used for public infrastructure development (\$180 million) and for budget support to the government coffers (\$14 million). This amount did not include amounts funded by foreign aid and directly managed by NGOs and donors themselves, which totalled about US\$334 million in 2001.

### **3.4.2 Domestic Budget**

As in previous years, the government's budget operations in 2001 were characterised by a shortfall in revenue and a significantly lower-than-expected disbursement to the social sectors.

According to the Budget Law of 2001, total domestic revenue aimed at \$418 million, representing an increase of 13.6 percent compared to 2000. To reach this target, the government introduced a number of revenue-boosting strategies, such as stamp duties on cigarettes, VAT on diesel sales and extra fees for visas, all levied since mid-2001. However, according to statistics compiled by the MEF, the total domestic revenue shortfall was about 7 percent compared to the planned budget. The shortfall in government revenue was primarily the result of weakness in implementing new measures to increase excise duties, aimed at compensating for the decline in customs duties made necessary by Cambodia's membership of ASEAN/AFTA.

Total government revenue nevertheless amounted to 12 percent of GDP in 2001 compared to 11.7 percent in 2000. The increase in domestic budget revenue in 2001 was mainly due to the government's success in broadening the revenue collection base (principally through value added tax and payroll tax) and the revenue obtained from telecommunication and tourism (visa fees, civil aviation revenues and Angkor visit fees). However, between the fiscal year 2000–2001, though excise duties increased sharply (\$39 million in 2001 against \$29 million in 2000), they reached only 62 percent of the target set in the budget law (i.e. \$64 million). Collections of other indirect taxes and direct taxes, though, slightly exceeded the target. As expected and stated earlier, customs duties steadily declined over the last three years, amounting to only \$113 million in 1999, \$101 million in 2000, down to \$95 million by 2001.

Seen in the international context, Cambodia's budget revenue is still low compared to its neighbouring countries. For example, the Cambodian people contribute about \$30 each to the national budget as opposed to about \$600 in Thailand. The reasons for this gap are low national income and a weak fiscal system in Cambodia.

In 2001, the MEF figures showed that the total government expenditure, through the National Treasury, reached \$413 million – 3 percent below the target.<sup>18</sup> The sources of funds were \$389 million, provided by domestic revenue, \$14 million<sup>19</sup> was budget support loans provided by international

<sup>18</sup> This excludes foreign aid-funded infrastructure projects directly administered by the aid agency. These activities add to national development but do not get reflected in budget figures.

<sup>19</sup> This includes \$4.6 million loans from multinational agencies and \$9 million (grants) from bilateral agencies.



donors and \$10 million was drawn from reserves from the national treasury. Budget documents show a continued decline in military expenditure and a slightly increased allocation towards identified priority activities, namely education, health, agriculture and rural development.

**Table 3.10 Domestic Budget Revenue in 2000 and 2001**

	Million US\$		Percentage of Total		Percentage of GDP	
	2000	2001	2000	2001	2000	2001
<b>Total Domestic Revenue</b>	<b>368</b>	<b>389</b>	<b>100.0%</b>	<b>100.0%</b>	<b>11.7%</b>	<b>12.0%</b>
<b>Tax Revenue</b>	<b>269</b>	<b>279</b>	<b>73.1%</b>	<b>71.7%</b>	<b>8.6%</b>	<b>8.6%</b>
Direct Taxes	35	36	9.5%	9.2%	1.1%	1.1%
Indirect Taxes	133	148	36.1%	38.0%	4.2%	4.6%
Customs Duties	101	95	27.4%	24.6%	3.2%	3.0%
<b>Non Taxes</b>	<b>99</b>	<b>110</b>	<b>26.9%</b>	<b>28.3%</b>	<b>3.1%</b>	<b>3.4%</b>
Forestry and Fishery	13	9	3.6%	2.3%	0.4%	0.3%
Tourism Related	13	21	3.5%	5.4%	0.4%	0.6%
Garment Quota & License	17	18	4.6%	4.6%	0.5%	0.6%
Telecommunication	24	31	6.5%	8.0%	0.8%	1.0%
Other non-taxes	32	31	8.7%	8.0%	1.0%	1.0%

Source: CDRI, compiled from primary data of the Ministry of Economy and Finance

Expenditure through the National Treasury represented 12.8 percent of the nominal GDP in 2001, up from 12.4 percent in 2000. As a proportion of GDP, expenditure on defence and security declined by 0.3 of a percentage point from 3.6 percent in 2000, to 3.3 percent in 2001, while that on education and health rose by 0.5 percentage point, from 2.2 percent in 2000 to 2.7 percent in 2001. Expenditure on economic development (current expenditure of economic ministries plus public investment spending) was unchanged at 3.4 percent of GDP in 2001, though expenditure in other state institutions enjoyed slight expansion, also reaching 3.4 percent of GDP in 2001, from 3.3 percent in 2000. This increase was mainly due to additional expenses on items associated with the commune elections.

Figures released by the MEF concerning budget expenditure committed for December 2001 raised concerns, as the level was exceptionally high compared to the monthly average. An example from the Ministry of Health's expenditure is pertinent to quote here. The health expenditure in the month of December 2001 alone was almost twice the combined expense in this sector for the first eleven months of the year. Expenditure on health as a proportion of total expenditure was 20 percent in the month of December 2001, in contrast to it being 9.1 percent of the total expenditure, for the whole year. In many cases, this allocation could not be honoured because of a lack of cash.

**Table 3.11 Budget Expenditure through the National Treasury**

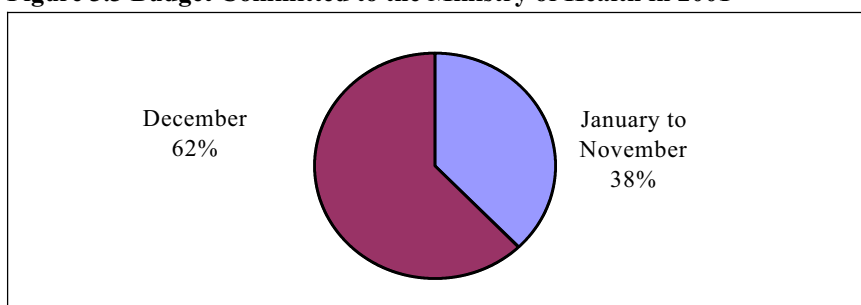
	Million US\$		Percentage of Total		Percentage of GDP	
	2000	2001	2000	2001	2000	2001
<b>Total Expenditure</b>	<b>390</b>	<b>413</b>	<b>100.0%</b>	<b>100.0%</b>	<b>12.4%</b>	<b>12.8%</b>
<b>Current Expenditure</b>	<b>311</b>	<b>341</b>	<b>79.8%</b>	<b>82.6%</b>	<b>9.9%</b>	<b>10.6%</b>
Defence and Security	114	106	29.2%	25.7%	3.6%	3.3%
Education and Health	68	87	17.4%	21.0%	2.2%	2.7%
Economic Ministries	27	38	6.9%	9.2%	0.9%	1.2%
Other State Institutions	102	110	26.2%	26.7%	3.3%	3.4%
<b>Investment</b>	<b>79</b>	<b>72</b>	<b>20.2%</b>	<b>17.4%</b>	<b>2.5%</b>	<b>2.2%</b>

Source: CDRI, compiled from primary data from the Ministry of Economy and Finance

Note: Expenditure in table 3.11 is slightly different from table 4.1 because it also includes expenditure funded by foreign budget support and change in domestic treasury

Fiscal discipline is the main instrument for sustaining macro-economic stability. The armed forces and some 'sovereign' institutions, such as the Council of Ministers, the National Assembly and Royal Palace, still command a large share (about 40 percent) of current expenditure to themselves. This may be one reason for the government not being able to contribute more to economic and social development. The Cambodian people receive from the government, about \$7 per person per year for health-care and education (compared to about \$150 in Thailand). Public infrastructure development (\$6 per person, versus \$180 in Thailand) relies almost fully on foreign aid. According to a 1999 World Bank study, donors and NGOs finance up to 46 percent of the total spending on education, while individual households and the government finance 27 percent each. For health-care, households finance an overwhelming 82 percent of the total costs, donors and NGOs combined contribute 14 percent, and the government, only 4 percent. Lack of funds is the primary reason for the indifferent quality of public health and education systems in Cambodia. Consequently, their impact on poverty reduction is low. With a weak public health system, Cambodian families often sell portions of their land to pay for health-care, and in the process become landless and/or asset less.<sup>20</sup>

<sup>20</sup> CDRI's Social Assessment of Land in Cambodia discusses this issue in detail (So *et al*, 2001).

**Figure 3.3 Budget Committed to the Ministry of Health in 2001**

Source: Ministry of Economy and Finance

### 3.4.3 Foreign Aid and External Debts

According to preliminary estimates made by the CDC, foreign aid disbursements increased sharply, reaching \$528 million in 2001 (up from \$478 million in 2000), representing an increase of 10.5 percent compared to 2000. Loans represented 17.2 percent of total foreign aid disbursed in 2001 against 18.4 percent in 2000. After a sharp increase in 2000, loan disbursements rose still further in 2001. According to the MEF, disbursements of loans from the World Bank and the ADB totalled \$91 million in 2001, up from \$88 million in 2000 and \$45 million in 1999. The sharp increase in 2000 was due to allocating quick-disbursement loans for budget support (\$23 million) and social funds (\$20 million). Despite these disbursements, the extension of loans to Cambodia was still below the amount committed by these lending institutions (about \$150 million per year). Loans disbursed by the ADB have been slightly higher than those disbursed by the World Bank during the last three years.

**Table 3.12 Loan Disbursements (million US\$)**

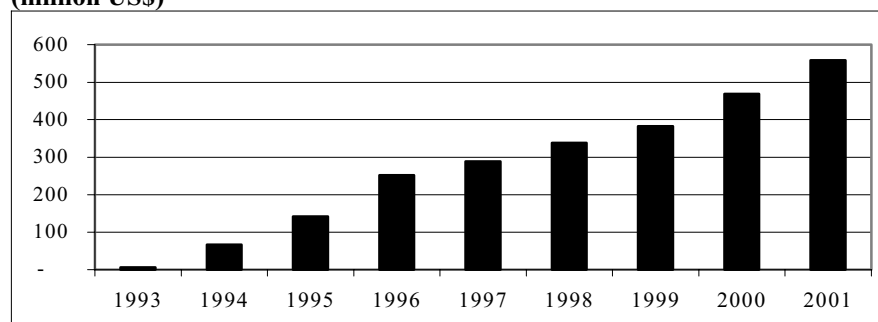
	1999	2000	2001
Total Loans	45.4	87.7	90.7
<i>Loans by Lenders</i>			
World Bank	19.9	36.4	41.7
ADB	25.5	51.3	49.0
<i>Loans by Categories</i>			
Budget Support	-	23.1	4.6
Social Funds	-	19.7	31.7
Infrastructure	43.8	43.4	53.5
Technical Assistance	1.6	1.5	0.9

Source: Ministry of Economy and Finance

With this rapid disbursement of loans, Cambodia's outstanding foreign debts recognised by the government (owed to the World Bank and the ADB

since 1993, and to some bilateral assistance received before 1970) increased sharply, reaching \$558 million at the end of 2001. However, debts owed to the US during 1970-1975 (about \$300 million) and to Russia during 1980-1990 (about \$1,400 million) are not recognised by the government. As loans from the two multinational lending agencies are concessional, having a ten-year grace period, the Cambodian government will commence repayment, for the first time, in 2003. Only a small amount of interest (less than \$500,000) is to be paid back in 2003.

**Figure 3.4 Outstanding Foreign Debts Recognised by the Government (million US\$)**



Source: CDRI, compiled from the primary data of the Ministry of Economy and Finance

### 3.5 Balance of Payments

#### 3.5.1 Current Accounts

Despite the slowdown in garment and timber exports, the volume of Cambodia's external trade continued to steadily grow, reaching \$3,343 million in 2001, exceeding the nominal GDP for the first time in Cambodia's history. Exports increased by about 8 percent in 2001 in contrast to 33 percent in 2000, while imports of goods rose by 7 percent in 2001 against 14 percent in 2000. In terms of trade balance, lower rubber export prices and a sharp decrease in timber exports were the reasons for the decline of the trade surplus in agricultural products. Trade surplus in the garment sector continued to improve. However, the trade deficit in energy and non-garment manufacturing sectors increased slightly, owing to expansion in local economic activity. As a result, the total trade deficit deteriorated slightly in 2001, reaching \$339 million in nominal terms, representing 10.5 percent of the nominal GDP. The balance in the service sector continued to improve significantly in 2001 (+19 percent), thanks to the expansion in tourism. The outflows of incomes owed by expatriates (including salary and profits generated by FDI) were broadly

balanced by the inflows of money repatriated by Cambodians from overseas. Overall, Cambodia's current account deficit improved slightly, reducing to 6.7 percent of the GDP in 2001 against 7.2 percent in 2000.

**Table 3.13 Cambodia's Current Accounts**

	Million US\$			Percentage of GDP		
	1999	2000	2001	1999	2000	2001
<b>Exports of Goods</b>	<b>1048</b>	<b>1393</b>	<b>1502</b>	<b>33.9%</b>	<b>44.2%</b>	<b>46.4%</b>
<b>Imports of Goods</b>	<b>1488</b>	<b>1714</b>	<b>1841</b>	<b>48.2%</b>	<b>54.4%</b>	<b>56.9%</b>
Trade Balance	-441	-322	-339	-14.3%	-10.2%	-10.5%
Agriculture	169	119	97	5.5%	3.8%	3.0%
Garment	124	285	309	4.0%	9.1%	9.6%
Energy <sup>1</sup>	-139	-157	-167	-4.5%	-5.0%	-5.2%
Other Goods	-594	-569	-578	-19.2%	-18.1%	-17.9%
Balance of Services	68	100	119	2.2%	3.2%	3.7%
Incomes & Private Transfer (net) <sup>2</sup>	15	-6	4	0.5%	-0.2%	0.1%
<b>Current Account Balance</b>	<b>-357</b>	<b>-227</b>	<b>-216</b>	<b>-11.6%</b>	<b>-7.2%</b>	<b>-6.7%</b>

Source: Compiled from government's primary data <sup>1</sup> This figure included only official imports of gasoline, diesel and other oil products recorded by the customs department, which should be much lower than the real domestic consumption. <sup>2</sup> This figure is a rough estimate. According to the CDRI surveys with some Cambodian commercial bankers, Cambodia received at least \$100 million per year as private transfers from Cambodians overseas. However, about the same amount was being sent back abroad by private and business people.

### 3.5.2 Capital Accounts

Although foreign aid increased substantially, total capital flows to Cambodia fell by 9 percent in 2001 compared to 2000, because of a large decline in foreign direct investments. FDI in private businesses, such as factories and hotels, reached only \$63 million in 2001, against \$101 million in 2000 and \$174 million in 1999. During the last three years, official transfers (foreign aid in grants) remained the same at around \$250 million annually, though official loans increased slightly. Foreign aid to Cambodia rose slightly, reaching \$340 million in 2001 against \$333 million in 2000.<sup>21</sup> As a result, the country's capital account balance reached \$403 million in 2001, down from \$434 million in 2000 and \$469 million in 1999.

<sup>21</sup> Foreign aid in the balance of payments account excludes those amounts spent outside the country, such as salaries of some foreign experts. This is the reason why this amount is lower than that presented by the CDC, which does not exclude anything.

**Table 3.14 Cambodia's Capital Accounts**

	Million US\$			Percentage of GDP		
	1999	2000	2001	1999	2000	2001
<b>Current Account Balance</b>	<b>-357</b>	<b>-227</b>	<b>-216</b>	<b>-11.6%</b>	<b>-7.2%</b>	<b>-6.7%</b>
<b>Capital Account Balance</b>	<b>469</b>	<b>434</b>	<b>403</b>	<b>15.2%</b>	<b>13.8%</b>	<b>12.5%</b>
Official Transfer (grants) <sup>1</sup>	251	246	250	8.1%	7.8%	7.7%
Official Loans (net) <sup>2</sup>	44	87	90	1.4%	2.8%	2.8%
Foreign Direct Investment	174	101	63	5.6%	3.2%	2.0%
<b>Change in Foreign Reserves<sup>3</sup></b>	<b>112</b>	<b>207</b>	<b>187</b>	<b>3.6%</b>	<b>6.6%</b>	<b>5.8%</b>
At the NBC	26	63	58	0.8%	2.0%	1.8%
Outside the NBC	86	144	129	2.8%	4.6%	4.0%

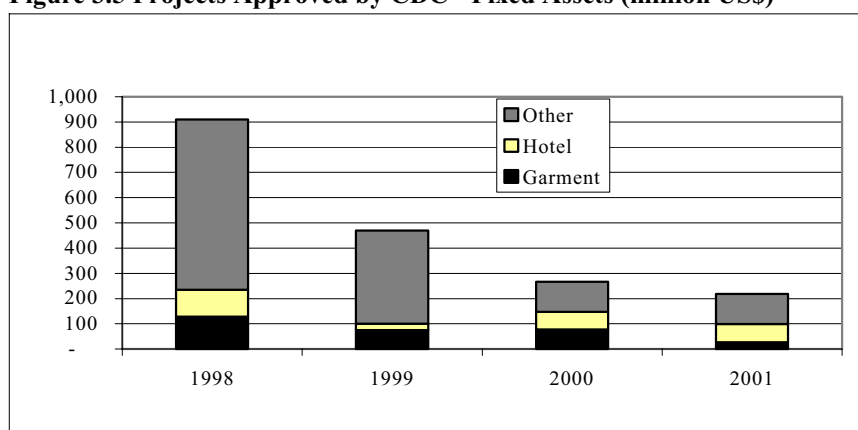
Source: Compiled from primary data of the Cambodian government <sup>1</sup> This figure includes only foreign aid in grants transited in Cambodia. For example, salaries of foreign experts paid outside Cambodia are not included in the balance of payments. <sup>2</sup> Net of amortisation <sup>3</sup> Overall balance reflects change in the country's foreign reserves. As Cambodia is a dollarised economy and private individuals and institutions can hold foreign currencies, the overall change of the balance of payments does not only affect the foreign reserves of the National Bank, but also other economic agencies (private financial institutions, businesses and households).

Despite the decline in FDI, Cambodia's overall balance of payments remained largely positive, reaching \$187 million in 2001 against \$207 million in 2000 and \$112 million in 1999. This overall surplus improved the nation's foreign reserves. One part (\$58 million) went to the National Bank of Cambodia with the rest (\$129 million) being dispersed throughout the Cambodian economy.

### 3.6 Investments and Capital Accumulation

#### 3.6.1 Private Investment

Capital flight is a signal indicating a decline in private investment. In 2001, the number of investment projects approved by CDC as well as the amount of potential fixed assets continued to fall for the third consecutive year. The fall has hit all sectors. Although the government has made every effort to encourage growth in tourism, including the open sky policy, projects for new hotel construction and other tourism centres (excluding casinos) were still very limited. According to CDRI's estimates based on various government sources and its own surveys, FDI actually implemented in 2001 dropped by about half compared to 2000. Investment in Cambodia during the last two years has mainly focussed on hotel construction in Siem Reap. In the garment sector, the situation is worrying with 34 factories shut down in 2001. There were 19 new garment factories built in 2000 against 58 in 1999 and 71 in 1998.

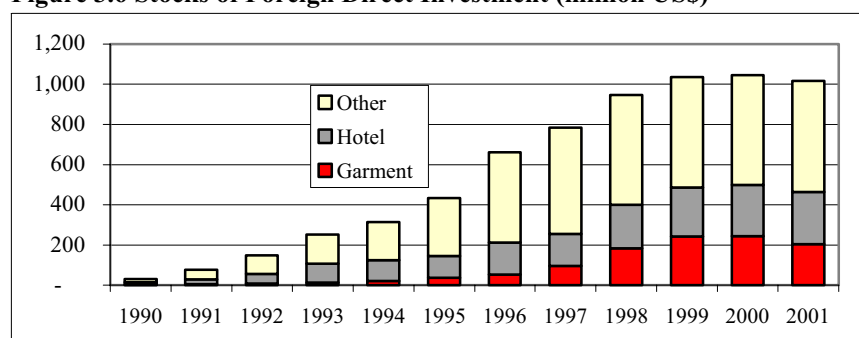
**Figure 3.5 Projects Approved by CDC - Fixed Assets (million US\$)**

Source: CDC

### 3.6.2 Stock of Capital

Cambodia's stock of FDI increased significantly between 1995 and 1999, reaching about \$1,000 million at the end of 1999, of which garment factories and hotels represented about half the total. However, this momentum seemed to have halted in 2000. With the closure of 34 garment factories in 2001 the stock of FDI in the garment sector declined sharply. In 2001, the number of hotels in operation in Phnom Penh declined, though in Siem Reap and some other provinces some new hotels were built. On balance, the overall stock of capital in the tourism sector continues to grow. However, the stock of FDI in other sectors, including non-garment manufacturing sectors such as the food industry, plastic industry and motorcycle assembly, were unchanged, though investment in casinos significantly increased.

The current decline in the stock of capital in the garment industry has not yet affected the levels of production. Owners of some garment factories have begun to operate their factories on double shift to meet the increase in demand and to compensate for the closure of some factories. The future of the garment sector depends upon the capacity of the industry to command markets overseas. In addition to this both technological upgrades and membership of the WTO are going to be prerequisite.

**Figure 3.6 Stocks of Foreign Direct Investment (million US\$)**

Source: Compiled from various government sources and CDRI surveys

### 3.7 Employment and Earnings

#### 3.7.1 Labour Force

According to the government's revised statistics<sup>22</sup>, Cambodia had a population of 13.1 million in 2001. Based on assumptions made by the National Institute of Statistics (NIS) on the labour participation rates, Cambodia's labour force should have reached 5.6 million, which is 43 percent of the total population in 2001. Based on the 1998 Census data and CDRI surveys, the labour force in formal sectors (primarily, garment and tourism) represented about 5 percent of the total labour force. The remaining 95 percent were involved in agriculture (77 percent), non-garment industry (4 percent) and other services (14 percent). Formal sectors exist only in Phnom Penh, Siem Reap and Sihanoukville.

Compared to 2000, the total population of Cambodia increased by about 330,000 in 2001 with the labour force rising by 200,000. It is estimated that formal sectors absorbed only about 15,000 new entrants into the labour market, while the other 185,000 went into informal sectors, mostly in agriculture. The garment sector created about 10,000 new jobs in 2001 despite a decline in the number of factories operating in the country. Many garment factories doubled the working time and hired new workers on short-term contracts. This situation might be a potential cause of industrial relations conflicts in the future. The tourism sector directly created 5,000 new jobs in 2001. As indicated above, about 185,000 new entrants to the labour market had to stay in the agriculture sector or non-agricultural informal sector activities, as there is no other alternative in the short run. These people will be potential migrants to big cities such as Phnom Penh, or will immigrate to neighbouring countries.

<sup>22</sup> Ministry of Planning, Population projection for 2001-2021



**Table 3.15 Cambodia's Labour Force (000's)**

	<b>2000</b>	<b>2001</b>	<b>Change</b>
<b>Population</b>	<b>12,770</b>	<b>13,100</b>	<b>330</b>
<b>Labour Force</b>	<b>5,430</b>	<b>5,630</b>	<b>200</b>
<b>Formal Sectors<sup>1</sup></b>	<b>260</b>	<b>275</b>	<b>15</b>
Garment	200	210	10
Tourism	60	65	5
<b>Informal Sectors</b>	<b>5,170</b>	<b>5,355</b>	<b>185</b>
Agriculture	4,196	4,352	156
Industry <sup>2</sup>	217	224	7
Services <sup>3</sup>	757	779	22

Source: CDRI, compiled from government primary data and CDRI surveys <sup>1</sup> Does not include some companies in the food and tobacco industry, communications, wholesale and finance that provided formal jobs, because of a lack of information. They should provide between 5,000 and 10,000 direct formal jobs. <sup>2</sup> Mostly includes handicraft and small fabrics <sup>3</sup> Mostly includes trade, transportation and other informal services

### **3.7.2 Incomes of the Poor**

Based on CDRI's estimates, Cambodia's nominal GDP increased by \$85 million in 2001 over that of 2000.<sup>23</sup> This amount is considered as an aggregate indicator of the level of incomes additionally generated by the whole nation. How was this money distributed? Table 3.16 shows that the formal sectors accounted for \$64 million, representing about 75 percent of the new national wealth, although they employed only 5 percent of the total labour force. As the main contributor to economic growth, the garment sector took the major share of the fruits of economic growth (\$44 million), though tourism was second with \$20 million. The agricultural sector, which employed 77 percent of the labour force, lost money in absolute terms in 2001 (-\$9 million). Handicraft and small-scale manufacture of fabrics also lost about \$5 million in income. The nation's additional wealth generated in 2001 reached \$15 per worker on average. The tourism sector was the winner (\$311 per worker), followed by the garment sector (\$209 per worker). Trade and other informal service sectors also remained profitable.

<sup>23</sup> Provisional figures prepared by the Ministry of Planning show that Cambodia's nominal GDP increased by only \$53 million in 2001, despite significant increase in real GDP. A sharp decline in the GDP deflator, estimated by the Ministry of Planning, should be the main cause of this discrepancy.

**Table 3.16 Cambodia's Nominal GDP by Sub-sectors (Million US\$)**

	2000	2001	Change	Change per Worker (US\$)
<b>Total Sectors</b>	<b>3,149</b>	<b>3,234</b>	<b>85</b>	<b>15</b>
<b>Formal Sectors<sup>1</sup></b>	<b>596</b>	<b>660</b>	<b>64</b>	<b>233</b>
Garment	363	407	44	209
Tourism	233	253	20	311
<b>Informal Sectors</b>	<b>2,552</b>	<b>2,573</b>	<b>21</b>	<b>4</b>
Agriculture	928	919	-9	-2
Non-Garment Industry <sup>2</sup>	426	421	-5	-22
Non-Tourism Services <sup>3</sup>	1,198	1,233	35	45

Source: CDRI, compiled from primary data from the Cambodian government <sup>1</sup> Does not include some companies in the food and tobacco industry, communications, wholesale and finance that provided formal jobs, because of a lack of information. <sup>2</sup> Mostly includes handicraft and small fabrics <sup>3</sup> Mostly includes trade, transportation and other informal services

To monitor the income movement of selected workers in some vulnerable employment categories, CDRI has conducted regular quarterly surveys since 1997, on a sample of about 500 workers in Phnom Penh and the provinces surrounding the capital.<sup>24</sup> The results of this survey (Table 3.17) show that only the daily incomes of waitresses in restaurants, garment workers and moto-taxi drivers have significantly increased, while incomes of others declined sharply in 2001 compared to 2000. Seasonal migrants from the provinces who took up jobs as cyclo drivers, unskilled construction workers and porters saw their gross earnings decline by 11 percent, 13 percent and 15 percent, respectively. Scavengers<sup>25</sup> and skilled construction workers were the biggest losers as their earnings declined by 25 percent and 28 percent, respectively. According to the surveys, the sharp decline in the incomes of scavengers was mainly caused by a significant increase in the number of scavengers migrating to Phnom Penh from poorer provinces in the Southeast parts of the country (Svay Rieng, Prey Veng and Takeo). With reference to construction workers, their incomes declined because of sluggishness in the construction activity, an increasing of number of migrant workers, and stiff competition from foreign construction workers, perceived as more skilled and competent.

<sup>24</sup> The samples of the surveys constitute 40 workers for each group, except for the garment sector that is represented by 120 workers.

<sup>25</sup> The term refers to waste collecting and recycling workers

**Table 3.17 Gross Daily Earnings of Workers (riel)**

	2000	2001	%Change
Waitresses	2,122	2,560	21%
Garment workers	7,866	8,483	8%
Moto-taxi drivers	10,467	10,600	1%
Rice field workers	4,057	3,958	-2%
Small traders	6,889	6,388	-7%
Cyclo drivers	9,321	8,272	-11%
Unskilled construction workers	7,571	6,557	-13%
Porters	7,809	6,637	-15%
Scavengers	4,228	3,162	-25%
Skilled construction workers	15,220	10,937	-28%

Source: CDRI surveys

### 3.8 Poverty and Decentralised Development

There are no new estimates of poverty available, other than those obtained from the Socio-economic Survey of 1999. According to that survey, the number of people living below the poverty line totalled 36-37 percent. In 2001, the Ministry of Planning released a report, which officially placed the proportion of those living in poverty at around 36 percent. Up to 90 percent of the poor reside in rural areas and are engaged in agricultural occupations. However, data on daily earnings presented in the previous section, suggests the possibility that poverty remained unchanged. Most of the poor are illiterate or semi-literate, they are small farmers or landless unskilled workers (under unsecured working condition), and many belong to female-headed households. Typical to an agrarian economy, open<sup>26</sup> unemployment is negligible. But underemployment, disguised in the form of development of low productivity/low earnings workers, is large. This holds for both, rural and urban areas. The government, acknowledging the state of poverty in the country, has initiated the process of launching a Poverty Reduction Strategy (PRS). The first step in this direction is to prepare a Poverty Reduction Strategy Paper (PRSP), which is expected to be ready by October 2002. The PRSP aims to closely follow the targets set in the Millennium Development Goals (MDG) set by the United Nations to which Cambodia is a signatory. The government has also set up a Poverty Monitoring and Analysis System, housed at the Ministry of Planning, to monitor changes in poverty and advise the government on different corrective steps to be taken, within and in addition to the PRS, to alleviate poverty.

Cambodia held its first ever Commune Council Elections in February 2002. This was a logical culmination of a process that began in 1994, to decentralise development and governance, with a view to promote agricultural and rural

<sup>26</sup> Open unemployment is in contrast to disguised unemployment and underemployment

development and grassroots democracy. It is believed that in the coming year, the government will draw up appropriate legislation and action plans to implement the decentralisation of governance and financial responsibilities to the lowest tier in the governance system.

### **3.9 Conclusions and Perspectives for the Future**

There are four areas where some speculation about the shape of things to come in the future can be made, at least in the short run for the next year or two. These are first growth in the national income, secondly inflation and exchange rates, thirdly government budgets, and finally the distribution of gains to the society. A short statement for each of these is made here.

Growth in the national income depends on the sources of growth. In the past, the main engines of growth have been the garment industry and tourism. One of the reasons why the growth in these was high in the 1990s was the small base. Now, with about 200 factories and a \$1,000 million worth of exports in textile products, the base of this industry is much larger than previous. A similar statement can be made about tourism. Coupled with this is also the effect of the slow rate of recovery from global recession. Since both garments and tourism are linked to international demand and FDI, they are affected accordingly. Agriculture, the largest employer, has not demonstrated the capacity for rapid and sustained growth. Cambodia, therefore, may not deviate very much from its present path of about 5 percent annual growth in the next year or two.

The inflation rate in Cambodia is low or nil due to a high dollarisation of the economy. As stated previously, up to 70 percent of the stock of currency in the country is in the form of foreign currencies, and most major transactions are conducted using foreign currencies. This dollarisation is unlikely to change for quite a while, not only because the market has adjusted to this system, but also because no attempt, through public policy, is being made to reverse it. Inflation in Cambodia is therefore expected to be low at least in the next year or two, both because the bulk of the transactions are made in foreign currencies and the riel is closely linked to the US dollar in terms of parity. Similarly, the exchange rate is expected to be stable at around 3900-3950 riels per dollar, despite the excess injection of currency in riels due to elections both at the commune level in 2002 and the national assembly in 2003.

Government budgets in Cambodia are in huge deficit because of the weakness in revenue collection. So far, previous deficits have been financed by international aid. Since donors have promised the flow of international aid, at least in the short term, there is good reason to believe that funding of the budget

deficit will continue for the next year or two. As for revenue collection, this is growing at a slower pace than the targets set each year. The years 2002 and 2003 are election years, and as the government is in coalition, there are unlikely to be drastic steps initiated for raising tax collection. Meanwhile the demands from the expenditure side are likely to be high; the reform process has its own demand in terms of better pay packets, development and integration into ASEAN requires more expenditure on infrastructure, anti-poverty programmes will have to be stepped up, and the coming elections will require more liquidity. The gap between domestically raised revenues and expenditure are likely to widen and will have to be bridged through foreign aid.

The distribution of gains depends on the sources of growth, government budget expenditure and international aid programmes. Since the sources of growth are unlikely to change direction in the next year or two, there is going to be little change in the distribution of income originating from the growth process. The government is likely to step up expenditure on social sectors in contrast to defence and general administration, and this may be beneficial to the poor and rural areas. In the same vein, foreign assistance to alleviate poverty may rise and in turn help raise incomes of the poor (i.e. through investments in agriculture, rural development and human development). However, the short-term impact of this aid is unlikely to be very visible.

## Chapter Four

# Private Sector Development in Cambodia: An Exploratory Study

### 4.1 Introduction

The economic successes in East and Southeast Asia bear evidence to the fact that private sector development can be a harbinger of rapid economic growth in Asia. Most governments in developing countries as well as multi-lateral and bi-lateral development agencies are now grappling with the problem of how to promote the private sector. This is seen both in terms of attracting foreign capital and in promoting national capital, in order to place low income and transitional economies on a high growth path.

When considering private sector development in Cambodia it needs to be mentioned at the very outset that Cambodia commenced development from a base line of virtually zero. This was true for both industrialisation and private sector growth in the early 1990s, the period when the economy opened up. Thirty years of war and upheaval destroyed the country's infrastructure, there was a lack of educated, skilled and trained persons, and what existed in the name of economic activities were subsistence agriculture, some petty trade and a small state-owned modern manufacturing sector in the capital city. Infrastructure was virtually non-existent when judged from standards of the contemporary era. The Survey of Establishments of 1995 (RGC 1997) shows that the total number of business establishments employing 10 or more workers was only 829 in the country, out of which 127 were in Phnom Penh and 702 in the provinces. Up to 94 percent of these were in manufacturing, the rest were in services.<sup>27</sup> Activities that came into existence in the early stages (the early 1990s) were mainly in the form of private foreign investment in forest concessions, commercial agriculture and later, in garment manufacture. There was also some investment in tourism and luxury hotels in addition to a very small investment in telecommunications. The locally owned private sector was in its earliest stages and only present in some services, for example, the retail trade and real estate; in addition it was becoming a minority partner with

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<sup>27</sup> There is a clear bias in these figures, as establishment surveys in Cambodia have so far not included household based or micro-enterprises. This however does not negate that the industrial base is small.

foreign capital because it was a legal prerequisite. It is in this context that private sector development in Cambodia has to be viewed and judged.

Being a transitional economy and a latecomer to industrialisation, Cambodia has so far demonstrated limited capacity to develop and exploit its comparative advantage in sectors other than the abundant but rapidly depleting forests (Chan 2000). Cambodia faces major challenges to set conditions for private sector growth to effectively address the problems related to poverty, unemployment and low income. In recognition of this challenge, the government has recently finalised a set of studies that address the issue of private sector growth within the context of pro-poor trade from a sectoral/industry point of view. These studies consider for example, which sectors can develop and what steps can be taken, within the macroeconomic and legal framework, to assist this growth (MoC 2001a, b, c, d). However some critical questions remain. These include, for example, what business strategies have been successful so far? What are the impediments and anxieties faced at the micro level by individual business persons? Finally what do entrepreneurs articulate as demand for public policy? These are critical to a firm establishment of the private sector but have not yet been fully answered.<sup>28</sup> This chapter represents a modest attempt to find answers to some of these questions.

This chapter outlines a preliminary study, based on a small sample of locally owned successful enterprises. Its purpose is to examine the growth and character of the private sector in Cambodia, which is so necessary for the industrialisation of the country. Research for this chapter is based on case studies conducted with both large and small private sector enterprises located within and outside Phnom Penh. Information was sought on these enterprises' establishment, their growth, the problems they faced and their coping strategies. A number of recommendations for public policy, based on suggestions made by the entrepreneurs, are then presented.

Section 2, of this chapter presents a rationale for the development of a locally owned and/or controlled private sector. This is followed by a section on the growth of the Cambodian economy and private sector in recent years. Section 4 presents an issue-based synopsis of the case studies, which forms the principal data of the study. Section 5 provides recommendations related to the macroeconomic environment, governance, finance, human capital and technology, and supply side strengthening. Conclusions are presented in the final section.

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<sup>28</sup> Perhaps the only study that is based on business persons' responses so far is Webster and Boring (2000).

## **4.2 Rationale for and Forms of Locally Owned and/or Controlled Private Sector**

### **4.2.1 The Need**

The practice of pursuing conventional development models that rely exclusively on centralised planning or economic concentration has been challenged by the need to create sustainable employment opportunities for the rising labour force. This has been necessary because of the large population growth in recent decades in Asia. There is growing agreement now that neither a centralised public sector, nor foreign investments, nor the agricultural sector alone, have been, or will be able to serve the purpose of gainful employment creation at the same pace that the demand for work is growing. A low elasticity of labour utilisation with growth of these sectors and the consequent unimpressive poverty reduction stands evidence to this.

Experience globally, in both developed and developing countries, has shown that a diversified private sector working in competitive environments has massive potential to contribute to sustained growth and poverty reduction (World Bank 2001a).

### **4.2.2 Experiences Elsewhere**

Since the Second World War there has been an impressive accumulation of capital and an improvement in the quality of life in almost all countries in the rapidly growing parts of Asia (Korea, Japan and Taiwan, for example). China has developed along this route a little more recently. All of these countries have been able to create a large number of jobs for local workers.<sup>29</sup> Each of these countries achieved success through private initiative. In turn this has permitted a geographical and sectoral relocation of workers from low productivity subsistence and primary sectors to high productivity ones, reducing poverty in the process.<sup>30</sup> In each of these cases, large, medium as well as small industries in both rural and urban areas have played an important role.<sup>31</sup> In the earlier years of industrialisation in Japan and Korea, the law prohibited foreign holdings to be more than a small proportion in the quest to keep maximum

<sup>29</sup> In recent issues of the World Bank Observer (in 2001), it is noted that capital accumulation and installation in the country are better determinants of development than growth rates alone.

<sup>30</sup> See for reviews and details, Islam (1987), Johansson and Ronnas (1996), World Bank (1991) and World Bank (2001b).

<sup>31</sup> Small industries, rural industries, off-farm activities, and decentralised sector activities are used here interchangeably and refer to all those economic activities that fall outside agriculture, modern large scale industries or that are labour intensive. The ILO's perspective in Asia also advocates large scale creation of jobs through grass-roots entrepreneurship. See ILO-SAAT (2000)



value-added within the country in order to encourage reinvestment and further industrialisation.

#### **4.2.3 Benefits of an Indigenous Private Sector**<sup>32</sup>

There are numerous motivations and potential benefits for promoting a locally owned indigenous private sector, whether it is in the form of large, concentrated, vertically integrated industrial set ups, or through small-scale diversified activities in both rural and urban areas. A combination of both is ideal. Some benefits are as follows:

*a) Creating new and stable jobs*

The most compelling reason is job creation for surplus labour presently engaged in subsistence agriculture and similar low productivity activities. Relocation of this labour force into other, higher paying jobs would immediately help reduce poverty. Given the diverse nature of activities outside subsistence agriculture, it is unlikely that there would be falling returns for most of these activities. Consequently, workers engaged in these activities should in all probability be able to hold sustainable jobs in the near future.

*b) Promoting asset and income distribution*

An equally forceful impetus emerges from the need for asset and income distribution. There are significant, rising populations that are composed of workers that are without land or assets. Addressing their asset and/or entitlement needs would mean that self-employment options could open up for these workers. Any attempt to diversify occupations and jobs, would help in creating rich human and physical endowments in the country. A diversified and competitive private sector growth is very often accompanied by both direct and indirect distribution of income and wealth among a larger number of people.

*c) Encouraging balanced regional development*

The inability to manage migration to big cities or to create multi-nodal urban-industrial complexes, which could productively employ rural and semi-urban populations, has resulted in excessive population concentration and congestion in metropolitan centres. In addition the population of the capital city, Phnom Penh, is disproportionately large compared to that of other, smaller cities: the next city after Phnom Penh is a tenth of its size. Petty activities in the informal sectors of the urban environment (particularly the retail trade and the service sector where migrants often

<sup>32</sup> This section does not belittle the role of foreign direct investment. Ideally both locally owned and foreign sectors form a healthy synergy.

seek subsistence) are increasingly unable to expand further under present policy. An increase in decentralised private sector activities meets the objective of regionally balanced industrialisation. It fulfils the targets of balanced development that centrally concentrated industrialisation may take a rather long time to achieve.

*d) Promoting entrepreneurship, skill development and technology transfer*

The private sector (particularly, but not exclusively, the small and medium enterprises) has a tremendous capacity to disperse skills and technologies over diverse groups of workers. Not only do technical and managerial skills get dissipated over a vast geographical terrain but individual workers can also gain the confidence to become entrepreneurs. There is sufficient evidence of small operators having grown and thrived in varied market environments in developing as well as developed countries (Saith 2000).

*e) Increasing value added in the country*

A local private sector, by definition, keeps most of its value-added within the country, and this permits more savings and capital formation. Returns to foreign capital, in contrast, are repatriated to the host country (Hach *et al* 2001).

*f) Establishing links in the local economy*

Very often, in the earlier stages of industrialisation, local private-sector industries and activities draw extensively on locally available resources and at the same time, supply to local markets. This promotes forward as well as backward linkages that can create economic activity and help disseminate technologies. Contract farming for a backward linkage to agriculture from agro-processing industries, as practised in Sri Lanka, is a typical example of this type (Dunham 1994). Given the agro-climatic terrain, most countries in the Southeast Asian region, Cambodia included, have the potential for excellent agricultural growth, which in turn can help rapidly establish links with agro-processing activities and marketing.

*g) Ensuring regional distribution and stability*

Last and of particular relevance to Cambodia, is that private sector development could lead to dispersion of capital across the country's geographically varied regions. This, in turn, generates a greater distribution of wealth for varied cross-sections of people. In the process these people become stakeholders with an interest in protecting their wealth. Better governance, vital to economic as well as social development, can most easily emerge when a majority of the populace is composed of people who own, control and/or value assets and have a stake in them.

#### **4.2.4 Gender Equity**

As with most of Southeast Asia, the types of jobs that women hold in Cambodia are frequently inferior in terms of status and pay. In Cambodia as elsewhere, women have less access to human and physical capital than men do. However, since the capital base in the locally owned private sector is not necessarily large or sophisticated in the earlier stages, this sector can offer equitable opportunities for women, particularly in small and very small industries. It has been observed in most countries that women's participation in small enterprises far exceeds that of larger establishments.<sup>33</sup> Once working, women have the opportunity to acquire skills and bargain to improve their position in the labour market.

#### **4.2.5 Private Sector Industry in Early Stages of Development**

In the early stages of development, private sector enterprises (particularly, but not exclusively, the small and medium enterprises) can be ancillaries, sub-contractors, direct product manufacturers, cottage industries or household industries, to quote but a few examples of successful enterprises in manufacturing and support activities. Enterprises in services have also been successful in transport, retail sales, technical and personal services. An important criteria for success is the degree of technological sophistication achieved in the various processes of manufacturing or services provision. In developed countries, small and medium enterprises in some sectors are even forerunners of modern technology – users of the so-called flexible technologies, inventors of computer hardware and software, for example (Piori and Sabel 1984). In emerging economies as well, the role of the private sector has been critical. The light engineering industry, toys and ancillary products in the East Asian context are an excellent example.

In low-income countries like Cambodia, small and very small private sector industries can play a useful role in the decentralised production of a number of consumer goods. Food processing and preparation and leather processing would be good examples. Typically these industries initially use intermediate technologies before graduating to more sophisticated manufacturing processes as capacities develop.<sup>34</sup> Cambodia has a long tradition of making handicrafts and with improvements in the quality of products, there is a distinct synergistic opportunity for the handicrafts industry and tourism.

<sup>33</sup> See Horton (1995) for some numbers in select Asian countries. This statement however has exceptions in Cambodia: the garment industry here is in the large-scale sector, and yet employs a very large number of women workers.

<sup>34</sup> The science, technology and organisational needs for establishing small industries in the Asian context have succinctly been put forward in ESCAP (1998).

Other spheres where small enterprises or decentralised activities can create some headway are construction, repair and replacement. Since Cambodia has some core competence in manufacturing, the possibilities of expanding its activities or creating more value per unit of output (i.e. product deepening) could also be explored.

These diverse arguments suggest that small-medium sized private sector enterprises have great potential, not only to act as a medium for income distribution, but also to successfully meet the challenges of job creation and regional dispersion of industries. A study of their success, their strategies, the problems they face and their options for dealing with these problems, can help in providing the building blocks for analysis of a policy environment that would help industrialisation develop in a transitional economy. Such a study would also be useful in the identification of individual, relatively dynamic sub-sectors, which, in a little friendlier environment, would have the potential to exhibit rapid growth.

### 4.3 Macroeconomic Overview of Industrial Development in Cambodia

Since the early 1990s, economic performance in Cambodia has been characterised by a rapid development of some new industries; the garment manufacturing and tourism industries in particular. Economic activities occurred across a narrow spectrum, however, and have been largely confined to the urban centres. A synopsis of the progress made can be seen in Table 4.1.

**Table 4.1 Economic Growth and Productivity from 1993 to 2000**  
(Percentage increase, yearly average)

	Production	Productivity per Worker	Capital-Output Ratio <sup>1</sup>
Agriculture	2.6	0.4	14
Industry	10.4	1.9	48
Services	4.2	3.2	76
<b>Total</b>	<b>4.6</b>	<b>2.1</b>	<b>50</b>

Source: CDRI database compiled from various government sources and CDRI surveys. Figures in this table are calculated from raw data obtained from the government. They may not compare with those published elsewhere. <sup>1</sup> Stocks of capital as a percentage of value-added

#### 4.3.1 Economic Growth

In 1995-6, economic growth in Cambodia was high, reaching 7-8 percent per annum. The fighting of 5-6 July 1997, along with the Asian financial crisis of the same period, led to a sharp economic slowdown with the Cambodian economy averaging one-percent annual growth. By 1999-2000 economic activity had again become positive and despite the adverse impact of floods and

the continued regional financial crisis, Cambodia's real GDP growth in 1999 and 2000 was estimated to range between 5 and 6 percent for each year. Overall between 1993-2000 economic growth averaged about 4.6 percent a year. This was mainly on account of the garment industry, construction and tourism. Agriculture grew at a much slower rate than other sectors and its share in the GDP declined sharply.

The agricultural sector, which contributed about 30 percent of the country's GDP and employed 77 percent of the labour force in 2000, grew about 2.6 percent per year in real terms between 1993 and 2000. Cambodia's agriculture is significantly influenced by the weather since investment in the form of irrigation or flood control is very low. Nevertheless, rice production attained self-sufficiency in 1995, rising to about 3.5 million tonnes in that year from about 2.0 million tonnes in the mid-1980s. This increase was due both to an expansion of the area sown and the yield rate, the latter rising from 1.2 tonnes per hectare in the early 1990s to two tonnes in 2000. Other crop and livestock sectors experienced slow growth (less than 2 percent per year). Moreover, some crop sectors, particularly rice, soybeans, and tobacco, faced severe difficulties due to falling prices over the last three years. Forestry and fishery production has also fallen sharply since 1999 because of over-exploitation of these natural resources during the 1990s.

Industry, which represented about 25 percent of the GDP in 2001 and employed about 8 percent of the labour force, grew rapidly between 1993 and 2000 at 10.4 percent per year in real terms, despite the fighting of 5-6 July 1997 and the Asian financial crisis. The garment industry, electricity and water were the most dynamic sub-sectors, though construction and telecommunications also showed some promise. The rest of industry was largely a non-starter. The garment industry was established in Cambodia in 1993 with the aim to export, facilitated in part by the Multi-Fibre Agreement. Since 1997, most exports have been destined for the US market, although a quarter reaches Europe. Despite the introduction of a quota for garment exports to the US in 1999, exports of garment and textile products reached about \$ 1,000 million in 2000, rising from just about \$4 million 1993. Over 200 garment factories have been established in the last decade. Hotel construction initially expanded quickly in Phnom Penh, Siem Reap and other provincial towns. The dual crises of 1997 and the rapidly rising timber prices account for the setbacks suffered by the construction sector in recent years.

The service sector, which represents about 45 percent of the GDP and employs about 15 percent of the labour force, grew fast (about 10 percent per year) between 1992 and 1996, owing particularly to the expansion of transportation, telecommunication, and tourism. However, activities were

severely affected by the fighting of 5-6 July 1997. With the return of political stability, momentum in this sector is picking up again: it registered a growth rate of about 9 percent per year for 1999 and 2000. Overall, the service sector grew 4.2 percent between 1993 and 2000, which is lower than the aggregate growth rate in the national income.

The structure of the Cambodian economy suggests that there are large sectoral imbalances in production, productivity and labour allocation. There are several reasons for this; the economy is primarily composed of subsistence agriculture, exclusively foreign capital has an impact on the economy, and there are legacies from the state-owned sectors. Additionally there has been little in the name of competitive market-led initiatives to ensure optimal resource allocation.

#### **4.3.2 Productivity and Profitability**

Productivity per worker, at 1993 prices, grew relatively rapidly between 1993 and 1996 at about 4 percent per year for the whole economy. However, growth in productivity declined in 1997 and 1998 due to a general economic slowdown, although it regained ground in 1999 and 2000 in some economic sectors. On aggregate, productivity per worker grew at about 2.1 percent annually between 1993 and 2000. Productivity growth in the agriculture sector was low at 0.4 percent annual increase, though productivity in industry and services experienced a higher growth, at 1.9 percent and 3.2 percent respectively. The higher growth rate of worker productivity in the services sector can be explained by a high and growing capital-output ratio in these sectors. In the agriculture sector, productivity per worker has continuously declined since 1997, likely because of the large number of underemployed workers in rural areas and stagnation in agricultural production. In the industrial sectors, productivity per worker recovered marginally between 1999 and 2000, mainly owing to a good performance in the garment industry. In the service sector the performance has been generally good since 1999.<sup>35</sup> In the other industrial sectors however, the situation continued to deteriorate.

Labour costs are relatively low in both the industry and service sectors (13 percent of sales in 2000), though in terms of wage-productivity ratios it may not be easy to argue that Cambodia is a low wage economy since its productivity is low compared to Vietnam, for example. Agriculture represents an atypical case, as this sector employs a large proportion of workers, uses very low level of inputs and capital, and generates low value-added. The industrial sectors consume maximum inputs (66 percent of sales), but they pay very little

<sup>35</sup> Productivity growth in neighbouring countries is higher, particularly in agriculture.

in the form of tax; as a result, gross profits remain high (20 percent of sales). Service sectors appear to be the most profitable in Cambodia, although their contribution to national budget was low at 8 percent of sales in 2000. The sector's gross profit is about 32 percent of sales (Hach *et al* 2001).

### **4.3.3 The Private Sector in Transition**

Cambodia has had a long experience of change since its independence from France in 1953. During the 1950s, prospects for economic development appeared promising. The major macroeconomic indicators were healthy and economic growth was strong, averaging 7 percent per year between 1954 and 1963; Cambodia was one of the more prosperous countries in the region. However, the statist reforms, which began in 1964 by nationalising key economic sectors, such as banking and external trade, plunged the country into economic recession and social crisis. Eventually an informal black market of trade with neighbouring countries emerged. In 1970 a free market system was re-established after a military coup. Rapid economic recovery however, did not happen due to strong political turmoil.

The Khmer Rouge seized power in April 1975 and abolished all private property. Following its collapse in 1979, peasants were encouraged to form small production groups known as solidarity groups, each consisting of approximately 10-15 families. Land remained public property, to be farmed on a collective basis, but each family was also allotted a small private plot.

By 1985, in the wave of political liberalisation, the Cambodian ruling party recognised the existence of widespread street vending and petty marketing, and legalised a private sector to enable the manufacture of light consumer goods. The pace of economic reform accelerated from 1989. Almost 90 percent of all organised solidarity groups were disbanded. Transport, health care and education were also partly privatised, as were most state markets. The relaxation of controls on the economy provided a dramatic boost to the petty private sector, especially in Phnom-Penh. The value-added from the private sector quickly exceeded that of the state, but most private investment was concentrated in trade.

Between 1991 and 1993, the urban-based private-sector economy continued to thrive, and activity in housing construction and repair barely kept pace with the demand from the UN Transitional Authority in Cambodia (UNTAC). Measures of stability and confidence in the economy were restored following the elections and the formation of a coalition Government in 1993. After UNTAC withdrew from Cambodia in late 1993, foreign investment in hotels (almost the only private investment at that time) declined sharply. However, starting in 1995, Cambodia attracted significant FDI, mainly from

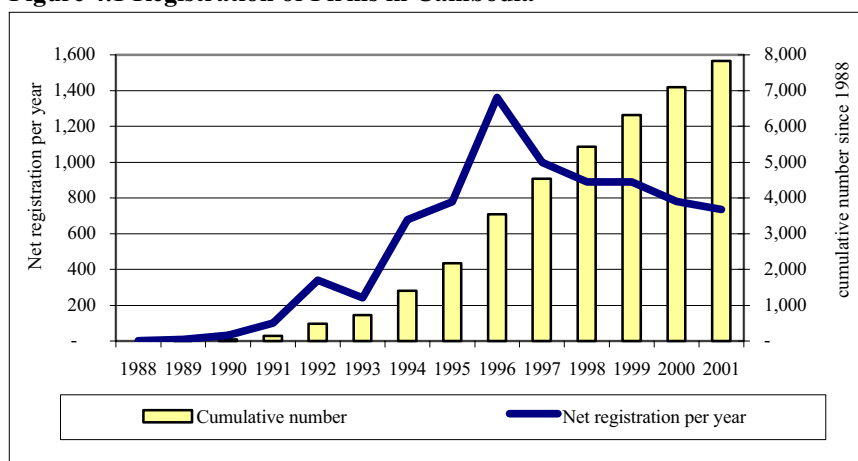
Asian countries. The amount of FDI was close to \$300 million in 1996 (about 10 percent of GDP). However, the fighting of 5-6 July 1997 and the Asian financial crisis had a dramatic impact on investment.<sup>36</sup> The garment industry, though, remained dynamic, and the number of new factories built significantly boosted FDI in 1998. Balance of payments figures, which reflect real implementation of investment, however, showed that the amount of FDI fell from about \$250 million in 1998 to less than \$100 million in 2001. This is far less than the \$500 million per year that Cambodia needs to provide jobs for new entrants to the labour market (RGC 1996). According to the Garment Manufacturers Association of Cambodia (GMAC), the number of garment factories operating in Cambodia dropped from 220 in 2000 to 180 at the end of 2001. Despite this decline, FDI continues to play an important role in economic development of Cambodia, as its stocks still represented about 67 percent of total country's stocks of capital in the modern sector.

Cambodia's private sector remains very young. Local investment began to develop only after 1993, mainly in the construction sector and trade. As shown in Figure 4.1, the number of firms registered with the Ministry of Commerce sharply increased between 1994 and 1996, but decreased in 1997 and have continuously declined thereafter. More than half of the existing companies were registered during the last five years. Moreover, most of the companies registered between 1998 and 2001 were multi-proprietor. Among 7,800 firms registered, only 16 percent were sole proprietor companies. Most of them (about 90 percent) are very small. Only about 1,000 companies have modern management and accounting structures. It needs to be state here, that the government defines modern companies in terms of those companies that pay taxes, have statutory audits of their accounts done, publish their balance sheets, and are registered with the Ministry of Commerce.

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<sup>36</sup> A detailed account of how the domestic economy, including the private sector, were affected by the fighting of 5-6 July 1997 can be seen in CDRI's Annual Economic Review, 2001 (Sok, Sik and Chea 2001).



**Figure 4.1 Registration of Firms in Cambodia**

Source: Ministry of Commerce

#### 4.4 Findings from Case Studies

##### 4.4.1 The Sample

CDRI conducted a select set of case studies on relatively successful entrepreneurs to research the reasons for their success in establishing and furthering business in Cambodia.<sup>37</sup> Although the inquiry was a small sample study, of 10 business persons, the interviews were in-depth, which helped obtain a historical profile of the growth of business through the 1990s and beyond. The historical origin of the businesses is not uniform. Some businesses began in the 1980s, not very long after the fall of the Khmer Rouge, while others began in 1993-4 and some as recently as the late 1990s.

This is a preliminary study and will help establish the scope for further such studies in Cambodia. The survey was carried out without a comprehensive list of enterprises.<sup>38</sup> The criteria for the selection of business enterprises were: (1) Business enterprises from the primary, secondary, and tertiary sectors were all represented in the sample; (2) representatives of both large and small-scale enterprises were interviewed; (3) traditional as well as modern business units found place in the study. Effort was made to see that there was representation of business units located outside Phnom Penh as well as in the capital. It needs

<sup>37</sup> Not all the business persons were as successful as others were. But most have grown in the last few years. Some even maintained that those who have survived in the market could be deemed to be successful.

<sup>38</sup> The study made use of a list provided in Webster and Boring (2000).

clarification that there is no definition of large and small business in Cambodia. In addition, it would have been more meaningful to consider a category of 'medium' sized enterprises as well. However, since the sample is small, a separate categorisation of 'medium' was not feasible. Enterprises with a turnover of \$500,000 or more were considered big, and others were categorised as small. After an initial elimination round from a longer list, the final sample consisted of a banker, a hotel owner, a diversified construction, trade and plantation company (C-T-P in short), a brick manufacturer, a fish-sauce processor, a plastics-manufacturer, a bakery, a handicrafts maker, a poultry farmer, and a commercial vegetable farmer. A classification of the sample business enterprises can be seen in Table 4.2 Although claims cannot be made that this sample is fully representative of the manufacturing and commercial sectors of Cambodia, clues as to how enterprises succeed or not, can almost certainly be deciphered from data based on these case studies.

**Table 4.2 Dispersion of Sample Business Enterprises**

Type	Location	Size: large	Size: small
Modern	Phnom Penh	Bank, Hotel	Plastics, Fish-sauce, Bakery
	Other provinces	Bank	-
Traditional	Phnom Penh	C-T-P	Poultry farm
	Other provinces	C-T-P	Brick, Handicrafts, Commercial farm

Note: Bank and C-T-P appear at two places since they operate both in and outside Phnom Penh

As stated earlier, though the business units chosen for study have not been *a priori* handpicked, i.e. there is some degree of randomness; in reality, there can be no true randomness in the choice of industries in Cambodia. This is because the band within which industries and commercial activities are clustered is rather narrow. It is for this reason that in all probability the purposive sample drawn here would not differ very much from a sample that would emerge if random sampling techniques were rigorously applied.<sup>39</sup>

#### **4.4.2 Industry Profile of the Sample Business Enterprises**

There is an industry-specificity, meaning a self-selection bias, for most of the activities studied here. Many business persons, both inside and outside this sample, mentioned that the initial batch of investments were made on activities where there were quick returns without much investment. Although this may not be totally true for all units in this sample, three factors that appear to define the industry-specificity in the Cambodian context are:

<sup>39</sup> Both the Census of 1998 and the MPDF Study on entrepreneurship stand evidence to this. See RGC (1999) and Webster and Boring (2000)

- 1) Infrastructure, human capital and such supply-side factors were and are limited;
- 2) Demand was and still is small; and
- 3) Many investors were and are still, to an extent hesitant to make a full-fledged long-term capital commitment in Cambodia.

An outline of the industry-specificity' for the 10 business enterprises is discussed below:

A bank is usually one of the first business enterprises to be set up after a political reconciliation. Activities like transactions of the state treasury, being custodian of people's savings and wealth, and depositing and disbursement of monies from international aid agencies, have to be initiated. In recent history many Cambodians migrated to France, North America and Australia for example, to avoid the political turmoil that Cambodia was facing. With a return to relative peace in the 1990s, returning Cambodians helped create a demand for banking services and a large number of banks rushed into Cambodia to open business. In a small, poor, agrarian economy, there were 29 banks in the year 1999. These are now down to 21 after the introduction of more stringent financial regulations.<sup>40</sup>

Hotels have also benefited from the opportunities created in the last decade. Following the signing of the Peace Accords in 1991, peacekeeping forces, as well as donor agencies and NGOs came to Cambodia to provide development assistance. In response to this large influx of people, hotels began to emerge.

Next, given the large forest resources of the country, plantation development and trade in plantation products was a natural choice for entrepreneurs. It was also a natural choice since it was an easy and inexpensive operation with relatively low risks. It may be recalled that before inflows of foreign investment into garment manufacturing commenced, the only other activity, in addition to subsistence agriculture, was plantations. A brick industry can also be considered an early investment possibility since after a prolonged civil war people would wish to reconstruct their houses as a priority. Also, brick is a traditional industry that has origins in ancient history and should be seen as a revival rather than a new initiative. The same can be stated for handicrafts and food processing (bakery and fish sauce). Enterprising farmers saw new potential of growing/developing food that was different from the traditional rice crop (which covers well over 90 percent of the small farm or subsistence sector). A similar argument can be made for a poultry farm. Lastly,

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<sup>40</sup> In the initial phase between 1992 and 1995 banks had to partner with the National Bank, this 'hedged' their risks.

plastic-bag manufacture is a small investment activity that can be ended at very short notice.

Other than to a certain extent the bank, none of these industries is in the sophisticated high technology sector, or one that requires significant financial investment. These businesses are also operating within an environment of limited resource availability, including human resources, infrastructure support and demand.

#### ***4.4.3 Origins of the Business Community in Cambodia***

Like other countries in Southeast Asia, Cambodia has primarily emerged from agrarian origins. Outside Phnom Penh and the provincial capitals, it still continues to be a predominantly agrarian country. Land has historically belonged to the local communities, while persons of minority groups, who in most cases were migrant traders from China, controlled trade. In this regard, it is important to recall that China, one of the earliest civilisations in the region and the world, had harnessed various technologies and transport. With the help of these, they came to have a strong regional presence in trade since the earliest times. Initially many were travelling merchants but overtime a small community settled and intermarried locally. This created the examples of new communities of Sino-Khmer, Sino-Thai and Sino-Malay in different locales of Southeast Asia. Overtime, they have become influential actors in the non-agricultural sectors.

In Cambodia, literature written in the 19<sup>th</sup> and 20<sup>th</sup> centuries, suggests that the urban areas, principally Phnom Penh, were inhabited by merchants of Chinese origin and that they maintained a superior standard of living compared to the rest of the populace. In fact, they were the only other residents of the city along with the ruling classes, the bureaucracy and the army.<sup>41</sup>

The Sino-Khmers, whose principal occupation has historically been trade and commerce, control a significant part of the business in Cambodia. Many in this community possess knowledge about business and commerce that has been passed from one generation to another.<sup>42</sup> Most respondents admitted that they preserve their kinship network. In times of need or opportunity, they find persons from their own community best equipped to partner with – others have fewer resources or experience for historical reasons stated above. That being the case, it must be indicated that this community is far from insular, being

<sup>41</sup> Tarling (1999) (pg. 127-189), and Chandler (1993) are among the best-known historical accounts on Cambodia. They present these findings.

<sup>42</sup> There is nothing unique in this behaviour. For example, the Marwadi and Parsi communities in South Asia also exhibit similar patterns (See Piramal 1998).

fully assimilated into the mainstream with a large heterogeneity within the community. As mentioned above, it is the resources and experience that holds many in the community together. It is no coincidence that all of the 10 entrepreneurs that were interviewed for this study are of Sino-Khmer origin.

#### **4.4.4 Growth of Business**

Although the activities and origins of these business units is so diverse that no meaningful comparison of variables is possible, some general observations are still pertinent. Nine out of 10 of these business persons began from humble origins in Cambodia; only one came in from overseas with a relatively affluent background. All the entrepreneurs learnt the skill of doing business on the job and grew as the economy grew, though some grew very rapidly and others at a relatively slow pace.

The bank studied, grew rapidly from an asset base of about \$8 million in 1993 to over \$124 million in 2001. It achieved this massive, 40 percent a year growth, successfully opening several branches in the provinces as well, on account of two main factors. First, it mobilised money from the expatriate Cambodian community – the Diaspora – after convincing them of the viability and gains of investing in Cambodia. Secondly, it created a niche for money lending among a wide base of Cambodian middle and upper-middle class business persons who otherwise would not easily find institutional money to invest. The key to the growth of this bank was low hesitation to do business with local small and medium level traders and manufacturers, in addition to making investments in diversified activities in real estate.

Similarly, the hotel under consideration grew rapidly from a small 27-room hotel to one that has 157 rooms of varied facilities, in addition to a new semi-luxury hotel in another city. The business today has an annual turnover of over \$1 million. This multi-fold rise in assets, and corresponding income, has been a continuum of success achieved by the owner and his family before they came into the hotel business in 1993. Before 1993, the owner had made a small fortune in trade and then saw potential in hotels. In the initial days, he earned money because UNTAC and its staff needed extensive space in Phnom Penh. Later, the hotel was able to create a niche among a certain type of international tourists to Cambodia, with some considerable and consistent effort lobbying international NGOs as well as advertising with prospective customers at the airport. The key to success has been to carefully identify a segment in the NGO/tourist/official visitor market which requires a not too expensive and yet western-style comfortable board and lodging in the city.

The C-T-P group, a tightly knit conglomerate of seven companies, also grew out of virtually nothing to currently over \$30 million in asset base, owing

to a number of strategies of market control and product diversification. This group's story goes back to the 1980s when a business climate was still to emerge in Cambodia. The much-needed foreign exchange had to be earned for which restoration of plantations and export of plantation products were among the few options that could be exercised. Having earned some handsome profits from plantation product export, the owner began to diversify into other plantation crops, construction and finally into vertical integration of plantation activities (for example food processing).

Among the relatively small companies and businesses studied, the one that showed a ten-fold increase in capital, from \$10,000 to \$100,000 between 1994 and 2001, was the poultry farm. Quality assurance and creating niche markets were the key elements to this farm's success. The bakery began operation much earlier, in 1979, and was among the first ones to return after the Khmer Rouge Regime. In the earlier days their products were marketed mainly in localised neighbourhoods; only after 1994 did they climb on to a high growth trajectory. They are doing a thriving business and even export cakes and pastries to neighbouring countries; the extent of their growth however, could not be ascertained. The commercial farmer began with only 0.5 hectares of land in 2000 and was able to sell 4.7 million riels (about \$ 1,200) worth of vegetables in a year. Rapid growth was also observed in fish sauce manufacture, a company that began to operate in 1986. The reasons for the success for each of the businesses in food related activities was, and remains the identification of niche markets for non-rice food items in a period when urbanisation was on the rise, and demand for non-rice as well as processed food products was growing rapidly. Many also used their social networks to create larger market segments for themselves. The handicraft enterprise began as a very small unit in 1997, but was able to sell more than \$20,000 worth of products in 2001, again a reasonable success. Conditions of unequal trade with neighbouring countries and acute competition have however, disturbed the growth of the brick-making unit, which started in 1991. The plastics-company, which started in 1993, has faced shutdown in the face of cheap imports on more than one occasion. It has not performed in the same fashion as the others in this sample.<sup>43</sup>

Based only on the information discussed so far, some common factors of success can be identified here. There are many more, which will be discussed subsequently in the chapter. Businesses that have grown owe their success to the following:

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<sup>43</sup> Others are facing unfair competition, meaning competition from smuggled or dumped goods, as well. The extent to which different producers are adversely affected depends upon the extent of their market exposure and the coping strategies adopted by them.

- They captured markets early in key areas where there was demand. In the process they created a place for themselves that they carefully guarded as the markets grew overtime;
- They are in businesses for which international competition was low, being in the largely non-tradable segments of the market;<sup>44</sup>
- Business success has been higher in primary or tertiary sector activities; secondary sector businesses have not shown such spectacular growth, at least in this sample.<sup>45</sup>

#### **4.4.5 Technology and Management**

It has been mentioned earlier that none of the entrepreneurs has received formal technical training in the area where they are doing business. Each has learnt and acquired skills, and many have employed trained persons to supplement their own skills.

The bank discussed in this paper, began business with 19 persons who were mainly family members, initially employed in 1993. The employment strength has now grown to over 250 by 2002, many staff trained, both formally and on the job, in finance, banking and electronics. At times the bank itself has promoted the training. The management is acutely aware that, in a large and diversified business, ownership and management are two different concepts and roles of each should be clearly understood. The management has acquired technologies in the area of banking through strategic alliances with international groups like *Swift* that specialises in money transfers, *MasterCard*, and *Visa* which are credit card majors, and *Cirrus* which is in the business of automatic teller machines. These are only illustrations: there are other ways through which the bank acquires technologies and performs modern business. The management admits that modern technologies do not come cheap, but the productivity gains so far have compensated for the expenses incurred. The bank also relies heavily on modern telecommunications and computer technology in everyday operations.

The hotel also began as a family business, though its learning process was more difficult. The hospitality business requires special skills in a number of related activities. Examples are guest relations, room maintenance, electrical repair, plumbing, catering, restaurants and laundry. The hotel did not really have a smooth time with all these activities and part of the trade was learnt the hard way. Many family members learnt about activities 'on the job' in areas

<sup>44</sup> Meaning that there is little or no competition in these activities

<sup>45</sup> This statement can be generalised for the whole country.

that they had never been exposed to earlier. Some travelled to other hotels in Cambodia as well as Thailand to find out more about running the trade; others learnt information technology, yet others acquainted themselves in accounting, for example. There were and are no holidays for the family. The hours of work are long, and every slip, at least initially, was consciously recorded and was indeed a lesson learnt.<sup>46</sup> Besides family members, the hotel employs four staff members at the 'guest relations' level. Of course the operational staff, mostly low skilled, are all hired. The owner and his wife alone have formally declared themselves to be 'owners' while the offspring who fully participate in the business, are 'salaried employees'. Despite this separation of identity, the hotel has not really tried to separate ownership from control; this may constrain further growth in the future. So far however, this concentration of skills and management within the family has guaranteed them huge savings, virtually no leak of funds and no laxity in work.

The C-T-P group, in contrast, has leaned greatly on the technologies and management styles of multinational companies with whom it has partnered. At times the company has imported the whole plant and machinery (for example agro-processing), which is another way of acquiring technology. In some instances it has also engaged highly trained expatriate staff. As there is more than one company under the fold of this diversified business, the method of accessing the technology has varied from one company to another. Initially cousins and uncles were relied upon in terms of management practice, but this practice is slowly giving way to hiring professional staff. The chief promoter's control over the business is still near absolute; as a result he is busy all days of the week and all round the year. As in the earlier case, this may impede the growth of business in the years to come.

The poultry farmer gets his technological know-how through links with a large Thai company, which has a presence in Cambodia. At the very beginning a relative of the present owner, who introduced him into the business, sent him to work for three months in a well-established poultry enterprise in Thailand, to learn the business and its technical details. To maintain the quality of his input, the owner has always obtained his stock of poultry from the Thai company; he maintains that the fowl are more scientifically reared overseas or in foreign companies. Hens from overseas provide larger and standard-sized eggs and at a higher yield rate per bird. Birdfeed, too, comes from the Thai company – which mixes it in Cambodia, though part of the inputs are obtained from Thailand. The farm has acquired the skills to create an optimal mix of bird and animal feed so as to obtain the best results. The owner tried to adapt locally available

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<sup>46</sup> Anecdotal evidence suggests that the greatest mistakes in earlier periods were in guest relations, as a result of lack of experience. Such mistakes were quickly rectified.



technology but did not succeed. The dependence on his Thai mentor firm therefore continues.

In the handicraft industry, technology is on one hand artistry and skills in carving stone, while on the other the means required for stone cutting, polishing, loss minimisation and product standardisation. This entrepreneur has not invested in developing or acquiring technologies for the latter. There is therefore a lot of wasted stone in the methods currently employed in carving and chiselling. This increases both the cost of input, and more importantly, the cost of transport. The owner is aware of this but expresses his inability to do much about it having no resources to get better quality machines in the province where he is located. He has also not developed a cadre of his own workers. Instead he finds it more profitable to contract highly skilled workers on a job-basis. He keeps his costs low this way. He maintains that there are people who have artistic skill and it requires no special effort to keep it alive - this is an ancient skill and people keep it alive on their own volition. The owner's belief that artistry rather than modern technology holds the ultimate advantage, is part of the reason for his present style of operation.

The owner of the bakery knew the trade before 1979 and therefore had the advantage of being among the first to set up shop, using his family members as workers. Currently the firm employs a semi-automatic machine for mixing and baking the flour. There is other auxiliary equipment as well. All the machinery and equipment are of Chinese make. Packaging material comes from China and Thailand, a cause of regular delay and high cost due to poor transport facilities and extra payments. Efforts at contracting local firms to supply packaging material were not successful, because of the lack of quality and the cost. Locally procured materials are almost as expensive as the imported ones but are distinctly inferior.

The vegetable farmer obtained his earlier training from an NGO. However, he feels that agro-technology, which mainly consists of fertilisers, seeds and pesticides, should emerge from institutional sources from within the country, which then should be continuously diffused among farmers. This farmer is aware of the modern advances in high yield technologies but feels constrained to access the whole package. He uses them selectively.

The brick maker uses traditional technologies for brick manufacture. His principal fuel is rice husk rather than coal or coke. He is not undertaking modernisation of his plant for want of inputs and technologies. In the short-term modern equipment will also raise costs, resulting in reduced competitiveness. In any case coke is not available at an industrial scale in Cambodia, which settles the issue of technological upgrades.

The fish sauce is a traditional Southeast Asian delicacy for which local technologies are sufficient. The equipment to make the product in large quantities is also available locally. One of the factors inhibiting expansion is the capacity to bottle. Such technology is not easy to acquire in Cambodia. Therefore, this manufacturer is unable to penetrate into the more affluent segments of the market.

Lastly, the plastics-factory acquired equipment of 1991 vintage, through a Taiwanese dealer who also provided the owner with the knowledge to run and repair the machine. Today, his technology is obsolete. Although the owner thinks less of technical issues compared to commercial and market-oriented ones, the reality is that the technology, scale, and up-keep are all too expensive, making his unit less competitive in the market. Earlier, he imported raw plastic from Singapore and Korea; later he began to recycle used plastic waste. This cut costs, though his product is no longer of the same quality. He has also reduced the number of workers and now maintains a floating workforce, meaning his workers are paid only when they are engaged. This has further cut costs and kept him in business.

In eight out of the 10 cases, the management is with a single individual or their family. In at least three cases, brick, handicrafts and plastic manufacture, this has been a constraint in finding out the real reason behind the loss or the lack of market gain,

Based on the description above, there are some common features that can be illustrated:

- It may appear obvious, but those who have opted for modern technologies have gained more than those who have not opted for them. In fact those who use older methods are sometimes not even aware that they are, in the process, losing out.
- In all cases, technology is either acquired almost fully from foreign companies, or no modern technology is really installed. There is little in the form of locally available modern technology or any institutional means to access it from elsewhere. Many entrepreneurs have had to cut labour costs to remain competitive rather than reap the benefits of modern technology and this is detrimental to the interests of workers. It needs to be mentioned that the earnings of workers were found to be quite low in many cases.
- Almost all businesses studied here had a tight family control over the management. Although in the initial stages this was both a necessity and advantage, this family-oriented approach may not be the most optimal choice as the size of the operation grows.

#### 4.4.6 Sources of Finance

Availability of institutional finance is a major issue in Cambodia. Most commercial banks are of foreign origin and they tend to carry out transactions mainly for companies from their parent country or other large foreign companies. For most locals, private moneylenders are the main source of loans on which the interest charged is in the range 5-10 percent per month; in short, prohibitive.

In the context of a bank, it is meaningful to discuss the uses and circulation of money rather than source of money *per se*. The bank studied here obtained all its initial capital from overseas Cambodians through a diversified investment corporation, one of whose downstream companies, is this bank. In the later periods the bank obtained deposits from Cambodian business and private citizens as well. Its investments are also diversified and are beyond what a conventional banking company in Cambodia has invested in.<sup>47</sup> It extends loans to small, medium as well as some large organisations; mainly Cambodian, and those who possess proven prowess to use the money efficiently. Since the governance and legal systems in Cambodia remain weak, the bank is particular to insist on large collateral, in some instances several times the size of the loan to protect its interests.<sup>48</sup> The bank offers a six-percent annual interest on fixed deposits, a rather high return compared to international standards, though in Cambodia interest rates are usually high since business people's assessment of capital safety is not very high. The high risk that the bank apparently takes is partly cushioned by personal ties and kinship factors. Many business communities are tightly knit through kinship and other networks, and the pressure on borrowers not to default is high. Currently there is virtually no inter-bank or inter-financial institution transaction in the country. In fact, co-operation between financial institutions is yet to develop. Part of the reason is that most banks here have a limited agenda, with another reason being the lack of enforced rules. This facet of banking operations is therefore, closed to this bank.

The hotel, despite its present size, has always exclusively depended on its own funds. The owner first earned some profits from bullion trade in the 1980s when gold was the only means of security and savings in the country. Using that money, he got into the vehicle trade in the early 1990s, from which he earned yet higher sums. Once the hotel was established in the early to mid 1990s, placement of family members in as many key positions as possible reduced costs and ensured zero-level financial leaks. This earned the owner yet

<sup>47</sup> These are typically in real estate, but in other activities as well.

<sup>48</sup> This is also done because Cambodia does not yet have an actuary service that can value different assets and services.

more profits.<sup>49</sup> A vertical integration of activities, for example having one's own power generator, having in-house laundry, owning a fleet of guest pick-up vehicles, and arranging ticketing in-house, also saved costs. Part of the profit was used for working capital, and part, for accumulation and business expansion. The second hotel has been constructed entirely from the family's savings. It may sound ironic that a business company of over \$ 1 million annual turnover works entirely from its own funds. Surely in another country, a certain amount of owned capital is often able to mobilise considerable amounts of capital from the financial markets, which is then able to catapult the business several times over. It is not that this business has not grown impressively. It has, however, grown not because of the leverage it received from the financial markets, but in spite of not receiving it.

The C-T-P group earned most of its early profits through trade, and then began to diversify into construction and plantations. The owner has developed strategic associations with influential persons holding key positions – a practice common in most countries in the world – to obtain trading rights in some primary products, the original money-spinning activity. The cash initially gathered was then used to lever more capital from the market, banks and overseas corporations. In this regard this is the only business, other than the bank in this sample, that seems to resemble international practices in the mobilising of capital. As of today, given its reputation and turnover, the group should have little difficulty in raising finance from institutional sources if it chooses to. This is despite the fact that some of the seven companies are not doing as well as the others.

The poultry farm got 50 percent of its capital in 1997, by contracting a loan from a bank at 24 percent annual interest rate. This is the only institutional finance that this business has obtained; all subsequent requirements, for both fixed and working capital, have been obtained from its own sources or through arrangements with the Thai company that supplies inputs and technological know-how to this farmer.

The handicraft firm is located outside Phnom Penh and facilities of institutional finance outside the capital city are few, if any. The owner has to use his own resources and savings, including borrowing from relatives. The bakery owner says that at times he gets large orders and payments are made only after the merchandise is delivered. For working capital therefore, he is frequently 'forced to borrow money' from a bank at 22 percent annual interest rate.<sup>50</sup> One problem of this borrowing is that the cost of production goes up.

<sup>49</sup> Two of the important cost items could have been the wage bill and taxes. In this case both are low.

<sup>50</sup> This attitude towards credit is certainly archaic in today's world, even if in this particular case

Cheap products, made in Thailand, begin to compete with his products, a phenomenon becoming worse with the devaluation of the Thai baht, or alternatively the dollarisation of the Cambodian economy. A similar attitude was expressed by the commercial vegetable farmer, who maintained that fixed capital needs should be met from one's own resources though for working capital, only an occasional borrowing is acceptable as long as it is at low interest rates. He himself has at times borrowed from a micro-credit institution.

The fish-sauce maker relied on his own savings and family resources (up to 70 percent) and on loans from a moneylender (30 percent, at an annual interest rate of 24 percent) for setting up and expanding his business. But for working capital, internal funds have been ploughed back. He once tried for a bank loan but the procedures, delays and unofficial fees thwarted his efforts.<sup>51</sup> The brick maker had a similar story to narrate – that relatives and friends are the only reliable sources. He once underwent training at the Association of Cambodian Local Economic Development (ACELEDA), a micro-credit bank, but could not get a loan from them as their loan ceilings were lower than his needs. The plastics-company owner got into partnership with a relative to raise money for fixed assets. The working capital needs are met from internal revenues ploughed back.

The following can be illustrated from the discussion in this section:

- Institutional finance is virtually absent in Cambodian business. Even the relatively large operators refrain from using it. In the process the leverage that institutional and market finance can provide for business to grow is missing.
- The problem is not only that of inadequate supply, but the potential borrowers themselves, whose attitude towards loans is one of avoiding them. Probably this attitude prevails because of very high interest rates (from both, moneylender and institutional finance), and difficulties in setting up collateral for institutional finance because of absence of official land tenure papers and insufficient legal infrastructure.
- On the supply side, most institutional finance agencies are fairly rigid, offering very limited services. Ineffective legal and financial governance systems are often quoted as reasons for this. Finally, the institutional credit supply problem is higher outside the capital city where there are few if any, financial institutions.

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the cost of production increases. The attitude reflects that the opportunity cost of one's own resources is nil.

<sup>51</sup> It needs mention here that absence of official tenure rights on land acts as a major inhibitor in obtaining bank loans in Cambodia. Tenure is essential for collateral.

#### **4.4.7 Marketing Strategies and Problems**

Low purchasing power of the local populace and the relatively high degree of openness of the market to international competition are reasons why marketing for local entrepreneurs, is not easy in Cambodia.<sup>52</sup> The openness of the market is also the cause of a lack of tradable goods being produced in the country; locally produced products are simply not able to compete with those produced in neighbouring countries.

The bank, as stated earlier, offers loans to segments of business that are not served by others. Being one of the few Cambodian owned banks, it is able to do so effectively. It has also come out with innovative schemes for small and medium enterprise start-ups: loans of up to 90 percent value of fixed assets for these enterprises along with profit-sharing arrangements and provision of business advice. Many analysts think that the bank has ‘spread too thinly’ and hence is subject to high risks. But the owners feel that returns on capital are high (this is why people regularly pay such high interests in the open market), and therefore it is worth going for the spread, particularly when the loans are hedged by sufficient collateral. The bank is also attractive to customers because it takes very little time to process loan applications. Furthermore, it offers credit cards, ATM’s and a range of other services to middle class depositors.

As stated earlier, the hotel has created a slot market for itself among international NGOs and middle-budget international tourists through direct canvassing and providing all services that an international traveller prefers. Some of these include, for example, continental food, acceptance of credit cards for payment and hot and cold running water.<sup>53</sup> The strategic location of the hotel, where many international NGOs also have their offices, has further helped. However, the owners see that the going may not be easy forever. There are many competitors emerging with attractive packages.

The initial marketing strategy of C-T-P was to become the sole exporter of a product, thus guaranteeing a market for itself. This was done in the earlier era before markets opened up and being an early bird in the market did help in ‘getting the worm’. Later, as the business diversified, a number of approaches like strategic tie-ups with international partners and diversifying in primary products and services where there is not much international competition were adopted. Even so, not all companies in the group are doing well.

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<sup>52</sup> Almost all commodities can be imported subject to an import tax. Evasion of tax is not uncommon, as per press reports.

<sup>53</sup> One of the factors that has attracted customers is the hotel’s scrupulous avoidance of customers who use the premises only for activities such as prostitution and gambling.

The poultry farmer supplies up to 80 percent of his products to large restaurants, hotels and supermarkets in Phnom Penh. One of the reasons why his product fetches a better price, in the egg market, compared to many others is the larger size of the eggs, thanks to the transfer of quality technology from abroad. The market, though, is price sensitive, and there is stiff competition from local as well as cheap foreign products. Although fair competition is welcome, dumping<sup>54</sup> and smuggling of eggs and other poultry products from both Thailand and Vietnam have been reported. These are harmful. In this regard, recent attempts by the government to crackdown on smuggling have been welcomed; poor implementation however is still a cause of worry. Next, wholesale merchants control the prices and they can drive offer-prices really low. When egg prices dip too low (at times below 170 riel per egg), it is difficult to maintain healthy profits. There was once an attempt to form an association of poultry farmers to stabilise prices, but lack of knowledge and experience thwarted this attempt. Lastly, the dollarised economy of Cambodia makes foreign products cheap here: with the weakening of both the Thai baht and Vietnamese dong, imports measured in dollar terms have become cheap and this has adversely affected the Cambodian industry.

The handicraft market is highly elastic in terms of quality: customers do not pay for poor quality products. Also, there is some competition from Thailand – stone replicas of Cambodian art forms are also made in Thailand, and they offer better quality. This entrepreneur is therefore not in the competitive tourist market. He has sold his products to local art collectors, the elite, and overseas Cambodians, and has also made specific pieces to order. Being near stone quarries helps to keep transport costs at reasonable level (though they could be lower). But he does not see easy times ahead as his market is fragile. For one, he has no machinery that would ensure product standardisation and quality. Next, his workers are not skilled enough to meet international quality standards. Thirdly, being located outside Phnom Penh is a handicap since the major market is in a big city. The cost of transportation is high and, at times there are informal payments to be made, which further raise his costs. Lastly, marketing is expensive and requires experience, and he loses out on both these counts.

The baker, at a more philosophical level, said that for a nascent economy like Cambodia there have been more shocks than there should have been – the 1997 political turmoil, regional financial crisis, global depression – all of which affect demand. His own sales have fluctuated by 30-50 percent due to such shocks. His customers, many of whom are overseas Khmer, visit Cambodia rather infrequently because of the shocks. The baker repeated the exchange rate

<sup>54</sup> The term refers to artificially lowering the price of a product

argument, stated by the poultry farmer above. Again, smuggling of cheap products from across the border cut into his market. In the same context, the owner complained that Cambodia has become a high cost economy owing to expensive electricity, high transport costs and informal payments. These raise product costs and reduce competitiveness. An additional problem with regard to markets was default and delay in payment by many dealers. This causes significant losses.

The commercial farmer sells his produce both through dealers and through direct marketing. In the dry season he faces price fluctuations. To overcome this problem he ferments and/or dries his vegetables (which are the local food processing techniques) and sells them later. He said that maintaining good relations with dealers as well as moto-drivers is critical to marketing his products. He complains that at times he has to pay informal fees to get his merchandise to the market. The fish-sauce maker finds Phnom Penh-based restaurants as well as those in at least three other provinces to be his markets. Targeting the produce at middle-class Khmer restaurants and pricing the output competitively are key factors to his marketing success. He has no illusions that if he grows and diversifies beyond his present scale, he will have to target more affluent segments in the market (bigger restaurants, large hotels, international tastes), in which there are a number of imported products that compete and he may not be able to find a place. Advertising is out of question because of high costs and uncertain impact.

The brick maker has segmented the market in order of importance: schools, warehouses, and finally small retailers. He then aims to reach out to them separately. Of late, other local manufacturers have begun to crowd the market, which has somewhat affected his sales. In this regard, being outside Phnom Penh and not being able to cater to the most lucrative market is a huge drawback. Next, though he is able to sell his products in Cambodia (three provinces), his effort to export bricks to Thailand despite a 1:3 price advantage has not materialised. Both quality and trade barriers put up by the Thais are responsible for this. Added to his problem is the default and delay that he faces in payments from his buyers.

The plastics-manufacturer repeated several points made by others in the sample: that repeated shocks in the economy, devaluation of currencies in the neighbouring countries, smuggling of cheap plastic products from across the porous borders, and high costs (particularly of electricity) have all but killed the nascent and fledging plastics industry. Additionally, small-scale producers of low quality products illegally fake the labels of well-known companies (like his) to obtain a market for themselves, which further affects genuine manufacturers.



The main points that emerge from this section are as follows:

- There are those who have ensured a strong presence for themselves in the market or a brand for themselves in the earlier stages – they have been able to maintain that position;
- Macroeconomic factors, like dollarisation and external shocks, have been generally harmful to fledging industries in Cambodia with respect to exporting its products, especially if facing cheap imports;
- Obsolete/rudimentary technologies, poorly trained workers and a ‘high cost, low productivity’ infrastructure, have all helped keep Cambodian industry less developed;
- A very open market and the absence of supply-strengthening strategies have not permitted local entrepreneurs to grow rapidly in the tradable segments of the market;
- Lack of effective governance has been an inhibiting factor. To give a few examples, porous borders have made smuggling prevalent, there are high informal fees, and an inability to give or get credit guarantees,

#### **4.4.8 Entrepreneurship**

It is very often mentioned in policy documents and discussions that poverty and lack of economic development in Cambodia have their genesis in poor infrastructure, inadequate governance systems and low quality human resources. But then, how did some businesses make it big in a short span of about a decade? What distinguishes them? Although most of the story of how wealth was made, or not made, has been discussed above, some issues regarding entrepreneurship are synthesised here.

It needs no mention that in the early 1990s Cambodia was virtually a virgin field for many business areas. Not that every business could have survived – far from it – but some definitely had a place. The *first movers* have obtained near-monopoly or an important place for themselves, and in the process they have made tremendous strides. They have taken calculated risks at the right times and then cashed-in on these in due time. Some took the decision to diversify while others entered new fields and yet others expanded on their existing activities. The better the business acumen, both with respect to the choice of the product and the market, the more the business grew.

It has paid to create and maintain strategic alliances. In the case studies described, besides the kinship network links, there are business alliances reached with international companies and even contacts developed with

influential figures that have helped further business goals. In a classical sense one may be tempted not to consider some of these modes of operation as ethical or fair business practices, but Cambodia in the 1980s and 1990s was not a classical market where level play was possible. It had emerged from ashes: law and rules had to be made, business systems had to be established, capacities had to be built, governance processes had to be put in place, and people's confidence had to be won. It is only rational that a few did choose to take the route of finding favours with the powerful.<sup>55</sup>

People who weathered the earlier years were those who persevered in the pursuit of their vision. They were clear with respect to their goals and made efforts to achieve them. They halted at the right intervals to take stock of their progress and also undertook mid-course corrections and/or changes in direction. Detailed interviews suggested that the entrepreneurs worked very hard – seven days a week, often round the year. They also deployed their family members and relatives for unforgiving numbers of hours each week, for endless weeks. Sheer hard work paid. Such an approach cut costs too, and kept them in competition. Many of the entrepreneurs are now having their offspring go to business schools so that the next generation is able to do business using more modern methods.

A final question often asked is why did some entrepreneurs grab early opportunities while others waited for better – or easy – times? For this, there is no unique answer, though a number of conjectures can be made even if these are only partly supported by data. The case studies suggest that there is a typology of at least two types of business persons. First, there are those who are 'risk-taking entrepreneurs with foresight'. They had other choices, probably outside Cambodia, but foresaw better times ahead and risked their resources to become the first movers. Secondly, there were 'no choice survivalists', who did what they did because they did not have many options. In both cases their dexterity paid off. At least one respondent articulated a sense of nationalism and faith towards the country: in its absence development is not easy.<sup>56</sup> Most of the business owners expressed, in one way or another, that they had faith in the 'future of the society' and that they also felt it a duty to work for its improvement. The banker went to the extent that not all the loan extension he

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<sup>55</sup> Such practices have been found almost anywhere in the world in the early stages of development. In another context, even the US government came out with a financial package to rescue Chrysler Motor Company in the 1970s when the company was in dire financial doldrums (Iacocca and Novak 1986). However, no effort is being made to find virtues in such practices.

<sup>56</sup> This may sound controversial but nationalism has been found to be important in other parts of the world as well; in a poster outside Marks and Spencer Departmental Store in the UK, it was once written: Buy British goods - this means more jobs for Britons. Germans buy German products, Japanese prefer Japanese goods, and Koreans drive cars made in Korea.

has made was for profit: some of it was for the larger good. The C-T-P owner also voiced a similar sentiment, that not all activities are profit driven and that some activities are undertaken for personal satisfaction and national interest. Certainly, there is no unique answer to the question posed earlier, except that risk-taking and determinism have yielded positive dividends, at least in these cases.

There are many other factors which lead to success other than the ones stated here. The challenge lies in isolating them and then finding how some of these can be institutionalised in a process of economic reform

A summary position is as follows:

- Entrepreneurship emerged in the form of taking risks at the right moment and using all possible approaches and means to further the business; it began as a fight for survival which transformed into a triumph with the emergence of higher stability and better times;
- Hard work and unfailing dedication paid;
- At some level each had faith in the fact that Cambodia is going to emerge as a peaceful and stable society; this helped in taking firm and even risky decisions.

#### ***4.4.9 Enterprise Plans for the Future***

Most business enterprises have plans to dig-in their heels and expand business in Cambodia despite the fact that a few have faced or are still facing problems. This optimism is a source of hope for private sector development.

The bank has plans to promote venture capital, as the owners feel that many Cambodians have ideas but are not able to translate them into practice for want of financial resources. The bank has already taken steps in this direction. It has also begun to develop an interface with the European currency and hopes that soon this bank will be transacting in euro as well as issuing cheques/travellers cheques in that currency. In the area of local expansion, one area that needs promotion in Cambodia is mortgage loans for residential and commercial premises, particularly for the middle classes. The bank intends to explore this area.

The hotel has plans to develop electronic facilities. It hopes to provide value-adding services like Internet-access to the luxury suites in the hotel. The C-T-P group has intentions to expand and vertically integrate the plantation activity with food processing on the one hand, and get into contract-farming arrangements with smaller farmers on the other. This is intended to expand the

capacity of his processing plant. Strengthening his loss-making business is also on the priority list. Lastly, some of C-T-P's investments are in areas where returns can be expected only in the long run. However by the same token – since this is the only business group that has sunk money in such long-term activities – it is expected to be in the sole supplier of these products for the foreseeable future.

The poultry farmer did not mention any specific expansion plan but stated that he wishes to work towards establishing more level play in the business. A similar view was expressed by the plastics-company. The handicraft company has plans to expand markets to other provinces, particularly Siem Reap where the tourist concentration is very high. The owner also hopes to develop cooperation with the provincial authorities to promote his business. The bakery plans to export more products to China, Australia, Japan and the US because there is demand for its products. There are people who have a taste for Khmer cakes and pastries in these countries. The owner also wishes to professionalise his family-run business; he has sent his children to a business school to achieve this target. The commercial farmer stated that he plans to diversify cropping and develop mushroom culture. The fish sauce maker plans to expand business in the same segments of the market in other provinces. The brick maker intends to upgrade technology to make a break into the Thai market.

In sum, the following emerges from the presentation in this section:

- Most businesses have plans to expand and grow – there is no pessimism about the future;
- Although some plan to expand into related areas, others want to rectify their existing weaknesses;
- The bigger players have distinct plans to enter newer, although related areas, while the smaller ones have shown the tendency to expand horizontally: *i.e. to do more of the same in other areas*. Here, a certain degree of pragmatism is reflected.

#### **4.5 Critical Issues and Policy Recommendations**

The major issues that have emerged out of the analysis so far, suggest that entrepreneurship is not lacking in Cambodia. In this sample, business persons have been found to be extremely hard working, thrifty and dextrous, with a grit and determination to succeed. The country also has the advantage of being in ASEAN as well as having a large, skilled expatriate Cambodian population ready to come back and help rebuild the country.

The horizons of this research are modest: it does not go into the panorama of all possible recommendations. In fact a recent set of studies conducted by the Ministry of Commerce has already examined a broad range of issues regarding pro-poor trade in which a number of aspects relating to macroeconomic performance (budgetary performance and credit), trade facilitation, transport, and sectoral growth in six sectors were discussed. The focus here is to concentrate on aspects that have emerged in the case studies discussed above. First, to synthesise, seven concerns need to be restated.

#### **4.5.1 Concerns**

- 1) Business functions in too narrow a range of activities in both primary and some services sectors, all concentrated in the largely non-tradable segments. Businesses do not become customers to each other, and this does not help in keeping costs low. As a result of this value-added is low and not retained in the country.
- 2) The type of technology embedded in the plant and machinery is rudimentary, which is also the reason for low productivity and lack of competitiveness.
- 3) There is virtually no access to credit; the cost of money is high, which makes most businesses cost-ineffective.
- 4) High costs also emanate from poor infrastructure and related services, which makes local producers less competitive.
- 5) With a virtually open market local manufacturers are perpetually at a disadvantage. As per the law there are tariffs, but these are not enforced.
- 6) Informal costs add to the expense of running a business.
- 7) Following from a previous point, the open economy is subject to too many shocks and exposures that in turn affect the internal economics of local companies.

It is evident that these points are not independent of each other: the range of activities is narrow because the infrastructure is poor and technology is obsolete, which in turn is because human skills are limited and governance not very effective. Keeping in view this interdependence, it was considered prudent to divide the span of recommendations into four relatively independent ones: macroeconomic issues, finance, human capital and technology, and supply-side support. Each is discussed here in turn.

#### **4.5.2 Macroeconomic Issues**

Much has been written on this, and also much progress has been made on the macroeconomic front (MoC 2001b). The whole spectrum is not discussed here. Many monetary and legal processes are already in place but need further or closer inspection – these are discussed. Regarding dollarisation for example, although the dollar has provided much-needed stability to the monetary system, its decade long appreciation against almost any other currency has placed economies that are dollar-linked (typically Cambodia), at a cost disadvantage. This has resulted in falling exports and excess imports. The case studies elaborated above suggest that a cheaper Thai baht and a Vietnamese dong perpetually threaten the competitiveness of local business, which some entrepreneurs combat by cutting jobs and wages, though others just shut shop or do not compete in that segment at all. The unit value-added per activity therefore remains low.<sup>57</sup> This, in effect, is not pro-poor growth. Is there room for flexibility so that developing local manufacture is protected against this currency strengthening? The answers may be found in pegging the tariff rates with the extent of revaluation of the dollar and enforcing the rules rigorously.

In the same context, it needs to be stated that though the country has a defined structure of tariffs, its administration is not able to implement the laid down rules. Borders on all sides are porous; as a result, there is a great deal of smuggling, which to a significant extent adversely affects local manufacture. Here the answer lies in reducing corruption. Is it possible to check large-scale smuggling? It is believed that the World Bank is working with the government on this and similar problems. A simple answer that is proposed here is to tax/impose fines on smuggled products at their final disposable point, i.e. the retail level. Since most products are marketed in urban centres, where the government presence is considerable, it is not infeasible to levy countervailing amounts to more than offset the cost advantages that the smuggled goods enjoy. Such an approach may be helpful for at least some products in the market. Many countries do the same.

Informal payments add to costs; the Ministry of Commerce (MoC 2001a, c) states, for example, that the sole reason for Cambodian rice not being competitive in the Singapore market is the high informal payment that exporters have to make. To address this problem is not simple despite the efforts being made by many to combat corruption (World Bank 2000).

One of the several ways to check the level of smuggling is to first determine the extent of consumption of certain imported commodities in the

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<sup>57</sup> Some may argue that dollarisation cheapens imported inputs and can provide a part cost advantage to the industry. Cambodian industry, however, has not yet matured to take advantage of such possibilities.

country. Market surveys as well as consumer surveys can provide approximates of this. The next step would then be to set targets for custom duties in accordance with the quantities (expected to be) imported. Systems of rewards and penalties can be put in place to ensure that the law is adhered to. Yet another and complementary approach to this, is forming active business associations. Presently these associations are not very functional: they are not in a position to take up larger issues like corruption at joint forums with the government.<sup>58</sup>

Little can be done about protection against external shocks in economies that are critically dependent on the export of a few products and commodities. One popularly voiced approach to hedge against such shocks is to have internal markets also developed, but this is not a short-term solution.

#### **4.5.3 Finance**

As mentioned earlier, there are major reforms under way to strengthen the central bank and the regulatory system for private commercial banks and this paper does not add or contribute to that debate. The realities on the ground seen from the case studies suggest that business in Cambodia is carried out with one's own savings and borrowing from relatives and friends. This has been found in business enterprises beyond these case studies as well (Biddulph 2000; Sedara, Chan and Acharya 2002). In this paper some specific issues are discussed.

- 1) The credit supply is low because the surety of repayments is low. Modern business requires sureties in the form of property rights, transparent business deals, market information about the activities of debtors, and a functional, speedy and fair judicial system. The Ministry of Land Management, by undertaking cadastral surveys and recording land deeds, is addressing part of the problem. But their plan is of 10 years duration; it is an unavoidable but too long a period. The silver lining though, is that cadastral activities in urban areas may be completed soon, thereby helping business credit to flow.
- 2) Transparency and market information require business support institutions – independent actuary authorities, statutory audits, business law firms, credit rating agencies and the like – whose authority is internationally recognised and respected. Cambodia is lacking in most of these, and it is not clear from the existing documents whether each of

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<sup>58</sup> The final solution to the problem will emerge only when there is civil service reform in which a living salary is ensured to all civil servants. It is believed proposals for this are under active consideration.

these is receiving attention; the fact stays that without these and similar services, easy and affordable credit may not be available to business. These institutions are not necessarily created on the initiative of the private sector alone; a lot of state support and partnership with the government is essential for their establishment.

- 3) Banks in Cambodia typically resemble banks elsewhere in the developed world: they have their main offices (often only offices) in Phnom Penh, they deal with large sums of money, and they work in low risk environments. In reality, the concept of risk has never been institutionally defined in Cambodia and this aspect needs more research. Next, questions need to be asked like, what are the demands for credit from agriculture, rural retail marketing systems, decentralised business enterprises and trading? What is the seasonality of credit demand? Finally what is the capacity of different borrowers to pay back? Currently these questions have no clear answers. The supply side of the financial system therefore needs considerable policy support.
- 4) The fact that a large majority of economic activities do require credit and get it – this is not fully reflected in the case studies above but other studies do suggest this – and pay interest rates of 60-120 percent annually on a routine basis, is evidence that credit institutions can profitably do business with a much larger slice of the population than at present. Banks presently do not have the expertise or experience to effectively negotiate with the ‘small’ or the decentralised. They are equipped to handle large sized loans and a few customers, and *not* a large number of customers wanting smaller quantities of loan each. In dealing with small customers their transaction costs tend to rise, as a result they shy away. It requires a different approach to bank with the small and decentralised, a management style yet to become popular, but this is the need of the hour.
- 5) For very small businesses, recent experiences elsewhere in the developing world reveals that while small operators may individually not qualify for credit as per the laid down norms, their credibility rises if they are formed into groups (Hulme and Mosley 1996; Tilakaratna 1996). Credit groups (or associations), composed of small borrowers often begin as savings groups, and as their credibility as savers gets established they also qualify to apply for group loans – in quantities that banks can manage to administer at lower costs – and distribute the amounts among themselves according to each member’s needs (ADB 1996). There are no concessions on interest rates or payback periods: the interest rates are at par with the prime lending rates, or even higher. This



approach has become popular in many countries, as the repayment rate of loans is generally in the range of 90 percent or more. To make such a system operate at the country level requires both organisation and regulation. Strengthening local governments, in this case the commune councils which could act as regulatory authorities, as well as industry associations, could be one step in this direction. Considerable training and innovations for this purpose would also be a pre-requisite. One of the major challenges would be to steer funds from the formal banking sector into micro finance and similar decentralised banking outlets. The establishment of the Rural Development Bank is a step in this direction, but much more needs to be done.<sup>59</sup>

#### **4.5.4 Human Capital and Access to Technology**

A statement about human capital is surely not out of place. There are five issues mentioned here:

- 1) There is a shortage of personnel with good basic education; there are not enough people in the work force who after recruitment could be directly trained in activities consistent with specific business or technical specifications. This needs addressing.
- 2) Presently there is a huge shortage of personnel who are skilled in middle-level technical vocations; i.e. those who may not necessarily be full-fledged engineers but are trained in mechanical, electrical, civil and electronic engineering skills. Technical schools, which can impart these skills, after 8, 10 or 12 years of general schooling, and which are located across the country – ideally at least one in each province – can go a long way in bridging this gap.
- 3) As observed earlier, business acumen is limited to a few, often with specific ethnic groups for historical reasons. Both full time and mid-career business schools, which can provide short courses in entrepreneurship, finance and specific aspects of technology, can be helpful in bridging the knowledge gap of business persons.
- 4) There is the question of costs, and this applies to training at all levels. To some extent, following the clue from developed market economies, higher education has been privatised in Cambodia. But in a low-income country this screens out a very large majority from the higher and skill based education streams. State support here is a

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<sup>59</sup> There is some debate on problems with development banks – in some countries they have accumulated large non-performing assets. The concept however should not be rejected outright.

necessity, if not in the form of low fees, then through generous merit-cum-need scholarships. Often, both are necessary. Lessons from low-income but highly literate countries, such as Sri Lanka, China and Vietnam, can definitely be learnt.

- 5) Human capital formation can go some way in strengthening the technological base of a country but additional efforts to usher modern technologies are essential. Although there is no unique formula for achieving this, one approach is to set up a tripartite organisation, of employers, workers and the government, under the apex umbrella of Asian Productivity Organisation (located in Tokyo). Many countries in Asia have national productivity councils that share and disseminate technologies nationally as well as through international transfer protocols. This approach is worth considering.

#### ***4.5.5 Business Development Services and Supply-side Strengthening***

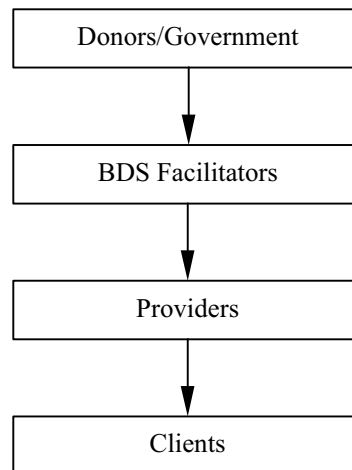
All businesses require services: they could be in regard to finance, markets, inputs, technologies, costs, and a range of other issues. In developed countries such services are available in colleges, professional magazines, and Internet sites, and provided through a number of consultancy agencies. Some items have a price while others are free. For many less developed countries, Cambodia included, a business environment has to be initially created. If necessary this can be provided with external assistance, before the market begins to provide business services. Supply-side strengthening therefore, is an important policy measure.<sup>60</sup> One such approach is the establishment of Business Development Services (BDS).

BDS includes training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business link promotion, and the like. BDS can be both operational and strategic. Operational services are those that are required and provided on a day-to-day basis, while strategic services are required for medium to long-term business planning and expansion. BDS can be individually service-specific as well as for a group of services; this decision would depend upon the market being served (ILO 2001).

The different actors in a BDS are private enterprises (the clients), facilitators (consultants, policy advisers), providers (product certifiers, technology suppliers, trouble-shooters, trainers) and donors/governments. The relationship between the different agents is somewhat as follows:

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<sup>60</sup> Supply-side strengthening is not an anti-market policy. The US Government practiced it as well, though in a different form, in the 1980s.



Clients seek services on demand and for a price; providers are also demand-driven private agencies that work for a profit, while donors, NGOs or governments support facilitators in the initial stages of development. Finally facilitators themselves, also become market driven. Sometimes even banks take up the role of facilitators. In some countries specialised banks have taken up the task of carrying out these services. World Bank (2001) and ILO (2001) provide many examples of variants of BDS.

There are a number of other services that the state or donors can provide to promote the private sector *as long as they are not direct subsidies or cash concessions*. These could include training (in country or abroad), establishment of industry or technology parks, and construction of common-use facilities (for example deep freezers for small fishermen) or common design centres (for small garment/leather manufacturers), or even help in organising business associations. In sum, it is pertinent to mention that provision of services under the ‘infant industry argument’ is a perfectly legitimate activity<sup>61</sup>. A caution: BDS in some countries have *de facto* become ‘supply driven’, and efforts should be made not to fall in this trap.

Weak and insufficient infrastructure in Cambodia is again well recognised, and the reform-process as well as the major studies carried out by the MoC mentioned earlier, address these. In the context of the case studies conducted

<sup>61</sup> The ‘infant industry argument’ refers to providing select incentives and/or protection to fledgling industries in developing countries for a limited period of time.

here, the principal problems are cost of electricity and availability, cost of transport and availability, and cost of technology and skills. These problems however, have no quick or simple answers.

#### **4.6 Conclusion**

This chapter is a preliminary attempt to address different issues related to development of the Cambodian private sector, which it is now universally believed, is vital for industrialisation of the country, its integration into the ASEAN and global systems, and for reducing poverty and establishing stability in the country. The study outlined in this chapter draws upon data from a small sample of case studies that CDRI conducted with select successful (and not so successful) entrepreneurs. Its main findings are summarised below.

There is a small but vibrant private sector, which owes its origin to the history of recent developments in the country. Businesses and enterprises have gained and thrived because some of them were the first movers, a few of them captured critical niches in the markets, some developed strategic alliances with a variety of partners, a few relied on extended networks for finance, markets and technical know how, and *all* took risks and worked extra hard to succeed.

From the interviews, it appears that the private sector is small because of a number of problems that the private sector in general is unable to grapple with.

- 1) Being an open market with porous borders, nascent industry is unable to compete with products from other countries.
- 2) Being a very shallow economy where unit value per activity is low, there is little comparative advantage that this economy can derive, other than through deploying very cheap labour. This is not likely to be beneficial for the economy in the long term.
- 3) Lack of finance, technology, and marketing, all throttle private industry.
- 4) Unavailable or too expensive infrastructure increases costs.
- 5) The presence of institutions, such as rating agencies, auditors and consultancy firms to conduct modern business, is limited.
- 6) The macroeconomic environment is not always to the advantage of local business.
- 7) Informal payments add to costs and therefore are a major disincentive.

Although most of these problems are being addressed within the reform process set into motion by the government and assisted by donor agencies, this study reveals that there are some gaps. The reason for attaching importance to

these is because the entrepreneurs themselves voice them. In terms of solutions, this research essentially proposes measures that would supplement or strengthen policies that the government and/or donor agencies are already contemplating in macroeconomics, finance, human capital, technology, and business development services. Additionally this study finds a role for private sector associations in furthering the private sector.

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**Table 1. Main Economic Indicators**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP at Current Price (Billion Riels)	22	60	47	610	1,150	2,917	6,053	6,256	7,176	8,271	9,125	10,795	11,797	12,149	12,724
GDP at Current Price (Million US\$)	616	1,072	593	1,135	1,406	1,754	2,151	2,435	2,915	3,131	3,042	2,841	3,088	3,149	3,234
GDP per capita (US\$)	113	153	74	120	143	173	205	225	262	273	258	234	248	247	247
GDP per capita (US\$1993)	643	680	125	166	177	195	205	210	219	227	222	222	231	238	244
Real GDP (% increase)	4.8	-6.7	18.8	8.0	10.5	13.9	8.5	5.3	7.6	6.7	0.7	2.9	6.8	5.5	5.3
GDP Deflator in Riel (% increase)	2.0	29.9	15.9	147.8	70.7	122.7	91.2	-1.9	6.6	8.0	9.5	15.0	2.3	-2.4	-0.5
GDP Deflator in US\$ (% increase)	2.0	5.9	1.4	3.2	12.1	9.5	13.0	7.4	11.2	0.7	-3.6	-9.2	1.8	-3.4	-2.5
Inflation in Riel (% increase, year average)	4.0	31.3	16.6	141.0	60.0	101.7	75.1	-0.5	7.8	7.1	8.1	14.7	4.0	-0.8	-0.6
Inflation in Riel (% increase, Q4/Q4)	4.9	50.0	20.0	151.0	150.0	112.0	41.0	17.8	3.5	9.0	9.1	12.6	0.0	0.5	-1.3
Inflation in US\$ (% increase, year average)	4.0	7.0	2.0	0.4	5.1	-0.8	3.5	9.0	12.5	-0.2	-4.9	-9.4	3.5	-1.8	-2.5
Riel/US\$ parity (year average)	35	56	80	537	818	1,663	2,814	2,569	2,462	2,641	3,000	3,800	3,820	3,859	3,935
Riel/US\$ parity (end of period)	35	56	80	613	550	2,310	2,350	2,593	2,560	2,720	3,400	3,800	3,775	3,895	3,930
Budget Revenue (% GDP)	18.5	19.9	6.4	3.8	5.1	5.3	4.8	9.4	9.0	9.1	9.7	8.7	11.2	11.7	12.0
Budget Expenditure (% GDP)	27.4	23.2	30.7	19.7	9.1	8.4	10.1	16.1	16.7	17.4	13.8	14.4	16.4	17.3	18.4
Current Public Deficit (% GDP)	-3.6	-2.4	-23.1	-14.7	-3.5	-2.8	-1.4	-1.4	-0.8	-1.2	0.7	-0.2	1.6	1.6	1.3
Overall Public Deficit (% GDP)	-8.9	-3.3	-24.3	-15.9	-3.9	-3.1	-5.3	-6.7	-7.8	-8.4	-4.2	-5.7	-5.2	-5.6	-6.3

**Table 1. Main Economic Indicators (continued)**

Exports of Goods (% GDP)	13.0	7.6	7.1	9.5	15.8	18.0	15.4	19.6	29.1	23.1	28.7	32.1	33.9	44.2	46.4
Imports of Goods (% GDP)	18.2	12.5	27.4	20.9	20.2	22.8	23.9	30.0	41.4	39.4	40.9	49.3	48.2	54.4	56.9
Trade Balance (% GDP)	-5.2	-4.8	-20.3	-11.3	-4.4	-4.9	-8.5	-10.4	-12.3	-16.3	-12.2	-17.2	-14.3	-10.2	-10.5
Current Account Balance (% GDP)	-6.4	-5.2	-20.6	-11.5	-0.7	2.0	-4.2	-9.1	-12.7	-15.3	-10.4	-15.5	-11.6	-7.2	-6.7
External Contribution to Economy (% GDP)	7.6	3.5	23.3	12.0	0.7	1.4	13.4	16.5	20.9	20.4	13.8	17.5	15.6	14.5	13.2
Total Saving (% GDP)	20.0	10.7	8.0	11.1	10.6	11.8	17.2	18.2	21.6	26.7	21.6	25.3	22.8	19.3	18.3
Gross Foreign Reserves (Million US\$)	57	30	-	-	-	30	71	100	182	234	262	390	422	503	579
Gross Foreign Res (Months of Imports)	5.9	2.4	-	-	-	0.9	1.5	1.5	1.7	2.1	2.4	3.2	3.2	3.3	3.5
External Debts - Recognized (%GDP)	0	0	0	0	0	0	0	3	5	8	10	12	12	15	17
Total Liquidity (Million US\$)	209	255	38	100	144	107	142	174	254	335	313	324	382	470	570
Total Liquidity (% GDP)	34	24	6	9	10	6	7	7	9	11	10	11	12	15	18
Population (Million)	5.5	7.0	8.0	9.5	9.8	10.2	10.5	10.8	11.1	11.5	11.8	12.1	12.5	12.8	13.1
Labor Force (%population)	43.9	43.7	45.5	41.7	41.4	41.3	41.1	41.1	41.2	41.4	41.6	41.9	42.2	42.5	43.0

Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

Table 2. Budget Operations (million US\$)

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Domestic Revenue</b>	114	214	38	43	72	94	103	230	261	284	294	247	345	369	389
<b>Current Revenue</b>	110	206	38	43	72	94	103	229	258	269	290	238	341	361	386
<b>Tax Revenue</b>	94	161	12	25	38	66	78	142	181	202	199	179	250	270	279
<b>Direct Taxes</b>	16	28	2	2	2	5	3	3	8	10	15	16	21	35	36
Payroll Tax	-	-	-	-	-	-	-	-	0	1	2	2	3	3	5
Profit tax	8	20	2	2	2	5	3	3	8	7	12	11	15	30	29
Land and Property	8	8	-	-	-	-	-	0	0	2	2	2	3	2	2
<b>Indirect Taxes</b>	51	87	7	7	9	14	18	29	42	62	68	64	116	133	148
Turnover and Value Added Taxes	31	67	2	3	5	10	13	22	31	37	41	41	91	103	107
Excise duties	-	-	-	-	-	-	-	1	4	21	25	20	24	29	39
Others	20	20	5	3	3	4	5	6	7	3	3	3	1	1	1
<b>Int'l Trade Taxes</b>	27	45	3	16	27	48	57	109	130	130	116	99	113	101	95
Imports	25	44	3	16	26	46	55	98	121	125	112	98	109	97	93
Exports	2	1	-	-	1	2	1	7	7	3	3	1	4	4	3
Others	-	-	-	-	-	-	-	4	2	2	1	0	1	0	0
<b>Non tax revenue</b>	16	46	26	19	34	28	25	87	77	66	90	59	91	92	108
<b>Capital Revenue</b>	4	8	-	-	-	-	-	0	3	15	4	9	4	8	2
<b>Expenditures</b>	169	249	182	223	127	148	216	393	488	546	420	409	506	544	594
<b>Capital Expenditures</b>	37	17	7	13	6	4	84	131	208	238	151	164	215	232	248
Locally financed	32	15	7	13	6	4	2	31	23	23	37	31	58	79	72
Foreign financed	5	2	-	-	-	-	82	100	185	215	114	133	157	154	176
<b>Current Expenditures</b>	132	232	175	211	121	143	133	262	280	308	269	245	291	312	346
Defence and Security	52	63	149	165	57	71	78	152	173	154	140	119	123	114	106
Civil Administration	80	169	26	46	64	72	55	110	107	154	130	125	168	198	240
<b>Current deficit</b>	(22)	(26)	(137)	(167)	(49)	(50)	(30)	(33)	(22)	(39)	20	(6)	50	49	41
<b>Overall deficit</b>	(55)	(35)	(144)	(180)	(55)	(54)	(113)	(163)	(227)	(262)	(126)	(162)	(161)	(175)	(205)
<b>Financing</b>	55	35	144	180	55	54	113	163	227	262	126	162	161	175	205
<b>Foreign financing</b>	36	27	130	143	7	1	85	168	227	257	149	134	160	183	194
<b>Domestic financed</b>	19	8	14	37	48	53	28	(5)	(1)	5	(22)	28	1	(8)	11

Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

**Table 3. Balance of payments (million US\$)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Trade Balance (FOB-FOB)</b>	(32)	(52)	(120)	(129)	(61)	(86)	(183)	(254)	(358)	(510)	(371)	(488)	(441)	(322)	(339)
<b>Exports (FOB)</b>	80	82	42	108	223	315	331	477	848	723	873	912	1,048	1,393	1,502
Domestic exports	80	82	26	55	77	102	149	250	308	362	551	619	765	1,143	1,247
Re-exports	-	-	16	53	145	213	181	228	540	361	322	293	283	250	255
<b>Imports (FOB)</b>	112	134	163	237	284	401	514	731	1,206	1,233	1,244	1,400	1,488	1,714	1,841
Retained imports	112	134	147	184	139	187	333	504	666	872	922	1,107	1,205	1,464	1,586
<b>Service balance</b>	(1)	(5)	(4)	(5)	42	106	75	25	(16)	24	44	33	68	100	119
<b>Income balance</b>	(6)	1	-	0	0	0	(3)	(13)	(18)	(16)	(15)	(14)	(15)	(36)	(31)
<b>Private Transfers</b>	-	-	2	3	10	15	20	20	20	23	25	30	30	30	35
<b>Current account Balance (excl. official transfers)</b>	(39)	(56)	(122)	(131)	(9)	36	(91)	(222)	(372)	(478)	(317)	(439)	(357)	(227)	(216)
Official transfers	42	25	8	6	10	25	156	235	346	299	200	215	251	246	250
<b>Current account Balance (incl. official transfers)</b>	3	(31)	(114)	(125)	1	61	64	13	(26)	(179)	(117)	(224)	(106)	19	34
<b>Capital account</b>	5	21	130	161	49	77	122	138	217	321	218	281	218	188	153
<b>Official MT/LT Loans (net)</b>	-	20	130	130	-	-	5	55	71	56	38	49	44	87	90
Gross Loan Disbursements	-	11	130	130	-	-	5	62	75	75	38	50	45	88	91
Amortisation	-	1	-	-	-	-	-	7	4	19	0	1	1	1	1
<b>Private (net)</b>	5	1	-	31	49	77	117	83	146	265	181	232	174	101	63
Foreign Direct Investment-FDI	5	1	-	-	-	-	117	83	146	265	181	232	174	101	63
Portfolio Investment-PFI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Other capital account</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Errors and Omissions</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Overall Balance</b>	8	(10)	16	35	49	138	186	150	191	142	102	57	112	207	187
IMF Contribution	-	-	-	-	-	-	11	21	42	-	-	-	11	23	23
Net Foreign Reserves	57	30	-	-	-	-	-	70	110	164	197	323	435	642	828
Gross Foreign Reserves	57	30	-	-	-	30	71	100	182	234	262	390	508	715	906
External Contribution	47	37	138	136	10	25	288	401	609	639	419	497	481	458	427
External Debt-Total Recognised	-	-	-	-	-	-	5	67	142	252	290	340	385	473	563
Foreign Currencies Outside NBC	-	-	165	264	313	451	602	712	825	898	966	1,009	1,095	1,239	1,368

Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

**Table 4. Monetary Survey (million US\$)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Net Foreign Assets</b>	121	85	(2)	5	(3)	10	51	151	215	324	345	454	535	665	783
Foreign Assets	124	90	4	30	29	88	126	244	351	452	470	580	664	782	912
Foreign Liabilities	(3)	(5)	(6)	(25)	(32)	(77)	(76)	(93)	(136)	(129)	(125)	(126)	(130)	(118)	(129)
<b>Net Domestic Assets</b>	82	170	40	95	147	97	91	23	39	11	(32)	(131)	(153)	(195)	(221)
Domestic Credit	82	170	43	96	159	116	147	149	174	209	205	221	232	232	220
Net Claims on Government	28	80	6	67	101	68	80	55	58	47	16	47	27	1	(19)
Claims on Government	28	80	10	69	101	74	93	84	85	79	62	76	75	70	69
Deposits of Government	-	-	(4)	(2)	-	(6)	(13)	(29)	(27)	(32)	(46)	(29)	(48)	(69)	(88)
State Enterprises	-	-	35	21	40	5	3	2	2	2	2	2	3	1	2
Private Sector	54	90	2	8	18	43	64	91	115	160	187	172	202	231	237
Other Items (net)	-	-	(3)	(1)	(13)	(19)	(55)	(126)	(136)	(197)	(237)	(352)	(385)	(427)	(441)
<b>Total Liquidity</b>	209	255	38	100	144	107	142	174	254	335	313	324	382	470	570
<b>Narrow Money - M1</b>	148	227	38	99	141	74	87	77	109	121	113	143	141	139	163
Currency outside Banks	72	187	33	75	118	69	81	72	98	110	105	134	130	127	155
Demand Deposits	75	40	5	25	23	6	6	5	11	11	8	9	11	12	8
<b>Quasi-Money</b>	61	28	-	1	3	33	55	96	145	214	199	181	241	331	407
Times and Savings Deposits	54	28	-	0	1	5	4	4	2	3	4	5	8	12	14
Foreign Currency Deposits	7	-	-	0	1	28	51	93	143	211	196	176	233	320	393

Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

**Table 5. Investment and Saving by Category (Million US\$)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Total Investment</b>	123	115	47	126	149	206	370	442	631	837	656	718	705	607	592
<b>Public investment</b>	37	17	7	13	6	4	84	131	208	238	151	164	215	232	248
Domestic financed	6	10	7	13	6	4	2	31	23	23	32	22	56	49	58
Foreign financed	31	7	-	-	-	-	82	100	185	215	119	142	158	183	190
<b>Private investment</b>	86	98	40	114	143	202	286	312	423	599	506	554	490	375	344
Domestic financed	81	97	40	83	95	125	170	229	277	334	325	322	316	274	281
Foreign financed	5	1	-	31	49	77	117	83	146	265	181	232	174	101	63
<b>Total Domestic financed</b>	87	107	47	96	101	129	171	259	300	357	357	344	373	323	339
<b>Total Foreign financed</b>	36	8	-	31	49	77	198	183	331	480	299	374	332	284	253
Agriculture Products	13	20	20	24	27	26	29	30	36	37	35	29	29	24	23
Equipment	45	26	6	17	25	34	96	120	192	264	213	250	223	190	186
Construction	65	68	21	85	98	146	245	292	402	536	408	439	452	393	383
<b>National saving</b>	84	58	(75)	(5)	140	242	278	220	259	359	340	279	347	380	376
Government	(22)	(26)	(137)	(167)	(49)	(50)	(30)	(33)	(22)	(39)	20	(6)	50	49	41
Non Government	106	84	63	163	189	292	308	253	281	398	320	285	297	331	335
<b>Foreign saving</b>	39	56	122	131	9	(36)	91	222	372	478	317	439	357	227	216
Grants	42	25	8	6	10	25	156	235	346	299	200	215	251	246	250
Non Grants	(3)	31	114	125	(1)	(61)	(64)	(13)	26	179	117	224	106	(19)	(34)

Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data



**Table 6. Employment (000's)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Agriculture</b>	<b>1,922</b>	<b>2,437</b>	<b>3,045</b>	<b>3,066</b>	<b>3,137</b>	<b>3,213</b>	<b>3,302</b>	<b>3,395</b>	<b>3,484</b>	<b>3,578</b>	<b>3,663</b>	<b>3,721</b>	<b>3,790</b>	<b>3,839</b>	<b>3,903</b>
Paddy	1,559	1,971	2,215	2,162	2,224	2,290	2,369	2,446	2,533	2,620	2,691	2,754	2,813	2,850	2,901
Other Crops	247	317	435	458	460	462	465	467	470	475	475	475	486	497	510
Livestock	65	85	285	320	325	330	335	340	345	350	365	365	368	370	374
Fishery	25	32	64	77	78	80	80	80	80	78	77	77	78	79	80
Rubber	19	22	28	29	25	24	23	22	21	20	20	20	22	22	22
Forestry	7	9	18	20	25	27	30	40	35	35	35	30	23	21	16
<b>Industry</b>	<b>99</b>	<b>109</b>	<b>130</b>	<b>191</b>	<b>194</b>	<b>210</b>	<b>228</b>	<b>232</b>	<b>243</b>	<b>269</b>	<b>293</b>	<b>326</b>	<b>353</b>	<b>399</b>	<b>411</b>
Mining	0	0	4	4	4	4	5	5	5	6	5	5	5	5	5
Manufacturing	66	85	104	136	137	138	139	140	149	162	194	224	253	303	314
<i>Food, Beverage &amp; Tobacco</i>	24	30	32	45	43	41	40	40	42	43	44	44	44	45	46
<i>Textile &amp; Garment</i>	14	17	30	38	40	42	42	42	48	58	90	120	150	200	210
<i>Wood, Paper &amp; Publishing</i>	9	15	8	10	10	10	10	10	10	10	10	10	10	9	8
<i>Chemical &amp; Plastic</i>	4	5	6	8	8	9	10	10	10	10	10	10	10	10	10
<i>Non Metallic Mineral</i>	3	3	5	7	7	8	8	8	8	9	8	8	8	8	8
<i>Other Manufacturing</i>	13	15	24	28	28	29	29	30	32	33	32	32	32	32	32
Electricity & Water	2	4	2	3	3	3	4	4	4	4	4	4	4	5	5
Construction	30	20	21	48	50	64	80	83	85	97	90	92	90	85	86
<b>Services</b>	<b>299</b>	<b>395</b>	<b>458</b>	<b>676</b>	<b>712</b>	<b>749</b>	<b>704</b>	<b>689</b>	<b>702</b>	<b>708</b>	<b>711</b>	<b>730</b>	<b>748</b>	<b>753</b>	<b>763</b>
Transport & Communication	28	31	29	38	42	43	44	45	47	50	50	50	52	55	58
Trade	138	182	46	100	101	106	106	106	106	106	106	106	106	106	109
Hotel, Restaurants & Tourism	21	24	2	5	20	45	48	40	42	54	50	45	54	60	65
Finance	3	7	2	3	3	4	4	4	4	4	4	4	4	5	6
Public Administration	58	90	300	400	413	413	358	347	351	338	345	370	373	366	360
Real Estate & Business	23	28	25	43	44	46	49	50	53	56	56	55	56	57	58
Other Services	28	32	53	87	88	92	95	98	100	100	100	100	102	103	106
<b>Employment - Total</b>	<b>2,320</b>	<b>2,941</b>	<b>3,633</b>	<b>3,932</b>	<b>4,042</b>	<b>4,172</b>	<b>4,234</b>	<b>4,316</b>	<b>4,430</b>	<b>4,555</b>	<b>4,667</b>	<b>4,776</b>	<b>4,891</b>	<b>4,990</b>	<b>5,077</b>

Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

**Table 7. GDP by Industrial Origin at Current Prices (million US\$)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Agriculture</b>	<b>257</b>	<b>386</b>	<b>365</b>	<b>581</b>	<b>663</b>	<b>746</b>	<b>904</b>	<b>1,016</b>	<b>1,230</b>	<b>1,250</b>	<b>1,242</b>	<b>1,061</b>	<b>1,048</b>	<b>928</b>	<b>919</b>
Paddy	104	147	159	219	248	293	347	336	502	504	484	402	423	338	353
Other Crops	66	119	61	109	116	122	155	168	174	203	187	176	172	169	167
Livestock	26	60	71	127	142	157	165	163	171	181	190	187	196	192	193
Fishery	15	24	29	55	65	67	80	91	107	99	93	90	94	94	94
Rubber	26	15	12	18	21	20	20	23	34	30	24	17	21	21	20
Forestry	21	22	32	52	72	86	137	234	243	233	265	190	142	116	93
<b>Industry</b>	<b>91</b>	<b>168</b>	<b>68</b>	<b>157</b>	<b>180</b>	<b>224</b>	<b>304</b>	<b>353</b>	<b>445</b>	<b>544</b>	<b>525</b>	<b>587</b>	<b>672</b>	<b>789</b>	<b>828</b>
Mining	0	0	2	3	3	4	5	6	7	7	7	7	7	7	6
Manufacturing	53	121	52	103	116	135	163	184	216	244	287	331	405	549	589
<i>Food, Beverage &amp; Tobacco</i>	<i>19</i>	<i>42</i>	<i>13</i>	<i>31</i>	<i>34</i>	<i>41</i>	<i>45</i>	<i>52</i>	<i>57</i>	<i>60</i>	<i>59</i>	<i>60</i>	<i>64</i>	<i>65</i>	<i>65</i>
<i>Textile &amp; Garment</i>	<i>16</i>	<i>35</i>	<i>9</i>	<i>17</i>	<i>21</i>	<i>25</i>	<i>30</i>	<i>31</i>	<i>39</i>	<i>56</i>	<i>105</i>	<i>156</i>	<i>217</i>	<i>363</i>	<i>407</i>
<i>Wood, Paper &amp; Publishing</i>	<i>9</i>	<i>26</i>	<i>7</i>	<i>10</i>	<i>11</i>	<i>13</i>	<i>14</i>	<i>16</i>	<i>19</i>	<i>22</i>	<i>24</i>	<i>26</i>	<i>27</i>	<i>24</i>	<i>20</i>
<i>Chemical &amp; Plastic</i>	<i>4</i>	<i>8</i>	<i>4</i>	<i>10</i>	<i>11</i>	<i>15</i>	<i>18</i>	<i>20</i>	<i>25</i>	<i>26</i>	<i>25</i>	<i>21</i>	<i>26</i>	<i>26</i>	<i>25</i>
<i>Non Metallic Mineral</i>	<i>3</i>	<i>5</i>	<i>5</i>	<i>11</i>	<i>12</i>	<i>12</i>	<i>15</i>	<i>17</i>	<i>20</i>	<i>23</i>	<i>21</i>	<i>19</i>	<i>20</i>	<i>20</i>	<i>20</i>
<i>Other Manufacturing</i>	<i>2</i>	<i>5</i>	<i>14</i>	<i>25</i>	<i>27</i>	<i>30</i>	<i>41</i>	<i>48</i>	<i>57</i>	<i>58</i>	<i>53</i>	<i>48</i>	<i>51</i>	<i>52</i>	<i>51</i>
Electricity & Water	5	12	3	9	11	12	14	17	21	24	27	29	34	37	41
Construction	33	34	10	42	49	73	123	146	201	268	204	220	226	196	192
<b>Services</b>	<b>268</b>	<b>518</b>	<b>161</b>	<b>398</b>	<b>563</b>	<b>785</b>	<b>943</b>	<b>1,065</b>	<b>1,240</b>	<b>1,337</b>	<b>1,275</b>	<b>1,193</b>	<b>1,368</b>	<b>1,431</b>	<b>1,486</b>
Transport & Communication	15	23	35	64	91	112	133	148	174	183	175	160	178	195	206
Trade (*)	127	242	54	150	191	256	309	367	407	440	419	411	483	489	505
Hotel & Restaurants	19	33	2	9	46	129	164	127	156	212	190	170	205	233	253
Finance	6	12	4	8	11	13	16	20	23	24	22	20	27	37	46
Public Administration	77	170	21	39	58	69	64	112	141	130	129	118	139	134	129
Real Estate & Business	11	18	17	51	65	82	105	118	136	139	138	127	135	138	140
Other Services	12	20	28	77	101	125	153	173	204	208	202	187	201	205	207
<b>Total</b>	<b>616</b>	<b>1,072</b>	<b>593</b>	<b>1,135</b>	<b>1,406</b>	<b>1,754</b>	<b>2,151</b>	<b>2,435</b>	<b>2,915</b>	<b>3,131</b>	<b>3,042</b>	<b>2,841</b>	<b>3,088</b>	<b>3,149</b>	<b>3,234</b>

Note: (\*) = Taxes on import of goods included. Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

**Table 8. GDP by Industrial Origin at Constant 1993 Prices (million US\$)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Agriculture</b>	<b>855</b>	<b>1,012</b>	<b>590</b>	<b>779</b>	<b>814</b>	<b>849</b>	<b>904</b>	<b>947</b>	<b>1,034</b>	<b>1,064</b>	<b>1,087</b>	<b>1,088</b>	<b>1,103</b>	<b>1,076</b>	<b>1,084</b>
Paddy	294	308	240	300	310	326	347	324	426	441	437	469	514	508	528
Other Crops	281	362	116	162	155	157	155	154	151	166	169	166	171	171	175
Livestock	61	113	104	145	151	160	165	160	161	166	176	170	172	171	175
Fishery	120	139	52	75	80	77	80	85	85	79	78	77	80	80	81
Rubber	19	23	16	20	21	21	20	20	20	20	19	19	24	23	23
Forestry	81	69	61	77	97	108	137	204	192	191	209	187	142	123	102
<b>Industry</b>	<b>486</b>	<b>674</b>	<b>124</b>	<b>214</b>	<b>227</b>	<b>263</b>	<b>304</b>	<b>326</b>	<b>365</b>	<b>436</b>	<b>438</b>	<b>512</b>	<b>577</b>	<b>673</b>	<b>748</b>
Mining	1	2	3	4	4	4	5	5	6	7	6	6	7	6	6
Manufacturing	283	474	96	141	147	156	163	169	187	215	244	289	347	455	526
<i>Food, Beverage &amp; Tobacco</i>	<i>108</i>	<i>174</i>	<i>27</i>	<i>43</i>	<i>44</i>	<i>45</i>	<i>45</i>	<i>47</i>	<i>49</i>	<i>52</i>	<i>52</i>	<i>54</i>	<i>56</i>	<i>58</i>	<i>59</i>
<i>Textile &amp; Garment</i>	<i>82</i>	<i>136</i>	<i>17</i>	<i>25</i>	<i>27</i>	<i>29</i>	<i>30</i>	<i>30</i>	<i>40</i>	<i>57</i>	<i>87</i>	<i>128</i>	<i>180</i>	<i>288</i>	<i>359</i>
<i>Wood, Paper &amp; Publishing</i>	<i>43</i>	<i>87</i>	<i>12</i>	<i>14</i>	<i>13</i>	<i>14</i>	<i>14</i>	<i>15</i>	<i>16</i>	<i>18</i>	<i>20</i>	<i>23</i>	<i>24</i>	<i>21</i>	<i>18</i>
<i>Chemical &amp; Plastic</i>	<i>19</i>	<i>29</i>	<i>7</i>	<i>13</i>	<i>14</i>	<i>16</i>	<i>18</i>	<i>19</i>	<i>20</i>	<i>21</i>	<i>21</i>	<i>20</i>	<i>20</i>	<i>20</i>	<i>21</i>
<i>Non Metallic Mineral</i>	<i>11</i>	<i>16</i>	<i>7</i>	<i>12</i>	<i>13</i>	<i>14</i>	<i>15</i>	<i>16</i>	<i>16</i>	<i>19</i>	<i>19</i>	<i>19</i>	<i>19</i>	<i>20</i>	<i>20</i>
<i>Other Manufacturing</i>	<i>20</i>	<i>32</i>	<i>26</i>	<i>34</i>	<i>36</i>	<i>38</i>	<i>41</i>	<i>43</i>	<i>46</i>	<i>47</i>	<i>45</i>	<i>45</i>	<i>47</i>	<i>48</i>	<i>49</i>
Electricity & Water	33	61	6	11	12	13	14	16	17	19	22	25	28	32	36
Construction	169	137	19	59	64	90	123	136	155	196	166	191	195	180	180
<b>Services</b>	<b>2,177</b>	<b>3,071</b>	<b>293</b>	<b>582</b>	<b>700</b>	<b>870</b>	<b>943</b>	<b>993</b>	<b>1,040</b>	<b>1,103</b>	<b>1,096</b>	<b>1,097</b>	<b>1,201</b>	<b>1,291</b>	<b>1,370</b>
Transport & Communication	119	137	68	102	120	128	133	136	145	154	152	152	165	185	202
Trade (*)	1,145	1,593	91	199	239	285	309	349	354	361	365	374	415	441	467
Hotel & Restaurants	187	234	4	11	52	143	164	118	133	178	161	150	174	197	215
Finance	37	59	8	12	13	15	16	19	19	20	20	20	26	36	46
Public Administration	509	825	27	40	51	59	64	103	113	105	106	106	116	115	113
Real Estate & Business	90	111	35	85	90	95	105	109	113	116	119	120	124	128	133
Other Services	90	111	60	132	135	145	153	160	165	169	173	175	182	188	194
<b>Total</b>	<b>3,519</b>	<b>4,758</b>	<b>1,006</b>	<b>1,575</b>	<b>1,740</b>	<b>1,982</b>	<b>2,151</b>	<b>2,266</b>	<b>2,439</b>	<b>2,603</b>	<b>2,622</b>	<b>2,697</b>	<b>2,880</b>	<b>3,040</b>	<b>3,201</b>

Note: (\*) = Taxes on import of goods included. Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

**Table 9. Implicit Price Deflators of GDP by Industrial Origin (US\$1993=1)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Agriculture</b>	<b>0.301</b>	<b>0.382</b>	<b>0.618</b>	<b>0.745</b>	<b>0.815</b>	<b>0.878</b>	<b>1.000</b>	<b>1.074</b>	<b>1.190</b>	<b>1.175</b>	<b>1.142</b>	<b>0.975</b>	<b>0.950</b>	<b>0.863</b>	<b>0.848</b>
Paddy	0.352	0.478	0.664	0.730	0.800	0.900	1.000	1.036	1.179	1.143	1.107	0.857	0.821	0.664	0.668
Other Crops	0.234	0.329	0.525	0.673	0.750	0.780	1.000	1.088	1.155	1.219	1.107	1.055	1.006	0.989	0.954
Livestock	0.433	0.534	0.681	0.875	0.939	0.979	1.000	1.020	1.060	1.090	1.080	1.100	1.140	1.120	1.099
Fishery	0.122	0.170	0.555	0.734	0.810	0.873	1.000	1.080	1.260	1.240	1.202	1.170	1.175	1.170	1.165
Rubber	1.407	0.650	0.758	0.884	1.002	0.945	1.000	1.200	1.700	1.520	1.220	0.860	0.900	0.888	0.868
Forestry	0.258	0.316	0.527	0.683	0.742	0.798	1.000	1.150	1.265	1.220	1.268	1.016	1.001	0.943	0.914
<b>Industry</b>	<b>0.187</b>	<b>0.249</b>	<b>0.546</b>	<b>0.734</b>	<b>0.792</b>	<b>0.850</b>	<b>1.000</b>	<b>1.083</b>	<b>1.220</b>	<b>1.249</b>	<b>1.196</b>	<b>1.145</b>	<b>1.165</b>	<b>1.174</b>	<b>1.107</b>
Mining	0.126	0.165	0.641	0.774	0.820	0.900	1.000	1.100	1.180	1.150	1.100	1.030	1.065	1.057	1.031
Manufacturing	0.187	0.255	0.541	0.732	0.792	0.866	1.000	1.092	1.153	1.140	1.173	1.144	1.168	1.208	1.120
Food, Beverage & Tobacco	0.178	0.242	0.492	0.710	0.780	0.900	1.000	1.100	1.170	1.160	1.130	1.110	1.140	1.122	1.097
Textile & Garment	0.192	0.258	0.536	0.688	0.780	0.870	1.000	1.060	0.970	0.980	1.200	1.216	1.203	1.262	1.135
Wood, Paper & Publishing	0.218	0.294	0.580	0.711	0.840	0.920	1.000	1.080	1.150	1.200	1.190	1.150	1.130	1.125	1.110
Chemical & Plastic	0.194	0.266	0.569	0.759	0.820	0.910	1.000	1.100	1.240	1.230	1.180	1.080	1.280	1.259	1.226
Non Metallic Mineral	0.244	0.310	0.669	0.903	0.900	0.844	1.000	1.090	1.200	1.180	1.130	1.020	1.049	1.035	1.009
Other Manufacturing	0.109	0.170	0.536	0.733	0.750	0.793	1.000	1.105	1.242	1.230	1.180	1.060	1.090	1.072	1.045
Electricity & Water	0.158	0.203	0.595	0.842	0.900	0.920	1.000	1.102	1.250	1.271	1.220	1.150	1.187	1.171	1.145
Construction	0.192	0.248	0.544	0.716	0.770	0.810	1.000	1.070	1.300	1.370	1.230	1.150	1.160	1.091	1.066
<b>Services</b>	<b>0.123</b>	<b>0.169</b>	<b>0.550</b>	<b>0.683</b>	<b>0.805</b>	<b>0.902</b>	<b>1.000</b>	<b>1.072</b>	<b>1.192</b>	<b>1.212</b>	<b>1.163</b>	<b>1.088</b>	<b>1.140</b>	<b>1.108</b>	<b>1.085</b>
Transport & Communication	0.125	0.169	0.516	0.631	0.760	0.870	1.000	1.090	1.200	1.190	1.150	1.050	1.077	1.051	1.022
Trade (*)	0.111	0.152	0.587	0.750	0.800	0.900	1.000	1.050	1.150	1.220	1.150	1.100	1.165	1.108	1.082
Hotel & Restaurants	0.103	0.140	0.460	0.848	0.890	0.899	1.000	1.073	1.174	1.193	1.179	1.135	1.178	1.181	1.180
Finance	0.155	0.203	0.532	0.660	0.810	0.890	1.000	1.090	1.221	1.201	1.097	1.010	1.044	1.026	1.001
Public Administration	0.152	0.206	0.781	0.961	1.134	1.164	1.000	1.090	1.250	1.240	1.210	1.110	1.200	1.169	1.142
Real Estate & Business	0.124	0.163	0.491	0.601	0.720	0.860	1.000	1.090	1.210	1.200	1.160	1.060	1.093	1.074	1.048
Other Services	0.138	0.182	0.471	0.580	0.750	0.860	1.000	1.080	1.235	1.230	1.170	1.070	1.110	1.092	1.065
<b>Total</b>	<b>0.175</b>	<b>0.225</b>	<b>0.590</b>	<b>0.721</b>	<b>0.808</b>	<b>0.885</b>	<b>1.000</b>	<b>1.074</b>	<b>1.195</b>	<b>1.203</b>	<b>1.160</b>	<b>1.053</b>	<b>1.072</b>	<b>1.036</b>	<b>1.010</b>
(*) Of Which - Sales Taxes	0.111	1.150													
Taxes	0.111	1.150													

Note: (\*) = Taxes on import of goods included. Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

**Table 10. GDP by Expenditure Categories at Current Prices (million US\$)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Private Consumption</b>	395	779	495	933	1,165	1,374	1,741	1,928	2,332	2,445	2,435	2,325	2,456	2,441	2,506
<b>Government Expenditure</b>	132	232	175	211	121	143	133	262	280	308	269	245	291	312	346
<b>Gross Domestic Formation</b>	123	115	47	126	149	206	370	442	631	837	656	718	705	607	592
Gross Fixed Capital Formation	123	115	47	126	149	206	370	442	631	837	656	718	705	607	592
Public	37	17	7	13	6	4	84	131	208	238	151	164	215	232	248
Private	86	98	40	114	143	202	286	312	423	599	506	554	490	375	344
Changes in Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Exports of Goods &amp; NFS</b>	83	92	45	116	270	451	463	587	947	864	1,003	1,035	1,224	1,616	1,752
Goods FOB	80	82	42	108	223	315	331	477	848	723	873	912	1,048	1,393	1,502
Domestic exports	80	82	26	55	77	102	149	250	308	362	551	619	765	1,143	1,247
Re-exports	-	-	16	53	145	213	181	228	540	361	322	293	283	250	255
NFS	2	11	3	8	47	136	132	109	99	140	130	123	177	223	250
<b>Imports of Goods &amp; NFS</b>	116	145	170	250	299	420	555	785	1,274	1,322	1,322	1,482	1,588	1,828	1,963
Goods FOB	112	134	163	237	284	401	514	731	1,206	1,233	1,244	1,400	1,488	1,714	1,841
Retained imports	112	134	147	184	139	187	333	504	666	872	922	1,107	1,205	1,464	1,586
Re-exports	-	-	16	53	145	213	181	228	540	361	322	293	283	250	255
NFS	4	12	7	13	15	20	41	53	68	89	78	82	99	113	122
<b>GDP</b>	<b>616</b>	<b>1,072</b>	<b>593</b>	<b>1,135</b>	<b>1,406</b>	<b>1,754</b>	<b>2,151</b>	<b>2,435</b>	<b>2,915</b>	<b>3,131</b>	<b>3,042</b>	<b>2,841</b>	<b>3,088</b>	<b>3,149</b>	<b>3,234</b>

Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

**Table 11. GDP by Expenditure Categories at Constant 1993 Prices (million US\$)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Private Consumption</b>	2,117	3,346	892	1,348	1,505	1,609	1,741	1,811	2,003	2,094	2,140	2,236	2,344	2,412	2,539
<b>Government Expenditure</b>	866	1,126	224	219	107	123	133	241	224	248	223	220	243	267	303
<b>Gross Domestic Formation</b>	665	482	64	138	154	212	370	410	508	668	561	669	635	563	563
Gross Fixed Capital Formation	665	482	64	138	154	212	370	410	508	668	561	669	635	563	563
Public	193	69	13	18	8	5	84	122	160	174	122	143	185	213	233
Private	472	414	51	120	146	206	286	288	348	494	438	526	450	350	330
Changes in Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Exports of Goods &amp; NFS</b>	421	378	60	119	271	447	463	551	796	729	886	984	1,130	1,514	1,680
Goods FOB	410	336	55	112	224	315	331	447	711	608	769	867	967	1,304	1,440
Domestic exports	410	336	34	57	78	102	149	234	258	305	485	588	706	1,070	1,195
Re-exports	-	-	21	55	146	213	181	213	453	304	284	279	261	234	244
NFS	11	41	4	8	47	132	132	104	85	121	117	117	164	210	240
<b>Imports of Goods &amp; NFS</b>	551	574	233	249	296	409	555	747	1,092	1,137	1,188	1,412	1,472	1,716	1,883
Goods FOB	531	529	223	236	281	390	514	696	1,034	1,060	1,118	1,334	1,380	1,609	1,766
Retained imports	531	529	201	183	137	182	333	479	571	750	828	1,055	1,117	1,375	1,522
Re-exports	-	-	22	53	144	207	181	217	463	310	289	279	262	235	245
NFS	19	45	10	13	15	19	41	51	58	77	70	78	92	106	117
<b>GDP</b>	<b>3,519</b>	<b>4,758</b>	<b>1,006</b>	<b>1,575</b>	<b>1,740</b>	<b>1,982</b>	<b>2,151</b>	<b>2,266</b>	<b>2,439</b>	<b>2,603</b>	<b>2,622</b>	<b>2,697</b>	<b>2,880</b>	<b>3,040</b>	<b>3,201</b>

Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

**Table 12. Implicit Price Deflators of GDP by Expenditure Categories (US\$1993=1)**

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Private Consumption	0.186	0.233	0.555	0.692	0.774	0.854	1.000	1.065	1.164	1.167	1.138	1.040	1.048	1.012	0.987
Government Expenditure	0.152	0.206	0.781	0.961	1.134	1.164	1.000	1.090	1.250	1.240	1.210	1.110	1.200	1.169	1.142
Gross Domestic Formation	0.185	0.238	0.744	0.913	0.970	0.974	1.000	1.079	1.241	1.253	1.171	1.074	1.109	1.078	1.053
Gross Fixed Capital Formation															
Public	0.192	0.248	0.544	0.716	0.770	0.810	1.000	1.070	1.300	1.370	1.230	1.150	1.160	1.091	1.066
Private	0.182	0.236	0.795	0.942	0.981	0.978	1.000	1.082	1.214	1.212	1.154	1.054	1.089	1.070	1.044
Changes in Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exports of Goods & NFS	0.196	0.245	0.762	0.973	0.998	1.009	1.000	1.064	1.189	1.185	1.132	1.051	1.083	1.067	1.043
Goods FOB	0.195	0.244	0.765	0.971	0.995	1.001	1.000	1.068	1.192	1.189	1.135	1.052	1.084	1.068	1.043
Domestic exports	0.195	0.244	0.765	0.971	0.995	1.001	1.000	1.068	1.192	1.189	1.135	1.052	1.084	1.068	1.043
Re-exports	-	-	0.765	0.971	0.995	1.001	1.000	1.068	1.192	1.189	1.135	1.052	1.084	1.068	1.043
NFS	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065	1.042
Imports of Goods & NFS	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065	1.042
Goods FOB	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065	1.042
Retained imports	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065	1.042
Re-exports	-	-	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065	1.042
NFS	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065	1.042
<b>GDP</b>	<b>0.175</b>	<b>0.225</b>	<b>0.590</b>	<b>0.721</b>	<b>0.808</b>	<b>0.885</b>	<b>1.000</b>	<b>1.074</b>	<b>1.195</b>	<b>1.203</b>	<b>1.160</b>	<b>1.053</b>	<b>1.072</b>	<b>1.036</b>	<b>1.010</b>

Sources: Calculated by CDRI from World Bank, ADB, IMF and Cambodian Government data

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CDRI hopes that this publication will become a ready reference for policy analysts and decision makers both inside and outside the government, as well as to interested parties abroad.

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