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## 2009 Cambodia Outlook Conference 'Cambodia and the Global Crisis: Impact, Policy Responses and Action'\*

The third annual Cambodia Outlook Conference, a partnership of CDRI and ANZ Royal Bank, on the theme "Cambodia and the Global Crisis: Impact, Policy Responses and Action", was held in Phnom Penh on 12 March 2009. In his opening keynote address to the 350 participants, Cambodian Prime Minister Hun Sen described the conference as "a unique event in Cambodia, as each year it brings together personally invited leaders from government, the private sector, research institutes, civil society and the international development community to consider Cambodia's achievements and its future. This year's Outlook Conference, its timing and theme, are of particular significance as we all come to terms with the impact of the global and regional financial and economic crisis and how we must respond."

The 2009 conference included sessions on - The Global Financial and Economic Crisis: Its Implications for Our Region and for Cambodia; Cambodia's Human Resource Development - Building a Skilled Labour Force; Managing Through the Crisis - Strengthening Key Sectors for Cambodia's Future Growth, Development and Poverty Reduction; Priorities for Policy and Action by Government, Private Sector, Development Partners, Research and Policy Institutions.

This special issue of the Cambodia Development Review contains articles based on the conference presentations and discussion. A series of Cambodia Outlook Briefs reflecting the major issues and recommendations for policy and action generated at the conference are also now available, in Khmer and English, from CDRI. The full programme,



*Tourists entering Cambodia at Poipet border crossing*

presentations and associated conference materials are available on the CDRI web site.

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\* Larry Strange, CDRI executive director, introduces this special issue of CDR on the 2009 Cambodia Outlook Conference.

# Opening of the 2009 Cambodia Outlook Conference on “Cambodia and the Global Economic Crisis: Impact, Policy Responses and Action”\*

This year’s Outlook Conference, its timing and theme, are of particular significance as Cambodia comes to terms with the impact of the global and regional financial and economic crisis, and how to respond with efficiency and effectiveness. This is not a crisis of Cambodia’s making. It has been caused by external factors beyond Cambodia’s control, and it is a crisis that will have serious impact on us all.

## **Achievements over the Years: Growth and Poverty Reduction**

Cambodia is fortunate because it faces the crisis while its economy is still in good shape, having achieved a decade of sustainable strong economic growth and sound macroeconomic management. A recent World Bank study placed the country in the top 10 developing countries with the highest economic growth rate from 1998 to 2007, its average growth over the past decade reaching double digits. At the same time, it has made an impressive record in poverty reduction, from 45 percent in 1994 to around 30 percent in 2008.

These exceptional achievements in economic development and poverty reduction were accomplished through responsible macroeconomic management and a steady programme of reforms by government, along with the dynamism of the private sector and the productivity and effort of the Cambodian people. Great progress has been made in the provision of better infrastructure—roads, bridges, irrigation, transport and telecommunications; the promotion of international labour standards in the garment industry; and the advancement of tourism and a positive enabling environment for trade and investment. Also, although the domestic banking sector is small, it is dynamic and growing, with limited exposure to the global financial turmoil. This sector has been placed under strict supervision by the National Bank of Cambodia and has gained

credibility among the government, the private sector and the Cambodian people.

In addition, Cambodia has been able to utilise its strengths. The Royal Government has remained committed to the responsible management and exploitation of the country’s rich natural resources, which can bring maximum benefits for economic and social development, wealth creation and poverty reduction, and to addressing the related challenges regarding governance and administration, transparency, conflict resolution, corporate responsibility and environmental management. It has also remained committed to a balanced approach that promotes the productive use of land, ensuring specifically that rural land is being put to best use for agricultural and rural development and poverty reduction. The government has also demonstrated its responsiveness to the needs of the private sector, which plays a key role in priority development areas such as economic diversification, infrastructure, energy, telecommunications and financial services. Through such initiatives as the government-private sector forum and the open sky and investment policy, the government has supported and promoted the capacity of the private sector to grow and compete on the regional and global stage.

## **The Global Crisis: Impact and Responses**

Due to the unfavourable climate resulting from the financial crisis and global economic downturn, economic growth in Cambodia in 2008 is estimated to have reached around 7 percent, compared to 10 percent annually in the previous four years. Growth in 2009 is predicted to slow even further. In this difficult situation, the Royal Government has taken systematic and well-sequenced measures to ensure macroeconomic stability and a strong financial sector as well as to stimulate growth through fiscal measures, trade facilitation and investment. The Royal Government has also focused on further strengthening social safety nets for the people.

\* This article is an abridgement of the opening address to the 2009 Outlook Conference delivered by Samdech Techo Hun Sen, prime minister of the Kingdom of Cambodia.

Although the crisis has been tackled through various measures, it is still progressing. It will impact some key economic sectors of the country and bring down the growth of major sectors such as garments, tourism and construction by about 15–20 percent, which will have a negative impact on Cambodia's economy and its people. This means that everyone must work even harder to address several key challenges (Box 1).

Effective responses to the crisis must be developed to help protect and support the poor and vulnerable, particularly those who may be thrown into unemployment by the contraction in export industries such as garment manufacturing, construction and tourism; migrant workers, who may be forced to return home from neighbouring countries; poor rural families with reduced incomes and the increased burden of unemployed family members returning from cities; small and micro-enterprises that deliver services in urban areas in support of industries negatively affected by the crisis; the already poor, employed and underemployed, whose opportunities will be lost as economic activity contracts; and the young people entering the labour market in contracting economies with few prospects of employment. We owe it to these vulnerable groups to ensure that our responses to the crisis meet their needs.

These challenges will require not only a more effective and dynamic cooperation between the government, its development partners and the private sector but also more effective coordination and collaboration within and across government ministries and with the development community. In key areas such as agriculture and rural development, infrastructure building, irrigation and water resource management and trade facilitation, much greater communication, coordination and cooperation between relevant ministries and institutions, especially their leaders and senior officials, are necessary to ensure that national development programmes are more speedily and effectively designed and implemented, and that the supporting resources provided by our development partners can be more speedily and effectively disbursed. This is no easy task, but the nature of this crisis means that there has never been a greater need for us all to work together.

It has been said that “crisis always goes along with opportunities”. The current global financial crisis presents the opportunity for Cambodia to strengthen and expand cooperation and regional integration in order to maximise benefits from expanding regional markets as well as trade and investment in the region. This is important to minimise the country's over-dependence on external markets and enhance its competitiveness in attracting investments from outside the region.

Cambodia must work closely with its neighbours in the Greater Mekong Sub-region, with the other member countries of ASEAN and its regional partners, such as China, South Korea and Japan, to seek regional solutions and strategies that will help it deal with the impact of the crisis and make the region stronger and more resistant to future crises. It must work together with its fellow ASEAN members to promote intra-regional free trade, production networks and consumption; to develop concrete strategies to deliver on the commitment of the ASEAN Charter; to bridge the development gap in ASEAN; and to move forward with the implementation of the Chiang Mai Initiative to strengthen the role of regional financial mechanisms and institutions in supporting growth and development and protecting the countries of east Asia from future external shocks.

In the broader global arena, Cambodia must support the involvement of China, India and Indonesia, as major developing countries that can also speak for others in the developing world to ensure the development of effective global and regional strategies in response to the crisis; secure a deeper commitment in bridging the development gap; ensure that development assistance commitments of the developed world are met with the timely disbursement and implementation of development programmes; and sustain progress on the urgent reform of major international financial institutions in order to make them more effective and responsive to the needs of developing countries.

Other important issues arising from the country's experience with the crisis warrant careful consideration. These include how the country and the region can carefully monitor the impact of the crisis in order to develop responsive strategies, especially for the poor and vulnerable; how the

*Continued on page 35*



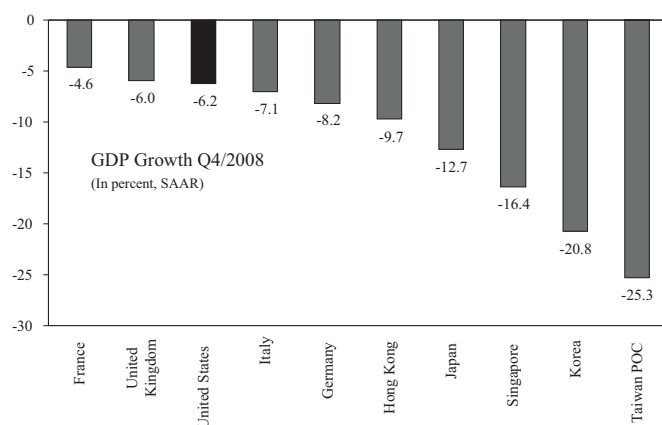
# Global Crisis— Impact, Outlook and Policy Options for Cambodia

*This article summarises the presentation by Mr John Nelmes<sup>1</sup> during session 1 of the 2009 Cambodia Outlook Conference.*

## The Crisis: Global Origins and Impact

The present meltdown has been dubbed as worse than the Great Depression. First and foremost, the impact has been so far-reaching and quick to spread that it left virtually no country unaffected. Set off in the United States, it soon spread to the other developed economies and, upon peaking in 2008, the rest of the globe. The shock has also been more severe and deep than the Great Depression. While it began from the subprime mortgage crisis, it soon contaminated other assets and spilled over into different sectors of the real economy, drying up credit and liquidity, slashing jobs and incomes and dissolving business and consumer confidence.

**Figure 1: GDP Growth Q4/2008 (In percent, SAAR)**



Source: Haver Analytics.

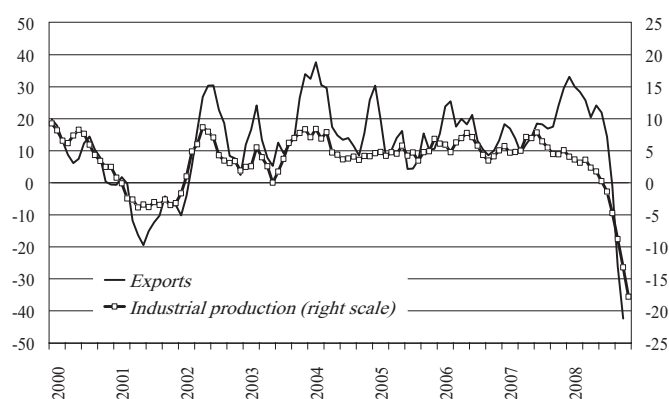
\*SAAR (Seasonally Adjusted Annual Rate)

The data provide a clear and concise picture of how global growth retreated dramatically as a consequence of the crisis. Combining them with

the data presented in the IMF's January 2009 World Economic Update, a worsening economic performance worldwide becomes evident. Global output growth declined from 5.2 percent in 2007 to 3.4 percent in 2008, caused by a slowdown in all major regions and countries. Over the same period, output growth in the US declined by almost 1 percent, in the euro area by 1.6 percent, Japan by 2.7 percent to a negative 0.3 percent, China by 4 percent and the ASEAN-5 region by 0.9 percent. GDPs of advanced economies and newly industrialised economies all contracted in the last quarter of 2008 (Figure 1).

Industrial production and exports plummeted in 2008 (Figure 2). Business and consumer confidence have reached historical lows, prompting greater worries about impending conditions.

**Figure 2: Global IP and Merchandise Exports (3-month percent change of 3-mma, annualised)**



Source: IMF, GDS database.

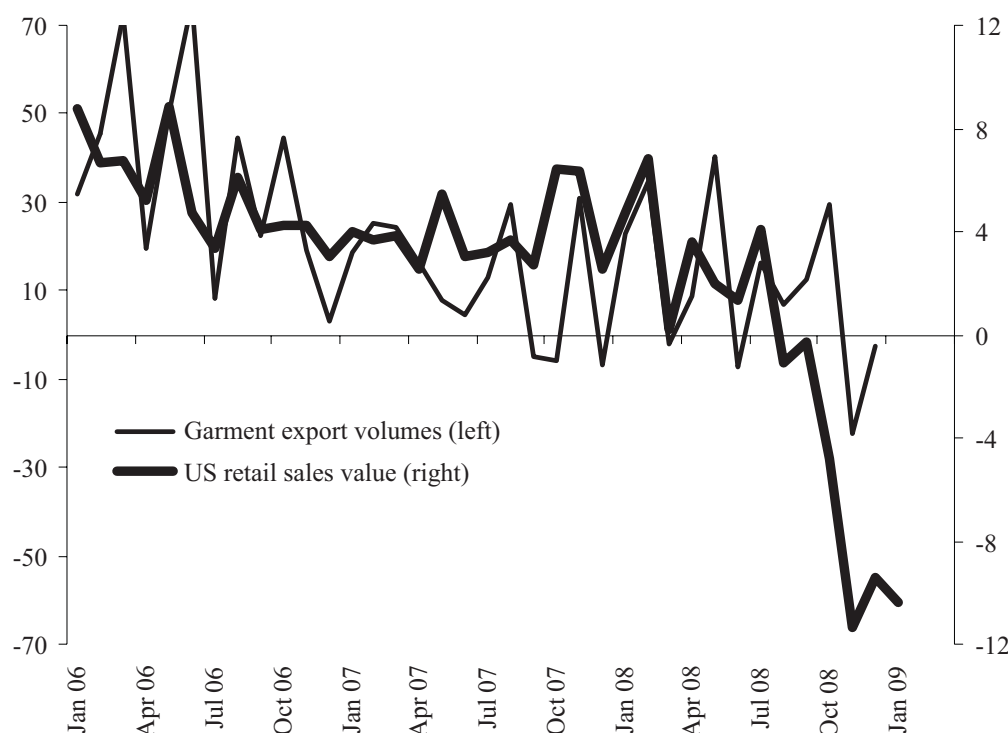
## The Crisis: Impact in Cambodia

While shielded from the direct effects of the financial tumult by its insignificant exposure to the toxic subprime products, the Cambodian economy eventually got swept along by the crisis through the effects on its key growth areas. The fall in the country's economic growth to 6 percent (IMF estimate) in 2008, after an outstanding average growth of 10 percent in recent years, was induced by deceleration in the garment industry, tourism and construction. Cambodia's garment exports have been highly vulnerable to the external shock due to their heavy reliance on the US market. They have traditionally followed trends in US retail sales, and did so with the steep drop in sales starting in the middle of 2008. Year-on-year growth of garment export volumes neared 0 percent by January 2009.

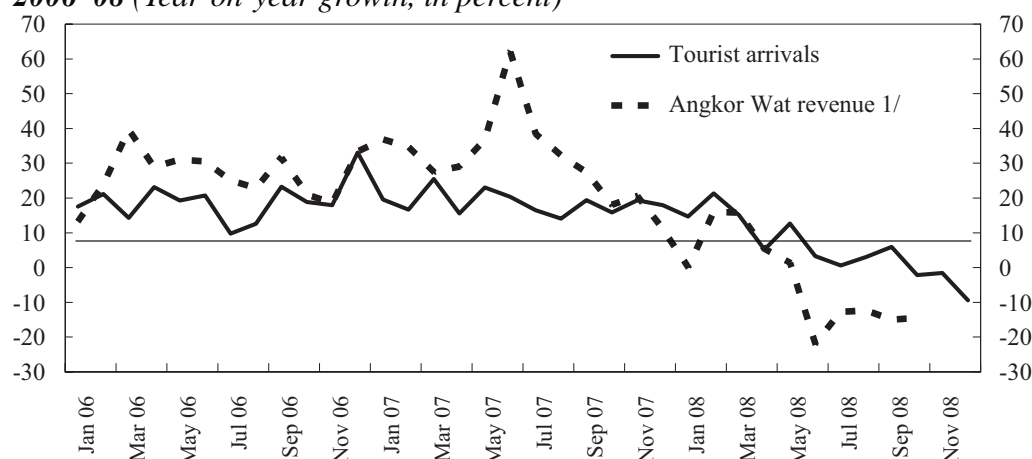
<sup>1</sup> Mr John Nelmes is the IMF resident representative in Cambodia.

A similar constriction in tourism was recorded, its year-on-year growth tumbling from a previous remarkable average of 25 percent to an estimated 9 percent in 2008. As the economies of its traditional tourist markets were afflicted by the crisis, tourist arrivals in Cambodia slowed, affecting revenues from Angkor Wat, overall tourist receipts, tax revenues and ordinary people's livelihoods. High inflation in 2008 and appreciation of the riel did not help, because they made the country a relatively more expensive tourist destination.

**Figure 3: Cambodian Garment Exports and US Retail Sales (Y/Y, in percent)**



**Figure 4: Cambodia: Total Tourist Arrivals and Angkor Wat Revenue, 2006–08 (Year-on-year growth, in percent)**



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.  
1/ Revenue from ticket sales.

Construction, another growth sector, has not fared any better. A key factor underpinning the lull in this sector is the cutback in foreign direct investment (FDI). This cutback was engendered by constrained financing conditions and higher aversion to risks. In Cambodia, construction activities are closely related to real estate development. Decreased external investments and the bursting of the domestic real estate bubble constituted a huge blow to the sector, which was booming only a year back. FDI in the last two quarters of 2008 declined.

Consistent with the above trends, domestic liquidity conditions have tightened. Broad money growth was near zero as of January 2009. Foreign currency deposits, which make up about 90 percent of total deposits on average, posted a mere 1 percent growth as of the end of 2008. This inevitably put a strain on the domestic banking system. The downturn in the real estate sector topped the banks' worries and forced restrictions in lending to the sector. After peaking at 100 percent in May 2008, year-on-year growth of private sector credit as a whole retreated to 45 percent in January 2009.

On a positive note, the positive performance of Cambodia's agriculture in 2008 helped to prop up the economy. Overall, the sector exhibited resilience although some of its key exportable crops took a

serious blow from the crisis. To the benefit of consumers, the global meltdown put a brake on the escalation of prices triggered mainly by the food and energy crises of 2006 onwards. However, declining commodity prices cut producers' and exporters' profit margins, and lower world demand left them with unwanted produce. Still, prices in Cambodia remain higher than preceding average levels and, together with the stronger riel, put the country's competitiveness under pressure.

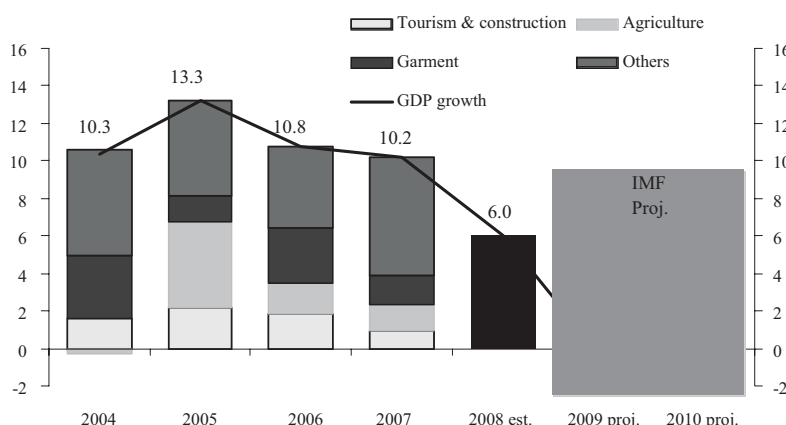
### The Crisis: Outlook and Potential Policies

There is no immediate end in sight for the downturn. Predictions for 2009 remain sombre and in fact have reflected increasing pessimism over the state of the global economy. Once projected to grow by 2.2 percent, world output this year is now predicted by the IMF to expand by a mere 0.5 percent. Similarly, the majority outlook for Cambodia has become gloomier. The earlier IMF projection of a 4.8 percent real GDP growth in 2009 was revised -0.5 percent (Figure 5). This bigger contraction was due to the persistence and deepening of the slowdown in garments, tourism and construction. He warned that US retail sales are predicted to contract by 10 percent this year, and Cambodia's garment exports are sure to suffer from this. Meanwhile, 2009 growth of tourism in Cambodia is placed at -0.5 percent. Agriculture, by contrast, is expected to continue its positive performance even though prevailing deflationary pressures do not bode well for this sector. A slow recovery is possible in 2010, but with downside risks.

Indeed, the road to recovery is difficult. Recommended is a strategy of moderated fiscal easing to provide relief to distressed sectors and sections of the population. A deficit of 4.75 percent of GDP is expected this year. For the expansionary budget to deliver on its purpose, however, spending priorities must be social safety nets and infrastructure. Also, it will not be wise to forego the hard-won gains made in revenue administration over the years.

Other remedial policies are further monetary easing (although the scope for this is limited) and development of monetary instruments that can facilitate interbank transactions. Recent actions to

**Figure 5: Cambodia: Real GDP Growth (Y/Y % change)**



strengthen off-site and on-site bank supervision are commendable and must be carried on and improved. Perhaps most importantly, because the real antidote to the current and future crises may lie here, structural impediments to broader based growth and enhanced competitiveness must be dealt with.

#### *Did you know that ...*

... as a result of the crisis, the United States, the euro zone and Japan have gone into synchronised recession for the first time since WWII? The US, the euro zone and Japan were all officially in recession by late 2008. Recession is usually understood as referring to at least two successive quarters of negative GDP growth.

*Sources: CNN (2008), J. Menon in ADR 2008–2009*

... as a result of the crisis, a country, Iceland, has technically gone bankrupt and several more are said to be in danger of being so? Since the middle of 2008, all three of Iceland's major banks have collapsed and the country's currency fell so sharply that it has become practically valueless. There is speculation that countries such as Switzerland and the United Kingdom could follow suit. Notwithstanding debates about whether a country can really go bankrupt, state bankruptcy is usually taken to mean that a country is no longer able to pay its external debt.

*Sources: Economist (2008), Market Oracle (2009)*

# Global Financial Crisis: Regional Impacts

*This article summarises the presentation by Mr Jayant Menon<sup>1</sup> during the 2009 Cambodia Outlook Conference and relevant insights from his article in CDRI's Annual Development Review 2008–2009.*

## Impact on Output Growth

The world has been battling an unprecedented financial and economic crisis. Since it started in 2007 with the US subprime mortgage fiasco, the crisis has become worse and more widespread. For the first time in the post-World War II period, the US, euro zone and Japan (G3) experienced a synchronised contraction of their economies. Output growth of the US dropped from 2 percent in 2007 to 1.1 percent in 2008, forcing the unemployment rate up to 7.8 percent as of December 2008. Output growth of the euro zone fell from 2.6 percent to 0.7 percent over the same period. After many of its major financial institutions became direct casualties of the crisis and business investment and consumer spending retracted, the euro zone officially entered recession by late 2008. Meanwhile, Japan's economy shrank by around 3 percent, its export-led growth severely affected by the weakening in global demand (Table 1). By now, with the crisis felt virtually in all parts of the world, where the turmoil started seems to matter little. The paramount consideration is how to recover from the serious damage that the crisis has inflicted and avoid a repeat of history, based on understanding and resolution of the problems that led to it. Lack of regulation and prudential controls on subprime lending triggered the financial collapse and hence must be one of the key problems that need to be addressed immediately.

Emerging east Asia (referring collectively to ASEAN, the newly industrialised economies or NIEs and

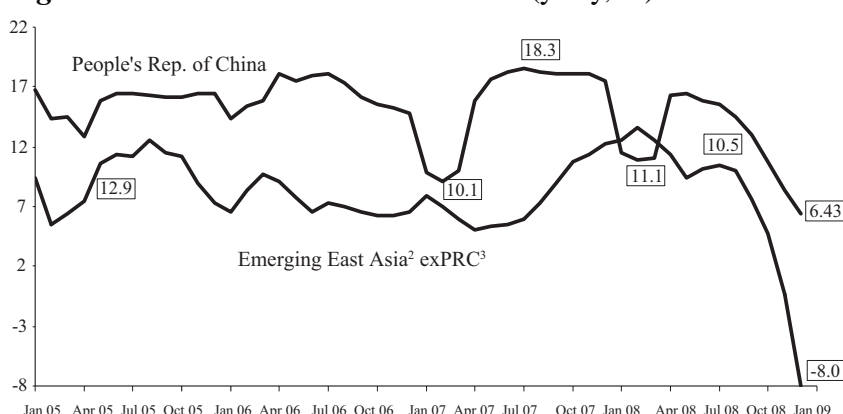
China) was not spared the impact of the crisis, disappointing initial speculation that most might be able to escape the financial and economic turmoil. However, the region was able to weather the crisis better than other parts of the world. Its output growth decreased from 9 percent in 2007 to 6.1 percent in 2008. GDP growth of ASEAN narrowed to 4.3 percent in 2008 from 6.5 percent in the preceding year. The contraction in growth of NIEs' GDP was more severe, dropping from 5.6 percent in 2007 to 1.8 percent last year. China's growth likewise eased significantly over the same period after reaching record-breaking levels in previous years, decreasing about 3 percentage points (Table 1).

**Table 1: GDP Growth**

	2006	2007	2008	Difference 07-08
<b>Emerging East Asia</b>				
<b>Asia</b>	8.7	9	6.1	<b>-2.9</b>
<b>ASEAN</b>	6	6.5	4.3	<b>-2.2</b>
<b>NIEs</b>	5.5	5.6	1.8	<b>-3.8</b>
<b>China</b>	11.6	11.9	9	<b>-2.9</b>
<b>Japan</b>	2	2.4	-0.7	<b>-3.1</b>
<b>US</b>	2.8	2	1.1	<b>-0.9</b>
<b>Euro Zone</b>	2.8	2.6	0.7	<b>-1.9</b>

*\*Above are the raw data for Table 1 of Article 3, Summary of J. Menon's article. Note that the rest of the figures in all the articles were directly extracted from presentations.*

**Figure 1: Industrial Production Growth<sup>1</sup> (y-o-y, %)**



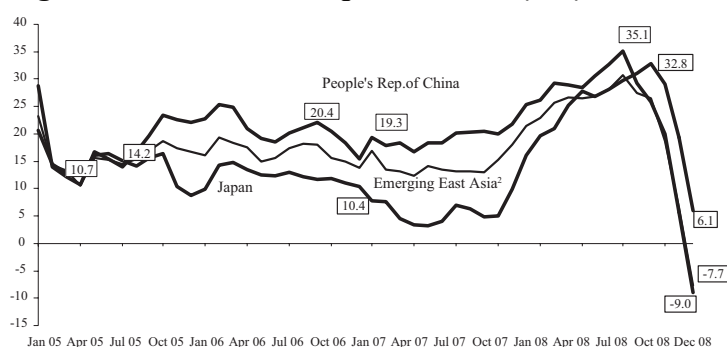
<sup>1</sup> 3-month moving average.

<sup>2</sup> Refers to ASEAN-4; Korea, Rep. of; Singapore; and Thailand; does not include Hong Kong, China; Brunei Darussalam; Cambodia; Lao People's Democratic Republic; Myanmar; and Viet Nam, for which monthly data are not available.

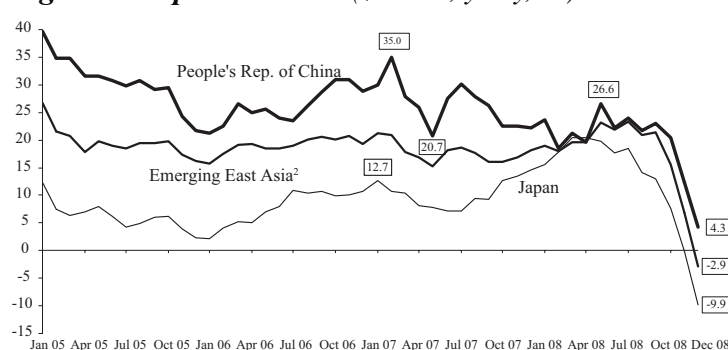
<sup>3</sup> PRC = People's Rep. of China; Source: OREI staff calculations based on CEI PRC = People's Rep. of ChinaCdata.

<sup>1</sup> Mr Jayant Menon is a principal economist at the Office for Regional Economic Integration, ADB.

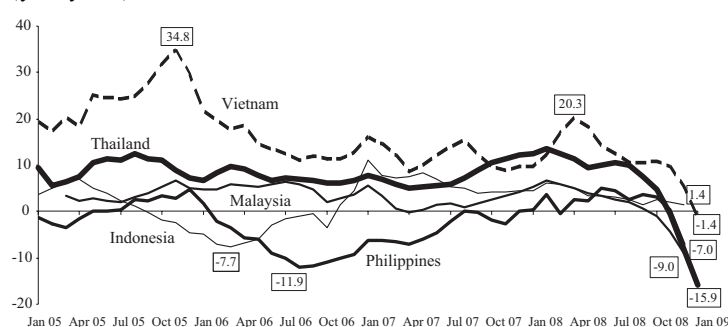


**Figure 2: Merchandise Import<sup>1</sup> (\$ value, y-o-y, %)**

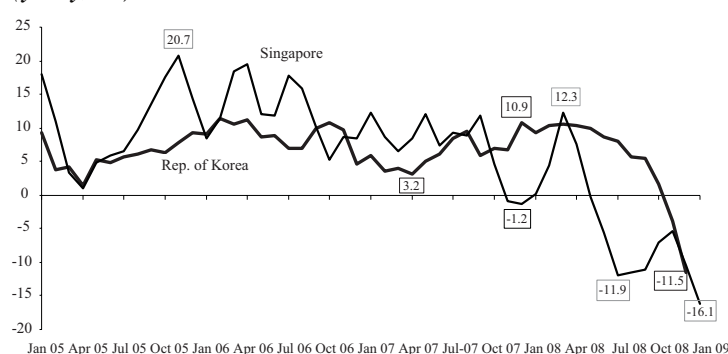
1 3-month moving average; 2 Refers to PRC, NIE-3, and ASEAN-4.  
Source: OREI staff calculations based on CEIC data.

**Figure 3: Export Growth<sup>1</sup> (\$ value, y-o-y, %)**

1 3-month moving average; 2 Includes PRC, NIE-3, and ASEAN-4.  
Source: OREI staff calculations based on CEIC data.

**Figure 4: Industrial Production Growth<sup>1</sup> —ASEAN-4, Vietnam (y-o-y, %)**

1 3-month moving average.  
Source: OREI staff calculations based on CEIC data.

**Figure 5: Industrial Production Growth<sup>1</sup> —Korea and Singapore (y-o-y, %)**

1 3-month moving average.  
Source: OREI staff calculations based on CEIC data.

## Impact on Production and Trade

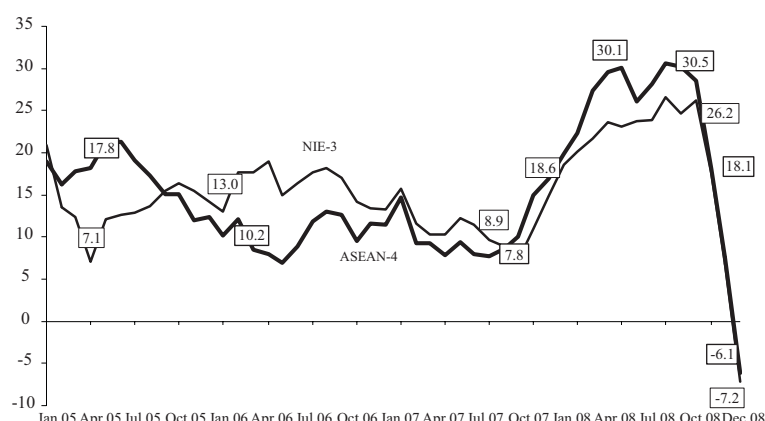
The worldwide economic slowdown has been marked by a deceleration in production and trade. Global manufacturing outputs have slumped as import demand from the G3 economies receded rapidly. The slowdown in demand from the advanced world has seriously hurt the exports of emerging economies, as available statistics from emerging east Asian countries demonstrate. The growth of industrial production in emerging east Asia, excluding China, nosedived from 11.1 percent in January last year to -8 percent in January this year (three-month moving average, year on year) (Figure 1). Growth of export and merchandise import values for the region, including China, the NIE 3 (excluding Taiwan) and ASEAN 4, also turned negative by the end of 2008 (Figures 2 and 3).

Detailing the above, the industrial output and exports of individual ASEAN 5 countries (including Vietnam) all contracted due to lower world demand for their products. Until the third quarter of 2008, Vietnam's industrial production held up relatively well. However, it also eventually succumbed to the impact of the crisis, contracting by as much as 14 percent in January 2009 (3mma, y-o-y). The rest of the ASEAN 5 countries experienced the same worsening of industrial production, that of Thailand deteriorating the most (Figure 4). Thailand's internal political mayhem helped drag down the economy. Merchandise import and export values both contracted dramatically by end of last year. Those values for the ASEAN 4 region decreased by about 6 percent and 11 percent respectively by December 2008 (Figures 6 and 7). Among the ASEAN 4, Philippine exports suffered the most in 2008.

Because their industrialisation was driven by the opening of their economies, the effects of the crisis on the trade-dependent NIEs were devastating. South Korea's industrial production



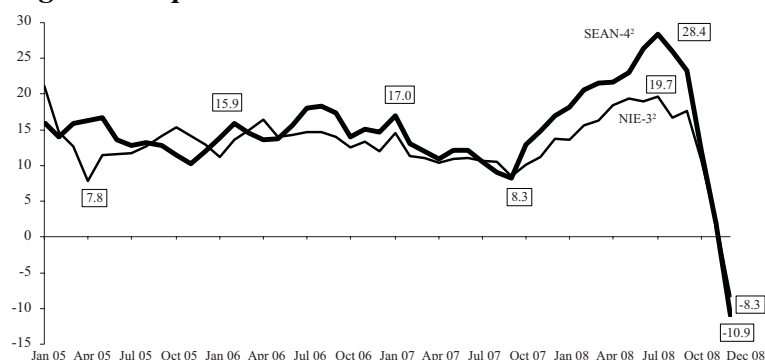
**Figure 6: Merchandise Import Growth<sup>1</sup>—NIE-3 and ASEAN-4**  
(\$ value, y-o-y, %)



<sup>1</sup> 3-month moving average.

Source: OREI staff calculations based on CEIC data.

**Figure 7: Export Growth<sup>1</sup>—NIE-3 and ASEAN-4**

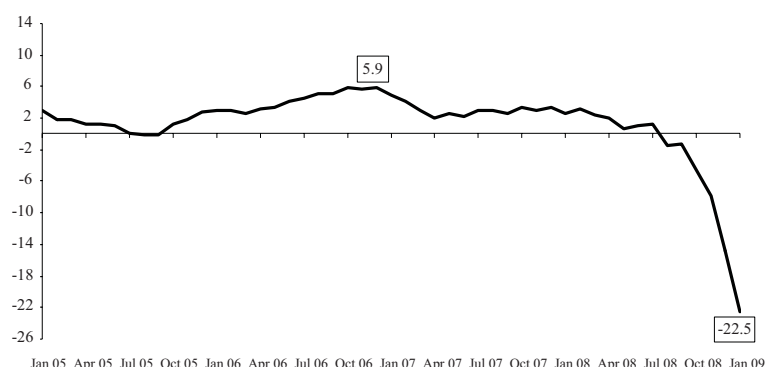


<sup>1</sup> 3-month moving average.

<sup>2</sup> ASEAN-4 includes Indonesia, Malaysia, Philippines, and Thailand; NIE-3 includes Hong Kong, China; Republic

Source: OREI staff calculations based on CEIC data.

**Figure 8: Industrial Production Growth: Japan<sup>1</sup> (y-o-y, %)**



<sup>1</sup> 3-month moving average.

Source: OREI staff calculations based on CEIC data.

growth plunged sharply between October 2008 and January 2009. That of Singapore plummeted abruptly between October 2007 and July 2008 and bottomed out at -17 percent in January 2009 (Figure 5). Mirroring the trend in the ASEAN 4,

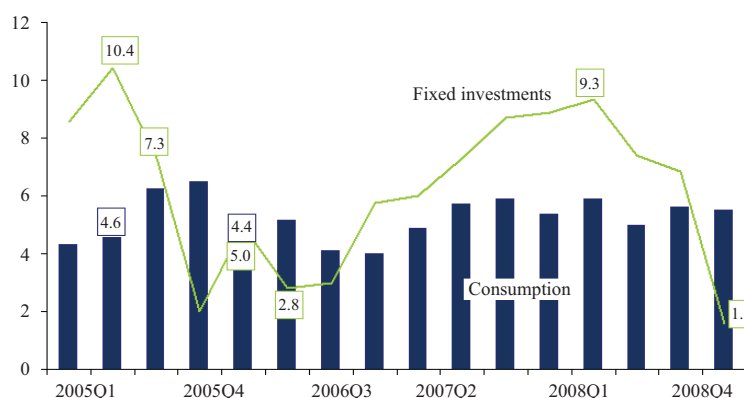
the growth of merchandise import and export values in the NIE region turned negative by the end of 2008 (Figures 6 & 7). As of December 2008, Taiwan's export performance was much worse than that of its fellow NIEs.

China's industrial production, on the other hand, still grew in January 2009, although at a slower pace, its three-month moving average reaching 6.43 percent. Weaker export orders and softening investment can be chiefly blamed for the slower expansion, although other factors such as the closure of factories during the Olympic Games also contributed to the slowdown. China's exports grew positively in December of last year but likewise at a slower rate (Figure 3). Its merchandise imports contracted by 9 percent as of the same month (Figure 2). The blow to Japanese production and trade has been much harsher. Its industrial production shrank alarmingly by about 23 percent in January (3mma, y-o-y) (Figure 8) because of the sharply declining world demand for its manufactured products and the country's long-standing problem of sluggish domestic demand. Japan's export value contracted by approximately 10 percent by the end of last year (3mma, y-o-y).

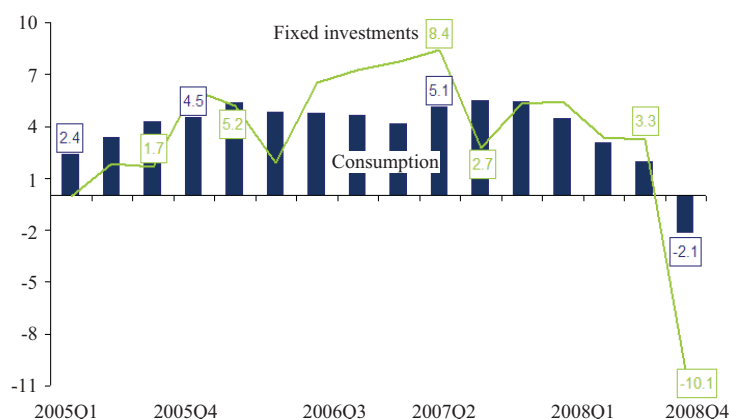
### Impact on Consumption and Investments

Helped by public spending, the still positive and steady growth in consumption in the ASEAN-4 countries provided the much needed anchor to their economies in the face of flagging investments. After reaching a high of 9.3 percent in the first quarter of 2008, growth of fixed investments in the region retreated to 1.6 percent in the final quarter of the year (Figure 9). The

severe credit crunch, coupled with weaker growth prospects and heightened investor wariness, largely underpinned this deceleration. Fixed investments in the NIEs contracted even more. While a modest

**Figure 9: Domestic Demand Growth—ASEAN-4 (y-o-y, %)**

Source: OREI staff calculations based on CEIC data.

**Figure 10: Domestic Demand Growth—NIE-3 (y-o-y, %)**

Source: OREI staff calculations based on CEIC data.

growth of 3.3 percent was still recorded for the third quarter of 2008, there was a sudden drop of 10 percent in last year's fourth quarter. In contrast to the ASEAN 4, consumption in the NIEs also dropped by 2 percent in fourth quarter 2008 (Figure 10). NIE governments have approved various schemes such as fiscal packages to stimulate domestic demand but these are yet to have any substantial effect.

Stock prices in the ASEAN 4 and NIEs have also plunged, hurting private consumption and investment. In South Korea and Taiwan, stock market indices fell 35 to 40 percent as credit conditions tightened, export demand for technology products weakened, and overseas investments incurred substantial losses. Indonesian and Thai stock indices fell by nearly 50 percent. Most currencies in the said regions also depreciated significantly following the crisis. Among the NIEs, the South

Korean currency experienced the greatest depreciation, because of a widening current account deficit and sharp withdrawal of foreign portfolio investment. Among the ASEAN 4, the Indonesian rupiah suffered the most due to massive foreign portfolio de-leveraging and investment flight.

### Outlook and Policy Responses

Dark clouds continue to hover over the world and regional economies, and the possibility of greater deterioration cannot be discounted. The situation presents more downside risks. Reflecting this sentiment, growth projections have become more pessimistic. Based on IMF estimates, the US and euro zone are expected to contract by 1.6 percent and 2 percent respectively, while developing Asia is anticipated to grow at a slower pace in 2009. Encouragingly, governments everywhere, including those of emerging east Asia, have quickly and boldly met the challenges posed by the global crisis. Extraordinary and historic measures have been taken to cushion and counter the

shock, including coordinated massive injections of liquidity into institutions and markets by the world's major central banks. In the US, the Federal Reserve brought interest rates down to their lowest level in the history of modern monetary policy. European countries took exceptional measures to rescue banking systems, Denmark and Ireland announcing blanket deposit and debt guarantees. In emerging east Asia, bold fiscal stimulus packages have been approved that make way for augmented spending on infrastructure and social safety nets. Tax cuts and increased subsidies have been initiated in an effort to spur sagging economies. Despite these bold steps, financial conditions remain stressed, domestic and external demand remain depressed, and recovery is predicted to take place only very gradually and at a very modest rate.

# Impact of the Global Financial Crisis on Cambodia's Trade and Investment Sectors

*This article summarises the presentation by H.E. Dr Cham Prasidh<sup>1</sup> during session 1 of the 2009 Cambodia Outlook Conference.*

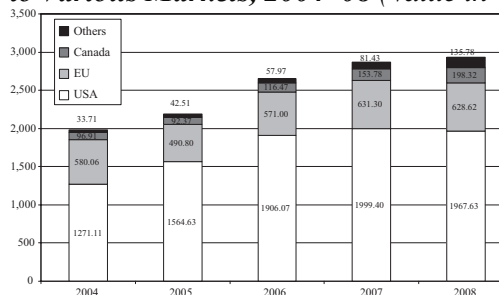
Is the Cambodian economy insulated from external shocks? Not at all. Its growth pillars—garments, tourism, construction and agriculture – are more or less vulnerable to outside shocks. This has been demonstrated in the present crisis, which brought global growth to a halt, pushed advanced economies into deep recession, discouraged industrial production and exports and reduced confidence to historic lows. The downward revisions in IMF growth projections signal the heightened severity of the crisis. Rather dramatically, the IMF estimate for Cambodian growth in 2009 was downgraded from 4.8 percent to a negative 0.5 percent. Growth is expected to bounce back to 3 percent in 2010.

## Impact on the Garment Sector

The crisis gave evidence of the vulnerability of Cambodia's growth sectors to external meltdowns. Consider the slowdown suffered so far by the garment industry, the country's leading export sector. Garments are about 65 percent of the country's total exports, based on recent trends. The slowdown in this sector has been extraordinarily sharp and is ultimately attributable to the lack of diversification in garment export markets and products. After growing 21 percent in 2006, garment export values grew by only 8 percent and 3.3 percent in 2007 and 2008 respectively. More recent data indicate that the situation has turned for the worse. Monthly garment export values fell alarmingly to USD165 million in January 2009 and USD102 million in February, after averaging about USD200 million in 2008. The contraction has followed the steep drop in US retail sales. Based on recent figures, about 65 to 70 percent of Cambodian garment exports go to the US on average. Unsurprisingly, the recession and ensuing lower import demand from the US had significant knock-on effects on this sector.

The concentration of most garment activities in the lower end of the value chain further prevented

**Figure 1: Cambodia's Textile and Garment Exports to Various Markets, 2004–08 (Value in US\$ million)**



Source: MOC March 6, 2009

spreading the risks from the current crisis. The ordeals faced by foreign investors supplemented the blow to the FDI-dependent garment industry. All these unfavourable developments have had direct implications for garment factory operations and employment. The total number of active factories fell from 292 at the end of 2008 to 277 only two months later. The figures also show the number of garment workers peaking at 352,000 in September 2008 and then falling to 301,000 in February 2009, reflecting 51,000 job losses. Apart from lay-offs, an increase in underemployment has been another consequence of garment factories trying to reduce their operating costs. A deceleration in footwear exports has also been reported, their annual growth dropping from 42.6 percent in 2007 to 4.8 percent in 2008. The European Union has received the lion's share of such exports.

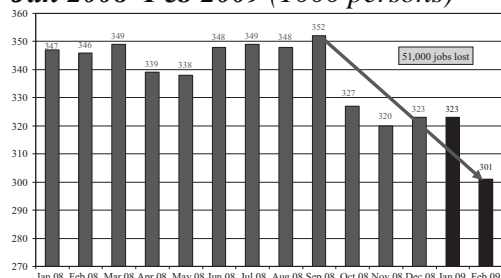
## Impact on Tourism and Construction

Tourism is still growing, although at a considerably slower rate. The number of tourist arrivals in the country passed the 2 millionth mark in 2007 and reached 2.1 million in 2008. However, the sector's growth plunged from an average of 25 percent to 5 percent in 2008 (Figure 3).

Construction activities have likewise visibly decreased. In 2008, construction approvals were down 40 percent. This can be attributed to the slowdown in foreign direct investment, on which the recent outstanding growth of the Cambodian economy was anchored. FDI represented almost 60 percent of total investments for the period 2004 to 2008. Regrettably, IMF balance of payments data indicate that the amount of FDI receded from an estimated USD866 million in 2006 to an

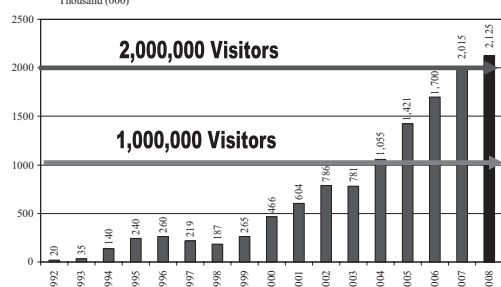
<sup>1</sup> H.E. Dr Cham Prasidh is a senior minister and the minister of commerce.

**Figure 2: Employment in the Garment Sector, Jan 2008–Feb 2009 (1000 persons)**



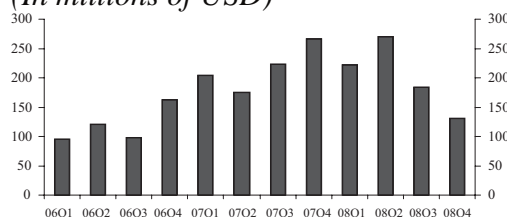
Source: MOC March 6, 2009

**Figure 3: Tourist Arrivals in Cambodia**  
Thousand (000)



Source: Ministry of Tourism

**Figure 4: Foreign Direct Investment, Net (In millions of USD)**



Source: NBC's quarterly BoP

estimated USD785 million in 2008. Data from the National Bank of Cambodia depict a decline in FDI in the final two quarters of 2008. In total, the IMF projects FDI to fall sharply to USD488 million this year. Investments from South Korea have stalled in particular, due to the severe credit crunch in that country. Nevertheless, South Korean investors' confidence in the Cambodian economy remains high, and small and medium projects are still coming.

### Outlook and Potential Responses

As mentioned, the 2009 outlook for Cambodia has worsened, the IMF downgrading this year's predicted growth to -0.5 percent. There is a possibility of the economy falling into recession. A slight recovery is foreseen for 2010, but risks continue on the downside. To stave off a likely recession, all parties need to exercise vigilance, and the government needs to deepen its reforms. Government measures so far, including the 1 percent advance profit tax exemption, have been useful and commendable, but a lot remains to be done. We must resist protectionist

policies. During these difficult times, it is tempting to erect trade barriers to protect one's economy, even to the detriment of everybody else's. A more appropriate solution lies in greater trade openness and integration.

For Cambodia, redirecting more trade to the region will be lucrative because then the risks will be spread more and trade costs can be brought down. It is important, however, that greater market integration, at the global or regional level, be complemented by a strategy of enhancing the country's competitiveness and further diversifying its markets and products. Recognising the resource limitations of the government, Aid for Trade is a scheme that can help the government fund the necessary infrastructure to be able to exploit trade opportunities. Bank financing is another alternative funding source, and export credit can very well save exporters affected by the crisis and reinforce overall trade. Already an often cited solution, market diversification is a must that need not be stressed further. Non-traditional markets must be explored. Deepening trade facilitation reforms to bolster competitiveness is another measure that deserves the help of all concerned. Further investment in agriculture would help cushion the impact of the present and any future crises.

### Did you know that

**... the garment industry of Cambodia previously benefited from US quota privileges and safeguards against Chinese products?** The signing of the Multi-Fibre Agreement with the US in 1995 was the take-off point for the country's garment exports. This MFA expired in 2004, however. The US safeguards against Chinese imports, which secured Cambodian exports even after MFA, expired in December 2008. These developments, together with the current crisis, explain the present struggle of the domestic garment sector.

Source: Better Factories Cambodia (2005, 2008)

**... the demand for cars and motorbikes in the country sharply declined from May 2008?** Year-on-year growth of car and motorbike import volumes plunged after peaking in May 2008. Apart from the present crisis, such marked decrease in the pace of demand can be explained by the effects of higher energy prices, the real estate downturn, lower real income and, overall, depressed business and consumer confidence.

Source: MEF data, staff assessments



# Potential Impact of the Financial Crisis on the Poor and Vulnerable Groups in Cambodia

*This article summarises the presentation by Dr. Hossein Jalilian<sup>1</sup> during session 1 of the 2009 Cambodia Outlook Conference.*

## Introduction

Most of the poverty effects of the global financial crisis are transmitted through growth, and therefore it is necessary to consider the impact on growth first. The channels through which growth in Cambodia would be affected include: trade, foreign investment, tourism, remittances and international aid.

The financial market effects of the crisis are likely to be limited given that Cambodia is not that integrated into world financial markets and that its own financial market is underdeveloped. However, the indirect effects are likely to be substantial. The crisis has already led to a slowdown in economic activities, which is likely to worsen in the short to medium term. This in turn is likely to have considerable implications for the level and severity of poverty.

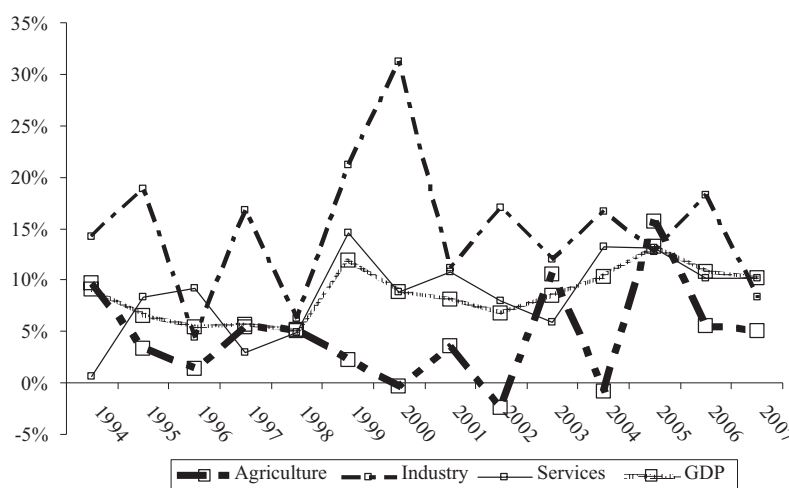
## Impact on Growth

To assess the possible impact of the crisis on growth, it will be useful first to look into GDP and sectoral growth as well as the contribution of different sectors to overall growth in the country. Figure 1 shows sectoral growth performance and GDP growth in Cambodia, while Figure 2 illustrates sectoral contributions to overall growth.

Over 1994–2007, Cambodia experienced a GDP growth rate averaging around 10 percent. Most of this is attributed to the substantial growth in industry and then services. Industrial growth was driven by the considerable growth of garments and construction. Services sector growth is due to tourism.

Both industry and services have made considerable contributions to GDP growth;

**Figure 1: Sectoral Growth in Cambodia 1994–2007**



Source: Based on NIS data

agriculture's contribution, as shown, has been rather limited until recently. Growth in the case of agriculture has also been more unstable.

Given this picture, the impact of the financial crisis on GDP growth in Cambodia is likely to be severe. Predictions are that industrial and service sectors will be hardest hit. Industrial growth is driven by garments and construction, both of which have already experienced reversals that are expected to worsen near term; output in both sectors is expected to fall by a quarter. Tourism is likely to face similar shortfalls. The combined decline in these sectors is expected to pull down GDP growth; most analysts expect growth to fall to half the average for the last decade. As the crisis unfolds, however, forecasters seem to become more pessimistic. Most recent forecasts predict a negative growth of GDP for Cambodia this year.

Agriculture over the last few years has recorded a growth rate of around 5 percent per annum. This is not likely to change much given that external demand for agricultural produce is limited. If the right policies are adopted to support the sector, agriculture may lift both growth and the rate of poverty reduction.

<sup>1</sup> Hossein Jalilian is the director of research of CDRI.

**Figure 2: Sector Contributions to GDP Growth in Cambodia**

Source: NIS

### Impact on Poverty

There is a direct relationship between growth and poverty reduction. Given the recent impressive growth, poverty reduction should have been much higher than the 10 percentage point reduction achieved over the period. The reason for this lies in the limited linkages between the growth poles and the rest of the economy. The greatest contribution that the growing sectors make is in employment generation; otherwise they are not much linked to the rest of the economy. This is less the case for tourism.

To consider more fully the impact of reduced growth on poverty, it would be useful to distinguish between the growth effects transmitted through the labour market and the impact on overall consumption and investment expenditure. Given the limited linkages between the growth poles and the rest of the economy, the direct effects of reduced growth on poverty that are transmitted through the labour market are not likely to be as severe. However, loss of employment would have knock-on effects not only on the welfare of the unemployed but also on the larger families that these individuals support. Large proportions of rural migrants to urban areas send remittances back to their villages.

In addition to rural-urban migration, about a quarter of a million workers in Cambodia migrate to other countries, mainly Thailand. A large portion of these migrants are likely to lose their jobs due to

the effects of the crisis in host countries. Migrants to Thailand are likely to face a more serious problem. More than 80 percent of Cambodian migrants to Thailand are illegal. Thai authorities have announced that they will send illegal migrants back to their home country. This would have serious implications for remittances and, subsequently, the well-being of households supported by remittances. Remittances cover not only part of consumption of households but also their expenditures on physical and human capital.

Reduced growth, especially to the extent predicted by the most recent forecasts, would also have a considerable impact on households through its effects on consumption and investment. A large portion of the population is living close to the poverty line; any small decline in their income is likely to push them below the line. The Moving Out of Poverty study, which CDRI published last year, shows this vulnerability very clearly. In some of the study villages, a change of income of a few hundred riels a day would make a considerable difference to the severity of poverty. The same study also shows significant change in the poverty ratio and its depth between dry and wet seasons. This indicates that the poor have very limited coping mechanisms in dealing with seasonal variations in their earnings.

In addition to the adverse employment effects of the crisis, poor and vulnerable groups are likely to

be hit hard because of the slowdown in economic activities. The crisis will adversely affect the relatively well off and the rich as well. They are likely to reduce their consumption and particularly their investments. This reduced demand and expenditure will affect a much larger section of the population. As is normally the case, the groups most at risk of losing part or all of their livelihood are those with no or limited human and physical capital, that is, the poor and relatively poor.

Overall therefore, Cambodia is likely to face an increased level and severity of poverty. How severe these and other consequences are will be determined by Cambodia's main trading partners, such as the US and EU, and how well they cope with the crisis, and importantly by the reaction of the government and its development partners.

### **Policy Options to Cope with the Adverse Effects**

A study just published by the IMF classifies Cambodia among the most exposed of the low-income countries. The exposure is measured as vulnerability of households to the increased risk of poverty and hardship. In this case, it is important that policy reduce the impact of the crisis on the poor in the immediate to short run and reverse the downward pressures on growth and poverty reduction in the medium to long term.

In the immediate to short term, government and others should ideally put in place mechanisms to support the poor and vulnerable. This could come in the form of food for work, food subsidies, school meals, food vouchers and the like. It would also be a good time for an effective social safety net programme. This will not only help the poor, but be good for the economy and social and political stability and cohesion.

However, a number of constraints make such a contribution less likely. Although relatively well placed in terms of its monetary and fiscal policies, the government does not have sufficient fiscal and monetary capabilities to adopt the expansionary policies required. The exchange rate policy considerably reduces the role that monetary policy can play. The government also has limited options in applying expansionary fiscal policies. Its capacity is limited in both funds and capacity to implement such policies. Other actors, such as development partners, could play a more significant role. Given the economic environment at present, however,

that may not be forthcoming, although there are regional and international efforts to support poor countries.

Longer term steps should be taken to improve food security and reduce vulnerability. It is important to put in place policies that encourage a more inclusive growth, so that a larger portion of the population can share the fruits of growth. At the present stage of development, the best strategy seems to be reducing the constraints and pressure on agriculture. There are many constraints. Given the limited physical, financial and human resources to address them, it is important to be selective, implementing policies that relax the most limiting constraints. These limitations seem to be most severe in the case of physical and social infrastructure. Cambodia is one of the least competitive countries in the region partly because of its high production and trade costs. Addressing infrastructure limitations is likely to improve competitiveness.

### **Conclusion**

Although the adverse effects of the crisis on Cambodia are likely to be severe, it also offers an opportunity to the government to consider its development strategy. A core component should be a more effective and cohesive agricultural development—a strategy that addresses serious limitations and constraints in that sector. These limitations include insufficient investment in physical and social infrastructure; lack of linkages between agriculture and the rest of the economy; and problems associated with marketing in general and agricultural products in particular.

These strategies are all interlinked. Addressing them would have considerable impact on both growth and poverty. It may be advisable in particular to pay more attention to removing barriers to the production and sale of rice, internally and internationally. The rice surplus in the country is over 2 million tonnes per year. With improved irrigation alone, the surplus could potentially be doubled. Unlike most agricultural products, the price of rice internationally has been increasing continuously over the present decade. In spite of a drop from its recent highs, it is still above what it was last year. Revenue raised through this channel alone could make a substantial contribution to the economy and poverty reduction.

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

*This article summarises the presentations by H.E. Nam Tum and Dr Theng Vuthy<sup>1</sup> during session 3A(i) of the 2009 Cambodia Outlook Conference.*

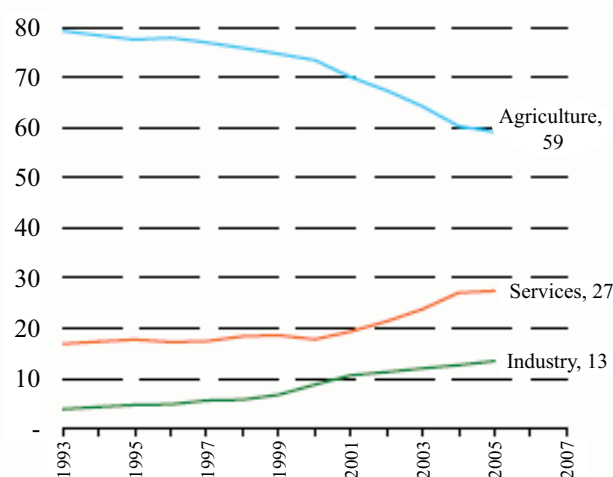
As in many other less developed countries, poverty in Cambodia is largely a rural phenomenon. The poverty incidence is much higher in rural areas, where agriculture is the key to subsistence and the primary source of livelihood and employment. With this in mind, it is imperative to reassert the centrality of the agricultural sector and save it from the rather cursory attention it tends to receive.

## Agriculture's Contributions to Growth and Employment

The sector's contribution to growth has been historically unstable and occasionally even negative. The World Bank calculated its contribution to Cambodia's annual growth over the period 1998–2007 to be 2 percentage points, which is much lower than the 4.5 and 4.8 point contributions of the industrial and services sectors respectively. Of the country's 2007 GDP, agriculture accounted for 29 percent while industry and services accounted for 30 percent and 41 percent respectively. The growth of agriculture has been outstripped by industry and services. Nevertheless, agriculture has traditionally accounted for the majority of Cambodia's workforce. A huge 59 percent of the workforce was engaged in agriculture in 2007 (Figure 1). Cambodia's natural endowment and huge stock of cheap agricultural workers also give the country a competitive edge in this area. For all

these reasons, agricultural development is just as significant as industrialisation. The sector has a lot of potential that remains untapped.

**Figure 1: Share of Employment (%)**



Source: World Bank, Jan. 2009

Although in disparate ways, the recent food crisis and the present economic crisis made the importance and potential of Cambodia's agricultural sector all the more clear. The former demonstrated

how agriculture can be a helm of the economic ship while the latter showed how it can be the lifeboat that becomes vital when the ship sinks. The two crises of course have had conflicting

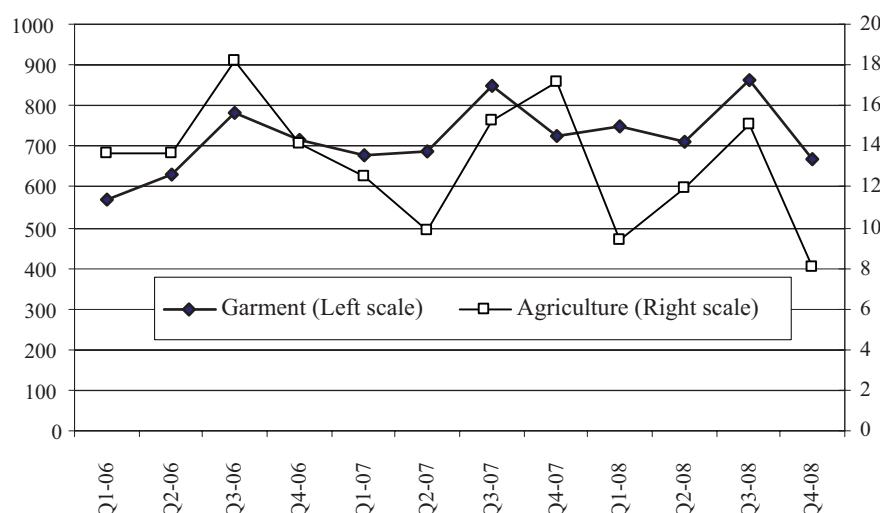
impacts on agricultural production and trade. While it menaced the food security of the world's poorest, on the flipside the food crisis provided a long-awaited stimulant for depressed agricultural prices, favouring commodity producers and exporters and reviving the agricultural sector. Unfortunately for them, but to the benefit of consumers, the advent of the current crisis overturned this revival, although

*"Plummeting agricultural prices forced farmers and investor into debt."*

*—Dr Theng Vuthy*

<sup>1</sup> H.E. Nam Tum is an adviser to the prime minister and governor of Kompong Thom province; Dr Theng Vuthy is programme coordinator of the Poverty, Agriculture and Rural Development Unit, CDRI.



**Figure 2: Sector Export (USD Million)**

Source: General Department of customs and exercise, adapted by NBC

not fully, as prices remain higher than their average in the previous years.

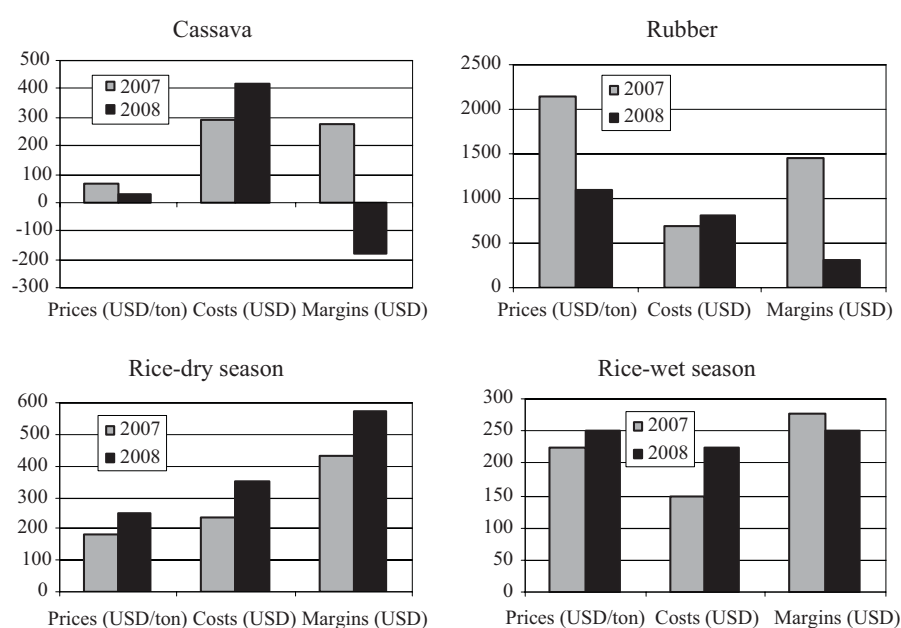
### Impact of the Food Crisis on Agriculture

From 2006 to about the middle of 2008, an escalation in food prices sent alarms ringing all over the world because of the dire implications for the global hunger situation. The skyrocketing of commodity prices was caused by push factors including the energy crisis, poor harvests, bad weather conditions and increasing competition between biofuel and

cassava went up by about 88 percent and to rubber by 32 percent. Paddy rice and soybean production similarly rose along with the areas allocated to them. Overall, agricultural exports soared by the middle of 2007.

### Impact of the Global Financial and Economic Crisis on Agriculture

The global downturn eventually nipped the trend of high inflation as it dampened world demand and pushed energy costs down. The prices per ton of cassava and rubber produced in Cambodia retreated sharply to USD30 and USD1020 respectively in 2008, a remarkable 50 percent slash in their prices a year earlier. While cassava and rubber production increased overall in 2008, during the last three months of 2008 the year-on-year growth of production contracted sharply. The export values of cassava and rubber fell. Estimates are that cassava lost about USD95 million in export value, while rubber lost approximately USD37 million. Soybean and maize exports likewise suffered. Notably, however, Cambodia's paddy rice exports proved to be resilient in the face of the crisis, their price and export value even increasing between 2007 and 2008.

**Figure 3: Revenue Impact on Selected Agricultural Products**

Source: Impact of High Food Price in Cambodia, CDRI, 2008; AMO Price Bulletin, 2007-Jan, 2009

It is clear that the crisis fell most heavily on the country's ordinary cassava and rubber farmers. Compounded by the problem of higher input costs, lower prices and demand diminished their profits. Gross profit margins of cassava farmers are estimated to have turned negative in 2008, while those of rubber farmers significantly shrank. Dry-season rice, wet-season rice, maize and soybeans continued to be profitable at the end of the year, although profits from the last three narrowed. With reduced incomes, affected farmers have had more difficulty recovering their investments or repaying their debts.

Notwithstanding the setbacks affecting exportable crops, the country's agricultural sector as a whole posted an estimated 4.5 percent growth in 2008.

### Opportunities and Potential Policies

The resilience of the agriculture sector shows that its importance should not be underrated, supporting the sliding economy as it did. A bright spot amidst numerous dire predictions is that the sector's positive performance is likely to continue this year, although deflating prices will remain a challenge. A survey of existing and expected opportunities unveils the massive potential lurking in agriculture and partially exposed during the food and economic crises. First, the deflationary pressure on agricultural prices is not expected to last because demand from China, India and Middle Eastern states is likely to pick up. Second, there is significant room to expand cultivated areas. Third, bilateral agreements with countries from the Middle East, Africa and east Asia (China in particular) will pry open more markets for Cambodia's agricultural products.

A prerequisite to capturing such opportunities is the implementation of several priority policies. An often cited recommendation is to increase investment in agriculture. To boost production and productivity, land reform, infrastructure, finance and technology must also be dealt with. On land reform, the processing of land titles and securing of property rights must be hastened, along with improving land management and distribution. Irrigation systems and rural roads must be improved. It is estimated that the returns from irrigation investments can be as much as twice the amount of investment. Enhanced road networks will reduce production costs and boost

farm gate prices. More loans with lower rates and longer maturities must be offered to pave the way for greater agricultural investment. The use of high-yielding seeds and better application of fertiliser must be further promoted. It has been found that a 1 percent increase in correct use of fertiliser leads to increases in yields of 0.22 percent for dry-season rice and 0.27 percent for wet-season rice. To boost agricultural trade, it is necessary that transaction costs be further reduced, post-harvest technology be upgraded and schemes such as contract farming be further explored. Improving market information is also imperative. Current market information is limited, to the detriment of the country's ordinary farmers, who, without knowledge of prevailing prices, are likely to be cheated. A pro-poor agricultural development necessitates the priority resolution of this problem.

#### *Did you know that*

**... biofuel production has been competing with food production and influencing some global commodity prices?** While the share of biofuels in global energy supply and consumption is and will remain small (from 0.9 percent of total transport energy consumption in 2008 to an estimated 2.3 percent in 2015), the rise in demand for them, particularly ethanol, has a significant impact on the production and prices of crops such as cassava. The price of cassava is expected to increase by 11 percent on average as a result of biofuel expansion.

*Source: FAO (2008)*

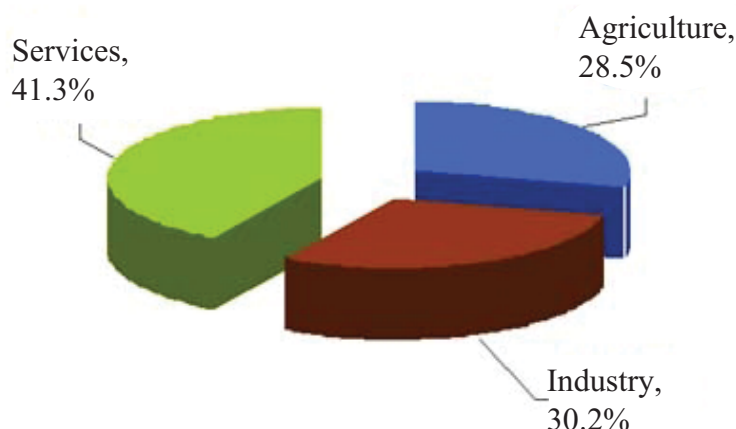
**... millions of Cambodians may have legal possession of but not legal titles to their land?** Under the 2001 Land Law, legal possessors have the right to request a land title and live on their lands until title is secured. Unfortunately, even with the multi-donor-supported Land Management and Administration Programme, land titling has been criticised as slow and discriminatory.

*Source: Land and Housing Working Group Cambodia (2009)*

# Food and Financial Crises—Impact on Agriculture and Policy Priorities for Pro-Poor Agricultural Growth

*This article summarises the presentation by Dr Theng Vuthy<sup>1</sup> during Session 3A(i) of the 2009 Cambodia Outlook Conference.*

**Figure 1: Cambodia GDP 2007**



*Source: MAFF, presented at 2nd CDC Forum, Dec. 2008*

## Overview of Cambodia's Agriculture and Implications of the Crisis

Cambodia has been growing quite robustly, with GDP growth averaging around 11 percent over the three years before the global financial crisis. All of the country's macroeconomic aggregates have been strong. Growth has largely been driven by the garment, tourism and construction sectors. While significant strides have been made in industrialising the economy, agriculture remains a crucial part. According to a recent World Bank report, it accounted for 29 percent of GDP and 59 percent of the workforce in 2007. It has been growing at 4.4 percent a year over the past decade, against 4 percent in Vietnam and 3.9 percent in Laos. Growth in the sector, notes the report, has been driven by crops (mainly rice) and, to a lesser extent, livestock and fish.

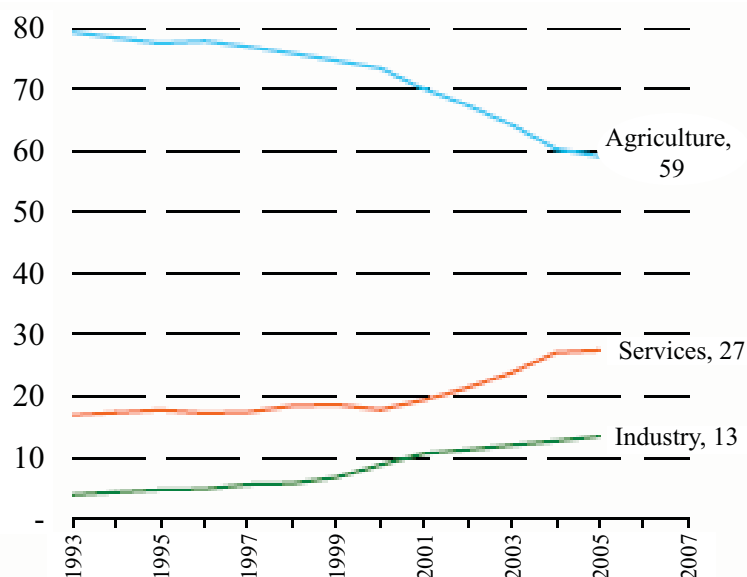
High food prices have provided incentives for policy makers, farmers and investors in the developing world to increase agricultural productivity. In Cambodia, farmers and foreign investors have taken this opportunity to diversify and expand areas for major exportable crops other than rice such as cassava, rubber, maize and soybeans. In 2008, the areas devoted to these crops reached: cassava, 180,000 ha; rubber, 108,700 ha; maize, 156,760 ha; soybeans, 71,930 ha; and rice 2,593,400 ha.

Including rice and other exportable commodities, crops contributed 52 percent of agricultural GDP

and 14 percent of total GDP in 2007. However, the deepening of the global financial and economic crisis in the second half of 2008 deflated the prices of agricultural commodities. Farmers in developing countries who took advantage of previously rising agricultural prices to invest in expanding production are now likely to find themselves unable to pay off debt due to lower sales and income. Given Cambodia's dependence on export markets and FDI for economic growth, the global crisis could severely impact the economy and have serious implications for poverty reduction.

The severity of the impact of the crisis on Cambodia's economy hinged on the extent of the integration of its financial and trade sectors into global markets. Given that the country's financial system has been less integrated into global financial markets, the country did not suffer directly from the crisis. Also, Cambodia's banking sector has remained sound, with high liquidity and savings deposits. It has also gained the trust of many Cambodians over time. By contrast, the trade sector has been significantly integrated into regional and world markets. Hence, it will suffer from the decline

<sup>1</sup> Dr Theng Vuthy is programme coordinator, Poverty, Agriculture and Rural Development Programme, CDRI.

**Figure 2: Share of Employment (%)**

Source: World Bank (2009), *Sustaining Rapid Growth in a Challenging Environment*

in demand and lower output prices.

Investments in exportable commodities have provided many jobs to landless households. The fall in demand and prices caused by the crisis thus seriously affected not only the returns to producers and investors but also those to wage workers and even the government.

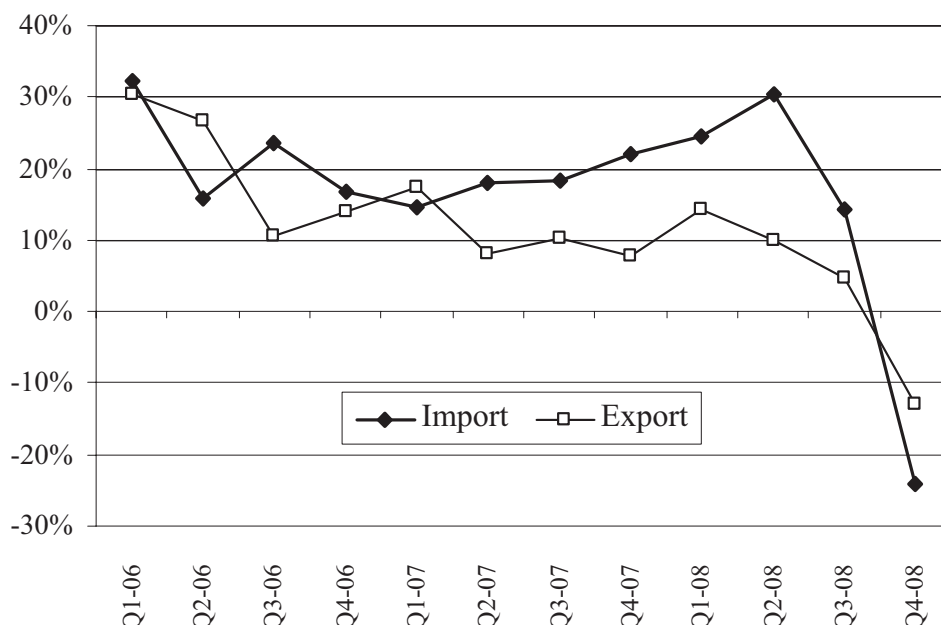
### Impact on Agricultural Trade

Cambodia's major imports include petroleum, food and beverages, construction materials, vehicles, fertilisers and medicines. Import values rose in the second quarter of 2008, reflecting high demand for inputs to agriculture such as gasoline, fertiliser and chemicals. This increased investment was fuelled by speculation that the demand for agricultural commodities would continue increasing. Expectations were especially high for cassava and maize, which are used to produce

ethanol, an alternative fuel to oil whose price in the world market surged then. High import values were also partly attributable to increases in fuel and other input costs.

Growth of external demand for Cambodian products was stable until around June 2008, when it dropped significantly. Consequently, agricultural exports slowed, reaching their third lowest level in the past 20 months by the fourth quarter of 2008. The decrease in value of agricultural exports can be attributed mainly to lower commodity prices engendered by the crisis. The reversal of the inflationary trend for both food and fuel reflects the deceleration in world demand. However, there is not enough evidence that solely implicates the crisis in the slowing of agricultural exports. The Thailand-

Cambodia border conflict during the second half of 2008 also contributed to this slowdown, especially in the case of cassava and maize, for which some Cambodian farmers had already made contracts with Thai traders.

**Figure 3: Import and Export: Year-on-year growth rate**

Source: General Department of Customs and Exercise, adapted by NBC



### **Impact on Agricultural Investment and Revenues**

The increased demand for biofuel in developed countries bolstered the demand for and the prices of such crops as cassava and maize. This provided smallholders and investors an incentive to expand production. In Cambodia, the production of these food crops increased from a combined 2.88 million tons in 2007 to 3.97 million tons in 2008. Unfortunately, the global economic slump decreased demand and commodity prices. The oil price at present, for example, is more than 60 percent lower than its peak value in 2008. This fall may have dampened demand for biofuel and fuel additives such as ethanol, leading to a drastic drop in the price of biofuel crops. Without the drop in prices, maize and cassava producers in 2008 would have increased their gross profits by 82 percent and 176 percent respectively compared to 2007. The gross profit on soybeans would have been 46 percent higher. But with the rapid drop in the prices of these crops in the final two quarters of 2008, gross profits for maize, soybeans and cassava decreased by 29 percent, 47 percent and 166 percent respectively. Input costs remained high because they were consumed in the second and third quarters, but output prices dropped drastically in the fourth quarter of 2008.

Prior to the crisis, production of industrial crops such as rubber provided huge benefits to state-owned companies, private companies and smallholders. The world market price of rubber increased to USD3200 per ton in October 2008, but dropped to USD1200–1300 in December 2008. Exports dropped by 15.2 percent due to the crisis. The profit on rubber almost vanished, as the production cost was USD800 per ton for 2008 (not including interest on loans, taxes and other related costs), and the Cambodian rubber price was about 15 percent lower than the world market price. Governments and their private sector partners have discussed the plummeting latex price, the alarming situation of the rubber industry and a request for rebates on export fees. However, while the government has not yet responded to the request for rebates, the rubber industry still managed to make a profit of 2 to 3 percent, according to Dr Chan Sarun, the minister of Agriculture, Forestry and Fisheries.

In contrast to rubber, maize and cassava, rice has not been severely affected. Investors in dry-season

rice gained a 33 percent increase in 2008 over 2007 returns. However, wet-season rice investors' return decreased by 11 percent over the same period, but this was not due to lower prices, for the price was still higher than in 2007. The lower return was attributable to the higher costs of inputs.

### **Impact on Labour**

The low price of some exportable commodities may reduce investments, and this in turn may result in lower demand for wage labourers. Landless households highly dependent on the wages of agricultural labour migrants are thus likely to face difficulty. They are already poor, but the crisis will force them deeper into poverty unless an effective social safety net is put in place.

### **Opportunities and Challenges for Pro-Poor Agricultural Growth**

There are opportunities that may continue to buoy Cambodia's agricultural sector. First and foremost, demand is expected to remain strong. Demand from China, India, Africa and the Middle East is expected to grow rapidly. This implies that the current reduction in prices may not last long. Because of this and the competitive advantage of Cambodia in this sector—its land endowment, cheap labour and potential for increased agricultural investment—the government and development partners are confident that agriculture can be key in sustaining economic growth at this difficult time.

Because of the serious impacts on the garment, construction and tourism industries, many workers have lost their jobs and been forced to return to their villages to work on farms if possible. This illustrates the importance of agriculture in employment and anchoring the economy when other sectors are down. There is significant potential in this sector and in order to realise it, increasing investments should be a priority. It is possible to raise Cambodia's rice yields to the levels of neighbouring countries if proper technology and infrastructure are provided. Along with the opportunities are some key challenges (Box). It is necessary that these challenges be addressed if pro-poor agricultural growth and poverty reduction are to be achieved.

**Box: Challenges for the Agricultural Sector\***

<b>Land Use and Management Reform</b>	Large areas for economic land concessions should be provided in places where more landless households live in order to create employment for their members. Additionally, a better policy of land redistribution to landless households should be focused on because small landholders are more productive in the case of many crops and because such a policy has great impact on poverty reduction and economic growth. Land titling is another big issue at the moment since land grabbing has threatened many poor farmers. Strategies that address this issue include enforcing respect for the property rights of the poor, legalising transactions which involve ownership and promoting a land use policy that is beneficial and equitable to all.
<b>Infrastructure Building</b>	Per the 2009 World Bank Report, the returns to irrigation investment are significant: the benefit-cost ratio—the additional revenue per hectare from irrigated areas divided by the unit cost of irrigation—ranged from 1.5 in the Tonle Sap zone to 1.9 in the plains zone in 2004, and was above 2 in 2007. Therefore, improving existing irrigation schemes or investing in irrigation is favourable to improved crop productivity and diversification. Also, efficient and adequate rural infrastructure reduces production costs and increases farm gate prices. Rural infrastructure in Cambodia is characterised by inadequate rural roads and poor road maintenance. The cost of this is compounded by informal payments asked during transportation.
<b>Increase in Financing</b>	Increasing agricultural loans is a bid to cushion the country from the global economic slowdown. Loans will provide extra money to expand agriculture. Prime Minister Hun Sen recommended that the Ministry of Finance encourage commercial banks to use loans to boost national economic growth. In response to the request by the government, Acleda Bank said that it will increase agricultural lending to USD114 million for 2009, more than double the \$56.4 million it loaned in 2008.
<b>Expansion of R&amp;D</b>	Per the 2009 World Bank Report, experience shows that investment in agricultural R&D and rural roads have the highest rates of return for poverty reduction. In China, a 1 percent increase in agricultural R&D expenditure will increase agricultural GDP per capita by 0.085 percent. This growth in agricultural GDP will reduce the poverty headcount by 0.1 percent.
<b>Increase in Productivity &amp; Efficient Use of Inputs</b>	The 2009 World Bank Report identifies poor soil fertility as a major production constraint in most lowland areas, and says it could be addressed by suitable soil and fertiliser management technologies. Fertiliser usage in Cambodia is significantly lower and less efficient than in neighbouring countries. There are significant positive rice yield responses to fertiliser use. A 1 percent increase in fertiliser application increases paddy yields by 0.22 percent for dry-season rice and 0.27 percent for wet-season rice.
<b>Market Incentives</b>	Cambodia is one of the major producers and exporters of rice within the region, while a number of Middle Eastern countries and some in sub-Saharan Africa are major importers. Multilateral or bilateral agreements between exporters and importers may be a way forward to reduce uncertainties in international trade in this commodity. Cambodia should also focus on diversifying market channels into east Asia, which is a major market for industrial crops such as rubber, cassava and maize. Additionally, most farm products are exported as raw commodities. To add more value to agriculture commodities, more investment should be directed to post-harvest technologies, milling, processing and storage facilities.
<b>Improvement of Trade &amp; Investment Environment</b>	To improve trade and the business environment for agri-business all investors in agri-business should come together and work with the government, especially with the Ministry of Commerce. The Garment Manufacturers Association of Cambodia is a model. Decentralisation and empowerment of regional and local authorities are also needed to deal with local issues. The enactment and implementation of the Organic Law may prove to be a significant step in relaxing some of the administrative and bureaucratic burdens that rural populations in particular are facing at present.

\* Source: World Bank (2009), *Sustaining Rapid Growth in a Challenging Environment (Cambodia Country Economic Memorandum)*

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

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

## Cambodia's Tourism Sector: Growth and Contributions to Economy

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

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

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

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

## Impact of the Crisis on Global and Domestic Tourism

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

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

Arrivals by air dropped 4.4

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

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

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

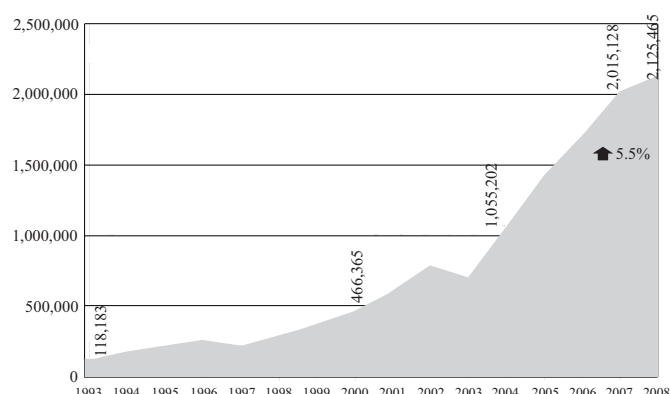
*—Tith Chantha*

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<sup>1</sup> H.E. Tith Chantha is the director general of the Ministry of Tourism; Jean-Daniel Gardère is a senior consultant; Ho Vandy is co-chair of the Private Sector Working Group on Tourism and managing director, World Express Tours and Travel Co. Ltd.

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

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



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

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

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

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

### **Outlook and Potential Policies**

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

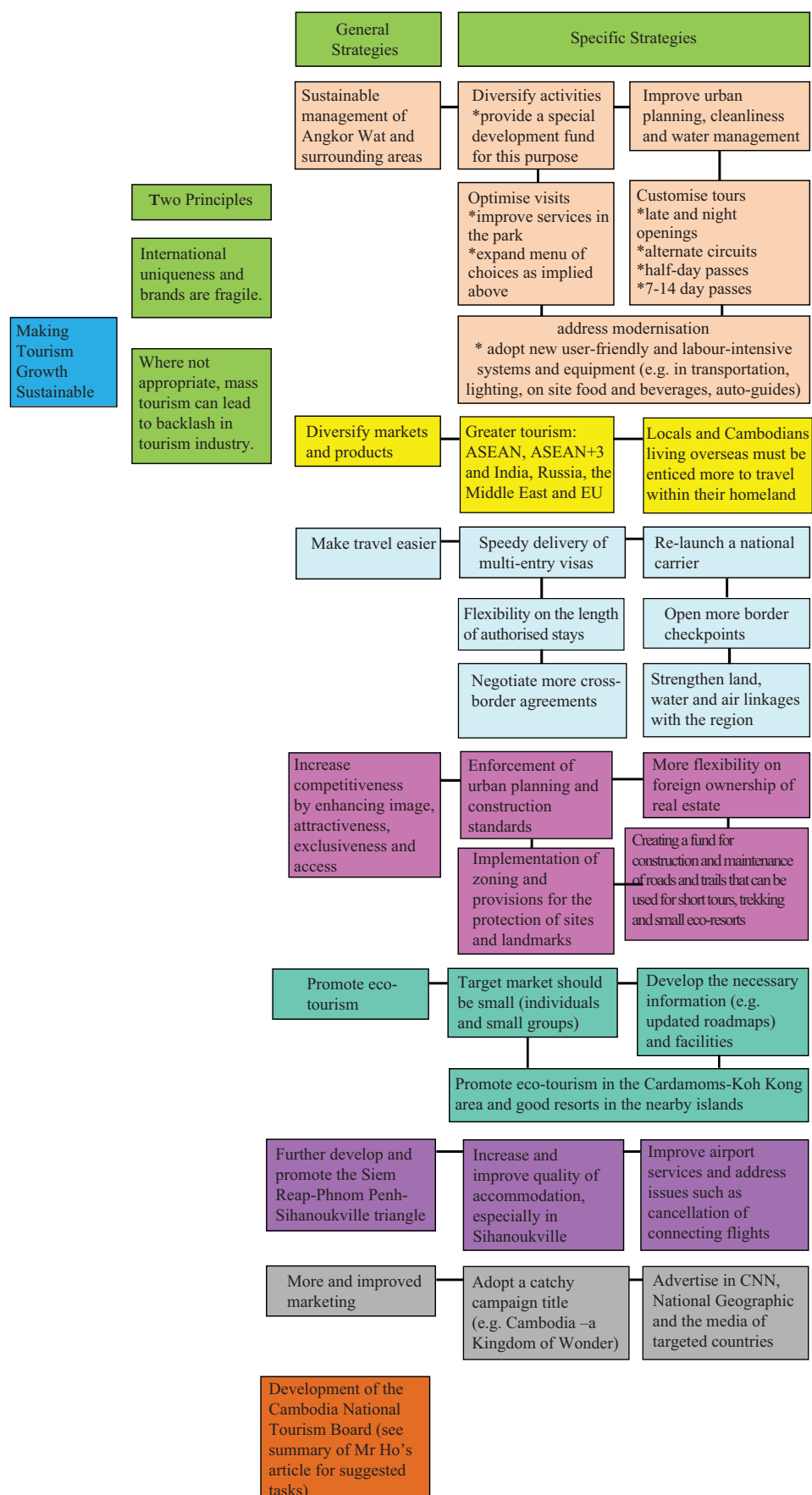
As can be seen in Figure 2, one of the recommended strategies is to promote eco-tourism. To be effective in Cambodia, this approach cannot be ambitious. This is because a comprehensive eco-tourism policy necessitates a huge amount of resources, which Cambodia does not have, and an abundance of flora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



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

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

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



# Managing the Global Crisis—Cambodia and Regional Tourism

*This article summarises the presentation by Mr Ho Vandy<sup>1</sup> during the 2009 Cambodia Outlook Conference.*

Cambodia is a cultural heritage destination. The pre-crisis expansion of tourism in Cambodia was astonishing and really attributable to the cultural legacies of the country's rich history as well as natural endowment and strategic location in a dynamic region. This growth was also anchored in the stability that settled on the country following decades of war and government policies such as the Open Sky Policy.

Tourist arrivals surged from merely 219,000 in 1997 to more than 2.1 million in 2008, with an average length of stay of 6.5 days and bringing in receipts of about USD1595 million.

## Impact of the Crisis on World and Domestic Tourism

The global slump caused a deceleration of tourist activity in Cambodia and the rest of the world. Tourism is especially vulnerable to economic uncertainty and volatility for a simple reason. During tough economic times, people conserve their cash to cover necessities and put some under the mattress. This does not halt travel completely, because people at a minimum still need to travel for business and to attend core social functions. But the growth of world tourism has slowed to a standstill since the second half of 2008 as a result of the crisis. Several other factors contributed to the slowdown, including the commodity and oil price hikes, sharp exchange rate fluctuations and lower business and consumer

confidence. According to UN World Tourism Organisation data, international tourist arrivals totalled 924 million in 2008. This represented a mere 2 percent increase from the preceding year. Growth of tourism in Cambodia similarly experienced a serious contraction. Tourist arrivals in 2008 were up by 5.5 percent from 2007, but this was much lower

than the previous double-digit growth. High-end hotel occupancy rates in Siem Reap and around the region declined 20–40 percent towards the end of 2008.

## Outlook, Opportunities and Challenges

The 2009 outlook for tourism is an extremely trying—but not insurmountable—situation. The UNWTO expects the stagnation in world tourism to continue as the circumstances that drove the slowdown in 2008 turn for the worse or remain uncontained. It is expected that the number of US travellers will significantly decrease this year, while UK citizens may forego international travel in favour of domestic trips. In Germany, where about 30 percent of people preferred to go on holiday in their own country in 2008 because of tightening budgets, about 40 percent were still undecided whether they would rather go on holiday closer to home, as of February 2009. Also, as companies

around the globe face tough times, corporate spending on travel is set to decrease. One estimate puts the decline in corporate travel at a high of 80 percent. According to the Association of Corporate Travel Executives, 71 percent of its member companies plan to allocate less funds for travel this year than in 2008. When

people do travel, they are expected to spend less. Given all these facts, it is not surprising that travel companies this year face a much tougher situation than in 2008. Some travel companies risk collapse, with the danger being greater for firms operating

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***The success of the tourism industry in Cambodia has been astonishing, with tourist arrivals to the country having boomed in recent years.***

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***“Despite its vast size, diversity and array of historical cultural heritage monuments, Cambodia is still far behind in the world’s holiday destinations of choice.”***

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<sup>1</sup> Mr Ho Vandy is co-chair of the Private Sector Working Group on Tourism and managing director, World Express Tours and Travel Co. Ltd.

on low margins. The job security of those in the industry is in peril. Major travel companies have already turned to cutting jobs and, given worsening conditions, more lay-offs must be on the immediate horizon.

The general assessment for tourism in Cambodia is that it will lose more pace. However, there appears to be no consensus on the extent of the further slowdown. The Ministry of Tourism predicts that tourism will continue to grow this year. It has set a target of 3 million tourist arrivals by 2010. This optimism contrasts with the downbeat predictions that the sector can shrink by as much as 3 percent in 2009. Travel agencies and hoteliers have already reported receiving far fewer queries and bookings this year. Some independent tourism advisers do not foresee the setbacks as too ominous, although they warn that arriving tourists may cut back on their spending. The impact of the arrested growth will not be uniform. Those who cater to the luxury end of the market are likely to suffer more than those who cater to budget travellers. Due to tighter budgets, the demand for low-cost services and products is set to increase. In addition, some changes in the composition of the market will possibly be seen this year. Many of the 2 million foreign tourists who came to Cambodia in 2008 were from the United States, Britain and South Korea, three of the hardest hit countries in the current economic meltdown.

There are some encouraging possibilities that may buoy tourism in Cambodia. For one, the surge in value of the US dollar and the euro may encourage US Americans, Europeans and Japanese to continue travelling overseas. Further, the growth of Chinese and Indian outbound travel may slow but will continue because these economies are still growing. There is also likely to be a significant growth in domestic travel or short haul international travel as people choose to stay closer to home.

A closer analysis reveals that the downturn in the tourism industry cannot be blamed solely on the external shock. There are internal weaknesses in the sector. Cambodia is still far behind in the world's holiday destinations of choice despite the country's location, diversity and array of

historical cultural heritage and the tourism sector's exceptional growth in past years. Poor infrastructure, insufficient accommodation, lack of qualified staff and constrained air capacity and transport links are factors that can explain this underperformance.

### Potential Policies

2009 is posed to be a tough year for Cambodia's tourism industry. There is reason for optimism that tourism will survive this challenge, as it has overcome a wide range of challenges since the 21<sup>st</sup> century began. It is only necessary to adopt remedial policies that address the vulnerabilities exposed by the crisis. A more sustainable solution, however, is for the industry to seek to eliminate the structural inadequacies that stunt its expansion.

There are a number of remedial measures (Box 1). Special emphasis attaches to launching an attractive marketing campaign. A catchy theme that rivals current promotions and campaigns around the region (e.g. "Thailand Smiles Again Package", "Impressive Vietnam", "Simply Laos") must be adopted for marketing: "Cambodia—Kingdom of Wonder". There could be small advertising campaigns on CNN, Discovery Channel and in targeted countries. The benefits should urge the government to provide due and prompt attention to these marketing propositions. In view of the special circumstances, the industry should also adopt promotional packages. Easing visa regulations and expediting visa processing could boost tourism revenues by 10 to 20 percent. Other longer term measures are the launching of a national carrier and establishment of the Cambodia National Tourism Board. The absence of such a carrier is the largest obstacle to establishing Cambodia as a prime global tourist destination. The lack of central oversight of the industry is another major handicap that needs to be remedied. It is high time for the Cambodian National Tourism Board to be instituted (Box 2).

All the parties with stakes in tourism development should come together. Let's build Cambodia together!

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***"Tourism will survive this challenge, as it has overcome a wide range of challenges since the 21st century began."***

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### Box 1: Remedial Measures to Revive the Tourism Sector

- Option 1:** Ease visa regulations and expedite the process through online applications and visas on arrival and waive or decrease visa fees during the global economic crisis
- Option 2:** Launch special package tours
- Option 3:** Seek new markets in Asia and promote more domestic travel
- Option 4:** Foster strong relations and work out intra-regional plans (CLV + Thailand) for promotion and marketing
- Option 5:** Consider re-launching a national airline
- Option 6:** Strengthen marketing through such tactical measures as special campaigns
- Option 7:** Invest more in competitive tourism services and products as wellness and spa services
- Option 8:** Develop the Cambodia National Tourism Board

### *Did you know that*

*... another attempt to set up a new national flag airline was made last year?* In April 2008, the Cambodian government signed an agreement with Indonesia's Rajawali corporation in a bid to re-launch a national carrier. Under the agreement, Cambodia will have a 51 percent stake in the venture. Unfortunately, for such reasons as the deepening of the crisis and difficulties of negotiations among the parties, the plan was reportedly put on hold. Cambodia operated its first national flag airline, Royal Air Cambodge, in the mid-1990s, but this went bankrupt.

*Sources:: Reuters (2008), The Phnom Penh Post (2008).*

### Box 2: The Cambodia National Tourism Board Proposed Roles and Responsibilities

- Develop national tourism strategy for 2009 and beyond
- Set up policy, law, degrees, rules and regulations on travel and tourism
- Undertake marketing activities in order to promote tourism
- Encourage human resource development for tourism and strengthen capacity building
- Use and monitor the Tourism Development and Promotion Fund
- Coordinate and collaborate with related agencies and local authorities to develop and upgrade tourist attractions, promote Cambodian culture and traditions as well as to conserve and preserve the heritage and the use of local products
- Guide, monitor and coordinate with the Cambodia Association of Travel Agents, Cambodia Hotel Association and Restaurant Association
- Cooperate with sub-regional and international tourism organisations as well as international organisations related to tourism
- Manage, control and monitor the implementation of tourism plans
- Promote tourism and the tourism industry to improve local people's lives and to promote the integration of local products
- Promote the arts, culture and traditions of Cambodia, and preserve the ancient archeological and historical monuments aiming at motivating foreigners to visit
- Provide new occupations and create opportunities for the ethnic people to gain better incomes
- Enhance friendship and good cooperation with all nations according to government policies



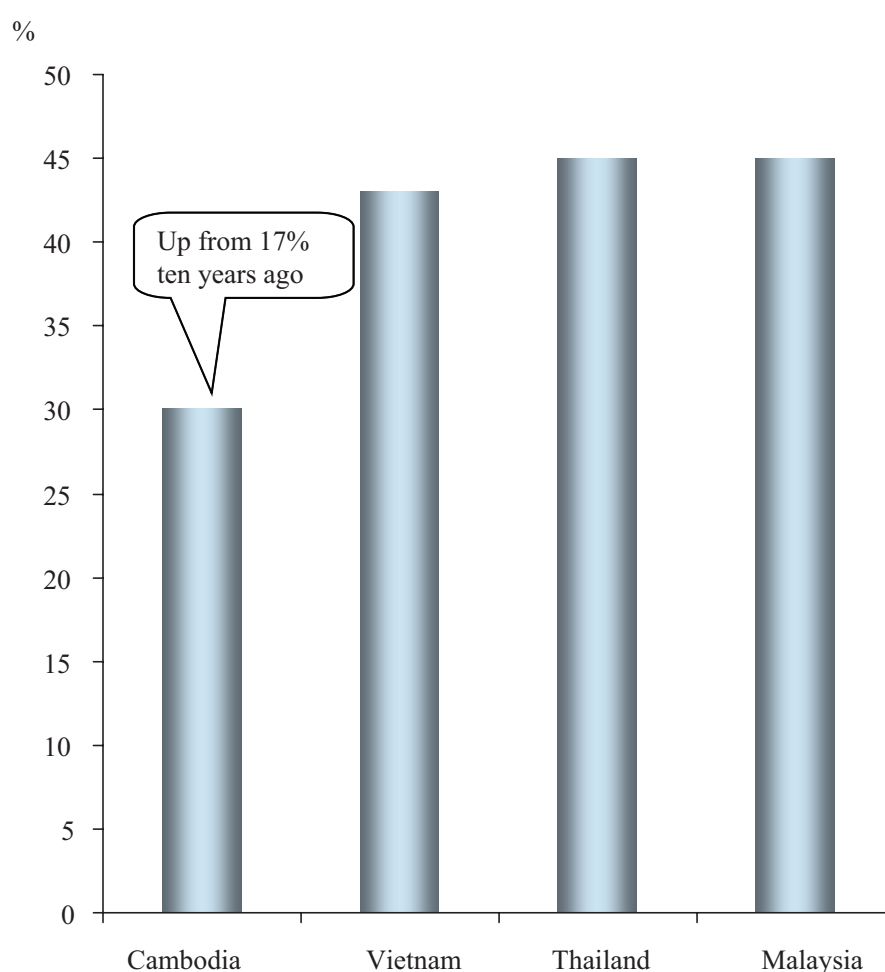
# Managing Through the Crisis— Strengthening Key Sectors for Cambodia's Future Growth, Development and Poverty Reduction: Infrastructure and Energy to Support Cambodia's Manufacturing Base

*This article summarises the presentations by H.E. Dr Ty Norin and Mr Stephen Higgins<sup>1</sup> during session 3B(i) of the 2009 Cambodia Outlook Conference.*

Promoting industrialisation is a tested strategy for facilitating national progress towards development. It is a well-worn path that nurtured many of today's flourishing economies. Thailand is one such economy that proves the success of the strategy. Its modernisation began in the late 1950s and supported the rise in its per capita income from USD100 then to about USD3000 at present. At the heart of the process was the expansion of manufacturing industry, this sector's GDP contribution increasing threefold over time. As in other countries, manufacturing in Thailand began with labour-intensive industry and then outgrew this stage by promoting and attracting light manufacturing. Helping to speed this metamorphosis was an increase in income and consumer demand.

Bearing in mind the experiences of other countries, industrialisation is the key to the economic transformation of Cambodia. Already,

**Figure 1: GDP Contribution from Industry**



Source: World Bank; Breisinger & Diao

the industrial sector has anchored the exceptional growth of Cambodia; its GDP contribution nearly doubled over the past decade. However, its share still lags behind that in Thailand and Vietnam.

Leading the expansion of the industrial sector in Cambodia have been manufacturing and construction. The growth of manufacturing has been based on the garment sector. Garments represent

<sup>1</sup> H.E. Dr Ty Norin is the chairperson of the Electricity Authority of Cambodia; Mr Stephen Higgins is the CEO of ANZ Royal Bank.

about half of the country's current industrial output and are the country's leading export. The industry's competitiveness has been honed by a surge in the productivity of its workers to a level now matching Vietnam's. The sector employs only around 13 percent of Cambodia's workforce, a modest figure compared to agriculture's share of about 59 percent (figures are for 2007). Compared to garments, other manufacturing activities in Cambodia are limited in scope. Food manufacturing, for instance, represents less than 10 percent of total industrial output.

A crucial hurdle in the further expansion of manufacturing is the underdevelopment of infrastructure. The conditions of transport networks and electricity supply are particularly problematic.

It is estimated that firms in Cambodia produce about 36 percent of their electricity from generators. Diesel is also estimated to account for more than 20 percent of the operating costs of some hotels. These figures illustrate the serious problems of electricity supply (Box 1).

### **Box: Electricity Supply in Cambodia—Key Problems**

#### ***Problem 1: Inadequacy of Supply***

A serious supply gap exists. Demand for electricity, which is estimated to have grown by 20 to 26 percent in the last few years, cannot be met by the present generation capacity. The heavy dependence on imported fuels for power generation also leads to uncertainty of supply and higher cost. Cambodia has hydropower potential, but this may not be reliable due to uncertain rains and low water availability during the dry season. The country lacks other energy sources such as coal and gas.

#### ***Problem 2: Inaccessibility and Unreliability of Supply***

This problem is brought about by poor transmission, sub-transmission and distribution facilities. Upgrading and maintenance of these facilities are needed to ensure that the electricity reaches the point of consumption and the supply becomes stable. However, for this objective to be met, substantial financing is needed.

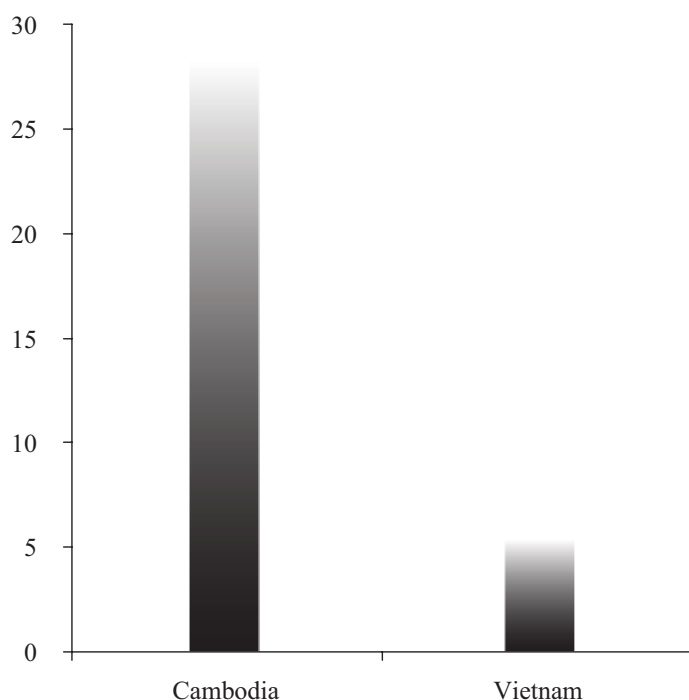
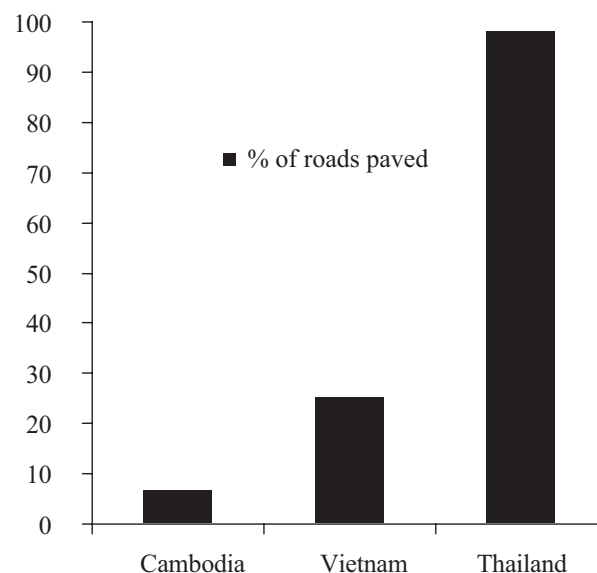
#### ***Problem 3: High Cost***

A major constraint on growth has been the high cost of electricity (Figure 2). According to the World Bank, the cost of electricity in Cambodia ranges from around USD0.18 in urban areas to USD0.30–0.90 in rural areas. This is much higher than in neighbouring countries, which are all below USD0.10. Aside from the effect of high input costs and the fragmented nature of power generation, one factor pushing up the cost of electricity is the lack of efficiency in operations, resulting in large losses in transmission and distribution. From 1998 to 2008, it is estimated that about 10.7 percent of electricity was lost, while the figure prior to that period was 28–30 percent.

#### ***Problem 4: Unavailability of Financing***

A huge amount of investment is needed to finance the large-scale projects to address these challenges. The government currently does not have the fiscal capability to provide such investment; hence, greater cooperation with development partners is vital.

\* Source: World Bank, *Sustaining Rapid Growth in a Challenging Environment (Cambodia Country Economic Memorandum)*, 2009.

**Figure 2: Electricity cost per kWh (cents)****Figure 3: Paved Roads**

The poor state of transport is manifested in the high cost of moving agricultural products. A recent World Bank report mentioned that the cost of transporting one ton of agricultural products 100 kilometres is about USD15 in Cambodia, much higher than in Vietnam (USD7.50) and Thailand (USD4). This is hardly surprising given that only 6.3 percent of roads in Cambodia are paved, while the figure is 25 percent in Vietnam and 98 percent in Thailand (Figure 3).

The government is aware of the imperative of building infrastructure. Large-scale plans to improve both the electricity supply and the condition of transport networks are being implemented. One high-profile project is the “Cambodia Power Development System 2013–2018”, which aims to upgrade the electricity grid.

According to this plan, a national high-voltage grid will be developed from Phnom Penh with the aim of connecting all markets. The grid will also be connected to all existing and future hydropower dams. A subsequent phase of the project centres

on the importation of electricity from Vietnam and Thailand. As well, three new hydropower projects are under construction.

The national highway system is almost complete, and secondary roads are continuously being paved.

A lot remains to be done given the numerous tasks at hand. Increasing public-private partnerships in both number and in scope is necessary to make way for more burden sharing. Given resource

constraints, the government must continue negotiating for greater donor support for Electricité du Cambodge. Further, the Cambodia Power Development System is a remarkable plan that has to be realised in order to bolster and stabilise the electricity supply while aiming to push down its cost. In the next few years, it is expected that the national grid will be connected to all

developed hydropower stations. Available capacity is also foreseen to increase substantially in the areas supplied by grid substations. Major industries and special economic zones within 10 kilometres of substations may also get power through direct feed

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***“A recent survey found that 52 percent of firms identify corruption as a major constraint on investment.”***

***—Stephen Higgins***

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at cheaper rates. Industries with their own diesel generation may likewise tap the grid at lower cost. Other measures to reduce the price of electricity include developing cheaper sources and increasing the efficiency of operations. Addressing efficiency will necessitate facing difficult questions about governance, market liberalisation, fair competition and independent regulation.

Infrastructure development builds up the country's capacity to exploit the potential of its manufacturing industry. A survey of present and future opportunities reveals that this sector holds much promise. One such opportunity pertains to Cambodia's strategic location. Completion of railway links within the region will widen the window for product, knowledge and skills exchange. Another opportunity is traced to changes in the labour market. It is predicted, for instance, that more and more workers from agriculture will want to shift to manufacturing industries as they learn the required skills. This intensifies the pressure for the expansion of manufacturing.

Poor infrastructure is not the only challenge confronting the manufacturing sector. The crisis has directed attention to a long-standing problem, namely the lack of diversification. The heavy reliance on garments prevented industry from spreading the risks and hence fending off some of the impact of the global economic meltdown. An industrial policy that learns from this crisis will make diversification a priority. As mentioned, food manufacturing accounts for only 10 percent of industrial production. There is room for improvement here, especially in view of the fact that many imported products are made from raw materials that originated in Cambodia.

One other impediment to the growth of manufacturing is the questionable state of legal governance. The importance of contract enforcement to investors and banks should not be underestimated. The establishment of an independent commercial court with qualified judges will be a welcome development.

The question whether a high degree of dollarisation continues to be in the interest of the country also cannot be avoided. The advantages and disadvantages of dollarisation will have to be revisited. One benefit is that foreign investors like transacting in dollars. A point against it is that it eliminates the possibility of using currency devaluation to boost competitiveness.

Other actions that can spur the development of manufacturing are increasing investment in vocational training, avoiding the use of tax incentives and reducing the informal costs of investment. A recent survey found that 52 percent of firms identify corruption as a major constraint on investment. This puts addressing corruption on the agenda.

Industrialisation has facilitated the development of many countries. This path is open for Cambodia to tread, but the journey will not be easy. To reach the end, concerted action by the government and its development partners is essential.

### *Did you know that*

#### ***... Cambodia is in the process of building its own "Three Gorges Dam"?***

The Kamchay dam, likened to China's Three Gorges Dam because of its massive size in the Cambodian context, is under construction in Kampot province. Driven mainly by Chinese investment, other hydropower projects in the country are currently under construction or in the pipeline. These include dams around the lush Cardamom Mountains. While the stated purposes for hydropower development have been commended, the perceived lack of transparency in negotiations and disregard for the environmental impact of the projects have been criticised. In 2008, a joint report by the NGOs International Rivers and the Rivers Coalition in Cambodia asserted: "Hydropower development in Cambodia has proceeded in the absence of meaningful public consultation and [with] an overall lack of transparency in the decision-making process". The National Assembly also passed a law that would oblige the government to cover any financial losses incurred by two Chinese hydropower projects in the event of political instability.

*Sources: IR & RCC (2008), Phnom Penh Post (2009), IRIN (2009)*



# Managing Through the Crisis –Strengthening Key Sectors for Cambodia’s Future Growth, Development and Poverty Reduction: Real Estate, Property and Construction

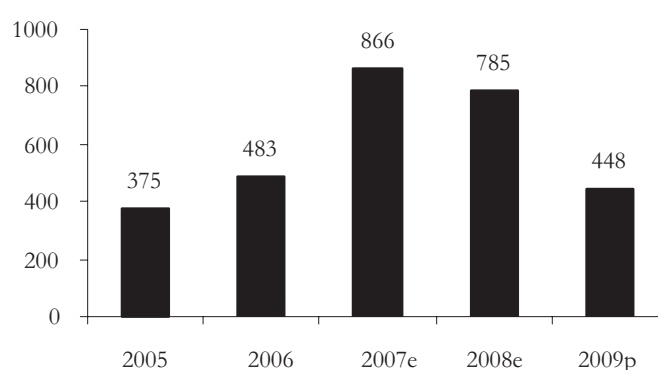
*This article summarises the presentations by H.E. Ngy Tayi, Mr Sung Bonna, and Mr Anthony Galliano<sup>1</sup> during session 3B(ii) of the 2009 Cambodia Outlook Conference.*

## Cambodia’s Real Estate Sector: From Boom to Bust

Cambodia’s real estate downturn comes after a distinct period of boom in 2007. During that year, land prices in Phnom Penh soared by as much as 80 percent. Investments, especially from South Korea, were flowing into the country, and several highly anticipated mega-projects were under construction. These inflated expectations fuelled significant risk-taking and speculation. The real estate bubble was created because many people saw unhindered continued profitability from investing in real estate. The popular perception was that land and newly built apartment units would continue to be in high demand and thus could be sold easily for a high return. There was also unguarded optimism about the robustness of foreign investment inflows. Since much construction is for business and residential real estate, this optimism spilled over into the construction sector.

The crisis, both an outcome and a cause of the global real estate meltdown, eventually caused the bursting of Cambodia’s domestic real estate bubble. By 2008, signs of overheating, such as overpriced construction materials and labour, could be detected. Real estate prices continued to escalate at least until the middle of 2008, to as much as 100 percent over the prices of a year earlier. However, as the crisis deepened in the final two quarters, the bubble was unsustainable in the face of a worsening credit crunch, tighter bank

**Figure 1: FDI (USD million)**



Source: IMF (2009)

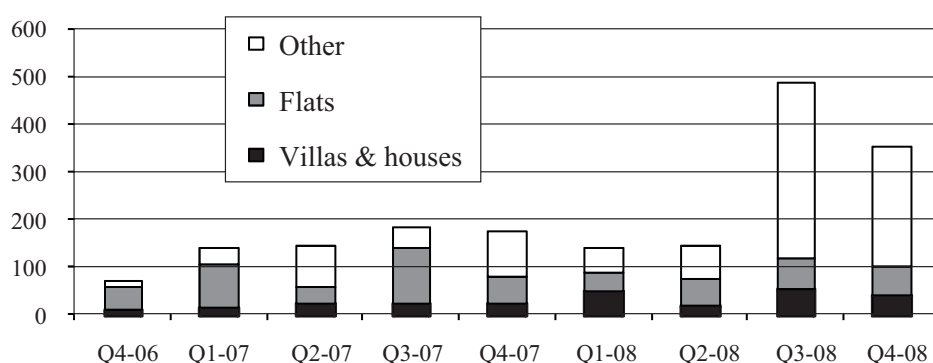
lending, investment flight and greater investor and consumer wariness.

The global crisis dissolved the previous confidence in the real estate sector. On the supply side, it is said to have pushed the number of suppliers up by 45 percent as more people sought to get rid of their lower priced holdings in worsening conditions. Demand is said to have stagnated or even decreased to about 5 percent. As a result of these dynamics, prices went down by 30 to 40 percent and sales plummeted by 50 to 80 percent. Overall, the construction sector is estimated to have contracted in 2008 after growing by 6.7 percent in 2007.

These developments resulted in tax losses for the government and adversely affected employment. As companies either cut back on operating costs or closed, significant lay-offs and increased underemployment occurred. It is estimated that about 15,000 construction jobs were lost by the middle of 2008. A worse estimate is that around 30 percent of construction workers in the country have lost their jobs as a result of projects being suspended or stopped. The crisis has not affected only construction workers. Brokers, architects and other higher skilled employees in real estate and construction have likewise suffered job losses or increased underemployment.

Currently, the real estate industry and, by

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**Figure 2: Value of Construction in Phnom Penh** (approval basis, USD million)

Source: Municipality of Phnom Penh

implication, the construction sector are operating in a highly uncertain and risky environment. Real estate investors, traders and buyers have already voiced grave concern regarding this sudden turn from boom to bust. The downturn is largely attributable to the slowing down of foreign investment and reduction in wealth. Tighter financing conditions and worsening growth prospects have prompted suspension or scaling back of investment plans. As their country's economy was hit by the crisis, drying up credit and tightening bank lending, South Korean investors have been compelled to rein in their investments. According to IMF data, foreign direct investment in Cambodia is estimated to have decreased from about USD866 million in 2007 to USD785 million in 2008. Knowing the heightened risks in lending for real estate, banks in Cambodia have noticeably restrained their lending to the sector. Having reduced wealth, slashed incomes and damped confidence, the crisis prompted people to curb their spending as a precaution. An exacerbating factor was the weak and incomplete legal framework governing the domestic real estate industry. Had there been a better framework, the downturn might not have been as severe.

### Responding to the Crisis: Policies and Issues

To stave off the deceleration in real estate and construction activity, the government implemented measures such as the elimination of the 15 percent cap on bank lending to the real estate sector. It is yet to be seen whether this move can cause banks to lend, given the continued risks. A more controversial government step was the issuance of regulations aiming to increase government control over the sector. An associated purpose of these regulations is to afford property buyers greater

protection from developers who have insufficient capital. The regulations include: creation of an inter-ministerial body to oversee the sector; management and control of the issuing of licences; and a requirement of locked accounts for client deposits. Some quarters have heatedly opposed these regulations and

called for their retraction or delay. They believe that they would further choke off investment at this time of crisis in the sector. Supporters of the regulations reply that they should not be delayed because protection from bad developers and investments is even more necessary at this time.

Uncertainties and risks in Cambodia's real estate sector are predicted to continue in 2009. This will have direct repercussions on the construction industry, one of the country's four key growth pillars. It is estimated that growth of construction this year will slow further, to 5.7 percent. It is also projected that 100,000 to 150,000 jobs in construction, brokerage, architecture and related jobs will be lost this year.

Feeling that the government has shown more concern about mitigating the impact of the crisis on other sectors, private real estate developers have appealed for greater attention from the authorities. Among recommended policies, a principal one is the development of the relevant legal framework. Standards have to be set on valuations, fees and commissions and real estate agency operations. A housing development act also needs to be adopted, together with a code of conduct for developers. Other recommendations include: integration of the National Valuers Association of Cambodia into the ASEAN Valuers Association; establishment of an institute for real estate professional training; establishment of a housing developer association; attracting more investment by making relevant documents more accessible to investors and simplifying bureaucratic processes; better enforcement of the laws that protect investors; lowering of the interest rate on banks loans for real estate; and wider dissemination of information on the prices of land. To prevent another real estate

bubble, there is no question that filling in the gaps in supervision and regulation is vital. The difficulty comes in finding a consensus as to exactly where

the gaps are and how far-reaching regulation should be.

***Did you know that***

***... the subprime mortgage crisis, which set off today's global economic meltdown, was caused by the bursting of the US real estate bubble?***

Higher than expected foreclosures and a bottoming out of prices starting in 2006 in many parts of the US led to rapid devaluation of mortgage-related assets, which lowered the credit quality of other assets and resulted in massive losses for many major financial institutions, prompting their eventual collapse. Arguably, real estate bubbles are hard to detect accurately in advance; however, there are indicators that can be used to gauge their existence, including price-to-income ratio and debt service ratio.

*Sources: ADB (2008); Wikipedia*

***... the construction of highly anticipated mega-projects in Phnom Penh is said to have continued despite the downturn, although some delays have been reported?***

Mega-projects in Phnom Penh include Camko City, Grand Phnom Penh International City and Diamond Island City. In the case of the Grand Phnom Penh International City, it has been reported that completion had to be moved back by about a year.

*Source: Phnom Penh Post (2009)*

*Continued from page 3 Opening of the 2009...*

government, its development partners, the private sector and educational institutions can work together to respond better to Cambodia's human resource development needs, particularly vocational skills for a skilled labour force; what strategies will enable the country to best manage its way through the crisis, and to protect and strengthen key sectors for Cambodia's growth and development—agriculture and rural development, tourism, manufacturing and real estate, property and construction; what priority policies and actions should be on the country's development agenda in response to the crisis for collaboration among the government, development partners, the private sector and research and policy institutes; and how regional and global institutions, including international financial institutions and multilateral development banks, can better serve the needs of developing countries in response to the crisis and in the prevention of future crises.

There is much that needs to be done, and much that can be achieved with the strong commitment and cooperation of the Royal Government and its development partners, the private sector and research and policy institutions, working together in the best interests of Cambodia.

**Box 1: Key Challenges Posed by the Crisis**

- Challenge 1: To diversify the markets for our garments and other manufactured goods into east Asia, the Middle East, Africa and other non-traditional markets
- Challenge 2: To further improve tourism infrastructure and develop more tourism destinations and attractive tour packages
- Challenge 3: To broaden and diversify the agricultural sector, attract more quality investments in agri-business and improve agricultural trade linkages, land reform and agro-processing
- Challenge 4: To further invest in infrastructure development, particularly energy generation to reduce energy costs
- Challenge 5: To promote aggressively and support wealth creation and improve the people's livelihood according to the principles and procedures stipulated in Cambodia's constitution
- Challenge 6: To help the poor and vulnerable cope with the crisis through strengthening the social safety net with such measures as food relief and cash transfers
- Challenge 7: To fortify cooperation with regional partners and fellow less developed countries in advancing common interests in the international arena

## Economy Watch—External Environment

This section highlights economic events in a number of leading developed economies and some east Asian developing economies during the fourth quarter of 2008.

### World Economic Growth

During the last quarter of 2008, US year-on-year real GDP growth contracted by 6.3 percent. The substantial plunge was due primarily to negative contributions from exports, personal consumption expenditure, equipment and software and residential fixed investment; these were partly offset by a positive contribution from government spending. During the same period, the economy of the euro zone fell into deeper recession, posting a real GDP growth of -1.3 percent. A massive deterioration in export demand and a remarkable slump in both private and government consumption were key factors in the downturn. Real output in Japan contracted by 4.6 percent, which was attributed particularly to weakening external demand and a significant drop in private-sector investment in new plant and equipment.

The era of China's double digit growth appears to have ended, as year-on-year real GDP growth continued to slow, plunging to 6.8 percent in the last quarter of 2008. The primary causes were a decline in manufacturing exports and a downturn in the real estate sector. South Korean real GDP contracted markedly (3.6 percent) during the same period, which resulted from a significant decline in private spending, fixed asset investment and export of goods and services. Deeper recession was also evident in Hong Kong and Taiwan, the real GDP decreases of which were 2.5 percent and 8.4 percent, respectively. The slump in Hong Kong resulted from a marked drop in private consumption (3.2 percent) and a sharp reduction in gross domestic capital formation (17.3 percent), while in Taiwan it was due primarily to a tremendous drop in goods and services exports (19.75 percent) and decreasing private consumption and fixed capital formation.

During the last quarter of 2008, year-on-year real GDP growth in Malaysia continued to slow, to 0.1 percent. A sharp contraction in manufacturing and gross fixed capital formation were the factors behind the stagnation. Singapore's real GDP

growth deteriorated, sapped by a rapid deceleration in manufacturing. Real GDP growth in Thailand contracted sharply, by 4.3 percent, due to a 38.2 percent drop in net exports and 10.2 percent plunge in private investment spending.

### World Inflation and Exchange Rates

US year-on-year consumer price inflation slid to 1.5 percent, lower than the 5.3 percent of the preceding quarter. Subsiding inflationary pressure was due to a sharp drop in oil and other commodity prices, the continuing decline in house prices and a collapse in consumer demand. During the same period, 12-month inflation in the euro zone slipped to 2.3 percent, lower than the 3.8 percent of the previous quarter. Inflation remained the thrall of energy prices, plus slower rises in food, drinks, house and clothing prices. Overall consumer prices in Japan grew by 1.0 percent, sliding from 2.2 percent in the previous quarter.

In the last quarter of 2008, the US dollar was stable against the Chinese yuan, but depreciated against the Hong Kong dollar and Japanese yen, trading at 7.75 HKD/USD and 96.1 JPY/USD. It traded higher against the euro, South Korean won and Taiwanese dollar, exchanging at 1.32 EUR/USD, 1367.2 KRW/USD and 33.0 TW/USD. Appreciation of the US dollar could weaken the country's competitiveness as exports become more expensive.

### Commodity Prices in World Markets

As the world economy continued to slow, prospects for agricultural expansion in developing countries appeared bleak in the short term. In the last quarter of 2008, there was a marked slump in major agricultural commodity prices. Prices of maize (US No.2) slumped by 28.9 percent, palm oil (north-west Europe) by 40.5 percent, rice (Thai 100% B) by 21.0 percent and soybeans (US No.1) by 27.7 percent from the preceding quarter. During the same period, crude oil, gasoline and diesel prices plummeted. Crude oil sold at USD55.23/barrel, gasoline at US 34.52 cents/litre and diesel at US46.98 cents/litre.

*Prepared by  
Saing Chan Hang*



**Table 1. Real GDP Growth of Selected Trading Partners, 2003–2008** (percentage increase over previous year)

	2003	2004	2005	2006	2007	2007 Q4	2008 Q1	Q2	Q3	Q4
Selected ASEAN countries										
Cambodia	7	7.7	13.4	10.6	10.2	13.6	-	-	-	-
Indonesia	4.9	5.1	5.6	5.4	6.3	6.5	6.3	6.4	6.1	5.2
Malaysia	5.4	7	5.2	5.9	6.3	7.3	7.1	6.3	4.7	0.1
Singapore	1.4	8.5	5.7	7.7	7.7	6.0	7.2	1.9	-0.6	-4.2
Thailand	6.9	6	4.5	4.8	4.9	5.7	6.0	5.3	3.9	-4.3
Vietnam	7	7.5	8.4	8.1	8.5	-	-	-	-	-
Selected other Asian countries										
China	9.9	9.5	9.6	10.5	11.9	11.2	10.6	10.1	9.0	6.8
Hong Kong	3.2	8.3	6.5	6.6	6.4	6.7	6.8	4.2	1.7	-2.5
South Korea	3	4.7	4.7	5.0	4.9	5.7	5.7	4.8	3.8	-3.6
Taiwan	3.1	5.7	4.1	4.6	5.2	6.4	6.4	4.3	-1.0	-8.4
Selected industrial countries										
Euro-12	0.5	1.8	1.5	2.7	2.9	2.2	2.2	1.4	0.6	-1.3
Japan	2.6	3.4	2.5	2.1	2.0	2.0	1.3	1.0	-0.5	-4.6
United States	3.1	4.4	3.7	3.3	2.2	2.5	2.5	2.8	-0.5	-6.3

Sources: International Monetary Fund, *Economist* and countries' statistic offices**Table 2. Inflation Rate of Selected Trading Partners, 2003–2008** (percentage increase over previous year—period average)

	2003	2004	2005	2006	2007	2007 Q4	2008 Q1	Q2	Q3	Q4
Selected ASEAN countries										
Cambodia	1.2	4.0	5.8	4.7	10.5	9.6	16.5	24.9	21.7	15.7
Indonesia	8.3	8.3	10.5	13.4	6.4	6.7	7.6	10.1	11.9	11.4
Malaysia	1.1	1.6	3.1	3.7	2.0	2.2	2.6	4.8	8.4	5.9
Singapore	0.5	1.7	0.5	1.0	2.1	4.1	6.6	7.5	6.5	5.5
Thailand	1.8	2.7	4.5	4.7	2.2	2.9	5.0	7.7	7.2	2.2
Vietnam	3.1	7.8	8.2	7.7	8.3	10.7	16.4	24.4	29.0	23.6
Selected other Asian countries										
China	1.2	3.9	1.8	1.5	4.8	6.6	8.0	7.8	5.3	2.5
Hong Kong	-2.6	-0.4	1.1	2.2	2.0	3.5	4.6	5.7	4.6	2.3
South Korea	3.5	3.5	2.8	2.4	2.5	3.3	3.7	4.8	5.5	4.5
Taiwan	-0.3	1.6	2.3	0.6	1.8	4.5	2.3	4.2	4.5	1.9
Selected industrial countries										
Euro-12	2.1	2.2	2.2	2.1	2.1	2.9	3.4	3.8	3.8	2.3
Japan	-0.3	Nil	-0.3	0.5	0.1	0.5	1.0	1.4	2.2	1.0
United States	2.3	2.7	3.4	3.2	2.9	3.9	4.1	4.4	5.3	1.5

Sources: International Monetary Fund, *Economist* and National Institute of Statistics**Table 3. Exchange Rates of Selected Trading Partners against US Dollar, 2003–2008** (period averages)

	2003	2004	2005	2006	2007	2007 Q4	2008 Q1	Q2	Q3	Q4
Selected ASEAN countries										
Cambodia (riel)	3973	4016.3	4092.5	4103.2	4062.7	4026	3995.3	4030.3	4117.4	4089.8
Indonesia (rupiah)	8577	8938	9705	9134	9419	9246.3	9248.2	9265.3	9216.3	11,060
Malaysia (ringgit)	3.80	3.80	3.79	3.67	3.31	3.35	3.22	3.21	3.37	3.56
Singapore (S\$)	1.74	1.69	1.66	1.59	1.51	1.45	1.41	1.37	1.43	1.49
Thailand (baht)	41.5	40.2	40.2	37.9	32.22	33.87	32.37	32.25	34.0	34.83
Vietnam (dong)	15,510	15,777	15,859	15,994	16,030	16,084	15,896	16,881	16,517	16,537
Selected other Asian countries										
China (yuan)	8.28	8.28	8.19	7.97	8.03	7.43	7.16	6.96	6.82	6.83
Hong Kong (HK\$)	7.78	7.79	7.78	7.77	7.8	7.77	7.79	7.80	7.77	7.75
South Korea (won)	1192	1145	1024	955	929.04	921.23	955.89	1018.84	1207.0	1,367.2
Taiwan (NT\$)	34.4	33.6	32.1	32.5	32.85	32.4	31.52	30.45	31.20	33
Selected industrial countries										
Euro-12 (euro)	0.89	0.80	0.80	0.80	0.7	0.69	0.7	0.64	0.71	1.32
Japan (yen)	115.9	108.2	110.2	116.4	117.8	113.07	105.2	104.53	104.03	96.1

Sources: International Monetary Fund, *Economist* and National Bank of Cambodia**Table 4. Selected Commodity Prices on World Market, 2003–2008** (period averages)

	2003	2004	2005	2006	2007	2007 Q4	2008 Q1	Q2	Q3	Q4
Maize (USNo.2)—USA (USD/tonne)	95.42	110.65	89.19	111.04	149.08	156.9	198.39	238.03	254.99	181.22
Palm oil—north-west Europe (USD/tonne)	402.03	427.47	381.32	433.85	707.68	841.39	1048.49	1086.89	949.03	564.50
Rice (Thai 100% B)—Bangkok (USD/tonne)	182.22	221.67	262.88	282.00	305.36	323.92	444.43	839.58	657.88	519.41
Soybeans (US No.1)—USA (USD/tonne)	218.86	262.03	224.25	213.88	294.59	366.59	449.64	479.97	529.30	382.72
Crude oil—Dubai (USD/barrel)	26.8	33.5	50.14	61.58	69.25	82.88	93.77	117.48	115.30	55.23
Gasoline—US Gulf Coast (cents/litre)	23	30.9	42.19	47.70	53.58	59.48	64.21	80.90	81.27	34.52
Diesel(low sulphur No.2)—US Gulf Coast (cents/litre)	21.63	29.48	44.35	51.35	55.51	66.54	73.99	95.37	88.46	46.98

Sources: Food and Agriculture Organisation and US Energy Information Administration

## Economy Watch—Domestic Performance

### Main Economic Activities

In the fourth quarter of 2008, total investment approvals decreased by 65 percent to USD1580.3 m. Approvals in agriculture plummeted by 76 percent to USD4.4 m, and services slumped by 70 percent to USD1339.6 m, while industry approvals increased more than four times to USD485.4 m, compared with the preceding quarter. The increase in industrial investment resulted mainly from the USD408.3 m approval for the development of the Stung Atay hydroelectric project in Pursat, while approvals in garments slowed to USD21.4 m. According to the chair of the Garment Manufacturers Association, the downturn of the garment sub-sector was partly caused by the slowing of the US economy, where almost 70 percent of Cambodian garment products are sold. Of the total approvals in services, tourism represented 63 percent and hotels 24 percent; smaller amounts were approved for telecommunication system installation and construction services. Most fixed asset tourism approvals were for island development projects in Preah Sihanouk and Koh Kong provinces, mostly belonging to Cambodians. The total investment approvals, if implemented, will provide 32,380 jobs: 15,456 in industry, 15,666 in services and 1258 in agriculture.

Eighty-seven construction projects in Phnom Penh, worth USD351.9 m, were approved in the last quarter of 2008. Flat approvals were USD60.0 m for 38 projects (947 flats), and villas and houses were USD39.7 m for 28 projects. Compared to the previous quarter, the total value of construction fell by 28 percent—flats by 8.5 percent and villas and houses by 24 percent. However, the total rose by 104 percent from that in the same quarter in 2007. Flat construction rose by 4.2 percent, and villas and houses surged by 97 percent.

In the fourth quarter, total exports decreased by 22 percent, and total imports fell by 11 percent, compared to the previous quarter. As a result, the trade deficit worsened from USD98.4 m in the previous quarter to USD187.7 m. The decrease in exports was caused by a sharp fall of garment exports of 56 percent, to USD678.8 m, and a drop of rubber exports of 59 percent, to USD5.2 m; fish exports were unchanged.

The fall in total imports was caused by a decline in petroleum product imports of 7.8 percent to

USD62.9 m and in construction materials of 16 percent to USD 29.9 m. Of construction material imports, cement dropped 7.8 percent to USD10.5 m, steel fell by 4.9 percent to USD9.8 m, and construction equipment declined by 31 percent to USD9.6 m. Cigarette imports declined by 14 percent to USD32.8 m, and vehicles (including spare parts) decreased by 15 percent to USD84.3 m, while imports of garment components, namely clothing and fabrics, increased by 12 percent, reaching USD14.9 m.

Tourism arrivals increased after a fall in the two previous quarters. In fourth quarter 2008, total arrivals mounted to 577,536, a rise of 30 percent from the preceding quarter. Arrivals by air climbed by 22 percent to 316,169; of these, Phnom Penh International Airport received 46 percent and Siem Reap airport 54 percent. Arrivals by land were 242,053, up 41 percent; arrivals by water were 19,314, an increase of 36 percent. Visitors on holiday increased by 18 percent, to 462,399, while those on business fell by 0.4 percent. South Korea (50,094) provided the largest number of visitors, followed by Vietnam (49,385) and Japan (42,836).

### Public Finance

The budget was in surplus in the first quarter of 2008, but the balance worsened throughout the year. In the fourth quarter, the total deficit amounted to KHR495.9 bn, compared to KHR365.8 bn in the previous quarter. Both revenue collection and expenditure increased. Revenue collection rose by 3.0 percent, to KHR1335.3 bn, of which tax revenue was up 3.2 percent, reaching KHR1105.7 bn. Domestic tax collection was KHR796.3 bn, of which taxes on income, profits and capital gains were KHR146.3 bn, up 11 percent. Taxes on specific goods rose by 5.2 percent to KHR218.0 bn and on specific services by 1.4 percent to KHR34.1 bn, while general tax on goods and services fell 1.4 percent to KHR391.0 bn. Of the total general tax collection, the value added tax accounted for KHR386.1 bn, down 1.6 percent. Tax on international trade increased 5.1 percent to KHR309.4 bn. Of that, taxes and duties on imports climbed by 14 percent, reaching KHR294.7 bn, while those on exports dropped by 59 percent, to KHR14.8 bn. Non-tax revenue slipped by 17 percent to KHR309.4 bn; within that, rental income

## Economy Watch—Domestic Performance

from land and public enterprises fell by 7.6 percent to KHR10.2 bn. Revenue from the sale of goods and services, including administrative fees and rental income from invested assets, was up by 10 percent, to KHR109.8 bn. Capital revenue surged by more than four times, rising to KHR49.3 bn.

In the fourth quarter, total expenditure was KHR1831.2 bn, a 10 percent rise from the previous quarter. Spending on wages, generally the largest amount in the last quarter of the year, was KHR415.7 bn, 14 percent more than in the preceding quarter. Social subsidies and donations increased more than two times, reaching KHR385.2 bn. Capital expenditure increased 36 percent to KHR874.0 bn, a result of increased government purchase of tangible assets and land. Of the total spending on capital, 19 percent was financed domestically and 81 percent externally.

### Inflation and Foreign Exchange Rates

In the fourth quarter, year-on-year inflation was lower than in the previous quarter: 15.8 percent compared to 21.7 percent. Prices of food, beverages and tobacco were up 26.1 percent. Medical care rose 10.8 percent, 2.2 percent less than in the previous quarter. The inflation rate of household utilities was 6.7 percent, 1.2 percent less than in the previous quarter; for household operations, it was 26 percent, 1.4 percent less than previously. The inflation rate for transport and communications was 8.0 percent, down from 25.4 percent in the previous quarter. The lower inflation was caused by the fall of petroleum prices, a good harvest and improved fish catch, according to the minister of planning.

The riel traded at 4089.8 to the US dollar in fourth quarter 2008, an appreciation of 0.7 percent from the previous quarter; however, it depreciated by 1.5 percent compared to the same quarter of 2007. Against the Thai baht, the riel increased 3.4 percent, to 117.7 riels/baht. The riel appreciated 1.8 percent against the Vietnamese dong, trading at 24.3 riels per 100 dong.

### Monetary Developments

In December 2008, net foreign assets were KHR10,345.6 bn, a 3.6 percent decline from the same month of the previous year. Domestic credit was up, to KHR6907.1 bn; of that, claims on

government declined by 8.9 percent, to KHR270.5 bn. Government deposits rose to KHR3257.5 bn, and credit to the private sector was up by 55 percent, to KHR9894.1 bn.

Liquidity (M2) reached KHR11,858.9 bn, from KHR11,310.7 bn at the same time of the previous year. Riels in circulation were up by 15 percent, rising to KHR2294.8 bn, and riel deposits surged by 58 percent to KHR289.6 bn. Foreign currency deposits were up slightly, reaching KHR9274.5 bn.

### Poverty Situation

In February 2009, real daily earnings of seven out of 10 vulnerable groups decreased compared to November 2008. The survey revealed that the groups interviewed believed that the fall in real daily earnings was partly caused by the world economic crisis.

Real daily earnings of cyclo drivers fell by 34 percent, from 12,628 riels in November to 8366 riels in February. Half of the interviewees said that their earning decrease resulted from an increase in the number of cyclo drivers. Most said that their unstable earnings just allowed them to survive from day to day. Moreover, 82 percent said they have to pay a cyclo rent of 2000 to 2500 riels a day even if they earn no money during the day.

Of interviewed motorcycle taxi drivers, 75 percent were from rural provinces, and about 60 percent of those have rented a house. They reported that their real earnings slumped by 27 percent from November 2008; 77.5 percent said they saved nothing because of the fall in earnings. They complained that recently they sometimes had almost no money to spend on food.

In February, real earnings of skilled construction workers dropped by 9 percent from November last year. The fall was mainly due to a temporary decline in construction projects, according to 32.5 percent of the skilled construction workers interviewed. Sixty percent of them added that there was a reduction in the number of workers in some sites because of fewer projects. The earnings of unskilled construction workers slipped by 32 percent from November, to 5995 riels per day. The decline resulted from uncertain employment. Sometimes they did not have work, or not a full day's work. However, the number of unskilled people seeking

Real daily earnings of small traders were down from 9897 riels in November to 7464 riels in February. Eighty percent of interviewees stated that their daily earnings decreased at the same time as the number of small traders rose. About half the traders

Porters' earnings climbed by 14 percent in February, compared with November, from 9004 to 10,270 riels per day. Most of them said that they still did not save any money for their families because their expenditure on food also rose, to 7000 riels a day.

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# Economy Watch—Domestic Performance

**Table 1. Private Investment Projects Approved, 2003–08**

	2003	2004	2005	2006	2007				2008			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Fixed Assets (USD m)											
Agriculture	3.7	12.3	26.8	498.0	19.1	2.1	12.0	102.4	52.3	16.7	18.6	4.4
Industry	137.2	187.9	914.6	365.3	142.7	51.2	187.2	328.0	52.9	95.0	91.6	485.4
<i>. Garments</i>	68.1	132.6	174.4	89.4	36.6	24.3	40.7	69.1	42.3	47.8	31.3	21.4
Services	168.4	91.8	155.5	2939.1	335.7	138.0	957.7	311.1	148.2	4064.9	4450.5	1339.6
<i>. Hotels and tourism</i>	124.1	55.9	102.6	345.0	140.3	55.0	653.8	199.2	93.7	4015.0	3481.3	1168.1
Total	309.3	292.0	1096.9	3802.4	497.5	191.3	1156.9	741.5	253.4	4176.5	4560.7	1580.3
	Percentage change from previous quarter											
Total	-	-	-	-	-48.8	-61.6	504.7	-35.9	-78.1	1548.2	9.2	-65.3
	Percentage change from previous year											
Total	22.1	-5.6	275.6	246.6	118.9	91.8	334.6	-23.7	-49.1	2083.2	294.2	113.1

Including expansion project approvals. Source: Cambodian Investment Board

**Table 2. Value of Construction Project Approvals in Phnom Penh, 2003–08**

	2003	2004	2005	2006	2007				2008			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	USD m											
Villas and houses	20.0	30.3	45.5	33.1	14.4	22.8	21.7	20.2	45.3	17.6	52.1	39.7
Flats	91.6	167.6	204.2	213.3	88.9	33.2	117.5	57.6	40.9	55.1	65.6	60.0
Other	87.3	65.6	109.1	76.8	35.9	88.8	40.6	94.3	51.2	68.2	369.3	252.2
Total	198.9	263.5	358.8	323.3	139.2	144.7	179.7	172.2	137.3	140.9	486.9	351.9
	Percentage change from previous quarter											
Total	-	-	-	-	78.0	3.9	24.2	-4.2	-1.4	2.6	245.6	-27.7
	Percentage change from previous year											
Total	-9.5	32.5	36.2	-9.9	106.5	76.0	88.2	120.2	-1.4	-2.6	170.9	104.4

Source: Department of Cadastre and Geography of Phnom Penh municipality

**Table 3. Exports and Imports, 2003–08**

	2003	2004	2005	2006	2007				2008			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	USD m											
Total exports	1708.1	2108.1	2352.8	2799.9	707.8	705.0	890.8	793.4	803.1	539.6	928.7	728.6
Of which: Garments	1628.4	2027	2253.3	2698.9	677.5	688.2	846.1	727.1	773.4	463.8	868.8	678.8
Rubber	35.1	38.3	36.7	41.4	8.4	6.9	11.7	14.6	7.0	11.0	12.9	5.2
Wood	10.2	11.1	10.3	8.6	2.1	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Fish	2.8	10.6	10.1	5.9	0.7	0.4	1.2	0.9	0.7	0.3	0.6	0.6
Total imports	1824.9	2149.0	2513.0	3057.0	790.9	911.6	924.5	982.7	983.8	1178.5	1027.1	916.3
Of which: Petroleum products	191.6	187.0	184.8	238.5	66.5	68.5	71.0	58.9	60.0	64.6	68.3	62.9
Construction materials	80.8	95.3	134.7	154.4	44.1	31.6	34.9	32.5	39.7	40.7	35.6	29.9
Other	1601.3	1914.0	2245.0	2731.0	699.2	807.5	818.6	891.3	884.1	1073.2	923.2	823.5
Trade balance	-116.8	-40.9	-160.1	-257.1	-83.1	-208.1	-30.7	-189.3	-180.7	-638.9	-98.4	-187.7
	Percentage change from previous quarter											
Total garment exports	-	-	-	-	-5.4	1.6	22.9	-14.1	6.4	-40.0	87.3	-21.9
Total exports	-	-	-	-	-3.9	0.4	26.4	-10.9	1.2	-32.8	72.1	-21.5
Total imports	-	-	-	-	-2.0	15.3	1.4	6.3	0.1	19.8	-12.8	-10.8
	Percentage change from previous year											
Total garment exports	-54.1	-64.9	291.4	19.8	19.2	8.8	8.2	1.6	14.2	-32.6	2.7	-6.6
Total exports	17.5	23.4	11.6	19.0	17.3	8.0	10.3	7.7	13.5	-23.5	4.3	-8.2
Total imports	6.9	17.8	16.9	21.6	14.5	17.6	17.9	21.7	24.4	29.3	11.1	-6.8

Import data include tax-exempt imports. Source: Customs and Excise Department, cited by National Bank of Cambodia

**Table 4. Foreign Visitor Arrivals, 2003–08**

	2003	2004	2005	2006	2007				2008			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Thousands of passengers											
By air	456.0	626.1	856.5	1029.0	373.6	275.6	278.5	368.8	402.0	262.0	259.2	316.2
By land and water	245.0	428.9	565.1	672.9	177.2	148.9	153.3	239.2	242.2	192.0	186.3	261.4
Total	701.1	1055.0	1421.6	1701.9	550.8	424.5	431.8	608.0	644.2	454.0	445.5	577.6
	Percentage change from previous quarter											
Total	-	-	-	-	6.7	-22.9	1.7	40.8	6.0	-29.5	-1.9	29.6
	Percentage change from previous year											
Total	-10.9	50.5	34.7	19.7	20.4	19.2	16.5	17.8	17.0	6.9	3.2	-5.0

Source: Ministry of Tourism

**Table 5. National Budget Operations on Cash Basis, 2003–08** (billion riels)

	2003	2004	2005	2006	2007	2008						
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total revenue	1764	2126	2625	3259.2	824.9	1016.8	1031.4	1146.1	1194.1	1463.6	1297.0	1335.3
Current revenue	1733	2107	2474	2881.8	824.9	1012.4	1031.4	1141.6	1189.4	1447.0	1288.3	1286.0
Tax revenue	1220	1577	1911	2270.9	699.9	887.7	844.6	965.2	978.0	1255.0	1071.2	1105.7
Domestic tax	-	-	-	-	487.9	642.1	584.8	661.8	719.9	955.5	776.7	796.3
Taxes on international trade	-	-	-	-	212.1	245.6	259.8	303.5	258.1	299.5	294.5	309.4
Non-tax revenue	513	530	563	610.9	125.0	124.7	186.9	176.4	211.4	192.1	217.1	180.2
Property income	-	-	-	-	27.9	15.5	14.8	13.6	2.9	53.9	11.0	10.2
Sale of goods and services	-	-	-	-	88.8	93.0	100.1	124.3	118.9	96.3	99.7	109.8
Other non-tax revenue	-	-	-	-	8.3	16.2	72.0	38.5	89.6	41.9	106.4	60.3
Capital revenue	31	19	152	377.4	0.0	4.5	0.0	4.5	4.8	16.5	8.7	49.3
Total expenditure	2757	2932	3295	4174.7	923.9	1098.7	1126.1	1689.7	1059.1	1744.7	1662.8	1831.2
Capital expenditure	1171	1163	1328	1638.1	367.1	408.1	355.1	807.4	411.0	648.2	641.2	874.0
Current expenditure	1586	1769	1967	2536.8	556.8	681.6	771.0	882.3	648.1	1096.5	918.0	1146.4
Wages	615	640	711	822.0	199.7	242.7	253.4	362.6	250.7	367.0	363.6	415.7
Subsidies and social assistance	-	-	-	-	61.9	184.0	115.0	194.2	104.3	325.7	111.9	385.2
Other current expenditure	-	-	-	-	295.2	254.9	402.6	325.5	193.1	403.8	442.6	345.4
Overall balance	-993	-806	-706	-915.6	-99.0	-81.9	-78.7	-543.6	135.0	-281.1	-365.8	-495.9
Foreign financing	886	864	1127	1360.7	344.0	313.9	290.3	741.5	299.2	615.8	435.0	705.1
Domestic financing	106	148	-396	-445.1	-245.0	-213.0	-148.0	-185.8	-294.1	-236.5	234.7	168.9

Source: MEF web site

**Table 6. Consumer Price Index, Exchange Rates and Gold Prices** (period averages), 2003–08

	2003	2004	2005	2006	2007	2008						
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Consumer price index (percentage change over previous year)												
Phnom Penh - All Items	1.1	3.9	5.8	4.7	3.0	4.6	6.0	9.7	16.5	24.9	21.7	15.7
- Food & non-alcoholic bev.	1.5	6.4	8.6	6.4	3.0	7.2	11.3	18.1	27.6	43.5	35.2	26.1
- Transportation	4.9	9.7	11.4	9.1	5.2	5.0	3.1	9.9	18.8	25.3	25.4	8.0
Exchange rates, gold and oil prices (Phnom Penh market rates)												
Riels per US dollar	3973.3	4016.3	4119.7	4119.0	4063.0	4075.4	4082.3	4030.1	3995.3	4030.2	4117.5	4089.8
Riels per Thai baht	95.8	99.9	102.6	108.7	113.7	118.0	130.0	129.3	129.1	125.4	121.9	117.7
Riels per 100 Vietnamese dong	25.6	25.5	25.8	25.1	24.6	24.7	25.3	25.2	25.2	24.9	24.8	24.3
Gold (US dollars per chi)	41.4	46.3	54.0	70.6	77.7	79.8	80.8	94.4	111.6	107.7	106.0	98.2
Diesel (riels/litre)	1508	2088	2633	3140	3067	3100	3203	3679	3982	4975	5495	3768.9
Gasoline (riels/litre)	2150	2833	3442	4004	3750	3900	4002	4368	4580	5171	5391	3861.3

Sources: NIS, NBC and CDRI

**Table 7. Monetary Survey, 2003–08** (end of period)

	2003	2004	2005	2006	2007	2008						
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Billion riels												
Net foreign assets	4027	4797	5475	7224	8056	9048	9768	10,735	10,911	11,353	10,809	10,345
Net domestic assets	-698	-467	-450	-282	-263	-172	140	576	1136	1345	1748	1513.3
Net claims on government	-128	-209	-421	-953	-1176	-1403	-1547	-1816	-2400	-2678	-2653	-2987
Credit to private sector	1337	1817	2394	3630	4066	4537	5376	6386	8050	9206	9781	9894
Total liquidity	3329	4330	5025	6942	7793	8876	9908	11,311	12,047	12,698	12,557	11,858
Money	937	1153	1323	1658	1794	1748	1750	2052	2389	2467	2335	2399
Quasi-money	2392	3177	3702	5285	5999	7128	8158	9259	9658	10,231	10,223	9459
Percentage change from previous year												
Total liquidity	15.2	30.0	16.1	38.1	36.5	46.8	53.4	62.9	54.5	43.1	26.7	4.8
Money	15.3	23.0	14.7	25.3	23.9	15.7	12.0	23.8	33.2	41.1	33.4	16.9
Quasi-money	15.2	32.8	16.6	42.8	40.7	57.3	66.5	75.2	61.0	43.5	25.3	2.2

Source: National Bank of Cambodia

**Table 8. Real Average Daily Earnings of Vulnerable Workers** (at constant November 2000 prices)

	Daily earnings (riels)									Percentage change from previous year		
	2000	2003	2004	2005	2006	2007	2008	2009		2007	2008	2009
	Nov				Nov	Aug	Nov	Nov	Feb	Nov	Nov	Feb
Cyclo drivers	7594	8572	7614	7469	7393	7126	9393	12,628	8366	27	34	-34
Porters	6233	6676	6895	6545	7045	7704	8852	9004	10,270	26	2	14
Small vegetable sellers	5256	6532	6947	6000	6125	9116	8303	9893	7464	36	19	-25
Scavengers	2718	3944	4446	4416	3903	6038	5560	4651	5068	42	-16	9
Waitresses*	2111	4932	4448	4426	4498	4193	4508	4327	4198	0	-4	-3
Rice-field workers	4198	4177	4139	4365	4653	4561	4790	7541	6256	3	57	-17
Garment workers	6701	9577	9277	8816	8957	9033	8207	7582	7617	-8	-8	1
Motorcycle-taxi drivers	8610	10,092	9204	8201	8386	8979	11,525	15,658	11,422	37	36	-27
Unskilled construction workers	5399	6558	6382	5918	6028	5901	7550	8779	5995	43	16	-32
Skilled construction workers	13,127	13,111	12,679	10,316	9466	11,723	10,956	12,710	11,539	7	16	-9

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

*Continued from page 44 Update ...*

Since 2007, CDRI has been regularly holding bi-monthly **Research Workshop Series** on development issues. The purpose of the research workshop is to share research findings and strengthen research quality via discussing and sharing these findings, improving methodology, and conceptualising and analysing the research themes. The presenters in these workshops are both from CDRI and as well as researchers and practitioners from different institutions and NGOs in Phnom Penh. Since April 2009 presenters from CDRI included Mr Kem Sothorn, Ms Ouch Chandarany, Mr Saing Chan Hang, Dr. Hem Socheth, Mr Ou Sivhuoch, Mr Lun Pide, Dr. Koy Ra and Mr Em Sorany. The topics of the presentations covered macro-economic development, poverty, governance, trade, and natural resources and agriculture.

**Democratic Governance and Public Sector Reform Programme:** The Project on Leadership in Local Politics of Cambodia is getting close to completion. Over the past three months, Ms Thon Vimealea has merged the three separate papers. The director of research has made comments on the first draft and the project advisor is giving further final comments. Natural Resource Management Project has worked on the case study and is working to complete the remaining chapters. The Overseas Development Institute funded Parliamentary Civil Society Organization Engagement Project has completed interview and survey stages. The team has presented the preliminary findings internally and is writing up the paper which is scheduled to be completed mid June. The consultancy project at the National Committee for Democratic Development, Ministry of Interior, supported by Urban Institute, has submitted the third draft of the National Programme. The project is completed in principle. Project on Money Politics and Development in local Cambodia is underway; it is still being written up by Mr Pak Kimchoeun.

**Natural Resources and the Environment Programme:** continued conducting a second round of core module survey for an economic component for the Water Resources Management Research Capacity Development Programme (WRMRCDP). A mid-term review for the WRMRCDP was conducted by CDRI and AusAID independent

consultants with constructive recommendations to improve the effective implementation of the programme. Consultations with programme partners and key stakeholders have been conducted in order to ensure the programme activities link to the current needs of policy makers. A training course on “ethnographic methodology for water governance” was participated in by researchers and staff from water resources management stakeholders. A third annual progress report was completely prepared and submitted to AusAID.

The programme has been cleaning a dataset entry, with assistance from Centre for International Forestry Research (CIFOR), for a joint project on Tropical Forests for Poverty Alleviation – from Household Data to Global Analysis. A draft working paper for the tropical forest project is being worked on. The project on Building Community Capacity for Poverty Reduction Initiatives in the Tonle Sap Basin was reviewed and assessed by ADB mission team. A one-year project on Sustainable Pathways for Attaining the Millennium Development Goals Initiative funded by Stockholm Environment Institute completed a preliminary draft report and the report was submitted to donor for comments.

**Social Development Programme:** In collaboration with Oxford Policy Institute, the unit is implementing two DFID funded research projects, namely Key Manager Baseline Study for Health Sector Support Programme Project and the Incentive and the Retention of Health Workers in Rural and Disadvantaged Areas of Cambodia and the regional conference entitled “Health Sector Institutions, Motivations, and Incentives”. The two projects are expected to complete in February 2010, while the conference is planned for the first quarter of 2010. Furthermore, there is an ongoing dialogue with UN Habitat for a possible two month diagnosis study of safety in Phnom Penh municipality that aims to improve safety for poor citizens living in poor communities.

During this period, the training programme within the unit has offered a number of training courses to trainers, practitioners and journalists from government, NGOs, and civil society and press association. A total of 111 participants attended these courses. The aim was to provide those already trained in peace building and conflict management with additional facilitation and training skills.

## CDRI UPDATE

Over the period of April-June 2009, a number of research and research related activities have taken place at CDRI. A brief on some of these activities that are unit based is reported below.

**Economy, Trade and Regional Cooperation Programme:** The final report of Trade in Services Study has been successfully accepted by the International Trade Centre. The Political Economy of Greater Mekong Sub-region Study has been finalized; it's the second draft report. Rubber Competitiveness Study has completed the first draft report and awaits comments from our donor. The Poverty Dynamic Study project team is still in the process of analyzing the six wave panel data on various aspects of poverty issues. China Investment in Cambodia Study has received comments from the study's partner and the report is being revised, including six case studies as stated in ToR. Maximizing the Opportunities of Chinese Investment in Cambodia in Natural Resource Study has submitted the first draft report to the donor and will be finalized on receipt of comments. DAN 8—a joint research project on Assessing China's Impact on Poverty Reduction in the Greater Mekong Sub-Region has made good progress at the Research Methodology Workshop during 05-07 May 2009 in Chiang Mai, Thailand. Rapid Assessment of the Impacts of the Economic Crisis on Cambodian Households Study, a joint research project with Poverty, Agriculture and Rural Development Programme (PARD), has completed the second draft report for component 1 for further comments. Assessing the Socioeconomic Effects

of the GMS Projects, a joint-research project with PARD and Social Development Programme, funded by ADB has been signed off and the project will last till July 2010.

**Poverty, Agriculture and Rural Development Programme:** is progressing well with its project, the Poverty Dynamic Study (PDS) with assistance from World Bank Poverty consultant to set poverty line; qualitative data processing was completed and top line technical report is being written, scheduled to finish by late August 2009. A research article entitled "The Impact of Increased Food Prices on Poverty Reduction in Cambodia" synthesized from PDS results was published in the Annual Development Review 2008/09. Rapid assessment of economic impact on Cambodian Households Project commissioned by WB has finished field work and first draft reports were sent to WB for comment and feedback. One project, Building Resilience of Community Fisheries in the Tonle Sap Lake: Collective action and the Capacity to Manage Resource Competition, in partnership with WorldFish is under consideration and another Assessing the Socioeconomic Effects of the Greater Mekong Sub-region funded by ADB has just been contracted. Another initial potential project focus on Understanding the Next Agriculture Transition in Asia is preparing concept note for funding from Rockefeller Foundation. The project will start from September 2009 if selected for funding.

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