ISBN 978-99950-52-05-8

A Publication of CDRI—
Cambodia's leading independent
development policy research institute

CAMBODIA DEVELOPMENT REVIEW

VOLUME 14, ISSUE 2 APRIL-JUNE 2010 $4.00

20th ANNIVERSARY
CDRI 1990-2010

'Returning to a High Growth Economy–Policy Priorities and Action for Growth and Sustainable Development': The 4th Cambodia Outlook Conference[1]

The 4th annual Cambodia Outlook Conference, a partnership of CDRI and ANZ Royal Bank, on the theme *'Returning to a High Growth Economy – Policy Priorities and Action for Growth and Sustainable Development'*, was held in Phnom Penh on 17 March 2010. The opening keynote address to more than 350 invited leaders from government, the private sector, research and civil society organisations, and the international development community, was again presented by Cambodia's Prime Minister Hun Sen.

Prime Minister Hun Sen viewing the exhibit of CDRI's 20 year history displayed at the 2010 Cambodia Outlook Conference.

In his address, Prime Minister Hun Sen said: 'This year's conference is of particular importance because it is the 20th anniversary of the Cambodia Development Resource Institute, CDRI, your co-hosts today, and now Cambodia's leading independent development policy research institute, playing a critical role in providing evidence based development research and policy recommendations to government and other stakeholders in Cambodia's development…. As Cambodia has grown, developed, and changed over those 20 years, so has CDRI grown, developed and changed, but never losing sight of its mandate - to do independent high quality policy relevant research, but also to train and build the professional and other capacities of Cambodians to make a great intellectual contribution to our nation.'

The conference focused on the major factors that will enable Cambodia to return to a sustainable high growth economy with associated poverty reduction, both in macroeconomic policy, and in key sectors such as agriculture and rural development, emerging industries, infrastructure and energy, and tourism. The conference resolved that sustainable high levels of economic growth for Cambodia will have to be based on a stable well managed macroeconomic

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1 Larry Strange, CDRI executive director, introduces this special issue of CDR on the 2010 Cambodia Outlook Conference.

In This Issue

Returning to a High Growth Economy: Indicators, Prospects and Policy Priorities

The following piece is based on summary presentations by Mr John Nelmes[1], H.E. Dr Hang Chuon Naron[2] and Mr Stephane Guimbert[3]. The collection covers some key macroeconomic indicators, prospects for the future and some policy options to achieve a sustained growth that among others, would ensure continuous and substantial poverty reduction within the country.

Mr Nelmes covered the following broad issues in his presentation:

- The global economy: A multi-speed recovery
- Cambodia's recent indicators: Where are we now?
- Prospects and policy options: Where are we going, and which road to take?

In terms of the global economy, he argued that following a deep recession, global growth is recovering and trade has rebounded. The global recovery is off to a stronger start than was expected earlier, though at different speeds across regions. Regionally, he affirmed that Asia is leading the global recovery, thanks to strong domestic demand and openness to recovering trade. Worldwide, the recovery is supported by an unprecedented easing of monetary and fiscal policy. As far as advanced economies are concerned, they have exited recession but output levels are well below pre-crisis. Furthermore, recovery is expected to be sluggish by historical standards due to high unemployment, weak credit growth as banks repair balance sheets, and high public debt levels. He pointed out that the IMF is supporting its member countries through the crisis and has delivered unprecedented financial assistance.

As far as Cambodia is concerned, he presented a relatively rosier picture of the Cambodian economy than before, arguing that: (a) Decline of economic activity was broad based in 2009, but agriculture was a bright spot; (b) Recession appears to have bottomed out late last year, a recovery is now underway; (c) 2009 growth was negative 2.5 percent, earlier IMF estimates anticipated a larger decline; and (d) Inflation is down significantly.

In terms of sectoral and sub-sectoral impacts, Mr Nelmes covered a number of these including garments, tourism, construction, agriculture and finance. As far as the garment sector is concerned, having been hard hit by the fall in US demand, US recovery may help reverse this decline. However, tough regional competition will make for a challenging recovery. In terms of tourism, arrivals are recovering though tourists spent a lot less money last year. The decline in revenue from tourism is mainly explained by the change in composition of tourists' home country; a larger proportion of tourists now come from neighbouring countries and have limited purchasing power, whereas tourist numbers from richer countries have declined.

At the macro level, investment approvals are down sharply, but a shift in the composition bodes well for boosting longer term growth. Construction activity is slowly recovering after a deep downturn, retail trade is also rebounding. Credit growth is inching upwards after a sharp slowdown from excessive expansion. Inflation fell sharply with the contraction in demand, though higher commodity prices and the expansionary budget have exerted upward pressure more recently.

Agriculture still remains a bright spot, due in part to productivity improvements and infrastructure development. Growth in the sector however is not large enough to counter decline in other sectors. All the changes that have taken place are expected to lead to an overall 2009 GDP growth which is estimated at negative 2.5 percent; although agriculture and public spending grew, most other key components contracted, leading to the overall decline in economic activities.

In terms of prospects and policy options, Mr Nelmes went on to suggest that: (a) growth will turn positive in 2010, estimated to be over 4 percent,

1 Resident Representative of International Monetary Fund in Cambodia

2 Permanent Vice Chairman, Supreme National Economic Council, Secretary General, Ministry of Economy and Finance, and Chairman CDRI Board of Directors

3 Senior Country Economist, World Bank, Cambodia

supported by the global recovery; (b) modest fiscal consolidation is key for macroeconomic stability; (c) safeguarding the health of the financial system will support access to finance; and (d) deeper structural reforms would boost long-run growth potential.

The prospect for further gains would be there, he asserted, and growth should exceed 4 percent in 2010 if steady agriculture improvements take place, global outlook improves, and domestic demand recovers. Improvement in budget deficit is another factor that would help the economy. The 2010 budget deficit is expected to be 5.25 percent of GDP; he argued that a lower deficit would be appropriate but that financing from the domestic banking system should be avoided. He commended the Royal Government of Cambodia's revenue performance in 2009 and argued that further efforts in 2010 would eliminate domestic financing needs and open space for additional high-priority development spending.

As far as the financial and banking sector is concerned, he argued for a continued strong supervision of the banking sector and enforcement of prudential regulation to ensure stability and facilitate greater access to finance. He pointed out that the banking system now is highly liquid, but profits are being squeezed by negative interest margins. He cautioned banking authorities to avoid another lending boom in order to mitigate the risks of a later bust.

Over the longer run, he suggested, sustained robust growth would enable Cambodia to move up into middle-income status. To ensure sustained growth however, emphasis on raising the quality of infrastructure and human capacity are fundamental to moving up within ASEAN. To outperform neighbours over the long term would also involve a broader strategy to be more competitive. To achieve this goal, the IMF is helping the government in numerous areas including:

- Macroeconomic and financial sector policy advice through IMF surveillance
- Technical assistance such as
  - monetary policy instruments and framework
  - strengthening banking supervision
  - public financial management reform
- Specialised training courses in macroeconomic policy formulation to build human capacity.

The presentation by Dr Naron that followed comprehensively covered all aspects of economic development including: financing of economic development; policy priorities for growth, development and poverty reduction; private sector development; and natural resource management. In this paper, a summary of issues that relate to policy priorities for growth, development and poverty reduction are presented.

Dr Naron first summarised Cambodia's growth potential that includes:

- Abundant arable land that offers potential for improving agricultural production and diversification including agro-processing. Increased production, in particular production of a major crop such as rice, could be exported. The EU's policy of Everything, but Arms as well as rice tax-free exports to EU countries provide a potentially lucrative market for Cambodia. In order to realise this potential however, production constraints in the agriculture sector need to be addressed and priority given to further investment in irrigation and provision of extension services in the rural sector.
- Abundant cheap, but low-skilled labour. As in the

Continued from page 1

The 4th Cambodia Outlook Conference

environment that enables and promotes economic diversification, competitiveness and productivity; the strengthening of key export-oriented sectors, along with mobilisation of domestic savings and consumption; human resource development, especially in vocational education and training; and the strategic integration of Cambodia's economy and its key trade and investment relationships in the Greater Mekong Sub-region (GMS), ASEAN, the broader ASEAN, China, Korea and Japan region, and with other targeted international markets.

The programme, presentations and associated conference materials are available on CDRI's redesigned website. A series of Cambodia Outlook Briefs reflecting the major issues and recommendations for policy and action have also been prepared for distribution to conference participants and others in the Cambodian development community. This issue of CDRI's Cambodia Development Review features articles based on the 2010 Cambodia Outlook Conference theme and session presentations.

case of the garment sector, there is potential to make use of the surplus labour in some industrial production. Long term however, particular attention should be paid to human resources development and management if Cambodia is to attain the goal of achieving an inclusive and sustained growth that would enable the country to catch up with its neighbours in the region.

- Rich cultural heritage and natural bio-diversity that offer opportunities for strengthening the tourism sector and gaining more from international tourism.
- Mining, oil and gas resources that have yet to be effectively tapped and utilised offer substantial opportunity to generate revenues that are badly needed for developing the country, replicating the experience of some of the fast developers in the region.

He offered a six-pronged policy for growth as a way of realising Cambodia's growth potentials. These include: (1) Human resources development; (2) Agriculture development; (3) Tourism (from cultural to beach tourism); (4) Infrastructure (soft and hard); (5) Emerging industries; and finally (6) Processing industries. In order to implement these policies, there are number of priorities at the macro/financial, fiscal as well as firm levels.

At the macro/financial level, priority should be given to revive growth while maintaining stability. Growth revival can come through one or a combination of fiscal stimulus, monetary policy and financial sector supervision. At this level policies should be aimed at supporting competitiveness (exchange rate policy role of tax policy), and mobilisation of domestic savings.

At the fiscal level, policies should be aimed at creating new fiscal space (tax and non-tax, ODA). Spending should focus on agriculture and infrastructure (maintenance) and education. There are issues that relate to the quality of spending and social safety nets that merit careful consideration. There is also a need for public administration reform to improve implementation capacity.

At the firm level, regulatory reform and trade facilitation (in particular in relation to trade with neighbouring countries) should be given high priority. At the policy level, efforts in making industrial policy work should be made. To achieve this, it is important to monitor and evaluate policies implemented in this regard (e.g. SEZs, ELCs, etc) and introduce new instruments (agri-business investor clearinghouse, standards, sector coordination, etc). Other areas that merit closer inspection and monitoring include the role and nature of foreign direct investment as well as public-private dialogue (e.g. Government Private Sector Forum).

Dr Naron argued that diversification of the Cambodian economy is a key to widening the growth base of the country and ensuring sustainable growth. Besides weak or limited diversification, he went on to argue that Cambodian export also suffers from low sophistication (e.g. simple value chains) and that Cambodia is not well positioned in the international market. According to him, Cambodia's comparative advantage lies in its abundance of land, region and cheap labour; they should be preserved. Diversification should be achieved within existing industries, e.g. through diversification in markets and intensification of intra-regional trade. The role of agri-business as a way of diversification into new products should also be carefully assessed.

Human resource development and management is another key area of policy in order to achieve Cambodia's growth potentials. To be able to compete in an increasingly open and liberalised world, it is important to have the requisite human resources. This can be achieved through establishing professional and vocational training that could respond to market demand. Increasingly due to industrial diversification, it is also important to strengthen existing mechanisms of labour dispute solutions such as the Arbitration Council as well as demonstration and strike solution committees at all levels, training voluntary mediators among local authorities to solve labour disputes peacefully and ensure sustainable employment.

Dr Naron went on to consider the potential for agriculture growth that could be realised through an effective agriculture strategy. The strategy, he argued, should include the following elements:

- Increasing agricultural productivity through
  - investment in irrigation facilities and rural infrastructures
  - increased use of fertilisers vs. organic farming
  - increased research and extension
  - improved access to credit
- Coordinating and connecting Cambodian farmers to global food value chains
- Policies to increase rice and rubber exports

- Clusters of agricultural products e.g. aquaculture linked to fish and animal feed industry.

Covering similar issues, Mr Guimbert presented a summary of a recent World Bank study on growth prospects in Cambodia.[4] He started his presentation with a quotation from Rectangular Strategy Phase II: "In order to ensure sustainable economic growth, which is *sine qua non* for employment creation and income generation, the Royal Government of Cambodia will continue to foster the diversification and strengthen the competitiveness of the Cambodian economy by assuring a highly conducive climate for both public and private (domestic and foreign) investments for the development of the following important sectors: (1) Agriculture, (2) Water and Irrigation System, (3) Transport Infrastructure, (4) Electricity, (5) Human Resource Development, (6) Labour-Intensive Industry and Food Processing Industry for Exports, (7) Tourism, (8) Exploitation of Oil, Natural Gas and other Minerals, (9) Information and Communication Technology, and (10) Trade" (clause 40 of the strategy, p. 28). A summary of issues that he discussed in relation to trade and trade facilitation is presented here.

Figure 1: Growth in Real Exchange Rates

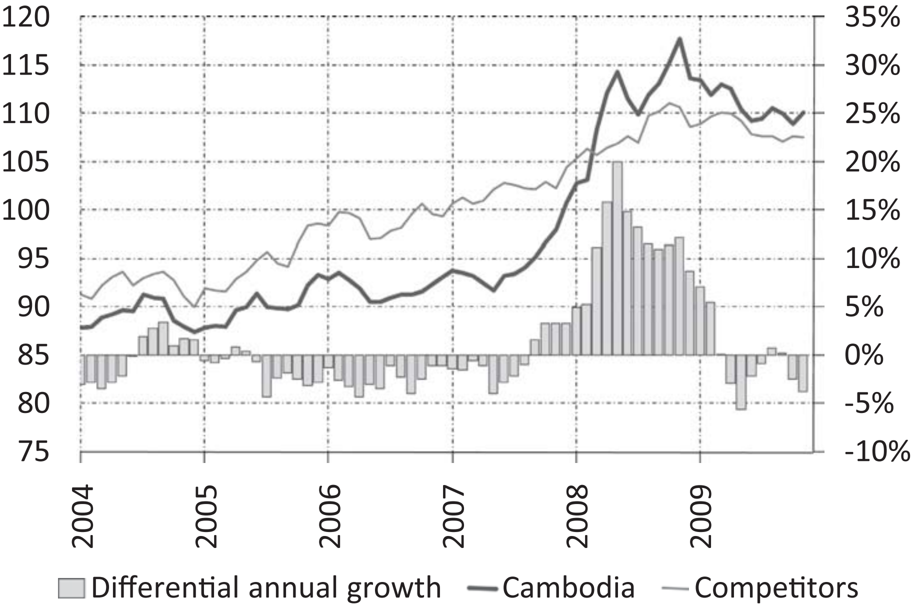
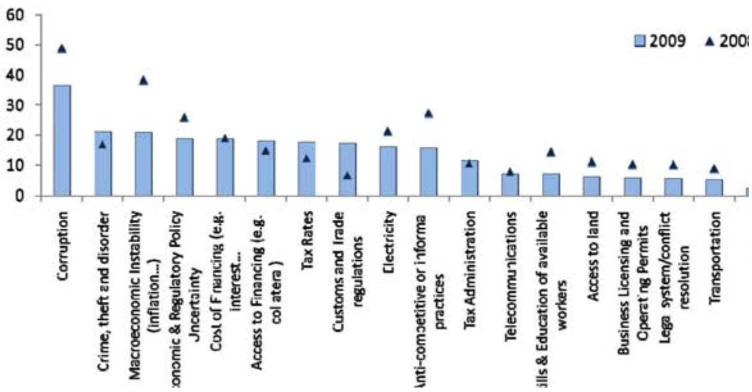


Figure 2: Most Severe Constraints (% firms reporting those as "severe")



In terms of trade competitiveness, a number of key factors play a part including changes in real exchange rates relative to competitors as well as market related constraints that traders are faced with. In terms of exchange rate competitiveness, as the following graph shows, Cambodia has lost a bit of competitiveness in the last few years. This relates to Cambodia's dollarised economy and strengthening of the dollar in the last few years.

Key constraints to growth, competitiveness and trade in particular, according to the summary of study presented include:

- coordination of value-chains
- complex regulations / informal fees
- electricity
- trade and logistics.

Although most seem to have been reduced in more recent periods, including the most severe constraint that relates to corruption as shown in Figure 2, a number of them however, including customs and trade regulation, seem to have worsened over the period of coverage.

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

Promoting Export of Cambodia's White Gold[1]

Introduction

Cambodia grew very rapidly over the last decade; GDP grew 9.1 percent per year during 1998–2008. There is a consensus that the high growth was largely driven by garments, construction and tourism. Nevertheless, Cambodia's economy still remains predominantly agricultural in the rural sector. Although agriculture's share of GDP has declined gradually over time, in 2008 it still accounted for 26 percent of GDP and employed over 56 percent of the total labour force. Approximately 80 percent of Cambodians live in rural areas and depend on agriculture.

On average, agricultural growth is lower than that of industry and services. Its growth rate between 1998 and 2008 was about 4.2 percent per year, that of services was 9.9 percent and industry 14.2 percent. Agriculture experienced large year-on-year fluctuations in the 2000s and sometimes registered negative growth in the first half of the decade. However, the performance of the sector has been consistently positive since 2005. In 2009, agricultural growth was around 5 percent while GDP growth was estimated between -2.2 and +0.1 percent.

Given the tropical climate, ample unused arable land and large unskilled labour force, Cambodia has comparative advantages in agriculture. Promoting agriculture (agro-industry) is widely recognised as the best strategy for broadening the economic base to offset macroeconomic shocks, ensure food security, improve the livelihoods of rural people and reduce poverty.

Crops take the largest share of agriculture, followed by fishing, livestock and forestry. In 2008,

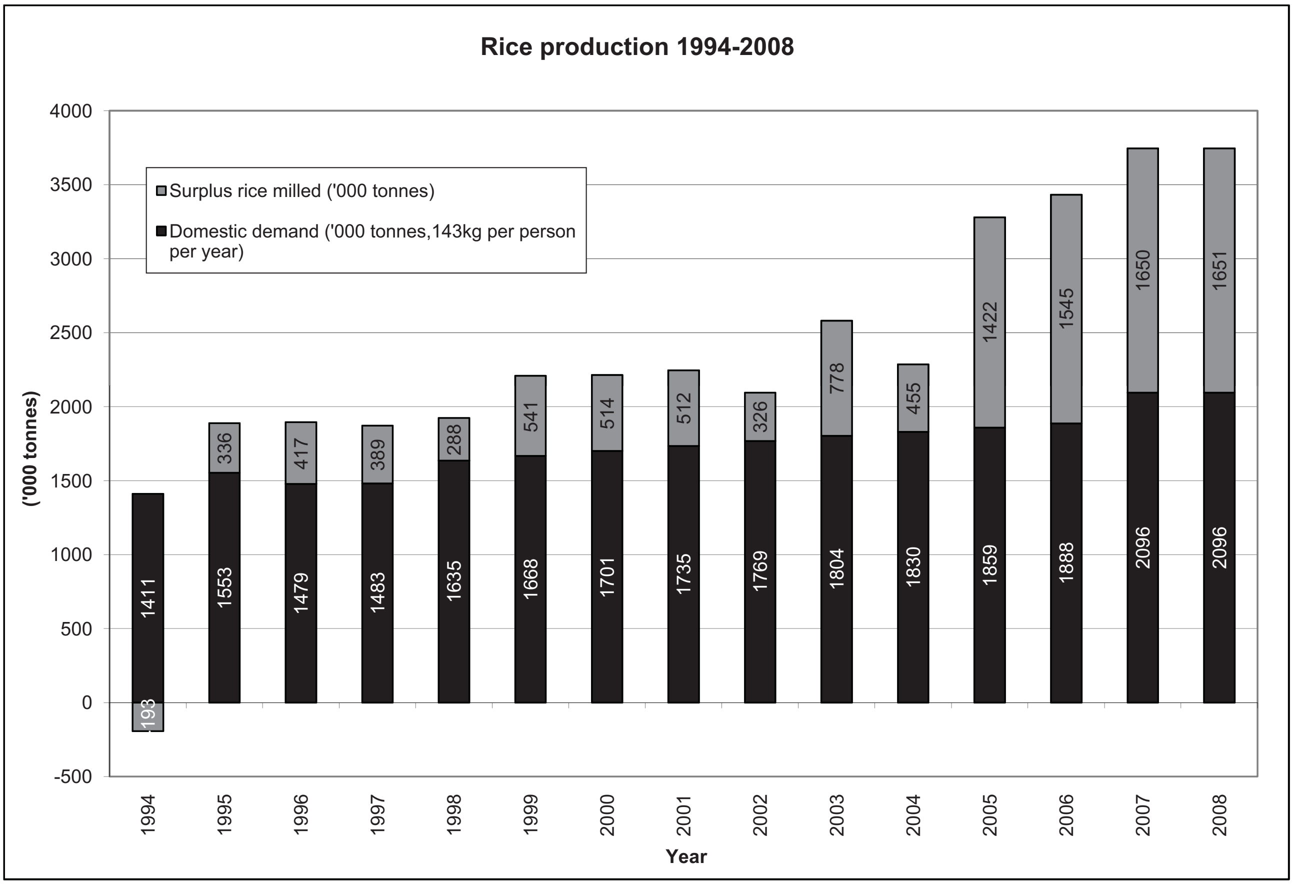
Table 1: Paddy Productivity, 1994–2008 (tonnes/hectare)

	Brunei Darussalam	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Thailand	Vietnam
1994	1.67	1.49	4.35	2.58	3.06	3.17	2.89	2.35	3.57
1995	1.64	1.79	4.35	2.53	3.16	2.98	2.80	2.42	3.69
1996	1.65	1.81	4.42	2.55	3.25	3.06	2.86	2.41	3.77
1997	1.65	1.77	4.43	2.76	3.07	3.08	2.93	2.38	3.88
1998	1.65	1.79	4.20	2.71	2.88	3.13	2.70	2.47	3.96
1999	0.53	1.94	4.25	2.93	2.94	3.24	2.95	2.42	4.10
2000	0.65	2.12	4.40	3.06	3.06	3.38	3.07	2.61	4.24
2001	0.73	2.07	4.39	3.13	3.11	3.42	3.19	2.62	4.29
2002	0.73	1.92	4.47	3.27	3.24	3.42	3.28	2.61	4.59
2003	0.79	2.10	4.54	3.14	3.36	3.55	3.37	2.65	4.64
2004	0.82	1.98	4.54	3.28	3.33	3.79	3.51	2.86	4.86
2005	0.87	2.48	4.57	3.49	3.42	3.75	3.59	2.96	4.89
2006	1.22	2.49	4.62	3.35	3.39	3.80	3.68	2.92	4.89
2007	1.20	2.62	4.71	3.47	3.53	3.84	3.80	3.01	4.99
2008	1.20	2.75	4.89	3.47	3.57	3.72	3.77	2.97	5.22
Average	1.13	2.07	4.47	3.05	3.23	3.42	3.23	2.64	4.37
Growth rate	1.67	4.84	0.88	2.21	1.16	1.20	2.00	1.73	2.78

Source: FAO

1 Mr Tong Kimsun, coordinator of CDRI's Economy, Trade and Regional Cooperation Programme, reviews the development of Cambodia's agriculture with a focus on rice production and export. Mr Oknha Phou Puy, president of the Federation of Cambodian Rice Millers Associations, offers suggestions for realising the substantial potential for Cambodia to mill and export rice.

Figure 1: Domestic Demand for Rice, 1994–2008



Source: Authors' calculation based on NIS (2008)

crops were 53 percent of agricultural output—12 points more than in 1998, partly due to a decline in fishing and forestry. The main agricultural products are paddy, maize, cassava, soybeans, tobacco and rubber. Rice is the most important staple food in Cambodia, averaging 55 percent of total agricultural produce, or 9 percent of GDP, during 1994–2006.

Paddy Production

Paddy production doubled between 1994 and 2008 due to increases in both productivity and cultivated area. However, the annual growth rate of paddy production has fluctuated sharply since 2002 and it grew at a slower rate, averaging 1 percent, in the late 1990s. Paddy production is heavily reliant on weather. For example, total paddy production amounted to 4.1 million tonnes in 2004, a drop of 11 percent from 2003 due to severe drought in many provinces (NIS 2006, 2007). In 2005, paddy production hit a record 5.9 million tonnes, a jump of 44 percent from the previous year because of favourable weather conditions and the unusually low yields in 2004 due to drought.

On average, paddy yields per hectare grew at 4.8 percent per year—the highest rate among Cambodia's neighbouring countries. Paddy yield increased from 1.49 tonnes/ha in 1994 to 2.75 tonnes/ha in 2008 (Table 1). This largely reflects improved access to fertilisers and other inputs, rather than improved varieties of seeds (Agrifood Consulting International 2006, cited in Yu & Fan 2009). Despite this improvement, Cambodia is among the lowest in terms of paddy productivity in East, South-east and South Asia. The low yield is partially explained by low land productivity, implying a need for further improvement in production technology (Yu & Fan 2009). On the other hand, the current low yield suggests that the potential for production growth is high. Therefore, improvement in paddy yield should be defined as a key source of agricultural growth.

Table 2: Rice Export, 2000–08

	2001	2002	2003	2004	2005	2006	2007	2008	2000-2008
Rice export (‘000 tonnes)	15.02	15.50	2.28	4.94	5.98	5.72	4.37	6.39	6.74
Rice export (paddy equivalent, ‘000 tonnes)	23.84	24.61	3.62	7.83	9.50	9.08	6.93	10.14	10.70
Surplus paddy (‘000 tonnes)	812	518	1,234	723	2,257	2,453	2,618	2,620	1,561
Potential gains in export revenue (USD million)*	76	55	130	97	341	383	485	857	
Potential gains in export revenue (USD million)**	88	62	152	108	405	471	541	1,089	
Rice export to rice surplus ratio	0.029	0.048	0.003	0.011	0.004	0.004	0.003	0.004	0.01

*Note: * Export rice prices (Viet25-FOB) ** Export rice prices (Thai5-FOB)*
Source: Customs and Excise Department, Ministry of Economy and Finance; NIS(2008)

Domestic Demand for Rice and Rice Exports

Each Cambodian is estimated to consume about 143 kilograms of milled rice per year (MAFF 2009). Given the estimated population (NIS 2008), the total domestic demand for milled rice increased from 1.4 million tonnes in 1994 to 2.1 million tonnes in 2008, which is equivalent to 2.2 million tonnes and 3.3 million tonnes of paddy, respectively. Paddy production reached the level of self-sufficiency in 1995, and paddy surplus has expanded significantly in the last three years, topping 2.8 million tonnes in 2008, equivalent to 1.6 million tonnes of milled rice.

Cambodia resumed exporting rice in 1995 (Hing *et al.* 2007), following a 20-year break caused by war and political isolation. However, official rice export data for 2000–08 from the Customs and Excise Department shows little is exported, which does not reflect the rice production surplus. Official data states that Cambodia exported 450 tonnes of milled rice in 2000, about 15,000 tonnes per year in 2001–02, and 4,950 tonnes per year in 2003–08 (Table 2). This indicates that, on average, only 1 percent of surplus paddy was exported as milled rice between 2000 and 2008. A few studies note that a large proportion of surplus paddy was informally transported to Thailand and Vietnam for milling and re-export (Hing *et al.* 2007, Sin 2009).

The World Bank (2003) reported that Cambodia exported approximately 60,000 tonnes of rice in 2001—four times higher than the official figure. During the same year, about 450,000 tonnes of paddy, worth USD69.7 million (if traded through formal channels) were unofficially transported to Thailand and Vietnam (World Bank 2003). The combined rice and paddy export figures represent 67 percent of the surplus paddy (812,000 tonnes) in that year—implying that the remaining 33 percent remained somewhere within the country.[2]

2 Using a conversion rate of 0.63, some 60,000 tonnes of milled rice were converted from paddy. The conversion rate varies according to the mill size. For smaller commercial mills, the conversion rate tends to be less than 0.55 (World Bank 2003). Commercial milling capacity: 648,450 tonnes; village milling capacity: 663,129 tonnes (World Bank 2003).

Table 3: Rice Milling Capacity

	Paddy production (‘000 tonnes)	Total milling capacity (‘000 tonnes)	Deficit in milling capacity (‘000 tonnes)	Domestic consumption (‘000 tonnes, paddy)	Total milling capacity/domestic consumption	Potential loss in export revenue (USD million)
The World Bank (2003)	4120	1310	2810			731
2008 Scenario 1	7150	1310	5840	3327	0.39	1519
2008 Scenario 2	7150	2620	4530	3327	0.79	1178
2008 Scenario 3	7150	3930	3220	3327	1.18	838

Source: WB(2003), NIS(2008), and the authors’ estimation

Table 4: Key Indicators for Paddy

Key indicators	Uints	2008 actual	2009 estimated	2010 projected	2011 projected	2012 projected	2013 projected
Land under crops	000 Ha	596	750	950	1000	1000	1000
Paddy: cultivated area	million Ha	2.61	2.63	2.65	2.65	2.65	2.65
Yield per hectare	tonnes	2.74	2.77	2.80	2.83	2.87	3.00
Rice production	million tonnes	7.17	7.28	7.42	7.50	7.6	7.95
Irrigated land area	000 Ha	827	867	-	-	-	-

Source: RGC (2009)

Rice Milling Capacity

Milling capacity is the key challenge for rice processing in Cambodia. While 4.12 million tonnes of paddy are produced per year, the World Bank (2003) estimates that the total milling capacity of the country is only 1.31 million tonnes—a deficit of nearly 2.81 million tonnes.This suggests that milling capacity needed to increase at least three-fold in order to meet domestic demand in 2008 (Table 3).

Rice processing faces constraints. First, a large number of millers rely on old equipment, resulting in a high level of broken grains, reducing the value. Cambodian rice is 35 percent broken and considered low grade compared to long-grain Thai or Vietnamese rice, which is less than 5 percent broken. Mixed varieties of seed and inadequate post-harvest handling also increase the percentage of broken rice. Second, the high cost of credit and lack of working capital limit millers' ability to buy paddy from farmers and upgrade their machinery. The president of the Federation of Cambodian Rice Millers Associations emphasises that Cambodian millers would need more than USD375 million in loans to buy surplus paddy during the peak season (The Economy Today 2008). So far, only small loans from the government, commercial banks and micro-finance institutions have been offered to the associations. Third, rice millers have limited access to foreign markets because of their inability to produce consistent amounts of quality milled rice.

Determinants of Paddy Productivity

As noted in Section 2, Cambodia's paddy productivity is one of the lowest in the region. Previous studies (e.g. World Bank 2006; Markussen 2008) note that secure land tenure positively affects agricultural productivity. Based on the Cambodian Socio-economic Survey (CSES) 2004, the World Bank (2006) found that land tenure, in the form of certificates, application receipts or other official document, raised crop yield by 65 percent. Markussen (2008), using the same data, produced a consistent result though the productivity increase was half that found by the World Bank. Although the impact of land tenure on agricultural productivity is widely recognised, its effect on paddy production is not well documented. Tong (forthcoming) attempts to fill this gap by utilising the CSES 2007 and notes that plots that are registered on paper are on average 20 percent more productive than other plots. In addition, Tong's study confirms that other inputs such as seeds, fertilisers, pesticides, animal manure and compost, electricity for farming, transportation of input materials, hired labour, irrigation and modern agricultural assets including tractors, hand tractors and water pumps contribute positively to paddy production. Other interesting findings are that smaller plots are more efficient than larger plots; no positive effect of the government agricultural development projects has been observed but collaborative projects between the government and non-government organisations improve productivity; and drought has a long-term negative impact on paddy production i.e. drought in the current season impacts on productivity in the following season.

Government Strategy

The government has prioritised enhancing agriculture by increasing productivity and diversification and promoting agro-industry. However, the government

has shifted its emphasis from extending the cultivated area to intensive farming on existing land (Table 4). The share of agriculture in the national budget was an average of 2 percent for 2008–13, 0.2 percentage points lower than in 1999–2007 (RGC 2009). In general, the budget allocation for agriculture has not changed substantially during the last decade.

Since Cambodia became a member of ASEAN and the World Trade Organisation, its policy for exports of agricultural produce has been liberalised. In addition, the Everything but Arms initiative launched in 2001 by the European Union was important in opening access to the EU market for Cambodian rice. Everything but Arms allows duty-free and quota-free imports (with the exception of armaments) from the least developed countries.

Policy Implications

Even though Cambodian paddy productivity is lower than in neighbouring countries, total production exceeds domestic demand, leaving a surplus for export. Because milling capacity is still short of requirements, most surplus paddy is informally exported to Thailand and Vietnam for milling and re-export. Taking into account potential rice production, increasing value-added for rice is crucial to agricultural growth and poverty reduction.

Government policies for 2009–13 aim to achieve a high and sustainable paddy growth through continuing to issue land titles, particularly to farmers, increasing irrigation and improving agricultural water management systems, encouraging farmers to adopt new technology for farming, enhancing cooperation of the government and non-government organisations, using paddy land effectively and accelerating land concessions to smallholders.

Oknha Phou Puy, the practitioner, calls for concerted efforts to address the constraints to realising the rice export potential:

Actions are needed to achieve improvement in production, processing and exports. With regard to production, there is a need to: (i) increase the supply of rice seeds (including seed production sites) that are demanded by export markets; (ii) improve production and management techniques; (iii) improve harvesting techniques; (iv) develop high potential areas that can grow two crops per year; (v) implement a framework for quality assurances; (vi) support commercial farms with government initiatives; and (vii) provide affordable credit for short, medium and long term through the institutions that work closely with farmers and communities.

The promotion and development of processing and packaging entails modern equipment and adherence to international market standards. This also requires affordable credit for short, medium and long term investment. The size of the credit should be flexible to meet the actual needs of the enterprises. Government guarantee is needed for banks and financial institutions to provide loans to the private sector. Vital to the cost of processing rice (and many other things) is electricity. A special (low) electricity tariff should be set for processing and packaging enterprises, at least during weekends and or late night. One way to increase the supply of cheaper electricity is to allow big investors to produce their own electricity and sell the surplus to areas nearby.

The government should help find markets for rice exports in countries such as The Philippines, Indonesia and Europe. The legal aspects related to agriculture, agro-industry, and trade also need strengthening. There should be decisive rules and reinforcements on imports and exports. Restrictions and prohibitions should be put on the import and export of certain products, while the import and export of other products should be allowed openly. Trade supporting services should be improved. This includes tax exemptions, streamlining paperwork, reducing transportation costs both inland and by sea, and improving port services. In order for the private sector and government to succeed in the free market economy, there is need to always calculate the benefits and costs. This principle applies to all the sectors involved, namely agriculture, industry, and trade.

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Strengthening Key Sectors for Cambodia's Return to Growth, Sustainable Development and Poverty Reduction: Infrastructure and Energy

Cambodia, partly for understandable historical reasons, is suffering acutely from lack of infrastructure development, whether road, rail, water or energy. To be able to move into a sustainable high growth mode, the limitations and constraints that the country is faced with in this area should be addressed effectively. Although infrastructure provision of all types has been improving in recent periods, considerable limitations in this area persist, putting the producers in the country in a disadvantageous competitive position as well as imposing considerable constraint on Cambodia's general socio-economic development. The piece that follows is based on selected summary presentations of H.E. Hang Chuon Naron[1], H.E. Hav Rathanak[2], and Mr David Kerr[3] that address the state of infrastructure in Cambodia, its importance and prospects.

Dr Naron considered the role of infrastructure in its broadest sense of contributing towards Cambodia's economic development and prosperity. In doing so, he differentiated between different types of infrastructure and put these in the context of geopolitical policies necessary for long term growth.

In terms of types, he differentiated between hard and soft infrastructure, pointing out that historically, all types of infrastructure have improved over time. In terms of road rehabilitation for example, 550 km of roads were rehabilitated during 1993-97, 2,350 km during 1998-2003 and 600 km during 2004-2007. Telecommunications, especially mobile phones and Internet access has increased by 50 percent a year in recent periods. He went on to argue that Cambodia has experienced substantial renovation and rebuilding of transport networks, including roads, waterways, railways and airports.

Cambodia's railway is expected to undergo substantial improvements. In March 2007, the Royal Government of Cambodia signed the Rehabilitation of the Railways in Cambodia Project with the ADB for USD73 million, of which the government will contribute USD15 million. The project includes construction of the missing 257 km link from Phnom Penh to Loc Ninh. The government has also signed a thirty year concession agreement with Australian Toll Holdings Ltd. to operate the railways under a public-private partnership (PPP) and a French company TSO to rehabilitate the railways.

As far as soft infrastructure is concerned, Dr Naron argued for the protection of property rights, systematic land registration, One Window Service Office that facilitates shortening the approval period and reduction in transaction cost, and improving business climate through various governance reforms. Trade facilitation as well as cross-border transportation and insurance should also be given priority.

To put the infrastructure into perspective, Dr Naron discussed issues that relate to the government's policy on infrastructure and its role in achieving the country's development goals. The policy comprises the following important components:

- Rehabilitation and construction of the main and secondary roads, railways, airports, ports and irrigation systems
- Electronic communications, electricity production and delivery network
- Attracting private sector to invest in concessionary framework of public works (BOT-Build-Operate-Transfer)

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Table 1: EDC Production

I- Generation	Unit	2007	2008	2009
Installed capacity,	MW	386	408	516
Available capacity,	MW	356	373	473
Total generation,	GWh	1,423	1,622	1,818
EDC generation,	GWh	294	163	100
IPP generation,	GWh	1060	1190	1,013
Import	GWh	69	269	705
Generation by DO	GWh	105	93	30
Generation by HFO	GWh	1,200	1,190	1,001
Generation by hydro	GWh	49	47	47
Generation by coal	GWh	-	23	34

Table 2: EDC Customer Base

	2000	2005	2006	2007	2008	2009
Resident		199,478	242,835	262,361	287,266	306,898
Foreigners		1,802	1,903	2,078	2,178	2,184
Commercial		14,292	17,576	19,698	23,355	26,543
Industrial		860	959	1,048	1,050	1,094
Government Offices		1,208	1,526	1,573	1,684	1,848
TOTAL	124,269	217,640	264,799	286,758	315,533	338,567

The main aim of infrastructure rehabilitation and improvement is to facilitate a growth corridor in Cambodia. This involves linking the growth poles within Cambodia on the one hand while simultaneously improving and effectively operationalising the Mekong-India Economic Corridor (MIEC) to facilitate regional trade.

As far as growth poles are concerned the objective is to promote Phnom Penh, Siem Reap and Sihanoukville. Phnom Penh plays an important role in garments production and export, Siem Reap in cultural tourism, and Sihanoukville in beach tourism as well as petroleum. Battambang is another growth pole which is important for agricultural production as well as commerce.

In the context of the Mekong-India Economic Corridor (MIEC), the objective is to link Cambodia, Myanmar, Thailand and Vietnam with India through Cambodia's east coast. This includes **Sihanoukville** which is Cambodia's deep sea-port; the rail link between Sihanoukville and Phnom Penh is being upgraded. Sihanoukville also has a large number of Special Economic Zones (SEZs) and a number of industrial investments are planned for it. It is an emerging tourist destination and is in close proximity to oil & gas production area. The other major province is **Battambang,** the nucleus of Cambodia's agricultural belt with large production of rice, cassava and corn. Additional characteristics of the place are high population concentration, its role as main commercial hub and agri-service centre, and it is well-connected with Thailand and Phnom Penh. **Svay Rieng-Bavet** is another area of importance with its proximity to industrial clusters of HCM City, Dong Nai etc. It also has potential to emerge as a key service centre due to anticipated border trade with industrial clusters in and around HCM. A number of SEZs and industrial investments are

planned for this area which has large parcels of land suitable for industrial expansion. **Serei Soaphoan-Poipet** is another area of importance**,** partly due to its proximity to industrial clusters of Bangkok, the Eastern Seaboard and emerging Chachoengsao-Prachinburi (250km). It has potential to emerge as a key service centre due to anticipated border trade with industrial clusters in and around Bangkok and the Eastern Seaboard. Huge population in nearby provinces provides access to a large labour pool. Upgrading of road and rail links between Serei Soaphoan-Poipet and Phnom Penh as well as Bangkok is planned.

Mr Rathanak's presentation was largely confined to the analysis of the energy sector in Cambodia and in particular EDC. In terms of production and available supply of energy in the country, the substantial improvement over the recent past as indicated in Table 1 has been made possible by a combination of increasing local production as well as importing electricity from neighbouring countries. Data (not shown here) also indicated that EDC's efficiency in terms of reducing operational losses has marginally increased over the recent past.

EDC has been able to increase its customer base over the recent past in many categories; Table 2 provides a summary of these.

Mr Rathanak went on to discuss the Ministry of Mines and Energy/EDC development targets for 2009-2013 that include:

- Reducing production cost and increasing scope of supply;
- Promoting energy import from neighbouring countries;
- Building and operating main sources of power;
- Connecting national power grid between sources of production to major urban areas;
- Building transmission and distribution lines all over the country.

Priority activities for the sector were highlighted. In the case of **transmission system**, these include: enhancing stability, quality and confidence in Phnom Penh, Kandal, and Kampong Speu through building the Transmission Loop Line Project; implementing construction of three transmission lines: (i)Takeo – Kampot – Sihanoukville, (ii) Phnom Penh – Kampong Chhnang – Pursat (Osom) – Battambang, and (iii) Phnom Penh – Kampong Cham; and implementing construction of the National Grid transmission centre. As for the **sub-transmission system**, the intention is to organise a workshop and implement construction of sub-transmission lines in order to increase energy supply to rural areas.

There are also a number of targets for **distribution systems**. These include: taking over, managing and developing Mondulkiri system; taking over and investing in the distribution system in Apsara 1 and 2, as well as Siem Reap Province; eliminating bulk purchase (R71) in 116 places in Phnom Penh; studying and investing in the distribution system in Phnom Penh to increase stability and supply quality; and continuing efforts to further reduce loss in the distribution system and taking serious measures to counter illegal connection.

Targets for energy production include: continuing to give priority to low cost investments to substitute the current remaining high cost of production; continuing to implement hydro and coal plants which are being constructed; and increasing productivity. Increased productivity is expected to be achieved through increasing the working efficiency of all branches under EDC through functional review, reducing bureaucracy, and prioritising improvement of customer services as well as making social contribution.

Mr Rathanak went on to discuss some of the challenges Cambodia faces in achieving the above targets. First among these is the timely implementation of development plan 2010-2013. This is followed by seeking additional concessional funding for expanding transmission and distribution lines in order to absorb electricity output as agreed in the existing PPAs. Other challenges include building National Grid capacity to absorb electricity supply and putting in place risk management to ensure the timely implementation of development plans.

The presentation by Mr Kerr, which followed that by Mr Rathanak concentrated on the discussion of Cambodia's railway system. He pointed out that the Cambodian government has outsourced its railway operations, giving Toll Royal Railway a thirty year exclusive concession to operate Cambodia's railway network. The arrangement is that ADB and AusAID provide funding for rehabilitation of the railway line and the railway concessionaire (Toll) maintains the infrastructure and operates the

trains, freeing up funding for other critical social and economic projects. Projects involved include the following:

- South Line (254 km) – Phnom Penh to Sihanoukville Port (line rehabilitation)
- North Line (340 km) – Phnom Penh to Serei Soaphoan (line rehabilitation)
- Missing Link (48 km) – Serei Soaphoan to Poipet (line reinstatement)
- Infrastructure – e.g. construction of new inter-modal freight terminal in the outskirts of Phnom Penh (Samrong).

He went on to consider a conceptual misunderstanding in comparing rail to road as well as some advantages that rail transport offers. He argued that comparative road/rail costing often fails to adequately reflect the cost of externalities e.g. congestion, pollution, accidents, emissions, environmental and social impacts. On the advantages he pointed out that connectivity of rail, port to intermodal terminal provides a seamless logistics supply chain, reduces the magnitude of government funded road construction and maintenance costs and creates a safer corridor for other road users. Furthermore, railway system opens up free cross-border trade zones allowing containers to travel quickly, safely, environmentally and economically between many Asian countries.

As CEO of Toll, the company that has been offered the thirty year concession to maintain the railway system, Mr Kerr next discussed why his company is interested in transport logistics in Cambodia, attributing this to the following factors:

- Cambodia is one of Asia's fastest growing countries and is undergoing significant economic reforms to promote development.
- Cambodia in the logistics sector is largely immature, fragmented and in need of significant overhaul to support the country's development and growth.
- Toll will build a transport solution across the Greater Mekong Region, and understands that Cambodia and its rail network are critical to the Singapore Kunming Rail Line project.
- Toll will design and deliver a fit for purpose, safe, economical and viable rail freight business that has the capacity to self-fund in the medium to long term.

In order to be able to achieve its goal of improving Cambodia's railway system however, there are a number of requirements from the government of Cambodia. These include: (a) Direct port rail access – this must be provided into the Sihanoukville Port container terminal, requiring government assistance in agreeing direct rail access; (b) Customs clearance - containers must be able to travel by rail under-bond; (c) Fuel subsidies – these must be introduced for the railway concessionaire, every train movement will save 100 truck journeys on Cambodia's highways and arterial roads; (d) The missing link to be constructed in Thailand; (e) Cross-border customs and taxation - agreement for rail freight must be negotiated now; (f). Robust legislation – this includes truck registration, fuel emission, environmental and social issues; and finally (g) Rigorous road safety standards – these need to be introduced, monitored and enforced, non-compliant operations must be stopped.

As part of its contribution, Toll is expected to introduce a comprehensive **Human Development Programme** with the following provisions:

- Risk and safety - target zero lost time injuries
- Personal protective equipment - introduce, implement and enforce
- Competency based training - develop and deliver for the industry
- Environmental best practice - develop systems, ensure compliance
- Medical examinations - pre employment and periodic
- Community awareness - programmes to be developed and presented along the railway network.

Mr Kerr concluded his presentation by arguing that unless immediate action is taken by the Cambodian government to address policy issues *now*, the cumulative Asia Development Bank, AusAID and private sector will have spent over USD200 million rebuilding a rail network that will never operate a commercially viable and sustainable rail freight train. Immediate action is required.

Economy Watch—External Environment

This section presents economic changes in some of the world's developed economies and Asian developing economies during the fourth quarter of 2009.

World Economic Growth

During the fourth quarter, US year-on-year real GDP expanded by 0.1 percent, better than the previous quarter's negative 2.5 percent. The rebound primarily reflected positive contributions from private inventory investment, exports, personal consumption expenditure and non-residential fixed investment. During the same period, real GDP growth in the Euro area turned positive at 0.1 percent after negative growth during the previous three quarters. Annual output in Japan contracted by 1.4 percent, less than the previous quarter's -4.7 percent. The key factors underlying the improvement were a surge in private and public consumption and external demand. Chinese year-on-year GDP in fourth quarter 2009 continued to grow strongly, rising from 8.9 percent in the preceding quarter to 10.7 percent. The main sources of growth were strong performance in infrastructure investment, most of which was contributed by the government's stimulus package, and a rebound in expenditure on property development. Signs of recovery were also evident in Hong Kong, where GDP growth was 2.6 percent. Strength was evident in unemployment data and foreign trade.

Similarly, South Korea returned to strong performance with output growth of 6.1 percent. The continued upward trend came from a positive growth in private consumption and facilities investment. During the same period, Taiwan outperformed other countries in the region as its real GDP grew 9.2 percent, jumping from a negative 1.3 percent in the preceding quarter.

Signs of recovery were visible in Malaysia and Thailand as their output growths turned positive at 4.5 percent (Malaysia) and 5.8 percent (Thailand). Thai output increased for the first time after consecutive falls in the preceding four quarters. The main factors driving growth were a spike in net exports, a 1.4 percent increase in household expenditure and 5.2 percent hike in government consumption expenditure, which was offset by a 3.4 percent fall in private investment.

Total output in Singapore rose by 4.0 percent due to expansion of exports, mainly to the US (directly and indirectly). Year-on-year GDP growth in Indonesia was 5.4 percent, resulting from a substantial rise in exports.

World Inflation and Exchange Rates

During the fourth quarter of 2009, deflationary pressures remained evident in Singapore, Taiwan and Japan. Overall consumer price inflation in Japan remained low at -2.0 percent, slightly above the -2.2 percent in the preceding quarter. The widening of the output gap continued to be a factor underlying Japanese deflation. By contrast, overall consumer price inflation in the US turned positive at 1.4 percent, compared to -1.6 percent in the previous quarter. Inflation in the Euro area also turned positive at 0.4 percent from -0.3 percent in the preceding quarter.

In the fourth quarter, the US dollar was stable against the Chinese yuan and Hong Kong dollar, but depreciated against the South Korean won, Taiwanese dollar, euro and Japanese yen. The US dollar was down by 2.8 percent against the euro, and down by 1.5 percent against Taiwanese dollar (from the previous quarter). The US dollar depreciated by 5.8% percent against the South Korean won and 4.0 percent against the Japanese yen. The dollar bought 89.78 yen and 1167.77 won.

Commodity Prices in World markets

During the last quarter of 2009, prices of key agricultural products, except for soybeans, increased markedly from the previous quarter. Maize (US No. 2) rose by 14.5 percent to USD168.13/tonne, while the price of palm oil spiked by 10.0 percent and that of rice (Thai 100% B) by 85 percent. Soybeans were down 5.0 percent from the previous quarter. Crude oil rose by 8.1 percent from the previous quarter, reaching USD73.8/barrel, while gasoline was up by 5.8 percent to USD0.49/ℓ. Diesel went up by 9.8 percent to USD0.51/ℓ.

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Economy Watch—External Environment

Table 1: Real GDP Growth of Selected Trading Partners, 2004–2009 (percentage increase over previous year)

	2004	2005	2006	2007	2008	2008		2009			
						Q3	Q4	Q1	Q2	Q3	Q4
Selected ASEAN countries											
Cambodia	7.7	13.4	10.6	10.2	6.8	-	-	-	-	-	-
Indonesia	5.1	5.6	5.4	6.3	6.1	6.1	5.2	4.4	3.9	4.2	5.4
Malaysia	7	5.2	5.9	6.3	4.6	4.7	0.1	-6.2	-3.9	-1.2	4.5
Singapore	8.5	5.7	7.7	7.7	1.1	-0.6	-4.2	-10.1	-3.5	0.8	4.0
Thailand	6	4.5	4.8	4.9	2.6	3.9	-4.3	-7.1	-4.9	-2.8	5.8
Vietnam	7.5	8.4	8.1	8.5	6.2	-	-	-	-	-	-
Selected other Asian countries											
China	9.5	9.6	10.5	11.9	9.0	9.0	6.8	6.1	7.9	8.9	10.7
Hong Kong	8.3	6.5	6.6	6.4	2.4	1.7	-2.5	-7.8	-3.8	-2.2	2.6
South Korea	4.7	4.7	5.0	4.9	2.2	3.8	-3.6	-4.4	-2.2	0.4	6.1
Taiwan	5.7	4.1	4.6	5.2	0.1	-1.0	-8.4	-10.2	-7.5	-1.3	9.2
Selected industrial countries											
Euro-12	1.8	1.5	2.7	2.9	0.9	0.6	-1.3	-2.5	-4.8	-4.7	0.1
Japan	3.4	2.5	2.1	2.0	-0.7	-0.5	-4.6	-9.1	0.6	-4.7	-1.4
United States	4.4	3.7	3.3	2.2	1.1	-0.5	-6.3	-2.6	-3.9	-2.5	0.1

Sources: International Monetary Fund, *Economist* and countries' statistic offices

Table 2: Inflation Rate of Selected Trading Partners, 2004–2009 (percentage increase over previous year—period averages)

	2004	2005	2006	2007	2008	2008		2009			
						Q3	Q4	Q1	Q2	Q3	Q4
Selected ASEAN countries											
Cambodia	4.0	5.8	4.7	10.5	19.7	21.7	15.7	4.3	-4.8	-3.0	1.7
Indonesia	8.3	10.5	13.4	6.4	10.1	11.9	11.4	8.5	5.6	2.76	2.6
Malaysia	1.6	3.1	3.7	2.0	5.3	8.4	5.9	3.7	1.3	-2.26	-0.2
Singapore	1.7	0.5	1.0	2.1	6.5	6.5	5.5	2.1	-0.5	-0.4	-0.3
Thailand	2.7	4.5	4.7	2.2	5.5	7.2	2.2	-0.2	-2.8	-2.13	1.9
Vietnam	7.8	8.2	7.7	8.3	23.3	29.0	23.6	15.1	6.2	2.6	4.6
Selected other Asian countries											
China	3.9	1.8	1.5	4.8	5.9	5.3	2.5	-0.6	1.5	-1.26	0.7
Hong Kong	-0.4	1.1	2.2	2.0	4.3	4.6	2.3	1.7	-0.1	-0.86	1.3
South Korea	3.5	2.8	2.4	2.5	4.6	5.5	4.5	3.9	2.8	2.0	2.4
Taiwan	1.6	2.3	0.6	1.8	3.2	4.5	1.9	0.0	-0.8	-1.33	-1.8
Selected industrial countries											
Euro-12	2.2	2.2	2.1	2.1	3.3	3.8	2.3	1.0	0.9	-0.36	0.4
Japan	Nil	-0.3	0.5	0.1	1.4	2.2	1.0	-0.1	-1.0	-2.2	-2.0
United States	2.7	3.4	3.2	2.9	3.8	5.3	1.5	-0.2	-0.9	-1.63	1.4

Sources: International Monetary Fund, *Economist* and National Institute of Statistics

Table 3: Exchange Rates of Selected Trading Partners' Currencies against US Dollar, 2004–2009 (period averages)

	2004	2005	2006	2007	2008	2008		2009			
						Q3	Q4	Q1	Q2	Q3	Q4
Selected ASEAN countries											
Cambodia (riel)	4016.3	4092.5	4103.2	4062.7	4054.2	4117.4	4089.8	4108.0	4128.55	4164.44	4163.10
Indonesia (rupiah)	8938	9705	9134	9419	9699.0	9216.3	11,060	11,630.8	10,225.0	9887	9472.44
Malaysia (ringgit)	3.80	3.79	3.67	3.31	3.34	3.37	3.56	3.63	3.52	3.50	3.40
Singapore (SGD)	1.69	1.66	1.59	1.51	4.58	1.43	1.49	1.51	1.45	1.44	1.39
Thailand (baht)	40.2	40.2	37.9	32.22	33.36	34.0	34.83	35.29	33.98	33.96	33.30
Vietnam (dong)	15,777	15,859	15,994	16,030	16,382	16,517	16,537	16,954	17,801	17,841	18,472
Selected other Asian countries											
China (yuan)	8.28	8.19	7.97	8.03	6.94	6.82	6.83	6.84	6.83	6.83	6.83
Hong Kong (HKD)	7.79	7.78	7.77	7.8	7.78	7.77	7.75	7.75	7.75	7.75	7.75
South Korea (won)	1145	1024	955	929.04	1137.23	1207.0	1367.2	1412.5	1273.9	1239.04	1167.77
Taiwan (TWD)	33.6	32.1	32.5	32.85	31.54	31.20	33.0	34.0	33.1	32.77	32.29
Selected industrial countries											
Euro-12 (euro)	0.80	0.80	0.80	0.7	0.84	0.71	1.32	0.76	0.71	0.70	0.68
Japan (yen)	108.2	110.2	116.4	117.8	102.46	104.03	96.1	93.72	95.95	93.58	89.78

Sources: International Monetary Fund, *Economist* and National Bank of Cambodia

Table 4: Selected Commodity Prices on World Market, 2004–2009 (period averages)

	2004	2005	2006	2007	2008	2008		2009			
						Q3	Q4	Q1	Q2	Q3	Q4
Maize (USNo.2)—USA (USD/tonne)	110.65	89.19	111.04	149.08	218.15	254.99	181.22	183.12	171.16	146.85	168.13
Palm oil—north-west Europe (USD/tonne)	427.47	381.32	433.85	707.68	912.23	949.03	564.50	636.53	719.35	659.16	732.33
Rice (Thai 100% B)—Bangkok (USD/tonne)	221.67	262.88	282.00	305.36	615.32	657.88	519.41	522.13	499.45	307.31	569.00
Soybeans (US No.1)—USA (USD/tonne)	262.03	224.25	213.88	294.59	460.41	529.30	382.72	434.40	420.10	411.18	390.43
Crude oil—OPEC spot (USD/barrel)	33.5	50.14	61.58	69.25	95.44	115.30	55.23	42.34	57.46	68.32	73.86
Gasoline—US Gulf Coast (cents/litre)	30.9	42.19	47.70	53.58	62.22	81.27	34.52	31.97	43.11	46.92	49.64
Diesel(low sulphur No.2)—US Gulf Coast (cents/litre)	29.48	44.35	51.35	55.51	76.2	88.46	46.98	34.17	40.51	46.46	51.03

Sources: Food and Agriculture Organisation and US Energy Information Administration

Economy Watch—Domestic Performance

Main Economic Activities

In the fourth quarter of 2009, total fixed asset investment approvals rose by 10 times from the previous quarter. This was due to an increase of 10.3 times for industry and 22 times for services, while garments dropped by 35 percent. There were no hotel or tourism approvals during this period. Within industry, garments dropped to USD14.24 m, while socks rose to USD2.8 m and shoes dropped by 33.4 percent to USD2.48 m. Energy grew from USD2.52 m to USD540 m. There was no approval in the previous quarter for wood or food processing, while in this quarter wood processing grew to USD10.3 m and food processing to USD23.02 m. Other industries escalated by 5.8 times to USD85.91 m. Services expanded to USD3475.77 m. Agro-industry rose to USD94.37 m.

The value of construction approvals increased by 2.2 times from the previous quarter to USD66.8 m as a result of a rise of villas and houses, and flats of 3.5 times to USD9.8 m and USD28 m respectively. Other construction approvals rose by 138 percent to USD29 m. Villas and houses dropped by 75 percent compared with the same quarter in 2008. Flats decreased by 53 percent and other construction approvals contracted by 89 percent from the same quarter of the previous year.

In the fourth quarter, total visitor arrivals to Cambodia expanded by 21 percent from the previous quarter to 587,637. Visitors arriving by air totalled 308,122, an increase of 25 percent. Visitors arriving through Phnom Penh International Airport increased to 148,027 and through Siem Reap International Airport to 160,095. Visitors by land and water rose by 16 percent to 279,515. Among ASEAN countries, Vietnam provided the most entrants (87,508) for the third consecutive quarter, followed by Thailand (25,982). The fewest came from Brunei (136).

During the same period, Cambodia's total exports escalated by 175 percent to USD675.3 m. The rise was due to garment exports increasing by 172 percent to USD652.9 m, rubber by 2.3 times to USD16.2 m and wood from zero in the previous quarter to USD1.2 m. Fish rose from USD0.4 m to USD5.0 m. Petroleum imports surged 284 percent to USD341.6 m. Construction material imports soared to USD37.1 m, an increase of 275 percent. The trade balance was a deficit of USD721.2 m.

Public Finance

In the fourth quarter, the government budget was in surplus by 109 percent to KHR90.2 bn. Revenue collection was 13.6 percent higher than in the previous quarter. Current revenue increased 13.9 percent to KHR1337.7 bn, and capital revenue decreased 14.3 percent to KHR8.4 bn. Within current revenue, tax revenue rose by 22.4 percent to KHR1224.1 bn. This resulted from an increase of 10.5 percent to KHR808.5 bn in domestic tax and a rise of 13.2 percent to KHR303.4 bn in taxes on international trade. Non-tax revenue rose by 28.2 percent, from KHR176.1 bn to KHR225.7 bn. Total expenditure decreased by 10 percent due to a decrease of capital expenditure of 16.4 percent to KHR634.9 bn and an increase of 3.2 percent of current expenditure to KHR1332.3 bn. Wages expenditure grew by 22.0 percent. Subsidies and social assistance expenditure dropped by 28 percent.

Inflation and Foreign Exchange Rates

Annual inflation was 1.7 percent, acceleration from -3.0 percent in the previous quarter. The price of food and non-alcoholic beverages increased 1.8 percent, transportation 2.4 percent, clothing and footwear 3.1 percent, household furnishings and operations 4.5 percent, health 5.8 percent and education 10.1 percent. Housing and utilities declined by 3.8 percent, communications by 7.5 percent and recreation and culture by 0.6 percent.

The riel appreciated against the US dollar by 0.2 percent compared with the previous quarter, to KHR4157.3/USD, while it appreciated by 2.5 percent against the Thai baht, to KHR126.0/baht. Against the Vietnamese dong, the riel depreciated by 2.1 percent, trading at KHR23.0 per 100 dong.

Monetary Developments

Net foreign assets grew by 5.6 percent to KHR14,655 bn and net domestic assets by 51 percent to KHR1573 bn. Net claims on government decreased by 8.6 percent to a negative KHR2252 bn. Money (M2) rose by 13 percent due to an increase of currency outside banks (13 percent), and demand deposits (3.0 percent).

Poverty Situation

The average real daily earnings of all nine non-

garment-worker groups included in CDRI's surveys increased by 3.3 percent, from 8074 riels in February 2009 to 8342 riels in February 2010—a significant improvement after a fall of 21 percent in November 2009. Of the nine, only three groups experienced a decline in their earnings. Rice-field workers suffered the most, as their real earnings shrank by 24 percent, followed by porters (5 percent) and motor-taxi drivers (3 percent). Skilled construction workers, vegetable traders, cyclo drivers, waiters/ waitresses, scavengers and unskilled construction workers increased their real incomes.

The average real income of cyclo drivers, motor-taxi drivers and rice-field workers has rebounded after declining for almost a year. However, the real income of motor-taxi drivers and rice-field workers has not yet reached its level of last year. Unskilled construction workers' real earnings have decreased after hitting their highest level in three years in May 2009.

The average real daily consumption of all nine non-garment-worker groups in February 2010 amounted to 3725 riels—an increase of 2.5 percent compared with February 2009. Nevertheless, the consumption of skilled construction workers fell by 3 percent and of motor-taxi drivers by 15 percent. Compared to November 2009, the average consumption of all nine non-garment-worker groups went up by 12 percent, while their consumption dropped by 7 percent between February 2009 and November 2008.

The survey asked respondents to state whether they thought that their daily income in 2011 would change from 2009. In February 2010, only 29 percent did not have an opinion about their earnings in 2011—14 percentage points fewer than in May 2009.[1] The proportion of non-garment-workers considering that their income in 2011 would be less than in 2009 reached 28 percent—the highest figure on expected income. The combined two figures, which reflect income uncertainty in the following year, totalled 56 percent in February 2010, down from 67 percent in May 2009.

After increasing for two consecutive surveys, the real daily income of tourism workers declined to 21,147 riels in February 2010. Despite that, their real daily income was 90 percent higher than in May 2009. Their real daily consumption slipped to 5600 riels, down from 8147 riels in November 2009. The real daily income of migrant workers hit a record high of 9284 riels in February 2010—an increase of 37 percent from March 2009. Similarly, migrant workers' real daily consumption of 2576 riels was the highest figure since CDRI included migrant workers in its quarterly survey in May 2009.

In February 2010, the proportion of tourism and migrant workers expecting to have less income in 2011 jumped to 48 percent—the highest figure since the survey started. This contrasted with the recovery in number of international tourist arrivals in 2009.

The average real daily earnings of garment workers increased in three consecutive surveys to February 2010. The proportion of garment workers who said that they had not worked overtime in the previous week dropped to 30 percent, down from 49 percent in the same period of the previous year. The proportion who said that they had frequently worked overtime in the previous week rose to 37 percent—22 percentage points higher than in February 2009 and 11 points more than in February 2007.

The average real daily consumption of garment workers amounted to 4774 riels in February 2010, about 2 percent less than in the same period of the previous year—partly due to higher savings and remittances. In February 2010, the average real daily savings of garment workers reached 2524 riels, an increase of 12 percent over the same month of the previous year. The February 2010 survey also found that 60 percent of garment workers had sent an average of 94,078 riels per month to their families in the countryside and remote areas—18,139 riels (24 percent) more than in February 2009.

The February 2010 survey revealed that the proportion of garment workers who felt positive about their income in 2011 was 28 percent—the highest figure in the last four surveys. Those responding that their income would be the same hit a record high of 31 percent. The proportion who said they did not know what their income would be in 2011 declined to 26 percent, about half the number in the previous survey and 11 percent less than in May 2009. This suggests that the outlook for earnings in garments has improved slightly.

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1 In the May, August and November 2009 surveys, respondents were asked whether their expected income in 2010 would change from 2008.

Economy Watch—Domestic Performance

Table 1: Private Investment Projects Approved, 2004–09

	2004	2005	2006	2007	2008				2009			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Fixed Assets (USD m)											
Agriculture	12.3	26.8	498.0	135.6	52.3	16.7	18.6	4.4	175.3	0.0	176.1	*94.4*
Industry	187.9	914.6	365.3	709.1	52.9	95.0	91.6	485.4	257.7	39.4	60.6	*685.5*
. Garments	*132.6*	*174.4*	*89.4*	170.7	*42.3*	*47.8*	*31.3*	*21.4*	*16.4*	*35.0*	*21.9*	*14.2*
Services	91.8	155.5	2939.1	1742.5	148.2	4064.9	4450.5	1339.6	495.6	0.0	150.2	*3475.8*
. Hotels and tourism	*55.9*	*102.6*	*345.0*	1048.3	*93.7*	*4015.0*	*3481.3*	*1168.1*	*254.1*	*0.0*	*150.2*	*0.0*
Total	292.0	1096.9	3802.4	2587.2	253.4	4176.5	4560.7	1580.3	928.6	39.4	386.3	4255.7
	Percentage change from previous quarter											
Total	-	-	-	-	-78.1	1548.2	9.2	-65.3	-41.2	-95.7	882.0	1001.7
	Percentage change from previous year											
Total	-5.6	275.6	246.6	-32.0	-49.1	2083.2	294.2	113.1	266.5	-99.0	-91.5	169.3

Including expansion project approvals. Source: Cambodian Investment Board

Table 2: Value of Construction Project Approvals in Phnom Penh, 2004–09

	2004	2005	2006	2007	2008				2009			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	USD m											
Villas and houses	30.3	45.5	33.1	79.1	45.3	17.6	52.1	39.7	32.1	6.7	2.2	9.8
Flats	167.6	204.2	213.3	297.2	40.9	55.1	65.6	60.0	95.2	18.9	6.3	28.0
Other	65.6	109.1	76.8	259.6	51.2	68.2	369.3	252.2	53.7	36.7	12.2	29.0
Total	263.5	358.8	323.3	635.8	137.3	140.9	486.9	351.9	181.1	62.3	20.7	66.8
	Percentage change from previous quarter											
Total	-	-	-	-	-1.4	2.6	245.6	-27.7	-48.5	-65.6	-66.8	222.7
	Percentage change from previous year											
Total	32.5	36.2	-9.9	96.7	-1.4	-2.6	170.9	104.4	31.9	-55.8	-95.7	-81.0

Source: Department of Cadastre and Geography of Phnom Penh municipality

Table 3: Foreign Visitor Arrivals, 2004–09

	2004	2005	2006	2007	2008				2009			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Thousands of passengers											
By air	626.1	856.5	1029.0	1296.5	402.0	262.0	259.2	316.2	335.2	221.2	247.2	308.1
By land and water	428.9	565.1	672.9	718.6	242.2	192.0	186.3	261.4	287.1	243.0	240.2	279.5
Total	1055.0	1421.6	1701.9	2015.1	644.2	454.0	445.5	577.6	622.3	464.2	487.4	587.6
	Percentage change from previous quarter											
Total	-	-	-	-	6.0	-29.5	-1.9	29.6	7.7	-25.4	5.0	20.6
	Percentage change from previous year											
Total	50.5	34.7	19.7	18.4	17.0	6.9	3.2	-5.0	-3.4	2.2	9.4	1.7

Source: Ministry of Tourism

Table 4: Exports and Imports, 2004–09

	2004	2005	2006	2007	2008				2009			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	USD m											
Total exports	2108.1	2352.8	2799.9	3097.0	803.1	539.6	928.7	728.6	721.4	433.5	245.3	675.3
Of which: Garments	2027.0	2253.3	2698.9	2938.9	*773.4*	*463.8*	*868.8*	*678.8*	*606.9*	377.3	240.0	652.9
Rubber	38.3	36.7	41.4	41.6	7.0	11.0	12.9	5.2	11.8	8.2	4.9	16.2
Wood	11.1	10.3	8.6	4.1	0.0	0.0	0.0	0.0	0.1	0.1	0	1.2
Fish	10.6	10.1	5.9	3.2	0.7	0.3	0.6	0.6	0.9	0.7	0.4	5.0
Total imports	2149.0	2513.0	3057.0	3609.7	983.8	1178.5	1027.1	916.3	987.7	1060.8	366.5	1396.5
Of which: Petroleum products	187.0	184.8	238.5	264.9	60.0	64.6	68.3	62.9	67.3	72.2	89.0	341.6
Construction materials	95.3	134.7	154.4	143.1	39.7	40.7	35.6	29.9	41.4	30.9	9.9	37.1
Other	1914.0	2245.0	2731.0	3216.6	884.1	1073.2	923.2	823.5	879.0	957.7	237.5	1017.8
Trade balance	-40.9	-160.1	-257.1	-511.2	-180.7	-638.9	-98.4	-187.7	-157.6	-627.3	-91.2	-721.2
	Percentage change from previous quarter											
Total garment exports	-	-	-	-	6.4	-40.0	87.3	-21.9	-10.5	-37.8	-36.3	172.0
Total exports	-	-	-	-	1.2	-32.8	72.1	-21.5	-0.9	-39.9	-43.4	175.3
Total imports	-	-	-	-	0.1	19.8	-12.8	-10.8	7.8	7.4	-68.3	281.0
	Percentage change from previous year											
Total garment exports	-64.9	291.4	19.8	8.9	14.2	-32.6	2.7	-6.6	-21.5	-18.6	-72.4	-3.8
Total exports	23.4	11.6	19.0	10.6	13.5	-23.5	4.3	-8.2	-10.2	-19.7	-73.6	-7.3
Total imports	17.8	16.9	21.6	18.1	24.4	29.3	11.1	-6.8	0.4	-9.9	-67.2	52.4

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

Table 5: National Budget Operations on Cash Basis, 2004–09 (billion riels)

	2004	2005	2006	2007	2008				2009			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total revenue	2126	2625	3259.2	1146.1	1194.1	1463.6	1297.0	1335.3	1101.7	1252.7	1184.7	1346.1
Current revenue	2107	2474	2881.8	1141.6	1189.4	1447.0	1288.3	1286.0	1097.7	1245.7	1174.9	1337.7
Tax revenue	1577	1911	2270.9	965.2	978.0	1255.0	1071.2	1105.7	947.4	1096.5	999.5	1224.1
Domestic tax	-	-	-	661.8	719.9	955.5	776.7	796.3	712.0	838.7	731.8	808.5
Taxes on international trade	-	-	-	303.5	258.1	299.5	294.5	309.4	235.4	257.8	268.0	303.4
Non-tax revenue	530	563	610.9	176.4	211.4	192.1	217.1	180.2	150.3	149.2	176.1	225.7
Property income	-	-	-	13.6	2.9	53.9	11.0	10.2	13.1	9.7	27.5	14.3
Sale of goods and services	-	-	-	124.3	118.9	96.3	99.7	109.8	93.5	100.9	91.7	121.9
Other non-tax revenue	-	-	-	38.5	89.6	41.9	106.4	60.3	43.7	38.6	56.5	89.5
Capital revenue	19	152	377.4	4.5	4.8	16.5	8.7	49.3	4.0	7.0	9.8	8.4
Total expenditure	2932	3295	4174.7	1689.7	1059.1	1744.7	1662.8	1831.2	1650.6	1766.1	2089.5	1877.1
Capital expenditure	1163	1328	1638.1	807.4	411.0	648.2	641.2	874.0	693.6	607.1	759.2	634.9
Current expenditure	1769	1967	2536.8	882.3	648.1	1096.5	918.0	1146.4	752.4	1064.7	1290.4	1332.3
Wages	640	711	822.0	362.6	250.7	367.0	363.6	415.7	327.4	515.5	526.6	642.5
Subsidies and social assistance	-	-	-	194.2	104.3	325.7	111.9	385.2	217.3	185.9	272.6	195.6
Other current expenditure	-	-	-	325.5	193.1	403.8	442.6	345.4	207.7	363.2	491.2	494.3
Overall balance	-806	-706	-915.6	-543.6	135.0	-281.1	-365.8	-495.9	-548.9	-513.4	-904.8	-531.0
Foreign financing	864	1127	1360.7	741.5	299.2	615.8	435.0	705.1	507.8	326.7	484.5	406.4
Domestic financing	148	-396	-445.1	-185.8	-294.1	-236.5	234.7	168.9	-310.3	236.5	316.4	253.3

Source: MEF web site.

Table 6: Consumer Price Index, Exchange Rates and Gold Prices (period averages), 2004–09

	2004	2005	2006	2007	2008				2009			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(October-December 2006:100)	Consumer price index (percentage change over previous year)											
Phnom Penh - All Items	-	-	-	5.8	20.6	33.3	28.7	17.8	4.3	-4.8	-3.0	1.7
- Food & non-alcoholic bev.	-	-	-	9.9	29.5	47.6	37.4	24.1	6.1	-5.2	-2.7	1.8
- Transportation	-	-	-	5.8	21.7	28.9	27.8	4.1	-13.0	-16.5	-13.8	2.4
	Exchange rates, gold and oil prices (Phnom Penh market rates)											
Riels per US dollar	4016.3	4119.7	4119.0	4062.7	3995.3	4030.2	4117.5	4089.8	4111.6	4128.6	4164.4	4157.3
Riels per Thai baht	99.9	102.6	108.7	122.75	129.1	125.4	121.9	117.7	116.6	119.2	122.9	126.0
Riels per 100 Vietnamese dong	25.5	25.8	25.1	24.95	25.2	24.9	24.8	24.3	23.6	23.3	23.5	23.0
Gold (US dollars per chi)	46.3	54.0	70.6	83.175	111.6	107.7	106.0	98.2	105.6	110.7	123.2	133.8
Diesel (riels/litre)	2088	2633	3140	3262.25	3982	4975	5495	3768.9	2873.7	3056.9	3867.0	3381.9
Gasoline (riels/litre)	2833	3442	4004	4005	4580	5171	5391	3861.3	3112.6	3452.4	3371.1	3940.2

Sources: NIS, NBC and CDRI

Table 7: Monetary Survey, 2004–09 (end of period)

	2004	2005	2006	2007	2008				2099			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Billion riels											
Net foreign assets	4797	5475	7224	37,607	10,911	11,353	10,809	10,345	11,222	12,611	13,869	14,655
Net domestic assets	-467	-450	-282	281	1136	1345	1748	1513.3	1266	1249	1042	1573
Net claims on government	-209	-421	-953	-5942	-2400	-2678	-2653	-2987	-3048	-2889	-2463	-2252
Credit to private sector	1817	2394	3630	20,365	8050	9206	9781	9894	9814	10,129	10,127	10,532
Total liquidity	4330	5025	6942	37,888	12,047	12,698	12,557	11,858	12,488	13,859	14,912	16,228
Money	1153	1323	1658	7344	2389	2467	2335	2399	2545	2695	2773	3120
Quasi-money	3177	3702	5285	30,544	9658	10,231	10,223	9459	9942	11,164	12,139	13,108
	Percentage change from previous year											
Total liquidity	30.0	16.1	38.1	445.8	54.5	43.1	26.7	4.8	3.7	9.1	18.7	36.9
Money	23.0	14.7	25.3	342.9	33.2	41.1	33.4	16.9	6.5	9.2	18.7	30.1
Quasi-money	32.8	16.6	42.8	477.9	61.0	43.5	25.3	2.2	2.9	9.1	18.7	38.6

Source: National Bank of Cambodia

Table 8: Real Average Daily Earnings of Vulnerable Workers (Real daily earnings base on November 2000)

	Daily earnings (riels)									Percentage change from previous year		
	2006	2007	2007	2008	2009				2010	2009		2010
			Nov	Nov	Feb	May	Aug	Nov	Feb	Aug**	Nov	Feb
Cyclo drivers	7469	8075	9675	12,628	8534	8896	7738	7446	9443	-13.0	-41.0	10.6
Porters	6545	8588	9119	9005	10,476	10,319	8,159	9,566	9,984	-20.9	6.2	-4.7
Small vegetable sellers	6390	8220	8552	9926	7614	9764	8323	7647	7850	-14.8	-23.0	3.1
Scavengers	4416	5422	5727	4652	5170	6637	7087	4693	6258	6.8	0.9	21.0
Waitresses*	4412	4482	4643	4327	4283	4346	4574	5568	5147	5.3	28.7	20.2
Rice-field workers	5306	5516	6426	8697	7044	7126	5785	5003	5374	-18.8	-42.5	-23.7
Garment workers	7649	7568	7240	6554	6754	6691	7410	7745	7581	10.8	18.2	12.2
Motorcycle-taxi drivers	8201	10,634	11,872	15,691	11,655	12,148	9569	9696	11,338	-21.2	-38.2	-2.7
Unskilled construction workers	5918	6155	7777	8779	6115	9956	9444	8132	7723	-5.1	-7.4	26.3
Skilled construction workers	10,316	11,154	11,286	12,710	11,771	13,688	11,918	13,011	11,964	-12.9	2.4	1.6

* 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

** Percentage change from the previous survey in August 2009 to May 2009

Continued from page 10 *Promoting Export ...*

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Continued from page 24 Update ...

Water in Cambodia" is in the final stages of language editing and will be published soon this year. The team has completed fieldwork in four provinces and the preliminary outline of the paper is in place for *"Analysing the Cambodian State in the Context of Developmental State: Is It Developmental?"*. The *"Qualitative Impact Assessment of One-window Service"*, a commissioned project funded by the World Bank, was successfully completed; the report has been turned into a working paper and the first draft is due by the end of June. *"Gender and Local Governance Project"*, another commissioned project funded by the International Centre for Local Democracy, Sweden, is newly underway with the team reviewing literature and beginning fieldwork; the first round of fieldwork in Kratie has already been completed and is to be followed by fieldwork in other provinces. *"Updating the ADB CLV Triangle Development Plan"*, another commissioned project funded by the World Bank via the Ministry of Commerce (MoC) is almost finished; the final draft was completed and sent to MoC in mid May 2010 and now the team is working on comments from MoC and plans to finalise the report by early July. The study on "*Water Governance"* is ongoing as the team continues with the literature review and report writing; a letter has been sent to the Ministry of Water Resources and Meteorology requesting legal framework and policy documents and preliminary interviews. The final project on *"Deconcentration & Decentralisation Analysis Study in Cambodia: Centralised & Decentralised Dichotomy"* is in the process of finalising the analytical framework and continuing the literature review.

Poverty, Agricultural and Rural Development Programme: Six research projects have been carried out. Preliminary analysis for the "*Poverty Dynamic Study (PDS)"* was completed and a technical report is being drafted. The team submitted the final *"Rapid Assessment of Economic Impact on Cambodian Households"* report to the World Bank, receiving good feedback upon acceptance. For the project "*Building Resilience of Community Fisheries in the Tonle Sap Lake: Collective Action and the Capacity to Manage Resources"* funded by WorldFish, the team conducted national consultation workshops, and the synthesis report and policy brief have been sent to WorldFish for comments. "*Assessing the Socioeconomic Effects of the Greater Mekong Sub-region (GMS-SCC and GMS-CDC Sub-projects)"*, first draft reports are being written and will soon be ready for comment. "*Updating the ADB CLV Triangle Development Plan"* and *"Analysing the Cambodian State in the Context of Developmental State: Is it Developmental?"* are collaborative projects with three units, Democratic Governance and Public Sector Reform, Economy, Trade and Regional Cooperation and Poverty, Agricultural and Rural Development.

Social Development Programme: Four projects have been carried out. The *"International Conference on Improving Health Sector Performance"* was held on 26-27 April 2010**.** The main purpose of this conference was to share research findings and lessons learnt about the institutions, motivations and incentives moderating the behaviour of health service providers and consumers in Cambodia, other Asian countries and beyond. *"Key Manager Baseline Study for Health Sector Support Programmes" and "Incentives and the Retention of Health Workers in Rural and Disadvantaged Areas*" have been completed and the reports accepted by DFID. The key findings of these two research projects were presented at a CDRI research workshop and the International Health Conference. *"Diagnosis on Safety for Urban Poor in Phnom Penh"* has been completed and the report has been accepted by UN Habitat.

For the Peace Building Training Programme, six training modules have been offered within this quarter. Reflections on new lessons learnt from a case study based training on water conflict piloted in Kampong Chhnang province, a new approach to specific training on land and fishery conflicts in Battambang province, and a joint training with the Ministry of Environment for sub-national government officials from around the Tonle Sap Lake have been documented. A consultation workshop with other peace building training institutions is being planned and organised. In June 2010, CDRI signed a Memorandum of Understanding (MoU) with the Institute for Health Policy, Sri Lanka, to become a Collaborating Partner of the Asia-Pacific NHA Network. Through the Equitap network, the Social Development Programme is carrying out an *"Analysis of household survey data to estimate the impoverishing and catastrophic impacts, progress, and differentials in healthcare utilisation and benefit*

incidence of government spending", which is funded by AusAID.

Natural Resource and the Environment Programme: Six research projects have been carried out. *"The Water Resources Management Research Capacity Development Programme (WRMRCDP)"* consists of governance, physical and economic components. At this stage, the following papers are being finalised: the social assessment working paper namely "Empirical Evidence of Irrigation Management in the Tonle Sap Basin: Issues and Challenges"; the physical component working paper "Use of Hydrological Knowledge and Community Participation for Improving Decision-making on Water Allocation for Irrigation"; draft for the physical working paper "Impact of Land Cover Change Analysis"; draft for the governance working paper "Multiple Stakeholder Analysis"; and the draft economic working paper "Value of Water When Using in Farming". For *"Tropical Forests for Poverty Alleviation-from Household Data to Global Analysis",* the progress report has been drafted and is to be submitted in August 2010. For *"Building Community Capacity for Poverty Reduction Initiatives in the Tonle Sap Basin",* the team has been analysing the results of the five commune workshops conducted around the Tonle Sap Lake. The final report for *"Sustainable Pathways for Attaining the Millennium Development Goals Initiative"* was submitted to the donor and was well received. With regard to *"Building Resilience of Community Fisheries in Tonle Sap Lake"*, the team is putting together a working paper on 'Conflict and Collective Action in Tonle Sap Fisheries' and this project is expected to finish sometime in July 2010. *"Baseline Study for Regional Fisheries Livelihoods: Programme for Coastal Provinces of Cambodia"* is a cross-unit collaboration project including, Poverty, Agricultural and Rural Development (PARD) and Natural Resources and the Environment Programme (NRE). The expression of interest has been approved by FAO. Now a full proposal is being drafted by NRE and PARD.

Economy, Trade and Regional Cooperation Programme: Eight research projects have been carried out. *"Vulnerable Worker Survey"* and *"Provincial Price Survey*" are progressing well. For the second component of *"ADB's Poverty Network Project",* the research team has finalised the conceptual framework of environment and poverty and the first draft report is expected to be completed by August 2010. Comprehensive literature and regulation reviews for *"Different Streams, Different Needs and Impact: Managing International Labour Migration in ASEAN"* are finished, the stocktaking review report has been submitted to the project coordinator at The Philippines Institute for Development Studies, and the research team is now working on preparation for consultation and field work. The first draft of *"Assessing the Socioeconomic Effects of the Greater Mekong Sub-region Project"* report has been submitted to Asian Development Bank. The team presented their research findings from *"Assessing China's Impact on Poverty Reduction in the Greater Mekong Sub-region (DAN 8)"* in Hanoi on 10-11 June 2010. *"Cambodia Millennium Development Goals Gap Analysis"* and *"Cambodia and the G20 Framework for Strong, Sustainable and Balanced Growth",* funded by the Overseas Development Institute, have been successfully completed and well-received by the donor. Besides the research projects, we have started an exchange programme between the Institute for Asia-Pacific Studies at the Chinese Academy of Social Sciences and Cambodia Development Resource Institute (CDRI). Professor Guo Jiguang, an assistant research fellow at the Institute for Asia-Pacific Studies, is to spend approximately three months from late June 2010 at CDRI to conduct a study on *"Chinese Investment in Cambodia"*.

Since 2007, CDRI has been holding bi-monthly research workshops on development issues to share findings and strengthen research quality by discussing, improving methodology and conceptualising and analysing research themes. The presenters in these workshops are not only from CDRI, researchers and practitioners from various institutions and NGOs in Phnom Penh are also invited as guest speakers. During this period the presenters from CDRI were Ms OUCH Chandarany and Mr SAING Chanhang, research associates from the Economy, Trade and Regional Cooperation Programme, Mr KEM Sothorn, research associate of the Poverty, Agricultural and Rural Development Programme, and Dr SENG Bundeth, research associate and Mr NET Neath, research fellow from the Social Development Programme. The topics included macroeconomic development, poverty, governance, trade, natural resources and agriculture.

CDRI UPDATE

Management

On 23 April CDRI participated in the Cambodia Forum 2010 in Singapore, co-organised by the Institute of Southeast Asian Studies (ISEAS) and the Cambodian Institute for Cooperation and Peace (CICP). Larry Strange, executive director of CDRI, chaired the session Human Resources for Economic Growth and Sustainable Development in Cambodia, with speakers HE Dr Ing Kantha Phavi, Minister of Women's Affairs of the Royal Government of Cambodia, KIM Sedara, senior research fellow at CDRI and Professor Kwok Kian Woon of Nanyang Technological University, Singapore.

In a significant development for CDRI's recently established Social Development Programme, CDRI and the Oxford Policy Institute (OPI), with support from UK DFID, co-hosted an international health sector conference on 26-27 April in Phnom Penh on the theme *Improving Health Sector Performance: Institutions, Motivations and Incentives.*

In May CDRI's executive director took a one month sabbatical to lecture at the Centre for International Relations Research, Institute of Political Science (Sciences Po) in France, during which time he presented a paper and chaired a session of a Europe-Asia workshop on European and Asian experiences of regional integration, taught a two day workshop on regionalism in Asia to international students from the Sciences Po Asia Programme, and held consultations with scholars on issues and opportunities for future research collaboration with CDRI.

Following the endorsement in March by CDRI's Board of Directors of a framework for a *Cambodia 2020 Country Research Strategy*, which will be used as the basis for CDRI's 2011-15 Strategic Plan, and as a vehicle to achieve more coordinated and longer term financial support, CDRI in June began the consultation process with government, development partners, the private sector, civil society and the research community, to fully develop the strategy for endorsement by the next full Board meeting in March 2011.

In June, prior to the final Development Analysis Network (DAN 8) research project workshop in Hanoi, hosted by Vietnam's DAN member—the Central Institute of Economic Management (CIEM), another one day retreat was held involving DAN member institutes to discuss a draft Strategy for a New Sustainable Greater Mekong Subregion Development Analysis Network (GMS-DAN) 2011-15, to be built over time as the leading development policy research network in the GMS.

Research

The following research and research-related activities took place at CDRI over the period April-June 2010.

Democratic Governance and Public Sector Reform Programme: This programme is running seven research projects. "*The Local Governance of Common Pool Resources: The Case of Irrigation*

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A Publication of CDRI—Cambodia's leading independent development policy research institute

CAMBODIA DEVELOPMENT REVIEW

Volume 14, Issue 2 (April-June 2010)

CDRI – Cambodia's leading independent development policy research institute

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Cambodia Development Review is published four times a year in simultaneous English- and Khmer-language editions by the Cambodia Development Resource Institute in Phnom Penh.

Cambodia Development *Review* provides a forum for the discussion of development issues affecting Cambodia. Economy Watch offers an independent assessment of Cambodia's economic performance.

Cambodia Development *Review* welcomes correspondence and submissions. Letters must be signed and verifiable and must include a return address and telephone number. Prospective authors are advised to contact CDRI before submitting articles, though unsolicited material will be considered. All submissions are subject to editing. CDRI reserves the right to refuse publication without explanation.

9 789995 052058

Publisher: CDRI
Managing Editor: YOU Sethirith,
Production Editor: OUM Chantha
Cover Photograph: CDRI's staff courtesy

Printing: Japan Printing House, Phnom Penh

ISBN 978-99950-52-05-8