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Impact of the Regional Economic Crisis

Chan Sophal, Tia Savora and So Sovannarith look at the impact of last year's political crisis in Cambodia and the ongoing regional economic crisis through three surveys of market vendors, industrial enterprises and vulnerable groups.

The net daily earnings of vulnerable workers have fallen catastrophically over the past year. Cyclo drivers now earn less than 7,000 riels a day, scavengers just 3,000 riels.

CDRI undertook a market survey from 11 to 13 May 1998, the fifth since July 1997. Vendors in five major markets in Phnom Penh were asked about prices of and expenditures on various consumer goods and services. Attempts were also made to investigate how the fluctuations in foreign exchange rates of the regional currencies had affected Phnom Penh markets.

The small sample size (around 130 vendors) and limited geographical coverage mean that the results cannot be extrapolated to the national level. However, with no similar surveys currently available in Cambodia, these provide the most up-to-date information about consumer demand and economic activity in Phnom Penh.

Price Changes

The latest survey found a considerable increase in the prices of 20 essential items since the previous survey in February. Between February and May 1998, inflation (affecting both local and imported products) accelerated to 7.3 percent, and the year-on-year rate rose to 13 percent, the highest figure since the market surveys started (see Table 1 overleaf).

The extraordinarily hot weather in 1998 appears to have put upward pressure on prices of food items, which tend to increase in the dry season anyway when the supply of local food declines. For instance, the prices of fish, vegetables, bananas and palm sugar rose significantly, relative to February and the same month last year. Vendors confirmed that the quantity supplied this year was lower than last year.

The recent depreciation of the riel against the dollar and Thai baht was reportedly a major factor in raising the riel-denominated prices of imported products, such as MSG, soap, petrol and sarongs. Indeed, the riel was gradually depreciating against the baht between February and May, while the baht was appreciating against the dollar (see Figure 1 overleaf).

Soaring Rice Prices

The May survey found the price of rice soaring, as has also been reported in the press. The prices of all varie-

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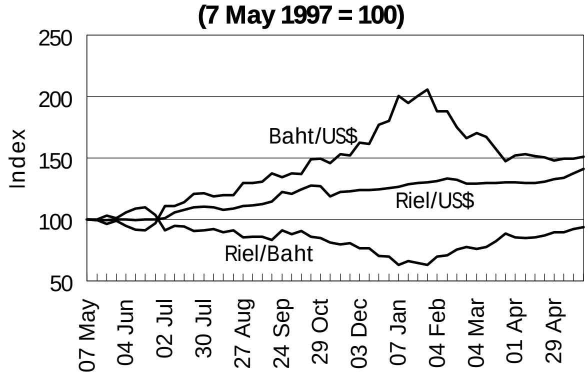
ties were found to be higher than those before April 1998, though the extent and causes of the increase were not all the same. The majority of vendors reported that people responded to the increase in the price of rice by reducing their non-food expenditures.

The increase in the price of rice is a major concern in Cambodia, as rice consumption accounts for 80 percent of calorie intake in the rural diet, and 38 to 50 percent of household food expenditure in rural areas.

Rice wholesalers interviewed said that a large proportion of the rice they sold came from Battambang. Our interviews found three reasons for the recent rise in the price of Battambang rice. First, it is priced in baht, and traders in Battambang accept only baht or dollars for payment. Thus, the riel price of Battambang rice at the retail level had to be raised because of the riel's depreciation against the baht. Second, wholesalers reported that traders in Battambang had raised the price in baht by 18 percent since April. Third, border traders from Thailand reportedly offered a higher price to import the rice into Thailand.

The price of rice from eastern provinces in Cambodia, appears to have increased for a different reason, according to wholesalers interviewed in Phnom Penh. Vietnamese traders are said to have been willing to buy the rice from eastern provinces at higher prices in riels than local traders. The high demand from Vietnam (due to drought in Vietnam and the export of Vietnamese rice to Malaysia and Indonesia) pushed up the price by about 30 percent within less than a month following Khmer New Year.

Figure 1. Foreign Exchange Rates of the Riel against the Baht and US Dollar (7 May 1997 = 100)



Source: Economist, National Bank of Cambodia and the Cambodia Daily

According to the Ministry of Agriculture, Forestry and Fisheries, rice output in the 1998 dry season was 43,321 tons more than the comparable figure for 1997. However, total rice production in the 1997 wet season, primarily for 1998 consumption, was 86,403 tons down on the previous year. Furthermore, while the irrigated rice output does not appear to have been affected by the hot weather, this year's rain-fed rice production (which accounts for 80 percent of the total) is likely to have been hit.

According to wholesalers, the increase in rice prices appears to be associated with widespread hoarding of rice for consumption and speculative profit, due to fears of insecurity during and after the elections and of rice shortages resulting from the hot weather.

Table 1. Prices of Essential Items, Consumer Price Index and Inflation in Five Major Markets, Phnom Penh, May 1997 - May 1998

Items	Unit	May 1997	Jul 15-17	Sep 1-3	Dec 1-3	Feb 2-4	May 11-13
CPI (July-September 1994 = 100)		127.6	135.0	134.5	132.0	134.4	144.3
Inflation from previous survey				-0.3	-1.9	1.8	7.4
Inflation (year-on-year)		11.0	16.0	12.2	3.9	9.2	13.0
		Current prices in riels					
(1) Rice (#1 quality)	kg	980	1,172	1,172	1,205	1,210	1,420
(2) Pork (without fat)	kg	7,965	7,830	7,440	7,000	7,300	7,430
(3) Beef (# 1 quality)	kg	6,845	8,075	7,975	8,000	7,825	8,475
(4) Mud fish (large)	kg	4,875	5,214	5,773	4,654	4,714	5,214
(5) Chicken egg	egg	207	172	173	162	186	200
(6) Duck egg	egg	262	256	245	224	268	284
(7) Trakuon	kg	830	816	1,161	1,195	870	1,150
(8) Cabbage	kg	1,010	1,185	1,420	1,335	1,860	1,700
(9) Cucumbers	kg	800	810	1,055	1,190	1,025	1,010
(10) Bananas	bunch	975	818	905	805	772	1,194
(11) Brown sugar	kg	1,215	1,242	1,339	1,615	1,175	1,379
(12) MSG (Thai)	0.5 kg	2,865	3,220	2,720	2,785	2,945	3,040
(13) Soy sauce	bottle	1,045	1,270	1,105	1,105	1,100	1,100
(14) Fish sauce	bottle	1,280	1,415	1,325	1,365	1,355	1,350
(15) Sarong (Thai)	piece	6,590	6,603	6,700	7,045	7,015	8,750
(16) Kerosene	litre	935	950	1,040	1,150	1,150	1,150
(17) Charcoal	kg	500	413	480	410	388	440
(18) Gasoline	litre	1,300	1,480	1,429	1,592	1,600	1,700
(19) Motorcycle fare*	passenger	1,360	1,500	1,310	1,261	1,388	1,228
(20) "Lux" bath soap	cake	1,080	1,105	940	850	830	1,005

** between Phsar Thmei and Phsar Chbar Ampeou*

Consumer Spending

Consumer demand was even weaker in May than in February. On average, vendors were selling 48 percent of the amount they used to sell before the events of 5–6 July 1997, compared with the 54 percent reported in February (see Table 2). While 98 percent of the vendors interviewed reported that their sales were lower than those of the pre-July level, 58 percent said they could earn enough for their daily expenditure. Almost every vendor complained that competition was tougher and that their net profit had became very small in the face of the current weak demand.

Low consumer spending was confirmed by reports of sales in the weeks of the Khmer New Year celebrations. Ninety-one percent of the vendors interviewed reported that they had sold far less for the 1998 celebrations than they had in 1997.

The main reasons given for low sales were: 1) the generally weak demand for consumption and investment since the July 1997 crisis; 2) a big reduction in the number of tourists; 3) the regular low expenditure season following Khmer New Year; 4) increased import prices due to the depreciation of the riel; and 5) the uncertain prospects for security after the elections.

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Impact of the Asian Crisis

Previous surveys found that the rapid depreciation of the regional currencies, particularly the baht, resulted in a substantial decrease in the dollar- and riel-denominated prices of products imported from the region, thus raising the competitiveness of foreign and especially Thai products. Since most non-food products sold in Phnom Penh markets were imported, consumers enjoyed "benefits" from the Asian crisis in the form of cheaper imported products.

The May survey found some evidence that consumer benefits from the Asian crisis were short-lived. Due to the relative strengthening of the baht, the riel-denominated prices of most imported products had risen to more or less their pre-July levels. Some Thai products were more expensive even than their pre-July level after the riel-baht exchange rate came back to its pre-July level.

The increase in baht prices coupled with the rapid depreciation of the riel suppressed the recovery of sales and fuelled inflation, according to the vendors. The riel-denominated prices of imported products from Vietnam, China, Singapore, Malaysia and Western countries were found to be higher than their pre-July level, though lower in terms of dollars. This is again because the depreciation of those countries' currencies against the dollar was far less than that of the riel.

Interviews with Enterprises

Interviews were also conducted with enterprises and retailers to investigate the impact of the Asian crisis on Cambodian industry. The interviews covered the following industries: garment, wood and wood-processing, cement, breweries, milk, and plastics. The first two are major export-oriented industries, while the other four are import-competing. Questions concerned changes in output, input prices, wage payments, transactions, and the difficulties facing the factories. The small size and geographical limitations of our sample should be borne in mind.

Garments

Interviews with the Cambodian Garment Association and two garment factories in May 1998 revealed that the realignment of foreign exchange rates had a mixed impact on the garment sector. On the one hand, the depreciation of currencies in countries affected by the crisis reduced their dollar-denominated labour costs. This made Cambodia's labour costs relatively high and reduced its competitiveness within the region. On the

Table 2. Amount of Sales and Earnings of Vendors in Five Major Markets in Phnom Penh 1-3 September 1997, 1-3 December 1997, 2-4 February 1998 and 11-13 May 1998

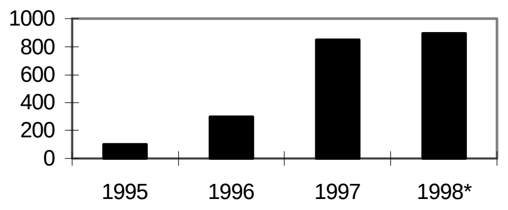
Questions to vendors

Q1. Is the amount of your sales [more than, the same as, less than] that before 5 and 6 July?
Q2. If less, what percentage are current sales relative to those before 5 and 6 July?
Q3. Are you earning enough money to cover your daily expenses?

Type of Products	Q1. Percentage of vendors who reported selling less				Q2. Average amount of sales as a percentage of those before 5 and 6 July				Q3. Percentage of vendors who reported earning enough			
	II	III	IV	V	II	III	IV	V	II	III	IV	V
All items	95	90	87	98	40	47	54	48	23	52	68	58
Non-food items	100	95	92	99	34	40	48	45	16	44	60	49
Durable items	100	96	95	100	33	38	46	43	6	43	53	45
Luxury Items*	100	100	100	100	24	30	36	45	0	30	29	47
Household and utility items*	100	94	82	100	40	43	54	44	21	53	75	60
Clothing, shoes, bags	100	95	100	100	32	40	46	42	0	43	57	37
Non-durable items / services	87	91	91	93	36	46	56	54	44	36	81	67
Food items	92	81	80	98	44	59	61	54	33	67	80	76

II indicates the second survey (Sep. 1997); III the third survey (Dec. 1997), IV the fourth survey (Feb. 1997) and V the fifth survey (11-13 May 1998)
** Luxury items include precious stones, gems, gold, jewellery, televisions, cassette players, watches, video tapes, gifts, etc.*
Household and utility items include kitchenware, plastic containers, blankets, mosquito nets, construction materials, electrical appliances, etc.

Figure 2. Garment Exports (quarterly average) (quarterly average of 1995 = 100)



** 1998 data is for January - March*

Source: GSP Department, Ministry of Commerce

other hand, some factories must have enjoyed cheaper imports of inputs from the crisis countries during the period in which regional currencies were weakening.

The slowdown in economic growth in the region has had no effect on the performance of the garment sector in Cambodia. Total garment exports increased by 183 percent from $79 million in 1996 to $224 million in 1997, according to the Ministry of Commerce. Investment projects in the garment industry increased significantly during the second semester of 1997, even though some factories were destroyed or looted following the fighting in July 1997. A major reason, of course, is Cambodia's MFN and GSP status obtained from the European Union and the United States. The EU and US markets have been little affected by the Asian crisis so far, though garment factories reported that their clients in the European Union and the United States had hesitated to send orders because of concerns about timely delivery during the election period.

Wood-Related Industries

Interviews with two enterprises producing and exporting sawn timber and one producer of veneer for export revealed that they had been severely affected by the crisis. The first adverse impact was from the decline of timber prices—the price of second grade timber dropped from $350 per cubic metre before July 1997 to only $150 in May 1998.

The second adverse impact was the decline in demand for Cambodian sawn timber, which partly reflected the liquidity problems of importers in the crisis countries. Thai importers reportedly could no longer borrow money from their banks for imports.

The decline in regional demand forced all three companies to scale down their activities. One company laid off two-thirds of its 900 workers in May. Another, exporting sawn timber to Thailand and employing about 100 workers, reported that it would go bankrupt soon because of the recent decline in demand.

Cement

One Cambodian cement company reported adverse effects of price competition from cheap imported cement, especially from Thailand. Due to the depreciation of the baht, the price of Thai cement fell from $105 per ton a year ago to around $72 per ton in February. The company was forced to reduce the price of its domestic cement from $90 to $65 per ton. When the baht bounced back against the dollar from January 1998, the price of Thai cement started to increase again, and reached $75 per ton in May, allowing an increase in the price of domestic cement to $70.

In February 1998, in response to lobbying from some companies, the government issued a sub-decree to increase import tariffs on cement from 7 to 15 percent. The sub-decree has not appeared to help domestic producers as intended. One company reported that Thai cement was still sold cheaply in Phnom Penh markets. It was not clear whether the sub-decree had not been implemented or whether cement-importing companies had avoided paying the import tariff.

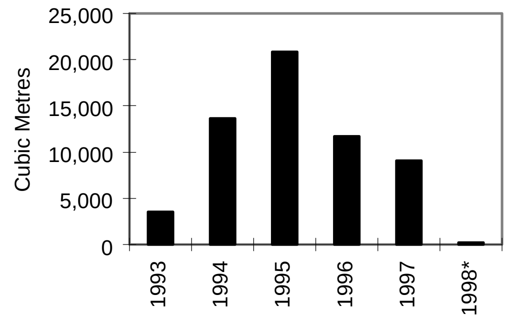
One company adopted a coping strategy to reduce production costs, cutting out its intermediate production process of extracting domestic limestone for making cement. Instead, the company imported clinker (a semi-finished product) from Thailand. Although the strategy has helped the company to survive, it is likely to have an adverse impact on employment.

Breweries

Domestic breweries also had been affected by price competition from imported beer, particularly from Thailand. As a coping strategy, one brewery launched a new product which was 30 percent cheaper than its original brand. According to interviews with retail shops in Phnom Penh, the new and cheaper brand had been gradually increasing its market share.

The crisis appears to have led to increased smuggling across the Thai border. Thai beer was smuggled into Cambodia, and sold at around $11 per case early this year, compared with $17 a year ago. One Cambodian brewery reported that it had been completely eliminated from the market in two of the provinces

Figure 3. Export Volume of One Sawn Timber Company



** 1998 data is for January - March*

Source: company data

bordering Thailand, Battambang and Banteay Meanchey. Its total sales declined by 50 percent (from the previous year) in the second half of 1997. In the first quarter of 1998, however, its sales revived somewhat, to about 60 percent of year-earlier levels.

Survey of Vulnerable Workers

As a further monitoring effort, a pilot survey of vulnerable workers in Phnom Penh was carried out from 12 to 15 May. A sample of 80 workers was interviewed, 20 from each of four occupational groups—porters, cyclo drivers, small traders (in vegetables) and scavengers. Interviewees were asked about their gross and net earnings and the number of days worked now compared with early January ("before Chinese New Year") and with the period before July 1997. Given the small size of the sample and the inherent problems of sampling people in these kinds of occupation, there are obvious limitations.

The occupational groups differed from each other in many respects. Porters and cyclo drivers (all male) are mainly rural residents who come to Phnom Penh intermittently in search of work. Only 25 percent of porters and 15 percent of cyclo drivers described themselves as permanent residents of Phnom Penh. In contrast, two-thirds of the traders (all female) and all of the scavengers (70 percent of whom were female) were permanent residents. These two groups were also the least educated: in both cases 60 percent had not been to school. Only 5 percent of cyclo drivers and 15 percent of porters had no schooling.

The net daily earnings of vulnerable workers has fallen catastrophically over the past year. The fall began after the events of July 1997 and has shown no signs of abating during 1998.

The main finding of the survey is that the net daily earnings[1] of these vulnerable workers has fallen catastrophically over the past year, and that the fall that began after the events of July 1997 has shown no signs of abating during 1998. Table 3 shows the net daily earnings reported by respondents in each of the three periods covered by the survey, and the percentage changes between periods.

Small traders suffered the largest percentage fall in earnings, and scavengers the smallest. Both now earn the equivalent of less than one dollar a day. Cyclo drivers still have the highest earnings of the four groups. It should be remembered also that these are nominal earnings. The purchasing power of these earnings has fallen even more as a result of the increase in food prices, especially rice. There have been no significant changes in the average number of days worked, except in the case of porters, who worked 22 days per month before July 1997 and less than 19 in the two more recent periods; scavengers and traders still work every day, and cyclo drivers around 25 days a month.

Cyclo drivers attribute the deterioration in their situation to the fall in the number of tourists and foreign residents, the lower level of economic activity and increased competition from moto-taxis since the July fighting. People prefer to use moto-taxis because they are cheaper and faster; and women who used to hire cyclos to go shopping now tend to walk home if their house is less than 1 km from the market. The number of porters has increased, while the number of their clients (merchants, factories, etc.) has fallen. The devastating drop in the earnings of small traders reflects some seasonal factors. Agricultural products are in short supply in the dry season and prices have risen. Sometimes traders are forced to sell vegetables for less than they paid for them in order to get money for the following day's trading. The number of scavengers, many of whom live around the rubbish dump in Stung Meanchey, has also increased. At the same time, the amount of saleable rubbish has fallen since July 1997, and many cannot afford the 10,000 riels per month needed to monopolise a truck-load of newly dumped rubbish. As a result of all these trends, vulnerable workers' debts to moneylenders are increasing, their food consumption is declining, and (in the case of 31 percent) they are buying food on credit.

One disturbing aspect of the survey was the amount of harassment at the hands of officials and police reported by vulnerable workers. For instance, since the number of porters, particularly market porters, has increased, there is insufficient accommodation for them, so some have to sleep on the street. They report that they are targeted as potential trouble-makers by the police, and arrested or fined. Similarly, ferry porters report that they have to pay 50 percent of their daily gross earnings to the captain of workers at the ferry headquarters, and cyclo drivers and vegetable traders are constantly chased from their places of business by police and market authorities.

Table 3. Average Net Daily Earnings of Four Groups of Vulnerable Workers (Before July 1997, January 1998 and May 1998)

Occupation	Net daily earnings (riels)			Percentage change		
	Jul. 1997	Jan. 1998	May 1998	Jan. 98 / Jul. 97	May 98 / Jan. 98	May 98 / Jul. 97
Cyclo drivers	12,250	9,100	6,975	-26.0	-23.0	-43.0
Porters	9,675	6,905	5,415	-29.0	-22.0	-44.0
Small traders	7,050	5,150	3,400	-27.0	-34.0	-52.0
Scavengers	4,155	3,415	3,040	-18.0	-11.0	-27.0

Endnotes

1 Net daily earnings are gross earnings minus business expenses (such as the hire of equipment and the purchase of inputs).

De-Dollarising Cambodia

Jayant Menon from the Centre of Policy Studies at Monash University assesses the advantages and disadvantages of dollarisation, and looks at some of the costs of de-dollarising the Cambodian economy.[1]

Analysis of the impact of the regional financial crisis is made more difficult by the dollarisation of the Cambodian economy. Dollarisation is a mysterious phenomenon. This article tries to clarify what it means, to assess its pros and cons for Cambodia, and to explore options for de-dollarisation.

What is Dollarisation?

Literature on the use of multiple currencies in a domestic economy distinguishes between two concepts: currency substitution and dollarisation (see Sahay & Vegh 1995). Currency substitution is defined as the use of a foreign currency as a medium of exchange in the domestic economy. Dollarisation is defined as the use of a foreign currency as a medium of exchange *and* a store of value in the presence of a domestically issued currency.

Use of the dollar in Cambodia is closer to dollarisation than to currency substitution. The US dollar serves all three functions of money in Cambodia: it is widely used as a medium of exchange, a store of wealth and a unit of account. The riel is hardly ever used as a store of wealth (almost all time deposits are denominated in dollars), and its use as a medium of exchange and a unit of account is not as wide as the dollar. Essentially, it is the dollar that serves the function of money in the Cambodian economy.

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Costs of Dollarisation

The first, and perhaps most significant, cost of dollarisation is the loss of *seigniorage*—the difference between the face value of currency and the cost of producing it. If it costs 5 riels to produce each 500-riel note, then the *seigniorage* in this instance is equal to 495 riels. The ability of governments to issue paper money generates a large social saving in the use of resources. During the gold standard for instance, this saving was of resources that would otherwise have been expended in mining and smelting large quantities of metal such as gold. Dollarisation deprives governments of this saving to a large extent.

There are both stock and flow components associated with the social cost to Cambodia of the loss of *seigniorage*. The stock component can be best understood by looking at how dollars were brought into circulation. Every dollar currently in circulation in Cambodia was obtained in exchange for Cambodian goods or services, or claims on Cambodian assets, equivalent to the face value of this foreign currency. Thus, the *seigniorage*, or difference between the face value of the currency and the cost of it, is zero. The *seigniorage* accrues not to Cambodia but to the issuing agency, in this case the United States. If the stock of dollars currently in circulation in Cambodia is equivalent to $300 million for example, then the loss in *seigniorage* (or the amount that would have otherwise accrued to Cambodia) is also close to $300 million.

There is also a holding cost related to this stock component. The holding cost associated with the current stock of dollars used for transactions purposes is the income forgone on interest-bearing assets. This is the income that could have been earned if the stock of dollars currently held for transactions purposes were invested in income-bearing assets such as bank deposits or bonds.

The riel is estimated to constitute about 30 percent of the money stock in Cambodia. Does heavy dollarisation mean that Cambodia cannot earn any *seigniorage* at all? The answer to this question is no. The difference between the face value of this stock of riels and the cost of producing it is social saving in the form of *seigniorage*. Indeed, if the government exercises monetary discipline and increases the stock of riels by a percentage equivalent to GDP growth times the share of riels in the money stock, then it will earn *seigniorage* on these new notes on a continuing basis. If GDP growth is 6 percent, and transactions demand for money increases by 6 percent, then the government can print money in a non-inflationary way (and earn *seigniorage*) to the amount of:

$$0.3 \times 0.06 \times \text{the money stock}$$

where 0.3 = the share of riels in the money stock, and 0.06 = the growth in transactions demand for money (driven by economic growth).

What if the share of riels in the money stock could be increased over time from 30 percent to 40 percent? Using the example above, we can see how increasing the use of riels in the economy could result in quite substantial social gains from *seigniorage*. The gains will come from both the stock and flow components. The stock component implies that about 10 percent of the dollars in circulation can be exchanged, in a one-off recouping transaction, for goods and services, since these notes will no longer be required for the medium of exchange function. Cambodia will be able to recoup the original cost incurred in obtaining the stock of dollars in circulation. The one-off benefit from the stock component will equal:

0.1 x 0.7 x the money stock

where 0.1 = the increase in the share of riels from 30 percent to 40 percent, and 0.7 = the original share of dollars in the money stock.

The benefits from the flow component will equal:

0.4 x 0.06 x the money stock

where 0.4 = the new share of riels in the money stock, and 0.06 = the growth in transactions demand for money (driven by economic growth).

This benefit from the flow component can be earned on an on-going basis. Increasing the share of riels in the money stock will continue to yield social gains from both the stock and flow components. The gains from the stock component will cease when Cambodia is fully de-dollarised. The gains from the flow component will accrue indefinitely, as long as the transactions demand for money grows with economic growth, and the government exercises monetary discipline.

Effective conduct of monetary policy in Cambodia is impaired by two phenomena—dollarisation and a weak financial system. Dollarisation makes it impossible for the National Bank of Cambodia to conduct an independent policy.

The effective conduct of monetary policy in Cambodia is impaired by two inter-related phenomena—dollarisation and a weak financial system. Dollarisation makes it impossible for the National Bank of Cambodia (NBC) to conduct an independent monetary policy. This is because capital inflows or outflows automatically change the money supply when a foreign currency such as the dollar can be used as a medium of exchange. An outflow of dollars contracts the money supply, while an inflow expands it. An outflow of dollars could be deflationary, an inflow inflationary.

The impact of these movements of capital on the money supply and domestic activity could be offset if the NBC could conduct open market operations, but the lack of monetary instruments in the form of riel-denominated interest-bearing assets prevents this. Even if the NBC could issue riel-denominated interest-bearing assets, lack of confidence in the riel would limit their subscription. Changes to the reserve requirement are a blunt instrument of monetary policy, because dollarisation allows capital inflows to become part of the money stock without passing through the financial system. The ability to conduct an independent policy depends on both de-dollarising and improving the financial system.

Dollarisation could result in a country not having a nominal exchange rate which can respond to economic shocks. That is, if prices charged by exporters to Cambodia are set in dollars, and the prices of these goods in the domestic market are also set in dollars, then movements in the value of the riel-dollar exchange rate, the riel or dollar trade weighted exchange rate, or any other definition of the exchange rate, do not enter into the pricing of imports in the Cambodian market. Similarly, if prices of Cambodian exports are determined in world markets in dollar terms, then any movements in the exchange rates described above do not affect such prices. In this case, even the term "exchange rate" is a misnomer. If the term must be used, then the exchange rate should be considered as always being fixed at 1:1. In this scenario, the impact of dollarisation is equivalent to that of having a perfectly fixed exchange rate.

If this is the case, then exchange rate policy is not an option. Furthermore, adjustment to economic shocks will require changes in prices if the nominal exchange rate cannot adjust. In other words, the real exchange rate movements required to adjust to economic shocks to move the economy back towards equilibrium will have to be induced by price changes rather than nominal exchange rate changes. This will have to involve changes in the rewards paid to factors of production such as wages, rentals on capital, etc. This is an inefficient adjustment mechanism because changes in the payments to factors of production may either be slow to respond, or may not respond adequately due to rigidities such as imperfectly competitive markets for such factors (e.g. unionised labour). This could result in social costs involving an increase in unemployment of resources such as labour and capital.

Dollarisation may be exacerbating unequal distribution of income in Cambodia. This cost of dollarisation has received little attention. There are two groups of Cambodian workers—those who earn salaries in dollars and those who earn incomes in riels. The former are likely to belong to the middle- and high-income groups, while the latter are a large portion of the population who belong to the low-income group. Under these circumstances, the tendency towards depreciation of the riel will affect these two groups of workers in different ways. If domestic prices are denominated in dollars, then the purchasing power of workers receiving their salaries in dollars will remain unchanged, while those of workers receiving their income in riels will fall. If domestic prices are denominated in riels, then the purchasing power of workers receiving their salaries in dollars will increase, while that of workers receiving their income in riels will remain unchanged.

In either case, income distribution is likely to become more unequal, favouring those paid in dollars, than before the depreciation of the riel.

Benefits of Dollarisation

Governments able to issue money that is accepted by the public are able to levy a hidden inflation tax. This results in a redistribution of resources away from the public and towards the government (but without any net change in the economy as a whole). The following example will illustrate the way an inflation tax works. If Cambodia were no longer dollarised, and the riel were the only money used in the economy, the government might decide to run a budget deficit and to finance it by printing money rather than by raising taxes. In a riel economy, the government could now purchase additional goods and services without increasing taxes because it would be the first to spend the money that it prints. Who then pays for the additional purchases of the government? Citizens who hold their wealth in nominal balances will pay. If the printing of money results in a doubling of the money supply, for example, then eventually the general price level will also have to double. Citizens who held nominal balances will find that their purchasing power has halved as a result of the doubling of the price level. In a dollarised economy such as Cambodia, the capacity of the government to finance spending through inflation tax is limited. Dollarisation, in this respect, imposes a discipline on the government's ability to finance spending by printing money. It also avoids distributional or equity concerns associated with the impact of government-induced inflation on different groups in society. That is, citizens who hold their wealth in nominal balances, or who have incomes that are not indexed to the inflation rate, will be made worse-off relative to those on indexed incomes.

Floating exchange rates everywhere, but particularly in the ASEAN region of late, have displayed a considerable amount of variability. Variability is often discussed in terms of short-term volatility and medium to long-term misalignment of the currency. The short-term volatility (sometimes on a day-to-day basis) and the medium to long-term misalignment of floating exchange rates can increase the perceived risk associated with international trade and investment. Some of the benefits of a fixed exchange rate are conveyed in a dollarised economy. These include exchange rate and price stability. Thus, dollarisation reduces the short-run volatility associated with floating exchange rates (it does not, however, deal with the medium to long-term misalignment issue). The high degree of dollarisation has also reduced the extent of imported inflation as a result of currency depreciation in the region.

Only a limited number of currencies are freely accepted in payment for goods and services traded internationally. The currencies of countries such as Cambodia are not accepted in exchange for imported goods and services or for repayment of liabilities. More importantly, the riel is not convertible outside Cambodia. That is, international foreign exchange desks will not trade riels for currencies such as dollars. In this context, the capacity to import is limited by export receipts and capital inflow. Dollarisation, however, alleviates this constraint to some extent. With a large stock of dollars in circulation, the hard currency-liquidity constraint is reduced during periods of low exports or reductions in capital inflow. Thus, dollars in the hands of the public could be used to finance imports during periods of crisis.

On the other hand, a large stock of foreign currency is tied up serving the function of domestic money, for domestic transactions, on a day-to-day basis. Thus, on the whole, it is unclear if dollarisation does indeed serve as a safeguard in terms of the capacity to finance imports, except perhaps during periods of crisis or severe shortage of reserve currency. If the stock of foreign currency is run down to finance imports during a period of crisis, they will have to be built up again in the future in order to continue serving the function of a medium of exchange. If they are not built up again, then the money supply will contract and this will be deflationary. Thus, dollarisation might allow, at best, a trade-off which cushions the economy during periods of crisis.

How to De-Dollarise

It would appear that dollarisation in Cambodia has more costs than benefits. If this is so, how should Cambodia go about de-dollarising, or increasing the use of riels in the economy? The only sustainable move away from dollarisation and towards increased use of the riel must come from increased confidence in the riel. In this sense, dollarisation in Cambodia is not the problem but a symptom. The problem, or the cause, is a lack of confidence in the riel, while the symptom, or the effect, is the use of another currency such as the dollar. The causes of the problem emanate from an under-developed monetary system, political and economic uncertainty, and weak legal and institutional structures. Furthermore, the lack of monetary instruments in the form of riel-denominated interest-bearing assets further limits the use of riels as a store of value.Most of these problems are long-term in nature. They are unlikely to be addressed in the short or medium term. When these problems are addressed, then the symptom, in the form of dollarisation, will also disappear.

It would appear that dollarisation in Cambodia has more costs than benefits. If this is so, how should Cambodia go about de-dollarising, or increasing the use of riels in the economy?

What can be done to start the process of de-dollarisation in the short to medium term? Should the government enforce increased use of the riel? In other words, should the government address the symptom directly in the hope that the causes will diminish over time? Rather than increase the use of the riel, enforced usage is likely to be counter-productive. It is likely to lead to a further weakening of confidence in the riel. Perhaps the best way of reducing the use of dollars is to reduce the distinctions between riels and dollars. Enforcing the use of the riel is likely to add to the distinctions, or perceived differences, rather than reducing them. If citizens are given the free choice to use either riels or dollars in any and all transactions, then the perceived differences between the two are likely slowly to diminish.

At present, there appear to be a number of institutional barriers which add to the differences between these two currencies, and tend to stand in the way of a gradual process of de-dollarising. These include the preference given to dollars in the payment of wages to private sector workers. The fact that the Labour Law defines the minimum wage in dollars exemplifies this preference. Another example is the fact that international aid organisations and NGOs tend to pay their staff solely in dollars in Cambodia, when in other countries organisations such as the UN tend to pay a minimum of 30 percent of salaries in the currency of the country. A useful step in setting up the pre-conditions for de-dollarising would be to remove the favoured status of dollars in the payment of wages. Rules and regulations, whether implicit or explicit, that favour the use of dollars are just as detrimental as those that impose the use of the riel in terms of the long-run objective of de-dollarising.

The problem is a lack of confidence in the riel, while the symptom is the use of the dollar. The causes of the problem emanate from an under-developed monetary system, political and economic uncertainty, and weak legal and institutional structures.

Reducing the distinction between the two currencies will involve, as a fundamental requirement, the assurance that riels can be converted into dollars freely and in any quantity. With the current situation, where confidence in the riel is low, this policy would effectively limit the government to issuing riels on an almost one-to-one basis with foreign reserves. It could be argued that the present stock of riels, estimated at about 30 percent of the money supply, reflects this aspect of convertibility already. Thus, the transition from a dollarised economy to a riel-based economy will depend on the willingness of Cambodia's citizens to hold the riel. This willingness will require an assurance of free convertibility initially, and confidence in the value of the riel eventually. In the interim, measures that impose pressure on the use of dollars in payment of wages should be addressed in an attempt to reduce the distinctions between the currencies.

Conclusions

Dollarisation in Cambodia has more costs than benefits. These costs include the social loss associated with *seigniorage*, the inability to conduct an independent monetary policy and the ineffectiveness of the exchange rate as an adjustment mechanism. The benefits of dollarisation include the discipline imposed on the government by significantly limiting its capacity to finance spending through inflation tax, and the stability and certainty induced by an effectively fixed exchange rate.

Having a large stock of dollars in circulation is often viewed as a important benefit of dollarisation. This perceived benefit is perhaps somewhat exaggerated. At best, it can act as a cushion that alleviates the short-term effects of a crisis; but that is all.

Since the costs of dollarisation appear to exceed the benefits, what can the government do to de-dollarise? Should the government try and enforce the increased use of the riel? This is likely to be counter-productive, as it will increase the perceived differences between the currencies rather than reduce them. Currently, the pressure to use dollars in payment of private sector wages adds to the perceived differences between the currencies, and this should be dismantled as an interim measure that will prepare the ground for eventual de-dollarisation.

Apart from these measures, there is little else that the government can do to resolve this in the long-run. This is because dollarisation is not the problem, but is merely a symptom. The problem is a lack of confidence in the riel, whilst the symptom is the use of another currency such as the dollar. The causes of the problem emanate from an under-developed monetary system, political and economic uncertainty, and weak legal and institutional structures. These are the problems that need to be addressed directly. When these problems are addressed, then the symptom, which is dollarisation, will also cease to be a constraint.

Endnotes

1 This article draws upon ongoing work for the Asian Development Bank on Cambodia's preparation for membership of ASEAN (Technical Assistance Project No. 5713).

References

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Learning from the Asian Economic Crisis

Toshiyasu Kato analyses the unfolding of the regional economic crisis and draws three important lessons for Cambodia to avoid similar difficulties.

The Asian countries hit by the regional economic crisis from mid-1997 were often praised as the "East Asian miracle" for their remarkable growth and development. The recent crisis makes clear that the tremendous success of the these countries has masked weaknesses and mismanagement. It also shows that differing government responses to the crisis have influenced the effectiveness of counter-measures and the speed of recovery. The Asian crisis thus provides Cambodia an opportunity to reflect on the relevance and effectiveness of its own systems and policies, and to elaborate its strategies for long-term development. This article begins with a review of the crisis, and then examines three key lessons for Cambodia: 1) the development of a robust financial system; 2) the management of foreign capital; and 3) the establishment of a democratic transition of government based on the rule of law.

The Asian crisis provides Cambodia an opportunity to reflect on the relevance and effectiveness of its own systems and policies, and to elaborate its strategies for long-term development

Causes of the Crisis—A Review

The Asian crisis was triggered by massive outflows of foreign capital from domestic financial markets in the crisis countries. The evolution of the crisis in Thailand highlights this. During the boom period between 1989 and 1995, the net inflows of private foreign capital reached historic highs, accounting for an annual average of 10.2 percent of GDP (Table 1). The net inflows of portfolio investment (stocks and bonds) and other investment (currency, loans, deposits, trade credits, etc.) increased dramatically from a total of 2.2 percent of GDP in 1983–88 to 8.7 percent of GDP in 1989–95. This development reflected the liberalisation of Thai financial markets in the late 1980s and the first half of the 1990s. By contrast, the net direct foreign investment (DFI—the establishment of foreign firms) accounted for only 1.5 percent of GDP in 1989–95. In general, DFI tends to be long-term and stable relative to portfolio and other short-term investments.

In 1996, foreign investors' concerns about Thailand's macro-economic performance and the sustainability of its pegged exchange rate rose sharply. The current account deficit persisted, the prices of equity and real estate declined, increases in wages eroded the competitiveness of exports, and short-term private debt accumulated. These concerns prompted foreign investors to withdraw their capital from Thailand in early 1997. Despite the intervention of the Thai monetary authorities in foreign exchange markets, the pressure to devalue the baht intensified as the official foreign reserves position deteriorated. The government was therefore forced to allow foreign exchange rates to float on 2 July 1997.

This in turn created a vicious circle. The baht weakened rapidly and equity prices dropped sharply in July. A large number of commercial banks and financial institutions suffered from soaring short-term, unhedged foreign debt and unperforming loans. On 11 August, the IMF unveiled a rescue package worth $17 billion (including loans from the Asain Development Bank, the World Bank and other Asian nations). The Thai government in December 1997 announced the liquidation of 56 suspended financial companies in an effort to restore confidence. The collapse of the financial sector, coupled with a tight monetary policy to curb inflation, pushed up market interest rates. This made it difficult for non-financial private firms to raise funds even for ordinary operations, and led to a contraction of domestic consumption and investment and increased unemployment. The economy has now gone into a recession. Thailand's real GDP growth stood at minus 0.4 percent in 1997, and is projected to be even lower in 1998—around minus 3 percent (Table 2).

The financial crisis in Thailand spilled over to other Asian countries, notably Indonesia, Malaysia, the Philippines and South Korea. The Philippines and Indonesia introduced floating exchange rate systems on 11 July and 14 August respectively, under pressure of devaluation due to large outflows of foreign capital. After the introduction of the exchange rate systems, the

Table 1. Net Private Capital Flows: Cambodia and Selected Asian Economies (percentage of GDP)

	1983-88(1)	1989-95(1)	1996	1997(2)
Cambodia(3)	-	-	0.0	0.0
Countries most affected by the crisis				
Thailand	3.1	10.2	9.3	-10.9
Malaysia	3.1	8.8	9.6	4.7
Indonesia	1.5	4.2	6.3	1.6
Philippines	-2.0	2.7	9.8	0.5
South Korea	-1.1	2.1	4.9	2.8
Countries less affected by the crisis				
Singapore	5.0	3.8	-10.1	-5.5
Taiwan	0.2	-4.0	-3.2	-3.8
China	1.2	2.5	4.7	3.7

(1) Annual averages; (2) IMF staff projections; (3) actual data

Source: IMF, World Economic Outlook--Interim Assessment (December 1997) and the National Bank of Cambodia

Table 2. Real GDP Growth and Consumer Prices in Cambodia and Selected Asian and Industrial Economies (Annual Percentage Change)

	Real GDP			Consumer Prices		
	1996	1997	1998*	1996	1997	1998*
Cambodia	7.0	2.0	-	7.1	8.0	-
Asian countries affected by the crisis						
Thailand	5.5	-0.4	-3.1	5.9	5.6	11.6
Malaysia	8.6	7.8	2.5	3.5	2.7	7.5
Philippines	5.7	5.1	2.5	8.4	5.1	8.0
Indonesia	8.0	5.0	-5.0	7.9	6.6	44.3
South Korea	7.1	5.5	-0.8	4.9	4.5	10.5
Asian countries less affected by the crisis						
Singapore	6.9	7.8	3.5	1.4	2.0	2.5
Taiwan	5.7	6.9	5.0	3.1	1.1	4.0
China	9.7	8.8	7.0	6.1	1.5	2.0
Vietnam	9.3	7.5	5.0	5.7	3.1	7.0
Major industrial countries and blocs						
Japan	3.9	0.9	0.0	0.1	1.7	0.9
United States	2.8	3.8	2.9	2.9	2.3	2.0
European Union	1.7	2.6	2.8	2.5	1.9	2.0

** IMF staff projections*

Source: IMF, World Economic Outlook, (Washington DC: May 1998) and the Ministry of Economy and Finance

outflows of foreign capital soared, exchange rates deteriorated further, equity prices plunged, and the financial standing of businesses eroded dramatically. Economic growth in all these countries slowed markedly in 1997, and is expected to be even lower in 1998 (Table 2).

The response of the governments and people varied considerably among the crisis countries. In Thailand and South Korea, new leaders were elected at an early stage of the crisis who undertook the economic reforms necessary for rehabilitation and recovery. People in these countries appear to have responded cooperatively to the reforms, such as buying more domestic goods to alleviate the shortage of foreign reserves. Although it is perhaps premature to make a final assessment, Thailand and South Korea appear to have restored confidence with the implementation of reforms, and this is reflected in the appreciation of foreign exchange rates and the rise of equity prices since January-February 1998.

The inertia of the Suharto regime not only precipitated the ongoing political crisis, but also magnified the financial crisis. Economic prospects in post-Suharto Indonesia are the most bleak among the countries hit by the crisis.

The response to the crisis in Indonesia contrasts sharply with that in Thailand and Korea. The inertia of the Suharto regime not only precipitated the ongoing political crisis, but also magnified the financial crisis. Despite the call for urgent economic reforms to counter the crisis, the government, plagued by cronyism and corruption, failed to convince the people of its commitment to reform. Social tension between the government and people rose sharply as a result, and demonstrations broke out across Indonesia. The social and political unrest severely hindered normal economic activities, raising unemployment and fuelling high inflation of consumer goods, which placed intense pressure on people's cost of living. Economic prospects in post-Suharto Indonesia are the most bleak among the countries hit by the crisis, projected to be around minus 5 percent in 1998 (Table 2).

Development of a Robust Financial System

The Asian crisis disclosed the weaknesses of financial systems in the crisis countries, particularly their vulnerability to large outflows of foreign private capital. It should be noted, however, that the financial sectors in the crisis countries had been extremely successful until the 1980s. Indeed, these countries managed to mobilise domestic savings more than any other developing countries, efficiently allocated these funds to domestic investment, and achieved some of the highest economic growth rates in the world. Government policies and institutional reforms to establish sound financial systems failed to keep pace with the liberalisation of foreign capital flows in the 1980s and 1990s. This is seen as one of major causes of the crisis in these countries.

Cambodia's financial sector is still in its infancy relative to those in the crisis countries. The banking sector in Cambodia has played a minimal role in mobilising domestic savings and allocating investment. The operation of commercial banks is generally confined to Phnom Penh, though a few have established branches in some provinces. Other financial markets, such as bond and security markets, have not yet been established. This under-development is not altogether disadvantageous. Cambodia can learn from the success and failure of the crisis countries to establish a robust financial system. By doing so, it could achieve the same measure of success as its neighbours while minimising the vulnerability of the economy to large capital outflows.

To this end, at least three issues need to be addressed: 1) the establishment of a legal framework for sound supervision and regulation; 2) the development of human resources governing financial markets; and 3) efforts to de-dollarise Cambodia's economy. First, it is imperative that key legislation governing private financial institutions in Cambodia be passed. This includes the delayed Law on Financial Institutions and other parts of the Commercial Code relating to business organisations, contracts and bankruptcy (World Bank 1997: 27). Second, Cambodia will need to develop human resources both in the government and in private financial institutions. The current lack of expertise in the operation of financial markets will become a serious bottleneck for the effective implementation of these laws and for the high quality risk management of private financial institutions. Third, developing a robust financial system in Cambodia needs to proceed in parallel with the de-dollarisation of Cambodia's economy. As Jayant Menon discusses elsewhere in this issue of the *Cambodia Development Review*, dollarisation impairs the effective conduct of monetary policy and the adjustment mechanism of foreign exchange rates in Cambodia. Preparation for eventual de-dollarisation will require changing such conventions as paying wages in the private sector in dollars. De-dollarisation also would complement the building of a robust financial system in Cambodia.

Three issues need to be addressed: 1) the establishment of a legal framework for sound supervision and regulation; 2) the development of human resources governing financial markets; and 3) efforts to de-dollarise Cambodia's economy

Management of Foreign Capital

The Asian crisis brought to light the fact that foreign capital is a double-edged sword for developing countries. Foreign capital has great potential to bring a wide range benefits in such countries. It can augment the shortage of domestic capital, transfer new and appropriate technology, improve the quality of human resources, and earn foreign currency. The regional crisis has made clear, however, that foreign capital tends to magnify, rather than smooth, fluctuations in developing economies because of its volatile and pro-cyclical characteristics. J. Stiglitz points out these undesirable features, commenting that "developing countries seem to get the most private capital when they are growing strongly and need it least, and have a relatively harder time accessing capital in hard times when they need it most" (Stiglitz 1998).

In addition, inflows of foreign capital are volatile because they are influenced by economic conditions and business cycles in the home countries of foreign investors. For instance, Japan's foreign investment in the ASEAN countries increased dramatically after 1985. This was prompted first by the drastic appreciation of the Japanese yen against the US dollar following the Plaza Accord of the G7 countries. The realignment of foreign exchange rates weakened the competitiveness of Japanese products, and was a strong incentive for Japanese firms to relocate their production overseas where they could enjoy lower production costs. The increase in real wages in Taiwan and South Korea in the 1980s directed Japanese foreign investment away from these countries towards lower wage countries in Southeast Asia. In addition, the wave of Japan's foreign investment to Asia was pushed by the Japanese economic boom in the second half of the 1980s. All of these factors are beyond the control of small developing countries such as Cambodia.

Cambodia has received large inflows of foreign private capital relative to the size of its economy since 1994. For instance, the net inflows of private capital accounted for 5.9 percent of GDP in 1997 (see Table 1 above). The incentives offered to foreign investors have been among the most generous in the region. A majority of foreign capital inflows to Cambodia have been direct foreign investment (DFI), which tends to be long-term and stable. Given the composition of private capital inflows in Cambodia, a massive outflow of foreign capital is unlikely to happen in such a short period of time as was the case in the crisis countries. This is one of the reasons Cambodia has not been immediately affected by the crisis. Indeed, other less affected developing Asian countries, such as China, have a similar pattern of foreign capital inflows to Cambodia, and tend to have higher ratios of DFI to total private capital.

There are three considerations for Cambodia to reduce the potentially undesirable characteristics of foreign capital. The first is to mobilise domestic private savings to finance investment. This will reduce Cambodia's heavy dependence on foreign capital by creating an alternative domestic source for funds in Cambodia. This can be achieved by the development of a robust financial system, particularly the banking sector. The second consideration is to prioritise investment projects according to the duration of projects. A high priority should be given to projects which make a long-term commitment and are consistent with the long-term development strategies and objectives of the government. The selection or screening of foreign investment projects may reduce total foreign capital inflows to Cambodia, but it will reduce the risk of excess volatility and help to channel foreign capital to productive investment. Third, Cambodia will need to establish financial markets, such as bond and stock markets, in the future. The Asian crisis provides useful insights to the advantages and the risks of liberalising capital movement in developing countries. Careful analysis will be required before the liberalisation of capital movement to ensure that the domestic regulatory framework is prudent, effective and robust enough to minimise large risks involved in the liberalisation.

Establishment of the Rule of Law

The Asian crisis highlights the fact that economic crises can erupt in any market economy, regardless of its stage of development. Many unforeseeable forces seem to affect the fluctuation of market economies, and even foreseeable forces may be extremely difficult to control. Foreign investors' decisions are the case in point. In the circumstances, the capacity of a country to reform and adjust to changing situations is a key characteristic of good governance. The Asian crisis seems to teach us that capacity for reform can substantially affect the effectiveness of containing and recovering from a crisis. Thailand and South Korea elected new governments soon after the crisis erupted. The transition process was based on the rule of law and was democratic, reflecting the opinion of the majority of people who had not been satisfied with reforms offered by previous governments. By contrast, Indonesia had no mechanism for a democratic transition that reflected people's opinions. The authoritarian regime of former president Suharto blocked swift and effective implementation of appropriate reforms to contain the crisis. In doing so, it undermined the prospect for future economic growth.

A democratic transition to a new administration based on the rule of law will not only foster the emergence of democracy in Cambodia, but will also help improve the country's future economic prospects.

The advantages of democratic regimes in carrying out economic reforms are at least threefold (Maravall 1995). First, the legitimacy accorded to leaders elected under democratic regimes means that they obtain the cooperation of their citizens much more easily than leaders of other regimes. This sense of cooperation allows democratic leaders to implement difficult economic reforms which may in the process impose hardships on their citizens. Second, democratic regimes are more likely to provide a better check and balance mechanism to correct mistakes in reforms, since political oppositions serve as a warning function. Third, democratic regimes open windows of opportunity for further transition when newly elected governments cannot, for whatever reason, implement necessary reforms.

Cambodia's national election due on 26 July will provide a critical test for the new government. A democratic transition to a new administration based on the rule of law will not only foster the emergence of democracy in Cambodia, but will also help improve the country's future economic prospects. A long list of reforms, with administrative reform as the first priority, awaits the establishment of a new and democratically elected government. Among other lessons, the regional crisis clearly demonstrates the advantages of democratic regimes over authoritarian regimes to carry out economic reforms in the dynamic and changing world economy.

Endnotes

1 World Bank (1995), *Cambodia: Progress in Recovery and Reform* (Washington DC, June 1997)

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1. Output*

Cambodia's economic growth slowed in 1997 according to recently published official statistics. The growth rate of real gross domestic product (GDP) declined sharply to 2 percent in 1997 from 6.5 percent the previous year (Table 1). Consequently, per capita GDP declined in 1997 for the first time since Cambodia's transition to a market economy.

Table 1: Real GDP Growth (percent

	1991	1992	1993	1994
Agriculture	6.7	1.9	-1.0	0.0
Industry	8.8	15.5	13.0	7.7
Service	8.5	11.2	7.2	7.4
GDP	7.6	7.0	4.1	4.0

The pattern of economic growth by sector changed notably in 1997. Until 1996, the industry and service sectors contributed significantly to moderately high economic growth. However, the growth rate in the industry sector dropped from 13 percent in 1996 to only 0.6 percent in 1997, and that in the service sector from 9 percent to -0.4 percent (Table 1). The slowdown of these sectors was caused primarily by the events of 5 and 6 July 1997. As reported in previous issues of the *Cambodia Development Review*, the July events not only damaged the production capacity of many factories and shops in Phnom Penh, but also had a substantial adverse impact on consumer spending, investment, and tourism and related service sectors.

There is some discrepancy between the 1997 growth rate of the agricultural sector according to official statistics, i.e. 4.9 percent, and other statistics on agricultural production. According to the Ministry of Agriculture, Forestry and Fisheries, total rice production was around 3.4 million tons in 1997, slightly lower than the level in 1996. Given the large proportion of rice in total agricultural production, achieving 4.9 percent growth would be extremely difficult unless the production of other crops, fishing or forestry had expanded exceptionally.

* Essential economic data is given in table form under the heading "Economic Indicators" on page 18.

2. Inflation and Exchange Rates

Consumer Prices (Phnom Penh and the Provinces)

Consumer price indices (CPI) in Phnom Penh increased steadily in the first four months of 1998, according to the data from the National Institute of Statistics at the Ministry of Planning (see Economic Indicators on page 18). The 7.1 percent monthly inflation rate in January reflected the bi-annual adjustment of housing rent in January and July. The year-on-year inflation of seasonally adjusted CPI in Phnom Penh was high at around 15 percent between January and April 1998. CPI in the provinces declined in February, but started increasing again in March and April, according to data collected by CDRI. It appears that inflationary pressures intensified after Khmer New Year. (See "Impact of the Regional Economic Crisis" in this issue for data on the most recent price changes in Phnom Penh.)

Nominal and Real Exchange Rates

The Asian crisis raised concerns about whether, and to what extent, the realignment of foreign exchange rates had affected the competitiveness of Cambodia's goods and services. Observing nominal exchange rates alone does not fully answer this question, because the relative movement of prices of goods and services in Cambodia and trading countries also affects competitiveness. A widely used indicator of competitiveness is real exchange rates (RER), which consider the relative

Table 2. Cambodian Riel Exchange Rate against the Thai Baht and Singapore Dollar, January 1997 - January 1998 (Base: 1995 = 100)

				Exchange Rates			
	WPI*	WPI*	CPI	Riel/Baht		Riel/Singapore Dollar	
	Thailand	Singapore	Cambodia	Nominal	Real	Nominal	Real
January	105	101	106	105	104	109	103
February	105	99	107	106	104	108	100
March	105	99	106	105	104	106	99
April	105	97	108	105	102	106	96
May	105	98	109	106	103	108	96
June	104	97	110	107	101	108	96
July	105	96	117	90	81	110	91
August	111	98	116	87	83	110	93
September	113	99	120	87	82	117	97
October	114	100	121	86	80	120	99
November	116	101	121	85	81	120	100
December	118	101	120	73	71	115	97
January	123	101	122	65	65	115	95

* WPI = wholesale price index

Source: IMF, International Financial Statistics

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movement of prices.[1]

The RER of the Cambodian riel against the Thai baht and the Singapore dollar are shown in Table 2. Thailand and Singapore were selected because they were the two largest trading partners of Cambodia in 1995 and 1996. The RER of the riel against the baht fell by 16 percent from July 1997 to January 1998, clearly indicating the decline of Cambodia's competitiveness against Thailand. By contrast, the RER of Cambodia with Singapore remained at more or less the same level in 1997. While Cambodia's nominal exchange rates depreciated against the Singapore dollar in the second half of 1997, the prices of Cambodia's goods and services increased more than those in Singapore. Domestic inflation in Cambodia thus offset the gain of competitiveness due to the depreciation of nominal exchange rates during that period. The nominal exchange rate of the riel against the baht bounced back after January 1998 (see "Impact of the Regional Economic Crisis"). This indicates that competitiveness in Cambodia began to recover from February 1998.

Table 3. Investment Projects Approved, August 1994 - March 1998

	1994	1995	1996	1997	1998	Total from 1994-98	Sectoral share (%) 1994-98
Number of investment projects							
Agriculture	7	32	33	27	3	102	16
Industry	27	91	135	170	41	464	71
o/w: Garment	12	27	42	105	26	212	33
Service	5	40	24	9	7	85	13
Total	39	163	192	206	51	651	100
Registered capital (millions of US$)							
Agriculture	119	70	82	93	8	373	11
Industry	97	357	332	306	91	1,183	36
o/w: Garment	76	20	40	103	29	266	8
Service	7	1,574	76	22	28	1,707	52
Total	223	2,001	489	421	128	3,263	100
Fixed assets (millions of US$)							
Agriculture	60	70	96	30	18	274	6
Industry	487	593	551	642	102	2,374	48
o/w: Garment	29	27	45	110	31	242	5
Service	50	1,859	171	113	85	2,278	46
Total	597	2,521	818	784	205	4,925	100
Manpower (under full production)							
Agriculture	1,709	8,775	8,523	4,187	1,946	25,140	8
Industry	17,222	32,669	57,219	123,545	39,272	269,927	86
o/w: Garment	12,828	14,557	25,326	82,565	29,553	164,829	53
Service	2,883	6,271	5,769	1,171	2,100	18,194	6
Total	21,814	47,715	71,511	128,903	43,318	313,261	100

Source: CDRI calculation based on data provided by Cambodia Investment Board

3. Investment

There have been concerns about whether private investment in Cambodia had been affected by the Asian crisis since July 1997. Table 3 summarises private investment projects registered at the Cambodia Investment Board (CIB). Overall, private investment in Cambodia declined in 1997 relative to 1996 levels, according to CIB data. This appears to be consistent with private investment data reported in the balance of payments overleaf. In contrast with the overall trend of decline, investment projects in the garment sector increased substantially in 1997 and the first quarter of 1998. This reflects Cambodia's GSP and MFN status granted by the European Union and the United States.

Table 4. Foriegn Investment Projects Approved in Cambodia

Country of Origin	Investment Projects (Number)				Registered Capital (Millions of US dollars)				Fixed Assets (Millions of US dollars)			
	1995	1996	1997	1998*	1995	1996	1997	1998*	1995	1996	1997	1998*
ASEAN	**60**	**60**	**47**	**11**	**1429**	**104**	**76**	**17**	**1566**	**286**	**111**	**35**
Indonesia	1	6	4	2	2	3	2	1	1	13	1	2
Malaysia	21	25	16	3	1361	54	53	8	1421	191	66	20
Singapore	25	19	17	6	44	35	14	9	108	35	16	14
Thailand	12	10	10	0	23	12	7	0	36	46	27	0
Vietnam	1	0	0	0	0	0	0	0	0	0	0	0
Other Asia-Pacific	**61**	**107**	**150**	**36**	**37**	**172**	**193**	**75**	**38**	**251**	**364**	**93**
China	15	31	31	16	10	23	22	56	6	37	36	69
Hong Kong	12	22	34	8	6	12	18	6	13	26	71	6
Taiwan	19	34	63	8	13	125	48	12	14	164	44	16
Korea	4	7	12	2	4	5	71	2	3	5	189	2
Others	11	13	10	2	3	8	34	0	2	19	23	0
North America	**12**	**7**	**16**	**1**	**46**	**14**	**16**	**0**	**149**	**8**	**97**	**0**
Europe	**23**	**17**	**20**	**6**	**71**	**67**	**13**	**6**	**213**	**69**	**21**	**7**
Middle East	**0**	**0**	**1**	**0**	**0**	**0**	**1**	**0**	**0**	**0**	**0**	**0**

** Quarter 1 (January-March)*

Source: Cambodia Investment Board

Economy Watch

Table 5. Current Expenditure By Ministry (billions of riels)

	1995	1996	1997 (BL)*	1997 (Actual)	% of BL* 1997	% of Total Expenditure 1995	1996	1997
Defence and Security	386.5	435.4	424.6	439.7	103.6	57.9	52.6	53.9
Education	73.8	81.3	90.7	80.5	88.8	11.1	9.8	9.9
Health	26.1	44.0	60.7	46.2	76.0	3.9	5.3	5.7
Agriculture / Rural Development	15.3	18.7	24.4	18.2	74.5	2.3	2.3	2.2
Other ministries	165.4	247.8	269.6	231.3	85.8	24.8	30.0	28.4
Total current expenditure	667.2	827.1	870.0	815.8	93.8	100.0	100.0	100.0

** Budget Law*

Source: Ministry of Economy and Finance

The Asian crisis appears to have affected the performance of investment in Cambodia by source country and region (see Table 4 above). Foreign investment from the ASEAN countries slowed between 1995 and 1997. The registered capital and fixed assets from Malaysia, Singapore and Thailand, which peaked in 1995, drastically declined in 1997. Thailand registered no investment in the first quarter of 1998. By contrast, investment from other countries in the Asia-Pacific region, particularly China, Hong Kong, South Korea and Taiwan, steadily increased from 1995–97.

4. Government Budget Operations

The Ministry of Economy and Finance recently published statistics on government expenditure in 1997 (Table 5). Total current expenditure was kept at about

Table 6. Balance of Payments, 1996-1997 (millions of US dollars)

	1996	1997	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4
Trade (goods) balance	**-428.0**	**-328.1**	**-115.2**	**-112.9**	**-107.7**	**-92.2**	**-104.8**	**-77.5**	**-60.3**	**-85.4**
Exports (fob)	643.6	735.9	157.5	154.5	158.9	172.7	213.0	211.2	152.6	159.1
o/w domestic exports	295.2	417.0	71.1	67.8	77.1	79.2	86.1	108.7	115.3	106.8
re-exports	348.4	318.9	86.4	86.7	81.8	93.4	126.9	102.5	37.3	52.3
Imports (fob)	-1071.6	-1064.0	-272.7	-267.4	-266.6	-264.8	-317.8	-288.7	-212.9	-244.5
o/w retained imports	-723.2	-745.1	-186.3	-180.7	-184.8	-171.4	-191.0	-186.3	-175.7	-192.2
Service balance	**-52.2**	**-28.1**	**-17.4**	**-13.3**	**-15.4**	**-6.1**	**-5.5**	**-5.9**	**-15.4**	**-1.3**
Receipts	162.8	160.2	40.6	38.3	39.6	44.2	49.2	45.2	28.6	37.1
Payments	-215.0	-188.3	-57.9	-51.6	-55.0	-50.4	-54.7	-51.1	-44.0	-38.4
Balance of goods and services	**-480.2**	**-356.2**	**-132.6**	**-126.2**	**-123.1**	**-98.3**	**-110.3**	**-83.4**	**-75.7**	**-86.7**
Net income	**-85.7**	**-42.0**	**-19.5**	**-20.8**	**-23.7**	**-21.7**	**-8.5**	**-10.0**	**-9.5**	**-14.0**
Receipts	12.7	16.0	2.8	3.1	3.3	3.6	3.7	4.0	4.0	4.3
Payments	-98.4	-58.1	-22.2	-23.9	-27.0	-25.3	-12.2	-14.0	-13.5	-18.3
Private transfers	**20.0**	**20.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Balance of current accounts (excluding official transfers)	**-545.9**	**-378.2**	**-147.1**	**-142.1**	**-141.8**	**-115.0**	**-113.8**	**-88.5**	**-80.2**	**-95.7**
Official transfers (net)	**436.7**	**233.4**	**129.1**	**109.1**	**100.6**	**97.9**	**72.9**	**57.3**	**54.0**	**49.2**
Receipts	439.1	233.8	129.2	109.1	101.2	99.5	72.9	57.4	54.0	49.5
Payments	-2.4	-0.4	-0.2	0.0	-0.5	-1.7	0.0	-0.1	0.0	-0.2
Balance of current accounts (including official transfers)	**-109.2**	**-144.8**	**-18.0**	**-33.0**	**-41.1**	**-17.1**	**-41.0**	**-31.1**	**-26.2**	**-46.5**
Official sector loans (excl. IMF - net)	**82.7**	**42.3**	**27.3**	**20.8**	**17.9**	**16.7**	**9.6**	**6.3**	**12.3**	**14.1**
Drawings	89.3	44.3	28.0	20.9	21.8	18.6	9.8	6.4	12.3	15.8
Repayments	-6.6	-2.0	-0.7	-0.2	-3.9	-1.9	-0.2	-0.2	0.0	-1.7
Non-official sector investment	**169.5**	**178.7**	**22.4**	**68.1**	**28.8**	**50.2**	**27.2**	**77.8**	**70.3**	**3.4**
Direct investment (net)	293.7	**203.7**	68.8	99.8	58.0	67.2	53.6	54.6	47.0	48.5
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-124.2	-25.1	-46.4	-31.7	-29.1	-17.0	-26.4	23.2	23.3	-45.1
Net errors and omissions	**-70.9**	**-42.9**	**-18.5**	**-35.0**	**1.5**	**-19.0**	**13.3**	**-45.6**	**-52.9**	**42.3**
Overall Balance	**72.0**	**33.2**	**13.3**	**20.9**	**7.1**	**30.8**	**9.1**	**7.4**	**3.4**	**13.3**
Financing	**-72.0**	**-33.9**	**-13.3**	**-20.9**	**-7.1**	**-30.8**	**-9.1**	**-7.4**	**-3.4**	**-14.0**
Net foreign assets of NBC	-68.9	-34.3	-14.6	-5.9	-14.3	-34.1	-8.9	-7.4	-3.4	-14.6
Exceptional financing	-3.2	0.4	1.4	-15.0	7.2	3.3	-0.2	0.0	0.0	0.6
Memorandum items										
Current a/c (excl. off. trans.) / GDP	-17.4	-12.6								
Current a/c (incl. off. trans.) / GDP	-3.5	-4.8								
Nominal GDP (millions of US dollars)	3,132	3,008								

Source: National Bank of Cambodia

Economy Watch

94 percent of the level determined by the 1997 Budget Law. However, expenditure on defence and security overran the 1997 Budget Law level by 4 percent. Expenditure on education, health and agricultural and rural development were most severely affected by austerity measures after the July events, and experienced 10 to 25 percent cuts from the 1997 Budget Law levels.

The composition of public expenditures by sector in 1997 showed little change relative to 1995 and 1996. The government failed to achieve its intention in the 1997 Budget Law to expand the proportion of public expenditure on social, agricultural, and rural sectors. Expenditure on security and defence accounted for 54 percent of total expenditure in 1997, while expenditure on education, health, and agriculture and rural development accounted for only 10, 6, and 2 percent respectively (Table 5).

5. External Transactions

The National Bank of Cambodia recently released data on Cambodia's 1997 balance of payments. According to this data, the crisis did not affect exports from Cambodia, despite the realignment of foreign exchange rates after July 1997 (see Table 6 above). Domestic exports rose by 49 percent and 35 percent in the third and fourth quarters of 1997 relative to the same quarters in 1996. This was mainly due to the expansion of garment exports to the European Union and the US, which are as yet unaffected by the Asian crisis. By contrast, retained imports increased in the second half of 1997 relative to the previous year. This may reflect the appreciation of the riel and the dollar against regional currencies during this period. The trade deficit in goods and services as a result fell by 26 percent from $480 million in 1996 to $356 million in 1997.

Contrary to the reasonable trade performance after July 1997, official aid, official loans and net private investment all declined in the third and fourth quarters of 1997. This reflects the suspension and withdrawal of foreign aid and loans, and the slump of foreign direct investment. The surplus in the overall balance declined from $72 million in 1996 to just $33 million in 1997.

6. Wages and Employment

Labour market indicators suggest that the slowdown of economic growth put pressure on the livelihood of waged employees after July 1997. According to the quarterly labour market survey in Phnom Penh undertaken by the NIS, average monthly real wages peaked in the second quarter, then declined sharply in the third and fourth quarters of 1997 (Table 7). Wage employment showed a similar pattern during the same period. The economic slowdown which was precipitated by the July events last year adversely affected the livelihood of wage employees in Phnom Penh. It is interesting to note that wage employment in government services steadily increased in 1997, and accounted for more than 54 percent of total wage employment in Phnom Penh in the fourth quarter of 1997.

Endnotes

1 RER is defined as: S x Pf/Pd where S is the nominal exchange rate (domestic currency units per foreign currency unit), Pf is the price of a foreign basket (of goods) and Pd is the price of a domestic basket.

Economy Watch was prepared by Toshiyasu Kato, Long Vou Piseth and Chan Sophal.

Table 7. Real Wages and Wage Employment in Phnom Penh

	1997		
	Q2	Q3	Q4
Monthly real wages (base: Q2 1997 = 100)	100.0	91.1	85.3
Number of wage employees			
Private sector	71,203	57,429	60,062
Government services	65,265	71,074	73,070
Extra-territorial organisations	2,523	3,045	1,781
Total	138,991	131,548	134,913
Wage employment (index)			
Private sector	100.0	80.7	84.4
Government services	100.0	108.9	112.0
Extra-territorial organisations	100.0	120.7	70.6
Total	100.0	94.6	97.1
Percentage of total wage employees			
Private sector	51.2	43.7	44.5
Government services	47.0	54.0	54.2
Extra-territorial organisations	1.8	2.3	1.3
Total	100.0	100.0	100.0

Source: National Institute of Statistics

economic indicators

1. Consumer Price Index (CPI) in Phnom Penh and the Provinces, May 1997 – April 1998

	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
	Monthly CPI											
Phnom Penh	115	116	124	122	127	128	128	127	132	130	130	131
Provinces	134	133	140	141	147	148	146	145	144	140	143	146
	Monthly CPI (seasonally adjusted)											
Phnom Penh	117	119	121	122	124	124	125	126	135	132	134	134
Provinces	136	135	141	137	143	140	142	147	145	144	150	149
	Inflation based on seasonally adjusted monthly CPI (month to month)											
Phnom Penh	0.8	1.1	2.2	0.1	2.3	-0.5	0.6	1.2	7.1	-2.3	2.0	-0.5
Provinces	2.0	-1.0	4.2	-2.2	3.9	-2.0	1.5	3.3	-1.1	-0.6	3.7	-0.7
	Inflation based on seasonally adjusted monthly CPI (year on year)											
Phnom Penh	6.6	7.3	10.2	8.6	11.8	8.9	9.3	9.2	18.1	15.7	16.7	14.9
Provinces	9.1	5.0	12.0	5.7	12.5	6.6	7.4	10.9	10.0	9.6	13.2	11.0

CPI for Phnom Penh is taken from the Monthly Bulletin of Consumer Price Index (National Institute of Statistics at the Ministry of Planning); CPI for the provinces is constructed by CDRI based on the prices of 12 essential items gathered in 11 provinces. (Base year of indices: July–September 1994 = 100)

2. Foreign Exchange Rate and Gold Prices, April 1997– March 1998

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Market and Official Exchange Rates (Riels per US Dollar)												
Value (1) Market Rate	2,755	2,764	2,769	3,046	3,068	3,313	3,492	3,477	3,519	3,638	3,593	3,613
(2) Official Rate	2,744	2,751	2,761	2,900	3,000	3,192	3,409	3,402	3,452	3,590	3,555	3,580
(3) (1) as a % of (2)	100.4	100.5	100.3	105.0	102.3	103.8	102.4	102.2	101.9	100.8	101.1	100.9
Index (1) Market	106.7	107.0	107.2	118.8	118.8	128.3	135.2	134.7	136.3	141.0	139.2	139.9
(2) Official	106.3	106.5	106.9	112.3	116.2	123.6	132.0	131.8	133.7	139.0	137.7	138.7
Gold Price (Riels per Chi)												
Value	107,398	106,334	106,809	108,187	106,963	108,964	120,518	120,304	112,425	117,341	120,610	119,193
Index	93.1	92.2	92.6	91.2	92.7	94.2	104.5	104.3	97.5	101.7	104.6	103.3

Source: National Bank of Cambodia and the Cambodia Daily (Base year of indices: July–September 1994 = 100)

3. Money Supply, March 1997 - February 1998 (Billions of Riels)

Item	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Broad Money (M2)	978.6	897.1	899.4	902.1	856.1	883.4	902.3	945.4	1,034.3	1,062.9	1,107.0	1,096.6
Money (M1)	332.9	333.3	332.2	330.6	338.7	341.8	348.7	366.4	381.8	384.8	385.2	382.8
Currency outside banks	303.9	304.3	303.2	304.5	308.3	311.3	318.2	334.5	350.2	356.1	356.8	353.0
Demand deposits	29.0	29.0	29.0	26.1	30.4	30.4	30.6	31.9	31.6	28.7	28.4	29.8
Quasi-Money	645.7	563.8	567.1	571.5	517.4	541.7	553.5	579.0	652.6	678.1	721.8	713.8
Time and saving deposits	8.7	7.7	9.5	10.9	10.9	10.8	10.3	10.9	12.5	13.2	14.1	11.5
Foreign currency deposits	636.9	556.1	557.6	560.6	506.4	530.9	543.2	568.2	640.1	664.9	707.7	702.2

Source: National Bank of Cambodia

4. National Budget Operations, January - December 1997

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	Billions of riels											
Total Revenue	68.7	53.4	70.5	69.6	71.4	63.1	52.6	67.6	57.0	68.1	94.8	144.2
Tax revenue	48.7	37.0	55.4	49.4	52.6	48.2	33.2	54.9	42.5	48.6	50.3	76.7
o/w customs duties	31.2	23.4	35.2	27.3	28.6	28.1	18.5	31.0	25.1	28.5	27.9	42.7
Non-tax revenue	15.4	16.3	15.0	19.2	18.6	14.8	14.2	12.6	14.5	19.2	44.3	67.2
o/w forest exploitation	1.8	0.2	3.5	3.6	5.8	4.7	0.6	2.5	3.3	4.5	2.1	4.5
telecommunications	6.0	6.6	4.1	9.0	5.0	3.6	6.2	3.6	7.9	10.4	5.5	15.1
royalties	1.2	0.0	0.1	0.1	0.4	0.3	0.0	0.1	0.5	0.1	30.8	0.1
Capital revenue	4.6	0.1	0.1	1.0	0.2	0.1	5.2	0.1	0.0	0.3	0.2	0.3
	Billions of riels											
Total Expenditure	86.9	82.4	98.3	94.3	95.5	111.7	81.1	105.5	115.3	118.4	130.2	199.9
Capital expenditure	32.4	30.8	39.3	32.1	35.1	41.7	36.7	38.0	51.1	54.7	40.7	79.2
Current expenditure	54.5	51.6	59.0	62.2	60.4	70.0	44.4	67.5	64.2	63.7	89.5	120.7
o/w defence	22.0	24.8	49.2	32.5	23.9	28.7	18.6	36.8	41.9	30.0	52.8	79.3
o/w civil administration	32.5	26.8	9.8	29.7	36.5	41.3	25.8	30.7	22.3	33.7	36.7	41.4
Overall Deficit	-18.2	-29.0	-27.8	-24.7	-24.1	-48.6	-28.5	-37.9	-58.3	-50.3	-35.4	-55.7
	Percentage change from previous year											
Total Revenue	17.2	-18.1	23.0	10.0	23.1	5.9	-9.6	-14.5	-1.7	46.5	51.0	74.6
Total Expenditure	-25.7	-3.2	-23.4	-8.7	-7.1	21.5	-36.0	-2.5	42.3	41.6	45.6	17.4

Source: Ministry of Economy and Finance

glossary

Financial Terms

Bonds (សពាØាប័ណាÑ)

A bond is a promise by a borrower to pay the lender a certain amount (the principal) at a specified date (the maturity date of the bond), and to pay a given amount of interest per year in the meantime. Bonds are issued by many types of borrowers—such as governments, municipalities and corporations.

Direct Foreign Investment (វិនិយោគទុនបរទេសផ្ទាល់)

Investment in the foreign operation of a company, hence foreign direct investment. Direct investment implies control and managerial and technical input, and is generally prefered by the host country to portfolio investment, which purchases only stocks or bonds.

Equities or Stocks (ភាគហ៊ុន ឬ សþúក)

Equities or stocks are claims to a share of the profits of an enterprise. A stockholder receives the return on equity in two forms: dividends and capital gains. Dividends are a certain amount of return on each share that a stockholder owns. A capital gain is an increase, per period of time, in the price of the stocks that a stockholder owns. For example, a stockholder bought stock with $15 at the end 1996. After one year, in 1997, the stock paid dividends of $1.50, or 10 percent of the purchase price. In addition, the stock price rose from $15 in 1996 to $18 in 1997, so a capital gain of 20 percent. At the end 1997, the stockholder receives a total of $4.50 ($1.50 in dividends plus $3.00 in capital gains), a 30-percent yield as a percentage of the initial price of the stock.

Gold Standard (មាសសþង់ដារ)

Gold standard is a form of financial system adopted at the beginning of this century to settle international transactions. Under a gold standard, each country fixes the price of its currency in terms of gold, and its central bank stands ready to trade domestic currency for gold whenever necessary to defend the official price.

Money Supply (បរិមាណផ្គត់ផ្គង់រូបិយវត្ថú)

Money supply is the stock of money that can be immediately used to make payments. The narrow definition of money supply, called M1, includes currency in circulation (notes and coins) and also deposits on which cheques can be written. In Cambodia, M1 includes the Cambodian riels in circulation, and cheque deposits in riels and US dollars. M1 in Cambodia does not include US dollars in circulation which are held outside the banking system, such as US dollars held at home. A broader category of money supply, called M2, adds to M1 savings and time deposits at commercial banks and

CDRI UPDATE

Research Programme

The Research Programme concluded the Learning from Rural Development Programmes project in April. Monitoring and analysis of Cambodia's macro-economic performance continues. In April, the Research Programme completed a far-reaching Research Framework for the period 1998–2000. This provides guidelines for the development of future research activities.

Distance Education Programme

In a graduation ceremony on 12 June, 22 students were awarded MSc degrees from the University of London's Distance Education Programme in financial economics.

English Language Programme

A four-month course on English for research for staff at the National Assembly began in June. The course will provide training in research methods through the medium of English and Khmer. Ongoing courses for staff of the Tonle Sap Development Strategy Project, the Ministries of Environment and Planning, and the Department of Public Works and Transport continued, as did in-house training for CDRI staff.

Library

The CDRI Library holds more than 4,800 titles on economic and social development. The Library is open to the public during office hours (Monday to Friday from 7:30am to 12 noon and 2pm to 5:30pm). In May and June Library staff organised a series of orientation sessions to groups from government ministries and higher education institutions. Eng Po attended an IFLA seminar on bibliographic control at the National Library of Malaysia in Kuala Lumpur from 9 to 12 March.

Cambodian Centre for Conflict Resolution

The CCCR organised a workshop on policy and conflict management for senior provincial and ministry officials from 2 to 4 April in Phnom Penh. The aim of the workshop was to support and strengthen dialogue, with a focus on the forthcoming elections. The CCCR in July will be training provincial election commissioners in informal conflict resolution skills at the request of the National Election Commission. A small mobile training team made up of CCCR staff, one Buddhist monk and conflict resolution practitioners, will travel to selected provinces after voter registration to conduct regional workshops. The first volume of *Mindful Mediation* was published at the beginning of April and is now available from CDRI for 1,500 riels. Volume two will be available from the end of June. Ngy San travelled to the United States at the beginning of June to participate in a three-week USIS-sponsored programme on diplomacy and conflict management.

Publications

CDRI launched its website in June. The site features details of major programme activities and an online version of the Cambodia Development Review. Access CDRI-Online at http://www.cdri@camnet.com.kh. Publication of the Learning from Rural Development Programmes findings has been slightly delayed. English and Khmer versions of the working paper will be available from the end of June, and the six case studies during July. The special report *Donors in Disarray: Prospects for External Assistance to Cambodia* is still available (English edition $2.50, Khmer edition 2,000 riels). Forthcoming working papers, which will be available in August and September, include *Interdependence in Household Livelihood Strategies* and *Regional Economic Integration*.

Cambodia Development Review is also available in Khmer
ទស្សនាវដ្តីអភិវឌ្ឍន៍កម្ពុជា ក៏មានជាភាសាខ្មែរផងដែរ

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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

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