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Cambodia's Macro Outlook, Accelerating Poverty Reduction, Managing Oil and Gas Resources—the 2007 Cambodia Outlook Conference

The 2007 Cambodia Outlook Conference, a partnership of CDRI and ANZ Royal, was held in Phnom Penh on 23–24 February 2007. More than 200 participants—leaders from government, business, civil society and the international development community—met to discuss key issues for Cambodia's growth, development and prosperity. The conference, which will be held annually, considered six session themes:

- Cambodia 2007: A Macro View—Indicators for Growth, Development and Shared Prosperity
- Cambodia in a Neighbourhood of Growth and Opportunity: Perspectives from China, Thailand and Vietnam
- Broadening and Deepening the Engines of Growth and Development: Finance, the Markets, the Private Sector and Foreign Direct Investment
- From Aid Dependency to Shared Prosperity: Managing Cambodia's Oil and Gas Resources
- Fighting Poverty: Now for Targeted Action
- Prospects and the Way Ahead.

Cambodian Prime Minister Samdech Hun Sen said in his opening keynote address to the conference:

"I would like to stress that a thorough discussion at this conference, especially by providing practical and innovative ideas, will contribute to the implementation of the Rectangular Strategy and National Strategic Development Plan, as well as helping the Royal Government to achieve the Cambodia Millennium Development Goals.

"I hope the participants will bring out many good ideas on how to sustain economic growth, to equally share the fruits of development and to improve



Cambodia possesses six off-shore oil blocks and one overlapping concession area (OCA)

the living standards of all sections of Cambodian society."

This issue of the Cambodia Development Review features some of the key presentations from the first Outlook Conference. Other presentations, including the full text of the prime minister's opening address, are accessible through the CDRI web site.

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Cambodia: A Macro View from 2007 to the Medium Term—Key Indicators for Growth, Development and Shared Prosperity

*Eng Netra and Phim Runsinarith summarise and synthesise the presentations made by speakers from the Ministry of Economy and Finance, the International Monetary Fund and CDRI.**

Cambodia has enjoyed relative peace and stability over the past decade. It has embarked on many initiatives, including economic liberalisation, institutional reforms and political reforms responding to the changes of its political economy. It conducted and managed elections and put in place state institutions, and recently has successfully held the second election of commune councils, part of the process of decentralising power.

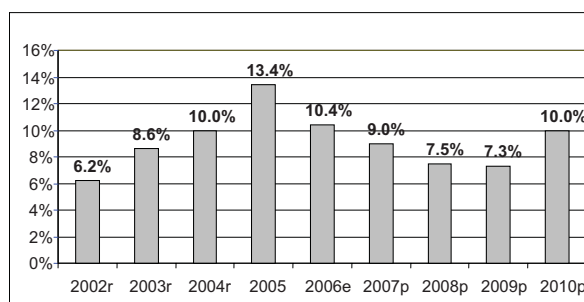
Major social services have also been improved, including health, education, rural infrastructure and irrigation. Economic performance has been remarkable; however, poverty reduction, natural resource management and governance remain challenging. Drawing from the first session presentations at the Cambodian Outlook Conference in 2007 presented by Ministry of Economic and Finance, International Monetary Fund and CDRI, this article synthesises and summarises major development achievements and challenges, ranging from economic growth to governance.

* This article is based on speeches by Dr Hang Chuon Naron, secretary general of the Ministry of Economy and Finance, Mr John Nelms, IMF resident representative in Cambodia, and Ms Eng Netra, research manager at CDRI, at the 2007 Cambodia Outlook Conference. Mr Phim Runsinarith is a research associate at CDRI.

Macroeconomic Developments: Recent Performance and Medium-Term Outlook

The presentation of Dr Hang Chuon Naron, secretary general of the Ministry of Economy and Finance, paid specific attention to important economic issues facing Cambodia, including macroeconomic performance, fiscal developments, financial sector performance and the outlook for overall economic growth 2007–15. The following is a summary of those issues.

Figure 1: Economic Growth Rate 2002–10



r = revised; e = estimate; p = predicted.

Source: Hang Chuon Naron

Cambodia has achieved remarkable macroeconomic stability and progress, with robust growth averaging 8.7 percent per year during the past decade. Gross domestic product (GDP) grew by 10.4 percent in 2006 in real terms (Figure 1). This robust growth was underpinned by the expansion of garment exports, tourism and construction. Cambodia's garment exports increased by 20 percent in 2006, reaching USD2.5 billion and providing 334,000 jobs. The US is the dominant buyer of the product, followed by the EU and Canada (71, 23 and 4 percent respectively). Tourism and construction also remained strong in 2006. The number of tourist arrivals, which contributed significantly to GDP growth climbed to 1.7 million. The number of new apartments built in Phnom Penh is increasing by 8000 to 10,000 annually, and a new town project at Boeng Pong Peay started in 2006. The number of companies registered with the Ministry of Commerce totalled 11,584, of which 1600 were newly registered in 2006.

The country's fiscal performance improved in 2006, with better revenue mobilisation and expenditure rationalisation. The current budget surplus increased to 1.8 percent of GDP, and the overall budget deficit declined to 1.7 percent of GDP. Total revenue increased from USD660 million in 2005 to USD832 million in 2006, reflecting increased tax and non-tax collections. Total expenditure increased from USD853 million in 2005 to USD959 million in 2006; infrastructure development was the priority area, being allocated about USD45 million. The strong economic growth

and investment in infrastructure, especially rural infrastructure, also led to significant improvement in social sectors such as a decline in infant mortality rate and an increase in literacy.

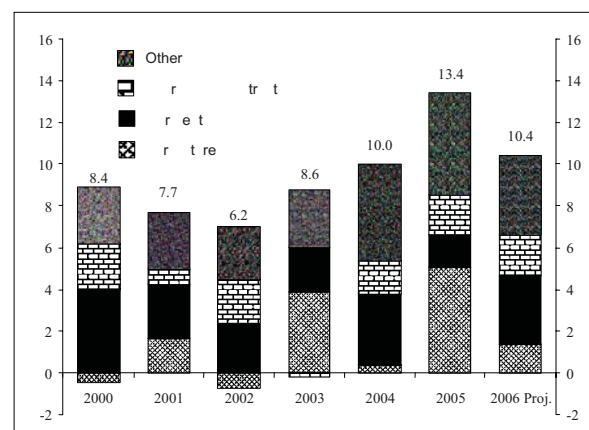
The country's financial sector developed well in 2006. Broad money grew robustly, by 38 percent, up from 16 percent in 2005, reflecting greater confidence in the banking system as a result of banking reform. Foreign currency deposits increased by 45 percent, and bank credit to the private sector rose by 51 percent. The development of micro-finance has also been remarkable. Micro-finance loans grew by 40 percent to USD56 million in 2005. FDI inflows are projected at USD394 million in 2006, up from USD381 million in 2005. The Council for the Development of Cambodia approved 88 investment projects, amounting to USD3.8 billion, which are expected to create 154,000 jobs if fully implemented.

The outlook of Cambodia's economy is very bright. In the medium term, GDP is expected to grow at 9 percent in 2007 and at 7–8 percent in 2008–09 with tourism, garments and construction remaining the pillars of growth and agriculture playing supporting role. In the longer term, GDP is anticipated to expand at 9–10 percent in 2010–15. Revenue from oil will become a new source of growth from 2010, and this will play a crucial role in sustaining a high growth rate. While garments, tourism and construction will continue to drive growth, Cambodia needs to diversify the sources of growth to new industries to make growth more broadly based.

However, there is a need for comprehensive policy reforms to make investment in Cambodia more attractive. Reduction of the costs of infrastructure, electricity, port fees and informal fees should be addressed to facilitate trade activities, and economic processing zones should be created to attract foreign investment. Reform of idle economic concessions, land reforms to prevent encroachment on land of ethnic minorities, policies to increase farmers' access to extension services, good seeds and micro-finance, electricity and irrigation are crucial for agricultural development. Moreover, to sustain growth in this sector, product diversification, outsourcing promotion in certain categories of machinery products and services such as back office operations in banking, accounting and so on, encouragement of agricultural processing and establishment of farmer organisations will also be important.

Mr John Nelmes, the IMF resident representative in Cambodia, also shared his views on Cambodia's recent macroeconomic developments and the outlook for 2007 and the medium term. The contents of his presentation can be summarised as follows.

Figure 2: Composition of real GDP growth rate



Source: John Nelmes

Cambodia's economic growth, though narrowly based, was robust in 2006, while inflation was low. GDP growth was much faster than that of the world as a whole and of developing Asia. Garment exports remained strong, tourism continued to expand, and agriculture and fisheries also posted positive growth (Figure 2).

These developments were supported by the government's prudent fiscal policy. Progress has been made in boosting overall government revenues over the past few years. Stronger enforcement of customs and tax collection, along with

collection of tax arrears and privatisation receipts, has more than offset a continued shortfall in non-tax revenues. Nevertheless, revenue performance remains well below that achieved in other countries.

Domestic economic activity continued to expand thanks to the prudent monetary policy and a deepening of financial intermediation by the banking sector. Small businesses previously operating in the informal sector are increasingly registering and seeking bank finance, with vigorous construction activity reflecting a broadening of investment demand for real estate.

The medium-term macroeconomic outlook remains bright. The economy is expected to grow by around 9 percent in real terms in 2007, with continued expansion

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of garment exports, tourism and domestic economic activity. In the medium term, growth is expected to be sustainable at 7–8 percent. Despite this promising perspective, Cambodia needs additional revenue collection efforts to raise its historically low revenue to GDP ratio in order to finance higher spending to help realise its Millennium Development Goals and the objectives of the National Strategic Development Plan. Further, to maintain macroeconomic stability, critical reforms are needed. In line with higher government revenues, more spending should be allocated to well-targeted and productive physical infrastructure projects, health care and education, to improve livelihoods and strengthen productivity. Equally importantly, Cambodia should make the economic environment more conducive to private sector activity and foreign investment through continued efforts to facilitate trade and reduce excessive public administrative burdens.

CDRI Outlook on Cambodian Development and Challenges

Ms Eng Netra, research manager at CDRI, presented the findings from four research programmes. The findings can be summarised as follows.

Poverty Reduction Makes Progress But Inequality Rises

Despite impressive overall macroeconomic growth, over the past decade Cambodia has achieved only about one percent per annum poverty reduction. CDRI poverty studies suggests that growth is not equitably distributed, and the gaps between rich and poor, and between rural and urban areas, have increased. Women's economic role and contribution continue to broaden as a result of the changing economic base, although more of the poorest women sell labour, migrate for work and undertake "male" responsibilities in addition to their domestic role.

Natural Resource Management Is Declining

More of the poor and very poor are increasingly dependent on natural resources, especially forest and fishery products; however, their access to these natural resources is decreasing significantly. CDRI studies show that governance of natural resources is critical and must be sustainably managed for poverty reduction because they are primary assets for the poor. In his opening address, the prime minister said that land management

is one of his priorities to tackle poverty reduction. Security of land tenure is one of the most important issues for Cambodian poor. More and more poor people are losing land because of "distress sales", health shocks and land grabbing. CDRI strongly supports the land-titling effort, but this effort should be accelerated and targeted at areas where the impact on poverty reduction can be optimal.

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benefited better off households, and outsiders (such as national level officials and businessmen). Our research suggests that central management of natural forests without involvement of local people has potentially significant

negative economic impacts on communities. New community-based forestry management alternatives are necessary in order to provide more equitable access. Challenges facing natural resource management are (i) unclear and conflicting mandates and authority, exacerbated by poorly demarcated jurisdictions, and (ii) local corruption that prevents enforcing of rules and regulations on access to and control over natural resources.

Significant Institutional Reforms Achieved, But Weak Accountability Remains

The government has succeeded in ensuring political and macroeconomic stability over the past decade and is currently performing quite well in reducing poverty and improving social services. However, overall, the government has not been able to establish the rule of law and to combat corruption, establish an environment likely to attract investors or institute mechanisms of accountability. While the technical capacities of government staff are undoubtedly strengthening, the state apparatus remains fragmented. Reliance upon directives from the top is high; formal accountability mechanisms are weak; and effective intra- and inter-ministerial coordination is minimal.

CDRI studies also show that sub-national administrations remain highly centralised and politicised. Centralised control and lack of resources weaken sub-national government and make local personnel management, planning and expenditure management futile. The result is that local managers cannot hold their staff accountable, and their staff are constantly drawn to outside interests and accountabilities. This has a negative

impact on the economy and citizens, and particularly disadvantages the poor and small businesses. Also inadequate is the capacity of institutions to facilitate the participation of women in decision making at all levels and to respond to demands from vulnerable groups such as the poor and women.

Commune councils have provided some hope of improved basic governance. CDRI studies show that commune councils work effectively in areas such as rural infrastructure—construction of roads, irrigation systems and bridges. The poor have also benefited from the collaboration between NGOs and councils. Due to the fact that commune councils have very limited resources and authority, especially when dealing with natural resources or problems involving higher level and powerful external actors, they are not capable of defending democratic politics, effective services or key natural resources. This points to the critical importance of effective provincial administrative and deliberative capacity, which will be targets of a forthcoming organic law, and to the importance of central-local relations and the interaction between formal and informal governance.

Some of these challenges will be addressed by major government reform initiatives such as decentralisation and deconcentration

(D&D), public finance management (PFM) and public administrative reform (PAR). D&D is progressing, with good lessons from the commune councils, but provincial and district challenges remain, and related sectoral deconcentration reforms are needed to complete D&D. The PFM reform programme over the last two years has begun to make significant headway in reforming the country's public spending and revenue management. It opens possibilities for more effectively and efficiently directing public expenditure towards poverty reduction. PAR is slowly progressing but posing major challenges, especially in defining clear functions for public institutions and their staff, creating incentives for performance and accountability and establishing meritocracy and professionalism among civil servants.

Summary and Conclusion

These are four major conclusions and the relevant policy questions:

- Economic growth is remarkable, but a medium- and long-term strategy is needed, particularly to diversify sources of growth and develop agriculture as the third engine of growth. What are the possibilities for sharing increased prosperity? How can the private sector make a more effective contribution to

economic growth and influence policy?

- Poverty reduction is marginally achieved, but inequality and other poverty dynamics (such as landlessness, risk behaviour of men and female-headed households' poverty challenges) are emerging. How will economic growth be translated into poverty reduction? How can the reach of public programmes and initiatives be extended to the poor and vulnerable, including women?
- Natural resources are increasingly degraded and threatened by the lack of implementation of policy and legal framework in place and the weak capacity of local actors. How can natural resources be managed and protected to promote sustainable access by the poor?
- Governance and institutional reform have not been making sufficient progress to accelerate opportunities for growth and development. Passing of the anti-corruption law and organic law is critical, as are political commitment and community support for government reforms. How can institutional

reforms be implemented to achieve the government objectives? How do members of Cambodian society understand their status as citizens? How do we build national pride and civic responsibility in order

to promote and sustain civic engagement?

CDRI's visions for Cambodia are: (i) sustainable economic growth and equitable distribution of the benefits of growth; (ii) achieving the MDG of halving poverty by 2015; (iii) sustainable use of land management and natural resources; (iv) integration into the region and international trade and governance systems; and (v) strong and effective governance institutions that are responsive to citizens' needs. We at CDRI believe that the way to achieve this vision is to have government, the private sector, civil society and development partners working together for the future of Cambodia.

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From Aid Dependency to Shared Prosperity: Managing Cambodia's Oil and Gas Resources*

This article includes the presentations on managing Cambodia's oil and gas resources by Douglas Gardner, United Nations resident coordinator, and H.E. Joseph Mussomeli, US ambassador to Cambodia, at the Cambodia Outlook Conference on 23 February 2007, with a brief overview by Dr Sok Sina of CDRI.

Overview: CDRI

According to the Cambodia National Petroleum Authority (CNPA), Cambodia possesses six offshore oil blocks (A, B, C, D, E and F) and an OCA block (overlapping concession area with Thailand). The area around the Tonle Sap also has oil and gas potential. This area is currently under investigation. UNDP and the World Bank estimate that annual revenue from oil and gas could be as much as USD2 billion, while the Cambodian government anticipates a much lower income, only USD100–300 million a year. Even though these estimates vary, it is generally agreed that income from the export of oil and natural gas could reduce Cambodia's reliance on overseas development assistance and be used constructively for economic development.

Experience, however, shows that some resource-rich countries are still underdeveloped despite huge revenues from the export of natural resources. Economists describe this phenomenon as a "resource curse", referring to the negative growth and development outcomes that can be associated with natural resource wealth. There can be many reasons for a resource curse, including "Dutch disease",

an associated decline in the non-oil export sector. Other reasons can be wastage, corruption that causes a decline in investment and, in some developing countries, the potential for violent conflict. A "resource blessing", on the other hand, refers to a positive correlation between growth and development outcomes and natural resource wealth. Countries that have adopted timely and sound macroeconomic policies and used their oil revenues wisely overcome the risk of "resource curse".

Some negative effects can occur when oil and gas revenues are phased in without careful planning and management. Overall prices could increase and the riel could appreciate, weakening the competitiveness of exports of some agricultural cash crops and of garment products. A drop in these exports would subsequently push many out of employment, with serious consequences for the whole economy.

Activities and prices in non-tradable sectors like construction and services are likely to increase because of high demand and the strong purchasing power of the oil and gas sector. Prices of buildings, housing and land would all increase if demand for these goods increases, driven by oil money. Cambodia may, therefore, become a more expensive country in which to live and to invest.

While oil and gas revenue brings these risks, it provides at the same time a unique opportunity for the government to push economic development by investing in national roads, public facilities, education, health, rural roads, irrigation systems and services. Investment in these public goods will ensure long-term as well as short-term growth. The oil revenue could also be used to strengthen social safety nets by establishing social and pension funds. These investments potentially provide the most direct benefits to the Cambodian people and, therefore, serve the Cambodian Millennium Development Goals.

Oil revenue also provides a good opportunity for the government to speed up reform in the public sector by increasing salaries of government officials, building capacity through training and updating equipment and facilities. Oil revenues can also be used to provide technical and financial support to domestic industry and handicrafts; this, in turn, will reduce the reliance on imports and create jobs.

In short, oil and gas revenue will make a country more prosperous, but only under certain conditions. The revenue itself is not a curse, but the way in which it is used and managed may result in a curse or blessing. CDRI's vision is that oil and gas revenue will be wisely managed and used for the benefit of all Cambodians.

* This article is composed by Dr Sok Sina, research associate, CDR. It reflects the speeches by H.E Joseph Mussomeli, US Ambassador to Cambodia, and H.E. Douglas Gardner, United Nation Resident Coordinator, at the Outlook Conference organised by the CDRI in collaboration with ANZ Royal Bank on the 22-23 February 2007.

A Historic Opportunity to Achieve Shared Prosperity and Secure Long-Term Stability

By Douglas Gardner, United Nations resident coordinator

“Cambodia must learn from other countries, use oil revenues effectively and avoid an oil curse.”—Prime Minister Samdech Hun Sen at the Cambodia Economic Forum, 17 January 2006.

The likelihood of significant oil and gas revenues being generated off the coast of Cambodia beginning sometime in 2010 presents a truly unique opportunity to secure the country’s long-term growth, substantially reduce poverty, increase equity and consolidate the country’s hard-won stability.

This opportunity is unique for several reasons.

First, because most of the oil and gas are offshore, no private landowner or group of landowners can claim to own it. As an offshore natural resource in Cambodian waters, it truly belongs to all Cambodians.

Second, offshore oil and gas are new and uncomplicated by recent history. Therefore, this oil and gas offer considerable flexibility and freedom for the government to improve the well-being of the vast majority of the people.

Third, early indications are that the offshore oil and gas fields are likely to yield significant financial revenues for the government, sufficient to improve substantially access to quality health and education, fuel rapid progress towards the Cambodian Millennium Development Goals (CMDGs), help secure the economy’s long-term growth and consolidate the country’s long-term stability.

How Much Oil Is There?

The amount of commercial reserves is still to be confirmed, but preliminary evidence is promising. The amount of offshore commercial reserves in Block A is currently being assessed by Chevron. Solid estimates should become available around mid-year. Very preliminary and tentative figures released last year suggested as much as 700 million barrels of oil in Block A alone.

At world oil prices averaging \$60 per barrel, this level of commercial reserves could annually generate net new revenues to the government in the order of USD1.7 billion.¹ This latter amount represents some three times current official development assistance (ODA) levels, nearly three times current budget revenues and more than 50 percent of merchandise export revenues.

But even under more cautious assumptions, with only half of such revenues generated, this would still leave some USD0.85 billion to be disbursed into the government’s general budgetary process. This would contribute to a doubling of current budget revenues and

expenditures, and allow for a near quadrupling of current expenditures on health and education, while still enabling significant growth in all other budget lines.²

Blessing or Curse?

While expected oil and gas revenues present perhaps the single biggest emerging opportunity facing Cambodia, socio-economic research supported by UNDP in collaboration with the Supreme National Economic Council (SNEC) and CNPA during 2005–06 also strongly suggests that it may be the single biggest threat to the country’s well-being and longer term stability.

These conclusions are also strongly reinforced by experiences in many other low income developing countries over the past 40 years. More oil- and mineral-rich developing countries than not have been negatively impacted by oil and mineral revenue booms, and some even destabilised.³

In general, research indicates that long-term growth rates of oil- and mineral-rich developing countries have been 30 to 50 percent lower than growth rates for oil- and mineral-poor developing countries. Moreover, mineral-rich countries have under-performed mineral-poor developing countries on a variety of other economic, social and political indicators.⁴

Global Experience on the Resource Curse

A review of experiences by developing countries plagued by a resource curse over the past 40 years reveals some of the main warning signs leading up to serious resource curse outcomes.

These include a sudden surge of foreign currency revenues generated from the extraction of non-renewable natural resources combined with:

- lack of financial transparency;
- weak financial governance;
- fragmented and porous public finance systems;
- a weak and narrow tax base;
- strong evidence of significant corruption;
- a predatory state in which officials maximise personal gains through misuse of public office;⁵
- weak macroeconomic management capacity resulting in “Dutch disease”⁶;
- significant borrowing against oil reserves.

Ingredients of a Blessing

The minority of oil/gas/mineral-rich countries that achieved an oil blessing also share common features.⁷

These include an expected surge of oil revenues generated from extraction of non-renewable natural resources combined with:

- advance planning to govern, manage and invest effectively the resulting financial flows;
- a high degree of transparency;
- a high degree of participation and meaningful decision making by the parliament or national assembly;
- well-developed and effective public sector institutions;
- relatively low corruption, with a functioning legal and judicial system;
- a healthy civil society;
- effective macroeconomic management capacity;
- aversion to debt accumulation;
- effective management and investment of the revenues to avoid overvaluation of the exchange rate and promote economic diversification;
- a rate of investment expenditure that ensures inter-temporal efficiency and equity within the capacity limits of the state and absorption capacity of the country (typically back-stopped by a well-designed and transparent natural resource fund).

Outlook for Cambodia?

Clearly, an oil blessing will not be automatic. Fortunately, international experience provides valuable guidance.

Equally fortunately, Cambodia's constitution provides an effective road map towards achieving an oil blessing. The constitution instructs that a "precise plan" be devised by the state for managing such resources as oil and gas, and that such a plan be decided upon by the people through their voice in the National Assembly, Senate, government and judiciary.⁸

Such advance planning and broad participation of the people in decision making has proven to be an important ingredient to oil blessings in some of the more successful oil-exporting countries.

Moreover, given the current institutional and development context of Cambodia, international experience would suggest that a number of important policies and legal and institutional safeguards be put in place well in advance of oil revenue flows to ensure that Cambodia avoids an oil curse and enjoys an oil blessing.

On the policy front: There is a need for clearly defined policy on how potentially substantial oil and gas revenues will be governed and managed; transparent policies on how oil and gas concessions should be allocated to maximise benefits to the country as a whole; transparency in the various types and amounts of financial payments and financial flows generated by oil and gas licensing, exploration, development and extraction; and, more generally, clear policies on the degree of transparency in the sector as a whole.⁹

Offshore oil and gas are the patrimony of all the people of Cambodia, so better informing and broadening the public debate on future use of oil and gas revenues would appear essential. In order to maximise both efficiency and benefits accruing to the country as a whole, the allocation of oil and gas concessions to foreign companies would best be done through a competitive bidding process.

The broad terms of production sharing contracts outlining the various production sharing arrangements and various types of financial flows to the country should be made easily available to the general public (e.g. gazetted or posted on a public web site) to inform public debate, related planning and effective decision making.

On the legal front: There is a need for a well-designed petroleum law to govern the sector, based on a rational division of responsibilities within the state and between the state and the non-state sectors. There is also a need to ensure legal clarity and coherence with other laws (e.g. on taxation, environment etc.).

On the institutional front: Given the current stage of institutional development in Cambodia, there is a case to be made for a well-designed and transparent petroleum fund to ensure inter-temporal efficiency and equity of related investment expenditures through the government budget at a rate that minimises the risk of Dutch disease and other resource curse outcomes.

As is done in some countries that have avoided the curse, financial flows generated by oil and gas could first be deposited in such a well-designed transparent fund before being disbursed to and through the government budget process to finance planned investments within the NSDP at a rate that would enable efficient and effective investments within the limits of the country's still developing institutional and absorption capacities.¹⁰

In general, a further strengthening of public financial systems and management will clearly be important to avoid a resource curse. The government's ongoing efforts in public financial management reform are even more critical in the light of the potential for an oil and gas revenue surge beginning in 2010.

There is also a need to ensure a rational division of institutional responsibilities and related capacities within the petroleum sector. The capacity of the CNPA needs strengthening in a range of technical areas, and the division of responsibilities with other government bodies may need further definition.

Investing in Shared Prosperity and Long-Term Stability: Advancing the CMDGs

Another challenge facing Cambodia is how to allocate expenditures through the budgetary process and NSDP so as to minimise the risk of a resource curse and maximise the likelihood of a blessing. Preliminary findings from

ongoing UNDP-supported research in collaboration with SNEC, CNPA and the Overseas Development Institute are illuminating.¹¹

These findings generated by quantitative simulations of the Cambodian economy under varying oil and gas scenarios strongly suggest that the most effective way for Cambodia to minimise the risk of Dutch disease and other resource curse outcomes would be to invest a substantial share of future oil and gas revenues into rural development, especially human resource development through much improved basic education, training and extension services as well as in rural infrastructure, especially rural electrification, roads and irrigation. These requirements are largely due to the existing low capital intensity in most of rural Cambodia. Such rural-based human capital and infrastructure investments also appear to offer the greatest scope for economic diversification, generating jobs and incomes in agriculture and manufacturing, and sustaining healthy growth rates over the long term.

Moreover, quantitative simulations also indicate strong positive impact on equity indicators, thereby further underpinning long-term social stability.

In sharp contrast, the risks of Dutch disease and loss of competitiveness in agriculture and manufacturing appear to rise as increasing shares of future revenues accrue to urban areas. In this scenario, equity indicators appear to deteriorate rapidly, boding ill for long-term social stability and human well-being. This scenario also tends to further exacerbate already high land concentration and related inequalities.

Similarly, early simulations suggest that striking a safe balance between consumption and investment expenditures will also prove critical. Dutch disease effects increase sharply as increasing shares of new revenues are used for consumption. The impact is especially negative on private sector competitiveness and investment. Imports also rise to unsustainable levels.

The government's Rectangular Strategy and the NSDP both place heavy emphasis on rural development and achieving the Cambodia Millennium Development Goals. While the NSDP does not specifically factor in the possibility of substantial oil and gas revenues, the realisation of such revenues would allow for an NSDP+ scenario fuelling rapid growth and poverty reduction in rural areas, as well as rapid advancement towards the other CMDGs.

In short, substantial investments funded by future oil and gas revenues in rural people and rural infrastructure, coupled with governance reforms, would appear to be the most effective way to avoid a resource curse and ensure that the outlook for Cambodia and its people becomes increasingly bright over the coming decades.

Endnotes

1. Calculation based on world oil price of USD60 per barrel and extraction costs of \$20 per barrel with some 60 percent of gross revenues accruing to government based on a sliding formula in production sharing agreement with Chevron. Blocks B, C, D, E and F could of course add further to future revenues.
2. If very preliminary indications of natural gas reserves in Block A (some 3–5 trillion cubic feet) are factored in, this could mean as much as another \$350 million per annum would accrue to the government based on the production sharing contract with Chevron, further reinforcing the above preliminary financial implications.
3. Hence the term “resource curse” defined as “a phenomenon whereby a country with an export-driven natural resource sector, generating large revenues for government, leads paradoxically to economic stagnation and in some cases political instability”. A resource curse can have several dimensions, including overvalued real exchange rates, thereby undermining the competitiveness of non-resource sectors, particularly agriculture and manufacturing; wastage; corruption/predation; and reduced incentives for accountability by governments to their people.
4. The most striking examples are many of the oil- and mineral-poor Asian tigers compared with many of the oil- and mineral-rich countries in Latin America and Africa, many of which are among the poorest and most indebted in the world. Among the more publicised resource curse experiences are those of Nigeria, Angola, Liberia, Sierra Leone, Equatorial Guinea, Ecuador, Venezuela, Trinidad and Tobago (quite recently), Kazakhstan, former Zaire, the Philippines in the 1970s–80s and many others.
5. Often cited examples here include former regimes in Nigeria, Liberia, Sierra Leone and former Zaire.
6. “Dutch disease” is an overvaluation of the real exchange rate and substantial loss of competitiveness in non-oil tradable sectors, especially agriculture and manufactures., thereby narrowing the base of economic activity, increasing unemployment and reducing incomes. The reduced diversification of the economy and increased reliance on the commodity sector leave the country more vulnerable to economic instability resulting from volatility in the specific commodity market concerned.
7. The most cited countries that managed to achieve a resource blessing are Norway, Canada (Alberta), USA (Alaska), Australia, Chile and Botswana. Timor-Leste is often cited as a developing country that has incorporated in its approach to offshore gas the most important lessons learned by other countries over the past 40 years, and hence may also serve as a model for Cambodia.

8. Article 59 of the constitution indicates that the state will establish a precise plan for the management of resources like oil and gas, and manage these for the improved welfare and standard of living of its citizens. All power belongs to the people, and such power is exercised through the National Assembly, the Senate, the government and the judiciary.
9. The government has initiated a working relationship with the Extractive Industry Transparency Initiative to assist in this process.
10. For example, even if only half of the aforementioned \$1.7 billion of annual revenues were initially placed in a well-designed and transparent petroleum fund (as exists in a number of successful oil-rich countries), this would still leave some USD0.85 billion to be disbursed into the government's general budgetary process. This in turn would contribute to a doubling of current budget revenues and expenditures, and allow for a near quadrupling of expenditures on health and education, while still enabling significant growth in all other budget lines. In the meantime, the funds deposited in the proposed petroleum fund would continue to grow at a healthy international rate of return, allow for continued improvements in health and education beyond the eventual depletion of oil reserves and better secure financial and socio-economic stability.
11. In light of the need to plan well in advance for the various possibilities, this ongoing research is aimed at simulating and quantifying the socio-economic implications for Cambodia of various oil and gas scenarios using a first ever computable general equilibrium model of the economy. The draft research findings will be released in the coming months for consultations and enrichment.

Avoiding the Resource Curse: Managing Cambodia's Extractive Industries *By Joseph A. Mussomeli, US ambassador to Cambodia*

Excellencies, ladies and gentlemen.

Thank you for allowing me to participate on this panel. This session, "Managing Cambodia's Oil and Gas Resources", is certainly timely. Within the next three years, Cambodia's extractive industries—oil, gas and various types of mining—could more than triple the annual revenue received by the government of Cambodia.

A UNDP study stated that future oil revenues alone could provide over three times the country's official development assistance received in 2005.

This should be wonderful news. And indeed, for some poor countries, extractive industries have been an economic saviour, rescuing them from seemingly intractable poverty. They can also be an economic saviour for Cambodia. But that future is not yet certain. We all know from our own lives that many apparent blessings turn out to be curses. In America, a year does not go by when you don't read about some lucky person who won millions of dollars in a lottery and then ends up poorer and unhappier than ever before. Sudden wealth is as hard for people to cope with as sudden tragedy. For many countries, the wealth acquired through the extraction of resources has been a horrific curse, rendering the population destitute, while a small corrupt elite siphons off revenue that should go to improving the welfare of all the people. Over time, this corruption and the increasing disparity between the few "haves" and the many "have nots" inexorably lead to social unrest, political instability and violent conflict.

How will Cambodia navigate this critical voyage from being an "aid dependent" to a "resource rich" country?

Will Cambodia be able to maximise wealth and cast off the social, political and psychological shackles of the Pol Pot regime? Will Cambodia emerge as a 21st century Asian dragon, implementing international best practices while pursuing its own path to economic prosperity and political stability? In order for the answer to these questions to be "Yes", Cambodia will need above all else political will. All the planning and training and good intentions will get Cambodia exactly nowhere if your leaders lack the political will to demand that the revenues from these extractive industries be used solely for the improvement of the country. In his open and eloquent speech yesterday, Prime Minister Hun Sen showed his intent to demonstrate just such political will. You must develop a transparent policy framework and establish comprehensive institutional structures that will prevent anyone, no matter how powerful, from misusing these revenues.

Before providing specific policy recommendations, I would like to highlight the pitfalls of the "resource curse," into which too many other nations have fallen. Contrary to expectations, discoveries of large reserves of natural resources have not always resulted in economic or social growth, and in some countries the general population is actually worse off after 30 years of oil revenues. The curse begins when government "deal makers" do not get the best price for the non-renewable natural resources. These people usually use non-transparent processes that focus on short-term wealth at the expense of long-term national development. They also usually have only a limited technical understanding of the business complexities and arrangements of the extractive industries.

Sometimes governments simply fail to plan for the inevitable revenue shocks associated with the constant ebb and flow of world oil, gas and mineral prices. Often governments find themselves remaining dependent on financial institutions that loan funds to cover budget shortfalls, which can lead to excessive debt and inflation.

Most fundamentally, some countries have made the irritatingly human decision to use the resource surpluses to relax fiscal discipline. Like children who never think about the long-term consequences of the choices they make, they act as if the revenue will never stop flowing and they need never act responsibly. This ultimately causes a downward economic spiral fuelled by increased public consumption at the expense of local production, causing domestic inflation and undermining the economy's productive sectors.

What does this mean for the Cambodian situation? Inflation can lead to higher prices to produce Cambodian agricultural and manufacturing products, thus reducing their competitiveness in the world market. Stated simply, if the extractive industries revenue is not properly managed, the Cambodian garment industry, which currently employs 334,000 Cambodians who earn \$292 million a year in wages and \$2.6 billion in exports in 2006, could be undermined and ultimately collapse. This is an unattractive scenario that can be avoided. Many within the government recognise and have been working to manage responsibly Cambodia's extractive industries.

The world community has gained a good deal of experience over the last several decades in how to manage the risks and realise the rewards of oil, gas and mineral development. Cambodia has the opportunity to learn from the failures of some countries and build on the successes of others.

We would recommend the following policy considerations.

First, we applaud the government for considering the Extractive Industries Transparency Initiative (EITI), and we hope that Cambodia will soon become an EITI implementing country. This would be a welcome step to demonstrate the government's commitment to establishing transparency in the extractive industries contracting system.

Second, the government should improve laws and regulations relating to disclosure and oversight of government revenues to ensure extractive industry revenues are openly tracked and allocated to implement the current Rectangular Strategy.

Third, the government should review its revenue management policy. The policy should provide answers to important questions such as "what to spend", "what to save" and "when". What will be the rules by which

revenues flow into the treasury? Will Cambodia follow the Nordic example and establish savings funds for future generations? If so, what percentage of revenue will be made available for annual expenditures to support the education and health systems, rural infrastructure, preservation of tropical forests and other development priorities?

Fourth, the government's work to develop a new petroleum law should be expedited to ensure an efficient and transparent regulatory framework.

Fifth, the proposed amendment to the Law on Taxation that introduces clear and efficient petroleum industry taxation provisions should be endorsed and forwarded to the National Assembly. In order to implement the revised tax system, the Ministry of Economy and Finance's Tax Department will need to be strengthened to include specialists on extractive industry tax administration.

Sixth, the National Assembly should take immediate action to enhance its ability to serve a viable oversight role, including establishment of a permanent commission that has the specific responsibility for oversight of extractive industry revenue flows.

Seventh, the government should expedite the passage and implementation of a freedom of information law, which would codify the basic democratic principle that the work of the government should be conducted in a transparent and open manner so that leaders can be held accountable for their decisions and actions.

Finally, the government should pass and implement an anti-corruption law that will establish an independent body that can investigate corrupt practices throughout the government.

In closing, I would offer the observation that after living in Cambodia for a year and a half, I have discovered that there are few things all Cambodians agree on. But there are two things that they all consistently believe, regardless of their age, their political party or their economic status. First, they all speak with pride about the great Khmer civilisation that flourished many centuries ago. And second, they all speak longingly about how, only 50 years ago, Cambodia was the envy of all of south-east Asia: how Cambodians were better educated, had better health services, had a more lively and open cultural atmosphere than any of their neighbours.

I like to think that the revenues that Cambodia will soon obtain from its natural resources will be a "second chance". A second chance to regain the prestige of its ancient civilisation and a second chance again to be the envy of all its neighbours. This is an especially auspicious year to begin this "second chance". We all just celebrated the ushering in of the Year of the Golden Pig. My understanding is that the year is particularly

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Accelerating Poverty Reduction

*Despite the high economic growth achieved in the past decade, Cambodia's poverty rate of 35 percent remains one of the highest in the region. It is now time to accelerate poverty reduction. At the CDRI Outlook Conference in February 2007, a panel consisting of Nisha Agrawal, Chan Sophal and Chhith Sam Ath discussed how poverty reduction could be targeted and accelerated.**

Nisha Agrawal—The World Bank

Cambodia made significant achievements over the decade 1994–2004. Peace and stability were attained after prolonged wars and chaos. It was a decade of high economic growth, about 7 percent per annum. Poverty reduction progressed moderately, the poverty level declining from 47 percent to 35 percent: roughly one percent of the population per year was lifted out of poverty during this decade. As well, social indicators overall improved, particularly in health and education.

However, inequality is on the rise. Inequality between the rich and the poor increased sharply during the last decade. The living standards of the richest fifth rose five times faster than those of the poorest fifth—an increase of 45 percent compared to 8 percent. Similarly, the gap has been increasing between regions, and poverty is worse in rural areas: poverty headcounts have fallen much faster in Phnom Penh and coastal regions than elsewhere. In addition, compared to its regional neighbours, inequality in Cambodia is high, with a Gini coefficient of 0.42 in 2004 compared to Vietnam's 0.35 in 2002 and Indonesia's 0.34 in 2000, for instance.

To politicians, inequality also matters. For example, the prime minister's speech on 22 February 2007 stated that domestically we are facing considerable challenges that could undermine social and political stability.

Those challenges include the increase in land conflicts, population pressures and encroachment on natural resources, the narrow base of economic growth, the increase in inequality and, thus, the need to redistribute the fruits of economic growth to increase the benefits to the poor. These risks and challenges should be transformed into opportunities.

Who Are the Bottom 20 Percent?

The bottom 20 percent are living under the food poverty line. These people are concentrated in the rural plains, Tonle Sap and mountain/plateau regions and depend heavily on agriculture and common property resources, which makes them very vulnerable since the availability of and access to these resources have been declining. They have limited access to basic services and infrastructure.

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Three Most Important Actions Needed To Attain Shared Prosperity

One of the most important actions for attaining shared prosperity is to improve access to land and land tenure security for poor people in rural areas. The government has made economic land concessions (ELCs). Between 1992 and 2006, ELCs were granted under 70-year leases to 96 private companies in 16

provinces. Of these, about 57 are currently active (still not cancelled) in about 1 million hectares of concessions. Fourteen concessions exceed the 10,000 hectare per concession limit and thus require a special review, yet no review has been carried out. Despite the policy rationale that ELCs are necessary for productivity, growth and competitiveness, only about 10 ELCs are operational. In the rest, the land is left idle for speculative purposes. The question then is whether this is the best use of Cambodian land.

While large tracts of farm land remain idle under ELCs, there is a strong economic case for smallholder agriculture and for social land concessions (SLCs). Twenty percent of rural households are landless; an additional and growing number of households are nearly landless, or own very small plots. According to the SLC sub-decree in 2003, government policy is to cancel non-operational economic concessions and transfer the land to landless households. Such reallocation of land

* Nisha Agrawal is Cambodia country manager, World Bank. Chan Sophal is senior research manager, CDRI. Chhith Sam Ath is director, NGO Forum on Cambodia.

has a clear rationale in terms of economic productivity and growth as well as poverty reduction. However, implementation of the SLC policy has been very slow and needs to be accelerated.

Another important action is to diversify the existing sources of growth and strengthen the linkages between growth and poverty reduction. Current economic growth is narrowly based, particularly concentrated in the garment and tourism sectors. The garment sector employed more than 300,000 workers by the end of 2006. It provides 80 percent of all merchandise exports. Such high reliance on one sector creates a narrow base, which is highly vulnerable to external shocks. In addition, the garment sector alone is not enough, since every year about 250,000 people enter the job market. Hence there is a need to diversify the manufacturing sector to create more jobs.

Backward linkages from tourism are needed to ensure that tourism growth contributes to poverty reduction. During the last five years, the tourism sector has grown at an average rate of 26 percent per annum. A majority of tourists visit Siem Reap, yet Siem Reap remains one of the poorest provinces in the country. Tourism will not result in major benefits for the poor without deliberate strategies that focus on the impact of tourism, rather than just on the number of tourists.

Finally, it is necessary to target services and infrastructure at lagging groups and to increase the participation of these groups in the development dialogue. Although net primary enrolment has improved for all income groups, the poorest of the poor still have limited access to most other services. For instance, the poorest 40 percent have virtually no access to water or sanitation. Hence, targeted efforts need to be made to reach the poorest of the poor for most services.

Chan Sophal-CDRI

While we are pleased with the overall progress in development so far, we are deeply concerned by the fact that a new set of problems has emerged and is likely to be more severe if faster development in certain rural areas does not occur in time. These new problems include increasing conflicts over water use between

farmers and fishing lot owners, massive encroachment and conversion of forests and flooded forests, increased vulnerability of the poor, especially women in the poorest households, high risks of thefts and robbery and drug use among youth.

Our longitudinal study in nine villages spread across the country revealed that progress in poverty reduction was not uniform. While some communities improved substantially within three years, some remained stagnant, and some even became poorer. Likewise, there were households that moved up or out of poverty, but also those that moved down or into poverty. The factors causing such mobility are crucial to policy discussion.

The reasons for communities moving up are primarily (i) increased agricultural income resulting from improvement in farming techniques, irrigation and markets; (ii) increased accessibility to outside opportunities made possible by road development; and (iii) expansion of small businesses partly supported by the expansion of micro-credit.

There is one important cause of communities and households moving down or remaining very poor. In the past decade there has been rapid degradation of forests, partly due to the failure of law enforcement. Although national statistics on fish catch have shown no sign of decline, fishery resources have been increasingly captured by the rich, mostly from outside the fishing communities. The poor

have been facing decreasing fish stocks as a result. In addition, the composition of the stock has changed towards smaller species, while the bigger, more valuable fish become rarer and rarer.

A great concern is that communities adjacent to the forests and the Tonle Sap Lake tend to be poorer. As existing degraded common property resources are unlikely to sustain many poor households, we wonder whether there will be alternatives for such households. A number of households dependent on forest resources have recently been employed by new landowners to clear and fence their farms, mostly for speculative purposes. Once these activities of land acquisitions are completed, these households will need alternative livelihoods.

It appears that the two leading sectors, namely garments and tourism, have so far not resulted in substantial poverty reduction due to their very limited

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backward linkages. While further growth in these two sectors is desirable, there is a broad consensus that agricultural development as a third engine of growth will be the most effective way to reduce poverty. It is now time for action.

Agricultural development requires a greater allocation of resources, primarily to irrigation and agricultural research and extension. Also of vital importance is improvement in land management and tenure, agro-processing and marketing and affordable credit. Spending on agriculture and irrigation so far has been too low. According to the official national budget published by the Ministry of Economy and Finance, government expenditure on agriculture in 2005 was only USD13 million, out of some USD800 million. Donors' spending was USD35 million out of some USD500 million. Expenditure by both government and donors on irrigation was about USD13 million in 2005, typical of the past few years.

There is a huge potential to develop agro-industry in Cambodia. So far, this sector has been negligible. Currently, most raw produce is exported to neighbouring countries for processing and re-export. Cambodia not only loses the potential to add value to the products, but such exports are also carried out informally and are therefore subject to many constraints. With increasing demand from China for agricultural produce, such as cassava and soybeans, there is ample opportunity to make gains from investment in agro-processing. However, to realise this potential, there is an urgent need to reduce the costs of business and trade in Cambodia. More can be done by the government to reduce transportation costs and border fees.

The costs of transportation and energy in Cambodia remain high. According to a comparative study in 2004 undertaken by research institutes in the Development Analysis Network managed by CDRI, the cost of transporting one tonne of maize, soybeans or cassava is USD10–12 per 100 km in Cambodia, while it is only USD4–5 in Vietnam and USD2.50 in Thailand. It is still expensive and cumbersome for agricultural exports to go through the border. For instance, for 10 tonnes of maize, the total fees were from USD50 to USD80 at some border checkpoints with Thailand. Traders have to go through a large number of authorities: the international police, customs, CAMCONTROL, economic police, soldiers, military police, border authorities and facilitation authorities of bilateral border. Some of these authorities can have different national, provincial and district offices.

Cambodia can do more to reap the benefits of increased access to regional and global markets. This can be done by increasing production and investment in agro-

processing, and by reducing marketing costs. Cambodia can make better use of land both in old areas and newly deforested areas in favour of the poor by improving irrigation, equitable distribution of land and market access. Non-performing economic land concessions should be seriously reconsidered. Land speculation and land grabbing, which have been rising rapidly, should be controlled by imposition of taxes on large blocks of land. This would help to increase production of crops to meet the rising demand. For instance, Thailand and Vietnam respectively exported USD500 million and USD50 million worth of cassava to China in 2005. It is estimated that Cambodia exported only about USD5 million of cassava in the same year. Our studies indicate that Cambodia can increase crop production many times if land is used more productively. Since many crops can be produced by the poor, increased production, processing and exports will directly contribute to poverty reduction.

For production, processing and marketing of crops to be profitable, there is a need for the following, among other things:

- incentives for the private sector to increase investment in agro-processing;
- efficient use of land and reduced business costs (including transportation and border fees) in order to make investment profitable;
- incentives for public servants to facilitate private efforts rather than obstructing them.

Chhith Sam Ath–NGO Forum

Cambodia has made substantial progress in the last 10 years. The country is now at peace. Economic growth has been consistently high. The poverty headcount has been reduced by approximately 8 percent. At the same time, inequality between rich and poor has widened, making Cambodia one of the more unequal countries in the region. The poverty headcount remains high, at 35 percent. Infant mortality has been reduced to 65 per 1000 live births, while maternal mortality remains high at around 472 per 100,000 live births.¹

The question now is how to target development interventions to achieve faster poverty reduction, greater equality and truly sustainable development. This requires us to think about 1) the best model to achieve equitable and sustainable development; and 2) actions that specifically target the poor and vulnerable.

Most NGOs are working with specific poor and vulnerable groups, such as the landless poor, remote rural villages, indigenous people, forest- and fisheries-dependent communities, disabled people, victims of trafficking and domestic violence, HIV/AIDS victims, urban poor communities and victims of human rights

violations. NGOs are often witness to how economic development and growth bypass the poor and vulnerable, and sometimes make them even worse off.

NGOs are therefore often critical of the view that Cambodia needs to attract “all kinds of foreign investment” and all kinds of economic growth. Indeed, some kinds of investment may destroy the livelihoods of poor communities and redirect resources away from the poor towards the rich and better off.

We do not need to go into detail regarding concerns about the impact of large agricultural concessions awarded to companies over land that rural villagers previously used for farming or for access to natural resources. NGOs and donors have frequently raised such concerns. Recently, NGOs in Cambodia had a chance to learn that these problems are not unique to Cambodia, but are common throughout south-east Asia. During a meeting in Kratie town on the impact of plantations, NGOs from across south-east Asia declared: “Plantations severely limit the amount of land available to rural communities for agricultural production. Many plantation concessions allow companies to take prime fertile land away from villages and divert it for monocultural production. This has serious negative impacts on local environments, including loss of biodiversity, soil degradation, increased aridity and pollution of local water sources”.²

A more appropriate model of rural development may be one which leaves resources under the management of Cambodian farmers. Given land security and access to information and resources, small farmers can increase their productivity, while at the same time building a better life for their families. Food security and nutrition can be improved through support to diversified and integrated farming (involving rice, fish, vegetables, dike

cropping, fruit trees etc). NGOs recommend expanding extension services to small farmers and the adoption of low-input methods of increasing crop production.

Similarly, in the urban sector, a better balance is needed between the interests of commercial development and the needs of the poor. Informal settlements are often considered illegal and an eyesore, but in fact provide much needed cheap housing, which is not being provided by the formal sector. The cheap labour and services provided by people living in these settlements are an important part of the urban economy. Instead of evicting these people, efforts should be made to provide services to them and improve their land tenure.

A balance between the needs and rights of the poor and the needs of business is necessary in all these cases. A strong legal framework is part of what is needed to restore this balance. Hence, the granting of economic land concessions requires the prior registration of state land and the conducting of social and economic impact assessments. Relocated people are eligible for adequate compensation. I would suggest, however, that our understanding of “development” should also be more balanced. Development should not be measured only in terms of economic growth or the number of investors attracted to the country. Development occurs when ordinary people, especially the poor and vulnerable, experience immediate and long-lasting improvements in their well-being and control over their own futures.

Endnotes

1. See World Bank, Cambodia Poverty Assessment 2006; and RGC, Cambodia Demographic and Health Survey 2005.
2. Statement of the Mekong Regional Conference on Tree Plantations, Kratie, November 2006.

Continued from page 11 **Avoiding the Resource Curse...**

auspicious for investment and stability. I can't help but think that in order to ensure stability and wisely to invest in Cambodia's future, all the good traits of the pig—intelligence, gentleness, honesty, kindness and hard work—will be required.

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Economy Watch—External Performance

World Economic Growth

US real GDP increased by 2.5 percent in the year to the fourth quarter of 2006, compared to 2.0 percent in the third quarter. This primarily reflected an increase in consumer spending, exports and federal government spending, and a downturn in imports.

The real GDP of the euro zone in fourth quarter 2006 was 3.3 percent higher than in the same period a year earlier and 0.9 percent higher than in the previous quarter. Japanese real GDP grew by 2.3 from a year earlier and by 1.2 percent compared to the previous quarter.

The Chinese economy in fourth quarter 2006 maintained high momentum with real GDP 10.7 percent higher than a year earlier. Industry continued to grow at a faster pace (12.5 percent) than services (10.3 percent) and agriculture (5.0 percent). Investment and exports remained the main drivers of growth.

The real GDP of South Korea in the fourth quarter grew by 5.0 percent from a year earlier and by 0.8 percent compared to the previous quarter. The real GDPs of Taiwan and Hong Kong in the fourth quarter were up by 4.0 percent and 7.0 percent, respectively, compared to a year earlier.

The Malaysian economy in the fourth quarter grew by 5.7 percent compared to a year earlier. Manufacturing

and services grew by 4.3 percent and 7.0 percent, respectively, while agriculture grew by 6.5 percent. Growth of final consumption expenditure and exports moderated to 6.7 percent and 10.5 percent, respectively, from a year earlier.

The Singapore economy in the fourth quarter was up 7.0 percent compared to the same period in 2005. Manufacturing grew by 8.0 percent, while services grew by 7.7 percent.

Thai real GDP in the fourth quarter increased 4.7 percent compared to the same period in 2005. Agriculture grew by 0.9 percent, less than in the previous quarter (4.7 percent), due to a decrease in crop production and a slowdown in livestock and fishery production. The non-agricultural sector grew by 4.6 percent from a year earlier, compared to 4.7 percent growth in the previous quarter.

World Inflation & Exchange Rates in International Markets

In the fourth quarter of 2006, consumer prices in the US eased to a 1.9 percent increase over a year earlier, from 3.3 percent in the third quarter, as a consequence of a drop in the price of crude oil and of energy items closely related to oil. In the euro zone, the inflation rate was 1.8 percent, just below the ECB's ceiling of 2 percent. The drop in oil prices was the main cause of inflation fall in the euro zone. In Japan, consumer prices rose by 0.3 percent in the year to the fourth quarter, compared to 0.6 percent in the previous quarter. Although the year-on-year change in consumer prices was positive, the change was close to zero if petroleum products and other special factors are excluded.

In foreign exchange markets, the US dollar was mixed against other currencies in the fourth quarter of 2006. Against the Japanese yen, the dollar traded at JPY117.8, an appreciation from 116.3 in the third quarter. The dollar bought 0.78 euros, the same rate as in the previous quarter.

Against the South Korean won, the dollar depreciated to 938 KRW/USD compared to 955 KRW/USD a quarter earlier; it depreciated to 7.86 Chinese yuan, from 7.97 CNY/USD in the previous quarter. The weakness of the US dollar is related to market reaction to evidence of a moderation in US economic activity, while robust economic growth continues in many other large economies (except for Japan) and in selected ASEAN countries.

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Commodity Prices in World Markets

In the fourth quarter, the prices of maize, palm oil and soybeans rose, while the prices of rice, crude oil, gasoline and diesel went down. Palm oil sold at USD494.92/tonne, up from USD446.85, while maize and soybeans sold at USD140.18 and USD279.10/tonne, respectively. The price of white rice, Thai 100% B second grade, in the Bangkok market was USD279.10/tonne, down from USD289.91 in the third quarter. The price of crude oil in the fourth quarter decreased by 16 percent from the previous quarter to USD56.39/barrel. The prices of gasoline and diesel went down from the previous quarter, by 22 percent and 17 percent, respectively. Gasoline sold at US 41.02 cents/litre and diesel at US 46.11 cents/litre.

Prepared by Hing Vutha and Phim Runsinarith

Economy Watch—External Performance

Table 1. Real GDP Growth of Selected Trading Partners, 2001–2006 (percentage increase over previous year)

	2001	2002	2003	2004	2005	2006				2005
					Q4	Q1	Q2	Q3	Q4	
Selected ASEAN countries										
Cambodia	6.7	4.8	7	7.7	-	-	-	-	-	13.4
Indonesia	3.8	3.8	4.9	5.1	4.9	4.6	5.2	5.5	6.1	5.6
Malaysia	0.5	5.6	5.4	7	5.2	5.5	5.9	5.8	5.7	5.2
Singapore	-2.3	2.6	1.4	8.5	7.7	10.7	8.0	7.1	7.0	5.7
Thailand	1.9	6.1	6.9	6	4.7	6.0	4.9	4.7	4.2	4.5
Vietnam	6.0	6.7	7	7.5	-	-	-	-	-	8.4
Selected other Asian countries										
China	7.5	8.1	9.9	9.5	9.9	10.9	11.3	10.4	10.7	9.6
Hong Kong	0.5	5.0	3.2	8.3	7.6	8.2	5.2	6.8	7.0	6.5
South Korea	3.0	6.1	3	4.7	5.2	6.1	5.3	4.8	5.0	4.7
Taiwan	-2.2	4.2	3.1	5.7	6.0	4.9	4.6	5.0	4.02	-
Selected industrial countries										
Euro-12	1.4	0.7	0.5	1.8	1.8	2.0	2.4	2.6	3.3	1.5
Japan	0.4	0.4	2.6	3.4	4.5	3.0	2.2	2.7	2.3	2.5
United States	1.2	2.4	3.1	4.4	1.1	5.6	2.6	2.2	2.5	3.0

Sources: Economist, countries' national statistics offices and central banks and ADB's Asia Regional Information Centre

Table 2. Inflation Rate of Selected Trading Partners, 2001–2006 Q1 (percentage increase over previous year—period average)

	2001	2002	2003	2004	2005	2006				2005
					Q4	Q1	Q2	Q3	Q4	
Selected ASEAN countries										
Cambodia	-0.6	3.2	1.2	4.0	6.6	6.1	4.5	4.9	3.4	5.8
Indonesia	11.5	13.2	8.3	8.3	17.3	16.9	15.5	14.9	6.1	10.5
Malaysia	1.4	1.8	1.1	1.6	3.4	3.9	4.1	3.6	3.1	3.1
Singapore	1.0	-0.4	0.5	1.7	1.1	1.4	1.2	0.7	0.6	0.5
Thailand	1.7	0.6	1.8	2.7	6.0	5.7	6.0	3.6	3.3	4.5
Vietnam	-0.4	3.8	3.1	7.8	10.0	10.3	-	-	-	8.2
Selected other Asian countries										
China	0.9	-0.7	1.2	3.9	1.4	1.2	1.4	1.4	1.8	1.8
Hong Kong	-1.3	-3.0	-2.6	-0.4	1.8	2.0	2.1	2.3	2.2	1.1
South Korea	4.4	2.7	3.5	3.5	2.5	2.4	2.3	2.5	2.4	2.8
Taiwan	-0.01	-0.2	-0.3	1.6	2.5	1.4	1.5	-0.3	-0.1	2.3
Selected industrial countries										
Euro-12	2.6	2.2	2.1	2.2	2.4	2.3	2.3	2.1	1.8	2.2
Japan	-0.6	-0.9	-0.3	Nil	-0.5	0.4	0.7	0.6	0.3	-0.3
United States	2.8	1.6	2.3	2.7	3.7	3.7	4.0	3.3	1.9	3.4

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

Table 3. Exchange Rates of Selected Trading Partners against US Dollar, 2001–2006 Q1 (period averages)

	2001	2002	2003	2004	2005	2006				2005
					Q4	Q1	Q2	Q3	Q4	
Selected ASEAN countries										
Cambodia (riel)	3,916.3	3,912.1	3,973	4,016.3	4,154.3	4,081.3	4,095.3	4,145.3	4,129.4	4,092.5
Indonesia (rupiah)	10,261	9,311	8,577	8,938	9,999	9,175	9,115	9,122	9,124	9,705
Malaysia (ringgit)	3.80	3.80	3.80	3.80	3.78	3.73	3.65	3.67	3.62	3.79
Singapore (S\$)	1.79	1.79	1.74	1.69	1.69	1.63	1.59	1.58	1.56	1.66
Thailand (baht)	44.4	42.9	41.5	40.2	41.02	39.3	38.1	37.7	36.5	40.2
Vietnam (dong)	14,725	15,280	15,510	-	15,907	15,921	-	-	-	15,859
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.28	8.08	8.05	8.01	7.97	7.86	8.19
Hong Kong (HK\$)	7.80	7.80	7.78	7.79	7.75	7.76	7.76	7.78	7.78	7.78
South Korea (won)	1,291	1,251	1,192	1,145	1,036	976	949	955	938	1,024
Taiwan (NT\$)	33.8	34.5	34.4	33.6	33.4	32.3	32.2	32.8	32.8	32.1
Selected industrial countries										
Euro-12 (euro)	1.12	1.06	0.89	0.80	0.84	0.83	0.80	0.78	0.78	0.80
Japan (yen)	121.5	125.4	115.9	108.2	117.2	116.9	114.5	116.3	117.8	110.2

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

Table 4. Selected Commodity Prices on World Market, 2001–2006 (period averages)

	2001	2002	2003	2004	2005	2006				2005
					Q4	Q1	Q2	Q3	Q4	
Maize (USNo.2)—USA (\$/tonne)	81.18	89.98	95.42	110.65	90.64	95.37	99.95	108.67	140.18	89.19
Palm oil—north-west Europe (\$/tonne)	259.13	353.91	402.03	427.47	391.52	395.75	397.87	446.85	494.92	381.32
Rice (Thai 100% B)—Bangkok (\$/tonne)	160.81	178.59	182.22	221.67	259.40	275.12	283.86	289.91	279.10	262.88
Soybeans (US No.1)—USA (\$/tonne)	163.89	182.58	218.86	262.03	210.42	210.96	207.02	207.38	230.17	224.25
Crude oil—Dubai (\$/barrel)	22.8	23.9	26.8	33.5	52.99	57.89	65.03	67.00	56.39	50.14
Gasoline—US Gulf Coast (cents/litre)	19.5	19.1	23	30.9	42.29	41.18	55.89	52.70	41.02	42.19
Diesel(low sulphur No.2)—US Gulf Coast (cents/litre)	18.72	17.85	21.63	29.48	49.90	47.72	55.89	55.66	46.11	44.35

Sources: Food and Agriculture Organisation and US Energy Information Administration

Economy Watch—Domestic Performance

Main Economic Activities

Investment approvals and tourism increased, while construction and the trade balance declined in fourth quarter 2006, compared to the previous quarter. The increase of investment and tourism will provide more growth and create more employment opportunities, while the decline of construction will have a negative effect on growth.

In the fourth quarter, total fixed asset private investment approvals increased dramatically to USD971.9 m, nearly four times the previous quarter's level. The drivers of the increase were services and agriculture approvals. Services approvals were close to eight times the preceding quarter at USD740.7 m—construction approvals were USD369.3 m, tourism USD315.3 m and other services USD56.1 m. Agriculture approvals rose from none in the third quarter to USD154.6 m, while industry sector approvals decreased by 55 percent to USD76.6 m. However, garment sub-sector approvals increased by 12 percent to USD26.1 m. There were 22 private investment projects approved, and these are expected to need 57,887 workers. Agriculture will need 36,754 workers in seven projects, industry will require 13,915 for 11 projects, and services will need 7218 for four projects.

Most favoured nation basis and labour compliance with International Labour Organisation standards are positive features for Cambodia to attract investors; these conditions provide more access to investment and to export opportunities.

Construction project approvals in Phnom Penh in fourth quarter 2006 decreased by 18 percent from the previous quarter, to USD78.1 m. Flats decreased by 19 percent to USD54.5 m and other construction by 33 percent to USD13.9 m, while villa and house construction increased by 28 percent to USD9.7 m. Compared to the same quarter of 2005, construction project approvals increased by 8.8 percent, of which flat construction rose by 21 percent, and villa and house increased by 80 percent. For all of 2006, construction project approvals were USD524.8 m, an increase of 46 percent from the preceding year. Flat construction amounted to USD168.5 m or 32 percent of the total construction project approvals, while villa and house

construction approvals were only USD33.1 m or 6.3 percent of the total.

Cambodia's trade balance was a deficit of USD70.4 m in the fourth quarter of 2006, after a surplus of USD23.2 m in the previous quarter. Total exports decreased, while imports have continued to increase for several quarters. In the fourth quarter, exports declined by 8.8 percent from the preceding quarter to USD736.7 m. Usually, exports decline in the fourth quarter each year, particularly garment exports, in line with the main buying season in the northern hemisphere, so this decrease follows the usual seasonal pattern. Garment exports decreased by 8.4 percent to USD716.0 m, of which clothing decreased by 8.4 percent to USD695.0 m, shoes dropped by 8.5 percent to USD17.3 m, and other textiles declined by 17.8 percent to USD3.7 m. Agricultural exports also declined, by 19 percent to USD20.7 m. Fish exports fell by 13 percent to USD1.4 m, rubber by 25 percent to USD10.2 m and wood by 32 percent to USD1.7 m, while rice exports increased from none in the preceding quarter to USD0.8 m. Compared to fourth quarter 2005, however, total exports increased by 14 percent.

There was a 2.9 percent increase of total imports in the fourth quarter to USD807.1 m. Construction material imports decreased by 16 percent from the preceding

quarter to USD35.8 m, of which cement imports declined by 13 percent to USD13.8 m and steel imports by 30 percent to USD12.6 m, while construction equipment imports rose by 11 percent to USD9.4 m. Gasoline imports increased slightly, by 0.8 percent to USD13.2 m (42,310 tonnes), while diesel imports decreased by 9.6 percent to USD27.2 m (95,700 tonnes).

In the fourth quarter, total visitor arrivals increased by 39 percent from the previous quarter to 516,099. Arrivals by land and water increased by 30 percent to 191,005 and by air rose 45 percent to 325,024, of which Phnom Penh airport received 129,787. Holiday visitor arrivals increased by 32 percent to 425,089, and business arrivals dropped by 2.9 percent to 32,729. Compared to the fourth quarter of 2005, total visitor arrivals rose by 24 percent; arrivals by air and by land and water increased 29 percent and 16 percent, respectively. Holiday arrivals increased by 22 percent. In 2006, visitor arrivals to Cambodia totalled 1,705,989, an increase of 21 percent from the previous year. Tourist arrivals to Siem Reap

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province increased by 24 percent to 856,510. As a result, many hotels have been constructed in Cambodia. There were 351 hotels in total in 2006, an increase of 11 percent from a year earlier.

Public Finance

The government's budget surplus in the fourth quarter was KHR120.7 bn, compared to a deficit of KHR191.9 bn in the preceding quarter. Budget revenue and expenditure increased sharply; the larger revenue was able to pay for all government spending in the fourth quarter. In this period, total revenue collection rose by 64 percent from the preceding quarter to KHR1199.2 bn. Tax revenue collection was the main source of expanded current revenue, up by 18 percent to KHR844.4 bn. Value added tax (VAT) increased by 13 percent to KHR244.6 bn, excise duties by 22 percent to KHR125.9 bn and custom duties by 27 percent to KHR200.0 bn, all of which caused total tax revenue collections to rise by 17 percent to KHR661.3 bn. Non-tax revenue collection in the fourth quarter increased by 21 percent to KHR183.1 bn. Both forest exploitation, and posts and telecommunications rose significantly to three times the previous figure, to KHR0.9 bn and KHR30.0 bn, respectively, while tourism receipts increased by 14 percent to KHR14.1 bn.

Capital revenue rose by 10 percent to KHR349.8 bn, while privatisation receipts decreased by 39 percent to KHR9.4 bn. Compared to the same period in 2005, revenue collections were up by 45 percent, of which tax increased by 19 percent and non-tax revenue by 24 percent, while capital revenue was close to three times larger.

Budget expenditure increased by 17 percent from the preceding quarter to KHR1078.4 bn. Current expenditure rose by 20 percent to KHR728.7 bn, while expenditure on economic administration increased by 9.5 percent to KHR170.1 bn, on general administration by 13 percent to KHR134.9 bn and on defence and security by 47 percent to KHR92.0 bn. Spending on education and health doubled to KHR281.3 bn. In the fourth quarter, spending on officials' wages was KHR240.7 bn, an increase of 4.0 percent from the preceding quarter. Meanwhile, capital expenditure fell by 10 percent to KHR349.8 bn,

of which 32 percent was funded domestically and 68 percent funded externally.

Inflation and Foreign Exchange Rates

In the fourth quarter, overall prices in Phnom Penh decreased by 0.3 percent from the previous quarter; food prices declined by 0.9 percent and transportation and communication costs by 0.7 percent. Prices of clothing increased by 0.8 percent, medical care 0.2 percent and education 0.4 percent. Compared to the same quarter of 2005, overall consumer prices rose by 3.4 percent; the cost of education increased by 1.3 percent, medical care 2.2 percent, food 3.3 percent, clothing 3.6 percent and transportation 6.8 percent. Following a drop in world crude oil prices, gasoline prices moderated the change in overall prices, as expected. Increasing food prices, especially for meat and poultry, were the main source of the year-on-year rise in overall prices in Phnom Penh.

The riel's exchange rate with the US dollar was 4129.4 riels/USD, an appreciation of 0.4 percent from the previous quarter and 0.6 percent from the same quarter of 2005. The riel depreciated by 2.4 percent against Thai baht, while against Vietnamese dong, it remained stable, compared to the previous quarter. The riel traded at 24.9 riels per 100 dong. Compared to the fourth quarter 2005, the riel depreciated 11 percent

against the baht, while appreciating by 4.6 percent against the dong.

Monetary Developments

In fourth quarter 2006, total liquidity (M2) increased by 7.4 percent to KHR6942.3 bn. The components of M2 are currency outside banks and in bank deposits. Local currency outside banks rose by 5.8 percent to KHR1599.6 bn, riel in bank deposits increased by 1.9 percent to KHR146.7 bn and foreign currency in bank deposits rose by 8.1 percent to KHR5196.0 bn. Compared to the same period in 2005, total liquidity rose by 38 percent, of which currency outside banks increased by 25 percent and foreign currency in bank deposits went up by 45 percent, while riel in bank deposits decreased by 4.3 percent. Assets of the monetary system are the drivers of total liquidity. In the fourth quarter, net domestic assets grew by 43 percent from the preceding quarter to

Following a drop in world crude oil prices, gasoline prices moderated the change in overall prices, as expected. Increasing food prices, especially for meat and poultry, were the main source of the year-on-year rise in overall prices in Phnom Penh.

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KHR282.0 bn, and net foreign assets increased by 3.8 percent to KHR7224.3 bn. The domestic credit share of net domestic assets increased by 12 percent to KHR2676.5 bn, of which claims on government increased by 5.9 percent to KHR286.6 bn, government deposits rose by 6.7 percent to KHR1240.0 bn, and private sector credit rose by 10 percent to KHR3629.8 bn. Other assets were negative KHR2958.5 bn, i.e., a liability, a worsening of 2.2 percent from the previous quarter.

Poverty Situation—Real Daily Earnings of Vulnerable Workers

The real daily earnings of 10 groups of vulnerable workers decreased by about five percent on average in February 2007, compared to the same period in 2006. Of these, the earnings of cyclo drivers, porters, small vegetable traders, scavengers, waiters and unskilled and skilled construction workers decreased; two groups, garment workers and motorcycle taxi drivers, increased their earnings; rice field workers' incomes remained stable.

Real daily earnings of skilled and unskilled construction workers in February decreased by 14 percent and 15 percent, respectively, compared to the same month in 2006. These declines were due to an increase in the number of workers. Some of those were workers from rural areas who moved with their families to Phnom Penh in the hope of improving their livelihoods. In the survey, 52 percent of skilled and 32 percent of unskilled workers said that their families' living standard had improved since they became city workers.

Cyclo drivers' earnings decreased by 17 percent, from 7883 riels in February 2006 to 6534 riels. The decrease was due to competition from other forms of transportation, such as an increased number of tuk-tuks and motorcycle taxis. Most cyclo drivers worked 11 hours per day and for about 25 days per month, spending about 4000 riels per day for food. The survey found that 58 percent of cyclo drivers did not rent accommodation because they stayed in the cyclo owner's house, while they paid 2000 riels per day to hire a cyclo. Of the others, 30 percent stayed at pagodas, 10 percent and 2 percent renting accommodation and living with their relatives, respectively.

In February the daily earnings of scavengers were 4530 riels, a 9 percent decrease from the same month last year. The drop was due to an increase in the number of scavengers, many of whom moved from rural areas. Ninety-five percent of scavengers said that their earnings from rubbish collection supported their families. Generally, scavengers spend about 2000 riels daily for food, and they work 11 hours per day to support themselves.

Daily earnings of small vegetable traders in February 2006 were quite similar to the same month the previous year (Table 8). Some 47 percent of small vegetable traders stated that their earnings increased, while 42 percent reported a decline and the others remained the same. Small vegetable traders need about USD20 for their daily business. Sixty-five percent of them are from provinces outside of Phnom Penh. Sixty percent had attended but not finished primary school, 10 percent had attended secondary school, and the other 30 percent had never attended school.

The survey revealed that waiters' daily earnings in February 2007 fell by 13 percent compared to February 2006. This was due to some not having regular work. Sixty-five percent of waiters, however, indicated that their families' living standards were improved, because some of their salaries went to support their families at home.

Daily earnings of motorcycle taxi drivers increased by 3 percent in February from the same month in 2006, to 9144 riels. The increase was due to the price of gasoline declining and the fact that the survey covered the period of Chinese New Year. Ninety percent of motorcycle taxi drivers indicated their earnings could not support their whole family, because of their spending for food, 4500 riel per day.

In February garment workers earned an average of 11,146 riels per day, a 21 percent increase compared to February 2006; these were the highest earnings reported since the surveys started in 2000. Earnings increased due to increased work in the factories; 73 percent of respondents worked more than 60 hours per week. Some 64 percent of garment workers believed that the factories would continue to operate for a long time into the future. Only 32 percent could save some money for establishing a business when they stop work, 53 percent said that their earnings did not allow them to save, and 15 percent were undecided. Generally, garment workers spend about 2900 riels for food daily, and their total spending was about 150,000 riels per month.

The daily earnings of rice field workers were stable, 4126 riels. Seventy-two percent of rice field workers reported their earnings were just a small part of the income of their families, because their work was unstable. In addition, 32 percent said their family's living standards had improved, 38 percent had stayed the same, and 30 percent worsened. Forty-eight percent of rice field workers had not attended school, and the other 52 percent had attended only primary school.

*Prepared by
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Economy Watch—Indicators

Table 1. Private Investment Projects Approved, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
									Q4	Q1	Q2	Q3
	Fixed Assets (USD m)											
Agriculture	51.6	63.9	9.8	0.4	40.3	3.7	12.3	9.1	126.5	216.9	0.0	154.6
Industry	650.5	162.6	109.4	105.2	67.7	137.2	189.2	82.0	40.1	76.9	171.7	76.6
. Garment	126.5	67.7	81.5	26.5	27.2	68.1	133.9	27.3	30.5	9.6	23.2	26.1
Services	154.7	222.6	150.1	118.4	145.3	168.4	92.0	28.1	60.7	2,043.2	94.5	740.7
. Hotels and tourism	112.0	171.8	79.8	73.8	47.1	124.1	55.9	22.6	0.0	26.2	3.5	315.3
Total	856.8	449.1	269.2	224.0	253.3	309.3	293.5	119.2	227.3	2,337.0	266.2	971.9
Total	Percentage change over previous quarter											
Total	-	-	-	-	-	-	-	-70.5	90.7	928.1	-88.6	265.1
Total	Percentage change over previous year											
Total	15.0	-47.6	-40.0	-19.5	10.5	31.1	-12.4	628.1	-52.2	2331.2	-34.1	715.4

Including expansion project approvals. Up to June 2006. Source: Cambodian Investment Board

Table 2. Value of Construction Project Approvals in Phnom Penh, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
									Q4	Q1	Q2	Q3
	USD m											
Villas and houses	21.2	20.0	16.4	15.9	23.4	20.0	30.3	5.4	10.1	5.7	7.6	9.7
Flats	227.3	290.5	174.8	167.8	179.9	91.6	167.6	45.1	39.9	51.8	67.1	54.5
Other	27.0	16.4	14.2	12.6	16.6	87.3	65.6	21.3	17.4	24.7	20.8	13.9
Total	275.5	326.9	205.4	196.3	219.9	198.9	263.5	71.8	67.4	82.2	95.5	78.1
Total	Percentage change over previous quarter											
Total	-	-	-	-	-	-	-	-6.1	-6.2	22.2	16.1	-18.1
Total	Percentage change over previous year											
Total	6.9	18.7	-37.2	-4.4	12.0	-9.5	32.5	12.0	-36.5	-21.2	24.8	8.9

Source: Department of Cadastre and Geography of Phnom Penh municipality

Table 3. Exports and Imports, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
									Q4	Q1	Q2	Q3
	USD m											
Total exports	784.4	941.1	1,056.2	1,268.2	1,453.2	1,708.1	2,108.1	644.8	603.2	652.5	807.5	736.7
Of which: Garment	378.0	554.0	962.1	1,202.2	1,355.8	1,628.4	2,027.0	601.0	568.5	632.4	782.0	716.0
. To U S	74.1	486.0	714.1	840.9	943.4	1,099.8	1,270.9	408.1	402.5	438.6	522.8	483.2
. To EU	-	-	228.1	323.3	356.3	414.7	590.8	145.3	110.6	142.2	188.1	160.1
. To rest of the world	82.0	68.0	19.9	38.0	56.1	113.8	165.3	47.5	55.3	51.6	71.0	72.8
Agriculture	-	-	94.2	66.0	97.3	79.7	81.2	43.8	34.7	20.2	25.5	20.7
. Rubber	-	-	29.6	25.9	29.7	35.1	38.3	13.4	7.8	9.8	13.6	10.2
. Wood	-	-	32.9	22.3	16.0	10.2	11.1	2.0	2.1	2.3	2.5	1.7
. Fish	-	-	5.4	6.0	4.3	2.8	10.6	6.6	1.9	1.0	1.6	1.4
. Other	-	-	26.2	11.8	47.4	31.6	21.3	21.9	22.9	7.0	7.7	7.5
Total imports	1,112.2	1,237.4	1,417.7	1,501.4	1,707.8	1,824.9	2,149.0	691.1	690.7	774.9	784.3	807.1
Of which: Gasoline	-	-	-	-	25.9	33.2	30.2	10.7	10.9	12.4	13.1	13.2
Diesel	-	-	-	-	100.8	109.6	109.4	21.1	32.5	32.2	30.1	27.2
Construction materials	-	-	-	-	12.9	80.8	95.3	26.2	37.0	39.1	42.5	35.8
Other	-	-	-	-	1,568.2	1,601.3	1,914.0	633.1	610.3	691.2	698.5	731.0
Trade balance	-327.8	-296.3	-361.5	-233.2	-254.6	-116.8	-40.9	-46.3	-87.5	-122.4	23.2	-70.4
Total garment exports	Percentage change over previous quarter											
Total exports	-	-	-	-	-	-	-	-15.3	-5.4	11.2	23.7	-8.4
Total imports	-	-	-	-	-	-	-	-11.7	-6.4	8.2	23.7	-8.8
Total imports	-	-	-	-	-	-	-	9.3	-0.03	12.2	1.2	5.9
Total garment exports	Percentage change over previous year											
Total garment exports	66.4	47.0	74.0	24.9	12.8	20.1	24.5	15.5	27.8	27.1	10.2	19.1
Total exports	59.0	20.0	12.2	20.1	14.6	17.5	23.4	18.3	30.3	26.7	10.6	14.3
Total imports	1.6	11.3	14.6	5.9	13.7	6.9	17.8	26.1	32.6	15.6	24.3	16.8

Import data include tax-exempt imports. Sources: Department of Trade Preferences Systems, MOC and Customs and Excise Department, MEF.

Table 4. Foreign Visitor Arrivals in Cambodia, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
									Q4	Q1	Q2	Q3
	Thousands of passengers											
By air	186.3	262.9	351.7	408.4	523.0	456.0	626.1	251.5	275.4	204.4	224.2	325.0
By land and water	100.2	104.8	114.7	196.5	263.5	245.0	428.9	164.5	181.9	153.6	146.4	191.0
Total	286.5	367.7	466.4	604.9	786.5	701.1	1,055.0	416.0	457.3	358.0	370.6	516.0
Total	Percentage change over previous quarter											
Total	-	-	-	-	-	-	-	28.7	9.9	-21.7	4.1	39.2
Total	Percentage change over previous year											
Total	30.9	28.3	26.8	29.7	30.0	-10.9	50.5	9.8	20.2	21.2	14.7	24.1

Source: Ministry of Tourism

Economy Watch—Indicators

Table 5. National Budget Operations on Cash Basis, 1998–2006 (Billions of riels)

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
								Q4	Q1*	Q2*	Q3	Q4
Total revenue	920	1326	1,528	1,530	1,744	1,764	2,126	827.9	595.9	731.5	732.2	1,199.2
Current revenue	-	-	-	1,521	1,728	1,733	2,107	701.6	593.2	726.9	716.8	844.4
Tax revenue	676	956	1,096	1,096	1,227	1,220	1,577	553.8	484.7	558.6	565.8	661.3
Customs duties	376	432	376	376	424	395	513	189.8	135.5	151.7	157.2	200.0
Non-tax revenue	204	348	424	424	501	513	530	147.8	108.5	168.3	151.0	183.1
Forest exploitation	20	36	28	29	15	7	2	0.1	0.5	0.7	0.3	0.9
Posts & telecommunications	88	108	124	122	123	120	94	38.0	11.4	30.0	11.7	30.0
Capital revenue	36	12	8	9	16	31	19	126.3	2.7	4.6	15.4	354.7
Total expenditure	1,348	1,788	2,332	2,332	2,948	2,757	2,932	998.9	881.7	1,012.0	924.0	1,078.4
Capital expenditure	368	624	976	977	1,388	1,171	1,163	350.3	340.1	386.6	317.2	349.8
Current expenditure	980	1,164	1,356	1,355	1,560	1,586	1,769	648.6	541.7	625.4	606.9	728.7
Education and Health	132	280	344	343	454	473	518	228.4	80.3	202.3	150.1	281.3
Defence and Security	448	464	404	405	438	411	423	71.4	78.1	116.7	155.3	170.1
Other ministries	332	412	636	637	668	702	828	348.8	383.2	306.4	301.5	277.3
Overall balance	-428	-462	-804	-802	-1,204	-993	-806	-171.0	-285.9	-280.5	-191.9	120.7
Foreign financing	268	416	768	766	1,249	886	864	269.0	257.6	333.3	228.6	296.5
Domestic financing	112	60	36	37	-45	106	148	-97.9	28.3	-52.8	-36.7	-417.2

Provisional for 2006. * Revised. Source: Ministry of Economy and Finance.

Table 6. Consumer Price Index (change), Exchange Rates and Gold Prices (period averages), 1998–2005

	1998	1999	2000	2001*	2002	2003	2004	2005	2006			
								Q4	Q1	Q2	Q3	Q4
Consumer price index (percentage change over previous year)												
Provinces	-	5.8	5.4	-0.1	0.9	4.4	14.4	16.6	15.8	12.0	8.5	7.2
Phnom Penh - All Items	14.8	4.0	-0.8	0.2	3.3	1.1	3.9	6.6	6.1	4.5	4.9	3.4
- Foods	14.1	7.6	-3.4	-2.5	1.8	1.5	6.4	10.6	10.6	6.3	5.8	3.3
- Transportation	15.1	3.5	6.6	-4.2	0.3	4.9	9.7	10.2	9.7	10.0	10.1	6.8
Exchange rates, gold and oil prices (Phnom Penh market rates)												
Riels per US dollar	-	-	3,840.8	3,916.3	3,912.1	3,973.3	4,016.3	4,154.3	4,094.8	4,106.6	4,145.3	4,129.4
Riels per Thai baht	-	-	95.8	88.2	91.1	95.8	99.9	101.4	103.5	108.0	110.3	112.9
Riels per 100 Vietnamese dong	-	-	27.1	26.6	25.6	25.6	25.5	26.1	25.4	25.0	24.9	24.9
Gold prices (US dollars per chi)	40.4	36.0	33.3	32.8	36.8	41.4	46.3	57.0	64.2	72.2	73.0	72.8
Diesel (riels/litre)	883	1,065	1,105	1,329	1,521	1,508	3,442	2,921	2,867	3,110	3,333	3,250
Gasoline (riels/litre)	1,378	1,613	1,760	2,113	2,084	2,150	2,633	3,750	3,767	4,000	4,200	4,050

* Revised. Sources: CDRI, IMF, NIS, Ministry of Planning, Ministry of Economy and Finance

Table 7. Monetary Survey, 1998–2006 (end of period)

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
								Q4	Q1	Q2	Q3	Q4
Billions of riels												
Net foreign assets	1,726	2,019	2,589	3,080	3,737	4,027	4,797	5,475	6,410	6,682	6,958	7,224
Net domestic assets	-496	-576	-759	-876	-849	-698	-467	-450	-699	-637	-497	-282
Net claims on government	178	103	3	-75	-119	-128	-209	-421	-755	-831	-892	-853
Credit to private sector	655	763	898	936	1,059	1,337	1,817	2,394	2,778	2,997	3,288	3,628
Total liquidity	1,230	1,443	1,830	2,204	2,888	3,329	4,330	5,025	5,711	6,045	6,461	6,942
Money	543	531	540	609	813	937	1,153	1,323	1,449	1,512	1,563	1,658
Quasi-money	687	912	1,290	1,595	2,075	2,392	3,177	3,702	4,262	4,533	4,898	5,285
Percentage change over previous year												
Total liquidity	15.7	17.3	26.8	20.4	31.0	15.2	30.0	16.1	27.0	30.6	29.4	38.2
Money	41	-2.2	1.7	12.8	33.5	15.3	23.0	14.7	20.9	24.4	22.2	25.3
Quasi-money	1.3	32.7	41.4	23.6	30.0	15.2	32.8	16.6	33.6	32.8	31.9	42.7

Source: National Bank of Cambodia

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

	Daily earnings (riels)									Percentage change over previous year		
	2000		2003		2004		2005		2006		2006	
	Nov	2003	2004	2005	Feb	May	Aug	Nov	2007	Aug	Nov	2007
Cyclo drivers	7594	8572	7614	7469	7873	8546	6063	7393	6534	-23%	-5%	-17%
Porters	6233	6676	6895	6545	6519	7375	5238	7045	6010	-13%	9%	-8%
Small vegetable sellers	5256	6532	6947	6000	6186	6492	5197	6125	6125	-12%	-27%	-1%
Scavengers	2718	3944	4446	4416	4984	4512	4266	3903	4530	-2%	-19%	-9%
Waitresses*	2111	4932	4448	4426	4670	4243	4292	4498	4078	-8%	16%	-13%
Rice-field workers	4198	4177	4139	4365	4127	4541	4137	4653	4126	3%	10%	0%
Garment workers	6701	9577	9277	8816	9184	7860	9264	8957	11146	6%	3%	21%
Motorcycle-taxi drivers	8610	10092	9204	8201	8884	8790	6744	8386	9144	-28%	-13%	3%
Unskilled construction workers	5399	6558	6382	5918	5974	6407	6028	5263	5094	-1%	-21%	-15%
Skilled construction workers	13127	13111	12679	10316	11750	9833	9466	10215	10146	-8%	-9%	-14%

* Waitresses' earnings do not include meals and accommodation provided by shop owners.

Surveys on the revenue of waitresses, rice-field workers, garment workers, unskilled workers, motorcycle taxi drivers and construction workers began in February 2000. Source: CDRI

Continued from page 24 **Update ...**

A proposal for a study on tropical forests in poverty alleviation was designed by the University of Copenhagen, Denmark, in collaboration with the NRE Unit. It was submitted to and approved by the Danida Research Council. The project covers a period of 41 months (August 2007–December 2010).

Peace Building and Conflict Transformation

As in previous years, the training team of the Centre for Peace and Development conducted a core Working for Peace course. It was commissioned by three organisations to deliver specially designed training on conflict management and communication skills. It also offered a Training for Peace course (TOT) to 11 former graduates from the Working for Peace course.

Conflict Prevention in Cambodian Elections (COPCEL Phase II)

COPCEL continued its activities in organising the COPCEL Enlarged Meetings in Phnom Penh, the second round of COPCEL Provincial Meetings to discuss election-related concerns and two high-level meetings and one national conference to reflect on the experience of the last commune election and prepare for the next election. One COPCEL Media Meeting was also held to promote high civic participation in elections.

Publishing

In the last three months, major publications produced included the report on the participatory poverty assessment of the Tonle Sap, the CDRI Annual Report for 2006–07 and two working papers, on accountability and neo-patrimonialism and on decentralisation in Cambodia. At the same time, CDRI has expanded its network with printing houses and translation service companies.

The publishing unit has conducted more intensive on-the-job training in translation, Khmer editing and layout and cover design. Staff also attended short courses on multimedia web content development and use of Photoshop software for design.

Library

After changing to NewGenLib, the new computer software to facilitate library operation, the library staff are working to arrange the library holdings according to the international standard of the Library of Congress system. They also help library users to use the new software.

The manager and a staff member attended a course on NewGenLib organised by VBNK in June.

CDRI has accepted a request from the IMF to use the CDRI library as the depository for its documents. At present, five institutions deposit their documents in the CDRI library: ADB, WB, UNIAP, UNRISD and IMF.

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CDRI UPDATE

Management

In May, the CDRI executive director, Larry Strange, participated in the International Relations Institute of Cambodia's International Conference on Globalisation and Regional Integration, speaking in a panel session on "Cambodia—Common Interests and Forms of Cooperation and Integration within and beyond ASEAN".

In June a high-level workshop on public policy research in Cambodia was held at CDRI, hosted by the Royal School of Administration (RSA) in partnership with CDRI and the Graduate School of Government of the University of Sydney. The workshop discussed current developments in Cambodian public sector reform, what these mean for public policy research needs and how the development of public policy research capacity might best be approached through institutions like the RSA, which trains Cambodian civil servants.

CDRI's senior research manager, Mr Chan Sophal, has been elected as the new president of the Cambodian Economic Association (CEA). A small secretariat to support the CEA will be established at CDRI. CDRI management looks forward to working closely with the CEA under Chan Sophal's leadership to promote quality economic research and education in Cambodia.

CDRI gratefully acknowledges the extension of DFID's support for its Democratic Governance and Public Sector Reform programme until March 2008.

Research

A major development for CDRI's research programme was the arrival of Dr Hossein Jalilian as new research director. Dr Brett Ballard, the acting research director, has now taken up the post of senior research adviser.

A roundtable discussing the draft report of the Moving Out of Poverty Study (MOPS) held at CDRI received useful peer review comments for finalisation in July. The printed final report is expected in August 2007. The Tonle Sap Participatory Poverty Assessment (PPA) report was printed and disseminated widely.

The Development Analysis Network (DAN), consisting of research institutes from Cambodia, Thailand, Vietnam, Laos and China, has been conducting two studies, Cross-Border Migration in the GMS, and Agricultural Trade in the GMS. The previous project, on pro-poor tourism, has been concluded, with a joint DAN publication and CDRI working paper to be printed in August 2007.

In addition to the published CDRI working paper #34 on accountability, three working papers—on accountability and public expenditure management, planning and coordination and the civil service—are now in final stages of preparation. They will be published by the end of August. A working paper examining the relationship and accountability of elected commune councils and civil society was published.

The Water Resource Management Research Capacity Development Programme, a five-year project (July 2006–June 2011) funded by AusAID, has established a web site under www.cdri.org.kh, which will be gradually updated as the project progresses.

A study comparing direct and indirect values of previous land uses with those of rubber plantations, based on estimated returns from established rubber plantations of different ages, was conducted in Kompong Cham and Kompong Thom provinces.

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