

**CAMBODIA
DEVELOPMENT
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CAMBODIA'S ANNUAL ECONOMIC REVIEW 2001

Sok Hach, Chea Huot
and Sik Boreak

Cambodia's Annual Economic Review – 2001

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**Cambodia Development Resource Institute
Phnom Penh, August 2001**

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August 2001

Sok Hach, Chea Huot and Sik Boreak

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

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Printed and Bound in Cambodia by Japan Printing House, 74 Street 99, Phnom Penh

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Foreword

The Cambodia Development Resource Institute (CDRI) began its research programme in 1996, and among the first topics taken up for research, was the Cambodian economy. Since 1997, CDRI has regularly published a quarterly data profile on key macro-economic indicators, and since early 2001, it has brought out *Monthly Flash Reports* on current statistics relating to the economy.

Cambodia's Annual Economic Review (CAER) is the latest in the set of publications that CDRI has been bringing out as a part of its on-going commitment towards providing research-based opinion on the Cambodian economy. This report, the first in a series that CDRI plans to bring out each year, covers a broader span than is usually expected in such annual reviews. Chapter 2 presents a panoramic view of the economic and political developments in Cambodia since the early 1990s, when the Paris Peace Accords were signed and the peace process began to take root. It critically examines the successes and failures on different counts and then highlights the challenges facing the economy.

Chapters 3, 4 and 5 have concentrated on specific sectors. Chapter 3 addresses issues in agricultural marketing with the understanding that other facets of agriculture will be discussed in subsequent issues of this *Review*. Chapters 4 and 5 present studies on the two most important modern sectors of the Cambodian economy, namely, garment manufacturing, and tourism. Each study critically examines the growth of activities and their contribution in modernising the economy and society, and they comment on the earnings and working conditions of those engaged in them. The studies also shed light on the growth potential of these industries.

CDRI plans to annually publish an analytical report on the Cambodian economy, which will closely review year-to-year changes on a number of critical variables, with the purpose of providing useful information to policy makers, investors, international agencies and readers at large. In addition, each *Review* will contain sectoral and issue-specific essays. We sincerely hope that this series, which will be published in both Khmer and English, will be of interest to readers and become a valued reference tool.

Phnom Penh, August 01, 2001

*Eva Mysliwiec
Director
Cambodia Development Resource Institute*

Acknowledgements

The authors of this publication would like express their gratitude for all the assistance provided by the following people: H.E. Sok Chenda Sophea, Secretary General, Council for the Development of Cambodia; Mr. Van Sou Ieng, President of the Garment Manufacturers' Association of Cambodia; Mr. Bruce J. Levin, Economic and Commercial Officer of the United States Embassy; the Minister of Tourism, H.E. Veng Serey Vuth; the Secretary of State for Tourism, H.E. Nuth Nin Doern; H.E. Mrs. Om Som Sun, the Under-Secretary of State for Tourism; Mrs. Chau-Sun Kérya, Director of the APSARA Authority and M. Christian Chéron, Advisor to the Minister of Agriculture. The authors are also very grateful for the ongoing support and advice provided by CDRI's Director, Ms. Eva Mysliwiec; CDRI's Research Director, Mr. Sarthi Acharya; and the reviewers, Economist Mr. Toshiyasu Kato and Dr. Jayant Menon, Economist, Office of the President, Asian Development Bank.

Phnom Penh, August 01, 2001

Sok Hach, Chea Huot and Sik Boreak

Cambodia Development Resource Institute

Acronyms and Abbreviations

AFTA	ASEAN Free Trade Agreement
ASEAN	Association of Southeast Asian Nations (ASEAN)
CAMPI	Cambodia Prospective and Integrated Model
CDC	Council for the Development of Cambodia
CDRI	Cambodia Development Resource Institute
EU	European Union
FTUWKC	Free Trade Union of Workers of the Kingdom of Cambodia
GMAC	Garment Manufacturers' Association of Cambodia
GSP	Generalised System Preference
IMF	International Monetary Fund
JETRO	Japan External Trade Organisation
MFN	Most Favoured Nation
MICE	Meeting, Incentive, Convention and Exhibition (tourism)
NBC	National Bank of Cambodia
NIS	National Institute of Statistics
NTR	Normalised-Trade Relationship
UNTAC	United Nations Transitional Authority in Cambodia
WTO	World Trade Organisation

Chapter One

Introduction: Cambodia's Economy in Transformation

Cambodia has undergone dramatic changes in the last ten years. Most significant are the transitions from a centrally-planned to a market economy, from a one-party state to a democratic system of governance, and, more recently, the transition from a country in conflict to one which finally enjoys peace. In order to reconstruct the war-ravaged economy, a partnership has been forged between government, the private sector and civil society, with assistance from the international community.

Given the extent of the destruction of Cambodia's physical, administrative, and social infrastructure, the country has made remarkable progress in the past seven to eight years. Two national elections have been held and preparations are underway for commune elections in early 2002, that will replace government-appointed leaders with elected ones. This will be an important step towards democratic decentralisation. Economic growth has been five percent or more for most of the decade, and the inflation rate has been reduced from triple digit in late 1980s and early 1990s, to less than four percent in 2000. New industries have developed in garment manufacturing and tourism which employ tens of thousands of people and earn significant revenues for government. Production of rice, the main staple of the Cambodian diet, also increased in the 1990s, and since 1996, the country has been producing a surplus for the first time since the 1960s. The government is implementing major reforms, which include: demobilisation of sections of the military; reduction and re-organisation of the civil service; cutbacks in defence spending; setting up an independent judiciary; land reforms; and, improved regulations in finance and banking.

Despite these positive strides, Cambodia still faces significant problems. The country remains heavily dependent on foreign aid, the proportion of people living below the poverty line is still high, especially in rural areas, and so is the proportion of illiterate people. The number of people unable to earn a living in rural areas is rising, and, as a result, migration to already-overcrowded Phnom Penh is increasing. Also, at a time when the size of the workforce is growing rapidly, job-creating investment is not keeping pace.

In order to understand and develop solutions for these and other problems that may emerge in the future, and also keep up the momentum of the reforms already underway, the government, civil society groups, donors and the private sector all require relevant, current and accurate data on key economic, business and social variables. However, while the government does collect some data on important indicators, the resources to analyse and disseminate these data are limited. Lack of coordination between different departments and ministries which collect data only complicates matters. There is some sporadic presentation and analysis of data in reports prepared by donor agencies and non-governmental

organisations, but these focus only on the few sectors that are of interest to them. Circulation of these reports is often restricted and many are published only in English.

The Cambodia Development Resource Institute (CDRI) began to fill the need for economic data in the mid-1990s with the establishment of its macro-economic research programme and regular publication of economic indicators and analysis in the “Economy Watch” section of *Cambodia Development Review*, CDRI’s quarterly journal. In addition to publishing a number of Working Papers and other reports on economic and social issues over the years, in 2001, CDRI launched the bi-lingual Khmer/English *Flash Report*, a monthly snapshot of key economic indicators for the national, regional and global economies.

Also as part of its long-standing commitment to fostering Cambodia’s economic and social development, CDRI has now launched a new publication titled *Cambodia’s Annual Economic Review*. Beginning with this volume, the series is intended to provide in-depth information and analysis on annual economic performance, plus detailed discussion on important sectors of the economy.

This being the first edition of the *Annual Review*, Chapter Two assesses economic performance since 1993, the year of the country’s first democratic election in recent times. In addition to discussing the successes of the reforms which the newly-elected government initiated in 1994, it also discusses how the economy has fared in the face of serious crises – the Asian financial collapse which began in Thailand in 1997; the political turmoil which plagued Cambodia in 1997 and fostered insecurity until the National Election in 1998; and the disastrous floods of 2000 which killed an estimated 400 people and destroyed crops as well as infrastructure such as roads, schools and health clinics over large areas.

Chapter Two further elaborates on how, even in the face of these serious setbacks, the economy continued to grow in 2000 at a rate of 5 percent in real terms, and inflation has been kept to just a few percent, even in rural areas, which are more prone to rising prices. The Cambodian riel has remained largely stable and the government has judiciously avoided the temptation to make up for budget shortfalls by borrowing money. This chapter argues that dollarisation of the economy has helped to keep inflation low or negligible. During the Asian financial crisis, when currencies in neighbouring countries fell sharply against the US dollar, Cambodia’s dollarised economy allowed the country to import the non-agricultural products it needed from neighbouring countries at lower-than-usual prices.

After discussing economic progress and the factors explaining it, Chapter Two describes the major challenges still facing Cambodia: high levels of illiteracy; increasing landlessness in rural areas; urban drift; a fast-growing labour force; uncertain investment; unwillingness of banks to lend to local enterprises; a deepening recession which began in the United States (US) and is spreading world-wide; and, the threat of stiff economic competition when countries such as China and Vietnam become World Trade Organisation members.

In discussing how to solve pressing economic and social problems, Chapter Two urges the government to continue its firm commitment to reforms in such areas as downsizing the military and reducing and reorganising the civil service to ensure that government staff are productive. It also argues that the government should raise civil servants’ salaries so that they no longer have to take second jobs or resort to charging unofficial fees to support themselves and their families. To encourage investment, the passage and enforcement of laws to protect investors is paramount.

Regarding the \$500 million per year in international aid which donors pledge on average, the chapter suggests that that an increasing percentage of this aid should be spent on direct development efforts rather than on technical assistance because this would result in greater benefits for Cambodia.

Chapter Three addresses issues in agriculture. Because all aspects of this sector cannot be discussed in one edition, this year’s *Review* focuses on the rice marketing system. This

chapter, which is based on a literature review and extensive interviews with farmers, millers, traders, government officials and others involved in rice marketing, discusses the constraints faced by all the players in the system. Improving rice marketing is an important issue now that Cambodia is able to produce enough rice to feed the country and has a small surplus that could be sold abroad. After explaining how the rice marketing system operates in getting rice from the farmer to the consumer, the chapter discusses some of the constraints to efficient marketing, which include: lack of information about retail prices; poor quality roads which increase transportation costs; lack of affordable credit which means that indebted farmers have to sell their crop right after harvest when the prices are lowest; and, an excessive number of intermediaries between the farmer and the consumer, and whose profits result in upward pressure on the price paid by the consumer.

Chapter Three also discusses constraints imposed in exporting rice. According to the data presented, although Cambodia now produces a surplus of rice, only a small percentage of this is legally exported. While the government imposes no tax on exports of rice, exporting is expensive because of the unofficial fees exporters pay to avoid delays in obtaining necessary export permits. The chapter also provides some estimates of the considerable amounts of unmilled and milled rice which interviewees claim are exported illegally. The chapter ends with a number of recommendations which include: providing up-to-date information to farmers on retail prices; improving their access to affordable credit; and, eliminating the permits required to export rice, and with these, the unofficial charges that exporters say make Cambodian rice more expensive than the rice produced in neighbouring countries.

Chapter Four focuses on the garment industry that has grown rapidly since the mid-1990s to become Cambodia's leading export earner. In this chapter, which is again based on a literature review and extensive interviews with manufacturers, workers, union leaders and government officials, data are presented on factors which have helped the industry to grow, and well as factors which may retard its future development. The chapter also provides information about the official and unofficial costs involved in setting up and operating a garment factory, and exporting the produce. Manufacturers call the unofficial charges "bureaucracy costs" and claim that these considerably increase the final cost to the buyer.

This chapter also discusses the labour problems that have plagued the industry and the competition that Cambodia's industry will face in the near future from factories in countries such as China and Vietnam. These countries not only have better-educated and trained workers, wages are comparable or lower than Cambodia's.

In order to maintain Cambodia's comparative advantage in garment manufacturing, Chapter Three recommends: eliminating the "bureaucracy costs" which increase the price of Cambodian garments; seeking new markets beyond the US and EU which currently take 97 percent of Cambodia's garments; improving the skills of garment workers to enable them to operate more technically-sophisticated equipment; and, fostering dialogue among manufacturers, unions and the government to reduce strife in the industry.

The final chapter of this year's *Annual Review*, focuses on tourism, which, like the garment industry, has grown quickly in the 1990s. This chapter, which yet again is based on recent literature, and interviews with industry experts, workers, tourists and government officials, profiles the growth of the industry as well as the challenges it faces. For example, in discussing the government's "open skies" policy that allows foreign-owned airlines to fly directly to Siem Reap, the chapter notes that while the number of tourists to Siem Reap has risen, the number of days and nights each tourist stays in Cambodia has fallen, and with it the earnings per tourist. Chapter Five also notes that despite increasing numbers of tourists visiting Cambodia from one year to the next, employment in the industry is still relatively small, and so are the revenues that the government earns from tourism. Another important finding from this research is that money spent by a tourist in Cambodia is considerably lower

than that spent by a tourist in Thailand or Malaysia because these countries have more value-adding alternatives to offer to tourists than does Cambodia.

Two unwanted negative consequences of tourism that are discussed in Chapter Five are: sex tourism and environmental pollution. According to recent government and NGO surveys on sex tourism, this segment of the industry grew rapidly in conjunction with the opening up of Cambodia in the 1990s, and that sexual exploitation of children by tourists has increased as well. The chapter also notes that the involvement of children in the sex trade in Cambodia has grown at the same time as it has fallen in other tourist destinations such as Thailand and the Philippines, where strict laws have been enforced to curb it.

Regarding environmental pollution, Chapter Five notes that regulations to stop hotels from polluting neighbouring communities with the noise and smog from their generators are not enforced, nor are hotels required to treat the sewage they produce. Increasing pollution of waterways and beaches is also cause for concern.

Chapter Five concludes with recommendations which include: prosecution of those who procure children for sex, as well as those who pay for their services; environmental regulations to reduce soil, air and water pollution; greater promotion of Cambodia's tourist attractions over the Internet; development of facilities to promote domestic tourism; and, promotion of ecotourism which can be both environmentally-friendly and also can create much-needed employment opportunities for people in rural areas.

The publication concludes with a statistical profile of the Cambodian economy that provides figures on a number of important economic indicators for each year of the 1990s, as well as for the years 1960 and 1970, for comparison. These tables include main economic indicators such as GDP, export revenues, import costs, budget revenues, budget expenditures, current deficits, and tables which detail budget operations, balance of payments, the monetary situation, investments and savings by category, and employment by sector. The last half dozen tables provide data on the sectoral composition of the GDP.

In subsequent years, CDRI envisages that a portion of the *Review* will concentrate on year-to-year changes in the economy and also comment on the use of specific policy instruments such as fiscal policy, taxes and money supply, in addition to publishing sectoral papers. CDRI sincerely hopes that this publication will become a ready reference for policy makers and others in the private sector in Cambodia, as well as interested parties abroad. Effort will also be made to publish forecasts made for the economy under alternative policy regimes with the help of econometric models.

Chapter Two

Economic Development and Reform Policy

2.1. Introduction

After years of war and isolation, Cambodia can now devote its resources to rehabilitation and reconstruction. In order to rebuild the country rapidly, in addition to its own resources, Cambodia needs public and private investment from foreign countries and must open its economy to the external world. Cambodia is now a member of most international organisations. In 1999, Cambodia became a full member of the Association of Southeast Asian Nations (ASEAN) and joined AFTA (ASEAN Free Trade Agreement). To be fully integrated in the world economy, Cambodia expects to become a member of the World Trade Organisation (WTO) before 2005. However, being a member of ASEAN/AFTA and WTO means that most external trade barriers will be removed. This economic integration might be very beneficial for the country, but there is a great challenge: how to be competitive and develop sustainably at the same time.

Cambodia has many positive attributes that could contribute to rapid and sustainable development. Security has significantly improved. The country is politically stable, a market economy is well-established, and donors remain firmly committed to providing assistance. Relationships between government, donors and civil society have significantly improved through regular meetings of reform working groups. Dialogue between the government and the private sector has also strengthened through regular fora and meetings. Furthermore, labour costs remain competitive, though productivity is not yet high enough. Despite these strengths, economic performance in Cambodia continues to be weak, relative to other neighbouring economies (Figure 2.1).

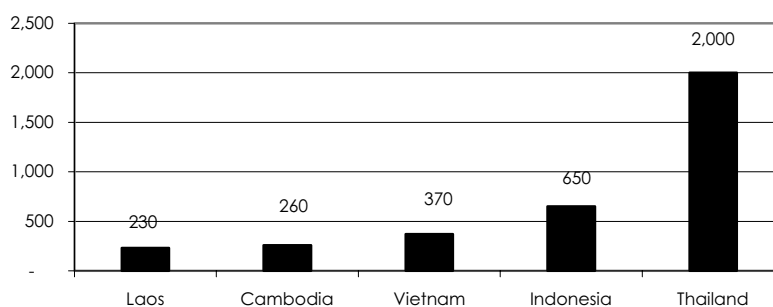
To place the country on the right track towards sustainable development, the Royal Government of Cambodia has pledged to undertake substantial economic reforms since 1994. The government has also pledged institutional reforms, which include reform of the civil service and of the judicial system, as well as military reform through demobilisation. But the results these reforms and their impact on the livelihoods of the rural poor, who make up the majority of Cambodia's population, remain limited. The Cambodian economy is still very fragmented. How can the majority of Cambodia's rural people be brought in to participate in economic development? In the context of international economic integration, which policies and strategies should Cambodia adopt to make its economy stronger? What are the priorities? Could Cambodia accelerate its economic and institutional reforms to support economic development?

To contribute to this debate, the current paper will present an assessment of the economic performance and reforms achieved since 1993. Lessons learned from these experiences, and recommendations on key issues needing urgent policy attention, will conclude the report.

2.2. Policies for Macro-economic Stability and Performance

After years of devastation and chaos, the coalition government formed in mid-1993 intended to move Cambodia towards democracy and prosperity. Reform of the economic system from one which was centrally-planned to one which was market-oriented, continued and strengthened, and links were re-established with the international financial community. In view of the legacy of war and devastation, restoring financial stability, promoting investment for rehabilitation and reconstruction, and reforming the central institutions of macro-economic management were the most immediate and important tasks. In 1994, a medium-term adjustment and reform programme intended to restore macro-economic stability was launched, along with a process of institutional strengthening supported by the international community. The private sector has been promoted and longer-term structural reforms have begun in order to enable sustainable economic growth and poverty alleviation. However, seven years after these reforms were launched, Cambodia remained in 1999, one of the poorest countries in the region, with about 36 percent of its population living below the poverty line (MoP 1999).

Figure 2.1 GDP per Capita of Some ASEAN Countries in 1999 (in US\$)



Source: IMF and ADB

Economic performance over the last seven years has been characterised by rapid development of three new industries: garment manufacturing, telecommunications and tourism. Inflation and fluctuations in the foreign exchange rate have been under control owing to a high degree of dollarisation. However, economic recovery has been largely confined to urban centres; little has trickled down to rural areas. Overall economic growth has been only about half of what was targeted by the government. The combination of rapid expansion of the young population¹, plus lower-than-expected economic growth has had negative consequences for employment and poverty alleviation. Economic growth is only effective in diminishing poverty when it is accompanied by corresponding commitment to social development in areas such as education and health care.

2.2.1. Economic Growth

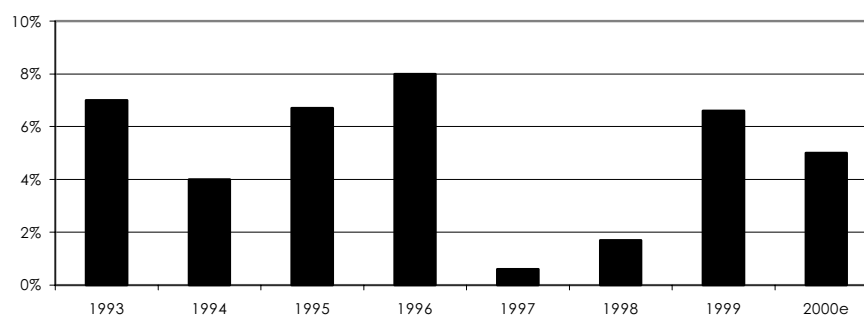
In 1995-1996, economic growth in Cambodia was strong (see Figure 2.2), achieving the government's target of 7 to 8 percent, and it generated significant employment and household revenue. However, political uncertainty which culminated in civil strife in July 1997, combined with the Asian financial crisis, led to a sharp economic slowdown. In 1999, economic activity was fairly favourable after two years of stagnant growth. Despite the adverse impact of floods in some parts of the country in 2000, and the continuing regional financial crisis, Cambodia's real GDP growth in 1999 and 2000 was estimated to range from between 5 and 6 percent (see Figure 2.2). This was a significant increase in GDP, compared

¹ Based on population figures from the 1998 census, Cambodia's population aged 15 to 24 years increased about 3.5 percent per year in the period 1994 to 1998. This population is expected to increase by 6 percent per year between 1999 to 2003, while growth of the population, as a whole, will be only 2.5 percent per year.

with growth rates of 1 and 2 percent in 1997 and 1998. The upturn in the economy was mainly due to significant improvements in security and political stability. Overall, economic growth in Cambodia averaged about 4 percent per year between 1994 and 2000, which was half of the government's target. This growth was mainly the result of rapid expansion in the garment, construction and tourism industries. Over the next five years, the government hopes to achieve annual economic growth rates of 6 percent.

According to the Ministry of Agriculture and the national account figures, since 1993 Cambodian agricultural production has increased about 3 percent per year in real terms, which is about the same as total population growth. However, since 1995, rice production has attained the level of food self-sufficiency (3.5 million tons of paddy) on the national level, although there are pockets of insufficiency in the country due to poor distribution. Despite severe floods which occurred in 2000, production of paddy in the 2000-2001 harvest remained high (4 million tons), owing to significant improvements in productivity. Despite these improvements, however, the Cambodian agricultural sector remained weak in comparison with neighbouring countries. With a better land management system and rehabilitation of rural roads, Cambodia's agriculture production could progress rapidly.

Figure 2.2 Cambodia's Real GDP Growth (%)



Note: e = estimate. Source: National Institute of Statistics and CDRI estimate

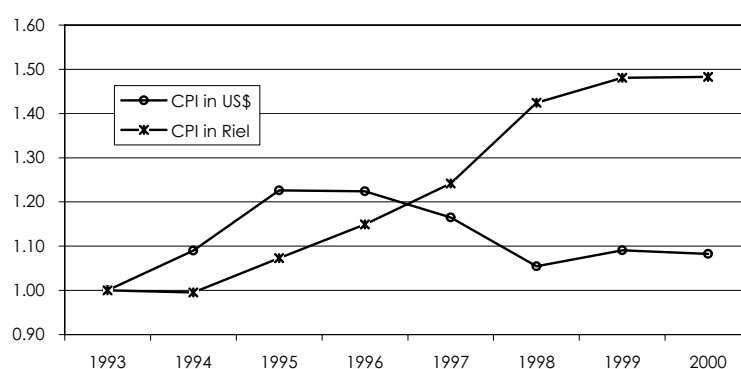
Despite civil unrest and the Asian financial crisis in 1997–98, industry grew more rapidly during the reform period of 1994–2000 (8 percent per year in real terms). The garment industry, electricity and water were the most dynamic sub-sectors, while activities in the rest of industry were basically flat. The garment industry grew the most rapidly of all. Although new investments in the sector have sharply declined since 1999, production of Cambodian garment products was still booming in 2000, with an increase of about 70 percent in real terms. Despite the quota on some categories of products, garment exports to the US rose by 50 percent, while exports to European markets more than tripled, relative to 1999. Meanwhile, with the prospect of world economic slowdown and the recent decline of investment in the garment sector, Cambodian industry may face some difficulties, at least in the short run.

Concerning the tourism sector, the situation in 2000 was also good. The number of foreign tourists visiting Siem Reap-Angkor through direct flights tripled relative to 1999, while the number of tourists travelling through Pochentong airport increased by 14 percent. Consequently, the total number of foreign tourists visiting Cambodia jumped by 32 percent. However, according to the Ministry of Tourism and research conducted by CDRI, the length of stay of the foreign tourists flying directly to Siem Reap was shorter (only 3.2 days on average). Tourists coming to Phnom Penh stayed longer (5.5 days). As a result, the total income generated from foreign tourists was estimated to have increased by only about 24 percent in 2000, as against an increase of 40 percent in 1999. This slowdown might be more perceptible in 2001 as the airport of Siem Reap is already more or less saturated. However, the government plans to solve this issue in 2001.

2.2.2. Inflation and Exchange Rate

Inflation stabilisation was the most successful action of the government during the reform period. After experiencing a very high rate of inflation from 1989 to 1993 (three digit inflation in some years), Cambodia's inflation has been basically under control since 1994 (see Figure 2.3). This was true even during the aftermath of the political crisis in 1997 and 1998. This good performance can be explained primarily by two factors. The first is that a high degree of dollarisation in the Cambodian economy is very helpful in containing inflation. Almost all non-agricultural products are imported from neighbouring countries. During the Asian financial crisis, currencies sharply depreciated against the US dollar. Second, the use of bank financing to make up budget shortfalls was relatively limited and that helped to maintain stability of the riel against the US dollar.

Figure 2.3 Cambodia's Consumer Price Index (1993=1)



Source: National Institute of Statistics

From 1994 to 2000, the riel-denominated inflation rate in Phnom Penh compiled by the National Institute of Statistics was about 6 percent a year, while the dollar-denominated inflation rate was just 1 percent a year. Nevertheless, the inflation rate in the provinces compiled by CDRI was about 3 to 4 percent higher than that in Phnom Penh. This was likely due to higher transportation costs as a result of a hike in the already-high price of gasoline, and the poor state of the country's roads. In the medium term, the inflation rate in riel is expected to remain low (ranging from between 3 to 5 percent a year) because the government continues to be committed to stabilising its currency against the US dollar.

Cambodia has pursued a managed floating exchange rate policy since 1993, and has relied on tight financial policies to ensure stability in the foreign exchange market. However, monetary instruments are not yet effective due to weaknesses in the banking system. Dollar reserves were occasionally used by the National Bank of Cambodia (NBC) to smooth fluctuations in the exchange rate. As a result, from 1994 to 1996, the value of the riel against the dollar remained basically stable at around 2,500 riels per dollar. But this rate sharply increased in 1997-1998, because of bank financing for the budget. The riel has been stable again since the end of 1998, trading at around 3,800 riels per dollar. The riel was more or less stable against the Thai baht, trading at around 100 riels per baht, while it slightly depreciated by about 3 percent per year against the Vietnamese dong, trading at about 28 riels per 100 dong in 1999, versus 24 riels in 1994. The riel will continue to be stable against the US dollar in the future if the government continues to avoid bank financing to support the budget deficit.

2.2.3. Fiscal Developments

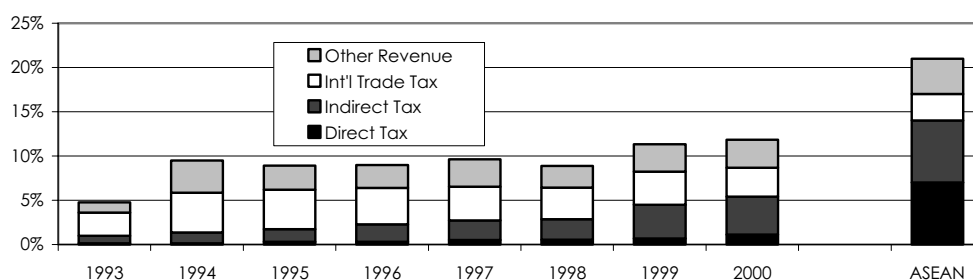
Fiscal policy has been the core of the government's adjustment and reform strategy. This was aimed at strengthening the role of the budget as a key tool of economic management and also

at developing a fiscal structure that generates the domestic resources required for increased public spending in priority social and infrastructure areas. Fiscal policy implemented in 1994 played a key role in restoring financial stability. Budget revenue jumped from 5.4 percent of GDP in 1993 to 9.6 percent in 1994 (see Figure 2.4). This was likely a result of increased forestry royalties and strong customs performance owing to more imports and continued improvements in customs' administration. The salary arrears in public administration were paid, and reserves of foreign currency reconstituted. Given that government budget mobilisation was weak, the government expected to increase budget revenue related to GDP ratio by 1 percentage point per year in order to reach the level of 15 percent at the end of the 20th century.² Unfortunately, this target was not met. Meanwhile, budget revenue declined, reaching only 8.6 percent of GDP in 1998, reflecting the acceleration of problems caused by weak governance and lack of a clear fiscal policy. Implementation of a very generous investment law and various *ad hoc* tax exemptions cost the country millions of US dollars per year in revenue.

Following the formation of a second coalition government, some additional fiscal measures were implemented. The introduction of a valued-added tax (VAT) and competitive bidding for garment export quotas in 1999 sharply boosted government revenue (a 40 percent increase relative to the previous year). Although it was quite a bit lower than planned, revenue collection in 2000 continued to improve slightly, largely due to enforcement of VAT implementation.

Despite these efforts, the tax structure remains weak. Cambodian tax revenue still relies heavily on taxing imported products (including VAT, excise and customs duties) which amounted to 61 percent of total domestic revenue in 2000. The revenue from direct tax, which is the main source of revenue for neighbouring countries, accounted for a small amount, representing only about 1 percent of GDP (see Figure 2.4). Payroll tax and other direct taxes (such as the tax on unused land) have not been properly implemented. Furthermore, there were also significant shortfalls in the collection of non-tax revenue, in part because the Ministry of Economy and Finance does not have the sole responsibility for, and control over, contracts relating to the use of state assets. To improve revenue mobilisation, the government expects to take several measures, such as broadening the VAT base, improving audits and reviewing incentives provided to companies with tax concessions.

Figure 2.4 Structure of Cambodia's Budget Revenue (as a percentage of GDP)



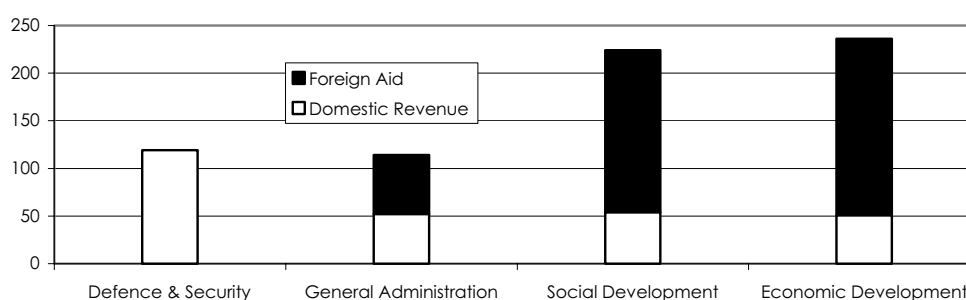
Source: Ministry of Economy and Finance and IMF

On the expenditure side, given the limited domestic revenue, the first government priority has been to pay the meagre public sector salaries on time and to contribute to the foreign-financed investment counterpart funds. These minimal targets were largely reached. Public investment and social development have basically relied on foreign aid. According to

² Declaration of H.E. Keat Chhon, Minister of Economy and Finance during the "Presentation of the Budget Law for 1997" before the National Assembly.

figures compiled by the Ministry of Economy and Finance, current budget expenditure sharply increased in 1994 (from 7 percent of GDP in 1993 to 11 percent of GDP in 1994), but declined somewhat in 1998. Expenditures increased again in 1999 and 2000, but have not yet reached the 1994 level. Expenditures on defence and security have remained a heavy burden for the national budget, although official figures show some decline in total expenditures. In the budgets for 1999 and 2000, the Cambodian government also pledged a substantial increase in social and rural development expenditure. Some improvements have been made, but expenditures are still substantially below what was planned.

Figure 2.5 Cambodia's Public Expenditure in 1998 (million US\$)

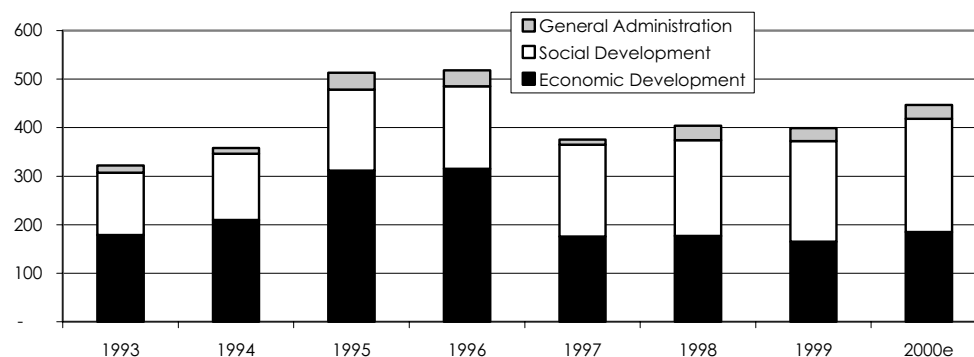


Source: Ministry of Economy and Finance and CDC

To enhance expenditure rationalisation, the government is committed to further reducing defence and security spending, along with the demobilisation process. Computerising of the payroll for civil servants has also been promised, along with elimination of payments to staff no longer working for the government. The 2001 budget also indicated significant increases in spending on social and rural development.

2.2.4. Foreign Aid and External Debts

To help stimulate Cambodia's recovery, the international community has pledged at every Consultative Group (CG) meeting to provide Cambodia with an average of about \$500 million per year in aid. This amount represents about 17 percent of nominal GDP, or almost twice Cambodia's domestic budget revenue. The amount pledged, however, during the last CG meeting held in Tokyo in June 2001, was exceptionally high (over \$600 million). Meanwhile, the balance of payments figures compiled by the International Monetary Fund (IMF), and available from 1994 to 1999, show that real aid disbursements in Cambodia reached only about 60 percent of what was pledged. Of this amount, loans from the World Bank and the Asian Development Bank (ADB) represented about 20 percent. Most foreign assistance (53 percent) went to economic development, such as road construction, power and water supply rehabilitation. Social development accounted for 41 percent, and was mostly executed by non-governmental organisations (NGOs). The rest of foreign aid (6 percent) went to general administration, mainly through foreign experts appointed to advise different ministries or public institutions, and working on the structural adjustment programme (Figure 2.6). Although foreign aid to Cambodia is very substantial and has helped the country to rebuild or rehabilitate economic and social infrastructure, and to facilitate some structural reforms, a CDRI study (Godfrey *et al.* 2000) noted that an increasingly-large proportion of external assistance goes to technical assistance (57 percent in 1998, up from 34 percent in 1994). Gradually reducing the proportion of technical assistance and using it for other purposes would be very beneficial for Cambodia's sustainable development.

Figure 2.6 Cambodia's Foreign Assistance (million US\$)

Note: e = estimate. Source: Council for the Development of Cambodia

With regard to Cambodia's external debts, the amount outstanding is not clear. According to World Bank documents, at the end of 2000, Cambodia's foreign debts amounted to more than \$2 billion, most of which was owed to Russia. To understand this situation better, debt should be classified according to four different time periods. At the end of the 1960s, Cambodia's external debt totalled about \$50 million. This debt was already rescheduled or partly written off in 1995, according to the Paris Club procedure, and reduced to about \$35 million. It also seems that Cambodia owed the United States about \$300 million, which was borrowed between 1970-1975. Another approximately 900 million in convertible rubles (the equivalent to \$1.4 billion) was borrowed from Russia between 1980 and 1991. The current Cambodian government, however, has not yet recognised either the Russian or the American debts from the period prior 1991. Discussions with the United States and Russia are underway regarding both these debts.

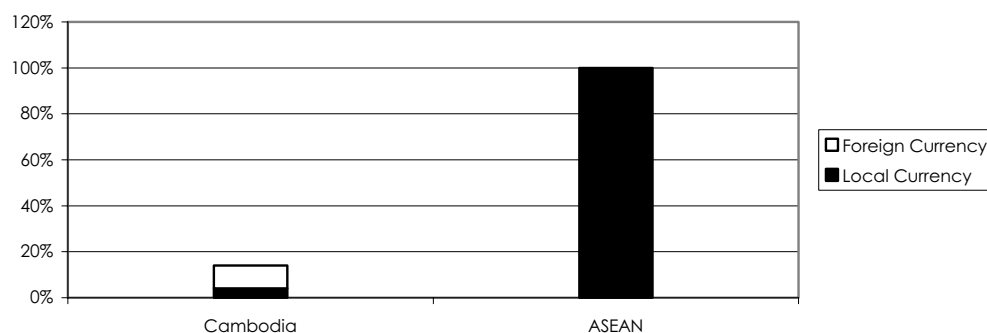
After 1993, the Cambodian government started to borrow again from the World Bank and ADB in order to rehabilitate the country's infrastructure. At the end of 2000, this new debt was estimated to total about \$400 million. In sum, the outstanding external debt recognised by the Cambodian government amounted to \$435 million at the end of 2000, while the as-yet-not-recognised debt was estimated at \$1.7 billion. The budget support loans provided by multilateral institutions amount to about \$150 million – more than one third of the total loans provided by these creditors since 1993.

2.2.5. Monetary Developments and Financial Sector Reforms

The development of public confidence in the banking system in Cambodia still has some distance to go. Despite the rapid development of some emerging industries, the banking system in Cambodia is still weak. Although substantial progress has been made in bank restructuring by liquidating some non-viable banks, the remaining large number of commercial banks poses a challenge for banking supervision. No financial instrument has yet been established. Issuance of a Treasury bill, which was planned for 1997, has been indefinitely postponed. Furthermore, the monetary system in Cambodia is characterised by a high degree of dollarisation and cash transactions, which limit the government's scope for active and effective monetary intervention. The total money supply recorded by the NBC was only about 15 percent of GDP in 2000. This included the liquidity in riel (4 percent) and the amount of foreign currencies (mainly US dollars) circulating through the banking system (11 percent). However, based on the level of economic activity and the mode of transacting goods and services, foreign currencies circulating outside the Cambodian banking system should be many times higher than that recorded by the NBC. With the exception of small transactions and wage payments, the use of the riel is confined largely to the government. Large financial transactions are conducted in foreign currencies, particularly the US dollar. Although the

amount was still relatively low, foreign currency deposits in Cambodian commercial banks increased significantly between 1994 and 1996, though these sharply declined in 1997-1998. Deposits rebounded again in 1999 and 2000 as a result of improvements in the business environment and economic recovery.

Figure 2.7 Money Supply Through the Banking System in 2000 (as a percentage of GDP)

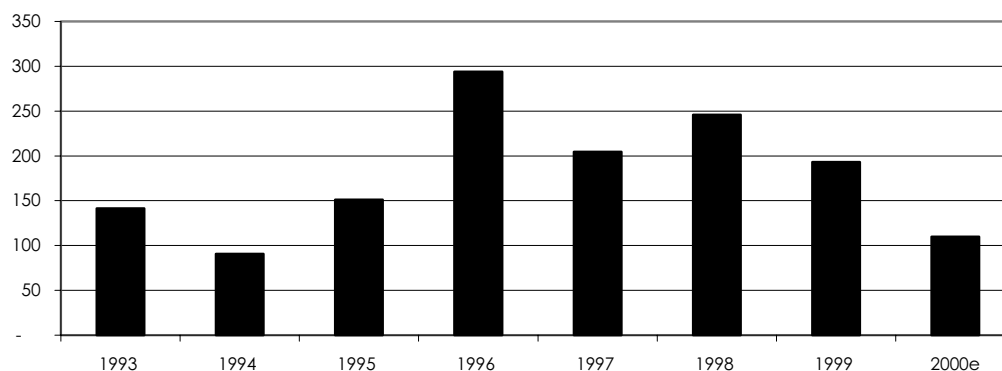


Source: National Bank of Cambodia and International Monetary Fund

However, recent monetary surveys released by the NBC show that net domestic credit is still largely negative, meaning that Cambodian bankers (public and private), prefer to place money outside the country, rather than lend it to Cambodian business people. Based on the NBC surveys, the amount of Cambodian savings placed outside the country, is estimated to be \$800 million – almost twice the amount of the loans which multilateral institutions provided to Cambodia between 1994 and 2000. The challenge for government is to curb this trend and repatriate the savings already placed abroad. To achieve this, a more relevant credit policy should be elaborated as soon as possible and Cambodian commercial bankers should be given better protection against bad loans by strengthening the rule of law.

2.2.6. Private Investment

After the United Nations Transitional Authority in Cambodia (UNTAC) withdrew from Cambodia in late 1993, foreign investment in hotels (almost the only private investment at that time) sharply declined. However, starting in 1995, Cambodia again attracted a significant amount of foreign direct investment (FDI), mainly from Asian countries. According to the IMF, the amount of FDI which flowed into Cambodia, was close to \$300 million in 1996 (about 10 percent of GDP). However, domestic political strife and the Asian financial crisis, which occurred in mid-1997, have had a dramatic impact on investment. Fortunately, the garment industry has remained very dynamic, and the number of new factories built significantly boosted FDI in 1998. Unfortunately, in 1999 and 2000, the number of projects approved, as well as the amount of potential fixed assets, have declined dramatically. Balance of payments figures, which reflect real implementation of investment, showed that the amount of FDI fell from \$246 million in 1998 to \$193 million in 1999, and was only \$110 million in 2000 (see Figure 2.8). New investment in the modern sectors, which have generated a great many jobs (mainly in the garment industry, telecommunications and tourism) declined to an estimated \$50 million in 2000. This amount is far from the \$500 million per year (MoP 2000), which Cambodia needs to provide jobs for new entrants to the labour market.

Figure 2.8 Cambodia's Foreign Direct Investment – Actual (million US\$)

Note: e = estimate. Source: IMF and CDRI, compiled from the balance of payments figures

The recent decline of foreign investment in Cambodia is likely due to three factors. First, most of the foreign investors in Cambodia are from Asian countries that were severely hit by the 1997 financial crisis. Those economies are recovering, but not yet enough to allow investors to invest outside the country. Second, the prospects for a better investment environment in Cambodia remain weak, as key reforms to improve governance have progressed slowly. Business people often cite corruption and lack of credit as the main constraints to investment in Cambodia (MPDF 2000). And third, Cambodia is not the sole place to invest in the region. The investment environment in China and Vietnam appear to be better than that in Cambodia, particularly in terms of physical and financial security. The prospect of China's membership in WTO in 2001, and the recent normalisation of relationships between the US and Vietnam are likely to pull investment that could have gone to Cambodia. It is also very likely that these two countries soon will obtain the same favourable trade terms as Cambodia enjoys now (MFN-Most Favoured Nation and GSP-Generalised System of Preference status). In 2005, it is also very likely that Vietnam will become a member of WTO, whereas Cambodia's membership is more doubtful and will depend on making more substantial progress in its institutional reforms. Without WTO prospects, industrialisation in Cambodia will just be a dream. For these reasons, it is absolutely crucial that the Cambodian government makes additional efforts to accelerate institutional reforms.

2.3. Sector Development

2.3.1. Rural Development

As the agricultural sector employs almost 80 percent of the Cambodian labour force and the income generated is extremely low (an average of about \$40 per month per rural household), development in rural areas has become a top priority. Rural development is the core of the government's poverty reduction programme. To achieve this policy, the government has pledged several measures which include: (i) increased agricultural production through agriculture extension, irrigation, rural roads and development of markets for agriculture products; and, (ii) improved access to education and health care in the rural areas. Government action in these two areas, however, is still insufficient. In some areas, agricultural production has risen at a slower rate than population growth, and poverty in rural areas has not significantly declined.

Access to forests and fisheries, significant sources of additional income for poor Cambodians in rural areas, declined heavily in the 1990s, due to over-exploitation and illegal exploitation of these natural resources. The Department of Fisheries estimates that about one million hectares (ha) of water bodies (almost the totality of water bodies in Cambodia) are

under private concessions, limiting rural people's access to this precious natural resource. Corrective measures initiated by the government at the end of 2000 to allow villagers access to some of these privatised water bodies was a good contribution towards poverty reduction in rural areas. The Department of Forestry and Wildlife estimates that Cambodian forests still cover about 10 million ha (57 percent of the country's total area). Of this, about 50 percent are in the hands of private companies under long-term concession contracts. However, according to independent sources, valuable forests have declined to a greater extent. Drastic measures to halt illegal logging, which were implemented in 1999, seem to have reached their first target of limiting illegal logging, but these measures strongly affect the domestic market for wood and have led to a sharp increase in wood prices in the local market.

Given budgetary difficulties, construction of rural roads, irrigation systems and other rural facilities have been very limited, and have mostly relied on foreign aid and individual donations – forms of financing which are not sustainable. Access of rural populations to education and health care is also extremely limited due to poverty. This accounts for Cambodia's high illiteracy and mortality rates. Health care problems are often the main cause of landlessness, as families incur debts as a result of medical expenses and eventually have to sell their land. Increasing landlessness, in turn, leads to increasing migration to the cities.

2.3.2. Public Infrastructure and Utilities

After years of war, the country's transportation infrastructure has been severely damaged. However with foreign assistance, some strategic roads have been rehabilitated or rebuilt. Economic and social development have progressed more rapidly in areas where access to roads has been improved. However, there are still great problems regarding road maintenance. In 1992, when UNTAC started its operations in Cambodia, major national roads were rehabilitated and some strategic secondary roads were built. Some of those are now almost destroyed. With bilateral and multilateral assistance, National Roads Number 1, 2, 3 and 4 were rebuilt in 1994-1996. Unfortunately, these are now starting to degrade because of lack of maintenance and weak governance (allowing too-heavy trucks to use the roads). Government budgetary difficulties and low salaries for government staff are contributing factors to the problem of road maintenance. Since 1996, the government has pledged to provide substantial budgetary resources (\$1-2 million per year) for road maintenance, but due to revenue shortfalls, this pledge has not been kept.

The international airports of Phnom Penh and Siem Reap, which are operated by foreign concessions, are relatively well developed and constitute a positive factor in tourism and economic development. However, the quality of service in these airports urgently needs to be improved, particularly at the Siem Reap airport, as the number of tourists continues to increase. In 2002, the Phnom Penh airport will be able to receive about 1 million passengers per year, while the terminal at Siem Reap airport is more or less saturated, and expansion begins in 2001.

Cambodia's railway system is old and dilapidated, consisting of two single-line, one-meter gauge tracks. The "old line" was built in 1931 linking Phnom Penh and the Thai border town of Poipet (385 km), and the "new line" was built in the 1960s linking Phnom Penh and the port city of Kompong Som (263 km). In 1969, the volume of goods carried reached 373,000 metric tons and the passenger load was about 2.4 million. Today, after about 70 years of use with very limited maintenance, the volume of goods carried and the passenger loads are about five times lower. Full rehabilitation is estimated to be very costly, and this is not yet a priority for the government.

Cambodia has two major ports accessible to vessels from the South China Sea: one at Phnom Penh and another at Kompong Som. The capacity and facilities of these ports have been significantly improved, owing to substantial assistance from donors. However, these ports may face severe competition in a few years when the express way (National Roads

Numbers 1 and 5) linking the larger and cheaper ports in Ho Chi Minh City in Vietnam, and Bangkok in Thailand, are completed.

With very significant assistance from bilateral and multilateral donors, progress has been made in providing reliable water and electricity supply in Phnom Penh. In provincial capitals, utilities are also better developed thanks to private participation. In rural areas, however, electrical and water supply remain a problem. According to a preliminary master plan drafted by Electricité du Cambodge (EDC), with assistance from the World Bank, almost all of Cambodia is to be electrified in the next 15 years.

2.3.3. Emerging Industries

Job creation is one of the primary objectives of Cambodia's poverty alleviation strategy. To achieve this, the government has encouraged private sector investment. Although many areas could still be improved, development of the garment and tourism industries has been encouraging. From 1994 to 2000, these two sub-sectors directly created wage employment for about 200,000 people. This was about 20 percent of new entrants to the labour market. These industries also generated a large surplus of current accounts (about \$500 million in 2000). Political stability and good governance are the most important factors to ensure sustainable development.

The robust growth in the garment industry is mainly the result of Normalised Trade Relationship agreements with the United States and the European Union in 1996 and 1997. Further benefits were gained by the granting of Most Favourite Nation (MFN) and Generalised System Preference (GSP) trading status by the United States, the European Union and other developed nations. In 2000, garment exports increased to 70 percent of the country's total exports of goods and services (up from about nil six years ago). Almost 90 percent of garment exports were destined for the US. In 1999, this bright performance led the US to introduce export quotas on 12 categories of goods, but this measure does not seem to have significantly affected the industry's expansion.

Furthermore, after more than two decades of war and internal strife, Cambodia is now becoming an attractive tourist destination. To promote cultural tourism, the government made substantial efforts in rehabilitating historic temples around the country. The number of foreign tourists visiting Cambodia has grown remarkably since 1993. Given the rapid growth of tourism all over the world, particularly in Southeast Asia, Cambodian tourism has the potential to expand very fast. At the current rate of expansion, the number of foreign tourists will exceed one million people in the next five years. Domestic tourism, which is one of the most important forms of tourism in neighbouring countries, has so far contributed little to economic development in rural areas in Cambodia. The main constraint for tourism development in Cambodia is the poor state of the country's transportation infrastructure (roads and port facilities). To improve these, the government should make a more substantial effort to ensure adequate funds for road and river port rehabilitation and maintenance. Marketing of Cambodia's rich natural heritage also needs to be strengthened.

2.4. Social Development

Social development is considered the most critical challenge facing the government. Although some progress has been made recently in increasing the budget for social expenditures, spending on health and education in Cambodia remain substantially below what is required. According to a World Bank report (World Bank 1999), the government's contribution towards social expenditures is very low in Cambodia, compared with other countries. The government provides only about \$5 per person per year for health care and education, compared to an average of about \$12 dollar per person per year in other less-developed countries, and \$150 in Thailand. The report also stated that donors and NGOs finance about 46 percent of Cambodia's education expenditures, with individual households

and government each contributing about 27 percent towards the cost of education. For health care, Cambodia's households finance an overwhelming 82 percent of all health expenditures. Donors and NGOs contribute 14 percent towards health care costs and the government only 4 percent. Consequently, the quality of the public health and education systems in Cambodia is very poor. Health problems are increasingly becoming the main cause of poverty for Cambodians. With limited assistance from the public health system, Cambodian families often have to sell their small portions of land to pay for health care and then become landless. Slow economic growth at the present time and the rapid increase of the young population in Cambodia does not help the government in combating growing social problems.

2.4.1. Health

Health care is one of the most critical problems facing the Cambodian government. Although official figures show that significant improvements have been made recently, the health situation in Cambodia may still be the worst in the region (Table 2.1).

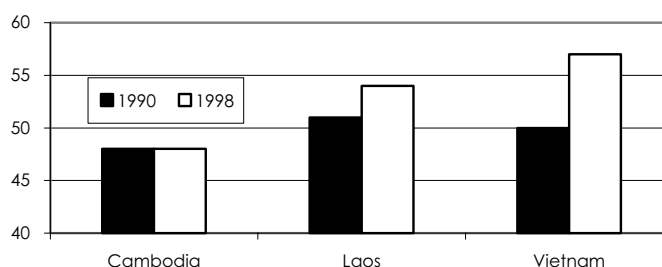
Social indicators recently published by the Asian Development Bank showed that Cambodia's infant mortality rate was more than double the regional average rate. Malaria and tuberculosis are believed to cause thousands of deaths per year, and HIV/AIDS infection is growing so rapidly that it is becoming the most deadly disease.³ To curb this trend, the government has promised to provide effective basic health care, with appropriate quality standards at the commune level; to improve governance in drug purchasing; and, to provide an increase in the budget for health to 2 percent of GDP. None of these pledges has yet been met. In 2000, budget implementation for health improved compared to 1999, but was still far lower (at least 30 percent) than what had been planned. Fortunately, foreign assistance remains vigorous and NGOs are very active.

Table 2.1 Social Development Targets and Performance of the Government of Cambodia

	1996 Actual	1998 Actual	2000 Target
Maternal mortality (per 100,000 live births)	650	473	300
Infant mortality (per 1,000 live births)	115	89	80
Under-5 mortality (per 1,000 live births)	181	115	120
Children's nutrition status (% under-5 malnourished)	40-50	40	25

Source: Ministry of Health

Figure 2.9 Daily per Capita Protein Supply (grams)



Source: The Asian Development Bank, Key Indicators 2000

The basic health of the population largely depends on the quality of nutrition they receive. However, as the chart above clearly shows, Cambodia made no progress in providing minimum nutrition to its population during 1990's. From 1990 to 1998, the daily *per capita*

³ According to the Ministry of Health, 0.54% of the Cambodian population (about 65,000 people) were ill with tuberculosis and 2.8% of the population from age 15 to 49 (about 170,000 people) had HIV/AIDS in 2000.

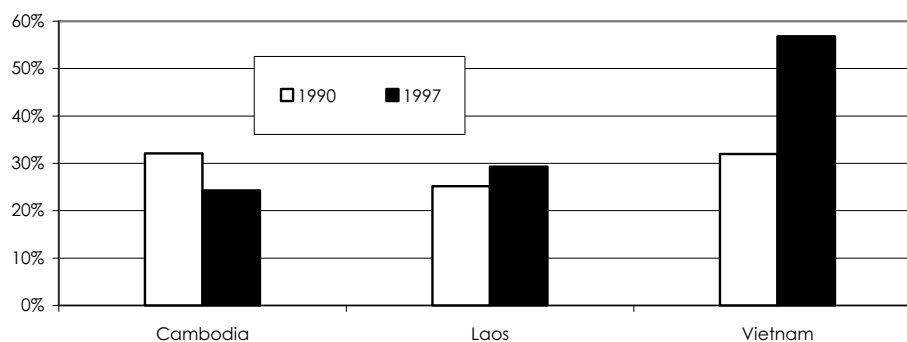
protein supply was unchanged at 48 grams, while in Laos and Vietnam, this supply was higher than that of Cambodia, and it significantly increased during that period (see Figure 2.9). Landlessness and extreme poverty in rural areas have accelerated, also partly due to health problems and the high cost of treatment. Better access to common natural resources and improved infrastructure for better distribution of food from surplus to deficit areas should be the best measures to improve population livelihood and the health situation, particularly among the rural poor. In addition, to ensuring good health care operations in the provinces or in remote areas, it is crucial that the Ministry of Economy and Finance strictly implements the mechanisms that ensure regular and full disbursement of the planned budget for health.

2.4.2. Education

As in the health sector, education in Cambodia is characterised by limited budget allocation, low quality teachers and the lack of relevant policy. School facilities are very poor and rely largely on foreign aid and private donations. According to official figures, progress has been made regarding the literacy rate and school enrolment. But the quality of education is still very poor. A recent survey undertaken by the Cambodian government, with the assistance of UNESCO and UNDP, showed that about half of those who identified themselves on the national Census as literate, may not actually be able to read and write (So and Prasertsri 2000).

As the chart below indicates (Figure 2.10), the government policy on education has not met with great success. Early in the 1990's, Cambodia's secondary school enrolment rate was higher than that of Laos and Vietnam. Seven years later, however, the situation has reversed. The enrolment rate in Cambodia has declined, while it progressed in neighbouring countries. From 1990 to 1997, the secondary school enrolment rate in Vietnam almost doubled (from 30 to 57 percent), while it declined from 32 to 24 percent in Cambodia. This decline will have a significant impact on the future development of industry in Cambodia, as qualified Cambodians become more and more scarce. This weakness has been caused primarily by the increase in poverty in rural areas (see Section 2.5). To attend secondary school, Cambodian children have to go far from their home village (in general to the commune or district centre) and costs for transporting them are high because of the poor state of rural roads. Moreover, as the salary of teachers and recurrent education expenditures provided by government are very meagre, private households have to contribute money to operate the school. This cost to parents is even higher at the secondary school level, than it is for primary school.

Figure 2.10 Gross Secondary School Enrolment Rate (percent)



Source: The World Bank, World Indicators 2000

Improvement is more visible in higher education, as a result of significant foreign assistance and private investment. However, higher education has become more and more costly for students, as most Cambodian students have to pay tuition to finance teachers'

salaries and other recurrent costs. In addition, the Cambodian education system is not yet meeting the needs of the labour market. Cambodian students have not fully-benefited from rapid economic growth in some sectors, such as garments and tourism. Vocational and professional schools are not yet well developed in Cambodia, and those that are in operation are private-sector funded and thus quite costly.

To improve the situation, the government has to secure enough funds to pay a decent salary to teachers and other recurrent costs. To achieve this, administrative reform should be accelerated and good governance should be enhanced.

2.5. Poverty

Poverty alleviation is the overarching goal of the government's development plan. Cambodia's GDP *per capita* was estimated at about \$260 in 2000, which is about 30 percent below that of the poverty line⁴. According to government figures, the poverty rate relative to the total population slightly declined from 39 percent in 1994, to about 36 percent in 1999. However, as the total population grew rapidly during the same period, the number of poor in Cambodia increased by about half of million, from 3.8 million in 1994, to 4.3 million in 1999. In addition, successive socio-economic surveys and poverty assessments made by the government showed that the poverty rate in rural areas was particularly high compared with urban areas.

2.5.1. Revenue of Households

Cambodian household income remains very low, particularly in rural areas. According to the socio-economic surveys, incomes of Cambodians improved between 1994 and 1999. In Phnom Penh, Cambodian households⁵ earned \$292 per month in 1999 (up from \$214 in 1994), while in rural areas, monthly incomes were only \$82 per month in 1999 (up from \$52 in 1994 - see Figure 2.11). In addition, according to the distribution of incomes in 1999, less than 5 percent of the population in rural areas earned more than \$1 per person per day. In Phnom Penh, however, about 70 percent of the population earned above the World Bank poverty line. The gap between average incomes in Phnom Penh and those in rural areas declined slightly in 1999. Households in Phnom Penh earned, on average, 3.6 times more than rural households in 1999, as against four times more in 1994.

Figure 2.11 Monthly Household Incomes in 1993, 1996 and 2000 (Household with husband and wife employed and three dependent children)



Note: Rice farmers and other crop farmers represent about 75% of the Cambodian population, while factory employees and civil servants represent about 15%. Source: CDRI estimate based on the national account figures

⁴ Income earnings of \$1 *per capita* per day (or \$365 *per capita* per year) is the poverty line defined by the World Bank.

⁵ The average size of a Cambodian household is 5.3 members, according to the 1998 census.

Based on national accounts figures, it is estimated that the average income per household (of five members) in all professions was about \$100 per month in 2000, a decline when compared to incomes in 1996 (\$114), but it was an increase relative to incomes in 1993 (\$80). The fighting in July 1997, and the Asian financial crisis, were the main causes of the decline in incomes over the last four years. Quarterly surveys of five major markets in Phnom Penh conducted regularly by CDRI researchers confirm this trend, and show that consumer spending in 1999 recovered slightly relative to 1998, though it was still much lower than pre-July 1997 spending levels. A slight increase may reflect a significant improvement in political stability and a better business environment. However, consumer spending in the provinces remains weak, reflecting low demand from farmers who have weak earning capacities. In addition, slow economic recovery in rural areas has also contributed to the low consumer spending in the provinces. Similarly, surveys of vulnerable workers in Phnom Penh revealed that the earning levels of these groups in 2000 were still lower than before July 1997.

Based on the national account figures, it is estimated that rice-farmer households, which represent about 65 percent of total Cambodian households, received the lowest income compared to other groups. Their income earnings (including income from extra activities such as sales of firewood and livestock and self-consumption of fish and vegetables) on average were around \$22 per month in 2000 (see Figure 2.11). This suggests that there has been no improvement since 1993. The revenue of a typical household producing crops other than rice appears to be higher because of the high productivity of land alongside the Mekong River and Tonle Sap Lake. Nevertheless, their livelihoods have become increasingly difficult due to limited access to markets and weak competitiveness, relative to neighbouring countries.

The income earned by the average civil servant household remained very low (about \$65 per month). This is not enough for household subsistence, although government salaries doubled between 1993 and 2000. The income for the average factory worker's household seemed to be the highest (\$122 per month) relative to other groups, and has continuously increased over the last few years. However, factory workers have virtually no time to make extra income, and their savings are not high as they have to pay for transportation costs, house rental and food.

2.5.2. Labour Force and Under-employment

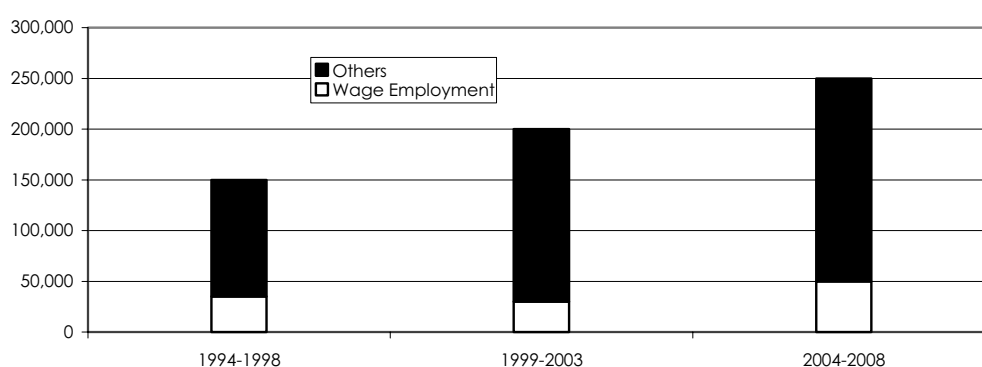
The most recent General Census shows that Cambodia had a population of 11.4 million in 1998, with people below the age of 20 accounting for 55 percent of the total population. Women represent about 52 percent of total population. The proportion of women is greater for the population aged over 25 years (about 55 percent of the total population). The labour force⁶ totalled 5.1 million, representing about 45 percent of the total population, while the official unemployment rate was estimated to be slightly above 5 percent of the labour force. Based on an annual natural growth of 2.5 percent, Cambodia's population will reach 20 million by 2020. The workforce is primarily concentrated in the agricultural sector (77 percent of total employment). Manufacturing employs 5 percent, public administration (civil servants, police and military) employs 8 percent, and the remaining 10 percent work in a variety of occupations. As Cambodia is basically an agricultural country, wage employment is concentrated in public administration and some nascent industry, such as garments and tourism (about 15 percent of the total labour force).

Based on a population structure that has been affected by years of war, Cambodia's labour force is estimated to have been increasing at an accelerating rate every year since the

⁶ Cambodia's labour force includes the economically-active population of more than 11 years of age. People who are economically active are those who are working or able to work. For example, students, retired and disabled people are not included in the labour force.

mid-1990s, and the rate is not expected to decline for another 15 years. Drawing on the 1998 census, CDRI researchers have estimated that Cambodia had an average of 150,000 new entrants to the labour market per year between 1994 and 1998, and entrants are likely to be 200,000 per year for the period 1999 to 2003. For the period 2004 to 2008, an estimated 250,000 people per year will enter the labour market (see Figure 2.12). However, the jobs created from 1999 to 2003 are likely to decline relative to the previous five years because of the recent drop in productive investment. Consequently, Cambodia faces a huge challenge in the medium and long term in generating adequate employment in rural areas for the new labour force. This expansion of the labour force could be a driving force for economic growth or a significant burden if adequate employment opportunities are not created.

Figure 2.12 New Entrants to the Labour Force (year average)



Source: National Institute of Statistics and CDRI Projection

In order to prevent farmers from becoming poorer, the size of farm per farming household should not decrease. However, due to the small size of most Cambodian farms, when farmers' children reach working age, they will have to find employment elsewhere. In order to provide employment for the rapidly-expanding numbers of rural youth reaching working age, private investment in Cambodia must increase to be at least three times the total from the past seven years. Cambodia's balance of payments statistics show that private investment in the modern sectors averaged about \$150 million per year from 1994 to 2000. Of this amount, less than \$100 million per year was invested in the productive sectors (mainly garments and tourism), which created labour-intensive employment. Lower-than-expected economic growth and moderate private investment have had a significant impact on employment and revenue. Between 1994 and 2000, Cambodia's labour force increased by an estimated one million people. However, the modern sector absorbed only about 20 percent of this labour force, and perhaps another 10 percent migrated to Thailand (DAN 1999:158). The other 70 percent remained in rural areas and shared small portions of land owned by their families, or they have been obliged to accept informal jobs in the cities.

2.5.3. Landlessness and Migration

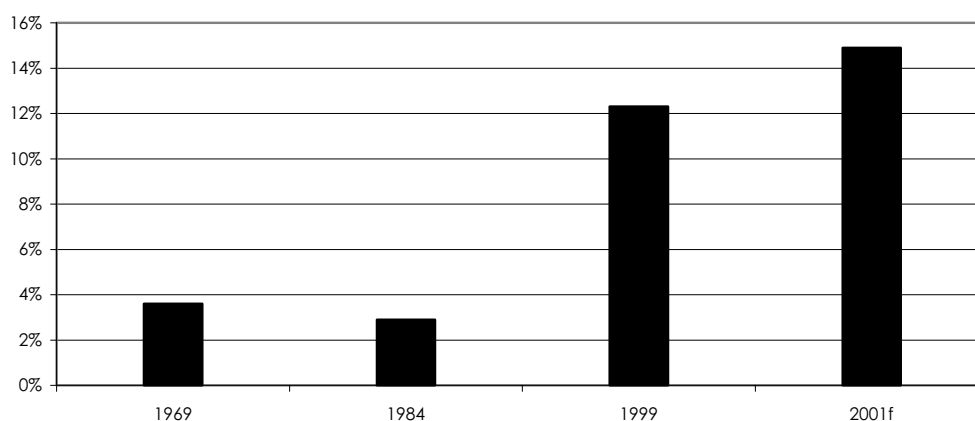
Landlessness is increasingly recognised as a critical development issue in Cambodia. According to Oxfam, which has contributed several studies on land issues, the number of landless⁷ people in rural areas has increased at an accelerated rate over the last few years. In 1984, landlessness families represented about 3 percent of total families. This was slightly lower than in 1969 (about 4 percent). In 1999, however, this ratio jumped to about 12 percent (equivalent to about 1.2 million people), while landlessness in female-headed families was much higher (21 percent). In the near future, Oxfam estimates (Oxfam 2000) that this trend will worsen, reaching about 15 percent in 2001 (see Figure 2.13).

⁷ The landless family is defined as a family in rural areas, which has no agricultural land and no means with which to purchase agricultural land.

The causes of landlessness are numerous, but the most important are new marriage (22 percent), illness (21 percent), lack of food, indebtedness and other economic reasons (13 percent). Oxfam surveys also showed that landlessness is one of the main causes of migration. In 2000, about 22 percent of landlessness families left their village after becoming landless.

On the migration issue, the 1996 demographic survey and the 1998 census figures confirmed an acceleration of rural out-migration during 1990's. This was occurring in provinces that have high population density and are close to cities, particularly Phnom Penh. The proportion of newcomers in urban areas almost doubled between the Demographic Survey and the Population Census. The "recent" and "very recent" arrivals at urban areas increased from 17 percent in 1996 to 30 percent in 1998. This means that in 1998 about 30 percent of the urban population has moved from rural areas over the previous five years. The 1998 Census also showed that the flow of migrants from rural to urban areas increased from less than 150,000 people in 1994, to more than 300,000 people in 1997. This movement mostly reflects growing under-employment and landlessness in rural areas. Promoting development in rural areas and better land and natural resources management are crucial to address this issue.

Figure 2.13 Landless Families in Rural Areas (percentage of total rural families)



Note: f = forecast. Source: Oxfam GB

2.6. Conclusion

The results of economic reforms in Cambodia over the last seven years were mixed. Some targets were met on the macro-economic stabilisation policy, but strong concerns remain about social and institutional issues.

Policies for macro-economic stability were mostly successful in regard to inflation. This was achieved through tight budgetary policy and dollarisation of the economy. However, economic activity grew slowly, reaching only about half of the target and was concentrated in only a few urban centres such as Phnom Penh, with the garment industry, and more recently in Siem Reap-Angkor, with tourism development. This low and unevenly distributed economic growth could not significantly curb growing poverty trends. As a result, progress in the area of social development is not yet perceptible.

Sustainable economic growth is crucial for poverty reduction, particularly in rural areas. To achieve this objective in the context of the growing international competition facing Cambodia today, improvement of the investment environment is absolutely crucial to revitalise foreign investment. The local private sector also needs support, protection and stimulation. Business people cite increasing corruption and lack of available credit as the two most important constraints to investment.

To fight corruption in Cambodia, promulgation of laws and regulations is important. But to implement those laws and regulations effectively, the government has to rapidly strengthen its administration and institutions. To achieve this, it is important to speed up reforms of the civil service, the military, the police, and the judicial system (Kato *et al* 2000).

To improve the availability of credit, the National Bank of Cambodia is making significant steps towards improving the banking system, by re-licensing and increasing the capital of commercial banks. The challenge of the NBC now is to stop the flight of capital abroad, and further, to repatriate the Cambodian savings which are already abroad. To achieve this, a relevant credit policy should be elaborated as soon as possible and the rule of law must be enhanced to protect commercial bankers from bad borrowers.

Last, but not least, to support key reforms such as institutional reform, a large amount of funding is needed. On the Cambodian side, a top priority for increasing government revenue is improvement of the capacity of government institutions in charge of state revenue collection and also reduction of opportunities for corruption. Significant revision of the investment law is also a top priority. Donors, on their side, might review how to target their valued assistance in order to strengthen the reform process and its efficiency. Although the amount of foreign assistance to Cambodia was very substantial between 1994 and 2000, its actual impact on people's livelihood has not met expectations. While a large amount of foreign aid has been directed to technical assistance (Godfrey *et al* 2000) with varying degrees of success, there has been inadequate foreign assistance to facilitate structural adjustment and institutional reforms. As stated above, Cambodia's economic development cannot be sustainable without restructuring public administration and drastically reforming the fiscal and monetary systems. For these reasons, foreign assistance should focus more on the structural adjustment programme. Credit allocated to this programme should be strictly earmarked. Greater transparency from donors regarding financial assistance would also contribute to enhancing the effectiveness of reforms.

The prospects for Cambodia's economic development depend on the government's commitment to promptly implement reforms in a concrete manner. In fact, the choice is between two reform scenarios – the "Status Quo" scenario and the "With Reform" scenario.⁸

The "Status Quo" scenario considers what the situation will be with the government making no significant reforms: many pledges but not enough concrete action. Under this scenario, no reform is undertaken in key areas such as governance, demobilisation and civil administration. With this scenario, revenue mobilisation for the national budget will be weak, and the burden of military expenditures will be heavy. No public savings would be available to finance urgent needs such as roads, schools and hospitals. Foreign aid and foreign private investment will be flat. Consequently, the dividends of a country at peace will be minimal, and Cambodians will remain poor.

The real determination of Cambodian leaders to move their country forward as a developed country, with rule of law and a consistent economic development strategy, is best reflected in the "With Reform" scenario. By implementing major reforms successfully, the Cambodian administration will become more efficient and respected. Cambodia will be able to mobilise what it needs in terms of savings, externally and internally, to develop the country. Economic growth will be strong enough to absorb productive new entrants in the labour market. Foreign reserves will grow steadily, preventing any volatility in exchange

⁸ To evaluate the impacts of economic reforms on the economy, CDRI used the economic computable equilibrium model CAMPI (Cambodia Prospective and Integrated model) developed by the Ministry of Economy and Finance and now updated and improved by CDRI. CAMPI is a supply model type, where equilibrium conditions are imposed. All the main economic accounts such as the national budget, balance of payments, monetary survey, foreign exchange, prices, production, investment and employment are included. Twenty-two economic sub-sectors in the economy are included in the model. Documentation to explain the model is in progress.

rates. The inflation rate will be low, and the Cambodian economy will be increasingly competitive, compared with its main partners.

With the rule of law and strong macro-economic stability, a stock market can be introduced and will develop rapidly. Banking and other financial systems, which are the main actors in mobilising private savings, will thus revive and strengthen. Private investment will be boosted. Household income will increase sharply, and basic infrastructure (economic and social) will be rehabilitated or rebuilt in about seven to 10 years. The core economic strategy aimed at alleviating the poverty of the Cambodian people will thus be achieved.

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Chapter Three

Marketing Constraints to Rice Production Development

3.1. Introduction

As the tenth member of the Association of Southeast Asian Nations (ASEAN), Cambodia will eventually become a member of the ASEAN Free Trade Area (AFTA). The critical step in this direction is the liberalisation of trade in the region through the elimination of both intra-regional tariffs and non-tariff barriers (ASEAN Secretariat 1993:1). Following this path, Cambodia will reduce tariffs on most, if not all, agricultural commodities by 2018.

However, the future of Cambodia's comparative advantage in the AFTA environment remains unclear to many people. Given its land endowment and rich natural resources (e.g. forests and fisheries), it is possible that Cambodia has potential, but as yet untapped comparative advantage in some agricultural products. So far, however, agricultural production has been limited by lack of access to quality inputs, technology, marketing, distribution, infrastructure, and credit. This is especially true when Cambodia is compared with Thailand and Vietnam, two big agricultural producers and exporters, especially of rice products. Whatever current and potential comparative advantages that Cambodia may have, there is concern that an unprepared and hurried entry into the regional free trade area could permanently and irreversibly damage the country's chances of realising its potential as an agricultural producer, especially as a producer of rice. In this regard, improving the marketing system for rice requires urgent attention.

3.2. Objectives

This paper was written to:

- better understand the current rice production situation;
- better understand the marketing system and the marketing margin of rice;
- better understand and analyse the process of developing rice trade policies and the effectiveness of policy enforcement;
- analyse marketing factors (prices, seasonality, transportation, import/export and other relevant factors) affecting rice production; and
- suggest how the current rice marketing system might be improved.

3.3. Methodology

The findings in this chapter are based on interviews that were conducted in the five major rice-producing provinces, Svay Reang, Prey Veng, Takeo, Battambang and Banteay

Meanchey, as well as in the capital city of Phnom Penh. The targeted groups were agencies involved in rice marketing. These ranged from farmers to paddy collectors/traders, millers, transporters, traders, wholesalers, and finally retailers.

Some information, especially on the seasonal movement of agricultural products, was also gathered from observation and interviews with provincial agricultural officials and relevant officials at border checkpoints in the five provinces.

Further information was obtained from interviews with various government officials involved in policy implementation. These included the Customs Office, Camcontrol, Sihanoukville Port, Phnom Penh Port, the Ministry of Commerce and the Ministry of Agriculture, Forestry and Fisheries.

3.4. Rice Production in Cambodia

Cambodia is an agrarian country, with one-third of the total land area allocated to agricultural production. Even though agriculture's share in GDP has decreased steadily from over 50 percent in the 1980s, to less than 30 percent in 2000, this sector remains a significant economic force. Rice production remains the most important employer for a fast-growing labour force. As the 1998 census shows, the vast majority of Cambodians (83 percent) live in rural areas and are directly engaged in agriculture, forestry or fisheries.

Despite its importance, the agricultural sector grew only about 2.5 percent per year between 1990 and 1999. This was about the same as the population growth rate. Growth was slow due to limited irrigation systems (most agriculture is rain-fed), poor infrastructure, inappropriate and ineffective government policies, and inefficient marketing systems. The slow growth of the agricultural sector could plausibly be the reason for the slow decline in poverty (from 39 percent in 1994 to 36 percent in 1997), and for the worsening distribution of income in Cambodia.

Within the agricultural sector, rice, the staple food for Cambodians, constituted the bulk of agricultural production (33 percent) in 1999. This was followed by other crops, livestock and forestry (around 20 percent for each), and rubber (approximately 7 percent). Rice production is characterised by small farms, a small average size of land holdings (about one hectare per rural household) and a subsistence rice production system. Over 90 percent of cropland is devoted to rice production alone, while the remaining 10 percent is used for other annual crops such as beans, maize, vegetables, sesame, tobacco, and others.

Rice production has increased significantly in the last decade, particularly since the major economic reforms of 1989. The planted areas of rice have increased from 1.9 million hectares (ha) in 1990/1991, to about 2.2 million ha in 1999/2000. The increase was the result of mine clearance, improved security, and reclamation of unused or deforested land. Meanwhile, the productivity per acre of rice increased considerably over the same period, from just over 1.4 tons/ha to 1.9 tons/ha. The increase in yield was due to many factors: favourable weather conditions, an increase in the availability of rural credit, an increase in private investment, technology improvements, use of chemical fertilisers and other inputs, and new high-yielding rice varieties. The combination of the expansion of planted areas and the increase in yields has boosted production to surplus levels since 1995/1996. This increase in production urgently demands export markets. In order to develop these, it is necessary to study Cambodia's comparative advantage over neighbouring countries.

3.5. Marketing Systems and the Marketing Margin

The marketing of rice is a major economic activity in Cambodia. Although rice is grown in all the provinces of Cambodia, marketing systems play a significant role in bridging distances between producers and consumers to ensure production efficiency and food security.

Since 1979, the marketing of rice in Cambodia has been characterised by two distinctive systems: a centralised marketing system and a free marketing system. The former refers to the marketing system which was in place during the time when Cambodia had a centrally-planned economy (1979-1989). During this period, the government strictly controlled prices and movement of agricultural commodities, especially of staple crops, such as rice. In 1981, the government established KAMPRIMEX, a state-owned enterprise operating under the Ministry of Commerce. This enterprise, which held a monopoly over the internal and external trade in rice, assumed all responsibility for purchasing, transporting, storing, processing (milling only) and distributing rice (to civil servants, the armed forces, and deficit areas).

Farmers were required to sell their produce to the state at lower-than-market prices (ceiling prices) which was ensured due to restrictions on the transport of rice, even between villages. In exchange, farmers were allowed to purchase, at discounted prices, basic necessities such as soap, books, clothes, and others commodities which the government imported from former-communist countries (Sik 1998:28-29).

Although ceiling prices were set every year based on input costs, labour and capital, and a 20 percent margin added for farmers' profits, prices were normally lower than those in the free market. The difference between the state-fixed price and the market price kept increasing, while the availability of low-cost household necessities declined significantly due to inappropriate management systems. As a result, a black market trade for rice emerged and played an important role in its distribution. Despite the strict controls on rice movement, rice was sold freely in open markets, at market prices.

Since the black market was playing an increasingly-important role in the distribution of rice, as part of reforming the economic system from one which was centrally-planned to one which was market driven, the government decided in 1989 to lift price controls on all agricultural products. The state no longer intervened in the marketing of agricultural commodities, except to subsidise agricultural inputs (fertilisers). This practice continued until 1997, when this too was discontinued.

Since then, a complicated system for marketing agricultural commodities has developed which extends from farmers' fields to final consumers. The marketing system from 1990 to 2000, can be divided into two periods based on the volume of rice production. Total rice production in Cambodia was below what was needed to feed the country until 1995/1996. Hence, the marketing system for rice was determined both by the internal movement of the commodity from producer to consumer and by substantial imports from other countries, both as food aid and for commercial sale. Although production was insufficient for Cambodia's needs, during the main harvesting season, a significant proportion of paddy was reportedly exported to Thailand and Vietnam. To supplement the deficit, milled rice was imported back from Thailand and Vietnam, particularly during the off-peak season (wet season), both as donor-funded food aid and for commercial sale.

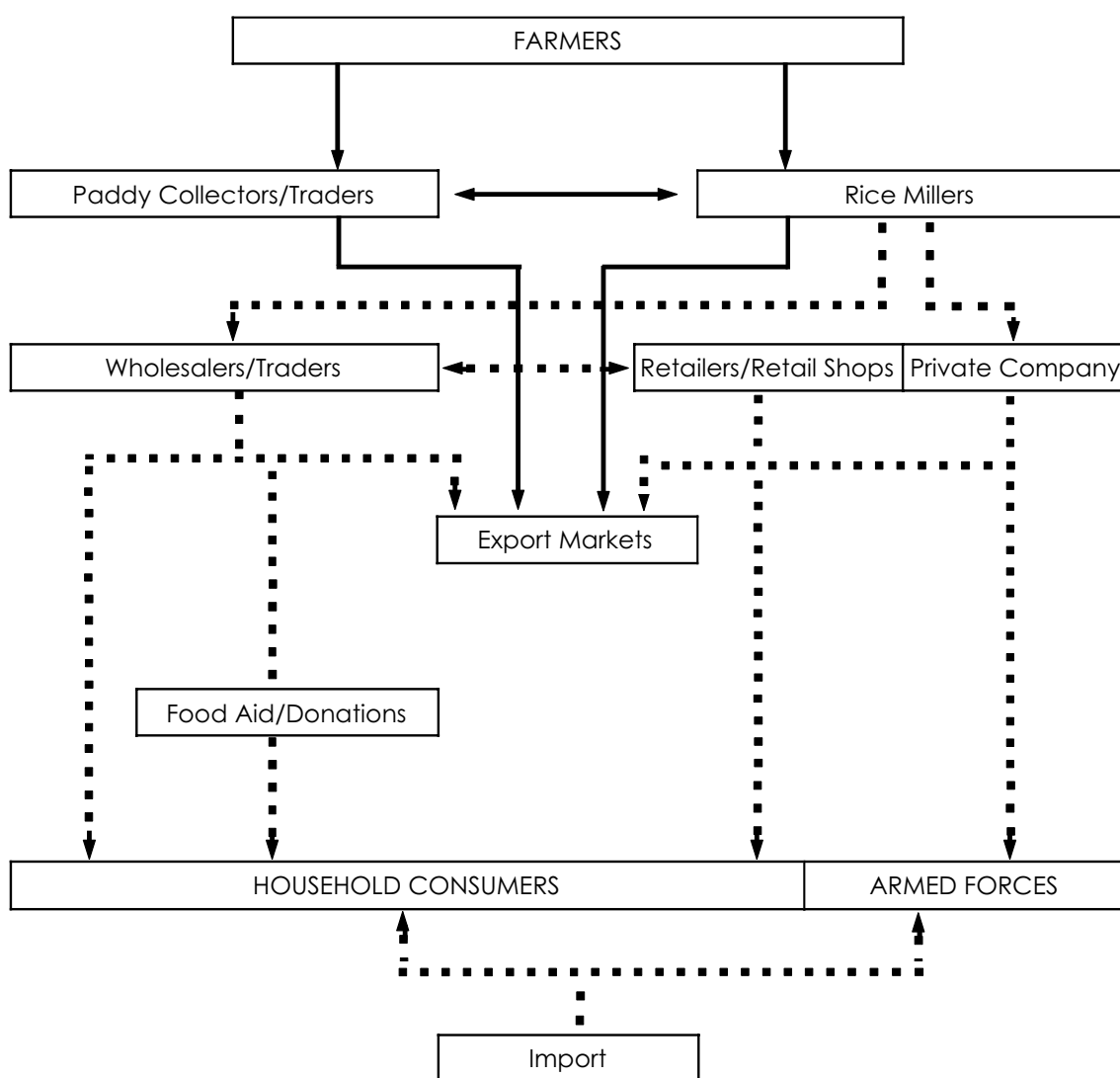
The rice marketing system developed rapidly after 1996, the first year that production regained surplus levels on a national level. From this point on, the movement of rice from surplus to deficit areas, or to export markets, was carried out entirely by the private sector. This marketing system was highly fragmented. It involved a large number of small/family operators in the initial stages, and a smaller number of large-scale operators at later stages, who supplied large bulk orders to populous city markets and to exporters. The final form of rice is usually milled rice; the rice marketing system encompasses a number of steps which bring paddy rice¹ (*srov*) from producers to consumers as milled rice² (*ang kohr*).

¹ Hereafter refers to un-husked rice.

² Hereafter refers to husked rice.

The current rice marketing system in Cambodia can be seen as a system of price/non-price linkages between producers and consumers. This process normally involves a variety of actors ranging from producers/farmers, to paddy collectors/traders, millers, wholesalers/traders, transporters, retailers and finally consumers. The main sequential stages in the rice marketing system can be summarised as follows:

Figure 3.1. Rice Marketing System in Cambodia



Note: ◆ Paddy rice; - - - ◆ Milled Rice; Source: Author's own fieldwork.

- a. *The first stage is primary procurement*, in which paddy is purchased from farmers by small-scale paddy collectors/traders or millers. Farmers traditionally sell their products directly to local mills, if easily accessible, or to mills further away if only modest payments are required for transportation to the mill. However, if there are no rice mills nearby, or if poor road conditions mean high transport costs, farmers sell their products to paddy collectors/traders. Paddy collectors/traders usually come to purchase paddy rice in villages, then transport and sell it for a profit either to millers or to exporters. In the surplus-producing provinces bordering Thailand and Vietnam, paddy collectors and traders sometimes buy paddy from rice millers and sell it directly to exporters.

Procurement of paddy is a process that goes on throughout the whole year, though it is more intensive during the main harvesting season (December-February). Although the supply of paddy rice varies greatly by season (higher in the harvesting season and lower in the rice production period), it is supplied to markets throughout the year. In fact, about 10-20 percent of farmers and a few better-off families have the financial resources to store paddy for sale later in the year during the off-peak season when the price is higher. This means that some paddy is sold throughout the year.

- b. *The second stage is processing (milling)*, in which paddy is milled and processed for local consumption and for onward distribution. There are three types of rice mills: small/family/village mills, medium-size mills and large mills.³ Each type of mill plays a slightly different role in the marketing system. Small/family mills are found in all provinces and in almost all rice-producing villages. They usually mill paddy for local farmers in exchange for rice bran, or if paddy owners take the rice bran, they charge a small amount of money to cover the cost of operating their mill. They also play another important role as paddy collectors/traders. Small millers purchase paddy from farmers and sell it unmilled to other traders or to medium and large millers. However, given the limited capital they have to buy paddy, their business is usually small.

Medium and large-scale mills are principally found in the large rice-producing regions and in Phnom Penh. They play two significant roles: milling rice and supplying milled rice to wherever there is high market demand and better prices. These include urban areas, populous areas, rice-deficit areas, and exporters. The owners of bigger mills usually purchase paddy either directly from farmers or from paddy collectors/traders who bring it to the mills. They mill paddy and then supply the market either through wholesalers/traders or through retailers. For efficient distribution, some of them have their own wholesale or retail shops in the main cities, especially in Phnom Penh.

- c. *Distribution*, is the process in which milled rice changes hands in bulk at mills or on the wholesale market and is sold directly to consumers at retail markets. The rice distribution process involves many actors from farmers to consumers. These actors include millers, transporters, wholesalers/traders, warehouse owners, retailers and private companies which act as suppliers of rice to the armed forces. Some medium- and large-scale millers serve multiple functions as wholesalers, warehouse owners, retailers and suppliers of milled rice to the armed forces.

It is common practice that some better-off people and politicians purchase milled rice or paddy to distribute to the poor, especially during emergencies and election campaigns. They normally purchase directly from large millers, traders or from private companies.

- d. *Export*, in which milled rice is destined directly for export. Both milled rice and paddy are exported directly to neighbouring countries (Thailand and Vietnam) during and after the harvesting season. Rice is exported both legally as well as illegally.

The sequential chain described above does not automatically mean that all rice products pass through all the intermediaries in the marketing system. There is a tendency to specialise in this business. As stated previously, there are an increasing number of private companies which play multiple roles in the rice marketing business. These have business ties

³ The details of rice mill classification can be obtained from Rozemuller (1998:17-19) and Cameron and Twyford-Jone (1995:5-6)

with local paddy collectors and they have their own mills, storage facilities, wholesale stores and retail shops. This system tends to increase the efficiency of rice marketing.

The recently-established Federation of Rice Millers intends to expand its role as an exporter of rice. The Federation has already begun promoting Cambodian rice to the world through the establishment of its website *RiceNet*. The Federation intends to improve the marketing process to reach international markets and to meet international standards.

3.5.1. Women and the Rice-marketing System

Women in Cambodia are actively involved in most agricultural activities ranging from farming to marketing. In some activities, women outnumber men. For example, the marketing of rice or other agricultural commodities has traditionally been considered more of a female than a male activity. It is widely thought that Cambodian women have better negotiating and bargaining skills. They traditionally engage in marketing at all of the stages listed above, in the following ways:

- a) They act as private collectors/traders, and derive additional income from marketing rice products. During the harvesting season, women traders travel to remote villages to purchase paddy and then sell it to mills. They also buy paddy from mills and export it to Vietnam or Thailand when reasonable profits can be made.

The participation rate of women in marketing activities varies greatly from region to region. It is reported that about 50-60 percent of the paddy collectors/traders in Prey Veng, Svay Reang and Takeo provinces are women. The percentage of female traders is lower, however, in the provinces bordering Thailand.

- b) Women traders also take paddy to be milled and then take it to the market to sell it directly to consumers. Women also constitute the majority sellers of processed and unprocessed agricultural commodities in both rural and urban markets.

In Cambodian families, women are usually the decision-makers in matters of household consumption. In the case of paddy production, they are often the ones who are responsible for marketing what their household farm produces.

3.5.2. Marketing Margin

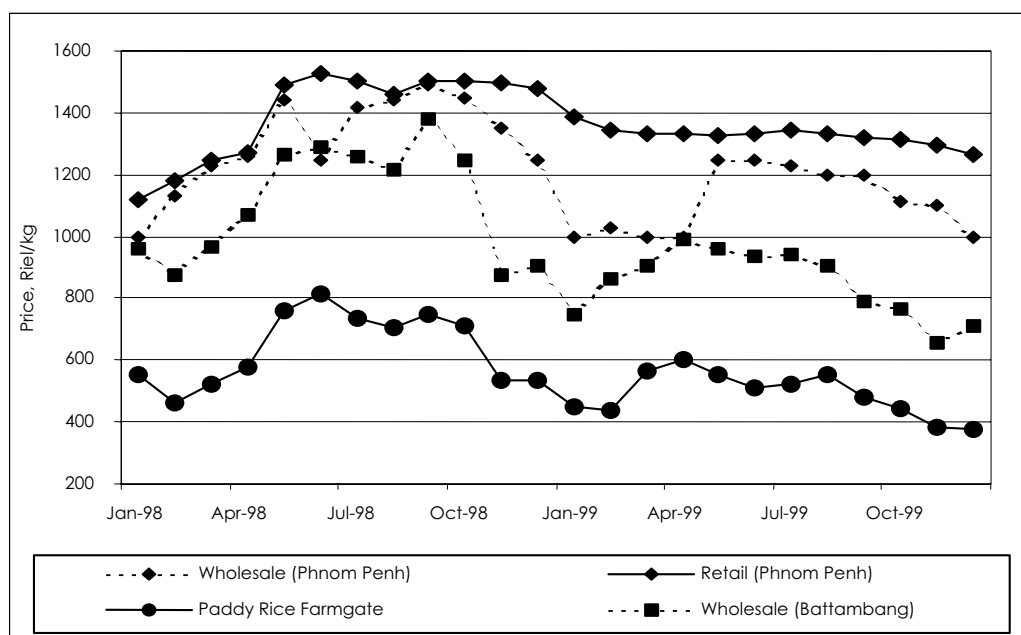
Each time paddy or rice is sold in the marketing chain between the farmer and the consumer, the price increases. The price difference between the producer and the consumer is generally defined as the marketing margin. In other words, the marketing margin is the difference between the price received by the farmer and that paid by the consumer, or, in pure economic terms, the difference between the primary and derived demand curves for rice products (Tomek and Robinson 1987:119-120).

Due to lack of information on farmgate prices for paddy/milled rice in any province, it is difficult to estimate the marketing margin of rice in Cambodia. However, for the purposes of this study, a rough estimate of the marketing margin can be derived by taking the buying price of paddy at mills in Battambang province, where most of the rice that is sold in Phnom Penh and other provincial town markets originates, and using this price to represent the farmgate price. In doing so, however, two main cautions have to be borne in mind. First, buying prices of paddy at mills in Battambang can be used to represent only prices for farmers whose paddy can be delivered to rice mills without incurring any extra transportation costs. Second, it is common practice among farmers to sell their produce to paddy collectors and traders at prices about 10-15 percent lower than the prices paid at mills, depending upon the distance to the mill, and the road conditions. With the above cautions in mind, the marketing margin, i.e. the difference between farmgate prices in Battambang province and retail prices of milled rice in Phnom Penh markets, has been discussed below.

Farmgate prices and retail prices seem to vary considerably with the seasons. They are low during the harvesting season and high during the growing season. Farmgate prices of paddy, as well as retail prices of milled rice in Phnom Penh markets, have decreased dramatically in the last two years.

The farmgate share of retail prices in Phnom Penh markets appear to have been low in the last two years. In December 1999, farmers in Battambang province received only about 370 riels per kilogramme (kg) of paddy for one of their high-quality rice varieties (*Phkar Knhey*). The low prices for produce at the farm level can be explained by the farmers' weak bargaining position under a small, fragmented, subsistence family production system. For several reasons, the vast majority of farmers typically have immediate need for cash during or right after the main harvesting season. It is a common practice in Cambodia for farmers to borrow cash to hire labour or to purchase agricultural inputs. They also borrow agricultural inputs (mainly fertiliser). They must pay back their loans when they harvest their products or face ongoing high interest charges.⁴ If they borrow fertiliser, they have to pay this back as well at harvest time.⁵ Farmers also need cash at harvest time to pay for family festivities and other requirements. Farmers traditionally hold weddings for their sons or daughters at this time of year and buy family necessities, such as clothes, school supplies, tools, etc. With so many farmers all selling their paddy at the same time, the large volume reaching the market at the same time brings prices down.

Figure 3.2. Marketing Margin of Rice (*Phkar Knhey*) in Cambodia



Source: NIS, Consumer Price Index, Series and Agricultural Marketing Office, 1998 and 1999.

Unlike farmers, paddy collectors and traders are in a better bargaining position in the marketing system. They can make some profit⁶ either with their own capital or with capital

⁴ Interest rates were observed during a field visit (24 July-4 August 2000) to vary from 3-5 percent per month for rural development agencies, to over 8 percent for private moneylenders.

⁵ The interest charge for fertiliser borrowing in Battambang and Banteay Meanchey, is two bags of paddy (200 kg) for 1 bag (50 kg) of fertiliser.

⁶ If they are satisfied with a small amount of profit, they can just purchase paddy from farmers and sell to millers. However if they want to gain more profit, they can keep paddy for later sale during the rainy season. By doing this they have to take risks regarding price and spoilage (if they don't have appropriate storage facilities).

provided by the millers.⁷ These intermediaries emerge seasonally in the business whenever profits can be obtained.

The way in which paddy collectors and traders behave and make profits varies greatly from one region to another. In many provinces paddy collectors/traders base the price they pay to farmers on what millers will pay them, less about 10-15 percent to cover transportation costs from the farmer's field to the mill, and their own profit. In Battambang province, paddy collectors and traders use a unique practice in obtaining profits from their business. They always purchase paddy from farmers at the price paid by the mill or a little less (5-10 percent) and derive their profit from under-weighting the farmers' produce using improperly-adjusted scales. For example, 110-115 kg of paddy weighs only 100 kg on an improperly-adjusted scale, and farmers receive payment for only 100 kg. Farmers are well aware of this irregularity, but they are constrained by their weak bargaining power, and their desperate need to sell their produce. A farmer in Battambang province complained about this common practice as follows:

"The paddy collectors/traders, are all the same. It is just the matter of who cheats more and who cheats less. ... I have to sell my paddy to them because I don't know who to sell to when I need money to pay back debts."

The profit made by paddy collectors and traders over what they pay to farmers is about 10-15 percent. This percentage, however, has been slowly declining over the past two years, due to increasing numbers of people who enter the trading business, attracted by the high profits.

The milling sector plays the most important role in the marketing system in determining the price difference between what farmers earn and what consumers pay. Most of the product's value is added at the milling stage. Based on what they think they can earn in future, mill owners purchase paddy during the harvesting season to build up their inventory. They mill and sell the paddy later to wholesalers, traders or retailers, at a time when significant profits can be made.

The profits of millers depend on prices at the time they sell the paddy or rice, marketing costs, waste, spoilage and milling yield. Although farmgate prices change seasonally in conjunction with retail prices, millers' profits can be maintained if they purchase paddy when it is cheap (just after or during the harvesting season) and sell when it is expensive (during the next growing season). Most mills, particularly the large-scale ones, reduce their activities during and immediately after the main harvesting season, when rice supplies come from many sources, and increase their activities during the rainy season, when rice is in short supply.

Like paddy collectors and traders, wholesalers and traders of milled rice are always making profits. They always gain a significant share of the retail price (Figure 3.2). They appear to make higher profits during the harvesting season than during the rainy season because of low prices at mills and lower transportation costs. Prices at mills often fluctuate with farmgate prices, but retail prices tend to remain unchanged.

Retailers in Phnom Penh markets have a win-win position in the rice marketing system. Regardless of a price increase at any level, from farmgate to wholesale, they always make at least 10 percent of wholesale prices. The share price of retailers in Phnom Penh is high during the harvesting season when the farmgate prices are low. Profits, however, are reduced by strong competition in the business and a low entry barrier.

Wherever rice is shipped, transportation costs contribute considerably to its retail price. Given the poor existing transportation infrastructure, transportation costs make up a

⁷ If they use their own capital they are free to sell their product to whomever they wish, but if they use millers' capital they must sell the product to millers.

significant share of retail prices. High transportation costs are due to the high cost of fuel (compared to that in neighbouring countries) and avoidable expenses like illegal checkpoints along the roads. It is estimated that about 5-10 percent (\$10-20/ton) of the retail price in Phnom Penh is spent on transportation costs from the provinces to markets in Phnom Penh, depending upon the distance.⁸

The above description of the rice marketing system in Cambodia appears to indicate a move towards a perfectly competitive market, although the pace is slow. There is a tendency to reduce profits at all stages of the marketing system. Also, it has been observed that large-scale mills have created their own system. They might act as wholesalers, traders and retailers, and they might have their own paddy collectors. Under these circumstances, prices seem to flow rapidly from retailers, to wholesalers, to millers, to paddy collectors/traders, and then to farmers. Throughout this marketing structure, any change in prices at the retail level is reflected to the farmers more effectively.

However, there are still many market imperfections in Cambodia. The significance of price reflection always lags and the marketing margin is always large. The failure of retail prices to respond promptly to changes in farmgate prices may be related to market imperfections (Tomek and Robinson 1987:129). A common type of market imperfection in Cambodia is the result of a lack of information about prices.⁹ Most farmers in the provinces lack access to information about prices in provincial towns or at the retail level. Farmers only know what the price is at nearby mills and the prices that paddy collectors and traders are offering in their own villages.

Another market imperfection in Cambodia stems from the absence of effective competition. If a paddy collector, trader or miller at a specific location has monopoly power, s/he may not pass on to consumers any reduction in farm prices, and thus keep the price difference as a large profit. The same is true when prices increase at the retail level; collectors and traders may not give farmers any more for their crop. However, if farm prices rise, these will be quickly passed along to the retail level. A paddy collector, trader or miller has the power to raise retail prices even if there is no change in farmgate prices. The situation is even worse when roads are in poor condition.

Moreover, the supply responsiveness of rice products is strongly determined by the seasonality of the production system. Given that only a small proportion of rice-growing areas benefit from irrigation,¹⁰ the supply of rice in Cambodia is highly seasonal. Any improvement in retail prices will not immediately prompt increases in production due to the previously-described constraints to production.

Therefore, any attempt to change the marketing margin will not provide farmers with significant benefits, at least in the short term. In the short term, an increase in prices at the retail level only provides profits for the retailers, wholesalers and millers. However, in the longer term, low barriers to entry into the business will eventually reduce the profits of intermediaries as more intermediaries enter the system. Any price drop at the retail level though will be quickly passed along to farmers, and farmgate prices will drop immediately since the intermediaries in the marketing system would want to continue to make their usual profits.

⁸ Transportation costs per metric ton of rice: Battambang-Phnom Penh, \$10-12, Phnom Penh-Sihanouk Ville, \$8-10.

⁹ Despite an attempt of the Agricultural Marketing Office to broadcast price information on the radio, many farmers said they were not aware of prices and even if they were, they still had little bargaining power, especially when they were desperate to sell their product. A farmer in Battambang province responded to a question about price information by saying that "*Sometimes I heard of a price increase in the cities, but I cannot find anybody to offer me a better price, except the price at mills or paddy collectors/traders offer*".

¹⁰ Only some 10 percent of the cultivated areas growing rice are irrigated.

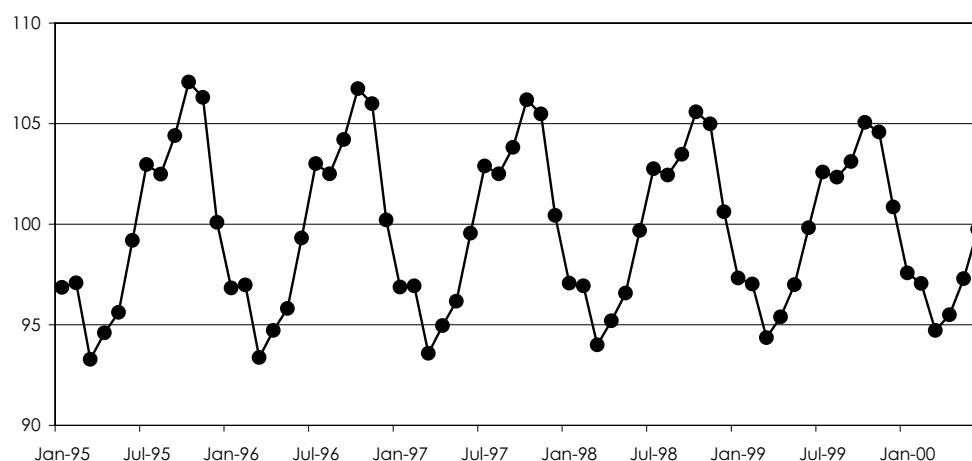
3.6. Price Variations

3.6.1. Seasonal Price Variations

Since rice is grown only during a part of the year, prices for rice products and marketing approaches change with the season. Rice prices are usually low during the harvesting season and high during the growing season, as a result of stable demand for the product and strong variations in seasonal supply of a product whose storage costs are included in the retail price.

In the absence of data on long-term farmgate prices for paddy, the retail prices of milled rice in Phnom Penh can be used to estimate the seasonality of price variations, assuming there is market integration of rice prices between producers (farmgate prices) and consumers (retail prices), under perfectly competitive markets. It clearly appears that rice prices in Phnom Penh markets are significantly influenced by seasonal factors, but this pattern of influence has been diminishing over the last five years. The seasonal cycle of the price of No. 1 rice in Phnom Penh markets matches almost month-for-month that of No. 2 rice. It is important to keep in mind that a value of 100 in any given month indicates that there is no seasonal impact on the original prices for that month. In other words, the more the values of seasonal factors approach 100, the less the impact of seasonality on the original prices of milled rice in Phnom Penh markets.

Figure 3.3. Estimated Seasonal Factors for Prices of No. 1 Milled Rice in Phnom Penh Markets



Note: Arima model for estimation is $(0\ 1\ 1)(0\ 1\ 1)$. Source: Author's calculation based on Ung (2000) and NIS, Consumer Price Index, Series.

The above figure illustrates that within the first six months of the year the price of milled rice in Phnom Penh markets is significantly influenced by deflationary factors. This can be explained by a rice production system with a number of different varieties grown and different vegetative periods. Most rice varieties are grown during the wet season and harvested between December and February.¹¹ The massive supply of rice during this period causes rice prices to fall quickly at the farmer's level, and also to fall in urban areas, especially in populous cities such as Phnom Penh. Rice prices in both rural and urban markets are cheaper as well during the harvest season because no storage costs have been incurred yet and transportation costs are lower due to better road conditions in the dry season.

The prices of paddy and rice are the lowest in March of every year for two reasons. First, the glut of paddy on sale during this month is due in part to farmers' need for money to pay for the Khmer New Year celebration in April. To raise necessary cash, they sell their

¹¹ The details of the rice vegetative period and the rice harvest can be obtained from Nesbitt ed. and Paloeun (1997) and Cameron and Twyford-Jones (1995), respectively.

only product, rice. Second, because paddy collectors, traders and millers purchase paddy during the early harvesting season from December to February, they lack the funds to pay for the paddy which comes on the market in March. This significantly diminishes the demand for paddy, at least in provinces with a substantial surplus, such as Battambang, Banteay Meanchey, Prey Veng, Svay Reang, and Takeo.

On the other hand, during the last six months of each year, rice prices in Phnom Penh markets are significantly affected by seasonal inflation. The figure above clearly illustrates these influences, with values for seasonal factors above the 100 point mark. This is likely due to the fact that the main harvesting season is over, leading to a lower supply of rice in the markets. Rice prices drop slightly in August in some areas where a proportion of early season rice comes on the market from farmers growing early wet-season varieties.

The strongest seasonal influence on rice prices in Phnom Penh occurs in October, for two major reasons. First supplies from the previous harvest have been exhausted, and supplies from the coming harvest season have yet to arrive. Also, by October, most farmers have run out of their household stocks, and need to buy rice themselves. This combination results in a price increase in October.

Seasonal variations in rice prices in Phnom Penh markets have been diminishing over the long term. Figure 3.3 shows that the long-term trend of seasonal factors on price is moving towards 100, indicating fewer and fewer seasonal influences on prices over time. This implies that the storage sector is playing a more important role in stabilising rice prices. This also shows that marketing integration is more efficient, due in part to the adoption of better milling technology. It is also likely that more farmers are in an economically-better position and able to keep more of their produce for sale later in the year during the growing season when prices are higher.

3.6.2. Trends in Rice Prices

In addition to seasonal influences, the annual price of rice in Phnom Penh markets, as well as in provincial markets, is greatly influenced by expected future events as well as current conditions. The conditions that influence expectations tend to occur randomly and unpredictably. After the factional fighting in July 1997, the price of rice increased steadily due to consumers' worries over the uncertain political situation. Prices peaked in July 1998 at riels 1,500/kg for No. 1 rice, and above riels 1,300/kg for No. 2 rice. Prices remained unchanged until December 1998 because of worries about the 1998 National Election (Figure 3.4). This shows how consumers respond towards political stability. Traditionally, whenever they feel insecure about the political situation, they purchase large quantities of rice – enough to meet family requirements for a period of a few months and even up to a year. They do so because they expect that the prices of long-lasting staple foods will increase in such a situation.

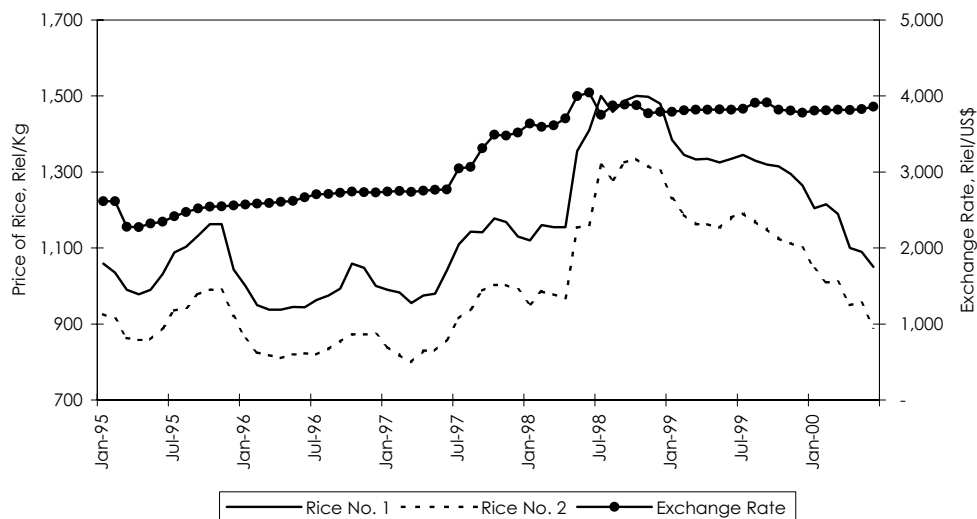
After the formation of the new coalition government in late 1998 and the arrival of the new rice harvest, consumers were confident about future political stability and this was reflected in a sharp drop in the price of milled rice in Phnom Penh markets to about riels 1,000/kg for No. 1 rice and riels 900/kg for No. 2 rice.

Sometimes, rice prices are influenced by traditional beliefs. During field trips to five major rice-producing provinces between July and August 2000, many people reported that they believed that in 2000, which was the year of the Dragon,¹² water levels would be high and would adversely affect production. With the coincidence of early flooding along the Mekong River, which devastated thousands of hectares of the early rice harvest, rice prices in

¹² Cambodians believe that the Dragon likes to play with water, and hence, brings more rain and floods that might destroy crop production.

Phnom Penh and provincial markets soared rapidly. Prices increased about 10-20 percent between the last week of July and first week of August 2000.

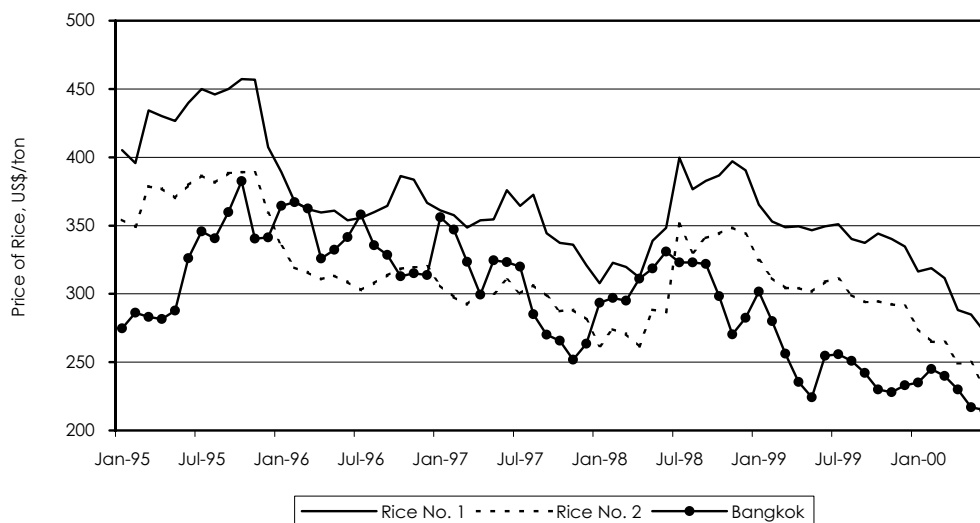
Figure 3.4. Price of Rice in Phnom Penh Markets and Exchange Rate



Source: NIS, Consumer Price Index, Series.

Since rice is a tradable commodity, its price is associated with external factors, such as exchange rates and rice prices in international markets, as determined in part by prices in Thailand (freight on board – f.o.b. in Bangkok). Prices of milled rice in Phnom Penh markets appeared to be closely linked with the devaluation of the Cambodian riel against the US dollar. When exchange rates gradually increased between 1996 and mid-1997, the price of milled rice in Phnom Penh markets remained almost stable, with only seasonal fluctuations. But when the Cambodian riel depreciated from just under 3,000 riels per dollar in 1996 to over 4,000 riels per dollar in 1998, the prices of milled rice also rose from around 1,000 riels/kg for milled rice No. 1 and 900 riels/kg for milled rice No. 2, to approximately 1,500 riels/kg and 1,300 riels/kg, respectively. This reflects the close relationship between prices of milled rice and exchange rates.

Figure 3.5. Prices of Rice in Phnom Penh Markets and f.o.b. Bangkok



Sources: NIS, Consumer Price Index Series and IMF, 1999

Prices of milled rice in Phnom Penh markets are considerably influenced by prices in Bangkok. The prices of both No. 1 and No. 2 rice in Phnom Penh markets seem to have a close relationship with the price of milled rice in Bangkok. Since early 1995, the prices of No. 1 and No. 2 rice in Phnom Penh markets have been much higher than the f.o.b. Bangkok price (Thai 100 percent second grade). However, this discrepancy diminished from early 1996 to mid-1998, and again increased afterward, though with diminishing patterns. Rice prices in Phnom Penh markets remained higher than f.o.b. Bangkok prices, which obviously encouraged the import of rice from Thailand, at least to Phnom Penh markets and other populous provincial markets.

3.6.3. Regional Price Variations

Rice prices vary greatly between geographic areas, mainly due to regional supply and demand. Although, in the last five years, a surplus of rice has been produced at the national level, regional rice shortages have remained critical. Due to the lack of comprehensive information, it is very difficult to estimate the quantity of rice traded between regions and the spatial equilibrium model for the rice trade. The marginal surplus and deficit in different regions contributes to price differentiation within those regions.

Differences in rice prices between provinces are inconsistent. Theoretically, price differences between two regions are supposed to be no more than the price of transportation, (Tomek and Robinson 1987:151). In Cambodia, however, regional price differences are likely to be much higher than the expected transfer costs. For example, the prices of *Phkar Knhey* in Phnom Penh markets were recorded to be much higher than in Battambang markets (about \$50-100 per ton between 1998 and 1999), though the transportation price was only about \$15-20 per ton from Battambang to Phnom Penh.

3.7. Export and Import of Rice

Cambodia was once an important rice exporter. By the end of the 1960s, Cambodia had annual exports of up to 0.5 million tons of milled rice. In the 1950s and 1960s, rice was the most important earner of foreign exchange, accounting for about one-third of the total in the late 1950s, about 60 percent in the mid-1960s, and about 40 percent by the end of the 1960s (World Bank 1970:83). However, this prosperity completely vanished during the following two and one-half decades of civil war, isolation and social chaos, and the country became a rice net importer. The rice industry was severely damaged by civil war and isolation in the 1970s, when most rural infrastructure was destroyed. Production remained at deficit levels nationally until 1995/1996. Shortages were alleviated by commercial imports of rice from Vietnam and food aid supplied by the World Food Programme (WFP) and other donors, as well as through direct government-to-government assistance (Cameron and Twyford-Jones 1995:6-7).

Within the last five years, production has again reached a sustainable level of surplus at the national level. Production reached the highest level ever in 1999/2000, with over four million metric tons of paddy produced. This increase in domestic production has put increasing pressure on domestic markets and it urgently requires an expansion of export markets. To encourage the export of surplus rice products, the government has eliminated all barriers to Cambodian rice exports. However to ensure national food security, the government requires exporters to obtain a permit before exporting any rice.

Despite the government's efforts to encourage rice exports, the legal exports of milled rice over the last five years have been minimal. The official figure for milled rice exports, as recorded by the Customs Department, has been as low as a few thousands metric tons annually, and surplus production far exceeds the quantity exported. This figure obviously

represents only the formal exports.¹³ Official permits for milled rice exports were much lower than the quantities authorised by the Ministry of Commerce. Between 1996 and 1998, real exports were about 30 percent below the quantities granted export permits, and in 1999, 50 percent less.

Most of the rice which is formally exported, is destined to ASEAN member countries, especially Singapore (70 to 85 percent). Shipments are through the ports of Phnom Penh and Sihanoukville. Small portions have also been sent to a few developed countries, which indicates that Cambodia still has the potential to explore other international markets, especially those in developed countries and other large rice-consuming countries.

As well as the small quantities of milled rice which are legally exported, there are also sizable unauthorised cross-border exports of paddy. Unofficial reports indicate that over the past five years, large quantities of paddy have been illegally exported to Thailand and Vietnam during and after the main harvesting season. These exports have happened exclusively through the illegal border checkpoints where "informal fees/taxes"¹⁴ are collected. There are no reliable data, however, to estimate the quantities of paddy unofficially exported to Thailand and Vietnam.

Paddy is exported solely to the Thai and Vietnamese markets. Any changes in the demand and supply levels in these two countries will have a significant influence on prices and the export of rice in Cambodia. This results in uncertainty about future prices and export markets. It also reduces the comparative advantage of Cambodian rice production. With an uncertain future for their produce, farmers have little incentive to invest in improving farm production (Kasenta *et al.* 2000:16). In the case of Cambodian subsistence farmers, they will produce only enough rice for household self-sufficiency if they find commercial production unprofitable.

Table 3.1. Exports of Milled Rice, 1996-1999

Countries of destination	Unit	1996	1997	1998	1999	2000 ¹
Developed countries	MT	-	424	2	21	n.a.
ASEAN	MT	2,981	2,732	782	2,970	n.a.
- to Singapore	MT	2,531	2,732	560	2,200	n.a.
Others	MT	2,645	667	-	120	n.a.
Total (actual export)	MT	5,625	3,823	784	3,111	n.a.
Licensed²	MT	16,310	10,957	3,080	7,390	600

Note: ¹ First trimester. ² Quantity licensed and registered at the Ministry of Commerce. Sources: Customs Department (1995-1999) and Department of Foreign Trade (1996-1999).

As the government has simplified the grain trade, imports of rice into Cambodia have increased remarkably. Imported rice falls into two categories: food aid and official commercial imports, which are taxed. Rice imported under food aid is tax exempt, while commercial imports are subject to taxes – 7 percent customs duty and 10 percent value-added tax (VAT).

Although significant surpluses have been reported at the national level, chronic rice deficits still occur in some areas, even in provinces with a surplus. The deficit in some regions has required food aid from different donor countries. The rice supply under food aid from developed countries has increased significantly. It increased from 29,000 metric tons in 1998, to 31,000 metric tons in 1999, of which 9,500 metric tons were imported in 1998 and 18,000 metric tons were imported in 1999.

¹³ Legal export refers to export of rice by exporters who are assumed to have obtained a permit from the Ministry of Commerce and registered at the Customs Department.

¹⁴ It is estimated that about \$10-15 has to be paid to export 1,000 kg of paddy rice to either Thailand or Vietnam from bordered provinces.

During the same period, imports of rice from developed countries increased significantly from under 1,000 metric tons to nearly 20,000 metric tonnes.¹⁵ It is reasonable to assume that the rice imported from developed countries was under the food aid system because it was not economically viable to import rice from developed countries between 1995 and 1999. Food aid rice imports reached a maximum in 1998 of just under 20,000 tons. Japan contributed over 80 percent of this rice in 1998, and nearly 100 percent in 1999.

Commercial rice imports also increased rapidly over the last few years. The quantities rose from 2,000 metric tons in 1995 to over 20,000 metric tons in 1999.¹⁶ Commercial rice imports originate primarily from Thailand and Vietnam. Again, these figures are only for official imports, which were recorded at the Customs Department. It can also be assumed that some of the rice imported from Thailand and Vietnam was food aid, and not taxable, while the rest was subject to 17 percent tax.

Table 3.2. Imports of Milled Rice, 1995-1999

Countries of origin	unit	1995	1996	1997	1998	1999
Developed countries ¹	MT	691	9,728	7,001	19,773	10,884
- from Japan	MT	90	8,000	7,000	16,533	10,882
ASEAN ²	MT	2,197	16,238	12,753	13,644	23,285
- from Thailand	MT	2,030	16,227	8,951	8,951	21,267
- from Vietnam	MT	145	-	3,801	3,801	2,000
Other countries	MT	27	11	2	15	19
Total	MT	2,894	25,966	19,755	33,419	34,169

Note: ¹If it is not economically viable to import rice from developed countries, and hence, the imports can be assumed to be under food aid for the poor. ²As over 90 percent of rice imports came from ASEAN countries (Thailand and Vietnam) some of the imports were assumed to be commercial. Source: Customs Department, 1995-1999.

Apart from food aid and commercial imports, illegal imports of rice are common. It has been repeatedly reported that significant quantities of rice are imported by private companies, tax free, under the armed forces supply scheme. Therefore, it is widely believed that the quantities of rice imported into Cambodia are actually higher than those reported officially.

Many varieties of rice are normally imported from Thailand, ranging from the 100 percent White B rice to the 45 percent grades, although there are no reliable data on the quantities of each specific rice grade imported. Observations in Phnom Penh and provincial markets suggest that the 45 percent grade is the largest quantity due to its low price, which is below the price of domestic rice. Higher-quality Thai rice is also imported illegally, to meet the needs of specific niche markets.

3.7.1. Revenue and Efficiency Losses in the Rice Trade

By itself, the Cambodian policy on the grain trade does not distort the movement of agricultural commodities, especially exports. But the implementation of this policy has a serious impact on the economy. It not only distorts exports and imports, but in many ways it also hinders economic efficiency in rice production.

Through the licensing of rice exports, the state itself does not take direct responsibility for marketing, but tries instead to control private trade. Theoretically, the licensing practice serves two purposes. Licensing is used by many countries to generate government income, and, in some, it is a means of ensuring food security. In Cambodia, export licenses are free of charge and the government generates no revenue from providing them. The main reason for licensing exports is food security. Ensuring adequate supplies is important because rice is a staple of the Cambodian diet. However, because there is competition among traders to get export licenses, corrupt officials have an opportunity to charge bribes (Ellis 1996:103). The process of obtaining a license is also time consuming and costs money.

¹⁵ Official figure from the Customs Department.

¹⁶ Again the figure represents only those formal imports reported to the Customs Department.

Table 3.3 Expenses for Export Procedures of Milled Rice (*ang kohr*) from Cambodia

		US\$/container (20t)
1.	Expenses with "proper" receipts	
	• Customs officer (tax free) but permit is required	\$00.00
	• Ministry of Commerce: Licensing	\$00.00
	• Camcontrol @ 0.1 % per license fee	\$36.00
	• Phyto-sanitary (if required) @ \$0.5/t	\$10.00
	• Handling (put into a container)	\$55.00
	• Sub-Total	\$101.00
2.	Additional expenses without "proper" receipts	
	• Custom officer(s) (<i>me kouy</i>)	\$30.00
	• Custom officer(s) (inspector)	\$30.00
	• Custom officer(s) filling in export document @ Riel 100,000	\$26.13
	• Camcontrol (inspector) @ Riel 30,000	\$7.81
	• Phyto-sanitary (inspector)	\$10.00
	• Economic police @ Riel 20,000	\$5.22
	• Border police @ Riel 20,000	\$5.22
	• Handling, workers, ... @ Riel 100,000	\$26.13
	• Commission fee	\$40.00
	• Sub-Total	\$180.51
	Grand-Total	\$281.51
		Or \$14/ton

Note: Exchange rate of May 2000, \$1.00 = Riel 3,826. Transportation costs, Battambang-Phnom Penh: \$10-12 and Phnom Penh-Sihanoukville: \$8-10, excluding handling costs. Source: Enterprise Development Cambodia (EDC), 2000.

Licensing in itself might not be a significant constraint to rice exports, but when it is combined with the inefficiency of the current management system, it strongly obstructs the export of agricultural commodities, especially rice. The Cambodian Rice Millers Conference held in May 2000 in Battambang province identified "irregularities" as one of the main constraints to the export of rice from Cambodia: "Government service is not good enough: high costs for exporting procedures (corruption, complicated procedures...)". The Rice Millers Association also stressed the "unnecessary expenses/bribes" on the export of milled rice from Cambodia.

Table 3.4. Production and Economic Loss Estimations

	1995	1996	1997	1998	1999
Paddy rice production, MT	3,448,827	3,458,000	3,414,918	3,509,871	4,040,900
Food balance (milled rice) ¹ , MT	+229,405	+161,647	+104,051	+30,070	+260,710
Imports (milled rice) ² , MT	2,894	25,966	19,755	33,419	34,169
Surpluses (milled rice) ³ , MT	232,299	187,613	123,806	63,489	294,879
Exports					
Milled rice ⁴ , MT	-	5,625	3,823	784	3,11
Paddy rice ⁵ , MT	374,676	293,529	193,521	101,137	470,594
Revenue losses, US\$					
Optimistic ⁶	3,746,758	3,014,040	1,988,732	1,022,347	4,749,489
Pessimistic ⁷	5,620,137	4,481,685	2,956,338	1,528,032	7,102,457
As percentage of annual total					
expenditure on agricultural sector	25-38%	6-8%	25-37%	21-32%	85-126%
Agricultural expenditure, million US\$	14.96	53.79	7.94	4.84	5.62

Notes: ¹ The Ministry of Agriculture, Forestry and Fisheries estimates that 17 percent of the total paddy production is wasted in post-harvest losses, and kept for animal feed and seed, and that 151.2 kg of rice is needed per capita per year (with a milling yield of 62 percent). ² only those recorded by the Customs Department, but unrecorded figures are widely believed to be much higher. A significant proportion of rice imports from Thailand and Vietnam are reported to be supplied to the armed forces, for which tax is not paid. ³ It is assumed that imported rice has replaced domestic products and that the conversion rate of paddy to milled rice is 62 percent. ⁴ Official figures for exports of milled rice provided by the Customs Department. ⁵ If all surpluses of paddy are illegally exported to neighbouring countries. ⁶ If the export of milled rice costs \$14 per ton and paddy costs \$10 per ton. ⁷ If the export of milled rice costs \$14 per ton and paddy costs \$15 per ton. Sources: Customs Department (1995-1999) and the Department of Planning and Statistics of the Ministry of Agriculture, Forestry and Fisheries, Series and Annual Statistical Reports.

While border controls on rice exports are almost non-existent, except for "fee" collection, the licensing requirements do more to discourage rice exports than to encourage them. Nor do border controls ensure national food security. As mentioned above, reports indicate that most of the rice which is illegally exported from Cambodia is in the form of paddy and exporters are charged about \$10-15 per ton at the border to allow the shipments through.

It is clear that irregularities in rice exports reduce the competitiveness of Cambodian rice. If the "fees" that have to be paid in order to export paddy were not collected, and instead were transferred to the marketing system, farmers, paddy collectors and traders would earn more since millers would not be involved.

According to calculations made here, over the five years prior to 2001, the direct economic losses incurred in rice exports have been estimated to range between \$1.5 and \$7 million annually. These losses were the equivalent of about 6-8 percent of total government expenditure on the agricultural sector in 1996, and they increased to about 85-126 percent in 1999.

Furthermore, the current rice trade in Cambodia has a significant impact on efficiency at the farm level. The irregular charges for exports of both milled rice and paddy have a significant impact on efficiency in production. The \$10-\$15 charge per ton in order to export lowers farmgate prices by the same amount, which is about 10-15 percent¹⁷ of farm revenue on one ton of exported paddy.

3.7.2. Constraints to the Marketing System

Now that agricultural production has reached surplus levels, the marketing of this commodity has become a critical issue for the government. To ensure national food security and efficiency, the Cambodian government grants tax exemptions on the import and export of rice. Despite policy reform, the marketing of rice in Cambodia has struggled against many constraints:

a) Inadequate Seed Selection and Consumer's Preferences

The grade of rice is one of the most important factors affecting rice marketing in Cambodia. Some consider that the low quality of Cambodian rice is one of the main constraints to rice exports. The quality of Cambodian rice was identified as poor, short, small and broken (Enterprise Development Cambodia 2000).¹⁸ Although some high quality rice varieties such as, *Somaly* and *Phkar Knhey*, are grown in Cambodia, the grade is still considered low because of impurities.

Moreover, domestic consumers' preferences for a specific rice variety greatly influence prices in the market. Efforts to introduce high-yielding rice varieties (IR) have been successful in the last 10 years, but retailers claim that IR rice is difficult to market, particularly in city markets. They state that consumers in major cities prefer local rice varieties to the high-yielding ones. Farmers in the provinces of Takeo, Svay Reang and Prey Veng, where most of the high-yielding dry season rice is produced, reported that they too do not want to eat IR rice because it is "hard and tasteless." Farmers normally grow local wet season rice for household consumption and high-yielding dry-season rice for sale.

While some high-yielding rice varieties are of reasonably good quality, consumer perceptions result in undervaluing of these grades. Retailers state that consumers ask for *Phkar Knhey* or *Neang Minh* rice varieties whenever they buy rice. If a retailer says his/her rice is IR rice, she/he will have difficulty in selling it or will have to reduce the price considerably. Choice of rice variety, it would appear, is critical both in marketing as well as in rice production.

b) Lack of Market Information

Lack of marketing information is considered another constraint affecting the marketing of agricultural commodities. Price indicators are collected by various government and non-government institutions, but they focus only on the Phnom

¹⁷ If prices of paddy rice is about \$100 per ton.

¹⁸ Enterprise Development Cambodia (2000).

Penh market. Market information in the provinces is also important for the commodity trade.¹⁹ Most of the market information is published in bulletins/reports, which rarely reach those who need them most, especially those in the above-mentioned marketing system.²⁰

Exporters and other interest groups also do not have access to information on the international rice market.

c) Lack of Export Markets

As rice exporting has just begun in Cambodia, access to international markets is still limited in comparison to Thailand or Vietnam. Cambodian rice is exported to just a few countries in the region and elsewhere. As mentioned above, only a small portion of the rice surplus has been legally exported from Cambodia, and most of it has ended up in Singapore.

d) Poor Transportation Infrastructure and the High Cost of Fuel

Poor transportation conditions are a significant constraint to the marketing of agricultural commodities. Poor transportation infrastructure leads to high transportation costs. The increase in fuel prices, due to high taxes, has added to the already-high transportation costs.

e) Ineffectiveness of Existing Trade Policy Implementation

Although the government has simplified the trade of agricultural commodities, especially rice, by eliminating the export tax, exporters indicated that ineffective implementation strongly hampers the export of rice. They state that it is virtually impossible for anybody to export either paddy or milled rice, by legal or illegal means, without paying “unofficial fees” at border checkpoints.

Other constraints to the marketing system of rice products in Cambodia are: lack of coordination between government institutions and the private sector, poor milling productivity due to outdated mills, inadequate post-harvest quality control, poor management of rice storage, inefficiency in information dissemination (laws and regulations), lack of credit at both the farm level and the mill level, and others.

3.8. Conclusions and Policy Implications

The marketing of rice products in Cambodia is affected by high fragmentation in the economy and has a large number of operators and intermediaries. There are many small paddy collectors/traders at the primary procurement stage, fewer rice millers and even fewer exporters. The system establishes formal and informal links between various participants, from farmers to paddy collectors and traders, to millers, to wholesalers and traders, to retailers and finally to consumers. The extent to which rice prices paid by consumers reflect the prices paid to farmers, millers and other the other intermediaries, depends upon the bargaining position of each player. Farmers are the group most vulnerable to price variations, whereas other players are always in a better position to make profits.

The price of rice, as a tradable commodity, is significantly influenced by both internal and external factors. Internal factors affecting prices include seasonality, consumer behaviour, political stability, regional differences and exchange rates (US\$/Cambodian riel). External factors include exchange rates (Cambodian riel/US\$ and Cambodian riel/Thai baht), rice prices on international markets, prices in Thailand or f.o.b. Bangkok, and prices in Ho

¹⁹ Only the Cambodia Development Resource Institute has collected regular market information from 14 provinces around the country since 1993.

²⁰ A recent attempt to broadcast market information in radio by the Ministry of Agriculture, Forestry and Fisheries is limited by the lack of budget to get accurate information from various provinces.

Chi Minh City. Regional differences in farmgate prices and in forces of demand and supply encourage trade in rice products.

The export of Cambodian rice is dominated by informal exports of paddy to neighbouring countries. Formal exports to other countries are hindered by bureaucracy and many other factors. The most important of these are the high transportation costs and the perceived low quality of Cambodian rice. The legal import of rice is normally in the form of food aid or for commercial sale. A significant quantity of tax-exempt milled rice is imported to supply the armed forces.

The illicit export of paddy and the irregular import of milled rice have dual effects on the economy. They directly take away some revenue through the “fees” paid to export and import. There is also no value added, as paddy is milled in neighbouring countries. These “fees” also directly reduce the comparative advantage of Cambodian rice.

The above findings suggest a few policy implications, which might substantially influence the marketing system, and hence, increase the comparative advantage of Cambodian rice. These are:

- Within the current marketing system of rice products in Cambodia, any changes in the marketing margin will not really benefit producers in the short term. But some rural development assistance could indirectly support and stabilise prices of rice. For example, affordable rural credit to finance agricultural inputs might help farmers get out of the situation of having to sell their products during or right after harvesting, when prices are low. If farmers can hold back some or all of their crop, they will be in a better position to bargain with paddy collectors/traders or millers for better prices.
- As most of the farmers grow low-yielding local rice varieties, selection of profitable rice varieties would have a crucial impact on production and marketing. Provision of high-quality and high-yielding rice varieties will eventually increase rice prices and encourage exports.
- The licensing system, if not appropriately implemented, will continue to hamper exports rather than encourage them. Given the currently-poor policing of rice exports at the border, the elimination of export licenses should be the first significant step to encourage exports and stabilise prices. Such elimination could help operators in the marketing system reduce payments of “unnecessary fees” for the export of paddy. These fees, if they can be avoided, will eventually be reallocated to the various actors. In the case of paddy exports, farmers would benefit the most.
- The irregular import of milled rice should be discontinued. Any import of rice, except under food aid, should not be tax exempt because it directly reduces the comparative advantage of Cambodian rice. Such imports will replace domestic products and further lower their prices.

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Chapter Four

The Garment Industry in Cambodia

Performance, Challenges and Policies

4.1. Introduction

During the French colonial period, from 1863 to 1953, Cambodia was seen as a provider of raw materials and a buyer of finished products. For this reason, industry developed little during the colonial period. Only after independence from France in 1954, did the industrialisation process begin (Prud'homme 1969). SONATEX (a state-owned textile company), was established at the end of 1950's, and over the next few years, textile and garment factories were built in Kompong Cham, Battambang and Phnom Penh. Thousands of Cambodians, ranging from cotton farmers to university students, benefited from the development of the industry, but unfortunately, the factories were damaged during the fighting in the 1970s. In the 1980s, some factories were rebuilt with international assistance, but their production of cotton clothing and surgical cloth was only for domestic purposes.

Beginning in the mid-1990s, when Cambodia was largely at peace for the first time in two decades, and the government had converted from a centrally-planned to a market economy, the export garment industry began to develop (Table 4.1). It is now one of country's fastest-growing sectors for private investment and leads the country's exports. Robust growth in the garment sector is mainly the result of *Normalised Trade Relationship* (NTR) agreements, first signed with the European Union (EU) in 1996 and then signed with the United States (US) in 1997. The agreements were the result of Cambodia's being granted *Most Favoured Nation* (MFN) status and status under the *Generalised System Preference* (GSP) agreement. Between 1990 and 1999, garment exports grew from nil to 50 percent of the country's total exports, with about 90 percent of garment shipments going to the US. In 1999, this strong performance prompted the US to introduce quotas on 12 categories of Cambodian garment exports, but fortunately this measure has not significantly affected expansion of the industry.

The textile and garment industry is highly labour intensive. Production costs are low because of the availability of a large and relatively low cost labour force. Most garment workers are young, unskilled women who have migrated from rural areas. The managers of garment factories are largely foreign. Rapid development in the garment industry, combined with the country's democratisation process, has resulted in the rapid growth of unions. However, inexperience on the part of both labour and management, misunderstandings between Cambodian workers and foreign managers, and lack of adherence to labour laws by some employers, have led to labour conflicts. In 1999, to encourage the Cambodian government to improve working conditions in the garment industry, the US government linked the relaxation of import quotas to improvements in working conditions.

Compared to other countries in the region, Cambodia's garment industry is still pretty much in its infancy with regard to dealing with competition and strategic marketing. Although the government is strongly committed to boosting the garment industry in Cambodia, questions have been raised about the industry's long-term sustainability. It is frequently stated that the greater the comparative advantage, the more sustainable will be the industry's growth.

Over the course of its development, the Cambodian garment industry has benefited substantially from tax exemptions under the *Investment Law*. As a result, the industry is still only a moderate contributor to the state budget. On the other hand, the money the industry pays in order to obtain government permits needed to establish and operate factories, as well as export products, is said to be among the highest in the region.

These "bureaucracy costs", as factory owners call them, are an important issue, because they have implications for Cambodia's long-term economic prospects. Cambodia has comparative advantage now over its competitors in the region, but the long-term prospects for sustaining growth in the garment sector do not look as promising. Both Vietnam and China, whose workers get paid less than Cambodians, will likely become members of the World Trade Organisation (WTO) before Cambodia does, and in doing so, will have the same trading advantages that Cambodia has now.

In sum, although the Cambodian garment industry is now playing a significant role in the country's export earnings, and it is also expected to serve as an "engine" for rebuilding Cambodia's long-ailing economy, how sustainable is the industry, given potential competition in the region? It would appear that Cambodia's industry is at the same stage of development as that of the Philippines, Thailand, Malaysia, and Singapore in the 1970s, when their comparative advantage also depended on having low-cost labour. What are the main costs involved in garment production, and can these be reduced? Can the garment industry contribute more significantly to the government budget and the economy as a whole, while at the same time maintaining competitiveness? Which social policies should Cambodia adopt to enhance the rights and livelihoods of workers? These are the main questions CDRI researchers sought to answer in 2000 and 2001, when they conducted a literature review and some in-depth interviews with garment factory owners, government officials, garment workers and union leaders. This chapter presents the findings from this research and suggests policies that could enhance the sustainability of the industry.

4.2. Production and Markets

Cambodia is a developing country with a market-oriented economy. Since the elections in May 1993, the economy has grown remarkably, except for a period between mid-1997 and late 1998 when growth declined due to political instability and the impact of the Asian financial crisis. Garment products are the most important part of the industry, representing about 97 percent of total production. This industry has been strongly promoted as an "engine" driving the country's exports. Almost all garment production in Cambodia is oriented to exports. Very little is sold domestically.

	1996	1997	1998	1999	2000
For US markets	0.02 DZS	2.4 DZS	7.2 DZS	11.5 DZS	17.2 DZS
For EU markets	25.5 PCS	33.8 PCS	19.2 PCS	16.3 PCS	58.2 PCS
For other markets	2.0 PCS	2.4 PCS	1.5 PCS	4.0 PCS	4.2 PCS

Note: DZS = Dozens; PCS = Pieces. Source: GSP Department of the Ministry of Commerce

Although its size is small compared to the modern garment industry, Cambodia's traditional textile and garment sector still plays a significant role in the economy because it supplies the domestic market. Textile and garment production for local sale includes cotton

garments such as *kramas* and *sarongs* and silk garments such as *houls* and *pramuorngs*. It is difficult to evaluate exactly how much employment and income is generated from the traditional textile and garment sector, however, based on the number of villages involved in production and the daily income generated, the traditional textile and garment sector is important.

In 2000, the traditional sector employed an estimated 40,000 people and generated about \$20 million (about 2 percent of the total textile and garment sector). Production of traditional silk products has expanded quickly in the last few years – due to the sharp increase in sales to tourists and the efforts of some NGOs that have promoted this activity. Hundreds of young Cambodian women have been trained and sent back to their villages to produce silk products. It is estimated that another 5 percent of traditional textiles and garments are produced in the informal sector in urban areas, but this is steadily declining. In total, traditional textile and garment production equals about 10 percent of the total garment sector.

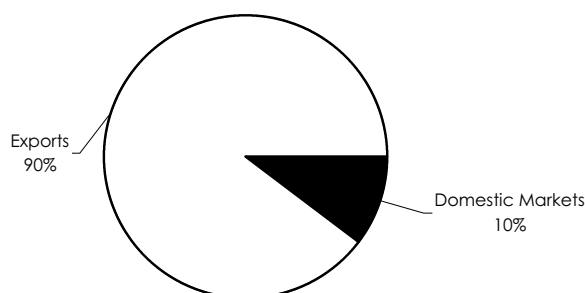
Table 4.2 Supply and Demand for Textile and Garment Products in 2000 (million dollars)

	Local Production	Imports	Total Supply
Intermediate consumption	-	651	651
Final consumption	76	37	113
Exports	985	-	985
Total demand	1,061	688	1,749

Sources: Ministry of Commerce, National Institute of Statistics and CDRI estimates

Based on garment export statistics released by the Ministry of Commerce, and on household expenditure figures compiled by the National Institute of Statistics (Table 4.2), it is estimated that the Cambodian market for clothing amounted to \$113 million in 2000, (about 10 percent of production). It has been estimated that about 33 percent of domestic demand is filled by imports from countries in the region (Figure 4.1). As stated before, the output of the modern garment sector is almost entirely for export. Most garment investors in Cambodia are interested only in overseas markets, particularly those of the US and the EU, where profits are the highest.

Figure 4.1 Cambodia's Supply and Demand for Apparel Products in 2000



Note: Almost all of the apparel products produced by the modern industry in Cambodia are exported, while an estimated 33 percent of apparel products sold domestically are imported. Sources: Ministry of Commerce and CDRI estimates

In 1999, the total value of garment exports was \$553 million. These were exported to 24 countries, but 98 percent of exports were to the United States and Europe. By 2000, exports were going to 38 countries and were worth \$985 million. The US and EU remain the principal destinations for Cambodian garment exports. Garment exports have risen dramatically since 1997, despite the political tension that affected foreign investment that year (Table 4.3).

Table 4.3 Structure of Cambodia's Exports (million dollars)

	1994	1995	1996	1997	1998	1999	2000
Country's total exports	495	865	717	839	921	1,102	1,408
Garment exports	4	27	79	227	378	553	985
- To US markets	-	-	1	107	298	486	750
- To EU markets	4	26	75	112	76	58	221
- To other markets	-	1	3	8	4	9	14
US Share of total garment exports (%)	-	-	1%	47%	79%	88%	76%
Garments' share of total exports (%)	1%	3%	11%	27%	41%	50%	70%

Note: Garments include caps, tents and gloves. Sources: GSP Department of the Ministry of Commerce, the Customs Department, and CDRI estimates

Overall, despite the quotas imposed by the US government on some categories of products in 1999, the annual total for Cambodian garment exports rose 46 percent in 1999, and 78 percent in 2000. Garment exports represented 70 percent of the country's total exports of goods and services (86 percent of goods exported). This increased from 50 percent in 1999. The US has been the largest market for Cambodia's garments since 1998. It imported about 88 percent of total garment exports in 1999, but the totals declined to 76 percent in 2000 because of US quotas and diversification of markets. Until 1997, the EU was the top market for Cambodian garment products, but with the increase in exports to the US, the EU became the second largest market. However, after the US imposed quotas on Cambodian garments, exports to the EU again grew rapidly, accounting for \$221 million in 2000, up from just \$58 million in 1999 (Table 4.3).

The US and EU have been the main customers for Cambodian apparel products since Cambodia was granted *Normal Trade Relations* status after years of isolation. This led to attaining *Most Favoured Nation* status with the US in 1996, and to GSP benefits in 1997. In 1999, Cambodia signed a textile and garment trade agreement with the EU, which allows garments to be imported duty-free, and with no quotas.

Countries which have granted MFN/GSP to Cambodia

- | | | | |
|-------------------|-------------------|--------------------|--------------|
| 1. Australia | 2. Belarus | 3. Bulgaria | 4. Canada |
| 5. Czechoslovakia | 6. Hungary | 7. Korea | 8. Japan |
| 9. New Zealand | 10. Norway | 11. Poland | 12. Slovakia |
| 13. Switzerland | 14. United States | 15. European Union | |

Source: Ministry of Commerce, 2000

According to the Ministry of Commerce, 15 countries had granted MFN/GSP status to Cambodia by the end of 1999. The European markets and the US, however, remain the export markets with the most potential and have played a pioneering role in garment production in Cambodia. Cambodia climbed from the 36th leading apparel supplier to the US markets in 1997, to the 26th leading apparel supplier in 1998 (US Department of Commerce 1999). The Japanese and Australian markets are still very weak, but they are important future targets for Cambodian garment exporters.

4.3 Investment and Employment

Private investment now plays a crucial role in Cambodian economic development and is a foundation for long-term sustainable development. The number of garment factories grew from 35 factories in 1996 to 201 factories in 1999. There are now about 220 factories, mostly operating in Phnom Penh and the provinces near the city. In the period of 1996 to 1998, an average of one garment factory per week opened in Cambodia, but this growth slowed to around one every three weeks between 1999 and 2000 (Table 4.4). In June 2001, garment factories were operating at 80 percent of their capacity.

According to the factory owners interviewed by CDRI researchers in early 2001, the fixed cost incurred by a garment factory which employs around 500 workers, excluding land, was about \$700,000. Based on this unit cost, the stock of fixed assets for the 220 garment factories operating in Cambodia are worth an estimated \$200 million. If the cash flows required for operating are added in, total investment in the garment industry between 1993 and 2000, was approximately \$500 million.

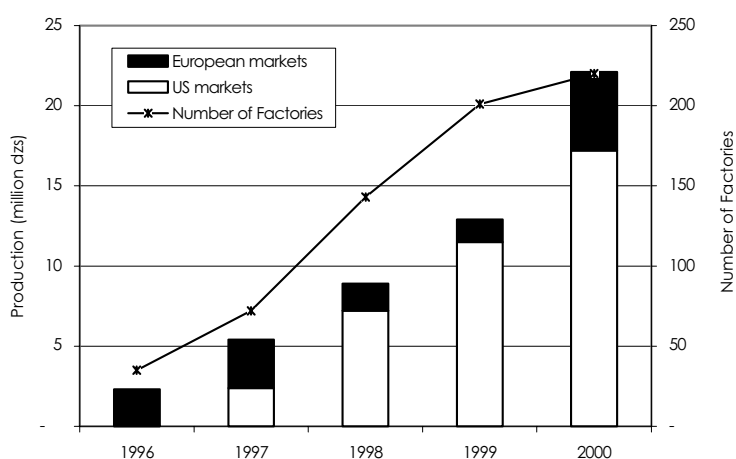
With the exception of a few local investors, most garment investors in Cambodia are from Hong Kong, Taiwan, China, Singapore, South Korea, and the United States.

Table 4.4 Investment and Employment in the Textile, Garment and Footwear Industries

	1994	1995	1996	1997	1998	1999	2000
Number of projects approved	108	120	144	48	83	45	51
Actual investment (million \$) ^a	6	12	13	33	64	52	17
Number of factories	7	20	35	72	143	201	220
Employment (000's)	44	51	60	84	133	178	200
% of which is in the modern sector	3	10	20	44	93	138	160
The garment industry's share of the total labour force (%)	0.9%	1.1%	1.2%	1.7%	2.6%	3.4%	3.7%

Note: ^a Excluding cost of land and operating cash flows. Sources: Council for the Development of Cambodia (CDC) and CDRI interviews with factory owners

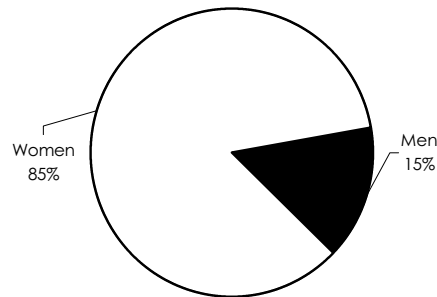
Figure 4.2 Number of Garment Factories and Destination of Their Production



Sources: Ministry of Commerce and CDRI estimates

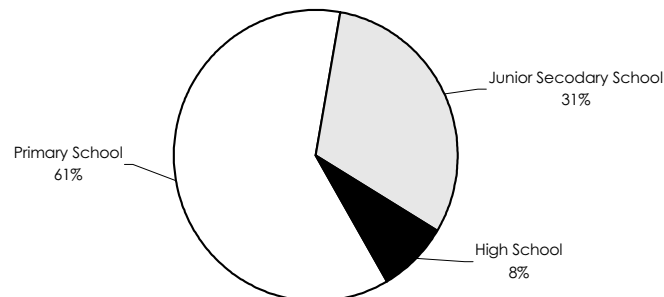
As mentioned earlier, the garment and textile industry has played a significant role in employing low-skilled workers in Cambodia. The garment sector comprises about 64 percent of total employment in the manufacturing sector. However, as Cambodia is still largely an agricultural country, the total work force in the garment industry is still relatively small (only about 4 percent of the total labour force). In 2000, it was estimated that the whole textile and garment sector employed about 200,000 people, of which the traditional sector accounted for about 40,000 jobs. From 1997 to 1999, the modern garment industry created, on average, almost 40,000 new jobs per year. However, because of declining investment, this trend significantly declined in 2000 to only about 20,000 new jobs.

As in other garment-producing countries, women make up the largest part of the garment and footwear production workforce (about 85 percent – Figure 4.3). According to the Garment Manufacturers' Association of Cambodia (GMAC) and surveys CDRI researchers conducted in 2000, about 90 percent of workers come from rural areas near Phnom Penh. The number of job seekers moving from rural to urban areas has grown in recent years as rural people seek greater economic opportunities.

Figure 4.3 Proportion of Women Workers in the Garment Industry

Sources: GMAC and CDRI surveys, 2000

According to the results of CDRI's survey, about 50 percent of garment workers paid an average of \$38 (about one month's wages), to obtain their jobs in the garment industry. This "fee" was paid to a number of people - factory security guards, interpreters, labour brokers, etc. (Maclean 1999). CDRI's survey also found that 57 percent of workers took out a loan to pay the "fee" required to get a job. According to GMAC, factory owners condemn paying "fees" to secure employment and invite workers to complain, however none of the workers CDRI researchers interviewed would make an official complaint.

Figure 4.4 Educational Level of Workers in the Garment Industry

Source: CDRI Surveys, 2000

Skill is also another concern in the garment industry. The competency of workers plays a significant role in competitiveness, and also in attracting foreign investors to develop a "high-tech" garment industry. Clothing and garment manufacturing companies do not just need cheap labour, but also literate and trained workers. According to CDRI's survey in 2000, the average educational level of young female garment workers is low. Of those surveyed, 61 percent had attended only primary school, 31 percent had attended middle school, and only 8 percent had a high school education (Figure 4.4).

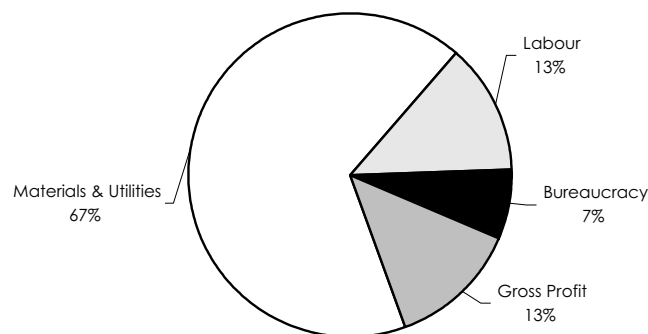
In 1999, a vocational training programme was set up by the garment industry, with support from the Japan External Trade Organisation (JETRO), Marubeni and Juki. This trains and upgrades the skills of Cambodian garment workers (such as sewing and stitching operators) so that they can become supervisors and managers. According to GMAC, more than 450 Cambodian supervisors have been trained in the last 18 months. With better-trained workers, Cambodia's garment industry could contribute more to economic development. In other countries, training programmes have helped agricultural labourers develop the skills, as well as attitudes and work habits necessary for regular, full-time employment. Having developed good skills and attitudes to work in the garment industry, workers would be ready for jobs in other forms of manufacturing such as electronics and toys.

4.4. Cost of Production and Profitability

Although the garment industry in Cambodia has grown dramatically in recent years, investors are concerned about high production costs in Cambodia, compared to other countries in the region. The Cambodian garment industry relies heavily on imported raw materials, and the scarcity of these has pushed up the cost of production.

According to factory owners interviewed by CDRI researchers, for every \$100 worth of garments exported, \$63 were spent on imported raw materials, and \$4 on utilities and small expenses. The value added thus represents about one third of the total sale. With about 160,000 people employed, labour costs in the garment industry represent about 13 percent of total sales, while "bureaucracy costs" are estimated to be about 7 percent. Gross profits (including capital amortisation) were estimated in CDRI's survey to be 13 percent (Figure 4.5). Only about 25 percent of profits remain in Cambodia.

Figure 4.5 Structure of Production Costs in the Garment Industry



Source: CDRI interviews with garment factory owners, 2000

5

Because the cost of imported raw materials and utilities is high, production costs in Cambodia are higher than in other countries in the region. Imported raw materials represent the most important share of production costs, and Cambodia's garment industry is still largely dependent on foreign suppliers for textiles and semi-finished garment products.

Contrary to some fears, Cambodia still has comparative advantage in labour costs. The price of labour in Cambodia is the same as the price of labour in Vietnam, half the price of labour in Thailand and one third the price of labour in the Philippines. According to CDRI's survey in 2000, the gross earnings of basic garment workers, including overtime, amounted to an average of \$61 per month. GMAC representatives suggested that the average wage per employee was \$70 per month. As a result, the total cost for labour for the 220 garment factories operating in Cambodia was an estimated \$135 million.

Although labour costs are advantageous in Cambodia, the country lacks an adequately-skilled workforce and state-of-the-art equipment. Thus, productivity is lower in Cambodia compared with other countries in the region. In China, for example, productivity is estimated to be much higher because not only does China have skilled workers, its computer-aided cutting machines substantially reduce losses due to wastage in the cutting process.

According to factory owners interviewed in the course of this research, the "bureaucracy costs" in Cambodia are among the highest in the region, and owners complained that they continue to increase. Garment investors stated that they often encounter difficulties when dealing with government officials. Red tape, tardiness and under-the-table payments are among the problems that plague them.

Corruption remains a crucial issue in Cambodia. Local and foreign business people have identified corruption ... as the single biggest deterrent to investment in

Cambodia. Public sector salaries range from \$15-\$30 per month for low-ranking officials, and less than \$300 for high-ranking officials. These wages are far below the level required to sustain a livelihood in Cambodia, and as a result, public employees are susceptible to corruption and conflicts of interest (US Embassy 2000b: 31).

Factory owners estimated that the "bureaucracy costs" in Cambodia's garment industry accounted for about 7 percent of sales, or about \$70 million, in 2000 (see figure 4.5). This amount is about the same as the net profit, and about half the total for labour costs. If this amount were redistributed to employees, the average salary of garment workers would exceed \$100 per month. If this amount was reinvested in the garment sector, more than 70 new factories could be built every year. If this amount was used to develop rural irrigation systems, an additional 140,000 hectares (ha) of rice could be irrigated every year.

To evaluate the impact of "bureaucracy costs" on the economy, an economic simulation was undertaken by CDRI researchers using the Cambodia Prospective and Integrated Model (CAMPI). The main assumption of the model was that "bureaucracy costs" (\$70 million per year) would be totally eliminated, and that these funds would be available instead to develop rural irrigation systems. With this amount invested, an additional 700,000¹ ha of cultivable land could be irrigated over a period of five years, and production would yield an additional 2.1 million tons of rice. Production of irrigated rice would thus increase by 50 percent, reaching the level of 6 million tons in five years. Results of the simulation also show that over a five-year period, a \$70 million investment in irrigation could increase government revenues by \$350 million. The indirect impact of this investment would also be important. With a rice surplus, the external trade balance would significantly improve, resulting in better macro-economic stability and progress. In addition, the country's income *per capita* would increase by 15 percent, resulting in a significant reduction in rural poverty.

Projected Economic and Social Benefits Over Five Years of Eliminating Bureaucracy Costs (*)

- +15 percent national income *per capita*
- +\$350 million in government revenue
- +700,000 ha of irrigated land
- +100,000 jobs

Note: () This presumes that current bureaucracy costs in the garment industry would be used for the development of irrigation systems. Source: CDRI's calculation using the CAMPI model.*

To compensate for the high "bureaucracy costs", the Cambodian government provides many tax exemptions to the garment industry. There is no tariff on imports of garment-related raw materials in Cambodia, nor are there taxes on profits and value-added taxes (exemptions granted under the *Investment Law*). According to a speech made by Prime Minister Hun Sen during the third "Government-Private Sector" forum held in February 2001, the government granted \$163 million in tax exemptions to the garment industry in 2000. These tax exemptions are major incentives to foreign garment investors, but they only partially compensate for the high "bureaucracy costs."

4.5. International Competitiveness

Despite fast growth of the garment industry in Cambodia, wage rates of garment workers remain low relative to other countries in the region such as Sri Lanka, Thailand, the Philippines and China (Table 4.5). For wages to rise in Cambodia, there must be corresponding growth in productivity, and also in the size of the work force. Otherwise rising wages would distort revenues and even hamper development as a whole. The comparative

¹ We assume that one irrigated hectare costs on average \$500 and generates an additional three tons of rice.

advantage of the garment industry in Thailand depends on relatively-low costs for labour. As wages increase, Thailand's competitiveness will decline (Rattanakomut et al. 1995).

Table 4.5. Working Hours and Wages (\$) in the Garment Industry in Selected Asian Countries

Country ⁽¹⁾	Year	Legal working hours per week	Minimum wage set by law ⁽²⁾	Average salary per month	Hourly wage rate ⁽³⁾
Malaysia	1995	48	None	296	1.42
China	1997	40	[12 – 39]	191	1.14
Philippines	1999	48	130	182	0.88
Thailand	1999	48	[93 – 109]	106	0.51
Sri Lanka	1998	45	[29 – 37]	63	0.31
Cambodia⁽⁴⁾	2000	48	45	61	0.29
Vietnam	2000	48	45	60	0.29
India	1999	48	[6 – 54]	57	0.27
Indonesia	1999	40	[15 – 34]	40	0.22
Bangladesh	1996	48	[12 – 76]	40	0.19

Notes: ⁽¹⁾ Classified by hourly wage rate; ⁽²⁾ minimum wage set by industry, occupation, skill level or geographic area; ⁽³⁾ average labour costs per hour calculated by CDRI; ⁽⁴⁾ CDRI survey. Sources: US Department of Labour and Bureau of International Labour Affairs

The development of the garment industry in Cambodia at the present time is the result of trade concessions granted by developed nations. So far, not all countries in the region have been granted the same concessions. For the time being, Cambodia has an advantage due to trade concessions, but these will disappear when countries such as Vietnam and China become World Trade Organisation members. China's WTO membership is imminent, and the US may soon grant Vietnam *Normal Trade Relationship* status. These changes in trading status represent a serious threat to industrialisation in Cambodia, particularly in the textile and garment sectors. China already has comparative advantage in garments because of its better-skilled labour force and cheap raw materials. With WTO membership, China will be able to export better-quality products to the large markets in the United States and Europe. Vietnam also has an abundance of skilled and cheap labour. If government licensing and export systems in Cambodia are not improved in the near future, Cambodia may lose its current comparative advantage of offering low-cost labour.

4.6. Quotas for the US Market

As mentioned earlier, the US and Europe are the two most important destinations for Cambodian textiles and garments. In 2001, Cambodian exports totalled almost \$1 billion, and of this amount, the US market accounted for about 80 percent. Due to the high volume of Cambodian garments coming into the United States, in early 1999, the US government imposed quotas on 12 categories of garment products. These quotas last from 1 January 1999 through 31 December 2001 (Tables 4.6 and 4.7).

In 1999, the US quota was largely filled, except for some non-important categories of products. On average, exports amounted to about 85 percent of the total quota. Although official figures have not yet been released for 2000, it seems that the percentage of the US quotas used will remain the same. The quota terms with the US government stipulate that each year there will be an automatic 6 percent relaxation of the quotas, effective from January 2000.

In 2000, the US government agreed to increase Cambodia's garment quotas by an additional 14 percent (on top of the automatic 6 percent annual increase), if Cambodia complied substantially with internationally-recognised labour standards. This required ensuring that labour laws and regulations provide for: high-quality workplaces; transparency in the administration of labour laws; compliance with, and effective enforcement of, existing labour laws; and, general labour rights, as embodied in the Cambodian Labour Code. In

contrast, if the Cambodian government failed to take major action resulting in a significant change in working conditions, the United States would withdraw the quota increase.

Table 4.6. Cambodian Garment and Textile Quota Usage in 1999 (million dozen)

Category	Import Restraint	Total Released	Percentage Filled
[331/631] gloves and mittens (dozen pairs)	1,300,000	1,064,459	82%
[334/634] men's & boys' coats	190,400	172,682	91%
[335/635] women's & girls' coats	68,900	31,334	45%
[338/339] men's & boys' and women's & girls' knitted shirts	2,900,000	2,745,403	95%
[340/640] men's & boys' shirts – not knitted	795,000	395,263	50%
[345] sweaters	99,640	41,087	41%
[347/348/647/648] men's & boys', women's & girls' trousers and shorts	3,600,000	3,494,224	97%
[352/652] underwear	636,000	362,584	57%
[438] knitted shirts & blouses (wool)	100,800	96,686	96%
[445/446] men's & boys' sweaters (wool)	116,600	58,009	50%
[638/639] men's & boys', women's & girls' knitted shirts	954,000	848,960	89%
[645/646] men's & boys', women's & girls' sweaters	158,624	14,377	9%
Total	10,919,964	9,325,068	85%

Sources: Ministry of Commerce and US Customs Department

In 2000, the US actually increased Cambodia's quota by 9 percent over the base level of 6 percent in the agreement. The US did not grant the full 14 percent because the US did not find the garment industry to be in substantial compliance with internationally-recognised key labour standards. The 9 percent increase was granted, however, in order to encourage the Cambodian government and garment industry to continue progress in the area of labour rights. The US has granted another 9 percent increase for 2001, based on the same conditions.

Table 4.7. Garment Exports and Quotas to the US Market (million dozen)

	1999	2000	Change
Exports to US under quota	9.3	10.7	15%
Exports to US without quota	2.2	6.5	195%
Exports to other markets	1.7	5.2	206%
Total	13.2	22.4	70%

Sources: Ministry of Commerce and US Customs Department

Fortunately, in the short term, quotas seem not to have had any significant impact on Cambodian garment exports to the US market. The significant increase in garment exports to the US in 2000 (a 50 percent increase), was mainly the result of expanding production of garment types not included in the quotas (an increase of 195 percent). Exports in these categories were estimated to be about 40 percent of total garments exported to the US, up from 20 percent in 1999. Exports to markets other than the US (a 205 percent increase), have played a great role in the development of the garment industry. For these reasons, Cambodia's garment industry will continue to develop if the political and social environment remains good.

Expansion of the quota for exports to the US is very helpful in keeping the garment sector dynamic, as the 12 categories of garment products imposed by the quota represent about 60 percent of exports. Despite the fact that Cambodian labour conditions have not totally met international standards, notable progress has been made in the area of workers' rights. These include:

- Lack of discrimination in employment
- Prohibition of forced or bonded labour
- Prohibition of exploitative child labour

The application of labour law in Cambodia is relatively acceptable, but on some points, it has not complied with what is stated in the labour code. Although, the Cambodian constitution and labour code clearly guarantee freedom of association (unions), and workers exercise that freedom, in practice, the guarantee seems rather limited. Factory managers often violate the labour code regarding freedom of association by firing workers who become involved in organising unions. Fortunately, the level of harassment, including dismissal of union leaders, intimidation of workers, interference in union formation and anti-union activities, has gradually declined in the past few years. However these remain controversial issues in the garment industry (US Embassy 2000b).

Improvements in application of the labour code have played a critical role in gaining Cambodia an extra 9 percent quota in exports to the United States. Gaining an increase in the quota is important for continuing expansion of the garment industry. According to CDRI researchers' estimates, an additional 15 percent quota would result in an additional one percent in growth of the country's economy. Expansion of the US quota by this amount would increase government revenues by \$20 million through quota auctions and export licenses. Also an additional 20,000 jobs would be directly created in garment manufacturing and another 40,000 jobs would be indirectly created in other sectors such as transportation, restaurants, etc.

4.7. Social Implications

Rapid growth of the garment industry has significant implications for Cambodian society, which is mainly rural and closed to the external world. Of 160,000 people now working in the garment industry, about 136,000 are women. As stated earlier, young Cambodian women generally have little education and few skills. Traditionally, they have stayed home with their parents until they get married. Most are peasants used to working with no regulation of their time. Now, as garment workers, women work in a big city such as Phnom Penh, in a factory with hundreds of colleagues, and follow a regimented schedule.

Many garment workers have been unionised, and, as a result of complaints by union leaders and strikes, working conditions have improved. Labour laws have also been passed to improve working conditions. Both the Garment Manufacturers' Association and the unions play an important role in Cambodian industrial relations, despite the fact that the industry has just developed in the last few years.

4.7.1. Unionisation

The Garment Manufacturers' Association of Cambodia (GMAC), which in early 2001 had about 220 garment factories as members, was founded in March 1996. So far it has been the most important player in the development of Cambodia's garment industry. In 1997, this powerful association actively pushed the government to seek special trading status (GSP and MFN) from developed countries (primarily the US and the EU). GMAC has also advised the government on how to promote the garment industry in Cambodia, and acted as mediator in conflicts between garment factory owners and workers.

According to a US Embassy Report (2000b), unionisation of the work force is not strong outside the manufacturing sector. As of June 2000, there were a total of 106 registered labour unions in Cambodia, and most of them represented garment workers. All garment unions are affiliated with one of the five national labour federations. According to the garment factory owners interviewed by CDRI researchers, there is as yet no real collective bargaining going on in Cambodia, although some unions believe that this is occurring. Most of what people call "collective bargaining" in Cambodia, is negotiation to get employers to comply with the law. However, collective bargaining, in which a union negotiates with an employer to get better terms for an enterprise's workers than those required in the labour laws, has yet to occur. Cambodian unions do not yet understand how to do this, and have yet

to attempt such bargaining. For these reasons, union activities in Cambodia remain undeveloped in terms of forming a fruitful partnership with management and government (US Embassy 2000b)

The Five National Labour Federations in Cambodia

1. The Cambodian Federation of Independent Trade Unions (CFITU)
2. The Cambodian Unions' Federation (CUF)
3. The Free Trade Union of Workers of the Kingdom of Cambodia (FTUWKC)
4. The Cambodian Labour Union Federation (CLUF)
5. The National Independent Federation of Textile Unions in Cambodia (NIFTUC)

These five federations claim that their memberships exceed 80,000, and that they represent more than 50 percent of total workers. These figures seem far beyond the truth. According to CDRI's surveys in August 2000, approximately 10 percent of Cambodia's garment workers were members of labour unions. Although these five active labour federations have relatively little experience and maturity, they have achieved some success in bargaining within the structure of the Labour Advisory Committee, that brings together government, unions and factory owners. Successes include raising the monthly minimum wage of garment workers from \$27 to \$40 in 1999, and from \$40 to \$45 in 2000. They are now trying to improve work hours by asking employers to reduce the work week from 48 to 44 hours.

Regarding the freedom of unions to organise, opinions diverge between union leaders and factory owners. According to union leaders interviewed by CDRI's researchers:

The freedom of unions remains very limited in spite of what Cambodia's Labour Code stipulates about guaranteed freedom of association (unions). Union activity is to protect workers from discrimination and violation from management. In practice, however, the full range of union activities, as practised in other countries, does not seem to be authorised and protected by law. As a consequence, labour union leaders have no right to complain freely to management and have even been dismissed.

However, factory owners deny these allegations, claiming that factory management does not interfere in the unions' freedom to associate. According to the factory owners:

The problem is that the unions are not experienced in their duty. Most of them have abused their rights and privileges for personal gain, rather than for any collective cause, and they spend all their time in the factory harassing and lobbying during working hours.

4.7.2. Wages, Working Conditions and Complaints

There were 76 strikes in Cambodia in 1999, and 35 strikes in the first seven months of 2000 (US Embassy 2000b). The strikes usually concerned working hours, wages, excessive overtime and so forth. In June 2000, a series of strikes led by the Free Trade Union of Workers of the Kingdom of Cambodia (FTUWKC), along with a coalition of garment factory unions, pressed for improvements in working conditions and an increase in the monthly minimum wage. The strike also proposed to reduce the work week from 48 to 44 hours, and to raise minimum wages from \$40 to \$70 per month. The proposal to raise monthly wages remains a controversial issue between factory owners and garment workers' unions. However, in July 2000, after a long bargaining process with the government, an agreement was reached which raised the minimum monthly wage rate to \$45, plus an additional \$5 per month as a bonus for full attendance. The agreement also provided cash payments for meals

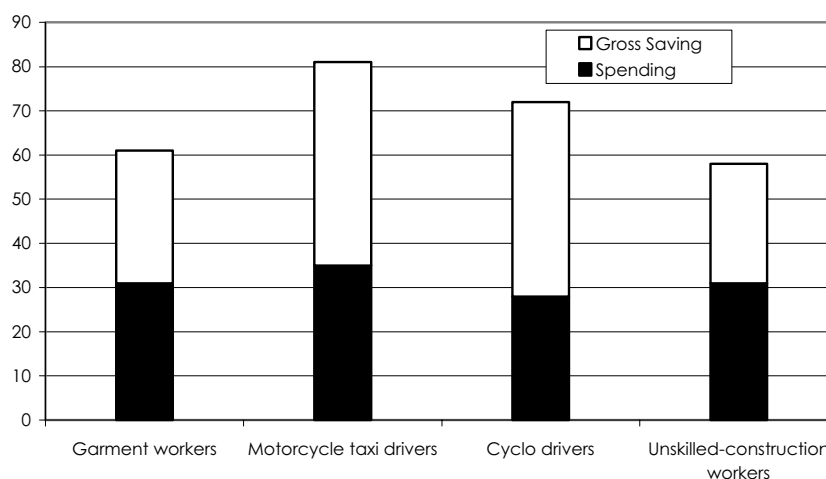
when employees work overtime. However, this agreement has been very hard to enforce, resulting in continuing labour unrest over the past year.

In Cambodia, minimum wages have been set for only the garment and footwear sectors. According to the President of the FUTWKC, the minimum wage is still too low “\$85 is needed for a decent life for Cambodian garment workers” (the *Cambodia Daily Newspaper*, 14 July 2000). However, garment factory owners state that in order for wages to increase, there must be corresponding growth in productivity.

To assess the situation regarding wages and working conditions, CDRI’s researchers conducted a survey of 117 garment workers in August 2000. The survey showed that 53 percent of workers wanted a higher minimum wage, and that 32 percent wanted management to stop coercing them to do overtime work. It was surprising that about 90 percent of respondents revealed that they could save as much as \$30 per month, and that 74 percent said that they sent this money home to rural areas to support their poor families.

The survey also showed that some probationary workers earned as little as \$25 per month (because they do not work the full 26 days per month as regular staff do). With the addition of overtime, some workers earned up to \$70 per month. The main issue now seems to be improving working conditions. Overtime work was reported as compulsory and workers were unsure what they earned as overtime pay. They expressed fear of being dismissed for asking the management about their wages or overtime rates. The labour laws limit the work week to 48 hours per week, and no more than 8 hours per day. The law stipulates time-and-one-half for overtime, and double time if overtime occurs at night, on a Sunday or on a holiday (US Embassy 2000b).

Figure 4.6 Monthly Earnings and Net Savings of Low-paid Cambodian Workers in 2000 (\$)



Source: CDRI Surveys 2000

Some interviewees were unhappy about irregular pay, long hours of overtime and poor environmental conditions in the workplace. According to Maclean (1999) some workers have experienced problems such as injuries from needles, electric shocks from machinery and they complained that their factory’s first aid clinic lacks adequate supplies. The Labour Code stipulates that the workplace should have adequate health and safety standards to ensure workers’ well being. Despite the government issuing instructions and regulations to improve working conditions, employers have been slow to act. As a consequence, work-related injury and health problems are common, particularly coughing and choking from inhaling fabric dust. Conditions in small-scale factories and cottage industries are generally poor, and often do not meet international standards. Penalties are specified in the Labour Code, but there are

no specific provisions in the law to protect workers who complain about unsafe or unhealthy conditions. Workers who remove themselves from unsafe working conditions risk loss of employment (US Embassy 2000b).

In Cambodia, the wage rates are essentially determined by market forces, except for civil servants, whose wages are set by the government. On average, garment workers earn about \$61 per month (Figure 4.6), and about half of this amount is spent on subsistence (food, room rent and transportation between home and factory). Garment workers' gross savings are even lower than those of motorcycle-taxi or bicycle rickshaw drivers. In order to send a proportion of their earnings back home to support their families in rural areas, garment workers have to minimise their own spending and work as much overtime as possible. As a consequence, many workers experience frequent illness due to their inadequate diet and long hours of overtime work.

Recently, rising costs for transportation and rents in the city of Phnom Penh have put a heavier burden on garment workers who are trying to save money. As of January 2001, there was still no good public transport service in Cambodia. Transport is handled instead by private and informal services such as motorcycle taxis. In 2001, the price of travelling by motorcycle taxi was double the price in 1999. Prices doubled because gasoline prices reached record highs in 2000 (gasoline prices in Cambodia are about 50 percent higher than prices in Thailand and Vietnam).

4.8. Conclusions

As stated earlier, the garment industry today is one of the most dynamic sectors in Cambodia's economy. However, its sustainability could be seriously jeopardised if "bureaucracy costs" are not reduced, and the environment for conducting business is not improved. If Cambodia is going to remain competitive in future, ways will have to be found to reduce the overhead costs of manufacturing garments in Cambodia. In summary, the future of the textile and garment industry in Cambodia depends on six major factors:

Improving government regulation of the garment industry includes streamlining procedures for licensing factories, importing raw materials and exporting finished goods in order to avoid delays and unnecessary charges. GMAC has stated that these improvements would enable the industry to respond better to buyers' need for quick changes of style, textiles, colour etc. and also would reduce manufacturers' need to keep large supplies of raw materials on hand.

Strengthening the enforcement of labour laws is crucial in order to improve working conditions in the garment industry. These, in turn, would result in a healthier and more productive workforce and also in satisfying the requirements set by the United States for a further relaxation of US import quotas on Cambodian garments. A more-productive working environment could also be created by strengthening existing mechanisms for dialogue among management, unions and the Ministry of Social Affairs, Labour, Vocational Training and Youth Rehabilitation, as well as the capacities of these stakeholders to peacefully resolve disputes.

Improving productivity and the quality of garment products could help Cambodia thrive in a fiercely-competitive world. This could be achieved in several ways. First, an educated labour force, with regularly-upgraded skills, will increase the potential to produce higher-quality goods. Second, an educated workforce will have the flexibility to adapt to changing needs and changing markets. The benefits of investing in the continuing education and training of factory workers far outweighs the cost of such investment. Third, giving employees a proportional share of the company's annual profits, as has been tried in some enterprises, has proven a successful incentive for improving the quality and productivity of work.

Membership in the World Trade Organisation is crucial to keep Cambodia competitive with other countries. To become a member of WTO, however, Cambodia has to fulfil certain conditions which include improving and enforcing commercial laws and maintaining a fair and efficient judicial system.

Reducing costs for utilities and land and improving transportation infrastructure could help the garment industry remain competitive. This includes reducing the high taxes on energy costs so that they are in line with neighbouring countries, improving roads and other forms of transport, and providing industrial investors with secure title to the land they buy.

Diversification of the export market to include Japan and Australia and other Asian countries is important because the Asia-Pacific region is home to 500 million people.

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The Tourism Industry in Cambodia Performance, Challenges and Policies

5.1. Introduction

Cambodia lies at the heart of the ancient Khmer Empire that dominated Southeast Asia from the 9th to the 15th centuries. A symbol of Cambodia's great and prosperous civilisation, the Angkor temple complex is recognised today as the seventh "wonder of the world" and it attracts tourists from all over the globe. In addition to Angkor and other ancient sites, Cambodia has ecological resources that could attract foreign tourists. These include river dolphins in Kratie Province, large water-falls in the northeastern provinces, bird sanctuaries on the Tonle Sap Lake, and the undisturbed forests of the Cardamom mountains. As security and roads improve, Cambodia can rapidly develop these tourist attractions.

Despite its many potential attractions, tourism in Cambodia has never been well developed. In the 1960s, the total income generated from tourism was about one million US dollars per year (World Bank/IMF 1969) – about 0.1 percent of national income (GDP) at that time. After nearly three decades of war and internal strife, Cambodia is only now beginning to attract visitors for both leisure activities and business. The number of foreign tourists visiting Cambodia has grown remarkably since 1993, generating millions of dollars in income and employing tens of thousands people. Given the rapid expansion of tourism world wide, and particularly in Southeast Asia, Cambodia's tourism sector has the potential to grow very quickly. Within five years, if present increases continue, the number of foreign tourists visiting Cambodia could exceed one million per year.

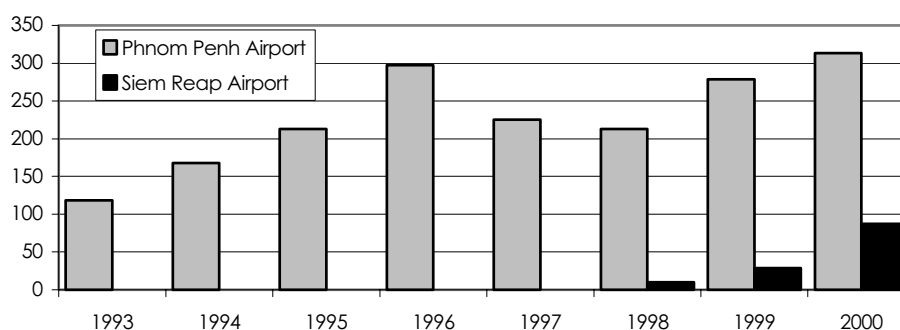
The challenge for Cambodia is how to take advantage of rapid growth in regional tourism. Does Cambodia have adequate physical infrastructure and human resources to meet the demands of expansion? How can the government get more revenue from the profits of tourism, which now go largely to foreign operators. Which policies should the government adopt to improve its earnings from tourism? And what about the social and environmental impact of tourism in a country with a large population of poor people and limited government resources to develop and enforce regulations that would protect the population and the environment from adverse exploitation? Also, and of particular importance, is the question of how to prevent the expansion of sex tourism, and with it, an increase in the number of people infected with the HIV-AIDS virus, which is already at an alarming level? To seek answers to these important questions, in 2000, CDRI conducted a literature review as well as interviews with tourism operators and government officials concerned with tourism.

This chapter, which discusses the findings of this research, presents data on the economic, social and environmental implications of tourism, as well as a summary of key issues, challenges and recommendations.

5.2. Recent Trends in Foreign Tourist Arrivals

In the early 1990s, after more than two decades of war and civil strife, Cambodia reopened its borders to the world. Until 1996, expansion in the tourism industry was particularly rapid, with annual growth rates ranging from 30 to 40 percent per year. Unfortunately political turmoil, which ended in a few days of fighting in 1997, slowed the inflow of foreign tourists. Rapid growth in tourist arrivals did not increase again until after the National Election at the end of 1998. This demonstration of national stability, coupled with the 1997 “open skies” policy that allowed international airlines to fly into Siem Reap, again stimulated rapid growth in tourist arrivals. By 2000, tourist arrivals by air totalled 400,000, a major increase when compared with 118,000 tourists in 1993, and 297,000 in 1996 (Figure 5.1).

Figure 5.1 Number of Arrivals by International Flights (000's)



Sources: Ministry of Interior and Ministry of Tourism

By the end of 2000, there were four international airlines flying directly to Siem Reap airport, which increased tourist arrivals there to 87,000 (22 percent of total tourist arrivals in 2000). More international flights to Siem Reap are expected in the near future. Although the majority of tourists arrive either through the Phnom Penh international airport or the international airport in Siem Reap, an increasing number of foreign tourists are now entering Cambodia by ship and over land by road from neighbouring countries (Table 5.1).

Table 5.1. Number of Foreign Visitors to Cambodia (000's)

	1993	1994	1995	1996	1997	1998	1999	2000
Phnom Penh	118	168	213	297	225	213	279	313
Siem Reap	-	-	-	-	-	10	28	87
Total by air	118	168	213	297	225	223	307	400
By ship, over land by road	-	-	-	-	-	100	105	115
Total Arrivals	-	-	-	-	-	323	412	515

Sources: Ministry of the Interior and Ministry of Tourism

5.2.1. Who visits Cambodia?

The largest number of foreign tourists visiting Cambodia come from the United States (10 percent), China (9 percent), France (7 percent), Taiwan (6 percent), and Japan (6 percent). In 2000, the number tourists from ASEAN countries accounted for 14 percent of total arrivals by air (a sharp decline from 25 percent in 1997). The Asian financial crisis is likely the cause of this decline. Of ASEAN countries, Thailand accounts for the largest share of visitors to Cambodia, and it was the ASEAN country that were most affected by the financial crisis.

A survey conducted by the Ministry of Tourism in November 1999, showed that foreign tourists aged 25 to 44 years represented the largest share of tourists visiting Phnom Penh (51 percent), and that this was an increase of 3 percent over 1998. In contrast, elderly

foreign tourists (those 60 years of age and older) are the largest group visiting Siem Reap/Ankor (37 percent – Table 5.2).

Table 5.2. Foreign Visitors by Age Group (percentage of total)

	Phnom Penh	Siem Reap
Under 25	5%	2%
25-44	51%	33%
45-59	29%	28%
60 and over	15%	37%
Total	100%	100%

Source: Ministry of Tourism, November 1999

The survey also showed that only 31 percent of tourists visiting Phnom Penh had come on group tours, compared with 63 percent of visitors to Siem Reap. A large percentage of tourists indicated it was their first visit to Cambodia (84 percent in the case of visitors to Phnom Penh, and 92 percent for visitors to Siem Reap). Of visitors to Phnom Penh, 80 percent indicated they were on holiday, while of those visiting Siem Reap, 98 percent indicated they were on holiday (Table 5.3).

Table 5.3. Foreign Visitors' Status (percentage of total)

	Phnom Penh	Siem Reap
Group tour	31%	63%
Independent tourist	69%	37%
Total	100%	100%
Of which for the first time	84%	92%
Of which for holiday	80%	98%

Source: Ministry of Tourism, November 1999

Regarding the occupations of tourists, the survey showed that on average 38 percent of foreign tourists were employees of a private company or working in public administration. About 20 percent indicated that they were business persons, 12 percent were retired and the occupations of the rest were unidentified (Table 5.4).

Table 5.4. Foreign Visitors by Occupation (percentage of total)

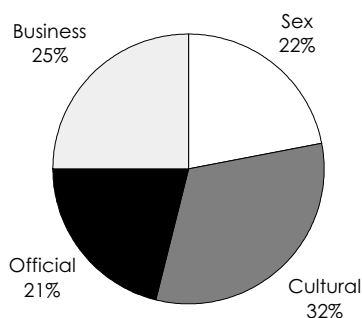
	Phnom Penh	Siem Reap
Employee	40%	34%
Business person	20%	18%
Retired	11%	17%
Others (unidentified)	29%	31%
Total	100%	100%

Source: Ministry of Tourism, November 1999

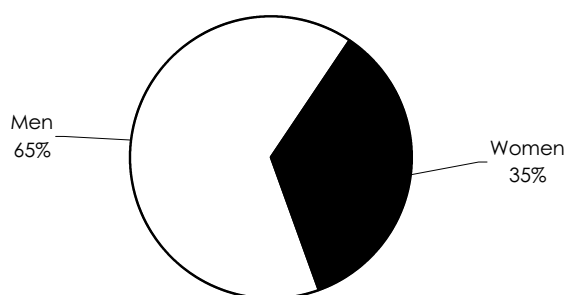
5.2.2. Reasons for Visiting Cambodia

In January 2000, the Ministry of Tourism, the Cambodian National Council for Children and World Vision-Cambodia conducted a survey in Phnom Penh, Sihanoukville and Siem Reap (Nuon, Yit and Gray: 2000) to explore the problem of tourism linked to the sexual exploitation of children. The survey, which interviewed 22 travel agents and tour operators, showed that there are four kinds of visitors who came to Cambodia: 32 percent come for cultural tourism, 25 percent for business, 22 percent for sex tourism and 21 percent for official visits (Figure 5.2).

The survey also showed that Phnom Penh has the highest rate of prostitution involving children and stressed that this is on the rise. Another survey conducted by the Ministry of Tourism in 1998, showed that 65 percent of foreign tourists visiting Cambodia are men (Figure 5.3)

Figure 5.2. Reasons for Visiting Cambodia

Sources: Ministry of Tourism, Cambodian National Council for Children, and World Vision-Cambodia, July 2000

Figure 5.3. Foreign Tourists (by sex)

Source: Ministry of Tourism, 1998

5.2.3. Tourists' Spending

The length of stay of tourists arriving in Phnom Penh was an estimated 5.2 days, while those visiting Siem Reap stayed only 3.2 days (Table 5.5). These statistics showed that only a small percentage of foreign tourists visited both Phnom Penh and Siem Reap during the same stay. According to CDRI's survey in 2000, only about 10 percent of tourists who landed at Siem Reap by direct flights continued on to visit Phnom Penh. About half of those who arrived via Phnom Penh airport extended their visit to Siem Reap/Angkor. In addition, about 10 percent of foreign tourists coming to Cambodia (mostly overseas Cambodians) visited Phnom Penh, Siem Reap/Angkor and other provinces during the same stay.

Table 5.5. Average Length of Stay in 1999 (days)

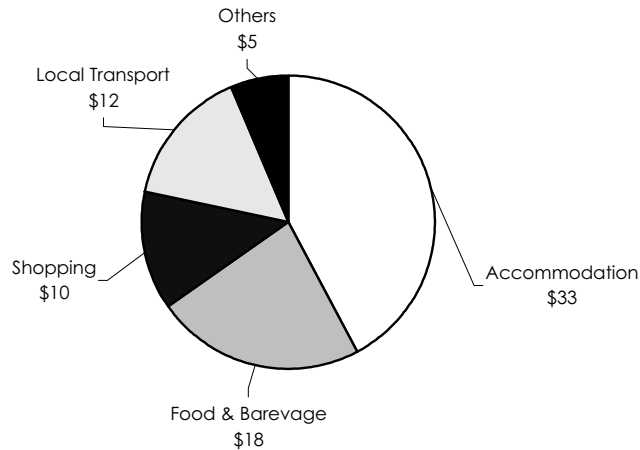
	Phnom Penh	Siem Reap
Group tour	4.6	2.9
Independent tourist	5.8	3.5
Total	5.2	3.2

Source: Ministry of Tourism, November 1999

The 1999 survey by the Ministry of Tourism showed that the average expenditure per tourist was about \$78, and that spending was largely for accommodation (42 percent) and food and beverages (23 percent). Only 13 percent of spending was for shopping. Compared to most other Asian countries, the amount of spending on accommodation was the highest (*Trends in the Hotel Industry* magazine March 1997). The length of stay and total daily expenditures of tourists in Cambodia were much lower than in other Asian countries. The

length of stay in Thailand, for example, averaged seven days (against 5.5 days in Cambodia), and daily tourist spending was about \$140 (compared to only \$78 in Cambodia). In total, foreign tourists' spending in Thailand was about \$1,000 per stay, compared to only \$430 in Cambodia (Figure 5.4).

Figure 5.4. Tourists' Daily Spending in 1999 (US\$)



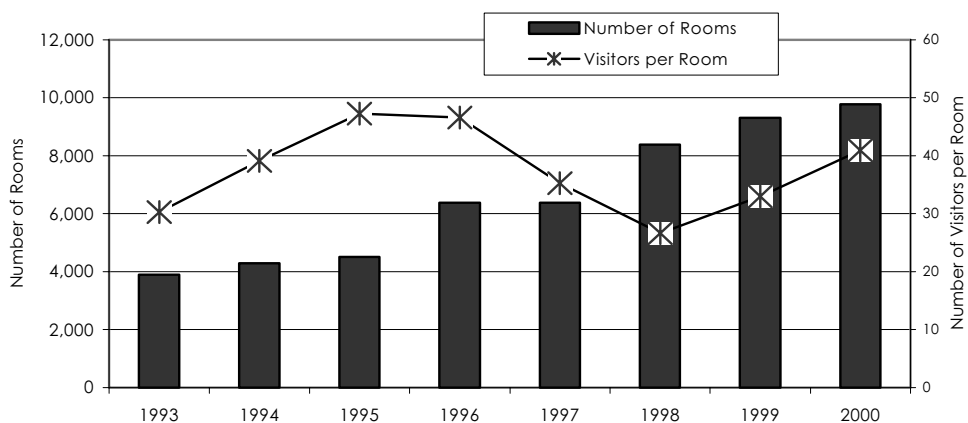
Source: Ministry of Tourism, November 1999

The survey also showed that hotels were the most common form of accommodation chosen by foreign tourists (79 percent in Phnom Penh and 94 percent in Siem Reap). The percentage of tourists who stay in hotels is lower in Phnom Penh because a significant percentage are overseas Cambodians who prefer to stay with relatives.

5.2.4. Hotel Infrastructure

From 1993 to 2000, tourist arrivals grew by an average of 19 percent per year, while hotel construction during the same period increased by 10 percent per year, and hotel rooms by 14 percent. Based on these figures, the financial situation of the hotel industry should be better in 2000 than it was in 1993. However, in reality, the hotel occupation rate was much better in the early 1990s because hotels were occupied by 20,000 staff from the United Nations Transitional Authority in Cambodia (UNTAC), who were preparing the country for the 1993 National Election. Compared to other Asian countries, in 2000, the number of visitors per room in Cambodia was the lowest in the region (about half that of other countries).

Figure 5.5. Number of Rooms and Visitors per Room



Source: Ministry of Tourism

At the end of 2000, there were 241 hotels with 9,777 rooms in Cambodia. Most of the

hotel rooms were concentrated in Phnom Penh (56 percent), although this percentage was significantly less when compared with 1999 (62 percent). The hotel rooms in Sihanoukville represented about 10 percent of the total in Cambodia in 2000. The number of hotel rooms in Siem Reap increased significantly in 2000 (a 44 percent increase, compared to 1999). Hotels in Siem Reap accounted for 18 percent of the total in Cambodia. Hotel rooms in other provinces also increased, but more moderately (an 18 percent increase relative to 1999 – Table 5.6 and Figure 5.5).

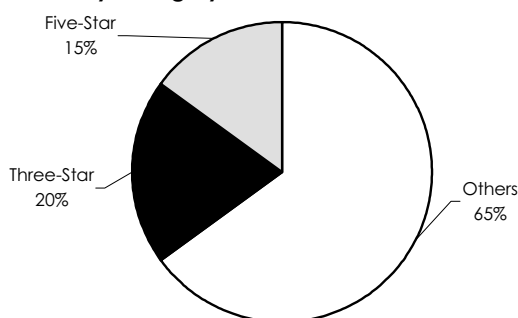
Table 5.6. Number of Hotels and Rooms in Cambodia (in operation)

	1993	1994	1995	1996	1997	1998	1999	2000
Phnom Penh								
Hotels	-	-	-	-	-	110	112	106
Rooms	-	-	-	-	-	5,312	5,771	5,464
Siem Reap								
Hotels	-	-	-	16	16	24	28	35
Rooms	-	-	-	655	655	1,058	1,242	1,785
Sihanoukville								
Hotels	-	-	-	-	-	34	37	36
Rooms	-	-	-	-	-	775	970	978
Other Provinces								
Hotels	-	-	-	-	-	48	48	64
Rooms	-	-	-	-	-	1,240	1,317	1,550
Total Cambodia								
Hotels	125	134	136	201	202	216	225	241
Rooms	3,892	4,294	4,508	6,379	6,385	8,385	9,300	9,777

Sources: Ministry of Tourism and Siem Reap Provincial Tourism Bureau.

According to interviews CDRI¹ conducted in early 2000 with tourism professionals, the number of first-class hotel rooms (equivalent to the five-star category) represented about 15 percent of total rooms in Cambodia (about 1,500 rooms in 2000). The next class down of hotel rooms (equivalent to the three-star category) was about 20 percent of the total rooms. The least expensive hotel rooms represented about 65 percent of total rooms (Figure 5.6). The five-star hotels are concentrated in Phnom Penh and Siem Reap, while those in Sihanoukville are three-star hotels. Elsewhere in the country, only the modestly-priced hotels are available.

Figure 5.6. Distribution of Rooms by Category of Hotels



Source: CDRI Interviews with hotel industry professionals, February 2001

Guest houses also play an important role in supporting tourist sector development. In 2000, there were about 370 of these establishments in the country, with a total of 3,053

¹ The results of this survey are very approximate since Cambodian hotels are not classified as yet. Room rates were used as a proxy for ranking hotels. Thus hotels were ranked as five-star if their room rates exceeded \$100 per night; as three-star if rates were between \$50 and \$100 per night.

rooms. Guest house accommodation has almost doubled since 1998. Phnom Penh had the most guest house rooms (720 rooms), followed closely by Siem Reap (603 rooms). Kompong Cham ranked third with 307 rooms, followed by Banteay Meanchey (255 rooms) and Sihanoukville (216 rooms).

In the short term, the supply of hotels in Cambodia seems to be adequate. What is needed, however, is the expansion of airport capacity – larger passenger terminals, and runways that can accommodate jumbo jets. Other needed infrastructure includes good roads for tourists arriving over land, and facilities for tourists arriving by ship.

5.3. The Government's "Open Skies" Policy

The Cambodian government has been trying to rebuild its war-ravaged tourism industry by adopting policies that have proven successful in neighbouring countries. The "open skies" policy, which grants liberal landing rights to scheduled foreign airlines and charters, was introduced in Malaysia in mid-1969. The Malaysian government also stimulated the tourist industry by granting incentives to companies building and upgrading hotels (GoM 1973).

In Cambodia also, an "open skies" policy was initiated in the late 1960s. In 1968, China helped the government build an international airport at Siem Reap. When this became operational in 1969, Air France and Cathay Pacific started to land there. Some hotels of international standard were also built in Siem Reap and tourist arrivals began to increase sharply. Unfortunately, war escalated rapidly following the *coup-d'état* in March 1970, and direct flights to Siem Reap stopped.²

In late 1997, the Government of Cambodia re-introduced the "open skies" policy as a strategy to attract those tourists planning to visit other Asian countries. This policy is also a part of the strategic Thai/Cambodian campaign to promote tourism in both countries with the slogan, *Two Kingdoms, One Destination*.

Table 5.7. Share of International Tourists Arrivals (by air to Siem Reap province)

	1998	1999	2000
Bangkok-Siem Reap (by Thai companies)	10,423	28,525	62,922
Ho Chi Minh-Siem Reap (by Vietnam Airlines)	-	-	15,960
Others*	-	-	8,130
Total	10,423	28,525	87,012

Notes: * Singapore - Siem Reap by Silk Air of Singapore; Rangoon - Siem Reap by Mandalay Airlines of Myanmar; and, Bangkok - Siem Reap by Royal Air Cambodia. Sources: Ministry of Tourism and Siem Reap Provincial Tourism Bureau

Only one airline company (Bangkok Airways), flew directly from Bangkok to Siem Reap in 1998 and 1999. In early 2000, Vietnam Airlines started a flight from Ho Chi Minh City to Siem Reap, and in late 2000, Rangoon-Siem Reap and Singapore-Siem Reap routes were added. The Bangkok-Siem Reap flight is the most popular, with an average of 2.5 flights per day in 1999, which doubled to 4.6 flights per day by 2000. The Ho Chi Minh-Siem Reap route is the second most popular, with 2 flights daily. Others' flights to Siem Reap, such as those of Silk Air and Mandalay Airlines are occasional charters flights. Thus a total of four international airlines have received landing rights at Siem Reap Airport (Table 5.7).

The "open skies" policy of the Cambodian government has gone well so far, despite some criticism that the policy pulls tourists from Phnom Penh. The policy requires that all tourists stay a minimum of one night in Siem Reap. According to CDRI's survey of tourism professionals in early 2001, about 60 percent of tourists stayed more than one night and about 10 percent continued their trip to Phnom Penh. Tourism industry professionals believe that

² Interview the author conducted with Mr. Hing Kunthap, CEO and Board Member of Shell Cambodia in the 1960s. Shell was the fuel supplier for Siem Reap airport and also one of the main shareholders in some first-class hotels in Siem Reap-Angkor in the 1960s.

future growth in the number of international tourists visiting Siem Reap depends largely on the volume of tourists visiting other ASEAN countries.

The “open skies” policy has helped create more employment, economic activity and expansion of the tourism industry in Siem Reap. For instance, the number of hotels has grown rapidly (from 24 hotels in 1998 to 35 hotels in 2000). More first-class hotels are under construction. The average occupancy rate for hotels in Siem Reap was about 65 percent in 2000 (it was as high as 75 percent in high season). This was an increase of about 20 percent over 1999. People in Siem Reap expressed concern, however, that optimism over the potential for a significant increase in international tourist arrivals could drive up the price of land in Siem Reap.

The number of hotels in Phnom Penh has also been growing to meet the demand from tourists who go on from Siem Reap to visit Phnom Penh. The occupancy rate in the city increased from between 30 to 45 percent in 1999, to between 50 and 60 percent in 2000. However, this occupancy rate is still quite low when compared to average occupancy rates for the region (about 80 percent). Hotel managers in both Siem Reap and Phnom Penh were optimistic about higher occupancy rates in 2001.

5.4. Ecotourism

With the advent of “ecotourism” in the past 10 years, many countries have benefited considerably. A tourism study by the European Community showed that 20 percent of tourists visiting Europe are attracted by culture and 60 percent of world travellers are interested in the culture of the countries they visit (Lindberg and Hawkins 1993). According to Lindberg and Hawkins, governments in developing countries have become increasingly committed to developing national parks and other natural attractions as destinations for ecotourists.

Cambodia is a country rich in wilderness areas that have great potential for ecotourism. Although statistics on the development of ecotourism are still very limited, tourism professionals interviewed by CDRI in early 2001 stated that a growing number of Japanese and American ecotourists have been visiting Cambodia. Provincial statistics show that the number of foreigners visiting Cambodia for ecotourism have doubled every year since 1999.

Some of the places in Cambodia with good ecotourism potential include:

- Phnom Tamao Park in Takeo province
- Kirirom National Park in Kompong Speu province
- Phnom Kulen in the Angkor area
- Bokor and the Cardamom mountains
- Kratie, Ratanakiri and Mondolkiri provinces

In recent years, in the world at large, parks have been increasingly used for ecotourism, both as a source of revenue and as a means of creating much-needed employment for rural people. Lindberg and Hawkins (1993) state that “In order to get involved with ecotourism and keep the costs and benefits in balance, parks must be prepared for ecotourism.”

5.5. Domestic Tourism

Cambodia has not yet clearly defined what is meant by “domestic tourism”. As a result, there are no reliable statistics yet on domestic tourism. These would be very useful for the government and private companies to use in setting policy for tourism development and in making plans. Although the definition varies from one country to another, generally the domestic tourist is one who undertakes a journey within his or her own country. The United States defines the “domestic tourist” as someone who takes a journey within the country of

over 50 miles (excluding the return distance) for leisure. Conversely, in Canada, the domestic tourist is someone who takes a journey within the country of over 25 miles and stays there over night (Ministry of Tourism 2000).

In the author's opinion, the Cambodian domestic tourist should be defined as: *Someone who has travelled over 10 miles for leisure and has spent money as part of his or her leisure trip.* This definition could help determine the number of domestic tourists and their spending patterns in order to capitalise on domestic tourist trends, and plan for the development of attractive sites. Domestic tourism could help raise more revenue for the government. It could also play a role in minimising the gap between the urban rich and the rural poor. Further, domestic tourism would help boost local economies through the establishment of restaurants, shops, handicraft producers and so forth.

Table 5.8. Domestic Tourists Who Visited Siem Reap Province

	1996	1997	1998	1999	2000
Domestic tourists	11,703	11,925	11,503	230,378	83,948

Source: Siem Reap Provincial Tourism Bureau

If roads were rehabilitated, domestic tourism would rapidly develop in Cambodia as people's incomes improve. In 1999, for example, when the road linking Phnom Penh to Siem Reap through Kompong Thom was repaired, the number of Cambodians visiting the Angkor temples increased about 20 times, from 11,500 to more than 230,000 visitors. In 2000, when the state of roads deteriorated due to serious flooding, this number declined significantly (Table 5.8).

5.6. Economic Implications

Development of the tourism industry in Cambodia over the last few years has had significant implications for the economy. Up until 2000, total investment in this sector was far ahead of the garment industry.³ However, the net income and the jobs created directly by the tourism industry still appear quite limited, despite the fact that the number of foreign tourists sharply increased over the last two years.

As yet, there are no statistics available on the costs of hotel construction in Cambodia or on total job creation. In order to evaluate tourism's impact on the economy in terms of the amount of real investment, incomes and job creation, rough estimates have been made based on three sources. These are the interviews CDRI researchers conducted in 2000 with tourism industry professionals; figures published in 1997 in the magazine *Trends in the Hotel Industry*, which covers the Asia-Pacific region; and, the monthly magazine *Cambodge Nouveau* (March 2001).

According to the interviews CDRI conducted in 2000 with tourism professionals, the daily room rate in Cambodia averaged about \$35. However, the five-star daily rate was much higher (\$100 on average) and the rate for three-star hotels somewhat higher (about \$50). Compared with Bangkok, these rates were relatively high. However, the occupation rate in Cambodia was still much lower than that in Thailand (only about 60 percent in Phnom Penh and Siem Reap, as against 80 percent in Bangkok and other main cities in Asia). Revenue generated from hotel rooms in Cambodia was lower than that in other Asian cities. Despite this weakness, Cambodian hotels now have started to make a profit. Tourism professionals stated that occupation rates must be over 45 percent to be profitable. Some key indicators on the tourism industry can be seen in Table 5.9.

³ Based on calculations by the author of this study, the total amount of investment in the hotel industry up to 2000 (excluding the cost of land) was more than \$300 million, as opposed to about \$200 million in the garment industry.

Table 5.9. Key Indicators for the Tourism Industry in Cambodia

	1995	2000
1- Number of hotels	136	241
2- Number of rooms	4,500	9,800
3- Number of visitors by air (000's)	212	405
4- Length of stay (average, day) *	5.8	5.5
5- Daily room rate (average, US\$/room)	27	35
6- Occupation rate (average, %)	75	60
7- Daily foreign tourist spending (US\$) *	66	80
8- Total foreign tourist spending (million US\$) *	81	170
- Accommodation	-	70
- Food & beverage	-	40
- Local transportation	-	26
- Shopping	-	21
- Others	-	13
9- Incomes from domestic tourism (million US\$) ^a	75	101
10- Total tourism income (million US\$) ^a	156	271
% of nominal GDP	5.3%	8.7%
11- Cumulative investment in hotels (million US\$) ^b	122	313
12- Employment in tourism (000's) ^c	31	60
% of total labour force	0.6%	1.1%

Notes: * tourists who arrived by air ^a includes hotels and restaurants; ^b is based on hotel construction costs in Ho Chi Minh City and Bangkok, excluding land; ^c includes staff of hotels (about 7,000 employees in 2000), guides and travel agency staff (3,000) and restaurant workers (50,000). Indirect employment has been excluded. Sources: Ministry of Tourism, National Institute of Statistics, CDRI interviews with tourism industry professionals conducted in 2000, and the publications listed above.

According to the magazine *Cambodge Nouveau* (March 2001), the gross income generated from foreign tourists visiting Cambodia amounted to about \$170 million, of which \$70 million went to hotel accommodation, \$40 million to food and beverages and \$26 million to local transport. Foreign tourists also spent \$21 million on shopping and \$13 million on other costs, including airport tax and visa fees. Compared to other countries in the region, this amount is low, although it was about double compared to that spent in Cambodia in 1995. In 2000, in Thailand, the gross income generated from about 10 million foreign tourists amounted about \$10 billion. In addition, most of this gross income has likely remained in Thailand, as most visitors travelled on Thai-owned airlines, stayed in Thai-owned hotels, ate Thai food and bought Thai goods. *Tourism for Thais* is a very important policy which the Thai government uses to promote tourism in the country (TDRI 1996:32). Cambodia could learn from this experience. Incomes generated from foreign tourists visiting Cambodia could be doubled if adequate infrastructure were put in place.

Table 5.10. Government Revenue from Tourism (million US\$)

	1996	2000
VAT and other indirect taxes	5.0	7.0
Visa fees	3.1	5.2
Civil aviation charges	6.5	6.3
Angkor temple complex entry fees	-	1.5
Total government income from tourism	14.6	20.0
Total government revenues	283.0	364.0
Tourism's share of total government revenues	5.2%	6.3%

Source: Ministry of Economy and Finance

The government's revenue from the tourism sector totalled about \$20 million in 2000. This amount was 37 percent higher than in 1996 (about \$14.6 million). This was almost the

same percentage as the growth in tourist arrivals over the same period (35 percent – Table 5.10).

Job creation in the hotel industry largely depends on the number of available rooms and the occupation rate. In Phnom Penh, the ratio of employees per hotel room is much lower than that in the region because of the lower occupation rate. Based on the level of productivity and labour costs, the ratio of staff/room in Phnom Penh should be similar to that in Ho Chi Minh City or Shanghai (Table 5.11).

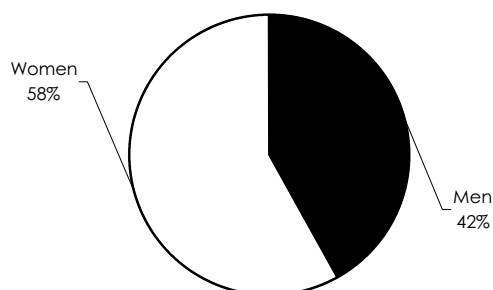
Table 5.11. Ratio of Staff/Room and the Hotel Occupation Rate in Some Asian Cities (*)

	Phnom Penh	Ho Chi Minh	Bangkok	Jakarta	Shanghai
Ratio staff/room					
- Three-star hotels	1.0	1.6	1.2	1.2	1.6
- Five-star hotels	1.2	2.0	1.5	1.8	2.0
Occupation rate	60%	75%	80%	75%	80%

Note: (*) Statistics for Phnom Penh were from 2000, while for those of other cities were from 1997. Sources: "Trends in the Hotel Industry" magazine (March 1997), "Cambodge Nouveau" magazine (March 2001) and CDRI estimates based on interviews with industry professionals in 2000.

The tourism industry (including hotels, restaurants, bars, travel agencies and guides) was estimated to employ about 60,000 people in 2000, of which 7,000 people worked in the hotel industry and 3,000 worked as guides and in travel agencies. The other 50,000 people were employed in restaurants and tourism-related businesses, mostly in low paid non-wage employment. Based on data from the Socio-economic Survey in 1999 and the interviews CDRI researchers conducted in 2000, 58 percent of employees in the tourism sector were women (Figure 5.7).

Figure 5.7. Employment in the Tourism Industry (by sex)



Source: National Institute of Statistics, Socio-economic Survey, 1999

5.7. Social Implications

Since 1998, Cambodia's tourism industry has been growing at an impressive rate. While the industry is on the rise, increasing levels of prostitution and child prostitution are also becoming a serious concern in Cambodia. The emergence of child prostitution in the country has become a magnet for some foreign tourists, despite occasional arrests of tourists engaging in child sexual abuse or taking pornographic images. The same problems occur in Thailand and in the Philippines, but this notorious aspect of the hospitality industry is now declining in these countries. When countries such as Thailand and the Philippines make progress in reducing sex tourism, sex-seeking tourists simply travel instead to poorer, less-developed countries. Cambodia has now become a target for sex tourists.

In January 2000, research initiated by the Ministry of Tourism, the Cambodian National Council for Children and World Vision-Cambodia explored the problem of tourism linked with the sexual exploitation of children. This focused on the three major tourist

destinations in Cambodia – Phnom Penh, Sihanoukville and Siem Reap. Eight different groups were interviewed including children in contact with tourists through their jobs in hotels and guesthouses, government officials, NGOs and taxi drivers. The results of this research regarding "Knowledge, Attitude and Practice" were published in *Children's Work, Adult's Play* (Nuon, Yit and Gray 2000). This report showed that 22 percent of foreign tourists came for sex. Moreover, 20 of 22 tour operators interviewed stated that child prostitution in Cambodia was on the rise, and 10 of them revealed that they had seen tour guides procuring female children for tourists. It would appear from this research, that the incidence of male tourists coming to Cambodia in search of female children for sex has been growing.

Given the poverty of many young girls in Cambodia, it is not surprising that they are susceptible to engaging in sexual activities with tourists. Once they join the world's oldest profession, they are exploited, abused and put at risk of contracting sexually-transmitted diseases, including HIV/AIDS. High levels of poverty, combined with family breakdown, often lead young girls into prostitution. An estimated one-third of sex workers in the country are children, mostly between the ages of 12 and 17, but some are even younger (*Los Angeles Times*, 12 December 2000). This notorious industry has grown very fast in Cambodia in the last two years, while in other countries, the incidence of child prostitution has been declining.

In addition to the capital city of Phnom Penh, sexual exploitation of children has grown in Siem Reap Province, particularly after the "open skies" policy was introduced. Historically Siem Reap inhabitants have been subsistence farmers and fishers, but after the province became easily accessible to foreign air travellers in 1999, conditions began to change. Local residents now rent out their homes and cottages to the growing influx of tourists who are attracted by temples in the daytime and the neon lights of discotheques and karaoke at night. Karaoke parlours are full of beautiful adult women sitting behind glass partitions with an ID number pinned to their chest so that visitors can choose the woman they want. Most of these women work in the sex trade because they are poor. Although the older generation in Siem Reap is less enthusiastic about the influx of tourists, many young people "idolise" tourists and the money they bring with them. Moreover, poor children selling postcards and handicrafts within the Angkor temple area are also the object of sex-seeking tourists. More than 70 percent of the children surveyed around Angkor and in nearby towns said that tourists had approached them for sex (*Los Angeles Times*, 12 December 2000).

Eradication of commercial sex is difficult, but at least it should be strictly controlled. The sexual exploitation of children, however, should be totally prohibited. Some mechanisms which should be applied to retard or halt commercial and child sex tourism, are:

- Not promoting sex-linked work within tourism sites
- Prohibiting hotel guests from bringing unrelated children to their rooms
- Tough laws and regulations concerning sex tourism
- Severe punishment for those engaged in sexual activities with children

Moreover, there should be campaigns concerning the need to protect children's rights and to impose strong penalties on abusers. This could be successfully achieved through participation by policy-makers, legislators and non-government activists. In addition, the governments of the tourists involved in sex crimes with children in Cambodia should not interfere with prosecution of their nationals.

According to experts working with abused children, the laws against child prostitution appear to be good enough to prosecute abusers, but action against those who procure children for prostitution are weak and improvements in these laws are slow. Because the government's action on the issue of preventing child prostitution has been slow due to lack of resources,

there has been an increase rather than a reduction in the sexual exploitation of children in Cambodia.

5.8. Environmental Implications

Hitherto, there has been no comprehensive study of environmental pollution in Cambodia although levels of pollution have been obviously increasing. The areas of greatest concern are water and air pollution that result from the increasing volume of vehicular traffic, commercial activities and industrial wastewater. Cambodia clearly needs to address its water and air pollution problems or the situation will deteriorate further.

Robust growth in the tourism sector has also contributed to air and water pollution in Cambodia. In the city of Phnom Penh, for example, due to the high cost of state electricity, many hotels run their generators day and night. These generators causes both air and noise pollution which negatively impacts neighbouring households. The majority of hotels also do not have waste water treatment systems and the impact of this pollution has yet to be assessed.

There is also a general lack of attention paid to environmental degradation outside Phnom Penh. Many tourism sites in Cambodia, even those in Siem Reap, lack rubbish bins, public toilets, and other basic facilities for tourists. As a result of increasing tourists, the small river in Siem Reap town is now heavily polluted with plastic bags, bottles, rubbish and wastewater from nearby hotels and restaurants.

Due to lack of resources and perhaps lack of recognition of the seriousness of the problem, little attention has been paid to ecological protection at tourism sites. The Cambodian people themselves generally lack awareness of environmental issues. Both the legislative framework and knowledge about how to prevent pollution are weak. While there are some legislative instruments to deal with polluters, problems exist with enforcement of laws.

To help preserve the country's environment, tough environmental protection laws should be passed based on the notion that the polluter pays. These should apply to hotels, restaurants, investors in tourism sites, and other activities related to tourism. Standards also need to be established concerning sanitation, and appropriate waste water treatment equipment should be installed and regularly inspected to ensure compliance with environmental standards. The government itself must take an active role to prevent and combat environmental degradation.

5.9. Critical Issues and Recommendations

The tourism industry in Cambodia is growing fast and prospects for the future are very promising. However, infrastructure is not keeping up with the rapid expansion. Also in some cases, social and environmental costs are very high. In addition, tourist activity is mostly concentrated in Phnom Penh and Siem Reap. To order to sustain tourism development, and make it more profitable for all Cambodia's people, some problems need to be solved as soon as possible. These include:

- improving transportation
- enhancing human resource development and the quality of services
- enforcing social and environmental protection
- improving tourism information and knowledge about Cambodia internationally
- elaborating a comprehensive master plan

5.9.1. Improving transportation

Cambodia's physical infrastructure remains one of the major impediments to socio-economic development, including growth in the tourism industry. Although the government has put great emphasis on rehabilitation of transport infrastructure by seeking assistance from various international donors, the extent of damaged roads is far beyond the assistance provided. Also even when roads are improved, rapid growth in the volume of traffic in urban areas and lack of regular maintenance means that roads are damaged faster than they can be repaired.

Due to poor transport infrastructure, many Cambodian tourist sites have been left unvisited for years. The Preah Vihear temple is an example of this, as are other historic sites in the western part of the country. Poor roads have also retarded cross-border tourism and as long as transport infrastructure is not improved, tourism development will continue to be held back. National Roads Number 1, 5 and 6 are the most important links between the eastern and western parts of the country and improvements of these roads would help the development of both international and domestic tourism.

According to the survey CDRI conducted in Siem Reap province in 2000, international tourists visiting Siem Reap complain about the poor quality of roads in and out of town. Because of poor roads, tourists said they felt frustrated about their trip. They also thought there should be better public transport within Siem Reap and between the city and other parts of the country.

The government is optimistic that all road networks around Tonle Sap Lake will be improved by 2003, and that this will foster tourism, especially tourists coming in overland and by water. To develop ecotourism around the Tonle Sap, river ports in Siem Reap and Phnom Penh need improvement.

Airports are another crucial tool for supporting the tourism industry. When arrivals reach one million per year, Phnom Penh's Pochentong airport will not be able to handle the numbers. Based on current increases in passengers, the airport will reach its capacity in the next five years. Siem Reap airport is also a concern because it is already saturated. Immediate expansion of Siem Reap airport is absolutely crucial.

Cambodia should improve all its historic tourism sites that were damaged by the war. Recreational centres should also be created to provide something else for tourists besides visits to historic sites. According to CDRI's survey in Siem Reap, foreign tourists who visit Angkor are also interested in entertainment as well.

5.9.2. Enhancing Human Resource Development and Quality of Services

Cambodia remains in its infancy in providing world-class service to tourists travelling "first class." CDRI's survey in Siem Reap revealed that these tourists express disappointment in the quality of vehicles available and the lack of knowledgeable tour guides. Tour guides play a crucial role in tourism promotion because tourists spend more time with their guides than with anyone else. If tourists are impressed by their guides, they will enthusiastically promote Cambodia to relatives and friends. To ensure guides do a good job, they need more training, both about historical sites and also about how to relate to foreign tourists.

The provision of good tourism facilities is not only a question of building enough hotels, guesthouses and restaurants, but also about maintaining high standards in the quality of food and service. Hotels and catering services should be required to meet uniform standards.

5.9.3. Enforcing Social and Environmental Protection

The Cambodian government should pay more attention to social and environmental protection. The development of the sex industry in Cambodia is growing as fast as tourism. Degradation of the environment is also happening at a rapid pace. To improve matters, laws

and regulations should be more strictly enforced. As part of this process, Ministry of Tourism officials should ensure that tour guides and others working in the tourism industry are aware of the social and environmental problems caused by tourism and trained to prevent them.⁴

5.9.4. Improving the Dissemination of Tourism Information Internationally

Thailand, Malaysia and Singapore are the three countries in Southeast Asia with the strongest commitment to tourism marketing and promotion. The Cambodian Ministry of Tourism has made significant efforts in this direction as well, although the budget allocated is very limited. A survey that the Ministry of Tourism conducted in 1999, showed that only 35 percent of foreign tourists learned about Cambodia through tour operators, while 43 percent learned about it through the Internet. Since the Internet is an inexpensive way to provide information to people around the globe, and Internet use is growing rapidly, the Ministry of Tourism should invest more in creating attractive information for the Internet.

5.9.4. Elaborating a Comprehensive Master Plan

To be sustainable and profitable for the whole country, the tourism industry should be developed under a comprehensive long-term plan. This clear and realistic master plan should integrate both marketing and physical planning. Once created, the plan should be widely disseminated. A budget for developing this innovative plan should be allocated as soon as possible.

5.10. Conclusions

The tourism industry is rapidly becoming an important part of Cambodia's economy, but its future development depends upon the quality of the country's environment, effective enforcement of laws and regulations to protect people and the environment, and effective promotion. Many countries are becoming more and more interested in tourism development. Not only do visitors bring in increasing revenues every year, but the tourist industry also creates much-needed employment in rural areas.

Because of its unique historical heritage and areas of great biodiversity, Cambodia has potential to develop both cultural and ecotourism. These types of tourism should be encouraged and sex tourism should be discouraged. Another area of tourism to promote is MICE (Meeting, Incentive, Convention and Exhibition) tourism. MICE tourism tends to generate high expenditures per tourist per day – usually more than double the expenditures of other types of tourists (TDRI 1996:15).

As part of its poverty alleviation policy, Cambodia should encourage more investment in tourism development. Given the government's limited resources, investment should be private as well as public. However, promoting investment in a sustainable manner does not mean only providing tax exemptions to investors. Peace, stability and good governance are the most important elements for success in tourism development in Cambodia.

⁴ For more details, refer to the previous sections on social and environmental implications.

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Statistical Appendix

Table 1. Main Economic Indicators

	1960	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP at Current Price (Billion Riels)	22	60	46	624	46	624	1,166	2,949	6,078	6,221	7,203	8,334	9,153	10,590	11,637	12,007
GDP at Current Price (Million US\$)	616	1,072	578	1,161	578	1,161	1,426	1,774	2,160	2,421	2,926	3,155	3,051	2,787	3,046	3,112
GDP per capita (US\$)	113	152	77	134	77	134	159	191	225	245	284	295	276	244	259	257
GDP per capita (US\$1993)	647	674	132	188	132	188	198	217	225	227	233	242	235	232	240	243
Real GDP (% increase)	4.8	-6.7	20.3	8.7	20.3	8.7	8.7	14.0	7.1	4.0	6.7	8.0	0.6	1.7	6.5	4.0
GDP Deflator in Riel (% increase)	2.0	29.9	16.6	146.4	16.6	146.4	72.0	121.9	92.4	-1.6	8.5	7.1	9.2	13.7	3.1	-0.8
GDP Deflator in US\$ (% increase)	2.0	5.9	2.0	2.7	2.0	2.7	13.0	9.1	13.7	7.8	13.2	-0.2	-3.8	-10.2	2.6	-1.8
Inflation in Riel (% increase, year average)	4.0	31.3	16.6	141.0	16.6	141.0	60.0	101.7	75.1	-0.5	7.8	7.1	8.1	14.7	4.0	-0.8
Inflation in Riel (% increase, Q4/Q4)	4.9	50.0	20.0	151.0	20.0	151.0	150.0	112.0	41.0	17.8	3.5	9.0	9.1	12.6	0.0	0.5
Inflation in US\$ (% increase, year average)	4.0	7.0	2.0	0.4	2.0	0.4	5.1	-0.8	3.5	9.0	12.5	-0.2	-4.9	-9.4	3.5	-1.8
Riel/US\$ parity (year average)	35	56	80	537	80	537	818	1,663	2,814	2,569	2,462	2,641	3,000	3,800	3,820	3,859
Riel/US\$ parity (end of period)	35	56	80	613	80	613	550	2,310	2,350	2,593	2,560	2,720	3,400	3,800	3,775	3,895
Budget Revenue (% GDP)	18.5	19.9	6.5	3.7	6.5	3.7	5.1	5.3	4.8	9.5	8.9	9.0	9.6	8.9	11.3	11.8
Budget Expenditure (% GDP)	27.4	23.2	31.5	19.2	31.5	19.2	8.9	8.3	10.0	16.2	16.7	17.3	13.8	14.7	16.6	17.5
Current Public Deficit (% GDP)	-3.6	-2.4	-23.7	-14.4	-23.7	-14.4	-3.4	-2.8	-1.4	-1.4	-0.8	-1.2	0.7	-0.2	1.6	1.6
Overall Public Deficit (% GDP)	-8.9	-3.3	-24.9	-15.5	-24.9	-15.5	-3.9	-3.0	-5.2	-6.7	-7.7	-8.3	-4.1	-5.8	-5.3	-5.6
Exports of Goods (% GDP)	12.9	7.1	2.8	5.5	2.8	5.5	6.1	6.3	7.4	10.6	10.8	11.4	17.9	21.8	24.8	36.4
Imports of Goods (% GDP)	18.2	12.5	26.2	17.0	26.2	17.0	10.4	11.3	16.9	22.6	24.4	29.3	31.8	41.4	41.2	48.1
Trade Balance (% GDP)	-5.3	-5.3	-23.4	-11.5	-23.4	-11.5	-4.2	-5.0	-9.5	-11.9	-13.6	-17.8	-13.9	-19.6	-16.4	-11.9
Current Account Balance (% GDP)	-6.5	-5.7	-23.8	-11.7	-23.8	-11.7	-0.6	1.9	-5.2	-10.6	-14.0	-16.8	-12.1	-17.8	-13.6	-8.7
External Contribution to Economy (% GDP)	7.6	3.5	23.9	11.7	23.9	11.7	0.7	1.4	14.5	16.9	21.0	21.2	14.5	18.3	16.4	14.9
Total Saving (% GDP)	20.1	10.9	8.4	11.7	8.4	11.7	11.4	13.9	18.9	19.2	22.1	27.6	22.3	26.3	23.6	19.6
Gross Foreign Reserves (Million US\$)	57	30	-	-	-	-	-	30	71	100	182	234	262	390	422	485
Gross Foreign Reserves (Months of Imports)	5.9	2.4	-	-	-	-	-	0.8	1.5	1.4	1.7	2.0	2.3	3.1	3.1	3.2
External Debts Recognised (%GDP)	0	5	0	0	0	0	0	0	0	2	4	7	8	11	12	14
Total Liquidity (Million US\$)	209	255	38	100	38	100	144	107	142	174	254	335	313	324	382	470
Total Liquidity (% GDP)	34	24	7	9	7	9	10	6	7	7	9	11	10	12	13	15
Population (Million)	5.4	7.1	7.5	8.7	7.5	8.7	9.0	9.3	9.6	9.9	10.3	10.7	11.1	11.4	11.8	12.1
Labor Force (%population)	43.9	43.8	50.3	46.7	50.3	46.7	46.2	45.7	45.6	45.6	45.2	45.0	45.0	44.8	45.2	45.7

Sources: Collated by CDRI from World Bank, IMF and Cambodian government data

Table 2. Budget Operations (Million US\$)

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

Note: () = deficit. Sources: Collated by CDR from World Bank, IMF and Cambodian government data

Table 3. Balance of payments (Million US\$)

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trade Balance (FOB-FOB)	(33)	(57)	(135)	(133)	(61)	(88)	(205)	(289)	(397)	(562)	(425)	(546)	(499)	(370)
Exports (FOB)	79	77	32	117	233	325	341	486	856	722	867	901	1,039	1,383
Domestic exports	79	77	16	64	87	112	160	258	316	361	545	608	756	1,133
Re-exports	-	-	16	53	145	213	181	228	540	361	322	293	283	250
Imports (FOB)	112	134	168	250	293	414	546	775	1,253	1,284	1,292	1,447	1,537	1,754
Retained imports	112	134	152	197	148	201	364	547	713	923	970	1,154	1,254	1,504
Service balance	(1)	(5)	(4)	(5)	42	106	75	25	(16)	24	44	33	68	100
Income balance	(6)	1	-	0	0	0	(3)	(13)	(18)	(16)	(15)	(14)	(15)	(29)
Private Transfers	-	-	2	3	10	15	20	20	20	23	25	30	30	30
Current account Balance (excl. official transfers)	(40)	(61)	(138)	(136)	(9)	33	(113)	(257)	(410)	(531)	(370)	(497)	(415)	(269)
Official transfers	42	25	8	6	10	25	156	235	346	299	200	215	251	250
Current account Balance (incl. official transfers)	2	(36)	(130)	(130)	1	58	43	(22)	(64)	(232)	(170)	(282)	(164)	-19
Capital account	5	22	130	130	(1)	(58)	(8)	62	142	301	204	296	190	82
Official MT/LT Loans (net)	-	21	130	130	-	-	5	55	71	56	38	49	43	80
Gross Loan Disbursements	-	11	130	130	-	-	5	62	75	75	38	50	44	81
Amortization	-	-	-	-	-	-	-	7	4	19	0	1	1	1
Private (net)	5	1	-	30	50	105	141	91	151	294	204	246	193	110
Foreign Direct Investment-FDI	5	1	-	-	-	-	141	91	151	294	204	246	193	110
Portfolio Investment-PFI	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other capital account	-	-	-	(30)	(51)	(163)	(154)	(83)	(80)	(49)	(38)	1	(46)	(108)
Errors and Omissions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overall Balance	7	(14)	0	0	0	0	35	40	78	69	34	14	26	63
IMF Contribution	-	-	-	-	-	-	11	21	42	-	-	-	11	23
Net Foreign Reserves	57	30	-	-	-	-	-	70	110	164	197	323	349	412
Gross Foreign Reserves	57	30	-	-	-	30	71	100	182	234	262	390	422	485
External Contribution	47	37	138	136	10	25	313	408	614	668	442	511	499	464
External Debt-Total Recognised	-	49	-	-	-	-	5	60	131	222	259	308	351	431
Foreign Currencies Outside NBC	-	-	-	40	91	254	408	491	571	620	658	657	703	811

Note: () = deficit. Sources: Collated by CDRl from World Bank, IMF and Cambodian government data

Table 4. Monetary Survey (Million US\$)

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

Note: () = deficit. Sources: Collated by CDRl from World Bank, IMF and Cambodian government data

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

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Investment	124	117	49	136	162	247	409	464	646	870	682	733	718	610
Public investment	37	17	7	13	6	4	84	131	208	238	151	164	215	232
Domestic financed	6	10	7	13	6	4	2	31	23	23	32	22	56	49
Foreign financed	31	7	-	-	-	-	82	100	185	215	119	142	158	183
Private investment	87	100	42	123	156	243	325	334	439	632	531	569	503	377
Domestic financed	82	99	42	93	106	137	184	243	288	339	327	323	310	267
Foreign financed	5	1	-	30	50	105	141	91	151	294	204	246	193	110
Total Domestic financed	88	109	49	106	112	142	186	274	311	362	359	345	366	317
Total Foreign financed	36	8	-	30	50	105	223	191	336	509	323	388	351	293
Agriculture Products	13	20	20	24	27	26	29	30	36	37	35	29	29	24
Equipment	46	29	7	25	33	59	121	138	207	288	234	266	240	202
Construction	65	68	21	86	103	161	259	297	403	545	413	438	448	383
National saving	84	56	(89)	1	154	280	296	207	236	339	311	236	302	340
Government	(22)	(26)	(137)	(167)	(49)	(50)	(30)	(33)	(22)	(39)	20	(6)	50	49
Non Government	106	81	48	168	203	329	326	240	258	378	291	243	252	291
Foreign saving	40	61	138	136	9	(33)	113	257	410	531	370	497	415	269
Grants	42	25	8	6	10	25	156	235	346	299	200	215	251	250
Non Grants	(2)	36	130	130	(1)	(58)	(43)	22	64	232	170	282	164	19

Note: () = deficit. Sources: Collated by CDR from World Bank, IMF and Cambodian government data

Table 6. Employment (000's)

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture	1,923	2,438	3,147	3,155	3,217	3,281	3,442	3,571	3,643	3,709	3,742	3,751	3,793	3,884
Paddy	1,612	2,040	2,580	2,520	2,580	2,635	2,790	2,910	2,970	3,025	3,052	3,057	3,080	3,151
Other Crops	247	317	435	458	460	462	465	467	470	475	475	475	489	502
Livestock	13	17	40	54	57	60	63	67	71	73	76	77	80	83
Fishery	25	32	56	74	78	82	85	87	90	93	95	97	98	101
Rubber	19	22	18	29	22	20	16	16	17	18	18	18	18	18
Forestry	7	9	18	20	21	22	23	23	24	25	26	27	28	29
Industry	90	99	136	192	195	211	223	228	248	274	284	321	370	386
Mining	0	0	4	4	4	5	5	5	6	6	5	4	4	4
Manufacturing	58	75	109	139	139	141	142	143	157	175	195	242	290	313
Food, Beverage & Tobacco	24	30	32	45	43	41	40	40	42	46	44	43	45	46
Textile & Garment	14	17	30	38	40	42	42	42	48	58	82	132	178	200
Wood, Paper & Publishing	9	15	11	13	12	12	13	13	15	17	17	17	16	15
Chemical & Plastic	4	5	6	8	8	9	10	10	10	10	10	10	10	10
Non Metallic Mineral	3	3	5	7	7	8	8	8	8	9	8	8	8	8
Other Manufacturing	4	5	26	28	28	29	29	30	34	35	34	32	32	33
Electricity & Water	2	4	2	3	3	3	4	4	4	4	4	4	5	5
Construction	30	20	21	46	49	62	73	75	82	90	80	70	71	65
Services	299	395	453	665	704	729	686	683	731	774	762	787	811	819
Transport & Communication	28	31	29	38	42	43	44	45	53	60	60	60	63	66
Trade	138	182	41	89	93	104	107	110	130	153	146	145	152	154
Hotel, Restaurants & Tourism	21	24	3	5	20	27	29	30	31	41	41	48	54	60
Finance	3	7	2	3	3	4	4	4	4	4	4	4	5	6
Public Administration	58	90	300	400	413	413	358	347	351	338	345	370	373	366
Real Estate & Business	23	28	25	43	44	46	49	50	53	56	56	55	56	57
Other Services	28	32	53	87	88	92	95	98	110	122	110	105	107	110
Total	2,312	2,932	3,736	4,012	4,116	4,220	4,351	4,482	4,622	4,758	4,787	4,859	4,973	5,089

Sources: Collated by CDR from World Bank, IMF and Cambodian government data

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

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture	257	386	361	585	672	754	908	1,032	1,274	1,285	1,278	1,094	1,080	962
Paddy	104	147	159	219	248	293	347	336	502	504	484	402	423	346
Other Crops	66	119	65	113	131	137	165	183	204	222	211	209	205	192
Livestock	26	60	71	127	142	157	165	171	200	206	208	187	196	191
Fishery	15	24	29	61	65	67	80	91	107	99	93	90	94	93
Rubber	26	15	6	16	16	15	16	16	20	20	17	17	19	19
Forestry	21	22	31	50	70	85	136	234	243	233	265	190	142	122
Industry	91	168	70	158	181	225	303	344	432	534	509	560	639	755
Mining	0	0	2	2	3	4	5	6	7	8	6	7	7	6
Manufacturing	53	121	55	104	116	129	155	173	202	229	270	305	374	520
Food, Beverage & Tobacco	19	42	15	32	36	37	43	47	51	52	51	47	50	50
Textile & Garment	16	35	9	17	21	25	30	31	39	56	105	156	217	363
Wood, Paper & Publishing	9	26	7	10	11	13	14	17	21	23	22	19	19	17
Chemical & Plastic	4	8	4	10	11	15	18	20	25	26	25	21	26	26
Non Metallic Mineral	3	5	5	11	12	12	15	17	20	23	21	19	20	20
Other Manufacturing	2	5	15	24	25	27	35	40	47	49	46	41	43	43
Electricity & Water	5	12	3	9	11	12	14	17	21	24	27	29	34	37
Construction	33	34	10	43	51	81	130	149	202	273	207	219	224	192
Services	268	518	147	418	573	795	949	1,045	1,220	1,337	1,264	1,133	1,327	1,395
Transport & Communication	15	23	35	64	91	112	133	148	174	183	175	160	178	187
Trade (*)	127	242	40	170	201	266	314	347	387	419	392	339	416	422
Hotel & Restaurants	19	33	2	9	46	129	164	127	156	233	206	182	231	271
Finance	6	12	4	8	11	13	16	20	23	24	22	20	27	37
Public Administration	77	170	21	39	58	69	64	112	141	130	129	118	139	134
Real Estate & Business	11	18	17	51	65	82	105	118	136	139	138	127	135	138
Other Services	12	20	28	77	101	125	153	173	204	208	202	187	201	205
Total	616	1,072	578	1,161	1,426	1,774	2,160	2,421	2,926	3,155	3,051	2,787	3,046	3,112

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

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

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture	855	1,013	587	787	827	860	908	955	1,053	1,074	1,103	1,114	1,128	1,098
Paddy	294	308	240	300	310	326	347	324	426	441	437	469	514	508
Other Crops	281	362	124	167	175	175	165	168	176	182	191	198	204	194
Livestock	61	113	104	145	151	160	165	160	161	166	176	170	172	170
Fishery	120	139	52	82	80	77	80	85	85	79	78	77	80	80
Rubber	19	23	8	18	16	16	16	14	13	13	13	13	16	15
Forestry	80	69	59	74	95	106	136	204	192	191	209	187	142	130
Industry	486	674	129	223	230	269	303	318	346	413	415	473	515	581
Mining	1	2	3	3	3	4	5	5	6	7	6	6	7	6
Manufacturing	283	474	102	149	148	152	155	158	168	188	219	251	287	377
Food, Beverage & Tobacco	108	174	30	53	48	45	43	43	44	45	45	46	47	48
Textile & Garment	82	136	17	25	27	29	30	30	34	45	77	109	145	233
Wood, Paper & Publishing	43	87	12	14	13	14	14	15	16	18	18	18	17	15
Chemical & Plastic	19	29	7	13	14	16	18	19	20	21	21	20	20	20
Non Metallic Mineral	11	16	7	12	13	14	15	16	16	19	19	19	19	20
Other Manufacturing	20	32	29	32	33	34	35	36	38	40	39	39	39	40
Electricity & Water	33	61	6	11	12	13	14	16	17	19	22	25	28	32
Construction	169	137	19	60	67	100	130	139	155	199	168	190	193	167
Services	2,177	3,071	269	618	712	888	949	974	998	1,103	1,086	1,063	1,180	1,257
Transport & Communication	119	137	68	102	120	128	133	136	145	154	152	152	165	177
Trade (*)	1,145	1,593	67	235	251	302	314	330	312	343	341	329	372	385
Hotel & Restaurants	187	234	4	11	52	143	164	118	133	195	175	160	196	229
Finance	37	59	8	12	13	15	16	19	19	20	20	20	26	36
Public Administration	509	825	27	40	51	59	64	103	113	105	106	106	116	113
Real Estate & Business	90	111	35	85	90	95	105	109	113	116	119	120	124	129
Other Services	90	111	60	132	135	145	153	160	165	169	173	175	182	188
Total	3,519	4,758	985	1,628	1,770	2,017	2,160	2,247	2,397	2,590	2,604	2,650	2,823	2,936

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

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

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture	0.301	0.382	0.615	0.744	0.813	0.876	1.000	1.081	1.210	1.196	1.158	0.982	0.957	0.877
Paddy	0.352	0.478	0.664	0.730	0.800	0.900	1.000	1.036	1.179	1.143	1.107	0.857	0.821	0.680
Other Crops	0.234	0.329	0.525	0.673	0.750	0.780	1.000	1.088	1.155	1.219	1.107	1.055	1.006	0.990
Livestock	0.433	0.534	0.681	0.875	0.939	0.979	1.000	1.068	1.240	1.240	1.180	1.100	1.140	1.121
Fishery	0.122	0.170	0.555	0.734	0.810	0.873	1.000	1.080	1.260	1.240	1.202	1.170	1.175	1.155
Rubber	1.407	0.650	0.758	0.884	1.002	0.945	1.000	1.200	1.500	1.520	1.300	1.250	1.250	1.233
Forestry	0.258	0.316	0.523	0.679	0.738	0.796	1.000	1.150	1.265	1.220	1.268	1.016	1.001	0.941
Industry	0.187	0.249	0.545	0.709	0.786	0.838	1.000	1.084	1.248	1.292	1.227	1.183	1.241	1.299
Mining	0.126	0.165	0.641	0.774	0.820	0.900	1.000	1.100	1.180	1.150	1.100	1.030	1.065	1.063
Manufacturing	0.187	0.255	0.540	0.695	0.783	0.847	1.000	1.094	1.201	1.216	1.230	1.216	1.305	1.380
Food, Beverage & Tobacco	0.178	0.242	0.492	0.608	0.750	0.830	1.000	1.100	1.170	1.160	1.130	1.030	1.060	1.042
Textile & Garment	0.192	0.258	0.536	0.688	0.780	0.870	1.000	1.060	1.150	1.260	1.360	1.430	1.500	1.560
Wood, Paper & Publishing	0.218	0.294	0.580	0.711	0.840	0.920	1.000	1.110	1.250	1.240	1.190	1.080	1.130	1.125
Chemical & Plastic	0.194	0.266	0.569	0.759	0.820	0.910	1.000	1.100	1.240	1.230	1.180	1.080	1.280	1.259
Non Metallic Mineral	0.244	0.310	0.669	0.903	0.900	0.844	1.000	1.090	1.200	1.180	1.130	1.020	1.049	1.035
Other Manufacturing	0.109	0.170	0.536	0.733	0.750	0.793	1.000	1.105	1.242	1.230	1.180	1.060	1.090	1.071
Electricity & Water	0.158	0.203	0.595	0.842	0.900	0.920	1.000	1.102	1.250	1.271	1.220	1.150	1.187	1.171
Construction	0.192	0.248	0.544	0.716	0.770	0.810	1.000	1.070	1.300	1.370	1.230	1.150	1.160	1.149
Services	0.123	0.169	0.546	0.676	0.804	0.895	1.000	1.073	1.222	1.212	1.164	1.066	1.125	1.109
Transport & Communication	0.125	0.169	0.516	0.631	0.760	0.870	1.000	1.090	1.200	1.190	1.150	1.050	1.077	1.056
Trade (*)	0.111	0.152	0.587	0.721	0.800	0.880	1.000	1.050	1.240	1.220	1.150	1.030	1.120	1.098
Hotel & Restaurants	0.103	0.140	0.460	0.848	0.890	0.899	1.000	1.073	1.174	1.193	1.179	1.135	1.178	1.180
Finance	0.155	0.203	0.532	0.660	0.810	0.890	1.000	1.090	1.221	1.201	1.097	1.010	1.044	1.026
Public Administration	0.152	0.206	0.781	0.961	1.134	1.164	1.000	1.090	1.250	1.240	1.210	1.110	1.200	1.181
Real Estate & Business	0.124	0.163	0.491	0.601	0.720	0.860	1.000	1.090	1.210	1.200	1.160	1.060	1.092	1.074
Other Services	0.138	0.182	0.471	0.580	0.750	0.860	1.000	1.080	1.235	1.230	1.170	1.070	1.110	1.092
Total	0.175	0.225	0.587	0.713	0.806	0.879	1.000	1.078	1.221	1.218	1.172	1.052	1.079	1.060

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

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

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Private Consumption	395	782	494	953	1,171	1,356	1,732	1,928	2,366	2,488	2,473	2,314	2,459	2,450
Government Expenditure	132	232	175	211	121	143	133	262	280	308	269	245	291	312
Gross Domestic Formation	124	117	49	136	162	247	409	464	646	870	682	733	718	610
Gross Fixed Capital Formation	124	117	49	136	162	247	409	464	646	870	682	733	718	610
Public	37	17	7	13	6	4	84	131	208	238	151	164	215	232
Private	87	100	42	123	156	243	325	334	439	632	531	569	503	377
Changes in Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exports of Goods & NFS	82	87	35	125	280	461	473	595	954	862	997	1,025	1,215	1,606
Goods FOB	79	77	32	117	233	325	341	486	856	722	867	901	1,039	1,383
Domestic exports	79	77	16	64	87	112	160	258	316	361	545	608	756	1,133
Re-exports	-	-	16	53	145	213	181	228	540	361	322	293	283	250
NFS	2	11	3	8	47	136	132	109	99	140	130	123	177	223
Imports of Goods & NFS	116	145	175	263	309	433	587	828	1,321	1,373	1,370	1,529	1,637	1,867
Goods FOB	112	134	168	250	293	414	546	775	1,253	1,284	1,292	1,447	1,537	1,754
Retained imports	112	134	152	197	148	201	364	547	713	923	970	1,154	1,254	1,504
Re-exports	-	-	16	53	145	213	181	228	540	361	322	293	283	250
NFS	4	12	7	13	15	20	41	53	68	89	78	82	99	113
GDP	616	1,072	578	1,161	1,426	1,774	2,160	2,421	2,926	3,155	3,051	2,787	3,046	3,112

Sources: Collated by CDRI from World Bank, IMF and Cambodian government data

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

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Private Consumption	2,116	3,357	889	1,394	1,520	1,605	1,732	1,804	1,982	2,099	2,149	2,229	2,329	2,364
Government Expenditure	866	1,126	224	219	107	123	133	241	224	248	223	220	243	264
Gross Domestic Formation	671	493	65	149	167	253	409	431	521	696	583	683	647	555
Gross Fixed Capital Formation	671	493	65	149	167	253	409	431	521	696	583	683	647	555
Public	193	69	13	18	8	5	84	122	160	174	122	143	185	202
Private	478	424	52	131	159	248	325	309	361	522	460	540	462	353
Changes in Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exports of Goods & NFS	417	356	46	128	280	457	473	559	802	728	881	974	1,122	1,505
Goods FOB	406	314	42	120	234	325	341	455	718	607	764	857	958	1,296
Domestic exports	406	314	21	66	88	112	160	242	265	303	480	578	697	1,062
Re-exports	-	-	21	55	146	213	181	213	453	304	284	279	261	234
NFS	11	41	4	8	47	132	132	104	85	121	117	117	164	209
Imports of Goods & NFS	551	574	240	262	305	422	587	788	1,132	1,181	1,231	1,457	1,517	1,753
Goods FOB	531	529	230	249	290	403	546	737	1,074	1,104	1,161	1,379	1,425	1,646
Retained imports	531	529	208	197	146	195	364	520	611	794	871	1,100	1,163	1,412
Re-exports	-	-	22	53	144	207	181	217	463	310	289	279	262	235
NFS	19	45	10	13	15	19	41	51	58	77	70	78	92	106
GDP	3,519	4,758	985	1,628	1,770	2,017	2,160	2,247	2,397	2,590	2,604	2,650	2,823	2,936

Sources: Collated by CDR from World Bank, IMF and Cambodian government data

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

	1960	1970	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Private Consumption	0.186	0.233	0.556	0.684	0.770	0.844	1.000	1.068	1.194	1.185	1.151	1.038	1.056	1.036
Government Expenditure	0.152	0.206	0.781	0.961	1.134	1.164	1.000	1.090	1.250	1.240	1.210	1.110	1.200	1.181
Gross Domestic Formation	0.185	0.237	0.746	0.915	0.971	0.975	1.000	1.079	1.241	1.251	1.170	1.074	1.109	1.099
Gross Fixed Capital Formation	0.185	0.237	0.746	0.915	0.971	0.975	1.000	1.079	1.241	1.251	1.170	1.074	1.109	1.099
Public	0.192	0.248	0.544	0.716	0.770	0.810	1.000	1.070	1.300	1.370	1.230	1.150	1.160	1.149
Private	0.182	0.236	0.795	0.942	0.981	0.978	1.000	1.082	1.214	1.212	1.154	1.054	1.089	1.070
Changes in Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exports of Goods & NFS	0.196	0.245	0.762	0.973	0.998	1.009	1.000	1.064	1.189	1.185	1.132	1.051	1.083	1.067
Goods FOB	0.195	0.244	0.765	0.971	0.995	1.001	1.000	1.068	1.192	1.189	1.135	1.052	1.084	1.068
Domestic exports	0.195	0.244	0.765	0.971	0.995	1.001	1.000	1.068	1.192	1.189	1.135	1.052	1.084	1.068
Re-exports	-	-	0.765	0.971	0.995	1.001	1.000	1.068	1.192	1.189	1.135	1.052	1.084	1.068
NFS	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065
Imports of Goods & NFS	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065
Goods FOB	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065
Retained imports	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065
Re-exports	-	-	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065
NFS	0.211	0.253	0.730	1.004	1.011	1.028	1.000	1.051	1.167	1.163	1.113	1.049	1.079	1.065
GDP	0.175	0.225	0.587	0.713	0.806	0.879	1.000	1.078	1.221	1.218	1.172	1.052	1.079	1.060

Sources: Collated by CDR from World Bank, IMF and Cambodian government data

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CAMBODIA'S ANNUAL ECONOMIC REVIEW—2001

Cambodia has undergone dramatic changes in the last ten years. Most significant among these are the transition from a centrally-planned to a market economy, from a one-party state to a democratic system of governance, and, more recently, the transition from a country in conflict to one which finally enjoys peace. However, despite these, and many other positive strides, Cambodia still faces significant problems: high levels of poverty, low levels of literacy, increasing landlessness, insufficient revenues to meet the government's budget and consequent reliance on foreign aid.

In order to understand and develop solutions to Cambodia's current problems and those that may arise in future, as well as maintain the momentum of reforms already underway, the government, civil society groups, donors and the private sector all require relevant, current and accurate data on key economic, business and social variables.

As part of its long-standing commitment to fostering Cambodia's economic and social development, CDRI has now launched a new series titled *Cambodia's Annual Economic Review*, which begins with this issue. This series is intended to meet the need for information on, and in-depth analysis of, Cambodia's annual economic performance, plus provide profiles of important sectors of the economy.

This volume of the *Review* assesses the overall economic performance since 1993, the year of Cambodia's first democratic election in recent times. In addition to discussing the country's economic successes, and how the economy has fared in the face of serious external and internal crises, the *Review* discusses the ongoing challenges facing the economy and how economic performance might be improved. It then presents detailed data and analysis on three major sectors of the economy—agricultural marketing and two industries that developed in the 1990s—garment manufacturing and tourism. This first edition of *Cambodia's Annual Economic Review* also contains a compendium of tables on the Cambodian economy for each year of the 1990s, as well as for the years 1960 and 1970, which have been included for comparison.

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

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