

Cambodia Development Resource Institute

COPING WITH THE CURRENT CRISIS:

A Survey of Five Phnom Penh Markets, 15-17 July 1997

SPECIAL REPORT

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Summary of Findings

This CDRI special report assesses the economic impact of the current crisis in Cambodia precipitated by the two days of intra-government fighting on July 5/6, 1997. The study focuses particularly on the effects the recent events have had on market prices and on the volume of goods and services considered essential for people's daily life in Cambodia. The data in this report are based on a market survey undertaken in five major markets of Phnom Penh from July 15-17, ten days after the fighting.

The main findings of the survey are as follows:

- The prices of some items, such as rice and gasoline, appear to have soared during the two days of July 5/6. Consumers' expectation of supply shortage may explain the price surge of these items at this time. In the 10 days after the July 5/6 incidents the prices of rice and gasoline gradually decreased. However, the levels at July 15-17 were still higher than those before July 5/6. The prices of other essential food items especially those produced domestically such as vegetables, fish, and pork kept stable at more or less pre-July 5/6 levels.
- Overall price levels measured by the consumer price index have increased 3.8 percentage points from June to July 15-17. This is high for a half-month inflation rate. Our survey, however, found some evidence to support the argument that high inflation triggered by the July 5/6 events may be temporary, and therefore not likely to persist over an extended time.
- The survey points to a sharp reduction in the demand for goods and services after July 5/6. A majority of the vendors interviewed reported that their customers and sales had dropped by half, or more, since July 5/6. This led them to express concern about the current and future state of their businesses and livelihoods.

In short, the study indicates that inflation *per se* may not necessarily be a serious problem for the Cambodian economy in the current circumstances. It raises, however, the likelihood that the sharp reduction in market transactions after July 5/6 could cause a recession in Cambodia. A recession would affect people's livelihoods severely. The government urgently needs to ensure the safety and security of all citizens in Cambodia. Only then will the situation normalize and revitalize businesses and economic activities to prevent a recession from setting in.

* Members of the research team for the current project are Long Vou Piseth, Be Kalyanna, Chan Sophal, and Toshi Kato. The authors would like to thank their colleagues at CDRI, from whom they received useful comments, suggestions, and support in the preparation of this report.

The Khmer version of this report is available upon request from Ms. Be Kalyanna or Mr. Eng Po, Documentation and Information Resource Center at CDRI.

A Detailed Look At the Market Survey

1. Survey method

The market survey was conducted from July 15 to 17 at five major Phnom Penh markets. The markets were Olympic, Psah Thmey (Central), Toul Tompong (Russian), Orasey, and Chbar Ampeou (near Monivong bridge). The survey included two sets of data collection: (1) market prices; and (2) volume of market transaction.

Market prices

Market prices were collected for twenty items which were deemed essential for daily life in Cambodia. The items included basic food, clothing, personal care products, and services such as transportation and energy.¹ A Consumer Price Index (CPI) was then constructed to observe overall price levels.² Four samples were collected for every item in each of the five markets. The total number of samples for every item, where it was available, was thus twenty.

Volume of market transaction

While data on the volume of market transactions provide important information for assessing market demand and supply, they are usually not available immediately. Conducting interviews with venders is an alternative, and useful, approach to assess the volume of transactions in an indirect way. Venders of various types in the five different markets were selected and interviewed for this purpose. In our questionnaire venders were asked whether, and to what extent, the number of their customers, the amount of their sales, and the extent of their earnings had changed after the July 5/6 events. Efforts were also made in our interviews to draw qualitative information from the venders which were related to their businesses and livelihoods. About fifty venders responded to the questions that we asked.

2. Observations and analysis

Market prices of essential items

With respect to the twenty essential items in our survey, market prices of rice, gasoline, MSG, and moto fare increased more after July 5/6 than did the prices of other items (see charts 1-4). For instance, the price of rice increased from 1041 riels/kg in June to 1172 riels/kg between July 15-17. One rice vender reported that the rice price soared to 1700 riels/kg during July 5-6. This indicates that the rice price increased sharply in the midst of the fighting, then decreased gradually over the next ten day period. Consumers' expectation of supply shortage may explain the temporary surge in rice prices during July 5/6. Gasoline prices also appear to have taken a similar path during and after July 5/6. Anecdotal evidence indicates that gasoline prices were five times higher during the two

¹ Twenty items were chosen from The Bulletin of Consumer Price Index, published by the National Institute of Statistics (NIS) of the Ministry of Planning. The NIS collects 206 items for the construction of CPI. See table 1 for details about the name, type, and unit of each item.

² Expenditure weights and base year prices of each item were also taken from The Bulletin of Consumer Price Index published by the NIS. Original data for the expenditure weights come from The Socio-Economic Survey: 1993-1994, from the NIS.

days of fighting than before. Although these prices declined, gasoline prices in riels remained higher than pre-fighting levels over the next 10 days. This may be partly a reflection of the depreciation of Cambodian riels against the US dollar after July 5/6 (see chart 12 for the recent fluctuation of foreign exchange rate). The rise in moto fares may be due to the increase of the gasoline price. Some grocery venders said that certain imported foods such as instant noodles and canned goods became more expensive after the military confrontation.

In contrast to the items mentioned above, prices of vegetables (cucumbers, trakun or watercress), pork, sarongs, and toilet/bath soap did not appear to have been much influenced by the fighting (charts 5-8). Sarongs are a durable consumption good which can be stored or its purchase postponed. Our survey found that sarongs and cloth sellers are apparently among those who were most severely affected by the sharp reduction of demand.

Overall price levels measured by consumer price index (CPI) are illustrated in chart 9. Our survey found that the inflation rate in the half month from June to July 15-17 was around 3.8 per cent. This high inflation rate is a reflection of the price surge of certain items such as rice and gasoline. Will this high inflation persist into the future? Our findings indicate some evidence to support the argument that the high inflation rate following the two days of July 5/6 may be temporary and therefore will not persist for a long time. For instance, it was found that the prices of items, such as rice and gasoline, have come down already from where they were at the peak of the crisis period. In addition, demand for goods and services appears to be much weaker than it was before. The implications of this will be discussed in the next section. Thus demand-pull inflation is unlikely to set in. Furthermore, few indications of immediate supply shortages on certain items were found during our interviews in the Phnom Penh markets.

Nevertheless, we cannot totally exclude the possibility that inflation could be re-ignited. Inflationary pressure will be stronger on imported goods if the exchange rate of riels against the US dollars continues to depreciate in the future (see chart 12). Also there might be a risk of inflation caused by the monetary financing of the national deficit, if international assistance support for the national budget is withdrawn from Cambodia. These factors are crucial for predicting future trends, but are as yet unclear under the current economic and political circumstances in Cambodia.

Volume of market transactions

Questionnaire findings on the volume of market transactions are illustrated in charts 10-11. A total 91 per cent of venders interviewed reported that the amount of their sales decreased after the July 5/6 (chart 10). Furthermore, a majority of venders said that the number of customers and the amount of sales had fallen by 50 per cent or more since July 5/6 (table 2). Thus it seems reasonable to infer that the volume of market transactions has declined sharply since July 5/6.

Venders interviewed gave several explanations why their customers and sales dropped sharply after the two days of fighting. (Note: the reasons are not given in order of importance). First, many of their customers built up stocks of food at home as the potential for intra-government confrontation intensified. Thus they did not have to come to the market until they had used up their stocks. Second, the number of regular retailers buying goods in Phnom Penh from provincial areas had declined since July 5/6. One of wholesalers speculated that the fear created by the lack of security and safety during the fighting had not totally disappeared as yet. Third, a considerable number of restaurants in and around Phnom Penh were either still closed or opened only during the daytime due to safety reasons. Thus, demand by restaurants for food and cooking items had

declined significantly. Finally, the evacuation of many foreigners from Cambodia reduced the demand for food, gifts, clothing, etc. The sudden decline of tourists also affected tourism industries such as restaurants, gift shops, and hotels.

Chart 11 illustrates the earning situations of venders in five major markets in Phnom Penh. A total 87 per cent of the venders interviewed said that they had not been able to earn enough money since July 5/6 to support their businesses and livelihoods. Many venders expressed concern about the shortage of their earnings if the current weak market demand continued for a long time into the future. A considerable number of venders mentioned that their earnings since July 5/6 could not even cover rents and fees to keep their shops opened at the markets. Some venders selling sarongs and clothing said that they had to cut their retail prices below wholesale prices, because of their need to buy food and household items. Some venders complained that their profit margins had become very thin, as wholesalers charged higher prices than before. According to them, wholesalers now charged higher prices in riels or preferred payment in US dollars, because fuel costs for transportation in riels and the price of imported goods had increased due to the depreciation of the riel since July 5/6 (chart 12). Wholesalers maintained that illegal collectors of money along the roads to the city had been charging higher prices for passage than before, which increased the costs of their wholesale prices.

3. Assessing the impact on people's livelihood

The data generated in our market survey has shown that the intra-government fighting that took place on July 5/6 has had an impact on both market prices and the volume of transactions in five major markets in Phnom Penh. Still it seems reasonable to infer from our survey that inflation *per se* may not necessarily be a serious problem under the current circumstances. Our study, however, does raise a concern over the reduction of market transactions since the July 5/6 incidents. If the current situation continues into the future, it may potentially lead the Cambodian economy into a recession.

If a recession sets in it will affect people's livelihood severely. While the reduction of market transactions initially decreases the earnings of retailers, this is not the only consequence. The initial impact will be transmitted to other people's livelihood through a chain of market transactions. For instance, the reduction of retail sales will cut back the demand for wholesale goods, services, and various other inputs, which are used for the provision of goods and services at retail levels. People involved in those input sectors will then lose their income and job opportunities, which will subsequently reduce their demand for final goods and services. This will again reduce the sales of retailers in the markets. Private companies may also put off their plans for investment if faced with the reduction of demand for their products. This will narrow the scope for opportunities for people to generate income and to find new jobs. Thus, the recession will affect not only venders at the markets but the livelihoods of a large number of other people as well.

Chart 1: Rice Quality #1 Price, January - July 1997

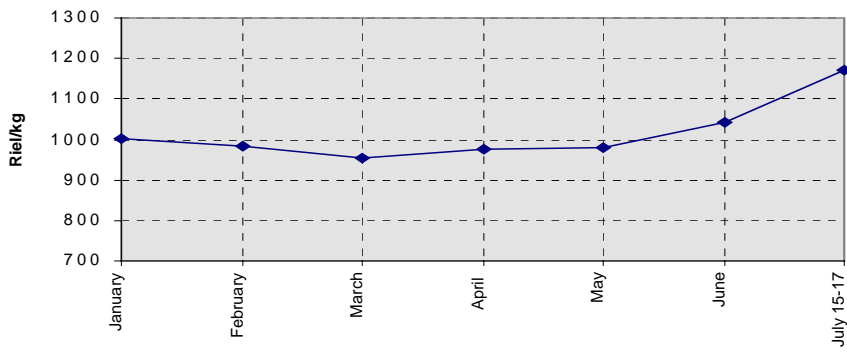


Chart 2: Gasoline Price, January - July 1997

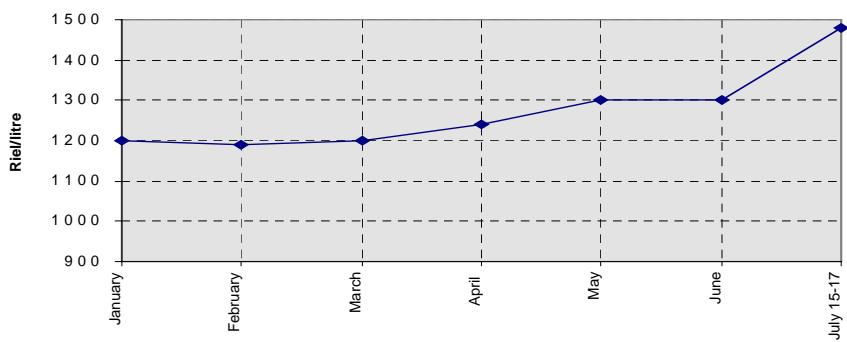
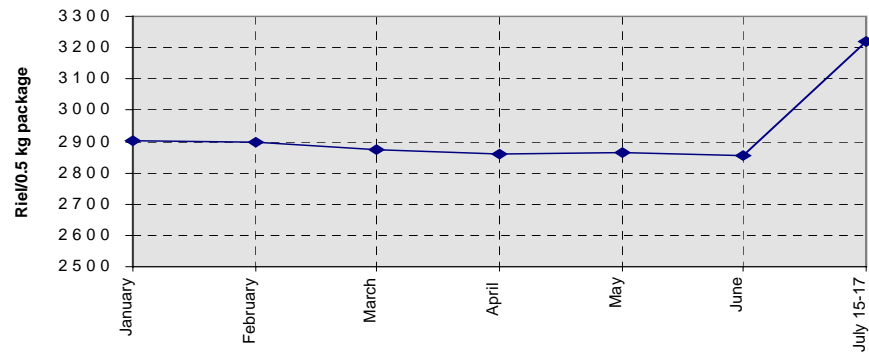
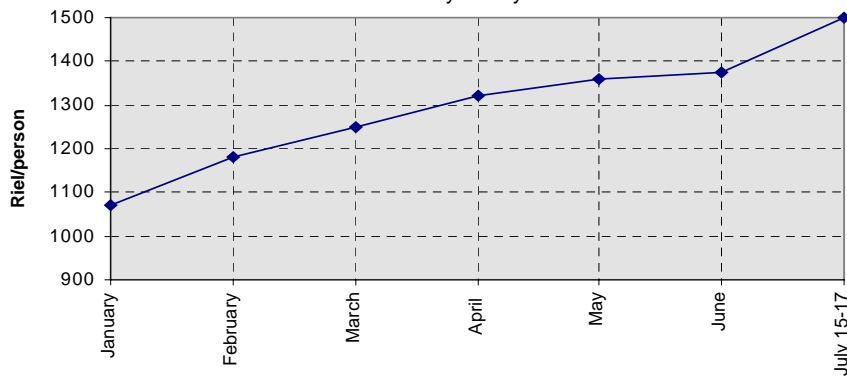
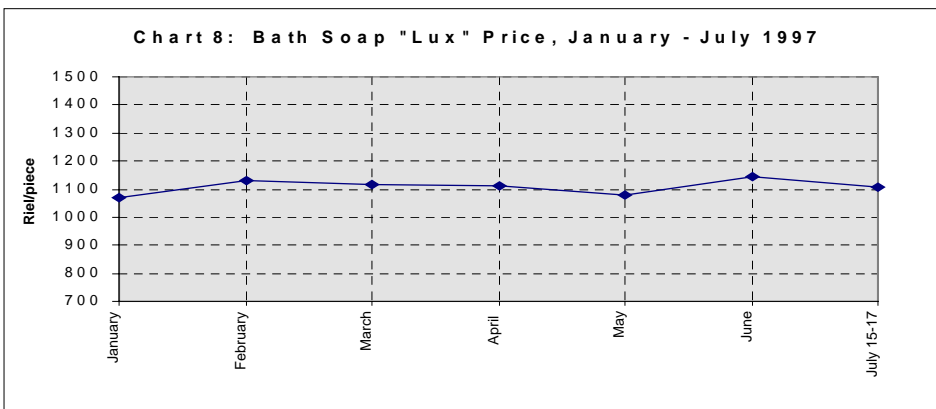
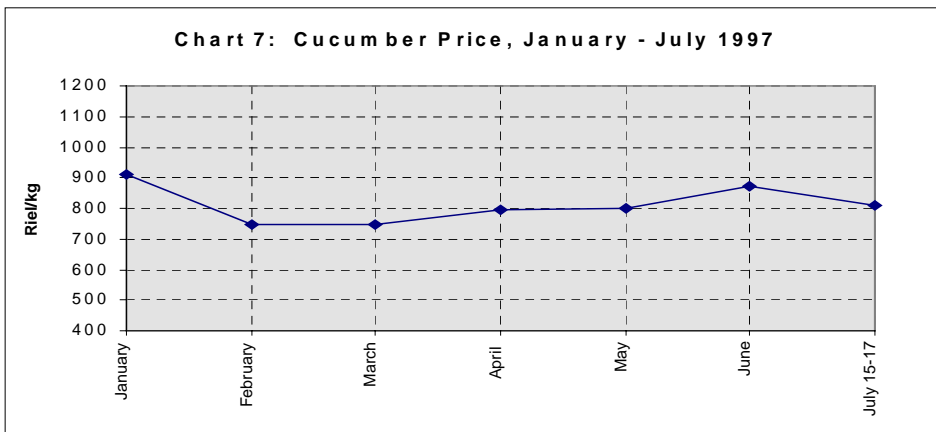
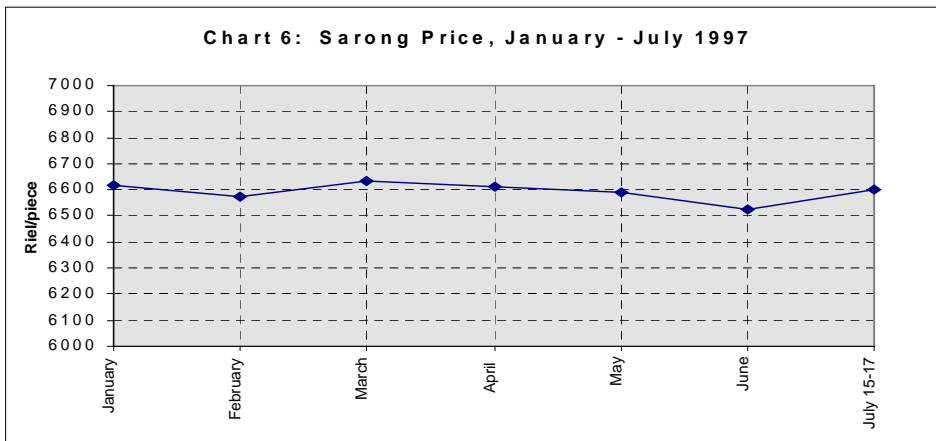
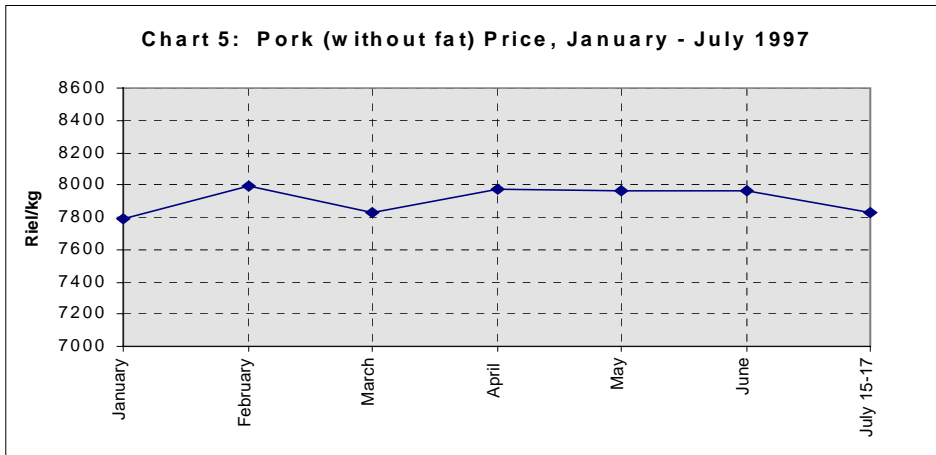


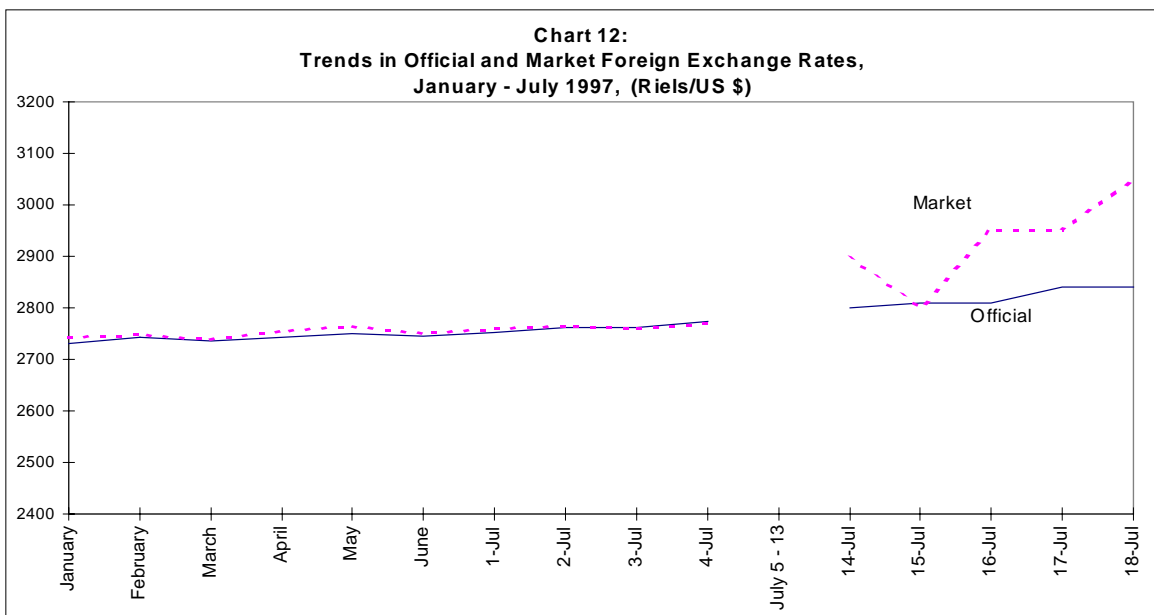
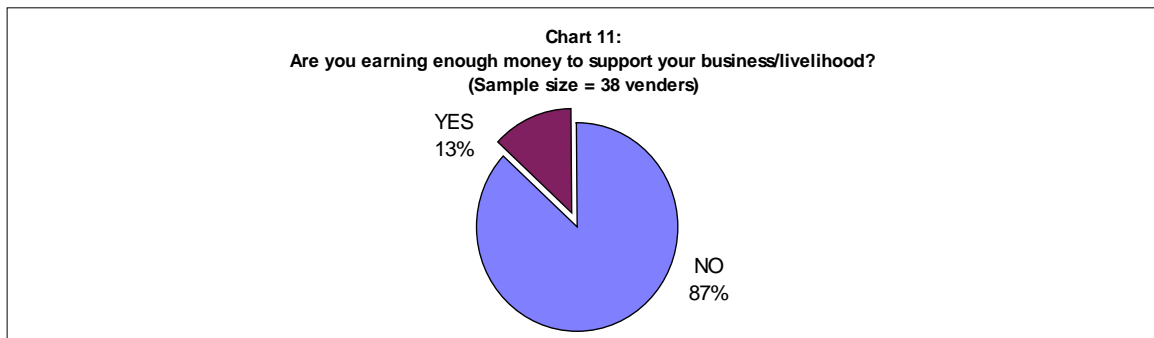
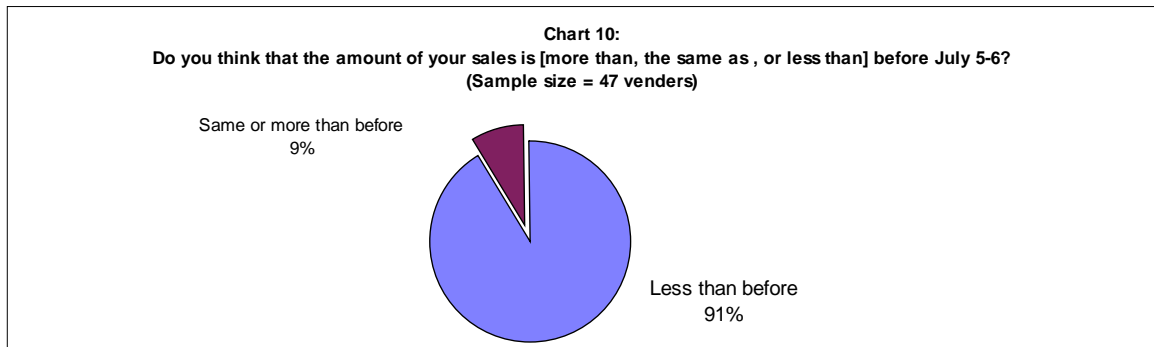
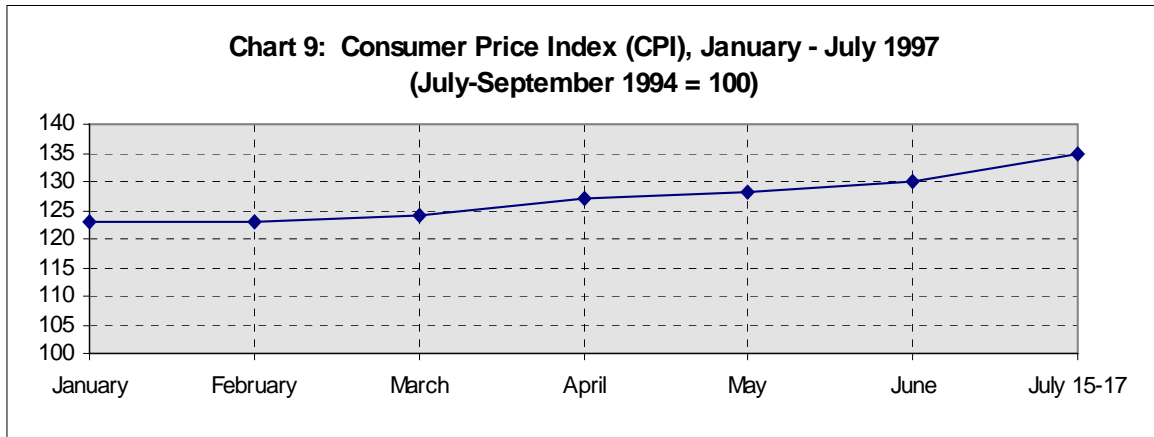
Chart 3: Monosodium Glutamate Price, January - July 1997



**Chart 4: Moto Fare from Phsar Thmey to Phsar Chbar Ampeou
January - July 1997**







Data: The National Bank of Cambodia and Business News. Data is not available from July 5 to July 13.

**Table 1: Current Price of Essential Items and Consumer Price Index
in Five Major Markets in Phnom Penh, January - July 1997**

(Riels)

<i>Items</i>	<i>Unit</i>	<i>January</i>	<i>February</i>	<i>March</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July 15-17</i>
(1) Rice, quality #1	kg	1,002	982	955	975	980	1,041	1,172
(2) Pork, without fat	kg	7,790	7,990	7,827	7,970	7,965	7,960	7,830
(3) Beef, #1	kg	6,540	6,445	6,520	6,690	6,845	6,880	8,075
(4) Mud fish	kg/big	5,112	4,950	5,037	5,110	4,875	4,965	5,214
(5) Chicken egg	piece	225	212	212	217	207	209	172
(6) Duck egg	piece	265	285	275	290	262	280	256
(7) Trakun	kg	860	810	825	812	830	815	816
(8) Cabbage	kg	1,405	960	925	990	1,010	1,290	1,185
(9) Cucumbers	kg/medium	910	745	747	795	800	872	810
(10) Banana	hand/medium	910	975	950	960	975	950	818
(11) Brown sugar	kg	1,300	1,185	1,202	1,210	1,215	1,305	1,242
(12) Monosodium (MSG)	0.5kg pack	2,902	2,900	2,875	2,860	2,865	2,857	3,220
(13) Soy sauce	500ml bottle	1,077	1,075	1,050	1,030	1,045	1,045	1,270
(14) Fish sauce	750ml bottle	1,240	1,255	1,285	1,275	1,280	1,257	1,415
(15) Sarong	piece; Thai	6,620	6,575	6,635	6,610	6,590	6,525	6,603
(16) Kerosene	liter	845	865	855	915	935	940	1,100
(17) Charcoal	kg	470	470	505	500	500	510	413
(18) Gasoline	liter	1,200	1,190	1,200	1,240	1,300	1,300	1,480
(19) Motorcycle fare *	passenger	1,070	1,180	1,250	1,320	1,360	1,375	1,500
(20) Toilet/bath soap lux	cake/big	1,070	1,130	1,115	1,110	1,080	1,145	1,105
CPI (July-September 1994=100)		123	123	124	127	128	130	135
Inflation			0	0.8	2.4	0.8	1.6	3.8

* Between Phsar Thmey and Phsar Chbar Ampeou.

Data from our survey from July 15 to 17 are shown together with January - June data from various issues of The Bulletin of Consumer Price Index published by the National Institute of Statistics of the Ministry of Planning.

**Table 2. Summary of Questions/Answers to Venders in Five Major Markets in Phnom Penh
July 15-17, 1997**

Questions to venders

*Q1. Do you think that the number of your customers is [more than, the same as, or less than] that before July 5/6?
What percentage of the pre-July 5/6 level?*

*Q2. Do you think that the amount of your sales is [more than, the same as, or less than] that before July 5/6?
What percentage of the pre-July 5/6 level?*

Q3. Are you earning enough money to support your business/livelihood? Yes or No.

Market	Vender Number Type	Q1: The number of customers		Q2: The amount of sales		Q3: Enough income
		0: Same or more; 1: Less	Percent	0: Same or more; 1: Less	Percent	0: Yes; 1: No
Olympic	1 Grocery	1	60	1	30	1
	2 Gold	1	60	1		1
	3 Sarong	1	10	1		1
	4 Gold	1	50	1	50	1
	5 Grocery	1	30	1		1
	6 Charcoal	1	40	1		
	7 Vegetable	1		1		
	8 Rice	0		0		
	9 Meat	1		1	80	
Thmey	1 Sarong	1	20	1	20	1
	2 Grocery & chemist	1	10	1	20	1
	3 Chemist	1	40	1	30	1
	4 Secondhand cloth	1	50	1	50	1
	5 Shoe	1	30	1	15	1
	6 Vegetable	1	50	1	50	1
	7 Grocery	1	40	1	30	1
	8 Rice	1	20	1		
Tuol Tompong	1 Shoe/footware	1	50			
	2 Sarong	1	10	1	10	1
	3 Sculpture/guift	1	0	1	0	1
	4 Money exchange	0		0		
	5 Fruit/banana	1	50	1	50	0
	6 Chemist	1	30	1	30	1
	7 Grocery & chemist	1	50	1	40	1
	8 Vegetable	1	50	1		0
	9 Meat	1	40	1	40	1
	10 Meat	1	50	1	50	1
	11 Grocery(kitchen ware)	1	0	1	0	0
Orasey	1 Gold/jewery	1	40	1	40	1
	2 Gold/jewery	1	20	1	15	1
	3 Chemist	1	30	1	30	1
	4 Sarong	1	30	1	30	1
	5 Sarong	1	20	1	20	1
	6 Grocery	1	30	1	30	
	7 Grocery	0		0		1
	8 Chemist	1	10	1	10	1
	9 Cloth	1	10	1		1
Chba ampeou	1 Gold	1	15	1	20	1
	2 Chemist	1	30	1	30	1
	3 Cloth	1	10	1	10	1
	4 Sarong	1	5	1	5	0
	5 Grocery	1	50	1	50	1
	6 Chemist	1	50	1	50	1
	7 Stationary	1		1		
	8 Candle	0		0		0
	9 Plastic container/spoon	1	10	1	10	1
	10 Garlic wholesale	1		1		