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Special Event on Commodity Dependence and the Impact of the Multiple Global Crises on LDCs: Mapping the exposure to market volatility and building resilience to future crises

Case study on Cambodia[1]

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Contents

List of Tables

List of Figures

List of Acronym

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CDC	Council for Development of Cambodia
CDRI	Cambodia Development Resource Institute
CEA	Cambodian Economic Association
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
GDP	Gross Domestic Product
GFC	Global Financial Crisis
I-O	Input-Output
MFI	Microfinance Institution
NBC	National Bank of Cambodia
NGO	Non-governmental Organization
SSI	Semi-Structured Interview
VAT	Value-Added Tax
WB	World Bank
WFP	World Food Program
UNCTAD	United Nations Conference on Trade and Development

1. Introduction

Cambodia was hit by two external shocks during the past decade: the rising food prices and the global financial crisis. The considerable increase in food prices squeezed the welfare of households who are net-producers of food across Cambodia in the last quarter of 2007 and the third quarter of 2008. Not long after, the global financial crisis (GFC), started in the US in late 2007, spread its effect to Cambodia's economy which is highly open and heavily rely on external factors, including garment exports to the US and EU markets and on tourism receipts. It should be noted that Cambodia was able to be insulated from the first-round effects of the GFC due to lack of exposure to the toxic sub-prime transactions that triggered the flare-up in the financial systems of industrialised economies and the stocking up on international reserves which enabled the country to shield against the crisis' contagions. However, the country could no longer escape the shock when the financial crisis spilled into the real economy in 2009. The GFC exposed the poor to even more risk. The Cambodian poor have the most to lose and were forced to tap on the limited range of coping mechanisms available to them. Government responses sought to prevent the worsening of poverty by tempering the distress in the growth and financial sectors and discharging automatic stabilisers.

This report collates and integrates the findings of the studies on the effect of the food and economic shocks in Cambodia mostly authored by CDRI staffs. It looks at the interplay of the effects of the food crisis and GFC, food security, and agriculture in Cambodia. Specifically, the study attempts to investigate the impact of the GFC on Cambodia's macroeconomic performance, agricultural crop production, the poor and vulnerable group and discusses the coping strategies adopted by Cambodian households and the policies responded by the government. The assessments are mostly based on secondary data analysis and some previous studies focusing on the household level.

2. Impact on Macro-economic Performance

2.1 GDP and Sectoral Growth

It is not uncommon to attribute the slowdown of Gross Domestic Product (GDP) and its sectoral components to the GFC. The effect of GFC can be estimated by asking: if the GFC had not occurred, what would have been the performance of the Cambodian economy? Would the average GDP growth of 11.1 per cent achieved over 2004-2007 have continued in the succeeding years? In other words, was the growth sustainable? If not (i.e., the comparatively high growth rate was an aberration), the economy would be expected to slide back to its long-term growth path, with or without the shock. The study employs the average value of the previous four years of a concerned variable as a potential (long-term) growth path of the economy. The deviation of concerned variables from their average value in the years after the crisis is assumed to be due to the GFC.

Table 1 shows that the country's economic growth has been slowing since the food price crisis in 2007. The GDP growth has never reached a double digit figure as achieved prior to the crisis specifically from 2004 to 2007. It decelerated to 6.7 per cent in 2008 and as the GFC hit the economy to its fullest extent in 2009, it grew only by 0.1 per cent as compared to the average of 11.1 per cent over 2004-2007. The slowdown of the country's economy after the crisis in 2007 could be mainly reflected by the decline in the industrial sector, particularly the manufacturing sub-sector which is dominated by garments, and the deceleration in the services sector. To detect the crisis' hit on the economy, it is necessary to examine how much growth each sector and some main sub-sectors achieved, how their structures and contributions to overall GDP growth changed before and after the crisis.

Cambodia's agriculture sector comprises crops, livestock, fisheries and forestry. This sector seems to be the least affected by the crisis among the three sectors. After the crises, the sector continued to grow steadily albeit at slightly lower rate. The real value added of this sector expanded by 5.7 per cent and 5.4 per cent respectively in 2008 and 2009, decelerating from 6.2 per cent of the average years before the crises (Table 1). The sector contributed 1.5 percentage points and 1.4 percentage points to overall GDP growth of the respective years compared to the average of 1.8 percentage points over 2004-2007 (Table 1). The share of the agriculture sector in the country's GDP shrank in the immediate year following the crisis but then expanded slightly afterward. This share is on the downward trend reflecting the expansion of industry and service sectors over the past decade (Phim et al 2007). In general, agriculture sector growth chiefly comes from the growth in crop and fishery subsectors. However, it should be noted that crop production remained highly reliant on adequate rainfall and susceptible to adverse weather, such as drought and flood.

The industry sector includes mining, manufacturing, electricity gas and water, and construction. This sector had performed remarkably well until it was badly hit by the crises. The growth of this sector decelerated considerably in 2008 and then fell down dramatically in 2009 when the economy went into deep recession (Table 1). The main drivers of the sector's growth, namely the manufacturing subsector, which is led by the garment industry, suffered greatly from external shocks. The manufacturing subsector dramatically decreased particularly in 2009 after enjoying high growth in the past as investors started to take advantage of the country's then favourable access to the US and

EU markets. Construction, which is another significant industry subsector, was also affected as the growth rate of this subsector dropped to around 5-6 per cent after the crises from an average growth of 15.9 per cent over 2004-2007. It is worth noting that Cambodia has not yet been able to reap full benefit from the garment industry since inputs are mostly imported from other countries and the industry's activities involve merely cutting and making yarns and fabrics into finished products where value-added and profit margins are relatively low . Domestic supply of such inputs would not only result in more jobs and value-addition for the economy but also may help make Cambodian garment products more competitive.

Table 1: GDP and its Sectoral Performance over 2004-2009

Sectors and Subsectors	Growth Rate			As Share of GDP			Contribution to Growth		
	Avr 2004-2007	2008	2009	Avr 2004-2007	2008	2009	Avr 2004-2007	2008	2009
Agriculture, Fishery & Forestry	6.2%	5.7%	5.4%	28.2%	26.5%	27.9%	1.8%	1.5%	1.4%
Crops	9.2%	6.6%	5.8%	14.1%	14.0%	14.8%	1.3%	0.9%	0.8%
Livestock & Poultry	5.3%	3.8%	5.0%	4.5%	4.1%	4.3%	0.3%	0.2%	0.2%
Fisheries	2.1%	6.5%	6.0%	7.5%	6.6%	7.0%	0.2%	0.4%	0.4%
Forestry & Logging	3.5%	0.9%	1.1%	2.1%	1.8%	1.8%	0.1%	0.0%	0.0%
Industry	13.9%	4.0%	-9.5%	27.6%	27.5%	24.8%	3.7%	1.1%	-2.6%
Mining	18.3%	15.8%	20.0%	0.4%	0.4%	0.5%	0.1%	0.1%	0.1%
Manufacturing	13.4%	3.1%	-15.5%	20.3%	19.8%	16.7%	2.6%	0.6%	-3.1%
Electricity, Gas & Water	16.4%	8.5%	8.5%	0.5%	0.6%	0.6%	0.1%	0.0%	0.0%
Construction	15.3%	5.8%	5.0%	6.5%	6.6%	6.9%	0.9%	0.4%	0.3%
Services	11.6%	9.0%	2.3%	38.4%	39.1%	40.0%	4.5%	3.5%	0.9%
Trade	7.7%	9.4%	4.2%	8.6%	8.6%	8.9%	0.7%	0.8%	0.4%
Hotel & Restaurants	17.3%	9.8%	1.8%	4.3%	4.6%	4.7%	0.7%	0.4%	0.1%
Transport & Communications	8.3%	7.1%	3.9%	6.5%	6.1%	6.3%	0.6%	0.4%	0.2%
Finance	21.5%	19.2%	8.0%	1.2%	1.6%	1.7%	0.2%	0.3%	0.1%
Public Administration	-0.6%	4.5%	1.0%	1.4%	1.2%	1.2%	0.0%	0.1%	0.0%
Real Estate & Business	12.3%	5.0%	-2.5%	7.7%	7.5%	7.3%	0.9%	0.4%	-0.2%
Other services	16.4%	12.0%	2.9%	8.7%	9.6%	9.8%	1.3%	1.1%	0.3%
Taxes on Products less Subsidies	20.7%	9.1%	6.1%	6.7%	8.2%	8.6%	1.3%	0.7%	0.5%
Less: Subsidies	-11.1%	1.5%	1.9%	0.3%	0.1%	0.1%	0.0%	0.0%	0.0%
Less: Finance Service Charge	17.3%	14.0%	12.0%	1.0%	1.2%	1.3%	0.2%	0.2%	0.1%
Total GDP	11.1%	6.7%	0.1%	100.0%	100.0%	100.0%	11.1%	6.7%	0.1%

Source: Ministry of Economy and Finance

The service sector, as the previous two sectors, was not left unaffected by the crises. The growth of real gross value added for the sector lost momentum during the post-crises period and especially in 2009 (Table 1). The real estate subsector which had been growing really fast prior to the crisis, seemed to be most affected as it registered a -2.5 per cent growth in 2009 while other sub-sectors still continued to expand albeit only marginally. The drop in real estate well reflected the high dependency of the subsector on foreign direct investment (FDI). It is worth noting that tourism, which also underpins the services sector, does not have strong forward and backward linkages to other sub-sectors. For instance, despite strong growth in tourism, local agricultural produce is not being used very much in restaurants as the supply is irregular and the quality is erratic.

A CDRI case study on the linkage between tourism and poverty reduction found that the boom in the tourism industry in Siem Reap had little impact on poverty reduction in the villages in the province, which surprisingly stood as the third poorest in the country. Contributions to the villages came mainly from the construction boom in hotels and houses rather than the services catering for tourists. There are opportunities and ongoing efforts by NGOs and donors to strengthen the linkages between tourism related industries and the agriculture sector for example, by encouraging regular local supply of high quality food. The results remain to be seen. The beneficiaries of tourism expansion then will not be just the transportation and communications and hotel and restaurant sub-sectors but will also include retail trade and finance and the economy at large.

Table 2: Backward and Forward Linkages with Import Endogenous Model

Industry	Backward Linkage			Forward Linkage		
	Effect	Cofficient	Rank	Effect	Cofficient	Rank
Paddy	1.958	0.626	16	2.337	0.748	10
Other Crops	1.562	0.500	19	1.067	0.341	20
Livestock	1.516	0.485	20	1.115	0.357	18
Forestry	1.005	0.321	22	2.861	0.915	7
Fishery	1.147	0.367	21	1.067	0.341	19
Mining	3.775	1.208	5	1.673	0.535	11
Food, Beverage & Tobacco	3.173	1.015	13	2.482	0.794	9
Textile & Garment	3.613	1.156	8	8.798	2.815	2
Wood, Paper & Publishing	2.176	0.696	15	1.208	0.386	17
Chemical, Rubber & Plastic	3.646	1.167	7	3.226	1.032	6
Non Metallic Mineral	3.181	1.018	12	1.572	0.503	14
Basic Metals	5.817	1.861	2	8.668	2.773	3
Other Manufacturing	5.436	1.739	3	14.433	4.617	1
Electricity & Water	6.504	2.081	1	3.285	1.051	5
Construction	3.344	1.070	11	1.445	0.462	16
Trade	1.887	0.604	18	3.939	1.260	4
Transport & Communication	3.693	1.181	6	2.664	0.852	8
Hotel & Restaurants	1.916	0.613	17	1.026	0.328	21
Finance	3.465	1.108	10	1.646	0.527	13
Real Estate & Business	3.977	1.272	4	1.571	0.503	15
Public Administration	3.504	1.121	9	1.017	0.325	22
Other Services	2.472	0.791	14	1.665	0.533	12
Average	**3.126**	**1.000**		**3.126**	**1.000**	

Source: Author's calculation based on 2008 Cambodia's I-O table

Given the high GDP growth per capita in Cambodia in recent years, the current pace of poverty reduction can be considered slow. This can be explained by the poor linkages between industries in the economy. Table 2 shows that the backward linkages between the country's main drivers of growth namely textile and garment, hotel and restaurant, and construction with other industries are relatively weak. The narrow sources of GDP growth (garments, tourism and construction) and poor backward linkages has meant that benefits of growth percolate down to the poor only slowly.

2.2. Foreign Trade

2.2.1. Export

According to data released by the Asian Development Bank (ADB) (Table 3), Cambodia's export performance weakened by about 5 per cent when the country was hit by the global financial crisis in 2009. Overall trade value declined only to US$4,023 million, falling from US$4,253 million in the previous year. Detailed breakdown of the data by export commodity for 2009 is not yet available but Cambodian export has been known to be dominated by textiles and clothing while agricultural export historically constitutes only a modest share of the total export. Special attention should be given to enhancing agricultural export sectors if the export sector is to further contribute to poverty reduction in Cambodia. By country of destination, the US remains the largest market for Cambodia's exports, absorbing almost half of total exports, followed by Singapore, Germany, UK, and Canada (Table 9). It should be noted that exports to the US and Germany's markets in 2009 dropped substantially compared to a year earlier; however, this was partly offset by the surge in exports to UK, Singapore and Japan. Diversification of export destination is not only crucial for promoting exports per se, but it also helps mitigate risks associated with each destination country.

The contraction in export is primarily explained by the decline of Cambodia's textiles and cloth trade to its leading export markets, namely US and EU, alongside the reduction in garment export prices. Cambodia's agricultural export crops, rubber and cassava, have had their share of cutback in external demand and export prices following the plunge in related industrial production and world commodity prices across the board (FAO 2009a). At least the price of Cambodian rubber exports, however, has seen recent rebound after dipping to a historic low of about US$1,400 per tonne early this year. Generally pro-cyclical in nature, demand for rubber, including that produced in Cambodia, has recently picked up presumably on the back of renewed global industrial production and sales, stock build-ups, and expectations of earlier and stable world recovery. Unlike other exportable crops, rice exports meanwhile have by and large been able to buck the impact of the price shocks. While international rice prices in general have remained higher than their previous levels, they too weakened together with other commodity prices (FAO 2009b). The lowering of prices and reserve build-ups have bolstered rice imports while competitive prices, bumper crops, favourable rainfall patterns and government support have galvanized supply. Cambodian rice may not be able to reach its export potential however this year or in the immediate years to come given a host of reasons including lack of capital investments. While Thai rice has seen a slip in price competitiveness, other rice exporters, particularly Vietnam, have proven to be fierce competitors as evidenced for instance by their penetration into the Philippines rice import market, the world's biggest, which is something that Cambodia still has not been able to secure.

2.2.2. Import

Cambodia's imports decreased sharply to US$6,987 million in 2009 from US$8,213 million in 2008 (Table 9). Similar to the case of exports above, official import data breakdown by commodity has not yet been made available. However, Cambodia's main import items include petroleum products, cigarettes, and steel and cement. In the absence of domestic supply due to lack of backward linkages, the imports of these product categories, which are mostly from China and Hong Kong, were used as inputs in garment production. This resulted in low local content in garment production. Effort has been made to encourage the development of import substitution in a number of industries including paper and chemical industries, such as the production of fertilisers and acid, as well as daily consumption goods such as soap, paint, electrical appliances, water pumps and agricultural inputs as reflected in Cambodia's industrial policy.

Countries in the Association of Southeast Asian Nations (ASEAN) plus three countries in East Asia, namely China, South Korea and Hong Kong (China) are the major sources of Cambodia's imports. Thailand is the largest exporter to Cambodia, taking 25 per cent of total imports, followed by Vietnam (20 per cent), China (14 per cent), Singapore (11 per cent), Hong Kong (7 per cent), and South Korea (4 per cent). This import structure reflects the increasing scale and scope of trade with countries in the region as a result of economic integration which holds promise for increasing the welfare of each country. Nevertheless, as noted earlier, Cambodia's trade balance has persistently been negative, implying that the country increasingly requires external financing in the form of grants, loans or FDI to deal with the deficit.

The weakening in Cambodia's imports on the other hand was primarily underpinned by the decline in petroleum prices and respite in previously strong domestic appetite for durable imports. Car and motorcycle imports began their sharp declines by about the third quarter of 2008 and this drop continued well into this year. While inflationary pressures have well abated since the recession cooled down, escalating prices consequent of the food and energy crises, uncertain household incomes due to the recession, still higher-than-before petroleum prices, and overall lower level of economic activity, have worked together to bring about lower import growth (Jalilian & Reyes 2010). While the Riel/US dollar exchange rate also exhibited stability over time, with National Bank of Cambodia (NBC) interventions reversing short-term volatilities, there have been short periods of strengthening and weakening of the domestic currency against the dollar over the period of the crisis which have plausibly affected the competitiveness of Cambodian exports and costs of imports (Jalilian & Reyes 2010). In terms of real effective exchange rate, that of the country saw significant appreciation which potentially nipped on the price advantage of exports from Cambodia.

Table 3: Export and Import Value by Source, 2004-2009 (US$ million)

Trade Direction	Value (Million USD)			Share of Total Value			Growth Rate		
	Avr 2004-2007	2008	2009	Avr 2004-2007	2008	2009	Avr 2004-2007	2008	2009
Exports, total	3209.1	4252.8	4022.8	100.0%	100.0%	100.0%	40.7%	4%	-5%
1. United States	1792.3	2314.3	1822.5	55.9%	54.4%	45.3%	77.9%	-2%	-21%
2. Germany	248.6	329.1	302.4	7.7%	7.7%	7.5%	64.9%	10%	-8%
3. Hong Kong, China	276.4	8.7	11.6	8.6%	0.2%	0.3%	-18.2%	-49%	33%
4. United Kingdom	166.0	232.0	284.2	5.2%	5.5%	7.1%	41.1%	10%	22%
5. Canada	126.5	252.1	253.8	3.9%	5.9%	6.3%	178.4%	33%	1%
6. Singapore	73.9	105.5	380.3	2.3%	2.5%	9.5%	-19.4%	38%	260%
7. Viet Nam	87.6	190.9	168.6	2.7%	4.5%	4.2%	15.0%	2%	-12%
8. Spain	66.2	140.5	129.8	2.1%	3.3%	3.2%	183.2%	22%	-8%
9. Japan	62.0	109.6	129.7	1.9%	2.6%	3.2%	92.2%	-13%	18%
10. France	55.2	52.9	52.8	1.7%	1.2%	1.3%	25.3%	4%	0%
Imports, total	3536.1	8212.6	6987.4	100.0%	100.0%	100.0%	51.4%	26%	-15%
1. Thailand	607.0	2221.4	1732.6	17.2%	27.0%	24.8%	66.2%	49%	-22%
2. Viet Nam	441.4	1573.8	1390.1	12.5%	19.2%	19.9%	91.2%	37%	-12%
3. China, People's Republic of	564.6	1204.5	987.7	16.0%	14.7%	14.1%	83.3%	24%	-18%
4. Hong Kong, China	518.8	669.2	517.4	14.7%	8.1%	7.4%	38.0%	-1%	-23%
5. Singapore	229.9	570.9	791.5	6.5%	7.0%	11.3%	48.6%	18%	39%
6. Korea, Republic of	176.5	323.8	286.0	5.0%	3.9%	4.1%	40.3%	5%	-12%
7. Japan	109.0	204.2	123.7	3.1%	2.5%	1.8%	13.5%	66%	-39%
8. Malaysia	101.8	181.5	168.4	2.9%	2.2%	2.4%	31.2%	23%	-7%
9. Indonesia	95.2	191.4	124.5	2.7%	2.3%	1.8%	27.4%	43%	-35%
10. United States	59.4	169.5	139.9	1.7%	2.1%	2.0%	41.6%	11%	-17%

Source: Asian Development Bank 2010

2.3. Investment: Approved and Actual

2.3.1. Approved Foreign Direct Investment (FDI)

New business investment approvals, which hit the highest record in 2008 dropped dramatically in 2009 due to the global financial crisis (Table 4). According to the Council for the Development of Cambodia (CDC), the value of total investment project approvals in 2009 amounted to US$5,612 million in fixed assets, a dramatic fall from US$10,859 million in 2008. While domestic investment slightly decreased by 6.3 per cent, foreign direct investment (FDI) was badly hit by GFC and slumped by 72 per cent over the same period. China remained the top foreign investor, followed by Singapore, Russia, Thailand, and South Korea (Table 4). The CDC statistics also show that investments were mainly registered for tourism, energy, agro-industry, and telecommunications. It is worth noting, however, that not all approved investments have been implemented in the past.

Table 4: Investment Approvals, 2004-2009 (US$ million)

Approved Investment	Value in Million USD			As Share of Total			Growth Rate		
	Avr	2008	2009	Avr	2008	2009	Avr	2008	2009
By Country									
Cambodia	707.8	3887.0	3644.0	33.7%	35.8%	64.9%	66.9%	172.2%	-6.3%
Foreign Investment	1392.3	6973.0	1965.0	66.3%	64.2%	35.0%	107.4%	462.3%	-71.8%
China	356.3	4415.0	828.0	17.0%	40.7%	14.8%			
Russia	69.5	103.0	235.0	3.3%	0.9%	4.2%			
Thailand	87.5	7.0	177.0	4.2%	0.1%	3.2%			
Korea	552.5	1253.0	122.0	26.3%	11.5%	2.2%			
Vietnam	40.8	25.0	116.0	1.9%	0.2%	2.1%			
France	6.0	74.0	81.0	0.3%	0.7%	1.4%			
Taiwan	25.8	17.0	24.0	1.2%	0.2%	0.4%			
Others	238.5	1027.0	35.0	11.4%	9.5%	0.6%			
By Sector									
Agriculture	133.3	65.0	446.0	6.3%	0.6%	7.9%	232.8%	-82.3%	586.2%
Industry	776.0	748.0	1043.0	36.9%	6.9%	18.6%	81.3%	-24.7%	39.4%
Service	1191.5	10046.0	4122.0	56.7%	92.5%	73.4%	69.3%	669.2%	-59.0%
By Subsector									
Tourism	502.3	8284.0	3863.0	23.9%	76.3%	68.8%			
Agro-industry	99.7	82.0	270.0	4.7%	0.8%	4.8%			
Telecommunication	471.0	87.0	235.0	22.4%	0.8%	4.2%			
Other industries	267.0	62.0	208.0	12.7%	0.6%	3.7%			
Agriculture	8.3	13.0	176.0	0.4%	0.1%	3.1%			
Garment	122.0	137.0	88.0	5.8%	1.3%	1.6%			
Food processing	208.0	4.0	32.0	9.9%	0.0%	0.6%			
Shoes	14.0	12.0	25.0	0.7%	0.1%	0.4%			
Hotel	20.0	519.0	17.0	1.0%	4.8%	0.3%			
Others	870.0	1169.0	33.0	41.4%	10.8%	0.6%			
Total	2101.0	10859.0	5612.0	100.0%	100.0%	100.0%			

Source: Data Compiled by CDRI from Council for the Development fo Cambodia (CDC)

2.3.2. Actual Investment

In 2009, the current total value of actual investment added up to US$2,390 million (Table 5). Total investment growth rate for 2009 experienced a whopping decline from 10.2 per cent in 2008 to -4.9 per cent in 2009. From 2004 to 2007, total investment growth rate averaged at 26.9 per cent. According to Table 5, total investment growth started to decelerate in 2008 and experienced negative growth in 2009. While investments in most sectors have dramatically slowed down in 2008 and 2009, it is the decline in investments in the industrial sector which affected total investment growth. Industry contributed a significant 46.4 per cent to the country's total investment in 2009. As seen in Table 5, the investment in industry sector registered a positive growth of 39.4 per cent annually over 2004-2007 and a negative growth -15.1 per cent in 2009. This drastic change mainly reflected the fall in manufacturing investment stemming from the slowdown of the garment industry growth. Investments in the manufacturing sub-sector declined from 61.5 per cent in 2007 to -22.8 per cent in 2009, the average for 2004-2007 being 56.9 per cent.

Table 5: Investment by Sector Before and After GFC, 2004-2009

Actual Investment	Value (Million USD)			% of Total Investment			Growth Rate		
	Avr	2008	2009	Avr	2008	2009	Avr	2008	2009
Agriculture	226	368	377	14.9%	14.6%	15.8%	17.5%	25.3%	2.4%
Crops	186	307	310	12.2%	12.2%	13.0%	18.6%	26.2%	1.1%
Livestock & Poultry	11	18	19	0.8%	0.7%	0.8%	13.4%	22.0%	7.2%
Fisheries	15	23	25	1.0%	0.9%	1.0%	13.1%	23.1%	6.6%
Forestry & Logging	14	20	22	0.9%	0.8%	0.9%	13.5%	16.6%	12.0%
Industry	788	1,307	1,109	48.8%	52.0%	46.4%	39.4%	4.0%	-15.1%
Mining	56	94	62	3.2%	3.7%	2.6%	1762%	-7.8%	-34.1%
Manufacturing	374	607	468	22.7%	24.1%	19.6%	56.9%	-2.8%	-22.8%
Electricity, Gas & Water	104	170	159	6.7%	6.8%	6.7%	28.7%	13.0%	-6.7%
Construction	256	436	420	16.3%	17.4%	17.6%	22.7%	14.6%	-3.7%
Services	552	838	904	36.4%	33.3%	37.8%	17.7%	14.8%	7.9%
Trade	105	147	169	7.1%	5.8%	7.1%	10.4%	16.3%	15.0%
Hotel & Restaurants	80	120	121	5.3%	4.8%	5.1%	28.3%	7.7%	0.6%
Transport & Communications	91	136	156	6.0%	5.4%	6.5%	16.2%	14.1%	14.7%
Finance	13	24	27	0.9%	0.9%	1.1%	19.0%	26.0%	13.3%
Public Administration	110	183	191	7.2%	7.3%	8.0%	15.5%	25.3%	4.4%
Real Estate & Business	99	140	148	6.5%	5.6%	6.2%	23.4%	8.2%	5.9%
Other services	54	89	93	3.4%	3.5%	3.9%	21.4%	12.0%	4.6%
Total	1,566	2,512	2,390	100.0%	100.0%	100.0%	26.9%	10.2%	-4.9%

Source: Ministry of Economy And Finance 2010

2.4. Fiscal and Monetary Development

2.4.1. Fiscal Policy

The Royal Government of Cambodia operated a larger budget deficit in 2009. The overall deficit rose to 2,653 billion Riels, up from 1,198 billion Riels in 2008 and 987 billion Riels in 2007. As a percentage of GDP, the deficit significantly grew to 6.2 per cent in 2009 from an average of 3.1 per cent over 2004-2007. This enlarged deficit was driven by a decline in government revenue due to the global financial crisis and an increase in government expenditure due to larger spending on military and security and increased salaries for public servants.

Table 6: Budget Operation Before and After GFC, 2004-2009

Item	Current Value (Bn Riels)			As Share of GDP			Growth Rate		
	Avr 2004-2007	2008	2009	Avr 2004-2007	2008	2009	Avr 2004-2007	2008	2009
Domestic Revenue	**3,139.1**	**5,567.0**	**5,080.7**	**13.5%**	**19.4%**	**17.7%**	**23.4%**	**31.8%**	**-8.7%**
Current Revenue	2,999.7	5,487.7	5,051.4	12.9%	19.1%	17.6%	24.2%	30.2%	-8.0%
Tax Revenue	2,405.6	4,688.7	4,335.2	10.4%	16.4%	15.1%	30.2%	30.8%	-7.5%
Non Tax Revenue	594.1	799.0	716.2	2.6%	2.8%	2.5%	4.8%	27.0%	-10.4%
Capital Revenue	139.4	79.2	29.3	0.6%	0.3%	0.1%	173.1%	780.1%	-63.0%
Expenditures	**3,946.4**	**6,680.8**	**7,484.8**	**17.0%**	**23.3%**	**26.1%**	**14.9%**	**29.7%**	**12.0%**
Capital Expenditures	1,632.6	2,727.9	2,887.8	7.0%	9.5%	10.1%	16.3%	25.6%	5.9%
Current Expenditures	2,313.9	3,952.9	4,597.1	10.0%	13.8%	16.0%	13.9%	32.7%	16.3%
Defense and Security	502.5	813.8	1,254.0	2.2%	2.8%	4.4%	10.8%	32.2%	54.1%
Civil Administration	1,680.0	2,881.1	3,099.1	7.2%	10.1%	10.8%	14.1%	31.6%	7.6%
Interest	55.9	79.2	86.6	0.2%	0.3%	0.3%	21.6%	13.5%	9.3%
Provincial Expenditures (net subsidy)	75.5	178.8	157.4	0.3%	0.6%	0.5%	38.3%	70.3%	-12.0%
Total Local Ressources	2,427.3	4,122.6	5,099.6	10.5%	14.4%	17.8%	12.7%	34.9%	23.7%
Adjustment	**-71.4**	**-83.7**	**-248.7**	**-0.3%**	**-0.3%**	**-0.9%**	**66.4%**	**43.6%**	**197.3%**
Current Deficit/suplus	**539.0**	**1,272.4**	**48.3**	**2.3%**	**4.4%**	**0.2%**	**94.0%**	**18.8%**	**-96.2%**
Overall Deficit/suplus	**-873.6**	**-1,197.5**	**-2,652.8**	**-3.8%**	**-4.2%**	**-9.2%**	**-1.9%**	**-21.3%**	**-121.5%**

Source: Ministry of Economy and Finance 2010

Domestic revenue contracted by 8.7 per cent in 2009, compared to an average growth of 23.4 per cent over 2004-07. This reverse trend largely reflected the significant drop of current tax revenue specifically the significant drop in revenue from the collection of value added tax, and excise duties as well as import taxes. On the expenditure side, both the capital and the current expenditure increased significantly by 5.9 per cent and 16.3 per cent from 2008 respectively. The increase in the current expenditure is largely explained by enlarged spending on defense and security which could be stemmed from the tension with Thailand over the Preah Vihear temple issue and enlarged spending on civil administration due to the increase of public servants' salaries. GFC likely impacted the government budget balance by reducing public revenue and increasing public expenditure.

2.4.3. Monetary Policy

National Bank of Cambodia (NBC) applied prudent policy to cope with GFC in 2008. As a result, the growth of total liquidity slowed to 4.8 per cent in 2008, compared to 36.8 per cent of 2004-07. However, broad money rebound robustly in 2009 as the total liquidity grew at more or less similar rate before the GFC, bouncing to 16,228 billion Riels, a 36.9 per cent increase from a year earlier. Net foreign assets and net domestic assets, which accounted for 90.3 per cent and 9.7 per cent of the total liquidity, surged by 41.7 per cent and 4.0 per cent, respectively in 2009.

Table 7: Monetary Development before and after GFC, 2004-2009

Item	Current Value (Bn Riels)			As Share of GDP			Growth Rate		
	Avr 2004-2007	2008	2009	Avr 2004-2007	2008	2009	Avr 2004-2007	2008	2009
Net Foreign Assets	**7,057.6**	**10,345.6**	**14,655.0**	**30.5%**	**36.1%**	**51.1%**	**28.4%**	**-3.6%**	**41.7%**
Foreign assets	7,790.9	12,885.9	16,513.5	33.6%	44.9%	57.6%	26.8%	8.4%	28.2%
Foreign liabilities	-733.3	-2,540.3	-1,858.5	-3.2%	-8.9%	-6.5%	29.1%	119.8%	-26.8%
Net Domestic Assets	**-155.3**	**1,513.3**	**1,573.3**	**-0.7%**	**5.3%**	**5.5%**	**-104.3%**	**162.7%**	**4.0%**
Domestic credit	2,659.9	6,907.1	8,280.3	11.5%	24.1%	28.9%	41.0%	51.1%	19.9%
Net claims on Government	-847.9	-2,987.0	-2,251.7	-3.7%	-10.4%	-7.8%	95.0%	65.2%	-24.6%
Claims on Government	317.6	270.5	270.4	1.4%	0.9%	0.9%	-4.5%	-9.0%	0.0%
Deposits of Government	-1,165.5	-3,257.5	-2,522.1	-5.0%	-11.4%	-8.8%	45.7%	54.7%	-22.6%
State entreprises	0.8	0.6	0.0	0.0%	0.0%	0%		-53.0%	-100%
Private sector	3,508.9	9,893.5	10,532.0	15.1%	34.5%	36.7%	49.2%	54.9%	6.5%
Other items (net)	-2,815.2	-5,393.7	-6,707.0	-12.1%	-18.8%	-23.4%	20.9%	35.0%	24.3%
Total Liquidity	**6,901.9**	**11,858.4**	**16,228.3**	**29.8%**	**41.4%**	**56.6%**	**36.7%**	**4.8%**	**36.9%**
Narrow Money	**1,546.3**	**2,399.6**	**3,120.2**	**6.7%**	**8.4%**	**10.9%**	**21.7%**	**16.9%**	**30.0%**
Currency outside Banks	1,496.6	2,294.8	3,001.6	6.5%	8.0%	10.5%	21.7%	15.3%	30.8%
Demand deposits	49.7	104.8	118.6	0.2%	0.4%	0.4%	21.5%	69.0%	13.2%
Quasi-Money	**5,355.5**	**9,458.8**	**13,108.1**	**23.1%**	**33.0%**	**45.7%**	**41.6%**	**2.2%**	**38.6%**
Times and savings deposits	104.9	184.3	358.8	0.5%	0.6%	1.3%	12.2%	52.3%	94.6%
Foreign currency deposits	5,250.6	9,274.5	12,749.3	22.7%	32.4%	44.4%	42.4%	1.5%	37.5%

Source: Ministry of Economy and Finance 2010

The improvement in total liquidity can also be explained by the growth in narrow money and quasi money. This could signal regain of confidence in the country's financial system after being deteriorated by GFC. Narrow money which is known as M1 amounted to 3,120 billion Riels, expanded by 30.0 per cent, of which currency outside banks grew by 30.8 per cent and demand deposits grew by 13.2 per cent, from the previous year. Meanwhile quasi-money expanded by 38.6 per cent thanks to the growth of foreign currency as well as time and saving deposits. It is worth noting that Cambodia is a highly dollarized economy where US dollars dominated around 81 per cent of the total liquidity in 2009.

3. Impact on Crop Production and Profit

3.1. Impact on Crop Production

Agriculture production is very much dependent on weather conditions and external export demand. Table 8 lists the production of various crops commonly grown in the country. As can be seen from the table, the long term production trend of most crops had been growing considerably from 2000-2003 and from 2004-2007. Nevertheless, the growth of each crop production was not predictable after the food price crisis in 2007. Some crops' production continued to expand every year after the crisis; some grew in 2008 then shrank in 2009; while others declined then increased. It is worth noting that among the three major crops, namely paddy rice, maize and cassava, the production of the two former were able to withstand the drop in prices during the GFC. Information on commodity prices has a critical implication for crop production in the sense that rational farmers will take it into account when making the decision as to which crop to grow the following year.

Table 8: Production of Major Crops from 2000-2009

Commodity	Production (Tons)				Growth Rate			
	Avr 2000-2003	Avr 2004-2007	2008	2009	Avr 2000-2003	Avr 2004-2007	2008	2009
Paddy Rice	4,164,643	5,786,928	7,175,473	7,585,870	3.9%	9.3%	6.7%	5.7%
Maize	201,515	348,574	611,865	924,026	34.6%	13.5%	17.1%	51.0%
Cassava	185,672	1,328,345	3,676,231	3,497,306	9.7%	60.9%	65.9%	-4.9%
Sweet Potato	30,214	40,099	39,621	78,891	1.8%	2.4%	3.4%	99.1%
Vegetable	170,834	201,623	259,610	322,731	-6.4%	12.9%	14.6%	24.3%
Mung Bean	21,998	51,435	38,600	44,614	18.9%	14.4%	-29.2%	15.6%
Soya Bean	38,655	126,845	108,448	137,275	15.9%	16.9%	-8.0%	26.6%
Sugar Cane	178,851	177,270	385,238	350,155	2.0%	13.5%	34.3%	-9.1%
Sesame	12,732	53,010	27,286	34,536	31.3%	9.8%	-14.6%	26.6%
Tobacco	5,607	11,395	17,404	13,486	4.6%	15.7%	27.6%	-22.5%
Jute	405	650	296	478	20.7%	-12.9%	-8.4%	61.5%

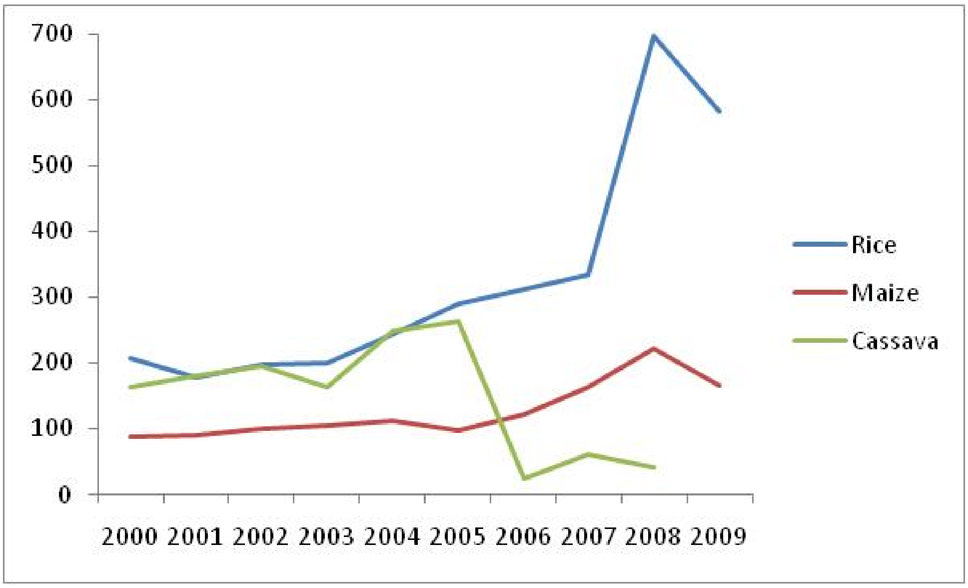
Source: Ministry of Agriculture, Forestry and Fisheries, www.maff.org.kh

3.2. Impact on Price and Profit

3.2.1 Commodity Prices

Figure 1 exhibits the movements of prices of the three major commodities which are to be studied in greater detail. It is interesting to observe that, among the three commodities, rice witnessed the most price increase, maize relatively stable, and cassava the most price decline. The figure shows that the price of rice rose moderately from 2000 to 2006 but suddenly shot up by almost 100 per cent to US$700 per ton in 2008 before it slightly dropped in 2009. Meanwhile, maize was traded around US$100 per ton from 2000 to 2006 but surged to more than US$200 per ton in 2008. The price of cassava, however, was on the upward trend over 2000-2005 but plunged down dramatically in 2006 and remained low afterward. In this section, attempts are made to capture the impact of GFC on the production of those three commodities using two rounds of household survey data obtained from CDRI in 2008 and from Cambodian Economic Association (CEA) in 2009

Figure1: Prices of major agriculture commodity 2000-2009, US$/ton



Source: FAO, www.fao.org

3.2.2 Profit Margin

Wet Season Rice

Table 9 below summarizes the cost and benefit analysis of major crops from the findings of two nation-wide surveys conducted by CDRI in 2008 and CEA in 2009. Wet season rice farmers, on average, owned about 1 hectare of land, which could produce 1,515 kg of paddy rice, which earned them US$254 (Table 9). However a considerable amount of money needed to be invested on inputs in the production process. On average farmers need to spend around US$112 for those inputs. The net profit left after adjusting for production cost is around US$142. The comparison of the net profit from wet season rice production from the two surveys showed that the net profit in 2009 declined by 29 per cent from 2008. This profit shrinkage can be explained by the decline in productivity which is linked to poorer harvest and by a relatively lower domestic farm gate price for wet season rice due to the price drop at the international market in 2009.

Dry Season Rice

Households who grew dry season rice, on average, possessed about 1 hectare of agricultural land during the survey period in 2009. They harvested more than 3 tons of paddy rice which is equal to US$708 in cash during the last season. Dry season rice, however, is relatively much more costly to produce compared to wet season rice because it requires more money to pump water into a paddy field and to purchase fertilizer. The total production cost amounted to US$355 during the last season, a 21 per cent increase from 2008. Subtracting all the costs, the net profit from growing dry season rice in 2009 is US$354, a 31 per cent up from last year.

Maize

On average maize producers in the sample villages had 5 hectares per plot which produced about 4 tons of maize during the last season. Maize provided higher profit compared to wet season rice and the production cost is also reasonable. The total cost required is estimated at about US$1,000 per plot and it consisted largely of expenditures on seed, land preparation and seedling transplant. Despite a good harvest, net profit generated from maize production in 2009 was US$1,400, about 74 per cent decline from previous year.

Cassava

Cassava growers own about 2 hectares of land. The average harvest of cassava during the last season was 14 tons per plot or US$390 in cash. A total cost of around US$166 is required for ploughing, harvesting, processing, transporting and others. Cassava is relatively easier to plant and take care of compared to the two previous crops. Yet it also provided a handsome amount of profit of around US$392 per season.

Table 9: Cost and Benefit Analysis of Major Crops, 2008-2009

	Wet Season Rice			Dry Season Rice			Maize			Cassava		
	2008	2009	Change	2008	2009	Change	2008	2009	Change	2008	2009	Change
plot size (ha)	1	1	-5%	1	1	-5%	9	5	-40%	2	2	6%
harvest (kg)	1,737	1,515	-13%	2,968	3,772	27%	40,397	40,129	-1%	16,671	14,243	-15%
yield (kg per ha)	1,659	1,529	-8%	3,033	4,044	33%	4,625	7,631	65%	10,194	8,188	-20%
price per tonne	190	167	-12%	190	188	-1%	190	61	-68%	44	48	7%
total cost/ plot (USD)	130	112	-14%	294	355	21%	2,354	1,065	-55%	198	289	46%
revenue/ plot (USD)	330	254	-23%	564	708	26%	7,680	2,467	-68%	741	681	-8%
net profit/ plot (USD)	200	142	-29%	270	354	31%	5,327	1,402	-74%	543	392	-28%
total cost/ hectare (USD)	124	113	-9%	301	380	26%	269	203	-25%	121	166	37%
revenue/ hectare (USD)	315	256	-19%	577	760	32%	879	469	-47%	453	392	-14%
net profit/ hectare (USD)	191	143	-25%	276	379	37%	610	267	-56%	332	226	-32%

Source: CDRI 2008 and CEA 2009

In sum, most farmers are likely to have been affected by GFC. Except for those who grow dry season rice, the net profits of other farmers are found to decrease significantly from the previous year. The results of the study revealed that maize producers lost profit the most, followed by cassava and wet season rice producers.

4. Impact on Employment, Wages, Income and Consumption

4.1. Impact on employment

Incomes of poor households have been hurt by job losses and increased underemployment in the country's crisis-hit growth sectors. The continued slowdown in the garment sector reportedly led to the shutdown of 130 garment factories (77 permanent and 53 temporary) and job losses of more than 61,300 in the first nine months of 2009 (Chun 2009c). The slump in the garment industry particularly has a "women" and "rural" face since the garment workforce is dominated by women from rural areas. Construction and tourism sectors also suffered job losses and increased underemployment. It is estimated that about 25,000 construction workers have lost their jobs as of April 2009 (Xinhua 2009) while working days in the sector reportedly dropped to 10-20 days a month for several months (WB 2009). Meanwhile, the tourist workforce is estimated to have contracted by 2.3 per cent in 2009 (CEW 2009). A survey of 72 hotels by Chun and Ith (2009) revealed that 30 to 50 per cent of jobs had been shed at 12 hotels and 30 to 50 per cent of working hours had been reduced at the remaining surveyed hotels. Other industries with linkages to the growth sectors will also bear consequences as a result of such employment effects.

A CEA study in 2009 revealed that about one-third of all surveyed households were affected by the GFC, and among the studied villages, poor urban and tourism dependent are the most hit. The survey found that about 9per cent of households in the poorest rural and poor urban villages had lost jobs. These figures are higher than the average, suggesting that the poor have suffered the most from the crisis. The study indicated that both males and females were affected and lost jobs due to the crisis, and the extent of their suffering was more or less the same.

4.2. Impact on wages

Table 10 compares the daily wage in agricultural sectors in 2009 and in 2008. It shows that in 2009 the daily wage was around 10,000 Riels and for construction workers was from 12,000 to 20,000 Riels per day. These figures show little difference from those of 2008. However, these figures are nominal; inflation is not factored into the equation. There is little change even though those wages are corrected for inflation rate that was running at -3.9 per cent from the year to July 2009. It should be noted that these types of agricultural work are not available the whole year round. Villagers need to find other work if they are to make a living.

Table 10: Impact on Agricultural Wage, 2008-2009

average daily wage (riels)	2008		2009		change 09/08	
	dry	wet	dry	wet	dry	wet
received						
transplanting paddy	6,000	5,000	9,000	10,000	50%	100%
harvesting paddy	7,000	10,000	10,000	10,000	43%	0%
weeding	11,000	12,000	10,000	10,000	-9%	-17%
transplanting other crops	10,000	10,000	10,000	10,000	0%	0%
clearing bushes/trees	8,000	10,000	10,000	10,000	25%	0%
construction work	10,000	10,000	15,000	15,000	50%	50%
hired						
transplanting paddy	8,000	10,000	10,000	10,000	25%	0%
harvesting paddy	8,000	10,000	10,000	10,000	25%	0%
weeding	12,000	12,000	10,000	10,000	-17%	-17%
transplanting other crops	10,000	10,000	10,000	10,000	0%	0%
clearing bushes/trees	10,000	10,000	15,000	10,000	50%	0%
construction work	15,000	12,500	15,000	15,000	0%	20%

Source: CDRI 2008 and CEA 2009

4.3. Impact on income

During the GFC, some occupations expanded while some others shrank. According to the CEA study, the three major sources of income in the total surveyed households in 2009 included self-employment, wage labour from agricultural work and fishery. Many earning activities, namely, raising livestock, self-employment, and labour work, are found to have gained popularity as an increasing number of households have engaged in those for a living. Furthermore, the same study showed that the earning activities which are most likely adversely affected by the GFC include sale of handicraft products, self-employment, fishing, construction work, sale of other agricultural products, clearing forest, garment work, and forest products, as the majority of households involved with these activities perceived a decrease in their income. This result is enhanced by another finding by a CDRI the study which claims about consequential declines of income across the country and across sectors owing to the crisis. The survey results reveal that 9 out of the 10 surveyed worker categories registered significant falls in real daily income.

Table 11: Impact on Income generating Activities, 2008-2009

Income Sources	Increase	Decrease	Unchange
paddy	26.8	55.2	18.0
vegetable	14.5	66.0	19.5
other agricultural product	11.8	67.1	21.1
agricultral labor work	15.3	49.3	35.4
clearing forest		66.7	33.3
garment	4.8	66.0	29.3
construction	12.9	67.3	19.9
self employed	6.1	78.2	15.7
labor work	8.6	57.8	33.6
civil servant	57.3	5.0	37.6
NGO/company	26.3	20.3	53.4
handicraft		91.3	8.7
raising animal	18.3	57.5	24.2
pension	27.3		72.7
oversea remittance		8.7	91.3
domestic remittance	12.1	27.6	60.3
forest product	6.3	64.6	29.2
fishing	6.7	76.9	16.4
others	21.8	40.0	38.2

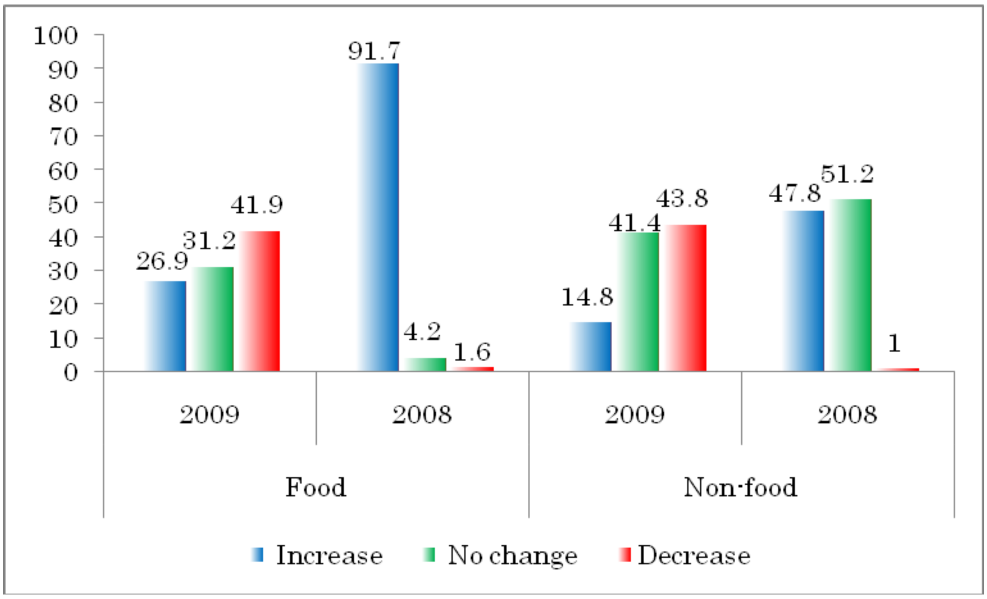
Source: CDRI 2008 and CEA 2009

4.4. Impact on consumption

The pattern of expenditure on both food and non-food consumption between March and July 2009 was unlike that between January 2008 and June 2008 (Figure 2). Driven mainly by high food and oil prices during the first quarter of 2008, Cambodia's inflation rate between July 2007 and July 2008 peaked at 22.3 per cent, while the price of food, beverages, and tobacco increased by 36.8 per cent over the same period (CDRI, 2008). Food expenditure increased among 92 per cent of the surveyed households in June 2008. Over the same period, 48 per cent of the respondents reported that their household expenditure on non-food products increased while the other half reported their spending was unchanged. However, when the inflation eased in 2009, over 40 per cent of responded households reported a decrease in expenditure on food and non-food consumption (Figure 2).

It is likely that economic pressures are affecting people's nutrition. In group discussions with men and women in all rural villages, it was consistently pointed out that although the price of most of domestically produced products had fallen, the price of food items and other imported commodities had continued to rise (CEA 2009). This implies that people earned less from their cheap domestically produced commodities and needed to force themselves to consume less food since the price of food commodities remained high. This was a further threat to people's nutrition.

Figure 2: The pattern of consumption expenditure, 2008-2009 (per cent of total households)

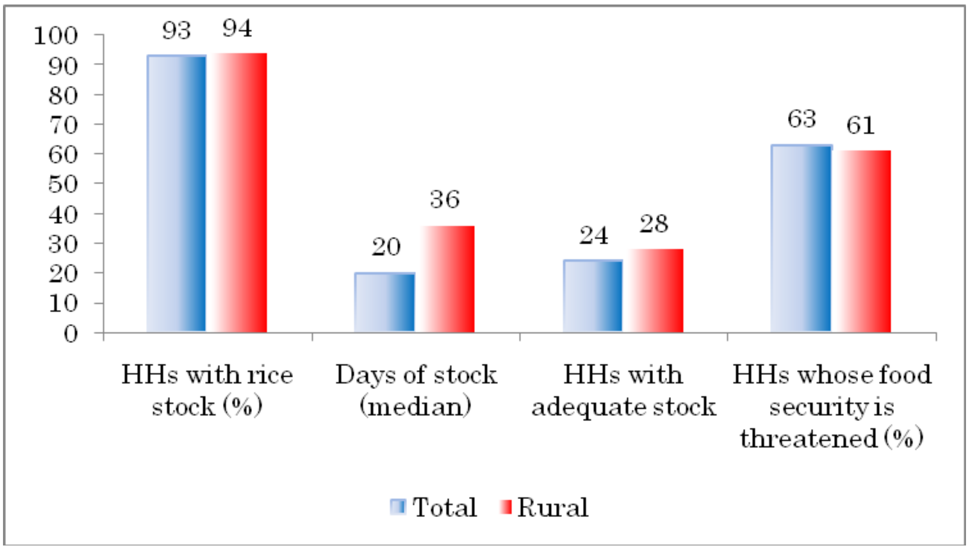


Source: CEA (2009) and CDRI (2008)

Food insecurity

Although over 90 per cent of the households had stocks of both paddy and milled rice in July 2009, only 24 per cent of households in the total surveyed sample and 28 per cent in the rural sample are found to have adequate stock of paddy or milled rice until next harvest (Figure 3). CEA (2009) found that on average the stock could last from 20 days in general and 36 days in the rural area starting from the day interviewed. This is a serious problem for them since they have to wait until the next harvest season which will come in four months' time.

Figure 3: Profile of food insecurity



Source: CEA (2009)

5. Coping Strategy and Policy Response

5.1. Coping Strategy

5.1.1. Strategies to Cope with Rising Food Prices

According to a CDRI study on the Impact of Rising Food Prices in 2008, 62 per cent of households were found to have insufficient money to purchase food and to cover essential expenses in June 2007, and by June 2008, the percentage of such households rose to 69 per cent. The change is especially significant among fishing and land abundant villages, where the former increased from 66 per cent in 2007 to 98 per cent in 2008 and the latter from 64 per cent to 88 per cent. Table 11 summarizes the strategies adopted and the frequencies of using those strategies by households in the face of high food prices by type of villages in the sample.

Table 12: Strategies to Cope with Rising Food Prices

Strategies	Frequency	Village Type					All Village
		rice	cash crop	fishing	poor	land abundant	
Reduce food expense	everyday	6.0	2.4	39.0	15.6	5.3	9.9
	often	26.7	17.8	13.6	35.8	8.6	23.9
	sometimes	29.5	32.7	11.9	19.1	16.6	24.1
	once in a while	6.0	4.3		0.7	13.2	4.8
	all	68.1	57.2	64.4	71.2	43.7	62.8
Borrow food from friends or relatives	everyday	2.1		1.7	1.4		1.1
	often	5.3	3.8	10.2	8.7	2.0	5.8
	sometimes	21.8	19.2	18.6	38.5	21.9	25.9
	once in a while	9.1	11.1	3.4	3.1	5.3	6.9
	all	38.2	34.1	33.9	51.7	29.1	39.7
Purchase food on credit	everyday	0.7		3.4	1.4		0.8
	often	16.5	6.3	18.6	16.7	14.6	14.2
	sometimes	36.8	29.3	45.8	42.0	45.0	38.5
	once in a while	3.5	8.7		1.7	4.0	3.9
	all	57.5	44.2	67.8	61.8	63.6	57.5
Reduce food consumption	everyday	1.4		28.8	4.9		3.5
	often	14.4	4.3	8.5	15.3	0.7	10.1
	sometimes	25.3	29.3	20.3	28.5	7.3	24.0
	once in a while	4.9	13.9		5.2	4.0	6.5
	all	46.0	47.6	57.6	53.8	11.9	44.1
Restrict consumption by adults	everyday	0.7		10.2	2.8	0.7	1.7
	often	6.7	1.0	11.9	20.1	1.3	8.9
	sometimes	17.5	16.8	30.5	37.2	11.9	23.0
	once in a while	4.9	5.8		2.8	2.6	3.8
	all	29.8	23.6	52.5	62.8	16.6	37.4
Reduce consumptions by mother or elder sister	everyday			11.9	2.8		1.5
	often	6.7	0.5	8.5	13.9	1.3	6.8
	sometimes	20.4	6.7	28.8	31.6	17.9	20.9
	once in a while	3.5	4.3		2.8	1.3	2.9
	all	30.5	11.5	49.2	51.0	20.5	32.1
Skip meals by mothers or elder sisters	everyday	0.4			6.6		2.0
	often	1.8		5.1	4.2	0.7	2.1
	sometimes	5.6	3.4	16.9	10.4	11.9	8.2
	once in a while	3.9	1.0	6.8	1.7	0.7	2.3
	all	11.6	4.3	28.8	22.9	13.2	14.6
Take children out of school	everyday	0.4			1.7		0.6
	often	0.7	0.5	1.7		1.3	0.6
	sometimes	1.1	1.0	1.7	2.4	2.0	1.6
	once in a while	0.7	3.8		2.1		1.6
	all	2.8	5.3	3.4	6.3	3.3	4.4
Seek alternative or additional jobs	everyday	4.2	6.7	6.8	11.8	1.3	6.7
	often	5.3	16.8	3.4	13.9	1.3	9.5
	sometimes	12.6	11.5		16.7	9.3	12.3
	once in a while	2.5	3.4		0.3	0.7	1.6
	all	24.6	38.5	10.2	42.7	12.6	30.1
Increase exploitation on common pooled resources	everyday	2.5		15.3	4.5		2.9
	often	6.0	11.1	27.1	6.9		7.7
	sometimes	7.7	7.2	6.8	3.8	0.7	5.3
	once in a while	1.1	1.9		2.1		1.3
	all	17.2	20.2	49.2	17.4	0.7	17.3
Plant more crops	everyday	1.1	0.5	1.7	8.0	2.0	3.1
	often	4.2	17.8	1.7	5.2	2.0	6.9
	sometimes	12.6	18.8		11.5	7.9	12.1
	once in a while	2.1	0.5		1.4	1.3	1.3
	all	20.0	37.5	3.4	26.0	13.2	23.4

Source: CDRI 2008

5.1.2. Strategies to Cope with Global Financial Crisis

Results of the focus group discussions (FGDs) and semi-structured interviews (SSIs) conducted by CDRI reveal and confirm the above findings on employment and income reduction among vulnerable worker groups. The results also point to the deterioration in other aspects of welfare together with the portfolio of coping mechanisms utilized over the period of the crisis. These findings reveal disconcerting implications of the crisis for children and women and it also warrant special consideration in the design and dispensation of social safety nets. There is a lack of intensification of safety net provision, according to another finding. Informal safety nets over the period of the crisis were also found to dwindle. However, what was of particular concern pointed out from the findings is that the welfare deterioration was exclusively an effect of the global economic recession. Key preliminary findings of the discussions are summarised in Box 1 below.

Box 1: Effect of GFC and Coping Mechanism

Job availability and security: There has been a general reduction in job availability in both urban and rural areas (of approximately 30 per cent to 40 per cent over the past six months as per the May 2009 survey). This trend has been more pronounced in the garment, construction and rural rice farming sectors. Cuts in overtime work and working days for the employed have also been reported. As per the August 2009 survey results, some improvement has been detected in select groups; still, widespread dissatisfaction with job availability and security remains.

Wage rates and earnings: No dominant trend relating to wages has been found – some rates have increased, some have remained stagnant. In the case of the garment sector, different wage rates have been applied since the crisis struck. While some factories have retained monthly base salaries, some have shifted from base salaries to quota-based salaries, a move which likely has translated to significant reductions in earnings as work availability has become scarcer with the reduction in garment orders. Indeed, regardless of the trends in wage rates, discussion results uncovered a general reduction in earnings of vulnerable workers owing to the general decline in job availabilities and overtime work. The drop in earnings of garment workers has been found to be particularly sharp, disenabling said workers from remitting money to their families. By and large, these findings on earnings are consistent with those of the survey discussed earlier.

Labour market decisions: Leading the set of coping mechanisms utilised over the period of the crisis were the changes in labour market decisions of affected households and individuals. These changes include increased labour force participation of household members and employment shifts between formal sectors and/or from the formal to the informal sector. There were reported incidents of children being withdrawn from school and requested to work and contribute to household income generation. Terminated and underemployed garment workers have also hunted for and found jobs in the entertainment industry and low-skilled construction work. These repercussions of the crisis on children and women are particularly troubling and merit thoughtful consideration in the design and implementation of social safety net programmes.

Consumption effect: With incomes and job prospects hurt, there has been a reduction in the quantity but more so the quality of both food and non-food (e.g. clothes, alcohol, cigarettes) consumptions. For instance, although single garment workers have not reduced their food intake, they otherwise have had to reduce their consumption of non-food items on top of their remittances, the latter affecting consumption of dependent family members.

Migration and remittances: Contrary to popular assumptions, rural-to-urban migration has not abated. The discussion results revealed persistence in inflows of new rural migrants, who choose to try their luck in the cities despite being aware of the increased uncertainty involved in landing a job. There have also been accounts of return migration, however, whereby terminated garment workers, for instance, go back to their families in the provinces and help tend the fields. Such return migration has added more to the surplus of agricultural labour, has decreased wages and has cut down job prospects for farmers selling their labour in exchange for cash or non-cash payments/favours. Further, not only has the crisis caused sharp declines in remittance transfers to rural households, it has also set off ‘reverse remittances’, or remittances sent from rural households to members working in the cities, particularly in garment factories.

Debt burden: Between the May and August 2009 discussions, the debt burden resulting from deterioration in incomes, exhaustion of savings and other factors seemed to have been exacerbated. Debt is owed to microfinance institutions (MFIs), private lenders and people in social networks, and access to new loans has become much more difficult and expensive. Debt proceeds have been used to repay outstanding loans, finance migration of family members and even purchase basic consumption items such as food, among others. Heavy indebtedness seems to have forced some borrowers to ‘disappear’, that is, to leave their villages in order to escape debt collectors.

Utilisation of common property resources: Discussion results revealed greater pressure on common property resources and, by implication, increased threat of their depletion or misuse. This increased pressure has been attributed to such factors as rapid population growth, implementation of the privatisation policy and mismanagement of natural resources. Especially for those lacking assets, survival over the period of the crisis has banked more than ever on resourcefulness in securing food and other needs in scarcer common resources.

Social safety nets: Per the May 2009 survey results, no intensification of formal social safety net provision in view of the crisis has been reported. Common safety nets that the government (as well as NGOs) provide and that interviewed workers are aware of involve rural health services, free food programmes and construction jobs. However, discussion results showed no observation of increased provision of such formal safety nets in the past six and 12 months.

Some assistance from NGOs, such as the Cambodian Red Cross, has reportedly been received, but this is mostly one-time emergency support (say, after a natural disaster or fire), with limited geographical scope, and hence is unlikely to be able to sustain the recovery of the poor from the crisis or other adverse circumstances. Cash and in-kind assistance from political parties was received around the time of the elections (felt to be for the purpose of attracting votes) but not since then. No increased support from pagoda committees has been observed, although these remain active in taking care of the elderly in their local areas.

Other informal coping mechanisms have been tapped and proved crucial over the period of the crisis, as a result of fewer resources, heightened competition for scarcer job opportunities and some reported backlash in security. One of the distinct informal coping strategies conveyed was group travel and offer of services: higher incidence of robbery has prompted workers to travel and stay in packs for enhanced protection, and offering labour as a group has helped in wage bargaining. The perception survives that shocks are in a way community shocks, underpinned by trust and solidarity; family, patronage and other informal social networks have significantly helped in risk mitigation and provided insurance against the worsening of household poverty. Preservation of networks is deemed vital in obtaining additional debt, securing information on job availabilities and landing jobs during tough times. Construction workers, for instance, give value to maintaining good connections with foremen, as this enhances their chances of getting work. Sad to say, however, deterioration in the strength of informal bonds has been observed over the period of the crisis. A sense of individualism has heightened, as people and their households prioritise their needs first, having found themselves in a worse situation than before.

Sources: So (2009); Theng and Kem (2009a; 2009b).

5.2. Policy Response

The government took immediate measures to respond to the effects of the food and fuel crisis of 2008. However, its social protection response to the financial crisis does not seem to be broad although it is difficult to draw a clear line between its various responses. The government in February 2009 announced its introduction of a stimulus package that reduced bank reserve requirements and increased planned public investments in transportation, irrigation and agriculture. These safety net interventions were more limited than the measures adopted in response to the food crisis, but several food programmes introduced at that time were carried over and expanded to protect household consumption. In early 2008, the government introduced cash transfers, salary increases, rice subsidies, and lower duties on imported agricultural inputs as its steps to mitigate the impact of the food and fuel crisis on Cambodian households and farmers. The government instituted pay and allowance increases for several groups, including increases in basic salaries for civil servants and retirees (by 20 per cent), allowances for teachers (by 10 per cent), and salaries for garment workers (by 6 per cent). The family allowance was also doubled. In order to stabilize prices, state-owned company Green Trade purchased approximately 300 metric tons of rice which was then sold at subsidized prices for as low as 30 per cent below the prevailing market price in urban markets in Phnom Penh and Siem Reap. This government subsidy was limited in scale, however, it was complemented by similar releases of rice by private millers to whom the government extended low-cost credit to buy larger stocks to stabilize flows of rice out of Cambodia. Another measure taken by the government was to temporarily lift the ban on pork imports, and in May 2008, exempted imported agricultural inputs from import duty and VAT as international fertilizer prices rose rapidly. During the same period the government followed other Asian exporters in imposing an export ban on rice, but it was the first exporter to lift the ban, with a positive impact on global rice markets. The original decision was taken with the aim of ensuring adequate domestic supply and of stabilizing rice prices following export curbs imposed by India, China, and Vietnam. The immediate effect achieved by the ban was the reduction in domestic price of rice by about 10 per cent. By the end of May 2008, the government lifted the ban as soon as it anticipated that the following harvest would yield a surplus that would exceed domestic requirements. The lifting of the ban resulted in rice futures tumbling by 50 cents per 100 pounds to below US$20, which helped to calm international markets. Also, the government expanded its programs to include targeted food distribution and agricultural input support as well as mobilized additional donor resources for these pro-poor interventions. In September 2008, the government established the multi-ministerial Food Emergency Working Group to coordinate direct assistance to vulnerable households and smallholder farmers with WFP and ADB Emergency Food Assistance. Superior rice seed was also purchased and distributed, and other donors supported the distribution of agricultural inputs as well as emergency assistance.

Starting in May 2009, in order to address the issue of laid-off urban workers, the Ministry of Works and Vocational Training implemented a “cash for training” program which provides short-term vocational training for 40,140 laid off workers – 76.5 per cent of whom were trained in agricultural practices while the rest were trained in industry and mechanical skills.

Overall, the total spending on this programme was 17.3 billion Riels, which is equivalent to US$4.2 million. The training expenditure includes the payment to each participant of 4,000 Riels (US$1) per day for food and 40,000 Riels (US$10) per month for accommodation.

6. Conclusion

The decade closed on a gloomy note as the food and economic shocks caused setbacks in economic development and poverty reduction. There is now also the constant threat of another crisis occurring and trouncing development plans. For least developed countries as Cambodia, the impact of the shocks on poverty and hunger was more painful and the threat of another crisis may mean economic doom. It was shown above, how the food crisis of 2007-08 led to cutbacks in both the quantity and quality of consumption in spite of government measures aimed at moderating transmissions of international price changes into domestic prices and averting food shortages. The GFC, causing sharp contractions in the growth sectors, resulted in the same painful sacrifices in consumption. Even as it temporarily relieved inflationary pressures, the blow to the real economy resulted in substantial declines in real income. There are groups, the net food sellers in particular, that had the opportunity to benefit from the price hikes during the food crisis or the above average food prices during the period of the economic recession. Unfortunately, such opportunity was lost specifically for the many Cambodian smallholders struggling with the constraints to agricultural production growth. Counterfactual price calculations illustrated that, were it not for the food shock, increase in the price, particularly of rice, the sufficient consumption of which is used to define food security in the country, would have been very modest. Were it not for the economic recession, rice prices would not have gone down. With Cambodia’s experience with the food and economic shocks, the grand lesson was to revive agriculture, the sector having been neglected as the country aggressively pushed for a structural transformation towards export-oriented manufacturing. That agriculture was able to serve as buffer to the GFC emphasised the fact that the growth contribution of the sector is yet to be optimised.

The food price and the global financial crises are painful eye-openers and the only way to make the experience worth it is to take stock of the lessons and muster the will and find the means to translate them into actual policies. Three key lessons emerged from the experience. The first was to revive public investment and aid in agriculture. The importance of this measure was seen in how improved agricultural performance could have tempered more the impact of the food and economic shocks in Cambodia. The second lesson was to diversify away from traditional dependencies and attend to neglected aspects of competitiveness. In the case of garments for instance, preferential access appeared to have led to a false sense of security, the crisis serving as a wake-up call as to how the garment export business is ultimately about cost and delivery competitiveness. The third lesson was about how there is a great need for an overhaul in the government's social safety net system, though there admittedly is not much to restructure given the limited interventions in place. The imperative is to create a comprehensive and sustainable social safety net system with schemes that can be quickly mobilised in the event of a crisis. The food and economic shocks, quoting von Braun (2008), were a double blow to the poor. This was painful enough; unfortunately, the spectre of another crisis hovers above us. Cambodia has more than proven its resilience throughout its post-conflict history. It has to preserve this mettle while addressing its enduring problems in preparation for impending crises.

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