



# CICP Commentaries

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## No. 4

### **Cambodia and Global Economic Crisis<sup>1</sup>**

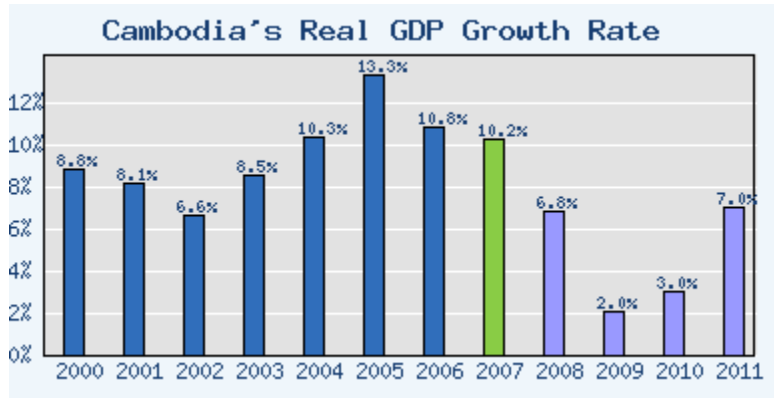
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#### **1. The impacts of global economic crisis on Cambodian economy**

Cambodian economy has strongly integrated with the regional and global economy since early 2000 after Cambodia became the member of ASEAN in 1999 and WTO in 2004. Regionalization and globalization have assisted Cambodian economic development through export led growth economic structure and tourism services. Cambodian economy has performed well in the last decade. The real annual GDP grow is at an average of 9.5 percent. However, the global economic crisis has contracted Cambodian economy in all sectors at different levels. The most hit industries are garment and tourism.

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<sup>1</sup> This country report is presented at the 8<sup>th</sup> ASEAN-Japan Dialogue on September 10-12 in Tokyo Japan



Source: Ministry of Economy and Finance, <http://www.mef.gov.kh/>

The global economic crisis has adverse impact on Cambodian economy since the end of 2008. The GDP falls to 6.8 percent in 2008 and estimated to plunge further to 2 percent in 2009. The international institutions estimated Cambodian GDP growth even lower than the government's calculation. The International Monetary Fund (IMF) estimated -0.5% growth, World Bank forecasted -1% growth, and the Economic Intelligence Unit estimated -3% growth in 2009. Although there are differences or gaps in estimating the drop of GDP, it all demonstrates that Cambodian economy is facing huge challenges ahead.

The garment sector is the main contributor to Cambodian economy. The sector employs mostly women which contribute a lot to poverty reduction. The sector has been strongly affected by the global economic downturn as about 90 percent of investment capital coming from overseas and the main textiles exporting markets are the United States and Europe. The garment export grew only 2 percent in 2008 and is estimated to decline much further in 2009 and 2010. According to forecasts made by Asian Development Bank (ADB) and IMF, the garments industry will fall to -5% in 2009. In the first five months of 2009, garment export dropped 27 per cent. As result of global economic crisis and lack of demand, more than 50 factories were closed. Consequently, there were approximately 60, 000 out of 400, 000 garment workers lost their job since September 2008.

Short term contract (normally less than three months) had been chosen by the factory owners and managers to deal with fluctuating and decreasing demand since the crisis took place. Such management policy adversely impacted on livelihood on the workers. The decrease of production results in less working hours and over time employment. It causes the average wage of the worker to decline further. After suspending and closing their activities, many of the factory employers were not responsible for compensation for the laid out employees.

Agriculture which shares about 30 percent of GDP is also facing with some challenges with low growth forecasts. In 2009, the estimated growth is 5-6% (by ADB) and 1.5% by IMF. The impact has been felt mainly in the form of lower prices and revenues. The agricultural production is expanding but the price is decreasing. It impacts on the family incomes of the farmers due to increased costs of agricultural commodities and materials

used for farming such as fertilizers, fuels and labor, and low price of their harvested products and limited market. In addition, the industrial crops production is decreasing due to the decreasing material demand from factories.

Tourism sector is facing with difficulties given the number of international tourist arrivals to Cambodia has dropped below expectation. In 2008, Cambodia received only 2.1 million tourists; 2.3% lower than the target set by the Royal Government. In 2009, it estimated that the industry will drop to -2% (forecast by ADB) and -6% (forecast made by IMF). The number of entrance tickets sold at Angkor Temple complex dropped remarkably in early 2009. In the first three months of 2009, it dropped to -22.38 percent comparing with the same period last year. Several hotels and restaurants were closed down Siem Reap town.

The construction sector which shares 7 percent of GDP has been shrinking due to the lack of investment and some construction projects were suspended. It is estimated that in 2009 the sector will have negative growth: -1.5% (by ADB) and -2% (by IMF). The price of real estate has decreased continuously since the end of 2008.

## **2. Cambodian responses to the crisis**

### **Mixed policy: Monetary plus Fiscal policy**

The government continues to implement flexible monetary policy to maintain low inflation rate and ensure financial stability, especial the strengthening the supervision of commercial banks. In addition, the government implements fiscal policy to promote economic growth by increasing budget expenditure to balance the decline in private investment, to mitigate the impact and promote economic activities. The Royal Government has given priority to the public investment in infrastructure and social welfare. It has intensified efforts to mobilize external funding from development partners who had committed more than USD 1 billion for the year 2009 in the cooperation to cope with the current global economic crisis.

### **Garment**

For the short term solution, the Government retrain some 30, 000 garment workers, 50% of the laid out workers, for new career development with monthly allowances US\$ 40 dollars per month. The government will be responsible to find jobs for the trainees after finishing the training course as well. This is another challenge for the government. For the long term solution, the government promises to improve business environment, reduce obstacles in doing business such high informal cost, and encourage good relations between employers and employees especially in the garments industry.

### **Tourism**

For the short term, the government encourages the private sector to reduce prices in order to attract more tourists. The government starts targeting other regional tourism market such as rising Vietnam, China and India. Hotel discount policy and cheaper entrance tickets to Angkor Park for two days visitors are just part of the overall policy to attract more tourists. For the long term, the government and private sector invest more in human resource development and infrastructure improvement. Regional integration especially road connection among countries in the Mekong Subregion will help the increase the flows of regional tourists.

### **Agricultural development**

Agriculture can offset other declining sectors in the time of crisis by providing job opportunities and absorbing more labor from affected garment and construction sectors. But this sector also faces with difficulties as well.

For the short term, the government with the development partners established The “Agriculture Support and Development Fund” to support small and medium enterprises by providing short term credit with low interest rate to farmers in order to increase agricultural productivity and food security. The government continues to enforce zero tariff policy on importing agricultural materials such as seeds, fertilizers, pesticide and agricultural equipments. For the long term, the government together with development partners increases their investment in agricultural infrastructure such as irrigation system and transports.

### **Open regional integration**

Although the current global economic crisis is part of the globalization and regionalization, the government still pursues global and regional integration policy and even encourages stronger regional integration in order to deal with the crisis. Cambodia is trying to diversify export markets to regional rising economies such as ASEAN, China and India. Open regional integration is the cornerstone of regional security and development. Stronger regional economic integration is one of the necessary approaches to deal with global economic crisis. Regional consumption or demand is necessary to sustain regional growth.

It is very hard for the region to move from export led growth model. Only through the movement from the too much reliance on the US and Europe markets to the regional markets will be a precondition for the survival of export led growth model in the region.