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SECURING CAMBODIA'S FUTURE: TRENDS AND POLICY PRIORITIES FROM THE 2013 CAMBODIA OUTLOOK CONFERENCE¹

The 7th annual Cambodia Outlook Conference, a partnership between CDRI and ANZ Royal Bank, took place on 20 February 2013 in Phnom Penh. Leaders from government, the private sector, development partners, the research community and NGOs came together to discuss the theme *Securing Cambodia's Future - Food, Energy and Natural Resources*. In his opening address, Prime Minister Hun Sen congratulated CDRI and ANZ Royal Bank for their long and fruitful partnership and highlighted the important role of the conference in informing government on areas where policy action is necessary.

This article provides an overview of the conference sessions and addresses the major issues pertaining to Cambodia's sustainable and inclusive growth. The first section covers a review of Cambodia's strong macroeconomic indicators and an acknowledgement of the need to pursue more inclusive development models; the second identifies agriculture as a key source of inclusive growth and suggests policies to enhance efficiency and equitability in the sector; the third discusses the changes needed to push Cambodia into and up the middle-income country bracket focusing on energy and transport; and the final section suggests how Cambodia might implement policies to benefit from a growing Asia.



H.E. Dr Sok Siphana, Chair of CDRI Board of Directors, presenting his welcoming remarks at the opening ceremony of the 2013 Cambodia Outlook Conference presided by Prime Minister Hun Sen, Phnom Penh, February 2013

High but not Inclusive Growth

Cambodia's growth, recently revised to 7.7 percent, remained strong in 2012. Gains were made in virtually all sections of the economy. Agriculture grew by 4.3 percent, benefitting from the EU's tariff-eliminating "Everything but Arms" trade initiative and the government's drive to commercialise rubber and rice production. As a result, rice exports reached 180,000 tonnes in 2011

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¹ Prepared by Benjamin C. R. Flower, Kim Sour, Roth Vathana and Sum Sreymom (CDRI). Presentations from the Outlook Conference are accessible on CDRI's website at www.cdri.org.kh.

and 207,168 tonnes in 2012, of which more than 80 percent went to the European Union. Industry grew by 9.2 percent, with garment exports to the European Union increasing from 23 percent to 30 percent of total, also resultant of the “Everything but Arms” trade initiative. The service sector grew by 8.1 percent, buoyed by high numbers of tourist arrivals that achieved a year-on-year increase of 24.4 percent, reaching a total of over 3.5 million visitors and bringing in around USD2 billion in revenue. Construction also continued its resurgence following the financial crisis with indications of a strong performance in 2012, though concrete figures are not yet available.

There have been signs of diversification within sectors into more value-added economic activities and new sources of growth. In agriculture, the sweeping fishery reforms to create new community fisheries have begun to bear fruit, with the sub-sector registering output growth of 6.7 percent in 2012. There are encouraging signs that the tourism sector is diversifying into beach and eco-tourism, especially with the development of Cambodia’s islands opening growth opportunities in the sector. Mining is emerging as an important source of economic growth since the recent discovery of

significant coal reserves in Kratie.

Sectoral growth has been built on macroeconomic stability and a low inflation rate, which is predicted to drop further to 2.9 percent in 2012 despite high growth (Table 1). Strides have been made in revenue collection as the government seeks to increase resources for health, education and infrastructure: domestic revenue collection by the General Department of Taxation is estimated to increase by 27 percent to KHR2501 billion (USD625 million) in 2012. In this fertile economic climate, Cambodia’s banking sector is becoming increasingly developed: deposits rose by 26.2 percent from USD4.9 billion in December 2011 to USD6.2 billion in 2012, and credit to the private sector in 2012 increased by 35.4 percent to USD5.9 billion from a year earlier. Microfinance deposits also went up more than twofold to USD273.9 million in 2012, while the total loan portfolio grew by 37.9 percent to USD885.8 million.

Cambodia’s progress in improving inclusive development indicators, such as for education and healthcare, has lagged behind its impressive economic development. Recent research suggests that Cambodia is moderately poor on consumption indicators, but is making

Table 1: Key Macroeconomic Indicators

(% of GDP, if not indicated otherwise)	2009	2010	2011	2012p
GDP nominal (USD million)	10400	11634	12937	14231
Real GDP (% growth)	0.1	6.0	7.1	7.3
- Agriculture (share)	33.5	33.9	34.6	36.8
- Industry (share)	21.7	21.9	22.1	21.9
- Services (share)	38.8	38.3	37.5	35.9
GDP per capita (USD)	753	830	911	990
Inflation (%)	-0.6	4.0	5.5	2.9
National savings (% of GDP)	21.1	24.7	24.4	23.7
Domestic revenue	11.9	13.2	13.2	13.7
Budget expenditure	20.5	21.3	20.7	19.0
Overall deficit	-6.4	-8.7	-7.3	-5.3
Investment expenditure	9.1	10.3	9.3	7.3
Domestic investment	13.4	14.1	13.7	13.3
Private investment	16.6	18.2	16.8	16.7

Source: Dr Hang Chuon Naron, 2013 Cambodia Outlook Conference

slow progress on ensuring inclusiveness in non-consumption dimensions. In education, for example, many, especially girls and those living in poor households, cannot afford the costs of secondary or tertiary study. Cambodia's healthcare system, which fails to cover poor households adequately, is also a constraint to inclusive social and economic development. The population also suffers high rates of land and consumption inequality, though recently there has been evidence of a declining rate of consumption inequality.

Failure to respond to underlying issues of socioeconomic inclusion risks jeopardising the hard-won gains Cambodia has made over the last two decades. There is a consensus that persistent high inequalities in income and especially opportunity imperil sustainable growth. Worse, inequality can undo social cohesion and potentially ignite unrest. Cambodia has to be ever vigilant of the level of social inequality to ensure that prosperity is equitably distributed to all segments of society.

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Agriculture for Inclusive Development

Agricultural development – particularly rice cultivation – is key to inclusive socioeconomic development and poverty reduction. The core sub-sectors (rice, other crops, livestock, fisheries and forestry) play a crucial role in providing food and livelihood security for most of the country's population, employing around 72 percent of the labour force including the majority of the poor.

Agricultural production is hindered by costly and poorly regulated farm inputs. A 2012 case study found that ineffective regulation has resulted in low entry barriers, which lead to the distribution of poor quality fertilisers: up to 10 percent of fertilisers in the study area were counterfeit. Application of fake or adulterated inputs can reduce crop yield equivalent to about USD285-350 per farm per year, hitting the poorest hardest

(CEFP 2011: 22).

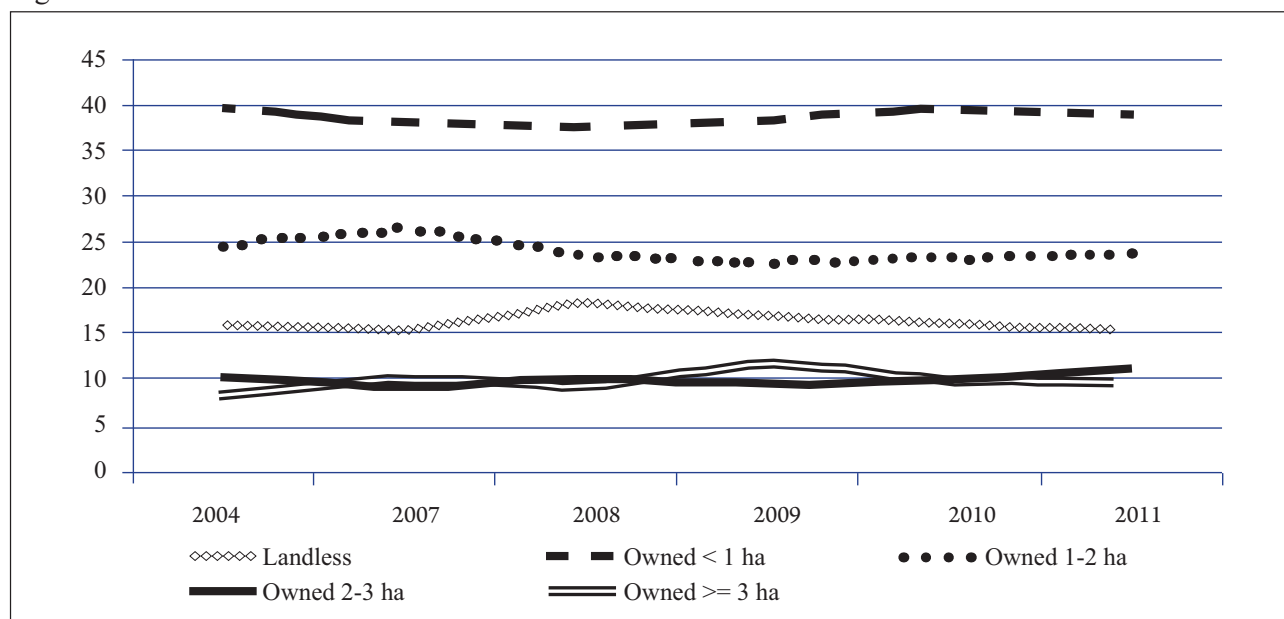
The Ministry of Agriculture, Forestry and Fisheries has made concerted efforts to disseminate high-yield rice seeds across the country. However, persuading farmers to use these varieties has proved challenging as they prefer to use seeds with established markets, for example the IR 504 strain from Vietnam. In addition, farmers find it difficult to access seeds due to supply shortages and high prices. A recent study found that supply was equal to only 20 percent of demand. Future policy must focus on removing constraints to seed supply (CDRI: 2012).

Credit is one of the most expensive farming inputs, especially for smallholders who rely on informal credit markets. Majority of farmers obtain high-interest (around 5 percent per month) moneylender loans, which are readily accessible in times of need. Although microfinance institutions' activity is growing, interest rates remain high at about 2.5 percent per month – a major burden for smallholders.

Expensive credit, fertilisers, pesticides and fuel combine with a lack of extension services to render many small farms inefficient. Better extension services are crucial if Cambodia's agriculture is to become more efficient and diversify. In rice production, for example, farm production training must focus more on pest control, fertiliser use and other modern rice-farming techniques. In livestock farming programmes, policy should promote animal husbandry, breeding programmes and veterinary extension services.

Research has shown that the promotion of contract farming in Cambodia has addressed many of the constraints facing smallholders. Contract farmers receive better quality seeds and are able to learn modern production techniques, access low interest credit, and trade within institutional frameworks that offer fairer prices

Figure 1: Land Distribution in Cambodia



Source: Dr Theng Vuthy, 2013 Cambodia Outlook Conference

and more stable demand. However, there remain issues regarding rice contract farming. The main drawback is that contractors control the production process: farmers are unable to influence the terms of agreement, have little bargaining power to negotiate output prices, and can generally only agree or disagree to the terms. In addition, some of the terms are too complex for smallholder farmers. Many have left contract schemes due to these factors. Future policy, therefore, should focus on simplifying contract agreements so that farmers can have more say.

Farmer organisations are another growing institutional production and market mechanism to empower smallholders. At present, there are 14,000 producer and resource-user groups nationwide, including 240 agricultural cooperatives. These organisations promote productivity by enabling farmers to negotiate better prices for their products, and disseminate information and technology. However, they do not address the fundamental issue of smallholder access to input and output markets. A more holistic approach is needed to link farmer organisations to contract farming and to tackle the multiple constraints to smallholder investment.

A major constraint to agricultural development and a source of social and economic exclusion is the low capacity of land governance institutions.

This has resulted in inequitable distribution of land that is negative from both production-efficiency and poverty-equity points of view. As Figure 1 illustrates, landlessness over the past decade has hovered between 15 and 20 percent of rural households, and those owning less than 1 hectare has remained at around 40 percent. This rural demographic is in many cases limited to subsistence farming, mainly because of the paucity of subsistence farmers' asset base. The majority of farming households cannot create a surplus that would contribute to growth, and are stuck in a continuous cycle of poverty.

The government's land governance institutions are both a cause and a potential solution to inequitable land distribution. On the one hand, poorly regulated economic land concessions (ELCs) have been used to expropriate land from vulnerable smallholders, and have thus contributed to land inequality. On the other hand, if properly regulated, ELCs and social land concessions (SLCs) are strong tools with which the government can increase the efficiency and equity of agricultural land distribution. Recognising this, the government ordered reviews into the process of allocating ELCs – many have been since been cancelled for violation of contract terms. Redistribution of this land is happening, but at a slow pace. ELCs covering about 133,000 hectares have been cancelled since

the prime minister's announcement of more rigorous review procedures, yet only about 40,000 to 50,000 hectares have been made available for reallocation as SLCs.

The national land titling programme is also intended to ensure legal security of tenure for households across the country. At the prime minister's behest, the programme was recently expanded to speed up the issuance of land titles to rural smallholders, thereby increasing their tenure security. These efforts need to be sustained if universal tenure security – a foundation of inclusive growth – is to be achieved.

There are also issues pertaining to the sustainable management of fisheries and forestry resources. Fisheries are an important growth sub-sector, but effective controls for legal fishing are needed so that stocks and biodiversity are maintained. More research should be done into the country's fisheries reserves so that fishing lots can be allocated appropriately. Efforts must be stepped up in the classification and demarcation of forests, and the monitoring of their usage. Conservation of forest biodiversity is critical to both environmental sustainability and the sustainable use of forests as an economic resource.

Securing Cambodia's Medium-term Development

Along with inclusive development, the key to sustaining Cambodia's high rates of growth is

restructuring the economy to reflect changing internal and external economic conditions. It is important to recognise that Cambodia's economy will change as it moves closer towards middle-income status. Looming is the so-called "middle-income country trap", a precedent that suggests economic development stalls as rising per capita GDP diminishes the effect of comparative advantages that caused past high growth. If not countered now, this effect could spell the end of Cambodia's remarkable period of development.

At present, a major advantage that has attracted investment and made exports competitive is low cost labour, but as per capita GDP grows this advantage will be lost. It is essential, therefore, that the labour force is appropriately skilled to diversify economic activity into more complex, more value-added industrial, agricultural and service industries. The government has been promoting Technical Vocational Education and Training (TVET) programmes to up-skill the labour force and avoid the middle-income trap. Such programmes need to be scaled up and an institutional mechanism that can bring together government, higher education institutions and the private sector to develop curriculums that are dynamic and can fit economic changing conditions must be put in place.

A key part of the government's medium term economic strategy is to massively increase milled rice exports to become the globe's third largest rice exporter by 2015. But there are constraints that have to be overcome if this is to become a reality. The high price of electricity adds significantly to the cost of milled rice exports. High-cost electricity imported from Thailand and Vietnam serves about 41 percent of the country's energy needs, resulting in consumers facing some of the most expensive electricity bills in the region. The country lacks sufficient infrastructure to transmit the power it produces to the population and their businesses, particularly those in rural areas. In 2010, the power grid supplied just 7 percent of rural households and around 11 percent of total villages' energy needs. In areas connected to the grid, there are wide variations in cost.

Poor energy infrastructure directly affects rice-milling operations, adding significant costs for producers. A 2012 survey of rice mills found that Pursat, which is relatively far from the border

Table 2: Electricity Costs for Rice Mills, 2012

Province	Price per KWh	
	USD	KHR
Banteay Meanchey	0.25	1000
Siem Reap	0.21	820
Battambang	0.25	1000
Pursat	0.40	1600
Svay Rieng	0.16	650
Kandal	0.28	1100
Kg Cham	0.33	1300
Prey Veng	0.26	1050
Takeo	0.24	950

Source: Mr David Van, 2013 Cambodia Outlook Conference

and hydropower dams, had the most expensive electricity at USD0.40 per KWh, while Svay Rieng near the Vietnamese border had the cheapest at around USD0.16 per KWh (Table 2). Because of disparities in electricity services and problems of supply reliability, many businesses use their own power sources. A survey of 97 rice millers in Banteay Meanchey, Siem Reap, Kompong Cham, Kompong Thom, Prey Veng, Kandal and Kompong Speu provinces found that the majority (83) use their own diesel generators.

Low-capacity hard infrastructure means that transport costs in Cambodia are among the highest in the region. Road haulage is the primary mode of transport and costs on average around USD15-17 per tonne, significantly higher than in neighbouring Thailand and Vietnam. Official and unofficial fees associated with export procedures (e.g. customs paperwork, sanitation controls) add still more to export costs. In the case of rice exports, the total processing cost is estimated to be about twice the official fees, adding around USD10 per tonne. The government's present strategy to upgrade transport infrastructure prioritises roads, railways and bridges. However, river transport offers a potential mode of transport that is cheap and efficient. In Vietnam, for example, river transport costs just USD3 per tonne, significantly cheaper than Cambodia's road haulage costs. Although there is great potential for river transport, it has received little investment or attention from policy makers.

Public-private partnerships (PPPs) can link the complementary aspects of public and private entities to upgrade transport, electricity infrastructure and increase the capacity of higher education. This is crucial in the case of Cambodia because neither public nor private sector can alone meet the huge demands that are required. State

investment in infrastructure is limited because low tax receipts and declining overseas development assistance inflows reduce fiscal space. Although the business climate has improved in recent years, private companies tend to lack the capability to take on large-scale projects, especially in infrastructure development.

PPPs have already played a crucial role in upgrading Cambodia's energy and transport infrastructure. The Power Transmission Line Project covers the construction of 221 km of 115 kV transmission line from Poipet to Siem Reap and Battambang, and includes three substations and one switching station. This transmission line transmits electricity from Thailand to Siem Reap, Banteay Meanchey and Battambang provinces. In transport, the USD141.6 million railway rehabilitation project was facilitated through a concession agreement signed with a private railway operator, Toll Royal Railway, in June 2009. The government retains ownership of the existing and rehabilitated assets, while the concessionaire pays concession fees to the government. Similar programmes should be extended to the education sector.

For future PPPs to be effective, they must be underpinned by solid institutional frameworks that set out best-practice procedures. These include clear output specifications, service payments, whole-life project costing, optimal risk allocation, competitive bidding, leveraging public resources, and effective contact management. Better coordination between ministries and key stakeholders is vital and can be achieved by the development of cross-ministerial mechanisms, such as the PPP and Risk Management Unit. Transparent and accountable operating procedures are of particular importance given the attention recently given to the social and environmental impacts of PPP projects, for example

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the resettlement of communities affected by infrastructure upgrading. It is crucial that potentially damaging impacts are built into project design and mitigated, with responsibilities clearly delegated among partners.

Planning for the Asian Century

The emergence of Asia – and in particular China – as driver of global growth offers new opportunities for policy makers to push inclusive and sustainable growth strategies across the region. Perhaps most notable are the opportunities afforded by the emergence of China as an economic superpower. China's regional presence has increased dramatically in recent years: it is now at the core of production networks, effectively linking the different components of regional manufacturing processes, facilitating the efficient supply of goods to global markets and providing a core source of FDI. So integrated are Asian economies, and the Greater Mekong Sub-Region (GMS) countries in particular, that even slight changes in China's GDP growth have major implications at a national level.

If China's economy continues to grow and its society becomes more affluent, large markets will emerge for a variety of GMS products. Already, there has been strong growth in domestic demand for durable goods and agricultural products as the Chinese population's consumption needs change. Sustained and diversified industrial development means Chinese industry will require vast quantities of raw materials, minerals and energy. The GMS is geographically, economically and politically well placed to satiate this demand.

As Chinese labour costs rise, industry will migrate to sites of low-cost production. Again, the GMS is well poised to become a global manufacturing hub; increasingly it is becoming a destination of labour intensive manufacturing.

For Cambodian policy makers, the challenge will be to restructure the economy to realise the opportunities offered by a growing China. If utilised effectively, policy tools can take advantage of changing patterns of intra-regional capital flows to increase employment, raise labour productivity, enable more effective technology transfers, move the economy higher up the value chain, and, ultimately, enable sustained high

GDP growth.

A strong ASEAN will increase Cambodia's negotiating power and enable the economy to benefit from favourable trade agreements with China and other emerging economies in the region. Cambodia, as Chair of ASEAN in 2012, enthusiastically encouraged member states to pass the requisite reforms for inclusion into the ASEAN Economic Community 2015. There is a risk, however, that Cambodia's policy space may be reduced by commitments to ASEAN. This is an important issue for Cambodia, as there are a number of areas where the country lags behind its neighbours and where decisive policy action is needed.

It is also crucial that policy frameworks are receptive to the increasing intra-regional flows of investment. A prerequisite to this is improvement in the country's business environment. The biggest constraint is corruption, especially as regards conflict resolution and contract enforcement. Long-term, diversified foreign investment requires an institutional environment that promotes strong property rights and even distribution of market information. The capacity of existing institutions has to be developed to satisfy this need. The government must work to strengthen the financial sector to aid this economic restructuring by extending well-regulated credit to small and medium-sized enterprises. In the longer-term, de-dollarising the economy is crucial for the long-term stability and development of the financial sector. As the Chinese economy becomes a greater force in the region, the government may consider the Chinese renminbi a more appropriate foreign currency to work with than the United States dollar.

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Leveraging Trade for Economic Growth in Cambodia¹

Introduction

No country in the world can sustain high growth without expanding trade. Openness to trade affects growth in several ways. It allows a country to exploit its comparative advantages and thereby enhances the efficiency of resource allocation, facilitates acquisition of foreign technology and knowledge and thus raises productivity, and attracts more investment that stimulates competition and improves competitiveness. Cambodia followed such a growth path during her economic take-off over the past decades, undergoing radical change from a trade regime effectively controlled by the state to one that is outward-oriented. Now that the trade sector forms the backbone of the economy, the challenge is how to make trade work for growth. This article attempts to answer two important questions: (1) Why is trade vital on Cambodia's new path to economic growth? (2) What is the right policy mix for Cambodia to make trade work for economic growth?

Why Is Trade Vital on Cambodia's New Path to Economic Growth?

Trade and trade policy is important on Cambodia's growth path for at least three reasons: (i) trade policy transition has created favourable conditions for the next trade strategy; (ii) trade has played a significant role in the past growth process; and (iii) the international trading landscape is changing so rapidly that policy requires constant adjustment to meet the challenges of globalisation.

Relevance of Historical Development

Successful Trade Policy Transition

Cambodia has successfully transformed from a centrally-planned to a market-driven economy. It abandoned a trade regime where the state strictly controlled the price and quantity of goods produced, imported and exported, and adopted an outward-looking trading strategy. Some of the

most pressing reforms included the abolition of state monopoly on foreign trade, promulgation of foreign investment laws allowing private companies to engage in foreign trade, abolition of price control, elimination of all quantitative restrictions, a campaign to build relations with major trading partners, and membership of regional and multilateral trading systems. As a result, Cambodia's economy became more open and integrated, and trade policy was aligned with international trade rules and regulations. These determined strategies have laid a sound basis for further policy reforms and shored up public and private sector confidence in the government's management of reform processes.

Favourable Economic Conditions Achieved through Previous Reform

Cambodia has done exceptionally well to maintain macroeconomic stability. Inflation has been contained at below 5 percent, the KH riel vs. US dollar exchange rate kept stable, and fiscal credibility strengthened. The financial sector has made impressive progress in terms of healthy environment, greater innovation and fair competition.

Business and investment climate has improved significantly. Routine processing times have been reduced, bringing the lead-time for export down from 43 days in 2006 to 22 days in 2011 and the lead-time for import from 53 days to 26 days (World Bank 2013). With the introduction of the Automated System for Customs Data (ASYCUDA), over 90 percent of import declarations are cleared within 24 hours (from goods declaration to the release of goods) (WTO 2011). Further, a firm level survey in Cambodia suggests improved perception of the investment climate, especially in aspects of legal reforms and access to finance and trade. Although a lot more still needs to be done to create an investment climate conducive to starting and running a business, the current environment provides the necessary conditions for higher levels of investment, trade and growth.

¹ Prepared by Hing Vutha, Research Fellow, Economy, Trade and Regional Cooperation (ETRC) Programme.

Active Players in Regional Cooperation Frameworks

Cambodia has been actively involved in the Greater Mekong Sub-region (GMS), the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), the Association of Southeast Asian Nations (ASEAN) and several ASEAN-initiated schemes, including the ASEAN Free Trade Area (FTA), ASEAN-China FTA, ASEAN-Korea FTA, ASEAN-Japan FTA and broader ASEAN+3 initiatives.

Regional cooperation initiatives benefit Cambodia in a number of ways. The country is a beneficiary of GMS and ASEAN infrastructure and connectivity initiatives – major roads, railways, bridges, waterways and ports. Alongside these hard infrastructure improvements, there is further progress in soft infrastructure: regulatory reform of the government agencies and capacity building of the officials responsible for the smooth, transparent and cost-effective movement of goods and people across borders. The economy has become more open. Under the ASEAN FTA, for example, Cambodia has committed to gradually reducing almost all tariffs on goods imported from ASEAN members to between 0 percent and 5 percent by 2010. Under the ASEAN-China FTA, Cambodia has to eliminate all tariffs by 1 January 2015.

Membership in regional trade frameworks provides the country with experience in regional cooperation. Cambodia is learning-by-doing in international trade affairs and domestic reform processes. And, perhaps most importantly, it is establishing friendly cooperative foreign policy and projecting a positive country image in regional and global arenas.

Increased Level of Trade and Competitiveness

Since the mid-1990s, rapid revival in the trade sector has made it the key driver of economic growth. Total trade in 2011 reached USD12.16 billion, a big jump from USD3.33 billion in 2000 at average annual growth rate of 14 percent. Analysis of revealed comparative advantage (RCA) index indicates that Cambodia has a very strong competitive edge in labour-intensive manufacturing such as apparel (HS² 61, 62, 63) and footwear (HS 64): exports of these products represent nearly two-thirds of total exports. Despite the slowdown in demand for clothes and footwear in major export markets, production of these goods will continue to increase, at least in the near future, and their competitiveness should remain firm.

Cambodia has yet to become competitive in agricultural trade, with agricultural goods contributing just 4.9 percent of total exports; however, a positive trend is forecast. The RCA index suggests prospects for certain agricultural products. Those that had no comparative advantage four years ago appear to be more competitive now and increasingly contribute to total exports. Cereal is the most successful product, both in terms of a jump in export value and stronger competitiveness proven by significant gain in its RCA index from 0.4 points in 2007 to 4.4 points in 2011. Other major export products making impressive progress in comparative advantage are sugar and sugar confectionery, live animals, rubber, edible vegetables and roots.

Role of Trade in Past Growth

Despite absence of empirical evidence, it is hard to deny the important role trade policy has played in boosting growth. Cambodia has benefited from its liberalised trade and investment policy in a number of ways, including linking its economy more firmly to regional and global markets and

Regional cooperation initiatives benefit

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² The Harmonised Commodity Description and Coding System (HS) of tariff nomenclature

increasing trade, investment and competitiveness. Growth has been mainly driven by four sectors: garments and footwear, tourism, construction, and agriculture. The boom in the garment sector is a clear example of how outward-looking trade policy affects growth. The tourism sector owes its rapid growth to key policies such as the Open Sky Policy introduced in late 1997 and regional policy cooperation, namely the GMS Tourism Strategy that aims to create a sub-regional tourism sector as a major engine for development, and the ASEAN Tourism Strategic Plan. Liberalisation of financial services, especially under the Global Agricultural Trade System (GATS) framework, has helped strengthen Cambodia's financial system (Hing 2009). The outreach of the financial system has deepened and widened, and its competitiveness and efficiency have significantly improved.

A Changing Trade Landscape

International trade governance has undergone significant changes. The world is more interconnected: multilateral trading underpinned by World Trade Organisation (WTO) rules remains a central pillar of the international trading system, regional trade arrangements (RTAs) have proliferated creating the "spaghetti bowl" syndrome, and global supply chains have become much more prevalent. Global experiences indicate that no country can sustain high growth without integrating into the world economy and that should be the way forward for Cambodia's trade and growth strategy.

The prospect of an integrated Asian production network and market from southern China through the GMS countries to the rest of Southeast Asia offers Cambodia a rich seam of investment and trade to spur private sector development and prosperity. The country has not been part of the intra-regional dynamics of production sharing, but a shift in the phenomenon of Asia's global supply chains promises to inspire a new era of opportunity for emerging economies. Because of rising costs, a considerable number of firms are moving production away from China and relocating in low-

cost countries to exploit comparative advantages, namely low labour costs, increasing intra-regional dependence and third country market access. This trend is evident in the investment of two Japanese firms – Minebea, a global leader in micro-motors, and Sumitomo Electric, a leading producer of wiring harnesses – to set up state-of-the-art production facilities in Cambodia to serve global markets. Since global supply chains rely on open trading systems, trade and industrial policy will play a crucial role in determining the rate of off-shoring³ in Cambodia.

What are the Policy Priorities for International Trade and Growth?

This paper takes the view that while trade is a necessary condition for growth, it is not sufficient. To sustain growth in the longer term, a whole set of different factors apart from export promotion policy needs to come together: effective government, macroeconomic stability, technology and knowledge transfer, and high level of investment in infrastructure, education and healthcare. Following are policy priorities to promote export and enhance diversification as key drivers to sustainable economic growth.

Maintain Sound Macroeconomic Management

Securing a stable and resilient macroeconomic environment will continue to be critical to underpinning successful outcomes from trade promotion policies. Policy priorities for sound macroeconomic management include containing inflation under 5 percent, maintaining exchange rate stability, building external sector resilience, improving revenue collection, and strengthening financial sector services.

Improve Investment Climate

A climate conducive to investment combines a number of factors, such as the level of macroeconomic certainty; quality and accessibility of infrastructure services; extent of government regulations; nature of taxation; access to and cost of financing for firms; access to, cost and quality of factors of production; degree to which the government ensures fair and open competition for firms; good governance and corruption control; and social peace and security. Immediate policy

³ Off-shoring is a type of outsourcing that involves the relocation of a company's business process or processes to a foreign country.

priorities to remedy investment climate weaknesses include improving infrastructure, streamlining customs procedures, enhancing logistics efficiency and investing in human capital.

Simplify Customs Procedures

Customs formalities including paperwork, clearance, regulations and fees are among the top three impediments to exports (World Bank 2009; ADB 2012). Inefficient import and export processes directly affect trade costs, total factor productivity, and competitiveness. Cambodia requires comprehensive reforms to ease major constraints perceived by the private sector, in particular processing customs and trade documents, coordination among trade facilitation agencies, and access to information on export procedures, regulations and fees.

Improve Logistics Efficiency

Cambodia is among the countries with the least efficient logistics services in the region. Poor logistics performance largely stems from a host of factors including insufficient and poor quality infrastructure, low efficiency and effectiveness of the clearance process by customs and border control agencies, and low competence and quality of logistics services. Policy interventions can range from improved trade-related hardware infrastructure to better border management, i.e. through reforming and modernising customs and wider information sharing, greater competition in trucking, port and airfreight services, and ready access to information about international transit agreements.

Strengthen Regional Cooperation and Connectivity

Cambodia has not fully harnessed opportunities from regional integration (CDRI forthcoming). The immediate challenge is to ensure that regional

cooperation is reached and taken advantage of by the trade sector so that exports can diversify from dependency on just a few sectors. In doing so, Cambodia must deepen regional cooperation and partnerships to achieve longer term development objectives. Central to this will be ensuring the coordination and synchronisation of GMS-ASEAN-East Asian development cooperation and regional integration to include a focus on sustained growth and bridging the development gap, with associated regional investment in long-term institutional capacity development.

Deepen Implementation of Special Economic Zones (SEZ)

Introduced almost a decade ago, SEZs have not been as successful in attracting investors as initially hoped. Of the 21 approved SEZs, only eight are operational. Apart from superior infrastructure and fiscal incentives, SEZs must administer taxes and enforce regulations efficiently and to a high standard, overcome a range of bureaucratic and administrative hurdles, tailor solutions to smooth the problems investors face, create more flexible employment relationships, and ensure ready access to low and high-skilled labour.

Invest in Human Capital

Cambodia's current labour market is characterised by the dominance of a low-educated workforce, skill mismatch and skill gaps. Learning from the experience of successful exporting countries, Cambodia must invest heavily in human capital development. Education policies should stress universal primary education and improvement in quality at primary and secondary levels. Tertiary education should focus on higher education in science and technology, and technical and vocational education and training. Priority policy

Cambodia's current labour market is characterised by the dominance of a low-educated workforce, skill mismatch and skill gaps. Learning from the experience of successful exporting countries, Cambodia must invest heavily in human capital development.

options include improving school infrastructure especially in rural areas, increasing the supply of technical and vocational schools to match demand for skilled labour, improving the quality of teaching and the governance of tertiary education, and institutionalising research and development capacities in higher education institutions.

Improve Export Market Information Services

The private sector lacks knowledge of export procedures and export markets (WTO 2011). Given the role of trade promotion organisations in overcoming information asymmetries, strengthening the function of the Trade Promotion Department (TPD) as part of the export promotion strategy is sensible. A short-term priority measure should focus on providing support and information needed by exporting firms, particularly in the areas of product and market development and market information services. Development partners funding can be useful in the initial stages of reform as it can promote best practice and effective organisations. However, such support should be temporary and followed by sufficient domestic resources, by either full government funding or a combination of government financing and service charges. Another important element in strengthening the TPD is ensuring quality staffing through on-going capacity building and recruitment of talented staff with business experience. Policy measures should also focus on building domestic trade networks (government, private sector, and investor) and overseas networks (foreign governments, international buyers and investors), and improving information systems.

Improve Standards Compliance

Cambodia has encountered great challenges in complying with importing countries' technical standards. Monitoring and enforcement of standards compliance suffers from serious flaws including weak legal and regulatory frameworks, poor coordination and duplication of functions among various agencies, absence of systematic laboratory testing to support inspection due to limited human and financial resources, lack of systematic inspection and monitoring, and a certification system that is not backed by testing (FAO 2010). Comprehensive reforms are needed to resolve all major problems in the standards management system. Pragmatic

measures should focus on strengthening institutional frameworks especially in relation to mandates and coordination, building technical and managerial capacity, and establishing Cambodia Assessment Bodies (CABs) that are recognised by international accreditation agencies.

Conclusion

Albeit trade is a necessary condition for Cambodia's growth trajectory, it is not sufficient. Trade policies can help accelerate integration into the world economy and strengthen a smart growth strategy, but they cannot ensure its success. Other elements that loosen binding constraints to growth need to be in place, including sound macroeconomic management, an enabling business and investment climate, competent institutions, and thoughtful investment in human capital and infrastructure. Further reforms and trade policy liberalisation will need political will from the leadership, strong momentum and new impetus from key stakeholders, and capable and responsive government.

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Gender Inequality in Agriculture: A Household Survey of Farmer Organisations in Four Provinces¹

This article presents a descriptive analysis of the findings of a household survey conducted by CDRI in 2011 as part of a study to examine the benefits and constraints of participating in farmer organisations for female-headed and male-headed farming households. According to our survey, female-headed households represent about 26 percent of all farming households in the study areas (CDRI forthcoming)². The study therefore has direct implications for these households and the general challenges women farmers face. Given its dominance in the agriculture sector and government policy priorities, the study focuses on rice production. Livestock farming is included in the scope because it is a common activity of Farmer Organisations (FOs) in Cambodia.

Background and Rationale

Cambodia's economic growth is narrowly based, relying on four main pillars – garments, tourism, construction and agriculture. Although Cambodia has undergone dramatic structural transformation from an agrarian subsistence-based economy, the economy is still highly dependent on agriculture, which contributes just over one-third (around 34 percent in 2010) of GDP (NIS 2011). Despite its moderate growth rate compared to industry and service sectors, agriculture remained staunchly resilient to the negative impact of the global financial crisis in 2009, serving as a crucial social safety net and economic buoy that saved people from even greater hardship and prevented GDP growth from dipping into negative figures.

Agriculture has strong potential to be an engine of growth for Cambodia's socioeconomic development, engaging around 49.5 percent of the employed labour force in 2011 (NIS 2012). The sector is characterised by rural household ownership of small parcels of land: in 2009, 46.9 percent of households had agricultural plots of less than one hectare. Further, data from the 2008 Census indicates that 66.1 percent of employed women (aged 15 to 64) are engaged in subsistence crop farming, compared with around 60 percent of employed men (NIS 2009).³ Therefore, developing the agriculture sector would be a far-reaching and effective way of improving rural living standards, particularly for women.

To realise the national vision of agriculture sector development, the government recognises and prioritises the promotion of smallholder farming and the establishment of FOs as key to livelihood strategies, rural economic development, and poverty alleviation (Chea 2010). FOs are expected to enable members' greater access to information, inputs and techniques that help improve smallholder agricultural productivity, and to organise collective access to input and output markets so that small-scale rural producers can take advantage of economies of scale.

Overview of Farmer Organisations in Cambodia

In concept and in practice, FOs as a means for achieving agricultural development, food security and poverty reduction at grassroots level have a long and varied history in Cambodia. Couturier *et al.* (2006) report that about 13,017 FOs had been established by 2005, over 60 percent of which had been formed since 2000. Most FOs in Cambodia have less than 30 members, and only 12 percent have more than 100.

Farmer organisations are established to enhance rural development through capacity building and collective action, and are based on the principles of volunteerism, self-help, self-reliance, democracy,

¹ Prepared by Keo Socheat, Research Associate, Poverty Agriculture and Rural Development Programme.

² While ideally the benefits and constraints of FOs for women in male-headed households should also be investigated, the survey design used in this case study meant that such an analysis was not possible.

³ Author's calculation based on data generated from the 2008 National Census.

equality, equity, solidarity and empowerment (Nou 2006). Most Cambodian FOs are formed and technically and/or financially supported by NGOs or government agencies, whose main roles are to improve access to credit through group saving schemes, group businesses, capacity building on agricultural techniques, and community development (Couturier *et al.* 2006).

Initially, some FOs worked with only the poorest farmers, but this approach was not successful because those farmers lacked the necessary productive assets, capital, literacy and management skills to put into practice what FOs provided them. Outsiders, for example, government, NGOs or supporting agencies, initiated majority of the FOs; none of the sample FOs were self-established, whereas more than 60 percent were reportedly set up by support agencies. The objectives of FOs differ according to support agencies' various agendas, but the provision of informal savings and rotating credit schemes is the common aim.

Data and Methodology

The household survey was conducted in 2011 in four provinces – Battambang, Kampong Thom, Kampot and SvayRieng. The survey sample comprised 699 households – 330 FO members and 369 non-FO members. In addition, qualitative information was gathered from key informant interviews (KIIs) and focus group discussions (FGDs) to verify the descriptive analysis of the survey findings. We compared the benefits and drawbacks of FO membership for female and male-headed households. Although it is not possible to study individual male and female household members, studying the effects of FO membership on female-headed households can help identify gaps in creating an enabling environment for promoting gender equality, women's empowerment and more meaningful participation.

⁴ Self-help groups are the most common type of FO in Cambodia and typically involve less than 30 members; the two other main types are farmer associations (more than 30 members) and agriculture cooperatives (more than 30 members and registered at the Ministry of Agriculture, Forestry and Fisheries). Due to time and resource limitations, the study uses FOs as an umbrella term to represent all three organisation types.

Benefits of Farmer Organisation

Membership

FO members commonly benefit from group savings, agricultural techniques training, and teamwork. The survey data shows that the top five FO activities for both male and female household heads are savings and credit schemes, livestock husbandry techniques, fertiliser trade, crop husbandry techniques and vegetable growing, and seed production. There are no marked differences between male and female-headed households' perception of FOs in terms of trust, satisfaction with benefits, and teamwork.

Access to credit

Members mainly use credit from FOs to invest in farming. In rural areas, smallholders are increasingly forming self-help groups where members contribute savings to create a communal fund from which they can borrow⁴. Credit in self-help groups tends to be limited to members' investment in farming, including in improved inputs such as livestock feed, fertiliser and seed. Some groups, however, are capable of creating credit services to meet members' immediate needs as well. Applying for a loan is straightforward in terms of time, eligibility and paperwork, and interest rates are relatively low compared to those charged by MFIs.

We were able to get a loan quickly when our children were sick. For example, once I had no money to register my child at school. I then tried to borrow [money] from someone [but] they would not lend me any. I appealed to the group and the members decided to lend me some money because they understood my situation. (FO female member, Battambang)

The average FO loan extended to members is around 306,000 riels (Table 1). This is nowhere near enough for farmers to expand agricultural production. The minimum amount that would make a useful difference to farm productivity and farm income was not captured by the household survey, but some farmers said during the key informant interviews that they would need around two million riels. Nonetheless, poor farmers still find FO loans useful because the loan conditions

Table 2: Farm Production Training Accessed by FO Member Households

Training services/instruction	Number of HHs	Total (% HHs)	FHH (%FHHs)	MHH (%MHHs)
Rice/vegetables				
- Disease and pest control	221	66.97	60.24	69.23
- Planting techniques	243	73.64	63.86	76.92
- Improved varieties and seed selection	236	71.52	68.67	72.47
- Chemical fertiliser application	186	56.36	49.40	58.70
- Composting and organic residue management	234	70.91	72.79	70.45
- Irrigation and water management	176	53.33	43.37	56.68
Livestock raising techniques				
- Breed improvement	212	64.24	56.63	66.80
- Housing	232	70.3	66.27	71.66
- Disease control	215	65.15	59.04	67.21
- Feed and nutrition	207	62.73	60.24	63.56

Source: Authors' calculation based on CDRI 2011 survey data

are not stringent. Some FOs even offer interest-free credit on short-term (repaid over one month or less) loans.

Table 1: FO Members' Average Loan by Sex of Household Head

	Total HHs	FHHs	MHHs	t-test
Number of households	330	83	247	-
Average loan (riels)	306000	208000	339000	- 1.4040

Source: Authors' calculation based on CDRI survey data (forthcoming)

Note: Because FO members have to rotate loans, female and male-headed households do not necessarily access loans at the same time; USD1=4000 riels.

Although not statistically significant, the average loan of 208,000 riels accessed by female-headed households is around 61 percent of that extended to male-headed households, and is well below what is needed to expand

agricultural production. Further, fewer female-headed households (35 percent) than male-headed households (41 percent) take out loans for investment in crop production. This is because more women than men use FO loans for purposes other than agriculture.

Agricultural extension services and agricultural production

Although FO members were unable to understand everything taught them by agricultural extension officers, they have gained some practical knowledge on agricultural techniques such as how to make compost and use manure, plant green manure (cover) crops, grow vegetables, and raise poultry (chickens, ducks) and small livestock (pigs). Focus group discussions also noted that some FO members get training services from support agencies, while other FO members get assistance from both support agencies⁵ and the Provincial Department of Agriculture.

The Provincial Department of Agriculture offers training courses on agricultural techniques to the members of this FO at least every three months. (Agricultural extension officer, Svay Rieng)

⁵ Support agencies are NGOs that provide financial and technical support to FOs. Some FOs are assisted either by NGOs or the PDA, and some are helped by both NGOs and the PDA, especially agricultural cooperatives because they come under the mandate of PDA.

Table 3: Rice and Livestock Production for FO Member Households

	Both	Female	Male	t-test
Land for rice (ha)	1.60	1.10	1.80	-3.04
Rice yield per year (kg per ha)	1958	1783	2015	-1.57
Rice revenue per year (0000 riels per ha)	206.170	169	219	-2.22
Rice input costs* per year (0000 riels per ha)	62	61.77	61.19	-0.018
Rice gross margin per year (0000 riels per ha)	162.53	124.85	174.93	-1.89
livestock revenue per year (0000 riels)	465.12	336.37	506.35	-1.85
livestock cost per year (0000 riels)	75.23	34.44	88.19	-0.93
Livestock net revenue per year** (0000 riels)	389.89	301.92	417.85	-1.89

Source: Authors' calculation based on CDRI survey data (2011)

Note: USD1=4000 riels; * does not include labour costs; ** Net revenue = revenue – input cost

The farmer training programmes most highly accessed by FO members are planting techniques, improved crop varieties, seed production, composting and organic residue management, and livestock and poultry housing. Apart from instruction on composting and organic residue management, notably fewer women than men directly benefit from agricultural techniques training (Table 2).

Although not statistically significant, the disparity between male and female-headed households' access to agricultural extension services may be the result of direct albeit inadvertent discrimination by agricultural extension workers against female household heads. In addition, female-headed households have lower crop yields and lower livestock revenues compared to male-headed households, which also own relatively big parcels of farmland (Table 3).

One possible explanation for female-headed households' higher participation in composting and organic residue management training reported by provincial extension officers is that women do not have enough time to participate in all FO activities and these simple techniques are related to ordinary daily household chores.

Female-headed households' rice revenue is lower than male-headed households' rice revenue, and the difference is statistically significant at 5 percent level though female and male-headed households have comparable yields (see also Table 3). One reason for this may be that male-headed households' average cultivated rice land is significantly larger than that of female-headed households. Taking gross margin⁶ into account, we find that female-headed households' rice production is less efficient than male-headed households' rice production, and the difference is statistically significant at 10 percent level. This suggests that female-headed households could potentially increase agricultural production if they make better use of farm production services and have better access to loans to improve their farming. Regarding livestock production, female-headed households' livestock net revenue is significantly lower than for male-headed households, though the difference is not statistically different.

Challenges Faced by Farmer Organisations

The household survey revealed a number of factors that inhibit FOs' effectiveness as a mechanism for improving productivity and linking smallholders to market chains (Table 4). The first is lack of capital, which directly relates to FOs' sustainability. The primary function of

⁶ Gross margin = (revenue – input costs)/cultivated area

Table 4: Perceptions of Constraints to Farmer Organisations (percent)

	All HHs	FHHs	MHHs
Shortage of credit	82.73	74.7	85.43
Lack of farmland*	79.7	81.93	78.95
Illiteracy	79.39	80.72	78.95
Lack of external support (access to information and services)	70.61	65.06	72.47
Impractical knowledge and techniques provided by supporting agencies	68.79	71.08	68.02
Limited knowledge about planning	63.94	61.45	64.78
FO does not respond to members' needs	62.12	61.45	62.35
Improper enforcement of internal regulations	61.21	56.63	62.75
Lack of good leadership	51.82	48.19	53.04
Poor group structure	50.3	49.4	50.61
Lack of motivation to join collective action	45.15	43.37	45.75
Jealousies among members	38.79	43.37	37.25
Poor book-keeping/financial management	36.36	37.35	36.03

Source: Authors' calculation based on CDRI survey data (CDRI forthcoming)

Note: * Some households find it difficult to apply techniques taught due to limited farmland

FOs in Cambodia is to extend credit, and that may depend on funding by NGOs or government agencies (Nou 2006). More male-headed households (85.43 percent) than female-headed households (74.7 percent) perceived shortage of credit to be a challenge.

The second problem for FO members is limited farmland. The slightly higher response from women reflects the fact that female-headed households' farm plots are smaller than male-headed household plots are. To make use of agricultural techniques learned from supporting agencies, FO households should own a parcel of agricultural land. Indeed, some FOs stipulate that members must have their own agricultural land. It is worth noting here that tenure security and land registration is a long-standing issue in Cambodia. Further, there is a link between legal land tenure and productivity as secure land ownership encourages households to invest in agriculture (Tong 2011).

Illiteracy is another constraint, especially for female-headed households. The survey identified that 49.40 percent of female and 80 percent of male household heads can read and write. Female household heads have an average of around three years of education compared to around five years for males. Despite disparity in educational attainment, the sample male and female household heads have a similar perception of literacy being a problem.

Although FO members can access information and farm production training provided by supporting agencies, more than half of FO households in the survey reported it was not very useful. There are likely to be differences between female and male perceptions of this constraint due to different farming tasks, though the survey did not set out to examine this factor. One possible reason why FO members rank this constraint quite highly may be that NGO-dependent FOs must show they have met their donors' agendas

(Couturier *et al.* 2006).

One of the most important challenges for FOs is gaining market access to enable economies of scale for small-scale rural producers. Around 80 percent of FO member households (male and female-headed) do not have collective access to input and output markets, which is a key service FOs are expected to provide. Focus group discussions and key informant interviews revealed that trust is not an issue. Farmers reported no marked differences between individual and collective marketing, but indicated that it is sometimes more difficult to coordinate collective access to market than to access markets on an individual basis. This is a worrying trend and possibly relates to members' criticisms that FOs lack external support and access to information, and their concern about poor group structure (see also Table 4).

Some Policy Implications for Promoting Decent Work in Agriculture

Although some FOs have developed their own credit strategies within and through their organisations, government must develop specific credit policies and services to ensure that female and male-headed households can equally access credit.

Farm production training is a vital input to FOs' efficacy, and is too important to be left to FOs and the agendas of their supporting agencies alone. The government needs to have a more effective training strategy that enables FOs to strengthen the services they provide to members. Such training should include information and technical help with planning, marketing and input-output market access. In addition, there should be practical training on all facets of farm production, and programmes should meet the specific needs of women in both content and delivery. Gender sensitive considerations include women's level of literacy, organising training around household responsibilities i.e. at times when women can attend, and childcare arrangements. Women are likely to require capacity building to encourage them to attend training and to enable them to acquire negotiation and basic business skills.

To multiply the potential benefits of FOs, it is necessary that they promote collective access to output and input markets. It is essential that women's roles in agricultural production are recognised and supported and that female and male-headed households are empowered to participate equally. This will in part catalyse the transition to small-scale commercial agriculture and help rural women move out of subsistence farming.

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Economy Watch—External Environment¹

This section describes economic indicators of major world economies and economies in south and east Asia.

Economic growth in Asia and some industrialised countries stabilised in 2012. However, what remains to be done is to restore consumers' and investors' confidence to pre-crisis levels and above. Asia continued to be a driving force for world growth, as major developed economies struggled to catch up.

Real GDP growth in Indonesia averaged 6.0 percent in 2012, albeit a slight decrease in the fourth quarter of 2012 to 6.1 percent from 6.5 percent in the same quarter of the previous year. Malaysian GDP increased 6.4 percent year on year while that of Singapore slowed to a 1.5 percent increase from 3.6 percent in the same period of the previous year. Thailand achieved impressive annual growth in the fourth quarter, 19.5 percent, due mainly to increased domestic consumption and exports. Growth in China slowed, but remained relatively high at 7.9 percent in the fourth quarter. Political and military tension between China and Japan over a number of islets has not damaged the Chinese economy. And the intention of both countries to resolve the dispute peacefully would have a stabilising effect on growth. Annual GDP growth in Hong Kong in the fourth quarter declined to 2.5 percent from 3.0 percent the same period last year and that in South Korea was 1.6 percent.

Growth in rich countries, particularly the euro zone, continued to fluctuate as economic interventions have not produced satisfactory results. The euro zone was in recession in the fourth quarter with negative GDP growth (minus 0.9 percent) for the third consecutive quarter, and zero growth in the first quarter. Problems of troubled banks continued to spread, most recently to Cyprus. Growth in the United States stabilised as the economy grew at an annual rate of 1.6 percent in the fourth quarter. More jobs have been created. However, policy makers and the government still need to talk themselves out of the fiscal cliff and balance the budget for long-term growth. Japan continued to restore and rebuild the economy, yet growth continued to fluctuate. Pressing issues include increased government spending on social programmes for more elderly people, reconstruction programmes for the tsunami-hit areas and territorial

disputes with China, South Korea and Russia.

World Inflation and Exchange Rates

The inflation rate of most economies was manageable throughout 2012. The overall price increase in Cambodia in the fourth quarter dropped to 1.8 percent from 4.9 percent in the same quarter of the previous year. However, the prices of oil and gas remained stubbornly high, affecting production costs of businesses and living standards of households. Inflation in Vietnam declined in the fourth quarter to 7.0 percent from 19.8 percent in the same quarter of the previous year; the rise in overall prices was mainly attributable to the government stimulus package adopted to mitigate external shocks. Inflation in China dropped in the fourth quarter to 2.1 percent from 4.6 percent in the same period of the previous year and that in Hong Kong increased to 3.8 percent. Japan continued to experience deflation in the fourth quarter, putting upward pressure on the real interest rate.

In the fourth quarter, the riel appreciated 1.6 percent from a quarter earlier (1.9 percent year on year) against the US dollar and by 0.04 percent (0.8 percent year on year) against the Vietnamese dong. The Japanese yen depreciated 3.4 percent from the previous quarter (4.5 percent year on year) against the US dollar.

Commodity Prices in World Markets

In the fourth quarter, the price of maize (US No. 2) declined 5.0 percent (14.8 percent increase year on year) to USD310.9/tonne, of soybeans (US No. 1) 11 percent (27 percent rise year on year) to USD577.8/tonne and of diesel (low sulphur No. 2) 1.0 percent (3.9 percent increase year on year) to USD0.80/litre. The price of rubber (SMR 5) in the fourth quarter increased by 5.1 percent from a quarter earlier, but year on year decreased by 19.6 percent to USD2941.5/tonne, of crude oil (OPEC spot) by 0.7 percent (7.2 percent increase year on year) to USD107.3/barrel. Gasoline went up 2.5 percent (7.2 percent year on year) to USD0.73/litre. The Thai rice price (Thai 100% B) in the fourth quarter rose 0.2 percent from a quarter earlier to USD597/tonne, but decreased 2.2 percent year on year.

¹ Prepared by Roth Vathana, research associate at CDRI.

Economy Watch—External Environment

Table 1. Real GDP Growth of Selected Trading Partners, 2006–2012 (percentage increase over previous year)

	2007	2008	2009	2010	2011				2012			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Selected ASEAN countries												
Cambodia	10.2	6.8	0.1	-	-	-	-	-	-	-	-	-
Indonesia	6.3	6.1	4.2	6.2	6.5	6.5	6.5	6.5	6.3	6.4	6.2	6.1
Malaysia	6.3	4.6	-2.4	9.0	4.6	4.0	5.8	5.2	4.7	5.4	5.2	6.4
Singapore	7.7	1.1	-4.5	14.7	8.3	0.9	5.9	3.6	1.6	1.9	0.3	1.5
Thailand	4.9	2.6	3.3	7.9	3.0	2.6	3.5	-9.0	0.0	4.2	3.3	19.5
Vietnam	8.5	6.2	4.7	6.7	5.4	5.7	7.2	6.1	-	-	-	-
Selected other Asian countries												
China	11.9	9.0	8.2	10.4	9.7	9.5	9.1	8.9	8.1	7.6	7.4	7.9
Hong Kong	6.4	2.4	-3.2	6.9	7.2	5.1	4.3	3.0	4.2	3.6	1.3	2.5
South Korea	4.9	2.2	-1.0	6.1	4.2	3.4	3.4	3.4	3.0	2.4	1.5	1.6
Taiwan	5.2	0.1	-3.6	11.1	6.5	4.9	3.4	1.9	0.4	-0.2	1.0	3.7
Selected industrial countries												
Euro-12	2.9	0.9	-3.8	1.6	2.5	1.6	1.4	0.7	0.0	-0.4	-0.6	-0.9
Japan	2.0	-0.7	-5.4	4.1	-1.0	-1.0	0.0	-1.0	2.8	3.5	0.1	0.5
United States	2.2	1.1	-2.5	2.7	2.3	1.5	1.6	1.6	2.1	2.2	2.5	1.6

Sources: International Monetary Fund, Economist and countries' statistic offices

Table 2. Inflation Rate of Selected Trading Partners, 2006–2012 (percentage price increase over previous year—period averages)

	2007	2008	2009	2010	2011				2012			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Selected ASEAN countries												
Cambodia	10.5	19.7	-0.5	4.1	3.6	6.2	6.7	4.9	5.5	2.9	1.6	1.8
Indonesia	6.4	10.1	4.7	5.1	6.8	5.9	4.7	4.1	3.8	4.5	4.5	4.4
Malaysia	2.0	5.3	0.4	1.7	2.8	3.3	3.4	3.2	2.3	1.7	1.4	1.3
Singapore	2.1	6.5	0.5	2.9	5.2	4.7	5.5	5.5	4.9	5.2	4.2	4.0
Thailand	2.2	5.5	-0.9	3.1	3.0	4.1	4.1	4.0	3.4	2.6	2.9	3.2
Vietnam	8.3	23.3	7.3	9.0	12.8	19.4	22.5	19.8	16.0	8.6	5.6	7.0
Selected other Asian countries												
China	4.8	5.9	-0.8	3.2	5.1	5.7	6.3	4.6	3.8	2.9	1.9	2.1
Hong Kong	2.0	4.3	-0.3	2.4	4.0	5.1	6.5	5.7	5.2	4.2	3.1	3.8
South Korea	2.5	4.6	2.8	3.0	4.4	4.2	4.8	4.1	2.9	2.4	1.6	1.7
Taiwan	1.8	3.2	-1.1	1.0	1.3	1.6	1.3	1.4	1.3	1.6	3.0	1.9
Selected industrial countries												
Euro-12	2.1	3.3	0.4	1.6	2.5	2.7	2.7	2.9	2.7	2.5	2.5	2.3
Japan	0.1	1.4	-1.3	-0.7	0.0	0.3	0.2	-0.3	0.3	0.2	-0.4	-0.2
United States	2.9	3.8	-0.4	1.7	2.1	3.5	3.8	3.3	2.8	1.9	1.7	1.9

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

Table 3. Exchange Rates against US Dollar of Selected Trading Partners, 2006–2011 (period averages)

	2007	2008	2009	2010	2011				2012			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Selected ASEAN countries												
Cambodia (riel)	4062.7	4054.2	4140.5	4187.1	4041.9	4044.9	4095.7	4071.9	4046.0	4054.3	4060.2	3995.9
Indonesia (rupiah)	9419.0	9699.0	10413.8	9089.9	8902.0	8593	8625.8	8985.7	9078.6	9281.3	9490.3	9614.6
Malaysia (ringgit)	3.3	3.3	3.5	3.2	3.1	3.0	3.0	3.2	3.1	3.1	3.1	3.1
Singapore (S\$)	1.5	1.4	1.5	1.4	1.3	1.2	1.2	1.3	1.3	1.3	1.6	1.2
Thailand (baht)	32.2	33.4	34.3	31.7	30.6	30.3	30.2	31.0	31.0	31.3	31.3	30.7
Vietnam (dong)	16,030.0	16,382.0	17,725.2	19,200.8	20,273.8	20,693.6	20,699.6	20,997.7	20,971.2	20,849.7	20,847.5	20,839.3
Selected other Asian countries												
China (yuan)	8.0	6.9	6.8	6.76	6.6	6.5	6.4	6.36	6.3	6.3	6.4	6.2
Hong Kong (HK\$)	7.8	7.8	7.8	7.77	7.8	7.8	7.8	7.78	7.8	7.8	7.8	7.8
South Korea (won)	929.0	1137.2	1277.8	1156.3	1120.2	1084.3	1084.9	1144.87	1131.2	1152.6	1132.9	1089.9
Taiwan (NT\$)	32.9	31.5	33.0	31.3	29.3	28.9	29.2	30.26	29.7	29.6	29.8	29.2
Selected industrial countries												
Euro-12 (euro)	0.7	0.8	0.7	0.8	0.7	0.7	0.7	0.74	0.8	0.8	0.8	0.8
Japan (yen)	117.8	102.5	93.6	87.8	82.3	81.7	77.9	77.78	79.3	80.1	78.6	81.3

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

Table 4. Selected Commodity Prices on World Market, 2006–2011 (period averages)

	2007	2008	2009	2010	2011				2012			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Maize (USNo.2)—USA(USD/tonne)	149.08	218.15	167.31	169.90	280.3	311.6	302.8	270.8	277.5	270.5	327.1	310.9
Palm oil—north-west Europe (USD/tonne)	707.68	912.23	686.84	834.75	1251.0	1147.0	1079.0	1024.7	1106.7	1083.3	993.0	809.3
Rubber SMR 5 (USD/tonne)	2202.30	2586.30	1884.84	3152.17	5278.0	4968.8	4617.6	3658.0	3701.2	3361.0	2799.2	2941.5
Rice (Thai 100% B)—Bangkok (USD/tonne)	305.36	615.32	524.47	456.67	528.3	514.3	581.3	610.3	549.0	600.3	595.7	597.0
Soybeans (US No.1)—USA (USD/tonne)	294.59	460.41	414.03	375.38	537.2	525.7	514.0	454.8	490.8	546.5	649.4	577.8
Crude oil—OPEC spot (USD/barrel)	69.25	95.44	60.50	71.61	100.7	113.3	108.9	109.1	117.3	106.7	106.6	107.3
Gasoline—US Gulf Coast (cents/litre)	53.58	62.22	42.91	49.83	67.9	78.7	74.6	68.5	79.0	74.0	71.6	73.4
Diesel(low sulphur No.2)—US Gulf Coast (cents/litre)	55.51	76.20	43.05	51.62	72.5	75.7	77.3	77.3	83.8	77.8	81.1	80.3

Sources: Food and Agriculture Organisation and US Energy Information Administration

Economy Watch—Domestic Performance¹

Main Economic Activities

Although it slowed in some sectors, Cambodia's economic growth remained strong and buoyant in 2012 with expected growth rate of 7.3 percent. Nonetheless, Cambodia has to be vigilant to ensure competitiveness given the uncertainty and vulnerability of the world economy, particularly in the euro zone and the US.

Fixed asset investments approved by the Council for the Development of Cambodia in the fourth quarter of 2012 increased by 169.7 percent from a quarter earlier, yet year on year declined by 13.6 percent to USD1.1 bn. Investment in agriculture dropped 36.7 percent from the preceding quarter (74 percent year on year) to USD114.6 m, despite increased government attention to improved competitiveness and productivity in this sector. Industry continued to be one of the driving forces of GDP growth and especially exports. Investment in the sector increased year on year by 12.3 percent. Investment in garments—the major manufacturing commodity—went up 42.6 percent from a quarter earlier (28.8 percent year on year) to USD152.9 m. Tourism was also resilient, attracting investment in hotels and other tourism-related businesses worth USD640.6 m, a 149.3 percent increase from a year earlier.

Construction is one of the pillars of growth affected by the global financial crisis, and recovery has been slow. The total value of construction in the fourth quarter decreased 65.8 percent from the previous quarter (59.7 percent year on year) to USD59.9 m; villas and houses dropped 53.6 percent (86 percent year on year) to USD8.5 m and flats by 83.4 percent (82.6 percent year on year) to USD10.2 m. Approximately 3.5 m foreigners visited Cambodia in 2012. In the fourth quarter, the number increased by 22.6 percent from a quarter earlier (26.3 percent year on year). Tourist arrivals by air rose 35.1 percent (16.3 percent year on year) and by land and water 12.4 percent (38.2 percent year on year).

Although fluctuating quarterly, exports were strong. Total exports increased in the fourth quarter by 9.9 percent from the same period of the previous

year to USD1.4 bn. Garments—accounting for 78.4 percent of the total export value—rose 1.0 percent to USD1.1 bn, of which exports to the US accounted for 40 percent, the EU 37 percent, ASEAN 0.8 percent and Japan 3.7 percent. Although exports of agricultural commodities, of which rubber and rice are important, increased by 18.2 percent year on year, their share of total export value was relatively small (3.0 percent). In the fourth quarter, total imports went up 13.2 percent year on year. Imports of gasoline dropped by 3.7 percent, while those of diesel increased 32.6 percent and construction materials 38.3 percent.

Public Finance

Increased fiscal space through strengthening revenue collection is necessary for the government and the economy. A sign of improvement was the year on year rise in government revenue, mainly current revenue, throughout 2012. In the fourth quarter, total revenue rose by 6.1 percent from a quarter earlier (13.5 percent year on year) to KHR2017 bn. Current revenue went up 10.9 percent (14.5 percent year on year), tax revenue by 5.6 percent (13.4 percent year on year) and non-tax revenue by 46.2 percent (20.6 percent year on year). Capital revenue dropped by 77.1 percent (34.5 percent year on year) to KHR23.9 bn, possibly affecting infrastructure projects. Efforts to curb waste in government spending were also seen in a decrease of government expenditure in the fourth quarter. Total expenditure declined by 6.8 percent from a quarter earlier (11.7 percent year on year) to KHR2751.5 bn. Capital expenditure dropped by 14.8 percent (29.6 percent year on year), wages by 9.5 percent (2.2 percent year on year) and subsidies and social assistance by 9.0 percent (13.7 percent year on year).

Inflation and Foreign Exchange Rates

Inflation was manageable, declining in the fourth quarter to 1.8 percent, from 4.9 percent from the same period of the previous year. The price index of food and non-alcoholic beverages increased 1.4 percent and transportation 1.2 percent over the previous year. In the same period, the riel

¹ Prepared by Roth Vathana, research associate and Pon Dorina, research assistant, at CDRI.

appreciated 1.6 percent from a quarter earlier (1.9 percent year on year) against the US dollar. The price of gold increased by 4.1 percent (1.3 percent year on year) to USD206.5/chi, of diesel fuel by 2.9 percent (4.5 percent year on year) to KHR5129/litre and of gasoline by 0.8 percent (3.6 percent year on year) to KHR5295/litre.

Monetary Developments

In the third quarter, net foreign assets dropped by 0.03 percent from a quarter earlier (5.8 percent increase year on year) to KHR18,723.6 bn. Net domestic assets rose by 10 percent (75.6 percent year on year) to KHR8717.2 bn. Total liquidity increased by 21.1 percent year on year, money by 7.6 percent and quasi-money by 23.8 percent.

Poverty Situation

In the vulnerable worker survey in February, only the income of small vegetable sellers declined from the same month last year. The other nine groups—cyclo drivers, porters, scavengers, waiters/waitresses, rice field workers, garment workers, motorcycle taxi drivers and unskilled and skilled construction workers—had higher incomes.

The average daily income of rice field workers increased at the highest rate, 24 percent, to KHR5828. They used almost 54 percent of their income for daily expenses. All of them had less than three hectares of farm land. Their work in rice fields was the main income source of the family for 68 percent of the workers.

On a yearly basis, scavengers' daily earnings rose by 19 percent, to KHR9483. However, this was 9.3 percent less than three months previously. The price of rubbish declined while the number of scavengers was reported to increase. Seventy percent of respondents went into debt to pay their living costs. They spent 68 percent of their income on daily expenses, not including interest payments or spending to treat illness.

Porters' daily incomes increased by 18 percent from a year earlier to KHR12,744, a rise of 9.4 percent from three months earlier. Among the 40 respondents, 85 percent moved away from their families to work in Phnom Penh. Ten percent of these workers lived on the streets or in a pagoda, while the rest rented housing. Porters could save almost nothing after their daily expenses.

In February, the income of motor taxi drivers increased by 18 percent to KHR14,427, a rise of 1.1 percent from three months earlier. The drivers were the main source of family income. They came to the city alone. Fifty-eight percent of them rented housing, 23 percent owned their housing and the rest lived with relatives or in a pagoda.

The earnings of skilled construction workers rose by 9.6 percent from a year earlier but dropped 4.4 percent from three months earlier. Construction flourished, but the number of workers also increased. Still, 90 percent of these respondents felt better off. The daily income of unskilled construction workers rose 18 percent from a year earlier and 15 percent from three months earlier. Although 68 percent of them rented housing, they could survive in Phnom Penh on their own and send money to their families.

The earnings of small vegetable traders fell by 19 percent from the year before to KHR9948. Compared to three months earlier, however, their earnings rose by 49 percent. The sellers reported an increase of traders in the same business. They could not expand their business because of a lack of capital. Nonetheless, they saved some money after their daily expenses (which took 63 percent of their income). They were better off because of their selling.

In February, the earnings of garment workers rose by 17 percent to KHR10,000, an increase of 4.7 percent from three months earlier. Fifty-five percent of the 120 respondents had positions in sewing, 13 percent as quality controllers, and the rest were not reported. They saved an average KHR200,000 per month and sent it back to their families. They said they worked an average of 58 hours per week, and wished to have more working hours to earn extra money.

Economy Watch—Indicators

Table 1. Private Investment Projects Approved, 2006–12*

	2007	2008	2009	2010	2011				2012			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Fixed Assets (USD m)											
Agriculture	135.6	92.0	615.0	530.68	4.1	156.4	123.9	440.6	154.7	81.2	181.1	114.6
Industry	709.1	724.9	818.5	403.66	67.1	257.1	2361.0	174.9	208.7	173.7	245.6	196.5
<i>. Garments</i>	<i>170.7</i>	<i>142.8</i>	<i>90.1</i>	<i>122.81</i>	<i>57.1</i>	<i>108.4</i>	<i>109.7</i>	<i>118.7</i>	<i>139.4</i>	<i>97.5</i>	<i>107.2</i>	<i>152.9</i>
Services	1742.5	10,003.2	4432.0	1337.34	209.5	2229.2	264.1	722.6	50.9	18.0	2.1	845.6
<i>. Hotels and tourism</i>	<i>1048.3</i>	<i>8758.1</i>	<i>3980.1</i>	<i>1105.14</i>	<i>107.9</i>	<i>2221.9</i>	<i>264.1</i>	<i>257.0</i>	<i>50.9</i>	<i>0.0</i>	<i>0.0</i>	<i>640.6</i>
Total	2587.2	10,570.9	5865.5	2271.7	280.2	2642.7	2748.9	1338.1	414.4	273.0	428.8	1156.6
	Percentage change from previous quarter											
Total	-	-	-	-	-77	8.41	-4	-51.3	-69	-33.9	55.6	169.8
	Percentage change from previous year											
Total	-32	308.6	-44.5	-61.3	-24.8	643.2	753	9.6	48.4	-89.6	-84.4	-13.6

*Including expansion project approvals. Source: Cambodian Investment Board

Table 2. Value of Construction Project Approvals in Phnom Penh, 2006–12

	2007	2008	2009	2010	2011				2012			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	USD m											
Villas and houses	79.1	154.7	64.3	36.2	4.1	5.9	106.3	60.9	64.8	66.6	18.3	8.5
Flats	297.2	221.6	149.6	183.8	16.1	22.8	90.0	58.5	60.8	219.3	61.6	10.2
Other	259.6	740.9	227.3	269.7	23.6	48.7	51.1	29.3	197.2	47.8	94.9	41.2
Total	635.8	1117.0	441.2	489.8	43.8	77.4	247.4	148.7	322.8	333.6	174.9	59.9
	Percentage change from previous quarter											
Total	-	-	-	-	-	76.7	219.7	-39.9	117.1	3.3	-47.6	-65.8
	Percentage change from previous year											
Total	96.7	75.7	-60.5	11	-14.8	-61.7	215.6	40.29	637.1	331.1	-29.3	-59.7

Source: Department of Cadastre and Geography of Phnom Penh municipality

Table 3. Foreign Visitor Arrivals, 2006–12

	2007	2008	2009	2010	2011				2012			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Thousands											
By air	1296.5	1239.4	1111.7	1304.3	4.1	286.9	335.3	430.7	513.6	317.1	370.5	500.7
By land and water	718.6	881.9	999.7	1094.6	16.1	319.6	364.5	366.3	481.5	424.3	450.3	506.1
Total	2015.1	2121.3	2111.5	2398.9	23.6	606.5	699.8	797.1	995.2	761.4	820.9	1006.8
	Percentage change from previous quarter											
Total	-	-	-	-	-	-22.1	15.4	13.9	24.9	-23.5	7.8	22.6
	Percentage change from previous year											
Total	28.4	5.3	0.5	13.6	-14.8	12.8	20.2	13.0	27.8	25.5	17.3	26.3

Source: Ministry of Tourism

Table 4. Exports and Imports, 2006–12*

	2007	2008	2009	2010	2011	2012						
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
	USD m											
Total exports	3050.3	3097.8	2901.6	3630.2	1017.7	1132	1455.6	1324.2	1280.1	1775.9	1595.8	1454.7
Of which: Garments	2938.9	2986.2	2565.3	3223.4	880.48	964.15	1285.71	1129.23	1070.8	1474.7	1329.1	1140.83
. To US	1956.5	1908.3	1512.6	1853.9	464.47	466.7	619.38	504.71	493.3	627.3	566.6	456.07
. To EU	654.3	689.0	644.7	809.5	232.0	301.4	397.5	391.3	328.4	504.1	462.7	421.82
. To ASEAN	3.2	10.76	6.9	9.9	3.77	4.18	4.73	4.95	6.4	11.7	11.4	9.76
. To Japan	28.5	25.2	44.5	86.5	34.3	28	43.4	41.25	50.1	48.9	47.1	42.47
. To rest of the world	296.4	352.9	356.5	463.6	145.9	163.89	220.68	187.03	192.5	282.7	241.3	210.71
Agriculture	55.7	44.5	73.1	164.9	74.01	97.07	98.91	92.06	80.5	101.3	86.1	108.77
. Rubber	41.0	35.8	51.6	89.1	49.86	48.6	56.11	43.06	40.3	46.4	46.1	43.84
. Wood	8.7	3.4	3.5	34.1	6.2	16.8	16.1	9.7	8.9	12.4	4.1	11.6
. Fish	3.2	2.3	3.9	2.8	0.6	0.4	1.4	0.7	0.5	0.7	0.4	0.4
. Rice	1.5	2.6	10.9	34.7	16.9	30.3	22.4	37.0	27.1	37.5	31.7	50.2
. Other agriculture	1.2	0.5	3.0	4.1	0.5	1.0	2.9	1.6	3.9	4.4	3.9	2.8
Others	55.8	67.1	263.22	242.0	63.2	70.8	71.0	102.9	128.8	199.9	180.6	205.1
Total imports	3770.2	4272.5	4331.5	5190.6	1454.9	1690.1	1519.1	1711.9	1609.2	1885.4	2015.2	1938.2
Of which: Gasoline	73.6	84.8	91.13	108.6	62.2	76.7	73.8	81.8	70.7	76.7	78.0	78.8
Diesel	133.7	119.5	180.67	203.8	92.7	129.9	118.9	105.5	139.4	126.6	138.3	139.9
Construction materials	44.31	56.3	49.74	57.6	11.8	12.7	11.6	12.0	13.5	14.1	16.5	16.6
Other	3518.5	4011.8	4010	4820.6	1288	1471	1315	1513	1386	1668.0	1782.4	1703.0
Trade balance	-719.9	-1174.7	-1429.9	-1560.5	-437.2	-558.1	-63.5	-387.6	-329.1	-642.2	-419.4	-483.6
	Percentage change from previous quarter											
Total garment exports	-	-	-	-	-6.6	9.5	33.4	-12.2	-5.2	-37.7	-9.9	-14.2
Total exports	-	-	-	-	-4.9	11.2	28.6	-9.0	-3.3	38.7	-10.1	-8.8
Total imports	-	-	-	-	8.9	16.2	-10.1	12.7	-6.0	17.2	6.9	-3.8
	Percentage change from previous year											
Total garment exports	8.9	1.6	-14.1	25.7	40.8	34.5	37.0	19.8	21.6	53.0	3.4	1.0
Total exports	8.5	1.6	-6.3	25.1	46.7	37.9	39.3	23.7	25.8	56.9	9.6	9.9
Total imports	23.7	13.3	1.4	19.8	30.1	33.7	3.2	28.1	10.6	11.6	32.7	13.2

* Import data include tax-exempt imports. Sources: Department of Trade Preference Systems, MOC and Customs and Excise Department, MEF (web site)

Table 5. National Budget Operations on Cash Basis, 2006–12 (billion riels)

	2007	2008	2009	2010	2011	2012						
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Total revenue	1146.1	5290.0	5988.99	2805.83	1400.46	1564.25	1510.1	1776.61	1728.9	2045.1	1900.8	2017.0
Current revenue	1141.6	5210.7	5859.08	2786.12	1378.61	1563.01	1497.59	1740.12	1725.8	1928.6	1796.4	1993.1
Tax revenue	965.2	4409.9	4692.96	2457.02	1142.29	1367.52	1313.35	1454.33	1403.82	1721.8	1560.7	1648.5
Domestic tax	661.8	3248.4	3533.57	1727.10	875.569	1095.26	996.642	1104.12	1092.27	1403.4	1230.0	1277.2
Taxes on international trade	303.5	1161.5	1159.39	639.00	266.719	272.27	316.709	350.207	311.253	318.4	330.7	371.4
Non-tax revenue	176.4	800.8	1166.13	507.13	236.329	195.48	184.23	285.8	330.98	206.9	235.7	344.6
Property income	13.6	78.0	291.13	4.87	10.6426	18.64	15.19	19.35	91.28	13.1	22.5	16.2
Sale of goods and services	124.3	424.7	460.07	268.08	129.982	138.92	144.192	175.627	166.899	171.4	132.8	196.3
Other non-tax revenue	38.5	298.2	408.91	391.70	95.7053	37.9	24.856	90.815	63.8	22.4	80.5	132.1
Capital revenue	4.5	79.3	129.92	2019.39	21.8524	1.25	12.513	36.486	3.148	116.4	104.4	23.9
Total expenditure	1689.7	6297.8	8784.65	4259.67	1581.62	2025.15	2310.61	3115.05	1688.33	2425.6	2951.3	2751.5
Capital expenditure	807.4	2574.4	2853.23	1495.19	579.818	721.01	801.167	1444.89	699.937	716.2	1194.5	1017.7
Current expenditure	882.3	3809.0	4773.07	2848.81	857.492	1304.13	1509.44	1670.15	988.398	1709.4	1756.7	1733.9
Wages	362.6	1397.0	2048.81	1208.81	401.0	531.6	629.697	608.253	508.919	725.2	657.5	595.0
Subsidies and social assistance	194.2	927.1	1099.42	613.31	257.356	450.85	323.282	487.345	189.594	514.6	462.1	420.5
Other current expenditure	325.5	1384.9	1624.84	1067.07	199.1	321.7	556.5	574.6	289.9	469.7	637.1	718.4
Overall balance	-543.6	-1007.8	-2795.66	-1453.83	-181.2	-460.9	-800.5	-1,338.4	196.5	-380.6	-1050.5	-734.5
Foreign financing	741.5	2055.10	1845.21	772.81	544.4	576.9	272.9	985.0	577.8	491.5	959.3	429.2
Domestic financing	-185.8	-127.00	938.64	567.96	-1,745.2	238.7	312.5	105.6	-565.7	148.4	22.1	62.4

Source: MEF web site.

Table 6. Consumer Price Index, Exchange Rates and Gold Prices (period averages), 2006–12

	2007	2008	2009	2010	2011	2012							
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(October-December 2006:100)	Consumer price index (percentage change over previous year)												
Phnom Penh													
- All Items	5.8	19.7	-0.7	4.1	3.6	6.3	6.7	4.9	2.9	2.9	1.6	1.8	
- Food & non-alcoholic bev.	9.9	33.1	-0.3	4.4	3.9	7.6	8.2	6.2	3.4	3.4	1.3	1.4	
- Transportation	5.8	19.4	-10.7	7.0	5.0	7.3	8.8	6.3	3.0	3.0	1.1	1.2	
	Exchange rates, gold and oil prices (Phnom Penh market rates)												
Riels per US dollar	4062.7	4058.2	4140.5	4187.1	4041.9	4044.9	4095.7	4071.9	4046.0	4054.3	4060.7	3995.9	
Riels per Thai baht	122.8	123.5	121.1	133.13	132.7	133.8	135.2	131.1	130.2	129.0	129.3	131.3	
Riels per 100 Vietnamese dong	25.0	24.8	23.4	21.725	19.9	19.6	19.8	19.4	19.3	19.4	19.5	19.2	
Gold (US dollars per chi)	83.2	105.9	113.1	147.58	147.9	181.5	204.6	203.8	204.1	194.5	198.3	206.5	
Diesel (riels/litre)	3262.3	4555.2	3170.9	3859.3	4427.2	4784.6	4924.5	4908.3	5193.9	4458.3	4983.9	5128.8	
Gasoline (riels/litre)	4005.0	4750.8	3593.1	4368.1	4750.1	5065.5	5248.4	5113.8	5395.8	5308.3	5251.3	5295.4	

Sources: NIS, NBC and CDRI

Table 7. Monetary Survey, 2006–12 (end of period)

	2006	2007	2008	2009	2010	2011	2012						
							Q1	Q2	Q3	Q4	Q1	Q2	Q3
	Billion riels												
Net foreign assets	7224.0	10,735.0	10,345.0	14,655.0	16,697.9	17,079.1	18,099.9	17,695.2	17,893.9	18,652.3	18,729.6	18,723.6	
Net domestic assets	-282.0	576.0	1513.3	1573.0	2778.9	3199.2	3907.7	4961.6	5760.8	6211.2	7922.3	8717.2	
Net claims on government	-953.0	-1816.0	-2987.0	-2252.0	-2126.6	-2252.7	-2184.2	-1925.8	-2123.1	-2542.4	-2399.9	-2534.2	
Credit to private sector	3630.0	6386.0	9894.0	10,532.0	13,331.2	13,909.0	15,290.6	16,385.7	17,552.8	18,789.0	20,081.4	21658	
Total liquidity	6942.0	11,311.0	11,858.0	16,228.0	19,476.8	20,278.3	22,007.6	22,656.8	23,654.7	24,863.5	26,651.9	27,440.8	
Money	1658.0	2052.0	2399.0	3120.0	3220.9	3497.2	3539.8	3681.3	3956.2	3984.6	3871.8	3861.7	
Quasi-money	5285.0	9259.0	9459.0	13,108.0	16,255.9	16,781.1	18,467.8	18,975.5	19,698.5	20,878.9	22,780.1	23,579	
	Percentage change from previous year												
Total liquidity	38.1	62.9	4.8	36.9	20.0	17.7	20.5	20.0	21.5	20.2	21.1	21.2	
Money	25.3	23.8	16.9	30.1	3.2	11.1	13.6	20.2	22.8	11.4	9.4	7.6	
Quasi-money	42.8	75.2	2.2	38.6	24.0	19.1	21.9	19.9	21.2	22.0	23.4	23.8	

Source: National Bank of Cambodia

Table 8. Real Average Daily Earnings of Vulnerable Workers (base November 2000)

	Daily earnings (riels)									Percentage change from previous year			
	2008	2009	2010	2011	2012	2013			2012	2013			
						Feb	May	Aug	Nov	Feb	Aug	Nov	Feb
Cyclo drivers	12628	8091	9055	9532	9380	10,686	10,690	10,454	9588		8.6	12.5	2.2
Porters	9005	9549	9964	10,785	10,804	12,713	12,479	12,574	12,744		18.5	9.4	18.0
Small vegetable sellers	9926	8273	8266	8337	12,292	9901	10,347	10,542	9949		22.4	49.0	-19.1
Scavengers	4652	5857	6698	8388	7986	8266	9139	9328	9483		20.2	-9.3	18.7
Waitresses*	4327	4646	5607	5986	6179	6261	5569	6436	6527		2.3	3.2	5.6
Rice-field workers	8697	6197	5691	5695	4690	6431	8483	5000	5828		14.8	9.9	23.8
Garment workers	6554	7085	7746	8409	8555	8391	9599	8989	10,000		9.8	4.7	16.9
Motorcycle-taxi drivers	15,691	10,685	10,623	11,568	12,256	13,616	12,807	13,042	14,427		14.2	1.1	17.7
Unskilled construction workers	8779	8343	8790	10,307	10,658	11,589	10,690	11,375	12,548		1.0	15.4	17.7
Skilled construction workers	12,710	12,487	11,952	13,159	13,824	12,847	14,029	14,270	15,156		10.0	-4.4	9.6

* Waitresses' earnings do not include meals and accommodation provided by shop owners. Surveys on the revenue of waitresses, rice-field workers, garment workers, motorcycle taxi drivers and construction workers began in February 2000. Source: CDRI

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RESEARCH

Democratic Governance and Public Sector Reform

Nine research projects, mainly funded by the Swedish International Development Cooperation Agency (Sida), are being undertaken and most of them are approaching their final stages. The report for *Urban Governance in Decentralised Cambodia* is being discussed and finalised among the authors and external advisor. The final report for the *Phnom Penh Baseline Survey* of the One Window Service Office (OWSO) initiative, commissioned by the District Support Team of the National Committee for Sub-National Democratic Development (NCDD), was submitted to the client in January. The project report is being finalised for *Gendered and Democratic Decentralisation: Analysis of Gender in Political Parties in Cambodia*. The report for the project *Sub-National Civil Society in Cambodia: A Gramscian Perspective* was presented at the Southeast Asian Studies Symposium at Oxford University in mid-March and is being finalised for publication as a working paper. Comments received on the report *20 Years After UNTAC: Cambodian Civil Society Strengthened?* are being addressed.

The first journal article drawing on ‘*All Good Things do Not Go Together*’ – *Analysing Contradictions between Peace-building and Democratisation*, a project with the University of Gothenburg to identify how and why conflicts emerge (in the short- and long-term) in the wake of, and possibly triggered by, peace-building interventions, is pending publication. A second paper, led by the local author, is being finalised.

For *Nested Governance of Water for Agriculture: Decentralisation, Multi-level Government, and Local Community in the Tonle Sap Basin*, a study partially supported by the Asian Institute of Technology, three commune-level validation rounds were organised and the findings section is being drafted. Two new projects are being designed: *Emerging Youth Roles in Economic and Political Activities* investigates roles of youth in local economic and political development within the context of decentralisation; *Decentralisation in Cambodia: Roles of Local Government in Local Economic Development?* examines the situation of local economic development and where the roles of local administration fit in.

Economy, Trade and Regional Cooperation

The quarterly *Vulnerable Worker Survey* and monthly *Provincial Price Survey* are in good progress. Eight analytical papers, outputs of the *Global Financial Crisis and Vulnerability in Cambodia* project, are being finalised for publishing as CDRI working papers.

The report *ASEAN 2030 Phase II: Growing Together for Economic Prosperity - the Challenges: Cambodia Background Paper* has been drafted and is being circulated for comment. The key findings of the study *Assessing Economic Inclusiveness in Cambodia: Income and Non-income Pro-poor Approach* were presented at the Greater Mekong Sub-region Development Analysis Network (GMS-DAN) workshop in February and the report is being finalised. The final reports for *What are the Constraints to Inclusive Growth in Cambodia?* and *Industrial Clusters, Business Associations and SME's Productivity: Evidence from Enterprise Survey of Cambodia* have been sent to ARTNeT. The final report on *Levels and Sources of Household Income in Rural Cambodia 2012* has been sent to the World Bank and is being prepared for publication as a CDRI Working Paper.

The Sida-supported five-year research project on *Inclusive Growth* is ongoing. It comprises five sub-themes: High and Sustainable Economic Growth; Economic Growth, Inequality and Poverty Reduction; Assessing the Pro-Poorness of Fiscal Policy; Economic Growth, Trade and Poverty Reduction; and How to Achieve Inclusive Growth. An article on *Binding Constraints to Economic Growth in Cambodia: Growth Diagnostics Approach*, part of the High and Sustainable Economic Growth component, is being prepared for publication as a CDRI Working Paper. Another article on *Leveraging Trade for Economic Growth in Cambodia*, which falls under the Economic Growth, Trade and Poverty Reduction component, is ready for comment.

Natural Resources and the Environment

Six research projects are in progress, three of which are funded by Sida. The draft working paper for the project *Climate Change Adaptation and Livelihoods in Cambodia* is being revised for publication as a CDRI working paper. The findings for *Gender and Water Governance: Irrigation Management and Development in the Context of Climate Change* are

being written up for publication as a working paper. Work has begun on the concept note, milestones, research framework and literature review for the study *Adaptation Capacity of Rural People in the Main Agro-ecological Zones (Tonle Sap, Mountainous and Highland, Lower Mekong and Coastal Zones)*.

The team is undertaking a feasibility case study for *China Goes Global: A Comparative Study of Chinese Hydropower Dams in Africa and Asia*, a project funded by the Economic and Social Research Council. In January, the inception workshop for *Climate Change and Water Governance in Cambodia*, a research project supported by the International Development Research Centre (IDRC), was held at Hotel Cambodiana in Phnom Penh. The research plans for five mini studies are now being developed and implemented. Stakeholder interviews were completed for *Practical Approach to Supporting Competitiveness of Low/Lower-middle Income Countries in a Carbon Constrained World*, a collaborative project with the Overseas Development Institute (ODI). Data is being analysed and Cambodia Country Briefs on “Tourism, Manufacturing, and Energy: Opportunities, Challenges, and Policy Implications in Cambodia” are being prepared with the ODI. A dissemination workshop is being organised for April.

The programme team submitted three proposals and is waiting to hear the results from (i) CARF/AusAID on *Small-scale Fish Farming*, (ii) the EU on *Addressing Social Environmental Economic and Development Challenges through Global Corporate Social Responsibilities (SEED-CSR)*, a collaboration with CDRI’s Social Development Programme and the University of Nottingham Ningbo China, and (iii) the ADB on *Survey and Case Study Research on Climate Change Perceptions and Adaptation Priorities among Water Resources Planners and Policymakers in Cambodia*.

To support joint programme efforts, NRE researchers assisted the organising committee for the 2013 Outlook Conference, took notes at the Outlook Conference and helped write the Outlook Briefs.

Poverty, Agriculture and Rural Development

The team is working on five projects. The synthesis report for the *Study on the Contribution*

of Arbitration Council (AC) Services in Improving Industrial Relations in Cambodia: A Case of Garment Factories was submitted to the Arbitration Council Foundation (ACF) and the team is now addressing comments received. For the project *Developing Agricultural Policies for Rice-based Farming Systems in Cambodia and Laos*, the case study reports on farm credit, fertiliser value chains, and rice value chains have been submitted, and the final report on rice contract farming is being drafted. These case studies will be published as four chapters in an ACIAR monograph titled “Policy in Practice: Using Evidence from Field Studies to Inform Rice Policy in the Mekong Region”, for release in mid-2013. Conceptual framework and research instruments have been designed for the Sida-supported study on the *Impact of Contract Farming on Smallholder Livelihoods*. Data analysis was completed for the *Baseline Assessment Study for the USAID-HARVEST Programme*; the draft report is now being prepared.

Social Development

Three major projects are in progress. The ongoing *Building Pro-Poor Health Systems during Recovery from Conflict “ReBUILD”* project funded by DfID consists of three sub-projects: Health Financing, Health Human Resources, and Health Contracting. Now halfway through project implementation, the team has been consolidating work completed to date and preparing for the next phase. The two-year *Child Labour Study* has four sub-projects, two of which started in January – “Child Domestic Work” and “Impact of Adult Migration on Child Labour”. This study is a part of the four-year Cambodians EXCEL project of World Vision Cambodia, funded by the US Department of Labour (USDOL). The concept note for the Sida-supported sub-project *Public-Private Partnership in the Provision of Technical and Vocational Education and Training in Cambodia* was completed and the literature review is now underway. The team is presently completing two commissioned projects – *Sanitation Project Verification* and *Impact of CARF-funded Projects*. Several proposals have been prepared and submitted – one for ReBUILD’s Responsive Fund and the others for research into Chinese corporate social responsibility, and child nutrition.

CDRI UPDATE

MAJOR EVENTS

In early February 2013 the Greater Mekong Sub-region Development Analysis Network (GMS-DAN), coordinated by CDRI, and supported by the International Development Research Centre (IDRC) of Canada and the Rockefeller Foundation, held a technical workshop on its current project on inclusive growth in the GMS, along with a future directions planning session, in Da Nang, Vietnam.

The 2013 Cambodia Outlook Conference, a partnership of CDRI and ANZ Royal Bank, was held in Phnom Penh on Wednesday 20 February 2013 on the theme *Securing Cambodia's Future: Food, Energy and Natural Resources*. Prime Minister Hun Sen again delivered the keynote opening address to an audience of 400 leaders from government, the private sector, international agencies and the research community. The programme included sessions on Securing Cambodia's Future – Indicators, Prospects and Policy Priorities; Powering Cambodia's Sustainable Growth – Energy and Infrastructure; and Food Security and Agricultural Development – Fundamental to Inclusive Growth and Sustainable Development. A set of Cambodia Outlook Briefs capturing the major issues and policy recommendations from the conference, along with the conference programme and presentations, are accessible through the CDRI website.

CDRI's full annual board of directors meeting, chaired by HE Dr Sok Siphana, was held on 21 February 2013. The Board endorsed a CDRI Resource Mobilisation Policy and associated Staff

Satisfaction Policy for implementation during 2013. The Board's Chair expressed his appreciation on behalf of CDRI to two longstanding board members whose terms have expired – Ms Pok Panhavichetr and Ms Carol Strickler. During the board-staff lunch that followed, CDRI's annual Awards for Outstanding Achievements in Research were presented to CDRI researchers for projects completed in 2012 on – *An Impact Assessment of Farmer Organisations on Food Security for the Rural Poor; Global Financial Crisis and its Impacts on the Rural Labour Market in Cambodia; NGOs and the Illusion of a Cambodian Civil Society*.

In March 2013 HE Dr Mey Kalyan succeeded HE Dr Hang Chuon Naron as Chair of the Steering Committee of the Development Research Forum Phase II, a partnership of CDRI, the Learning Institute, the Cambodia Economic Association, the National Institute of Public Health, the Supreme National Economic Council, the Royal University of Phnom Penh, and the Royal University of Agriculture.

On 28-29 March, CDRI's Executive Director and Director of Research participated in a consultative retreat hosted by the Supreme National Economic Council (SNEC) in Kampong Cham, which invited input from Cambodia's development partners and local research institutions on policy priorities for the government's new Cambodia Vision 2030, Rectangular Strategy Phase 3, and National Strategic Development Plan 2014-18.

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