

# Trade-led Growth in Times of Crisis Asia-Pacific Trade Economists' Conference

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## Session 13

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Asia-Pacific Research and Training Network on Trade

[www.artnetontrade.org](http://www.artnetontrade.org)

# Impact of Global Economic Downturn on Cambodia



Cambodia

Trade-Led Growth in Times of Crisis  
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# Presentation Outline

- Macroeconomic impact
- Sectoral impact
- Micro impact or impact on people
  - First order impact victims
  - Second order impact victims
  - Social implications
- Mitigating the impact on the economic downturn
- Lessons learnt

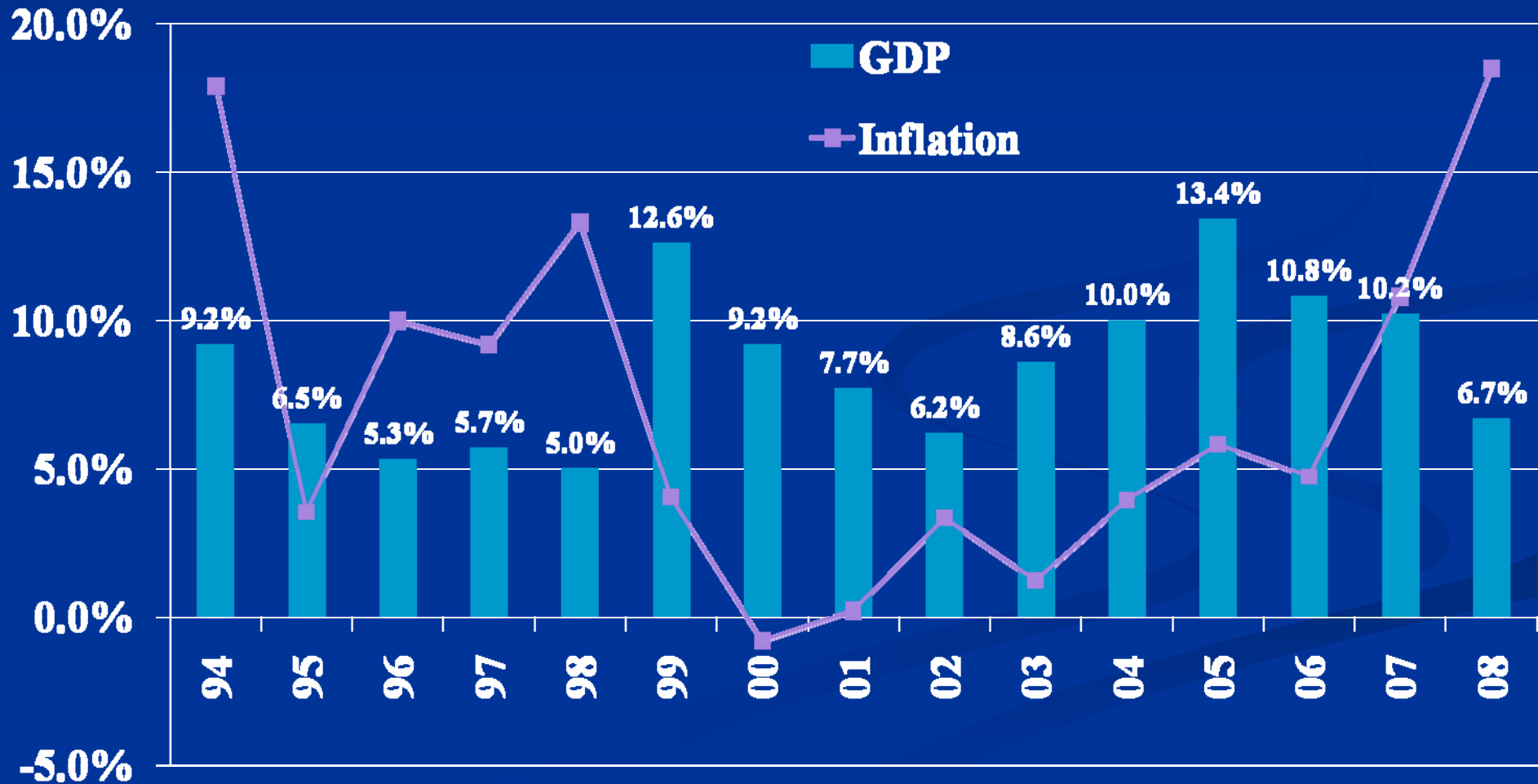
# Macroeconomic impact



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- GDP growth and inflation rates
- Economic growth projections
- Government budget
- Official development assistance (ODA)
- Foreign direct investment (FDI)

# GDP growth and inflation rates



# Economic growth projections

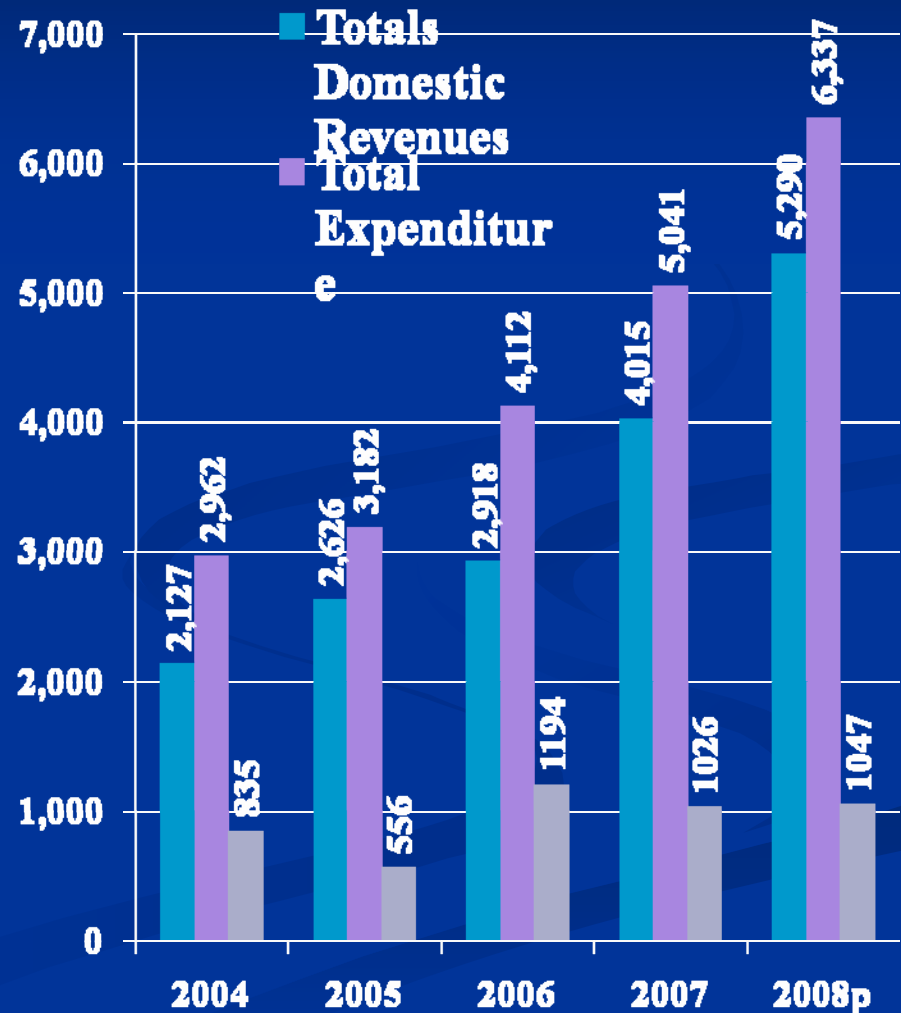


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Institutions	GDP forecasts in December 2008	GDP forecasts in March/April 2009	GDP forecasts in September 2009
ADB	4.7%	2.5%	-1.5 %
IMF	4.8%	-0.5%	-2.75%
WB	4.9%	-1.0%	N/A
Gov't	6.0%	2.1 %	N/A

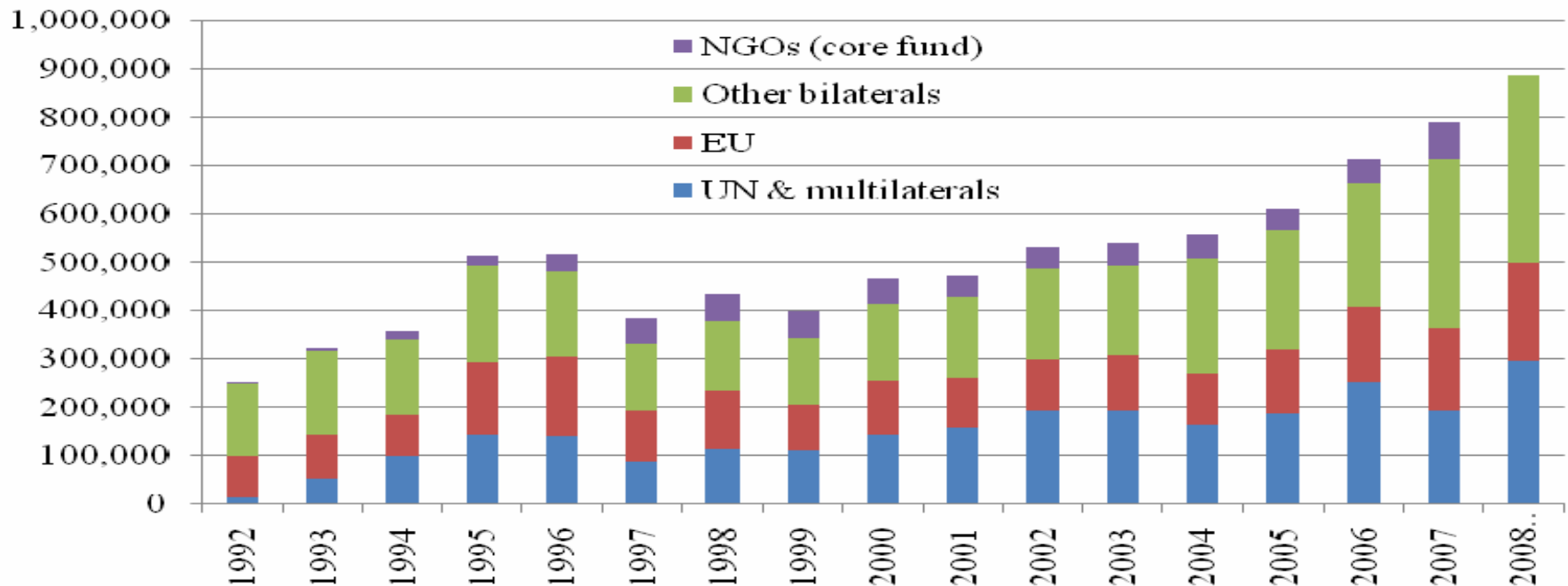
# Government budget

- 72% to 84% of total revenues are tax revenue;
- Total revenue increased by 19%, 10%, 27% and 24% from 2005 – 08, but remains 12% of GDP;
- Total expenditure grew at 7%, 22%, 18% and 20% the same period;
- Budget for 2009: US\$1.8 billion or 28% increase compared to 2008;
- First seven months, domestic revenue dropped



# Official development assistance

- Record pledge of US\$950 million unchanged;
- Depreciation on Euro, UK, Canadian, Australian currencies;
- Absorptive capacity and flexibility to speed up ODA implementation are doubtful.





# Foreign direct investment



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- Implemented FDI increased from US\$139 million in 2002 to US\$800 million in 2008;
- Big discrepancy between “approved/licensed” amount to “actual or implemented” amount;
- Approved FDI in first half of 2009 is only 11% down compared to 2008;
- Investment in agriculture is up, but service and industry is down.

	2001	2002	2003	2004	2005	2006	2007	2008	2009S1
Agriculture	6	39	4	12	27	498	136	92	324
Industry	100	57	143	171	913	365	709	725	304
Services	111	143	168	92	155	2,939	1,743	10,003	596
TOTAL	217	240	314	275	1,095	3,802	2,587	10,820	1,223

# Sectoral impact



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- Garment exports
- Tourism businesses
- Agriculture
- Construction and property market

# Garment exports

- Contributes 15% of GDP, and more than 70% to total exports;
- Employment peaked in Sept 2008 employed 352,000 young women;
- 63,000 jobs have been lost;
- Exports down by 23% the first eight months;
- Order is down by 40%;
- Short-term prospects look bleak.

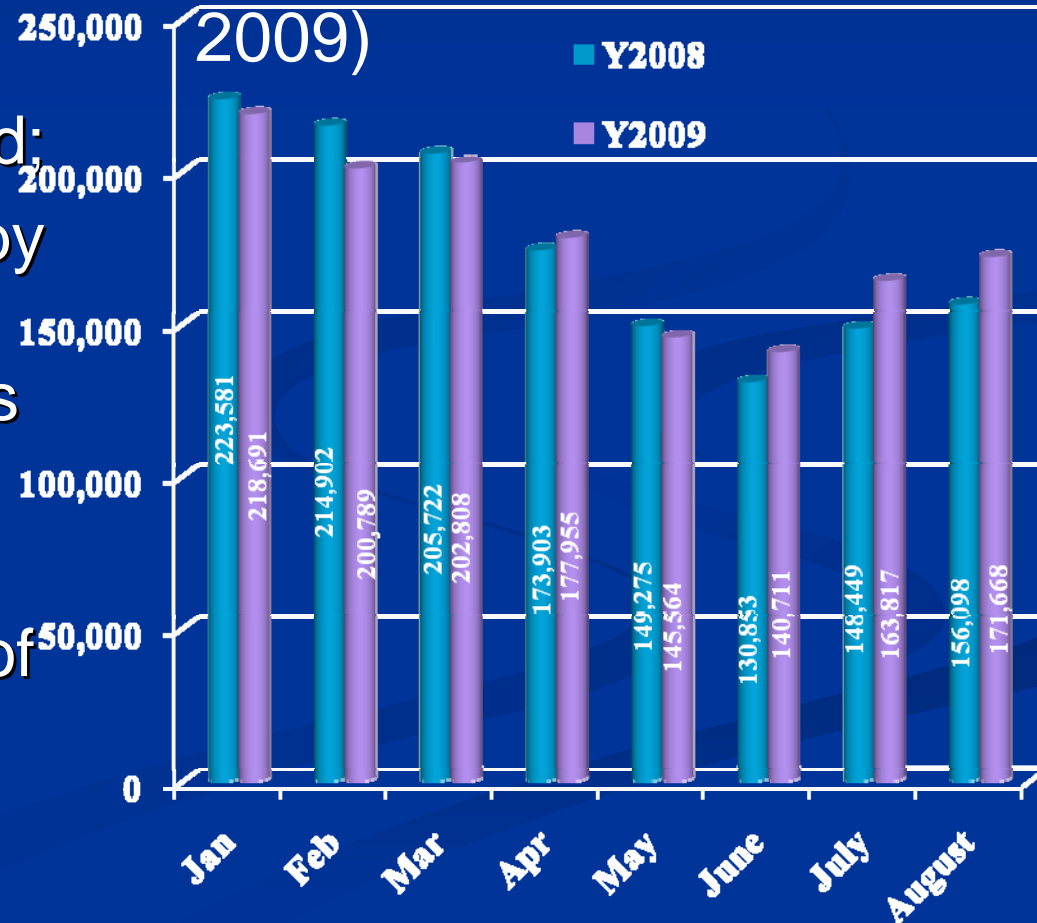
## US garment imports by country (in US\$ million)

Country	Year to date August 08	Year to date August 09	Year on Year Change
<b>WORLD</b>	<b>47,029.965</b>	<b>41,144.788</b>	<b>-12.51%</b>
<b>China</b>	<b>14,052.997</b>	<b>14,437.362</b>	<b>2.74%</b>
<b>ASEAN</b>	<b>10,405.340</b>	<b>9,138.300</b>	<b>-12.18%</b>
<b>Vietnam</b>	<b>3,402.448</b>	<b>3,315.596</b>	<b>-2.55%</b>
<b>Cambodia</b>	<b>1,602.086</b>	<b>1,225.363</b>	<b>-23.51%</b>
<b>Bangladesh</b>	<b>2,255.576</b>	<b>2,350.769</b>	<b>4.22%</b>

# Tourism businesses

- Contributes 13% to the country's GDP;
- Number of tourist arrivals has been mixed;
- Arrivals by air decline by 16%, offset by arrivals by land and water ways (18%);
- First eight months up arrival 1.37% but loss of tourism receipts might be more serious.

Tourist arrivals in the first eight months (2008 –



# Agriculture

- The least hit sector amongst the four main engines of growth;
- High production costs (machinery, fertilizer, labour and other inputs);
- Prices of rice, rubber, cassava ... have been low;
- Agriculture is unlikely to be able to offset for decline of garment exports and tourism receipts.

# Construction and property market



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- Construction boom in early 2000s;
- Many mega projects have been scaled down or frozen e.g.: IFC ...
- FDI contributes 75% of construction;
- Imports of construction materials down by 30%
- Three out of ten jobs are vanished;
- Main sources of FDI in construction: Korea and China being hit by the global crisis;
- Takes some time to recover.

# Micro impact or impact on people



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- First order impact victims
  - Garment workers;
  - Construction workers;
  - Tourism industry workers;
  - Farmers of selected crops;
  - Migrant workers abroad.

# Micro impact or impact on people



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- Second order impact victims
  - Children of the poor;
  - Existing urban poor and near poor;
  - Landless families;
  - Farm families receiving reduced remittances and returning migrants;
  - Other social implications ...



# Social implications of the human impact

- Rise in poverty: Yes with strong indication;
- Decline in children nutrition: Likely;
- Health deterioration: Likely;
- Strain on family: Most likely;
- HIV/AIDS: More women are now in entertainment industry;
- Increased crime: World Vision reports increase in sex assaults;
- Fall back on MDGs: Very likely.

# Recommended policies



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- Develop a nationally integrated social protection system;
- Fiscal expansion with a focus on equitable access and improve institutional capacity;
- Speed up structural reforms in economic competitiveness and diversification.

# Monetary and fiscal

## ■ Monetary policy **response**

- NCB lowered minimum bank reserve from 16% to 12%
- \$100 million “short term fund”

## ■ Fiscal policy

- 2009 national budget \$1.8 billion, 28% greater than 2008 (*de facto* stimulus package)
- Increase spending on public infrastructure, irrigation and transportation
- Salary increase for civil servants
- Development of Social Safety Net system

# Sectoral response

## ■ Garments

- tax holiday on profits
- suspension of turn over tax
- \$7.6 million “cash-for-training”
- training center

## ■ Tourism

- visa waver
- Tourism Law adopted

## ■ Construction

- draft law allowing foreigners to own apts and condos

## ■ Agriculture

- 0 tariff on raw materials and agri equipments
- \$18 million Agriculture Support Fund

# Lessons learnt

- A nationally integrated social protection scheme is needed to protect vulnerable groups;
- Diversify sources of growth to reduce risks of external shocks;
- Government has a leading role in social protection;
- Regional cooperation is needed to mitigate impacts of external shocks and stimulate regional economic growth.



# Thanks for your kind attention



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