Economy Watch—External Performance

World Economic Growth

US real GDP increased at an annual rate of 2.6 percent in the second quarter 2006, compared to 5.6 percent growth in the first quarter 2006. The deceleration in second-quarter GDP growth primarily reflected downturns in consumer spending on durable goods, investment in equipment and software and federal government spending.

The real GDP of the Euro zone in the second quarter 2006 grew by 2.4 percent compared to the same period last year and by 0.9 percent compared to the previous quarter. Japanese real GDP grew by 2.2 from a year earlier and by 0.2 percent compared to the previous quarter.

Economic growth in China reached record highs in the second quarter. The annualised growth rate in the second quarter 2006 was 11.3 percent, compare to 10.9 percent growth in the previous quarter. Industry continued to grow at a faster pace than services and agriculture, while investment remained the main driver of this growth. The real GDP of South Korea in the second quarter grew by 5.3 percent from a year earlier, compared with 6.1 percent growth in the previous quarter. The real GDP of Taiwan and Hong Kong in the second quarter 2006 grew by 4.6 percent and 5.2 percent, respectively, compared to the same period last year.

The Malaysian economy grew by 5.9 percent in the year through the second quarter 2006; this compares to an annual rate of 5.5 percent growth in the first quarter. On the production side, a relatively high growth of 8.4 percent from a year earlier was recorded in the manufacturing sector and 6.0 percent growth in the services sector. On the expenditure side, growth of gross fixed capital formation and private consumption expanded by 7.6 percent and 7.3 percent, respectively, from a year earlier. The Singapore economy in the second quarter 2006 grew by 8.0 percent compared to the same period in 2005. Manufacturing grew by 12.2 percent, while services grew by 6.9 percent. Thai real GDP in the second quarter grew at 4.9 percent, compared to the same period in 2005. Agriculture grew by 5.4 percent, compared to 6.3 percent growth in the first quarter. The non-agricultural sector grew by 4.8 percent from a year earlier, compared to 6.1 percent growth in the previous quarter.

World Inflation and Exchange Rates in International Markets

Energy prices were one of the main factors shaping the evolution of consumer prices in the world's largest economies during the second quarter of 2006. Consumer prices in the US rose at a 4.0 percent in the year to the second quarter mainly caused by higher energy costs. In the Euro zone, inflation was 2.3 percent, above the European Central Bank's ceiling of 2 percent, reflecting increases in energy costs and higher growth in unprocessed food prices. The year-on-year change in Japan's consumer prices was an increase of 0.7 percent, due to the higher cost of energy. In China, South Korea and Singapore, inflation ran at 1.4, 1.2 and 2.3 percent, respectively, in the second quarter.

In the foreign exchange markets, the US dollar continued to depreciate against most major currencies. The dollar bought 114.5 Japanese yen and EUR 0.80, a drop from 116.9 and 0.83, respectively, in the first quarter. Against the South Korean won and Chinese yuan, it exchanged at 949 KRW/USD and 8.01 CNY/USD, falling from 976 and 8.05, respectively, in a quarter earlier. The dollar dropped on speculation that the European Central Bank would raise interest rates at a faster pace than the Federal Reserve and following repeated calls by the US for stronger Asian currencies.

Commodity Prices in World Markets

In the second quarter of 2006, the prices of rice, maize, palm oil, gasoline and crude oil rose, while the price of soybeans went down. The price of white rice, Thai 100% B second grade, in the Bangkok market was USD283.86/tonne, up from USD275.12 in the first quarter. Palm oil sold at USD397.87/tonne, up from USD395.75/tonne in the first quarter, while maize sold at USD99.95/tonne, up from USD95.37/tonne in the first quarter. The price of soybeans in the second quarter went down by 1.9 percent to USD207.02/tonne. The prices of crude oil and gasoline increased considerably from the previous quarter by 12 percent and 36 percent, respectively. Crude oil sold at USD65.03/barrel and gasoline at US 55.89 cents/litre.

Prepared by Hing Vutha and Phim Runsinarith

Economy Watch—External Performance

Table 1. Real GDP Growth of Selected Trading Partners, 2001–2006 (percentage increase over previous year)

	2001	2002	2003	2004		2005		2006		2005
					Q2	Q3	Q4	Q1	Q2	
Selected ASEAN countries										
Cambodia	6.7	4.8	7	7.7	-	-	-	-	-	13.4
Indonesia	3.8	3.8	4.9	5.1	5.5	5.3	4.9	4.6	5.2	5.6
Malaysia	0.5	5.6	5.4	7	4.4	5.3	5.2	5.5	5.9	5.2
Singapore	-2.3	2.6	1.4	8.5	5.4	7	7.7	10.7	8.0	5.7
Thailand	1.9	6.1	6.9	6	4.6	5.3	4.7	6.0	4.9	4.5
Vietnam	6.0	6.7	7	7.5	-	-	-	-	-	8.4
Selected other Asian countries										
China	7.5	8.1	9.9	9.5	9.5	9.4	9.9	10.9	11.3	9.6
Hong Kong	0.5	5.0	3.2	8.3	7.3	8.2	7.6	8.2	5.2	6.5
South Korea	3.0	6.1	3	4.7	3.3	4.4	5.2	6.1	5.3	4.7
Taiwan	-2.2	4.2	3.1	5.7	-	-	6.0	4.9	4.6	-
Selected industrial countries										
Euro-12	1.4	0.7	0.5	1.8	1.2	1.5	1.8	2.0	2.4	1.5
Japan	0.4	0.4	2.6	3.4	1.4	2.9	4.5	3.0	2.2	2.5
United States	1.2	2.4	3.1	4.4	3.3	4.1	1.1	5.6	2.6	3.0

Sources: *Economist,* countries' national statistics offices and central banks and ADB's Asia Regional Information Centre

Table 2. Inflation Rate of Selected Trading Partners, 2001–2006 (percentage increase over previous year—period average)

	2001	2002	2003	2004	2005			2006		2005
					Q2	Q3	Q4	Q1	Q2	
Selected ASEAN countries										
Cambodia	-0.6	3.2	1.2	4.0	6.4	4.6	6.6	5.9	4.5	5.8
Indonesia	11.5	13.2	8.3	8.3	10.8	12	17.3	-	23.4	10.5
Malaysia	1.4	1.8	1.1	1.6	3.0	3.4	3.4	3.9	4.1	3.1
Singapore	1.0	-0.4	0.5	1.7	0.1	0.5	1.1	1.1	1.2	0.5
Thailand	1.7	0.6	1.8	2.7	3.7	5.6	6.0	5.7	6.0	4.5
Vietnam	-0.4	3.8	3.2	8.3	8.0	7.5	-	-	-	-
Selected other Asian countries										
China	0.9	-0.7	1.2	3.9	1.7	1.3	1.4	1.2	1.4	1.8
Hong Kong	-1.3	-3.0	-2.6	-0.4	0.8	1.4	1.8	2.0	2.1	1.1
South Korea	4.4	2.7	3.5	3.5	3.0	2.4	2.5	2.4	2.3	2.8
Taiwan	-0.01	-0.2	-0.3	1.6	2.1	-	2.4	-	1.5	-
Selected industrial countries										
Euro-12	2.6	2.2	2.1	2.2	2.1	2.3	2.4	2.3	2.3	2.2
Japan	-0.6	-0.9	-0.3	Nil	-0.1	-0.3	-0.5	0.4	0.7	-0.3
United States	2.8	1.6	2.3	2.7	2.9	3.8	3.7	3.7	4.0	3.4

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

Table 3. Exchange Rates of Selected Trading Partners against US Dollar, 2001–2006 (period averages)

	2001	2002	2003	2004		2005		2006		2005
					Q2	Q3	Q4	Q1	Q2	
Selected ASEAN countries										
Cambodia (riel)	3,916.3	3,912.1	3,973	4,016.3	4,054.3	4,134.3	4,154.3	4,081.3	4,095.3	4,092.5
Indonesia (rupiah)	10,261	9,311	8,577	8,938	9,550	9,994	9,999	9,175	9,115	9,705
Malaysia (ringgit)	3.80	3.80	3.80	3.80	3.80	3.77	3.78	3.73	3.65	3.79
Singapore (S$)	1.79	1.79	1.74	1.69	1.66	1.68	1.69	1.63	1.59	1.66
Thailand (baht)	44.4	42.9	41.5	40.2	40.1	41.3	41.02	39.3	38.1	40.2
Vietnam (dong)	14,725	15,280	15,510	-	15,842	15,878	15,907	15,921	-	15,859
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.28	8.28	8.14	8.08	8.05	8.01	8.19
Hong Kong (HK$)	7.80	7.80	7.78	7.79	7.79	7.77	7.75	7.76	7.76	7.78
South Korea (won)	1,291	1,251	1,192	1,145	1,008	1,029	1,036	976	949	1,024
Taiwan (NT$)	33.8	34.5	34.4	33.6	31.4	32.3	33.4	32.3	32.2	32.1
Selected industrial countries										
Euro-12 (euro)	1.12	1.06	0.89	0.80	0.79	0.81	0.84	0.83	0.80	0.80
Japan (yen)	121.5	125.4	115.9	108.2	107.4	111.2	117.2	116.9	114.5	110.2

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

Table 4. Selected Commodity Prices on World Market, 2001–2006 (period averages)

	2001	2002	2003	2004		2005		2006		2005
					Q2	Q3	Q4	Q1	Q2	
Maize (USNo.2)—USA ($/tonne)	81.18	89.98	95.42	110.65	87.53	90.61	90.64	95.37	99.95	89.19
Palm oil—north-west Europe ($/tonne)	259.13	353.91	402.03	427.47	382.48	376.41	391.52	395.75	397.87	381.32
Rubber—Malaysia ($/tonne)	602.0	768.3	1050	1252.2	-	-	-	-	-	-
Rice (Thai 100% B)—Bangkok ($/tonne)	160.81	178.59	182.22	221.67	268.20	255.77	259.40	275.12	283.86	262.88
Soybeans (US No.1)—USA ($/tonne)	163.89	182.58	218.86	262.03	263.66	214.37	210.42	210.96	207.02	224.25
Crude oil—Dubai ($/barrel)	22.8	23.9	26.8	33.5	47.7	57.27	52.99	57.89	65.03	50.14
Gasoline—US Gulf Coast (cents/litre)	19.5	19.1	23	30.9	39.7	52.37	42.29	41.18	55.89	42.19

Sources: Food and Agriculture Organisation and US Energy Information Administration.
Note: All prices have been converted from US$/ton to US$/tonne. 1 ton = 0.907 tonne.

Economy Watch—Domestic Performance

Main Economic Activities

Cambodia experienced strong Gross Domestic Product (GDP) growth in 2005; the real growth rate was 13.4 percent. Although the economy has had robust growth, the relationship of growth, infrastructure and investment to poverty reduction is less evident. In the second quarter of 2006, private investment in Cambodia, and also construction activity, increased, while foreign visitors declined and, at the same time, the trade balance deficit worsened.

Private investment has provided some job growth to Cambodians for several years, particularly in industry (especially garments) and services (hotels). Both industry and services have expanded mainly in Phnom Penh and Siem Reap province, but not in other areas. The expansion of private investment has further linked the rural and urban economy, and as result, urban and rural Cambodia are increasingly interdependent. Rural people migrate to urban areas to find jobs, while the urban economy depends on rural areas for labour and agricultural products, mostly food. In the second quarter of 2006, private investment approvals jumped to USD2337.0 m, more than 10 times the level of the previous quarter. This dramatic growth derived from services sector approvals, which expanded to USD2043.2 m, 34 times the figure for the previous quarter. The services sector is driven by tourism and construction activities. The increase in services sector approvals was led by construction approvals of USD 2017.0 m. In the second quarter, agricultural approvals rose by 71 percent above the previous quarter, to USD216.9 m and industry approvals increased by 92 percent to USD76.9 m, although garment approvals fell by 69 percent to USD9.6 m.

After a decline over several quarters, construction approvals in Phnom Penh increased in the second quarter of 2006. There was a 22 percent increase from the previous quarter to USD 82.2 m. Flat construction approvals increased by 30 percent to USD 51.8 m and other approvals by 42 percent to USD 24.7 m. Villa and house construction approvals in the second quarter went down by 44 percent from the preceding quarter. Since 2000, the highest construction approval level was in the second quarter of 2004. Phnom Penh, the main city in Cambodia, has seen new buildings being built and the old being renovated. Population growth in Phnom Penh has expanded the city; there is new building around the perimeter. The growth of visitor arrivals to Cambodia also is a factor for expanding construction activities, i.e. many superior quality facilities (e.g. many pubs and restaurants along the riverfront) have been constructed. New construction is needed in other places apart from Phnom Penh, as this will help spread the benefits of growth around the country and will help reduce the number of people in Phnom Penh. The expansion of construction approvals is most likely a result of the recent high economic growth. This expansion also provides more work and more income to people, especially rural people who come as unskilled labour. The growth of construction activities is, therefore, an important aspect of economic development. According to data provided by the National Institute of Statistics (NIS), the number of construction and manufacturing workers in 2005 rose over the previous year by 20 percent (to 234,000 persons) and by 9.5 percent (to 789,000 persons), respectively.

In the second quarter, holiday visitors declined by 27 percent to 292,682, although this was an increase of 21 percent from the same quarter in 2005. Total foreign visitor arrivals declined by 22 percent compared to the preceding quarter to 358,000 persons. Visitor arrivals by land and water decreased by 16 percent to 153,600 and arrivals by air declined 26 percent to 204,400 persons. Of the total visitor arrivals by air, Phnom Penh international airport received 46 percent (94,024) and Siem Reap airport received 54 percent (110,376). Of the total foreign arrivals in the second quarter, holiday visitors were 82 percent, arrivals for business were 7.4 percent (26,692), and the rest were for other purposes. In the second quarter, holiday visitor arrivals usually decrease, while a small increase is expected in the next quarter. The peak period for holiday arrivals in Cambodia is the first quarter (January to March) because weather in the northern hemisphere encourages tourists to visit warmer latitudes.

Cambodia's external trade balance is usually in deficit. In the second quarter, this deficit increased by 40 percent to USD122.4 m, compared with the preceding quarter. Total exports were 84 percent of imports, compared with 87 percent in the previous quarter. Although exports have increased in the second quarter, they continued to be insufficient to offset the rise of imports. Compared to the same quarter of 2005, the external trade deficit declined by 19 percent. In the second quarter 2006, total exports were USD652.5 m, an increase of 8.2 percent from the previous quarter and an increase of 27 percent from the same period of 2005. The major export product, garments, increased by 11 percent to USD632.4 m, of which exports to the USA rose by 8.9 percent to USD438.6 m and to the EU by 29 percent to USD142.2 m. Agricultural exports decreased by 42 percent to USD20.2 m, as fish and other exports fell by 47 percent to USD1.0 m and 69 percent to USD7.0 m, respectively. Rubber and wood exports rose by 26 percent to USD9.8 m and 9.5 percent to USD2.3 m, respectively. The increase in garment exports was the main cause of Cambodia's exports expansion. The increasing garment exports were the result of additional investment in the garment industry in Cambodia in recent years.

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Total imports in the second quarter climbed to USD774.9 m, an increase of 12 percent compared to the preceding quarter and 16 percent from the same period in 2005. Of the main imports, gasoline increased by 14 percent compared to the previous quarter to USD12.4 m, while diesel fell by 0.9 percent to USD32.2 m. Construction materials rose by 5.6 percent to USD39.1 m and other imports by 13 percent to USD691.2 m. The increase of construction material imports was the result of an increase in construction activities in this quarter. Imports of gasoline rose due to market demand in addition to the high prices of gasoline (i.e. at around USD 70 a barrel in April to June). In this quarter, the volume of gasoline imports rose by 15 percent to 39,800 tonnes, while diesel imports declined by 0.5 percent to 115,200 tonnes.

Public Finance

The government's budget deficit increased for the second successive quarter, growing by 10 percent to KHR 247.4 bn, compared to the preceding quarter and increasing by 3 times for the same period in 2005. Although total revenues increased significantly in the second quarter, they were only 75 percent of total government expenditure. Current revenue rose by 23 percent, of which tax revenue rose by 15 percent to KHR 558.6 bn. VAT and customs duties led the increase in tax revenue, comprising 27 percent and 35 percent of total tax revenue, respectively. VAT rose by 13 percent to KHR 197.4 bn, customs revenue increased by 12 percent to KHR 151.7 bn, and excise duty collection was up 21 percent to KHR103.0 bn. Direct tax collections also rose, with the profit tax improving by 93 percent to KHR 85.9 bn, while payroll tax collections dropped 7.5 percent to KHR 11.3 bn. There was a 55 percent increase in non-tax revenue in the second quarter. Forest exploitation and posts and telecommunications rose by 40 percent to KHR 0.7 bn and almost three times (to KHR 30.0 bn), respectively. Domestic capital revenue rose by 70 percent compared to the preceding quarter, to KHR 4.6 bn. The increase in domestic capital revenue was made up of "other capital revenue" (there were no privatisation receipts in this period). Although government budget revenue increased in this period, government spending also expanded, so foreign assistance was needed to balance the budget. Foreign financing increased by 68 percent from the preceding quarter to KHR 328.6 bn.

In the second quarter 2006, government expenditure on a cash basis rose 19 percent from the previous quarter, to KHR 978.9 bn, an increase of 37 percent from the same quarter of 2005. There was an increase in education and health spending to KHR 202.3 bn, two and a half times the level of the previous quarter. Defence and security spending rose by 49 percent to KHR 116.7 bn, while other spending decreased by 21 percent to KHR 304.5 bn. Government spending on health and education increased due to natural disaster relief in response to severe flooding in some provinces. Capital expenditure rose by 27 percent from the previous quarter to KHR 355.4 bn. Current expenditure was sufficiently funded by current revenue. For capital expenditure, the government needed foreign assistance. In the future, Cambodia may be less reliant on foreign assistance because oil revenue is expected to be realised by 2011. The effectiveness of domestic revenue collections within the country is also expected to increase.

Inflation and Foreign Exchange Rates

The consumer price index (CPI) in Phnom Penh rose in the second quarter by 4.5 percent from the same period 2005, compared with an increase of 6.1 percent in the first quarter. There were increases in all the main items in the CPI basket. Food prices and transportation rose by 6.3 percent and 10 percent, respectively, while personal care and effects and medical care rose by 5.8 percent and 0.7 percent, respectively. Although, the growth of main item prices in the CPI basket in the past twelve months to the second quarter was less than the growth in the twelve months to the first quarter, the prices of all the main items in this quarter was higher than in the preceding quarter. This is a problem particularly for the poor, as the prices of basic goods continue to rise.

The exchange rate of the riel depreciated in the second quarter, but was improved compared to fourth quarter 2005. The riel depreciated by 0.3 percent against US dollar in the second quarter, trading at 4,106.6 riels to the US dollar, compared with 4,094.8 in the previous quarter. Against the Thai baht, the riel dropped by 4.3 percent to 108.0 riels per baht. Against the Vietnamese dong, the riel was stable, trading at 25.0 riels per 100 dong, compared with 25.4 in the previous quarter. The trading situation between Cambodia and other countries has caused the domestic currency to depreciate. For example, goods imports from Thailand exceed exports and the riel depreciated against the baht as a result. The continuing depreciation of the riel against the US dollar encourages Cambodians to hold US dollars, rather than their own currency; the currency uncertainty leads to US dollars being more trusted by people.

Monetary Developments

In the second quarter, total liquidity (M2) increased by 5.8 percent to KHR 6044.0 bn, 31 percent more than in the same period last year. Total liquidity represents the assets of the Cambodian monetary system, which comprise net foreign assets (NFA), net government credit, private sector

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credit and other. NFA rose by 4.2 percent to KHR 6,682.0 bn, a 31 percent increase compared to a year earlier. Net government credit has continued to decline since 1998. In the second quarter, net government credit decreased by 10 percent to -KHR831.0 bn, of which government deposits were KHR1105.0 bn, an improvement of 6.9 percent compared with the previous month. Private sector credit rose to KHR2997.0 bn, up 7.8 percent from the previous quarter and 38 percent from a year earlier. The change in NFA, net government credit and private sector credit has driven liquidity higher. In this case, the increase of NFA was offset by 'other', which includes restricted deposits and bank capital and reserves. 'Other' rose by 3.0 percent to KHR2803.3 bn. The increase of private sector credit is offset by a decline in net government credit (i.e. government deposits increased). Therefore, liquidity is being managed by National Bank of Cambodia (NBC) to control inflation, as excess liquidity can lead to inflation. In this second quarter, the assets of the monetary system rose, leading to an increase in liquidity, which consists of cash (KHR), demand deposit, time/saving deposit and US dollar deposit. Domestic currency outside banks increased by 25 percent compared with the same period 2005, to KHR 1,459.0 bn. Riel currency deposits decreased by 0.9 percent from the year before to KHR165.4 bn, and US dollar deposits were USD1076.2 m, a rise of 34 percent from last year. Although, NBC managed liquidity consistently, Cambodia still faces an inflation rate of 4.5 percent in this period due to the higher cost of imports.

Interest rates of US dollar loans have been stable. US dollar loan interest rates per annum were 16.4 percent in this quarter. US dollar deposit rates were also steady at 3.9 percent per annum.

Poverty Situation—Real Daily Earnings of Vulnerable Workers

Real daily earnings of 10 groups of vulnerable workers declined by 9 percent in the period to August 2006, compared to the same period last year. According to survey data in August 2006, the daily earnings of all vulnerable workers continued to decline, except for garment workers and rice field workers, whose earnings increased (see Table 8).

In August 2006, motorcycle taxi drivers' earnings slumped by 28 percent from 9400 riels in the same period of 2005 to 6700 riels. This was the largest decline of any group. Most motorcycle-taxi drivers complained that their earnings declined due to the increase in the number of tuk-tuks and the large gasoline price increases. Motorcycle taxi drivers said that from day to day their earnings were like "water on a lotus leaf" (i.e. unstable); and as a result, they have to spend more time driving to support their families. Ninety percent of respondents said that their earnings could not support their families because they spend so much on food during the time they work in Phnom Penh. After increasing in May, the daily earnings of cyclo drivers in August declined to 6100 riels, 23 percent less than the 7900 riels of August 2005 and 29 percent less than in May of this year. Their earnings declined due to an increase in the number of drivers, according to 77 percent of cyclo drivers. Moreover, 87 percent of them reported that they could not save to help their families. Since early 2006, the number of tuk-tuks has rapidly increased and are now very common around markets, restaurants, guest houses, hotels and other crowded places. Tuk-tuks are a new technology, and they are more comfortable and safer than motorcycle taxis. As a result, they are pushing motorcycle taxis and particularly cyclos from the top end of the market.

The survey of porters in August revealed that their daily earnings fell by 13 percent compared to the same month in 2005. This was due to the number of porters increasing, according to 83 percent of porters interviewed. Eighty-two percent stated that they spent around 150,000 riels in August, including 110,000 riels on food. Seventy-two percent of porters said that with their earnings they could not save. Eighty-five percent spoke of difficulties they faced in migrating to work in Phnom Penh, such as trouble finding a job (some have no job) and having no place to live. Fifty percent of porters interviewed were aged 18 to 25, and most were migrants from rural areas where their families have limited means for making a living.

Real daily earnings of small vegetable traders declined to 5200 riels, a drop of 12 percent compared to August 2005. Sixty-five percent of small traders come from the provinces (33 percent from Kandal, 12 percent from Prey Veng, 10 percent from Takeo and 10 percent from other provinces). Of the small traders who came from the provinces, mostly from rural areas, 35 percent were landless, 27 percent have under a hectare and 38 percent have one or more than a hectare of land. The survey found that 42 percent of small traders were married, 20 percent widowed and 38 percent single. All of them however, stated that their earnings were used for supporting their families. Forty percent had not attended school, while 50 percent finished primary school, eight percent lower secondary and only two percent high school.

Real daily earnings of skilled construction and unskilled workers fell by eight percent and one percent, respectively, in August compared to the same month last year. The increase in the number of workers was a major reason for their earnings decline. The survey found that married skilled workers earned 13 percent more than single workers, while single unskilled workers earned six percent more than married workers. Most skilled

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construction workers reported that their earnings varied from day to day, and therefore they could not save much. Normally, skilled construction workers spent around 125,000 riels per month, and unskilled worker 120,000 riels. Of the skilled workers, 42 percent reported that their earnings only covered their food expenses, while 50 percent were able to pay for other items, in addition to food (they did not explain further). The remaining eight percent did not respond to this question. Around 80 percent of skilled workers were from rural areas, and 10 percent of them were landless.

Real daily earnings of scavengers were two percent lower than in August 2005. Eighty percent of scavengers indicated that prices of rubbish had decreased in the last three months, while most reported that the number of scavengers had increased. Ninety-five percent of scavengers interviewed depended solely on rubbish collection for their income, but 73 percent stated that their earnings could not support their whole family. In this survey, 30 percent had gone into debt at high interest rates when their family lacked food or faced illness. Generally, they borrowed money from the rubbish middleman and received lower prices to repay the debt.

The survey of garment workers revealed that most factories paid wages in US dollars, although some had paid in riels, especially to temporary workers. According to the survey, in August the monthly wages of garment workers reached USD70, the highest level since the survey started. In riels their daily earnings improved by 6 percent to 9300 riels, up from 8800 riels in August 2005. The survey found that 71 percent of sewing workers and 25 percent of group leaders earned around USD70, while cleaners earned around USD52. However, 90 percent of garment workers interviewed reported that their earnings left just a small amount for sending home to support their families. About 39 percent stated that they could save some money to run a business when they stop working in the factory. Fifty-five percent reported that they had not joined a union and 45 percent had joined. Interestingly, most union members seemed to know the name of the leader rather than the name of their union. Normally, garment workers spent an average of USD33 in August: USD20 for meals, USD5 for accommodation and USD8 for other spending.

Prepared by: Pon Dorina & Phann Dalis

Continued from page 10 **Does Free Trade ...**

membership. This, in turn, requires a commitment to cost reduction, which can be achieved by increasing the productivity of the labour force and removing (reducing) bureaucratic costs. The productivity of labour, in turn, can be increased by using more capital and strengthening skills. The ability to adopt new technology depends on the educational level of the workers. The input of more capital leads initially to an increase in labour productivity, but can cause unemployment as labour can be replaced by capital (machines). The first priority to increase productivity is, therefore, to reduce costs of energy, transportation and bureaucracy, and to promote worker's capacity building. To achieve this objective, strong state intervention is needed, but state intervention is likely to fail if the reform of the public administration does not progress. The degree to which Cambodia will benefit from WTO membership lies clearly within Cambodia's control and particularly within the control of the government.

Endnotes

1. The term "globalisation" can be understood as the integration of economic, political, cultural and environmental systems. Free trade is a (special) form of economic integration.
2. Average of textile exports to total exports in period 1998–2002.
3. According to data provided by the Cambodian Investment Board for 1999–2002.
4. *Ibid.* p. 48.
5. Van Sou Ieng, president of the Garment Manufacturers Association, cited at http://www.rfa.org/khmer/ (date 13 February 2004).

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Economy Watch—Indicators

Table 1. Private Investment Projects Approved, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1	Q2
	Fixed Assets (USD m)											
Agriculture	51.6	63.9	9.8	0.4	40.3	3.7	12.3	4.0	10.4	9.1	126.5	216.9
Industry	650.5	162.6	109.4	105.2	67.7	137.2	189.2	62.1	349.7	82.0	40.1	76.9
. Garment	126.5	67.7	81.5	26.5	27.2	68.1	133.9	23.2	56.5	27.3	30.5	9.6
Services	154.7	222.6	150.1	118.4	145.3	168.4	92.0	30.0	44.1	28.1	60.7	2,043.2
. Hotels and tourism	112.0	171.8	79.8	73.8	47.1	124.1	55.9	0.0	33.6	22.6	0.0	26.2
Total	856.8	449.1	269.2	224.0	253.3	309.3	293.5	96.1	404.2	119.2	227.3	2,337.0
	Percentage change over previous quarter											
Total	-	-	-	-	-	-	-	-79.8	320.6	-70.5	90.7	928.1
	Percentage change over previous year											
Total	15.0	-47.6	-40.0	-19.5	10.5	31.1	-12.4	-15.2	392.9	628.1	-52.2	2331.2

Including expansion project approvals. Up to June 2006. Source: Cambodian Investment Board

Table 2. Value of Construction Project Approvals in Phnom Penh, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1	Q2
	USD m											
Villas and houses	21.2	20.0	16.4	15.9	23.4	20.0	30.3	6.6	19.2	5.4	10.1	5.7
Flats	227.3	290.5	174.8	167.8	179.9	91.6	167.6	69.1	41.3	45.1	39.9	51.8
Other	27.0	16.4	14.2	12.6	16.6	87.3	65.6	28.6	16.0	21.3	17.4	24.7
Total	275.5	326.9	205.4	196.3	219.9	198.9	263.5	104.3	76.5	71.8	67.4	82.2
	Percentage change over previous quarter											
Total	-	-	-	-	-	-	-	-1.6	-26.7	-6.1	-6.2	22.0
	Percentage change over previous year											
Total	6.9	18.7	-37.2	-4.4	12.0	-9.5	32.5	114.8	-1.8	12.0	-36.5	-21.2

Source: Department of Cadastre and Geography of Phnom Penh municipality

Table 3. Exports and Imports, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1	Q2
	USD m											
Total exports	784.4	941.1	1,056.2	1,268.2	1,453.2	1,708.1	2108.1	515.0	730.0	644.8	603.2	652.5
Of which: Garment	378.0	554.0	962.1	1,202.2	1,355.8	1,628.4	2,027.0	497.6	709.8	601.0	568.5	632.4
. To U S	74.1	486.0	714.1	840.9	943.4	1,099.8	1,270.9	335.9	489.5	408.1	402.5	438.6
. To EU	-	-	228.1	323.3	356.3	414.7	590.8	106.0	162.5	145.3	110.6	142.2
. To rest of the world	82.0	68.0	19.9	38.0	56.1	113.8	165.3	55.7	57.8	47.5	55.3	51.6
Agriculture	-	-	94.2	66.0	97.3	79.7	81.2	17.3	20.2	43.8	34.7	20.2
. Rubber	-	-	29.6	25.9	29.7	35.1	38.3	6.2	9.8	13.4	7.8	9.8
. Wood	-	-	32.9	22.3	16.0	10.2	11.1	2.9	2.1	2.0	2.1	2.3
. Fish	-	-	5.4	6.0	4.3	2.8	10.6	1.1	0.8	6.6	1.9	1.0
. Other	-	-	26.2	11.8	47.4	31.6	21.3	7.1	7.5	21.9	22.9	7.0
Total imports	1,112.2	1,237.4	1,417.7	1,501.4	1,707.8	1,824.9	2149.0	666.4	632.3	691.1	690.7	774.9
Of which: Gasoline	-	-	-	-	25.9	33.2	30.2	9.3	9.9	10.7	10.9	12.4
Diesel	-	-	-	-	100.8	109.6	109.4	25.8	24.6	21.1	32.5	32.2
Construction materials	-	-	-	-	12.9	80.8	95.3	37.1	38.7	26.2	37.0	39.1
Other	-	-	-	-	1,568.2	1,601.3	1914.0	594.2	559.1	633.1	610.3	691.2
Trade balance	-327.8	-296.3	-361.5	-233.2	-254.6	-116.8	-40.9	-151.4	97.7	-46.3	-87.5	-122.4
	Percentage change over previous quarter											
Total garment exports	-	-	-	-	-	-	-	11.8	42.6	-15.3	-5.4	11.2
Total exports	-	-	-	-	-	-	-	11.2	41.7	-11.7	-6.4	8.2
Total imports	-	-	-	-	-	-	-	28.0	-5.1	9.3	-0.03	12.2
	Percentage change over previous year											
Total garment exports	66.4	47.0	74.0	24.9	12.8	20.1	24.5	3.8	10.3	15.5	27.8	27.1
Total exports	59.0	20.0	12.2	20.1	14.6	17.5	23.4	4.1	9.2	18.3	30.3	26.7
Total imports	1.6	11.3	14.6	5.9	13.7	6.9	17.8	9.9	20.5	26.1	32.6	15.6

Import data include tax-exempt imports. Sources: Department of Trade Preferences Systems, MOC and Customs and Excise Department, MEF.

Table 4. Foreign Visitor Arrivals in Cambodia, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1	Q2
	Thousands of passengers											
By air	186.3	262.9	351.7	408.4	523.0	456.0	626.1	169.8	202.8	251.5	275.4	204.4
By land and water	100.2	104.8	114.7	196.5	263.5	245.0	428.9	124.0	120.4	164.5	181.9	153.6
Total	286.5	367.7	466.4	604.9	786.5	701.1	1055.0	293.8	323.2	416.0	457.3	358.0
	Percentage change over previous quarter											
Total	-	-	-	-	-	-	-	-22.8	10.0	28.7	9.9	-21.7
	Percentage change over previous year											
Total	30.9	28.3	26.8	29.7	30.0	-10.9	50.5	51.6	41.8	9.8	20.2	21.2

Source: Ministry of Tourism

Economy Watch—Indicators

Table 5. National Budget Operations on Cash Basis, 1998–2006 (Billions of riels)

	1998	1999	2000	2001	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1*	Q2
Total revenue	920	1326	1,528	1,530	1,744	1,764	2,126	621.9	624.1	827.9	595.9	731.5
Current revenue	-	-	-	1,521	1,728	1,733	2,107	611.5	609.5	701.6	593.2	726.9
Tax revenue	676	956	1,096	1,096	1,227	1,220	1,577	466.0	436.2	553.8	484.7	558.6
Customs duties	376	432	376	376	424	395	513	129.7	123.7	189.8	135.5	151.7
Non-tax revenue	204	348	424	424	501	513	530	145.5	173.2	147.8	108.5	168.3
Forest exploitation	20	36	28	29	15	7	2	1.5	0.3	0.1	0.5	0.7
Posts & telecommunications	88	108	124	122	123	120	94	32.0	30.9	38.0	11.4	30.0
Capital revenue	36	12	8	9	16	31	19	10.4	14.6	126.3	2.7	4.6
Total expenditure	1,348	1,788	2,332	2,332	2,948	2,757	2,932	713.7	912.4	998.9	820.6	978.9
Capital expenditure	368	624	976	977	1,388	1,171	1,163	315.9	335.4	350.3	278.9	355.4
Current expenditure	980	1,164	1,356	1,355	1,560	1,586	1,769	397.8	577.0	648.6	541.7	623.5
Education and Health	132	280	344	343	454	473	518	92.3	202.1	228.4	80.3	202.3
Defence and Security	448	464	404	405	438	411	423	73.9	116.7	71.4	78.1	116.7
Other ministries	332	412	636	637	668	702	828	231.7	258.2	348.8	383.2	304.5
Overall balance	-428	-462	-804	-802	-1,204	-993	-806	-91.9	-288.3	-171.0	-224.7	-247.4
Foreign financing	268	416	768	766	1,249	886	864	255.7	335.8	269.0	196.0	328.6
Domestic financing	112	60	36	37	-45	106	148	-163.9	-47.5	-97.9	28.6	-81.3

Provisional for 2006 and *Revised. Source: Ministry of Economy and Finance.

Table 6. Consumer Price Index (change), Exchange Rates and Gold Prices (period averages), 1998–2005

	1998	1999	2000	2001*	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1	Q2
	Consumer price index (percentage change over previous year)											
Provinces	-	5.8	5.4	-0.1	0.9	4.4	14.4	21.5	14.5	16.6	15.8	12.0
Phnom Penh - All Items	14.8	4.0	-0.8	0.2	3.3	1.1	3.9	6.4	4.6	6.6	6.1	4.5
- Foods	14.1	7.6	-3.4	-2.5	1.8	1.5	6.4	9.8	6.0	10.6	10.6	6.3
- Transportation	15.1	3.5	6.6	-4.2	0.3	4.9	9.7	11.1	11.9	10.2	9.7	10.0
	Exchange rates, gold and oil prices (Phnom Penh market rates)											
Riels per US dollar	-	-	3,840.8	3,916.3	3,912.1	3,973.3	4,016.3	4,054.3	4,134.3	4,154.3	4,094.8	4106.6
Riels per Thai baht	-	-	95.8	88.2	91.1	95.8	99.9	101.3	100.2	101.4	103.5	108.0
Riels per 100 Vietnamese dong	-	-	27.1	26.6	25.6	25.6	25.5	25.3	25.9	26.1	25.4	25.0
Gold prices (US dollars per chi)	40.4	36.0	33.3	32.8	36.8	41.4	46.3	52.5	55.4	57.0	64.2	72.2
Diesel (riels/litre)	883	1,065	1,105	1,329	1,521	1,508	3,442	2,500	2,767	2,921	2,867	3,110
Gasoline (riels/litre)	1,378	1,613	1,760	2,113	2,084	2,150	2,633	3,300	3,633	3,750	3,767	4,000

* Revised. Sources: CDRI, IMF, NIS, Ministry of Planning, Ministry of Economy and Finance

Table 7. Monetary Survey 1998–2006 (end of period)

	1998	1999	2000	2001	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1	Q2
	Billions of riels											
Net foreign assets	1,726	2,019	2,589	3,080	3,737	4,027	4,797	5,084	5,391	5,475	6,410	6,682
Net domestic assets	-496	-576	-759	-876	-849	-698	-467	-455	-397	-450	-699	-637
Net claims on government	178	103	3	-75	-119	-128	-209	-343	-404	-421	-755	-831
Credit to private sector	655	763	898	936	1,059	1,337	1,817	2,166	2,386	2,394	2,778	2,997
Total liquidity	1,230	1,443	1,830	2,204	2,888	3,329	4,330	4,629	4,994	5,025	5,711	6,045
Money	543	531	540	609	813	937	1,153	1,215	1,279	1,323	1,449	1,512
Quasi-money	687	912	1,290	1,595	2,075	2,392	3,177	3,414	3,715	3,702	4,262	4,533
	Percentage change over previous year											
Total liquidity	15.7	17.3	26.8	20.4	31.0	15.2	30.0	20.4	19.8	16.1	27.0	30.6
Money	41	-2.2	1.7	12.8	33.5	15.3	23.0	16.8	18.6	14.7	20.9	24.4
Quasi-money	1.3	32.7	41.4	23.6	30.0	15.2	32.8	21.7	20.2	16.6	33.6	32.8

Source: National Bank of Cambodia

Table 8. Real Average Daily Earnings of Vulnerable Workers (at constant Nov 2000 prices)

	Daily earnings (riels)									Percentage change over previous year		
	2000	2002	2003	2004	2005		2006			2006		
	Nov				Aug	Nov	Feb	May	Aug	Feb	May	Aug
Cyclo drivers	7594	8975	8572	7614	7857	7768	7873	8546	6063	-7.7	11%	-23%
Porters	6233	7044	6676	6895	6000	6473	6519	7375	5238	-6.0	5%	-13%
Small vegetable sellers	5256	6566	6532	6947	5938	8385	6186	6492	5197	-3.3	-24%	-12%
Scavengers	2718	3685	3944	4446	4335	4801	4984	4512	4266	-7.4	-14%	-2%
Waitresses*	2111	4365	4932	4448	4648	3893	4670	4243	4292	4.5	-1%	-8%
Rice-field workers	4198	4304	4177	4139	4009	4224	4127	4541	4137	3.3	19%	3%
Garment workers	6701	8904	9577	9277	8756	8659	9184	7860	9264	-0.3	9%	6%
Motorcycle-taxi drivers	8610	12,184	10,092	9204	9406	9645	8884	8790	6744	-24.5	-23%	-28%
Unskilled construction workers	5399	6453	6558	6382	6069	6691	5974	6407	6028	3.9	-21%	-1%
Skilled construction workers	13,127	12,605	13,111	12,679	10,273	11,253	11,750	9833	9466	-18.2	-20%	-8%

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