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Cambodia shares the pain

By Stephen Kurczy

PHNOM PENH - After months of official denials and upbeat forecasts, Cambodian Prime Minister Hun Sen said for the first time last week that the country's economy is not immune to the rising global financial and economic crisis. As key business sectors, including garments, tourism and construction, all show signs of weakness, the premier finally said the government must do more to stave off a crisis.

"It is clear that if the [government fails] to take timely and appropriate measures to manage the crisis, the effects of the global financial crisis and economic downturn will become a real cause for Cambodia's financial system and economy to fall into a dangerous crisis," Hun Sen said during an address to the Cambodian Economic Forum. He also took the occasion to lower the government's 2009 gross domestic product (GDP) growth forecast to 6% from 7% previously.

Although still higher than most outside projections - including the International Monetary Fund's 4.75% growth forecast - economists say the premier's disclosure represents a significant policy shift. The day before the February 5 forum, Cheam Yeap, a lawmaker from Hun Sen's ruling Cambodian People's Party and the chairman of the National Assembly's Finance Commission, said the global financial crisis would have "no impact" on Cambodia.

Those denials, however, had become statistically difficult to defend. The Economic Institute of Cambodia, an independent think tank, showed that exports in the first half of 2008 grew by only 6.7%, or about half the 12.6% rate recorded over the same period the previous year. That included a severe downturn in the crucial garment export sector: at least 22 garment factories were closed by the end of last year, shedding over 20,000 jobs in the process.

Tourism also saw declining growth in the second half of 2008, with arrivals dampened by an armed border dispute with neighboring Thailand and the closure of Bangkok's Suvarnabhumi Airport, through which many tourists transit to Cambodia. Tourism arrivals were up a mere 5.5% year on year, the first time annual growth was below 18% since the 2003 severe acute respiratory syndrome (SARS) scare of that year. It was also the first year since then that visits to Angkor Wat dropped, with visitor numbers down about 50,000 visitors to 1.05 million overall.

The booming construction sector, which had been driven largely by South Korea investors, has also been hit by the global turmoil. Douglas Clayton, chief executive of Cambodia's first investment fund, Leopard Cambodia, warned last September that local land values would fall as Korean investors pulled out of ventures because of sub-prime loan related problems back home.

By November, South Korean developer GS Engineering & Construction announced it was halting for at least one year construction on its US\$1 billion, seven-skyscraper complex, and that it would scale back its original plan to only three buildings. With the economy slowing and South Korean investors heading for the exits, it's increasingly unclear from where the high-spending expatriates will arise to fill the high-end, high-rent complex.

Economically linked

Some analysts and commentators had earlier suggested that small, financially undeveloped Asian economies like Cambodia, which lacked exposure to toxic subprime products and had diversified their past reliance on exports to US and European markets, might "decouple" from deteriorating financial conditions in the West and maintain strong growth momentum.

But recent statistics show that "we can't say anymore that Cambodia is decoupled" from the wider global turbulence, said Stephane Guimbert, country economist for the World Bank. "Since we prepared [our 4.9%] projection [for Cambodian 2009 growth] in November 2008, most of the developments in the global economy have pointed to a deeper crisis than expected at that time," he said.

In part that's because Chinese demand for the region's products, many of them intermediate goods destined finally for Western markets, is not holding up as strongly as some had hoped. The IMF recently halved its 2009 growth forecast for Asia to 2.7%. During a February 2 teleconference announcing the Asia revision, IMF managing director Dominique Strauss-Kahn referred to the previous decoupling theory as "a funny story". "We have always been arguing here that there was not such a thing [as decoupling]," Strauss-Kahn said.

John Nelmes, the IMF's local resident representative, predicts Cambodian GDP growth will likely fall below 4.8% in 2009 and only recover to 5% to 6% next year if larger global economies implement well coordinated fiscal and monetary policies. If accurate, Cambodia's growth is expected to fall by half of recent trends; between 2004 and 2007, GDP growth averaged 11.1% annually.

"Looking forward to the near term, the global crisis is likely to take a heavy toll on Cambodia," Nelmes told Asia Times Online.

Until now, integration with global markets had buoyed the Cambodian economy. With the implementation of more market-oriented reforms, including measures to lure foreign investment, average per capita annual income more than doubled to \$593 in 2007 from \$285 in 1997. Now many fear a reversal of fortunes that could drive more Cambodians, already estimated at 35% of the population, back under the poverty line. Cambodia's poor were already hard hit by last year's spike in inflation, which soared to 25% last May before moderating to an overall annual rate of 13.5%.

Guimbert and others say Hun Sen's government should move to stimulate the economy through fiscal outlays towards agriculture, infrastructure and social safety nets. The World Bank also recommends more structural reforms so that Cambodia will be better-positioned to benefit when the global economy rebounds. Those suggestions include streamlining export processes and the establishment of a national arbitration center to allow foreign investors to bypass the country's notoriously corrupt courts for business disputes.

The World Bank ranked Cambodia 135 out of 185 countries surveyed for their overall business climate and in mid-2008 ranked it below every other Association of Southeast Asian (ASEAN) nation except Myanmar in three main categories: control of corruption, government effectiveness and rule of law.

That assessment was echoed last week by the United Kingdom-based environmental watchdog Global Witness in a new investigative report that accused Hun Sen's government of cornering and "pillaging" the country's growing mineral and petroleum industries.

Hun Sen says such assessments represent a double standard in light of the recent incompetence and corruption witnessed in the Western financial industry. "Rich countries are only blaming poor

countries for corruption - they never blame one another," Hun Sen was quoted saying in the local media. "Powerful nations no longer have the right to advise small countries."

Stephen Kurczy is a Cambodia-based journalist.