

Cambodia edges away from U.S. dollar

July 29, 2011

By [Lisa Twaronite](#), MarketWatch

TOKYO (MarketWatch) — Cambodia, one of Asia's fastest-developing frontier economies, is gradually letting go of the U.S. dollar's hand in favor of its own currency, the riel — and some investors welcome the shift.

The Asian Development Bank predicted Cambodia will grow 6.5% in 2011, as textile and garment industries boom in a country that spent decades of the past century ravaged by civil war. According to the ADB, 90% of currency in circulation is the greenback — which is not the most popular world currency at the moment. [Read more on dollar, currencies.](#)

“The U.S. dollar is losing its credibility from the reckless ‘quantitative easing’ programs of the U.S. Federal Reserve. It is becoming unsafe for Cambodia to delegate its monetary policy to the bankrupt U.S., which hopes to inflate its way out of its recession and huge debts,” said Douglas Clayton, managing partner of frontier markets investor Leopard Capital.



Leopard Capital already has \$34 million equity fund investing in the country, and is launching a \$75 million fund aimed at Cambodia and neighboring Laos.

“I am in favor of the riel being introduced as a more sound currency, even though this will initially be more cumbersome for investors like us,” Clayton said in an email interview with MarketWatch this month.

Jayant Menon, principal economist in the Asian Development Bank's Office of Regional Economic Integration, said the shift would be a positive one, but needs to happen at its own speed.

“My view is that Cambodia would benefit from de-dollarization, but only when it is ready for it. I think it has a long way to go still, and that it should happen in a natural way, for it to be sustainable,” Menon said.

According to Menon, dollarization itself is not a problem, “but rather a symptom of underlying problems.”

These include the weak institutions, poor governance and underdeveloped financial markets of a transitional economy, he said, as well as uncertainty relating to enforcement of laws and macroeconomic stability.

When these issues are addressed, “then the symptom, which is dollarization, is likely to diminish, and disappear, over time,” Menon said.

Trading in riels, settlement in dollars

Earlier this month, Cambodia opened its first securities exchange, but something was missing: traded companies, which were still making listing preparations.

“Today’s inauguration is the evidence of the readiness of Cambodia Securities Exchange to start trading, which has been scheduled to launch by the end of this year,” Keat Chhon, the country’s finance minister, said at the July 11 launching ceremony, according to Kyodo News.

The Cambodia Securities Exchange, or CSX, is a joint venture between the government, which holds a 55%, and the Korea Exchange, which holds 45%. Three state-owned enterprises — Phnom Penh Water Supply Authority, Telecom Cambodia and Sihanoukville Autonomous Port — are reportedly preparing to list on the exchange. [Read commentary on small frontier markets.](#)

Reuters
Cambodian Securities Exchange Director General Hong Sok Hour demonstrates how a stock market works to visitors and journalists during the inauguration ceremony of the Cambodia Securities Exchange at the Canadia Tower in Phnom Penh July 11, 2011.

Other Cambodian companies are said to be eyeing other bourses. Rubber company Swift Resources plans to raise \$100 million to \$200 million in an initial public offering ahead of a fourth-quarter listing on the Hong Kong stock exchange, according to reports this week.

When trading on the CSX eventually starts, stock quotations will be in riels, by order of the Securities and Exchange Commission of Cambodia. But for the first three years, settlements can be made in dollars if both buyers and sellers agree.



“Foreign investors would initially prefer to trade shares in dollars since that is simplest for them. But once there are enough riels in circulation and sufficient liquidity in the foreign exchange market, trading shares denominated in riels will not pose any problems for investors,” said Clayton.



Euroview: Dollar’s still a safe haven

After weeks of wobbling over the U.S. debt ceiling talks, the dollar has stabilized, suggesting it is still the world's number one reserve currency after all.

Leopard Cambodia Fund has made ten investments, Clayton said, mostly in financial services, utilities, and food processing companies.

“We hope that Acleda Bank will be our first portfolio company to go public, and that others such as Kingdom Breweries and Nautisco Seafood Manufacturing may someday follow,” he said.

“Rural banks like Acleda can gradually try to match loans and deposits with riel, which is used more widely in rural areas. Urban banks will initially have a harder adjustment as their balance sheets tend to be more dollarized,” said Clayton

Leopard also has a position in Electricite Du Laos Generating Co., or EDL Genco, a hydro-electric power company that is listed on the Laos Stock Exchange. That exchange opened in January and trades two stocks.

“The stock exchanges in Laos, Vietnam, and Thailand all trade in local currencies, so why not Cambodia?” said Clayton.

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