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Rapid assessment of the impact of the financial crisis in Cambodia

Kang Chandararot
Sok Sina
Liv Dannet

March 2009

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Preface

The global financial crisis—coming on the heels of a devastating global food crisis—is likely to have severe consequences on enterprises, workers and families around the world. Jobs are likely to be lost in some sectors, while new jobs may be created in others. Given that there is already a recession in major global markets, new jobs, if created, are likely to be in the informal economy where productivity, wages and conditions of work are poor.

While on the one hand there is an immediate need to restore confidence in the economy and credit flows through coordinated action by monetary authorities there is also a very urgent need to assess the likely impact of the financial crisis on the labour market, and ensure that systems and structures are in place to deal with this crisis, if necessary. The ILO has, therefore, called upon national and international authorities, employers, workers and organizations of civil society to engage in rapid and coherent policy action to restore growth and mitigate the effects of the crisis, particularly for the most vulnerable groups.

Cambodia has been growing quite robustly, with GDP growth of 9.6% for 2007 and an average of 11% over the previous three years. However, the country's economic success is attributed to three large sectors which are FDI and export oriented – Ready Made Garments (RMG), Construction and Tourism. All these sectors are expected to be affected by the current crisis, and this could have a major impact on labour markets and households in Cambodia.

The government is aware that the implications might be particularly severe, coming after the food crisis, especially for the large number of those who live in conditions of poverty. The Honourable Prime Minister in his address on Sustainable Development on 25 October 2008 noted that the country, as the rest of the world, was facing uncertainty due to the 'waves of the financial crisis' and it needed to be ensured that the current crisis was not allowed to become a major obstacle in Cambodia's 'energetic journey toward sustainable development and elimination of the development gap in the region'.

The ILO has been working with the Government of Cambodia and with representatives of Workers and Employers organizations in Cambodia on a number of issues related to the world of work – on employment, skills development, entrepreneurship development, gender issues, migration, social protection, rights at work, child labour and social dialogue. There are a number of technical cooperation projects in Cambodia too. The financial crisis is likely to have an impact on labour market outcomes, and it is therefore important to understand the possible effects of the crisis in the Cambodian economy, labour market and society.

This detailed and robust analysis on the impact of the financial crisis in the country by the Cambodian Institute of Development Studies, led by Dr. Chandrarat, will help prompt a stronger and more coherent policy response from national stakeholders and the international community to mitigate the effects, particularly for the most vulnerable groups. This study is made possible under the initiative and financial support of the International Labour Organization (ILO). This assessment is expected to help the ILO and ILO constituents (the government and other social partners) understand better the likely impact of the crisis on the economy and the labour market and provide leads on target groups, policy response and actions.

Bill Salter
Director
ILO Subregional Office for East Asia

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Abstract

This paper carries out a rapid assessment of the impact of the global financial crisis on the Cambodian economy and labour force. It was designed to be a quick crisis analysis, based on available data and interviews with key informants. It was carried out in January 2009 as the impact of the crisis was unfolding. The study combines an economic and sociological analysis to understand better the impact of the crisis at different levels – the macroeconomy, sectors, labour market and households. It is based on econometric analysis of secondary data on the one hand and views of different groups from Focus Group Discussions, interviews and quick surveys on the other.

Using a multiplier analysis the study projects that GDP growth for Cambodia in 2009 could decline to 5.1 per cent causing potential loss of real income in the region to the tune of USD677 million at least for this year. Exports will contract by 2.5 per cent in 2009 – signifying a loss of about USD75 million in export revenue, and notes that FDI will shrink by 0.9 per cent in 2009. The study uses a vulnerability index to identify key vulnerable sectors based on their share in Foreign Direct Investment and exposure to foreign markets. It finds that the Garments sector, which is the largest export sector, is the most vulnerable – followed by Construction and Tourism. It notes that huge job losses are likely in these sectors, especially in Garments, as markets in the US and EU go into recession. The crisis will have a very strong impact on certain vulnerable groups – especially women workers, since the Garments sector has a largely female workforce. Also affected will be young workers as new job opportunities decline and old opportunities are withdrawn. The crisis will also affect children as parents from vulnerable households lose their jobs and the household pattern of labour changes with the likelihood of more children out of school and into work. It also analyses the impact on industrial relations in Cambodia, especially in the large Garment sector, which is mostly formalised. In short, the study finds that the financial crisis is likely to have a strong impact on Cambodian economy and labour markets largely because its growth is so closely related to the success of a few sectors that are vulnerable to this crisis.

Based on its findings, the study makes recommendations that would help the ILO and its constituents develop meaningful and timely policy response to mitigate the negative impacts of the crisis, particularly for the most vulnerable groups. Key recommendations for crisis response include monitoring the impact on the crisis on the Garment sector and mechanisms to improve industrial relations at this critical time.

About the authors

Dr. Kang Chandararot is the Director of the Cambodia Institute of Development Study (CIDS), a local, independent research institute, and is a leading economist in Cambodia. He earned his Ph.D. in economics at Free University Berlin with a full scholarship from the Friedrich Naumann Foundation. He has a long-standing background and reputation in doing research, especially on the local economy and on issues such as rural development, banking and microfinance, business environment, trade and micro, small and medium enterprise (MSME) development. His most recent publications include *Impacts of the Financial Crisis on Cambodia*, *Labour Market Programmes for Cambodia's Garment Industry*, *Competition Survey 2008*, *Living Wage Survey for Cambodia's Garment Industry*, as well as various sector trend reports on the garment, construction and tourism sectors.

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Executive summary

Objectives of study

The global financial crisis is likely to have severe consequences on enterprises, workers and families around the world. To help prompt a stronger and more coherent policy response from national stakeholders as well as the international community in Cambodia, particularly with the view to alleviate the effects on the most vulnerable groups, the International Labour Organization (ILO) commissioned the Cambodia Institute of Development Study (CIDS) to conduct a rapid assessment on the impacts of the global financial crisis in Cambodia to understand:

- How severe is the impact on the economy? (macro-level)
- What sectors are most affected? (sector-level)
- Will SMEs be affected? (micro-level)
- How many jobs will be lost? (labour market)
- How will households response to declining incomes? (household economy)

Key findings

Macro-level

The financial crisis could slow real GDP growth to 5.1% in 2009 from 6% in 2008; the loss in potential real income due to the external shock is estimated to be US\$282 million in 2008 and US\$677 million in 2009.

The slowdown in 2009 is due to the following situations induced by the crisis:

- **Export:** Lower income abroad, especially in US market, will reduce demand for exports. Ninety-four per cent of export is garments, of which 67% is for US market. Export sector is projected to contract 2.5% in 2009 (a loss of US\$75 million in export revenue), following from a negative 4% growth in 2008.
- **Foreign direct investment (FDI):** FDI will likely decelerate to 0.9% growth in 2009 due to global credit crunch and economic slowdown in investors' home country. The main sources of FDI are from countries heavily impacted by the financial crisis. In 2008, the bulk of FDI came from China (61.7%) and South Korea (34.7%).
- **Tourism:** The number of tourist arrivals is expected to slow due to lower income abroad. In 2008, the top market for tourist arrivals were South Korea (14%), Vietnam (10%), Japan (8%) and the US (7%). Tourism receipts will likely decelerate to 5.5% growth in 2009, from 15.7% in 2008.

Sector-level

Sectors most affected by the global financial crisis and economic slowdown are: textiles and clothing, construction, tourism, and real estate, due to their high concentration of FDI and dependency on foreign markets. The losses in potential real income by sector due to the financial crisis are as following:

Sector	2008	2009
<i>Million USD at Constant 2000 prices</i>		
<i>Agriculture</i>	(75.29)	(180.64)
<i>Industry</i>	(79.36)	(190.41)
Textiles and Clothing	(44.72)	(107.29)
Construction	(18.84)	(45.20)
<i>Service</i>	(107.98)	(259.08)
Hotel and Restaurant	(12.54)	(30.09)
Total Income Loss (GDP)	(281.98)	(676.53)

Source: Projected by CIDS based on government statistics

Micro-level

SMEs are less exposed to the crisis than the export sector because they rely primarily on their own capital and sell in local markets. However, SMEs in the following businesses will be most vulnerable:

- Those driven by demand from consumers who profited from the property market boom (i.e. car retailers, high-end restaurants); and
- Those related to or supporting the construction, textile and clothing and tourism sectors.

Labour market

Although the crisis has affected the key sectors, the reaction at the labour market level differs. Workers in manufacturing (textiles and clothing, construction) have been hit hard, while those in service businesses (hotel and restaurants, real estate...) remain fairly stable. Changes in employment due to the crisis:

Sector	2008	2009
Textile and Clothing	27,000 jobs lost	19,000 jobs lost
Construction	36,500 jobs lost	25,600 jobs lost
Tourism	16,614 jobs absorbed	12,698 jobs absorbed
Agriculture	650,000 jobs absorbed	203,200 jobs absorbed

Source: Projected by CIDS based on government statistics

Reactions of labour demand and labour supply in the midst of economic slowdown:

Sector	Labour demand	Labour supply
Textile and Clothing	<ul style="list-style-type: none"> • Cut working hours and overtime • Shorten duration of contracts • Delay payments • Mass layoffs • Factory closures 	<ul style="list-style-type: none"> • Voluntarily resign, which means no layoff compensation • More strikes
Construction	<ul style="list-style-type: none"> • Workers laid-off, rather than cutting working hours or daily wages 	<ul style="list-style-type: none"> • Return home or resort to informal jobs such as restaurant, carwash, moto repair, coconut selle

Sector	Labour demand	Labour supply
Tourism	<ul style="list-style-type: none"> No massive layoffs but underemployment likely because: i) sector expected to grow but at slower pace and ii) most activities in sector is self-employed Consequently, income likely to decline. Tuk-Tuk drivers seeing 60-87% decline in their daily earnings since mid-2008 	
Agriculture	<ul style="list-style-type: none"> Overall, employment increase in agriculture amid structural change within sector and decrease in income per capita: <ul style="list-style-type: none"> Subsistence Farming – Absorption of retrenched workers from other sectors; Agriculture production increase, but per capita income reduced Business Farming – Employment may fall and wages depressed due to fall in sales and prices amid decline in global demand 	

Source: Based on focus group discussions and individual interviews with 124 people, including workers, retrenched workers, parents, and unions

Laid-off workers:

1) What kinds of jobs would retrenched workers accept?

- Job that accept workers in groups rather than on an individual-basis. (Specific for females)
- Job with lower wages but flexible working conditions, rather than a high paid job with strict working conditions. (Specific for females)
- Accept lower wages than return to village
- Willing to try non-paying apprenticeship

2) Challenges in job seeking

- Little skills and knowledge on other sectors
- Low social capital
- No foreign language skills
- Limited money to finance job seeking: Female, enough for 1 month; Male for 1 week
- Little asset to finance job or new skill training

3) If unable to find job:

- Return to hometown to help with subsistence economy
- Those with no land or opportunities in village may resort to work in informal economy, trafficking and prostitution.

Household economy

Financial crisis will affect the incomes of 93,000 households (470,000 people) in 2008 and 217,000 households (over 1 million people) in 2009. Responses to declining income:

- Resources of household economy is allocated to migrant worker to bridge them through job seeking period (i.e. rice, fish, etc.) because of their importance in generating cash income and hedging risk.
- Size of the household economy will determine if retrenched workers are called back home immediately or requested to find a new job
- Strong sense of reciprocity in the Cambodian household could lead to a migration of surplus household labour to urban areas (added worker effect)
- Unlikely to send school children into workforce because strong belief that investing in education now, could improve their living standards in the future

Key policy responses

National Government

In response to the crisis, the Royal Government of Cambodia has put forth a number of policy as following:

- **Stimulus package:** Boost spending on infrastructure, social programmes, safety net, and agriculture
- **Reserve requirements:** Bank reserve requirement will be reduced further in 2009 from 12%
- **Tourism reform:** No additional funds to sector but taskforce set up to recommend policy
- **Textile and clothing:** Advanced profit tax, which is 1% of turnover, suspended another 2 years until 2011; and export promotions underway and market diversification
- **Budget reform:** Government cuts spending on petroleum and requests petrol companies to reduce prices
- **Agriculture:** Boost agriculture yields and processing capacity through loans and grants; RDB received US\$12 million in 2008, US\$18 million in 2009

Recommendations for possible action

Some recommendations for action to help mitigate the impacts of the crisis, especially for vulnerable groups, are as following:

- **Establishment of a central job information system:** To help reduce the cost and time of job seeking for retrenched workers
- **Establishment of Labour Market Programme:** Focusing on both active and passive labour market programmes that are targeted at vulnerable groups, and linking with SMEs.
- **Set up Association of Laid-Off Workers' Families:** Develop the existing informal, intra-commune network of migrant workers' parents into an association. This informal network is an important source of information exchange for decision making. Institutionalizing the network could increase involvement and coverage in labour market programmes.
- **Social protection measures:** Such as Commune Fund to help retrenched workers who return home to lessen the burden of the household and help retrenched workers start up income generating activities and other productive employment in the village.
- **Multi-sectoral Trade Union:** Build up and connect trade unions in relevant sectors into a multi-sectoral trade union to increase effectiveness in social dialogue on working conditions, social safety nets and development plans.

1. Background

1.1 About the study

The global financial crisis—coming on the heels of a devastating global food crisis—is likely to have severe consequences on enterprises, workers and families around the world. Jobs are likely to be lost in some sectors, while new jobs may be created in others. Given that there is already a recession in major global markets, new jobs, if created, are likely to be in the informal economy where productivity, wages and conditions of work are poor. The ILO projects that as a result of the financial crisis, global unemployment could increase by 20 million by the end of 2009 and the number of the working poor living on less than two dollars a day could rise by more than 100 million. These projections could get much worse if the effects of the current economic contraction and looming recession are not quickly confronted.

While on the one hand there is an immediate need to restore confidence in the economy and credit flows through coordinated action by monetary authorities there is also a very urgent need to assess the likely impact of the financial crisis on the labour market, and ensure that systems and structures are in place to deal with this crisis, if necessary. The ILO has, therefore, called upon national and international authorities, employers, workers and organizations of civil society to engage in rapid and coherent policy action to restore growth and mitigate the effects of the crisis, particularly for the most vulnerable groups.

To help prompt a stronger and more coherent policy response from national stakeholders as well as the international community in Cambodia, particularly with the view to alleviate the effects on the most vulnerable groups, the ILO has commissioned the Cambodia Institute of Development Study to collect more detailed information and conduct a rapid, robust analysis on the impact of the crisis in Cambodia. The objectives of the study are to:

- Help ILO constituents (the government and other social partners) and the ILO to understand better the likely impact of the crisis on the economy and the labour market
- Identify sectors and groups that are most vulnerable to the crisis
- Analyze the possible implications of the impact of the crisis on these vulnerable segments and employment outcomes, by sex and age
- Provide recommendations for possible ILO action

1.2 Overview of Cambodia's economy

Cambodia has been growing quite robustly, with GDP growth averaging around 11% over the previous three years before the global financial crisis¹. All macroeconomic aggregates of the country have been strong. Growth has largely been driven by the textiles and clothing industry, tourism, and the construction sector. While significant strides have been made to industrialize the economy, it remains predominately agrarian; 30% of GDP is from the agriculture sector and over 50% of employment is on-farm (see Table 1). About 32% of the population (or 4.3 million people) are currently living below the poverty line.² Given the country's dependence on export markets and foreign direct investment for economic growth, there are concerns that the global financial crisis could severely impact the economy and have serious implications on the poverty situation.

¹ Ministry of Economy and Finance

² Ministry of Planning, National Institute of Statistics, 2005 data

Table 1. Basic indicators on Cambodia (2005-2009)

Indicator	Units	2005	2006	2007	2008/e	2009/p
Real GDP Growth	%	13.3%	10.8%	10.2%	6.0%	5.1%
Real GDP	Mn USD	5,502	6,099	6,719	7,122	7,482
Agriculture	% of GDP	30.7%	30.1%	29.7%	31.7%	31.7%
Industry	% of GDP	25.0%	26.2%	24.9%	23.8%	23.6%
Service	% of GDP	39.1%	38.7%	38.5%	37.5%	37.7%
Population	Persons	13,806,923	14,080,653	14,363,519	14,655,950	14,957,752
Female	Persons	7,041,531	7,181,133	7,325,395	7,474,535	7,628,454
Male	Persons	6,765,392	6,899,520	7,038,124	7,181,416	7,329,298
Employment	Persons	7,869,946	8,025,972	8,187,206	8,353,892	8,525,919
Agriculture	Persons	4,651,138	4,603,498	4,497,757	4,427,562	4,689,255
Industry	Persons	637,206	1,165,077	1,261,163	1,336,623	1,278,888
Service	Persons	2,164,235	2,257,398	2,428,285	2,589,706	2,557,776

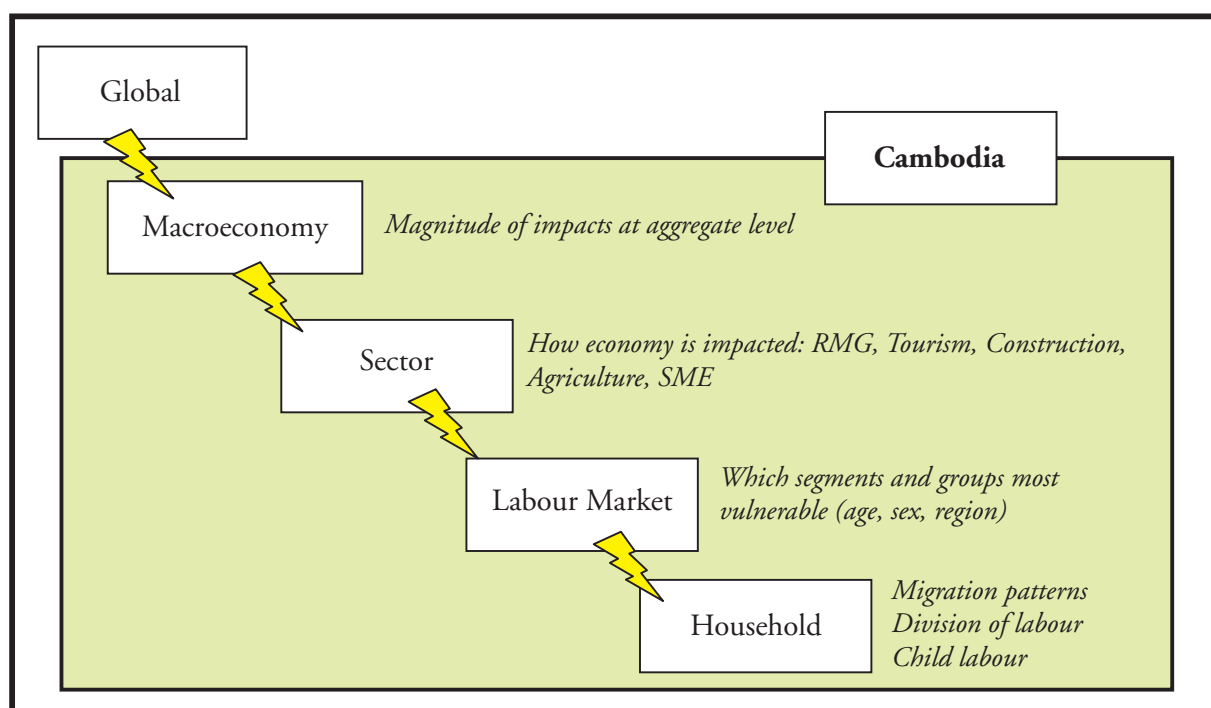
Sources: MEF, MOP, NIS, CIDS

2. Methodology

2.1 Layers of impacts

The impacts of the financial crisis have a wide spillover effect on Cambodia's economy, trickling down to many layers – global, macro, sector, labour market, and household (Figure 1). This rapid assessment will look at these different layers to provide more detailed information and robust analysis on the impacts of the crisis in the country.

Figure 1. Layers of impacts



The impact assessment starts first with an analysis of the **macroeconomy**. The aim is to determine the severity of the impacts on the overall economy. In the second step, we determine the channels of transmission by identifying the **sectors** most vulnerable to the financial crisis. Based on the findings from the first two analyses, we delve in deeper to understand the impacts of the crisis on the labour markets of the most vulnerable sectors. The purpose of the **labour market** analysis is to investigate the affects on jobs, wages, youth employment, etc. The last layer of our impact analysis is the **household economy**. This section will uncover how the household will respond to a decline in income, especially related to migration, division of household labour and child labour.

This study combines an economic analysis with a sociological/anthropological analysis, which provides it with a depth of analysis that is necessary to understand the complex impact of the financial crisis.

2.2 Tools

This assessment is based on a number of tools and sources, taking into consideration the given timeframe. The key sources of information for the study were:

- **Statistics and data:** The team utilized official statistics and data from government sources, media reports, employers' organizations and research institutions such as those on exports, public expenditures, investment, employment, etc.
- **Literature review:** In addition, the team conducted a rapid literature review of relevant studies related to the financial crisis and the economy to get an overview and strong basis for making projections, such as recent reports by the World Bank, Asian Development Bank (ADB), International Monetary Fund (IMF) and International Labour Organization (ILO). This also included a review of the perspectives of key stakeholders such as employers (e.g. GMAC, CAMFEBA), government, trade unions, and NGOs on the current situation.
- **Consultations with informants:** The team conducted a number of face-to-face as well as phone interviews with trade union leaders to collect their observations on the current trends in their sectors, employment and income. (see Table 2 for a list of interviews)
- **Focus group discussions (FGD):** FGD was the main source for qualitative information on trends at the factory/business level and for understanding the possible (current) responses of retrenched workers and households. In total, the team conducted 19 FGDs, which included 121 participants (71 females, 50 males). The FGDs included currently employed, currently retrenched and households of workers from the garment, construction, tourism, and informal sectors. (see Table 2). These group discussions were structured informally to encourage participants to speak freely and openly, and were based on interview guidelines developed by the team.

Table 2. List of interviews

Date	Type of stakeholder*	Sectors	Number of participants			Location	Nature of interviews
			Female	Male	Total		
12/25/2008	Workers	Garment	9	3	12	Suburb of Phnom Penh	FGD
12/25/2008	Workers	Garment	6	1	7	Suburb of Phnom Penh	FGD
12/25/2008	Workers	Garment	7	0	7	Suburb of PP	FGD
12/25/2008	Trade Union	Garment	0	2	2	Suburb of PP	Individual interview
12/26/2008	Workers	Construction	2	8	10	Phnom Penh	FGD
12/26/2008	Workers	Construction	0	6	6	Phnom Penh	FGD
12/26/2008	Retrenched workers	Informal economy and construction	2	3	5	Svay Rieng	FGD
12/26/2008	Retrenched I workers	Informal economy and construction	2	3	5	Prey Veng	FGD
12/27/2008	Retrenched workers and parents	Garment	5	0	5	Kampong Speu	FGD
12/28/2008	Workers	Garment	1	5	6	Phnom Penh	FGD
12/28/2008	Workers	Garment	8	0	8	Phnom Penh	FGD
12/28/2008	Retrenched workers and parents	Garment	3	2	5	Takeo	FGD
12/29/2008	Retrenched workers and parents	Garment	3	1	4	Kampong Cham	FGD
12/29/2008	Retrenched workers	Garment	4	0	4	Phnom Penh	FGD
12/29/2008	Workers	Construction	2	5	7	Suburb of PP	FGD
12/29/2008	Workers	Garment	5	0	5	Chak Anre	FGD
12/30/2008	Workers	Tourism	8	0	8	Phnom Penh	FGD
12/30/2008	Workers	Construction	1	7	8	Chom Chau	FGD
1/2/2009	Tuk-Tuk drivers and Union Rep	Tourism, Informal Economy	0	5	5	Phnom Penh	FGD
1/3/2009	Trade Union	Informal Economy	0	1	1	Siem Reap	Telephone interview
1/5/2009	Retrenched workers and parents	Garment	3	1	4	Kampong Chhnang	FGD
Total interviews			71	53	124		

3. Impacts on the macroeconomy

To help us understand the severity of the impacts of the financial crisis on the macroeconomy, we use the **Multiplier model**.³ The multiplier model provides a simple way to determine the impact of changes in aggregate demand (i.e. household consumption, private investment, government spending, exports and imports) on the level of output. The financial crisis will undoubtedly have an impact on aggregate demand, especially on investment and exports. Thus, the multiplier model is a helpful tool for us to forecast the potential impacts of the financial crisis on the overall economy.

The concept of the multiplier model explains that injecting an additional dollar of spending into the economy will cause output to increase by more than a dollar because there is a chain reaction of spending. Inversely, taking an additional dollar of spending out of the economy will cause output to decrease by more than a dollar. The size of the change depends on the economy's multiplier. The higher the multiplier, the larger the acceleration and spillover effects.

Based on CIDS estimates, the multiplier in Cambodia is 1.06, that is, a one-dollar change in expenditure will change output (income) by 1.06 dollars. In relations to the financial crisis, this low multiplier has a good and bad side. On the positive side, this could mean that the negative impacts of the crisis are shortstopped from spreading deep into the economy. On the negative side, this also means that the economy needs a huge fiscal stimulus package in order to compensate for the output (income) loss from the crisis and maintain the same level of economic growth as during the pre-crisis period.

Using this model, the cumulative impacts of the financial crisis is an increase in expenditure of US\$486 million, which will marginally increase output (income) by US\$518 million, **decelerating real GDP growth to 5.1% in 2009** from an estimated 6% in 2008 (Table 3). The extraordinary increase in public spending will help cushion the economy at this level.

Table 3. Results of multiplier model

Aggregate expenditures	Sources	2006	2007	2008/e	2009/p
	<i>Value in million USD at current prices</i>				
Investment (Implemented)	CDC, CIDS	1,141	1,351	3,608	3,640
Government expenditures	MEF	969	1,248	1,388	1,815
Export of goods	MEF	2,800	3,050	2,922	2,847
Tourism receipts	MOT	1,049	1,400	1,620	1,709
<i>Change in million USD at current prices</i>					
Investment	CDC	46	211	2,256	32
Government expenditures	MEF	121	280	140	427
Export of goods	MEF	447	250	(129)	(75)
Tourism receipts	MOT	217	351	220	89
TOTAL CHANGE IN EXPENDITURES, Nominal	CIDS	831	1,092	2,487	474
TOTAL CHANGE IN OUTPUT (INCOME), Nominal	CIDS	885	1,162	2,647	504

³ See Colander, 2002 for more information on model.

Table 3. (continued)

Aggregate expenditures	Sources	2006	2007	2008/e	2009/p
	<i>Value in million USD at constant 2000 prices</i>				
DEFLATOR in US\$, % Change	CIDS	7.1%	9.1%	16.2%	-1.0%
TOTAL CHANGE IN OUTPUT (INCOME), Real	CIDS	596	620	401	360
REAL GROWTH RATE (%)	CIDS	10.8%	10.2%	6.0%	5.1%

Notes: *Some figures estimated by CIDS based on most updated data from ministries; ** Multiplier of 1.064 times total change in expenditures; e = estimated, p = projected; MEF = Ministry of Economy and Finance; MOT = Ministry of Tourism; CDC = Council for the Development of Cambodia

A number of institutions including government, private and international organizations have published different estimates for GDP growth in 2009, ranging from 4.8% to 6.0% (see Table 4). CIDS estimate of 5.1% growth in 2009 based on the multiplier model lies at the middle of this range. The difference in estimates among the leading institutions is largely attributed to the different assumptions on how much the financial crisis will impact the level of investment and exports. **More importantly to note is that all institutions project that the pace of growth in 2009 will slow.**

Table 4. Comparison of GDP growth estimates for 2008 and 2009

Institution	2008	2009
ADB	6.5%	6.0%
CIDS	6.0%	5.1%
EIC	7.0%	6.0%
Government (SNEC)	6.8%	4.8%
IMF	7.0%	4.8%
World Bank	6.7%	4.9%

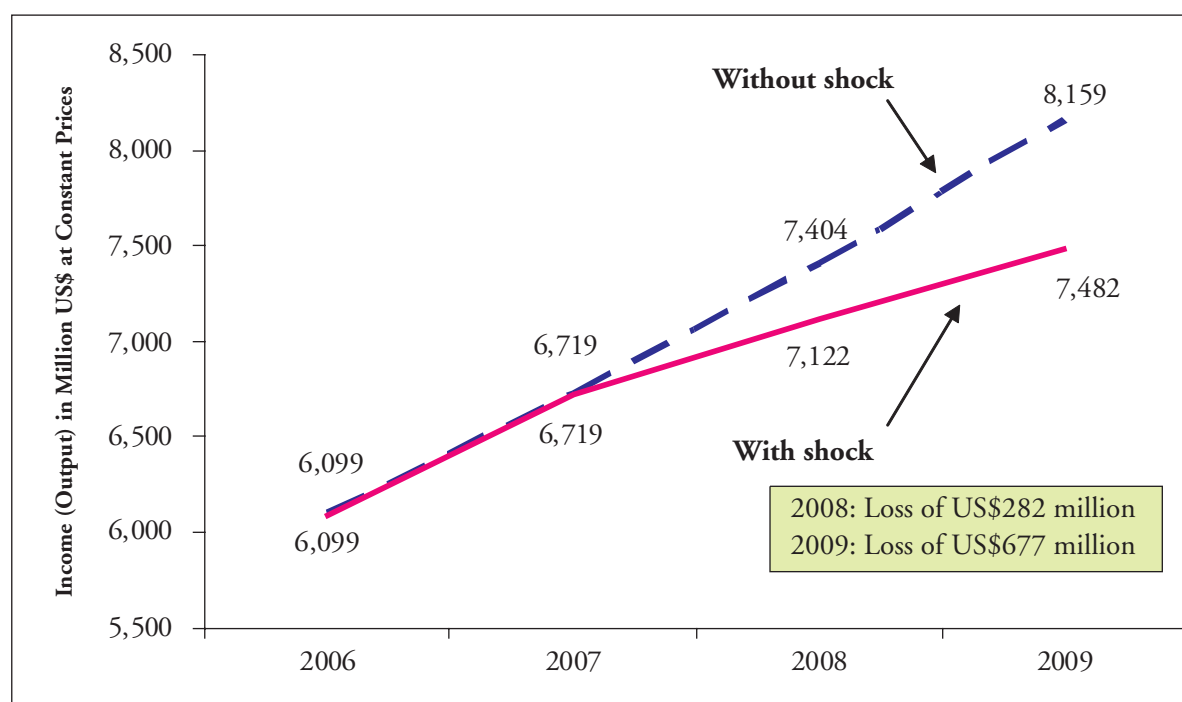
To measure the severity of the impact of the financial crisis on Cambodia's macroeconomy, we compare the potential incomes of two scenarios: *without external shock* and *with external shock*. In the scenario of without external shock from the global crisis, we assume that the real growth path will follow a trend ranging from 10.2-10.8%, as in the past. In the scenario with external shock, the growth path follows the estimations made from the Multiplier Model above; that is, 2008 faces a growth of 6.0% and 2009, 5.1%. Figure 2 illustrates the divergence in income between the two scenarios. Based on these projections, the global financial crisis could result in a loss of potential real income of US\$282 million in 2008 and US\$677 million in 2009.

The slowdown in the growth rate is attributed to the following situations and highly possible scenarios induced by the global financial crisis:

- FDI – The World Bank forecasts that capital flows into developing countries will plunge 50% in 2009.⁴ This could constrict investment in Cambodia, as more than half of private investment is foreign-financed. Total FDI approved by the Council for the Development of Cambodia (CDC) in 2008 reached US\$6,275 million, of which 62.4% was from China and 35.1% from South Korea (see Table 5). The bulk of foreign direct investment (FDI) goes into construction projects for building tourism centers, hotels, and business buildings (over 95% of total investment in 2008 went into such projects). During the first 11 months of 2008, statistics show a 12.5% drop in new construction investments compared to the same period last year, with more than 30% of

⁴ Landler, 2008

Figure 2. Comparison of income with and without shock



Source: Estimated by CIDS based on statistics from government agencies

Table 5. Foreign direct investment by country of origin (2006-2008)

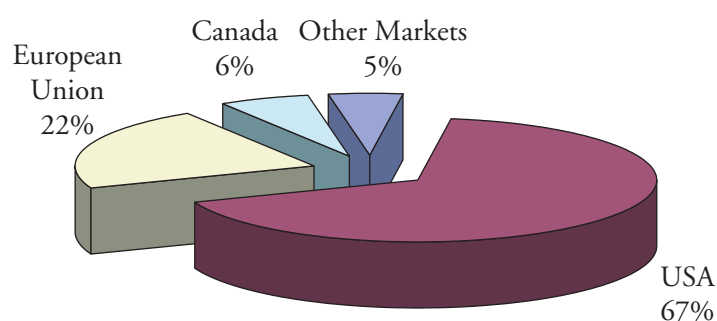
Country	Million USD			% of total FDI		
	2006	2007	2008*	2006	2007	2008*
Australia	-	14.12	3.25	0.0%	1.1%	0.1%
Canada	5.28	-	19.29	0.2%	0.0%	0.3%
China	721.17	206.07	3,919.53	30.9%	15.7%	61.7%
Japan	2.10	87.14	7.00	0.1%	6.6%	0.1%
Malaysia	28.33	241.44	2.65	1.2%	18.3%	0.0%
Other	33.32	160.21	68.24	1.4%	12.2%	1.1%
Russia	277.70	-	9.51	11.9%	0.0%	0.1%
S. Korea	1,009.82	148.08	2,204.53	43.3%	11.2%	34.7%
Saudi Arabia	-	131.20	-	0.0%	10.0%	0.0%
Singapore	11.53	2.04	52.46	0.5%	0.2%	0.8%
Taiwan	47.65	34.62	18.67	2.0%	2.6%	0.3%
Thailand	100.13	137.11	26.14	4.3%	10.4%	0.4%
United Kingdom	3.54	25.66	6.10	0.2%	1.9%	0.1%
United States	62.21	2.89	2.99	2.7%	0.2%	0.0%
Vietnam	31.11	125.79	16.71	1.3%	9.6%	0.3%
TOTAL FDI	2,333.90	1,316.36	6,357.08	100.0%	100.0%	100.0%

Source: CDC, *Up to November 2008

construction jobs being canceled or scaled back.⁵ The sharpest drops are in projects funded with FDI. Plummeting property prices, a reduction in demand for property, and a drying up of financial sources are the main reasons for this pull-back. Consequently, only an estimated 40% of approved FDI was implemented in 2008, around US\$2,498 million. *Investment could slow to a growth rate of 0.9% in 2009, worth approximately US\$3.6 billion.*

- **Exports** – The global economy is expected to shrink 0.4% in 2009, the US (world’s largest economy) will contract by 0.9%, Germany (Europe’s largest economy) will fall by 2.2%, and Japan predicts zero growth.⁶ Economic recession and massive job losses in major industrial countries means that the purchasing power of consumers there will shrink, dampening demand for imported goods. In the US, total retail sales dropped by up to 8% during the November-December shopping period; the apparel sector was among the worst hit, with total apparel sales declining by 19-21% over the same period last year.⁷ Garments make up 94% of Cambodia’s total exports, where more than two-thirds are sold in the US (see Figure 3). GMAC reports a slow down in orders in the last few months of 2008 and almost none for the first few months of 2009. Penny-pinching by consumers abroad and stiffer competition due to the removal of safeguards on China’s textile and clothing by the US at the end of 2008, will limit the growth of Cambodia’s garment exports. *Estimates by CIDS show that the export sector contracted by 4% in 2008, losing US\$129 million of export revenue, and is expected to continue shrinking in 2009 at a negative 2.5% growth and a loss in revenue of US\$75 million.*

Figure 3. Garment exports by market destination (2008)



Source: Ministry of Commerce

- **Tourism** – With a tighter budget, it is likely that Cambodia will see fewer international tourists in 2009. This is evident now, with hotel and guesthouse bookings in popular provincial destinations dropping by 30-80% compared to last year, in which operators are citing the global crisis and closing of Bangkok’s airports as the cause of the decline.⁸ International tourist receipts in 2008 is estimated to be US\$1,620 million, 7% higher than in 2007; this could *slow to 5% in 2009 to US\$1,709 million.*

While not an impact of the financial crisis, **government spending**, which is one aggregate demand, will also influence the economic situation in 2009 and needs to be taken into consideration. Donors have pledged roughly US\$1 billion in official development aid to the government, the highest ever since 1993. With this support, the government plans to *increase expenditures by US\$427 million in 2009 to US\$1,815 million,*⁹ which could help compensate for the decline in other aggregate demand due to the financial crisis.

Conclusion → The global financial crisis could slow real GDP growth to 5.1% in 2009 from 6% in 2008; the loss in potential real income (output) due to the external shock is estimated to be US\$282 million in 2008 and US\$677 million in 2009.

⁵ Chun et al., 2008

⁶ *Storm Clouds*, 2008, Dec. 29

⁷ *Slow US Retail Sales*, 2008, Dec. 29

⁸ Sam, 2008

⁹ MEF Budget Law 2009

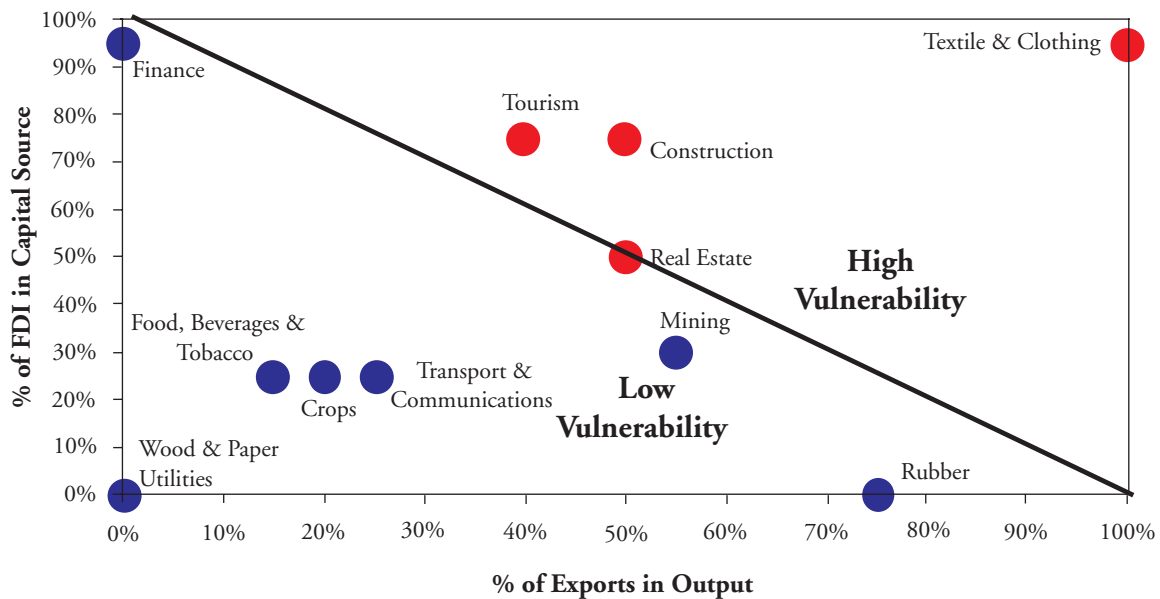
4. Impacts on sectors

To help weight and identify the sectors most likely affected by the financial crisis, the Research Team developed a **Vulnerability index**, which looks at how vulnerable a sector is to the financial crisis in relations to the sector's exposure to or dependency on foreign capital and foreign output markets. Sectors that are most vulnerable to the global crisis are those with a high concentration of FDI and those that export their products:

- **Capital source:** What percentage of the sector's capital consists of foreign direct investment? Sectors that have a high concentration of foreign direct investment will likely be affected by the global financial squeeze.
- **Output market:** What percentage of the sector's output is for export? Sectors that depend primarily on foreign markets may face difficulties as global demand shrivels.

The results of the Vulnerability index are graphically depicted in Figure 4. The x-axis represents the percentage of exports in total output, and the y-axis represents the percentage of FDI in capital source. Sectors that lie on the upper right-hand corner of the graph (100%, 100%) are those that are most vulnerable to the global shock, while those located on the lower left-hand corner (0%, 0%) are the least vulnerable. Sectors that lie above the diagonal line are considered to be highly vulnerable, while those below the line have low vulnerability.

Figure 4. Sector vulnerability



Source: CDC, MEF, MOC and estimations by CIDS

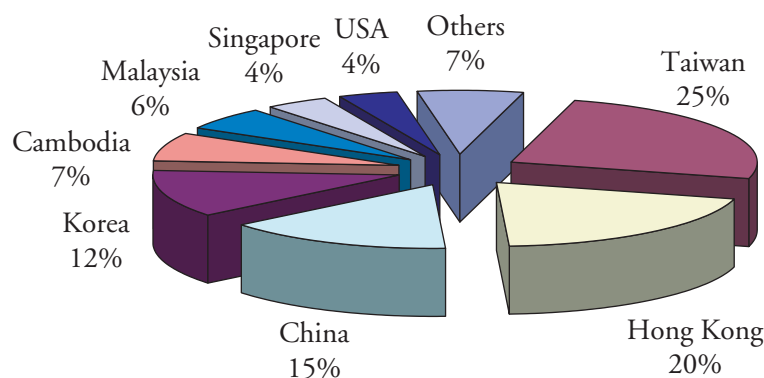
Textile and clothing is the most vulnerable sector followed by construction, tourism, and real estate. While the crops sector does not show up as a highly vulnerable sector in terms of capital source and output, price in the sector is greatly impacted by international markets, which exposes it in some degree to the global crisis. We describe these findings in the following sub-sections.

4.1 Textile and clothing

The textiles and clothing (T&C) sector, which accounts for 16% of GDP and is worth around US\$2 billion¹⁰, is expected to be the most exposed to the impacts of the global economic downturn.

Capital source: Over 90% of capital in the sector is foreign-owned. As shown in Figure 5, the top investors are from Taiwan (25% of factories), Hong Kong (20%), China (15%) and Korea (12%).

Figure 5. Garment factories by capital source



Source: Ministry of Commerce, as of July 2008

Output market: As mentioned above, the T&C sector is driven solely by external demand, particularly the US market. Three-fourths of garment output is destined for the US, while 20% is for the EU. Less income and demand abroad means less purchase orders for manufacturers in Cambodia. In addition, the removal of safeguards on China by the US at the end of 2008 will intensify competition and limit the growth of this sector. The sector contracted by 4% in 2008 due to falling orders, and is expected to continue shrinking into 2009 (decline of 3%).

In addition, the business structure of the industry makes it extremely vulnerable to shocks in the global economy. According to the Garment Manufacturers Association in Cambodia (GMAC), 60% of factories in the industry are cut, make and trim (CMT).¹¹ CMT are typically subsidiaries of companies overseas with bases in China, Taiwan, and South Korea. With increasing job losses in the company's home base (especially in China), the allocation of orders to CMT in Cambodia may get smaller.

At the 26th ASEAN Federation of Textile Industries council meeting in Phnom Penh on 7 January 2009, the Ministry of Commerce stated that production has fallen 15 to 20 per cent since October 2008.¹² In a move to maintain exports and keep jobs in Cambodia, the government suspended a 1% tax on factory expenditures, effective on January 1, 2009.¹³

4.2 Construction

Construction constitutes 7% of GDP, and is valued at US\$480 million.

Capital source: Roughly 75% of capital in the sector is FDI to finance the construction of business buildings, apartments, hotels and tourism centers (resorts and other recreation).¹⁴ The sector will feel the pinch of the global credit crunch. Current figures evince the impact of the financial crisis on the sector.

¹⁰ Ministry of Commerce

¹¹ Nathan Associates, 2007

¹² Collin, 2009, Jan. 8

¹³ Kurczy, 2009, Jan. 27

¹⁴ Estimated based on data from the CDC

New investment in construction down 12.5% during the first 11 months of 2008 compared to same period a year ago; falling to US\$2.8 billion during this period, down from US\$3.2 billion in 2007, according to the Ministry of Land Management, Urban Planning and Construction. More than 30% of construction jobs have evaporated as projects are cancelled or scaled back. In first 11 months of 2008, ministry registered 1,869 projects country-wide, down from 1,942 in 2007. The drop is sharpest in projects funded by FDI, with more declines expected next year. Many projects could go bankrupt.¹⁵

In addition, the new regulation by the National Bank of Cambodia (NBC) in May 2008 limiting bank lending to the property sector by 15% of bank's total loan portfolio is making it difficult for local developers to access finance to complete their projects.

Output market: Construction is driven by demand for real estate by both local people and foreigners for business and residential purposes. Two factors, tightening of housing credit and declining incomes, are shying consumers away from buying or investing in real estate. Inventory in the real estate sector is building up as demand shrinks, causing property prices to plummet by an estimated 25% over the last six months of 2008.¹⁶ Consequently, the number of construction projects will likely fall in 2009, while existing projects will be canceled or scaled back.

4.3 Tourism

The focus is specifically on international tourism in our analysis given its correlation with the global economic situation. The tourism sector comprises of various services, the biggest service being hotel and restaurant, which makes up 4% to GDP.

Capital source: Approximately 75% of capital in the sector is foreign financed, predominately for hotels and resort developments in major provincial attractions such as Siem Reap, Sihanouk Ville and Koh Kong.¹⁷

Output market: 2.1 million international tourists visited Cambodia in 2008, a 6% increase over last year but lower than the 2.3 million target set by the government. The sector raked in an estimated US\$1,620 million of international tourist receipts in 2008. Sixty per cent of international tourists come by way of air, more than half through at Siem Reap International Airport; 36% by land and water ways; and 4% are same-day visitors.¹⁸ Ninety-three per cent of tourists come from holiday purposes, staying for about 6.50 days on average. 54.79% stay in hotels during their visits and spend around US\$106 per person per day.¹⁹ South Koreans are the top tourists, with a share of 14% in total arrivals, followed by Vietnam (10%), Japan (8%) and USA (7%). Hotels and guesthouses complained that during the last few months of 2008 bookings have slowed due to the global economic slowdown and political unrest in Thailand that resulted in closure of Bangkok's international airport.²⁰ Tuk-Tuk drivers in Siem Reap, Phnom Penh and Sihanouk Ville also observed that there are fewer tourists and falling earnings over the past few months. With less income quoted for the top market arrivals, it is possible that 2009 will see less international tourists. Tourist receipts is expected to decelerated to a growth of 5.5% in 2009 from 15.7% in 2008 due to declining incomes of foreign tourists caused by the financial crisis.

¹⁵ Chun, 2008, Dec. 23

¹⁶ Soeun, 2008, Dec. 18

¹⁷ Estimated based on data from the CDC

¹⁸ Ministry of Tourism

¹⁹ Ministry of Tourism

²⁰ The team was not able to differentiate between the impacts of the financial crisis and the closing of Bangkok Airport due to the limited time budget for the study.

4.4 Real estate

Real Estate Sector represents 8% of GDP, estimated to be around US\$550 million in 2008.

Capital source: FDI is estimated to make up 50% of the real estate market, while the other 50% is domestic. The downward trend in property prices makes investment in the sector risky and less profitable, which will turn away both FDI and domestic investment.²¹

Output market: Although the market share of foreign buyers is not high, their high purchasing power greatly influences the price level (by driving up prices), and thus affecting the profit and future of the sector. In the past, buyers are typically speculators, who inflated property prices in anticipation that demand from foreigners and locals for property will increase. Plummeting prices due to the global crash has wiped the value of speculators' properties (estimated 5,000 land speculators). Property prices down an estimated 25% over six months.²² These speculators generally borrowed money to finance purchases, and now face difficulties in meeting loan repayments.²³ The cut in income of speculators could hit everything from luxury car purchases to high-end restaurant sales. The general fall in income will also cause households to hold off in buying residential property.

4.5 Crops

The crops sector contributes 14% of GDP. The main crop is rice paddy, cassava, maize, and soybean. The sector is highly linked with rural farmers and the poor

Capital source: Predominately local, small-scale capital; only about 25% is FDI.

Output market: Commodity prices dependent on international market; Cash crops such as maize, cassava, peppers sold to Thailand, Vietnam and China as industrial input. The global economic slowdown has reduced the demand for manufacturing products from these economies, leading to fewer sales at lower prices for Cambodian farmers. While only a small percentage of agriculture output is for export (about 20%), the farm gate price moves with the export price; thus a fall in export demand causes a drop in export price, and a further drop in farm gate prices.

4.6 Small and medium-size enterprises

The Small and Medium-size Enterprise (SME) sector plays a vital role in Cambodia's economy, accounting for 65% of GDP and absorbing 85% of the workforce (see Figure 6).²⁴ According to statistics from the Tax Department, there are at least 55,466 SME country-wide in 2006; of which, 42% are in retail trade, 7% hotels, guesthouses and restaurants, 6% in import/export activities, and 4% in manufacture of household goods. Given the importance of this segment for economic growth and employment, we take time to analyze the potential impacts of the global financial crisis on SMEs.

Capital source: SMEs generally rely on their own capital. According to a survey²⁵ conducted by CIDS of over 500 provincial SMEs, 60% of enterprises have never sought external financing. For those that have borrowed, 38% of them from MFI or banks. The average loan size is around \$150, for a period of 10-12 months.

²¹ Estimated based on data from the CDC

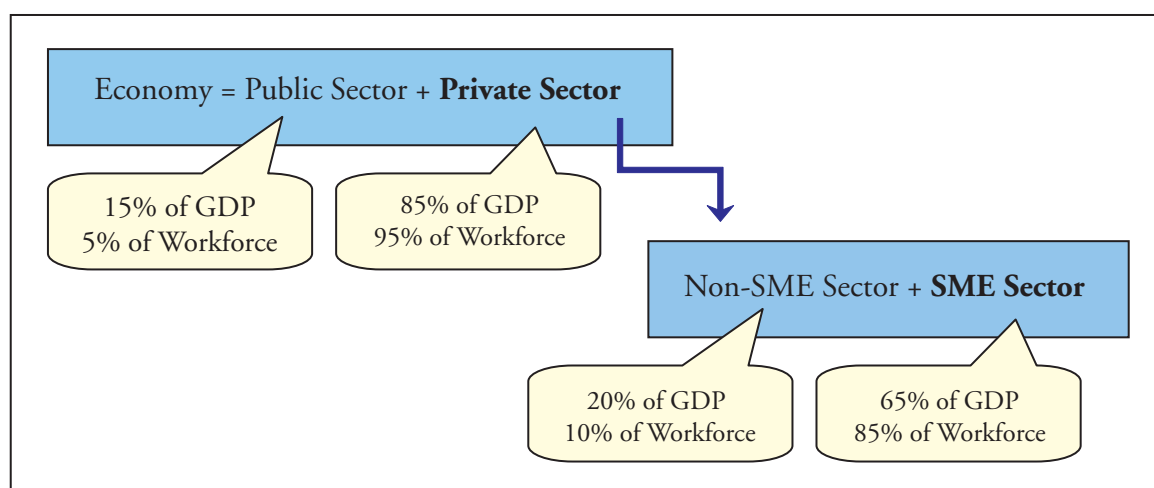
²² Soeun, 2008, Dec. 18

²³ Soeun, 2008, Dec. 18

²⁴ Estimated by CIDS based on statistics from the National Institute of Statistics

²⁵ CIDS, 2006

Figure 6. Contribution of SME sector in the economy



Estimated by CIDS based on data from the National Institute of Statistics and CIDS surveys; SME sector includes agriculture and non-farm activities, formal and informal businesses.

Output market: Predominately for local markets, slowdown in economic growth in 2009 could reduce demand and impact sales for SMEs, particularly because most are in retail; but the impact will be less severe compared to the export sector. There could be a time lag between a fall in income and consumption spending. If households think that the fall in income is only temporarily, they will not reduce their consumption patterns and the impact on SMEs may not be seen immediately. However, some businesses within the SME sector that could see an immediate impact are:

- SMEs related to and supporting the construction sector such as construction material retailers, home decor shops, windows manufacturers, and transporters, will likely also feel the effect of the slowdown in the construction sector
- Businesses that are driven by demand from consumers who profited from property market (speculators, land owners) may be hardest hit by the global crisis due to the devaluation of property prices and property sector slowdown. Possible segments include vehicle retailers (cars, motorcycles), high-end restaurants, furniture retailers, etc.
- Businesses directly tied to the property market such as money exchange shops and money lenders. These businesses either invested in the property market and/or lent money to speculators. With property prices plummeting and demand at zero, these businesses are seeing major losses. On top of that, many borrowed money from banks to buy property, and are now unable to make repayments. Since mid-2008, money exchange shops in Siem Reap have started to close down one by one.²⁶
- SMEs related to and supporting the international tourism sector such as Tuk-Tuk, Moto-Dup, hotels, restaurants, travel agencies, souvenir shops, etc. During an interview with IDEA, a trade association for the informal economy, self-employed workers such as Tuk-Tuk and Moto-Dup drivers report fewer customers since mid-2008. Generally, the months of September to December are high season, but in 2008, business has been very slow, causing their daily earnings to drop by 60-87%.

²⁶ Koh Santhapheap, 2009, Jan. 9

Conclusion → The most vulnerable sectors are textiles and clothing, construction, tourism, and real estate due to their high exposure to foreign capital and dependency on export markets. Due to its link with international commodity prices, the crop sector may also feel the blow even though exports make up a small portion of output. Slowdown in economic growth and income levels will impact SMEs by reducing local demand, but likely with a time lag and less severe than the export sector. However, SMEs that are more vulnerable to the crisis include: those driven by demand from consumers who profited from the property market boom (i.e. car retailers, high-end restaurants); and those related to or supporting the construction sector or textile and clothing sector.

5. Impacts on labour market

5.1 Labour demand

There exist many theories on how labour demand (employers) may react in an economic crisis.²⁷ We summarize some of the possible types of impacts on labour demand, based on theoretical formulations below:

- **Informal economy model:** Workers in the formal sector are retrenched. These workers migrate to work in the informal sector (which could be in the same occupation but within an informal enterprise, e.g. going to work in subcontracting garment factory). This will depress wages in the informal sector. Thus, the expected outcome is an increase in informalization and lower wages in the informal sector.
- **Efficiency wage model:** To cut costs during an economic slump, employers may substitute unskilled labour with skilled labour to increase productivity. The institutional framework in Cambodia encourages this outcome. According to the Labour Law, during situations of massive layoffs, employers must layoff workers in the order of professional qualifications (less skilled goes first), seniority within the establishment, and family burdens of the workers (see Box 1).

Box 1: Procedures for mass layoff set by Ministry of Labour

Labour Law

Chapter 4, Section III, Point E. Mass Layoff, Article 95

Any layoff resulting from a reduction in an establishment's activity or an internal re-organization that is foreseen by the employer is subject to the following procedures:

- The employer establishes the order of the layoffs in light of professional qualifications, seniority within the establishment, and family burdens of the workers
 - The employer must inform the workers' representatives in writing in order to solicit their suggestions, primarily, on the measures for a prior announcement of the reduction in staff and the measures taken to minimize the effects of the reduction on the affected workers.
 - The first workers to be laid off will be those with the least professional ability, then the workers with the least seniority. The seniority has to be increased by one year for a married worker and by an additional year for each dependent child.
-
- **Cost of letting go of workers** versus **cost of keeping workers** must also be taken into consideration to predict the reaction of employers. *Cost of letting go* could include retraining costs, institutional commitment (by law), severance pay, finding workers in the future; while the *cost of keeping* workers is the wage.

²⁷ Kang, 2006

5.2 Labour supply

In face of retrenchment or possible retrenchment, workers can respond in many ways. Below, we describe some of the reactions that could happen:

- **Retrenched workers** – Issues of concern include job opportunities, transferability into new sectors, job seeking behaviour, are they the main income earners or just supplement (which will impact their decision), willingness to accept lower wages, ability to finance job seeking period
- **Added worker effect** – Other members of the household enter into labour market due to unexpected shock of unemployment of main income earner. Implications: When x people are retrenched, the added worker effect causes $x * r$ people to enter into the labour market (r being the rate of added worker). This will in effect cause the labour supply to increase juxtapose to a decline in labour demand due to weaker economic conditions, resulting in a fall in wages. In Cambodia, the absence of a social security system will intensify r . (r = household labour elasticity to income)
- **Genderization of labour supply**²⁸ – Male and female are pushed into the labour market by different factors. Male labour supply is determined by their age, qualifications, wage level, social benefits (and pension) and prevailing consumer price. Female labour supply is determined by familiar situation (i.e. number of children), real wage, and unemployment level. When unemployment increases, it is likely that more women will enter the workforce to help maintain the household income.

5.3 Empirical findings

5.3.1 Textile and clothing sector – Labour market

Due to the global financial crisis, the T&C sector contracted by an estimated 4% in 2008, **wiping out approximately 27,000 jobs**.²⁹ The sector is expected to fall further in 2009 by 3% and could mean an **addition loss of 19,000 jobs**. The bulk of retrenched workers are women.

The first visible response of businesses during the slump is to keep workers as long as possible, but with less working hours and overtime.³⁰ During interviews, garment factory workers reported that in the past they would get an extra 2-4 hours of overtime per day, but in recent months there is no overtime, and on some days, they are sent home after just 3-4 hours of work. This has caused the average effective wage of workers to decline, forcing some workers to voluntarily resign. According to the Labour Law, workers who voluntarily resign are not applicable for layoff compensation or severance payment. This institutional framework makes the cost of keeping workers on board but reducing capacity much lower than laying-off workers.

In addition, businesses have shortened the length of new contracts to 3 months from 6 months, possibly as a method to identify the most skilled workers. Interviewees mentioned that some factories are still hiring but they accept only skilled workers. This is a clear case of efficiency wage model, where businesses are trying to reduce the cost by increasing efficiency.

For a number of factories, they are unable to bridge through this slump, resulting in bankruptcy. According to GMAC, 60 factories have closed down since the start of the global financial crisis in early 2008.³¹

²⁸ Torres, 1995

²⁹ This estimation is made by CIDS based on the drop in export revenue. GMAC estimates 25,000 workers have been retrenched so far due to the crisis. (see Kay, 2009, Jan. 9)

³⁰ According to focus group discussions with workers from different factories

³¹ Kay, 2009, Jan. 9

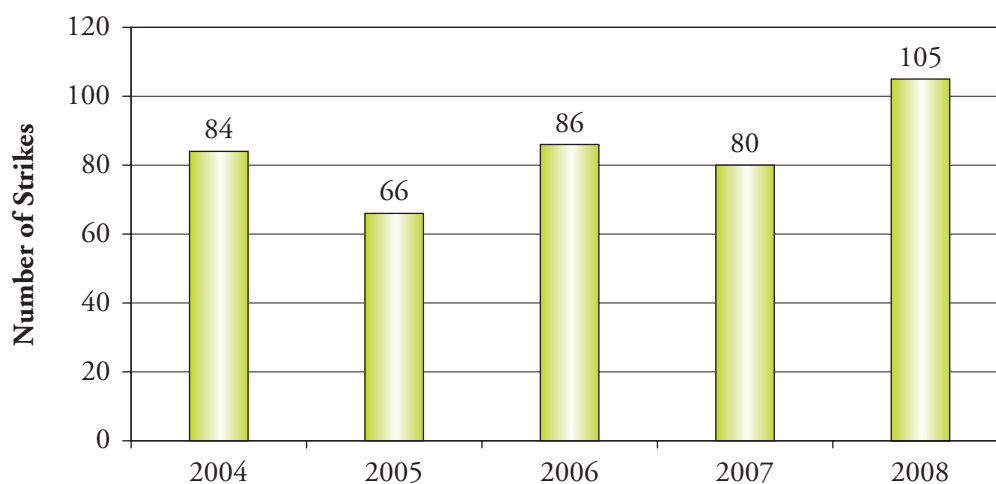
According to the Cambodian Labour Law, which mostly applies to garment industry because it is the most organized sector in the economy, the obligations of an employer when retrenching workers are (also see Box 1)³²:

- Temporary suspension (up to 2 months only): common practice for factories to pay workers 50% of salary
- Termination or expiration of fixed duration contract (FDC): Employers pay wages plus severance pay (5% of total wages paid to the employee during the length of the FDC)
- Termination of Undetermined Duration Contracts (UDC): Employers must pay lay off compensation. If an employee resigns voluntarily, employers do not have to pay lay off compensation. For length of employment of 6 months to 1 year: lay off compensation is 7 days of wages and benefits. For length of employment over 1 year: 15 days for each year of employment up to 6 month's wages and benefits (fractions of a half year or more count as an entire year).

Generally, employers do pay workers compensation when the factory closes, though the amount, scheduling, and mode of payment are based on negotiations and compromise rather than that stated in law. There are many cases when factories close down without warning and owners flee the country without compensating workers. This situation has led to strikes.

An increasing feeling of uncertainty and fear in workers about their job and income security has resulted in an increase in the number of strikes (see Figure 7). The number of strikes increased from 80 to 105 in 2008. These strikes demanded for higher wages, entitlement payments, non-discrimination against union members and rehiring of retrenched workers. In large, these strikes have been unsuccessful; consequently, fueling more anxiety, adversely affecting industrial relations and undermining the capacity of factories and stability of the sector.

Figure 7. Number of strikes (2004-2008)



Source: GMAC

A number of organizations are involved with improving industrial relations through social dialogue. One such project working to enhance dialogue among key stakeholders as a means to industrial relations in the garment industry is currently being implemented by the Cambodia Institute of Development Study (CIDS) and the Friedrich Ebert Stiftung. The project is in its third year and is actively involved in facilitating the discussion and initiative to accelerate the formulation and implementation of a labour market programme,

³² Labour Law, Article 71, 72, 73, 74, 89, 90, 110

specifically for retrenched workers, at both the national level with parliamentarians and ministries as well as at the provincial level with local authorities, businesses and trade unions.³³

Another example is the recent roundtable discussion on the “Contemporary Challenges in Cambodia Industrial Relations” organized by the ILO-Workers’ Education Programme. The roundtable was attended by employers’ organizations, trade unions and relevant stakeholders and facilitated by a team of arbitrators from the United States. The aim of the discussion was to provide an opportunity to all relevant organizations involved in industrial relations to work together in solving the problems and sharing their concerns and practical experiences.³⁴

The labour force in the T&C industry is 80-85% female, typically between the ages of 15-35 years old. Almost all are migrant workers from provinces such as Kampong Speu, Prey Veng, Svay Rieng, Takeo, Kampong Cham, Kampong Chhnang, and Kandal provinces. When faced with layoff, there are only two options for workers: find a new job or return back to their village. The first response of retrenched workers is to search for a new job in the same sector; and if unsuccessful, to look for one in a different sector. In finding a new job, they first seek the advice of their friends and then turn to other references such as trade unions, relatives, NGOs, companies and listings in newspaper.

Their job preferences are:

- Jobs that accept workers in groups rather than on an individual-basis. They feel more secured and safe if they are working with their relatives and friends.
- Would choose a job with lower wages but flexible working conditions, rather than a high paid job with strict working conditions. Interviewees mentioned that if they were offered two jobs: 1) high wage (US\$100 per month) but strict working conditions (in terms of hours, etc.), and 2) lower wage (\$75 per month) but more flexible working conditions, they would choose the latter because as females, they have high family and cultural obligations, i.e. organize ceremonies, take care of family members, etc.
- Willing to accept lower wages. The interviewees stated that they are willing to take jobs even if the wage offered is lower than their previous wage and even if it does not sufficiently cover all their expenses (they are willing to go into debt). They expressed that while returning to their hometown would mean no debt, it would also mean no money for spending. They have grown accustomed to having money for spending, and would rather take on a job with low wages, borrow money and work to pay off the loan, than return home and have no income.

Female workers asserted that if they find a good job, they will take up the offer even if their parents do not allow them. They will continue to work and try to explain and convince their parents over time. However, if their husbands do not approve, they will not work. This will depend on the circumstance, to some extent; if they have solid reasons for taking the job, they will not listen to their husbands.

Female interviewees mentioned that they are ready to sell some assets or borrow money from their parents to finance training for a new job. They also mentioned that they are willing to try apprenticeships, in which there are no entry fee but are not paid during the training period.

Some of the challenges female garment workers face in job seeking: little skill and knowledge on other sectors, low social capital (i.e. networks), no foreign language (i.e. for higher paying jobs like in casino), and limited money to finance job seeking. Retrenched workers will continue searching until their bridging money is dried up. Workers interviewed mentioned that with their current savings (plus some support from their family such as rice, fish and other commodities), they can finance only one month of job seeking.

³³ For more information on this project, visit www.cids-cambodia.org

³⁴ CAMFEBA, 2008

In the case that they are unable to find any job, they return home to help with the subsistence economy. The decision of retrenched female workers on whether to stay or migrate back home is not solely the decision of their parents, but they also have individual choice in the matter. Generally, the important factor when deciding to return home is not a “free” choice, but a decision forced by circumstance (last resort when all other options are exhausted). For families that have the means for subsistence living (i.e. land, livestock, small grocery shop), they typically request their children to come home immediately when they lose their jobs. Sometimes workers don’t tell their parents of their layoff because they don’t want to go home right away until they have exhausted all their efforts to find a new job.

However, returning home may not be an option for some workers because of the lack of opportunities in their village (i.e. remoteness, lack of irrigation) and/or because their family has no means (i.e. no land plot, no savings, no livestock). Thus, the foundation of subsistence economy determines the decision to go home. These types of workers are most vulnerable to go into prostitutions and trafficking. No official data on the impacts of the financial crisis on this issue is currently available and the team was not able to investigate in depth given the limited timeframe of the study.

During our FGD, the majority of currently unemployed female garment workers said they will go back home temporarily if they cannot find a new job in other factories and will return to the city when the employment situation improves. At the moment, it is harvest season and some workers have decided to return home to help on the family farm. Workers who have no rice field or their family is absolutely poor and their existence is completely reliant on their earning, will endure in the city.

“I can’t and will not go back home because I have no rice field and my old parents cannot work anymore.”

– Retrenched Garment Worker from
Kampong Cham, Focus Group
Discussion in Phnom Penh on
Dec. 29, 2008

Female and male garment factory workers have, however, a different reaction once they get unemployed. Being a “female industry”, retrenched female workers have a higher chance of finding a new job in the sector than males. According to focus group discussions, workers revealed that female workers are preferred over males in the garment industry. Furthermore, female workers usually have more savings than male. This allows unemployed female workers to stay longer in the city to find a new job. According to the result of our FGD, female can finance job seeking in the city for up to 30 days after retrenchment, while male only 5 days.

The possibility that unemployed female workers start up their own business is quite low as this kind of opportunity requires some amount of capital that unemployed workers usually not have. All workers interviewed unanimously responded that they cannot afford this option.

Unemployed male garment factory workers are in a more worrisome position as they have little chance to get jobs in the same sector and their little financial endowment limits their job seeking time. Construction is the most favoured sector which unemployed male workers may resort to. However, the slowdown in the construction sector due to the global financial crisis will make it difficult to find a job in construction. Under these circumstances, it is very likely that unemployed male workers will decide to go back home if they are not able to find a new job immediately. Unemployed male workers interviewed responded that they will go back home within a week, but some who have relatives or good social network may be able to stay longer in the city. Some may migrate to other cities, acquire new skills or establish their own business. But the number of people who are able to do so is expected to be small.

5.3.2 Construction sector – Labour market

As a result of the global financial crisis, more than 30% of construction jobs have evaporated as projects are canceled or scaled back due to financial difficulties.³⁵ During FGDs, construction workers estimated that about 40% of workers have returned home, another 40% will likely lose their jobs in the upcoming months.³⁶ Based on the multiplier model, an estimated 36,500 construction jobs were cut in 2008 and another 25,600 jobs will be slashed in 2009. With demand for property down until possibly 2010, it may be awhile before employment rebounds in the sector.

The labour force in the construction consists predominately of male workers between the ages of 16-40 years old. Most are unskilled workers, while those with skills are between the ages of 28-35 years old. They are almost always migrants from rural areas such as Svay Rieng, Prey Veng, Takeo, Kampong Speu, Kampong Chhnang, and Kampong Cham.

Workers interviewed asserted that they will go back home immediately when they lose their jobs and cannot find jobs in this sector. Construction workers usually are not inclined to move to garment sector because of the relatively lower wages. Skilled workers are less vulnerable to unemployment than unskilled workers because they are steadily in demand. Skilled workers typically have more savings than unskilled workers, and with this savings they can start up a small business when they return home. Unskilled workers can afford to stay in the city for job searching for only a short period due to little savings. They typically resort to informal jobs such as waiter at restaurant, carwash, car and motor repair, etc. Migration of retrenched workers into these other sectors will increase the labour supply there and could depress wages.

In sum, a majority of workers laid off from the construction sector will temporarily go back home to help their family harvest rice and may come back to the city once the employment situation improves. Some may borrow money from their bosses to bridge through the slump, with expectations that business will soon resume like normal. At the moment, it is too early to know what the social impacts (e.g. increase in crime, domestic violence) of this layoff may be.

5.3.3 Tourism sector – Labour market

The tourism sector comprises of a vast number of service businesses and self-employed activities such as hotels, guesthouses, restaurants, massage parlors, sporting clubs, travel agencies, tour operators, airlines, Tuk-Tuk, souvenir shops, food vendors, etc. Many of these activities fall under the informal economy. Segments which rely heavily on foreign consumers are more vulnerable to the global economic crisis. At the moment, the employment situation in tourism-related business is still stable, though income levels (specifically for the self-employed) are gradually declining.

- **Hotels and guesthouses:** Fewer tourists mean fewer hotel and guesthouse bookings. There are 395 hotels (20,470 rooms) and 891 guesthouses (11,563 rooms) as of December 2007 according to the Ministry of Tourism registry. The sector employs an estimated **48,050 workers**³⁷ Hotels and guesthouses are complaining of fewer bookings. Presently, they do not have plans to cut employment, but if the trend continues they may be forced to layoff some workers.
- **Travel agencies and Tour operators:** There are 451 travel agencies and tour operators nationwide as of December 2007 according to the Ministry of Tourism. Accordingly, there are **3,350 trained tour guides**, of which 17% are female.

³⁵ Ministry of Land Management

³⁶ Based on focus group discussion with construction workers in Phnom Penh on 28 Dec. 2008

³⁷ The standard for calculating employment levels in service business is occupancy multiplied by 1.5 workers.

- **Restaurants, Massages, Sporting Clubs and Casinos:** Based on the Ministry of Tourism, there are currently 920 restaurants, 190 massage parlors, 50 sporting clubs, 32 souvenir shops, and 22 casinos across Cambodia. In addition to this, there are other SME services such as vendors and etc. Employment in these businesses could be around **25,000 workers**.
- **Tuk-Tuk:** IDEA, a trade union representing the informal economy (i.e. Tuk-Tuk, Moto-Dup, street vendors), explained during interviews that Tuk-Tuk drivers in Siem Reap, Phnom Penh and Sihanouk Ville, key tourist attractions, are seeing a major slowdown in tourists. In Siem Reap, Tuk-Tuk drivers earned around \$15 per day during this season in the past, but now, they earn only \$5 per day. Similarly, those in Phnom Penh use to get \$15-20 per day, but have seen their earnings drop to just \$2.50 per day in recent months. There is approximately **14,000 Tuk-Tuk drivers**; 6,000 in Siem Reap (50% are migrants from nearby provinces such as Kampong Thom, Oddar Meanchey, Kampong Cham) and 8,000 drivers in Phnom Penh (almost all are migrants from provinces such as Prey Veng, Takeo and Kampong Cham). Even though their income is declining, Tuk-Tuk drivers said they have no plans to change their jobs or return home because the chances of earning money in the city is higher than in their villages.

The tourism sector is expected to continue growing in 2009 but at a slower pace than in previous years. This implies that the sector will likely not experience any massive layoffs, but most likely encounter a situation of underemployment (like the example of Tuk-Tuk drivers), which will cause income levels to gradually decline. In addition, underemployment will be more likely than layoffs because most tourism services are self-employed, both in the formal and informal sectors.

5.3.4 Agriculture – Labour market

Agriculture falls into two segments: 1) subsistence farming and 2) business farming (including agricultural manufacturing). Approximately 90% of the agriculture sector is for subsistence, while the remaining 10% are large-scale, export-oriented farming business. The labour force in the first type relies on unpaid family help, while the latter uses seasonal, usually migrant workers. The crisis will impact the labour market in the two segments differently:

- **Subsistence farming:** It is expected that the flow of labour into subsistence farming will increase as those retrenched from other major sectors such as T&C, construction and tourism will return home to work on the family farm in the case of no job opportunities in the city. This may increase agriculture production, but reduce the per capita income for households due to declining commodity prices and more workers. Under these circumstances, the living condition in the rural areas may start to deteriorate.
- **Business farming:** Since business farms (such as rubber, corn, pepper, cassava, rice and livestock) are exclusively for export, declining demand abroad due to the global economic slowdown will severely impact the sales volume and prices of these businesses. Most of the export is directed to Asian countries such as China – the biggest buyer of cassava and rubber, Vietnam, and Thailand, to feed into their manufacturing sector. The fall in demand for manufacturing products in these countries and in their export markets, has consequently reduced the demand for commodities from Cambodia. Employment levels in this segment may fall and/or wages depress; however, because there are only a few large scale farming enterprises in Cambodia, the impact on the economy will not be severe.

5.3.5 Youth employment

Cambodia's youth population (defined as aged 15-24 years) makes up 23% of the total population, around 3.5 million people.³⁸ The ILO estimates that the number will grow from 3.2 million in 2005 to 3.6 million in 2011.³⁹ Of the total workforce, youth represent 32%, of which 51% are male and 49% are female.⁴⁰ Since 1999, between 200,000 to 250,000 youth have entered the job market each year, but only 67,000 new jobs were created yearly from 1999 to 2004, absorbing only 27% of new job market entrants.⁴¹ According to a recent survey by the Cambodia Federation of Employers and Business Associations (CAMFEBA), the low absorption rate is due to a mismatch between the supply and demand in skills because of the lack of data and information on the labour market.

The education attainment of the youth population is low for both male and female, with less than 5% having completed secondary education (as shown in Table 6). Combining low education with low skills and little experience, they are likely to face difficulties in finding off-farm jobs and will typically be the first group of workers retrenched during economic hard time.

Table 6. Education attainment of youth population by sex (2000)

Sex	Age	No education	Some primary	Completed primary	Some secondary	Completed secondary	More than secondary	Median year of schooling
		% of Age-Sex Group						
Male	15-19	11.1	47.4	10.9	28.4	1.6	0.4	4.3 yr
Male	20-24	13.0	40.0	7.5	32.3	4.8	2.3	4.7 yr
Female	15-19	18.7	49.0	9.1	20.9	1.7	0.4	3.6 yr
Female	20-24	27.3	45.2	6.1	17.9	2.5	0.9	3.0 yr

Source: NIS Statistical Yearbook 2006

Youth employment is the backbone of the key sectors such as garment, construction, hotel and restaurants. As shown in Table 7, the average age of workers in the textiles and clothing sector is 23 years old; construction, 20 years old, and hotel and restaurants; 20 years old.

Table 7. Average age of workers by key sectors

Sectors	Average age of workers
Textile and clothing	23 years old*
Construction	20 years old**
Hotel and restaurants	20 years old**

Source: *CIDS Living Wage Survey (2008), **FGD

In essence, our discussion on the impacts of the financial crisis on the labour supply in the key sectors and their reactions to retrenchment have been explored in the preceding sections. As illustrated, job opportunities for youth will likely shrink and the unemployment rate for this age group will increase. Their first response to retrenchment is to seek other employment (they are willing to accept jobs with lower wages), and when this is unsuccessful, they return home.

³⁸ NIS Population Projections, 2005 data

³⁹ BDLINK, 2008

⁴⁰ NIS 2003-2004

⁴¹ Chun, 2009, Jan. 23

Conclusion → The impact of the global crisis appears to have hit workers in manufacturing businesses (textiles and clothing, construction), but not yet in service businesses (hotel and restaurants, real estate...). Garment factory and construction workers have observed a massive increase in layoffs and reduction in overtime, which has caused their average effective incomes to decline. Since early 2008, around 28,819 garment workers and 15,000 construction workers have been retrenched. Employment in tourism services is still stable, but could see job loss in the near future as income levels fall and fewer tourist arrivals. Tuk-Tuk drivers have seen a 60-87% decline in their daily earnings. Youth unemployment will increase given that these key sectors are primarily made up of workers between the ages of 15-24 years.

6. Impacts on household economy

According to the projections on the loss in income due to the global financial crisis (Chapter C), an estimated 93,000 households (470,000 people) was affected in 2008, which is projected to accumulate to 217,000 households (over 1 million people) in 2009.⁴² This could increase poverty in rural areas. In a recent report, the ADB projects that in 2020, 1.7 million people will be living in poverty. This number may be much higher if the impacts of the crisis are included.

This section of the report is interested in how households will respond to a situation of declining income and the measures they may take to maintain their income levels. Specifically, this study will analyze the household decision on: 1) division of household labour, 2) migration, and 3) child labour.

In this section, we conduct an inductive empirical investigation by utilizing anthropological methods. The **household economy** is embedded with **three integral factors**: reciprocity, redistribution and exchange.⁴³ Reciprocity is pertinent in the Cambodian case; it is a moral obligation in the Cambodian family that members are reciprocally obliged to help generate money when the household faces financial trouble to ensure the survival of the whole.⁴⁴

The strong, binding sense of reciprocity in the Cambodian household leads to an added worker effect, and influences the decisions on household division of labour, migration and child labour. **Added worker effect** states that in face of an unexpected shock in the main income earner losing their job, other household members (household labour surplus such as wife and other adult children) may enter the workforce as a form of risk-sharing behaviour within the family. Factors that will influence the decision of household labour surplus to enter the workforce are: asset holding of family (savings, land, and other fixed assets), precautionary saving, family needs, and education attainment of the labour surplus.⁴⁵

At the household level, workers from the vulnerable sectors (T&C, construction, tourism) face similar situations. They come from rural, subsistent agriculture-based families with little assets (i.e. small land plot, few livestock). Their agriculture production is primarily for household consumption. Migrant workers represent the household's link to the commercial economy; the channel for **bringing in cash income**. In addition, migrant workers serve as a **hedging tool** to maintain household income levels because the output from the household economy tends to be unstable, as it is highly exposed to natural disasters such as flood, drought and disease. Common in most households, parents are too elderly to work on the farm, and female members cannot handle the manual farm work, so the family needs to hire seasonal **workers**. Female household members are thus sent to work in the city to **help finance the seasonal workers** and support the household economy.⁴⁶ Remittances of migrant workers, to some degree, help create employment in rural areas.

"In my village in Prey Veng province almost every household sends 2 or 3 family members to be migrant workers in Phnom Penh, either in construction or garment factories."

– Migrant Worker

Focus Group Discussion in Prey Veng, Dec. 26, 2008

After June-July 2008, incomes of workers in the vulnerable sectors have declined, resulting in less remittance back home, and decreasing household income. During FGDs, female garment workers informed that in the past, they were able to send home US\$30-40 every month. However,

⁴² Estimated by CIDS based on data from the NIS and MEF.

⁴³ See Wilk, 1996 for more information

⁴⁴ Kim, 2001

⁴⁵ Kohara, 2008

⁴⁶ Based on field visits in Kandal, Kampong Chhnang, Takeo and Prey Veng

since mid-2008 with the cut back in overtime hours and higher prices, they have only enough money to cover their living expenses in Phnom Penh and no extra money to send home. Construction workers expressed the same sentiments; in the past, they were able to send home US\$25-37.50 each month.

Given the importance of cash income from migrant work and their role in hedging risk, the household tries to help out retrenched workers through the job seeking period as long as possible. Resources in the household economy are allocated to help bridge workers through this period:

“Of course I can support my family with farming. However, it is just enough for basic survival; when we are faced with emergencies like illness or my children need clothes and money for school, we have no extra income to cover the expenses. The only solution is to work in the city as a construction worker during my free time (when farming season is over).”

– Construction Worker from Prey Veng,
Focus Group Discussion in Phnom Penh on Dec. 28, 2008

- Parents send rice and food to their migrant children in the city.
- Household surplus labour are sent to work on available agriculture jobs in the village and nearby villages (i.e. cattle watching, rice harvesting) to earn extra cash. However, the job market in rural setting is unreliable because it is seasonal and usually with low pay.
- Young children help out on the farm and/or household economy after school and on weekends.

Once these resources are exhausted, parents expect their children to return home if they cannot find a job and are not ready to liquidate other assets to continue financing the job search. However, they are willing to finance training and skill upgrading programmes that may increase their children’s employability.

The size of the household economy determines if retrenched workers will be called back home immediately or requested to find a new job. If the size is small, children will be under pressure to spend more time to find a new job. If the wage for the new job is lower than in the previous, parents will send other surplus labour to come work in the city. Typically, parents send children to the city in groups as a security measure, such as siblings, cousins and other relatives. In selecting surplus labour to migrant to the city, parents will first pick members that have free time. Most parents are not ready to send children who are in school to come to work because they have awareness that they are poor because they lack education. Thus, they want their children to obtain the highest level of education as possible, as they can support. They will send school children to work in the city only if on break.

Conclusion → Households are seeing a fall in income as migrant workers send home less remittance. Given the importance of migrant workers in generating cash income and hedging risk for the household, parents attempt to help their children as much as possible through the job seeking period. Resources in the household economy are allocated to migrant workers to bridge them through this time, such as rice, fish, etc. The size of the household economy will determine if retrenched workers will return home immediately or attempt to find a new job. The strong sense of reciprocity in the Cambodian household could lead to a migration of surplus household labour to urban areas to seek jobs. It is unlikely that parents will send their school children into the workforce because they have a strong belief that investing in education now could improve their living standards in the future.

7. Government policy and responses

Our analyses above show that the global financial crisis will likely:

- *Have a severe impact on Cambodia's economy:* Real GDP will slow to 6% in 2008 and further down to 5.1% in 2009, from an average of 10% in preceding years. The estimated loss in potential real income is US\$282 million in 2008 and another US\$677 million in 2009.
- *Transmit through the following channels:* textile and clothing, construction, tourism, and real estate, which are the sectors most vulnerable due to their high concentration of foreign capital and dependency on export markets.
- *Result in job loss and bring down income:* Since mid-2008, workers in garment factories and construction have observed a massive increase in layoffs and reduction in overtime, which has caused their average effective income to decline. Due to the fall in demand caused by the global financial crisis, approximately 40,000 garment factory jobs and 15,000 construction jobs have been eliminated as of December 2008. Employment in the service sector such as tourism services (hotels, restaurants, tour guide, etc.) and real estate have not been affected yet, but could see job loss in the near future as income levels decline. Tuk-Tuk drivers are starting to feel the impact; their daily earnings dropped by 60-87% in 2008 compared to 2007 due to fewer tourists.
- *Decrease household income, leading to added worker effect:* Due to the fall in average effective income combined with higher living costs in the city, workers have less/no money to send home. This is creating financial pressure on the household economy.

As of date, the Royal Government of Cambodia has not put forth a coherent policy response to mitigate the affects of the global financial crisis. At the ministry level, some measures are being considered, though many of them are not in response to the financial crisis but part of the government's existing *Rectangular Strategy*⁴⁷ to promote economic growth, employment, equity and efficiency. These measures fall into four key policy areas: 1) fiscal/monetary policy; 2) protecting the poor and vulnerable; 3) supporting productive and sustainable enterprises and 4) safeguarding workers' rights. We describe these measures below.

Fiscal/Monetary policy to simulate demand, income and employment

- **Real estate:** In May 2008, the National Bank of Cambodia (NBC), the country's central bank, placed a cap on bank lending to the real estate sector, limiting it to 15% of bank's total loan portfolio (approximately US\$2.5 billion in total). This measure was to help limit the exposure of banks to the global property slump. Most recently, the NBC has slashed the bank reserve requirement from 16% to 12% and have eliminated the restrictions on real estate lending, which will be effective on February 2009, in a bid to boost the property sector and help the economy recover.⁴⁸
- **ASEAN fund:** October 2008, Asian and European nations gathered in Beijing to discuss the global financial meltdown and to build a consensus on a common approach to the crisis. At the meeting, ASEAN+3 nations (ASEAN: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam; plus Japan, South Korea and China) agreed to set up a US\$80 billion emergency fund. Members will be allowed to borrow from the fund when facing a liquidity crunch and balance of payment problem. Eighty per cent of the fund

⁴⁷ The *Rectangular Strategy* is the government's economic policy agenda for the third legislature. The fourth legislature, instated in late 2008, plans to continue using the strategy for the next four years.

⁴⁸ Nguon, 2009, Jan. 26

will be contributed by Japan, South Korea and China (planned for by next June), and the remaining amount by the 10 ASEAN nations.⁴⁹ Finance ministers of each country are in the final stages of determining the procedures on withdrawal and will endorse the plan at the 14th ASEAN summit, scheduled to be held in Thailand in the third week of February.⁵⁰

- **Tourism:** In December 2008, a new public-private sector tourism taskforce was set up, including representatives from travel agencies, airlines, hotel, tourism police and associated government ministries.⁵¹ The taskforce proposed to the Minister of Tourism (MOT) a number of measures to offset the global economic downturn such as:
 - Suspending the 2% accommodation tax
 - Reducing visa fees, passenger service charge on airline tickets, admission fees to popular attractions
 - Providing incentives to launch a national carrier and to draw more airlines to Cambodia
 - Funding a Cambodian tourism board modeled on Singapore’s successful tourism promotion board
 - Engage a public relations company to promote a new fresh image for Cambodia
 - Diversify tourism products through incentives to speed up developments in Sihanouk Ville, Phnom Penh and other locations
 - Develop new Cambodian destinations and more cultural attractions
 - Cracking down on hotels and guesthouses that do not meet minimum quality standards
 - Increase air service routes from countries other than Thailand (more direct flights from other hubs)
 - Increase security, especially at the Cambodian-Thai border

Protecting the poor and vulnerable

- **National social security fund:** As part of its *Rectangular Strategy*, the government aims to enhance the social security system and improve employment opportunities, especially with a vision to reduce the vulnerability of the poor.⁵² The *Law on Social Security* was passed in 2002 to provide a framework for this policy, and permitted the establishment of a National Social Security Fund (NSSF); a public, legal and financially autonomous entity. The NSSF is for the purpose of alleviating difficulties with old age, disability, death, working risk, or any other incidences such as maternal illness. The NSSF is supervised by a tripartite governing board consisting of high ranking public officials from relevant ministries, representatives of employers and representatives of workers, presided by an official from the Ministry of Labour. To date, around 300 businesses are contributing to the fund.
- **Labour market programme:** Currently, the government’s labour market programme consists primarily of short-term vocational training for school-drop outs and vulnerable people, which is conducted and financed by relevant ministries, departments, and NGOs, at the national and provincial levels. At the moment, there are no labour market programmes specifically targeting workers in vulnerable sectors such as the T&C industry and construction. Limitations to such programmes include lack of funds and resources, absence of quality certifying agencies, little connection between training and job placement, and low technical expertise.

⁴⁹ USA Today, 2008, Oct. 24

⁵⁰ Xinhuanet News, 2008, Dec. 15

⁵¹ May, 2008, Dec. 5

⁵² Royal Government of Cambodia, 2004

- **Agriculture:** A slump in global demand has sent commodity prices tumbling downhill, hitting rice farmers in Cambodia. In response, the Ministry of Agriculture, Fishery and Forestry (MAFF) recommends farmers to stockpile their rice in face of the current low prices and hold off selling until prices improve. In the meantime, farmers should plant quick growing vegetables and crops for some income.⁵³ (Dec. 2008)
- **Labour:** Ministry of Labour (MOL) has a policy to encourage migration abroad as a way to reduce poverty and improve livelihoods. There are more than 70,000 workers abroad.⁵⁴ Seventeen companies are permitted by the ministry to export migrant workers. The ministry recently signed an MOU with Kuwait and Qatar that will send workers to those countries next year. MOL estimates that migrant workers abroad send US\$300 million per year home as remittances (approximately 4% of GDP in 2007). In 2008, 2,654 workers went to Malaysia; 4,000 to Thailand; 2,400 to South Korea (plus another 3,447 workers preparing for migration); 39 workers to Japan (with 21 workers preparing).⁵⁵
- **Job opportunities for women:** According to a report published by the Ministry of Women's Affairs on 2 January 2009, there will be a shortage in job opportunities for young women in the next few years as the labour force expands. To help, the Ministry of Women's Affairs is collaborating with the Ministry of Commerce and Ministry of Industry, Mines and Energy in a strategic plan to:⁵⁶
 - Develop skills and self confidence among women entrepreneurs in the informal sector and encourage them to register their businesses.
 - Stimulate business through micro-credit injections
 - Improve access to information and news about productivity and accessing services
- **Agriculture fund:** On 7 January 2009, MAFF announced that it will launch a national agriculture fund to boost agriculture productivity by offering low-cost loans to farmers and encourage information exchange to enhance market knowledge. The fund will start with US\$25,000 in seed capital, with additional funds expected from donors and the government.⁵⁷

Supporting productive and sustainable enterprises

- **Textile and clothing sector:** At the 14th Government-Private Sector Forum in November 2008, the government announced it will cut export fees on garments and other related bureaucratic costs by 10%, following a request by GMAC, as a measure to help the industry through the slump caused by sinking demand in global markets.⁵⁸ To mitigate the fall in demand in western markets, especially in the US and EU, as well as to sustain employment levels, the government is also helping the industry diversify into new markets. The Ministry of Commerce and representatives of Cambodia's garment industry went on an expo trip to Japan in late November 2008. In addition, the government announced in February 2009 that it will suspend the advance profit tax, which represents 1% of turnover, for another 2 years to 2011.⁵⁹
- **Textile and clothing sector:** 7 January 2009, the ASEAN Federation of Textiles and Apparel meet in Phnom Penh to discuss strategies on how to safeguard the industry from the global economic downturn. The meeting was attended by delegates from Cambodia, Vietnam, Lao PDR, Thailand, Malaysia, Indonesia and Singapore. Some key recommendations from the conference is for regional

⁵³ Chhorn, 2008, Dec. 16

⁵⁴ ILO, 2008, Dec. 18

⁵⁵ May, 2008, Dec. 29

⁵⁶ Khoun, 2009, Jan. 8

⁵⁷ Chun, 2009, Jan. 7

⁵⁸ Cambodia – Export Fees, 2008, Nov. 24

⁵⁹ Interview with Mr. Van Sou Ieng, Chairman of GMAC

producers to source raw materials from ASEAN rather than China, which could help cut transportation costs, negotiate with developed nations to ease tariff restrictions, and ease regional trade barriers.⁶⁰

- **Rice millers:** On 8 January 2009, the Ministry of Rural Development (MRD) announced that it will lend US\$15 million to the Rice Millers Association to buy up rice and upgrade their machinery, as a way to increase productivity and modernize the agriculture/agro-processing sector.

Safeguarding workers' rights

- Decisions made the Prime Minister at the 13th G-PSF as proposed by the Industrial Relations Working Group:
 - Creation of a Law on Unions, to be handled by Ministry of Labour
 - Council for Legal Reform and Ministry of Justice to draft law on Labour Court and to strengthen respective roles of the Arbitration Council and the Committee for the Settlement of Demonstrations and Strikes

Role of social dialogue and tripartite cooperation in policy response

- **Government-private sector forum:** Cambodia's Government-Private Sector Forum (G-PSF) is a public-private consultation mechanism to improve the business environment, build trust and encourage private investment in Cambodia. It is a demand driven process with the private sector identifying issues and recommending solutions to the public sector. The Forum meetings, which are the principle mechanism for direct government/private sector discussion, are held twice per year and chaired by the Prime Minister. They are formal Cabinet meetings and decisions made in the Forums are binding. The Forum is the umbrella mechanism, under which sits eight Working Groups: Agriculture and Agro-Industry; Tourism; Manufacturing and SMEs; Law, Tax and Good Governance; Services, including Banking and Finance; Energy, Infrastructure and Transport; Export Processing and Trade Facilitation; and Industrial Relations.⁶¹

⁶⁰ Kay, 2009, Jan. 9

⁶¹ For more information on the forum, visit <http://www.cambodia-gpsf.org>

8. Donor and International community support

At the second Cambodia Development Cooperation Forum held in Phnom Penh on 4-5 December 2008, development partners pledged over US\$951 million of official assistance to the Royal Government of Cambodia for 2009 (see Appendix 1 for a break down of contribution). During the forum, development partners and the government identified and discussed critical immediate measures for a number of policy areas. In this section, we highlight some of the actions considered at the forum as it relates to mitigating the effects of the global financial crisis.

Sustaining growth in a challenging environment⁶²

- Accelerate Cambodia's integration into the world economy, in particular in East Asia and Greater Mekong Sub-Region (GMS).
- Address financial sector risks such as tightening bank entry criteria, renewing efforts to monitor non-performing loans, manage exchange rate.
- Facilitate trade and investment, specifically for agri-business such as by creating an investment servicing office dedicated to agri-business investors and by creating an independent monitoring organization of sanitary and phyto-sanitary standards, make existing tax incentives more active to promote productivity and diversification.
- Help Cambodian firms integrate into more complex value chains and global supply chains by supporting business associations, proactive management of Special Economic Zones, and increased access to financial products.
- Upgrading growth endowments such as upgrading rural roads, agriculture public goods, human capital, mobilizing domestic savings, expanding fiscal space through developing revenue base and public sector reforms.

Social safety nets⁶³

- Begin discussion among stakeholders leading to an agreed common understanding of social safety nets appropriate for the Cambodian context and within a broader national development strategy
- Promotion of social safety nets as a means to address social security, equality and long term economic growth
- Government and development partners to work together to undertake a comprehensive mapping of current social safety net initiatives, in order to identify the overall status in terms of coverage, targeting mechanisms, the value of benefits, gaps, etc.
- UN, which comprises of 11 agencies in Cambodia with a pledge of over US\$81 million, will continue to support:
 - Existing social safety net activities focusing on the most vulnerable (including health service fee exemptions; basic education scholarship programmes for poor students; school feeding; food for work and public sector pensions.
 - Inter-ministry engagement at the central level to develop a vision and strategy for an integrated social safety net system, addressing: i) continuation and expansion of the Identification for Poor Households Programme to achieve nationwide coverage; ii) use this data across sectors for the delivery of poverty-targeted services; iii) consider broadening coverage through the expansion of conditional cash transfers; and iv) financing of the social safety net system, including incremental budgetary commitment from Government.
 - Identify institutional capacity required to implement this programme and the support required to build the capacity.

⁶² World Bank, 2008

⁶³ Broderick, 2008

9. Policy recommendations for action

ILO Project framework

The ILO's Decent Work Country Programme (DWCP) provides the basis for the ILO's contribution to the Government's *Rectangular Strategy* and the *National Strategic Development Framework*. The DWCP addresses a wide range of issues, including skills and human resources development, youth and women's employment, the informal economy, SMEs, social protection, industrial relations and social dialogue, and labour market governance.

The current DWCP (2008-2010) focuses on three priority areas which also reflect the ILO's commitment to the United Nations Development Assistance Framework (UNDAF): skills development for productive employment; labour governance and rights; social protection for targeted groups.⁶⁴

With respects to the ILO's DWCP framework and the analyses made above, some policy recommendations for ILO action to alleviate the impacts of the global financial crisis in Cambodia, especially on the most vulnerable groups, are as following:

- ***Establishment of a central job information system:*** To help reduce the cost and time of job seeking for retrenched workers, a reliable and trustworthy entity should be established to centralize information on job availability and the labour market.
- ***Establishment of labour market programme:*** Focusing on both active and passive labour market programmes that are targeted at vulnerable groups, and linking with SMEs. Active programmes aim to increase the employability of retrenched workers, such as skill training programmes, sheltered workshops, apprenticeships, support for self-employment (SME), mobility promotions (i.e. relocation, housing and commuting allowances). Passive programmes are for providing transitional assistances and services to bridge retrenched workers during period of unemployment, such as unemployment benefits.
- ***Set up Association of laid-off workers' families:*** Develop the existing informal, intra-commune network of migrant workers' parents into an association, which could be important source of information exchange and involvement in labour market programmes.
- ***Social protection measures:*** Such as a Commune Fund to help retrenched workers who return home to lessen the burden of the household and help retrenched workers start up income generating activities and other productive employment in the village
- ***Multi-sectoral Trade Union:*** Build up and connect trade unions in relevant sectors into a multi-sectoral trade union to increase power in social dialogue on working conditions, social safety nets and development plans. Such umbrella organization could help widen the social security net for workers across sectors. Linking the organization with investors programme would be an effective way to create quality employment.

⁶⁴ See www.ilo.org for more information.

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- Focus group discussions and interviews with workers and households from Phnom Penh, Kandal, Kampong Speu, Kampong Chhnang, Kampong Cham, Prey Veng, Siem Reap, Svay Rieng and Takeo in garment, construction, and informal sectors.

Appendix 1. Contribution of development partners

Second Cambodia Development Cooperation Forum at the Council for the
Development of Cambodia in Phnom Penh, Dec. 4-5, 2008

Development Partner	2009	2010 (est.)	2011 (est.)
United Nations Agencies			
FAO	1,621,212	474,000	94,000
IFAD	13,000,000	0	15,000,000
ILO	2,820,693	2,288,689	1,576,830
UNAIDS	230,000	253,000	253,000
UNDP	9,981,000	13,197,000	10,537,000
UNESCO	1,248,833	1,158,948	904,963
UNFPA	3,489,000	3,772,000	3,772,000
UNICEF	12,921,000	14,691,000	tbc
UNODC	197,500	54,500	tbc
WFP	28,476,949	28,647,168	tbc
WHO	7,771,300	tbc	tbc
Sub-total	81,757,487	64,536,304	32,137,793
International Financial Institutions			
World Bank	99,084,000	84,050,000	52,347,000
ADB	101,550,000	162,700,000	98,800,000
Global Fund	tbc	tbc	tbc
Sub-total	200,634,000	246,750,000	151,147,000
European Union			
Belgium	tbc	tbc	tbc
Denmark	13,000,000	15,000,000	14,900,000
Finland	5,734,531	1,453,562	1,898,013
France	25,775,103	25,296,387	22,640,000
Germany	38,409,000	19,538,000	tbc
Spain	11,232,738	7,845,122	8,477,793
Sweden	29,769,000	33,483,000	34,875,000
UK	43,599,000	45,047,000	45,047,000
EC	46,243,849	61,561,997	44,793,117
Sub-total	213,763,221	209,225,068	172,630,923
Other Development Partners			
Australia	31,499,337	48,408,665	48,501,292
Canada	7,735,393	5,280,250	4,793,030
China	256,777,000	162,207,000	114,660,000
Japan	112,290,000	112,290,000	112,290,000
New Zealand	3,566,000	3,611,000	tbc
Republic of Korea	41,000,000	tbc	tbc
Switzerland	2,499,583	2,499,583	2,499,583
USA	tbc	tbc	tbc
Sub-total	455,367,313	334,296,499	282,743,905
TOTAL	951,522,021	854,807,871	638,659,621

Source: www.cdc-crdb.gov.kh

This paper carries out a rapid assessment of the impact of the financial crisis on Cambodia's economy and labour markets using available secondary data combined with focus group discussions, interviews and quick surveys. It finds that key sectors in Cambodia are especially vulnerable to the crisis since they depend largely on foreign investment and markets abroad, especially markets in countries which are in recession. The impact of the crisis on Cambodia is therefore likely to be significant and quick policy measures are needed at all levels – macroeconomy, sectors, labour markets and households – to mitigate the negative effects of the crisis.

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