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Managing through the Crisis—Strengthening Key Sectors for Cambodia's Future Growth, Development and Poverty Reduction: Agriculture and Rural Development

“The financial and economic crises caused lower demand for and prices of agricultural commodities ... Plummeting agricultural commodity prices forced farmers and investors into debt.”

*Dr Theng Vuthy, CDRI programme coordinator,
during the 2009 Cambodia Outlook Conference*

The Crisis and Cambodia's Agriculture: Impact and Gaps

Cambodia's agriculture has played a bigger role in employment than industry and services, yet has made the smallest and least stable contribution to growth over the past decade. According to the World Bank, the industry and service sectors accounted for 4.5 and 4.8 points respectively of Cambodia's annual growth over 1998–2007. The corresponding share of agriculture was 2 points. Growth of the industrial sector was primarily driven by garments and construction, while that of services was mainly propelled by tourism. Agriculture depended chiefly on the production of crops, especially rice.

In 2007, agriculture produced about 29 percent of Cambodia's GDP, compared with industry's 30 percent and services' 41 percent. Agriculture accounted for a huge 59 percent of employment, compared with 13 percent for industry and 27 percent for services. Labour

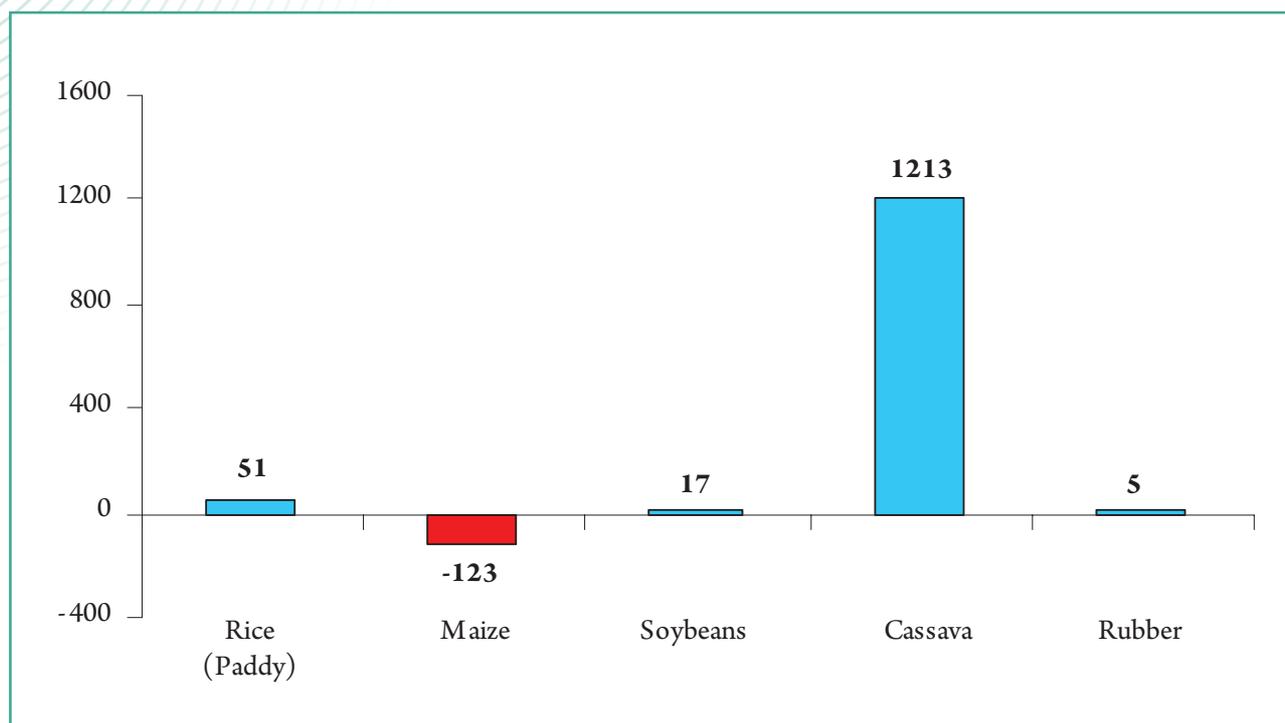
productivity in agriculture is low, and investment in the sector is still clearly insufficient. Low yields, bad weather conditions, outdated technology and other problems have also constrained production. Since the poor are concentrated in the largely agriculture-based rural areas, all these issues have implications for poverty reduction.

Fortunately for the sector, the global food crisis triggered by the sudden prices hikes in 2006 revitalised agricultural production and, consequently, the dreams of higher income of the households depending on it. However, the current crisis has threatened this long-awaited revival.

Between 2006 and the middle of 2008, world commodity prices soared for such reasons as poor harvests, higher energy prices, adverse weather conditions and increasing competition between food and biofuel production. Higher food prices threatened the food security of many people. At the same time, however, the higher prices were welcome news for farmers and exporters. Prices per tonne of Cambodia's key agricultural exports, paddy rice, cassava and rubber, reached USD225, USD70 and USD2016 respectively in 2007. This encouraged production and export. Cassava production increased from around 2.2 million tonnes in 2007 to about 3.4 million tonnes in 2008, while that of rubber went from 32,000 tonnes to 37,000 over the same period. Also

¹ This is a summary of the presentations and discussion in session 3A (i) of the 2009 Cambodia Outlook Conference. Presenters for this session were H.E. Nam Tum, adviser to Prime Minister Hun Sen and governor of Kompong Thom province, and Dr Theng Vuthy, programme coordinator, Poverty, Agriculture and Rural Development, CDRI.

Figure 1: Production Increase 2007-08 ('000 tonnes)



Source: MAFF, Agricultural Statistics 2008

between 2007 and 2008, the total cultivated area for cassava increased from around 96,000 hectares to about 180,000 and that for rubber from 82,000 to 109,000 hectares. The production of and cultivated areas devoted to paddy rice and soybeans also experienced hikes over the same period (Figure 1).

Unfortunately, the financial and economic crisis put a brake on these price increases. Lower world demand, among other causes, led to declining prices for many agricultural commodities, although prices remain higher than their average levels in the past decade. Lower demand left many farmers with unwanted harvest and little or no profit to pay off their debts and recover their investments.

Cambodia's agriculture sector proved resilient in the face of the crisis, especially when compared with the other three growth sectors. It is estimated to have grown 4.5 percent in 2008, thereby providing much-needed support to the economy. Nevertheless, agricultural exports did suffer to some extent. Sadly, the boundary dispute with Thailand and protectionist policies imposed by the same country also hindered cross-border trade.

Among Cambodia's exportable crops, cassava and rubber appear to be the most severely affected by the declining prices and abrupt drop in world demand. While overall production increased in 2008, the year-on-year growth of cassava and rubber decreased sharply during the last three months of 2008. It has been estimated that, by late

2008, the prices of these two crops fell to about half the level of a year earlier. From USD70 in 2007, the export price of cassava fell to USD30 in 2008. The export price of rubber decreased from USD2016 in 2007 to USD1020 in 2008. Over the same period, an estimated USD95 million was lost in export value of cassava, while the lost value of rubber exports was around USD37 million. Soybean and maize exports also suffered but, remarkably, paddy rice exports have so far withstood the impact of the crisis; its price and export value increased in 2008 (see Figures 2 and 3).

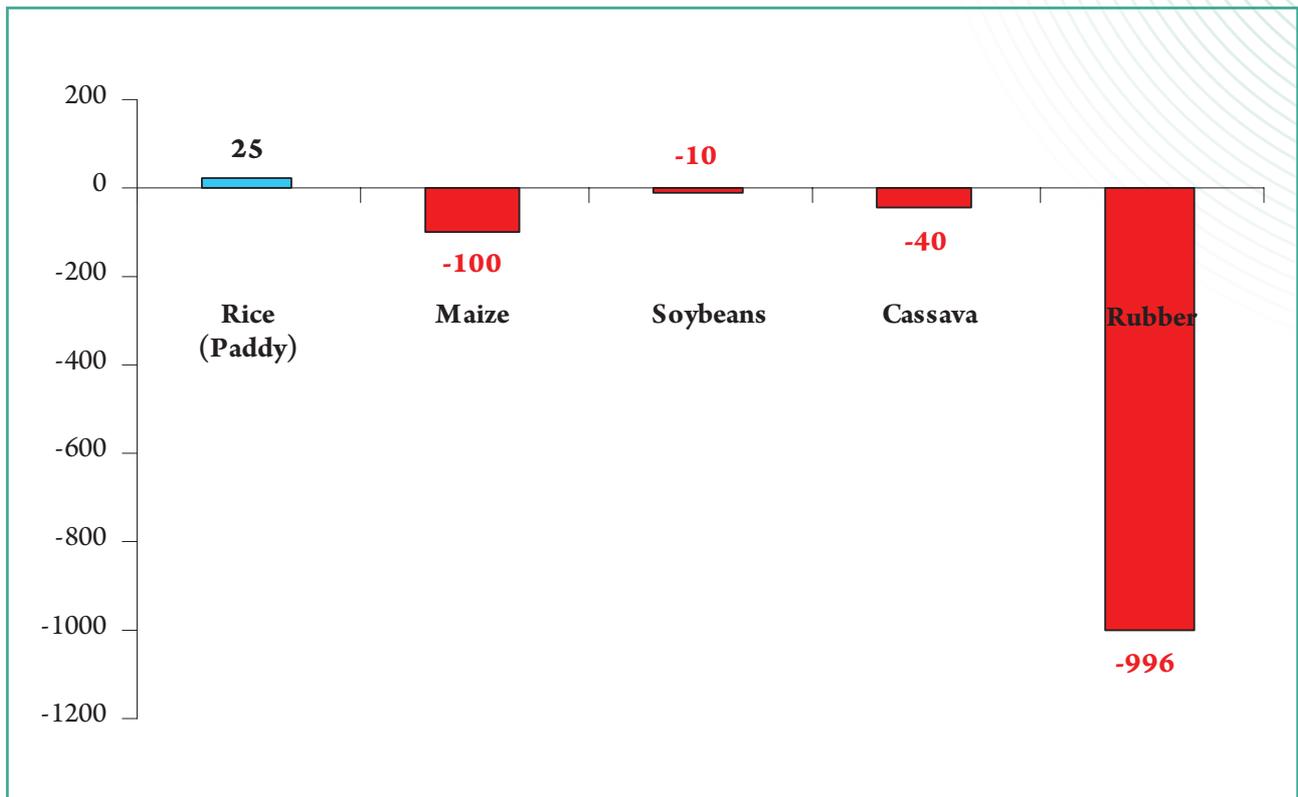
Because of the above and higher input costs, cassava farmers' gross margins turned negative, while rubber farmers' significantly narrowed in 2008. Dry season rice, wet season rice, maize and soybeans continued to be profitable at the end of the year; however, profits from the last three also decreased.

The Crisis and the Way Forward: Outlook and Future Policy Directions

As the crisis helped demonstrate, the agricultural sector has the potential to boost economic growth. This potential becomes clearer in light of the following:

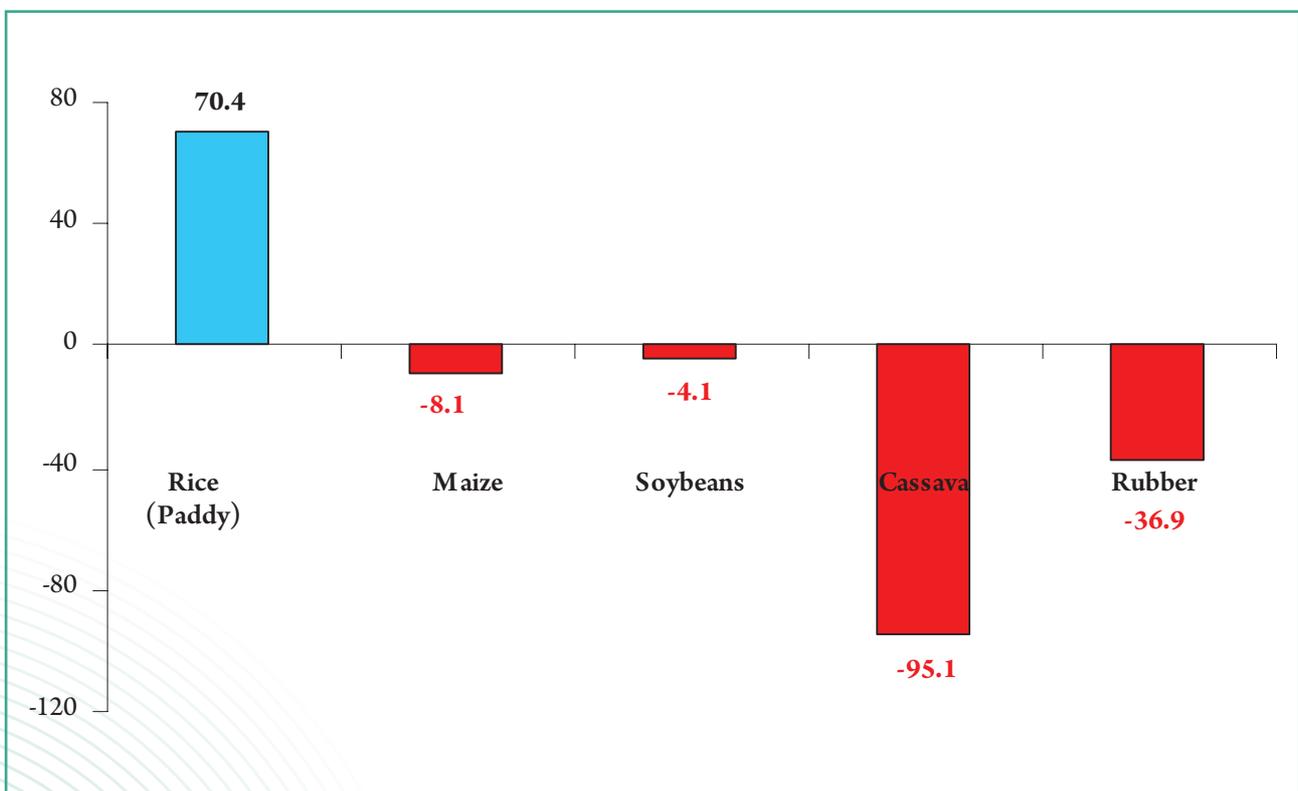
- Lower food prices are believed to be temporary because the demand from China, India and Middle Eastern countries is likely to strengthen.
- The slowdown in other sectors may provide a labour incentive for agriculture.

Figure 2: Price Difference, 2007-08 (USD)



Sources: AMO Price Bulletin 2007–Jan 2009; MAFF, Agricultural Statistics 2008 (unpublished) as presented during the 2009 Outlook Conference

Figure 3: Export Value Change, 2007-08 (USD Million)



Source: CDRI estimates as presented during the 2009 Cambodia Outlook Conference

- There is significant potential to expand production areas.
- Cambodia's natural endowment and cheap agricultural labour give it a competitive advantage in agriculture.
- There are market incentives supporting greater agricultural production (e.g. bilateral agreements with China and countries from the Middle East and Africa).

To realise this potential, measures have to be implemented to increase production and productivity. These include the following:

- On land reform. The redistribution of land to landless households should be improved. This becomes more imperative in light of the fact that small landholders have proven to be more productive in cultivating many crops. A big issue of late, land titling, should be hastened and made more efficient, not least to prevent land grabbing, which threatens the security of many poor farmers. People must be educated about the importance of legalising transactions that involve ownership.
- On land use. The expansion of cultivation to cover rich but idle areas such as the land surrounding the Tonle Sap must be explored. It will be helpful to identify as well appropriate areas where rubber plantations, for instance, can replace forest and provide more economic value.
- On infrastructure development. Irrigation and rural infrastructure development are of utmost importance. According to the World Bank, investing in irrigation and rural road improvement has significant returns. It increases crop productivity, decreases production costs and enhances farmers' profit margins. It has been estimated, for instance, that the benefit-cost ratio of irrigation investment (the additional revenue per hectare from irrigated area divided by the unit cost of irrigation) ranged from 1.5 in the Tonle Sap zone to 1.9 in the plains zone in 2004, and was above 2 in 2007.
- On investment and financing. The establishment of a public agricultural fund from which financial assistance can be provided to farmers would be a welcome development. More loans with lower interest rates and longer duration would ease the debt burdens of struggling farmers.
- On expansion of R&D. Investing in R&D would be a profitable move. The World Bank has noted that

investment in agricultural R&D (along with rural roads) has the highest rate of return for poverty reduction. In China, for instance, a 1 percent increase in agricultural R&D expenditure increases agricultural GDP per capita by 0.085 percent. This growth in agricultural GDP will reduce the poverty headcount by 0.1 percent.

- On scientific and technological improvement and increase in the efficiency of input use. Promotion of agronomy together with the adoption of high-yielding varieties and better use of fertilisers must be intensified. Improvement in fertiliser management is most necessary in lowland areas, where poor soil fertility has been identified by the World Bank as a major production constraint. The World Bank has also noted that fertiliser use in Cambodia is significantly lower and less efficient than in neighbouring countries. Acting on this problem will prove highly beneficial. It is estimated that a 1 percent increase in fertiliser application increases paddy yields by 0.22 percent for dry season rice and 0.27 percent for wet season rice.

In addition, agricultural trade and information exchange must also be promoted. Diversification not only of markets but also of products is a must. The government needs to pursue multilateral and bilateral agreements with non-traditional markets. Trade relations with China, a major importer of agricultural products used in the ethanol industry, must be strengthened. Meanwhile, to increase the value added of Cambodia's agricultural commodities, it is necessary that more investment be funnelled into post-harvest technologies—milling, processing and storage facilities. Many Cambodian farmers lack knowledge of prevailing market prices; therefore, they can easily be cheated. Dissemination of market prices must be improved, especially in rural areas. Those interested in advancing these recommendations can be most effective if they come together to lobby policy makers as a collective. A model in this regard is the Garment Manufacturers Association of Cambodia.

Poverty in Cambodia is mainly a rural phenomenon. Since rural areas are still agriculture-dependent, it is essential that the problems restricting growth in this sector be addressed. At this stage, the key to future development and poverty reduction lies in agricultural development.

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