



# Cambodia Outlook Brief\*

2009, N° 04

## Managing through the Crisis—Strengthening Key Sectors for Cambodia’s Future Growth, Development and Poverty Reduction: Tourism<sup>1</sup>

“Tourism is a key sector for socio-economic development ... It needs to be well-managed and carefully developed in a sustainable manner.”

*Thith Chantha, director general, Ministry of tourism, presentation to the 2009 Cambodia Outlook Conference*

“Artificial and poorly regulated, the boom led to the bust ... If the boom was not sustainable, why could it be sustainable in the future? ... The tourism sector downturn is obvious ... Focusing only on responses to the immediate aspect of the crisis would be dramatically wrong.”

*Jean-Daniel Gardère, senior consultant, presentation to the 2009 Cambodia Outlook Conference*

### The Crisis and Cambodia’s Tourism Sector: Impact and Gaps

Tourism is considered a key sector for Cambodia’s socio-economic development. It is one of the country’s four major growth drivers, having grown rapidly since stability returned to the country in the 1990s. In 2007, the sector accounted for 4 percent of GDP.

The rapid growth of Cambodia’s tourism is attributed to the country’s unique cultural heritage and natural endowment. Angkor Wat in particular is a unique asset and a constant source of national pride. It gives Cambodia a “built-in” competitive advantage in tourism.

For the government, tourism is a major generator of revenue. For many Cambodians, it is important because it is a source of jobs and income, helping them out of poverty. Tourism also promotes international friendship

and cooperation and conservation of cultural and natural resources.

Tourism is a sensitive sector, however. It is easily affected by internal and external shocks, whether political, economic, socio-cultural or environmental. This sector therefore needs to be well managed and carefully developed in a sustainable manner.

The financial and economic crisis affected both tourists and destinations, both developed and developing countries. While world tourism still grew in 2008, the pace was slower than in past years. In 2008, world tourism was up by 2 percent with 924 million arrivals; EU tourism was up by a mere 0.1 percent with 488 million arrivals, and Asia up by 1.6 percent with about 188 million arrivals.

Tourism in Cambodia grew in 2008, by 5.5 percent. Around 2.1 million tourist arrivals were recorded for the year, bringing USD1595 million in income. However, reflecting global trends, year-on-year growth has dropped considerably since early 2008. Changes in the composition of tourists were also observed. The number of South Korean tourists in 2008 was lower by 19 percent. The numbers of tourists from the EU and ASEAN increased

<sup>1</sup> This is a summary of the presentations and discussion under session 3A (ii) of the 2009 Cambodia Outlook Conference. Presenters for this session were: H.E. Thith Chantha, director general, Ministry of Tourism; Mr Jean-Daniel Gardère, senior consultant; and Mr Ho Vandy, co-chair, Private Sector Working Group on Tourism.

by 11.4 percent and 35 percent respectively over the same period. Tourist arrivals by air declined by 4.4 percent in 2008, while arrivals by land and water increased by 29.6 percent and 64.6 percent respectively.

**Figure 1: Tourist Arrivals, Year-on-Year Growth (%)**



Source: Ministry of Tourism

Preliminary data for January 2009 show that tourism in Cambodia continued to slow. Year-on-year growth of tourist arrivals was estimated to be down by 2 percent for that month.

The global crisis is a major cause of the deceleration of tourism. South Korea's economy suffered a major blow from the crisis, and this led to the cutback in trips by its citizens. However, other factors contributed to the slowdown, including the political chaos in Thailand and the border dispute with the same country. Thailand is a major entry point for flights to Cambodia, so the forced closure of Thailand's main airport in November 2008 had unfavourable knock-on effects on tourism in Cambodia. Also, the conflict in Preah Vihear must have affected cross-border tourism.

A deeper analysis shows, however, that the boom experienced by the tourism sector before the crisis was not really sustainable. A slowdown would have happened anyway in the immediate term because of this unsustainable nature of growth. From a different perspective, while it is true that the industry expanded rapidly over the years, Cambodia is still far behind in the world's holiday destinations of choice. This implies that there are structural weaknesses undermining the industry's potential. Angkor Wat, for instance, may be the prime strength of Cambodian tourism, but it has also been a source of weakness because most efforts have concentrated on this single asset at the expense of other sites. Angkor Wat is really the only tourist destination operated on a sufficient scale. Another weakness has been the focus on promoting mass tourism instead of increasing the value added of tourism services and products.

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

2009 is expected to be a tough year for Cambodian tourism as the crisis continues and political problems affecting

the country remain unresolved. The projection is that the sector will not grow this year and could even shrink by as much as 3 percent. A decrease of 3 percent would mean that about 63,000 tourists, USD53 million in revenue and 10,000 direct jobs are lost. Another prediction is a 15 percent decrease in tourist activity for the 2008–09 peak season. Travel agencies and hoteliers have reported far fewer queries and bookings for this year's peak season, causing grave concern. Spending by tourists who do come is also expected to decrease. In the end, however, the impact is expected to vary. Establishments that cater to the luxury end of the market will be affected more than those that accommodate budget travellers.

Despite gloomy projections, some remain optimistic, considering Cambodia's favourable location in the region. Further, the stronger dollar, yen and euro may stimulate US citizens, Japanese and Europeans to travel. While slowing, the economies of China and India are still growing, so their citizens are likely to continue travelling. Domestic travel and short international trips are also expected to increase because people wish to stay closer to home.

The dominant sentiment is that the tourism sector will continue to be weak in 2010. The IMF estimates that tourist arrivals will slow by 0.5 percent that year.

Reviving the rapid growth of tourism requires addressing more than the immediate problems caused by the crisis. The short-term problems caused by the crisis must not divert attention from longer term issues, of which immediate problems may be merely a symptom. Addressing only the surface problems may lead to irrelevant and even false remedies.

Solutions meant to address sustainability have to be based on an understanding of the following two basic principles:

*International uniqueness and brands are fragile.* They need great care and sound management. They have to be kept above competitors through a strong policy of quality and differentiation. They also have to adapt to new cycles, trends and tourist expectations without giving up their spirit and tradition.

*Too many tourists kill tourism,* or at least lead to stagnation and decline, in sites that are not designed to accommodate big crowds and are meant for more exclusive rather than standardised and mass leisure activities.

With the above principles in mind, recommendations can be made to guide an improved policy on tourism.

Angkor Wat, which is a unique asset and therefore fragile, has to be managed in such a way that its competitiveness is

sustainable. The main goal must be to facilitate visits and enhance tourist satisfaction. This can be achieved by the following measures:

- **Diversify activities.** Most tourism initiatives are self-supporting private projects, but a few SME projects with lack of affordable financing might be encouraged through fiscal incentives and/or a special development fund.
- **Optimise visits.** Services in the park and Siem Reap in general must be improved. The activity choices available to tourists can be widened to meet different needs and expectations.
- **Give more attention to urban planning, cleanliness and water management.** Private initiative in this regard needs guidance and control.
- **Customise tours.** Reducing entrance fees may have no substantial impact because the fees are not high to begin with. For the purpose of increasing sales and profits that can be used for further maintenance and investment, what will be more effective are various customisations of entrance passes and fees. Examples are: late and night openings; alternate circuits to reduce pressure on main temples; half-day passes; highly discounted 7–14 day passes that would allow tourists to stay longer and/or use Siem Reap as a starting point for the discovery of Angkorian sites in other places
- **Address modernisation.** This can be done by adopting new user-friendly and labour-intensive systems and equipment (in transportation, lighting, on-site food and beverage, auto-guides) in order to enlarge options, revive tradition, better fit tourist expectations, stimulate micro-entrepreneurship, improve the attractiveness and uniqueness of the site and create domestic value. The use of “one size fits all” systems, which often correspond to outdated or inadequate models of value creation, must be avoided.

Reducing costs and prices is not likely to have a significant impact. The following must be taken into account:

- Tourist fees, taxes and prices in Cambodia are not high by international standards.
- Badly needed Asian and Caucasian tourists, in the middle-high end of the market, ask more for quality.
- Much more important for Cambodia’s image and encouraging repetitive trips are: safe, clean and well-run air terminals; speed and no red tape in processing visas, with multi-entry possibilities at a few well-supervised air, boat and road checkpoints.
- Those who ask for reductions in charges will be asked in return to lower their prices and profits.
- Lowering prices can set off an unfavourable cycle. It can also mean reduction in investment and fewer funds for maintenance and innovation.

Competitiveness should be increased by enhancing image, attractiveness, exclusiveness and access. Some helpful measures in this regard are:

- enforcement of urban planning and construction standards;
- zoning and protection of sites and landmarks in Phnom Penh, most provincial towns and coastal areas;
- more flexibility on foreign ownership of real estate;
- a fund devoted to construction and maintenance of roads and trails to and from remote areas that can be used for short tours, trekking and small eco-resorts.

To promote eco-tourism, a targeted doable policy will be more effective than an overly ambitious comprehensive plan. The target market is individuals and very small groups. They can be the sophisticated, well-off Caucasian and Japanese or adult backpackers with a taste for soft adventure. Broadening the target to other parts of the tourist market may lead to a messy policy that cannot be implemented.

It will be enough to have seven to eight well-supervised checkpoints that can provide:

- speedy delivery of multi-entry visas and strict enforcement of fees for visas, car clearance, insurance and other costs;
- flexibility on the number of authorised days (an allowed stay of 15 days is not enough for visitors who want to visit neighbouring countries);
- relevant tourist information (e.g. updated roadmaps) and facilities by which information can be accessed (e.g. a good web site focusing on the key areas and points of interest, with links to selected providers of accommodation).

Again, the policy in this case cannot be ambitious. A developed ecotourism requires not only lots of capital, which the country does not have, but also relies on scenery, flora and fauna that Cambodia does not have any more because of wars and illegal logging. Cambodian ecotourism can be a good niche market, but it is and will remain a small one. What can be found in Laos, in the Champassak and Boloven areas, provides a good example of what can be done.

Further development and promotion of the Siem Reap-Phnom Penh-Sihanoukville triangle can make way for:

- longer tourist visits;
- more daily spending per person;
- diversification of arrivals by air;
- more value generated over a bigger part of Cambodia’s territory;
- a chance to promote ecotourism in the Cardamoms-Koh Kong area and the resorts in the nearby islands.

Sihanoukville must be further promoted and developed as a natural complement to Siem Reap and Phnom Penh. It is estimated that offering stays in the Sihanoukville region can lengthen stays by two to four nights. This could create a remarkable 15–25 percent increase in tourism activity and value over five years even with no increase in total arrivals. Sihanoukville can now be more easily accessed with the airport completed. However, some weaknesses remain, such as the unavailability of quality accommodation and cancellation of connecting flights.

The government, through the Tourism Working Group, a public-private initiative, has considered the following measures to address the weaknesses of the tourism sector as exposed by the crisis:

- **Make travel and transport easier.** This can be done by pushing for more cross-border agreements, improving the facilities and services at border checkpoints, opening more checkpoints and strengthening land, water and air linkages with the region. Increasing air access to Siem Reap and domestic flight connections is another helpful measure. Cambodia could also boost tourism revenues by at least 10–20 percent by easing visa regulations and expediting the process through encouraging visa applications online and upon arrival and waiving or decreasing visa fees during the crisis. The government has also announced its interest in and plans for re-launching a national carrier.
- **Reduce the price of package tours.** Lower prices make tours more competitive. Local travel agencies can better coordinate with their counterparts in neighbouring countries with regard to this initiative.
- **Promote quality tourism products.** This calls for the diversification of destinations. Attention must not be only on Angkor Wat; other cultural sites and ecological attractions must be actively promoted too. Increasing the quality of tourism also means improving security and maintaining stability. It means increased food safety, better sanitation, cleaner environments and more efficient and competitive services.
- **Diversify tourist markets.** Greater tourism from the following areas must be targeted: ASEAN+3, India, Russia, the Middle East and EU. Locals and Cambodians living overseas must also be enticed to travel within their homeland.
- **Strengthen marketing.** There is a need to launch a special campaign aimed at increasing tourism in 2009. Cambodia can be promoted as the “Kingdom of Wonder”. More tourism events, expos and international

media advertisements (e.g. on CNN, the Discovery Channel and in the media of target countries) must be arranged together with an enhanced quality of online marketing. Sub-regional cooperation on promotion and marketing is another good strategy.

A highly anticipated policy action is the creation of the Cambodia National Tourism Board. This body is recommended to have the following roles and responsibilities:

- Develop a national tourism strategy for 2009 and beyond.
- Set up policy, law, degrees, rules and regulations on travel and tourism.
- Undertake marketing activities in order to promote tourism.
- Encourage human resource development for tourism and strengthen capacity building.
- Use and monitor the Tourism Development and Promotion Fund.
- Coordinate and collaborate with related agencies and local authorities in developing and upgrading tourist attractions, promoting Cambodian culture and traditions, conserving and preserving heritage and the use of local products in order to improve the standard of living of local communities.
- Guide, monitor and coordinate with the Cambodian Association of Travel Agents, Cambodia Hotel Association and Restaurant Association.
- Cooperate with sub-regional and international tourism organisations and other international organisations dealing with tourism.
- Manage, control and monitor the implementation of tourism plans.
- Promote tourism and the tourism industry to improve local people’s lives and promote the integration of local products.
- Promote the arts, culture and traditions of Cambodia, and preserve ancient archaeological and historical monuments in order to motivate foreigners to visit Cambodia.
- Provide new occupations and create opportunities for ethnic minorities to gain better incomes.
- Enhance friendship and cooperation.

Tourism is an anchor of Cambodia’s services sector. The country is fortunate that its rich history has left it a unique legacy and source of competitive edge in tourism. This legacy should not be abused. Only through sustainable management can tourism not bring its own doom.

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