EE361 ECONOMICS OF CLMV COUNTRIES

Semester 2/2022 (9 January – 6 May 2023)

Negative Impacts of the 2008 Global Food Crisis on Cambodia's Trade Sector

Group 8

Members

Kulvara Chatpramote	**6304640557**
Lalitta Pattananusorn	**6304640581**
Phoraphat Kijratanasivanon	**6304641027**
Pounyanout Saruttayaporn	**6304641225**
Siraphassorn Noochoochai	**6304641415**

FACULTY OF ECONOMICS

THAMMASAT UNIVERSITY

Introduction

The global food crisis of 2007-2008 was a period of high food prices, volatility in food commodity markets, and widespread food insecurity. It was caused by a combination of factors, including the increasing demand for food from rapidly growing economies such as China and India, the diversion of crops from food production to biofuel production, and extreme weather events such as droughts and floods. Cambodia was one of the countries that was severely affected by the global food crisis as its economy is heavily reliant on international trade, with exports accounting for a significant portion of the country's GDP. In addition, as a net importer of food, Cambodia's economy was highly vulnerable to price fluctuations in the global food market. The country's limited capacity for food production and processing meant that it had to rely heavily on imported food items to meet the needs of its population (World Bank, 2008; FAO, 2008).

The high food prices resulting from the global food crisis had a significant impact on the Cambodian economy. As the cost of basic food items such as rice, wheat, and maize increased, the country's poor population faced increased food insecurity and malnutrition. This, in turn, affected the country's overall economic growth as well as its social stability. The increased prices of basic food items as shown in Figure 1.

Figure1) Average food price index during 2000-2007

It also meant that Cambodian households had less disposable income to spend on other goods and services, further exacerbating the economic challenges faced by the country. (World Bank, 2008, 2009). The global food crisis also had a significant impact on Cambodia's trade in agricultural products. The country's economy relies heavily on exporting rice and other agricultural commodities. Still, the export restrictions imposed by other

countries during the crisis led to a decrease in demand for Cambodian agricultural products. This affected the country's overall trade balance and economic growth (FAO, 2009).

Previous studies have examined the impact of the global food crisis on Cambodia's economy and food security. One study found that the crisis led to increased poverty and food insecurity, particularly in rural areas, and highlighted the need for long-term solutions to improve the country's agricultural productivity and resilience (Chhun et al., 2011). Another study found that the crisis had a significant impact on Cambodia's trade balance, as rising food prices led to increased import costs and reduced exports of non-food items (Chheang, 2011). These findings suggest that Cambodia's reliance on imported food items is a significant vulnerability that must be addressed to improve the country's resilience to future global food shocks.

The crisis highlights key issues facing the country's trade. These issues include the need for effective regulation of trade, human and capital, effective infrastructure ,and investment funding. Effective regulation of trade is critical to ensure that Cambodia's exports meet international standards, and the country can compete effectively with other countries in international markets. Investment in human and capital resources, including education and training programs, research and development, and capital resources such as machinery and infrastructure, is also necessary to improve Cambodia's competitiveness. Additionally, improving the country's infrastructure, particularly in transport and logistics, energy, and communication, is essential to support trade and economic growth. By addressing these issues, Cambodia can build a more competitive and resilient trade sector and contribute to the country's long-term economic development.

To address these key issues, policies that are responsible by the government are crucial. This paper will examine the various policies that were implemented to mitigate the challenges faced by the country's economy. Specifically, the paper will focus on the overall trade sector, which was heavily impacted by the crisis, and the government policies that were introduced to address the issues arising from the crisis. By exploring the effectiveness of these policies, the paper aims to provide insights into the potential policy responses that can help mitigate the impact of global crises on Cambodia's trade and promote sustainable economic development.

Key Challenges and Issues

Ineffective trade rules and regulations

During a global food crisis, if the government or authority attempts to address the problem with an ineffective policy, it can negatively impact the economy. In the case of Cambodia, the country faced two main issues related to ineffective trade policies that worsened food insecurity, malnutrition, and high import tariffs. These include export restrictions and import tariffs, which are discussed below.

Following a significant decrease in rice output due to the 2007 drought, which raised concerns about shortages, the export restriction was taken into account. The rise in food prices in 2008 had a major negative impact on many aspects of Cambodia. Over the past year, the country's fertilizer and rice prices have increased. The meat and fish price has increased from around 30% to 60%. Rice exports were banned in Cambodia to protect domestic food security. Also, the ban led to a decrease in rice exports and revenue for farmers and exporters. However, since Cambodia had previously been exporting rice to neighboring countries like Thailand and Vietnam, this action resulted in a rice shortage in those countries.

During a crisis, Cambodia imposed high import tariffs on certain food items like rice and corn to protect its local farmers and encourage domestic production. This move helped to ensure that there was enough food for the population to consume. However, Cambodia's agricultural sector could not keep up with the demand for food, and the high import tariffs limited the country's ability to import food to address the shortage. As a result, the tariff increased the price of imported food items, making it more difficult for low-income Cambodians to access affordable food. This problem further contributed to food insecurity and malnutrition in the country.

Lack of human capacity and resources

Due to the poor access to resources, the high number of farmers and Cambodia's agriculture sector faced significant challenges. Addressing the issue of human capacity and resources are necessary for developing an agricultural sector to deal with the crisis.

Many farmers in Cambodia live in remote areas with limited access to information, making things challenging for them during a global food crisis. The ability of farmers to adopt new technology and improve farming methods might be limited by insufficient

education and training programs and poor support for human resource development, which can result in lower yields and decreased food production.This problem resulting in a shortage of skilled labor. The livelihoods of farmers who depend on their crops for income and the country's ability to trade and export food during times of crisis might be significantly impacted by these issues.

Cambodia's agricultural sector faces challenges related to limited access to modern farming technologies and insufficient irrigation systems. Small farmers may need help accessing agricultural technology and machinery, which will improve their ability to increase production and expand their businesses. Additionally, many farmers and small-scale food producers may need more financial access, making investing in the capital such as seeds, fertilizers, and equipment difficult. These issues further limit productivity and yields during times of crisis and potentially reduce the country's ability to trade and export food.

Lack of funding

During the global food crisis, Cambodia was one of the countries that faced the lack of funding problems which resulted in affecting the trade and Cambodia’s economy. It faced two main issues, concluding with less public spending on agriculture and inflation. The details are as below.

According to the World Bank's 2008 World Development Report (WDR), "Agriculture for Development," agricultural growth has been about four times more effective than GDP growth outside the sector. Government spending on agriculture can reduce rural poverty and boost up economic growth in rural areas. During the global food crisis, Public spending on agriculture in Cambodia decreased by half between 1980 and 2000, a pattern of underinvestment in agriculture developed. These reforms reduced the role of the public sector in agricultural marketing, eliminated agricultural input and food subsidies, and special credit facilities for agriculture. So, government spending on agriculture decreased significantly. Lack of private investment was caused by inadequate public investment. This issue affected people in rural areas because they received less income while the food price kept rising. Moreover, agricultural products for trading internally and abroad also decrease.

According to many sources, it is most unlikely that rising prices of food will be reversed. The pressure on inflation increased as gasoline prices increased globally and the US currency weakened, which is widely used in Cambodia. Higher food prices may dampen economic activities. Inflation will reduce real income, savings and investment. In addition,

food price inflation increased the severity of food deprivation and malnutrition. Higher expenditures on food can reduce expenditures on health and education, and also squeezed spending on agricultural inputs lead to labor shortage and unskilled labor. In the end, it made Cambodia not attractive for foreign investors to invest in the country.

Lack of trade infrastructure

Trade infrastructure is the fundamental system and services that a country uses in order to trade such as transportation like truck, train, and plane, and power supply like oil. It's very important for developing countries like Cambodia to trade domestically and do international trade. These are two challenges Cambodia faced at the time of the global food crisis.

The analysis of oil price scenarios shows clearly that it affected the operating costs of transportation systems. The shipping cost increased and it had an impact on exporting goods. Cambodia's economic performance has been strong in 2000–2008, and more energy is anticipated to be needed. Since the country is a net importer of oil, the increase in oil imports is anticipated to be swift. As a result, development is threatened by the present volatility of fossil fuel prices.

Domestic trade and international trade in Cambodia were hampered by the nation's inadequate transportation system, which exacerbated the logistical problems with supply distribution and general supply purchase. The road system in Cambodia in the late 1980s was both underused and unable to satisfy even the minimal demands imposed on it by a preindustrial agricultural society. There weren't enough trucks and buses for delivering raw materials and final goods, and they weren't well-stocked with the spare parts they needed to keep operating. Moreover, governments that were strapped for cash neglected to build and maintain roads, and insurgents frequently damaged bridges, making some routes impassable. Other forms of transport such as railways which deteriorated are ineffective and also don't have much access to rural areas.

Government Policies

Improving trade rules and regulations

The government temporarily suspended rice export in 2008 to ensure a sufficient domestic supply of the country's staple food. It also reduced taxes on imported rice and removed import duty on some food items, such as fish, soybeans, and corn, to increase availability and stabilize prices in the domestic market. Additionally, the government lowered import tariffs on certain food items, including rice and meat, to lower prices and improve consumer availability while controlling rice exports to ensure domestic supply was not affected by international demand and prices. The Royal Government has been progressively supporting mechanisms to help producers of products with export potential to enter markets abroad and move up the value chain. These activities focus on agricultural products, where success directly leads to increased rural incomes. Exports of these products have increased and are expected to rise rapidly soon. Recently, particular attention has been directed to expanding the milled rice export. The government also worked to improve the overall investment climate and attract foreign investment through bilateral agreements, special economic zones, and investor incentives. The government established food security programs to promote sustainable agriculture and ensure vulnerable households had access to affordable food and nutrition. Compensatory consumption support was also provided to selected families and those enrolled in the food-for-work program.

Strengthening human capacity and resources

To overcome the issue, firstly, they launched training programs that covered agricultural techniques, irrigation, and pest management to improve the skills and knowledge of farmers, extension workers, and other stakeholders in the agriculture sector. Secondly, the government recruited agricultural experts and professionals to work with local farmers and extension workers to improve productivity and quality. Thirdly, the government invested in research and development to improve agricultural practices and technology, including establishing research institutions and developing new seed varieties. Fourthly, the government focused on capacity development and project management to enhance the government's longer-term capability to deal with food emergencies and sustain productivity growth by minimizing the impacts of natural disasters. This included establishing an independent monitoring system, an emergency food reserve, and a rapid response system. Fifthly, the government partnered with the United Nations Food and Agriculture Organization (FAO) to access technical assistance and expertise in agriculture. Finally, the government

financially supported farmers and small-scale agriculture businesses to improve productivity and access to resources such as seeds, fertilizers, and equipment.

Ensuring adequate funding

To support the agricultural sector and promote sustainable agriculture while reducing rural poverty, the government implemented the Agricultural Sector Strategic Development Plan (2009-2013). This comprehensive plan was developed with various stakeholders, including government agencies, development partners, civil society organizations, and farmers' associations. The ASSDP identified several priority areas for development, including increasing the productivity of rice and other crops, improving irrigation infrastructure, enhancing agricultural research and development, strengthening agricultural institutions, and promoting sustainable agriculture. The government allocated funding for various projects related to the agriculture sector. For example, the government invested in constructing irrigation systems, improved rural roads and established markets and warehouses to support agricultural trade. The program aimed to increase agricultural productivity and promote sustainable agriculture by encouraging the adoption of modern farming technologies and practices. The government provided training and technical assistance to farmers to promote adopting sustainable farming practices and increase the use of high-quality seeds, fertilizers, and other inputs to improve crop yields and reduce production costs.

Improving trade infrastructure

Cambodia's inadequate infrastructure was a contributing factor to the impact of the global food crisis on the country. Poor road networks hindered logistics to rural areas and other trading partner countries. Consequently, the government implemented the Rural Roads Improvement Project (RRIP) from 2006 to 2013, with a loan of $40 million from the World Bank. The primary objective of the RRIP was to improve rural infrastructure by constructing and rebuilding roads that aimed to connect rural communities with markets and improve access to essential services. The RRIP was implemented in five provinces of Cambodia, Kampong Thom, Kratie, Prey Veng, Siem Reap, and Takeo. Over 800 kilometers of rural roads were under the project, including the building of 68 new bridges. Additionally, the project involved capacity-building activities in training local communities in road maintenance and management. The project had a substantial impact on food security and market access in the project areas. The improved road network reduced transportation costs and increased the efficiency of food distribution. Consequently, there was an increase in food availability, leading to reduced food prices for consumers.

Conclusion

The global food crisis of 2008 significantly impacted Cambodia, leading to increased food prices, food insecurity, and decreased trade in agricultural products. Cambodia's reliance on imported food items and limited capacity for food production and processing made the country highly vulnerable. Effective regulation of trade, investment in human and capital resources, and infrastructure improvements are necessary to improve Cambodia's competitiveness and resilience to future global food shocks. Government policies implemented to address these issues will be explored to promote sustainable economic development.

Cambodia faced four key challenges and issues during the global food crisis. Firstly, Trade rules and regulations were ineffective from export restrictions and high import tariffs. Secondly, Lack of human capacity and resources. Thirdly, Lack of funding from less public spending on agriculture and inflation which decrease investment activities. Lastly, Lack of trade infrastructure. These challenges and issues worsened the effectiveness of the domestic market and international as well as Cambodia’s economy.

The government temporarily suspended rice exports, reduced import tariffs on food items, and established food security programs to ensure domestic supply. Training programs and investment in research and development were launched to strengthen human capacity and resources. In addition, They implemented the Agricultural Sector Strategic Development Plan and invested in irrigation systems, rural roads, markets, and warehouses to increase agricultural productivity and promote sustainable agriculture to address the lack of funding. The Rural Roads Improvement Project improved rural infrastructure by constructing and rebuilding roads, connecting rural communities with markets, and reducing transportation costs, resulting in increased food availability and reduced prices..

A lesson learned from the topic was effective trade policies are crucial to ensure domestic food supply. Secondly, Individuals with sufficient are better equipped to solve problems and adapt to new technologies. Thirdly, the unreadiness for international trade such as poor infrastructure and unskilled labor can make investors not attractive for foreign investors. Lastly, Developing countries often rely on external resources such as IMF as a main source of assistance due to limited fiscal and monetary resources.. The global food crisis severely affected Cambodia's economy. The crisis led to increased poverty, food insecurity, and reduced trade in agricultural products. To address these issues, the Cambodian government implemented policies to improve the overall trade sector.

References

Barnier, M. (n.d.). The 2008 Food Price Crisis: Rethinking Food Security Policies. UNCTAD. Retrieved March 23, 2023, from https://unctad.org/system/files/official-document/gdsmdpg2420093_en.pdf

Chheang, V. (2011). The impact of the 2008 global food crisis on Cambodia's trade balance. Journal of Economics and Business, 18(2), 1-24

Food and Agriculture Organization (FAO). (2008). Impact of the food price crisis on agricultural trade in least developed countries. Retrieved from http://www.fao.org/3/ai928e.pdf

Food and Agriculture Organization (FAO). (2009). Food outlook - November 2009. Retrieved from http://www.fao.org/3/i0701e/i0701e00.html

Food Security in Asia: The 2007-2008 Food Price Crisis. (2012, August 30). Asian Development Bank. Retrieved March 23, 2023, from https://www.adb.org/features/has-world-learned-2007-2008-food-price-crisis

Impact of the Global Financial Crisis on the Cambodian Economy at Macro and Sectoral Levels. (n.d.). Cambodia Development Resource Institute. Retrieved March 22, 2023, from https://cdri.org.kh/storage/pdf/PB-12-02e_1617206878.pdf

World Bank. (2008). Cambodia - rapid assessment of the impact of high food prices on the poor. Retrieved from https://documents1.worldbank.org/curated/en/267541468239254913/pdf/475810CAM0Rapid0Assessment00PUBLIC0.pdf

TRADE POLICY REVIEW Report by CAMBODIA. (n.d.). WTO Documents Online. Retrieved March 22, 2023, from https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/TPR/G253.pdf

World Bank. (2009). Cambodia - poverty assessment 2009. Retrieved from https://openknowledge.worldbank.org/bitstream/handle/10986/3139/493110PUB0Camb1057861141.pdf?sequence=1&isAllowed=y