

Intro to Thai Economy

Dollarization in Cambodia

What is Dollarization? Dollarization is a term that refers to when a country uses a foreign currency instead of its own more often than not the U.S Dollar is used hence the name. Dollarization typically occurs in developing countries or countries that are going through large transitions that make the local currency unstable due to inflation and devaluation. Dollarization is a way for a country to regain stability or for the citizens to find security in transactions by using a more stable currency than their own.

Dollarization can happen either officially or unofficially. Officially is when the Government of a certain country chooses to make the foreign currency legal and legitimate. Unofficial is the opposite, it happens simply when the citizens of a country start to use foreign currency in local transactions.

There are two types of dollarization when it is official. Pegging and full dollarization. Pegging is when the country chooses to place the same value of a foreign currency on the local currency, usually the US Dollar. Full Dollarization is exactly as it sounds: it is when the country completely adopts the useage of the foreign currency.

There are many benefits to dollarization such as the fact that it helps stabilize the economy and protects against inflation and devaluation. The citizens will have faith in the currency again and increase money flow. Another benefit is that it reduces the country's risk and allows for foreign investment and trade boosting the country's economy.

Along with these benefits come some disadvantages. Because the country is giving up its own currency it is also giving up a lot of economic control, the loss of power. Additionally, there is some loss of income due to the fact that the country's securities must be bought back in USD. And lastly but not least there is the cost in the form of the loss of pride of the country in not having its own currency.

So why Cambodia? Cambodia has been slowly becoming a dollarized country for the past 30-40 years.

One of the first events that led to this dollarization was the Khmer Rouge. Under the Khmer rule they "abolished money and title to land" (WallStreetJournal). This completely wrecked the economy and Cambodia was cut off from the rest of the world. The Khmer Rouge literally bombed banks and financially important structures. It was the plan of the Khmer Rouge to install their own currency and money system but the people were not trusting of the government and began to use the Thai baht unofficially and then the Vietnamese Dong and that is where dollarization started. In 1990 when the country was reopened to trading and foreign relations the USD began to be used as well and became the most widely used form of currency in the country. This was due to the fact that the Cambodians had little trust in the Riel and there was fear of inflation and devaluation. They could trust in the Dollar and other foreign currencies far more than their own. The lack of respect for the law or law

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enforcement in Cambodia also added to the distrust the people and led to deeper dollarization.

Currently the percentage of USD in circulation in Cambodia is 90% according to The Wall Street Journal. Yet the Cambodian government has not officially accepted dollarization and they have tried to de-dollarize the country, but to little success. Because of dollarization the country has been very successful and able to grow rapidly and does not have high country risk so there is a lot of foreign investment. This growth would have been impossible without dollarization.

It seems that the government is slowly trying to back out of dollarization, while trying to avoid a great shock to the economy. They have yet to accept full Dollarization.

Works Cited

The Cambodians Case for Dollarization. The Wall Street Journal.2011.Web.9 Sep.2015.