



## WHY THE CAMBODIAN TOURISM INDUSTRY IS LEAKING

Tourism in Cambodia makes a substantial contribution to GDP, much more so than in neighboring countries like Vietnam and Thailand; in 2017, the industry generated \$2.4 bn. But with income inequality, locals under economic pressure, and if the Kingdom of Wonder and its tourism stakeholders do nothing, many Cambodians may not benefit from tourism.

BY MIE OLSEN

Since the new millennium, tourism in Cambodia has witnessed a boom. “Right now, tourism plays an important role in bringing peace to our society after the war,” explains Poch Voleark, Director of the Tourism Research and Policy Department within the Cambodian Ministry of Tourism.

She has a point.

The sector’s relative total contribution to the country’s GDP reached almost a third in 2016, when it created more than two million jobs, according to last year’s Economic Impact report by the World Tourism & Travel Council.

This makes Cambodia’s GDP growth more dependent on tourism than any other Southeast Asian country. For a small nation, whose population was torn apart by civil war just 40 years ago, this economic surge has been vital.

Nowadays, the calmness surrounding the bare grass fields and the waterlily-coated lake at Choeung Ek make it difficult to imagine how Cambodians were once brutally killed and thrown into mass graves by their own countrymen. This memorial site, called the Killing Fields, serves as an eternal reminder. A reminder of the atrocities committed, when revolutionary Saloth Sar, better known as Pol Pot, and his nationalist group the Khmer Rouge took political power in the 1970s.

Pol Pot’s communist party strived to create a society without class boundaries, consisting exclusively of workers, whose sole purpose was to boost agricultural production. However, this ideal state of Angkor quickly turned into a nightmare, as two million Cambodians - a quarter of the country’s population - either died from malnutrition or overwork or were simply murdered for any sign of

treachery to the regime.

Since the 1990s however, Cambodia has managed to restore itself due to large amounts of foreign aid and rapid economic growth. The latter is generated by the country's three biggest sectors namely agriculture, the garment industry and services (including tourism). Tourism was one of the main drivers.

"Tourism closes the gap between Cambodia and the rest of the world. Tourists provide hope for local people," notes Voleark.

### **MORE TOURISTS, PLEASE!**

Tourism can create jobs, spark investments and boost GDP. As travelling abroad has become an integral part of the new millennium's zeitgeist of self-realization, travel and tourism's contribution to global GDP has climbed accordingly.

In any country that experiences a tourism boom, income and domestic spending on services increase. It will boost the economy at large. The Ministry of Tourism's strategic plan outlines, how its goal of attracting seven million annual visitors to the "Kingdom of Wonder" by 2020 can help reach the UN development goal of eradicating poverty.

To 37-year old tour guide Nuon Chansarak, it came as a natural decision to seek a job in the tourism industry after his family moved from the countryside to Siem Reap 20 years ago. "Of course, tourism is risky. If there are no tourists, there is no income. But I hear the average salary is less than \$2 a day, and as a tour guide you can make up to \$40," he says.

No wonder Cambodians see tourism as a potential light at the end of their financial tunnels. "The households will have higher income, and normally this is welfare-improving, because they can afford more," Professor of Economics Stefan Franz Schubert notes. That explains why the total contribution of travel and tourism, including jobs indirectly supported by the industry, was a quarter of total employment last year.

Yet, what many economic models leave out of the picture is inequality, which does not seem to have decreased in Cambodia in spite of the recent tourism boom.

### **POVERTY GOES DOWN, WHILE INEQUALITY GOES UP**

"The question of whether tourism is pro-poor or not really depends on how you measure it. Poverty will go down no matter what happens, but inequality may rise, as we have seen in Thailand," Professor of Applied Economics Ian Coxhead observes.

Usually, a country's level of inequality is measured by something called a Gini index. In Cambodia, such a figure is hard to come by. However, the Gini index will not always tell the truth.

"All the anecdotal evidence suggests that inequality is rising in Cambodia," notes Jayant Menon, Lead Economist for Asian Development Bank. The problem is, that a Gini index only measures difference in income. But in Cambodia, a lot of income is never reported, and the data does not include wealth such as land ownership and other assets.

If one asks Dr. Nara Mao, a local who conducted his 2015 thesis research on tourism's ability to reduce poverty in the heavily visited Siem Reap region, the problem is clear. "In general, tourists bring a lot of money to Cambodia. But unfortunately, that money does not drop into the hands of local people," he tells.

### **FROM THE VILLAGE TO THE CAFÉ**

In his study, Dr. Mao discovered that a lack of tourism know-how and professional training obscures villagers' chances of getting well-paying jobs in the Siem Reap tourism sector. In the overtly airconditioned Gloria Jean's Coffee House in central Siem Reap, he explains how very few people living in the rural areas surrounding the city centre have the business knowledge, let alone the foreign language skills, to advance as tour guides or hotel employees.

The problem is that locals take bank loans to start a tourism business. But in the end, their salary is eaten up by payments to the bank, tells Dr. Mao. "It is like providing a car to people who do not have a driver's license. It is very dangerous," he warns.

Another group that is under pressure in the Cambodian tourism market is craftsmen. On 17 January last year, Anandha Loustau and Hang Sokunthea from the Cambodian Daily told the story



of how local souvenir shops selling a 20 cm wooden Buddha statue for \$60 are being outcompeted by the mass-produced, imported version selling for \$30.

At the same time, more and more groups are visiting Cambodia as part of a packaged and tightly scheduled tour. Problem is, that groups often stop briefly in designated spots without the time to browse local markets.

Michael Horton, founder of the organization ConCERT which provides information for NGOs, always advises tourists to buy local products. But it is hard. However, there are markets, which exclusively sell local handicrafts. One of them is Artisans Angkor that engages local villagers in the production of silk fabrics, garments and wood carvings.

### THE WRONG TYPE OF TOURIST?

Over recent years, visitors travel to Cambodia in big groups, and they tend to spend their money on domestic tour operators. In the beach town Sihanoukville, large foreign tourism operators outcompete local food vendors, observes Jayant Menon.

“If you get tourists that stay in casinos most of the time and eat in expensive restaurants in hotels, as opposed to backpackers using smaller food outlets, it has some distributional impacts. It is the wrong type of tourists, if you are interested in reducing poverty,” he notes.

### FARMING PROFITS

But it is not only local tourism operators who struggle to profit from tourism. Agriculture remains the backbone of Cambodia’s economy with almost 80 percent of the population still living in rural areas. Yet, farmers have difficulties increasing their income by selling their crops to tourism enterprises.

If one moves just a little outside of central Siem Reap to the village of Krasang in the Chreav municipality, the noise from tourists has vanished and given room for only the chirping of birds and the occasional buzz of a motorcycle making its way down a dusty main road.

Here, farmer Pei Kong lives with his family on his farm, where he grows rice, vegetables and morning glory. In theory, tourists spending their money in local cafés and restaurants push up the demand for Mr. Kong’s crops. Yet, he has only felt a slight increase in the price of his products over the last years.

Mr. Kong is not alone. Farmers in the Siem Reap area are not able to meet the increased demand, because they are stuck with outdated irrigation methods and equipment.

### CURRENCY MATTERS

After years of foreign aid flows and increased inbound tourism, dollars have been circulating the Cambodian economy side by side with the local



currency, the riel, for a while. While dollarization may be welcomed by tourists and business investors, who appreciate the currency's convertibility, it can backlash for locals. Especially workers, whose salary is set in riel rather than in dollars, explains Jayant Menon.

Imagine, if the dollar goes up. If you work in tourism, and your salary is set in dollars, you are fine. But if you work as a mechanic or a teacher, and your salary is set in riel, then it will suddenly be more expensive for you to buy products, whose price is set in dollars.

"People who work in tourism and have their salary set in dollars, are more quarantined from fluctuations in the exchange rate," elaborates Menon. But workers in sectors, which are less export- and trade oriented, such as agriculture, will not be cushioned against movements in the U.S. dollar. This makes them more vulnerable to currency fluctuations.

## PRINTING RIEL IS BETTER FOR CAMBODIA

A loss of seigniorage goes hand in hand with injecting the American dollar into Cambodian economy. Seigniorage, stemming from the term "seignior", describes the loss that occurs when an economy has to "buy" another currency. In Cambodia, each dollar that enters the economy has to be paid for by the same amount as the money's face value, explains Jayant Menon, Lead Economist for Asian Development Bank. Put simply, Cambodia has to give up 10 dollars' worth of goods/services to get hold of a 10-dollar note. On the other hand, it almost free of charge to print the riel, since the cost of producing bank notes is nothing compared to the money's face value.

"If you could use riel instead of a 100-dollar note, you could have 100 dollars' worth of medicine being consumed by Cambodians without any change to the economy," Menon explains. In the end, a lot of money ends up being used for trade. While this may be good for the tourism sector, it comes with a prize. In fact, seigniorage costs Cambodia around \$60 million a year, Menon estimates.

## THE GOOD COMPANY

Bearing in mind how Cambodia has advanced from a country devastated by civil war to a developing country, it is hardly surprising that the Ministry of Tourism views tourism as a way to reduce poverty.

In the eco-tourism community Chi Phat, a village near the Cardamom Mountain range that was once notorious for illegal logging, all locals profit from tourism income, tells Ty Theavy, former founder of the site. "People get together in the village and choose to sign up as homestays, guides etc.," he explains. He describes, how an increase in brick houses in the village witnesses of the prosperity stemming from tourism.

However, despite the blossoming of such tourism communities, it is not necessarily easy for regular people to get a piece of the tourism cake. Tour guide Nuon Chansarak has observed, how doing well in tourism is easier, if one is on good terms with the government. "Only the rich people can buy land. If you want to open a business or a hotel, you have to know someone," he notes.

Cambodia may have an open market economy, but Prime Minister Hun Sen and his Cambodian People's Party have kept the population under tight, autocratic control for decades. A change of political climate is necessary, if the economic gains from tourism are to be transformed into increased wealth for all parts of the population, notes Professor Coxhead.

## HOW TO STOP THE LEAKS

"The message is clear in Cambodia. If you have assets like Angkor Wat that you choose to monetize for economic gain, the smart thing to do is to convert that wealth into infrastructure, education and strong institutions," he says.

"When tourism came to my area, I hoped that it could provide economic benefits for local people and help the country develop," tells Dr. Nara Mao. But today, much is yet to be done in the Kingdom of Wonder, if the money from tourism is to reach local people rather than just benefitting those at the top of the distribution chain.