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ECONOMIC CHALLENGES IN CAMBODIA AND VIETNAM

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MASTER DIPLOMA PIECE TASK STATEMENT

Name of the author of diploma piece:
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ECONOMIC CHALLENGES IN CAMBODIA AND VIETNAM

Tasks set for writing the diploma piece:
1. Understanding the major economic crises which occurred in Cambodia and Vietnam in the last 15 years
2. Applying some descriptive analysis and comparative method to the problems stated of both country economies
3. Evaluating the impacts of the economic crises that impacted on both countries, and how the national governments applied their mechanism in dealing with such shocks
4. Drawing conclusion and proposing some recommendations for future researchers, economists as well as the government body in related field

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Sopron, May 7th, 2021

(place of seal)

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Student statement

STATEMENT

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2021
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ECONOMIC CHALLENGES IN CAMBODIA AND VIETNAM

The purpose of this study is to emphasize the main economic crises, namely, the Global Financial Crisis and the ongoing economic threat of COVID-19 Crisis that immensely influenced the downward of FDIs, and the less demand oversea, declining exports in Cambodia and Vietnam. The study will discuss about the mechanisms made by both governments in responding toward the two crises. In fact, Global Financial Crisis caused negative effects towards five Cambodian major sectors and Vietnam's two potential sectors.

Initially, Cambodia's FDIs faced dramatic losses. In the first 11 months of 2008, statistic showed a 12.5% drop in new construction investments. The sharpest drops were in projects funded with FDI. While in Vietnam, FDI faced a 50% drop estimated around US$ 6.5 billion resulted from the constraints of disposal capitals and the tightening of the world credit market. Secondly, Cambodia Institute of Development Study shown that the export sector contracted by 4% in 2008, losing US$129 million of export revenue, and was expected to continue shrinking in 2009 at a negative 2.5% growth and a loss in revenue of US$75 million. In Vietnam, in the fourth quarter of 2008, Vietnam's export fell due to the direct and impacts of the global financial crisis with the downward its export. Vietnamese economic impact is clearly seen, especially in the tourism industry, which is among the most affected. Vietnam Airlines, the only national airline has reported that the damage from closing routes to be about US$ 1.3 billion.

The study will indicate the keys mechanism from both governments in tackling crises. Cambodia and Vietnam introduced some similar methods during the 2008 crisis including fiscal policy, monetary policy, and exchange rate policy. During the COVID-19 economic threat, the countries have initiated two different mechanisms. In Cambodia, economic recovery plan focused on regenerating key affected sectors of the economy, optimizing and keeping borders open for trade, supporting a vibrant labour market and decent work, and diversification of the economy towards higher levels of value added production. The Vietnamese policy includes, supportive macroeconomic policies to ensure a resilient and inclusive recovery, sustained recovery attaches on financial stability, and decisive reforms in making the most considerable growth potential. Based on what have been critically discussed and synthesized, it can be concluded that the results of 2008 Global Financial Crisis and the economic threat of Covid-19 Crisis do not only influence and impact the developed world, yet its effects generate social and economic turmoil throughout the globe. With the result of globalization, especially economic cooperation, developing countries like Cambodia and Vietnam really faced difficulties in recovering their economies. In respond to the challenges, Cambodia and Vietnam have tried to initiate many economic policies in order to revive and boost their economic growth. As a result, Cambodia and Vietnam managed to escape, maintain the stability, and prosper theirs economy in a very tough, yet effective ways.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Economic challenge or economic crisis appears in the global economy, and frequently takes place in the developing regions. Economic crisis comes in the form of financial crisis such as currency crisis, balance of payment crisis, credit crunch, fiscal crisis, and somehow in the form of supply-side shock and cyclical crisis. Take a look to the main economic crisis that used to happen in the past time, and even though its starting point was in the developed world, yet so far the reduction of foreign investment and the decreasing demand of imports and exports heavily attacked on developing world. In order to prevent and have a deep understanding of this severe global economic crash, this research is important. The main focus of this research will be about the main economic crises that used to happen in the last 15 years in Cambodia and Vietnam, and also focus on how it used to affect to the economic growth of both developing countries, Cambodia and Vietnam, and some of the difference mechanisms from both national governments in tackling with crises.

1.1 RESEARCH PROBLEM

Economic crisis has become one of the most concerned issues in Cambodia and Vietnam, especially in the 21st century. It becomes the main issues to be solved and really need concrete solutions and effective mechanisms from the national government. It is obvious that causes of economic crisis associated with ideas such as bank runs and asset-price crashes. It led to the Global Financial Crisis 2007-2008, during the Lehmen crashed, in the United States of America. The credit crunched distributed as it hit small and medium size enterprises (SMEs) and lower-income households. There is a lesson from an ongoing pandemic, Novel Coronavirus (2019-nCov) which is known as the failing of global health system, but leading to a huge global economic collapse which last since the beginning of January 2019 until nowadays.

The consequences of Global Financial Crisis 2007-2008 to Cambodia including, the huge effects on trade, effects on tourism, effects on construction, and effects on the financial and banking system. On the other hand, comparing to Vietnam which is a neighboring country of Cambodia, the Global Financial Crisis 2007-2008 impacted the economic growth, financial and banking system, as well as goods and service market.

Cambodia has sustained great economic growth performance for the last two decades, averaging over 7% per annum. Increasing poverty rate has been estimated to be under 10% with annual reduction rate of 1.5% point. Nevertheless, vulnerable people including a women and young generation are among those most affected by the huge socio-economic impacts of financial crisis and ongoing COVID-19 crisis. Hundreds of factories have been confirmed closed and suspended due to sharp drop in market demand domestically and internationally. There is also a huge decline in tourism sector which forced the closure and suspension of a number of restaurant and other business. On top of that, in Vietnam, after the government decided to impose the nationwide partial lockdown in 1st April 2020, it froze the economy. However, Vietnam′s response to the pandemic is widely viewed as among the most effective in the world. The Vietnamese government successful handling of the health crisis has had a positive effect on the economy. Vietnam is one of the few countries that managed to post growth in 2020 when many economies globally recorded massive decline.

1.3 RESEARCH QUESTIONS

1) What are the main economic crises that happened in Cambodia and Vietnam in the last 15 years?
2) How have the economic crises affected economic growth in Cambodia and Vietnam in the last 15 years?
3) What are the main differences of mechanisms between Cambodian and Vietnamese government in dealing with problems?

1.4 RESEARCH OBJECTIVES

1) To identify the main economic crises that happened in Cambodia and Vietnam in the last 15 years.
2) To determine the economic crises affected economic growth in Cambodia and Vietnam in the last 15 years.
3) To further explore the main differences of mechanisms between Cambodian and Vietnamese government in dealing with problems.

1.5 SIGNIFICANCE OF THE STUDY

As economic crisis is a major issue. It affected the whole regional level of trade and economic system, conducting a deep research can actually undermine the obstacles the government used to face during the previous crises, so that as the government, they can raise awareness and be ready to cope up with the crisis in the future.

This research is very useful, specifically for the Ministry of Economy and Finance of Cambodia and the Ministry of Industry and Trade of the Socialist of Vietnam. The research helps indicating the main economic crisis that happened in Cambodia and Vietnam in the last 15 years. Additionally, this research would help to identify the main root causes of such an economic crisis that influenced to halt the Cambodian and Vietnamese economic growth. Thus, it will open the way to solutions in dealing with the economic crisis in the national level from both countries. One other importance is that this study can be a useful source of literature review for other researchers in the future. The report will include the finding of the differences of the mechanisms between the two in dealing with economic problems. Lastly, this research is very essential that it is not only can be a pure research, but also an applied research. Meaning, it doesn’t only desire to expand new knowledge, increase understanding of the principles, and help answering the W H questions (what, when , where, why, and how), yet it can be a tool for answering specific questions that aims at solving practical problems.

1.6 LAYOUT OF THE STUDY

CHAPTER 1 - INTRODUCTION. The background situation leading to this research is presented in this chapter.

CHAPTER 2 – LITERATURE REVIEW. In this chapter, the researcher will review the literature, some reliable sources from the internet, and some relevant theories that have been conducted on this topic.

CHAPTER 3 – RESEARCH METHODOLOGY. In this chapter, a detailed elaboration of the methodology and the data collection tool will be stated.

CHAPTER 4 – RESULTS. The researcher will present about the analysis and results linked to the research questions.

CHAPTER 5 – DISCUSSION OF RESULTS AND RECOMMENDATION. Based on analysis of the detailed information that made in the CHAPTER 4, conclusions will be drawn by as brief and summary information in addressing the 3 research questions. Recommendations on further research will be shown.

CHAPTER 2

LITERATURER REVIEW

2.1 DEFINITION OF ECONOMIC CRISIS

An economic crisis is a situation that a country's economy declines significantly. In some cases, a financial crisis is the main actual problem of an economic crisis. During the crisis, Gross Domestic Product (GDP) is typically declining. Liquidity dries up. Property and stock market prices crash. It is an economic downturn that gets worse. During a downturn, property price falls, unemployment rate increases, bank borrowing falls, and companies invest less (Market Business News, n.d.). In other terms, an economic crisis is an unforeseen set of developments creating results which would affect states in the macro-level and corporations in the micro-level. Economic crises experience in national economies are usually a product of negative fallout in the economic and political cycles and structures. However, it could be stated that economic crisis is a general outcome of macro instability (IGI Global, 2001). Part of economic crisis, there are some terms which needed to be classified, including financial crisis, credit crisis, fiscal crisis, supply side shock, and cyclical crisis. According to Claessens and Kose, 2013, financial crises do come in many forms. A financial crisis is associated with substantial changes in credit volume and asset prices, problem with saving and borrower, supply of external financing to various actors in the economy, large scale balance sheet problem, and large scale government support. There are many types of financial crisis, including a currency crisis involving an attack on the currency resulting in a sharp depreciation, or forcing to defend the currency by expending large amounts of international reserves, raising interest rates, or imposing capital controls. A sudden stop or balance of payments crisis can be defined as an unexpected fall in international capital inflows, likely taking place with a sharp rise in its credit spreads. Credit crunch is also listed as part of the economic crisis. It happens when securitization expanded credit, but led to a decrease in credit quality. This raised the tension of declining housing prices and rising mortgage prices that began in 2006 (National Bureau of Economic Research.org, 2009). For the fiscal crisis refers to the inability of the state to bridge a deficit between its expenditures and tax revenues. Fiscal crises are characterized by a financial, economic, and technical dimension on the one hand and a political and social dimension.

The dimension tends to have more implication for governance, when a fiscal crisis makes painful and simultaneous cuts in government expenditures and increases in taxes on individuals, households, and companies. A financial and economic crisis will arise from a fiscal deficit if government debt contributes to a loss of market confidence in a national economy, reflected in instability in currency and financial markets and stagnation in domestic output (Lee,n.d.).

Supply-side shock causes an unexpected increase in costs to production. It will cause the short-run aggregate supply curve to shift to the left, leading to higher inflation and lower output. The challenge of a supply-side shock is that monetary policy cannot deal with higher inflation and lower real GDP at same time. In 2009 and 2012, with cost-push inflation, the Bank of England interest was very low at 0.5%, as they were more worried about a fall in GDP than the rise in inflation (Economic Help, n.d.). Beside that the term cyclical crisis or business cycle is the fixed point between boom and slump, between inflation and recession, which runs through the capitalist economy every ten years. The crisis happens in the form of opening up between production and the consumption of a commodity, bridged by debt, and the huge made up capital which builds up on the basis of the credit system. When the capital grows, the system becomes more unstable that leads to recession (Marxists, n.d.).

2.2 CAUSES OF ECONOMIC CRISES

While a financial crisis is a situation that the financial values fall rapidly, an economic crisis is a situation that a country experiences a sudden downturn (Difference Between.net, n.d.). As already mentioned, financial crisis associated with ideas of bank runs and asset-price crashes then asset quality can deteriorate significantly as economic downturns carry on, especially when firms and households are leveraged. Even these crises may not always include panics and runs, they still impose multiple costs to the economy. Bank restructuring and recapitalization to restore the possession of assets in excess of liabilities can be expensive for governments and taxpayers, and new lending can remain depressed, slowing economic activity as well. The credit crunch also has distributional consequences because it hits SMEs and lower-income households (REINHART, 2021).

2.3 CONSEQUENCES OF ECONOMIC CRISIS

Back to the period 2008-2009, the world suffered the worst financial and economic crisis since the Great Depression of the 1930s. The rapid global economic downturn severely split economic growth worldwide and caused significant setbacks in the progress made towards achieving the Millennium Development Goals, and the other internationally agreed development goals. Rising unemployment rate, losing of income, and increasing vulnerability have been among the dominant social impacts of the crisis. During the economic crisis, households often adopt coping strategies, such as making changes in household expenditure patterns, however, these can negatively influence education, health and nutrition, which may sooner lead to lifelong deficits, especially for the younger generation, and thus perpetuate the intergenerational transmission of poverty (United Nations, 2011).

Economic damage

Recessions result in higher unemployment rate, lower wages, and lost opportunities in general. Educational system, private capital investments, and economic investment opportunity are more likely to suffer in the current downturn, and the outcomes will last long. Even if economies often see rapid growth during the recovery stage, the drag due to the long-term damage will still prevent the recovery from reaching its full potential as before.

Educational system

As noted by many researchers, education and human capital play a vital role in driving economic growth. Delong, Golden, and Katz (2002) state that “human capital has played the principal role in driving America’s edge in twentieth-century economic growth.” Some families struggling to get by are often forced to delay or abandon plans for education. A survey of young adults found that 20% aged 18-29 have left or delayed college (Greenberg and Keating 2009). In Colorado, a survey conducted found that a quarter of parents with children in two-year colleges had planned on sending their kids to four-year institutions before the recession (College Invest, 2009).

Unemployment

The unemployment rate has increased from 4.9% to 9.7% in December 2007 until August 2009. About 5 million workers have been unemployed for more than six months, and these long-term unemployed was the highest percentage of the total since 1948. Jobless obviously creates troubles for most individuals and families. The income loss can persist for years, even after a new job is taken.

Private investment

The most obvious areas in which recessions can slow economic growth is in those of investments and research and development. Economists have recognized the main role of investment and technology as key contributors to the economic growth. Recessions lead to decreases in investment spending and the adoption of advanced technologies to the country too. This is a result of four factors. First, an economic downturn will lead to a decrease in demand for firms' products as customers' incomes decline, thus lowering the return to investments. Second, limited access to credit will limit firms' ability to invest. Third, recessions are periods of increased uncertainty that may lead firms to reduce toward "core" products and production techniques, and therefore they are less likely to take risk with new product development (Irons, 2009).

Extremely indebted

Household over-indebtedness is defined as a time in which a household is permanently unable to repay a debt. A household is over-indebted if the debt cannot be sustained in relation to current earnings and additional resources. Developing economies are subject to frequent debt crises which are characterized by low credit ratings. Different developing countries face different types of debt problems. Low income countries are unable to sustain high levels of debt.

That is not because of poor institutions and policies, as it is often claimed. Inability to debt management is driven by the fact these countries have poorly diversified economies and are reliant on the exports of few commodities. Low-income countries prefer credit to develop their productive sector, yet if they borrow at the end they will suffer the devastating and destabilizing consequences of the crisis (UNCTAD, 2009,p.9).

Exchange rate

Many emerging and developing economies suffered large depreciations with the arrival of the global financial crisis. Financial flows and collapsing trade led to a real balance of payments gaps, triggering fast depreciations and higher exchange rate volatility, in the mid-2008. There were new challenges for both floating method and fixed currency method. Countries with fixed exchange rates have faced costs in leaning against exchange rate movements resulting in wider margins in the appreciation of their real exchange rates. That outcome could harm competitiveness and damage long-term sustainability if their real exchange rates differ from their equilibrium. Countries with floating currencies have faced increasing exchange rate and price volatility, which could also discourage long-term investment. The continued exchange rate volatility raises challenges for those countries seeking to enhance their business in the capital markets (Kaendara, Dixit, Ltaifa, 2009).

Poverty impact

A study predicts that the increase in the level of poverty as a result of the crisis in three countries, with the extent of increase depending on the size of the macroeconomic in the country. Firstly, in Bangladesh and the Philippines as the example, the crisis has led to a slowdown in GDP growth, which is expected to raise the poverty rate in 2010 by 1.2% and 1.5% points, compared with what would have occurred without the crisis. In Mexico, GDP decreased by nearly 7% in 2009, and it was projected to grow by only 3% in 2010.It means some regions and income groups within each country suffer more losses than others, depending on which sectors and income sources are more likely to be affected in the country (Habib, Narayan, Olivieri, Sanchez, 2010).

When there is a time of financial crisis, numerous negative impacts always become troublesome. It impacts not only in the developed countries, but those third world countries as well whose economies are very sensitive. Financial crisis, also called mortgage crisis, severe decline of liquidity in global financial markets. It threatened to destroy the international financial system, and caused the failure of several big investment and commercial banks, mortgage lenders, insurance companies, and savings and loan associations. The main reason that the crisis began was because of the cheap credit and careless lending standards that fueled a housing bubble.

During that time, financial institutions were left holding trillions of dollars-worth of near-worthless investments in subprime mortgages (low credit rating). Millions of American homeowners owed more on their mortgages than their homes were worth (Singh, 2021).

However, how would it affect the developing countries? One of the key transmission of the crisis from developed to developing countries has been via private capital flows though the impact of this has been more severe for emerging markets. If the recession in the developed countries is very serious, there is a risk that aid budgets may not increase enough or could even fall, with negative effects on poor countries and poor peoples. The main channel of transmission of the crisis to exporters of manufactures and services is through a decline in trade volumes, while exporters of primary goods have been more affected by declining prices. Falling energy prices will benefit energy importing countries, yet they will also lead to reduced investment and economic activity in commodity dependent developing countries, particularly in Africa, the Middle East and North Africa, and Latin America. For these countries, a major opportunity ahead is to redesign their trade strategy to reduce their commodity dependence (Jones, Ocampo, 2009, p. 2).

2.4 OVERVIEW OF CAMBODIA'S ECONOMIC PERFORMANCE IN 1994-2019

Nearly three-decades of civil war and isolation from the international stage, Cambodia turned a new page in its history by reuniting all political parties. The Paris Peace Accord, signed on 23rd October 1991, led to the 1993 national election under the support of the United Nations Transitional Authority in Cambodia (UNTAC). With full peace restored, the government set about reintegrating the country's socio economic infrastructure from the ground up. Development efforts involved the promotion of privatized economy to create a vibrant private sector as the backbone of the national economy. The building and upgrading of physical infrastructures through public sector investment and assistance from international organizations and partners, and the reform of the judicial system, to promote social justice and create an enabling business environment. Cambodia became one of the members of the Association of Southeast Nations (ASEAN) in 1999, and took its seat as the 148th member of the World Trade Organization (WTO) in 2004.

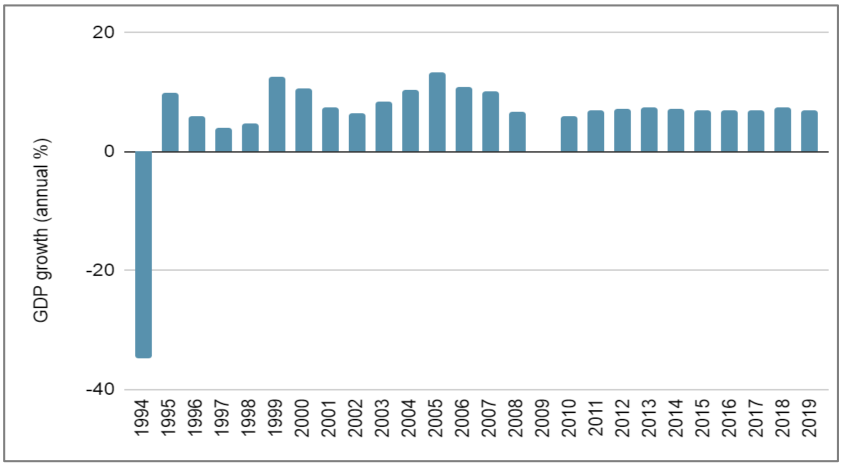

Figure 1: Cambodia gross domestic product growth, 1994-2019 (annual percent)
Source: World Bank (2020)

Strategic government planning, economic accessibility and policy to create an environment conducive to private sector development reached the highest point in Cambodia achieving remarkable progress over the fifteen years until 2008, making it the fastest economic growth in Asia (Figure 1). Economic growth accounted for 9.3% from 1997 until 2008, while the poverty rate declined from 34.7% in 2004 to 30.1% in 2007. This perfect performance stemmed from huge strides in the garment sector and development in tourism sector and construction sector that underpinned by steady growth in agriculture, which remained crucial to overall socioeconomic growth as around 80% of the population live and work in rural areas. Economic growth allowed the country to improve its infrastructure, develop skillful human resources, and handle the key economic growth potential reforms.

Then the Global Financial Crisis transformed into economic recession, sending serious shock around the world and attacking Cambodia in the early 2008. Cambodia's industry dropped off as the global economy slowed. In 2009, economic growth suddenly fell down to 0.1% before recovering to 6% in 2010, and to around 7% in following years. The agricultural sector acted as a safety net for laid off, and returning migrant workers back to their own country.

In 2011, the extensive flooding destroyed tens of thousands of hectares of cultivated land, and took its toll on Cambodian economic and social well-being, adding to an economic difficult time. The huge losses caused through destroyed crops and damaged infrastructure slowed down the economy, and threatened food security, yet the government gave assurances that Cambodia can still export rice.

The government's strategy was to increase milled rice export by boosting rice production and encouraging private companies and manufacturing in rice processing should foster the agriculture sector's performance next. Besides implementing local value-added, policy to promote commercial agricultural production was linked with tourism sector development to substitute food imports from the neighbors, Thailand and Vietnam. The industry sector's modest yet steady rise from just 12.6% of GDP in 1993 to 21.5% in 2011 was crucial due to dramatic improvements in garment and textile manufacturing. Growth in this sector decreased in 2010 as demand from the European Union and US, which together constituted around 90% of Cambodia's apparel export market, suddenly fell. Services sector growth dropped in 2008 and bottomed at 2.4% in 2010. Meaning people avoided from spending money on holidays, and indicated a huge drop in the number of "big spending" tourists (Socheth, 2013, p. 3-5).

Over the past two decades, Cambodia has gone through an outstanding change, reaching lower middle-income status in 2015 and wishful to achieve upper middle-income status by 2030. Led by garment exports and tourism sector, Cambodia's economy has experienced an average growth rate of 8% between 1998 and 2018, making it one of the fastest-growing economies in the world. While easing slightly, growth remained powerful, estimated to have reached 7.1% in 2019, after the better-than-expected growth rate of 7.5% in 2018. The global shock triggered by the COVID-19 pandemic has seriously impacted Cambodia's economy in 2020, same time when Cambodia also faces the partial suspension of preferential access to the European Union market under the "Everything but Arms" initiative. The outbreak caused sharp slowdown in most of Cambodia's main engines of growth, including tourism, manufacturing exports, and construction, which together account for more than 70% of the country's growth and almost 40% of paid employment. In 2020, the economy is projected to register negative growth of -2%, the sharpest decline in Cambodia's recent history. The COVID-19 outbreak and slow recovery in global economic activity, alongside prolonged financial market turmoil, presents high risks to Cambodia's growth outlook (The World Bank, 2020).

2.5 EFFECTES AND NATIONAL RESPONSE OF CAMBODIA AND VIETNAM IN DEALING WITH THE FINANCIAL CRISIS OF 2007-2008

2.5.1 Effects during Financial Crisis of 2007-2008 in Cambodia

Effects on trade

Firstly, it affected Cambodian trade. Cambodia's trade sector has grown rapidly since it began liberalizing outside trade in the 1990s. Trade openness ratio has tripled when liberalization began, and has caught up with their neighbors. In 1999, Cambodian position into the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO) in 2004 insisted the country to become more integrated in the region and the world and earn more confidence from foreign investors in Asia and outside Asia.

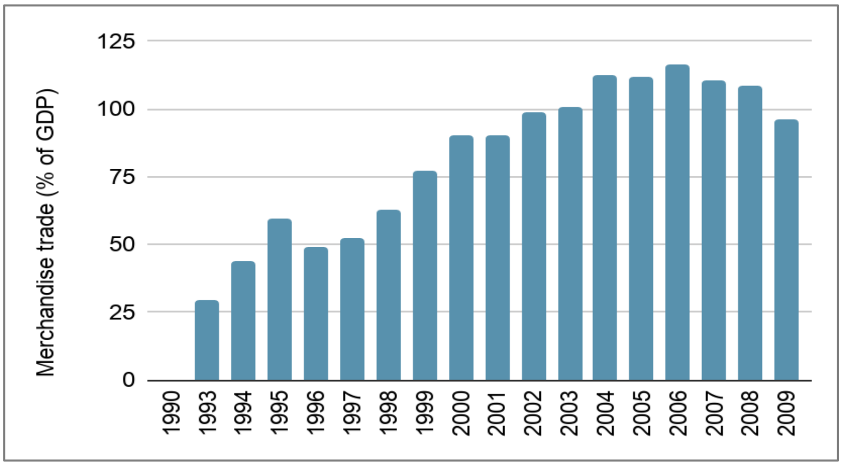

Figure 2: Merchandise trade, 1993-2009 (percent of GDP)
Source: World Bank (2020)

Exports are seen to be headed for a serious falloff at the end 2009. Other factors, including the appreciation exchange rate of the Riel currency, explained the drop in export demand, such decline can ultimately be attributed to Cambodia's narrow export base. The downturn in exports showed from the decline in garment exports, since it was one of the country's dominant export product, and one among the four key drivers of Cambodian economic growth. Moreover, export slowdown has been induced by decreased demand for Cambodian natural rubber and cassava.

Effects on tourism

Tourism is one among the four key drivers of Cambodian economic growth. It declined sadly during the crisis which has pressured tourists from the richer countries to reduce their travels.

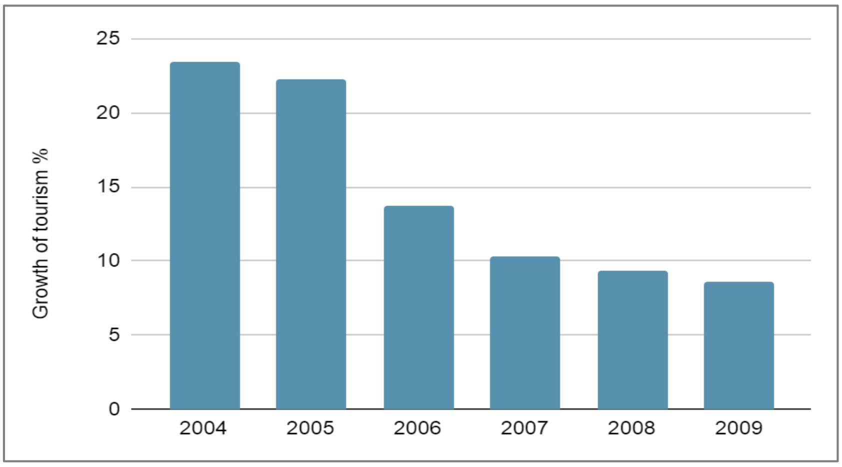

Figure 3: Growth of tourism sector, 2004-2009 (%)
Source: National Institute of Statistics of Cambodia and Economic Institute of Cambodia (2009)

Effects on construction

The construction sector's contributed to Cambodian GDP by 6.7% in 2007. The sector experienced hardship during the global economic meltdown. Since 2002, the boom found itself unsustainable of the real estate bubble, the reduction in FDIs, and the weaker prospects in the immediate term. The slowdown in growth was expected to worsen to -5.7% by end 2009 (Jalilian, Sophal, Reyes, Chan Hang, Dalis, Dorina, 2009, p.5-13).

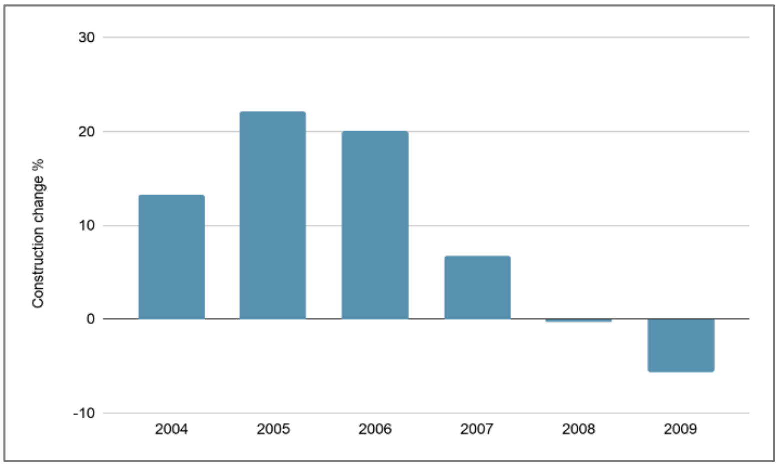

Figure 4: Construction, 2004-2009
Source: National Institute of Statistics of Cambodia (2008), Economic Institute of Cambodia as cited in Cambodian Economic Watch (2009)

Effects on the banking and finance

The banking sector was not directly impacted by the financial crisis as local banks held no toxic assets, but it did not mean that the banking system remained undamaged. The government showed that the country's exports dropped, the construction sector suffered a drastic price correction, tourism activity slumped and overall business prospects were less favorable. Currency deposits continued on an upward trend until the end 2007, then started to decrease from the third quarter of 2008 to the first quarter of 2009. Meaning that the crisis shook depositors' confidence in banks, and many decided to withdraw money from saving for security reasons. Some foreign investors who were involved in construction and real estate projects withdrew funds to finance projects elsewhere. When the property market scrambled, houses and land no longer got higher prices. Fewer people were willing to trade, transactions dropped, and property prices moved ever lower. Those who had bought investment property with bank loans were unable to pay the interest and had to reclaim the capital left in their real estate by selling at even lower prices to repay debts (Socheth, 2013, p.12).

2.5.2 Cambodian national response during the Global Financial Crisis of 2007–2008

Income generating strategies

One reason for sure, in order to generate income, Cambodian workers decided to migrate to Thailand and engaged in "difficult, dirty and dangerous" jobs that are not wanted by Thai workers. Migration rate within Cambodia increased from 15 percent in 2008 to 24 percent in 2009. Households experiencing worsening conditions, migration was mentioned more as a coping mechanism, namely 62 percent in 2009 compared to only 33 percent in 2008.

Consumption reducing strategies

Even though the "income generating" strategies took into account, total income was not enough to cover basic needs for any households. The idea on how to reduce expenditures and consumptions have been made. Reduction of food consumption can be made by switching to cheaper and lower quality products and by reducing the amount of food intake.

Consuming a cheaper food product was the most common strategy selected by households. By April 2009, 75 percent of the population reported consumption of cheaper food with higher rates as much as 85 percent for the poorest villages (The World Bank, 2011, p. 26).

Monetary policies

In July 2008, the government increased reserve requirements to be maintained at the National Bank of Cambodia (NBC) by the commercial banks from 8 to 12 percent (originally to 16 percent), and limiting real estate lending from commercial banks at 15 percent (until February 2009). A year later in January 2009, NBC released a $100 million short-term loan fund for local banks to ensure sufficient liquidity. Last but not least, in December 2010, to increase the minimum capital requirement for Commercial banks from 50 billion Khmer Riels (US$12.7 million) to 150 billion Khmer Riels (US$36.5 million).

Agricultural policies

The mid 2008s, the Rural Development Bank (RDB) funded a special credit line of US$12 million with 5 percent annual interest rate (compared to 14 percent market rate) to the Cambodian National Rice Millers Association (CNRMA) in use for purchasing rice from farmers during their harvest, and customs tariff rates on farm machinery were also reduced. In January 2009, they introduced a Budget Law amendment for an additional support account for US$18 million credit to the (CNRMA) to continue their activities. In October 2009, creation of the Cambodia-Vietnam Foods Company provided US$33 million credit to the RDB at the rate of 7 percent for lending to rice miller borrowers at the rate of 10%.

Garment industry policies

From 2008-2012, there were new tax exemption policies as following, extended 20% corporate profit tax holiday on garment and textile factories (2005-2010), suspension of 1% (Advanced Profit Tax) monthly profit tax (2008-2012) for garments and footwear industries, zero % Value-added tax rate applied for garment supported industry (2008 to 2010), 0% VAT rate for 40 industries or contractors supplying products or services to serve for exporting of the garment, textile, and footwear industries. In May 2009, the government provided $7 million scholarships for short vocational training courses to 40,500 garment workers who had lost their jobs at garment factories.

Tourism sector response packages

Tourist numbers dropped not only in Cambodia, but in neighboring countries including Vietnam and Laos. The solution to increase tourists from the government was to add another new international airport which is located in Kompong Som Province. At the end of 2009, Cambodia had visa waivers in place for citizens from Laos, Malaysia, Singapore, the Philippines, and Vietnam. Angkor Wat temple passes period extended for tourists (3 day pass over 7 days, 7 day pass over 14 days). In 2009, travel to Cambodia was promoted under the slogan of "Cambodia, the Kingdom of Wonder". Tourism law was adopted on April 29, 2009 (THE WORLD BANK, 2011, p.29).

2.5.3 Effects during Global Financial Crisis of 2007-2008 in Vietnam

Economic growth rate

The impact of the Financial Crisis has resulted in an economic slowdown in Vietnam. According to the 2008 planning, GDP growth rate was expected to be from 8.5% to 9%. Although the National Assembly had adjusted the GDP growth rate to 7% in May 2008, the actual rate was only 6.23%.

Financial and banking system

Vietnamese financial system has not suffered from the impacts because it has been only at the beginning of integration, yet there were still some issues to deal with. The connection between the Vietnamese financial and banking system and the international financial market met some issues. The ability of international banking and financial transactions decreased which were influenced by the short term loan, as in the short run, many banks' profits decreased, even small-sized banks may have losses as well.

Goods and services market

Demand decreased both in production and consumption. Enterprises had to reduce their production and business plans due to the higher production cost, especially increasing banks interest rate. In the end of 2008s, consumption price increased by 19.98% compared with the same period of 2007. Tourism sector also collapsed. Therefore, the expected plan of getting 4.5 million arrivals failed to be achieved (Asia-Pacific Rural and Agricultural Credit Association. org, n.d).

2.5.4 Vietnamese national response during the Financial Crisis of 2007–2008

Policies are generated to solve problem in production and business to boost up production of goods with high growth and domestic consuming goods, such as foods, beverage, textiles, medicine; expanding the consuming markets of substantial and centrally-produced agricultural products such as rice, fishery, coffee, rubber; applying financial and monetary policies needed to support the consumption of industrial goods such as steel, cement, paper, chemicals.

Secondly, the policies for demand-stimulus of investment and consumption have been applied. Encouraging all economic sectors to participate in investment and business development in which acceleration of investment in state-budgeted projects and works has been focused, especially important and urgent infrastructure, traffic, irrigational, electricity works. Utilizing “House for the poor” policy and issuing the policy to raise social house support from 2009-2015, and encouraging to build houses for workers in industrial zones.

Fiscal policies

Tax exemption, reduction and extension were reduced to 30% of enterprise’s income tax in the fourth quarter of 2008 and 2009 for small and medium enterprises. For large labor enterprises, enterprises in agriculture, forestry, fishery, textile, shoes, supplementing a timely VAT refund policy. Extended time of collecting individual income tax (laborers, business owners) until May 2009, reducing 50% of VAT for some goods from February 2009, reducing some lines of tax for cars.

Monetary policies

The government took control over exchange rate flexibly, efficiently, reduced lending interest rate basing on market signals, manage foreign exchange rate same to the market, encourage exports, strengthen imports, stabilize macro-economy, ensure the sustainability of the banking system, guarantee Viet Nam’s balance of payment. They created special conditions for enterprises to get access to credit including issuing credit guarantees, especially for SMEs, export enterprises and sale problem enterprises.

Social welfare ensuring policies

It was one of the most important government policies over the past few years in order to ensure life quality for people, poverty reduction, and achieving the Millennium goals of Viet Nam. The Government spent a huge budget to support poorer citizens with lower income and retired people. The lending policy to poor students and poor families had been fostered. More than 50% poor households received the fund to develop infrastructures and start up. They continued to help with food support, money, plant, and animal to recover from hunger (Asia-Pacific Rural and Agricultural Credit Association. org, n.d.).

2.6 ECONOMIC SCENARIOS FOR THE COVID-19 RECOVERY IN CAMBODIA

According to the Asian Development Bank (ADB), they revised its 2020 growth forecast for Cambodia upward because of the country's improvement over agricultural performance, and an increase in volume in non-garment manufacturing exports such as bicycles and electronics. The ADB's annual flagship economic publication, forecasts a 4% contraction for Cambodia's gdp in 2020, compared to its June forecast of a 5.5% contraction. "The COVID-19 pandemic is a global challenge, yet Cambodia has been spared a health crisis, expected to growth to rebound to 5.9% in 2021, boosted by supportive government policies, social assistance for the poor, and financing support for small and medium-sized enterprises," said ADB Country Director for Cambodia Sunniya Durrani-Jamal.

ADB's 2019–2023 country partnership strategy, ADB will provide $1.45 billion in loans, grants, and technical assistance to Cambodia to support agriculture and natural resources management, improved urban and rural living conditions, renewable energy infrastructure, and skill and educational development. Their aim is to expand Cambodians' access to public services and improve service quality, with improving the country's business and investment environment.

According to the WORLD BANK, 2020 stated that another economic recovery prediction is expected to bounce back and grow by 4 % in 2021 in Cambodia. Domestic economic activity is gradually returning to normal because of the easing of social distancing measures. Despite the fact that total manufacturing exports have been hit by the pandemic, exports of bicycles, electrical parts, and vehicle parts and accessories are rising, and exports of rice and other agricultural commodities have risen.

Tourists tended to support domestic travel in order to boost the tourism industry. There are opportunities to facilitate an expansion of domestic and foreign investment arising from recent bilateral and regional free trade agreements, including the Cambodia-China Free Trade Agreement and Regional Comprehensive Economic Partnership (RCEP). It also points out the critical importance of developing a strong COVID-19 vaccine infrastructure.

To sum up, the Kingdom's economic growth will return to 4 % growth this year if COVID-19 vaccines can successfully curtail the spread in the first half. With the ability to maintain inflation rate below 3 %, it ensures a stable exchange rate and an increased maintenance of international reserves. Moreover, the continued implementation of government policies to promote the development of small and medium-sized enterprises are very crucial to strengthen the growth base of domestic activity.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 REASEARCH DESIGN

This research paper is designed by using the method of mixed research design that aims to fulfill the research weaknesses and make the research becomes more comprehensive insightful and reliable. Moreover, by using a mixed research design, meaning that the researcher will include both quantitative and qualitative research and methods in a single study to understand research problems.

3.2 DATA COLLECTION TOOL

Due to the fact that the research has limited capacity and resource to conduct a primary data, this research will be relied on mere secondary data. To collect some sort of data and statistics, this research will rely on document-based and internet-based researches. Reports, research papers, journals, statistical data, books, and newspapers will be taken from the reliable organizations which operate worldwide and well known, including the World Bank, United Nations, Asian Development Bank, United Nations Conference on Trade and Development (UNCTAD), and many mores. Further statistics will be collected by using available datasets to make aggregation of the data and to justify the arguments.

3.3 DATA ANALYSIS

To analyze data, the researcher will use comparative analysis, content analysis and descriptive statistical analysis. As being designed, this paper will, first, answer the three main research questions, and then illustrate the findings to some propose policy recommendations as productive information later.

3.4 SCOPE AND LIMITATION

For this research, the researcher will focus on the main economic crises, how it affected economic growth, and mechanisms in dealing with problems that happened in Southeast Asia, specifically in Cambodia and Vietnam. Therefore, in order to make the data and information to be more reliable and convenient for reader as well as for the researcher to analyze and to use it as a sample platform, the researcher collects up to date data which mainly refers to the Financial Crisis 2007-2008 and the Coronavirus (COVID-19) crisis from the year of 2019 till nowadays (2021).

Since there are many international organizations and platforms that focus on this issue, a data is conducted from a very reliable organization and trustable paper which operate worldwide and well known, including data from the World Bank, United Nations, Asian Development Bank, United Nations Conference on Trade and Development (UNCTAD), and many mores.

CHAPTER 4

RESULTS

This Chapter begins with a present of the finding from the secondary data collected, and it will also provide an overview of findings in context of three research questions posed in Chapter 1.

4.1 MAIN ECONOMIC CRISES IN CAMBODIA AND VIETNAM IN THE LAST 15 YEARS

4.1.1 Cambodia during the Global Financial Crisis (2007-2008)

The results are responded to "What are the main economic crises that happened in Cambodia and Vietnam in the last 15 years?" As the world in the last 15 years have faced so many economic shocks, especially become the main topic for economists and government officials to discuss and work on it from time to time. In Cambodia, in the last 15 years, the main economic crises that are extremely impacted Cambodian economic growth were known as the Global Financial Crisis 2007-2008 and the ongoing Covid-19 pandemic crisis. In fact, since 2008 Cambodia has grown to be one of the toughest hit nations in the region. Without a stock market, major short-term foreign debts or cross-border inter-bank liabilities, and portfolio investments, the Cambodian economic system was now no longer closely exposed to the problem of short-term or liquid liabilities. Cambodia's vulnerability to the broader financial downturn, however, is evident via its heavy reliance on garment exports, in large part to America and European markets, and via way of means of its reliance on tourism, in particular in Siem Reap province. Foreign Direct Investment has been targeting those sectors in addition to in the construction sector, which has been in addition hit through bad traits in the global property market. The financial system is consequently without delay affected because of its narrow financial base and the shortage of a vibrant rural economy (THE United Nations in Cambodia, 2009, p.5).

Table 1: Cambodian gross domestic product growth annually in percentage, 2007-2010

Year	Gross Domestic Product Growth (annual %)
2007	10.213%
2008	6.692%
2009	0.08%
2010	5.963%

Source: World Bank Data (2007-2010)

4.1.2 Cambodia during the ongoing COVID-19 Crisis

Recently, Cambodia has taken an important hit from another economic crisis caused by the COVID-19 pandemic in 2020, and it is a current crisis to face globally. With firms staring at canceled orders and people losing jobs, fears are growing that it could undo progress fighting poverty (DW, n.d.). The COVID-19 pandemic is one of the crisis like no others. It has taken lives and devastated livelihoods in every corner of the globe by severely disrupting the global economy and pushing up to 140 million people globally into extreme poverty. Cambodian economy has been experiencing a huge drop in tourism. In addition, the garment industry has faced two waves of serious disruption, including diminished supply of raw materials, and reduced demand. Growth performance and socio-economic development prospect of the country look very serious. The pandemic strongly impacts on poverty rate and employment rate are unavoidable (Veara, 2020).

Table 2: Cambodian gdp growth annually in percentage, 2018-2020

Year	Gross Domestic Product Growth (annual %)
2018	7.469%
2019	7.054%
2020	-3.10%

Source: World Bank Data (2018-2019), The Star (2020)

4.1.3 Vietnam during the Global Financial Crisis (2007-2008)

In Vietnam, Vietnamese stock market has plunged, and its economic growth has shrank since 2006, when it was seen as a model for emerging country growth. The country's experience highlights the problems coping with emerging markets in the 2008 Financial Crisis. The country's GDP annual growth rate was projected to drop below 7 percent for the year. Vietnam's cycle of boom and bust, and its financial vulnerabilities show the challenges that may happen for emerging markets as the global financial crisis continued (Ginsberg, 2008).

Table 3: Vietnamese GDP growth annually in percentage, 2007-2020

Year	Gross Domestic Product Growth (annual %)
2007	7.13%
2008	5.662%
2009	5.398%
2010	6.423%

Source: World Bank Data (2007-2010)

4.1.4 Vietnam during the ongoing COVID-19 Crisis

Since the first case being noted on 23rd January 2020, Vietnam has 911 confirmed cases (430 recovered and 460 actives) with 21 fatalities. A large number of people being infected and died from the flu disease, unprecedented measures taken by Vietnam government to slow down the infection rate, from social distancing to national locking down which involved business halting, have significantly influenced economy, especially in terms of employment. Specifically, the impacted industries such as, Aviation, Tourism and Services, Accommodation, Food and Beverage, and other services while revenues have been reported dramatically decreased about 50% and 23.6%, if compared to the same period last year. According to the General Statistics Office of Vietnam, in the first 2 quarters of 2020, the number of enterprises halting businesses for a definite time was 29.2 thousand, increasing by 38.2% over the same period last year, while 19.6 thousand enterprises stopped and focused only on the service sector. There were 897.5 thousand people losing jobs while the number of unemployed people was at 1.3 million, an increase of 123.9 thousand, making the unemployment rate reaching the highest point in the last 10 years.

In which, the groups of non-working age groups, female workers, unskilled workers, migrant workers, and informal workers are the most vulnerable groups due to the pandemic. In particularly, the female workers group, the unemployment rate was about 2.9%, higher than men, and increased sharply over the same period last year. For the informal workers, workers without labor contracts, unemployment insurance, there was 72% of those in the group affected by the COVID-19 pandemic when they mainly focused on Industry groups suffered the most damage such as Food & Beverage, Accommodation, Logistic team. Moreover, domestic migrant workers, which account for 13.6% of the total population, often work in the informal economy without a work contract and without access to social protection as well (Huong & Tham T. Nguyen & Vu & Long H & Giang T & Huong L & Hien T and Huong T, 2020,).

Table 4: Vietnamese GDP growth annually in percentage, 2018-2020

Year	**Gross Domestic Product Growth (annual %)**
2018	7.076%
2019	7.017%
2020	2.9%

Source: World Bank Data (2018-2019), CNBC (2020)

4.2 THE ECONOMIC CRISES AFFECTED ECONOMIC GROWTH IN CAMBODIA AND VIETNAM IN THE LAST 15 YEARS

4.2.1 Impact during the Global Financial Crisis (2007-2008) on Cambodian economy

Impact on the macroeconomic level

Foreign direct investments

World Bank forecasted that capital flows into developing countries plunged 50% in 2009. This constricted investment in Cambodia while more than half of private investment was foreign-financed. Total FDI approved by the Council for the Development of Cambodia (CDC) in 2008 reached US$6,275 million, of which 62.4% was from China and 35.1% from South Korea. The bulk of FDI goes to construction projects for building tourism centers, hotels, and business buildings (over 95% of total investment in 2008 went to projects). In the first 11 months of 2008, statistic showed a 12.5% drop in new construction investments compared to last year.

The sharpest drops were in projects funded with FDI. Plummeting property prices, a less demand for property, and a drying up of financial sources were the main root causes for this damage. Consequently, only an estimated 40% of approved FDI was implemented in 2008, around US$2,498 million. Investment could slow to a growth rate of 0.9% in 2009, worth approximately US$3.6 billion (Chandararot &Sok Sina and Liv Danet, 2009, p. 8).

Table 5: Total FDI approved (CDC) in 2008

Total FDI (2008)	China	South Korea
$6,275 million USD	62.4%	35.1%

Source: The Council for the Development of Cambodia (2008)

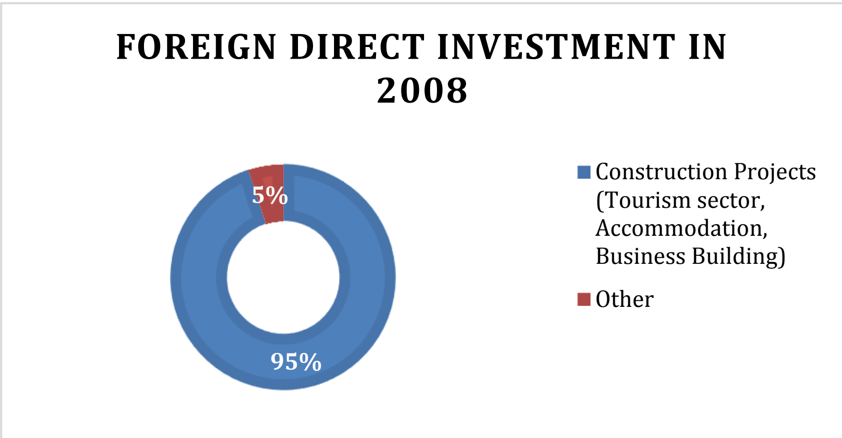

Figure 5: Foreign direct investment in Cambodia, 2008
Source: Chandararot & Sok Sina and Liv Danet (2009) p. 8th

Exports

The global GDP declined by -5.1% in 2009. The United States, was known as the world's largest economy, contracted by -2.5%, Germany (Europe's largest economy) was -5.7%, and Japan was -5.4% (World Bank, 2009). Economic recession and massive job lost in major industrial countries showed that the purchasing power of consumers there would shrink, lowering demand for imported goods. In the US, total retail sales dropped by up to 8% during the November to December shopping period, and the clothing sector was among the worst damaged, with total clothing sales decreasing by 19-21% over the same period last year. Garments make up 94% of Cambodia's total exports, where more than two-thirds are to be sold in the US. Garment Manufacturing Association in Cambodia (GMAC) reported a freezing in orders in the last few months of 2008, and almost none in the beginning of 2009.

Penny-pinching by consumers abroad and stiffer competition due to the removal of safeguards on China's textile and clothing by the US at the end of 2008, would limit the growth of Cambodia's garment exports. Estimates by Cambodia Institute of Development Study (CIDS) shown that the export sector contracted by 4% in 2008, losing US$129 million of export revenue, and was expected to continue shrinking in 2009 at a negative 2.5% growth and a loss in revenue of US$75 million (Chandararot &Sok Sina and Liv Danet, 2009, p. 9).

Table 6: Export of goods and services (% of GDP) in Cambodia from 2006-2009

Year	**2006**	**2007**	**2008**	**2009**
Export % of GDP	68.593%	65.326%	65.543%	49.221%

Source: World Bank Data (2006-2009)

Tourism

With a tighter budget, it was likely that Cambodia would see fewer international tourists in 2009. This was evidence, with hotel and guesthouse bookings in popular destination sites dropping by 30-80% compared to last year, in which operators referred to the global crisis and closing of Bangkok's international airport as the main cause of the decline. (Chandararot &Sok Sina and Liv Danet, 2009, p. 9).

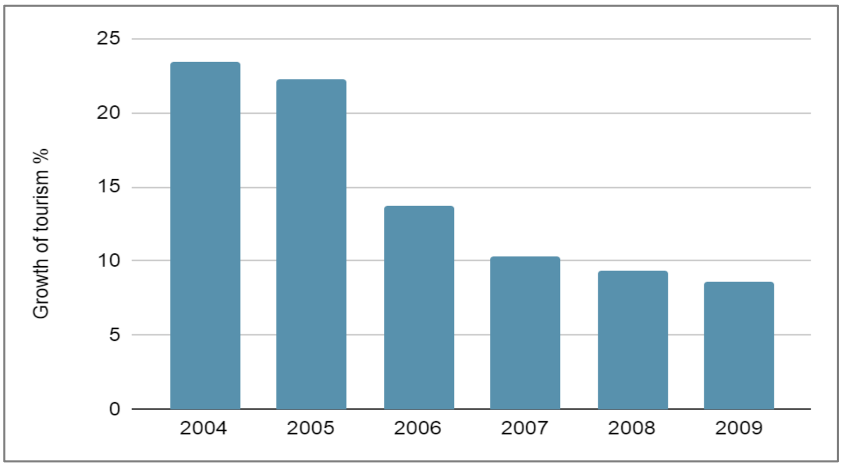

Figure 6: Growth of tourism sector, 2004-2009 (%)
Source: National Institute of Statistics of Cambodia and Economic Institute of Cambodia (2009)

Impact on sector

Textile and clothing

The textiles and clothing sector, which accounted for 16% of Cambodia's GDP, and was worth around US$2 billion, was expected to be the most exposed to the impacts of the Global Financial Economic downturn. Capital source with over 90% of capital in the sector was foreign-owned. As shown in the Figure below, the 1st rank investor was from Taiwan (25% of factories), after that Hong Kong (20%), China (15%) and South Korea (12%).

Table 7: Garment factories by capital source in Cambodia in 2008

Countries	**Capital Investment in Percentage**
Taiwan	25%
Hong Kong	20%
China	15%
South Korea	12%
Cambodia	7%
Malaysia	6%
Singapore	4%
The United States	4%
Others	7%

Source: Ministry of Commerce in Cambodia (2008)

Output market

As mentioned above, the textiles and clothing sector was driven solely by external demand, particular the US market. Three-fourths of garment output was destined for the US market, while 20% was for the EU market. Less income and decreasing in demand abroad resulted less purchase orders for manufacturers in Cambodia. In addition, the removal of safeguards on China by the US at the end of 2008 increased competition and limit the growth of the sector. In the sector contracted by 4% due to less orders abroad, and was expected to continue shrinking into 2009 (declined of 3%). Furthermore, the business structure of the industry made it extremely vulnerable to shocks in the global economy.

According to the GMAC, 60% of factories in the industry were cut, make and trim, in shortcut term, CMT model. CMT were typically subsidiaries of companies overseas with bases in China, Taiwan, and South Korea. With increasing an unemployment in the company's home base (especially in China), the limit of orders to CMT in Cambodia may get smaller. At the 26th ASEAN Federation of Textile Industries council meeting in Phnom Penh capital city, on 7th January 2009, the Ministry of Commerce stated that production has fallen 15 to 20 per cent since October 2008. In a move to keep exports and maintain jobs in Cambodia, the government suspended a 1% tax on factory expenditures, effective on January 1st, 2009.

Construction

Construction constituted 7% of the Cambodia's GDP, and was valued at US$480 million. Roughly 75% of capital in the sector was FDI to finance the construction of business buildings, apartments, hotels and tourism centers (resorts and other recreational resorts). The sector felt the pinch of the global credit crunch. New investment in construction dropped by 12.5% during the first 11 months of 2008 compared to same period a year ago, and falling to US$2.8 billion during this period, down from US$3.2 billion in 2007, according to the Ministry of Land Management, Urban Planning and Construction. Over than 30% of construction jobs ended as projects are cancelled or scaled back. In first 11 months of 2008, ministry registered 1,869 projects country-wide, down from 1,942 in 2007. The drop was sharpest in projects funded by FDI, with more declines expected next year. Many projects could possibly go bankrupt. In addition, the new regulation by the National Bank of Cambodia in May 2008 limiting bank lending to the property sector by 15% of bank's total loan portfolio made it more difficult for local developers to access finance to complete their projects.

Output market

Construction was driven by demand for real estate by both local people and foreigners for business and residential purposes. Two factors, tightening of housing credit and declining incomes slowed down consumers from buying or investing in real estate investment. Inventory in the real estate sector built up as demand shrinks, causing property prices to plummet by an estimated 25% over the last six months of 2008 (Chandararot &Sok Sina and Liv Danet, 2009, p. 11-12).

Real estate

Real Estate Sector represented 8% of the Cambodia's GDP, estimated to be around US$550 million in 2008. FDI was estimated to make up 50% of the real estate market, while the other 50% was domestic. The downward trend in property prices made investment in the sector more risky and less profitable, which would turn away both FDI and domestic investment.

Output market

Even the market share of foreign buyers was not that high, yet the high purchasing power greatly influenced the price level (by driving up prices), thus affecting the current and future profit of the sector. In the past time, buyers were typically speculators (the purchase of an asset with the hope that it will become more valuable in the near future), who bubbled property prices in expectation that demand from foreigners and locals for property would increase. Plummeting prices due to the global crash wiped the value of speculators' properties (estimated 5,000 land speculators). Property prices dropped an estimated 25% over six months. These speculators borrowed money to finance purchases, then face difficulties in meeting loan repayments. The cut payment in income of speculators could hit everything from luxury car purchases to high-end restaurant sales. The general dived in income would cause households to hold off in buying residential property.

Crops

The crops sector contributed 14% of the Cambodia's GDP. The main crop was known as rice paddy, cassava, maize, and soybean. The sector was highly linked with rural farmers and the poor. Predominately local, small-scale capital, only about 25% was FDI. Commodity prices depended on international market. Cash crops such as maize, cassava, peppers sold to Thailand, Vietnam and China as industrial input. The global economic slowdown reduced the demand for manufacturing products, leading to fewer sales at lower prices for Cambodian farmers. While only a small percentage of agriculture output was for export (about 20%), the farm gate price moved with the export price, thus a fall in export demand caused a drop in export price, and a further drop in farm gate prices.

Small and Medium-Size Enterprises

SMEs sector played a main role in Cambodia's economy, accounting for 65% of GDP and absorbing 85% of the workforce. According to statistics from the Tax Department, there were at least 55,466 SMEs country-wide in 2006, in which, 42% were in retail trade, 7% hotels, guesthouses and restaurants, 6% in import/export activities, and 4% in manufacture of household goods. SMEs generally counted on their own capital. Based on a survey conducted by CIDS of over 500 provincial SMEs, 60% of enterprises have never sought external financing. For those that have borrowed, 38% of them from microfinance or banks. The average loan size was approximately $150, for a period of 10-12 months.

Output market

Predominately for local markets, delay in economic growth in 2009 could narrow demand and impact sales for SMEs, particularly because most were in retail, yet the impact would be less severe compared to the export sector. There could be a postponement between a fall in income and consumption spending. If households believed that the fall in income was only temporarily, they would not reduce their consumption patterns and the impact on SMEs may not be seen immediately.

Table 8: Cambodian SMEs impacted during the Financial Crisis

- SMEs supported the construction sector (home décor shops, windows manufacturers, transporter) effected by the slowdown in the construction sector
- Business profited from property markets (speculators, land owner) because of the devaluation and slow down of property price
- Money exchange shops and money lenders. With property prices crashed and demand at zero, these business saw as major damage. More people borrowed money from banks to buy property, and couldn't make repayment.
- SMEs related to the international tourism sector such as Remok Driver, Moto-Dup, accommodation, restaurants, travel agencies, souvenir shops.

Source: Chandararot & Sok Sina and Liv Danet (2009)

Impact on labor

Market-textile and clothing sector

The Textile and Clothing sector contracted by 4% in 2008, eliminating nearly 27,000 jobs. In 2009, the sector felt by 3%, and lost nearly 19,000 jobs. The first responded of businesses during the slump was to keep workers as long as possible, yet with less working hours and overtime. During interviews, garment factory workers reported that in the past they would get an extra 2-4 hours of overtime per day, but in recent months there was no overtime offers anymore, and some days they were sent home after 3-4 short hours of work. It caused the average effective wage of workers to decline, forcing them no option to resign. According to the Labor Law, workers who voluntarily resign are not applicable for layoff compensation or severance pay. Interviewees mentioned that some factories still hired new worker, but they accepted only high skilled workers. It was a clear case of efficiency wage model, where businesses tried to reduce cost by increasing efficiency. According to GMAC, 60 factories collapsed in the early 2008, the beginning of the global financial crisis. Normally, employers did pay workers compensation when the factory shut down, though the amount, scheduling, and mode of payment were based on negotiations rather than that stated in law. There were many cases when factories shut down without warning, and owners escaped the country without worker's compensation. The situation led to strikes. A rising of uncertainty, fear of losing jobs, and income insecurity resulted in increasing number of strikes. In 2008, the number of strikes increased from 80 to 105 cases. They demanded for higher wages, entitlement payments, non-discrimination against union members, and rehiring of retrenched workers.

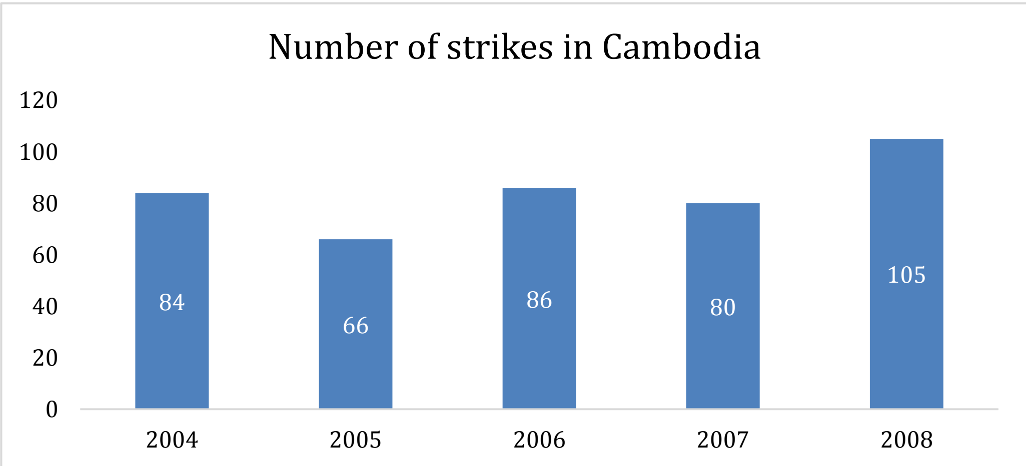

Figure 7: Numbers of strikes in Cambodia, 2004-2008
Source: Garment Manufacturing Association in Cambodia (2008)

Tourism sector

For the labor market, the tourism sector comprised of a vast number of service businesses and self-employed activities such as accommodation, restaurants, massages, sporting clubs, travel agencies, aviation, Remok driver, souvenir shops. These activities fell under the informal economy. Segments that relied heavily on foreign consumers were more vulnerable to the global economic crisis. The tourism-related employment was still stable, but income levels (specifically for the self-employed) declined.

Table 9: Cambodian impacts on labor in tourism during the Financial Crisis

- **Hotel & Guesthouse:** Fewer tourists led to fewer bookings. There were 395 hotels (20,470 rooms), and 891 guesthouses (11,563 rooms) as of December 2007 according to the Ministry of Tourism data. The sector employed 48,050 workers. Hotels and guesthouses worried over less bookings.
- **Restaurants, Massages, Sporting Clubs and Casinos:** Based on the Ministry of Tourism, there were 920 restaurants, 190 massage, 50 sporting clubs, 32 souvenir shops, and 22 casinos across Cambodia. There were other SME services like vendors. Employment in these businesses could be around 25,000 workers.
- **Remok Driver:** IDEA explained during interviews that Remok drivers in Siem Reap province, Phnom Penh city and Sihanouk Ville province, key tourist attractions, saw a major slowdown in tourists. In Siem Reap, they earned around $15/day in the past, then they earned only $5/day. Similarly, those in Phnom Penh used to get $15-20/day, but dropped to $2.5/day in recent months. Even their income declined, Tuk-Tuk they mentioned there was no plans to change their jobs or return home because the chances of earning money in the city was higher than in their villages.

Source: Chandararot & Sok Sina and Liv Danet (2009)

Agriculture

For the labor market, agriculture felt into two segments, there were subsistence farming and business farming (including agricultural manufacturing). Almost 90% of the agriculture sector was for subsistence, while the remaining 10% were large-scale, export-oriented farming business. The labor force in the first type relied on unpaid family help, while the latter used seasonal, usually migrant workers.

The crisis impacted the agricultural labor market in the two segments. Firstly, it was the subsistence farming. The flow of labor into subsistence farming increased as those retrenched from major sectors such as T&C, construction and tourism returned home to work on the family farm in the case of less job opportunities in the city. It may increase agricultural production, yet reduced the per capita income for households due to declining commodity prices and more workers. Under these circumstances, the living condition in the rural areas may start to slump. Secondly, it was business farming. Since business farms (such as rubber, corn, pepper, cassava, rice and livestock) were mainly for export, declining demand abroad because of the crisis impacted the sales volume and price. China was the biggest buyer of cassava and rubber, Vietnam, and Thailand, to feed into their manufacturing sector. The fall in demand for manufacturing products in these countries and in their export markets reduced the demand for commodities. Employment rate in this segment may fall and wages depress, thus, there were only a few large scale farming enterprises in Cambodia, the impact on the economy would not impact strong enough**.** (Chandararot &Sok Sina and Liv Danet, 2009)

4.2.2 Impact during the Global Financial Crisis (2007-2008) on Vietnamese economy

Vietnam's high economic performance was dependent on external stimulus. Although the country witnessed strong domestic consumption growth in recent years, Vietnam's economy has continued to be driven by high external trade and increased foreign direct investment (FDI). The country's total trades were equivalent to about 150% of GDP which was the second highest in the region, after Malaysia. Therefore, the country was vulnerable to the unexpected global economic slowdown and unanticipated outflows of funds. With the global financial crisis unfolding, the GDP growth of Vietnam was 5.398% in 2009 (World Bank, 2009).

Export

In the fourth quarter of 2008, Vietnam's export fell due to the direct and immediate impacts of the global financial crisis. The government adapted downward its export growth rate, expecting a zero growth for export in 2009. Even some of Vietnam major export products such as coffee, rice, pepper, rubber, crude oil and coal, reported increases in volume in 2009, their decreased prices led to the speculation that Vietnam may not meet this revised growth rate. For a country that has an annual export growth rate of around 20%, it was clearly a serious issue.

In a recent study by Vietnam Academic of Social Sciences found that even if several export manufacturing sectors, including the textile, garment, leather and seafood processing industries were hit hard by the crisis, these industries can bounce back once the world economy became normal. It was because of the demand for products was very inelastic (price changes, but buying behavior remained unchanged). Although the crisis resulted fall in the export. However, it led to a more manageable trade deficit in the early 2009. This was because of the import export structure of Vietnam. Vietnam's exports relied on agricultural and raw commodities, and most manufacturing products still realized low value added. Vietnam's imported of intermediate products and machinery for domestic production and export may keep rising more rapidly once the economy recovers. Overseas final products, particularly luxury ones, were imported with high value as they appealed to Vietnam's middle-income consumers.

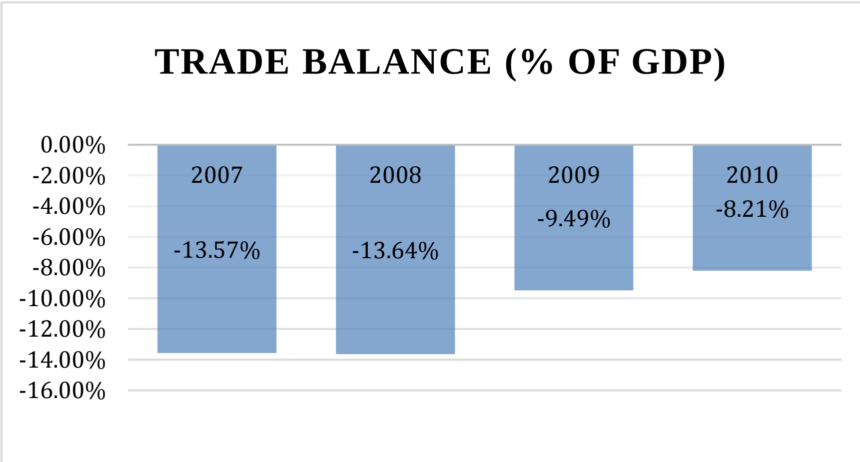

Figure 8: Vietnamese trade balance of GDP in percentage, 2007-2010
Source: The Global Economy (2007-2010)

Foreign direct investments

In 2008, there was a large influx of FDI reaching US$ 64 billion of registered capital and US$ 11.6 billion of implementation capital. In 2009, it was a slowdown in the inflows of FDIs resulted from the constraints of disposal capitals and the tightening of the world credit market. In the first 8 months of 2009, Vietnam worked to attract about US$ 10.4 billion of registered capital much lower than 2008. The actual disbursement from investment projects was over US$ 6.5 billion also lower compared to 2008. Along the economic reform, Vietnam relied more on FDIs to sustain its high level of economic growth. The slowdown of FDI inflows in 2009 provided serious consequences. The FDI sector played an important role in Vietnam's export. According to official statistics, the FDI sector accounted for over 50% of Vietnam's export over the last 6 years.

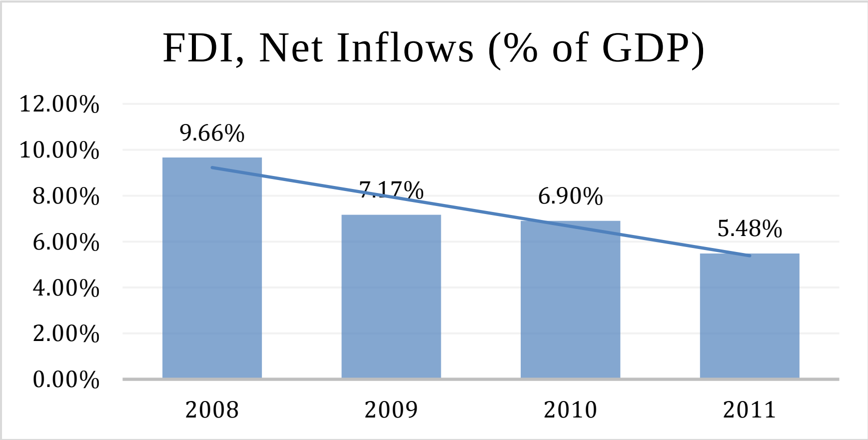

Figure 9: Vietnamese foreign direct investment inflows of GDP in percentage, 2008-2011

Source: World Bank Data (2008-2011)

The labor market and society

The data on the impact of the crisis on labor market and employment in Vietnam was limited. In the early 2009, the Vietnam Academy of Social Sciences conducted repeated Rapid Assessment Surveys to assess the impact of the global crisis on Vietnam. The first survey in early 2009 found that job losses were widespread at industrial zones (both in the North and the South parts) although some enterprises attempted several labor-hoarding measures to keep their skilled employees. The situation of the unemployed immigrants was very vulnerable due to the nonexistence of social security and non-reversible of immigration (the immigrated workers came from areas where less work opportunity and unproductive soil). The second survey conducted in May 2009 found that there was evidence of green shoots with enterprises receiving orders and recruiting more employees.

The economic reform

To mitigate the impact on the domestic economy and to stimulate short-term economic growth, the government delayed and canceled some of its structural adjustment policies (reform in the state-owned enterprises, the banking sectors, improvement of the business environment). These structural adjustments were crucial for the sustainable growth of the Vietnamese economy. One example was that, to stimulate short-term economic growth, the Vietnamese government might refinancing the inefficient banking sector, subsidizing loss-making large stage conglomerates and reviving real estate investment. Although these measures were quite useful and effective to stimulate short-term economic growth, they cannot ensure long term sustainable growth and might generate new extra risks (Ngoc Anh & Duc Nhat & Dinh Chuc and Thang, n.d., p. 12-14).

4.2.3 Impact during the ongoing COVID-19 Crisis on Cambodian economy

The country experienced community transmission cases, and never reached a stage requiring a partial or complete lockdown of the country (Prime minister's speech on September 2020). When the new cases came. Overseas travel bans were imposed on several countries. International visitors have dropped to the lowest. Siem Reap received 396,241 international visitors during the January-September period of this year, down 76 percent over the same period last year. There have been two waves of cases since March 2020. The first wave happened in April that led the government to restrict movements within the country in mid-April. The second wave was around July and August of 2020. After that a few more imported cases added up. From 8th April, all people, including migrant workers, entering Cambodia were required to go into a mandatory 14-day quarantine. The government started to restrict movement of people, and school and business were closed (Veara, 2020). Unfortunately, another community spreading was once again happen in March 2021, it is getting serious since there is a new type of new variant COVID-19 that is known as double more dangerous than the old one.

Table 10: Total COVID-19 cases in Cambodia from April 27, 2020 - April 22, 2021

Date	Total Coronavirus Cases
Apr 27th , 2020	122
May 15th , 2020	122
Jun 02nd , 2020	125
Jul 26th , 2020	225
Aug 13th , 2020	272
Sep 18th , 2020	274
Oct 24th , 2020	280
Nov 29th , 2020	301
Dec 17th , 2020	329
Jan 22nd , 2021	456
Feb 27th , 2021	593
Mar 17th , 2021	1,505
Apr 04th , 2021	2,752
Apr 22nd , 2021	8,193

Source: Worldometers.info (2021)

Impact on GDP growth prospects

Several public, private and development institutions have made the growth prediction for the Cambodia's growth scenario for 2020. Results from across the predictors shown that Cambodia would experience minus growth for the 2020. Informal employees and agricultural workers were more vulnerable to the impacts of the shock, as they lack employment protection and health insurance. The Ministry of Economy and Finance of Cambodia (MEF) predicted that economic growth could go down from an original 6.5% for 2020 to –1.9 percent.

Table 11: Cambodian GDP growth annually in percentage, 2018-2020

Year	Gross Domestic Product Growth (annual %)
2018	7.469%
2019	7.054%
2020	-3.1%

Source: World Bank Data (2018-2020)

COVID-19 pandemic slowed down the growth of the 3 main drivers, which accounted together for 71% of the country growth, and almost 40% of paid employment. Being an important foreign exchange earner, tourism accounted for more than three-quarters of Cambodia's services exports, and about one-fifth of its total goods and services exports. The prolonged international travel restrictions for the first two months, the tourist arrivals have decreased 25 percent compare to the same period last year. Siem Reap, Cambodia's most popular tourist destination, experienced a 45 percent declined in tourist arrivals during the first quarter, and a 99.6 percent reduction compare to the same period in 2019 in April 2020.

The pandemic has triggered export demand shock due to supply chain disruption. A large part of garment, footwear, and travel goods orders from the two main destinations, namely the US and EU, have been frozen or cancelled. This occurred after Cambodia's manufacturing export industries experienced supply chain disruptions causing some garment factory shut down in early March 2020. The World Bank's Cambodia Economic Update June 2020 reported that in 2019, the garment and footwear industry contributed to almost one-fifth of GDP growth. Most factories will have only limited orders after the first half of 2020.

About 130 garments and footwear factories (12 percent of total) have suspended operations either partially or fully since mid-April 2020, laying off close to 100,000 workers. Travel goods such as luggage, handbags and backpacks were among the fasted growing export products. The export of bicycles has also been strong. From January to September in 2020, Cambodia exported more than 1.5 million bicycles to foreign markets, generating nearly $400 million. Half a million bicycles were delivered to the US market. 360,000 others to Germany, while 270,000 units and 150,000 units were shipped to the UK and Belgium. Garment sector to the international markets dropped more than 5 percent to around $3.78 billion in the first half of 2020. There has been a strong performance in rice export. Cambodia earned in total $366.44 million from rice exports, in the January-October period of 2020. China was the main destination of Cambodia's rice. Within the 10-month period, China and other Autonomous territories, such as Hong Kong, Macau, and Taiwan Province of China, took 36 percent of overall export, 27 countries in Europe 32 percent, and the rest to ASEAN members, Africa and the rest of the world. Recently, the construction industry has been increasingly financed by FDI inflows. It was estimated that Cambodia received 40 percent of total FDI inflows from China, with most inflows channeled to the construction sector. During the first two months of 2020, both construction activity and (approved) FDI inflows dramatically weakened. Imports of steel, which was largely used for construction, lowered by 47.4 percent in the first two months of 2020. Likewise, approved FDI projects for the construction sector contracted by 40.2 percent during the same period.

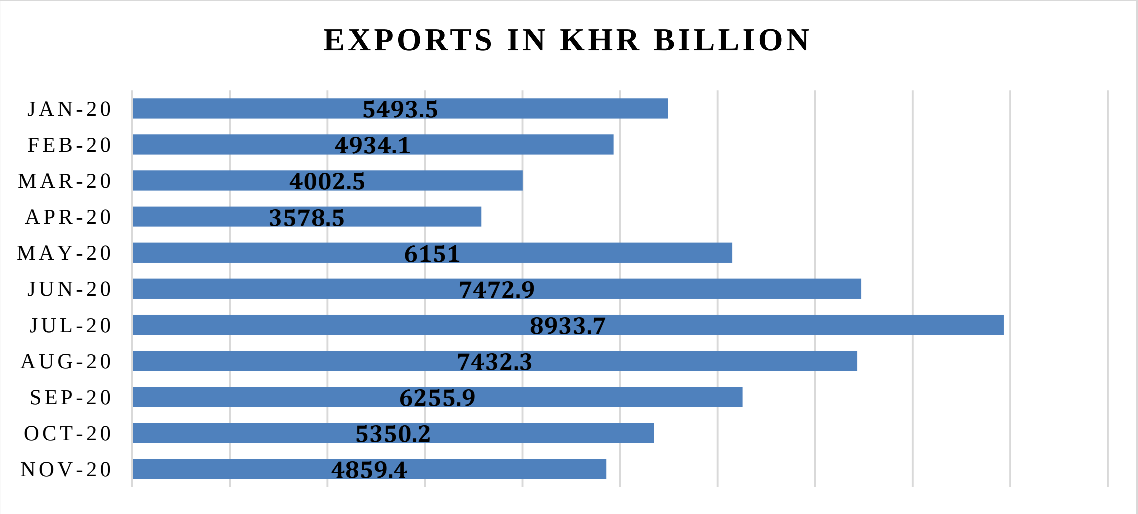

Figure 10: Cambodian exports in Khmer Riels billion, 2020
Source: National Bank of Cambodia (2020)

COVID-19 impacts on poverty and employment

The COVID-19 pandemic is a crisis like no others. It has taken lives and disrupted livelihoods in every corner of the globe by severely disrupting the global economy and pushing up to 140 million people into extreme poverty. Cambodia has been experiencing a serious drop in tourism and many more. In addition, the garment industry has faced two waves of disruption, including diminished supply of raw materials, and reduced demand. The pandemic impacts on poverty and employment are unavoidable. The tourism industry has been collapsed after the COVID-19 outbreak happened. The travels restriction from abroad and internal restriction caused a sharp drop in the tourism and hospitality industry. The COVID-19 has clearly posed serious consequences for livelihoods and poverty causing the greatest threat to Cambodia’s development in its 30 years of modern history. According to the World Bank, at least 1.76 million jobs are currently at risk because of the crisis. In addition, the ILO’s August report estimated that around 100,000 Cambodian migrant workers have returned home which reduced transfer of money from abroad, and they have also contributed to the unemployment.

Similar to UN’s estimation, World Bank estimated the unemployment to rise to 20 percent because of the collapsed of the Cambodia’s three main growth drivers. In the absence of significant mitigation measures, the COVID-19 crisis could lead to a sharp increase in poverty. To mitigate the problems, the Royal Government of Cambodia has prepared to provide relief to the garment factory workers with an emergency unemployment benefit compensating 60 percent of salary. It also provided an emergency unconditional cash transfer program to mitigate the economic effects of the pandemic among the poor as identified in the ID Poor system. The cash transfer program was lunched to provide to about 550,000 poor households in Cambodia (Veara, 2020).

4.2.4 Impact during the ongoing COVID-19 Crisis on Vietnamese economy

Vietnam reacted early to the spread of COVID-19 by imposing social distancing measurements and mobility restrictions. A combination of early measurements, targeted testing, and tracking as well as innovative information campaigns, it has proved to be highly effective. The country entered a 2-3 weeks lockdown back in April, and experienced subsequent mobility restrictions in July after the Da Nang Province outbreak. In September 2020, the economy returned slowly to a “new normal” as businesses and workers return to work.

As of April 30th, 2021, Vietnam's Ministry of Health confirmed a total of 2,913 cases of COVID-19. Thus, 2,516 of the affected patients have recovered and been discharged from hospitals. Vietnam has also recorded 35 deaths in total. The latest new nine cases were community transmission patients linked to a migrant worker returning from Japan (Vietnam Briefing, 2021).

Table 12: Total COVID-19 cases in Vietnam from April 27, 2020 - April 22, 2021

Date	Total Coronavirus Cases
Apr 27, 2020	270
May 15, 2020	314
Jun 20, 2020	349
Jul 26, 2020	420
Aug 13, 2020	911
Sep 18, 2020	1,068
Oct 24, 2020	1,160
Nov 29, 2020	1,343
Dec 17, 2020	1,407
Jan 22, 2021	1,548
Feb 27, 2021	2,432
Mar 17, 2021	2,567
Apr 04, 2021	2,631
Apr 22, 2021	2,816

Source: Worldometers.info (2021)

The pandemic hit the economy hard, yet Vietnam has taken decisive steps to limit both the health and economic fallout. Swift introduction of containment measures, combined with aggressive contact tracing, targeted testing, and isolation of suspected COVID-19 cases, assisted keep recorded infections and death rates notably low on a per capita basis. Successful containment, along with timely policy support, helped to manage limitation of the economic fallout and the size of the emergency response package. In 2020, the Vietnamese economy expanded by 2.9 percent, one of the highest growth rates in the world, backed by the early rebound of domestic activities and robust export performance, mainly higher-tech exports of electronics as people around the world worked from home (Era Dabla-Norris and Yuanyan Sophia Zhang, 2021).

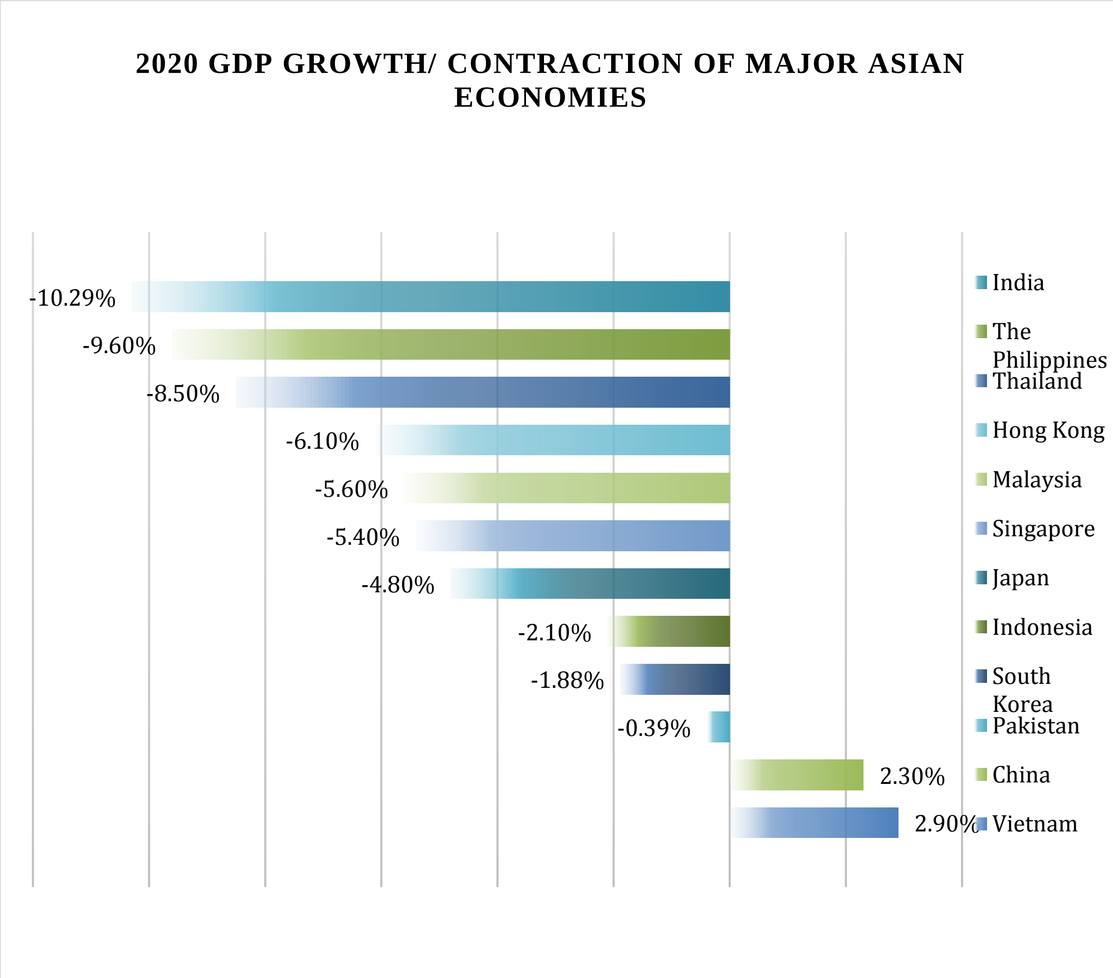

Figure 11: GDP growth/ contraction of major Asian economies in 2020
Source: Consumer News and Business Channel (2021)

Impact on demand

Almost 2 in 3 firms reported a reduction in sales during September-October 2020, but the situation improved in June. Sales has continued to recover, yet firms still experienced significant revenue loss. On average, firm sales were about 36 % lower than last year. The recovery has been mixed, and with firm's sales both improving and deteriorating compared to June 2020. While the extent of revenue loss in June was similar across firm sizes and sectors, the September and October conditions for medium and large firms have improved. On average, small firms and firms in manufacturing and agriculture continued to experience revenue shocks as severe as in June 2020.

Impact on employment

Downward employment adjustments have eased, but level of employment were at similar levels to June 2020. Firms continued to rely on temporary adjustments to their labor force by granting leave, reducing wages, and reducing working hours. Nevertheless, the share of firms making these adjustments on the intensive margin has reduced. Firms continued to lay off workers (10%), but a similar share have also hired new workers.

Impact on product market

Falling demand remained an issue, largely from reduced new orders. Firms faced payment delays and cancellation of existing orders, yet the most important issue with demand was reduced new orders. There are pressures on competition from negative demand shocks and exiting firms. Most firms (60%) did not experience a change in competition relative to last year. A quarter of firms experience an increase in competition, which was mainly due to a reduction in demand. A significant portion of firms (16%) experienced a decrease in competition mainly due to the exit of competitors.

Impact on supply and input market

There was a mix of changes in production cost that the production costs increased 19% firms, by an average of 14%, and decreased for 13% of firms, by an average of 20%. Close to 40% of firms experienced a decrease in availability of inputs, and 10% have had to cancel sales due to lack of inputs. Firms highly experienced issues with lead time and logistics operations. Large firms experienced less impact on their supply chains. Firms sourcing mainly from China experienced decreased input availability.

Impact on access to finance

About half the firms had under 3 months of cash flow and close to 60% had under 6 months of cash flow before facing shortages. Liquidity issues were the most severe for firms in other services sectors. Lack of access to finance became a bigger issue in Vietnam. Over 60% of firms reported some difficulties with access to finance. Main difficulties related to access to finance were interest rate, fear of repayment risk, and lack of collaterals. Large firms were more likely to report having no difficulty, whereas SMEs reported issues with collaterals (Shawn Tan and Trang Tran, 2020, p. 3).

4.3 THE MAIN DIFFERENCES OF MECHANISMS BETWEEN CAMBODIAN AND VIETNAMESE GOVERNMENT IN DEALING WITH CRISES

4.3.1 Mechanism during the Global Financial Crisis

4.3.1.1 *Mechanism of Cambodian government*

Fiscal policy response

With the persistence of high dollarization, the Riel as a percentage of total currency in circulation remained in single digits, so the government can practically only utilized fiscal policy to break the effects of the crisis on macroeconomic stability. Deficit as a percent of GDP dropped from a high of 6.6% in 2003 to 2.9% in 2007. This deficit reduction was driven by tax revenues, which have been caused by improved tax and customs administration, which was illustrative of the government’s efforts towards fiscal reform.

Another core feat attributable to government efforts has been the continued sustainability of debt. Cambodia's external indebtedness as a percentage of GDP remained one of the lowest in the East Asian region. Note that fiscal tightening was one of the official means of containing the inflationary pressures arising from the food and energy crises. Headline inflation in Cambodia actually peaked at 26% in May 2008 (IMF, 2009). Tax measures included the suspension of the monthly turnover tax of 1% on garment factory expenditures and extension of the profit tax holiday, at least for garment factories established prior to 2006. The government also announced a 10% reduction in export management fees and other costs. The higher budget deficit in 2009 was said to accommodate augmented spending on infrastructure, agriculture and social programmes. There was speculation that the US$144 million "unplanned expenditures" provided for under the proposed 2009 budget used for such purposes (Hossein Jalilian, Chan Sophal, Glenda Reyes, Saing Chan Hang, Phann Dalis and Pon Dorina, 2009, p. 27-37a).

Monetary policy and banking

As one of the dollarized economy, the Cambodian government through the NBC implemented the following monetary and banking response to the crisis. Increased the reserve requirements of commercial banks from 8%-16%, reducing it to 12% after conditions permitted some room for monetary easing. Limited bank exposure to high-risk sectors, specifically real estate, by introducing a 15% cap on real estate lending, so banks may not be that keen to resume lending to risky sectors. In addition, increased the minimum capital from US$13-$36.5 million for commercial banks, and increased the minimum capital to $7.3 million for a specialized bank. Lastly, involved in the foreign exchange market (Hossein Jalilian, Chan Sophal, Glenda Reyes, Saing Chan Hang, Phann Dalis and Pon Dorina, 2009, p. 27-37.b)

Policy response on social protection

Safety nets targeted benefits to the poor and most vulnerable group. A safety net programme may take the form of cash transfers, in-kind transfers (e.g. school feeding or mother/child supplementation programmes), labor-intensive public works schemes (food or cash for work), or exemptions from fees for essential services (e.g. healthcare or schooling). Safety net was very an important part of a broader poverty reduction and social protection strategy that included policies for health, education, social insurance and affordable credit and savings schemes.

Fund programmes provided free medical assistance to poor people in 40 operational districts in Cambodia. The HEFs were financed by a regular government budget of US$6 million, and received donor support of $7 million. HEFs worked with the Identification of the Poor project (ID Poor), covered for all costs of hospitalization, medical services, and expenses for transportation and food.

Food emergency programme in October 2008 mitigated the increase in food prices on poor households. The emergency package consisted of a US$17.5 million grant. In the first phase, roughly 342,000 people in 200 communes received assistance (35kg rice ratios) in the eight provinces surrounding the Tonle Sap Lake.

Mother and Child Health Programme in 2007 distributed monthly food ratios to 20,200 pregnant and lactating mothers and 41,800 children living in poor households in food-vulnerable communities, to a total value of US$1.6 million.

School Feeding Programmes reached about 500,000 students and supplementary food and nutrition for mothers and children.Targeted Scholarship Programmes provided educational access to secondary education students (especially girls) from poor households in selected provinces (reaching almost 29,000 students in 2008).

National Social Security Fund was established in mid-2008 to provide protection to government employees. It covered to up to 250,000 employees in the formal private sector (Hossein Jalilian, Chan Sophal, Glenda Reyes, Saing Chan Hang, Phann Dalis and Pon Dorina, 2009, p. 31-33).

4.3.1.2 *Mechanism of Vietnamese government*

Fiscal policy

The government announced several measures to support SMEs in Vietnam as below.

Table 13: The government fiscal policy supported SMEs in Vietnam

- 30% Corporate Income Tax payable deduction
- An extension of up to 9 months for the deadline of submission of the tax payables of 2009
- A temporary refund of 90% input Value Added Tax for exported goods without justifiable payment documents

Source: Thuy Van (n.d.) p. 69th (a)

Interest rate policy

Due to the global financial crisis, the State Bank of Vietnam (SBV) decided to reduce interest rates to support weakening production activities, including by importers and exporters. The following was the brief chronology of some relevant events.

Table 14: The government interest rate policy in Vietnam

Date	**Interest Rates Response (the State Bank of Vietnam)**
February-June 2008	The base interest rate was brought up from 8.25% - 14% to cope with the inflation, pushing the deposit rates and lending rates of commercial banks up to their peaks at 17-18% and 20-21%
September 2008	Increased the required reserve rate for commercial banks from 3.6% to 5% to help reduce lending rates
1 February 2009	The base interest rate was cut to 7%
1 March 2009	Reduced the required reserve ratio for VND deposits from 5% - 3%
1 December 2009	The base interest rate increased from 7% - 8%. The aim was to control the quality of credit by commercial banks and coordinate interest rates with exchange rate policy

Source: Nguyen Manh Hung and Pham Sy An (2011) p. 14^{th} - 16^{th}

4.3.2 During the COVID-19 Crisis

4.3.2.1 Mechanism of Cambodian government

The Cambodian Government has introduced emergency regulations to curb the spread of the virus as well as to cope with the negative spillovers affecting the economic activity of the country. The number of cases and the incidence rate in Cambodia are low compared to many countries around the world and, according to the World Health Organization, a significant proportion of coronavirus cases (84%) are imported (Maalouf, 2020). There were some national measurement of the government to respond to the COVID-19 Crisis. Firstly, regenerating key affected sectors of the economy, including textiles, tourism & hospitality, construction, provided huge quick in employment nationwide. Factory is in a key control. Other objective would be to sustain level of production to protect productive capacity and potentials (capital, technology and labor).

This would mean accessing domestic demand and rebuilding exports as regional and global trading conditions slowly improve. Secondly, optimizing and keeping borders open for trade because it is vital to maximize the retention of value added, where potential exists, to find new sources (agricultural output). Thirdly, developing a new economy offered opportunities to move retail commerce online to increase protection from infection and productive more efficiency. Growth of the cultural and creative industries should be prioritized. After that, supporting a vibrant labor market and decent work boosted employment and deliver greater economic inclusion. Traditional active and passive labor market policies are important, alongside innovations to promote formalization, improvements in working conditions and measures to ensure non-discrimination. In addition, advancing human capital development is also in the list. It focuses on productivity and competitiveness. It includes efforts to promote reskilling and up-skilling, supporting specific sectors so employees contribute to and benefit from recovery (UNICEF Cambodia, 2020, p. 27-28).

4.3.2.2 *Mechanism of Vietnamese government*

Despite COVID-19, Vietnam's economy has remained resilient, in 2020, expanding by 2.9% became one of the highest growth rates in the world, and growth is projected to be 6.5% in 2021. This is because of the strong economic fundamentals, decisive containment measures and well-targeted government support, according to the IMF's latest annual assessment of the country's economy.

Even crisis hit hard, but took decisive steps to limit both the health and economic fallout. Introduction of strict measures, contact tracing, targeted testing, and isolation of suspected COVID-19 cases, kept recorded infections and death rates low on a per capita basis. Successful containment with timely policy support, helped limit the economic fallout and the size of the emergency response package. Vietnam backed by the early rebound of domestic activities and robust export performance, higher-tech exports of electronics as people around the world worked from home.

Entered the crisis with economic fundamentals and policy buffers, although some structural challenges address. Structural transformation from agriculture to a modern economy based on FDI-led manufacturing and the emphasis on "leaving no one behind" boosted living standards. Strong FDI and surpluses strengthened external resilience. Banking system health improved, with higher profitability, liquidity, and fewer non-performing loans than in the past. The build-up of these fiscal, external, and financial buffers prior to the pandemic made Vietnam more resilient to the shock.

Macroeconomic policies will need to remain supportive in 2021 to ensure a resilient and inclusive recovery. Vietnam's labor market was hit hard in the second quarter of 2020, the sizable informal sector with limited access to social insurance. While a rebound of informal employment occurred, weakness persist. Policies in the near-term should center on sustaining employment while fostering a reallocation of resources. This can be achieved by using hiring subsidies and active labor market policies to incentivize job training. Coverage of the existing social safety net should be enlarge, and its efficiency improved. Policies should aim at reducing labor informality by improving labor skills and lowering hiring/firing costs for formal workers, and encouraging firm formalization.

A sustained recovery attaches on financial stability. Corporates in Vietnam entered the crisis with weak balance sheets, particularly SMEs dominate the hardest hit sectors. COVID-19 has deteriorated their liquidity and solvency positions, raising financial stability concerns through bank exposures. Monetary, fiscal, and financial sector policies implemented by the government have helped mitigate the risk of a surge in corporate defaults and mass layoffs. Such support should be targeted to illiquid, but viable firms until the recovery is on firmer ground. Continued strong supervision, together with timely efforts to address problem loans and strengthen regulatory and supervisory frameworks, will help address financial system risks.

More decisive reforms are needed to make the most of Vietnam's considerable growth potential. It requires tackling the sources of pervasive low productivity. Improving the business environment and ensuring a level playing field for SMEs should prioritize, with reforms geared towards reducing regulatory burden faced by firms, improving their access to resources, enhancing governance and access to technology and innovation, and reducing skills mismatches. Reforms in these areas would help Vietnam bring benefits from participation in global value chains in the post-pandemic world (Era Dabla-Norris and Yuanyan Sophia Zhang, 2021).

CHAPTER 5

DISCUSSION OF RESULTS AND RECOMMENDATIONS

This chapter will elaborate on the findings and the analysis and more elaborations will be discussed followed the three objectives of this study.

5.1 DISCUSSION

5.1.1 The main economic crises that happened in Cambodia and Vietnam in the last 15 years

Based on the data retrieved from the United Nations in Cambodia, in 2008 Cambodia was known to be one of the toughest hit nations in the region. It also became one of the most vulnerable country to the broader financial downturn. FDIs have been targeted the garment sector, tourism sector, and construction sector, and all of those sectors hit through bad performances in the global property market. Moreover, the financial system in Cambodia was affected without any delay because of its narrow financial bases and also the shortage of a vibrant rural economy. Another statistic from the World Bank also mentioned the GDP growth annually in percentage of Cambodia in the period of 2007 was 10.213%, while in 2008 dropped to 6.92%, and it was 0.08% in 2009, which was zero growth.

Based on the United Nations Economic and Social Commission for Asia and Pacific shown that the ongoing COVID-19 crisis is the crisis like no others. It is obvious that Cambodia is experiencing in huge drop in tourism because of the national restriction and border shutdown. While the tourism sector is contributed 32.4% to the Cambodia's GDP. The garment industry which is contributed 16% of the GDP, and 80% of Cambodia's export earnings, has faced two waves of serious disruptions such as diminished supply raw materials, and less demand oversea. It is crystal clear that the pandemic strongly impacts over the poverty rate and employment rate in the country. The statistic from the World Bank shown that the GDP growth annually in 2018 was 7.469%, and in 2019 was 7.054%, unfortunately the country faced negative growth in 2020, accounted -3.1% which suffered the biggest lost in the last 25 years.

According to the Council on Foreign Relations, Vietnamese stock market plunged 1 year earlier than the global financial crisis. Vietnam experienced some problems during the financial shock.

Based on the World Bank data, the country's GDP annual growth rate in 2009 was 5.662% and in 2009 was 5.398%, while before the crisis, the GDP was above 7%. During the COVID-19 pandemic, the Vietnamese government put some measures from social distancing to national lockdown that involved in business halting. It influenced economy, in term of employment. According to the General Statistics Office of Vietnam, in the first 2 quarters of 2020, the number of enterprises halting businesses was 29.2 thousand, increasing by 38.2% over same period last year, and 897.5 thousand of people losing jobs while the number of unemployed people was at 1.3 million. The impacted industries such as aviation, tourism and hospitality, accommodation, food & beverage, and other services while revenues reported decreased about 50% and 23.6%, compared to last year. Reported on the data retrieved from the World Bank, the country's GDP annual growth rate in 2020 was 2.9% while in 2019 was 7.017%. Even 2020, it was a difficult year for Vietnam and the rest of the world, but the 2.9% GDP rate was the best economic growth in Asia, that put the giant Asian economy, China to a 2nd place.

5.1.2. The economic crises affected economic growth in Cambodia and Vietnam in the last 15 years

5.1.2.1. *Effects: Cambodia during the Global Financial Crisis*

Reported on the data retrieved from the World Bank shown that the capital flow into developing countries plunged 50% in 2009. In Cambodia, it constricted investment, as more than half of private investment in foreign financed. During the Financial Crisis, the first 11 months of 2008, there was 12.5% dropped in new construction investment compared to same period last year. The sharpest drop was in the projects funded with the FDI, and plummeting property prices, a less demand for property, and drying up financial resources were the main cause for the damage. The Financial Crisis impacted the Cambodia's export. The garment sector made up 94% of Cambodia's total exports. According to GMAC, a freezing in orders in 2008 and almost non orders in 2009, made Cambodian economy suffered a huge lost. The report from CIDS shown that the export sector contracted by 4% in 2008, losing US$129 million of export revenue.

According to the National Institution of Statistics of Cambodia and Economic Institute of Cambodia, the growth of tourism sector in Cambodia was 14.5% in 2006, but decreasing to 11% in 2007, 9% in 2008, and only 8% in 2009 because of the less accommodation bookings and closing of Bangkok's international airport.

Based on the report from Ministry of Land Management, Urban Planning and Construction, new investment in construction dropped by 12.5% in 2008 compared to last year, and falling to US$2.8 billion. It was known that construction sector contributed 7% of the Cambodia's GDP, and 75% of capital in the sector was FDIs. The real estate sector represented 8% of the Cambodia's GDP, estimated to be around US$ million in 2008.

The paper from Chandararot &Sok Sina and Liv Danet, K. (2009) shown that the Financial Crisis decreased demand for manufacturing products, leading to fewer sales at lower prices. While only a small percentage, 20% of agricultural output was export. There was also huge impact to SMEs sector that accounted for 65% of the Cambodia's GDP. The labor market was also hit hard by the financial crisis, mainly in the garment, tourism, and agricultural fields in Cambodia.

5.1.2.2 *Effects: Vietnam during the Global Financial Crisis*

In 2008, Vietnam's export fell. There was a downward export growth, resulting a zero growth export in 2009. According to a study by Vietnam Academic of Social Science found that export manufacturing sectors, such as textile, garment, leather, and seafood industry were hit hard, but they could bounce back when the economy became normal. The reason was because of the demand for products was very inelastic. There was a slowdown in FDIs, and it provided serious consequences.

According to the World Bank, the FDI net inflows in Vietnam kept decreasing from year to year. It was 9.66% in 2008, 7.17% in 2009, and in 2010 was 6.9%. The labor market was also suffered from the shock. Based on the survey from the Vietnam Academy of Social Sciences found out that job losses were at industrial zones.

5.1.2.3 *Effects: Cambodia in the COVID-19 Crisis*

According to the National Bank of Cambodia, COVID-19 slowed down the economic growth of the 3 main drivers, that overall accounted 71% of the country growth. The international travel restriction for the first two months in 2020 decreased 25% of tourist arrival to Cambodia compared to last year, which made the tourism industry collapsed. The crisis also triggered export demand shock due to supply chain disruption. A large part of garment, footwear, and travel goods orders from the two major markets, the US and the EU, have been canceled. Just to clarify that Cambodia GDP's growth in 2020 contracted 3.1%, which was the sharpest declined in the modern Cambodia's economic history.

5.1.2.4 *Effects: Vietnam in the COVID-19 Crisis*

The pandemic hit the economy hard, yet Vietnam has taken decisive steps to limit both the health and economic fallout. Based on the World Bank paper, almost 2 in 3 firms reported reduction in sales from September-October, 2020. Firm sales were 36% lower than same time last year. Small firms, manufacturing firms, and agricultural firms experienced revenue shock as severe as in June 2020.

On the other side, its impact on employment was also high. Firms continued to rely on adjustments to their labor force by granting leave, reducing wages, and reducing working hours.

There was a falling in demand. Firms faced payment delays and cancellation of existing orders, yet the most important issue with demand was reduced new orders. Impacts on the supply and input market were also serious. It was a mix of changes in production cost. The production costs increased 19% firms, by an average of 14%. Close to 40% of firms experienced a decrease in availability of inputs, and 10% have had to cancel sales due to lack of inputs. Liquidity issues were the most severe for firms in other services sectors. Lack of access to finance became a bigger issue in Vietnam. Over 60% of firms reported some difficulties with access to finance.

5.1.3. The main differences of mechanisms between Cambodian and Vietnamese government in dealing with problems

5.1.3.1. *Mechanisms: Cambodian government to the global financial crisis*

According to Overseas Development Institute's paper, deficit as a percent of GDP dropped from 6.6% in 2003 to 2.9% in 2007. This reduction was caused by improved tax and customs administration, which was illustrative of the government's efforts towards fiscal reform. However, I am convinced with that policy due to the tax improvement and customs administration helped to add trade barrier with other countries, which led Cambodia to improve the trade surplus during the crisis. Another government effort was sustainability of debt. I strongly agree with the sustainable debt during the crisis because the highest public debt can negatively affect economic growth via long-term interest rates, and inflation, which may lead to increased lower growth rates. Reported on the data retrieved from National Bank of Cambodia, the monetary and banking policies included increased in reserve requirements of commercial bank from 8%-16%, limited bank exposure to high risk like real estate by introducing a 15% cap in real estate lending, increased minimum capital from US$13 million to $36.5 million for commercial banks, interventions in foreign exchange market, and some prudential measurements.

I believe the Cambodian monetary measurements during the Financial shock was fair enough to reach economic stability because if there was no new any policies adopted, some of the commercial bank would increase during the high risk period, which could led them to bankruptcy. A failing bank may leave local depositors and creditors with losses, reducing spending as a result of a wealth effect. The government raised another solution to increase tourists.

They added another new international airport which is located in Kompong Som Province. Furthermore, the end of 2009, Cambodia had visa waivers in place for citizens from Laos, Malaysia, Singapore, the Philippines, and Vietnam.

Angkor Wat temple passes period extended for tourists (3 day pass over 7 days, 7 day pass over 14 days). I strongly convinced that it was a clear and smart decision from the government to add the new international airport in order to expand the number of international tourist arrivals to the country after the decline, since the tourism sector is one of the backbone of the economy.

5.1.3.2. Mechanisms: *Vietnamese government to the global financial crisis*

According to Thuy Van research report indicated that the Vietnamese government supported SMEs in term of fiscal policy included the 30% corporate income tax payable reduction, extension up to 9 months for deadline of submission of the tax payable in 2009, and a temporary refund of 90% input VAT. In this case, I solely agree on the Vietnamese government to decrease the corporate income tax because it can boosted economy but only in the short run. It will lead to increasing in the state debt in the longer run. For the interest rate response from the State Bank of Vietnam consisted of the base interest rate was brought up from 8.25%-14% to cope inflation. I believed that it was a thoughtful policy because increased interest rates would help reduce the growth of aggregate demand in the economy. The slower growth would lead to lower inflation. Higher interest rates lower consumer spending. Due to the Government Decree, the Law on Unemployment Insurance offered benefits such as employers and employees contributed the same rate of 1% and the minimum wage raised. That idea also raised point that I find quite logical to accept because raising the wages of low-income workers will raise the economy; lower the amount the country spends on social safety net programs, and reduce economic inequality, thereby unleashing additional economic growth in a period of recovery. However, if the minimum wage is increased too much, this may result large impacts on the labor costs that employers must pay.

5.1.3.3. Mechanism: *Cambodian government to COVID-19 Crisis*

According to the UNICEF Cambodia has found that there were some national measurement responding to the COVID-19 Crisis. It included regenerating key affected sectors of the economy (textile, tourism & hospitality, construction), optimizing and keeping borders open for trade, developing a new type economy (e-commerce, digitalization), supporting a vibrant labor market and decent work, and diversifying the economy to the higher level of value added industry. I really agree with these mechanism because if the government regenerates key affected sectors, it will approve the production, large contribute to the GDP, and especially improve the level of employment.

Moreover, it also makes sense for me to keep the border open during the COVID-19 Crisis because the open to international trade tends to grow faster, innovate, improve productivity and provide higher income and more opportunities to people. Open trade benefits lower-income households by offering consumers more affordable products. For the development of a new technology, I think it is very important. It leads to higher wages, higher standards of living for individuals, structuring markets and expanding marketing, increasing sales and exports, thus increasing production and growth rates. Supporting the labor market means generating greater quality of human resources supplied to the market which leads to higher level of GDP.

5.1.3.4. *Mechanisms: Vietnamese government to COVID-19 Crisis*

The IMF's report stressed how the successful Vietnamese government mechanisms reacted to the COVID-19 Crisis management. Vietnamese priorities policy during the COVID-19 crisis included the decisive steps to limit both health and economic fallout. They introduced strict measures, testing and constantly recording. They entered the crisis with economic fundamentals and policy buffers, including transformation of agriculture to a modern economy based on FDI-led manufacturing. Come to the solution of agricultural modernization, I really advocate this strategy since Vietnam is an agricultural based, and it prepares conditions for industrialization by boosting labor productivity, increasing agricultural surplus in increasing foreign exchange via exports. As agriculture becomes more productive, excess labor moves from rural farm jobs to urban manufacturing jobs. Another government mechanism is about the fiscal, external, and financial buffers prior to the pandemic. It made Vietnam more resilient to the shock. I still hold a strong support for the idea of strengthening fiscal and financial buffer because it affects output by affecting aggregate demand makes it a potential tool for economic stabilization.

A sustained recovery attached on the financial stability in Vietnam, the government has helped mitigate the risk of a surge in corporate defaults and mass layoffs, by implementing monetary, fiscal, and financial sector policies. Macroeconomic policies will need to remain supportive in 2021 to ensure a resilient and inclusive recovery Last but not least, the government put more decisive reforms to make the most of Vietnam's considerable growth potential.

5.2. RECOMMENDATIONS FOR RESEARCH IN THE FUTURE

This study combined only the main economic crises that had intensive effect towards the economic growth in Cambodia and Vietnam only, specifically in the last 15 years until nowadays. In addition, it would be more practical and up to date if future research could extend the research to 20 years or even more to be more deeply detail.

On the other hand, this study strongly emphasized on the impacts and national response during the ongoing COVID-19 Crisis. Since it is still an ongoing events, there will be more data, information, measurement and more updated news from day to day. With further added information as well as update data, it will be more precise for the researchers to understand the economic impacts and government mechanisms must be changed and add to another level which could be different.

The researcher admits that this study so far has faced some challenges of the research limitations. Some of the secondary data related to the government financial system, government expenditure statistic, and some detailed government plans or policies are confidential, and especially requires more steps and time to request the government permission from both Cambodian and Vietnamese side, I highly suggest more researchers, economists, or government officials who are interested in this topic to focus more on that part.

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ANNEXES

ANNEX 1: GDP GROWTH (ANNUAL %) – CAMBODIA, 2004-2019

Data Source	**World Development Indicators**
Last Updated Date	3/19/2021
Country Name	**Indicator Name**
Cambodia	GDP growth (annual %)
2004	10.34052878
2005	13.25008691
2006	10.77108367
2007	10.21257391
2008	6.691577475
2009	0.086696959
2010	5.963078575
2011	7.069569946
2012	7.313345505
2013	7.356665149
2014	7.142571101
2015	7.036087179
2016	7.030966776
2017	6.829082448
2018	7.469169207
2019	7.054106932

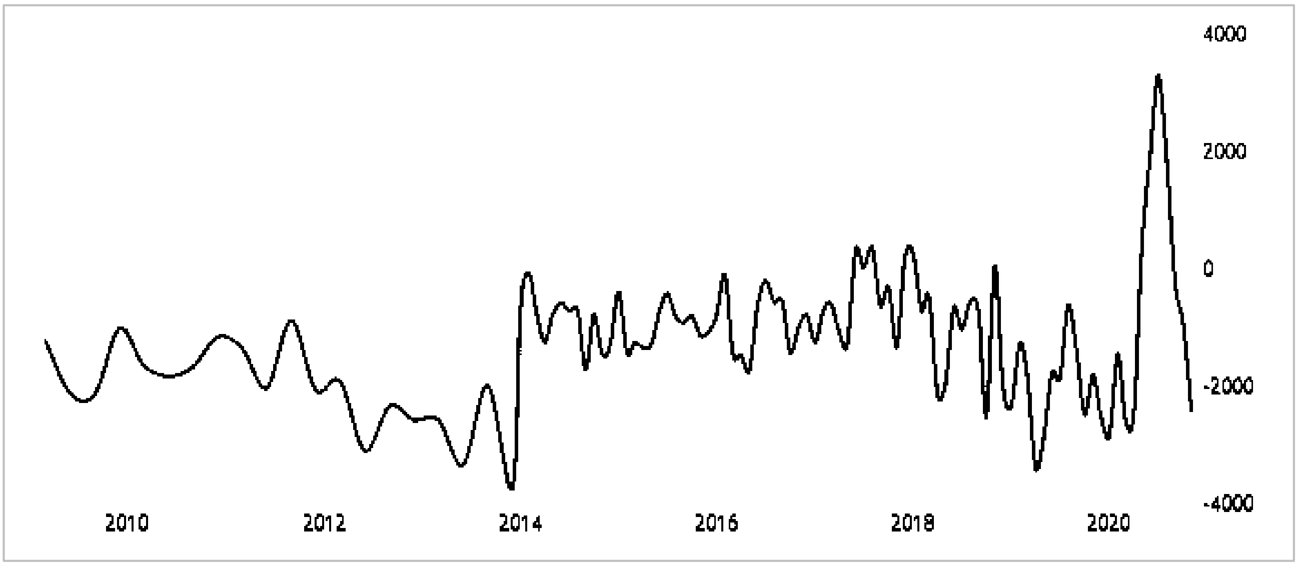
Source: World Bank Data (2021)

ANNEX 2: GDP GROWTH (ANNUAL %) – VIETNAM, 2004-2019

Data Source	**World Development Indicators**
Last Updated Date	3/19/2021
Country Name	**Indicator Name**
Vietnam	GDP growth (annual %)
2004	7.536410612
2005	7.547247727
2006	6.977954812
2007	7.129504484
2008	5.661771208
2009	5.397897543
2010	6.423238217
2011	6.240302749
2012	5.247367156
2013	5.421882991
2014	5.983654637
2015	6.679288789
2016	6.210811668
2017	6.81224566
2018	7.075788617
2019	7.017434882

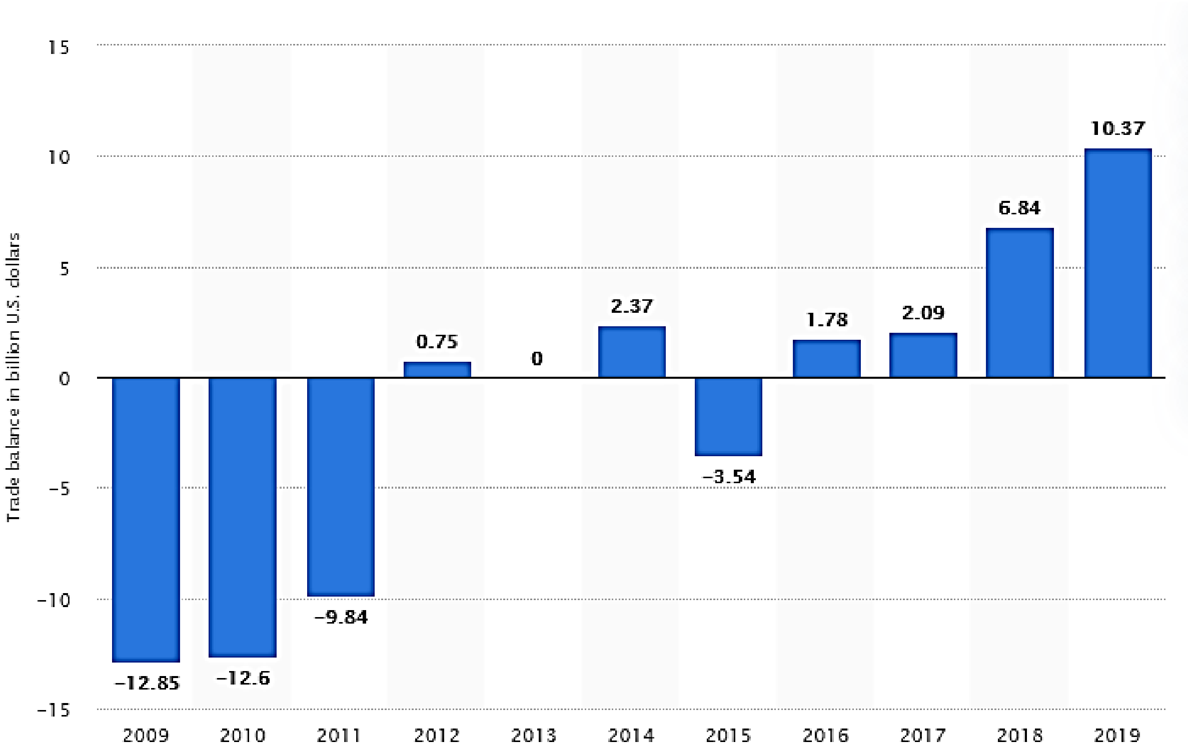
Source: World Bank Data (2021)

ANNEX 3: CAMBODIAN BALANCE OF TRADE, 2010-2020



Source: Trading Economics (2021)

ANNEX 4: VIETNAMESE BALANCE OF TRADE, 2009-2019



Source: Statista (2021)