THE KHMER REPUBLIC

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THE POLITICAL SCENE

The president has ensured little opposition in the new assembly

Cambodians voted for their first national assembly under the republican constitution on September 3. In only three of the country's sixty one electoral districts was the government's Social Republican party opposed - and then only by the People's party which has strong ties with the government. This was because President Lon Nol made quite certain of the results by the way he defined the constituencies. While the 400,000 voters of the capital Phnom Penh were allowed to elect only 10 deputies, refugees from each of the communist-occupied provinces were allowed to elect a disproportionate number of representatives. It is known, for example, that in one constituency in the south-west 70 voters turned out to elect 2 deputies. The abstention of the two main opposition parties from the election, in protest against the electoral law, which they rightly claimed favoured the government group, meant that elections were made meaningless as an expression of popular support for the ruling party. Supporters of General Sirik Matak's Republican party and In Tam's Democratic party could only express their solidarity indirectly, by abstaining from voting. President Lon Nol has assured himself of a congress of yes-men in parliament by his electioneering tactics. The way in which the result of the September election was engineered by the president is yet another piece of evidence of the disintegration of the united front that the Cambodians were able to present to the Vietcong active on their soil a couple of years ago. In dividing non-Communist parties by his non-democratic methods, President Lon Nol may well be weakening his own position rather than strengthening it.

Rice shortages lead to riots in Phnom Penh

Although the president can expect a smooth ride within parliament, for a short while at least, outside parliament it is a different story. A week before parliament opened there were serious riots in Phnom Penh, when thousands of soldiers and civilians looted markets in the town. The fact that soldiers were involved in the rice looting made the riots particularly serious, and has been interpreted by observers as not just another case of armed piracy by men in uniform, but as an act of desperation by Lon Nol's own soldiers, underfed, underpaid and expected to fight for an administration in which they are losing confidence.

Rice prospects remain cloudy

A bad harvest last year and a worse one to come expected (because of drought combined with continuous communist attacks on the road from the rice fields of Batrambang, the main rice growing region in the north-west) have sent prices soaring. It is feared that 50 per cent of the harvest may be lost this year. Although the US reacted swiftly and airlifted emergency supplies of rice stored in Saigon to Phnom Penh, while more shipments were being got under way from Thailand, it will remain to be seen whether any will get through the official distribution system to the public. And even so, the emergency supplies of rice are only expected to supply the city with two weeks' extra supply, according to US estimates.

And the war?

Morale is low in the refugee-packed city and is declining with each successive report of defeat on the battlefield. President Lon Nol's insistence on re-opening the road to Saigon, which cuts through a communist sanctuary area, has lead to the loss of some of his best units. There is still no sign of a pacification plan to consolidate control over areas still run by the government, which include most of the major populated regions and approximately 60 per cent of the people, but which are being continually eroded. The communists could easily take Phnom Penh itself, with North Vietnamese help, if they wanted to. The Cambodian pot will go stewing for quite a while longer, it seems, at least until there is some change in Vietnam. One aim of the Khmer Republic's first minister, Mr Son Ngoc Thanh, on his recent visit to Saigon, was to make sure the Khmer Republic is not forgotten in any peace settlement. According to President Thieu, no such deal is in the air and such measures are simply the communists indulging in trickery to exploit the American election campaign.

THE ECONOMY

Outlook for rice, rubber and maize is mixed

In 1969, the last complete year for statistical purposes before war broke out, the three commodities rice, rubber and maize accounted for almost 60 per cent of the Khmer Republic's total export earnings. The outbreak of war was soon reflected in a serious decline in both agricultural production and exports. The table below gives an indication of the extent of this decline.

Production and Export of Rice and Rubber 1969-72
(tons)

	Rice		Rubber	
	Production[a]	Exports	Production	Exports
1969	3,814,000	102,767	51,830	47,232
1970	2,732,000	179,983	12,763	12,610
1971	2,138,000	40,146	1,146	-
1972[b]	2,067,000	7,100	15,000	13,000

a Paddy; shown on the basis of crop years beginning with crop year 1969/70 (ended March 1970).
b Estimates.

Since this table was compiled in August, the outlook for rice output has deteriorated as a result of the combined impact of drought on production and fighting on the distribution of supplies, and consequently the Khmer Republic will almost certainly, as forecast in the previous QER, become a net importer of rice by the end of 1972. The outlook for rubber production and exports has, in contrast, improved significantly in recent months. Work has resumed on some of the major plantations and the new rubber is being transported for processing in newly built plants in Phnom Penh. As a result, rubber production is estimated to increase from 1,146 tons in 1971 to about 15,000 tons in 1972. Rubber exports are being resumed, with several hundred tons exported in May and June 1972. For 1972 as a whole, rubber exports are projected to reach as much as 13,000 tons. Maize was the third most important export commodity before the war, with exports amounting to 38,700 tons in 1969. The main maize-producing regions are insecure and the area planted is believed to have fallen to half its pre-war level of about 100,000 hectares. Current production estimates are uncertain, but maize exports are expected to be negligible in 1972. Some maize is believed to be exported illegally to South Vietnam, but the prospects of an early recovery of normal exports are not good.

Industrial production at a low ebb -

Industrial development was still at an early stage at the outbreak of the war, production accounting for about 17 per cent of national income. It is estimated that approximately 70 per cent of total industrial production was located in Phnom Penh and other urban areas, while 30 per cent represented output of mainly cottage-type industry in the countryside. Comprehensive industrial production statistics are not available, although general trends can be clearly identified. Output in state-owned and in rurally sited industries has experienced the sharpest decline - the former includes several plants which are now in insecure areas and have been completely destroyed (phosphate and paper) or have been put out of operation by war damages (the oil refinery) or are hampered by inadequate transport facilities (cement). In addition the cement and tyre factories have been partly destroyed. Production in several industries has fallen only moderately from the pre-war level, for example textiles, soft drinks, alcoholic beverages and cigarettes, while output of pharmaceutical products are substantially higher.

- but new investment is picking up

Current industrial investment projects include a substantial expansion of the local pharmaceutical industry - the Khmer Republic's drug shortage makes this a growth field and hence attractive to foreign private investment - a new paper factory, expansion of crumb rubber interests and a footwear factory.

The government is continuing the pre-war policy of encouraging industrial development. The foreign investment law is currently being revised so as to make investment conditions in the Khmer Republic competitive with those in neighbouring countries. Although the pre-war plan to develop a tax-free industrial zone in the Kompong Som area is still being pursued by the government, substantial infrastructure investment is required before the plan can be realised, so that little progress is likely while the war continues. Preparatory work is now in progress to explore potential oil fields in offshore areas.

Consumer prices register significant falls in the first half of 1972 -

The price stabilisation programme, introduced at the end of October 1971, seems to have proved successful. In the seven months prior to its introduction the working class price index had increased by 144 per cent. For the middle-class and European class indices, the corresponding increases were 122 per cent and 133 per cent respectively. During the following eight-month period ended in June 1972, there was a marked improvement in overall price performance. The indices for the working class and the middle class declined, with the former falling by about 15 per cent and the latter by about 1 per cent. The European price index, however, rose slightly over the period. This favourable performance since the end of 1971 is the result of several factors. A major reason is the substantial net decline of food prices which occurred during the period, partly due to seasonal supply increases and partly due to the successful promotion by the authorities of food production by non-traditional producers in the Phnom Penh region.

- but can they be kept down?

The shortage of rice supplies in Phnom Penh in September will have put pressure on the retail price index and the government's success now and over the next few months in increasing rice supplies will be crucial to the continuation of a period of relatively stable consumer prices. If it is not able to ensure that the people of Phnom Penh are able to buy their normal amount of rice, then the previous success of the price stabilisation programme will have been squandered.

Monetary developments

Monetary developments remained relatively favourable during the first six months of 1972. Money supply rose by 16.2 per cent. The financing of the budget deficit remained the main expansionary factor, with net claims on the government increasing by 29.7 per cent during the first half of the year. Counterpart funds continued to be the major contractive factor, with the net accumulation amounting to KR1,226 mn - in addition KE1,702 mn of aid counterpart funds were transferred to the government account, plus KR470 mn of PL480 counterpart funds, bringing the gross contractive impact of aid to KR3,398 mn, an amount equivalent to 16.5 per cent of the money supply as of December 1971. The outlook for monetary developments during the second half of 1972 is favourable. Given the expected budget deficit, and counterpart generation changes in official reserves and other monetary factors, the rate of monetary expansion should decline to about 10 per cent.

Half-year exports receipts are $3.1 mn and imports $43.7 mn

Exports are expected to continue to slide downwards in 1972, and it is estimated that for the whole year they will reach a value of only about $7 mn. During the first half of the year receipts were $3.1 mn, while imports amounted $43.7 mn over the same period. Given the expected volume of imports for the second half of 1972, of $50.4 mn, total imports for 1972 will be $94.1 mn. The deficit on the

services account is expected to rise sharply also; and the overall deficit on goods and services is estimated at $111.5 mn in 1972. Receipts of foreign aid are estimated at $99 mn and net capital receipts at $4.3 mn, with a corresponding decline in official reserves estimated at $8.2 mn.