

Get riel: move to ban US dollar

By Charles McDermid and Cheang Sokha

Renewed calls to remove the US dollar from widespread circulation in Cambodia are drawing bipartisan support, and some high-ranking government officials are calling the ban a pressing matter of national sovereignty and pride.

A positive progression to some, an inconvenient eventuality to others, the move to finally "de-dollarize" the Cambodian economy has been sidelined for years by the government and monetary groups reluctant to heap hiccups into an otherwise bullish economy.

"Cambodia has extremely high levels of dollarization-our estimates are something in reality close to 90 to 95 percent," said Jeremy Carter, advisor to the Asia and Pacific Department of the International Monetary Fund.

"This makes it an exceptional country."

A recent National Assembly presentation by Sam Rainsy Party lawmaker and economist Tiolong Saumura has re-surfaced the state currency debate.

Saumura is unequivocal on the issue, and has given rationales ranging from interest rates, to money laundering, to Cambodians' trust in their own economy and government.

"Decree it. Ban it! This is unthinkable in other places," Saumura said.

"One of the accomplishments of the [European Union] was that member states surrendered part of their national sovereignty to adopt the Euro. This is a huge thing to give away. In our case we gave it away without getting anything in return. It's like we're funding the trade deficit of the US."

Now, politicians and economists are studying initial ways to embark on the de-dollarization gambit, and some are saying policies to rid border regions of an increasing infiltration of Vietnamese dong, Thai baht and Lao kip, are long overdue.

"When I made my statement a lot of MPS, especially from the CPP, were nodding their heads in agreement. It's a matter of principle: when you're in a country you're only supposed to use the national currency," said Saumura, a former vice-governor of the National Bank of Cambodia and the current chair of the Inter-ministerial Committee Against Money Laundering. "Monetary policy is an important tool for the stability of the macroeconomic situation. It allows a central bank to steer the amount of liquidities put at the disposal of the economy. At present we are not in control of our money supply. The Cambodian Bank and the government is not in control of the mass of money in circulation."

Saumura, a member of the 150-nation Inter-Parliamentary Union's Standing Committee for Sustainable Development, Finance and Trade, first published a report on banning the dollar in 1994.

"To de-dollarize is even more important now: there's more trade. In 1993 we had no garment factories. We have more tourists now and the economy is more internationalized and more accelerated," she told the Post. "Cash, usually the US dollar, is still used for big transactions. What's more surprising is the dollar is used for small purchases, too. It's psychedelic."

Gathering support

Fiscal prudence is crossing political party lines, with support for a foreign currency crackdown coming from the highest ranks of the CPP.

"I have raised the idea of banning dollar since nine years ago. I have talked about this issue many times with the minister of finance and economy Keat Chhon and National Bank governor Chea Chanto -how to dedollarize," said Cheam Yeap, chairman of Finance and Banking Commission of the National Assembly, and member of the Standing Committee of the CPP.

" No country is allowed to use dollars in the market like our country. Using dollars causes inflation to the riel, but as we do not have economic instability that we previously had, we don't have the possibility to ban the dollar on the market. This is the problem and it is hard to eliminate. I think it will be difficult to change people using riel from dollars. But riel is our formal state currency, and it is a shame that dollars are used all over the country."

Even the ban's strongest supporters admit it's a dicey prospect.

"The government's policy will not allow the dollar to be popularized much longer, but this must be done step by step. Our measure is to encourage people to use the riel, not force. What we must do is not shock the market," said Tal Nay Im, director-general of the National Bank of Cambodia. "If we force them to use riel immediately, people will lose a lot of convenience. If we use riel right away investors will think it's a risk to exchange currencies, and our economy will struggle."

According to Nay Im, the government has taken a positive first step. He said it is government policy to require public utility fees and taxes to be paid in riel.

"We are also thinking of lowering the prices of goods in the markets and shops if they purchased in riel," he told the Post. "I think changing people's minds should start with the government and its institutions first. Using riel will have both advantages and disadvantages. As I know, in Vietnam and China dollars can be used on the black market in a way that is very difficult to control."

Illegal activity is the other side of the coin: transnational trafficking of drugs and weapons, money laundering and terrorism. The US dollar, according to experts, is the lingua franca of crime.

"Using riel would prevent many crimes because criminals involved in smuggling and organized crime use the dollar because it's easy to transfer abroad," said SRP lawmaker Yim Sovann, chairman of the investigation and corruption commission of the National Assembly.

Past Khmer currency

Thun Saray, founder of rights group ADHOC and a historian on Cambodian currency, strikes a more cultural note.

According to his book *History of Cambodia's Currency*, the Kingdom first began using national currency in the 16th Century, before then Cambodians traded in gold weights.

"It was a symbol of national pride during the anti-colonial times," Saray said "The French introduced the Indochine banknote to be used not only in Cambodia, but also in Vietnam and Laos. After independence they used riel all over the country into the 1960s."

According to Saray, at this time US dollars were used only for exchange activities and by big spending, high-ranking government officials. The Khmer Rouge banned all currency as part of their ultra-Maoist reform.

"From the 1980s, Cambodians have not trusted the riel. People don't trust their own economy, due to bad experiences with inflation in the 80s and 90s," he said. "During the UNTAC time, Cambodians only trusted the dollar. They're still using the same habit now."

Nay Im of the National Bank, concurs that dollarization became de rigueur in 1991 or 1992, and since then convenience and concern have kept Cambodians spending and saving solely in greenbacks.

But Saumura isn't buying it. "Why has this been going on for so long? Because of UNTAC? That's their argument? They must be kidding. People have no trust in our country, no trust in our economy and no trust in our government. That's the crux of the matter," she said.

"To place the blame on UNTAC 15 years ago is shameful."

Coin of the realm controversy

The widespread use of the US dollar across Cambodia began during the UNTAC era. Now the ruling party has joined calls by economists and the opposition to re-introduce the debate over de-dollarization.

"In the short run dollarization has helped the economy in certain respects, but over the long time you would probably want to look at that sort of issue. But we haven't taken a position. It's not a priority. It's not an issue where we've thought 'we've got to de-dollarize the economy straight away.' I don't think that would be a prudent approach at all."

- Arjun Goswani, Asian Development Bank country head

"There are many advantages of having your own vibrant exchange rate and your own vibrant currency. But we also have to look at the pros and cons for Cambodia. Dollarization has produced some disadvantages. It

means, for example, the central bank has less flexibility over monetary policy. However, on the other side, dollarization combined with reasonably prudent fiscal policy has generated stability. It has given a tremendous buttress to keeping inflation relatively low. When we compare Cambodia's performance to other countries in the region you will find it is a very good performer in the last 5 to 10 years in terms of inflation. Overall we support efforts to increase the natural use of the currency.

- Jeremy Carter, advisor to the International Monetary Fund

"To use the dollar is a good thing because we can avoid bureaucracy. It's a good thing for investors in Cambodia. Using US dollars on the market is not a bad thing. For example, in France they stopped using the franc and started using the Euro."

"Why can't we use the dollar? I think it's better to use both - the riel and the dollar."

- Sok Hach, director of Economic Institute of Cambodia

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