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16 January 1974

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MEMORANDUM FOR: John Bushnell [redacted]
National Security Council
Program Analysis
Room 365 OEOB 20506

SUBJECT : Review of Cambodian Inflation

1. Per your instructions of 28 December, we have put together key aspects of recent Cambodian economic developments from available reporting to assist in defining aid requirements. As we agreed on the phone last Friday, the data gaps yet to be filled by the Mission in Phnom Penh preclude extensive or detailed analysis of reported needs at this point, but the notes we have assembled (see attachment) should give you a clear idea how far we have gone in our own thinking. We understand that there will be further need for policy-support research as requested data begins to flow in from the field.

2. There is no question in our minds that the principal engine of inflation in Cambodia is commodity shortages rather than fiscal or monetary policies. Because of the nature of refugee movements, the problem is not restricted to rice, and even the scant available indices make it clear that a wide range of goods shipments is needed to make any significant impact on inflation. At the same time, additional detail will be necessary on market availabilities and import flows before we can specify with any measure of certainty what commodities other than rice and POL should enjoy priorities. 25X1

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State Dept. review completed

USAID review completed

3. One striking gap in the data base is the absence of usable information on recent import arrivals. Prices have soared to record levels in Phnom Penh since this past spring, and the short period in question tends to make the available import data radically obsolete. Jerry Kamens (AID) was able to provide us with only a small increment in this area, but he assures us that the Mission is being solicited for additional support. I strongly hope this will be forthcoming.

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Review of Cambodian Inflation

Summary

During 1973 Phnom Penh* passed from relatively modest wartime price increases into hyperflation. This transition may have been spurred somewhat by inflation on world commodity markets and -- to an even lesser extent -- by expansionary monetary and fiscal policies; but the available data make it strikingly clear that most of the new surge is the impact of cumulating losses in real domestic output.

From the scant available data, we cannot tell if our aid program and current free-market imports are significantly relieving commodity shortages other than rice that most affect the Phnom Penh working class and refugees. There are signs that preoccupation with rice supplies may have meant a less effective attack on inflation in some other goods. Before any large-scale efforts with respect to non-rice foods, however, we ought to know more than we do right now about the price incentives for merchants operating across battle lines; for the flow of goods into Phnom Penh from outlying areas would appear to be greater than reports of security conditions alone would suggest.

* It is difficult at best to specify the current economic hinterland of the capital. The reader should, therefore, bear in mind that: 1) this piece is written from the perspective of supplying Phnom Penh; 2) the economic base of the GKR is constantly changing and does not correspond with the Cambodia of 1969; and 3) we -- and others -- are still trying to develop data on markets and goods flows in the provinces.

Other than the sharp reduction in measurable real output, the most striking feature of the Cambodian situation today is the potential for political upheaval in the sorts of income redistribution taking place. Even allowing the phlegmatic nature of the Cambodians, the growing pool of poor and underemployed in the city poses an increasingly serious threat to the stability of the Lon Nol government. Shortages of foods are apparent and soaring prices have already put many of them beyond easy reach of the poor.

I. Prices, Production, and Government Response

Inflation -- Living costs in Phnom Penh surged upward during 1973 after 2-3 years of relatively tame inflation under difficult wartime conditions. The principal engine of the new inflationary burst was commodity shortages; and, by yearend, these had resulted in price gains on the order of 275-300%, based on available indicators for the Phnom Penh working class.* Defects in the available data notwithstanding, it is clear that rapidly rising food prices were responsible for most of this sharp increase.

Throughout 1973 commodity supply by the US was focused on meeting real requirements for rice and petroleum products. Although stabilization goals were not the only criteria, rice supply seemed a particularly appropriate focal point for countering inflation because changes in the price of rice on both the official and free markets influence other price adjustments. The IMF has found that significant movements in the cost-of-living index have followed increases in rice prices. In Cambodia's unsettled economic and political climate, rice is a surrogate indicator of overall commodity availability. Rice price increases trigger not only an increase in demand for rice but also for most foodstuffs and other commodities as consumers attempt both to guard and speculate against future shortages.

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* Price index data for Phnom Penh are woefully inadequate for making reasoned economic judgements.

Rice prices have also been used as the basis for salary adjustments, a role which tends to accentuate an inflationary spiral.

Though the key element of US food supply operations, rice -- accounting for an unrealistic 10% of the working class index -- is not solely responsible for Cambodia's rampant inflation. Available components of the price index, though sparse, suggest that since March 1973, pork, lard, fresh fish, and rice wine prices, with a combined index weight of 18%, have risen almost as rapidly as those of rice. Moreover, these commodities plus duck eggs and dried fish, with a cumulative weight of 31%, have risen greater than the rate of growth in the total index during the same period. In addition to commenting on these commodities, Khmer press reports during 1973 noted that prices of legumes and some fruits had increased faster than the cost of living as a whole.*

Some of the price increases in Cambodia could have been expected simply from the need to import substantial quantities of basic goods from a rapidly inflating world market, but many of the items in which Phnom Penh experienced the most difficulty were the ones that are normally supplied from domestic sources and were probably not in as short supply within its

* In the non-food category, the press also cites clothing, soap, and medicine, with a weight of 13%, as driving up the cost of living.

borders as the Phnom Penh price index would suggest. Available information, however, does not yet give us the evidence we require to judge to the precise extent to which the pickup in price increases was a function of internal supply disruptions.

Production Declines and Marketing Disruptions -- While accounts of speculation and general hoarding always claim front page coverage in such situations, there can be no doubt that current inflationary trends in Cambodia spring primarily from wartime disruption of domestic production and marketing facilities. Available statistics on agricultural and industrial production show pronounced declines of activity in both sectors. Production losses were only moderate in 1970 and 1971, but the rising level of hostilities from 1972 onward and the destruction and disruption of farms, markets, and transportation facilities have combined with the dislocation of large elements of the labor force to accentuate the decline of activity.

The most disruptive impact of the war has been on agriculture, which may be operating at only 25% of the prewar level. The war has caused considerable damage/destruction to fields and draft animals. Transport and marketing problems as well as the difficulty in furnishing imported goods cut the supply of fertilizers, chemicals, spare parts, and other material inputs, while military manpower requirements led to labor shortages. These combined with the threat of ever-increasing hostilities led farmers to grow little more than subsistence needs and, in the extreme to abandon fields and migrate to urban areas.

The loss of agricultural production is best demonstrated by the decline in paddy output from 3.8 million tons in 1969/70 to less than one million tons in 1972/73 and 1973/74. Maize production declined from 140 thousand tons in 1969/70 to only 20 thousand tons in 1973/74. Rubber production dropped from 52 thousand tons in 1969 to less than 1,000 tons in 1971, but has since recovered to some 20 thousand tons. These three products along with cattle constituted the bulk of agricultural production and generally accounted for 60-70% of total exports ($46 million out of $66 million in 1969). Cambodia must now rely heavily on imports of over 200,000 tons of rice and other foodstuffs, while exports -- almost exclusively rubber -- will be only some $10 million.

The war has also been responsible for a serious decline in industrial production. The IMF has estimated that the level of manufacturing activity during the first half of 1973 is probably about half peacetime production capacity.* A large portion of pre-war capacity -- in paper, fertilizer, and petroleum plants, for example -- has been destroyed or damaged, and about 70% of the rice mills in the countryside are reportedly not operating.

* The Cambodian Ministry of Industry compiles an industrial production index which suggests that total output has dropped only some 20% since the war began. The index is not comprehensive, however, and is heavily weighted in favor of industries located in Phnom Penh area, which have been less adversely affected by the war.

Besides physical damage, industrial output has been widely affected by disruptions in the supply of ancillary inputs and by a shrinking demand for manufactured goods. Domestic supply of raw materials such as cotton, jute, tobacco, wood, rubber, and construction materials has dwindled; raw material imports have arrived irregularly and are increasingly costly. Disruptions to transportation and energy systems -- most recently with electrical failures in August and September -- have frequently slowed or shut down production lines. A drastic reduction in the real incomes of large sections of the population and the loss of countryside markets has shrunk the demand for many manufactured products.

Manpower shortages have further hampered industrial production. A shortage of skilled labor has forced the closing of many factories, most of which were small-to-medium sized installations. The shortage abated somewhat in 1972 as the military authorities tried to avoid enlisting skilled labor into the army, but was exacerbated by a general mobilization beginning in early October 1973. Despite the seeming existence of a large refugee-populated manpower pool in urban areas,* the majority of refugees were farmers

* Some 750,000 refugees were on government rolls as of mid-1973. This number is probably now near 1 million, and there is a substantial number of unregistered refugees.

before the war and have few skills and almost no training. Little investment in industries that could employ them has taken place; hence, most are either unemployed or underemployed as, for example, day laborers or cyclo-drivers.

Government Policy Measures and Problems -- Increasing military, political and economic problems all seemed to converge at the same time, and economic issues took a back seat as a preoccupied and inexperienced government was hesitant to implement firm economic measures. Moreover, policy dilemmas abounded; most proposals seemed to be double-edged, with negative effects at least partially offsetting what little positive impact could be achieved. Major fiscal and monetary reforms, for example, were necessary as a result of severe inflation and the growing government budget deficit. A significant expansion of revenues, however, was extremely difficult both because of the security situation and the government's unwillingness to provoke a potentially adverse public reaction. Cutting expenditures presented the risk of reducing needed resources for the military. Price controls or subsidies were of little use both because of primitive control mechanisms and the problems they created for budgeting. Similarly, the government's precarious foreign exchange position called for reducing imports, but imports were soaking up excess liquidity and thus were playing at least a small role in curbing inflationary pressures. Coping with severe wartime economic dislocations thus became largely a matter of episodic reaction -- doing the minimum necessary to stave off immediate unrest or collapse. Most of the policy measures implemented over the last three years were in response

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to specific dislocations, medium-term planning was virtually nonexistent, and political considerations often took precedence over the economic efficacy of the policy action. In these circumstances, perhaps little more could have been realistically expected.

There has been little success in either controlling government expenditures or increasing revenues. Government budgets, financed largely by deficit spending, have grown at an annual rate of over 50% from 1969 to 1973. Better administration and control of military expenditures could yield some savings, but the government will not want to do this under present conditions. Moreover, military expenditures are such a large share of the budget (60%) that savings from austerity measures on the civilian side are small. The government did reluctantly raise its artificially low, controlled prices on several important consumer items, an appropriate policy to eliminate subsidies required to maintain the ceiling prices; but the measurable inflationary effects of any expenditure saving were at least partially offset by the resulting increase in prices as well as the higher wages that had to be paid to cushion the effect on civil servants. Increased consumption taxes on cigarettes and alcoholic beverages, higher taxes on imports, and selective taxation on certain luxuries, have increased revenues slightly. Import taxes, however, are still not being used effectively; some 40% of goods imported during the first half of 1973 arrived tax free. There is, moreover, the question of whether increased import taxes are a proper policy in Cambodia's present inflationary situation. Although adding to government revenues, import taxes may discourage import of goods the consumption of which withdraws considerable liquidity from the economy and -- in the case of US CIP-financed goods also generates counterpart revenues to offset the government's deficit spending.

Monetary policy, too, has had only a minor effect on controlling inflation. In particular, policies have failed to curb the growth of credit to the private sector. Monetary policy has been subject to several limitations: 1) the economy is only partially monetized; 2) the public sector has been incurring rising deficits which are largely financed by the banking sector; and 3) Cambodia's instruments of monetary control are not adequate and are poorly coordinated. The stabilization program introduced in 1971 reduced the growth of the money supply somewhat. Several interest rate adjustments have increased savings in institutions slightly, but interest rates are still negative in real terms and the higher rates had little effect on bank loans. Sales of treasury bonds to the public are insignificant because the channels for such sales are primitive. Reserve requirements have been generally followed by the banks but have been used more as a means to provide bank financing to the government rather than as a tool to restrict monetary expansion. Finally, advance deposits on imports have been adjusted in various stages to absorb liquidity but have had an adverse -- and at least partially offsetting -- impact on import demand.

Government budget deficits and the lack of effective monetary controls thus have contributed to inflation in the 1970s, but there were few realistic alternatives and the impact this past year was relatively insignificant. In the earlier stages of the war, prices increased at rates roughly equal to that of money supply, as shown in the following table.

Rate of Increase in Consumer Price Index and Money Supply

Percent

Year	Price Index All Items	Price Index Food Only	Money Supply
1970	50	85	72
1971	58	60	50
1972	32	40	41
1973 (Partial)	201 (Oct.)	235 (Oct.)	26 (Aug)
1973 (Projected)	275	325	42

More recently, however, the acceleration in prices has been largely unrelated to monetary expansion. By late 1972, commodity shortages began to force the rate of price increase slightly

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above that of money supply. And in 1973, severe commodity shortages and official price increases pushed the cost of living up at a rate far outpacing monetary expansion.

II. Real Income and its Distribution

One of the most important facets of Cambodia's evolving economic problems is that of income distribution. With large numbers of people still arriving daily in a capital city that already has a small army of unemployed and underemployed, the prospects for riots or revolution become progressively stronger. The income distribution problem is perhaps the most tangled skein in the Cambodian economy, and for this very reason it deserves considerably more attention than it has received thus far. Its basic elements include the loss of income to displaced farmers and unemployed factory workers, disparities in income adjustment, and the interaction between typical consumer market baskets and particular wage scales.

Phnom Penh may contain upwards of 1.5 million unemployed or underemployed refugees. Accurate statistics are not available, but the capital's population is presently estimated at above 2 million, compared with 1.6 million in July 1973 and 600,000 just before the war. The bulk of this increase is comprised of farmers and their families who have fled their homes. Most refugees initially found shelter with friends and relatives; but it appears that this traditional, extended family system has reached the saturation point, and refugees must take to the streets and government camps. Thus, as the inflow continues, successive refugee waves become more of a drain on available resources.

Since the great majority of the refugees in the Khmer Republic were farmers before the war, most have few skills and little training. For the most part, in both Phnom Penh and in the provinces, male refugees work as day laborers or as cyclo-drivers. There are exceptions, however, and in Kompong Som many work as stevedores at the harbor. In Pailin, many dig for precious stones. In Kompong Cham, some still are able to harvest bamboo from the nearby forests. The refugee wives and small children usually sell things in the market, or work as domestics. In Kampot, they also work as field hands in both the rice fields and the salt beds. In general, there is very little outright unemployment; most refugees can find some work if they look hard enough. What unemployment there is, is usually limited to families without able-bodied males in the camps or to provinces like Svay Rieng, which are completely isolated by the enemy. But there is widespread underemployment. With so many refugees looking for work, the job market in most of the Khmer Republic is glutted. The average refugee, who before lived well on his one-two hectares of land, now finds himself making only 100 to 150 riels a day. For some, the average daily wage drops as low as 60 to 70 riels a day. The female refugees have an even harder time, and some spend the whole day in the market and make only 30 or 40 riels. At today's prices and exchange rates a daily wage of 100 riels is equivalent to only about 25 cents, and will purchase little more than 750 grams of rice.

For most of the working class in Phnom Penh, wages and salaries have failed to keep pace with the rising cost of living. The only available statistics, a so-called minimum monthly wage schedule, indicate that between 1969 and mid-1973 real wages fell by 20%, as shown below.

Minimum Wage

	1969 Dec.	1970 Dec.	1971 Dec.	1972 Sept.	1972 Dec.	1973 July
Minimum wage (in riels per month	780	780	1,200	1,820	1,820	3,500
Cost of living index 1/ 1949 = 100	348	523	823	1,008	1,131	1,917
Real minimum wage 2/ 1969 = 100	100	67	65	81	72	81

1/ For the working class in Phnom Penh.
2/ Deflated by the cost of living index for the working class.

Adjustments in the wage have been infrequent, usually coming only under pressure of mounting social unrest, and have generally been less than the increases in prices. Moreover, there is a considerable disparity in the adjustment procedure. The minimum wage, for example, was not universally applied and didn't become official until 1971. In order to offset the fall in the cost of living, the government has several times increased wages and salaries of civilian and military personnel; increases for non-government workers, however, have probably not been equivalent. Incomes of middle- and upper-echelon workers have no doubt more nearly kept pace with the cost of living. Skilled workers in Phnom Penh's expanded pharmaceutical and rubber industries have probably been able to take advantage of production gains in those sectors. Lucrative incomes have probably been made by those in and outside the government who have been able to exploit commodity shortages through speculation or favored access to goods. Upgrading of the military personnel system has made manageable the formerly high levels of "phantom" troops but many military officers still reap some benefit from manipulating payrolls.

Declining real incomes and the widening disparity between the haves and the have-nots have distorted normal consumption patterns and increased the chances for social unrest. Working classes have been forced to increase the share of incomes spent on foodstuffs merely to survive.*

* The IMF recently estimated that from 60% to 80% of working-class incomes are spent on rice alone.

Moreover, many people are forced to pay dearly for necessities such as drinking water that were previously available at minimal cost. In contrast, the upper echelons have been able to take advantage of the glutted market for menial labor to increase their consumption of services.

In an effort to reduce tensions by limiting the more conspicuous aspects of consumption, the government has used its tax and regulatory power to restrict the import of luxuries such as cars, motorcycles, wines, and liquors. For a time in early 1973, many luxury imports were banned in a political move to assuage teacher-student reformist groups who had brought considerable pressure to bear on government leaders for their high lving. The level of total imports dropped dramatically after the ban, however, and with it, import revenues. The government then replaced the ban with higher taxes.

While restrictions on luxury imports can be rationalized on political and moral grounds, they do little to curb Cambodia's inflation. Given the existing income disparity, scarcity of domestic goods, and poor investment climate, those consumers with the greatest liquidity need an outlet for their funds. Imports serve to absorb this liquidity and, in the process, limit capital flight and speculation on domestic markets that could drive up prices of those local goods purchased by the lower classes.

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Little consistent thought has been given to the security implications of continued and increasing income disparities within Phnom Penh. Although excellent arguments could be made for such disparities having been a natural part of growth in many less developed countries, what is at stake here has very little to do with growth. If we are only considering maintenance of a garrison state through its present travails, the key issue is whether pressures generated by goods shortages could lead to overthrow of the GKR. The more people feel that they are being given an unfair share of whatever short supply of goods exists, the more likely it is that they will conclude that the only way out of their dilemma is accommodation with the Communists through return to KC-administered areas or an overhaul of the present leadership. From what we have seen so far, there would appear to be an excellent political argument for greater efforts toward income leveling and austerity on the part of upper classes.

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III. Foreign and Domestic Trade

Imports -- With the severe decline in agricultural and industrial production and disruptions to transport and marketing systems brought on by the war, Cambodia must rely upon foreign goods for the dual role of maintaining essential stocks and stemming inflation. Unfortunately, available data do not provide details on what goods are currently reaching Phnom Penh. Moreover, it is not even clear if importers' incentives are adequate to supply increasing amounts of the sorts of goods most useful in Cambodia's predicament.

Given Cambodia's current precarious conditions, a slackening in total import demand is not unexpected. Declining real output has meant decreased requirements for producers' goods; and falling incomes have combined with import restrictions on luxuries to cut into the flow of consumer goods. Accordingly, examination of import arrivals and licensing of non-rice commodities for the period 1971 - September 1973 reveals a gradual weakening in import demand, particularly during 1973. Foreign exchange sales, for example, dropped in November 1973 to $1.5 million, compared with a monthly average of $3 million during the previous ten months. The decline stemmed primarily from a weakening in demand for cash imports, * as importers

* With several exceptions, the US Commodity Import Program is tied to specific categories of foods supplied largely from US sources. Cash imports, with relatively fewer restrictions as to type or source country, are those made through importers purchase of Cambodian and donor-supplied foreign exchange from the National Bank.

were faced with very high advance import deposits, limited sources of funds, and a rapidly depreciating riel. A certain amount of import demand may have been diverted from cash transactions to the commodity aid market, where preferential treatment -- especially low advance deposit requirements -- apparently offset administrative complexities and long delivery times that had been associated with such imports. A sharp drop in non-rice aid imports in 1973 reflects the priority allocation of aid funds to finance needed rice imports, thus limiting the funds available for other imports.

It is unclear whether Cambodia's import mix has been the most efficient possible to strike at the kind of inflation reflected in the working class index. Most of Cambodia's current commodity aid imports consists of rice, petroleum, and machinery, while cash imports are largely foodstuffs, pharmaceuticals, raw industrial materials, and vehicles and spare parts. A large share of these imported commodities are eventually placed on the open market, but there is insufficient data to provide a definite link between the decline in 1973 imports and the hyperinflation of the past several months. For example, the import data do not break out foodstuffs by commodity to permit comparing their deliveries with their price increases in relation to the working class price index. Similarly, there is insufficient detail in the capital imports account -- which constitutes a significant portion of non-rice imports -- to determine if these are goods necessary for maintaining domestic production or might better be shifted to consumer-goods imports having a more pronounced deflationary effect.

Traditional Domestic Commerce -- Although there has long been a substantial flow of imports into Phnom Penh to cover demand for key producer and consumer goods, most of the consumption in the city was supported by goods delivered from outlying areas or other regions. Besides rice from Battambang and several nearby surplus provinces, almost all of Phnom Penh's fish, vegetables, meats, and fruits came from the relatively fertile areas in the surrounding provinces along the Mekong, Bassac, and Tonle Sap Rivers. Large amounts of textiles came from factories in Kompong Cham and Battambang.

Much of this trade still takes place because the battle lines drawn around the city do not exclude small-time merchants and self-styled civilian and military entrepreneurs. Also it is the KC's stated policy to restrict sales of commodities they need but to let surplus goods be sold in GKR areas while benefitting from heavy taxation of the trade. Nothing is known of actual flows, but data indicate that price increases for locally supplied, non-rice foods are not greatly out of line with those of free-market rice. Because free-market rice prices have been indirectly damped by large US imports, it follows that -- in rough terms -- the domestic supply of non-rice foods has tightened no worse than that of rice. Some of this supporting production has undoubtedly come from intensive cultivation of available riverbanks, dikes, yards, and vacant lands within the capital. This, however, is by no means sufficient to explain the rice/non-rice price increase ratio.

The biggest constraint to the supply of Phnom Penh is steady transport and marketing. Since the war began, all major roads to the capital have been more or less continuously interdicted. Rail traffic has ceased, and river traffic is subject to either friendly or enemy military action. In addition, the KC and GKR authorities raise commercial costs through road taxes. Clearly, if the transport and marketing systems were better organized and producers given some guarantee of market access, the supply situation would improve dramatically despite heavily damaged and abandoned production facilities. Unfortunately, the security situation precludes this.

In sum, the flow of goods between outlying areas and Phnom Penh has been sufficient to keep some lid on non-rice food prices. This trade will probably continue at the same level unless the KC undertake a concerted effort to isolate the city; even so, some goods would pass through. The lack of direct or indirect evidence on this commerce is crucial, for it precludes reliable estimation of the deflationary effect of increased imports of domestic-type goods. Should it prove that prices must remain at least as high as they are to attract merchants to run the risk of crossing the lines, a program to pour large amounts of US foods into Phnom Penh might disrupt the delicate balance of domestic supply.

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Cross-border Trade -- Cambodia has classically undertaken cross-border trade with South Vietnam which, though not significant on a national scale, has played an important role in the economies of the border areas. Traditionally, goods entering from South Vietnam have included items such as plastic manufactures, clothing, blankets, soap, flour, sugar, milk, cigarettes, and spirits. More recently, trade has been comprised of rice, flour, salt, cloth, and POL. A large portion of the cross-border trade has been conducted on a barter basis by myriad small merchants and has generally been confined to a small geographic zone, with few goods ending up in Phnom Penh. Indeed, recent analysis of price differentials between Saigon and Phnom Penh suggests that few non-rice goods could be profitably shipped to the Cambodian capital. Moreover, the increasing tendency of the KC forces in Cambodia and the VC and RVN forces in South Vietnam to seal off their areas and lock in needed commodities works against continuation of earlier trading patterns.

Of more consequence is the substantial trade that takes place between Thailand and the border provinces of Battambang and Pailin. Based on recent but spotty data, Battambang receives monthly almost 1 million gallons of POL, 1 thousand tons of cement, and 500 tons of salt from Thailand through official border crossing points. Consumer goods, including foodstuffs, cosmetics, and manufactures, also constitute major imports. The major export to Thailand is gems, but other exports probably include jute bags, liquor, cigarettes, and perhaps textiles. The precise extent of unofficial trade is not known but it is significant; for example, virtually all of the production of precious stones in the Pailin area, estimated at about $10 million, is sold illegally to Thailand.

Battambang's surplus rice crop may also be finding its way into Thailand, but no hard data is currently available to support this thesis. Rice prices are not a major factor, as paddy prices are similar and milled prices slightly higher in Battambang; but with the riel falling in value, there is an incentive to covert rice into baht -- one of the stronger currencies in the region -- at almost any price. Several recent reports from Battambang also suggest substantial surpluses from this season's rice crop. As long as rice transport between Battambang and Phnom Penh is interdicted, trade with Thailand would be prudent to dispose of surplus rice and prevent it from getting into KC hands.

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