

# Weathering the Storm: Responses by Cambodian Firms to the Global Financial Crisis

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ABSTRACT of presentation held on 27 June 2013, Leeuwenborch, Wageningen

*In this paper we analyze risk coping behavior of Cambodian firms during the global financial crisis. While firms use various ways to cope with external risks, we specifically analyze input smoothing (labor, raw materials, or capital) as a risk coping strategy. Under the assumption of adjustment costs, firms will prefer to smooth their inputs with fluctuating demand, especially when demand shocks are expected to be temporary. However, smoothing inputs today to reduce adjustment costs tomorrow will be harder for credit constrained firms, creating a potential welfare loss due to incomplete smoothing. Using panel data of Cambodian firms at the time of the 2008 global economic crisis, we show that (1) firms try to smooth inputs especially when they believe the shock to be temporary, (2) non-credit constrained firms are better able to smooth inputs than credit constrained firms, and (3) the welfare loss from incomplete smoothing due to credit constraints is many multiples of the adjustment costs of the firms that were not credit constrained. The paper concludes with a discussion of the policy implications of the findings.*

