

# Cambodia

<b>Status Index</b> (Democracy: 4.10 / Market economy: 4.57)		<b>4.34</b>	<b>Management Index</b>		<b>3.53</b>
<b>HDI</b>	0.571		<b>Population</b>	13.5 Mio.	
<b>GDP p. c. (\$, PPP)</b>	2,078		<b>Population growth<sup>1</sup></b>	2.3%	
<b>Unemployment rate</b>	n/a		<b>Women in Parliament</b>	10.9%	
<b>UN-Education Index</b>	0.69		<b>Poverty<sup>2</sup></b>	34.1%	
			<b>Gini-Index</b>	40.4	
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$ 1 (1990-2003).					

## A. Executive summary

The period between 2001 and 2004 marked an uncertain step in Cambodia's process of political and socioeconomic transformation. The violent coup in 1997, which was staged by Second Prime Minister Hun Sen of the Cambodian People's Party (CPP) against First Prime Minister Norodom Ranariddh of the royalist party known as Funcinpec, resulted in further polarization, instability and insecurity. In the years following, Cambodia has managed to bounce back slowly. The election in 1998 produced a coalition government, where power was shared between the CPP and Funcinpec. The Sam Rainsy Party (SRP) emerged as the only official opposition party. Early in 2002, Cambodia held its first local elections, leaving the CPP with a near-monopoly of political power. The 2003 national election saw further consolidation of political power by the CPP. While political stability improved over the period under review, democratic and economic development experienced growing challenges. The period saw no democratic consolidation. Democratic institutions remained fragile: the "rule of man" still prevailed over the rule of law, the opposition was still subjected to violence, and political rights and civil liberties were still violated.

There were no promising signs in the way of economic development, which appeared to be stagnant or even slowing down. Economic reform efforts still did go beyond the use of empty rhetoric stating that Cambodia had made progress. As shown in this report, economic growth declined in recent years, while the level of poverty has increased. The overall management of transformation was inefficient, and obstacles to performing key strategic tasks in the medium term remained formidable. The distant future seemed precarious.

## **B. History and characteristics of transformation**

Cambodia is widely known for a series of tragic events and external interventions, that took place between the 1990s and 2004 when the international community stepped in to end a violent conflict, build democracy and rebuild the country's war-torn economy. Processes of economic and political transformation did not proceed in tandem, although economic liberalization began only a few years earlier than political liberalization. In 1989, the socialist regime under the leadership of Prime Minister Hun Sen (CPP) began institutionalizing economic reform by moving away from the planned economic system. This was followed by an intervention from the United Nations, which was given the task of creating a neutral political environment of free and fair elections. The national election took place in 1993 and produced a new system of electoral politics.

By 2004, the process of democratization remained unconsolidated. Funcinpec won the election in 1993 and Prince Norodom Ranariddh became First Prime Minister. He agreed to share power with Hun Sen of the CPP, who became Second Prime Minister. Although the election was certified as free and fair by the United Nations, a parliamentary system was established, and a new coalition government was formed, political instability remained. The country was still at war with the Khmer Rouge, whose leaders had pulled out of the electoral process weeks before polling day in 1993. Political violence against members of the opposition and media took place frequently. Coalition politics also proved to be unstable, as the new government partners - the CPP and Funcinpec - continued to maintain antagonistic relations.

The situation deteriorated in the mid- to late 1990s to the point where any hope for peaceful reconciliation was lost. In early July 1997, Hun Sen's troops defeated Ranariddh's armed loyalists in a violent coup. Following reconciliation, the CPP consolidated its power when it won the 1998 election. Because it failed to obtain the two-thirds majority required by the constitution for the formation of a new government, however, it was again forced to share power with Funcinpec. Following the 1998 national election, Cambodia was put on the road to political stability. Two more elections were held after that: a communal election in 2002 and another national election in 2003. These elections resulted in further consolidation of the CPP's political power under the leadership of Prime Minister Hun Sen.

Throughout the 1980s and 1990s, economic development encountered serious challenges. Although the process of economic liberalization began in the late 1980s and accelerated throughout the following decade, the economy made little progress. The Asian financial crisis in 1997 made things worse, as it occurred at the time when violent conflict in Cambodia escalated and resulted in reduction of foreign assistance. Fortunately, the government adopted a macroeconomic policy that was successful in stabilizing exchange rates. The government also sought to reduce public expenditure through stringent fiscal discipline.

## **C. Assessment**

### **1. Democracy**

During the period under review, Cambodia made little progress in several areas that were evaluated on the political front. Several shortcomings remained, especially in participation, rule of law and institutional stability, as well as political and economic integration. Although the overall level of political and social stability increased, democracy as a political institution remained largely unconsolidated.

#### **1.1. Stateness**

Cambodia faces no significant challenge to its stateness. There was almost no restriction on the state's monopoly of the use of force, except in one area, Palin, where former Khmer Rouge guerrilla fighters retained a limited degree of autonomy despite the fact that they have been officially reintegrated into the national armed forces, and as such no longer pose a threat to the state. The issue of citizenship was no longer as politically sensitive as it had been previously. According to the constitution, all Khmer citizens enjoyed the same political rights and civil liberties. The only problem lies in the actual concept of Khmer citizenship: while the Khmer refers to the ethnic group to which the great majority of Cambodians belong. As such, the term excludes ethnic minorities. Overall, anyone willing to become a Khmer citizen enjoys the same rights as everyone else. Only a few groups (such as the Cambodian Freedom Fighters or CFF) could challenge the state; CFF political and armed activities have subsided.

Although Buddhism is recognized as the state religion, the political process has been secularized so that state and religion were almost entirely separate. State control over religious practice was evident only in very few exceptional cases, mostly during election when anti-government monks were under pressure from their patriarchs not to vote. The country has a poor administrative system and inadequate protections for public safety, law and order. Administrative structures extended beyond the maintenance of law and order under the military and security apparatus. The administration of Cambodia's judicial system is quite rudimentary; as such, it remains subject to military and political manipulation.

The key problem with Cambodian stateness is that the state is structurally weak, and unable to make good decisions and to implement them effectively. Lawlessness is widespread.

## **1.2. Political participation**

During the period under review, Cambodia held two multiparty elections: communal and national. In 2002, a communal election was held for the first time, but was not entirely free and fair, as the Cambodian People's Party (CPP) dominated almost all the communes. The national election in 2003 saw a lower level of political violence and was freer and fairer than the election in 2003, but the CPP continued to dominate the political arena and collected more seats than in any previous election. Largely, elected officials (particularly those belonging to the CPP) did not face a credible violent challenge to their political authority. While there was a parliamentary deadlock for almost a year after the 2003 election, no reported attempts were made to overthrow the caretaker government led by Hun Sen.

Political rights and civil liberties remained restricted. There are constitutional guarantees in place for universal suffrage, free and fair elections, and certain administrative structures. In practice, there were some real constraints on the electoral process. While Ministers of parliament were elected, parliamentarians remained subject to political manipulation by government leaders.

Although the level of political violence declined noticeably in the review period (from 29 cases of politically-motivated killings in 2003 to only six cases in 2004), critics of the government still faced punitive actions. By 2004, the Sam Rainsy Party (SRP) – the major opposition party and only opposition party in parliament – had not even been authorized to install a broadcast media outlet of its own, although it was allowed to operate print media outlets. The CPP-led government sought to prevent Sam Rainsy, founder and leader of the SRP, from attending the coronation ceremony held on October 29, 2004 for the new king, Norodom Sihamony. Moreover, SRP Ministers of parliament were excluded from all parliamentary commissions.

In July 2004, Hun Sen (who allegedly wanted to kill Rainsy in 1994) threatened to lift Rainsy's parliamentary immunity and to arrest him, accusing the latter of secretly running an "illegal army on the model of the CFF." In late 2004, Assembly President Ranariddh of Funcinpec made a move to strip three SRP Ministers of parliament of their parliamentary immunity, and succeeded in doing so on February 3, 2005. The reason for this move was that Rainsy had accused the prince of corruption, involving a \$27 million contract for the construction of a new national assembly building, which was reported to have cost only \$13 million.

Civil society organizations also remained under threat. Human rights organizations and labor unions could be formed but were not free to express views critical of government policies and remained vulnerable to restrictions imposed on them by the government in defense of "national security". The CPP-dominated government kept tight control over the media, particularly television and radio. Journalists remained subject to threats, suspension and detention without warrants. After 1993, labor unions emerged, expanded and became active, but union members who were actively

engaged in protests were often subject to punitive measures, such as arbitrary dismissal and physical violence.

Trade union leaders still live in fear. In 2004, the leaders of two unions who supported the opposition were murdered. Following the violent riots against the Thai embassy and business interests, which broke out on January 29, 2003, public demonstrations and worker strikes were banned. In 2004, police forces stopped at least 20 public demonstrations, often using violence to disperse demonstrators, and detained a number of demonstrators. Overall, the violation of civil liberties intensified.

### **1.3. Rule of law**

The rule of law and a system of checks and balances in Cambodia exists mostly on paper. In theory, the government has three branches: legislative, executive and judicial. In reality, however, the legislature - consisting of the National Assembly and the Senate - remained extremely weak and highly politicized. As the supreme law-making body, the legislature was still subservient to the executive branch and dominated by the CPP. The legislature has yet to pass such laws, such as a domestic violence law and the draft Statute of Judges, to ensure independence of the judiciary. Most cases involving domestic violence are still settled through mediation and reconciliation.

The judiciary lacked independence because most of its staff, particularly judges, were appointed by the CPP and, as such, were not expected to make judgments in the interest of justice, but rather based on personal power and wealth. Perpetrators of political violence were never brought to justice. In 2004, for instance, the appeals court acquitted Hun Sen's nephew, Nim Sophea, who had been charged with murder. The acquittal was highly questionable. However, victims of political violence and non-CPP elements charged with criminal activities were often severely punished. Judges found it much easier to rule against non-CPP elements and members of opposition parties than against members of the ruling party. For instance, Judge Hing Thirith of Phnom Penh Municipal Court was transferred to Stung Treng Provincial Court, because of his "well-reasoned judgment" related to the initial investigation into the charges against two suspects involved in the 2004 murder of a union leader.

According to The Cambodian Human Rights & Development Association (ADHOC), about 30% of all cases filed at Phnom Penh Municipal Court experienced political intervention. Judges were also perceived as generally corrupt and remained subjected to manipulation by members of the military and security apparatus. Corrupt officeholders were never punished. Indeed, the fact that corruption charge against Prince Ranariddh did not result in his punishment but rather that of the three SRP

Ministers of parliament, who exposed the scandal, is a prime example of this. Cambodia has adopted the Anticorruption Action Plan for Asia Pacific launched in 2001; no effective anti-corruption laws have been implemented.

Civil liberties remained largely unprotected. The court system seemed powerless in cases where high-ranking military officers confiscated lands from members of ethnic minorities in provinces far from the capital city. Prisoners were still subjected to torture as well as deprivation of medical care and were often denied access to family members. Impunity remained a serious problem. The Special Representative of the UN Secretary General for Human Rights in Cambodia continued to raise concern about this problem, citing courts' frequent failure to provide elementary justice, especially in cases where powerful interests are involved, as well as in mob violence and murder cases.

Toward the end of 2004, the government's respect for civil liberties decreased. The lack of judicial independence and accountability often led to violations of civil rights through mob violence, which increased threefold from 2003 to 2004: due to the lack of popular trust in the judicial system, people increasingly took matters of justice into their own hands, imposing "punishments" for those accused of theft or robbery by simply beating suspects to death.

#### **1.4. Stability of democratic institutions**

Political stability increased during the period under review, as the CPP consolidated its power. In 2002 elections, the CPP lost control of only 1% of the 1,621 communes. Its success resulted largely from its effective control over rural areas. Funcinpec and the SRP control, respectively, only 10 and 13 communes. Parliamentary elections in 2003 saw a further consolidation of the CPP's power, as it gained more seats, for a total of 73, while Funcinpec collected only 26, having lost a large number of seats. With 24 seats, however, the SRP won more than it had in the 1998 elections.

While governmental institutions such as the administrative system and the system of justice continued to exist, they lack sufficient human and material resources to function efficiently and independently. Within the National Assembly, confrontation between the ruling and opposition parties occurred, but Ministers of parliament were often unable to hold plenary sessions because they were unable to reach the required 70% quorum, which requires that 87 of 123 ministers of parliament be present. Formed in mid-July 1994, the new coalition government grew increasingly stable (the CPP maintained its position as the most powerful party), but remained underdeveloped. It should be stressed that institutional strength and functionality varied widely: while the ministry of justice received only a small fraction of the national budget – between 0.3% and 0.5% - the ministries of defense and interior received far larger amounts.

Although the multiparty system became more institutionalized, it remained highly under-developed. The election administration was reformed and strengthened, but remains far from sustainable (Sorpong Peou et al., *International Assistance for Institution Building in Post-Conflict Cambodia* (The Hague, Netherlands: Clingendael Institute, Working Paper 26, May 2004), pp.19–25). There were 39 political parties registered in the 1998 election, eight in the 2002 local elections and 23 in the 2003 national election. Electoral politics remained largely based on coercion.

Overall, the party system remained fragmented, while inter-party relations remained troublesome. Until July 2004, the top leaders of the coalition government were barely on speaking terms and remained suspicious of each other's intentions. The opposition still faced persecution. Intra-party tensions worsened, and defections became more common. Funcinpec became exceptionally fractionalized. Discontent with Prince Ranariddh's leadership grew, especially after he struck a deal with the CPP to form a coalition government in July 2003. King Sihanouk regarded Ranariddh, one of his sons, with contempt and refused to recognize Funcinpec as a royalist party. Even the CPP, considered most cohesive because of its strong and undivided (in relative terms) leadership, showed some signs of internal divisions among its members. The major groups within the CPP – formed, respectively around Chea Sim and Hun Sen – even sought to weaken each other. In July 2004, for instance, Chea Sim's house was surrounded by police forces under Hun Sen's order. Chea Sim was then "exiled" and remained in Thailand for nine days before he was allowed to return to Cambodia.

### **1.5. Political and social integration**

The population's overall connection with the state and state processes improved, but remained low. Electoral contestation became more peaceful and less violent, but declining popular interest in democracy became more evident, as the number of eligible voters registered to vote decreased. In the 2003 national election, only 81.5% of the eligible voters went to the polls to cast their ballots, compared with 83% of the eligible voters registered to vote in the 2002 election and 98% in the 1998 election. These figures seem to suggest that citizens' consent to democratic norms and procedures was still quite strong, despite the fact that they did not fully understand them.

Social integration, in the form of civic self-organization and trust among the population, deepened, but remained weak. While almost 80% of the population did not belong to any type of organized civil society organization, much of the remaining 20% belonged to self-organizing civil society organizations independent of the state. Besides labor unions and human rights organizations, which were active but still lacked real political influence, there were virtually no strong interest groups or networks of associations across the country. There were more than 40 human rights-related organizations working to prevent state-sanctioned violations of human rights

and to ensure free and fair elections, but their influence remains very weak. The labor union system grew weaker, as the state continued to suppress its activities.

## **2. Market economy**

### **2.1. Level of socioeconomic development**

Key indicators showed that the country's overall level of economic development worsened slightly. Measured in terms of Human Development Index (HDI), social exclusion based on poverty, education and gender discrimination was both quantitatively and qualitatively extensive and structurally ingrained. Cambodia's HDI score was 0.568 in 2002, corresponding to a rank of 130<sup>th</sup> of 177 countries. The country's score on the Human Poverty Index (HPI) in 2002 was 42.53, high in relation to the country's per capita income, which was only \$259 in 2001, \$273 in 2002 and \$284 in 2003. The percentage of the population living below the poverty line grew from 36% in the late 1990s to 43% (about 5.6 million) in 2004, and it was predicted to increase to about 45% (5.8 million) in 2005. Infant mortality rates grew from 138 per 1,000 people in 2001 to 140 in 2003.

In terms of social development, the country's adult illiteracy rate, when coupled with semi-literacy, remained unacceptably high, at over 60%. In 2002, the UN Education Index was still 0.66. Total adult illiteracy rose from less than 60% in 1990 to 63% in 2003. Moreover, with a score of 0.514 on the 2002 Gender-related Development Index (GDI) Cambodia ranked among the lowest in Asia. Although women's participation in the labor force was high, their representation in legislative, management and professional occupations remained quite low. The 2002 Gender Empowerment Measure (GEM) score was only 0.283.

### **2.2. Organization of the market and competition**

The fundamentals of market based competition still suffered because of an extremely weak regulatory framework. There seemed to be some freedom of pricing. After 1993, Cambodia adopted a floating exchange rate policy and relied on tight financial policies to ensure a certain degree of stability in the foreign exchange market.

Because the market-based economic system is new to Cambodia, there was no anti-cartel legislation in place. Monopolies and oligopolies were not evident, although some entrepreneurs established near-monopolies or monopoly-like positions for themselves. Most companies were very small. Only 1,000 had modern management and equipment. Foreign trade was still in the process of being liberalized, as Cambodia adopted a policy in line with ASEAN Free Trade Arrangements (AFTA)

and the WTO requirements, but the state proved unable to implement the rules it established. The country experienced trade deficits every year: -523 (2001), -564 (2002), -537 (2003) and -692 (2004, forecast)

The financial system remained woefully weak during the period under review. The National Bank of Cambodia (NBC) sought to prevent capital flight, but enjoyed little success, due to the lack of a clear policy framework. In 2001, the amount of savings through the banking system reached \$1,350 per capita, but 54% of lending went to investors outside the country. Although Cambodia's interest rates were high compared with those of other countries, the market system remained non-competitive. In 2004, the NBC sought to reduce lending rates in rural areas by increasing competition among banks. Its inability to act as a lender of last resort, however, could threaten financial stability. Overall, the NBC was independent to the extent that it was able to help maintain price stability.

With a highly "dollarized" economy – as much as 95% of the country's total liquid assets were said to be denominated in U.S. dollars – the Cambodian market remained largely uncompetitive. It depends heavily on textile production that accounted for about 96.5% of the country's official exports. In 2002, 220 garment factories operated in the country and exported \$1.35 billion worth of garments. The industry still faces an uphill battle, as China (whose currency is noticeably undervalued and whose workers are more skilled than those in Cambodia) became increasingly competitive in the regional market. Other factors that still made Cambodia uncompetitive in the global economy included endemic corruption, high infrastructure costs and unskilled workers. As the International Monetary Fund (IMF) pointed out in its 2003 country report for Cambodia, "improving competitiveness is an immediate challenge for Cambodia's garment industry. Future market shares will be contingent on the competitiveness of individual exporting countries" (The Phnom Penh Post, Issue 13/04, February 13–26, 2004).

As the poorest country to join the WTO, Cambodia is now likely to face an additional problem: global competition. As Robert Hagen of the U.S. Department of State pointed out, "starting in 2005, Cambodia will no longer enjoy special access to American markets, and it must compete directly with large producers" (The Phnom Penh Post, Issue 13/04, February 13–26, 2004).

### **2.3. Currency and price stability**

Because Cambodia has highly dollarized economy, the national currency (riel) remained relatively stable. Prudently, the NBC exercised disciplined fiscal and monetary policy to maintain a stable exchange rate and a relatively low inflation rate. The exchange rate remained relatively stable, increasing slightly, from 3,900 riel per dollar in 2001, to 3,935 in 2002, to 3,980 in 2003, and finally to 4,218 riel per dollar in 2004. The average rate of inflation remained around 1% up until the end of 2003.

In 2002, the price of goods in Phnom Penh increased by 3.7%, with sharp rises recorded in prices for some foodstuffs (The Phnom Penh Post, Issue 12/02, January 17–30, 2003). Overall, however, inflation fluctuated only slightly, at rates of 0.3% in 2001, 3.3% in 2002, 1.1% in 2003, and 2.3% in 2004.

#### **2.4. Private property**

Cambodia became increasingly market-oriented during the review period, but private property remained unprotected, especially in rural areas. Private ownership was formally instituted in 1989. At that time nearly 90% of the country's organized solidarity groups, which were assembled in the early 1980s for collective farming, were disbanded. Transportation, health care, education and most state markets were partially privatized. Privatization seems to be on track. In December 2002, for instance, the government announced that it would privatize all three agricultural public enterprises: the fish export company (KAMFIMEX), the Agricultural Input Company (AIC, a fertilizer company) and the seven state-owned rubber plantations. This move was designed to ensure that Cambodia would qualify for a \$35 million agricultural sector loan from the Asian Development Bank (ADB). In May 2003, the government established an inter-ministerial committee to privatize these enterprises.

Property rights and the right to the acquisition of property are cited in the constitution, but there is no clear guidance concerning policy directions and implementation. Forced confiscation of land continues. Thousands of indigenous villagers in northeastern provinces, such as the Ratanakiri province, face the loss of their ancestral lands, as they have come under growing pressure to sell them. The number of land disputes in 2004 was triple that of 2003. Many remain unresolved.

#### **2.5. Welfare regime**

Rudimentary measures to avert social risks, such as poverty, illness and disability, do exist but are extremely segmented in terms of territory and social stratum. The government developed a vision to transform Cambodia into a socially cohesive, educationally advanced and culturally vibrant country, namely a country without poverty, illiteracy or disease. Contrary to its vision, the state allocated a tiny budget for social welfare and government spending in the social sectors dropped by more than 20% during the first four months of 2004. The state cannot combat poverty systematically on its own and must rely on the international donor community. The state was unable to meet the basic needs of the homeless, the sick, the disabled, the elderly, the vulnerable and the unemployed. Housing for the urban poor remained woefully inadequate.

Because those living below the poverty line have extremely limited access to healthcare, many became indebted due to medical expenses. Spending on healthcare, already paltry was cut by a further 50% in the first months of 2004.

Within the realm of civil society, nothing but a small association for the elderly had been established. Most elderly people (55 years old and above) said that their biggest problem was making a living. Many relied on their children's support, as well as support from neighbors and communities. A fraction of them lived on personal savings (The Phnom Penh Post, Issue 11/10, May 10–23, 2002).

Women in particular were among the country's most vulnerable groups, as they still had only limited access to higher education and public office. Women's associations existed, but were unable to make much more progress for women's rights. There were no effective public or private institutions to help for gross social inequalities.

The government still faces a growing unemployment problem. While there are no reliable statistics to measure unemployment in Cambodia, it is known that approximately 300,000 people became employable every year. Unfortunately, far fewer jobs were created: from the middle of the 1990s to the middle of 2000, only between 30,000 and 40,000 jobs were created annually. The majority of these are within the garment sector.

## **2.6. Economic performance**

Cambodia's economic situation worsened slightly over the period under consideration. The country's economic strengths included a healthy expansion of the garment industry, construction and tourism. Garment exports (employing around 230,000 people and accounting for almost 80% of Cambodia's total exports in 2003) grew from \$28 million in 1995 to over \$1.35 billion in 2002 and \$1.6 billion in 2004. The number of construction projects approved in Phnom Penh alone increased from 664 in 2001 to 717 in 2003. The first quarter of 2004 witnessed approval of 229 construction projects. Tourism also showed a positive growth, as the number of visitors increased from 466,400 in 2000 to 604,900 in 2001 to 700,700 in 2003: indeed, the country had 254,400 visitor in the first quarter of 2004 alone. It is estimated that as many as 975,000 visitors came in 2004 (which would represent a 40% increase) and that this figure could reach 1.1 million by 2005, which would account for a 13% increase from the previous year. If these estimates are correct, the number of tourists – and the corresponding revenues from tourism – would have increased by over 50% between 2003 and 2005.

Overall, however, the economy had more weaknesses than strengths. GDP growth rates were not high enough to meet the country's needs and declined throughout the review period, from 5.7% in 2001, to 5.5% in 2002, to 5.2% in 2003 and, finally, to 4.5% in 2004. Although the economy benefited from low inflation, it experienced

significant trade deficits. Partly due to the political crisis that followed the 2003 election, FDI declined markedly, dropping from \$142 million in 2001, to \$139 million in 2002, to \$77 million in 2003, the rebounding slightly to \$83 million in 2004. According to the ADB, the agriculture sector performed less well. Due to drought conditions in 2004, the dry season paddy crop declined by 3.7% in relation to 2003. The 900,000 hectares cultivated by mid-August 2004 amounted to 10% less than the area cultivated in 2003.

## **2.7. Sustainability**

Economic growth remained largely unsustainable, despite the fact that much of Cambodia's money supply was made up of the U.S. currency. One reason for this unsustainability is that the country accumulated increasing public external debts during the review period, totalling nearly \$2.5 billion in 2001, \$2.7 billion in 2002 and \$3 billion in 2003, coming close to Cambodia's GDP, which was approximately \$3.2 billion. Another economic challenge was a lack of FDI: indeed, investment actually declined after 1999, discouraged by corruption and other factors. A World Bank survey indicated that more than 80% of companies suffered because of corruption. Another reason is that economic growth was driven by a single manufacturing sector: the garment industry. Although exports in the garment sector grew from \$28 million in 1995 to over \$1.35 billion in 2002 and, further, to \$1.6 billion in 2004, it still faced fierce competition because of Cambodia's WTO membership. The economy will also suffer from the ending of the quota system in the garment industry, starting in 2005. For this reason, GDP growth for 2005 was forecast to slow down to about 2.3%.

Environmental issues are another reason for the lack of sustainability of economic growth. The economic, social and environmental cost of deforestation is estimated to have exceeded \$500 million per year. Cambodia lacked adequate environmental policy, did not have an effective law on the environment and remained weak as far as enforcement was concerned. There were, however, isolated indications that increased pressure—from NGOs (i.e., Global Witness and WildAid), public outcry, international organizations (such as the United Nations Cambodia Office of the High Commissioner for Human Rights) and the December 2004 Consultative Group meeting—would succeed in pushing the government to act. In an unprecedented show of forestry law enforcement, the ministry of environment suspended the Green Elite Company's operations in May 2004 and considered taking the company to court for continuing to clear forest without an authorized Environmental Impact Assessment (The Phnom Penh Post, Issue 13/27, December 31, 2004–January 13, 2005). It was reported in 2004, however, that the economic, social and environmental cost of deforestation (which contributed to soil erosion, nationwide droughts and food insecurity) still exceeded \$500 million a year and may have increased the number of starvation among farmers, who consequently resorted to begging as a means to ensure their survival.

Moreover, the country's institutions for education, training, and research and development (R&D) were quantitatively and qualitatively low. Government spending in education and training as well as in R&D remained low. The budget for education rose from 16% of the national budget in 2001 to 18% in 2002, but this was still inadequate. A number of private academic institutions were founded, but many were of poor quality and seemed unable to prepare students for future careers. In addition, the number of public and private institutions of higher education multiplied. In 1997, there were nine institutions of higher education (eight public and one private). Although their numbers reached as high as 49, they failed to provide quality education. Institutions of higher education charged between \$114 and \$300 per year for a bachelor's degree, and between \$900 and \$3,000 per year for a master's degree or a doctorate. As private universities began to grow more competitive, they introduced scholarships and lowered tuition fees. The future remains bleak, as the state seeks to further lower tuition fees.

### **3. Management**

#### **3.1. Level of difficulty**

Although Cambodia has achieved an acceptable degree of political stability, the road to democratic governance will remain rough. The country has not had to face ethnic conflicts, as ethnic minorities represent only about 4% of the population. Between 1998 and 2004, there were no large-scale ethnic, religious or sectarian conflicts. One of the difficulties Cambodia still does face is the legacy of war. Between 1970 and 1998, armed conflict destroyed much of the country's physical infrastructure and social capital. Under the Khmer Rouge alone (1975-1978) approximately 1.5 million Cambodians perished. Another issue is the country's extremely low level of education. Policies were inefficiently implemented. Political polarization decreased, but remains a harsh reality, while the rule of law is extremely weak. Cambodia also has extremely weak civic traditions: indeed, civil society organizations did not emerge until after the UN mission was established in 1992. For the most part, Cambodia's NGOs remain structurally weak and are not institutionally self-sustainable.

### Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	1
System of government:	<i>Parliamentary</i>	Latest parliamentary election:	27.07.2003
		Effective number of parties:	2.3
Head of State:	<i>King Norodom Sihanouk</i>	Cabinet duration:	07/04-present
Head of Government:	<i>Hun Sen</i>	Parties in government:	2
Type of government:	<i>coalition majority</i>		
		Number of ministries:	24
		Number of ministers:	26
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = <math>1/(\sum p_i^2)</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

### 3.2. Steering capability

Under the guidance of foreign experts, the government established long-term goals to rebuild the country by way of administrative reform, rebuilding the economy and promoting democracy. It also established policy priorities, with reduction of poverty the top of the list. Democratization received less attention.

Overall, the government lacks the political will to overcome considerations of short-term political gain. For one year after the 2003 election, Cambodia had a lame duck caretaker government that could not make any effective decisions. Inter-ministerial relations are poorly coordinated. The CPP and the other main parties remain unwilling to work cooperatively. Government ministries are seriously under-funded, and staffed by incompetent and corrupt bureaucrats. The state did not have the necessary resources to run government affairs, a clear indicator that it did not have the ability to make decisions. In 2003, donors provided \$35 million for budget support, covering more than 50% of the armed forces' salaries. Cambodia relied on international assistance for half of all basic public services its government was supposed to take financial responsibility for.

According to the Cambodian Ministry of Finance and the World Bank, international assistance covered 52% of the state budget for all basic public services in 2002 and 50% in 2004. The government proved unable even to combat corruption, although it was estimated that corruption cost the country somewhere between \$300 million and \$1 billion per year. Prime Minister Hun Sen made a pledge at a donors' meeting in June 2002 that his government would pass an anti-corruption law within one year. In spite of donors' threats to cut their funding if progress were not made in passing the legislation, little progress was made. An assessment on corruption in Cambodia by Transparency International, which was delivered in August 2004 and released to the media that November, still painted a grim picture of corruption. Cambodia's

government also failed miserably in its poverty reduction efforts. As noted, the number of people living below poverty line increased.

### **3.3. Resource efficiency**

During the review period, the government sought to make more efficient use of the available resources and sought to strengthen budgetary discipline, establish fiscal rectitude and clean up government finance spending. As such, the government has decreased spending on defense and security and increased spending on social welfare. While an auditor-general was appointed in August 2001, this achieved no real transparency.

The overall use of public resources remained inefficient and administrative procedures often create confusion and unpredictability. The National Audit Authority did not complete its first task (auditing the ministry of economy and finance's draft budget for 2001) until the end of 2002, and it was considered far below international standards. Cash management among line ministries at different governmental levels remains inefficient. According to a 2004 report, "inefficient, opaque procedures create confusion and impatience and encourage firms and individuals to pay 'speed money' and bribes...procedural mistakes are common in the Customs Department, creating clear invitations to bribe.

Despite a 2001 law requiring environmental and social impact studies before forest and agricultural concessions are approved, 'inefficiency' in the Ministry of Agriculture has essentially waived this requirement." "Inefficiency...helps to limit information resources, maintain Government control and justify shoddy administrative procedures. Inefficient procedures in the judiciary ensure reports of investigating judges and trial court judgments are difficult to access, or are not accessible at all. Inefficiency in passing internal regulations for parliamentary operations hamstring opposition parties. Inefficiency of the Ministry of Finance in carrying out its duty in reviewing major government contracts means sloppy procedures and overpriced contracts go unquestioned. Inefficiency so extreme that veterans' pensions aren't paid for three years enables unscrupulous ministry employees to 'buy' pension rights from their rightful owners." (The Phnom Penh Post, Issue 13/25, December 3-16, 2004)

One major reason for resource inefficiency is the continuing structural weakness of the Cambodian state. An unpublished report by the IMF even wrote that the state "no longer plays its role," because of lawlessness and worsening poverty (Francois Hauter, "The International Monetary Fund denounces the drift of Cambodia into a mafia state," *Le Figaro* 22 June 2004).

### **3.4. Consensus-building**

All major political actors agreed in principle on the need to build a market-based democracy. They came to realize that Cambodia could no longer afford to reintroduce the policy of socialist autarky. There was no strong anti-globalization movement in the country, despite a series of peaceful demonstrations by textile factory workers who had grown dissatisfied with their working conditions. These demonstrations were systematically suppressed, particularly after the anti-Thai riots in early 2003.

Cambodia had not yet emerged as a strong consensus-based society by the end of 2004, and hardly seemed likely to become one in the near future. Although the war ended in 1998, when the Khmer Rouge and the government agreed to stop fighting, reconciliation between the victims and perpetrators of past injustices remains elusive. Khmer Rouge leaders had not been put on trial. Irreconcilable cleavages among political parties were often “bridged” only when one party (usually the CPP) threatened to use force or when it achieved a preponderance of power. Indeed, it took the CPP and Funcinpec almost a year after the 2003 national election to agree on the formation of a new coalition government, which excluded the SRP. The new coalition was a marriage of convenience – indeed, aside from deep inter-party divisions, both the CPP and Funcinpec remain internally divided, as sub-factions within each party became increasingly contentious. Cambodian politics remains highly personalized: if Ranariddh and Hun Sen became closer political allies, it was only because significant segments of their own parties had turned against them.

After the 2003 election, opposition parties urged donors to terminate financial support for (and not to sign new contracts or loan agreements with) a government they considered illegitimate. This effort was successful. The government was unable to promote social solidarity, due both to the failure of past policies and to a lack of resources.

### **3.5. International cooperation**

As one of the world’s most aid-dependent countries, Cambodia was active in promoting international cooperation. In particular, the ministry of foreign affairs and international cooperation sought to do this. After the coup in 1997, Cambodia’s political leaders actively sought to obtain foreign assistance from bilateral and multilateral donors, who pledged \$548 million in 2000, \$556 million in 2001, \$635 million in 2002 and \$504 million in 2004. Due to the political crisis following the 2003 elections, no aid was donated in 2003. The government has tried to present Cambodia as a reliable partner and sought to convince donors that they were capable of considering donors’ demands for reform.

Furthermore, Cambodia sought to collaborate with regional and international organizations. Its government made efforts to join the Association of Southeast Asian

Nations (ASEAN) and succeeded in doing so in April 1999. In November 2002, Cambodia hosted the eighth annual ASEAN summit. The government also sought to improve its image within the UN system. By the end of 2004, Cambodia was one of only two countries in East Asia to have ratified the Statute of Rome, establishing the International Criminal Court (ICC) and reached an agreement with the United Nations to bring surviving Khmer Rouge leaders to justice. At the time this report was written, the Hun-Sen government was campaigning to join the UN Security Council as a non-permanent member during the election to be held at the 60th session for the UN National Assembly in 2005. All of these international efforts were designed to enhance the Hun Sen regime's international and domestic legitimacy.

#### **4. Trend of democratic and economic development**

##### **4.1. Democratic development**

Cambodian democratization began after the Paris Agreements were signed in 1991. After that, the process encountered numerous challenges, including the coup in 1997. Democracy remains unconsolidated. While a system of checks and balances is enshrined in the constitution, in reality it is far from workable. Under the leadership of CPP Prime Minister Hun Sen, the executive branch overpowers the legislative and judicial branches of government. Despite this power, the government seemed unable to deal with its officials' endemic corruption, to promote civil liberties or to strengthen the rule of law.

As long as the opposition remains weak – and it seems likely to stay that way for the near future – there will be no other credible way for it to mobilize domestic and international support for the promotion of democratic transparency and accountability. The best one could hope for during the next 10 years is a stable government, whose leaders will continue to pursue their undemocratic ends in an illiberal fashion. Elections will be held, but the CPP will most likely win.

##### **4.2. Market economy development**

There were no significant quantitative and qualitative improvements in economic development during the period under review. Basic indicators of socio-economic development (based on the criteria of human development, gender equality, education levels and per capita income) showed no real progress. As such, Cambodia's level of a development remains extremely low. Income distribution, measured in terms of the GINI index, remains unchanged.

**Table 2: Development of socio-economic indicators of modernization:**

	HDI	GDI	GDP	Gini	UN Education	Political represent. of Women	GDP p.c.(\$, PPP)
	Index	Index	Index	Index			
1999	0.541	0.534	0.49	0.404	0.64 (2001)	10.2	1,361
2002	0.568	0.557	0.50	0.404	0.66	10.9	2,060

Sources: UNDP Development Reports, 2001, 2004

The market-based economy became less competitive and unsustainable, as the flow of FDI slowed down. There were still several major impediments, as noted earlier, including endemic corruption (as unofficial payments are the highest among developing countries); unskilled workers; weak absorptive capacity due to institutional weaknesses; and a substantial minimum capital requirement for foreign investment. Environmental degradation also became a rising challenge to sustainable economic development.

**Table 3: Development of macroeconomic fundamentals (2000–2004)**

	2001	2002	2003	2004	2005(b)
Growth of GDP in %	5.7	5.5	5.2	4.5	2.3
Export growth in % <sup>a</sup>	12.1	11.4	16.9	17	12
Import growth in % <sup>a</sup>	8.0	10.5	12.2	16.0	14.5
Inflation in % (CPI)	0.3	33.3	1.1	2.3	3.0
Gross Domestic Investment/GDP	21.2	22.2	20.3	21.1	21.3
Total Tax Revenue in % of GDP	7.8	7.9	8.5	8.1	N/A
Unemployment in %	N/A	N/A	N/A	N/A	N/A
Budget Deficit in % GDP	-6.8	-6.6	-6.1	-5.8	-5.6
Current account balance in million \$	-14.1	-14.1	-12.8	-15.4(b)	-17.2

<sup>a</sup> Merchandise exports and imports.

<sup>b</sup> Forecast.

Source: Asian Development Bank, *Asian Development Outlook 2004* (Oxford and New York, 2004). [Total tax revenue as percentage of GDP](#) and other key indicators can be found in *Cambodian Business Review*, Vol.4, No. 8 (January 2005)

The market economy's institutional framework did not improve to the extent that the country could attract more foreign investment. Reform efforts did not bear any real fruit, despite the rhetoric by government officials that reform was necessary if the economy were to become more developed. At the Seventh Consultative Group (CG) meeting in Cambodia, held December 6–7, 2004, all participants, including donors

and Cambodian officials, recognized that the time had come for Cambodia to transform action plans and strategies into decisive implementation showing concrete results.

#### **D. Strategic perspective**

The overall picture of transformation is slightly more negative than positive. At the time of evaluation, obstacles to the process of political and economic liberalization remained formidable. Cambodia was no longer at war, and coalition politics became more stable, but the CPP was likely to win future elections, with Funcinpec and the SRP playing critical but relatively powerless roles. Because of the rising poverty level and less-than-desirable economic growth, Cambodian democracy is unlikely to become more mature.

The key strategic tasks for the medium term include the following: enhancement of public institutional efficiency, de-politicization of key government institutions, more equitable representation for women, credible anti-corruption policy action and the strengthening of the rule of law. Opposition parties, civil society and donors will no doubt continue to apply pressure on the government to promote transparency in the decision-making process, to ensure respect for human and democratic rights, and to combat corruption. However, these tasks will bear little fruit unless the existing multiparty system and civil society can be strengthened. Unfortunately, these political and social forces are likely to remain politically weak in the near future and will be subject to state control and retribution whenever they become too critical of government policies. The donor community has been generous, but the country would face an uphill battle if foreign aid were to run dry, as Cambodia will be unable to stand on its own two feet any time soon.