An Economic History of Cambodia in the Twentieth Century
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CHAPTER 5

Rehabilitation and Reconstruction, 1990–c. 2000

The main responsibility for deciding Cambodia’s reconstruction needs and plans should rest with the Cambodian people and the government formed after free and fair elections. No attempt should be made to impose a development strategy on Cambodia from any outside source or deter potential donors from contributing to the reconstruction of Cambodia.

Declaration on the Rehabilitation and Reconstruction of Cambodia, Article 2

Major changes taking place in the global political arena towards the end of the 1980s affected all four factions involved in the so-called “Cambodia problem.” As the Cold War ended, the political props and economic support which had awarded them legitimacy and the means to defend it were withdrawn. The immediate response of the combatants to these changes was consolidation of their defence positions and asset-stripping to pay for the cost of ongoing civil war. In particular, the rich hardwood forests of Cambodia were logged relentlessly until the final battle in the civil war was fought at Anlong Veng in 1998 and the Cambodian communist movement was definitively abandoned. The final decade of the twentieth century, therefore, was as tumultuous for the Cambodian people and their economy as any other had been. While politicians and international peace-keepers spoke grandiloquently about rehabilitation and reconstruction, in reality, this was a faltering process that was still displaying signs of its immaturity as the century ended.
In 1987, Hun Sen, Prime Minister of the PRK, had a cordial meeting with Norodom Sihanouk in France. This event marked the commencement of peace negotiations that culminated in the signing of the Agreements on a Comprehensive Political Settlement of the Cambodia Conflict by Cambodia and 18 other nations, including all the permanent members of the UN Security Council and the ASEAN countries, in Paris on 23 October 1991. The settlement was based on a framework accepted by the four factions: State of Cambodia (SoC), Funcinpec, KPNLF, and the Khmer Rouge at a Jakarta Informal Meeting in September 1990 whereby a Supreme National Council (SNC) would act as the sole legitimate authority in Cambodia during a transitional period to peaceful resolution of the conflict.\(^2\) The Security Council adopted Resolution 668 endorsing the framework, and the signatories to the Paris Peace Agreements then invited the Security Council to establish a United Nations Transitional Authority in Cambodia (UNTAC) with civilian and military components. UNTAC’s specific mandate was the organisation and conduct of free and fair elections for a constituent assembly.

This mandate covered seven broad areas: military, civil administration, law and order, elections, human rights, repatriation, and rehabilitation and reconstruction. To guarantee a sufficiently neutral environment for the elections, UNTAC was supposed to have direct control of five key state areas including foreign affairs, national defence, finance, public security, and information. Under the mandate, civil police would maintain law and order as well as protect human rights and fundamental freedoms, while militarily UNTAC would supervise the ceasefire, cantonment and disarming of the factions’ forces and take steps towards their demobilisation. In addition, it would facilitate the voluntary repatriation of around 370,000 refugees from the Thai border camps and assist other displaced persons to return to their place of choice inside Cambodia.

In practice, the deployment of 16,000 multinational troops lagged behind schedule and the civil police and civil administration components were even further delayed. As an interim measure, therefore, an advance mission, UNAMIC, of around 400 personnel arrived in Cambodia in January 1992 and it was absorbed by UNTAC in mid-March, or five months after the agreements had been signed. UNTAC was not fully operational until September, and the delay caused increased violations of what had only ever been a very fragile ceasefire agreement. At its peak, UNTAC represented more than 20,000 international personnel, supplemented by three times that many locally recruited staff. It cost more than two billion U.S. dollars, some of which were spent in Cambodia and provided a sudden and reasonably widespread boost to the local economy.
The downside of the huge international presence included inflation, greed, and rampant corruption. Land values skyrocketed and rents became unaffordable to many; the commercial sex industry flourished and HIV/AIDS, while not introduced by the foreign troops, nevertheless spread alarmingly.

There were many breaches of the agreements. Always an unwilling starter, the Khmer Rouge refused to allow UNTAC monitors into their areas in May 1992 to supervise the disarmament of their troops, demanding as a pre-condition that the SoC administrative structures be completely dismantled. Eventually the KR withdrew from the process altogether, so whatever disarmament took place among the four factions before the elections was purely token in effect. The Cambodian People’s Party (CPP), formerly the KPRP, complied with the broad strokes of the UNTAC mandate but maintained its grip on the national administration it had built during the previous decade. Funcinpec played the underdog to the international audience, but meanwhile used its association with Sihanouk to very good electoral advantage, especially in the countryside, and quietly maintained its dangerous liaison with the Khmer Rouge fighting forces. The last of the four warring factions now reformulated as political parties contesting a democratic election was the KPNLF which promised much by way of nominating credible contenders for the National Assembly seats, but proved to be hopelessly divided against itself.

The United Nations was generally criticised for moving too slowly to get the transitional authority in place once the agreements had been signed and for not acting decisively against parties that infringed those agreements. Nevertheless, the election process itself was declared a success. Ninety per cent of those who registered to vote did so between 23 and 28 May 1993 and the majority gave their endorsement to Funcinpec. The CPP refused to accept the result. Confronted with a very tense stand-off which threatened to return Cambodia to civil war, Sihanouk proposed a compromise for an executive government led by co-premiers, Prince Ranarridh and Hun Sen, with co-ministers in the strategic ministries of defence and interior, and shared control of other ministries.

On 21 September 1993, the Constituent Assembly that had been elected in May voted to adopt the new constitution. Three days later, Sihanouk signed the constitution and resumed the Cambodian throne as a constitutional monarch, one who reigns but does not govern. The state was once again the Kingdom of Cambodia. The promulgation of the Constitution of the Kingdom of Cambodia brought a formal end to the mandate of UNTAC in Cambodia and the withdrawal of what remained of the operation was completed in the final weeks of 1993.
The tally of ballots cast in the 1993 UN-supervised elections on public display in Phnom Penh

Rural poverty, Battambang province, c. 2003
For most foreign observers still resident in the country, UNTAC’s departure was premature. Far from representing reconciliation, the confused power-sharing arrangement it left behind posed an extreme danger to the state. In its preamble, the new constitution declared the “restoration of Cambodia into an ‘Island of Peace’ based on a multi-party liberal democratic regime.” Beyond the rhetoric, however, it was still “the same bus.” In fact, Cambodia had settled for an electoral democracy, not a genuinely liberal one, even though several political parties were represented in its legislature. Each of the major parties remained committed to wresting complete control of the state from other contenders, essentially for the benefit of the clientist networks that they patronised. Those interests finally clashed militarily in mid-1997 and the CPP emerged the victor. The following year, the Khmer Rouge, already weakened by major defections, imploded as a consequence of its last bloody purge.

By an unfortunate coincidence, the terrifying “July events” for the Cambodian people coincided with the Asian financial crisis. The slim economic gains Cambodia had made by 1997 were wiped out and GDP registered a near-zero per cent growth rate. The final years of the century saw a faltering return to positive gains. The Cambodians themselves staged national elections in 1998 and again in 2003, still with disputed outcomes but each time with less violence than the previous elections. These political gains were consolidated with the successful staging of the first truly nationwide elections for local government at the level of the commune in 2002. Despite some ongoing “mopping up,” the CPP regained its ascendancy over the state apparatus and this historical fact was acknowledged by Cambodia’s admittance to ASEAN in 2000, membership that was valued more highly by the general public than that within the WTO in 2004. Cambodia was no longer isolated and despised as a pariah state in its own region. This was an important prestige factor and a valued spur to genuine economic development.

Policies

After 1990, Khmers returning to their homeland after a long exile and international planners alike believed that Cambodia had to be resurrected, not simply reconstructed. The achievements made during the decade following the downfall of Democratic Kampuchea were generally overlooked or considered merely as makeshift and *ad hoc* responses to an emergency situation that had existed after the Vietnamese drove the Khmer Rouge out of Phnom Penh in 1979. There was, therefore, a general misconception that the Cambodian state had been asleep until the Paris Peace
Agreements and UNTAC revived it. This misconception of the somnolent state led many international development planners to believe that they were writing macroeconomic reforms onto a clear slate. Consequently, it should not be surprising that those attempted reforms frequently found strong resistance from entrenched power holders within the Cambodian ruling elite. At the same time, it is fair to say that policy in the 1990s was dictated from outside rather than from within the state, and that the Royal Government of Cambodia was involved more at the level of strategic implementation than at that of decision-making; this was a direct consequence of having committed itself to a Structural Adjustment Programme (SAP) with international creditors in 1994.

The Declaration on the Rehabilitation and Reconstruction of Cambodia was the last of four documents signed in Paris in October 1991. This slim document consisting of 13 points gave the United Nations an important role in this effort. According to the agreement, during the rehabilitation phase, particular attention would be given to food security, health, housing, training, education, the transport network and the restoration of Cambodia’s existing basic infrastructure and public utilities, while the reconstruction phase should promote Cambodian entrepreneurship and make use of the private sector, among other sectors, to help advance self-sustaining economic growth. The final point of the document called for the formation of a consultation body, to be called the International Committee on the Reconstruction of Cambodia (ICORC) which would be open to potential donors and other relevant parties. The United Nations would support ICORC by ensuring a smooth transition from the rehabilitation to the reconstruction phase.

This role was coordinated by the United Nations Development Programme (UNDP) which returned to Cambodia in late 1990. With the technical assistance it provided, the newly established Royal Government of Cambodia (RGC) prepared its National Programme to Rehabilitate and Develop Cambodia and presented it to the international donor community at the ICORC-2 meeting in 1994. The programme, David Ayres notes, clearly reflected the agenda of the international community as well as providing evidence of the extent to which Cambodian leaders had embraced the ideology of the New World Order pursuant to the end of the Cold War:

The underlying themes of the “fields of operation” were market-based economic reform, a powerful private sector, overcoming institutional restraints, capacity building, and economic diversification and regionalization. In short, they are the themes of the economically oriented modernisation model of the New World Order. Formulated by foreign
experts, they were enthusiastically rubber stamped by the co-prime ministers and constituted, at least in terms of policy, the central tenets of the state ideology of the post-election Kingdom of Cambodia.³

In short, the Cambodian government promised to reform state institutions and the public service, rely on private entrepreneurship and the market as engines of growth, double GDP by 2004 in real terms, extend social services, improve rural livelihoods, ensure sustainable development, and strengthen domestic self-reliance.⁴ This declaration of national policy for the economy was intended to prove Cambodia's preparedness to adhere to the ruling Washington Consensus on international borrowing at that time. As one of the world's poorest countries, Cambodia was eligible for the International Monetary Fund’s Enhanced Structural Adjustment Facility (ESAF) that provided especially low interest loans and generous repayment terms. As a condition for receiving ESAF loans, Cambodia was required to adopt a three-year SAP, 1994–96, which set clear targets for public finance reform in order to reduce the budget deficit, for liberalisation of trade and investment, and public sector reform.

It is fair to say that the Cambodian economy, in terms of overall GDP grew substantially as a result of economic policies adopted in 1994. There were several shocks, some exogenous and others related to domestic political events, which stalled economic progress at points throughout the decade, but according to World Bank calculations, the Cambodian economy in 2006–7 achieved double digit growth at a regional rate second only to that of China. This growth, however, was lopsided and by the turn of the century, the wealth gap between city and the countryside, and between the urban rich and the urban poor, was vast and still growing.

The SAP may well have been on track towards achieving the long-term aim of economic growth and development. What was never explained in its agenda, however, was how the wealth thus created would reach the poor and vulnerable or those otherwise lacking the means and opportunities to access the benefits of the newly liberalised market. In reality, the reduced responsibility of the state and restrictions placed on public spending put education and health services even farther out of reach of Cambodia's poor, particularly the rural poor. Although the statistics may not be entirely reliable, the percentage of Cambodia’s population living below the poverty line changed very little between 1993–94 and 1999 from 39 per cent to somewhere between 36 and 38 per cent of the total population. About 90 per cent of those living below the poverty line were rural dwellers.

In 1999, the IMF and the World Bank replaced the Structural Adjustment Programme with the Poverty Reduction Strategy Paper (PRSP),
Poster for the 1998 general election showing CPP leaders Chea Sim, Hun Sen and Heng Samrin
allowing poor countries to qualify for concessional loans on condition they developed a strategy to deal with poverty. According to its PRSP, the Cambodian government committed itself to reducing the number of people living below the poverty line to 19.5 per cent by 2015.\textsuperscript{5} Progress, however, was slow. In March 2003, the UNDP released an independent report which stated unequivocally, “To date, the macroeconomic framework established under guidance from the IMF has not succeeded in addressing the key elements of poverty in Cambodia..... Even during high growth periods, poverty reduction either did not occur or was minimal.”\textsuperscript{6} The study recommended some radical departures from IMF dogma including encouraging moderate inflation and taking on more debt. It suggested that the government should borrow locally from domestic private banks to increase budget allocations for rural and agricultural development.

\section*{Administration and Governance}

The State of Cambodia (SoC) which came into being when the National Assembly adopted numerous changes to the 1981 constitution on 29 and 30 April 1989 is usually conflated with the PRK regime both in popular memory and by journalists writing on Cambodian affairs after the UNTAC intervention. It is true that the single party, the Kampuchean People’s Revolutionary Party, renamed the Cambodian People’s Party in 1991, continued to govern in much the same fashion as before. There were, however, changes that were more fundamental than those to the name of the nation and the flag. In the new constitution, Buddhism was re-established with prerogatives similar to those before 1975, private property and the free market were officially recognised, and Article 35 of the new constitution guaranteeing citizens their rights to “physically inviolability” under law was an important provision for later persistent efforts to establish human rights standards in national institutions during the 1990s.

In the aftermath of the UN-supervised general elections, Norodom Sihanouk signed the new constitution on 24 September 1993 and, 52 years after his first coronation, once again ascended the throne, this time as the first constitutional monarch of the Kingdom of Cambodia. The constitution provided for a legislature, the National Assembly of at least 120 members elected for five-year terms by free and universal elections, while the executive body, the Royal Government of Cambodia, was incorporated in the Council of Ministers, presided over by the Prime Minister,
assisted by deputies, state ministers, ministers and state secretaries. According to the constitution, the president of the National Assembly recommends and the king then designates someone from the successful party at the elections to form the government. This prime ministerial nominee must have a vote of confidence from the Assembly before assuming office.\footnote{7}

Under Article 113 of the constitution, the king is the guarantor of the independence of the judiciary and in this role he is assisted by the Supreme Council of the Magistracy. This Council and the Constitutional Council were deemed critical for the independence of the judiciary and adherence of the state to the declared national policy of “Liberal Democracy and Pluralism” as set out in Article 51 of the 1993 constitution. Their establishment, however, was long delayed and their relevance and effectiveness severely curtailed by the efforts of the dominant political party, the CPP, to rule without opposition. The Supreme Council of the Magistracy finally convened in December 1997, its function being to make proposals to the king on the appointment of judges and prosecutors and to decide on disciplinary action to be taken against them. By 2002, this body had met infrequently and had examined fewer than two hundred cases of possible corruption by court officials; none of those cases resulted in prosecution.

The question of political interference in the Supreme Council of the Magistracy affects the Constitutional Council since the former appoints three of its nine members, the others being appointed in equal measure by the king and the National Assembly. The National Assembly voted overwhelmingly for the Constitutional Council Law on 19 March 1998, in time for that year’s general elections since, according to Article 117, it has the right “to examine and decide on contested cases involving the election of Assembly members.” While the main role of this Council is to examine draft bills for constitutionality before their promulgation and to provide oversight on any proposals to amend the constitution, the international donor community at that time regarded it as a guarantor of acceptable election results. From its inception, the Constitutional Council proved to be highly controversial; the king’s three appointees, all very elderly and highly respected Cambodian dignitaries, boycotted the Council’s first meeting, claiming that the remaining members had been appointed illegally and that the meeting was therefore invalid.\footnote{8}

The Constitutional Council approved the constitutional amendments of 4 March 1999 that created a Senate. Something like a bicameral parliamentary system had operated in most previous regimes, with an legislative chamber, the National Assembly, that debated and passed bills and another that performed the role of legislative reviewer. The Senate
Cambodian NGOs raise awareness of official corruption
assumed this latter role, although it also has the right to initiate legislation. Constitutionally, the number of senators is fixed at not exceeding half the number of National Assembly deputies. The king has the right to nominate two senators, the Assembly elects a further two by majority vote and the others are supposed to be universally elected for a five-year term. By 2005, however, the Senate was still an unelected body.

Even though the Assembly, the Senate and the Prime Minister all have power to initiate legislation, virtually all legislation presented to the National Assembly is drafted at the ministerial or Council of Ministers level. Throughout its history since independence from France, the Assembly has failed to assert its independence and it is still regarded as little more than a rubber stamp for decisions made by the government, and more specifically by the Prime Minister himself.

At the same time, however, it would be wrong to deny that there have been important efforts to improve governance since UNTAC and, indeed, since the significant constitutional changes of 1989. These efforts were made largely in response to demands of major creditors and donors and the conditions tied to loans and aid. Cambodia was re-admitted to the global economic community just as the U.S. launched its drive to liberalise markets around the world, “not as a well-intentioned effort to promote reform,” Francis Fukuyama claims, “but as an American attempt to impose its own antistatist values on the rest of the world.”\footnote{9} Thus, the push was not only for liberalisation and privatisation in the economic sector, but also for decentralisation of political structures and radical down-sizing of the state bureaucracy.

The key concept and justification for administrative change in Cambodia throughout the 1990s was “good governance,” defined as “the manner in which power is exercised in the management of a country’s economic and social resources for development.”\footnote{10} States with good governance, those authors explain, exercise powers based on the rule of law through state institutions and organisations that are accountable and transparent to the general public. Five areas with implications for good governance and sustainable development are identified as: public finance reform, public administration reform for the civil service and armed forces, decentralisation, legal and judicial reforms, and regional integration. All came under close scrutiny and pressure from external donors and local civil society groups following the formation of the first Royal Government of Cambodia in September 1993.

Although laws were successfully enacted to permit restructuring of the banking sector and the privatisation of remaining state-owned companies, attempts at public administration reform, struck at the very heart
of the patronage networks that have traditionally defined the workings of the Cambodian state. During the UNTAC period, before the May 1993 elections, UNDP was invited to help the Cambodian authorities draw up a national programme of administrative reform and its implementation. The goal was institution-building and the strategies included establishing the legal framework for restructuring public administration, strengthening the management of line ministries and reforming civil service management, developing capacity, and strengthening provincial administration. The matter took on some urgency when the government signed the structural adjustment agreement with the IMF in 1994, committing itself to a 20 per cent reduction of the civil service by 1997. The process began with a count of those on the national payroll in 1995 in order to remove “ghosts.” Resistance and subversion, however, proved to be overwhelming obstacles to reform efforts. In mid-1998, the resident representative of UNDP in Cambodia admitted that the sole achievement of the public administrative reform efforts was a database of laws enacted in the previous decade:

I must state that the results of the national programme of administrative reform so far — to which UNDP has contributed $3.5 million — are disappointing. We have not seen the emergence of a clear independent public administration; we have not seen the establishment of a clear independent judiciary; we have not seen a clear delineation of authority and delegation of responsibility from the centre to the provinces and below; we have not seen a thorough assessment of the existing public servants to test their capabilities and response to their training needs; and perhaps above all, we have not seen a reform of civil service conditions and salary scales, designed to motivate the servants of the state and to enable them to work independently and full time on their designated tasks.11

In defence of his government, the minister of state and co-chair of the interministerial commission for administrative reform, Sok An, argued that the momentum of the reform had been constrained by the destabilisation of the coalition government from March 1996 until the July 1997 fighting. The nature of the coalition government had, in fact, made it impossible for either of the main parties to reduce the number of positions available to their clients within the bureaucracy. Actual downsizing was only possible after the 1998 elections. He promised that the RGC would achieve the modernisation of the Cambodian public administration between 1998 and 2002 and that there would be six axes of reform including “deconcentrating state offices towards the provinces so that the administration is close to the needs of citizens.”12
Deconcentration, or decentralisation, took the form of the elected commune council. The Law on Commune/Sangkat Administrative Management was passed by the National Assembly in January 2001, making way for elections the following year for 1,621 councils of between five and eleven members depending on the size of the commune.\(^\text{13}\) The commune had developed its political function during the previous regime by mobilising troops and militias for defence and extending the authority of the party to the village; its administrative function had been to control, regulate and record the affairs of the commune. In its new form, it would be responsible for development of the commune, reducing poverty and improving the quality of life. In order to provide basic health services, education, roads, sanitation, potable water, power, and so on to its constituents, the commune council was required by the law to prepare development plans and budgets.

During their first five-year term, most commune councils did not live up to the expectations of international observers. A survey conducted in 2003 found that councillors did not understand their duties, did not communicate well with their constituents and did not have adequate resources.\(^\text{14}\) Meanwhile, approximately three-quarters of the constituents said that they never communicated with their councillors. It seemed the fundamental problem was that councillors were elected on a party ticket and party loyalties divided the councils, limiting their ability to make independent decisions and to attract funding. After the first elections, the CPP controlled all except 23 of the 1,621 councils.

Cambodia emerged from protracted civil conflict with large defence and security forces. In 1993, the Armed Forces General Staff, under pressure from UNTAC and donor embassies, agreed to form a national army from those of the SoC, Funcinpec and the KPNLF of 128,000 soldiers. The merger did nothing to reduce the overall size of the armed forces, and a year later the national payrolls registered close to 160,000 men.\(^\text{15}\) By April 1994, there were 2,000 generals and 10,000 colonels in the army. It was, as William Shawcross observed, “nothing short of grotesque.”\(^\text{16}\) In 1998, military personnel were counted at 143,000, or 12.5 per thousand of the total population and together with the security forces consumed almost half of the government budget.\(^\text{17}\) Under pressure, the following year, the RGC presented international donors with a comprehensive draft of its plans to demobilise the army. Two years later, it reported that it had demobilised 15,000 soldiers, many of them ill, disabled or elderly, and that it had removed the same number of “ghost” soldiers, along with almost 160,000 “ghost” dependants for whom unnamed individuals were
collecting wages, and announced that it had set a goal of reducing the armed forces to about 100,000 by the end of 2002. Donors were asked for a further US$42 million to complete the demobilisation. In 2003, following acrimonious exchanges between the government and the major donors over misprocurement, bribes paid to get onto demobilisation lists and complaints about the poor quality of compensation package goods, the World Bank demanded the return of US$2.8 million from the government and passed sanctions against a number of Cambodian firms for fraudulent practices. The process of demobilisation then stalled for lack of funding.

Corruption dogged almost every effort to reform Cambodia’s institutions. This should have been anticipated by the reformers. Several experts on Cambodian affairs have analysed the fundamental contradiction that exists within the post-independence Cambodian state between efforts to modernise, to appear modern, and the traditional habits of patronage and absolutism in the realms of power. As David Ayres notes, “Cambodia’s official embrace of modern political institutions and a modern, development-oriented state ideology were sharply at odds with a firmly reasserted and entrenched traditional political culture.” A patrimonial political style including clientism and personalism, Grant Curtis agrees, “[is] not only in the style of doing politics but also in the style of governing.” In other words, what donors and the international community who supported the peace process in Cambodia regarded as corruption, was only business as usual for those who had achieved high positions of influence. “The organisers of the Paris Peace Agreements,” David Roberts argues, “attempted to implant equality and individual choice in a society governed, and financed, through hierarchical inequality and group loyalties. That is, it could not be meaningful to vote altruistically for a personality if that leader could not return the favour in the traditional manner.” Without requisite economic restructuring, according to his argument, persistent efforts to democratise Cambodia in accordance with Western standards could put the poor at greater economic risk.

By international standards, corruption in Cambodia is rife. In 2006, Transparency International ranked Cambodia 151 out of the 163 countries it surveyed, awarding it only 2.1 points out of a possible 10, a ranking that was 21 places lower than the previous year. With the exception of Burma, it was judged the most corrupt member nation of ASEAN. A government-commissioned survey of 800 business establishments in 2004 found that 82 per cent of them paid bribes and 71 per cent responded that they paid frequently. They regarded corruption as a major constraint on their business operations in addition to weak laws, bureaucratic
costs, unfair competition from well-connected rivals, and unnecessary inspections. Of government institutions, the judiciary and customs were viewed the most negatively. A World Bank report in 2004 estimated that businesses paid US$120 million each year in “bribe taxes” to operate in Cambodia. Financial losses to state revenues as a result of these corrupt practices were considerable. The same World Bank study found potential annual losses of US$226 million to GDP due to “market and administrative distortions.” These distortions, including huge military-run smuggling schemes, cost the state around US$28 million in revenue each year.

Corruption also puts a heavy burden on the provision and efficiency of state services. By the turn of the century, civil servants’ wages had improved a little since 1990 but they still remained far below what an average family needed to subsist. The consequence was high absenteeism, ubiquitous illegal charges and the drift of civil servants towards the private sector or the NGO community where foreign aid donors support salaries. Perhaps the most pernicious effect of official corruption is the huge disparity in wealth between those who have access to the means of corruption and those who are forced to pay or suffer the consequences of not paying in terms of worsened poverty, health and ignorance.

In post-UNTAC Cambodia, international creditors and foreign donors used the regular supply of aid as a weapon against corruption to little effect. In 1997, for example, the IMF cancelled US$60 million in loans to the Kingdom in response to widespread official collusion in illegal logging and the government’s failure to return logging revenues to the state. Lost government revenue from the logging industry that year was approximately US$309 million, equivalent to 73 per cent of the total national budget of US$419 million that year. Funding, however, was typically resumed when the government granted some measure of compliance with donor demands. One donor demand, however, remained stubbornly unfulfilled. A National Anti-Corruption Law was first drafted in 1994, but ten years and several versions later, it still had not been passed into law.

At a purely administrative level, the Kingdom of Cambodia added one province and two krong or municipalities, namely Pailin and Kep, to its sovereignty. These changes were a direct consequence of the defections of Khmer Rouge factions and then their final defeat at Anlong Veng in 1998. Subsequent to that defeat, Oddar Meanchey, where Anlong Veng is located, was officially re-created as a separate province in June 1999. It enjoyed full provincial status from 1962 to 1970 during the Sangkum period, but under the following regimes it had existed as an anukhet, a sub-province administered by the governor of Siem Reap province.
Population

The 1990s were years of only relative peace for the Cambodian population. Major dry season offensives fought by the Royal Cambodian Armed Forces against the Khmer Rouge in the northwest created large temporary settlements of internally displaced people, and the bitter fighting in July 1997 between the forces backed by the CPP and those belonging to Funcinpec sent as many as 40,000 refugees back across the Thai border into Surin province. Presumably, a good number of those fleeing the fighting had been repatriated from the Thai border camps during the year prior to the May 1993 elections. By the end of the decade, however, with the resolution of the major conflict with the Khmer Rouge, and with what appeared to be a lasting coalition of CPP and Funcinpec in government, there was a positive outlook for lasting peace.

Population figures for the decade indicated strong population growth of about 40 per cent. The UNHCR-sponsored repatriation of around 370,000 refugees in time for the 1993 elections resulted in the abnormally high 6.1 per cent growth figure recorded by the Socio-Economic Survey of Cambodia (SESC) 1993–94; this was the first of four such reports during the 1990s conducted as part of a special training project sponsored by the ADB and UNDP in order to generate a socio-economic database to serve the needs of macro-economic planning and management in Cambodia. These surveys also provided statisticians with preparatory training for the general population census of 1998. The National Institute of Statistics (NIS) compiled results from the four reports and the general census into the following table:

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</tbody>
</table>

When the census was conducted on 3–4 March 1998, enumeration covered the whole country with the exception of a few insecure areas including Anlong Veng, Samlaut, Veal Veng, and one village in Pursat province whose combined population was estimated to be about 45,000. The refugees from the July 1997 fighting who were still in Thailand were not included in the census.

According to the National Institute of Statistics, the Cambodian population will reach 15.5 million by 2010 and surpass 20 million in 2021. In that latter year, the sex ratio should reach parity again for the first time since 1962, and the annual population growth rate will fall below two per cent for the first time. These predictions were made on the basis of total fertility, which, while it remained high in 2000, had generally declined in the preceding decade; the national average was then four children per woman.

The 1998 census showed that national population density was 64 persons per square kilometre but the population was unevenly spread, with the large majority inhabiting the central plains region. The following table suggests that the pattern of distribution has not changed much since Delvert made his observations in the 1950s:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowland</td>
<td>3,797</td>
<td>3,563</td>
<td>4,632</td>
<td>5,018</td>
<td>5,898</td>
</tr>
<tr>
<td>Tonle Sap</td>
<td>2,039</td>
<td>1,945</td>
<td>2,528</td>
<td>2,668</td>
<td>3,414</td>
</tr>
<tr>
<td>Coastal</td>
<td>474</td>
<td>426</td>
<td>553</td>
<td>670</td>
<td>816</td>
</tr>
<tr>
<td>Mountain*</td>
<td>685</td>
<td>656</td>
<td>854</td>
<td>951</td>
<td>1,189</td>
</tr>
</tbody>
</table>

Note: * Kompong Speu province is counted in the mountain region for all years.

As the figures above illustrate, demographic renewal affected the country as a whole during the period 1980–93 and there was a 41 per cent population gain. Phnom Penh experienced spectacular growth; the city’s population was 691,000 in 1993 and by 1998 it was very close to one million. Population growth rates in the northwest of the country, where most provinces are grouped in the Tonle Sap region, also increased markedly. Most of the refugees indicated their wish to return to that part of the country and, in fact, Battambang province’s population increased by almost 40 per cent between 1993 and 1998.

The 1998 census showed that 30 per cent of the population was aged between 5 and 14 years, almost twice the size of the cohorts above them to age 24, and noticeably larger than the 0–4 age group. This
demographic bulge represented a high age dependency ratio throughout the 1990s and subsequently created and will continue to create high demand for jobs and also for productive land until 2015 at least. It also guarantees that the population growth rate, which registered 2.49 per cent on the night of the census, will remain high until 2020 at least.

A further trend is towards urbanisation. The 1998 census recorded that 15.7 per cent of the total population lived in urban areas, while the 1999 CSES recorded a total urban population of 2.13 million or 18.4 per cent of the total population. Thus, while the Cambodian population remains overwhelmingly rural, there is a growing migratory trend towards the city and municipalities. The 1962 census noted that 10.3 per cent of the population lived in the municipalities and provincial towns and throughout the PRK regime, urbanisation remained at a fairly steady rate of about 12 per cent. Phnom Penh accounts for the vast majority of the urban population, being more than six times larger than the second municipality, the port of Sihanoukville.

Phnom Penh is a vastly different city from the one it was before 1975, and it would surely be unrecognisable to the French colonial settlers. Apart from its size, the most noticeable change is to its ethnic mix. The old French, Chinese and Vietnamese quarters have largely disappeared and Phnom Penh is now very much a Khmer city with sizable Chinese and Vietnamese populations. Khmers are also prominent in the city’s commercial life, unlike before, and are strongly represented in the new working class that is composed largely of young female employees of the many export-oriented, foreign-owned garment factories located in and around the city. The uneven pace of development between that of Phnom Penh and the rest of the country, however, is beginning to have seriously divisive consequences for Cambodian society as the burgeoning city economy exerts a strong attraction for internal migrants in search of paid employment to support relatives who are trying to cope with a flagging rural economy.

While the 1998 census found that most migration (57 per cent) was rural to rural, an increasing number of people are seeking regular paid work either in Phnom Penh or abroad and sending remittances to the village. Of all migrants who had left their villages less than one year before the census date, 29 per cent said their principal reason for moving was unemployment. Population pressure on land, possibly for the first time in Cambodian history, with consequent increasing landlessness, unemployment and poverty, is forcing more and more rural Cambodians to leave their villages. Researchers suggest that this trend is very rapid, as
a comparison between results of the 1996 Demographic Survey and the general census of 1998 shows:

<table>
<thead>
<tr>
<th></th>
<th>1996 Demographic Survey</th>
<th>1998 Population Census</th>
<th>Two-year Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Recent” rural migrants</td>
<td>634,786</td>
<td>881,439</td>
<td>38.9</td>
</tr>
<tr>
<td>(5 years)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Very recent” rural</td>
<td>172,305</td>
<td>273,534</td>
<td>58.7</td>
</tr>
<tr>
<td>migrants (12 months)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cambodia now has formal arrangements to assist people to find paid employment abroad and Cambodians are working legally in various, usually low-paid occupations, in regional and other Asian countries from South Korea to Singapore. Thailand, however, is the main destination for legal and illegal job-seekers alike. In 2005, it was estimated that 183,000 Cambodians were working illegally in Thailand. The International Organisation for Migration estimated that between 50,000 and 70,000 Cambodian migrants were crossing the border at Poipet each year to work as housemaids, agricultural labourers, construction workers, dock workers and so on, attracted by the promise of considerably higher wages than can be earned in Cambodia. Rapid assessment surveys conducted by the CDRI in 2002 found that some of these migrants commute daily or for just a few weeks at a time to do farm work while longer-term migrants, the majority of whom are men, go deep into Thailand with the assistance of guides.

**Human Development**

During the 1980s, there was no way of measuring living standards in Cambodia against an international norm. Nevertheless, Cambodians who remained in their country throughout that decade were indeed poor, and universally so. If some merchants or officials accumulated more wealth than others, their wealth was not conspicuous. Throughout the 1990s there was a dramatic change in that situation. The wealth gap was both conspicuous and real. It was also obvious that that gap was widening rather than narrowing as the decade progressed.

The first national poverty survey report, released in October 1997 by the Ministry of Planning and UNDP, found that nearly four out of
ten Cambodians, or 36 per cent of them were living below the poverty benchmark of 35,000 riels (or around US$11) per person per month.\textsuperscript{35} The vast majority of the poor, roughly 90 per cent, lived in the countryside. Cambodia’s HDI score was then 0.421.\textsuperscript{36} This was one of the lowest scores among Asian countries but appropriately on par with its level of per capita GDP. Its rating of 42.35 on the Human Poverty Index, however, was high in relation to per capita income, reflecting Cambodia’s persistent high levels of mortality, child malnutrition and poor access to public services throughout the country. The Human Development Report of 1998 pointed to the large disparities that existed in relation to HDI indicators. “For instance,” it noted, “the HDI score for urban Cambodia is nearly 50 per cent greater than that for rural Cambodia. The richest 20 per cent of Cambodians have an HDI score that is nearly two and one-half times as much as that of the poorest 20 per cent of Cambodians. Women have a nearly 30 per cent higher level of human poverty than do men.”

The real growth in the Cambodian economy after 1989 was concentrated in Phnom Penh. The first socio-economic survey undertaken in 1993–94 found that average monthly household expenditure for the whole country was US$116; in Phnom Penh, it was 169 per cent higher, or US$312.\textsuperscript{37} There is no doubt that UNTAC personnel spending was concentrated in the city and that this contributed to the huge disparity in spending between the city and the rest of the country that year. The pattern, however, was sustained throughout the decade. The Cambodia Poverty Assessment of 1999 found that the poverty severity index in the city was only about one-sixth that in either other urban or rural areas.\textsuperscript{38} While 90.5 per cent of all Cambodians living below the poverty line were in rural areas, and 7.2 per cent were in other urban areas, only 2.3 per cent lived in Phnom Penh. In fact, per capita income in the city continued to rise steadily throughout the decade and reached about US$1,000 in 2002. That figure, of course, is a gross distortion of the reality for most citizens because while inequality is very high generally (as measured by the Gini coefficient, inequality in Cambodia is higher than in most other Asian countries at Cambodia’s level of development), it is consistently higher in Phnom Penh than in other parts of the country. Meanwhile, in the provinces, average per capita income actually fell slightly and in 2002, it was less than US$200.\textsuperscript{39}

An overview of the living standards of Cambodians, according to their geographical location, is provided by the following figures for monthly household expenditure for the period 1993 to 1999:
Table 5.4 Average Monthly Household Expenditure by Stratum, Cambodia 1993–99

<table>
<thead>
<tr>
<th>Stratum</th>
<th>In thousand riels</th>
<th>In US dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia (Extrapolated)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>290.6</td>
<td>258.9</td>
</tr>
<tr>
<td>Phnom Penh</td>
<td>781.2</td>
<td>727.3</td>
</tr>
<tr>
<td>Other urban areas</td>
<td>439.5</td>
<td>403.3</td>
</tr>
<tr>
<td>Rural areas</td>
<td>238.8</td>
<td>220.0</td>
</tr>
</tbody>
</table>

Note: 1Exchange rates (riels per US$1) in successive years: 2,570r, 2,640r, 2,766r, 3,805r.

Care must be taken when interpreting these figures. The 1993–94 figures, as already noted, were inflated because of the presence of 20,000 international UNTAC personnel in Cambodia which injected a lot of money into the economy. The figure for 1996, therefore, was probably an adjustment to the post-UNTAC reality. In 1997, Cambodia was hit hard by political turmoil in July and suffered some of the shockwaves of the Asian financial crisis. Since 1999, however, there has been a steady upturn. Household final consumption expenditure in constant prices increased by 1.9 per cent in 2002 according to the National Accounts Bulletin. Based on the official mid-year population projection of 13.473 million for 2002,” it noted, “average annual per capita household final consumption expenditure in constant prices is estimated at 897,000 riels or US$291.”

The abiding issue of entrenched rural poverty remains the primary concern for policy-makers. Economic growth has barely touched the countryside. If living standards have risen among some rural families it is most likely due to remittances from daughters who have gone to the city to work in foreign-owned garment factories or from sons who have found paid employment outside the village, even outside the country, and not from agricultural development. Growth in the rural economy, in general, is not keeping pace with population growth. Landlessness and unemployment, or at least severe underemployment, compounded by restricted access to common land and to natural resources including forests and fisheries have all resulted in shrinking opportunities for rural folk and stagnation or worse in their living standards.

Health

After the Paris Peace Agreements were signed, the health sector received almost immediate support. The World Health Organization and all the
major international non-government organisations committed to primary health care, maternal and child health, and emergency care for victims of landmines established themselves throughout the country. The NGO sector quickly organised itself and coordinated activities through a central peak body, Medicam, which worked closely with the national health ministry and provincial departments. In other circumstances, a system that could have produced a vastly improved health service for all Cambodians, unfortunately had to confront two major obstacles: the epidemic rapid spread of HIV/AIDS and the dislocation of services caused by the SAP.

Throughout the decade of the PRK, health services were rudimentary but they were free. A certain measure of corruption persisted throughout that regime, but the level was capped both by the capacity of the people to pay and also by a measure of ideologically-governed oversight. Privatisation policies after 1989, however, allowed doctors employed in the public hospitals to establish private clinics, often in their own homes. Thus, patients who attended the hospitals for treatment during morning surgery were commonly referred to the doctor’s own clinic for further attention in the afternoon.

Cambodians spend a lot of money on health; household expenditures account for 73 per cent of total health expenditures, one of the highest rates in the world. The cost of medical treatment is a major cause of landlessness. An Oxfam study conducted in 1999–2000 found that among families without land, 56.4 per cent had never owned land to begin with, but among the remainder, almost half of them said they had sold their land in order to pay for the medical treatment of a family member.

The HIV/AIDS epidemic put heavy strains on the medical system. The first case of HIV infection was reported in 1991 and the rate of transmission rose rapidly through the decade. By 1997, up to 210,000 Cambodians were infected. The government, in full cooperation with NGOs and international agencies responded positively to this health crisis that threatened all the gains the country had made since the beginning of the decade. After 1997, the prevalence rate began to fall among the general population. In April 2001, the annual survey by the National Centre for HIV/AIDS estimated that 169,000 adult Cambodians between the ages of 15 and 49 were living with the virus, down from 184,000 in 1999. The reporting rate, however, is low and the decline in the prevalence rate may be attributed as much to AIDS-related deaths as to a decline in new infections.

The HIV prevalence rate of 2.6 per cent among newborns, a result of mother to child transmission during birth is a contributing factor to the continuing high infant and child mortality rates. According to the
2002 National Health Survey, the child mortality rate is increasing; that year it was 95/1,000 compared with 85 in 1998. The survey cited multiple factors including disease and malnutrition combined with poor maternal health, limited availability of basic health services and low standards of household hygiene. The UNICEF Progress on Children report of late 2004 claimed that Cambodia was the only country in the region where child mortality rates had increased since 1990 and pointed again to the urban-rural wealth gap. “Children born to poor rural families in Cambodia have a three times greater chance of dying in early childhood than those born to better-off urban families,” it noted. The infant mortality rate in rural areas is generally 33 per cent higher than it is in urban areas, and the child mortality rate is 35 per cent higher.

In 1997, the health ministry introduced user fees to reduce the practice of unofficial payments, to generate revenue for commune clinics and district referral hospitals and to improve the quality of services. The Cambodia Gender Assessment report of April 2004 found that in practice, however, the fee exemptions stipulated in the plan were not uniformly applied to poor people and that unofficial payments had not been eliminated, even in hospitals that were carefully monitored.

**Education**

The Constitution of 1993 committed the state to providing free primary and secondary education to all on the basis of nine years of schooling. This provision was in line with the decisions taken at the seminal Education for All conference of 1991.

At the time of that conference, the education sector was seriously stressed. Throughout the PRK/SoC years, primary enrolment had expanded from 0.94 million to 1.62 million, an overall increase of around 70 per cent due only in part to the shift from four years to five years of primary schooling in the mid-1980s. The “baby boomers” entered the school system just as funding support from the Soviet bloc stopped and the ADB education sector study of 1994 noted that real per capita spending had declined by 35 per cent in the intervening five years. The funding gap was exacerbated by inefficiencies: for example, one-quarter of primary school students were repeating grades, many schools and teachers operated for only four hours per day, and more than 90 per cent of school spending went to teacher salaries. In addition, the system was burdened with a high rate of unqualified teachers, the absence of a national curriculum framework, inadequate textbook supplies and crumbling infrastructure.
Education expenditure was in urgent need of review. In 1993, the sector received only 7.6 per cent of recurrent budget and less than one per cent of GDP, funding that was poor even by low-income country norms. At the same time, more than half the public service was employed by the Ministry of Education. The ratio of administrators to teaching staff was low (1:3.5) but the teacher-pupil ratio was very high. Parents’ contributions to education were roughly six times that of the government, due to unofficial enrolment charges, private tuition fees, and bribes paid for examination passes and entry into higher levels of education.

The policy advice given by the ADB sector study helped to prioritise the government’s goals for education for the rest of the decade, namely to universalise nine years of basic general education, to modernise and improve the quality of the system itself, and to link training to the needs of the workplace. The Bank proposed a medium-term investment programme of US$152 million for the period 1994 to 2000. The Ministry of Education’s plan stemming from the study was adopted by the government at the end of 1994. International donors pledged support and the government committed itself to increasing budget share to 15 per cent by the year 2000.

Perhaps more than any other service sector, national education was hostage to every political crisis that assailed Cambodia throughout the 1990s. According to David Ayres:

> [E]ducational policies in post-UNTAC Cambodia were subjected to the whims of the nation’s political leaders. Education policies developed by the Ministry of Education in consultation with international advisers and in congruence with international practice, were implemented only where they did not conflict with the immediate political imperatives of those in control of the apparatuses of the state.⁵⁰

By way of example, he cited the salary supplement of around US$8 per month for the lamentably low-paid teachers that the government introduced in March 1994. The ADB review called this “a chance missed” to influence policy as an incentive to improve staff performance; Ayres called it “a blatant attempt by Funcinpec to secure legitimacy among the staff of a Funcinpec-headed ministry.”⁵¹

Perhaps the worst blow to education reform came in the aftermath of the July coup against Funcinpec in 1997. Many international donors suspended funding at that time. In the cruelest blow, the U.S. government terminated its support to the Cambodian Assistance to Primary Education (CAPE) project, a US$26 million, five-year programme that was in its first year of operation to establish resource centres in cluster
schools across the country and to train up to 40,000 primary school teachers. Unlike other donors, the U.S. did not resume direct bilateral support to the Cambodian government for at least another decade.

By the end of the 1990s, total enrolment in the formal education system was 2.4 million, or around one-fifth of the total population. The cost of supporting that system was very high for a country where annual per capita GDP in 1998 was still less than US$300. A decade after committing itself to the World Declaration on Education for All, the government held another national conference in April 2000. It recommended that the share of the education budget from the national budget be increased from 9 per cent in 1999 to 15 per cent in 2000 and 20 per cent for the following years, and that the adult literacy rate be increased to at least 80 per cent by the year 2015.

Government spending on education did not reach the target of 15 per cent budget share set for 2000. After the final collapse of the Khmer Rouge, however, levels of spending for the social services sector increased, as military expenditure declined. In 2000, the budget allotted the most money ever to the sector, including US$58.8 million for education. In 2001, education received 11 per cent of budget spending, a further rise. Teachers’ salaries received a boost in 2005, but still averaged only about US$33 per month.

Some of the reforms proposed by the ADB study of 1994 have been implemented. In 2004, for instance, schools were instructed that between 70 and 90 per cent of pupils should graduate from primary school to avoid the cost of repetition. The results of reforms, however, have been mixed. A UNICEF representative was quoted as saying in 2006 that the biggest achievement of the last decade had been “beating the bushes” to find children and enrol them in first grade. In 2005, 91 per cent of six-year-olds had been enrolled to start primary school.

**Economic Activity**

**Land Tenure**

It was not politics and democracy, or rehabilitation and reconstruction that absorbed the people’s interest during the 1990s, but rather land and property rights. Land is Cambodia’s most important productive asset and the main economic resource for more than 80 per cent of the population whose income derives from agricultural activities, including fishing and forestry. Important legislation relating to land ownership, occupancy and use since 1989 has changed traditional ways of defining proprietorship throughout the country.
Legislation in 1989 gave private ownership of agricultural land to farmers who had continuously tilled their land for five years, and residential land and dwellings to individuals who occupied that property at the date the legislation was passed, thereby invalidating pre-1975 ownership claims. In fact, the terms and conditions of that legislation were confusing and the subsequent Land Law of 1992 specifying the procedure for converting possession rights to full ownership only compounded the confusion. Land encroachment and land grabbing, speculation, disputes, corruption and even violence thrived on the lack of clarity in the law.

By the end of the 1990s, the situation had reached crisis point. The privatisation issue was exacerbated by increasing pressure on land arising from the demographic bulge dating from the early to mid-1980s with young people coming of age and seeking land, as well as by the concession system which was revived in a major way after 1990 and which worked to remove access to common land, forests and fisheries that rural dwellers had always regarded as theirs by customary right. The sticking point, however, was that the majority of people occupied their land without holding formal documents.

After 1989, many applications were made for ownership deeds but over the course of the decade very few titles were actually issued. The Cadastral Department admitted to CDRI researchers in 2000 that only 14 per cent out of a total of 4.5 million applicants had received full certificates, leaving more than 70 per cent of households with nothing to prove their possession rights for either residential or agricultural land.56 The majority of people believed that if they were occupying land without conflict or controversy it was legally theirs, irrespective of whether they formally possessed deeds, another CDRI study noted.57 “Historically this has been the traditional position,” it explained.

Land not distributed for private ownership under the 1989 legislation was retained as state or common land for future development. In the legislation, however, there was a lack of distinction between state property and common property, and specifically a failure to define common property. This legal loophole allowed millions of hectares of forests and agricultural land to be transferred to private companies for long-term investment and for exploitation as concessions, very much in the way that the French Protectorate had awarded vast tracts of lands to private investment companies in the 1920s. In addition to these concessions approved by the Ministry of Agriculture, Forestry and Fisheries (MAFF), the military also retained the right it was granted by the government in 1994 to control parts of forest and other lands for security reasons. Military officials sold concessions on some of this land, frequently bypassing
the MAFF and normal regulations. The scale of expropriation of land, even excluding military-held territory, was vast for a country whose total surface area is just over 181,000 square kilometres. A survey data review of 2000 noted:

According to the Department of Planning and Statistics of the MAFF, 4,739,153 hectares of forest have officially been granted to private companies for long-term investment (up to 20–30 years). This includes 264,924 hectares for three forest concessions which were recently cancelled. Likewise, 662,496 hectares of agricultural land have been granted to private companies for long-term investment (up to 70 years). This includes 46,600 hectares for five agricultural concessions which were recently cancelled. In addition, one million hectares of fishing lots have been allocated for commercial use.\(^5\)

The author of that research, Sik Boreak, believed that the transfer of common property resources to private owners was actually much higher than those figures suggest because of the frequency of land grabbing and land encroachment. As a result of the development of plantations, logging concessions and commercial fishing lots, commonly held property on which rural Cambodians had always relied for gathering food, medicine, firewood and building materials, as well as for grazing their stock became more and more inaccessible. The lack of access to common property and common resources had a severe impact on rural livelihoods.

Rural landlessness has always been relatively uncommon in Cambodia. Compared with its neighbours, it is sparsely settled and the settlement pattern has remained constant with approximately 70 per cent of the population inhabiting only 30 per cent of the land, since much of the total land area is unsuitable for close settlement and intensive cultivation. In recent years, however, both the frequency of disputes over land and the rate at which agricultural land is being transferred bear out the fact that there is growing pressure on this key resource from the rapidly increasing population on the one hand and from competing capitalist interests on the other.

An Oxfam study conducted in 1999–2000 found from its sample that the rate of landlessness was 13 per cent, or that “more than one in eight families had no agricultural land and did not have the means to purchase it.”\(^5\) Among these landless families, a little over half of them, including newly married couples and returnees from the border camps, had never owned land; the remaining 43.6 per cent had lost their land, chiefly to pay for healthcare and debts but also because of disputes and land-grabbing. The same study suggested that landlessness was a growing
trend, noting that in 1969 it was only 4.01 per cent but had reached 11.97 per cent by 1999.

During roughly the same period, the total supply of agricultural land increased; Cambodian researcher, Sik Boreak, measured the additional supply as 14 per cent between 1993 and 1998. Nevertheless, he argued, many farmers complained with justification about not having enough land for self-sufficient farming. He blamed this on land concentration, noting that the rich minority hold very large areas of agricultural land, leaving the poor majority little on which to live and work. The 1999 CSES found that a rural household had, on average, only 1.03 hectares of paddy land or 0.19 hectares per person. The same household was likely to own 1.37 parcels of land, the average size of a parcel being 0.90 hectares. This brought the total area cultivated per average household to 1.23 hectares. Within this generalisation, however, there were important differences based on geographical region and gender; households run by single women, for example, owned considerably less land than others.

The current, long-awaited Land Law was adopted by the National Assembly on 20 July 2001, and after passing through the Senate, it was promulgated by the king on 30 August that year. Two years previously, the Ministry of Land Management, Urban Planning and Construction had been established to prepare for the law’s implementation. Surveying for an estimated eight million applications for land titles alone was expected to take around 15 years. The backlog of unresolved disputed claims, including large class action suits, however, delayed the law’s effectiveness and many Cambodians have been disappointed by its outcomes, some arguing that the law has worsened the plight of the poor by allowing the rich to lay prior claims to contested land. An important provision of the law that is supposed to guard against consequences such as this is the social concession, or specified areas of state land that may be granted to poor families for residential or farming purposes on a case-by-case basis. A sub-decree establishing the procedures for social land concessions was promulgated in 2003.

Agriculture

The major contribution of roughly 50 per cent made by agriculture, including forestry and fisheries, to Gross National Product during the final years of the PRK and the SoC up to and including the year of the UNTAC operation is illustrated in the following table:
Table 5.5  GDP by Industrial Origin, 1989–93 (at 1989 constant prices, US$)\textsuperscript{64}

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>117.5</td>
<td>36.5</td>
<td>78.8</td>
<td>232.8</td>
</tr>
<tr>
<td>1989</td>
<td>125.9</td>
<td>37.1</td>
<td>77.9</td>
<td>240.9</td>
</tr>
<tr>
<td>1990</td>
<td>127.4</td>
<td>36.3</td>
<td>80.0</td>
<td>243.7</td>
</tr>
<tr>
<td>1991</td>
<td>135.9</td>
<td>39.5</td>
<td>86.8</td>
<td>262.2</td>
</tr>
<tr>
<td>1992</td>
<td>138.5</td>
<td>45.7</td>
<td>96.4</td>
<td>280.6</td>
</tr>
<tr>
<td>1993 (est.)</td>
<td>143.0</td>
<td>50.3</td>
<td>103.3</td>
<td>296.6</td>
</tr>
</tbody>
</table>


Agriculture always was and remains the dominant form of economic activity. The CSES 1999 commented on the “sheer size of the major group of skilled agricultural and fishery workers” that accounted for almost three-quarters or 74 per cent of the total Cambodian labour force. In the rural sector, 82 per cent of the workforce was engaged in agriculture and fishery.\textsuperscript{65} Crop production, and rice-growing in particular, is still the chief occupation of the vast majority of Cambodians.

Given the central importance of rice to both the national diet and GDP, the chart below which traces both paddy cultivated area and the volume of the harvest for the two decades after the fall of Democratic Kampuchea is worth careful study.

Paddy cultivation is impervious to almost everything but pests and the weather. As the graph suggests, political changes produced very little

\textbf{Figure 5.1}  Paddy Production and Area Harvested, 1980–99\textsuperscript{66}
effect on this industry between 1980 and 2000. The 1984 slump, for instance, had nothing to do with politics or war; that crop suffered from protracted drought through the growing months and then torrential rains just as harvest commenced. The wet season crop is still overwhelmingly rain-fed (less than ten per cent of ricefields were irrigated in 2000) and the graph indicates clearly the years when the crop suffered from bad weather.

The total area harvested grew from 1,861,000 hectares in 1989 to 2,079,4400 hectares in 1999, a small increase relative to the general population growth of almost 3.3 million in that decade. On the other hand, production improved significantly and quite suddenly after 1994 with the introduction of new, high-yielding seed varieties. From 2.22 million tonnes in 1994, production rose to 3.45 million tonnes the following year, and average yields which had hovered between 1.3 and 1.4 tonnes per hectare between 1989 and 1993 rose strongly to 1.94 tonnes per hectare in 1999.67

Before 2001, paddy could not be legally exported without a government issued licence. Nevertheless, a vigorous informal trade across the borders had already existed for many years because farmers experienced difficulties finding domestic buyers for their paddy. Furthermore, because of high transportation costs and poor marketing and distribution networks, it is easier and cheaper for Cambodian traders to sell paddy to Thailand or Vietnam than it is to take it to a central distribution point. Local millers, meanwhile, lack the capacity to process the growing rice surplus. In both 2005 and 2006, Cambodian farmers produced around one million tonne surpluses and the surplus from the 2007 harvest was expected to be even bigger. Estimates suggested that 800,000 tonnes of the 2007 surplus would be exported.68

Paddy production will continue to be weather-affected for many years to come as irrigation plans are still hampered by institutional immaturity. Nevertheless, as the figures above show, small-scale family producers have managed to boost productivity since 1994. The problem for the government is that agriculture, which accounts for such a large proportion of both employment and GDP, contributes little to public revenue and accounts for only three per cent of the nation’s official exports.

In 1999, major crops apart from rice included maize grown on almost 60,000 hectares and rubber from the state’s plantations of around 37,000 hectares. Lentils (soy and mung beans), sesame and cassava remained significant food and short-term industrial crops, but by the end of twentieth century, generally speaking, there was little diversification
either in the crops produced or in the way that they were cultivated. Jute, pepper, cotton and tobacco, those other traditional cash crops, were all showing a tendency to decline.

International development programmers such as those from the Asian Development Bank, in 2007, were encouraging farmers to move away from rice production, or rather from concentrating mainly on rice production, to value-added and processing activities, namely agro-industry. The Cambodian government strongly supported private sector investment in plantations producing crops such as palm oil, cassava, coconuts, coffee, sugar cane and horticultural crops. It declared its preparedness to open up some 1.2 million hectares of “unused” land to such activities. In 1998, for example, a Chinese company was granted a 70-year contract for a plantation of 20,000 hectares in Kompong Speu province for dairying, palm oil and sugar cane production. A handful of around 20 local entrepreneurs who have formed a working group on agriculture were also very active in the production of similar cash crops for export. Agro-industry, however, is an important part of the general debate over land concessions. Donors, NGOs and local community groups have all condemned large concessions awarded on indigenous land and in environmentally sensitive areas for pulp-tree, rubber and cashew plantations.

The agriculture sector has yet to deal with many long-standing issues such as the lack of irrigation infrastructure, poor marketing, transportation, and distribution networks, administrative issues including graft and political interference, and an overwhelming need for public and private investment. Some agricultural industries which survived even the regime of Democratic Kampuchea have collapsed. The Battambang jute factory, for instance, which Hou Yuon helped to establish in the 1960s closed in 2000. The once thriving Kampot pepper industry has all but disappeared. Cambodian rubber which once held the reputation for the finest quality product in the world suffers from lack of capital investment, particularly for latex processing, and also from issues of transparent management and political interference.

Tobacco, however, represents an agricultural success story. After showing a tendency to decline, cigarette production increased strongly after 1999 and by 2003 it was a US$50 million business due to a successful joint venture between an international firm and a Cambodian partner. The plant which is managed and operated entirely by Cambodians is tied to domestic primary production. Tobacco companies distribute high quality seed and advise farmers on best practice so that the returns for a tobacco farm of three hectares are well above those of a typical rice farm.
Fisheries

Only 1.9 per cent of the employed population of Cambodia worked in the fishery sector in 1999 but this figure is hardly a reflection of the importance of small-scale, family fishing to rural diets and livelihoods. Cambodia’s freshwater fisheries are still among the most productive in the world and marine fishing is also important, although more of its product is exported than consumed domestically.

Throughout the 1990s, Cambodia’s fisheries were the scene of much controversy. Studies found that the environmental health of the Great Lake remained basically sound, despite some concerns about silting and the run-off of pesticides and herbicides from surrounding farmland. The main problems of the industry stemmed from the fishing lot system, the abuses of the system and the impact on local fishermen, the loss of public revenue and the impact on fish stock and species.

The lot system, like the agricultural land concession system, was introduced by the French Protectorate in the 1920s and reintroduced by the PRK government in 1988. By 2000, the most productive fisheries in the country were included in its sweep. That year, there were 279 lots spread over 8,529 square kilometres of the Great Lake and Cambodia’s river systems. Those lots were won by bidding and the successful bidder had exclusive rights over a specific area for two years. Most lots, as required by law, set aside areas for use by local people. In theory, more than 24 square kilometres of rivers, ponds, lakes and wetlands remained available for public use. In practice, however, armed guards, including police and military personnel who cooperated with lot owners, routinely intimidated villagers attempting to use areas to which they had right of access. Villagers and environmental lobby groups further accused lot owners of destructive fishing practices including electrocution, small mesh nets and pumping lakes dry to maximise the catch. The protestors’ arguments were supported by the report of a Cambodian ADB consultant for critical wetlands management who demonstrated that there had indeed been a decrease in freshwater fish stocks since the lot system was reintroduced, especially for the more valuable commercial species. His report referred to a corrupt fishing lot bidding and payment system that enriched officials but robbed the national treasury of funds and claimed that the amount of fish smuggled to Thailand was perhaps ten times the official figure. Estimates varied but in 2000, the value of the catch may have been as high as US$200 million even though the Department of Fisheries officially collected only about one per cent of that figure, or about US$2 million in revenue.
Late in 2000, the Prime Minister apologised to the country for abuses by fisheries officers and fishing lot owners. Half of all the fishing lots, or 495,000 hectares in twelve provinces, were returned to communal fishing grounds. More than two hundred community fisheries were established to manage the grounds. Subsequently, the number of disputes declined and local fishermen admitted that their livelihoods had improved. In February 2001, Cambodia’s freshwater fisheries were given further protection when a decree was adopted by the government granting the Great Lake status of a biosphere reserve. The decree placed three core areas measuring 36,287 hectares off-limits to development and put fishing under tight regulations with increased patrols. The whole lake is now surrounded by transitional and buffer zone areas where commercial development is permitted as long as it does not affect the core area, and development in the transitional zone is tightly controlled.

**Forestry**

The democratic principles of the Royal Government of Cambodia were severely tested in the arena of environmental politics. As noted, lobbying and debate was conducted with considerable success within the fisheries sector. In the forestry sector, that sort of political activity assumed dimensions rarely if ever seen in Cambodia’s history. Philippe Le Billon put timber at the heart of the debate about political transition during the 1990s, arguing, “Timber represented a key stake in the rapacious transition from the (benign) socialism of the post-Khmer Rouge period to (exclusionary) capitalism, thereby becoming the most politicised resource of a reconstruction process that has failed to be either as green or as democratic as the international community had hoped.”

The stripping of Cambodia’s rich tropical forests began in the final years of the PRK. Logging bans in neighbouring Thailand and increasing world demand for timber made it a lucrative resource for the warring factions that were forced to look elsewhere to fund their military efforts as the end of the Cold War dried up their usual sources. The Khmer Rouge were thought to be earning up to US$20 million every month in the lead-up to the 1993 elections from logging and gem mining in the area under their control in the northwest. The environmental damage was alarming. When the SNC placed a ban on the export of logs, they evaded the restrictions by setting up sawmills just inside the border and exported roughly sawn timber instead. The Khmer Rouge were by no means alone in this quasi-legal activity.
The felling and export of timber reached a peak around 1995, when, as Le Billon estimates, forest exploitation represented about 43 per cent of Cambodian export earnings although virtually none of those earnings reached the public coffers. The total public revenue collected between 1991 and 1998, he notes, represented only US$97 million or about 12 per cent of what the government should have received under a proper system of taxation. He offers the following table, with figures derived from various sources, to illustrate the extent of logging and the loss to public revenue:

| Table 5.6 Value of Timber Exports and Revenue of the Government
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</thead>
<tbody>
<tr>
<td>Estimated value (US$ million)</td>
<td>77</td>
<td>170</td>
<td>348</td>
<td>340</td>
<td>374</td>
<td>423</td>
<td>248</td>
<td>188</td>
<td>218</td>
</tr>
<tr>
<td>Forestry government revenue (US$m)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1.5</td>
<td>3.3</td>
<td>39</td>
<td>27</td>
<td>11</td>
<td>12</td>
<td>5</td>
</tr>
</tbody>
</table>

Note: The volume of timber exported — much of which is smuggled — is only an estimate. Source: Reports from the RGC, Thai Forestry Department and Global Witness.

After 1995, the figures suggest, there was a measure of restraint. This was because, according to Le Billon, the international community began to see illegal logging as a symbol of what was “wrong” with the new government in Cambodia and “to attach critical importance to forestry legalization as a key means for improving the transition of Cambodia from war to peace and from poverty to prosperity.” In 1996, the IMF suspended the first tranche of a US$60 million loan and resumed payment only after the government promised to reform the industry and put an independent monitor in place to oversee logging practices. On 31 December 1996, a ban on the export of round logs went into force and the following April, a government decision was issued, setting out what comprised legal and illegal exports. In effect, this meant that logging could be conducted only by legal concessionaires in cutting areas licensed by the government’s Department of Forestry.

The logging concession scheme set up in 1995 was widely seen as corrupt and abusive. Concessionaires without proper management plans were issued licences to cut virtually wherever they liked, while villagers were denied access to their resin trees and other forest resources that
Logs felled by foreign companies in Sandan district, Kompong Thom province, c. 2003

Logs line the road beside land newly planted with rubber in Tumring, Kompong Thom province, c. 2003
A women’s micro-credit meeting in Siem Reap province, c. 2007
supplemented their diet and family income. The concessions were so vast that by the end of 1997 they covered almost seven million hectares, virtually the whole of the country’s forests except for national parks and other protected areas, and even then because the protected areas were adjacent to the concessions, access roads frequently ran through them so that all forested lands were at risk. It was feared that the concession system as it operated at the end of 1997 would completely destroy Cambodia’s forests within 10 to 15 years with little or no benefit to the state.

In January 1999, the Prime Minister ordered a crackdown on illegal logging and some months later, forest crimes monitoring units were established by relevant ministries. The international organisation, Global Witness, was appointed as independent forestry monitor that year. Illegal activity dropped dramatically but climbed again during the 2000 and 2001 logging seasons. Global Witness accused the military of carrying out illegal logging inside and around the legal concessions and claimed that government officials were often involved or received bribes to turn a blind eye.

In 2000, the ADB commissioned a major study of Cambodia’s logging industry. It found the forests were so depleted and the cutting rates so rapid that most concessions were almost logged out. It blamed “greed, corruption, incompetence and illegal acts” and warned that the economic system based around the logging industry could be destroyed.\(^{84}\) In fact, of the 32 companies awarded concessions in 1995, only 14 remained by then, controlling 3.87 million hectares. The study noted that in some of the original concessions, logging had proved to be uneconomical, others had been logged out and abandoned, and in a few cases the government had cancelled concessions. It recommended that all logging be halted until new management plans were approved. In response to the ADB’s recommendations and also to the public anger over extensive flood damage that year caused, many people believed, by deforestation, the government ordered the suspension of logging from 1 January 2002.

Frustration over limited public access to and scrutiny of the new 25-year management plans for concessions boiled over into a violent confrontation between villagers and police in front of the Department of Forestry office in Phnom Penh in December 2002. One villager died not long after the altercation with police. Less than a month after that event, the government announced that it would no longer work with Global Witness. Another organisation, a Swiss accounting firm, was appointed to be the new forestry monitor in July 2003 with a mandate to review efforts to fight illegal logging rather than to conduct investigations as
before. Meanwhile, the World Bank admitted that the use of commercial concessions to manage Cambodia's forests had been a failure. "The basic institutional skills required to assess assets, screen investors, manage transparent bidding processes, and enforce contract conditions are weak or non-existent," its report judged.\textsuperscript{85} It added, "Clearly concessionaire and government performance has been largely a continuation of the 'system of failure' described in the ADB-supported assessment conducted in 2000." It concluded that the concession system should be abandoned, possibly over a transitional period of ten years.

\textit{Industry and Services}

Statistically, the industrial sector demonstrated rapid growth throughout the 1990s. The National Institute of Statistics (NIS) conducted regular surveys of industrial establishments (SIEC) between 1993 and 2000 and measured the compound growth rate as close to 12 per cent annually during that time. This compared very favourably with agriculture which grew by only 2.2 per cent in the period 1990–98 and with average GDP growth rate of 5.5 per cent over the same period.\textsuperscript{86} In real terms, the NIS declared, "[T]he total number of industrial establishments in Cambodia [in 2000] was 8,089 out of which over 97 per cent belonged to the manufacturing sector and the rest were distributed among the other two sub-sectors, viz. mining and quarrying, and electricity, gas and water supply."\textsuperscript{87}

The industrial sector, which had contributed little to the PRK economy, grew strongly and assumed an ever larger share of GDP following the resumption of private ownership in 1989. According to the NIS survey, by 2000, there were 63 state-owned corporations engaged in manufacturing, but they represented only 0.8 per cent of all manufacturing establishments. State involvement in another major sub-sector, electricity, gas and water supply rated higher, at a little over 13 per cent (16 establishments). The SIEC 2000 summed up the situation thus: "The majority of institutions in each of the three major groups were single proprietorship establishments (93.6 per cent, 90.3 per cent and 80.3 per cent respectively)."\textsuperscript{88} As in agriculture, the Cambodian industrial economy at the turn of the century remained almost exclusively the preserve of private entrepreneurs operating small businesses, typically on a household basis.

Despite this fact, it is the garment factory that symbolises modern industry in Cambodia today. The garment and textile factories were to the Cambodian economy of the 1990s what the rubber plantations had been in the 1920s and 1930s, their primary function being to generate
foreign exchange through export earnings. Cambodia offered generous incentives to attract this type of labour-intensive, export-oriented investment and was rewarded for its compliance with the SAP conditions by the granting of preferential trade agreements with the U.S. including Most Favoured Nation (MFN) in 1996 and subsequently the Generalized System of Preferences (GSP) in 1997. Both MFN and GSP were strong incentives for international companies to relocate their manufacturing activities to Cambodia from neighbouring countries, especially Thailand and Malaysia, which had lost these privileges as their economies developed.

As a result of market-oriented reforms, the garment manufacturing industry mushroomed. The statistics speak for themselves. In 1995, there were 20 factories employing 19,000 workers, mainly young women; almost ten years later, there were ten times that number of factories employing around 200,000 workers. The following incomplete table illustrates that growth; the figures have been derived from a variety of sources that do not always correlate, although the disparities are not significant:

<table>
<thead>
<tr>
<th>Year</th>
<th>Factories</th>
<th>Workers</th>
<th>Export Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>20</td>
<td>19,000–20,000</td>
<td>$26.2 million (8% of exports)</td>
</tr>
<tr>
<td>1996</td>
<td>32</td>
<td></td>
<td>30% of exports $360 million</td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td>80,000</td>
<td>$653 million</td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td>150,000</td>
<td>$900 million</td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td>197</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td>240,000</td>
<td>$1.33 billion</td>
</tr>
<tr>
<td>2003</td>
<td>200+</td>
<td></td>
<td>$1.58 billion (40% of economic activity/80% of total merchandise exports)</td>
</tr>
</tbody>
</table>

In January 1997, the National Assembly ratified the current Labour Law, replacing the labour code of 1992. In specific detail, it differed little from the original French code, but it did spell out quite clearly that Cambodia was committed to a free market economy. Two years later, U.S.A. and Cambodia signed the Bilateral Textile Agreement, the first of its kind in the world, which linked increased market access to labour law compliance. The International Labour Organization (ILO) started monitoring factories that produced garments for export to the U.S. in 2001. Their positive reports paid enormous dividends for the industry as
the table above suggests. This agreement, along with preferential quotas, was set to expire at the end of 2004, just as Cambodia was admitted to the World Trade Organization.

Another feature typical of countries that accepted a SAP in compliance with IMF conditions for its loans was the development of specialist economic parks or export-processing zones specifically for the requirements of investors in global trade markets. By 2002, four of these zones existed near the Thai border and they were designed to attract manufacturers eager to benefit from the preferential tariffs Cambodia enjoyed under the GSP for which Thailand no longer qualified. The zones were planned as “co-production areas” and they were expected to attract investment of US$320 million and provide 84,000 jobs in 420 factories. Another industrial zone at Bavet on the Vietnam border was inaugurated by the Prime Minister in August 2005. By late that year, the Ministry of Economy and Finance had begun reviewing the draft of a subdecree on special economic zones in Cambodia granting nine-year tax breaks for zone developers and tax-free entry for imports of raw materials for companies that bought into the zones. The main target area for large-scale development of commercial zones was around the deepwater port at Sihanoukville.

Within the services sector, tourism was expected to make an important contribution to GDP after the formation of the new government in 1993. Ongoing conflict, however, as well as health scares such as the SARS (Sudden and Acute Respiratory Syndrome) epidemic and the failure of Cambodia’s national airline, Royal Air Cambodge, all resulted in lower than anticipated numbers of tourists to the kingdom by the end of the decade. Since 1999 and especially since the implementation of the “open skies” policy, tourist arrivals have grown dramatically. From just under 200,000 tourists in 1999, the number more than doubled in the space of three years to 441,411 in 2002. Apart from the main attraction of the Angkor-era temples in Siem Reap province, casinos at border crossing points as well as in Phnom Penh have acted as major attractions, especially for fellow-ASEAN visitors. International tourists and gamblers have also contributed to growth in the hotel and restaurant industry, the transport and communications industry, and other services.

The services sector is expected to make a major contribution to the economy in the twenty-first century, but as the following table shows, by 2002 its growth rate as a percentage of GDP remained considerably slower than that of industry. The official figures in the table are based on constant 2000 prices.
Table 5.8 GDP Growth Rates by Sector and Total\textsuperscript{94}

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>11.2</td>
<td>3.3</td>
<td>1.0</td>
<td>6.4</td>
<td>5.8</td>
<td>3.4</td>
<td>−1.5</td>
<td>2.2</td>
<td>−2.7</td>
</tr>
<tr>
<td>Industry</td>
<td>17.2</td>
<td>23.2</td>
<td>5.2</td>
<td>19.6</td>
<td>−2.5</td>
<td>19.3</td>
<td>30.7</td>
<td>12.9</td>
<td>17.7</td>
</tr>
<tr>
<td>Services</td>
<td>−2.0</td>
<td>8.4</td>
<td>7.8</td>
<td>3.4</td>
<td>4.8</td>
<td>10.9</td>
<td>5.7</td>
<td>4.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Total</td>
<td>9.0</td>
<td>6.9</td>
<td>5.0</td>
<td>6.8</td>
<td>3.7</td>
<td>10.8</td>
<td>7.0</td>
<td>5.7</td>
<td>5.5</td>
</tr>
</tbody>
</table>


Labour

Cambodia has a very high economic participation rate. In 1999, according to the CSES, it was 66.1 per cent, shared almost equally between men and women, and more than 83 per cent of the total work force was rural. The 1999 survey noted an employment rate of 99.4 per cent, although it conceded that underemployment was much higher than figures suggested. Furthermore, almost half (46 per cent) of the total employed population still worked without pay in family owned and operated businesses or farms. As might be expected, the number of unpaid workers was much higher in the countryside than in Phnom Penh where more than one out of two employees were paid in 1999.

In 2000, more than 80 per cent of all paid workers were employed in the manufacture of textiles, wearing apparel and the tanning and dressing of leather.\textsuperscript{95} Textile manufacturing employed almost 44 per cent of total paid workers and within that sub-sector, there were three times as many women as men on the payroll; in wearing apparel there were eight times as many women as men, and in tanning and dressing leather, the ratio was 15.7 women workers for every male worker.

Wages remained low throughout the 1990s. The table below, prepared by the NIS, suggests that public sector salaries declined in the four and a half years between December 1994 and June 1999. The strongest growth in wages occurred in the textile factories where labour was organised in unions even before the Labour Law took effect in 1997. As mentioned previously, the tobacco industry has proved to be something of a model of industrial management in Cambodia and conditions for the workforce there are good; whether it is typical of the private sector in general, however, seems unlikely. The table omits salaries of staff employed by non-government or other donor-funded organisations that are typically several times higher than those represented in the table. The
The most dramatic change in the Cambodian labour force since 1990 has been the growth of paid employment among women. The female participation rate has always been high, but traditionally most women workers were own account workers in market stalls and other micro-enterprises, typically in the informal sector, or unpaid workers on family farms, or in artisanal industries such as weaving, tanning and dyeing. The relatively large and growing female paid workforce engaged by the garment and textile industry, therefore, is a marked change in the structure of social relations within production. Whether this factor is significant enough to produce important social and political effects, however, remains to be seen.

Apart from this, at the beginning of the twenty-first century, the vast majority of the population remained engaged in subsistence agriculture, industry was family owned and operated, unpaid family workers still made up the largest category of all employees, wage rates, particularly within the public sector, were low, as were education and skill levels among the workforce in general. Small changes occurred in relation to all these points throughout the 1990s, but the process of change was very slow.
Foreign Trade, Aid, Investment and Debt

Trade

After the Cold War, Cambodia shifted its major trade relations back to the Southeast Asian region. Cambodia’s entry to ASEAN on 1 January 2000 secured its place in that regional trading bloc. Throughout the 1990s and the early years of the twenty-first century, there were changes in both the volume and the composition of trade compared with the preceding decade. In order to protect its growing trade in wearing apparel and textiles, in September 2004, Cambodia secured its membership in the World Trade Organization (WTO). These are the outstanding features of developments in external trade for this period.

A developing country with limited natural resources, Cambodia imports more than it exports. As illustrated in the preceding chapter, imports rose sharply after the return to free market economy in 1990. Apart from high demand for consumer goods and construction materials, raw materials and capital equipment were needed for the new export-oriented industries. After 1996, however, the trade deficit started to shrink, due largely to strong growth of garment, footwear and textile exports along with tourism and gambling related services exports. The following table from the National Accounts Bulletin of July 2002 shows that ratios of exports and imports to GDP improved steadily after 1993.

Table 5.10 International Trade in Goods and Services

<table>
<thead>
<tr>
<th>Ratios (2000 Prices)</th>
<th>Export and Import Ratios in Constant Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports as % of GDP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>16.8</td>
</tr>
<tr>
<td>Imports as % of GDP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>33.8</td>
</tr>
<tr>
<td>External balance as % of GDP</td>
<td>17.0</td>
</tr>
<tr>
<td>Terms of Trade</td>
<td>100.8</td>
</tr>
</tbody>
</table>

Entry to ASEAN was one of the new government’s main goals. The decision to admit Cambodia was made at the end of May 1997, about six weeks before the coup. In a rare departure from its usual neutral stand, ASEAN voted to postpone Cambodia’s entry until 1 January 2000. When Cambodia eventually became the tenth ASEAN member, it also committed itself to the AFTA (Asian Free Trade Area) guidelines which included deregulation schedules and reciprocity of tariff exemption privileges.
Under the AFTA provisions, members are allowed ten years to bring tariffs under five per cent and five more years to bring them down to zero. Flexibility provisions, however, would allow a further two years’ grace by which time, commerce ministry officials believed, Cambodia’s agricultural production would be able to compete with its neighbours.

Most analysts feared that government revenue would suffer heavy losses as a result of meeting the tariff deregulation schedule. In 1996, when Cambodia sought entry to ASEAN, customs duties accounted for almost 65 per cent of government revenue. Overall trade would have to expand in order to sustain that level of customs revenues. In addition, Cambodia needed to improve its balance of trade with ASEAN members in order to really benefit from AFTA. By 2001, however, only 4.2 per cent of Cambodia’s total exports went to ASEAN countries, while 44.4 per cent of its imports came from within ASEAN.

The composition of Cambodia’s exports has changed markedly since the mid-1990s. The following table compiled by the National Bank of Cambodia for the years 1993 to 1999 inclusive shows a dramatic shift away from reliance on traditional export products, namely rubber, timber and fish, to GSP (Generalized System of Preferences) products. The ban on paddy exports remained in force throughout the decade, so rice exports are not included in this table.

**Table 5.11 Export by Commodity, 1993–99**

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</tr>
</thead>
<tbody>
<tr>
<td>Logs (Wood)</td>
<td>36.3</td>
<td>142.3</td>
<td>111.6</td>
<td>52.5</td>
<td>128.1</td>
<td>88.0</td>
<td>37.2</td>
</tr>
<tr>
<td>Customs$</td>
<td>3.2</td>
<td>100.0</td>
<td>51.6</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Unrecorded$</td>
<td>33.1</td>
<td>42.3</td>
<td>60.0</td>
<td>52.5</td>
<td>128.1</td>
<td>88.0</td>
<td>33.6</td>
</tr>
<tr>
<td>Sawn Timber</td>
<td>44.5</td>
<td>81.3</td>
<td>73.1</td>
<td>95.9</td>
<td>95.6</td>
<td>90.1</td>
<td>73.5</td>
</tr>
<tr>
<td>Customs$</td>
<td>19.0</td>
<td>63.0</td>
<td>15.5</td>
<td>20.9</td>
<td>11.2</td>
<td>6.1</td>
<td>29.5</td>
</tr>
<tr>
<td>Unrecorded$</td>
<td>25.5</td>
<td>18.3</td>
<td>57.6</td>
<td>75.0</td>
<td>84.4</td>
<td>84.0</td>
<td>44.0</td>
</tr>
<tr>
<td>Fish products</td>
<td>1.3</td>
<td>2.4</td>
<td>1.9</td>
<td>3.1</td>
<td>2.9</td>
<td>2.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Customs$</td>
<td>0.1</td>
<td>2.4</td>
<td>1.9</td>
<td>3.1</td>
<td>2.9</td>
<td>2.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Unrecorded$</td>
<td>1.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Rubber</td>
<td>27.5</td>
<td>25.6</td>
<td>41.2</td>
<td>31.9</td>
<td>22.8</td>
<td>26.9</td>
<td>28.1</td>
</tr>
<tr>
<td>Customs$</td>
<td>12.6</td>
<td>25.6</td>
<td>37.2</td>
<td>27.7</td>
<td>19.1</td>
<td>25.3</td>
<td>27.4</td>
</tr>
<tr>
<td>Unrecorded$</td>
<td>14.9</td>
<td>0.0</td>
<td>4.0</td>
<td>4.2</td>
<td>3.7</td>
<td>1.5</td>
<td>0.7</td>
</tr>
<tr>
<td>GSP exports</td>
<td>4.3</td>
<td>3.4</td>
<td>27.5</td>
<td>101.8</td>
<td>278.5</td>
<td>392.4</td>
<td>536.4</td>
</tr>
<tr>
<td>Other domestic exports</td>
<td>11.7</td>
<td>8.5</td>
<td>12.9</td>
<td>9.9</td>
<td>6.4</td>
<td>4.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Total domestic</td>
<td>125.6</td>
<td>262.0</td>
<td>268.2</td>
<td>295.2</td>
<td>534.3</td>
<td>604.0</td>
<td>684.1</td>
</tr>
<tr>
<td>Re-exports</td>
<td>227.7</td>
<td>227.7</td>
<td>585.7</td>
<td>348.4</td>
<td>327.3</td>
<td>308.9</td>
<td>289.1</td>
</tr>
<tr>
<td>Total</td>
<td>353.3</td>
<td>489.8</td>
<td>853.9</td>
<td>643.6</td>
<td>861.8</td>
<td>912.9</td>
<td>973.2</td>
</tr>
</tbody>
</table>
The figures for unrecorded exports, or cross-border smuggling, are underestimates. According to the NIS, unrecorded exports of fish products were worth US$35.1 million and US$38.6 million in 1998 and 1999 respectively, or more than ten times the value recorded by customs, while unrecorded rubber exports in 1999 were worth more than US$21 million, not US$700,000 as the National Bank figures suggest. The value of Cambodian paddy sold illegally was worth more than US$50 million in 1999.\textsuperscript{101}

It was issues such as these that had to be resolved before Cambodia could fulfil conditions for accreditation to join the World Trade Organization. When Cambodia gained formal entry in September 2004, it became only the second country in the world with LDC (least developed country) status to do so. Given the strict compliance conditions for inclusion in the world trade body, many analysts doubted that Cambodia could benefit from membership. The government, however, argued that membership provided protection from exclusionary practices of the trading giants, such as the 1999 U.S. garment quota that restricted the export of dozens of textile items to American markets. Given Cambodia's almost total reliance on the export of garments and textiles, and the problems associated with export of agricultural products, the commerce minister argued that Cambodia would be more vulnerable to shifts in the world markets by not belonging to the WTO. Moreover, as an LDC member, Cambodian-made exports to the U.S., European Union, Canada, Korea and Japan are permitted lower tariffs and this is an incentive for foreign firms to establish factories in Cambodia.

\textit{Aid}

The international donor community was very generous towards the Kingdom of Cambodia. After decades of destruction, civil war and isolation, Cambodia needed comprehensive assistance for rehabilitation and reconstruction before it could initiate plans for economic development. That assistance was readily forthcoming and it was delivered on particularly liberal terms. At the same time, donors and credit agencies increasingly applied conditionality to the grants and loans they provided, which made for robust exchanges at annual ICORC and Consultative Group (CG) meetings where pledges for assistance were made. An important adjunct to the provision of vital external assistance, which was the equivalent of 14 per cent of GDP in 2001, was the rapid development of aid-dependent civil society groups, local non-government organisations, that took an active part in monitoring aid disbursements and the RGC's
implementation of policies for poverty reduction and equitable and sus-
tainable development. The Declaration on the Rehabilitation and Reconstruction of Cambodia called on the United Nations to support ICORC, “notably in ensuring a smooth transition from the rehabilitation to reconstruction phases.” In practice, as Grant Curtis pointed out, the UNTAC Rehabilitation Component was ineffectual in coordinating donor activities and the major donors “rapidly chose their own sectoral priorities, projects and programmes, as well as their own implementation mechanisms and structures.” At the same time, he notes, until the end of 1996 at least, the donor community demanded very little from the RGC in terms of its performance. Between 1992 and 1995, inclusive, external assistance disbursements totalled approximately US$1.4 billion, overwhelmingly in the form of bilateral assistance where Japan, France and the U.S. were the main donors, and they were allocated largely as “investment project assistance” (28.08 per cent) and “free-standing technical cooperation” (24.8 per cent). Budgetary aid and balance of payments support accounted for 15.9 per cent of total disbursements during that period.

Soon after the formation of the RGC, in October 1993, bilateral donors paid Cambodia’s arrears to the International Monetary Fund and a new loan was issued a few days later. As already noted, loans from the World Bank and the Asian Development Bank were tied to structural reforms and policy directions for the government. On the other hand, they were on very easy 40-year terms with 10-year grace periods and an annual service charge of only 0.5 per cent. The government set up the Council for the Development of Cambodia (CDC) in 1994 to keep track of all forms of foreign assistance to the country. This body was chaired by the Prime Minister with the minister for finance acting as the deputy head. Before each annual CG donors’ meeting, the CDC produced a development cooperation report.

In March 1995, the Cambodian government and international donors met for the third annual ICORC review and CG meeting in Paris. Although the government’s request for assistance was exceeded, the World Bank report on Cambodia’s progress expressed the growing concern and frustration of major donors about excessive spending on the military, the slow pace of tax reform and the failure to collect logging revenues. The IMF agreed to a $120 million loan over three years, but in November the following year, it cancelled payment of a $20 million instalment of the loan in an acrimonious debate with the government over the logging issue. By 1996, the ADB had also approved loans worth more than
US$240 million and more than 50 technical assistance projects valued at $41 million.\textsuperscript{105}

The July 1997 fighting provoked a sudden and concerted suspension of assistance by several major donors. Japan, the most important donor country, halted its aid programme. The U.S. cancelled its bilateral support and military assistance, although the humanitarian aid programme remained unaffected.\textsuperscript{106} Germany also announced that it would freeze aid to Cambodia. Given the extent of the government’s dependency on foreign assistance, the CPP coup against its coalition partner was a dangerous wager. According to the development cooperation report of 1996, Cambodia had received a total of approximately US$518 million in 1996.\textsuperscript{107} Japanese aid alone was worth $111 million and the U.S. and Germany, the other donors who suspended assistance, had provided $28.7 million and $9.6 million respectively.\textsuperscript{108}

The credibility of the outcome of the 1998 elections, the first elections organised by the Cambodians themselves after the UNTAC operation, was the crucial test for the resumption of aid. Those elections were orderly and international observers judged them sufficiently free and fair to confirm the CPP victory even though the party did not succeed in gaining the two-thirds majority of the primary vote it needed in order to rule in its own right. The president of the ADB announced that assistance would resume “soon”; it had not approved new loans since the coup but it had released three grants for technical assistance programmes worth close to two million dollars. The World Bank, for its part, had not approved any new loans since the July fighting. Total external assistance in 1998 was worth US$418 million of which technical assistance accounted for a little more than half, or $239 million.\textsuperscript{109}

Cambodian leaders learnt from the 1997 experiment that suspension of aid was used as only a temporary punishment by donors who rarely agreed among themselves. Regardless of a poor report card and strict conditions laid down at annual CG meetings, aid was always resumed, usually at levels higher than anticipated. At the 2000 meeting, the practice of linking aid to reform through a system of benchmarks was introduced. Nevertheless, in June 2001, at the Tokyo meeting, donors pledged $615 million or more than the $500 million sought, even though some donors criticised the RGC for the slow pace of judicial and administrative reforms and for the failure of anti-corruption measures. The benchmarks were rarely met or met only in part, without consequence. In 2002, the donors pledged $635 million which again was more than requested. In April 2004, the finance minister announced that his government
would seek US$1.5 billion over three years, in line with requests for the preceding years. The benchmarks continued to relate to legal and judicial reform, natural resources management, strong fiscal management, public administration reform, and increased budget spending on social services.

The role of watchdog, of keeping the government true to its promises and policies, passed increasingly to the local non-government organisations. International humanitarian aid organisations had operated in Cambodia during the Khmer Republic and they returned after 1979; they had also been very active in the border camps among the refugees. The local civil society group, however, was never a feature of traditional Khmer society. During the years of socialist experimentation, associations had been formed among youth, women and trade unions but these revolutionary associations were designed to mobilise support for the government, not to challenge state institutions. The first Cambodian NGO was established in 1991 and others emerged in quick succession supported entirely by external donor funding. According to a 1998 government report, 296 NGOs were registered, among which 133 were local organisations and there were also four NGO peak bodies. By 2003, there were 1,173 registered NGOs, the majority of them local ones. There may, in fact, be many more small organisations that operate without formal registration.

Cambodian NGOs conduct programmes that range in activities from rural development at village level to human rights and political advocacy on a national basis. It is in this latter capacity and also in environmental protection that they have proved most effective.

**Investment**

In August 1994, the National Assembly adopted the Cambodian Investment Law that listed the government’s preferred fields of investment as pioneer or high technology industries, labour-intensive and export-oriented industries, and tourism, followed by agro-industry, physical infrastructure and energy, rural development, environmental protection, and finally investments in “Special Promotion Zones.” The law offered generous incentives including corporate tax exemptions of up to eight years as well as tax-free distribution of dividends, and total exemption from import duties for start-up construction of projects oriented towards those preferred fields of investment. Export tax was waived and firms were free to hire foreign management and technical personnel. Investors were promised long-term leases of up to 70 years, renewable on request.
To facilitate the investment process, the Council for the Development of Cambodia (CDC) was established, with two operational boards, as a “one-stop service organisation” to oversee investment activities and to evaluate and decide on all investment project activities. Given the optimism that accompanied the successful 1993 elections, foreign investors were only too happy to take advantage of such liberal terms. Six months after the law was passed, Grant Curtis noted, the CDC claimed that more than US$625.4 million had been invested and it had approved projects worth US$1.55 billion proposed by 17 Malaysian companies. In the first five months of 1995, 30 more projects worth US$374 million were approved. Altogether, less than a year after the bill was adopted, according to the government, foreign investment had created more than 40,000 local jobs.

Much of that early investment was skewed heavily towards the tourism and hospitality sector. Investment for hotel construction was sometimes merely an excuse for land speculation, and at other times contracts were awarded without sufficient inquiry into the applicants’ capital resources so that companies folded and opportunities were wasted. The CDC approved a total of 971 companies or projects in the eight years between 1995 and 2002, but only 438 (45 per cent) of them were still operational and actively monitored and a further 82 companies were assumed to be operating but were not monitored at the end of that period.

Nevertheless, after the initial speculative boom, Cambodia did attract the preferred type of export-oriented investment that would create jobs and ensure long-term economic growth. Most of this investment was in the industrial sector, mainly in garment, textile and footwear manufacturing. Investment in agriculture was patchy and generally disappointing, while tourism and the service sectors showed strong growth towards the end of the decade. The following table, showing fixed assets investment during the seven years after the investment law was adopted, illustrates the areas of interest as well as trends:

<table>
<thead>
<tr>
<th>Table 5.12 Distribution of Capital Investment by Sector, 1995–2001 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Assets Investment (%)</strong></td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Industry</td>
</tr>
<tr>
<td>Service</td>
</tr>
<tr>
<td>Tourism</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
The growth of foreign direct investment was not as straightforward as those figures might suggest. The July 1997 fighting shook investor confidence and the regionwide monetary crisis that occurred soon after those events threatened to destabilise the economy. Around 60 per cent of total capital investment came from the region, especially South Korea, Hong Kong and Malaysia, and there were fears that projects would be delayed or cancelled. In fact, there was a slowdown in investment activity in 1998 and political uncertainty about the outcome of the general elections was a further contributing factor, but the effects of the Asian financial crisis were less serious than feared in Cambodia where the economy was still small and remained highly dollarised. The business community was reassured by the CPP victory at the elections and investor confidence quickly returned. In 1998, several multinational companies commenced operations in Cambodia, including the milk company, Nestlé, and the electronics giant, Siemens.\(^{117}\)

In 1999, the government issued a sub-decree amending the 1994 Investment Law. In an effort to tighten supervision of investment projects, the CDC was given the power to cancel investment licences if a company did not invest in the first six months after the licence was granted and to withdraw tax concessions from investors who failed to present quarterly reports.\(^{118}\) The level of capital investment required for firms to qualify for the generous profits tax rate of nine per cent was raised from US$500,000 to US$1 million. The World Bank made further review of the investment law one of the benchmark conditions for the granting of the second loan tranche of its structural adjustment credit at the 2001 CG meeting. Political opposition leader, Sam Rainsy, who had drafted the original investment law during his brief tenure as finance minister, in advance of that meeting reportedly said, “The trouble is, we treat all sorts of investments the same way. Those who come here to exploit the country’s natural resources and add no value to their exports, create few jobs and do not bring in any technology are undeserving candidates.”\(^{119}\) This criticism reflected that of long-time Cambodia watcher, Grant Curtis who noted, “In the post-UNTAC period, the RGC welcomed any investment in the country’s further development. The government thus adopted the same \textit{laissez-faire} stance toward direct foreign investment as it took on external assistance.”\(^{120}\) He thought it was “disappointing” that the Cambodian authorities had made little attempt to secure the sort of investment that built on the country’s comparative advantages or that promoted value-added manufacturing and employment creation.
By the end of 2005, however, there was little change in the nature of foreign direct investment in Cambodia. As long as the government perceived the country’s most pressing needs as employment for a rapidly growing population of school leavers and adequate foreign currency reserves to pay for foreign loans and the balance of payments, labour-intensive, export-oriented industries would remain welcome. While there was little change in the nature of FDI, however, there was an important change in the source of much of that investment. Of the US$546 million in projects approved by the CDC during the first half of 2005, US$402 million came from firms registered in the People’s Republic of China.121

Debt

The Second Kingdom of Cambodia inherited debt from all former regimes but the legitimacy of those regimes, and consequently the foreign debts that they incurred, was not acknowledged by all members of the new government. The country’s total debt remained unclear at that point. As noted previously, in October 1993 bilateral donors paid the arrears on the outstanding debt to the International Monetary Fund so that a new loan could be issued. There was a further loan dating from the 1960s of US$30 million owed to France, but that was the only debt incurred before 1992 that the RGC was prepared to recognise. The contested debts were owed to the former Soviet Union and to the United States of America. Assistance given to the People’s Republic of Kampuchea by the USSR and its allies for the rebuilding of Cambodia after the fall of Democratic Kampuchea is estimated to have been worth US$1.1 billion, Russia alone being owed US$800 million of that amount.122 The U.S.A. claims it is still owed $500 million, from loans taken out by the Khmer Republic in the early 1970s. These debts to France, Russia and the U.S.A. are in the process of being renegotiated through the Paris Club, a group of creditor nations that helps debtor nations to find solutions to overdue loans. The RGC was optimistic that 70 per cent of its debt to Russia, for instance, would be written off with help from the Paris Club.123

At the end of 1992, the Asian Development Bank (ADB) made the first loan by an international finance institution to Cambodia in more than 20 years. This was US$67.7 million for infrastructure, repayable over 40 years with a ten-year grace period on interest payments. The first payment on that loan, US$1 million, was paid in June 2003 and similar payments were scheduled every six months for another 30 years. Between that first loan and the end of 2003, Cambodia took out further loans from IFIs worth US$700 million. As of March 2003, Cambodia owed
US$762 million to the ADB and the World Bank/IMF, with a further US$286 million pending up to 2005.124

The RGC also secured several bilateral loans. For instance, it borrowed US$40 million from Japan to refurbish the port at Sihanoukville, and US$20 million from South Korea. The collapse of the national airline, Royal Air Cambodge, left Cambodia with a US$30 million debt for which it was sued by creditors in the United Kingdom. The debt owed to China is less well-known. In February 1999, however, the RGC signed the agreement for a $200 million interest-free loan in Beijing and in December 2001, another five-year $10 million loan for economic and technical cooperation was floated.125

Apart from the debt owed on the failed national airline, the RGC proved itself to be a reliable borrower and loans offered to the new government since 1993 have been very generous. Government planners realize, however, that the terms of future loans might not be as generous as they were in the past.

**Public Finance, Banking and Credit**

In 1989, the Cambodian economy entered a period of rapid and virtually unregulated privatisation. The withdrawal of Vietnamese troops, spiralling inflation and the cessation of Soviet aid left Cambodia’s finances in a very fragile condition. The riel had remained relatively stable throughout the preceding decade but between 1988 and 1993 the average inflation rate was around 90 per cent.126

During those six difficult years, budget deficits grew and were financed, as the inflation rate suggests, by increases in money supply. According to the ADB report, “Government spending was met by tax revenues by about 30 per cent, by non-tax revenues by 30 per cent, and the remaining 40 per cent by increase in money supply.”127 The quality of government services dipped further as limited government resources were diverted to the military and security sectors. Half of the recurrent budget was spent on defence throughout the 1990s and salaries for government employees consumed the rest.

The annual GDP growth rate was only 1.2 per cent in 1989–90 but from 1991 to 1994 it recovered to a rate of between seven and eight per cent, thanks to the artificial economic boom created by the demands of the UNTAC operation for services and housing.128 Per capita income during that heady period was between US$150 and $240 annually.129 Ominously, however, almost half of the national budget was donor-financed in 1993 and that situation did not change for at least another decade.
Given the extent of the country’s dependence on foreign aid, policies and programmes designed to reinvigorate the economy after the formation of the new government in September 1993 were largely donor-driven. When the IMF loan was granted in October, the World Bank set four main goals for Cambodia’s medium-term recovery: to maintain real annual growth rates of between seven and eight per cent, to reduce inflation to five per cent by 1995, to reduce the current account deficit to nine per cent of GDP by 1996, and to raise international reserves.\(^\text{130}\)

Public finance reform commenced with the first national budget that was designed to fight inflation and to establish macroeconomic stability. Under new laws, the national treasury attempted to regain centralised control over tax revenues that had been in the hands of the provinces and ministries; in 1992, tax revenues had formed only 2.4 per cent of GDP, an extremely low ratio.\(^\text{131}\) These efforts, however, met with such strong opposition from local business interests and entrenched patronage networks that the new minister for economy and finance himself was forced to leave office.

During most of the government’s first term, from 1993 to mid-1997, the Cambodian economy did maintain an average annual growth rate of around seven per cent, thanks largely to expansion in the industrial sector and despite sluggish agricultural development. Total public revenues grew to between eight and ten per cent of GDP, still far too low to satisfy the World Bank that blamed the government failure to collect adequate revenue on a multitude of causes including inadequate implementation of the Law on Taxation, \textit{ad hoc} tax and customs duty exemptions, weak capture of forestry revenues, and poor capacity in tax and customs administration. Public revenues were still heavily dependent on customs duties which provided between three and five per cent of GDP.\(^\text{132}\)

The “two-headed” government that had somehow survived more than three and a half years of shared power collapsed completely in July 1997. The armed conflict combined with the effects of the Asian financial crisis to reduce GDP growth to between zero and one per cent for the following year. The riel, which was worth 2,769 to the U.S. dollar before the fighting, depreciated rapidly and was close to the 4,000 mark by June 1998. Aid freezes cost the government at least US$100 million and the tourist industry which had earned US$100 million in 1996 stood to lose at least one-quarter of that amount.\(^\text{133}\) The budget faced a shortfall of almost US$60 million and the government cut its expenditures by one-fifth.\(^\text{134}\)

One of the most serious consequences of the July coup was the termination of an IMF loan package worth US$120 million that was
designed to support the central bank’s monetary reserves. It was not the failure of the coalition government and the return to violence that led to this decision, however, but rather the Cambodian government’s failure to increase the revenue ratio above the extremely low 9 per cent figure. The government was told to improve forestry management, restrain corruption, and adopt fiscal measures that would put the budget on a sound footing. Full implementation of the Law on Taxation and approval of strict regulations for the implementation of the Law on Investment, the government was told, would be essential conditions for further Fund programmes.135

Following elections in 1998, a new coalition government was formed and the economy started to recover. The IMF returned the following year and offered to resume payment on the loan in US$10 million increments, depending on Cambodia’s compliance with the new poverty reduction strategy. An important reform measure adopted in 1999 was the 10 per cent value added tax (VAT) imposed initially on one thousand of the largest businesses operating in the country. During its first year, the VAT generated significant income for the government and revenues grew to 11.5 per cent. Other efforts in compliance with the IMF demands contributed to that growth while tight monetary discipline helped to control inflation and to keep the exchange rate stable. In 1999, Cambodia’s total GDP was worth US$3 billion (up five per cent) and per capita GDP was measured at US$256.30.136

Inadequate banking institutions had long been a brake on both foreign investment and domestic savings. In November 1999, the National Assembly adopted the Law on Banking and Financial Institutions, accompanied by a number of prakas or regulatory orders concerning specialised rural credit banks, and licensing of commercial banks and microfinance institutions. In essence, the new law gave the National Bank of Cambodia (NBC) greater authority to supervise and control commercial banking in order to build confidence in the financial sector.

The plan dating back to the 1960s of establishing a rural credit scheme finally came to fruition with the creation of the Acleda Bank in 1993. It was granted a full commercial banking licence by the NBC at the end of 2003 by which time it had branches in 18 of the country’s provinces and had lent more than US$245 million in loans that were considered too small and therefore unprofitable for the larger commercial banks to administer.137 In addition to Acleda, many non-government organisations were operating rural credit programmes either as microfinance institutions (there were six licensed MFIs in 2004) or through self-help groups of villagers who operated their own savings and credit

Conclusions
Throughout the 1990s, essential institutions were created and laws and regulations drafted and promulgated with a view to macroeconomic stabilisation. The UN-supervised elections, however, created a highly unstable political structure and it is inconceivable that any country could have developed under the kind of power-sharing arrangement that ruled Cambodia between 1993 and 1997. In the decade after the brief but violent clash between factional forces in July 1997, there was a return to traditional absolutism under the guise of electoral democracy. The government continued to work within the framework of institutional reform and the commitment to market liberalisation.

Economic reorganisation, however, had to deliver genuine reform. Whatever the political nature of the state, the Cambodian economy had to grow in order to provide jobs and acceptable living standards for the population that was growing at roughly 2.5 per cent each year. The starting point for that growth was very low and Cambodia had just emerged from two decades of war and relative isolation into a very changed world order where national economies served global markets and local industries could no longer expect protection from their own governments.

The recipe for growth, one drawn up and driven by major donors and the IFIs, was foreign investment, for the most part in labour intensive and export-oriented industries. While this form of capital investment promised few returns for government revenue in terms of corporate taxes and almost nothing for domestic profits and savings, it did create jobs and it earned needed foreign exchange through the sale of quotas, licences and so on. Income earned from foreign investment plus gradual reform in the public finance sector gradually allowed the government share of GDP to grow from only 2.4 per cent in 1992 to nine per cent by 1998, with targets set to raise it further to 13 per cent by the year 2000.138

As a result of institutional reforms, generous external aid, and foreign investment attracted with very liberal terms, the Cambodian economy grew at an average rate of 6.3 per cent before 1997. The July coup, however, and the Asian financial crisis combined with uncertainty about the 1998 general elections kept investor confidence weak and economic growth struggled below the six per cent mark until the resolution of the post-2003 election crisis. In the few years since then, the Cambodian economy has continued to grow strongly. In 2006, the World Bank
measured that growth as 8.9 per cent, noting that it was one of the best performing economies in Asia, behind only China.\textsuperscript{139} Consequently, the 2007 national budget, with US$1.155 billion to spend, allocated the health and education sectors more funds than any other government ministries, thus achieving the targets set for them in the early 1990s.\textsuperscript{140}

Despite these very positive indicators, the Cambodian economy has become severely imbalanced. There is one economy for the capital, Phnom Penh, and the maritime port at Sihanoukville which is worked by paid labour, regulated by laws, codes and standards and integrated into a regional, even global system, and another for the rest of the country that still functions along traditional lines. As a direct consequence, the urban-rural wealth gap is widening. The government regularly claims a one per cent per year fall in poverty levels but other observers remain sceptical about these claims because they are not borne out by real growth in the agricultural sector on which poor villagers’ livelihoods depend.\textsuperscript{141}

Very little of the capital invested in Cambodia since 1992 has gone to agriculture and the aid money spent on rural projects has not reached all provinces, let alone all provinces equitably. The main socio-economic indicators, particularly those for life expectancy and infant mortality, suggest that little has changed in the countryside in the decade or so since the UNTAC operation arrived to democratise the country. Promises of benefits deriving from decentralisation through local governance institutions such as the commune council have not eventuated. Meanwhile, the rural environment has been severely affected by the encroachments of \textit{laissez-faire} capitalism, especially in the form of forest logging concessions and fishing lots.

The rural economy is divorced from the urban economy except for the export of its surplus labour. In the city and the special economic zones around the port, factories produce goods destined for foreign markets with materials imported from other foreign markets. Their presence in the country depends on the supply of cheap, unskilled labour and preferential trade agreements stemming from Cambodia’s status as a least developed country. Paradoxically, in order to develop, Cambodia has to remain poor. Furthermore, apart from the under-resourced rubber industry, the under-capitalised rice milling industry, the small tobacco industry, and some locally-owned factories involved in food and beverage processing, there is very little linkage between domestic primary production and secondary output.

The Cambodian economy at the end of a century of dramatic technological change and political upheavals, of radical attempts to reorganise it and alternately to isolate it from and then reintegrate it into wider
marketing systems, has exhibited an admirable resilience to recover and to provide for the people’s basic needs. In light of this well-practised habit, the final decade of the twentieth century, that of imposed “rehabilitation and reconstruction” and total immersion in the global liberal marketplace, far from representing the end of Cambodia’s economic history, was only another attempt, a further conscious human effort, to create a modern economy.