Introduction

At the end of the twentieth century, Cambodia still bore the scars of decades of post-independence conflict. The economy had suffered greatly from mishandled experimentation according to various ideologies, experimentation that had been taken to revolutionary extremes during the brief regime of Democratic Kampuchea in the second half of the 1970s. In 1993, internationally sponsored and supervised general elections were held for a Constituent Assembly that approved a new constitution for the (Second) Kingdom of Cambodia in September that year. As a mark of confidence in the newly elected government, international financial institutions, multilateral and bilateral donors and foreign investors all offered funds urgently needed for national reconstruction and development. Hundreds of international and local non-government organisations also expressed their willingness to cooperate with the government in order to achieve sustainable growth within the parameters of the various international covenants and conventions to which Cambodia is a signatory. In addition to having regained its full status within the United Nations Organization in 1998, Cambodia became a member of the regional trading bloc Association of Southeast Asian Nations (ASEAN) in January 2000, and in 2004 it was admitted to the World Trade Organization.

Despite these commendable political gains, one decade on from the Paris Peace Agreements, which in 1991 formally ended the protracted conflict in Cambodia, the economy remained vulnerable to external shocks and to occasional internal political tremors. On the one hand, gross domestic product (GDP) had achieved modest but steady annual growth of six to seven per cent; investment in national infrastructure, particularly in roads and telecommunications, was substantial; significant structural reforms were evident in the banking and commercial sectors, and there were promises of further legal and judicial reform. Nevertheless, in most respects, Cambodia around the year 2000 was still a poor country: levels of rural poverty remained stubbornly unchanged between one national survey and the next, the vast majority of farmers still cultivated rice without the benefit of irrigation systems or fertilisers, and the provision
of social services, especially publicly funded health and education systems, remained very weak, particularly in the countryside. There were also mounting concerns about the cost of development in terms of environmental degradation, disputes over land and access to natural resources, as well as popular frustration with entrenched official corruption. The future growth of the economy depended precariously on two highly volatile industries, namely garment manufacturing for the export trade and foreign tourism. Above all, in a situation where more than half of the government’s annual budget was reliant on foreign assistance, genuine autonomy in economic decision-making remained elusive.

**Geography**

The Kingdom of Cambodia occupies a land area of 181,035 square kilometres, inclusive of inland water systems, lying between 10 and 15 degrees north latitude and 103 and 108 degrees east longitude. Its rights to 95,000 square kilometres of continental shelf in the Gulf of Thailand, which it claimed by decree in 1972, are still contested by its neighbours, Thailand and Vietnam, particularly as these waters are believed to contain valuable oil and gas reserves. About 57 per cent of Cambodia is still covered by forests of mixed quality timber, but apart from forest products and those of its inland and marine waters, Cambodia has few other exploitable natural resources.

Except for the southeast, where the downriver systems of the Mekong and the Bassac flow into Vietnam towards the vast delta at their mouth, and the area known as the Watthana Pass in the northwest which facilitates cross-border traffic with Thailand, Cambodia’s land borders are defined by mountain ranges and high plateaux: the Elephant Mountains, the Kirirom Plateau and the Cardamom Chain in the west, the Dangrek Escarpment in the north, and the high cordillera in the east that ends in Cambodian territory which the French called the Haut Chhlong and Mimot plateaux.

In the lee of these ranges, Cambodia’s climate is characterised by degrees of dryness. Annual rainfall during the southwest monsoon in most parts of the country is moderate. The dry season is protracted, frequently lasting from late October to May or even June, followed by an irregular wet season. Most rains fall on the eastern plateaux, around the Gulf of Siam (Sihanoukville’s long-term average is 2,868.9 mm) and in the Cardamom Chain but, generally speaking, the Cambodian plain, home to the vast majority of the population and the principal rice-growing region, is in a rain shadow.
Despite the relatively low rainfall, more than one-third of the plain experiences annual flooding caused by ice-melt and rainwater in the higher reaches brought down by the Mekong. The volume of water at that time is so vast that at the bend between the river’s upper and lower reaches, which is also the junction with the Bassac River, it is forced back up a narrow stream into the Great Lake, the Tonle Sap. The Great Lake, that has a dry season surface area of around 2,500 square kilometres, in the

**Figure 0.1** Map of the Kingdom of Cambodia, 2000

wet season expands to as much as 16,000 square kilometres when flood-waters inundate the peripheral wetlands. Its fisheries directly support more than one million people and provide the single largest source of protein for the Cambodian population.

This annual flooding by the Mekong has always deposited rich silt on its banks which has permitted intensive polyculture there. The variety of crops and “the remarkable adaptation of plants cultivated to the very particular conditions of the soil, rainfall, the tide” fascinated Jean Delvert when he wrote about these *chamcar des berges*, the riparian market gardens, in the 1950s. He estimated their area to be around 220,000 hectares, supporting half a million people or one-sixth of the peasant population of Cambodia. Crops, all introduced, included then, as now, maize, soybean, tobacco, groundnuts, tomatoes, cotton, and sesame. Delvert believed that these market gardens were originally a Chinese creation.

Away from the fertility of the riverbanks, the central plain offers the cultivator either light sandy soil or heavy clay. Delvert pronounced the soil there to be “mediocre or bad” and believed that yields in these conditions could not be other than mediocre. The plain is divided into small, individually owned *srae* or paddy fields which are mostly rain-fed or hand-irrigated and which produce one wet season crop and sometimes a further crop as the waters recede. This is the most densely populated region of the country. During the dry season, cattle and water buffaloes graze the stubble and grasses of the *veal srae*, the unfenced expanse of paddy fields, and some farmers cultivate and harvest sugar palm in the traditional way, although this would now seem to be an industry in decline.

Cambodia’s redlands occupy a slim arc stretching approximately 250 kilometres and no more than 50 kilometres at its widest point from the border with Vietnam to the Sandan forest of Kompong Thom province. Generally speaking, this is the area known as the Kompong Cham plateaux. The heavy basalt soil is not suitable for rice-growing, but it is ideal for the cultivation of rubber. Cambodia’s rubber plantations, developed by French companies during the 1920s, once had a reputation for the finest quality product and the highest yields of latex in the world. In the past, rubber was also produced on what are known as “yellow lands” in pockets of Kandal and Kampot provinces and also near the port of Sihanoukville.

Beyond the riverbanks, the *srae* and the rubber plantations, stretch vast areas of flooded forest, savannah and clear forest, and once dense dipterocarp and leguminous forests.
Introduction

Riparian market gardens in Kandal Province, c. 1995
A view of the Cambodian floodplain from Oudong Mountain, about 40 kilometres from Phnom Penh
The flooded plain during a typical wet season
Administration and Governance

Cambodia’s territory is administratively divided into 20 provinces, and four *krong* or municipalities, namely Phnom Penh, the national capital; Sihanoukville, the nation’s seaport; Kep, a beach resort on the south coast; and Pailin, a former rebel stronghold on the northwest border which was resumed in 1997. In the year 2000, these 24 major administrative units, each ruled over by a governor who is appointed by the Ministry of the Interior, were subdivided into 183 districts that were further divided into 1,609 communes. The communes are administered by councils that are popularly elected by adult franchise. The first completed national election for commune councils was held in 2002. The communes, in turn, contain 13,406 villages.

For census purposes, Cambodia is divided into four natural regions. In order of population density, they are the plain, the Great Lake/Tonle Sap, coastal, and plateau and mountain regions. General density of population on the night the census was taken in March 1998 was 64 per square kilometre, but there are wide variations according to region.

The sum of these regions constitutes the Kingdom of Cambodia which is a constitutional monarchy. According to the current constitution that was adopted by the Constituent Assembly in Phnom Penh on 21 September 1993, “Cambodia is a Kingdom with a King who shall rule according to the Constitution and to the principles of liberal democracy and pluralism. The Kingdom of Cambodia shall be independent, sovereign, peaceful, permanently neutral and non-aligned.” Since the national elections of May 1993, sponsored and supervised by the United Nations Transitional Authority in Cambodia (UNTAC), Cambodia has conducted multi-party elections for the National Assembly every five years. As noted previously, the first completed national elections for commune councils were conducted in 2002. Commune councils also hold five-year terms of office. Other levels of governance are appointed.

The public sector is a major employer. In 1999, the total number of civil servants was 163,592, or 1.43 per hundred of total population. That number included education personnel who typically account for almost half of all the civil servants employed. Since 2002, salaries of commune councils and personnel have also been included in the national budget. In addition, the government maintains large defence and security forces (143,000 military personnel in 1998, or 1.25 per hundred of population), although large-scale demobilisation was already planned when those figures were gathered.
Civil service and security and defence personnel salaries are low. In 1998, civil servants received an average salary of US$22.9 per month, while those in the national defence force earned US$31.8, and those in public security were paid US$25.4 a month. Teachers then received only US$20.9 per month. Improvements in revenue collection allowed the government to boost public sector salaries in August 2005, but starting from such a low base, even a pay hike of 100 per cent still left public sector salaries below subsistence levels. This is generally considered to be a fundamental structural problem in Cambodia. Many low-ranking civil servants take extra jobs in the private sector, drive motorcycle taxis or engage in petty corruption to make ends meet. At higher levels, official corruption is a major inhibitor of investment and growth.

**Population and Ethnicity**

The 1998 national census counted a total population of 11,437,656 inhabitants of whom the overwhelming majority (9,642,081) were classified as rural. This latter figure included the populations of three khan or districts of Phnom Penh that have since been reclassified as urban. The urban population, in 1998, accounted for 15.7 per cent of the total population. Given an annual population growth rate of 2.49 per cent, projections based on the census estimated that the Cambodian population in 2000 would be 12.2 million (5.9 million males and 6.3 million females).

Cambodia’s population is young, reflecting the major reversals suffered in the latter part of the twentieth century and the subsequent recovery from severe population decline. In 1998, children accounted for 42.8 per cent of the population and the elderly for 3.5 per cent. The economically productive group, aged between 15 and 64 years, accounted for 53.7 per cent. The dependency ratio, according to these 1998 census figures was 69.1 in urban areas and 89.7 in rural areas.

Cambodia is a multi-ethnic society with a majority ethnic Khmer population. In addition to the Khmer, who account for approximately 90 per cent of the total population, other groups include the Cham, Vietnamese, Chinese, and indigenous peoples. While Cambodia is now generally free of ethnic-related strife, the issue of ethnicity remains complicated and sensitive for many Cambodians.

The Cham people, the largest Muslim minority in Cambodia who constitute roughly two per cent of the total population, live mostly in the
environ of Phnom Penh and in the provinces of Kompong Chhnang, 
Kampot and Kompong Cham. In general, despite or perhaps because 
there is little genuine social interaction between the Cham and the 
majority Khmer population, there is almost no friction between the two 
groups. The Cham are free to practise their religion and to educate their 
children in their own schools and according to their traditions, while also 
participating fully in Cambodian political and economic life.

It is difficult to gauge the size of the ethnic Vietnamese community 
of Cambodia, in part, because any estimate is always politically contested 
and also because throughout the twentieth century at least, the size of the 
Vietnamese population in Cambodia has fluctuated significantly. Jean 
Delvert quoted the 1950 Statistical Yearbook of Cambodia figure of 
319,000 Vietnamese, and when he wrote *Le Paysan Cambodgien* in 1957, 
he thought the number was around 230,000. The Vietnamese in Cambodia, he wrote, had typically been a nomadic population. Vietnamese 
have always fished the waterways of Cambodia and especially the Great 
Lake, moving up and down the Mekong between one country and the 
other. The French Protectorate administration employed them as clerks 
and junior officers, while colonial rubber planters imported them to do 
the work that Khmers could not or would not do on the vast plantations 
of eastern Cambodia in the 1920s. At the outbreak of the First Indochina 
War in 1945, many returned voluntarily to Vietnam. There were pogroms 
against Vietnamese Cambodians during the Khmer Republic, and the 
xenophobic regime of Democratic Kampuchea expelled or executed those 
who remained. During the 1980s, that is, the decade of Vietnamese 
military occupation, the Vietnamese Cambodians returned and numbers 
rose again perhaps to the pre-war level. More recently, Vietnamese have 
been attracted to Cambodia by economic opportunity and driven by rural 
poverty at home. If estimates of 500,000 given by some “independent 
observers” around the year 2000 were correct, Vietnamese Cambodians 
would have accounted for four per cent of the total population of 
12.2 million.

In 1996, the official estimate of ethnic Chinese in Cambodia was a 
little over 200,000, more than half of them residing in the capital, Phnom 
Penh. When Penny Edwards conducted interviews in October 1995, the 
Association of Chinese Nationals in Cambodia estimated the population 
of “pure Chinese” (that is, not Sino-Khmer) to be 300,000–340,000, 
including 200,000 in Phnom Penh. The Chinese Embassy at the time 
more or less corroborated those figures. If these estimates are accurate,
they suggest that ethnic Chinese account for a little more than three per cent of the total population. If we included Sino-Khmer in the mix, the figure would be much higher. Chinese and Khmer have intermarried for many centuries.

The indigenous peoples inhabit the sparsely populated areas of the far north and northeast of the country and the mountainous massif areas of the southwest. According to the 1998 census which based ethnicity on mother tongue, their total number was about 101,000 or 0.9 per cent of the total population. In the northeast provinces of Ratanakiri and Mondolkiri, however, indigenous peoples constitute the majority, with 66 per cent and 71 per cent respectively of the provincial population. Most indigenous families cultivate upland rice according to the swidden method of shifting cultivation; some families also cultivate wet paddy due to contact with Khmers or government encouragement. In recent years, cultivation of fruit and other cash crops such as coffee and cashews have been trialled, introduced mainly by Khmer farmers from the plain. Since the mid-1990s, traditional lifestyles in the highland regions have been severely impacted upon by illegal logging, the forest concession system, encroachments on their land by lowlanders, and other changes wrought by tourism. These threats have led to an increase in the number of land disputes and, simultaneously, to restricted access to non-timber forest products such as resin, bamboo and rattan, wildlife, forest fruits, and vegetables that supplement the indigenous peoples’ income and their diet.

**Human Development**

The Human Development Index (HDI) constructed annually by the United Nations Development Programme measures average achievements in basic human development in longevity, knowledge and living standards in a composite index and produces a ranking of countries. The value, ranging from zero to one, shows the distance that a country has to travel to reach the maximum possible value of one and also allows intercountry comparisons to be made. Of the 174 countries assessed in the Human Development Report for the year 2000, Cambodia ranked 136, at the low end of the medium development list, just below Pakistan but above other non-sub-Saharan countries such as Laos, Bhutan, Nepal and Bangladesh.  

Cambodia’s index for the year 2000 was calculated according to average life expectancy of 53.5 years, an adult literacy rate of 65 per cent, a combined primary, secondary and tertiary gross enrolment ratio of 61
per cent, and GDP per capita (purchasing power parity) calculated to be US$1,257. The resulting HDI value was 0.512. The index was based on 1998 figures when the infant mortality rate (per 1,000 live births) was 104, the under-five mortality rate (per 1,000 births) was 163 and the reported maternal mortality ratio (per 100,000 live births) was 470.

Many analysts regarded those statistics as unrealistically high. Results of the 1999 Cambodia Socio-Economic Survey (CSES-99) suggested that 35.9 per cent of the Cambodian population lived below the poverty line.13 The burden of poverty is most keenly felt in the countryside where rural households, especially those for whom agriculture remains the primary source of income, account for almost 90 per cent of all the poor.14 The income gap between city and countryside is wide. Average monthly consumption of Phnom Penh households in 1999 amounted to the equivalent of US$263.96, compared to only US$74.56 per month for the rural sector.15 The richest 20 per cent of Cambodians have a HDI score nearly two and one-half times higher than that of the poorest 20 per cent of Cambodians.16 The deepest pockets of poverty persist in the northwest of the country, particularly Pailin and other areas along the border with Thailand that bore the brunt of the war after 1979. Almost the whole of Siem Reap province is poverty-stricken, with the majority of communes there indicating an incidence of poverty 75 per cent or more, and almost all the remainder with levels between 50 per cent and 75 per cent.17

Rural Cambodians, in general, contributed little to the steady GDP growth of the 1990s. A Cambodia Development Resource Institute (CDRI) report of January 1999 pointed out that most of that economic growth had occurred in industry and services, specifically garment manufacturing and tourism that employ a small proportion of the population. Labour productivity, on the other hand, actually fell in the same period. “In agriculture,” the report noted, “labour productivity is estimated to have fallen by 16 per cent between 1992–93 and 1996.”18 Apart from unpredictable weather conditions, farmers still confront many constraints relating to rural infrastructure including irrigation systems, roads and markets, affordable credit and banking facilities, and reliable agricultural extension services. A UN report released on 28 May 2004 suggested that the plight of the rural poor, which it put at between 40 and 45 per cent of the total population, might even be worsening.19 It noted reduced consumption, fewer public health facilities, rising infant and child mortality and growing rural under-employment. Infant mortality, it claimed,
rose from 66.8 per 1,000 live births in 2000 to 73.67 in 2004. In the same period, life expectancy barely changed from 57.2 to 57.4 years.

National budgets regularly allocate increased funds for health but actual expenditure on the public health system consistently falls short of estimates. Households spend more than 10 per cent of their annual income on health, but only one-fifth of that expenditure is publicly funded.\(^{20}\) It should not be surprising then, that most Cambodians prefer to use the non-medical sector, including traditional healers and midwives, or self-medicate with over-the-counter drugs when they fall ill.

Education is valued highly by Cambodians and most families make great economic sacrifices to ensure that their children receive at least primary education. Generally speaking, however, educational outcomes are poor. In 1999, the Ministry of Education, Youth and Sports conducted a national literacy survey based on a scientifically designed test that was delivered to respondents randomly selected from every province in the country.\(^{21}\) According to results projected onto the total population, the combined rates of complete and semi-literacy indicated that four million Cambodians over the age of 15 were, to all intents and purposes, illiterate. Two-thirds of the total illiterates were found to be in the 15 to 45 age range, with little variation by gender. Among the 37.1 per cent of literate adults, only a quarter of them were judged to be “self-learning,” that is, able to study independently and read all kinds of material in order to search out new knowledge. Those provinces and towns with the highest levels of illiteracy were Mondolkiri, Kep, Ratanakiri, Pailin, Preah Vihear, and Siem Reap, that is, the highlands and other zones of social disadvantage. The report noted a high correlation between illiteracy and poverty. It concluded, “It appears that the illiterates and those living below the poverty line are the same group of the population.”\(^{22}\)

**Economic Activity**

Between 1993 and 2000, the economy suffered two severe shocks: the political *coup de force* by the major ruling party against its coalition partner in mid-1997 that shook investor confidence and deterred tourism, followed shortly after by the Asian financial crisis. The economy recovered from those shocks but, as the figures below indicate, real growth since 1993 has been modest and some trends since 2000 are disturbing. These figures are based on data from the Royal Cambodian Government, the World Bank, the International Monetary Fund, and the Asian Development Bank.\(^{23}\)
Table 0.1 Main Economic Indicators

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP at current prices (million US$)</td>
<td>2,135.8</td>
<td>3,186.5</td>
<td>3,372.1</td>
<td>3,594.4</td>
</tr>
<tr>
<td>GDP at constant 1993 prices (million US$)</td>
<td>2,135.8</td>
<td>3,072.8</td>
<td>3,277.3</td>
<td>3,414.1</td>
</tr>
<tr>
<td>GDP per capita at constant 1993 prices (US$)</td>
<td>205.3</td>
<td>236.6</td>
<td>246.2</td>
<td>254.8</td>
</tr>
<tr>
<td>Real GDP (% increase)</td>
<td>7.76%</td>
<td>7.34%</td>
<td>6.66%</td>
<td>4.18%</td>
</tr>
<tr>
<td>Riel/US$ parity (official, year average)</td>
<td>2,797</td>
<td>3,854</td>
<td>3,924</td>
<td>3,918</td>
</tr>
<tr>
<td>Inflation in Riel (year average)</td>
<td>75.15%</td>
<td>–0.79%</td>
<td>0.22%</td>
<td>3.29%</td>
</tr>
<tr>
<td>Domestic revenue (% GDP)</td>
<td>4.8%</td>
<td>11.6%</td>
<td>11.6%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Budget expenditure (% GDP)</td>
<td>10.1%</td>
<td>16.9%</td>
<td>19%</td>
<td>17.7%</td>
</tr>
<tr>
<td>Exports of goods (% GDP)</td>
<td>15.4%</td>
<td>39.6%</td>
<td>40.7%</td>
<td>40.4%</td>
</tr>
<tr>
<td>Imports of goods (% GDP)</td>
<td>23.9%</td>
<td>47.8%</td>
<td>47.4%</td>
<td>48.3%</td>
</tr>
<tr>
<td>Trade balance (% GDP)</td>
<td>–8.5%</td>
<td>–8.3%</td>
<td>–6.7%</td>
<td>–7.9%</td>
</tr>
<tr>
<td>External contribution to economy (% GDP)</td>
<td>13.4%</td>
<td>14.7%</td>
<td>14.6%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Total savings (% GDP)</td>
<td>17.2%</td>
<td>21.4%</td>
<td>23.4%</td>
<td>22.2%</td>
</tr>
<tr>
<td>External debts – Recognised (% GDP)</td>
<td>0.2%</td>
<td>16.4%</td>
<td>18.2%</td>
<td>21.3%</td>
</tr>
<tr>
<td>Labour force (% population)</td>
<td>41.1%</td>
<td>41.8%</td>
<td>42.3%</td>
<td>43.5%</td>
</tr>
<tr>
<td>Unemployment (% labour force)</td>
<td>2%</td>
<td>8%</td>
<td>10%</td>
<td>11%</td>
</tr>
</tbody>
</table>


This selection of figures reveals some positive outcomes of structural change. Domestic revenue has improved and inflation has been checked; total savings have grown and donors and investors have maintained a near-constant level of confidence in the economy. The trade balance is not unhealthy. Other figures, however, suggest that growth is beginning to plateau. Although real gross domestic product is increasing, the gains made may not be sufficient to account for population growth. The economy is coming under pressure from the demographic bulge that occurred in the first half of the 1980s. This generation is marrying, demanding jobs and public services, and putting pressure on the size of rural landholdings. Unemployment is showing a disturbing upward trend, although, like literacy, the term is difficult to define. Where subsistence agriculture is still the norm in the countryside, the participation rate in economic activity is very high, but this may mask actual under-employment.

A huge challenge for Cambodian leaders now and for the next decade at least is how to generate employment for a rapidly growing labour force. The annual increase in the existing labour force is approximately 140,000 people. The garment factories and the burgeoning tourist industry absorbed about a quarter of this annual increase during the period 1995–2000, perhaps around 12 per cent migrated to Thailand for work
and the remainder have stayed in the countryside, sharing small areas of family land. The garment industry and tourism remain relatively buoyant but these are volatile industries and the garment factories, at least, may have already reached saturation point for employment. In order to prevent farmers from becoming poorer, the size of farmland per farming household should not decrease further because of distribution to the new labour force. Clearly, the economy must diversify in order to absorb new surplus labour in the agricultural sector while, at the same time, improving productivity within the sector.

**Agriculture**

Despite the high profile given to garment manufacturing and tourism, the traditional sectors of agriculture, forestry and fisheries continue to be the major contributors to GDP. The table that follows shows, however, that the overall share of the primary sector declined by around four per cent between 1993 and 2000, while growth in this sector remained at a modest but steady rate of about 2.8 per cent. The poor figures for 2001 and 2002 reveal the effects of floods and drought during both rice-growing seasons, and the political decisions to limit illegal activities by forestry and fishery concessionaires. In longer perspective, however, the negative growth in real terms of the agricultural sector reflects insufficient investment to improve productivity on the one hand and over-exploitation of natural resources on the other.

**Table 0.2** GDP by Sector at Constant 1993 Prices (million US dollars)

<table>
<thead>
<tr>
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<th>1993</th>
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<td>2,135.8</td>
<td>3,072.8</td>
<td>3,277.3</td>
<td>3,414.1</td>
</tr>
<tr>
<td>Agriculture, forestry &amp; fisheries</td>
<td>872.0</td>
<td>1,136.0</td>
<td>1,039.0</td>
<td>976.0</td>
</tr>
<tr>
<td>Crops</td>
<td>404.9</td>
<td>532.0</td>
<td>486.1</td>
<td>451.5</td>
</tr>
<tr>
<td>Livestock &amp; poultry</td>
<td>172.9</td>
<td>194.5</td>
<td>178.4</td>
<td>192.7</td>
</tr>
<tr>
<td>Fisheries</td>
<td>192.6</td>
<td>301.6</td>
<td>273.0</td>
<td>238.6</td>
</tr>
<tr>
<td>Forestry &amp; logging</td>
<td>101.9</td>
<td>107.7</td>
<td>101.8</td>
<td>93.0</td>
</tr>
</tbody>
</table>


Rice is by far the main food crop produced in Cambodia, accounting for more than 96 per cent of total food crops cultivated in 1999. The country achieved food self-sufficiency in 1995, but paddy yields remain among the lowest in Asia. In 2000, Cambodian farmers cultivated a
total of 2,157,500 hectares (inclusive of 242,000 hectares for the dry season crop) and produced 4,049,900 tons of paddy, giving an average yield of 1.94 tons per hectare (1.81t/ha for wet paddy and 3.04t/ha for dry paddy). The Ministry of Commerce has calculated that as little as 10 per cent of the country’s farmland is irrigated.

The Cambodian government is eager to develop agro-industry on the estimated 1.2 million hectares of land that is currently unused. Existing agro-industry consists of cash crops on plantations cultivating rubber, palm oil, coffee, and cashews. Cassava, coconuts, sugar cane, and horticultural crops are also designated as suitable plantation cash crops. Meanwhile, long-standing plantation cash crops, especially rubber, pepper and jute have suffered from weak and fluctuating international commodity prices, lack of investment in capital stock, and general decline. The jute factory in Battambang, dating back to the era of post-independence optimism in the 1950s and 1960s, closed down at the end of February 2000. Cambodia’s seven state-owned rubber plantations with a total area of approximately 50,000 hectares on the Kompong Cham plateaux were targeted for privatisation under conditions applying to the structural adjustment programme of the World Bank in the early 1990s.

**Fisheries**

While rice is the food staple, fish, whether fresh, dried or in the form of *prahok* or fermented fish paste, provides the main protein source in the Cambodian diet. Each Cambodian consumes about 60 kilograms of fish each year. The annual flood cycle of the Mekong triggers fish spawning cycles, and the floodplains provide rich feeding grounds for the fry that drift downstream with the current. Approximately 2 million tons of fish and other aquatic animals are caught annually in the Lower Mekong Basin, providing more than 75 per cent of animal protein intake in the diets of rural people in the river basin. When the Mekong Committee began assessing the Mekong fishery in 1994, the official estimate of the annual inland fish catch in Cambodia was 50,000–75,000 tons. In 2003, this figure was revised upwards to 500,000 tons. The annual value of Cambodia’s freshwater fisheries catch is still in excess of US$200 million, but both the size and the value of production are declining. Among both specialists and the general population, there is deep concern that stocks of larger, commercially valuable species have dramatically decreased over the past two decades due to over-fishing and illegal fishing techniques by large-scale operators which include electrocution, the pumping dry of recession ponds and “catch-all” nets.
Fishers along the Mekong prepare prahok for the market
**Forestry**

In 1999, about one half of Cambodia’s forested area of some ten million hectares was in the hands of private logging companies holding long-term concession contracts. For most of the decade, the rate of forest extraction had been as high as seven times the sustainable yield but national budget revenue from that level of activity was minimal.

As a result of harsh criticism of his government from all quarters for permitting concessionaires to work outside the legal framework, to avoid payment of royalties, to log unsustainably, and to infringe the rights of communities living within the concession areas, the Prime Minister ordered a crackdown on illegal logging in January 1999. A forest crime monitoring unit was established and a new forestry law was drafted, requiring the negotiation of new concession agreements.

Debate on the forestry law began in the National Assembly on 19 June 2002, but there was little confidence among civil society groups that it would be properly enforced. They claimed that concessionaires were continuing to log despite the ban by using a loophole in the way the moratorium was written. Logging was forbidden within forestry concessions, but not in land concessions which some of the same companies owned. It was widely suspected, therefore, that these companies were receiving development licences to “clear” land for plantation development and also for “stump” and firewood collection; that is, they were logging concessions by another name.\(^{32}\)

The World Bank reported in December 2003 that the government had cancelled 25 “non-performing” concessions on a total of four million hectares and that it was in the process of cancelling seven more. Eight concessions remained.

**Industry and Services**

Industry (mining, manufacturing, electricity, gas and water, and construction) contributed 18.8 per cent of GDP in 1999.\(^{33}\) Manufacturing represented more than two-thirds of the total contribution, while textiles, wearing apparel and footwear accounted for almost half of all forms of manufacturing. In fact, garment factories are driving Cambodia’s economic growth; in 2003, their output represented 80 per cent of total exports and added US$1.6 billion to GDP.\(^{34}\)

The garment industry was established in Cambodia in 1993 and that year, exports of garment and textile products were worth US$3.8 million.
Five years later, they were worth almost one hundred times that amount (US$378 million).\textsuperscript{35} Most of these exports were destined for the United States market. In January 1999, the U.S. government introduced quotas on 12 garment products, but agreed to raise the quotas by between 6 and 14 per cent if it were shown that Cambodia had complied with requirements for improved working conditions; these requirements included the payment of legal wages and overtime, and no retaliation against union activists. For this purpose, the International Labour Organization established a special labour monitoring project in the country and the scheme worked successfully to everyone's advantage. When the quota agreement ended in January 2005, initially around 25,000 jobs were lost. Within a few months, however, the employment figures had rebounded and by the middle of that year, between 265,000 and 268,000 workers were again employed in the sector, mostly young women who migrate from the countryside to the factories in Phnom Penh and surrounding areas of Kandal province.\textsuperscript{36}

By 2000, the services sector contributed almost as much to GDP as agriculture did, or approximately 37 per cent. Most of the growth in the sector has been dependent on the tourism and hospitality industry. Between 1993 and 1999, the number of visitors to Cambodia doubled, and between 1999 and 2002 the number trebled. It was anticipated that more than a million tourists would visit Cambodia in 2005.\textsuperscript{37} The sharp rise in the number of visitors after 1999 can be attributed largely to the open-skies policy allowing direct flights, mainly to Siem Reap province where the famous ruins of Angkor are located. These tourists, arriving on packaged tours purchased outside Cambodia, have short stays and there is little direct flow-on to the general economy. Paradoxically, while Siem Reap plays host to the vast majority of tourists to Cambodia, it remains one of the country's poorest provinces.

**Land and the Environment**

Recent growth in the manufacturing and service sectors notwithstanding, economic activity in Cambodia is overwhelmingly agricultural and rural-based. Most people reside in the countryside where they are self-employed in rice cultivation. Land is therefore Cambodia's most important productive asset, and the patterns of its distribution and use are intimately connected with Khmer history and culture.

Most agricultural land is divided into multiple land parcels that are used for intensive rice cultivation. The CSES-99 put the total size
Introduction

of agricultural land parcels at 2.88 million hectares, or 1.37 parcels per household with average parcel size of 0.90 hectares. These parcels are owner-operated. Tenancy is practised in Cambodia, but its incidence has always been minimal. As elsewhere, Cambodian farmers make optimal use of the available factors of production and both lease-in and lease-out the land they use. Landlessness, however, is a growing trend.

The rate of landlessness (that is, lacking land for agricultural purposes and the means to purchase it) in rural Cambodia ranges from 11 per cent to 30 per cent depending on geographical location and gender differentiation. Between September 1999 and April 2000, the international organisation, Oxfam, conducted a study of 143 villages in 15 provinces and the results showed an overall rate of landlessness of 13 per cent, or one in eight families. Among families headed by single women, the rate was 20.85 per cent. Of the landless families, almost one half had previously owned land but had lost it; the major cause (44.6 per cent) was sickness and resulting debt incurred for medical treatment, but land loss may be caused by a number of factors operating simultaneously.

Other studies suggest that distribution of land up to three hectares in size is fairly uniform. The most recent studies of agricultural land size and its distribution are the CSES-99 conducted by the National Institute of Statistics, and the Follow-up-00 survey by the World Food Programme, being indeed a follow-up of its 1998 Baseline Survey. A comparison of the results are illustrated in the table below:

<table>
<thead>
<tr>
<th>Categories of Agricultural Land Size</th>
<th>Percentage of Households</th>
<th>Proportion of Agricultural Land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landless</td>
<td>15.8</td>
<td></td>
</tr>
<tr>
<td>&gt;0.5ha</td>
<td>17.3</td>
<td>4.1</td>
</tr>
<tr>
<td>&gt;0.5–1.0ha</td>
<td>22.6</td>
<td>14.2</td>
</tr>
<tr>
<td>&gt;1.0–1.5ha</td>
<td>13.6</td>
<td>13.8</td>
</tr>
<tr>
<td>&gt;1.5–2.0ha</td>
<td>13.2</td>
<td>18.7</td>
</tr>
<tr>
<td>&gt;2.0–2.5ha</td>
<td>5.7</td>
<td>10.0</td>
</tr>
<tr>
<td>&gt;2.5–3.0ha</td>
<td>4.4</td>
<td>9.5</td>
</tr>
<tr>
<td>&gt;3.0ha</td>
<td>7.4</td>
<td>29.6</td>
</tr>
</tbody>
</table>

*continued overleaf*
Both studies show that the majority of farming families own small land areas between 0.5 hectares and 1.5 hectares. Otherwise, there are obvious discrepancies in the findings. The CSES-99 results showed that 53.5 per cent of rural households fitted this median, while the Follow-up-00 study counted 76.3 per cent of households in that category. The CSES-99 data suggested that 7.4 per cent of households control between one quarter and a third of Cambodia's agricultural land. The Follow-up-00 data halve these results at the top end of the scale but suggest that the number of rural households with land but owning less than one hectare, at 65 per cent, is far higher than the 39.9 per cent reported by the CSES-99.

**Tenure**

For a nation emerging from a long period of war and instability, including 15 years of socialist rule when agricultural land was worked by collectives or solidarity groups, it should not be surprising that the distinction between state and public property is often blurred, that definitions of land ownership are inconsistent, and that access to common property resources is hotly contested.

Throughout the 1990s, the incidence of land grabbing, land encroachment and illegal land transactions escalated as the economy developed. Results of a national survey conducted by the National Institute of Statistics in 1997 (CSES-97) and a target survey by the World Food Programme the following year (PET-98) suggested that more than 70 per cent of households had nothing to prove their possession rights for either

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**Table 0.3 continued**

<table>
<thead>
<tr>
<th>Categories of Agricultural Land Size</th>
<th>Percentage of Households</th>
<th>Proportion of Agricultural Land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landless</td>
<td>7.4</td>
<td></td>
</tr>
<tr>
<td>&gt;0.5 ha</td>
<td>35.6</td>
<td>12.7</td>
</tr>
<tr>
<td>&gt;0.5 – 1.0 ha</td>
<td>29.4</td>
<td>25.2</td>
</tr>
<tr>
<td>&gt;1.0 – 1.5 ha</td>
<td>11.3</td>
<td>16.1</td>
</tr>
<tr>
<td>&gt;1.5 – 2.0 ha</td>
<td>8.1</td>
<td>16.2</td>
</tr>
<tr>
<td>&gt;2.0 – 2.5 ha</td>
<td>2.1</td>
<td>5.4</td>
</tr>
<tr>
<td>&gt;2.5 – 3.0 ha</td>
<td>2.9</td>
<td>8.9</td>
</tr>
<tr>
<td>&gt;3.0 ha</td>
<td>3.2</td>
<td>15.6</td>
</tr>
</tbody>
</table>

residential or agricultural land. Traditionally, land has belonged to the tiller and most people believe that if they are occupying and productively using land that is not contested by others, then that land is legally theirs. The recognition of this right by neighbours is considered sufficient guarantee of ownership. Needless to say, in an era of fierce land speculation, arguments about traditional rights to land hold little sway.

The much-anticipated Cambodian Land Law was promulgated at the end of August 2001. Under this law, land is divided into five categories: state public, state private, private, indigenous community, and *wat* (religious) property. The law permits concessionaires, who may be foreigners, to occupy and use state land with a maximum size of 10,000 hectares for economic and social purposes for a maximum of 99 years. The economic concessions allow the beneficiaries to clear the land for industrial agricultural exploitation that must begin within 12 months of the concession being issued. By law, a social concession will allow landless citizens to apply for property for residential and subsistence farming purposes, in which case property will be allocated to approved applicants according to a sub-decree.

There is a lot of scepticism about this law, its implementation and enforcement. The matter of “common property” is of particular concern. Throughout history, Cambodian subsistence farmers and hunter-gatherers have been able to survive shrinking areas of livelihood resources as long as they have been allowed unrestricted access to common land, including forests and streams. Since 1989, when socialist rule officially ended in Cambodia, access and control over those shared communal spaces has been contested. Just one year before the Land Law was passed, CDRI economist, Sik Boreak argued:

> Although common property in Cambodia is not clearly defined by existing regulations, it has been observed to have been diverted to private ownership at an alarming rate. Considerable areas of common property resources, such as forests, rivers, lakes and agricultural land which were not redistributed in 1989 have become privately controlled. Millions of hectares of forests have been granted to private companies as concession forests. Many large plantations have been developed. Many private fishing lots have been created along the banks of major rivers and lakes; and a considerable amount of unallocated agricultural land has been illegally encroached upon and has dubiously become private property. As a result of privatisation, common property is becoming less accessible to other people, and hence, benefits to the majority have been reduced.
On a more optimistic note, by 2000, efforts were underway to conserve areas of environmental importance. The Great Lake was recognised as a biosphere reserve and in February 2001 legislation was passed to protect three core areas of the lake with a total area of 36,287 hectares, putting them off-limits to development; fishing would also be curbed in those areas through tighter regulations and increased patrols. In 2002, logging was banned and two wildlife sanctuaries were established in the Cardamom Chain with a view to securing World Heritage listing for this wilderness area.

Foreign Trade, Aid, Investment and Debt

The defining characteristics of the Cambodian economy are its open trade and investment regime and its reliance on the garment manufacturing industry. These are the two drivers of current economic growth. On 1 January 2000, Cambodia was admitted to the regional economic grouping, ASEAN, and accepted guidelines of the AFTA (ASEAN Free Trade Agreement); in late 2004, the country joined the World Trade Organization. Conditions for membership in these important trade bodies have already produced significant structural alterations to the economy, but their full impact on the balance of trade, on national revenue collection and foreign investment has yet to be fully felt. There are warnings, however, that trade deregulation will undermine Cambodia’s capacity to sustain customs duty collections if overall trade, and GDP in general, does not grow rapidly. Customs duties supplied 45 per cent of total tax revenues in 1999.

In large measure, the recovery of the Cambodian economy since 1993 has been due to generous infusions of foreign aid, including grants and soft loans from the World Bank and the Asian Development Bank. The Consultative Group (CG) Meeting, a gathering of major donors and stakeholders, is held annually in Phnom Penh where the international community regularly pledges to provide Cambodia with aid worth approximately US$500 million. Actual disbursements usually reach about 60 per cent of the pledged amount, and loans from the major creditors represent around 20 per cent of total disbursements.

The donor meetings have become more complex each year. Increasingly, they are used as forums for lobbying by civil society groups (there are around 800 local NGOs and 200 international NGOs with development and human rights agendas in Cambodia), as well as by the private sector. Multilateral organisations and bilateral donors use the occasion to pressure the Royal Government of Cambodia for structural reform and stricter monitoring of the reform process. The issues are wide-
ranging and donor pledges are made in terms of conditionality. In 2001, for example, key topics of debate focused on changes to the investment law, demobilisation, funding for commune elections, and implementation of good governance reforms; other issues included progress on the Khmer Rouge tribunal, forestry reform and the land law.

The Cambodian government has largely complied with the practice of establishing benchmarks as a step towards linking aid to reform, but that compliance rankles nonetheless. In an address the Cambodian Prime Minister made on 15 September 2005 to the United Nations General Assembly, he said, “Politically driven hidden agendas and shifting ideologies to bring coercive influence on the recipients [of aid] must end. They serve only to punish the poor.”

He also questioned the value of technical assistance, which constitutes a high proportion of foreign aid, including loans. In 1998, for example, expenditure on technical assistance exceeded the total tax revenue raised by the government. Furthermore, a disproportionate amount of funding remains in the capital city for administrative purposes and its distribution among the provinces is uneven. The matter of “ownership” is also sensitive, as the selection of development projects appears to be donor-driven and susceptible to international, short-term issues and not necessarily local long-term needs. Worryingly, because development projects can afford to pay their staff salaries that are much higher than government salaries, there has been a steady drain of officials away from government institutions to the non-government sector, weakening further the capacity of the government to manage the delivery of services to the people.

Foreign direct investment is obviously preferable to foreign aid. Investment is vital to continued growth in the Cambodian economy and conditions for foreign investors have been extremely generous since the passage of the Investment Law in 1994. Its main incentives included exemption from import duties during the period of project construction and for the first year of business operations, and up to eight years’ exemption from corporate profit tax. Investment in any of the designated eight “important” fields earned total exemption from export tax, while the distribution of dividends, profits or proceeds of investment, whether transferred abroad or distributed in the country, also enjoyed tax-free status.

Before the Asian financial crisis slowed the rate of foreign investment during the second half of 1997, Asian economies, particularly Malaysia, Indonesia, South Korea and Japan contributed about 80 per cent of Cambodia’s foreign direct investment. Garment factories and hotels represented most of total investment during the 1990s, and accumulated stocks of FDI reached approximately US$1.2 billion in 1999. Between
2000 and 2002, there was a levelling off but a boom in hotel construction in Siem Reap and Sihanoukville in 2002 led to a resumption of investment growth. More recently, the People’s Republic of China has become an increasingly important source of foreign investment capital. Of the US$546 million in investment approved by the Council for the Development of Cambodia in the first half of 2005, for instance, US$402 million of that total amount was derived from Chinese business.\textsuperscript{50} A serious challenge for the government is how to direct a fair share of all investment towards agriculture where it is urgently needed.

Cambodia’s outstanding external debt is difficult to quantify. After independence in 1953, each political regime accrued foreign debt according to the political alliances it forged. Debts owed to the U.S.A., the former Soviet Union and China are either hidden or under negotiation. It is simply not known what debt Cambodia owes to Vietnam for the ten years of defence and nation-building it provided following the catastrophe of the Pol Pot era. Needless to say, the current Kingdom of Cambodia does not recognise all these outstanding debts. CDRI economists put the outstanding external debt recognised by the Cambodian government at the end of 1999 at US$350 million, while the pending debt was then estimated at $1.7 billion.\textsuperscript{51} Their counterparts at the Economic Institute of Cambodia suggest that the outstanding debts recognised by the government amounted to around US$1,082 million at the end of 2003.\textsuperscript{52} Whatever the actual total figure is, Cambodian economists believe that even if creditors agree to halve their claims, Cambodia’s foreign debt burden will still stand at 50 per cent of GDP.\textsuperscript{53}

In 1992, a loan from the Asian Development Bank represented Cambodia’s first official borrowing from an international financial institution in more than two decades. The loan was worth US$67.7 million, repayable over 40 years, and it was undertaken to help rebuild infrastructure.\textsuperscript{54} Interest payments of around US$1 million began in 2003; the budget that year set aside US$6.25 million for loan repayments. Since that first loan, the Cambodian government has borrowed a further US$700 million from the ADB and the World Bank/IMF.

**Public Finance, Banking and Credit**

In 1999, domestic revenue amounted to 1,329.957 billion riels (US$348.6 million) collected mainly from taxes, especially customs duties and consumption tax; posts and telecommunications was the main earner in the non-tax category of revenue.\textsuperscript{55} Total expenditure that year was 1,846.225 billion riels (US$483.9 million). Civil administration and defence/security
together accounted for 55.5 per cent of government spending. Foreign financing amounted to 537.957 billion riels (US$141 million), 4.363 billion riels for budget support and the remainder for project aid.

In terms of GDP, total government revenue amounted to 11.2 per cent of GDP in 1999, a sharp increase of 40 per cent over the previous year due mainly to the introduction of the consumption tax and the revenue gained from companies bidding for garment quota exports. Both of these measures were introduced in early 1999. Tax revenue and the tax structure in general, however, remain very weak. Cambodians contribute less than US$30 each to the annual national budget, as opposed to about US$600 in Thailand; on the other hand, they receive only about US$5 per capita for health and education, compared to around US$150 in Thailand. According to the World Bank 2000 *Country Assistance Strategy* report, donors and non-government organisations finance about 46 per cent of education expenditures, while individual households and the government finance 27 per cent each; households finance an overwhelming 82 per cent of all health expenditures.

Tight budgetary policy has kept inflation in check since 1993 when it was very high. Since 1993, the value of the riel against the U.S. dollar has been relatively stable. In 1999, the riel stood at 3,815 to the U.S. dollar, 100 to the Thai baht and 365 to the Vietnamese dong. There is, however, a high degree of dollarisation in the economy; the World Bank reporting that 98 per cent of bank lending was denominated in dollars and 95 per cent of total liabilities were denominated in foreign currency in 2000. The riel is used mainly for small transactions and local wage and salary payments, while medium and large financial transactions are conducted in foreign currencies. The high degree of dollarisation and the habit of cash transactions restricts the government’s scope for running an active and effective monetary policy.

The World Bank observed that Cambodia had one of the shallowest financial systems in the world. As of 31 December 1998, its report noted, the Cambodian financial system comprised 31 banks, 22 of them private banks whose ultimate owners were not always known to the National Bank of Cambodia (NBC), the central bank, and there was no public disclosure of financial information. Most of banks’ assets were foreign currency loans to the private sector, while commercial bank lending to the agricultural sector accounted for less than one per cent of GDP. A law on banking and financial institutions was enacted in November 1999, granting the NBC strict and broad supervisory powers. The law divided banks and financial institutions into four categories: commercial banks, specialised banks, specialised financial institutions,
and microfinance institutions. Under that law, commercial banks were required to hold minimum registered capital of 50 billion riels (around US$13 million). This relicensing requirement forced some undercapitalised banks to close or merge.

The Rural Development Bank (RDB) was created by the government in 1998 to act as a second tier bank to microfinance institutions. Its powers were strengthened by the prakas or regulatory law of November 1999 concerning specialised rural credit banks, and the licensing of commercial banks and microfinance institutions. Microfinance, the main form of formal credit for rural villagers and urban poor families, is dominated by the Acleda Bank and by a host of non-government development organisations. Largely because of the way these loans are disbursed, the recipients pay high interest rates (between two and five per cent each month). These rates, however, are still much lower than those offered by the informal sector where the majority of rural people, those too poor to qualify for loans from other institutions, still go to borrow money. In general, these rates are between 5 and 10 per cent a month.

Conclusions

According to the key indicators, the Cambodian economy started the twenty-first century seemingly confident of steady and constant growth. As long as peace endured and investor confidence remained buoyant, there was no reason to suppose that the terrible hardship of the last three decades of the previous century would be revisited.

Structural reforms throughout the 1990s have resulted in many positive changes, particularly to the urban economy. The commercial and financial sectors have been revamped, sound monetary policy has kept inflation under control, and government revenues have increased substantially. Foreign investors, especially those from the region, have found opportunities in Cambodia to be both profitable and secure.

On the other hand, significant elements of the economy remain stubbornly resistant to change. The overwhelming majority of the economically active population still consists of own account or unpaid workers cultivating paddy on small parcels of land with little assistance from technical inputs, organised credit or institutional support. While there have undoubtedly been significant increases in rice production, especially since 1995, local millers and merchants have been unable to capitalise on this growth due largely to the lack of efficient marketing and distribution networks. Entrenched rural poverty is the paramount obstacle to genuine economic development.
As the following chapters will demonstrate, agriculture, which has always been the main occupation of the people and the mainstay of the state surplus, has consistently failed to fulfil its potential as the designated catalyst for the sort of economic development that Cambodia's modernisers envisaged. It is equally true, however, that after each catastrophe that befell the nation, it was traditional agriculture that revived the national economy and salvaged the people’s livelihood. Despite the rhetoric of successive governments claiming the contrary, the farmers’ resilience is never repaid with the sort of capital investment required to replace traditional practices; that is, in properly managed irrigation infrastructure, accessible marketing and distribution networks, and affordable credit. Too often throughout the preceding century — as now — agricultural resources, including arable land, forests and fisheries, while touted as targets of economic reform, have instead been the objects of rent-seeking and easy personal wealth creation by rapacious officials and their cronies, or they have been held to ransom as contested arenas by political elites with conflicting ideologies.

Policy makers typically have blamed their failures on a recalcitrant, tradition-bound peasantry. The under-resourced rice farmer typically avoids risking a lower yield. From the first episode of deliberate efforts to modernise the Cambodian economy, that of the French Protectorate, policy-makers and traditional rice farmers have worked at cross purposes to each other.