

BTI 2008 | Cambodia Country Report

Status Index	1-10	4.48	# 88 of 125	
Democracy	1-10	4.13	# 84 of 125	➔
Market Economy	1-10	4.82	# 84 of 125	➔
Management Index	1-10	3.82	# 100 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	14.1	HDI	0.58	GDP p.c.	\$	2,426
Pop. growth ¹	% p.a.	2.0	HDI rank of 177	129	Gini Index		41.7
Life expectancy	years	57	UN Education Index	0.69	Poverty ³	%	77.7
Urban population	%	19.7	Gender equality ²	0.37	Aid per capita	\$	38.2

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Cambodia has witnessed two major contrasting trends: relatively stable economic growth and regressive democratic development. Economic performance reached its peak in 2005, and the donor community as well as other observers praised Cambodia for its prudent, sound monetary and fiscal policies facilitating macroeconomic development. In another positive development, Cambodia has continued to reduce its poverty levels.

It would be misleading, however, to conclude that Cambodia is headed toward sustainable development. There are growing challenges, including a narrow base of economic growth that has relied on a few key sectors, such as garments, tourism and construction, the steady increase of socioeconomic inequality, Cambodia's extremely low level of competitiveness in the global economy, the increasing environmental sustainability problems, and the fast-growing number of entrants into the labor force.

There has been an observable negative trend in Cambodia's democratic development. A negative peace has been achieved as the state no longer faces violent armed movements. The Khmer Rouge's armed rebellion ended in 1998 and the Cambodian Freedom Fighters (CFF), whose movement collapsed in the mid-2000s, have ceased their violent activities. But negative peace and its accordant political stability have come at the expense of democracy. Since 2003, the Cambodian People's Party (CPP), under the leadership of Prime Minister Hun Sen, has consolidated power at all levels, national and local. Having won a near 99% of the Commune Council votes, the CPP achieved a near-monopoly on political power at the 2002 communal election. The current coalition government was formed after the 2003 National Assembly election, but the CPP has grown increasingly dominant and has since worked aggressively to take advantage of weakening opposition forces. The main challenger to the CPP, the royalist party FUNCINPEC, has now disintegrated into several small parties with no

effective leadership. The Sam Rainsy Party has emerged as the only opposition party in parliament, but has demonstrated little political muscle. The rapid emergence of a hegemonic party system can be observed in Cambodian electoral politics as the CPP seeks to co-opt any non-CPP elements willing to jump on its political bandwagon and eliminate anyone willing or able to challenge its power. Clearly, this trend has raised concerns that Cambodia could devolve into an electoral dictatorship.

History and Characteristics of Transformation

Cambodia has been known for a series of tragic events and external interventions, particularly since the 1990s, when the international community stepped in to end a violent conflict, build democracy, and rebuild its war-torn economy. Economic and political transformation processes did not proceed contemporaneously, although economic liberalization began only a few years earlier than political liberalization. In 1989, the socialist regime, under the leadership of Prime Minister Hun Sen, began to institutionalize economic reform by moving away from the planned economic system.

This was followed by intervention from the UN, which was given the task of creating a neutral political environment for free and fair elections. The national election took place in 1993 and gave birth to a new era of electoral politics. FUNCINPEC won the election and Prince Norodom Ranariddh became First Prime Minister, who agreed to share power with Hun Sen of the CPP, who became Second Prime Minister. Political instability continued despite the fact that the election was certified as free and fair by the UN, a parliamentary system was established, and a new coalition government was formed. The country was still at war with the Khmer Rouge, whose leaders had pulled out of the electoral process weeks before polling day in 1993. Political violence against members of the opposition and media took place frequently. Coalition politics also proved to be unstable, as the new government partners, the CPP and FUNCINPEC, continued to maintain antagonistic relations. The situation deteriorated in the mid- to late-1990s to the point where any hope for peaceful reconciliation was lost. Early in July 1997, Hun Sen's troops quickly defeated Prime Minister Ranariddh's armed loyalists in a violent coup.

Following reconciliation, the CPP consolidated its power when it won the 1998 election, although it failed to obtain the two-thirds majority required by the constitution for the formation of a new government; it thus had to share power with FUNCINPEC once again. For the period from 1992 to 1997, Cambodia remained prone to highly factional politics that were antithetical to both stable political and economic development. Following the 1998 national election, however, Cambodia embarked on the road to political stability. There have been two elections held since then: a communal election in 2002 and another national election in 2003. Both elections

resulted in further consolidation of the CPP's power under the leadership of Prime Minister Hun Sen. Over the period from 2005 to 2006, Cambodia achieved political stability at the expense of democratic consolidation. The CPP managed to further weaken its political opponents and the opposition fell into disarray. The Senate election early in 2006 gave further rise to CPP domination. FUNCINPEC fell apart after Prince Ranariddh was ousted from the party as its president. The main opposition party, the Sam Rainsy Party, struggled to survive and could not do much without any support from other parties. Cambodia has thus witnessed the emergence of a hegemonic party system, in which the CPP has become increasingly dominant and there are no credible challengers.

Since the 1990s, economic development has continued to encounter challenges. Although the process of economic liberalization began in the late 1980s and accelerated throughout the following decade, the economy has made remarkable progress over the past several years. Occurring at a time of violent conflict in Cambodia and thus reduced foreign assistance, the Asian financial crisis in 1997 exacerbated many of the country's problems. The government, however, implemented macro and structural policy measures, successfully managing to stabilize the national currency's exchange rates. The government sought to reduce public expenditure through stringent fiscal discipline. During the period under review, the economy has continued to grow, but one-third of the population still lives in poverty and socioeconomic gaps continue to widen.

Transformation Status

I. Democracy

During the period under review, Cambodia has failed to consolidate democratic institutions; the CPP, under the leadership of Prime Minister Hun Sen, has succeeded in consolidating political power at the expense of other political parties. From the Commune Council election in 2002 to the Senate election early in 2006, the CPP emerged as the most dominant party, hence giving rise to a hegemonic party system. The democratic system of checks and balances – among state, political society and civil society institutions – exists on paper only.

1 | Stateness

There is no real stateness crisis in Cambodia. Generally, there are no credible political forces capable of posing military challenges to the state, which is dominated by the CPP and increasingly dominated by Hun Sen. There is no restriction on the state's monopoly of power over the entire country, except in one area, Palin, where former Khmer Rouge guerrilla fighters retain a limited degree of autonomy, despite the fact that they have been officially reintegrated into the national armed forces. However, they no longer pose a threat to the state. The Cambodian Freedom Fighters (CFF), led by a Cambodian-American, has been inactive since mid-2000 and no longer mounts any challenges to the state.

Monopoly on the use of force

In terms of statehood, there is still a problem in the concept of Khmer citizenship. The term Khmer refers to the largest majority of the population, which is of Khmer origin; this has been viewed as excluding minorities. However, anyone willing to become a Khmer citizen enjoys the same rights as everyone else. According to the constitution, all Khmer citizens enjoy the same political rights and civil liberties. The issue of citizenship, therefore, is no longer as politically sensitive as in the past.

State identity

Although Buddhism is recognized as the state religion, the political process remains secularized. The state and religion are almost entirely separate. State control over religious practices remains evident, particularly during elections when anti-government Buddhist monks come under pressure from their patriarchs not to vote.

No interference of religious dogmas

The state remains structurally weak; it has proved unable to make effective decisions and to implement them successfully. The state still has a poor administrative system and continues to provide inadequate public safety and order. Administrative structures in the country are rudimentary, inefficient and subject to both military and political manipulation. Overall, the administrative structure has improved in recent years, but continues to suffer significantly from widespread corruption and extremely low levels of technical skill.

Basic
administration

2 | Political Participation

The laws on elections and political parties advocate the concept of free and fair elections, but systematic discrimination against opposition parties and the growth of CPP power have made it increasingly difficult for opposition parties to compete freely and fairly. The CPP achieved a near monopoly on local power after the communal election in 2002, and won more seats during the 2003 National Assembly election than in the previous elections (held in 1993 and 1998). The Senate election in 2006 allowed only members of the National Assembly and Commune Council chiefs (both of which were dominated by the CPP) to cast their ballots, resulting predictably in the election of mostly CPP senators.

Free and fair
elections

Although the incumbents came to power through elections, they have proven unable to possess effective power regarding their ability to govern. The government has, of course, become more effective in terms of maintaining political stability and ensuring economic growth. The civilian leadership has formal control over the military and security apparatus, but it is far from clear whether the prime minister and other civilians can make decisions effectively. To this day, the executive branch of government has shown a very limited will to implement reform policies. As noted elsewhere, the government has succeeded in passing an anti-corruption law but has failed to punish any government officials involved in corruption scandals. In spite of the public commitment to institutionalizing reforms made during donor meetings, the government has shown little political will to translate them into reality. Although the CPP has increasingly consolidated its power, the elite remains highly divided.

Effective power
to govern

Restrictions on the freedom of peaceful assembly and demonstration after 2003 reveal the state's hypocritical, arbitrary stance on demonstrations. Those critical of government policies could not freely stage demonstrations (even a procession for peace by 10 monks was not authorized because it posed a threat to national security and public order), but demonstrations by pro-government groups, such as the Pagoda Boys, who are linked to the ruling party and to previous acts of violence, have been granted authorization. Union activity remained subject to strict regulations. Over the past two years, anti-government demonstrations have ceased.

Association /
assembly rights

The state-run and private media remain subject to government influence, as there is still pressure from parts of the political establishment over the last two years related to media coverage of politically sensitive cases, such as corruption and border issues.

Freedom of expression

3 | Rule of Law

The system of checks and balances exists on paper, but remains extremely weak in practice. The executive branch, under the leadership of Prime Minister Hun Sen, has grown stronger than ever before. Cambodia has become politically stable, but may be moving toward dictatorship rather than democracy, since Hun Sen rules the country more or less unchecked. With the disintegration of FUNCINPEC and the problems that the Sam Rainsy Party still faces, the CPP increasingly dominates the legislative and judicial arenas and feels less inclined to work with the opposition in an accommodative fashion.

Separation of powers

The government still manipulates the authority of the judiciary. The role of the highest courts has not developed positively. It will be years before the essential institutions and persons of the judicial system can operate on a solid footing. One of the main problems is the presence of corrupt judges at all levels of the justice system and the low professionalism of the personnel. The latter is in part the result of the high number of judges and prosecutors who came into office under the Hun Sen regime. Even more disappointing are the woefully inadequate selection mechanisms of judges and prosecutors. The Supreme Council of Magistracy, responsible for selecting judges and disciplinary action against them, remains dysfunctional.

Independent judiciary

The Hun Sen government has made little or no effort to punish those who abuse their entrusted power. For instance, the public has consistently viewed fighting corruption as one of the most urgent problems challenging good governance. In spite of the policy attempts made by the Hun Sen government to fight corruption, not one single high-ranking government official has been prosecuted so far. In fact, those who have abused power in order to help the CPP consolidate power have received protection and promotions.

Prosecution of office abuse

Civil liberties are respected in principle, but have deteriorated since 2003. Civil rights are sometimes compromised by the discrepancy between government behavior and legal norms, as well as by the authorities' selective application of established law. There have been instances of torture and abuse at the hands of state security forces. Furthermore, the weakness of state institutions leads to a tendency toward vigilante justice, which further undermines the role of the judiciary as a bulwark of civil liberties. Concerning the civil rights of women, the main problem is the state's inadequate protection of women and girls against

Civil rights

violence, including rape, spousal abuse, etc. The most positive sign in terms of human rights has been the establishment of the Extraordinary Chambers, whose aim is to bring to justice those Khmer Rouge leaders who committed crimes against humanity during the period from 1975 to the end of 1978. However, the judicial process has been sluggish.

4 | Stability of Democratic Institutions

Since UN intervention in the early 1990s, Cambodia's democratic institutions have failed to gain solid footing. As noted earlier, the executive body became increasingly powerful as the CPP elite has successfully consolidated power, but other democratic institutions, particularly the legislature and judiciary, remain weak. State institutions remain highly politicized and have not fulfilled their roles as expected. All in all, the expected institutional consolidation did not proceed and the prospects for improvement are minimal, as formal political procedures continue to be circumvented.

Performance of
democratic
institutions

Despite the numerous problems Cambodia still faces, all influential political actors seem to accept democratic institutions as legitimate, as far as policy rhetoric and public statements are concerned. However, their behavior has shown little respect for democratic institutions. State elites still do what they can to block any credible attempts to strengthen democratic institutions that they believe will weaken their power base. Electoral rules are not fully complied with, and the democratic norms of accountability and non-violence have been violated. Civil liberties have been subject to growing restrictions, especially since 2003. Democracy remains unconsolidated.

Commitment to
democratic
institutions

5 | Political and Social Integration

The problems with institutional stability and efficiency involve the fragile system of political representation, which cannot adequately mediate between the state and a highly politicized society. The new multiparty system emerged before the 1993 election, but has since been unable to ensure institutionalization. The party system has become increasingly subject to CPP interests and power. All political parties have proven unable to formulate programmatic objectives and have shown strong tendencies toward the traditional focus on personalities and patronage. The under-institutionalized party system remains one of the greatest obstacles to the process of democratic consolidation. The hope that the recent decentralization efforts would bring the parties closer to society was still a bit premature, largely because the communes remain largely subject to the political power and wishes of the central government based in Phnom Penh.

Party system

Cambodia's civil society is still new, largely uncritical, and politically non-influential. Employers' associations, for instance, still wield considerable influence, while independent unions have not gained much political or bargaining power. The government also tends to side with management and has even taken action against union activists. As the political opposition has weakened, union activists and their ability to strike and demonstrate have also weakened.

Interest groups

The dynamics of civic organizations remain positive. Most eligible voters have turned out at the ballot boxes. However, there seems to be a growing perception that their ballots have not made a difference. Cambodians continue to feel powerless and ineffectual.

Consent to democratic norms

Social integration has deepened, but remains weak. Besides labor unions and human rights organizations, which have been active but still lack real political influence, virtually no strong interest groups or networks of associations exist. The labor union system has grown stronger, in spite of government attempts to constrain its activities. Thousands of garment workers used to strike, pushing for better working conditions and higher monthly wages, but they have recently come under pressure and scrutiny. Almost 80% of the population does not belong to any type of organized civil association, although more than 90% of the population shares their faith in Buddhism. Much of the rest belong to self-organizing civil society associations independent of the state. Mutual distrust among Cambodians still runs deep. They still maintain deep suspicion of state institutions, particularly the military, security apparatus, the judiciary and the banking system (only 3% of Cambodians deposit their money in the banks). According to one observer, Cambodians are still deeply divided and there are only two things that they can agree on: namely, their great Khmer civilization of the past, and the prosperity enjoyed before 1970.

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

The key indicators of human development reveal a very low level of development. If measured in terms of the HDI, Cambodia's level of development allows only a small segment of the population to enjoy adequate freedom of choice, excluding the overwhelming majority. Despite some noticeable reduction in poverty (from 47% in 1993/94 to 35% in 2004), one-third of the population still lives in poverty and the socioeconomic gap continues to widen. About 85%

Socioeconomic barriers

of the population live in rural areas and are generally poor. Inequality rose from a Gini coefficient of 0.35 in 1994 to 0.40 in 2004, making Cambodia one of the more unequal countries in Southeast Asia. Gender discrimination persists, as inequality between men and women still exists in many aspects of socioeconomic and political life. Few women are in management positions that allow them to influence public policy. Most still endure the double burden of managing domestic tasks. Discrimination against ethnic minorities, which make up of about 4% of the population, also persist in that they remain shut out and are unable to take part in policy dialogue or the process of negotiation, especially on development activities.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	4,281	4,587	5,260	6,187
Growth of GDP	%	6.2	8.6	10.0	13.4
Inflation (CPI)	%	3.2	1.2	3.9	5.7
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	3.4	1.8	2.5	6.1
Export growth	%	13.1	11.5	28.4	16.7
Import growth	%	14.6	13.7	19.8	18.1
Current account balance	\$ mn.	-109.0	-236.2	-185.1	-355.8
Public debt	\$ mn.	2,587.3	2,868.4	3,079.7	3,154.7
External debt	\$ mn.	2,900.3	3,193.4	3,439.1	3,515.3
External debt service	% of GNI	0.5	0.6	0.6	0.5
Cash surplus or deficit	% of GDP	-3.4	-4.5	-2.2	0.0
Tax Revenue	% of GDP	8.2	7.7	8.2	8
Government consumption	% of GDP	5.5	5.3	4.6	4.1
Public expnd. on edu.	% of GDP	1.8	1.9	1.9	-
Public expnd. on health	% of GDP	2.0	1.8	1.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.5	2.4	2.2	1.8

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Since the early 1990s, the foundation of a competitive market economy has been laid. The process of liberalization became increasingly evident after Cambodia joined ASEAN in 1999 and the WTO in 2004. But some regulations and legislation continue to place restriction on competition. Corruption in public institutions still allows some major market players to take advantage of those who are weaker by adopting unfair business tactics. Some companies, for instance, manage to avoid paying taxes by smuggling goods, thus making themselves far more competitive than those that do pay taxes. Cambodia still stands among the world's least competitive countries. The World Economic Forum's global competitive report 2005 – 2006 ranked Cambodia at 111th out of 117 countries and its 2006 – 2007 report still places the country at 103rd out of 225 countries.

Market-based
competition

Safeguards to prevent the development of economic monopolies and cartels remain weak. Some laws and regulations were designed to reserve the state's special rights that allow certain state-run enterprises to monopolize various sectors. State-owned enterprises, such as those in the telecommunications sector, function as regulators and market players. Business registration – highly complicated, expensive and time-consuming – has proved to be a substantial barrier to entry for many enterprises that want to enter the markets. About one-third of respondents and companies believed in the existence of conspiracies with the government that seek to prevent other competitors from entering the markets.

Anti-monopoly
policy

Foreign trade has been extensively deregulated since the late 1980s, especially after Cambodia joined ASEAN in 1999 and the WTO in 2004. Trade volumes have increased. The United States has been the most important market (importing 70% of Cambodia's total exports), followed by the EU (21%) and Canada (4%). Cambodia's imports also increased by 20.5%, from \$3.9 billion in 2005 to \$4.7 billion in 2006. There is no fundamental state intervention in free trade. This also applies to the treatment of foreign investments. There are no formal restrictions on payments, transactions, transfers, or repatriation of profits. But tariff and non-tariff barriers still exist and continue to encourage the smuggling of goods that restrict competition and keep prices high.

Liberalization of
foreign trade

The banking and financial sector both underwent deregulation in the 1990s, but remain underdeveloped. Foreign ownership of financial companies has been encouraged. The money supply has increased by 16% in 2005 and by 26% between December 2005 and August 2006. However, banking procedures and services still fall far short of international standards. Bank loans are still difficult to secure and interest rates remain high. The country still has no stock exchange for raising equity capital.

Banking system

8 | Currency and Price Stability

The government has followed a consistent policy on inflation and currency. The overall rate of inflation has been kept low, but rose from 0.3% in December of 2003 to 5.6% in the year of 2005. During the first eight months in 2006, the rate stood at 5.1%. Due to Cambodia's highly dollarized economy, the currency (riel) remained stable. The National Bank deserves praise for its prudent monetary policy, fiscal discipline and ability to maintain low inflation rates. The exchange rate also remains stable. The riel has fluctuated slightly: (riel against U.S. dollar) 3,452 in 1997, 3,780 in 1998, 3,770 in 1999, 3,905 in 2000, 3,895 in 2001, 3,930 in 2002, and 3,980 in 2003, 4,025 in 2004, 4,200 in 2005, and about 4,110 in 2006. The National Bank of Cambodia plays an important role in setting monetary policy and since the mid-1990s, it has maintained regulatory power in the banking sector independent of the government.

Anti-inflation /
forex policy

Although Cambodia's national budget revenue has increased noticeably, its expenditure has increased at an even faster rate, thus leaving the government in debt. Fortunately, Cambodia has tried to avoid domestic debt financing, and the budget deficits have been financed by international borrowing and foreign assistance, which have accounted for almost half of the annual budget. At the end of 2005, the total public debt stood at \$3.4 billion, representing about 54% of GDP and more than 90% of total public debts. In general, however, the debt situation remains sustainable.

Macrostability

9 | Private Property

Though more thoroughly defined in recent years, the administration of private property rights, especially in rural areas, remains underdeveloped. In 2004, for instance, as much as 80% of rural households owning land did not possess any titles. Most enjoyed little security in land tenure. The poor and indigent were less likely than the non-poor to secure a land title. A study in 2004 showed that only 15% of the extreme poor held a land title compared to 29% of the richest quintile group. Landlessness has now become a growing problem, as individuals in powerful positions grab land from others at will. The main problem thus still lies in the fact that property rights are highly vulnerable in practice, primarily because of poor judicial and administrative systems.

Property rights

Privatization has been driven by the liberalization process adopted by the government as a principal means to prevent state monopolies. Private companies have thus been permitted to operate in the country. However, as noted earlier, some key state-owned enterprises still exist. Electricite du Cambodge (EDC), for instance, still monopolizes the generation, distribution and transmission of

Private
enterprise

electricity. Despite the process of liberalization, such as the mobile phone business where four operators compete with each other, some state-owned enterprises (e.g., Telecom Cambodia) still dominate the telecommunications field.

10 | Welfare Regime

There are rudimentary measures in place to avert social risks such as poverty, illness and disability, but they are extremely segmented in terms of territory and social strata. The government has developed a vision to transform Cambodia into a socially cohesive, educationally advanced and culturally vibrant country, namely a country without poverty, illiteracy, or disease. But the state allocated a tiny budget for social welfare, and government spending in the social sectors dropped by more than 20% during the first four months of 2004. Unable to combat poverty systematically on its own, the state had to turn to the donor community. The state remains unable to meet even the basic needs of the homeless, the sick, the disabled, the elderly, the vulnerable, and the unemployed. Housing for the urban poor remains woefully inadequate. People living below the poverty line have extremely limited access to health care (spending on health was miniscule but further decreased by 50% in the first four months of 2004); many became indebted because of medical expenses. Only one small self-organizing association for the elderly had been established. Most elderly people (55 years old and above) state that making a living is their biggest problem. Many rely on their children's support, as well as support from their neighbors and community. A fraction of them live on personal savings. The government is still facing a growing unemployment problem, as the labor force (5.6 million in 2001, or 43% of the population) continues to rise (250,000 per year). Women in particular are among the country's most vulnerable groups, as they still have only limited access to higher education and public office. Women's associations exist, but are still unable to achieve much in terms of women's rights. There are no effective public or private institutions to help compensate for gross social differences.

Social safety nets

As noted earlier, at least one-third of the Cambodian population still lives below the poverty line and socioeconomic inequality continues to grow. Corruption prevents the poor from bettering their condition. Gender discrimination remains highly evident. Women tend to work in low-wage, low-income economic sectors, such as the garment sector, and do not have adequate access to the public health care system. The government has made efforts to reduce poverty and empower the poor. Through the Cambodian Millennium Development Goals, it remains committed to halving the number of people living under the poverty line by 2015. The government has adopted a pro-poor strategy by increasing budgets for education, which have risen dramatically. But direct education costs, including tutoring costs, have made it increasingly difficult for the poor to keep their

Equal opportunity

children in school, especially when they reach higher grades. Civil society organizations have done their best to empower the poor and needy, but there is little equality of opportunity in Cambodia.

11 | Economic Performance

Quantitative indicators over the period from 1993 to 2006 show positive economic growth. During this period, Cambodia achieved an average economic growth of 7%. According to some figures, Cambodia's economic growth rates reached 8.3% in 2003, 10% in 2004, and 13.4% in 2005. But the country's economic performance remains volatile. The highest economic growth rate in 2005 resulted in the agricultural sector thanks to favorable weather conditions. If agriculture was excluded, the rest of economic growth declined to 10.3% in 2005 from 14.5% in 2004. Moreover, Cambodia has consistently experienced trade deficits reaching \$1 billion in 2005 and representing an increase of 13% from 2004. Overall, economic growth has been driven by a few key sectors: garments (accounting for about 95% of Cambodia's total exports), construction, tourism and service.

Output strength

12 | Sustainability

The environment has become a growing problem in the process of economic development. While illegal logging may have made some contribution to economic growth, it has made the environment unsustainable. Deforestation has posed a growing threat to sustainable economic development. Environmental awareness in society at large and among lawmakers has grown in recent years. Environmental concerns tend to take a back seat to growth considerations. Environmentally sustainable growth receives little attention and is not reflected in the policy framework. Ecological problems — especially soil erosion and the contamination of rivers and lakes — have worsened.

Environmental policy

In recent years, the government has increased education budgets and encouraged the establishment of private schools. The World Economic Forum ranked Cambodia's innovation factor at 110th out of 117 countries in 2005 and raised it to 98th out of 125 countries in 2006. This improvement may have resulted from business-university collaboration and companies' willingness to invest in research and development. Due to its poor quality, however, the education system remains highly inadequate. The business community judged the education system unable to meet the requisite needs for building a competitive economy. According to one study, for instance, 83% of survey respondents shared this view. In addition, the number of university graduates produced each year still falls short of the estimated number of new entrants in the labor market. For instance, 2005 saw 11,000 students obtain bachelor degrees, but this number still represented only 5% of the new 250,000 entrants in that year.

Education policy / R&D

Transformation Management

I. Level of Difficulty

Existing socioeconomic conditions still shape the political process, and the difficulty of the transformation can still be regarded as severe. The setting presents a mix of positive and negative aspects. On the one hand, the state has proved successful in establishing its monopoly on the use of force, homogeneity has minimized social conflict, and political tensions have also weakened. The Hun Sen government has proven successful in terms of consolidating power. Furthermore, much of the needed economic structural reform has already achieved general consensus. On the other hand, numerous challenges remain, including a relatively low level of economic and social development, widespread poverty, corruption, inefficient state administrative and rule of law institutions, weak political and civil society and a vulnerability to unpredictable external economic forces.

Structural
constraints

Cambodian civil society, as William A. Collins argues, dates back to the Angkorean period. As he puts it, “in the post-Angkorean era, probably the most significant process in the development of Cambodian civil society [was] the conversion of the mass of the Khmers to Theravada Buddhism” (Williams Collins, *Grassroots Civil Society in Cambodia*, Phnom Penh 1998, p.6). But civil society had no strong tradition of resistance to the state. Cambodia also never developed a critical civil society. The word society or “sangkom” did not appear in Cambodia until the 1930s. According to David Chandler, “[Cambodians] preferred to think of themselves in terms of a king and his subjects; in terms of a spectrum of relative merit; or as people, scattered over time and space, sharing recognizable ideals that sprang, in turn, from being farmers, being lowly, being Buddhists, and speaking Khmer” (David Chandler, *A History of Cambodia*, Boulder 1993, 91). Certainly, Buddhist organizations, such as the Wat, provided a normative base for civil society building, if defined in terms of religious efforts to promote community life at the village level. If the Wat has served as the center of community life at the village level, its organizational structure still remains non-critical. Since the reign of King Jayavarman VII, under whose rule Cambodians converted to Buddhism, the Sangha never represented Cambodians as an institution capable of constraining state power. Traditionally, the Sangha

Civil society
traditions

tended to support the political status quo. More often than not, Cambodian monks remain subject to political manipulation and control. Throughout the period from 1993 to 2005, for instance, the Buddhist clergy remained a political instrument incapable of constraining state power. The Sangha has indeed become deeply politicized, but remains politically ineffective. It remains divided into at least two major denominations: one led by Venerable Tep Vong of the Mohanikay denomination, which has supported the CPP; the other has been led by Venerable Bou Kry of the tiny Thommayut denomination, who has identified himself with the royalists. Neither of these two top religious leaders represent progressive ideas, as each has sought to either maintain or restore the favorable political status quo.

In recent years, religious and ethnic conflicts have not developed into full-blown conflicts, but socioeconomic social conflicts have. The constitution contains one major weakness: its recognition of Buddhism as the state religion (practiced by 95% of the population). Buddhism remains the dominant religion. At the end of the 1990s, Cambodia had approximately 3,685 pagodas (of which 3,588 belonged to the Mahanikay and 97 to the Dharmayuttikanikay).

Conflict intensity

Government officials continue to actively provide support to Buddhist activities. Religious clashes do not take place. In spite of the state's bias toward Buddhism, other religious faiths have enjoyed their freedoms. Christian churches have enjoyed freedom of worship. They can exercise their faith without interference. By the end of the 1990s, there were 376 churches (with 49,026 followers) and 85 Christian schools. Few Christian churches have encountered angry villagers, but there have been a few instances thereof. Muslims have also enjoyed the same freedom to exercise their faith. At the end of the 1990s, they built at least 202 mosques and 150 Muslim schools. About 500,000 Cham Muslims live in Cambodia. Some concerns about terrorism pose a threat to them. Other religions permitted to operate freely included Bahai, Chhoeng Hai, Kao Dai, Khong Moeng, Kong Si Im, Mahayana, and Miloeuk.

Overall, religious freedom has faced no severe or growing restrictions. According to a 2004 report by the Bureau of Democracy, Human Rights and Labor, "religious groups did not encounter significant difficulties in obtaining approvals for construction of places of worship." The report indicated "no significant constraints on religious assembly...reported" and "no major religious conflicts during the year [2004]". The bureau's 2005 report further confirmed that, "the Government generally respected this right in practice." No serious religious conflicts exist. Government authorities continue, however, to neglect the religious rights of minorities. For example, the government has offered land concessions to private companies interested in making a profit by burning and clearing areas that religious groups consider to be spirit forests and ancestral burial grounds. The Phnong, for instance, number 24,532 (making up 54% of

Mondulhiri province's population) and regard spirits as part of nature, such as the sky, earth, fire, water, waterfalls, rocks, hilltops, and elephants. Government land concessions thus indirectly resulted in the violation of their religious beliefs.

II. Management Performance

Poor governance and political leadership remains one of the major reasons for Cambodia's blocked transformation. Management problems among the political elite have diminished only slightly. The Hun Sen government still falls into the old syndrome of intransigence, incompetence, short-term political gains, and the lack of accountability. The idea of serving the people still has not taken root in Cambodia.

14 | Steering Capability

In policy terms, democracy has received far less attention than economic development, as the government has established its own priorities, with reduction of poverty, anti-corruption commitment, and institutional reforms at the top of the policy agenda. The government adopted the Rectangular Strategy for Growth, Employment, Equity and Efficiency in Cambodia and described "governance" as the "most important pre-condition to economic development." It remains committed to this policy agenda.

Prioritization

The government has so far proven rather ineffective in terms of implementing reform policy. The policy of building effective governance in particular has not been successful. Another sign that shows the state's inability to make decisions effectively is that it does not have the resources to run government affairs. Donors cover half of the national budget, covering more than 50% of the armed forces' salaries. Overall, it still lacks the political will to overcome considerations of short-term political gain.

Implementation

The political leadership continues to show a lack of flexibility and innovation. Over the past decade, Cambodia's various governments have been under pressure from the donor community, especially during donor meetings, to institutionalize reforms, and these governments have adopted numerous policies to meet donors' demands. If measured by the degrees of effectiveness in policy implementation, the government has shown few signs of innovation. It has repeated what donors wanted to hear without doing much to fulfill its commitments. Approximately 800 foreign experts have worked in Cambodia to assist in various capacities. The fact that they are still in Cambodia today after so

Policy learning

many years suggests that the government has proved unable to stand on its own feet. So far, Cambodian government officials are still obsessed with quantity at the expense of quality. For instance, they are not happy with the growing number of tourists (1.7 million in 2006) and still want to increase the number without taking into account the fact that the growth of tourism has not necessarily benefited the poor. Siem Reap Province, for instance, has become the biggest tourist attraction (largely because of its ancient temples), but remains one of the poorest provinces in the country. The government has learned that economic growth has not diminished or lowered socioeconomic inequality. But it is far from clear whether the leadership has the political will to implement new ideas about how to overcome rising socioeconomic problems.

15 | Resource Efficiency

Over the past several years, the government has sought to make more efficient use of the available resources by seeking to strengthen budgetary discipline, establish fiscal rectitude, and clean up public finances. The government spent less on defense and security and more on the social and economic sectors. The auditor general was appointed in August 2001. But there was no real transparency. The National Audit Authority did not issue its first report (auditing the Ministry of Economy and Finance's draft budget for 2001) until the end of 2002, and it was far below international standards. Cash management among line ministries at different governmental levels remained largely inefficient. According to one report, "inefficient, opaque procedures create confusion and impatience and encourage firms and individuals to pay 'speed money' and bribes...procedural mistakes are common in the Customs Department, creating clear invitations to bribe. Despite a 2001 law requiring environmental and social impact studies before forest and agricultural concessions are approved, 'inefficiency' in the Ministry of Agriculture has essentially waived this requirement." The report further pointed out that, "inefficiency...helps to limit information resources, maintain government control and justify shoddy administrative procedures. Inefficient procedures in the judiciary ensure reports of investigating judges and trial court judgments are difficult to access, or are not accessible at all.

Efficient use of
assets

Inefficiency in passing internal regulations for parliamentary operations hampers opposition parties. Inefficiency of the Ministry of Finance in carrying out its duty in reviewing major government contracts means sloppy procedures and overpriced contracts go unquestioned. Inefficiency so extreme that veterans' pensions aren't paid for three years enables unscrupulous ministry employees to 'buy' pension rights from their rightful owners" (Cited in The Phnom Penh Post, Issue 13/25, December 3-16, 2004). One major reason for resource inefficiency

is the fact that the state remains extremely weak. An IMF report characterized the state as “no longer plays its role.”

The system of public accountability remains primitive. State institutions are highly politicized. Inter-ministerial relations are not well coordinated. Government ministries remained seriously under-funded and staffed by incompetent and corrupt bureaucrats.

Policy coordination

The government has proven unable to contain widespread corruption. Prime Minister Hun Sen, for instance, made a public pledge at the donors’ meeting in June 2002 that his government would pass an anti-corruption law within a year. In spite of donors’ warnings that they would cut their international assistance if progress were not made in passing the legislation, little progress was made. The same can be said about decentralization efforts, the aim of which has been to improve the lives of ordinary citizens.

Anti-corruption policy

16 | Consensus-Building

In general, Cambodia’s significant political and social actors have agreed on a stable market-based democracy as a general goal for reform, although their ideas of how to reach that goal vary. Revolutionary forces, such as the Khmer Rouge movement, have disappeared. The CPP elite seems to stress the importance of economic development before democracy can be promoted. Some of the opposition parties, most notably the Sam Rainsy Party, however, seek to promote democracy as the condition for economic development. Corruption, for instance, can help develop the economy and can be combated by political openness and accountability, measure that only democracy can ensure.

Consensus on goals

Over the past several years, clearly anti-democratic veto powers no longer exist in Cambodia, at least on the surface. But members of the ruling elite still do not appear to be in favor of democracy. Self-proclaimed democrats tend to belong to the opposition, but they have become weak and thus unable to influence the country’s political direction. The majority of political leaders are economic reformers, but only a minority of them can be identified as political reformers.

Anti-democratic veto actors

Over the past several years, Cambodia has achieved political stability. The Hun Sen government deserves a lot of credit for putting an end to the war with the Khmer Rouge and for taking decisive action against the Cambodian Freedom Fighters (CFF). Today, political cleavages that have the potential to escalate into irreconcilable conflicts are those that exist within the CPP itself. Still, because of Hun Sen’s success in consolidating power within his own party, the probability of any intra-party factionalism turning into political violence looks minimal at this point. At the moment, there are no ideological sources of conflict.

Cleavage / conflict management

Socioeconomic and ethnic sources of conflict remain, but still do not have a high potential to put Cambodia on the path toward violent conflict.

In principle, the government has publicly acknowledged the importance of civil society. In December 2006, for instance, the parliament held its first consultation conference on the national budget with a number of civil society organizations. In general, however, the political elite have been more inclined to ignore the demands of civil society actors than to take them into account. This assessment, of course, is somewhat ambiguous, given the aforementioned tendencies in Cambodian civil society and the Hun Sen government's reactions to their demands and activities. However, the government's inability to formulate consistent policies or to organize an adequate process of policy formulation leads it to disregard true participation from civil society. This, of course, has been exacerbated by CSOs' underdeveloped institutional capacity.

Civil society participation

The Cambodian government has worked more cooperatively with the UN in trying to establish the Extraordinary Chambers, a hybrid criminal tribunal entrusted with the responsibility to bring to justice surviving Khmer Rouge leaders most responsible for the crimes against humanity committed from 1975 to 1978. As of now, however, the criminal process still faces numerous obstacles. In addition, only one Khmer Rouge official is in government custody. Several others remain at large and are advanced in age. It is still unclear how many of them will eventually be brought to justice. Many members of the incumbent government were former Khmer Rouge elements who do not want to see real justice done and have thus shown little cooperation.

Reconciliation

17 | International Cooperation

The political leadership has worked with bilateral and multilateral donors and tried to make use of international assistance as a way to enhance its political legitimacy at home. However, this does not facilitate significant policy learning and improvement. The Hun Sen government's international strategy relies on coordinating its reforms closely with the International Monetary Fund, the World Bank, and the Asian Development Bank (ADB); it earns guardedly positive marks from these institutions. The government, however, has shown little willingness to meet donor requirements or demands, and has made ineffective use of the resources provided by international donors.

Effective use of support

Credibility and reliability are matters of definition and depend on different areas. From the macroeconomic point of view, Cambodia has become more or less reliable as a partner with donors. Multilateral and bilateral donors have commended the Cambodian authorities for implementing sound macroeconomic policies in recent years. More specifically, donors, including the IMF and the

Credibility

World Bank, have noted that inflation has stayed low and debt has declined in terms of GDP. They have also found it encouraging that economic growth has been robust. However, donors have found it troubling that Cambodia has proved unable to implement other policies in a credible fashion. Donors remain frustrated, largely because the Cambodian government has not been able to move beyond the narrow growth base, which has resulted in uneven progress in poverty reduction. Donors have also grown impatient with the government's inability to adopt a number of key legislations, particularly anti-corruption measures. In the political sense, most donors from the West no longer consider Cambodia to be a reliable partner.

The Hun Sen government has worked hard so far toward promoting closer cooperation with other countries in the region, including members of ASEAN and the ASEAN Regional Forum, which includes China and Japan. Sino-Cambodian relations have improved noticeably, as China has now emerged as the biggest investor in Cambodia. Japan remains the biggest bilateral donor. Relations between Cambodia and Thailand, and between Cambodia and Vietnam, have become quite stable in recent years.

Regional cooperation

Strategic Outlook

Since the 1990s, Cambodia has come far in terms of economic liberalization and democratization, but it is not yet out of the woods and faces several hurdles. Democratization remains deficient, as the CPP, under the leadership of Prime Minister Hun Sen, has consolidated power at the expense of the opposition. At best, Cambodia will maintain a high degree of political stability and steady economic growth. Politically, no one individual leader or party is currently in a position to challenge Hun Sen. The next Commune Council election (scheduled for April 2007) and the National Assembly election (scheduled for 2008) are likely to further tighten the prime minister's grip on political power. Cambodia may thus move away from electoral democracy and toward dictatorship, depending on various other political and socioeconomic factors. Friction and tension among the CPP elite cannot be ruled out, although the successful consolidation of Hun Sen's power is more likely to prevent any attempts at undermining his rule. Hun Sen's political opponents have weakened considerably and are now less likely to mount any challenges to him.

What remains worrisome are the potential problems that the CPP-led government may have to face, especially when it can now rule more or less unchecked or unchallenged. It is far from clear that the elite, dominated by Hun Sen, can take advantage of their strong power basis to resolve ongoing and new challenges. So far, for instance, there is little evidence that the government has proved willing and able to combat the threat of corruption that the business and donor communities and the public find unacceptable. The level of institutionalization remains so low that it is not clear how the government can sustain long-term economic growth, which remains limited to a few sectors and subject to unpredictable forces, both domestic and external. The Cambodian economy is not competitive and is unlikely to become more competitive any time soon. The level of poverty has been reduced from about 45% in the early 1990s to 35% in 2004, but not at a pace fast enough to ensure social stability. In addition, the socioeconomic gap continues to widen. The problem of underemployment may pose a real and growing threat to social and political stability. It is worth emphasizing that only about one-tenth of the new entrants into the labor force have managed to find jobs.

Reformers and donors must adopt a policy agenda based on the trinity of institution building, equitable economic development and counter-hegemonic politics. Experience shows that Cambodian dictators performed poorly because they tend to abuse power and resist positive policy change. The most immediate measure that must be taken is to ensure sustainable economic development that

leads to an equitable distribution of wealth. But this cannot be achieved if leading members of the political and economic elites still have their way. Donors and domestic actors must concentrate on the need to strengthen state, political and civil society institutions so that an effective system of checks and balances can emerge, and they must apply enough pressure on the ruling elite to take credible action to fight corruption and promote bureaucratic competence.