

BTI 2010 | Cambodia Country Report

Status Index	1-10	4.41	# 100 of 128	
Democracy	1-10	4.10	# 93 of 128	➔
Market Economy	1-10	4.71	# 90 of 128	➔
Management Index	1-10	3.79	# 103 of 128	

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

This report is part of the Transformation Index (BTI) 2010. 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 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	14.4	HDI	0.59	GDP p.c.	\$	1802
Pop. growth	% p.a.	1.7	HDI rank of 182	137	Gini Index		40.7
Life expectancy	years	60	UN Education Index	0.70	Poverty ²	%	68.2
Urban population	%	20.9	Gender equality ¹	0.41	Aid per capita	\$	46.5

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Ten years after Prime Minister Hun Sen staged a coup in 2007 to oust his coalition partner Prince Norodom Ranariddh, the Cambodian People's Party (CPP) government is stronger than ever and has gained an almost unassailable majority. Cambodia has become more stable both politically and economically. Two developments characterized the years under review: the economic growth trend continued, whereas democratic transformation further stagnated and authoritarian tendencies grew stronger.

Two elections took place in 2007 and 2008. Although several irregularities were reported, no massive fraud or violence tainted these elections. Both the communal election and the national parliamentary election resulted in landslide wins for the Cambodian People's Party (58%). Both the senate and the parliament, where it holds 90 of 123 seats, are now firmly in the hands of the CPP. Among other populist strategies, the CPP mobilized popular support for the national election by exploiting recent border disputes with Thailand. The main point of conflict is the Khmer temple of Preah Vihear and the surrounding territory. The government managed to stage the conflict as a matter of national pride and mobilized public anger to present itself as a capable and reliable problem solver. Military spending was increased to lend these arguments credibility. Another way of securing victory for the party was to encourage opposition party members to defect to the CPP. The CPP employs financial incentives, threats and intimidation, and the domination of the mass media to guarantee the support of the electorate and to eliminate political competition.

With the former opposition party Front Uni pour un Cambodge Neutre, Pacifique, et Coopératif (FUNCINPEC) leaderless and the Norodom Ranariddh Party nearly dysfunctional, the opposition has largely collapsed. The remaining opposition consists of the Sam Rainsy Party and the new Human Rights Party, which came in second and third in the 2008 election. Both united their powers in the "Democratic Movement for Change" in January 2009, without, however,

dissolving their respective parties. The CPP now essentially rules the country alone. Accordingly, weak political institutions, the absence of transparency and accountability, widespread corruption and an extremely weak state of the rule of law continue to plague the political process.

One positive development is that economic growth continued over the last two years, although at a pace slowed down by the global economic crisis. The government's monetary policies and a stable currency have sustained generally positive macroeconomic developments. However, only a minority of Cambodians has really benefited from this growth, and hardly any redistribution of wealth has taken place.

Economic growth has been driven primarily by a few key sectors: the garment industry, tourism and construction. All of these sectors are suffering from the global financial and economic crisis. The garment sector lost more than 20,000 jobs in 2008 due to the closure of several factories. Tourism continued to grow, yet at a significantly lower rate than in previous years. Even the booming construction sector was hit by the crisis. Important challenges such as the negative consequences of land grabbing, ecological crises and social inequalities, may endanger economic development in the long run.

Overall, these multiple developments – the strengthening of authoritarian tendencies, continued dependence on foreign assistance, economic growth that can only be sustained if major reform projects are carried out and wealth is distributed more evenly – demonstrate the fragile nature of the Cambodian transformation process.

History and Characteristics of Transformation

The hopes once placed in the democratic transformation process in Cambodia have long been disappointed. The multiparty system has slowly evolved into a quasi one-party state. Political stability and a notable containment of violence have finally been achieved, but the democratic transformation process has stalled. Economic liberalization since the mid-1980s, however, has resulted in an impressive growth trend in the last decade.

Following the 1991 Paris Peace Accords, the United Nations Transitional Authority in Cambodia (UNTAC) cleared the way for first national elections. The elections for the National Assembly were held in 1993 under the eyes of the international observers. This first phase of the political transition (1992-1997) was characterized by instability, massive political conflict, pre-electoral violence and the repression of oppositional forces. Officially, the first elections were declared free and fair by election observers and gave reasons to hope for a new democratic tradition of electoral politics. However, several voters had been barred from participating by the remnants of the Khmer Rouge movement. FUNCINPEC won the elections, and the Cambodian People's Party (CPP) came in second. They formed a coalition government under two prime ministers,

Prince Norodom Ranariddh (FUNCINPEC) and Hun Sen (CPP).

Political violence and fights with the Khmer Rouge, who had withdrawn from the election process, ensued. Journalists and the opposition became frequent victims of violence. The coalition government was unstable from the beginning, as fights between the CPP and FUNCINPEC, but also between factions within the parties never ceased. Relations between Ranariddh and Hun Sen finally reached a point at which their coalition was characterized by immense instability. In 1997, Ranariddh was ousted by CPP leader Hun Sen in a bloody military coup.

The next parliamentary election in 1998 resulted in another coalition government comprised of the CPP and FUNCINPEC. Some stability was achieved after the official dissolution of the Khmer Rouge in 1998, although the elections were preceded by systematic and widespread political intimidation and violence. A new oppositional force, the Sam Rainsy Party led by the former finance minister, Sam Rainsy, emerged in the 1998 elections despite attempts to keep them from participating equally. With Hun Sen as the sole prime minister, the CPP developed into the strongest political force, a trend that continued with the first communal election of 2002 and the next parliamentary election in 2003. Since then, Hun Sen has assumed broad control over the security apparatus, civil service, electronic media, electoral administration and the judiciary.

The price for stability since the mid-2000s has been the undermining of democratic consolidation. Hun Sen managed to strengthen his hold on Cambodian politics, and the CPP became the dominant party in both the senate and communal elections. The Senate election in 2006, as well as the second communal elections of 2007 and the national elections of 2008, resulted in wins for the CPP. FUNCINPEC was weakened by internal fighting, and a final split came when Prince Ranariddh was dismissed from the party leadership in 2006. In the 2007 and 2008 elections the FUNCINPEC no longer played a significant role. Sam Rainsy and some of his party members were stripped of their parliamentary immunity in 2005, and he fled the country. He was pardoned after publicly apologizing for his alleged defamation of Hun Sen and Prince Ranariddh. As the only remaining oppositional force, the Sam Rainsy Party became more isolated, and it recently joined forces with the Human Rights Party. The CPP under Hun Sen has now established a quasi-one party system with no serious competitors in the electoral process.

The process of economic liberalization has been under way since before the political transformation and has accelerated since the late 1990s. In the aftermath of the 1997 financial and economic crisis Cambodia suffered from a decrease in foreign assistance, but managed to implement important steps in the transition to a market economy. Growth rates of an average 9.4% in the last ten years, and double-digit growth rates between 2002 and 2006, demonstrate the stabilization of the macroeconomic process. The most positive development was the successful implementation of reform measures in the fiscal and monetary sectors. However, important reforms need to be implemented, such as improvements in the welfare system and poverty reduction, to increase the efficiency and sustainability of the economic development.

Transformation Status

I. Democracy

1 | Stateness

The state exerts its monopoly on the use of force over the entire territory. The Cambodian state has been stabilized by the quasi-one party CPP regime over the last two years. Internal military conflict is unlikely; no political or other forces seriously undermine the state's monopoly of force. The only exception is the area around Pailin, a former stronghold of the now dissolved Khmer Rouge movement, where illegal loggers and gem traders have frequently evaded state control. Recent border disputes with Thailand in the Dangrek mountainous region around the temple of Preah Vihear resulted in violent shootings in October 2008 that killed several soldiers on both sides. The conflict remained unresolved at the beginning of 2009, but will probably not have any serious impact on the government's monopoly on the use of force.

Monopoly on the use of force

Definitions of citizenship are commonly made in reference to the main ethnic group, the Khmer. About 90% of the population is of Khmer origin, yet there are several minorities that face some difficulties, including the Khmer Loeu and the Cham. Another ethnic group are the Vietnamese who have lived in Cambodia for decades. Cambodia's current citizenship law, however, makes it difficult for many of them to prove that they are citizens of Cambodia. This law, as well as continued instrumentalization of the anti-Vietnam issue in election campaigns, has led to some level of discrimination against these and other minority groups.

State identity

The majority of Cambodian citizens are Theravada Buddhists. This is reflected in the constitution, which establishes Buddhism as the state religion. Until 2008, Buddhist monks were barred from voting by their Supreme Patriarch after leading anti-government demonstrations in the late 1990s, but, because they are no longer viewed as a potential oppositional force, they were allowed again to participate in the latest parliamentary elections. Despite the religious clause in the constitution, the political process itself is mainly secular, and state and religion remain two largely distinct areas.

No interference of religious dogmas

The basic infrastructure of the state has not improved. A very rudimentary administrative system exists, and it is inefficient in providing public safety and order. The Cambodian state, one of the most corrupt systems in the world, does not completely prevent interference from the military and certain political groups in administrative processes. Some administrative structures exist on the national as well as the district and communal level, but they are unable to overcome structural deficits and underqualified personnel. Jurisdiction, especially in the provinces, is subject to personal influence rather than legal rules.

Basic
administration

2 | Political Participation

According to the constitution and to the laws governing elections and political parties, elections at different levels of administration are officially free and fair. Yet, the de facto strengthening of the CPP as the one dominant party, as well as discrimination against opposition parties and their members, have rendered the electoral process almost irrelevant. Two elections were held during the term of 2007 and 2008, one communal and one parliamentary election. The commune elections of April 2007 faced the lowest voter turnout (around 70%) since the first elections in 1993. Voter apathy was seen as a growing problem that also affected the national elections. The 2008 National Assembly elections were characterized by a relative lack of pre-electoral violence compared to earlier elections. The Committee for Free and Fair Elections in Cambodia reported less cases of intimidation and vote buying than in the 2003 elections. This may in part be explained by the government's attempts to prevent violence (e.g. by banning alcohol on election day), but it also seems to be due to the CPP's quasi-monopoly over the broadcast media, the pressure exerted on opposition party members to defect to the CPP, and the CPP's hold on strategic posts in the civil service and on electoral committees.

Free and fair
elections

In principle, the elected government commands the power to govern. Civilian control over the military and the security apparatus has officially been established, and no major veto powers challenge the rule of the prime minister and the parliament. Despite this formal power to govern, the prime minister and his administration have not made effective use of their power. The executive accomplished some macroeconomic reforms and launched an economic growth process in a politically stable environment. Nevertheless, corruption, the strong influence of patronage networks, divisions within the ruling CPP, and a general aversion to reforms continue to paralyze general political and economic development.

Effective power to
govern

According to the constitution, the right of free assembly is legally guaranteed. The practice of intimidating opposition groups and systematically denying authorization to peaceful public demonstrations has severely restricted the de facto freedom of assembly. Demonstrations against land-grabbing and forced evictions in the capital

Association /
assembly rights

of Phnom Penh in particular have been impeded. Bans on organized protest, including assemblies such as information seminars, occur frequently throughout the country. Civil society and trade union activities are being curbed by intimidation campaigns and even killings. The planned NGO law that would force all of the country's more than 2,000 non-governmental associations to register in a complicated procedure was announced by Prime Minister Hun Sen in September 2008. Should the law be implemented, NGO activity, which has been relatively unrestricted so far, is expected to be severely impaired and Western influence would decrease.

Overall freedom of expression was ranked among the highest in Southeast Asia in 2007, but much lower in 2008. The print media continue to publish articles that are openly critical of government policies and have raised sensitive issues such as corruption. Yet only less than 10% of the population has access to print media, and the rest rely mainly on local broadcasting stations to receive their news. The broadcast media is to a large extent controlled by the ruling CPP. Media control was further tightened before the national elections. Journalists frequently receive death threats. In 2008, a journalist working for one of the opposition newspapers was shot to death along with his son, and the murderers remain unidentified. Freedom of expression, although guaranteed by the constitution, is in fact systematically curtailed.

Freedom of
expression

3 | Rule of Law

The separation of powers between the executive, legislative and judicial branches of the government in Phnom Penh has been undermined by the interference of the executive. Parliament is usually bypassed in the formulation of laws, particularly after the latest election, which left the opposition with a negligible number of seats in the lower house and the government in control over both parliament and senate. The senate has not met its constitutional role as a supervisory body, and the judiciary lacks the professional means to be fully functional. Hun Sen and his government face no constraints in drafting laws and getting them through parliament.

Separation of
powers

The judiciary suffers from several flaws. The institution of the judiciary is in great parts still controlled by forces that have been in place since before 1993, and it serves the interests of the ruling class rather than those of the people. Doubts about the independence of judges and a lack of legal guarantees are another concern. Courts have little power to act independently from the executive branch of the government, and there are few checks on the judicial system. Another grave issue is the lack of qualified personnel. The Supreme Council of the Magistracy's selection process, which does not operate independently and is still not functioning as required, exacerbates this problem. Corruption is widespread, and cash payments

Independent
judiciary

are frequently accepted instead of conducting proper criminal prosecutions. Even capital offences like murder are often settled by payments to the victim's family, thus eluding the judicial process.

Endemic corruption remains one of the major problems of the current administration. A number of officeholders, many of them long-serving members of the bureaucracy, and members of the military have been known to be involved in land grabs, illegal logging or mining, and other organized criminal activities. Promises to fight systematic corruption are frequent but thus far have resulted in little action. Pressure from external donors such as EU countries has mounted, but the government has not made any tangible progress in prosecuting those responsible for massive office abuse. Impunity with regard to the abuse of power seems to be a systematic policy condoned by the government.

Prosecution of
office abuse

Respect for civil rights has suffered immensely over the last years. Structural impunity for serious human rights violations has not been overcome. An independent, competent and impartial judiciary has not yet been established. Forcible evictions and land grabs are urgent policy problems that are often motivated by private development projects or land disputes. People within both the major cities and in more rural areas have been systematically forced out of their homes and have not been adequately recompensed. Several thousands of them face humanitarian crises. Adhoc, a Cambodian human rights watchdog, estimated that 50,000 people were evicted to facilitate development projects in 2006 and 2007. Licadho, another Cambodian NGO, said that 30,000 have been displaced by evictions in the past five years. Different human rights reports indicate that the Cambodian authorities do not only fail to protect the population against forced evictions, in both legal and political terms, but are also actively involved in these unlawful practices. Journalists, human rights activists or individuals who protest against these resettlements have been threatened, and some were even killed.

Civil rights

Another issue is the lower status of women in Cambodian society and politics. Domestic violence, rape and human trafficking for sexual exploitation are among the most serious and systematic violations of women's rights. Women also generally have less access than men to resources, education and health care. The constitution grants equal rights to both men and women, but societal practice has impeded the implementation of laws that protect women and children from abuse and inequality.

4 | Stability of Democratic Institutions

The gravest concern with regard to the performance of democratic institutions is the omnipresence of the political executive. The prime minister and the cabinet make all key decisions with little concern for the wishes of parliament or the public.

Performance of
democratic
institutions

Accordingly, the judiciary and the legislative institutions have not reached a high level of consolidation. Decisions mainly depend on the political will of the CPP elite rather than any formalized processes within and between the democratic institutions. The main obstacles to consolidation of democratic institutions do not arise from institutional friction, but rather from political interference, patronage networks and widespread corruption.

In Cambodian politics, the commitment to democratic institutions has not improved. On the contrary, the trend towards stronger authoritarian features has gained momentum. The democratically elected prime minister generally governs by decree and executive order with blatant disregard of the largely non-functional parliament. The CPP, which now holds the reins over most of the political process, defends its power against any potential threat, including the implementation of democratic rules that would weaken its influence. Furthermore, the growing number of opposition party members who defect to the CPP indicates the loss of trust and interest in the functioning of democratic institutions, not only within the government, but also in other parts of the political elites.

Commitment to
democratic
institutions

5 | Political and Social Integration

The party system has not been able to meet the needs of truly democratic political representation. According to a nationwide survey, around 55 percent of the people surveyed said that there was either no difference between competing parties in the 2008 election or that “they didn’t know what the differences” were. In the 2008 parliamentary elections, only a third of the number of parties that competed in the first elections remained. The ruling CPP holds a hegemonic position now and rules alone with a simple majority, a situation which became possible after constitutional changes abolished the need for a two-thirds majority to rule. Opposition parties include the established Sam Rainsy Party, the Norodom Ranariddh Party, the Human Rights Party and FUNCINPEC. They are primarily coalitions of personality-oriented election associations that come together to form ad-hoc platforms, but they remain unable to cooperate strategically to facilitate long-term shifts in power. All in all, patronage concerns prevail over ideological preferences, with the CPP offering the best opportunities for patronage. The CPP has the strongest base of all the Cambodian parties. Because CPP members occupy most of the official posts in the national and communal administration, as well as the police and judiciary, oppositional activity can hardly escape the control of the ruling party.

Party system

Genuine civil society activities are not a strong factor in Cambodian politics. Several NGOs are known to use their activities for their own financial profit and have thus discredited to some extent NGO activity in general. However, there are also some examples of non-governmental political activities in Cambodia. For instance, several human rights groups in Cambodian society have been established

Interest groups

that monitor government activities and try to improve the rule of law.

The Cambodian trade unions are in a serious crisis. The number of often very small trade unions has increased immensely and unions in general are suspected of being vehicles for the personal gain of their representatives. The largest and most influential independent union, the Free Trade Union of Workers of the Kingdom of Cambodia, has been further damaged since the murder of its popular leader Chea Vichea in 2004 and of trade union president Hy Vuthy in 2007. This has also contributed to the weakening of the political opposition's position, such as the Sam Rainsy Party, which has close ties to the larger unions. Generally, the interest group sector is not cohesive and represents a narrow range of social interests.

Consent to the democratic process seems to have slightly decreased. Many Cambodians are disillusioned, as the prospect of regime change has become unlikely with the further strengthening of the Hun Sen government. According to a 2008 Gallup poll, 74% of the population voiced dissatisfaction with the way democracy works in their country. While the voter turnout in the commune elections was comparatively low at around 70%, it reached more than 80% in the parliamentary elections. Most voters seem disinclined to risk leadership change because of the economic progress over the last years and loss of trust in the opposition. Another survey shows that the role of the parliamentary elections is seen as less relevant than the influence of the village chief. A majority of those surveyed indicated they would prefer to elect the village chief instead of having him appointed. While the democratic process at the national level has lost some public trust, election procedures in general are obviously still seen as important.

Consent to
democratic norms

The lack of human resources and a persistent, though possibly lower, level of mutual distrust after the Khmer Rouge era have been impediments to the development of social capital. Aside from the activities of urban NGOs, many local grassroots groups and associations have emerged. These groups conduct mostly small projects, such as in the social welfare sector or in health care, or regarding HIV/AIDS. Where the government is unable – or unwilling – to provide social welfare or concrete assistance, such as legal aid, health education or counseling, such interest groups, including Buddhist associations, have helped to bridge the gap between grassroots needs and official politics. This has become particularly important in the rural areas and in the more peripheral provinces.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Cambodia is still considered one of the least developed countries in the Human Development Report, ranking 131st in global comparison in 2007, with a HDI value of 0.598. The major downsides of economic growth are growing disparities in the distribution of wealth. Although average per capita income has risen to about \$490, more than one third of the population live in poverty, around 90% of them in rural areas. In some areas, such as the Tonle Sap basin, up to 80% of the population live below the poverty line. Poverty reduction has been slow-paced and the rural population in particular has not yet seen any noticeable benefits. The government has not made credible attempts to improve agricultural development.

Socioeconomic
barriers

Generally, there is evidence of social exclusion based on poverty, unequal access to education, and a persistent level of gender discrimination. Cambodia has the lowest levels of gender equity in Asia as indicated by the gender development and gender empowerment indices. Discrimination based on ethnicity also exists, but is a relatively minor factor. Throughout the period under review, the Cambodian government has not managed to considerably reduce social disparities, poverty levels remain high and income disparity is on the rise.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	5510.3	6454.5	7293.5	8356.9
Growth of GDP	%	10.3	13.3	10.8	10.2
Inflation (CPI)	%	3.9	5.7	4.7	5.9
Unemployment	%	7.1	-	-	-
Foreign direct investment	% of GDP	2.4	5.9	6.6	10.4
Export growth	%	28.1	16.4	19.2	10.1
Import growth	%	19.8	17.3	16.0	12.1
Current account balance	\$ mn.	-182.9	-306.7	-261.4	-543.2

		2004	2005	2006	2007
Public debt	\$ mn.	3079.7	3154.7	3317.7	3537.1
External debt	\$ mn.	3439.1	3515.3	3526.7	3760.9
Total debt service	% of GNI	0.5	0.5	0.4	0.4
Cash surplus or deficit	% of GDP	-2.2	0.0	-1.7	-
Tax Revenue	% of GDP	8.1	7.9	8.2	-
Government consumption	% of GDP	4.5	4.1	3.5	3.4
Public expnd. on edu.	% of GDP	1.7	-	-	1.6
Public expnd. on health	% of GDP	2.3	1.5	1.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.3	1.1	1.1	1.1

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

The liberalization of the Cambodian economy started in the early 1990s and has gained momentum since Cambodia's accession to ASEAN and the WTO. Despite the reforms that have been carried out to strengthen free market competition, liberalization is still being hindered by both formal and informal regulations and processes. Legal institutions, procedures and structures are not yet adequate to support a modern market economy. The government shows no political will to break up the patronage-based networks that have been established between family members of the CPP elite and their cronies.

Market-based competition

The private sector in Cambodia is dominated largely by the informal economy, accounting for 80 % of the GDP and close to 90% of overall employment. Much of informal employment is found in agriculture. Only around 7,000 enterprises are registered and these are focused on garments and tourism. So far, the business registration process has been inefficient and corrupt. Market competition does not yet have a broad foundation.

The Cambodian government is still in the process of drafting laws and regulations that establish the framework for its market economy. The government of Cambodia has been engaged in efforts to adopt a competition law for some time; however, as of the beginning of 2009, this law has not been enacted. Cambodia currently has no

Anti-monopoly policy

credible anti-monopoly or anti-trust statutes. In some sectors, the practice of special agencies regulates competition and creates some quasi-monopolies for state-owned businesses. This concerns key sectors like the telecommunications market and the electricity sector, where the state still largely holds a monopoly. Competition is further impeded by extremely complicated business registration procedures that are subject to corrupt practices.

Cambodia has made noticeable efforts to liberalize its foreign trade. The country has opened itself up to the outside world since the early 1990s, resulting in growing trade liberalization. The process has benefited from Cambodia's ASEAN membership since 1999, the lifting of the U.S. trade embargo in 1992, and the bilateral trade and investment agreement with the United States, which was Cambodia's most important market for exports (accounting for about 60% of total exports), followed by Germany, Hong Kong and Vietnam.

Liberalization of
foreign trade

As a member of ASEAN, Cambodia also became a member of the ASEAN Free Trade Zone (AFTA), leading to sharp reductions in tariffs on imports from Southeast Asian states. Membership in the WTO has also helped to introduce deregulation measures, although several tariff and non-tariff barriers are still in place.

The Cambodian banking sector has been improved, but has not made enough significant progress to gain international confidence. The amended Law on Banking and Financial Institutions made it necessary for all of Cambodia's commercial banks to reapply for licenses, which significantly reduced the number of banks. As of 2008, 19 commercial banks were in operation. As a supplement to commercial banking, seven specialized banks and dozens of microfinance institutions also offer financial services to the public.

Banking system

The total assets of Cambodia's banking system rose to approximately \$3 billion in 2008. The number of credits and bank loans in the private sector has increased immensely over the last two years. Loans account for about 50% of the banking system's assets. The National Bank of Cambodia (NBC) has primary regulatory authority over the banking sector, but lacks capacity to investigate or monitor complex financial transactions.

The capital sector is still underdeveloped, but the government hopes to diversify the way businesses raise money by establishing a stock market. In 2007, the government passed the Law on the Issuance and Trading of Non-government Securities and will attempt to establish a stock market in partnership with the Korean Stock Exchange by December 2009.

8 | Currency and Price Stability

The last two years saw a rise in the inflation rate. While the inflation rate was largely under control in 2007, inflation hit Cambodia hard in 2008. The inflation rate jumped from only 2.8% in December 2006 to double digits in December 2007 (10.8%). Some of the reasons were external factors such as soaring crude oil and food prices, fears of a U.S. economic recession and weak economic performance in certain sectors of the Cambodian economy. Inflation mainly affected consumer and food prices. Food prices increased around 37%; transportation costs (25.8%) and prices of other non-food products like gasoline and cooking gas also rose massively. These problems persisted to some extent in 2008. However, since mid-2008, inflation decreased again due to the fall in commodity prices.

Anti-inflation /
forex policy

The dollarization of the Cambodian economy has contributed to stabilizing the riel even in times of rising inflation. Over the last ten years, the exchange rate of the riel to the dollar remained relatively stable, mostly between 3.9 (in 2000) and 4.03 (in 2007). Given the high degree of dollarization and the stage of financial development, massive criticism of the present exchange rate regime may be premature. However, the IMF has called for greater exchange rate flexibility for the long-term stability of the Cambodian economy.

Cambodia's debt situation remains on a sustainable path with moderate risk of debt distress. The deficit is mainly financed by foreign assistance and borrowing as the Cambodian government is trying to avoid burdening the domestic economy. Cambodia receives an average of \$600 million from foreign donors each year (\$690 million in 2007), which adds up to more than half of its national budget. Total external debt fell from 60.8% to 26.4% of GDP between 2002 and 2008. In the period under review, short-term external debts increased. The external current account deficit (including official transfers) is estimated to have widened significantly in 2008 to about 12 % of GDP, but is projected to drop again in 2009.

Macrostability

Expenditure was still in line with the budget target, which led to a decline in the overall government budget deficit (excluding grants) from 3% of GDP in 2007 to about 2% in 2008. However, the country suffers from its limited ability to collect revenues. All in all, despite the problem of Cambodia's public debt and narrow economic base, the government has managed to lend credibility to its prudent fiscal and debt policies.

9 | Private Property

The ownership of private property remains difficult and depends on the political will of the administration rather than legal rules. As a consequence of changing

Property rights

regimes, many private landowners do not officially hold property titles to their land. These titles are expensive and difficult to procure. The majority of landowners (about 80%) in the rural areas do not possess land titles, which makes them vulnerable to expropriations. Landlessness, as explained above, is a major problem that has not been remedied over the last two years. Expropriation and land grabbing have reached a higher level than ever; more than 20% of the rural population is landless and the numbers are increasing. In principle, the Cambodian Constitution and the 2001 Land Law grant rights to people residing on unregistered land. The law also establishes the principle of “fair and just compensation” prior to any government “taking” of land for a public interest. Although legislation exists that could be enforced in those cases, laws are not implemented. This handling of private property is a structural problem and closely related to issues of poverty, thus making land ownership a question of money rather than legal rights.

Since the late 1980s, the Cambodian state has privatized several of its state-owned enterprises. A legal framework exists that allows private companies to operate in the country. In recent years, privatization and deregulation have encouraged entrepreneurial activity in many sectors. However, some key sectors remain in the hands of SOEs that continue to hold quasi-monopolies over important sectors like electricity generation and transmission. Cambodia’s electricity production is guaranteed mainly by the government-owned *Electricité du Cambodge*. Other important sectors are partly state-owned and partly privatized, including the water and telecommunications sectors, thereby allowing some level of competition with private enterprises.

Private enterprise

10 | Welfare Regime

The Cambodian government has treated topics such as welfare or social security as low-priority areas, although some efforts have been made to alleviate poverty and ensure functioning health care. Cambodian households face a variety of risks in the absence of formal social safety nets. The poor are particularly likely to feel economic and natural shocks. Those most vulnerable remain the urban and rural poor, economic migrants and their families, fixed salary workers, the landless or land poor, and families affected by chronic illness and disability. Some measures have been taken to improve the situation, including the newly formed National Social Security Fund, which provides coverage to up to 250,000 employees in the formal private sector and school feeding programs. But some more fundamental issues remain. For many years, the government has promoted poverty alleviation programs with the support of the international donor community. Local NGOs have also initiated programs for social safety nets, but only on a limited basis.

Social safety nets

Cambodia’s health care system is still largely dysfunctional after decades of conflict. Only with the influx of foreign aid, which makes up nearly two thirds of

the complete budget for public health care, has the Cambodian government managed to build and re-build hospitals and to train personnel. Some areas of health care have been delegated to foreign non-profit organizations operating clinics and medical practices, as the state seems unable to provide such services. Both unemployment and underemployment have aggravated the poverty problem. The official unemployment rate is 2-3%, but real underemployment rates are much higher.

The main groups suffering from inequality are the disabled, women and the poor. Corruption and societal discrimination are the main reasons for these inequalities. Access to education, health care and employment is systematically denied to these groups. Many of the disabled are forced to beg because they are not provided opportunities to work. Tuition fees, including unofficial payments for learning material or contributions to teachers' low salaries, are often too high for the poor, even though the government has increased the budget for education.

Equal opportunity

Gender inequality is also visible in employment policies. Women account for a large part of the work force, yet their wages are much lower than those of their male counterparts. Women are mainly employed in low-income sectors, particularly the garment industry, and they are also overrepresented in unpaid family labor. Women are also often more strongly affected by the effects of poverty than men, as evidenced, for instance, by their poor nutritional status. However, some efforts have been made to encourage the participation of women in the political process. The number of women running for Commune Council seats increased to more than 21% in 2007, 5% more than in 2002. In urban areas the number of female candidates was even higher, up to 35% in Phnom Penh. Acceptance in their working environment, however, remains a problem.

There are a number of NGOs and private associations that take care of the disabled, try to improve gender equality and empower the poor, but they face societal obstacles and a lack of support by the political elites.

11 | Economic Performance

Cambodia has experienced an economic boom over the last fifteen years. Annual growth rates of up to 10%, peaking at 13.4% in 2005, indicate the dynamism of this economic growth. Since 2007, the growth trend has slowed down to 9.6 % in 2007 and to around 7% in 2008, the slowest growth rate in six years. Growth projections for 2009 predict a further slowdown. Growth has been mainly driven by the garment industry and tourism, but suffered from unfavorable weather conditions that have affected the agricultural sector and stronger competition in the garment sector. The heavy decline in foreign investment might also induce a slowdown in economic growth. The global economic crisis has already had some effects on the

Output strength

Cambodian economy. Overall, the growth trend continues, albeit at a slower pace.

Unemployment and high consumer prices were some of the main problems in the period under review. The current trade deficit was partially balanced by growth in receipts from tourism in the services account, but the current account deficit (excluding official transfers) widened to an estimated 8.5% of GDP. At the end of 2007, external public debt was estimated at 30% of GDP. The current account deficit rose sharply in 2008 due to high oil prices and strong non-oil imports, but these factors are now reversing, so that the deficit in 2009 is projected to narrow. Most external public debt is concessional and there is no external private debt other than that related to trade financing. Domestic public debt amounts to only about 2% of GDP.

Overall economic performance is dependent on several factors. One of the most important sectors is agriculture, which is in need of structural reforms. Offshore oil and gas fields are expected to bring enormous revenues in the future. The sector had been expected to generate tens of billions of dollars for the country, but estimates have been revised downwards, following lower-than-expected drilling results and falling energy prices. Initially planned to begin at the end of 2008, oil drilling now will probably not start before 2012. Natural energy reserves may become an important factor for future economic performance. Generally, the Asian Development Bank and the World Bank agree that because 90% of the population live in rural areas, further efforts to develop agriculture, fisheries and forestry are necessary in the long run in order to diversify sources of growth and reduce poverty at a quicker rate.

12 | Sustainability

The government's economic considerations routinely ignore environmental and ecological consequences. Development projects have affected the environment by polluting rivers and lakes or leading to soil erosion. Illegal logging and population growth have led to deforestation. The overall rate of total forest loss has accelerated and has surpassed 75% since the end of the 1990s. Cambodia lost a total of 2.5 million hectares of forest between 1990 and 2005. While the Cambodian government has struggled to enforce environmental regulations in the face of corruption and illegal activities, it has shown interest in reducing deforestation and setting up protected areas. Another cause for concern is the development of several dam projects in the Mekong river region. Among them is the Sambor project, which is part of a major push by Cambodia to develop hydropower potential for internal use and export to neighboring countries. The dam project's completion might block fish migration, which would severely affect fishing in the Tonle Sap Basin. Generally, environmental issues have not yet consistently appeared on the political agenda.

Environmental
policy

The re-building of the education system is progressing slowly. The government has made efforts to build new schools, including private schools that offer better education, and increased the budget for education. The education budget amounts to about 12.5% of government spending. Most children get a primary school education now, but many do not complete school at all. Teachers, particularly in the rural areas, are often not able to support themselves with their wages, so they collect additional fees, which makes it harder for the poorest to afford education. Despite high enrollments, Cambodia's literacy rate is still significantly lower than the regional average.

Education policy /
R&D

The output of higher education is even less developed. Although several higher education institutes exist and are supported by government policies, only 5% of the population are enrolled in universities and other tertiary education institutions. Unemployment among university graduates is high. Because university education is of poor quality, many graduates lack the necessary skills and qualifications for the job market. This has some impact on the labor market, which suffers from a general lack of qualified employees. In terms of human resource development, which would be needed in order to sustain economic growth, Cambodia will have to significantly improve its educational system.

Transformation Management

I. Level of Difficulty

Cambodia is still confronted with a number of structural problems in governance, but with some improvements in several sectors. Problematic issues such as corruption, the unpredictability of legal decisions and a weak civil society continue to negatively influence the political process. Poverty levels remain high, the infrastructure is still in poor shape and the deficient redistribution of wealth continues to mar the development process. Aside from the garment industry and agriculture, there are no other strategic sectors that can provide large-scale employment opportunities. The unequal status of both women and the poor is another structural constraint, particularly in rural areas. Both groups are excluded from large sectors of social and public health care. Also, HIV/AIDS is a problem that could affect the process of economic development. The rapid spread of HIV infection could produce high costs for affected households and slow the process of poverty reduction.

Structural
constraints

Some of the more positive developments include a more stable political environment, although at the cost of democratic progress, the absence of political conflict and a general growth trend in the economy.

Civil society, as almost all other social institutions in Cambodia, was deeply affected by the long-term political conflicts in recent Cambodian history, but has recovered to some extent. Although various societal actors are part of public life, they have little influence on official politics. Their role is often limited to promoting certain issue-based policies. A whole segment of civil society is dominated by activities in the pagodas. Buddhist monks have a tradition of political engagement; for example, they were part of the national independence movement in the 1930s and 1940s. Today, Buddhist pagodas or village-level community-based organizations represent an important level of societal participation in the political process. They are a vital part of Cambodian civil society and a key stakeholder for civil society activities such as environmental projects or health education in their local communities.

Civil society
traditions

Since the time of UNTAC, a new NGO culture has developed that depends primarily on foreign donors. These groups, however, have often limited links to

society. But there are also various NGOs, including groups at the grassroots level, that have been lobbying for the implementation of a Khmer Rouge tribunal or have criticized the government for human rights violations. Others that deal with issues such as the empowerment of youth and women or poverty reduction are also actively pursuing policies that either criticize the government or supplement – or even substitute – their official policies.

In terms of political and social conflict, Cambodia has been rather peaceful due to its homogenous nature in many regards. On the other hand, social cleavages are growing and carry with them a potential for tensions. However, none of these potential cleavages are reflected in open political conflict between particularistic interest groups.

Conflict intensity

Religious cleavages between the Buddhist majority and Christian and Muslim minorities are not pronounced. From time to time, tensions have been reported, but no large-scale discrimination based on religious beliefs seems to bear the potential for conflict. This is similar with regard to ethnic groups. Again, Cambodia is relatively homogenous in terms of ethnicity, as the majority of Cambodians are ethnic Khmer. The Cambodian government recognizes only two indigenous groups, the Cham and the Khmer Loeu, the latter of which is a general term for different groups in the northeastern provinces. Unrecognized minority groups include the ethnic Vietnamese, Lao, Chinese and Montagnard refugees from Vietnam. These groups are often less privileged in their legal status, but they have not formed political interest groups that would represent their interests. The highest conflict potential lies in the mounting disparities between the few rich and the larger, poorer parts of the population. This polarization between the wealthy elites and the poor population has caused some level of instability and tension.

II. Management Performance

14 | Steering Capability

During the period under review, the economic growth process has clearly been given priority over the development of democratic institutions and the rule of law. The government and administration have recognized structural constraints on the transformation process, including the high level of corruption, and defined them as priority areas, but they have not systematically acted upon their promises of reform. The reliance on populist strategies in the election campaigns, including the exploitation of a border dispute with Thailand, instead of reforms also indicate that

Prioritization

long-term goals are often discarded for short-term gains in the political process.

Various reform projects were announced, including the strengthening of the rule of law and poverty reduction, but they have shown little progress as of yet. This is due primarily to the government's inability and unwillingness to implement its decisions. External donors such as the Asian Development Bank or the World Bank continue to point out that reform measures have not been effective and are in need of improvement. Also, dependence on foreign aid and the assistance of foreign experts has deeply limited the capability of the Cambodian government to demonstrate its steering capability. While the government has voiced its dedication to the rule of law and a market economy, and reform goals have generally been set, the reform process has been very slow in some areas, particularly with regard to the fight against corruption and judicial reform.

Implementation

The Cambodian government has demonstrated few signs of being able to learn from past mistakes and find new, innovative ways to deal with problems. Several members of the political elite have been in place since the mid-1980s, and many of them seem to have a limited understanding of the workings of a market economy, not to mention democracy. When foreign donors demand reforms, the government makes promises, but this does not lead to a rethinking of political priorities or sustainable policy changes. The lack of monitoring capabilities and critical assessments within political institutions has not been conducive to policy learning, either. Additionally, the dependence on external financing and expertise has put heavy constraints on the government's flexibility in making political decisions.

Policy learning

Political decisions are regularly made solely in the interest of political advantage rather than the long-term good of the country. The established hierarchy of political decision-making, along with a system of elite recruitment in politics and bureaucracy that mainly benefits personal interests, has severely reduced the potential for innovation. All in all, in order to maintain its power the administration has tended to favor some market reforms, but not democratic ones.

15 | Resource Efficiency

Resource efficiency is still insufficient, as the government does not provide for transparency and accountability. The state's administration is inefficient in many areas as a result of inadequate financing for the bureaucracy, unsatisfactory training, a deficient education system for public employees, contradictory laws and corruption. The government does not make efficient use of available economic and human resources for its economic and social policies. Non-transparency in the public sector is a major concern. Attempts at decentralization were introduced but were defused by political maneuvers. Local self-government with legal or financial

Efficient use of assets

autonomy is only starting to develop.

In terms of attempts to establish a more accountable judicial system, successive governments have not allocated adequate resources to the courts and the prosecution offices to enable them to become truly functional. Some of this is due to corruption, while other misappropriations are due to incompetence or political interference. The government has been relatively successful in some areas, such as in monetary and fiscal policy, while other policies such as education and health still need reforms. The 2008 national budget saw a significant rise in military spending justified by the recent border conflict with Thailand. However, the 2009 national budget also allocates 34% of the total to the ministries of health and education. The IMF approved of this in 2007, saying that “budgets have increasingly focused on priority development objectives in line with the National Strategic Development Plan. Public financial management reforms being put in place are increasingly lending credibility to the budget.”

Low transparency, insufficient financing of the bureaucracy, and a general lack of inter-agency coordination still characterize the Cambodian administration. The CPP’s strong political control and its patronage networks within the military and the often corrupt bureaucracy has resulted in weak and politicized institutions. Existing laws are not fully enforced because the administration needs more responsibility, accountability and transparency. Although some attempts at coordination within existing agencies and institutions have been made, policy incoherence and inefficient service delivery remain obstacles to a more coordinated implementation of political decisions. The lack of long-term planning and corruption in the bureaucracy thus largely prevents efficient policy coordination.

Policy
coordination

Corruption continues to be a major characteristic of the state and administrative culture in Cambodia. The government has not made any visible process in fighting endemic corruption. Although measures to fight corruption were announced, no significant steps to contain corruption in the public (and private) sector have been taken. In 2008, an anti-corruption movement across the country was formed to mobilize public opinion to combat corruption and press the government to enact an anti-corruption law. But in spite of promises to the contrary, the government has failed to introduce such legal provisions. Donors keep pushing for a stronger anti-corruption stance in the Hun Sen administration, which has evidently benefited from bribes and nepotism itself, but, according to Transparency International, Cambodia is still one of the most corrupt countries in the world (166th out of 180).

Anti-corruption
policy

16 | Consensus-Building

Political actors from all different parties seem to agree on the common goal of turning Cambodia into a market economy. No serious veto players against a market

Consensus on goals

economy exist, even though there are strong differences concerning the concrete steps. The commitment to democracy is shared – at least rhetorically – by all relevant actors. Opposition parties such as the Sam Rainsy Party or the Human Rights Party publicly advocate democratic reforms and accuse the government of blocking the transformation process. Accordingly, there is no general agreement on the right path towards political reforms or even on common political goals.

The most serious undermining of democracy in Cambodia does not come from openly anti-democratic veto powers, but rather from within the government itself. The current government and the ruling elite have shown a strong tendency towards authoritarianism in recent years, bypassing official election procedures through the systematic promotion of family members to strategic posts. The opposition claims to be a truly democratic force in the country, but it has little real influence on the political process. Generally, political reformers number far fewer than reform-minded actors in the economic sphere.

Anti-democratic
veto actors

The likelihood of conflict due to irreconcilable cleavages remains relatively low, although socioeconomic tensions increased during the period of assessment. The divide between the wealthy elite and the large group of the poor and very poor is the most visible cleavage within Cambodian society. In order to sustain economic growth and establish social peace, these growing disparities need to be managed. Other potential sources for conflict have not resulted in organized protests or concern about possible conflicts. Ethnic cleavages, for instance, are also primarily related to poverty issues and are therefore not reflected in the composition of political groups. Ideological conflicts are unlikely.

Cleavage /
conflict
management

Some civil society organizations are actively involved in public debates. Because of the weakness of the state apparatus, they are active in various social and economic contexts. To some extent, the parliament has consulted with civil society groups in order to learn from their expertise, yet the actual influence of NGOs and other groups has been minimal. More often than not, the government has ignored civil society actors and formulated its policies without their input and demands. Because many of the bigger NGOs are international, the government tries to control their activities and their financial support. A recent announcement to implement an NGO law follows a trend toward NGO control that has also been observed in many of the neighboring countries.

Civil society
participation

The reconciliation process after the Khmer Rouge era is a major issue in Cambodian politics. The ruling politicians have done little to further societal reconciliation, even though the atrocities and long-term consequences of the Khmer Rouge regime (1975-1978) continue to exert an enormous influence on Cambodian society. While the need to bring former Khmer Rouge leaders to justice has been publicly accepted, the government has done its best to delay the initiation of the tribunal and has generally obstructed the process. Despite various obstacles, the

Reconciliation

Extraordinary Chambers in the Courts of Cambodia for the Prosecution of Crimes Committed During the Period of Democratic Kampuchea (ECCC) started its work in 2007. The trial against Kang Kek Iev (“Duch”), the first of five former leaders who are now elderly and invalid, starts in February 2009. The tribunal has been criticized for corruption, insufficient resources and generally lethargic progress. The small number of charged former Khmer Rouge cadres is another critical point. The Hun Sen government has frequently demonstrated its lack of support for the tribunal, stressing that it sees no need for official measures to address former injustices.

17 | International Cooperation

Cambodia remains dependent on foreign aid, both for the national budget and for expert advice. Because multilateral donors such as the World Bank, the International Monetary Fund or the European Union have voiced clear demands that they expect to be met by the Cambodian administration, the government has started some reform programs. While most donors cautiously acknowledge positive developments in the economic sphere, there has been only slow progress in main problem areas such as anti-corruption measures and judicial reforms. International donors, however, have been criticized themselves by Cambodian (and international) NGOs for their inefficient and often insensitive aid policies.

Effective use of support

Increasingly, Cambodia seems to be looking for financial aid from donors that do not link their aid to any conditions concerning democratic reforms. For instance, China has become one of Cambodia’s largest donors and is now its most important investor. While most of the Western donors tie their support to conditions such as anti-corruption measures or legal reforms, the Chinese government, like the governments of many other countries, does not. This indicates the government’s heavy resistance against changing its policies in accordance with donors’ suggestions.

As a recipient of both foreign aid and foreign investment, Cambodia has managed to gain some confidence from external donors over the last years. Several donor organizations, including the Asian Development Bank and the World Bank, have given Cambodia credit for its stability and economic growth. Low external debt, a stable currency and low inflation rates are mentioned as positive developments. However, where political steps towards strengthening the democratic process are concerned, the international community seems to have lost confidence in Cambodia. Cambodia’s credibility in terms of its legal framework has been frequently undermined, and heavy criticism of the government’s failure to implement anti-corruption measures continues. Moreover, the government has repeatedly shown its inability and notorious unwillingness to take the necessary steps to approach good governance and the rule of law. Cambodia does not live up

Credibility

to expectations and is now considered an unreliable partner by many of its external donors, particularly in Europe and the United States, and also in the NGO community.

Cambodia's accession to ASEAN in 1999 has granted it the opportunity to cooperate closely with states in the region, including traditionally difficult neighbors like Vietnam and Thailand. Vietnam in particular has emerged as a close partner in trade, investment and economics. The Mekong River Commission and the Greater Mekong Subregion projects have also contributed much to improving this relationship. Relations with Thailand are strained after serious fighting in October 2008 over a small area around the Preah Vihear temple in the border region. Other regional cooperation partners are China, the largest investor in Cambodia in 2008, and South Korea, the second largest. Both are key members of the East Asia Summit as well as the ASEAN Plus Three process, in which Cambodia is also involved.

Regional
cooperation

Strategic Outlook

The Cambodian transformation process faces many serious challenges. While several vulnerabilities remain, Cambodia's macroeconomic fundamentals continue to improve. The process of democratization has come under threat as Cambodia has moved further away from democratic consolidation in the last two years and autocratic tendencies have gained momentum.

In the period of assessment, the Cambodian economy was affected by the global economic crisis, particularly in its main growth sectors: garments, tourism and property. Economic growth slowed down and will continue to do so, according to projections by the IMF and the Asian Development Bank. Some of the bigger foreign investment projects were put on hold, as in the construction and property sector, for instance. Competition from neighboring Vietnam and from China could become more harmful to the main export sectors, garments and textiles. The Cambodian economy is not yet able to compete on a global or even regional scale. According to external donor organizations, some of the most urgent reform projects that Cambodia needs to undertake are economic diversification, developing the agriculture sector and improving infrastructure in rural areas. Also, as the Asian Development Bank states, "improvements in irrigation and land titling will help increase production by encouraging farmers to invest in their land."

Despite the government's continued efforts to improve its macroeconomic policy management during the assessment period, underemployment and poverty remain serious problems. Socioeconomic gaps have not lessened and social stability is at risk. The absence of major social reform initiatives, such as a genuine land reform program, has left more than a third of the population in poverty and resulted in political marginalization. The failure to equitably distribute the benefits of economic growth, combined with a lack of economic opportunities, still present structural impediments to further and sustained economic growth. Growth rates are positive, but anti-poverty programs have still not led to an improvement for the poor. Education, social security, health care and jobs should be identified as priority areas. Here, the country's heritage of corruption and patronage is a big obstacle to any significant progress in the future. Therefore, the most pressing calls for reform are for measures to strengthen, or indeed lay the foundation for, good governance. A consistent anti-corruption policy and clear legal frameworks particularly need to be established. Countering impunity for corrupt officeholders is one of the concrete steps that should be taken in the fight against corruption.

The political transformation process itself suffers from corruption and from the absolute dominance of the ruling CPP, led by Prime Minister Hun Sen. Trust in the political leadership has eroded as democratic power changes seem to have been superseded by strong leadership. Although the comparatively peaceful conduct of the 2007 and 2008 elections can be considered an improvement compared to previous elections, the results only confirmed the hegemony of the CPP government. The lack of political alternatives will probably not change in the near future.

The opposition has not managed to present itself as a viable alternative, and new parties like the Human Rights Party, created in 2007, will hardly achieve massive popular support. The trend towards autocratic rule by Hun Sen, who faces no serious competition at the moment, is likely to continue. Even though possible conflicts within the CPP cannot be ruled out, Hun Sen has firmly positioned himself as a strongman without any real threats from within his own party or political adversaries.

With the nearly unchallenged dominance of the ruling political elite, the role of checks and balances in Cambodian politics has become insignificant. For that reason, political institutions and civil society participation – which could counterbalance the hegemony of the CPP and the Prime Minister – need to be supported and strengthened. Furthermore, there is a need to improve the quality of public administration and guarantee the independence of the judiciary to meet the requirements of economic and social development. As the current government has often promised to reform these sectors, but has never systematically pursued such reforms, the application of some credible pressure might be necessary to induce politicians to act on their promises.