

# BTI 2016 | Cambodia Country Report

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This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	15.3	HDI	0.584	GDP p.c., PPP \$	3259.3
Pop. growth <sup>1</sup>	% p.a.	1.6	HDI rank of 187	136	Gini Index	30.8
Life expectancy	years	71.7	UN Education Index	0.495	Poverty <sup>3</sup>	% 37.0
Urban population	%	20.5	Gender inequality <sup>2</sup>	0.505	Aid per capita \$	53.4

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

The outcome of Cambodia's parliamentary elections in July 2013 was much closer than expected. Although the ruling Cambodian People's Party (CPP) used various instruments to reduce the competitive character of the election, it lost more than 9% points and garnered just 48.8% of the vote, while the fledgling Cambodian National Rescue Party (CNRP) – founded in 2012 through the merger of two liberal opposition parties, the Sam Rainsy Party and the Human Rights Party – garnered 44.5% of the vote. The CNRP refused to take its seats in parliament and claimed systematic fraud in the election process, particularly regarding the use of inconsistent voter lists that allegedly disfranchised tens of thousands of CNRP voters. It organized mass demonstrations and established a protest camp in the capital Phnom Penh. This camp was violently cleared in January 2014 in parallel with a violent crackdown on a strike by garment workers. Five people were killed and dozens were injured in the process.

In mid-2014, Prime Minister Hun Sen and opposition leader Sam Rainsy – who returned to Cambodia in 2013 after more than three years abroad, avoiding imprisonment in his home country – agreed on a compromise to end the political deadlock. The government agreed to give the opposition more rights in parliament and a TV license, and agreed to overhaul both Cambodia's election law and the National Election Committee. Although not all these promises had been implemented by the government as of January 2015, it is very likely that they will ultimately increase political competitiveness in Cambodian politics. As of the time of writing, a defeat of Hun Sen and his CPP in the 2018 parliamentary elections even looked more probable than another CPP victory.

To be sure, the government has not hesitated to employ violence and legal prosecution against dissidents in order to preserve its decades-old hegemony. However, Hun Sen has also elevated some technocrats to ministerial roles, a possible indication of a reform agenda in upcoming years. However, major challenges remain, including a lack of judicial independence, widespread corruption, and an overall lack of transparency or accountability among state actors. These

elements have to date seemed untouchable within Cambodia's development process, and will probably cause increasing dissatisfaction among Cambodians.

Cambodia remains a market economy with a weak state and only rudimentary social-welfare mechanisms. The country has struggled to preserve its competitiveness under the upcoming ASEAN Free Trade Agreement framework, which will come into effect at the end of 2015. Although the country has a prosperous garment industry, its lack of a skilled labor force, infrastructure shortcomings, legal uncertainties and high energy-production costs endanger further economic development. In addition, the government has continued to take a hands-off approach to the plundering of natural resources, indicating a lack of sustainability in the country's economic growth patterns.

Cambodia's relations with neighboring countries have stabilized. The People's Republic of China remains the kingdom's most important ally, though it does not border Cambodia. Cambodia's has established bilateral relations with both Vietnam and Thailand, reducing the probability of further conflicts at common borders. However, strong anti-Vietnamese sentiments fueled by opposition politicians have raised fears regarding the security of ethnic Vietnamese and the stability of bilateral relations should there be a regime change in Cambodia.

## History and Characteristics of Transformation

Following the 1991 Paris Peace Accords, the United Nations Transitional Authority in Cambodia (UNTAC) cleared the way for the country's first national elections. Elections for the National Assembly were held in 1993 under the eyes of international observers. This first phase of the political transition (1992 – 1997) was characterized by instability, massive political conflict, corruption, pre-electoral violence and the repression of opposition forces. Although the royalist National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia (FUNCINPEC) defeated the post-socialist Cambodian People's Party (CPP), the latter party threatened to lead three provinces in secession should the CPP be excluded from government. Finally, the rivals agreed to create a coalition government with two prime ministers, Prince Norodom Ranariddh (FUNCINPEC) and Hun Sen (CPP) in a "no-winners, no losers" solution devised by King Norodom Sihanouk.

Political violence and conflicts with the Khmer Rouge, who had withdrawn from the election process, ensued. Opposition members and journalists became frequent victims of violence. The coalition government was unstable from the beginning. The CPP and FUNCINPEC were deeply divided, and shifting factions within the parties further eroded the stability of the coalition. Relations between Ranariddh and Hun Sen worsened considerably. In 1997, Ranariddh was ousted by CPP leader Hun Sen in a bloody military coup. Cambodia's accession to ASEAN was postponed following massive international criticism of Cambodian politics and external donors' pressure on the government to allow a return of pluralism.

Parliamentary elections in 1998, the country's second election, resulted in another CPP and FUNCINPEC coalition government. Some stability was achieved after that year's official dissolution of the Khmer Rouge, but the elections were again preceded by systematic and widespread political intimidation and violence by the CPP. The Sam Rainsy Party (SRP), led by the eponymous former finance minister, emerged as a new opposition force despite attempts to keep SRP from equal participation in the vote. SRP was originally known as the Khmer Nation Party (KNP), but a faction backed by the ruling party assumed the KNP name, inducing Sam Rainsy to name his party after himself. With Hun Sen as sole prime minister following the elections, the CPP developed into the country's strongest political force, a trend that continued through the first communal election of 2002 and the following round of parliamentary elections in 2003, and was further consolidated in the 2008 parliamentary election. In the intervening time, Hun Sen has taken broad control over the security apparatus, civil service, all TV stations, almost all radio stations, major newspapers, electoral administration and the judiciary. His CPP remains the largest party, with a firmly established patronage network.

It is thus clear that the democratization process stalled after 1997, and has been reversed by the CPP's autocratic tendencies. Hun Sen's hold on Cambodian politics has strengthened, with the CPP emerging as the dominant party in the most recent parliamentary, senate and commune elections. The 2012 Senate election, the third commune elections of 2012 and the national elections of 2008 all resulted in landslide wins for the CPP. FUNCINPEC was weakened by internal fighting; in the latest elections, it won no seats. Recently, it even recalled Ranariddh as its leader in a desperate attempt to revive its fortunes. Sam Rainsy and some of his party members were stripped of parliamentary immunity in 2005 for the alleged defamation of Hun Sen and Prince Ranariddh, subsequently fleeing the country until Rainsy was pardoned after publicly apologizing. In 2009, Sam Rainsy again lost his immunity and fled to self-imposed exile in France after being sentenced to 12 years in prison. As the CPP under Hun Sen thus established a de facto single-party system, the SRP and the Human Rights Party (HRP) combined their limited forces and formed the new Cambodian National Rescue Party (CNRP).

While many observers doubted that the 2013 National Assembly elections would result in any significant changes, the CNRP – supported by countless young followers in an unprecedented election campaign that climaxed with the return of opposition leader Sam Rainsy from exile nine days before the vote – emerged as a strong competitor of the ruling party and captured 55 out of 123 seats in parliament. Many national and international observers agree that Hun Sen's thin victory was dependent on unfair voting conditions, primarily because tens of thousands of opposition supporters were unable to cast their ballots. The CNRP subsequently boycotted parliament for nearly a year, taking its seats only after wresting concessions that are likely to improve fairness and increase competition in upcoming elections, assuming the government holds to its promises.

The process of economic liberalization has been underway since before political transformation accelerated in the late 1990s, with significant progress made in recent years. Despite a serious setback due to the effects of the global financial crisis in 2009, annual growth rates have been consistently above 5% since 1991, and have fluctuated around 7% since 2010. During the past five

years, the most positive development has been the successful implementation of fiscal and monetary-policy reforms. However, massive social inequalities and the country's large number of people living in poverty pose a serious challenge to the sustainability of economic growth. Significant reforms such as welfare-system improvements and poverty-reduction policies need to be implemented in order to increase the efficiency and sustainability of economic development. The prospects for success in pursuing such reforms have slightly improved since 2013 due to the resurgence of a political alternative to Cambodia's long-time ruling elites.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

The state has exercised legal force throughout the entire country since 1998, when the last elements of the Khmer Rouge resistance laid down their arms. However, Cambodia's national territory is not completely free of conflict, as past border disputes with Thailand to the west and Vietnam to the east have shown. In November 2013, the International Court of Justice rendered a decision in a legal dispute over the area surrounding the Preah Vihear temple between Thailand and Cambodia. In this judgment, nearly the entire plot of 4.6 square kilometers was granted to Cambodia, although the verdict did not itself impose an exact demarcation line, leaving it to the parties to jointly define this in "good faith." As of January 2015, there had not yet been any concrete negotiations to implement the judgment, mainly due to the complexities of current Thai domestic politics. By contrast, the Cambodian and Vietnamese governments have continued to discuss boundary issues with the aim of completing a border demarcation and establishing a common border-management system. There is still a lack of information about the consequences of these arrangements, however, for instance as to whether Cambodia will be required to cede two villages to Vietnam.

Monopoly on the  
use of force  
8

To some extent, the Royal Government of Cambodia (RGC) faces challenges related to the arbitrary actions of local authorities. However, this is not per se evidence of limitations to the state's monopoly on the use of force, but can rather be attributed to weak legal hierarchies and the overall weakness of law enforcement in Cambodia.

Cambodia is the most homogenous country in Southeast Asia: 90% of the population is of the Khmer ethnicity, 95% speak Khmer and 95% are Buddhist believers. As a consequence of Cambodia's difficult past, featuring war, civil war, genocide and Vietnamese occupation, the idea of the "Khmer Nation" was nearly completely eradicated. However, at least on a societal level, the Khmer people have in recent years begun to overcome this legacy, facilitating a rebirth of national identity.

State identity  
8

Although interpersonal trust and social cohesion are lower today than was the case decades ago, there is strong popular affirmation of national symbols such as the monarchy and the heritage of Angkor era. Beyond these items, there is little else able to satisfy the thirst for national pride. In this vacuum, many Khmer tend to create boundaries between themselves and others. In particular, many Khmer nourish at least a somewhat distrustful attitude against the Vietnamese minority. In particular, hostile sentiments were whipped up by the opposition CNRP during the 2013 election campaign.

For this reason, it was somewhat surprising that opposition leader Sam Rainsy suggested in April 2014 that Cambodian citizenship be granted to ethnic Vietnamese people living legally in Cambodia – an idea that drew strong opposition from some of his followers. The coexistence between the country's Khmer and Vietnamese population appears to be only superficially peaceful. However, there is no legal discrimination against ethnic minorities and indigenous people in Cambodia.

Although Buddhism is Cambodia's state religion, the country's constitution establishes the freedom of religion, allowing adherents of the Christian, Muslim and other faiths to exercise their religions freely. However, there is a political dimension to religion: Buddhist monasteries have been to a substantial degree controlled by the Cambodian government since the 1980s. In recent years, monks have increasingly acted as human-rights activists, and many participated in the public protests that followed the 2013 parliamentary elections. Seeking to prevent such activity, Tep Vong, the supreme patriarch of Cambodia's Mohanikaya Buddhist sect, called in December 2014 for a law prohibiting monks from participation in elections. While the CNRP opposed this suggestion, the ruling CPP – which holds a majority in both legislative chambers – offered its support. However, a constitutional amendment would be needed to ban monks from voting; this would require opposition support for the proposal in order to meet minimum vote requirements.

With the establishment of the Ministry of Public Function after the 2013 parliamentary elections, the Cambodian government has showed an increasing willingness to address the countless shortcomings in the country's ineffective public administration. However, administrative structures have not been significantly improved, with serious concerns remaining at all levels of government. The Cambodian state remains one of the most corrupt in the world. Civil servants are chosen on the basis of their loyalty to the ruling party, their close connections to influential individuals or their ability to buy themselves into office. Law enforcement is still very weak – sometimes even nonexistent – and the judicial system is completely under control of the executive. Most citizens still do not pay taxes and are not willing to do so because of the high degree of corruption. The management of basic infrastructure has improved slightly in recent years, with access to water sources and sanitation facilities showing particular gains.

No interference of  
religious dogmas  
10

Basic  
administration  
5

## 2 | Political Participation

Cambodia conducts periodic elections. In two different staggered ballots, voters elect commune councilors and members of the National Assembly (the second legislative chamber) every five years. Members of the Senate (the first legislative chamber) are largely elected in an indirect ballot by lower-house parliamentarians and commune councils. In addition, two members are appointed by the king, and two additional members indirectly elected by the National Assembly alone. Whereas a broad number of parties can contest in both the commune and parliamentary elections, Senate elections are limited to parties that won seats in these two lower-level ballots.

Free and fair  
elections

3

The democratic quality of the 2013 parliamentary election was very low, primarily due to the actions of the partisan National Election Committee (NEC). There were grave indications of systematic fraud, particularly due to the manipulation of voter lists in favor of the ruling party, causing a systematic disfranchisement of opposition supporters. Independent organizations discovered that the names of about 10% of the electorate had been removed from voter lists, despite these people having been previously registered. In addition, about 10% of the names on voter lists could not be identified, meaning they were most likely “ghost voters” whose identities were borrowed by loyal ruling-party supporters who may thus have voted twice or even more often. In some provinces, the number of listed voters even exceeded the number of eligible voters. Hence, the opposition urged its followers to guard their local polling stations and to prevent people from voting who did not live in their village.

Nine days ahead of election day, opposition leader Sam Rainsy returned after three and a half years of self-imposed exile, following a pardon by King Norodom Sihamoni relating to a politically motivated sentence of more than 10 years in prison. However, Rainsy was not allowed to participate in the elections either as a voter or candidate. During the election campaign, the ruling party also benefitted from its privileged access to the media, a significant financial advantage and its ability to use state infrastructure. After the election (in which the ruling party defeated the CNRP by a difference of only 4.3% points), the opposition presented 18,400 complaints, most of which were ignored by the NEC. As a bright spot, the incidence of violence, open threats and intimidation decreased in comparison to past elections.

Although the effective power to govern is not undermined by veto players or political enclaves, this power is not exercised by democratically elected representatives. During his time in office, Prime Minister Hun Sen has installed loyal followers in leadership positions within the Royal Cambodian Armed Forces (RCAF), minimizing the risk of a powerful political counterbalance emerging from that body. In January 2015, some generals and dozens of other leading RCAF and police officers were made members of the central committee of the ruling CPP, highlighting the close

Effective power to  
govern

2



nexus between the ruling party and Cambodia's security forces. However, it is rather unlikely that these officers themselves represent a coherent bloc within the party.

The prime minister and many of his associates maintain close relationships with the private sector. In some cases, private employers or individuals are even allowed to use state security forces to enforce private interests, for example against striking garment workers or to expel people from land they have grabbed. Although six leading entrepreneurs are also CPP senators, this does not give them the power to act as veto players in decision-making processes. In some cases, politicians own significant shares in corporations, which are given to them in exchange for the state's protection of these corporate interests.

To a large extent, it is the ruling CPP itself that for years has systematically undermined democratic institutions and processes. However, the CPP does not behave as a veto player; rather, its representatives simply do not allow democratic processes to operate in the first place. In so doing, they misuse their offices for their own, their superiors' and the CPP's benefit. In the last instance, Prime Minister Hun Sen is the only genuine veto player in the whole regime.

In an effort to contain public protests, in 2010 the regime established a 1.2-hectare plaza called Freedom Park in Phnom Penh, declaring that this was the only place where political demonstrations would be allowed. After the parliamentary elections 2013, the opposition used this square to voice its protest against election fraud, but was also allowed to march peacefully through the capital. After a violent crackdown on striking garment workers in January 2014 caused the death of five people, the regime also closed Freedom Park to prevent anybody from articulating his or her opinion publicly. In so doing, it violated the provisions of the constitution, leaving Cambodia in a state of emergency. After the opposition reached an agreement with the government, ending its boycott of National Assembly meetings, Freedom Park was reopened more than half a year after its closure.

Whereas freedom of assembly is not an inalienable right, but I rather granted based on the government's convenience, freedom of association is widely institutionalized and accepted by the rulers. There are more than 1,000 non-governmental organizations (NGOs) in the country that have been able to operate quite freely in recent years. However, in some rural areas, groups dealing with political issues are often confronted by local authorities seeking to prevent their activity by means of threats, harassment and intimidation.

Over the course of the last four years, the Ministry of Interior has been preparing the Law of Associations and Non-Governmental Organizations. As of the time of writing, this had not been introduced in the National Assembly, mainly due to concerns raised by a number of national and international NGOs. However, there was

also no clear sign that the government regarded this law as a tool to contain the activities of (regime-critical) civil-society organizations.

Although Article 41 of Cambodia's constitution guarantees the freedom of expression, Cambodians face many hurdles in the exercise of this basic right. Whereas ruling elites in the past used violence in response to political disagreements, they have since shifted their strategy to focus on legal prosecution, much as in the case of Singapore. Opinions critical of the regime or its leaders can thus be deemed defamation, which is still considered to be a criminal offense under the Cambodian penal code. In recent years, this tool has become so effective in inducing self-censorship among journalists, human-rights activists and opposition politicians that the number of defamation lawsuits filed has continuously decreased. However, beginning with the 2013 election campaign, this trend was reversed by the many young Cambodians who publicly voiced their support for the CNRP opposition.

Freedom of  
expression  
4

Despite this surprising change, many political issues are still taboo in public discussions, especially the degree of Vietnamese influence in Cambodia, any crimes with a political component committed since the 1980s, corruption, and the private wealth of leading Cambodian politicians and their families. In rural areas, people have little or no access to unfiltered information. With two exceptions, the government and by extension the ruling CPP control nearly all radio stations (except for Beehive Radio) and all TV stations directly or via loyalists. However, the recent grant of a TV license to the CNRP will give Cambodians access to information not channeled by the regime in the very near future. Sporadic attempts by government bodies to censor online contents by blocking access to certain websites have not had substantial impact. Facebook and Twitter remain freely available, giving social media an especially important role in the 2013 elections.

### 3 | Rule of Law

Although the constitution mandates separation between the legislature, judiciary and executive, the executive in fact controls the other branches of government. Virtually all judges and prosecutors are loyal members of the CPP, especially within the Constitutional Council and Cambodia's highest courts. For the last several decades, all trials with any political dimension have been orchestrated by the government's top decision makers.

Separation of  
powers  
2

Candidates for the National Assembly are selected in a top-down manner, and once elected their seats belong to the party. If expelled from their political party, they automatically lose their status as member of parliament (MP). Within the CPP, Prime Minister Hun Sen and Minister of Interior Sar Kheng are the most influential politicians. For these reasons, ruling-party parliamentarians are not responsible to the

public, but to their party leaders. Consequently, in Cambodia the executive effectively controls the legislature.

However, in 2014 the CNRP wrested an improvement in the rights accorded to the parliamentary opposition from the CPP. Now, the opposition leader is formally recognized as minority leader, the opposition is represented on parliamentary committees, and leads five out of 10. Furthermore, Kem Sokha – the CNRP’s deputy chairman – was elected as first vice president of the National Assembly. Although this development indicates a significant move toward more independence for the legislature, in the past the CPP often used its majority to strip opposition MPs of their parliamentary immunity, thus enabling legal prosecution on the basis of often-fabricated accusations. These tactics are likely to return to Cambodia’s political arena if the CPP regards them as necessary.

The judiciary is not independent. It is subordinated under the power of the executive branch. According to LICADHO, a prominent human rights organization in Cambodia, the courts are a tool of the ruling elites to prosecute political opponents and other critics of the government; to perpetuate impunity for state actors and their associates; and to protect the economic interests of the rich and powerful. In recent years, human-rights activists were often convicted in trials that were based solely on political motives and lacked legal evidence. No prosecutor has initiated investigation of the January 2014 incidents in which five garment workers were killed by security forces during the violent attack on those striking for higher salaries.

Independent  
judiciary  
2

Cambodian courts are regarded as the most corrupt institutions within the political system. Graduates from law schools commonly have to pay up to six-figure sums (in U.S. dollars) in order to become judges. In trials, people who do not bribe the judge are regarded as not being interested in a favorable judgment. However, formal procedures are usually respected, the administrative quality within the courts does not differ significantly from that in other government bodies, and convicted people can appeal their sentences.

The abuse of public office for private gain is the norm rather than an exception. Public-sector salaries are generally far from sufficient to live on, producing a general rent-seeking mentality. The very low probability of being sanctioned for office abuse has created an atmosphere in which bribery and corruption flourish. As long as politicians, civil servants and members of the security forces remain loyal to their superiors, they allowed significant independence in their actions. Bureaucratic structures such as monitoring and supervisory mechanisms are rare or weak. Vertical structures are maintained through the public officeholders’ duty to share their earnings with their direct superior. Contraventions of these unwritten laws are punished internally, and normally out of the public eye.

Prosecution of  
office abuse  
2

In the aftermath of the 2013 elections, the Cambodian government put some effort into altering the conditions that have long facilitated corruption. First, the minimum wage of civil servants was raised from \$50 to \$125 per month, and is slated to be doubled again to \$250 by 2018. Second, in order to eradicate the problem of so-called ghost civil servants, salaries are no longer paid in cash; rather, they are paid via bank automated teller machines. There are tens of thousands of those ostensible civil servants who do not in fact work in the state administration, and whose regular salaries are usually siphoned off by others. However, it is too early to assess the effect of these measures.

As with other basic rights, the gap between the civil rights guaranteed by the constitution and citizens' de facto rights remains wide. Important civil rights including the protection of personal liberty are not inalienable, primarily due to the overall weakness of law enforcement. Prime Minister Hun Sen loyalists, particularly members of his private bodyguard unit, the military police and the notorious Brigade 70, have been involved in violations of civil rights. Such violations have been perpetrated in order to safeguard regime allies' profits in illegal logging and other businesses. However, the incidence of arbitrary violence such as shootings and extrajudicial murders has declined significantly compared to a few years ago.

The degree of protection accorded to most vulnerable groups – women, children and indigenous minorities – remains very low. Cambodian society has a strong orientation toward social status; consequently, socially marginalized people (such as landless persons, beggars or sex workers) are likelier to become victims of civil-rights violations. People suspected of criminal offenses are often subjected to violent treatment in police custody. According to the Cambodian Center for Human Rights, 92% of juvenile offenders between 2009 and 2012 were held in pre-trial detention. In June 2013, nearly 6,000 people (more than a third of all persons in prison) were pretrial detainees, which are allowed to be held for up to six months for misdemeanors and 18 months for felonies.

#### 4 | Stability of Democratic Institutions

All institutions on the national, regional and local levels are subordinated to the centralized locus of power. The CPP controls all institutions on the national, provincial and district levels. In addition, it holds absolute majorities in 97.5% of Cambodia's communal councils. Although Cambodia is ostensibly committed to an ongoing devolution process to strengthen its provinces, districts and communes, these units received just 5.1% of Cambodia's \$3.9 billion budget in 2015. The year previously, the National Assembly failed to allocate 44% of the annual budget (\$1.5 billion), allowing Prime Minister Hun Sen to spend this amount at his discretion.

Civil rights  
3

Performance of  
democratic  
institutions  
2

Furthermore, there are no mechanisms within the parliament to hold the government accountable regarding budgetary expenditures.

Given the concessions made to the opposition in 2014, it appears that the seeds of further institutional democratization may have been sown within the legislative branch.

Democratic institutions are respected only when convenient for those in power. The last serious violation of democratic norms was the election of Hun Sen as prime minister in September 2013. Although the constitution stipulates that at least 87 MPs (70% of all elected) must attend the opening session of the National Assembly, only 68 – all from the ruling CPP – participated as a consequence of the CNRPs' boycott. Therefore, Hun Sen's reelection as Cambodia's head of government on 24 September 2013 was de jure invalid.

Commitment to  
democratic  
institutions  
2

## 5 | Political and Social Integration

The merger of the Sam Rainsy Party and Human Rights Party into the Cambodia National Rescue Party (CNRP) in 2012 was a major step in defragmenting the opposition in Cambodia. As of January 2015, it was very likely that Cambodia has stabilized as a two-party system comprising the ruling CPP and the CNRP, leaving only limited opportunities for other political groupings to win seats in elections. Due to its monopoly access to public goods, the CPP's clientelistic structures are more pronounced than the CNRP's.

Party system  
4

Both the CPP and the CNRP are catch-all parties with strong leaders who have significant influence over internal organization, reducing the degree of internal institutionalization. Although the parties are formed in a top-down manner, they are socially rooted within society. However, they lack clearly differentiated voter groups and distinct ideologies based on detailed programs. The new CNRP party platform, which will probably be finalized in 2015, can be regarded as a first attempt to create more transparency regarding policies and political aims. However, interest in party programs is very low, and such documents have no significant impact on voters in elections.

Although elections have hardly been free and fair in the past, voters' decisions are based on their view of the candidates. Since 2013, these decisions have largely focused on a single issue: support or opposition to Hun Sen. The success of the CNRP (although it officially lost the elections) was based on the ability to assemble virtually all dissatisfied Cambodian voters under a banner of "Change or No Change?" Currently, it remains unclear whether dissatisfaction with Hun Sen will have a similarly strong effect on the election of commune councilors in 2017. The ruling party's political control within rural Cambodia is overwhelming.

Despite the confrontation between the opposition and the government in recent years, the overall level of polarization remains moderate thanks to the agreement between parties reached in 2014. However, polarization is likely to intensify ahead of the next parliamentary elections in 2018, perhaps to a level last seen in the 1990s.

Due to the high degree of top-down politicization within Cambodian society, independent cooperative associations and interest groups are rare, and those that exist are often labeled as “opposition” by the government. As long as these groups deal with comparatively nonpolitical issues (in particular gender equality and health services), they stand a reasonable chance of winning access to government officials or of collaborating with commune representatives at the grassroots level. By contrast, organizations which scrutinize political decisions, deal with (potential) political issues, or pursue the (financial) interests of their members often subject to pressure by the government. Cambodian unions in particular have faced difficulties in campaigning for the rights of garment workers. Violence against union leaders and strikers, a highly fragmented union landscape – some of the country’s roughly 3,000 registered unions are even led by governmental stooges – and low institutional capacities have kept unions’ clout at a low level. For example, independent unions have virtually no influence in minimum-wage negotiations in Cambodia.

Interest groups  
3

Generally speaking, cooperative associations and interest groups in Cambodia are either part of Hun Sen’s top-down power machine, and therefore lack any legitimate claim to representativeness, or are independent grassroots organizations with limited ability to mediate between society and the political system.

Public-opinion survey data provided by the Asian Barometer Survey in 2008 and 2012, among other sources, regularly indicates an overall approval of democracy and democratic values in Cambodia. Although there is a realistic perception of major shortcomings within the political system (e.g., land issues, corruption, and general abuse of power), trust in state institutions has remained at a stable level. While some surveys indicate that a significant number of people do not know what democracy is, a constant majority of people report that they are satisfied with the way democracy works in Cambodia. These contradictions reflect a generally low level of education and political knowledge.

Approval of  
democracy  
n/a

The experiences of 30 years of war, genocide and civil war have shaped a society in which mutual trust and collaboration are in short supply, and without traditions of social cooperation beyond the family or village level. Today, this legacy is still visible: Trust among Cambodians is poorly developed, and at best has shown a slightly increasing trend for some years. When dealing with others, many people still focus on their immediate gain rather than seeking to develop a long-term relationship. Therefore, the general level of social capital remains low, causing grave shortcomings

Social capital  
4

in handling natural resources sustainably, complications in long-term investments, and difficulties in establishing societal cooperation.

Autonomous associations with cultural, environmental or social focuses have thrived over the course of the last two decades, but have mainly been founded by Cambodians who have lived several years abroad (voluntarily or as refugees), and have been heavily funded by international donors. Many such groups are highly respected and have made valuable contributions to Cambodia's social development. However, they can only be sustainable when they reduce their dependence on foreign funding. Hardly any of these associations has developed a sustainable funding strategy.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

With an average annual GDP growth rate of 8% between 2004 and 2011, Cambodia's economic development has produced an overall reduction in poverty. According to the World Bank, in the same period the national poverty rate (daily consumption of less than \$1.31, based on a 2,000 caloric intake) decreased significantly from 53.2% to 20.5%. The magnitude of such drops often depends on the choice of poverty lines, which can be a political sensitive topic. While this development is mirrored by a slight improvement in the country's Human Development Index score, Cambodia was ranked only 138 in 2012, a drop of 15 places since 2005, due to improved conditions in other countries.

The lack of welfare-state policies has contributed to an increase in inequality over the last two decades. However, Cambodia still had a Gini Index score of 31.8 in 2011, well under the world average of 39.8. This was mainly attributable to Cambodia's garment industry, which currently employs more than half a million workers (90% of whom are young females), who collectively earn about \$1.5 billion a year. A significant portion of these workers' salaries are remitted to the workers' families. Most of the families are rural farmers engaged in subsistence-level, low-productivity agriculture.

In order to plant rice, farmers must own or have access to a plot of land. However, due to widespread land-grabbing cases, more and more Cambodians (nearly 800,000 people according to a complaint filed with the International Criminal Court in 2014, alleging crimes against humanity committed by members of the armed forces, the police, and the military police) have been forced to give up their traditional occupation due to loss of land. The consequences are often dramatic, driving these often poorly educated victims into migration and precarious situations. According to

Question  
Score

Socioeconomic  
barriers  
4

the Global Slavery Index 2014, more than 150,000 Cambodians (about 1% of the population) are victims of modern slavery due to poor working conditions. Women in particular face dramatic consequences, sometimes compelled into prostitution or to marry farmers, most often from China or South Korea, without prior knowledge of the groom. Forced to live in environments where they depend completely on their husbands, Cambodian women abroad are likely to become victims of domestic abuse.

The degree of systematic social exclusion of girls and women has decreased slightly in recent years. Whereas nearly all girls (95.1%) now enjoy access to primary education, the ratio of female to male enrollment falls to 85.2% at the level of secondary education, and to 61.4% at the tertiary level. However, modern female role models have emerged in urban areas, and numerous civil-society organizations run projects empowering women in rural areas. Therefore, there are clear indications that the structural exclusion of women will decline in the future.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	6293.0	11242.3	15228.0	<b>16709.4</b>
GDP growth	%	13.3	6.0	7.4	<b>7.0</b>
Inflation (CPI)	%	6.3	4.0	2.9	<b>3.9</b>
Unemployment	%	1.3	0.4	0.3	-
Foreign direct investment	% of GDP	6.0	6.5	8.8	-
Export growth	%	16.4	20.6	10.5	<b>11.7</b>
Import growth	%	17.3	16.8	13.8	<b>19.3</b>
Current account balance	\$ M	-321.2	-410.1	-1607.4	-
Public debt	% of GDP	37.4	29.4	33.0	<b>33.9</b>
External debt	\$ M	3524.8	3755.0	6427.0	-
Total debt service	\$ M	32.8	62.9	154.6	-



Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	0.0	-3.5	-	-
Tax revenue	% of GDP	7.9	10.0	-	-
Government consumption	% of GDP	4.1	6.3	5.2	5.3
Public expnd. on education	% of GDP	-	2.6	-	-
Public expnd. on health	% of GDP	1.5	1.3	1.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.2	1.6	1.6	1.7

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

Cambodia's government only rarely interferes in the country's market economy. Anti-competitive measures are infrequent, and sometimes act to the detriment of consumers by demanding, for example, that cellular carriers charge a minimum per-minute tariff for domestic calls. By contrast, the sweeping prevalence of corruption (unofficial fees and bribery) among state actors is an effective tool in blocking new stakeholders from winning access to the market, thus enabling the emergence of cartels and oligarchic structures.

During the 2008 spike in rice prices, the authorities stopped the export of rice in order to corner the domestic rice market under Green Trade, a Ministry-of-Commerce-controlled entity. There have also been attempts to protect farmers from the effects of falling agricultural-commodity prices, and – as seen in January 2015 – to guarantee that the decline in global oil prices benefits local consumers. In addition, the government has considerable influence on the minimum wage paid in the garment industry, as employers and unions act only as governmental advisors in setting this rate.

Cambodia's informal sector is still large given the state's lack of law enforcement and bureaucratic capacities. In the Rule of Law Index 2014, as in the past, Cambodia is ranked near the bottom (91st out of 99 states), performing well only in the "order and security" indicator.

According to the Cambodia Property Investment Guide 2013, most enterprises are able to operate with a standard company license issued by the Ministry of Commerce. Businesses in certain sectors (i.e., mining, telecommunications, tourism, and real estate) require specialist licenses issued by the relevant ministries. Companies are

Market-based  
competition  
4

allowed to hire foreigners for up to 10% of their workforce. Exemptions are available upon request to the ministry. Foreigners need work permission from the Ministry of Labor. While foreign citizens are allowed to purchase apartments above the ground floor, up to a maximum of 70% of any one apartment building, ownership of land and other real estate is restricted to Cambodian citizens (who include individuals and legal entities in which 51% or more of the shares are held by Cambodian citizens).

According to the Cambodia Property Investment Guide 2013, there are no restrictions on the remittance or repatriation of capital or profits into or out of Cambodia, as long as the transfers are conducted through registered financial institutions. The Amended Law on Investment guarantees the rights of foreign investors to remit foreign currencies abroad for the following: (1) payment of imports and repayment of principal and interest on foreign loans; (2) payment of royalties and management fees; (3) remittance of profits; and (4) repatriation of invested capital upon the dissolution of investment projects.

Cambodia's ranking in the World Bank's Doing Business reports dropped from 133rd in 2013 to 135th in 2015. The most visible decline was evident in the categories of "paying taxes" and "trading across borders." While Cambodia is one of the best-ranked countries in the world in terms of "getting credit," it is near the bottom regarding "starting a business," "dealing with construction permits" and "enforcing contracts." In the World Economic Competitiveness rankings, Cambodia dropped from 85th place in 2012/2013 to 95th in 2014/2015.

Since the establishment of a working group in 2005 by the Ministry of Commerce to oversee the drafting and adoption of a new law on competition, little progress has been made on this issue. Previously, this group was expected to submit a draft law to the Council of Ministers at the end of 2013. However, due to the political deadlock from August 2013 to August 2014, consultations were postponed. Given the government's increased reform orientation and the upcoming establishment of the ASEAN Free Trade Area, it is likely that Cambodia will get a competition law in the very near future. The body which would have to implement such a new law would be the Cambodian Competition Commission, an interministerial commission consisting of nine members tasked with enforcing the law's provisions, with the particular goal of promoting a competitive market economy and consumer welfare. Its directorate will have investigatory, law-enforcement and dispute-resolution functions. As of the time of writing, the extent to which companies would have the right to challenge commission decisions legally remained unclear.

Today, competition law in Cambodia is confined to a few provisions in the Law on Marks, Trade Names and Acts of Unfair Competition and in the Law on Management of Quality and Safety of Products and Services. However, these elements are far from

Anti-monopoly  
policy  
3

providing sufficient protection against unfair competitive acts or structures such as cartels, monopolies or unreasonable restraints of business.

Cambodia has not witnessed high-profile mergers between the country's leading companies. However, it is likely that those businesses with strong ties to leading politicians have already established dominant market positions and cartels. In key economic sectors such as telecommunications, water supply and electricity, competition between companies is limited or even nonexistent.

Since becoming a member of the WTO in 2004, Cambodia has facilitated trade with other countries through the introductions of several measures intended to deregulate its foreign trade. In regard to the ASEAN Free Trade Area, which is likely to be established by the end of 2015, the government has increased its efforts to adhere to obligations related to free trade both in the context of legislation and law enforcement. While the latter is still weak, non-tariff barriers in trade, mainly in agriculture, have not been eradicated completely. By contrast, import quotas, export limitations and contingency trade barriers are few, though tariffs are widely employed (as are unofficial fees and taxes).

According to the General Department of Customs and Excise of Cambodia, there are three types of duties and taxes that any importer has to pay before imported goods can be released from customs. First, import duties are 0% for exempt goods such as medical and educational materials (covering 5% of tariff lines); 7% for primary products and raw materials; 15% for capital goods, locally available raw materials, machinery and equipment; and 35% for finished products, alcohol, petroleum products, vehicles, precious metals and stones. Second, all imported goods are subject to a 10% value-added tax. Third, there is also a special tax for certain categories, mostly luxury goods. There are also three categories of taxes to be paid for exported goods. Exporters have to pay cascading rates of 2%, 5% or 10% for natural rubber; 5% or 10% for processed wood (depending on the degree and type of processing); and 10% for fish and other aquatic products, and uncut precious stones.

In the World Bank's Doing Business 2015 report, Cambodia was ranked at 124th place among 189 economies regarding the ease of trading across borders. Since the last BTI assessment, foreign-trade conditions neither improved nor worsened significantly. As a least developed country, Cambodia benefits from the European Union's (EU) Everything But Arms (EBA) scheme, allowing the country to export goods excepting arms and ammunition duty- and quota-free to the EU. Nearly half of all exports are shipped to Cambodia's main receivers, the United States and Hong Kong. The most important trade partners for incoming goods are China, Vietnam and Thailand, which together account for more than 50% of all incoming goods and services from overseas

Liberalization of  
foreign trade

6

In June 2014, a second company was listed on the Cambodia Stock Exchange (CSX): Grand Twins International (Cambodia) PLC, a Taiwanese-owned garment maker, which sold all 8 million shares offered (20% of the company) in the course of an initial public offering. Yet with only two listings, CSX's contribution to a functioning capital market is extremely limited.

Banking system  
5

The Cambodian banking system is a two-tier system comprising the country's central bank (National Bank of Cambodia) and a private sector that includes commercial banks, specialized banks, microfinance institutions, and a number of NGOs involved in rural credit activities. Cambodia's banking sector has been experiencing rapid growth for years. Currently, there are 35 commercial banks, nine specialized banks, seven microfinance deposit-taking institutions, and 30 microfinance institutions – a total of 18 more institutions than was the case two years ago. Commercial banks have a minimum capital requirement of \$37.5 million, while specialized banks must have \$7.5 million, deposit-taking institutions \$2.5 million, and licensed microfinance institutions \$62,500.

According to the Association of Banks in Cambodia, the country's banking sector remains hampered by a lack of financial depth, fragmentation, structural distortions such as an inadequate legal framework for secured transactions, and information asymmetry arising from poor disclosure standards. Most disturbingly, in 2014's Basel Anti-Money Laundering Index, Cambodia was ranked third out of 162 countries worldwide, indicating that the nation is regarded as being highly receptive to money laundering and terrorist funding. By contrast, according to World Bank's Doing Business Report 2014, Cambodia's only financial-sector reform was an improvement of access to credit information, the result of the establishment of a first private credit bureau.

The further evolution of Cambodia's banking sector is directly tied to the country's overall political development. Under the pressure of the post-election political deadlock, 8.7% of all deposits, or close to \$630 million, flooded out of Cambodia's banking system during the third quarter of 2013. Further volatility in the banking sector can be expected in times of political instability.

However, these constraints have had little impact on the microfinance industry (MFI), which has grown significantly in recent years due to continued business activity in rural areas and a broadening awareness of formal financial services. However, the gap between local deposits of \$654 million and the \$1.63 billion in MFI loans issued in mid-2014 underlines the sector's heavy dependence on foreign lenders.

Credit growth is hampered by most banks' generally low average return on equity, which reached just 6% in 2014. To satisfy Cambodia's growing credit demand – about 15% to 20% per annum – average return on equity would have to be increased

to 15%. Barring this outcome, the only solution would be an infusion of more capital from stakeholders, quadrupling each loan book to \$150 million.

## 8 | Currency and Price Stability

With the exception of 2008, when Cambodia was shaken by the global financial crisis, inflation has been kept widely under control and has reportedly not exceeded 8% since 1999. Whereas consumer prices increased by an average of 2.9% in 2012 and 3.0% in 2013, the International Monetary Fund (IMF) expects moderate rises of 4.5% in 2014 and 3.5% in 2015. According to the National Institute of Statistics of Cambodia, prices for food and non-alcoholic beverages (the most important component of the consumer price index, with a 44.8% overall share) increased by an average of 5.3% in June 2014. As the Asian Development Bank (ADB) noted, a tightening of customs-duty collections late in 2013 put some upward pressure on prices for imports.

The exchange rate between the Cambodian riel (KHR) and the U.S. dollar has been stable for years, fluctuating around KHR 4000 to \$1. Due to the economy's high degree of dollarization, with an estimated 85% of all currency in circulation being U.S. dollars, the national bank's ability to respond with monetary policy in times of economic crisis is limited. In addition, according to the ADB, \$320 million is annually lost as a result of Cambodia's reliance on the U.S. dollar. Although de-dollarization is an ongoing political aim, the riel is far from becoming a standalone currency anytime soon.

The National Bank of Cambodia is formally independent, but is in fact subordinated to the government. Its current governor is a member of the ruling CPP's politburo as well as a former member of parliament and minister of planning. However, governmental interventions in the bank's independence do not appear substantial as viewed from the outside.

Deficit reduction is not accorded a high priority in Cambodian politics. Whereas Cambodia's 2015 national budget listed expenditures of \$3.9 billion, revenues totaled about \$3.5 billion, resulting in general government net borrowing of 2.3% of the country's GDP. This is a small decrease from 2.8% in 2014 and 2.7% in 2013. The country's public debt rose from 91.3% of GDP in 2012 to 99.4% in 2013.

Cambodia still depends substantially on international donors that have funded about 50% of annual budgets for many years. As its international credit ratings are quite low – both S&P and Moody's rate Cambodian loans as “highly speculative” – the country has virtually no access to international capital markets, although the kingdom did increase its total reserves from \$4.27 billion in 2012 to \$4.52 billion in 2013. In 2012, external debt increased by \$1.29 billion (or 29%) to \$5.72 billion. In the same

Anti-inflation /  
forex policy

6

Macrostability

6

period, total debt service rose by \$39.6 million (or 45.4%) to \$126.9 million. A significant part of Cambodia's debt is to the United States, which was the main lender to the Khmer Republic (1970 – 1975) as well as to Russia (as successor to the Soviet Union), which financially supported the People's Republic of Kampuchea in the 1980s. Cambodia has been disputing these loans for years, but has as yet failed to reach agreements writing them off.

In the last two years, Cambodia's general macroeconomic stability was affected by uncertainty surrounding the parliamentary elections and the violent crackdown on striking garment workers in January 2014. According to the Garment Manufacturers Association in Cambodia (GMAC), weeklong strikes during the turn of the year in 2013/2014 cost the industry \$200 million. However, both the number of strikes and the number of lost work days in the garment industry decreased significantly in 2014.

## 9 | Private Property

Property rights, and specifically land ownership, remain one of the most controversial political issues in Cambodia. Although Prime Minister Hun Sen ordered a moratorium on land concessions in May 2012, the number of people affected by state-involved land conflicts in Cambodia grows daily, both in urban and rural areas. For the most part, the government has granted economic land concessions (ELCs) to national and international companies, allowing them to use the soil for agricultural purposes although local farmers live and cultivate legally – even without a land title – in these ELCs. Currently, ELCs account for more than 64% of Cambodia's total arable area. A quarter of the country's ground area overall has been granted to mining and agricultural businesses.

Companies typically make use of police and military police forces to enforce their claim on the land. It has become quite normal for residents to use peaceful or violent means to resist forced expulsions, as compensation is always far from sufficient. As farmers, most victims depend on their land, and eviction is an extreme threat to their livelihoods. In this way, the lack of sufficient property rights gives rise to one of Cambodia's most serious human-rights violations, occurring systematically in all parts of the country.

Although Cambodia's land registry has been funded by international donors, the state administration lacks sufficient capacities to hand out land titles in a timely fashion. The involvement of numerous leading politicians and their family members in urban and rural land-grabbing cases has been widely documented, and has helped perpetuate the political failure to solve these conflicts.

Property rights  
3

As a market economy, Cambodia has permitted the founding and running of private companies for more than 25 years. Companies and state-run enterprises only occasionally offer public shares. Establishing a new company is a rather complex procedure, taking on average 101 days; this places Cambodia near the bottom of the Doing Business Report 2015.

Private enterprise  
6

Between 1989 and 1991, the privatization of public assets was conducted in a highly non-transparent and often illegal way. Today, the wealth of many Cambodia's leading politicians (many of whom were already in office at that time) derives from these practices. Furthermore, during the last two and half decades the political sphere has tightened relations with leading entrepreneurs – usually based on rent-seeking intentions – putting favored companies in an advantageous position compared to newcomers in the economy. Therefore, generally speaking, protection does take place, but on the basis of crony capitalism rather than market-economic principles

## 10 | Welfare Regime

Social safety nets provided by the state are almost nonexistent. Normally, individuals depend on their own families when they are unable to work due to poor health or old age. Access to health care facilities is limited. To attenuate these shortcomings, numerous non-governmental organization that are heavily funded by international donors offer free health care services throughout the country, often by lottery.

Social safety nets  
3

Under Cambodian labor law, health insurance is not compulsory for employees. However, the employer is responsible for accidents that are related to the work, and is required by the Law on Social Security to join the National Social Security Fund. This law states that employers and workers covered by this law shall be required to contribute to the National Social Security Fund. It is divided into three components: (1) occupational risk/work injury or occupational disease; (2) health care; and (3) pension scheme. However, in the first phase of the law's implementation, only the occupational risks component has been applied. For this reason, employers are required to pay contributions into the work-injury program, amounting to 0.8% of the assumed wage, based on the employee's monthly wage.

Pensions and benefits for employees are not yet broadly available, although some companies offer pensions and benefits on an individual basis. A broader health care program will likely be introduced in the next several years.

Article 32 of the Cambodian constitution states that “Khmer citizens shall be equal before the law and shall enjoy the same rights, freedom and duties, regardless of their race, color, sex, language, belief, religion, political tendencies, birth origin, social status, resources and any position.” However, due to the high degree of corruption and the overall weakness of law enforcement, equality of opportunity does not exist in practice. Instead, the right (and rule) of the mighty and wealthy prevails.

Equal opportunity  
3

Most obviously, adherents of the opposition CNRP party face discrimination on the basis of their political preferences. This occurs on different levels: They are often excluded from the distribution of goods in their villages, while sympathizers of the CPP are preferred by local authorities. As seen in 2013, they are sometimes unable to cast their ballots during elections. Finally, outspoken supporters of the CNRP are barred from entering senior positions in the public administration and security forces.

Although there is no systematic discrimination in Cambodian society, vulnerable groups such as indigenous people and the extremely poor *de facto* do not enjoy equality of opportunity. Due to the traditional gender disparities in Cambodian society, women are still far from being equal to men, although the state has shown a commitment to bridging the existing gap on all levels. For example, due to the heavily increased access of girls to primary education (reflected in an enrollment ratio of 95.1% as compared to boys) the disparity in adult literacy (currently 82.8% of men can read and write compared to just 65.9% of women) will be reduced significantly in upcoming years. The labor-force participation rate among women has been stable at around 50% during the last 10 years, suggesting structurally equal treatment in employment. Equal payment for equal work is not ensured everywhere; especially in construction work, female workers often receive less pay than men for doing the same job. Furthermore, women are still vastly underrepresented in leadership position in both the economy and politics.

## 11 | Economic Performance

In 2013 and 2014, overall economic-development measures met expectations. GDP rose in this period by more than 19%, and is likely to reach more than \$20 billion in 2016 for the first time ever. Similarly, GDP per capita climbed from \$951 – \$2,845 in 2012, based on purchasing-power-parity (PPP), to \$1,104 – \$3,282 (PPP) in 2014. From 2012 to 2014, government revenues increased by 26.3%, outperforming GDP growth significantly. However, the ratio of public spending to GDP remains low (23.2% in 2014). The total value of exports increased from \$5.6 trillion in 2012 to \$8.2 trillion in 2014. Cambodia’s garment industry, a key sector accounting for 85% of all exports, expanded by approximately 35% over the course of the last two years.

Output strength  
7

As the value of imports totaled \$11.1 trillion in 2014, the current-account balance remains negative, for a value of more than 11% of 2014 GDP. However, by 2016,



this imbalance is expected to fall to less than 10% of GDP. Due to the political uncertainty caused by the 2013 elections and subsequent conflicts, foreign direct investment decreased from \$1.4 trillion in 2012 to \$1.3 trillion in 2013, but recovered to \$1.4 trillion in 2014, according to the World Bank and the International Monetary Fund (Data for 2014 and later are estimated).

The number of tourists increased by more than 600,000 visitors, to 4.2 million in 2013. However, in 2014 the pace of growth declined somewhat, with 4.5 million visitors arriving in Cambodia. Nearly three-quarters of all tourists came from South- and Northeast Asia, with Vietnamese visitors accounting for the largest share (20.1%).

## 12 | Sustainability

Although Cambodia is widely considered to be strongly susceptible to the effects of climate change, there is little general awareness of environmental issues among citizens and elites. Instead, the Cambodian government continues to use fossil fuels (more often than not heavy fuels, which pollute even more) to meet its growing energy demands. The use of renewable energies is still limited and concentrated on hydropower, although the construction of hydroelectric-power plants interferes significantly with the ecological equilibrium. Inefficiency is also a problem; for example, Stung Tatai Dam in Koh Kong province produced 246 megawatts of electricity that went nowhere due to the lack of an electrical grid.

Systematic sand dredging in most Cambodian rivers destabilizes slopes even of distant waterways. Continued deforestation is destroying natural CO<sub>2</sub> storage and the habitats of numerous protected species, and is producing soil erosion and flooding.

Cambodia's elites' focus on short-term but often nonrecurring gains has led to a plundering of natural resources for more than 20 years. Due to the involvement of numerous leading politicians and security-force personnel in the ongoing destruction of Cambodia's natural environment, there are few policies that effectively promote sustainability. In addition, most citizens feel little responsibility for the preservation of the environment, acting carelessly even toward their immediate surrounding habitats.

In 2015, the national budget allocated \$433 million for education, or 2.36% of GDP. Numerous constraints impede the development of an efficient education system: First, teachers often lack methodological and didactical skills. Due to very low salaries, they regularly solicit informal fees from their students, forcing those from low-income households to absent themselves from school (or fail their courses). Second, enrollment is often higher than attendance, as students have to support their parents particularly during rice-sowing and harvesting seasons (which take up to five

Environmental  
policy  
2

Education policy /  
R&D  
3

months a year). Furthermore, thousands of children are forced to work in the mining and construction sectors, or even as beggars, to safeguard their livelihood. Third, whereas Cambodia has undergone a boom in building primary schools – nearly all named after Prime Minister Hun Sen – the funds provided for maintenance are usually insufficient. For example, teaching materials are often of low quality.

In 2014, the Cambodian government made a first attempt to improve the quality of the grade 12 examination. Whereas 87% passed the exam in 2013, one year later only 26% were successful. After a national re-sit of the grade 12 exam a few weeks later, the pass rate rose to 40%. For the first time, considerable safeguards against cheating were put in place, and only high-ranking officials within the Ministry of Education knew the examination questions beforehand. Thus, it was not possible for teachers to sell questions and answers to wealthy students.

While about three-quarters of people ages 15 and above can read and write, there are grave disparities in literacy rates between men (82.8%) and women (65.9%). Vocational training for trades or technical jobs exists only selectively. The educational system does not produce a sufficient number of engineers. While Cambodia is a hotspot for private universities, there are no standards safeguarding teaching quality, and diplomas are often not recognized abroad. Accreditation is a matter of payment. State universities focus on teaching, and have not yet developed a competitive international research profile.

# Transformation Management

## I. Level of Difficulty

Structural constraints in Cambodia are primarily caused by a political leadership that for more than two decades has prioritized personal enrichment over reforms oriented toward the establishment of an efficient state bureaucracy, a credible judiciary and functioning social-security institutions. Many of the structural challenges Cambodia faced in the 1990s have seen little improvement since that time. In particular, the widespread corruption that enables the systematic plundering of public assets and natural resources has only worsened over the course of years. The management of any structural constraint beyond the government's immediate responsibilities is subordinated to the personal interests of those in power.

Structural  
constraints  
8

The lasting damage perpetrated by the Khmer Rouge, who took power 40 years ago, is widespread and complex. The elimination of the bourgeois and the escape of hundreds of thousands of people to other countries have resulted in a complete generation that lacks adequate education at all levels of the economy and society. This extreme shortfall has been mitigated only slightly as a consequence of the very limited access to secondary and tertiary education that causes insurmountable hurdles in society, preventing the advancement of millions of citizens.

In addition to the overall lack of trained and skilled workers, Cambodia's main development burdens include a weak infrastructure and insufficient production of energy. While a shortage of roads, railways and deep-water ports impede trade, high costs for electricity have prevented the emergence of a manufacturing sector. For this reason, labor-intensive industries, in particular the agricultural sector and garment industry, remain pillars of the economy. If the country is to remain competitive in the future, minimum salaries and most Cambodians' disposable incomes will likely remain at a low level, consolidating poverty in society.

Civil-society traditions are quite thin, and were largely overwhelmed by civil war and Khmer Rouge terrorism in the 1970s and socialist collectivization in the 1980s. Due to the country's violent past, social trust remains at a low level, even though most Khmer are too young to have experienced the Khmer Rouge period. Surveys show that it is even likely that distrust has shaped the mentality of most citizens, a factor that in turn complicates social cooperation beyond family bonds and citizens own villages, and will continue to do so in the future.

Civil society  
traditions

9

Similarly, on the national level, a civic culture of participation in public life is a rather new concept, arriving in Cambodia in parallel with foreign assistance in the 1990s. Today, more than 1,000 non-governmental organizations (NGOs) voice civil concerns and offer social services. In many regards, civil-society organizations have become indispensable in a state with limited social services and civil rights that are regularly violated by authorities and companies. Thus, NGOs are generally respected and trusted by Cambodian citizens.

Although Cambodia has produced a vital civil society, its existence completely depends on international donors, which means that most NGOs would collapse if funding was suspended. Hence, the sustainability of Cambodia's civil society is doubtful, as NGOs will not be able to develop new approaches and concepts in future years.

Since the adoption of the current constitution in 1993 and the surrender of the Khmer Rouge in December 1998, Cambodia has recovered from its period of violent confrontation. Because of this historic legacy, the desire for peace within the country has been an important objective for the vast majority. However, this wish has been abused by Prime Minister Hun Sen's claim to undisputed power, as he has consolidated all institutional powers and used violence to maintain a constant degree of fear among the Khmer, all under the banner of his "win-win" policy.

Conflict intensity

5

Due to his success in eliminating all rivals inside and outside of his ruling CPP, violence has occurred only occasionally since 1998, creating a deceiving image of a peaceful society. In its place, legal persecution – typically in the form of fabricated allegations in orchestrated trials led by regime-loyal judges – has become the favorite tool for safeguarding Hun Sen's power. However, Hun Sen's past behavior patterns make it very possible that he will return to the use of violence if this is the last option by which to maintain his power.

Underneath this peaceful surface, grave social conflicts have evolved for years. Most obviously, land conflicts have affected the livelihood of hundreds of thousands of Cambodians. To date, outbursts against the land-grabbers have been locally isolated cases. However, the struggle for land is likely to escalate in the future if the government continues to favor criminal activities in this area.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

Prioritization

4

According to the National Strategic Development Plan 2014 – 2018, the Cambodian government prioritizes four core sectors: (1) the promotion of agriculture, (2) the development of physical infrastructure, (3) private-sector development and employment, and (4) capacity building and human-resources development. These four sectors are linked by a general good-governance approach. Altogether, there are 20 subsectors that reflect the political priorities of the government.

However, these priorities are often not binding, and many political goals – notably fighting corruption and judicial reforms – exist only on paper. Progress in most subsectors is difficult to assess, as most evaluations depend on data provided by the government. In addition, due to an overall lack of transparency, the state budget lacks information regarding the government's genuine intention to implement its priorities.

By contrast, the government has shown more commitment to stabilizing market-economic structures in recent decades. However, there are still major factors hampering realization of this goal, including the influence of oligarchs with close ties to the ruling elites, and the widespread corruption that produces both legal uncertainty and inefficiency within the bureaucracy. Indeed, policies that could improve general market-economic conditions are halfhearted or even nonexistent.

In general terms, strategic priorities are overshadowed by the interests of Cambodia's political elite. Since the introduction of the constitution in 1993, the CPP has prioritized its claim to power above the stabilization of democratic institutions. It has limited democratic competition through its overall access to state infrastructure, undermined horizontal and vertical accountability, launched physical and legal attacks on the freedom of expression, and suppressed political alternatives. After the parliamentary elections in 2013, the question of how far the CPP would go to stay in power was clearly answered. Since 1997, violence has been employed only occasionally, and has been reinforced by the legal prosecution of political opponents. It is unclear whether this mode of operation will be sufficient to preserve the CPP's hegemony. In other words: If the CPP is going to lose more and more public backing, a comeback of extensive politically motivated violence is likely. The preparation for this eventuality may become a new top priority. In 2014, this trend was best exemplified by the upgrade of Brigade 70, which since the 1990s has been one of most crucial military units in the regime's efforts to retain power.

Most reform projects are obstructed to a considerable degree by rent-seeking elites and the self-interests of a bloated government, reducing Cambodia's strategic planning and implementation capabilities. In 2013, the government started restructuring competencies to increase its own effectiveness. In an attempt to deconcentrate decision-making processes, several ministries received responsibilities formerly held by the Council of Ministers, the executive office of the prime minister. In addition, a Ministry of Public Function was established by Prime Minister Hun Sen to oversee the reform of the Cambodia's civil service, and some technocrats have been elevated to ministerial rank (e.g., in the education, economy and finance, commerce, and environment portfolios).

Implementation  
3

These measures are not aimed at strengthening liberal democracy. Rather, they are supposed to increase professional management capabilities after two decades of inefficiency in virtually all public offices. However, the technocrats within the government still have to prove how they can implement more effective structures in the face of fierce opposition from inside the regime, while remaining loyal to Prime Minister Hun Sen.

The degree of innovation and flexibility in policymaking is still very low. Cambodia's top politicians have been in charge since the 1980s. Due to significant levels of international aid, they seldom need to implement innovative approaches. Although vast amounts of foreign assistance have been provided during the last two decades, providing extensive learning opportunities in all policy areas, the government has shown little inclination to adapt new knowledge. Students receiving scholarships to study abroad frequently begin their careers as civil servants after their return to Cambodia, but they are often prevented from applying their excellent educations by the self-interest of long-serving superiors, and by being coopted into a system of corruption.

Policy learning  
3

By contrast, the ruling elites have demonstrated the ability to learn when their top priority – the preservation of power – is affected. In 2014, the opposition's protest camp in Freedom Park was cleared only partially by uniformed security forces, with civilian thugs wearing motorcycle helmets doing the main work. In a rare moment of transparency in January 2015, the national military-police commander – one of the prime minister's most important allies – publicly confessed that he learned how to maintain social order by studying Nazi dictator Adolf Hitler, and that he draws inspiration from the rise of Germany under the leader's authoritarian rule in the 1930s. This drew an immediate rebuke from the German ambassador.

## 15 | Resource Efficiency

In general, reform attempts in recent years have created new formal façades, while leaving enforcement weak. In particular, the use of government personnel remains inefficient. Public administrative units typically recruit staff on the basis of political alignment, family ties and the ability of applicants to buy themselves into office. These informal fees are often much higher than the expected salary, and can only be recovered through corrupt practices once in place. This is an insurmountable hurdle that bars many Cambodians from the higher civil-service ranks. Exceptions exist notably in the recruitment of highly specialized staff, for example technicians and engineers.

The state budget is a recommendation rubber-stamped by the National Assembly rather than a binding law. Members of parliament did not even allocate about 44% (\$1.5 billion) of 2014's budget, allowing Prime Minister Hun Sen to control this money and its distribution. In addition, the overall lack of transparency in budget implementation and the absence of government accountability means that use of the state budget is highly inefficient.

Administrative organization is characterized by strong centralization and concentration. The government has established numerous councils and commissions, which have taken major competencies from the ministries and created considerable overlap. In 2013, this practice abated slightly, but the Council of Ministers and the Ministry of Interior – which coordinate most councils and commissions – remain the two power centers where major administrative decisions are made. Although Cambodia has committed to a far-reaching devolution process, and the CPP controls all provinces and districts and 97.5% of Cambodia's communes, only \$200 million (5.1%) of the total national budget was allocated to provincial, district or commune governments in 2015.

Prime Minister Hun Sen's ability to remain in office for more than three decades is based on a very high degree of discipline within the regime. Very few incidents of internal conflict have reached the public eye in recent years due to tight controls on the party, the bureaucracy and security forces. In this environment, trade-offs and mediation mechanisms take place – if ever – behind closed doors. A general lack of reform willingness also reduces the need for coherent policies. If needed, coordination is achieved through various personal networks rather than by the formal bureaucratic hierarchy.

Following the parliamentary elections in 2013, the government appeared visibly ruffled in dealing with the opposition. Although both sides were applauded for reaching consensus in mid-2014, further negotiations over the new election law were overshadowed by Prime Minister Hun Sen's threat to imprison six opposition politicians in January 2015, in an attempt to force the CNRP to accept the government's position.

Efficient use of assets

3

Policy coordination

4

Corruption and rent-seeking mechanisms remain key means by which Prime Minister Hun Sen maintains the loyalty of his followers. Interactions between political actors, state institutions, security forces and entrepreneurs are designed to enable rather than disable both grand and petty corruption. As a result of the elimination of oversight capacities (as would be provided by independent bodies, a transparent public-procurement system or publicly through media coverage), widespread corruption still flourishes even after the adoption of an anti-corruption law and establishment of an anti-corruption unit (ACU) in 2010. The ACU is widely perceived as a tool of the prime minister to enforce loyalty among his followers, as most of them have been involved in corrupt practices since the 1980s. Seen in this light, corruption increases discipline (as prosecution withheld only as long as loyalty is maintained) and real anti-corruption policies are dangerous for the regime.

Anti-corruption  
policy  
2

In the aftermath of 2013's parliamentary elections, the government announced actions against civil servants whose names were on the public payroll, but who did not actually work, sometimes due to retirement or even death. In addition, salaries are now supposed to be paid by ATM instead of in cash, with the aim of increasing civil servants' independence from their superiors. However, these measures have not yet demonstrated any far-reaching effect.

## 16 | Consensus-Building

Opposition parties and civil society have denounced Prime Minister Hun Sen and the CPP on numerous issues for many years. On the political level, the government has drawn criticism because it has undermined the country's democratic institutions, engaged in widespread corruption, sustained an inefficient bureaucracy, promoted a de facto suspension of the judiciary, engaged in violent crackdowns of political dissent, violated human rights – especially land-property right – and shown a general lack of willingness to engage in reform. During the election campaign of 2013, the opposition CNRP fueled anti-Vietnamese sentiments, one of many points of conflict with the Vietnam-friendly CPP.

Consensus on goals  
4

While most Cambodians agree with the government's goal of achieving economic growth, the particular realization of this goal is widely scrutinized. In particular, the degree of overall sustainability is low due to the systematic plundering of natural resources for immediate nonrecurring gains. In addition, a lack of welfare-state mechanisms prevents the poorest and most vulnerable in Cambodia's population from benefitting from trickle-down effects. To safeguard Cambodia's competitiveness in the garment industry, unions are extensively restricted, particularly with regard to their right to strike for higher wages and better working conditions.



Cambodian reformers face strong resistance from anti-democratic veto players. Most senior members of the government have held anti-democratic attitudes, and have acted accordingly, since they were appointed under Vietnamese occupation in the 1980s. Within the government, reformers and technocrats are aware that they are under extensive surveillance by loyalists who directly report to the top leaders. Reformers who do not belong to the government – mostly drawn from the opposition, civil-society organizations, and the press – are often intimidated and threatened with legal prosecution. Members of the security forces (police and military) are typically involved in these cases. Reformers can typically advance their projects only with the personal backing of Prime Minister Hun Sen and/or his wife Bun Rany.

Anti-democratic  
actors

3

Due to its general social homogeneity, cleavages are of minor importance in Cambodian history. Since the Second World War, conflicts have normally arisen due to political and/or ideological dissent. Only the Khmer Rouge fueled a distinction between rural people who were mostly peasants (called “Old People”) and urban Khmer with more education (“New People”), the latter of whom became the regime’s main target (although as many if not more rural residents died during this period). Following the parliamentary election in 2013, it is possible though unlikely that the urban-rural divide may reemerge in the years to come. On the one hand, the ruling CPP claims to safeguard peasants’ interests in addition to those of the elite. However, it is losing ground in urban areas and among well-educated Cambodians who are demanding major political reforms and are increasingly represented by the CNRP. In such a scenario, the political leadership would in all probability seek to intensify this divide instead of preventing society from splitting along this cleavage.

Cleavage /  
conflict  
management

3

Beyond this potential urban-rural antagonism, other conflicts may arise based on the persistence of poverty and the lack of equality of opportunity, both problems exacerbated by widespread corruption and land conflicts. Attempts to mitigate these conflicts by granting new economic land concessions and creating anti-corruption institutions remain far from sufficient. Furthermore, strong anti-Vietnamese sentiments and the regime’s close links to the Hanoi government – some leading politicians, security-force generals and entrepreneurs are even ethnic Vietnamese – have strained people’s trust in the elites to a significant degree. Yet even discussion of potential or existing problems is deemed strictly taboo by the Cambodian government, as are any efforts to dispel biases toward the Vietnamese minority. In a clear example of this policy, opposition leader Sam Rainsy was issued a long prison sentence after publicly criticizing Vietnamese border encroachment in 2009.

Due to the high degree of fragmentation within the third sector, the participation of civil-society organizations in policymaking processes is mixed. On the grassroots level, NGOs often face harassment and intimidation mounted by local security officials. Although these patterns differ from province to province and even from district to district, groups that run projects seeking to empower people by clarifying their legal rights are widely affected.

Civil society  
participation  
3

On the national level, most NGOs find it difficult to gain access to the government, even though some groups are widely respected by the ministerial bureaucracy. In this latter case, they behave as lobby groups, and provide knowledge and advice to the government. Recently, reservations expressed by many NGOs regarding the proposed Law of Associations and Non-Governmental Organizations caused the Ministry of Interior to put the law on hold. As of the time of writing, the ministry had not yet put the law on the agenda again, but its further development will likely entail direct input by civil-society actors.

While contributions on social affairs are often welcomed, for issues that directly affect the interests of the regime – primarily the issues of security, the existing impunity, and illegal rent-seeking – any involvement by civil-society actors is highly objectionable. Therefore, journalists and human-rights defenders who address the issues of land property rights, the protection of the environment, corruption, or security-force abuses are generally excluded from the associated political processes. Moreover, NGOs with a focus on these issues are typically denounced by the government as being part of the political opposition.

In August 2014, the Extraordinary Chambers in the Courts of Cambodia (ECCC) found former Khmer Rouge top cadres Nuon Chea and Khieu Samphan (Ieng Sary died in March, 2013 and his wife Ieng Thirith was released earlier due to her Alzheimer's disease) guilty of crimes against humanity committed between 17 April 1975 and December 1978, and sentenced them to life imprisonment. The verdict was immediately appealed by the defense. Parallel to the appeals procedure at the Supreme Court Chamber, the Trial Chamber continued legal action against the accused for the crime of genocide.

Reconciliation  
3

There are few efforts at reconciliation beyond these trials against Nuon Chea and Khieu Samphan. Most high-ranking Khmer Rouge cadres and their henchmen who are still alive are unlikely to face trial due to the protection of the government. In recent years, the outreach component of the ECCC has waned. Victims of crimes committed under the Khmer Rouge never received even symbolic compensation by the state. The current regime has been suspicious of most attempts to come to terms with Cambodia's violent past. Crimes with a political background committed under the rule of Prime Minister Hun Sen have never been seriously investigated, much less solved.

In an attempt to use memories of historical injustices as a weapon against political opponents Kem Sokha (at that time vice president of the opposition CNRP, and at the time of writing also first vice president of the National Assembly) claimed in May 2013 that the Khmer Rouge's notorious S-21 torture prison in Phnom Penh was operated by the Vietnamese, and thus not of Cambodian origin. In June 2014, he also claimed that the stampede during Phnom Penh's Water Festival in 2010 was masterminded by the Vietnamese. At that time, more than 350 people died when crowds on a swaying suspension bridge panicked and attempted to flee.

## 17 | International Cooperation

The National Strategic Development Plan (NSDP) 2014 – 2018, which serves as the roadmap for Cambodia's development process, is the fifth plan since 1996 in which the government has specified its long-range intentions. However, it is not connected to concrete foreign assistance, which is negotiated separately, as institutions enabling donor coordination and harmonization are not employed. In 2014, as in previous years, neither the Cambodia Development Cooperation Forum (CDCF) nor the Government Development Partner Coordination Committee (GDCC) took place. Cambodia's European partners, for instance, developed the joint European Development Cooperation Strategy for Cambodia 2014 – 2018 as an approach responding to the country's needs as identified in the NSDP.

Effective use of  
support  
3

The efficiency of international partners in implementing long-term development strategies is continually undermined by volatile domestic institutional conditions, the influence of veto players on reform proposals, and the insufficiency of the Cambodian government's contributions to partnership programs. A lack of interministerial coordination also affects overall cooperation, which is organized in 19 sector-related technical working groups that include donors and the Cambodian government. The sustainability of development programs is often endangered by this constraint. International critics of the implementation of foreign aid are usually rebuffed by the government, which refers to the ownership and alignment principles of the Paris Declaration on Aid Effectiveness.

In recent years, the People's Republic of China has emerged as Cambodia's most important development partner. While it is publicly reported that Cambodia has received loans and grants worth billions of U.S. dollars, the conditions attached to this assistance are widely unknown. This trend has significantly reduced the impact of Western development assistance, and further decreased the Cambodian government's orientation toward liberal democracy and good governance.

Although conditionality has never played an important role in development partnerships for Cambodia, diverging notions of efficient means-ends relations have often arisen between Cambodia and foreign donors. Even though Cambodia has signed numerous international declarations and conventions on human rights, the contents of these agreements are often not implemented or are ignored. The most serious dissent has arisen from Cambodia's human-rights record, which provoked ongoing criticism from Surya Subedi, the United Nations special rapporteur for human rights, whose six-year mandate ended in 2015. Like his predecessors (all of whom resigned early) Subedi never concealed human-rights grievances and violations, earning him substantial criticism by the Cambodian government. The RGC has long sought to close the Office of the High Commissioner for Human Rights in Cambodia, often with Japan's backing.

Credibility  
5

By contrast, the Cambodian government has only weakly been urged to implement laws strengthening market-economic principles. Setbacks in Cambodia's democratization process have never induced major consequences such as a moratorium or suspension of international assistance, as international donors have regarded stability as more important than democracy. Only Cambodia's cadastral administration drew heavy criticism, leading to a withdrawal of major multilateral (World Bank) and bilateral (Finland and Canada) assistance in the land-management sector, while Germany elected to continue its support.

International investments are welcomed and protected by the government if patrons have been given shares in the investment. In January 2014, soldiers – mainly paratroopers and members of the military police – protected garment factories from workers on strike, killing five people and injuring dozens of others. Local newspapers reported that the South Korean Embassy, through its Facebook page, had successfully convinced the Cambodian government to forcefully intervene.

Cambodia uses a variety of means to demonstrate its willingness and ability to cooperate with neighboring countries. It is a member of ASEAN and related forums, the Greater Mekong Subregion (GMS), the Mekong River Commission (MRC), and takes part in CLMV (Cambodia, Lao PDR, Myanmar, and Vietnam) cooperation meetings. In recent years, Cambodia has struggled to meet standards required by the ASEAN Free Trade Agreement, which will take effect at the end of 2015. With the abolition of customs duties on products and services imported from ASEAN member states, Cambodia is under significant pressure to retain its competitiveness in regard to all market-economy aspects, especially a skilled labor force, legal security, proper infrastructure, and a low-cost energy supply.

Regional  
cooperation  
7

As in previous years, the People's Republic of China remains Cambodia's most important foreign partner due to its assistance both in large-scale development projects and security issues. However, this complicates the kingdom's relations to its neighbors in Southeast Asia. After Cambodia was among those members regarded as

responsible for the failure to formulate a joint communique at an ASEAN meeting of foreign ministers in Phnom Penh in July 2012, Cambodia afterward claimed that ASEAN members had decided not to internationalize the South China Sea dispute, using language identical to China's Ministry of Foreign Affairs spokesperson.

After the 2013 elections, bilateral relations with Vietnam improved after Vietnam's government specified that it is an ally of Cambodia and not solely of the ruling party. Although Prime Minister Hun Sen maintains close personal relations with former Thai Prime Minister Thaksin Shinawatra, the coup against his sister Yingluck and the establishment of a military junta in Bangkok did not affect bilateral relations with Thailand to a significant degree. The Cambodian government is very considerate of its western neighbor's complex domestic situation, and has not insisted on a speedy implementation of the International Court's judgment on the area surrounding the Preah Vihear temple. In addition, overlapping claims in the Gulf of Thailand affecting offshore exploration of oil and gas have also been solved in bilateral negotiations.

## Strategic Outlook

Cambodia's political landscape will shift significantly in the coming years. On the one hand, the government is likely to implement reforms that will be hampered by the general weakness of law enforcement and the judiciary. It is very unlikely that the ruling CPP will be able to reverse the trend of decreasing popularity through the introduction of new policies or a replacement of its leadership. It can be assumed that Prime Minister Hun Sen will stay in office and run as CPP's candidate for prime minister again in 2018.

On the other hand, the CNRP will use its increased influence in parliament as a key platform for opposition, and will offer distinctive alternatives to the government's policies based on its first comprehensive party agenda. In addition, the CNRP's representatives within the National Election Committee will use their influence to contain fraudulent practices in the administration of national elections, which will lead to a higher degree of electoral competitiveness. Furthermore, the opposition party will strengthen its ties to voters at the grassroots levels, especially through contacting them personally, but also with its new TV station.

The commune-level elections in 2017 will be a major test run for the parliamentary elections one year later. Given the opposition's unity, the electoral concessions wrested from government, and the current demographic dynamics – meaning that first-time voters tend to prefer the CNRP – odds are already in the opposition's favor. However, even a landslide victory would not automatically mean a new government; Hun Sen has historically proved willing and able to abrogate the rules of the democratic game – in extreme cases by using violence – to maintain his power.

On the eve of intense political changes, the role of the international community is crucial. First, the change of mindset in a government formerly notorious for gridlock offers some opportunities for incremental governance reforms as well economic and social reforms. However, there is an ongoing demand among foreign donors to bring some initiatives on track. Second, due to the possibility of a complete shift in power in the near future, the international community must increase communication with leading opposition politicians so as to avoid distrust or political surprises in 2018. At the moment, the CNRP is far from being prepared to take over the government; thus, there is a high demand for capacity building and leadership training for potential ministers. Third, there is a considerable danger that 2018 will turn violent. It is likely that the current government will use the security forces to crack down on any public protests in the aftermath of the election. The bias of many Khmer against the Vietnamese minority is so strong that an opposition victory in the parliamentary elections could be a trigger for assaults on this ethnic minority group. In an extreme scenario, the intervention of Vietnamese armed forces cannot completely be ruled out, which would destabilize the entire region.

Cambodia's market economy will remain dependent on world demand for garment products; thus, any decrease in such demand carries the risk of mass unemployment and other major setbacks

caused by a higher trade deficit. While economic diversification is still in the fledgling stages, Cambodia will struggle to increase its competitiveness following the establishment of the ASEAN Free Trade Area in the upcoming years. It will be necessary to improve the overall quality of infrastructure – mainly roads, railroads and ports – as well as to raise power-generation capacities and increase the average level of education, thus producing a skilled workforce. The government has to develop new income sources to compensate for the loss of customs revenues derived from imports from other Southeast Asian states. In addition, other underlying market conditions such as the growing demand for credit, the high hurdles associated with starting a business and the prevailing legal uncertainty should attract attention of both the Cambodian government and donor countries. However, it is difficult to predict whether the growing domestic political pressure will increase the government's reform zeal or instead push decision-makers to implement policies safeguarding their immediate interest in maintaining power. For foreign investors, political stability will be a key factor in their further investment decisions.