

Cambodia

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1 Cambodia's performance

Cambodia embarked upon concurrent processes of economic liberalisation, conflict resolution and political reform from 1989 in response to geopolitical shifts associated with the end of the Cold War. The country had been isolated from the West under an international trade and aid embargo during the 1980s. In the early 1990s, a United Nations peacekeeping operation and a lifting of the international embargo resulted in the pumping of US\$ 3 billion in international aid into Cambodia over the following ten years. However, the outcome *vis-à-vis* turnaround has been equivocal.

'Turnaround' is defined as successful promotion of sustainable economic growth, improvement in human development indices and cessation of violent conflict. Superficially, Cambodia's performance has been creditable since 1989. The civil warfare of 1970–99 has ended. Economic growth has remained above 5 per cent per annum in almost every year since 1994. Human development indices show improvement. However, the *sustainability* of this performance is unclear. Return to civil warfare seems unlikely but continued rapid growth in the economy and in human development is uncertain, unless major governance reforms occur. This article argues that the success of the ruling Cambodian People's Party (CPP) in achieving sustainable cessation of armed conflict has been achieved by means that have made good governance less likely.

The improved economic growth and human development figures posted represent, to a great extent, a one-off peace dividend, from the very low base of the 1980s. The deployment of thousands of UN peacekeepers to Cambodia in 1992 prompted a so-called 'UNTAC boom' (United Nations Transitional Authority in Cambodia). Rapid expansion in construction and services, largely tailored to servicing international personnel, and concentrated narrowly

on the capital city of Phnom Penh produced high growth rates in the early 1990s. From a peak of 9 per cent in 1994, growth rates declined as political instability within the ruling coalition formed after the 1993 elections emerged in the mid-1990s. Growth rates troughed in 1997 and 1998, as fighting broke out between the coalition parties in July 1997, prompting the flight of leaders of Funcinpec Party – the senior coalition partner – and their subsequent return in 1998 for elections conducted in a tense atmosphere.

Following the 1998 elections, and the return of a new government dominated by the party of state of the 1980s, the CPP, growth rates soared again, bolstered by high growth in the garment industry, in response to Cambodia's excess export quotas to the USA. Some service growth was also seen, focused narrowly upon Phnom Penh and the town of Siem Reap, near the Angkor Wat temples, as better security encouraged tourists to return. Agriculture – the largest sector of the economy – declined, apart from a single record harvest, brought about by good weather conditions in 1999.

Although due credit must be given for these achievements, it is important to note the importance of the one-off boost to the economy given by the deployment of peacekeepers and by the return of peace. Significant also is the ongoing importance of contingent factors. In agriculture production remains heavily dependent on the weather, reflecting a lack of investment in technology, such as effective irrigation systems or flood defences to offset the effects of too little or too much rain. The only flourishing industry – garment manufacturing – is heavily dependent upon regional foreign direct investment (FDI), particularly from Cambodia's largest investors, Taiwan and Malaysia. This investment is to a great extent attracted by Cambodia's export quotas to the USA which ended

Table 1 Top ten investors in Cambodia, cumulative investments, 1994–2002

Number	Country	Investment capital	Percentage
1	Malaysia	1,862,432,052	31.21
2	Taiwan	493,630,670	8.27
3	USA	434,201,401	7.28
4	China	267,064,156	4.48
5	Hong Kong	253,576,213	3.95
6	Singapore	224,592,946	3.76
7	Korea	208,708,623	3.5
8	Thailand	198,674,735	3.33
9	France	192,764,327	3.23
10	United Kingdom	94,083,532	1.58

Source Thoraxy (2002).

in January 2005. The garment industry has been the main contributor to Cambodia's growth and poverty reduction performance.

FDI in other sectors remained low throughout the 1990s and figures for the total number of FDI dollars spent, rather than merely pledged, in all sectors, have fallen consistently since 1998, from more than US\$ 230million in 1998 to US\$ 113million in 2001 and below US\$ 100million in 2002 and 2003 (World Bank 2004b: 3). Surveys of investors found that Cambodia was seen as a high-cost and unstable business environment, suggesting that the sustainability of the rates of growth posted during the 1990s is questionable. Cambodia's major investors are its regional neighbours, with Malaysia accounting for up to 40 per cent of FDI to Cambodia in 2002 (Freeman 2002).

With respect to human development, the growth of the population at 2.5 per cent per year to an extent offsets the impact of economic growth on incomes. In particular, the expansion of the population group aged 10–19 years during the late 1990s entailed increased underemployment as lack of growth in both agriculture and off-farm employment failed to soak up the new labour coming onto the market. The narrow concentration of the economic growth that has occurred in urban areas has prompted the emergence of wide disparities in income. In 1999, *per capita* income in Phnom Penh was US\$691, compared with a rural *per capita* income of only

US\$197. According to the Asian Development Bank, the incidence of poverty in Phnom Penh is 11 per cent, as compared to 30 per cent in other urban areas, and 40 per cent in rural areas. The Bank reports that 'Urban *per capita* consumption expenditure is nearly twice the rural level and the average urban dweller can expect to live five years longer and reach a higher level of educational achievement (ADB 2000).' Although there has been some improvement in Cambodia's human development index – from 0.543 in 1995 to 0.556 in 2001, representing an average of 0.00217 per year – this is a very limited pace of progress given the end of the war and influx of aid worth more than US\$ 5billion over this period. In the 'Human Poverty Index', Cambodia fares even worse – 70th out of 95 developing countries in 2004, and the lowest ranked country in Asia (UNDP 2004).

The question of whether Cambodia has 'turned around' requires investigation of whether the Cambodian government is actively addressing the concerns raised above through attempts to improve both governance and government. In collaboration with donors, the ruling CPP in 1999 conceived a Governance Action Plan, intended to rationalise and reform the state to create a better foundation for policies to foster pro-poor economic growth. The commitment of the CPP to the Plan appears to waver in response to the election cycle. In 1999 and in 2004, following tense electoral stand-offs resolved in the CPP's favour, the party has declared

its intention to wage war on poverty and corruption. However, in the 1999–2003 electoral cycles, reform activity declined as elections approached.

1.1 Historical background

From the late 1960s, when the Vietnam War spilled over onto Cambodian territory, to the collapse of the Soviet Bloc in 1989, Cambodia suffered a civil war prompted and sustained by repeated and cynical foreign interventions reflecting external geopolitical interests. The devastating impact of these on the Cambodian population, territory, infrastructure and state rendered any kind of performance in the 1980s practically impossible. The party of state of the 1980s – the CPP – emphasises its achievements in those years as the re-emergence of a rudimentary economy, the re-establishment of a basic education system and of religious observance, and the more or less successful defence of the country from a Western-, Chinese- and ASEAN (Association of Southeast Asian Nations)-backed insurgency that included the feared National Army of Democratic Kampuchea (NADK). Given the context, the CPP's pride in these achievements must be respected.

However, state power in the 1980s was weak, as the Vietnamese occupation undermined the legitimacy of the regime. Conscription, rice procurement, taxation, collectivisation and even retention of population in Phnom Penh-controlled areas were all problematic throughout the 1980s. Assessments of Cambodia's economic, social and political performance during the 1990s should bear in mind the difficulties faced by the state in performing even the most basic functions of government in the 1980s.

With the collapse in 1989 of the geopolitical framework that had sustained the civil war, the various Cambodian parties were pressured by their various external backers into a UN peace deal which was far from reflecting an elite pact on the part of the Cambodians themselves. Indeed, the history of the 1990s can be summed up as the attempt by various Cambodian parties to gain maximum advantage from a new international framework characterised by peacekeeping, international aid, and foreign trade and investment. The CPP proved most adept at this, and consequently dominates Cambodian politics in the early 2000s.

The reform era began with the shift to a free market economy, implemented by the CPP's State of

Cambodia regime in 1989. Economic liberalisation was followed in 1991 by a peace agreement, intended to end Cambodia's longstanding civil war, integrate the country into international regimes of trade, aid and investment, and set the country on the road to liberal democracy. The implementation of the peace process by a UN peacekeeping force culminated in elections and the promulgation of a new constitution in 1993, which enshrined principles of liberalism, pluralism and democracy.

The reforms introduced in Cambodia in 1989 were, of course, primarily aimed at maximising political power, as exercised by the state and the incumbent party; but to a significant extent, this goal has proved to be at odds with the objective of creating an environment conducive to stimulating investment (foreign or local) or promoting the welfare of the poor – that is, it has worked against the prospect of sustained turnaround despite an early peace dividend. Economic reforms have concentrated economic assets, particularly land and natural resources, in the hands of entrepreneurial groups sympathetic to the CPP. In part, this was associated with conflict reduction, as it prompted defections of insurgents in the mid-1990s. However, in part also, this has been used to cement the dominance of the CPP over Cambodian politics, and the dominance of Prime Minister Hun Sen over the CPP. The continued striving to accumulate wealth to consolidate political power reflects the experience of state weakness *vis-à-vis* armed challenge by insurgency in the 1980s, on the threat perceptions of the CPP leadership in the 1990s. Electoral challenges by opposing political parties, themselves descended from the resistance of the 1980s, are seen as threatening both to the party and the national interest. Both the reaction of the CPP to the opposition, and the continued refusal of the opposition to regard Prime Minister Hun Sen, in particular, as a legitimate political contender, reflects the difficulty of transforming civil war combatants into coexisting contenders for power.

2 Government approaches to turnaround

2.1 Promoting economic growth through liberalisation

The economic liberalisation process in 1989 comprised several elements: privatisation of land; legalisation of private enterprise; sell-off of state owned enterprises; abandonment of state purchasing and agricultural tax; and gradual reduction of state controls on prices, imports and movements of

goods, to create a unified and market-determined price structure. In part, these reforms merely recognised the creeping *de facto* abandonment of socialist command economics in progress throughout the 1980s. Political events from 1989 to 1993, however, influenced the outcome of these reforms, and the prospects for conflict resolution, economic growth and human development.

The reforms were in large part motivated by a changing external political environment, which put pressure on the State of Cambodia and the CPP to negotiate an end to the war. From 1979, the regime had fought insurgent armies, including the NADK which represented the infamous Pol Pot regime of 1975–9. The political wings of these armies formed an exiled Coalition Government of Democratic Kampuchea, a body which received diplomatic recognition in the region and in the West and occupied Cambodia's seat at the United Nations.

From the late 1980s, the decline in Soviet power, the desire for de-escalation between the Soviet Union and China, and concern on the part of Vietnam to implement its own economic reforms and to engage more closely with ASEAN and the West, reduced external support for the State of Cambodia regime. Vietnamese forces began withdrawing from Cambodia in 1986; the last troops left in 1989. Concomitantly, Western countries desired to distance themselves from a political entity that included the notorious 'Khmer Rouge' (Solarz 1990), while the booming, capital-rich tigers of ASEAN sought to 'turn battlefields into marketplaces' and exploit cheap labour in Indochina (Snitwongse 2001). Externally, Cambodia's civil war ceased to make strategic sense to either side.

Internally, the decline of the Council of Mutual Economic Assistance, aid which accounted for 90 per cent of the Phnom Penh government's budget until 1990, prompted a need for new sources of financial aid. More generally, by 1989, the limits to the state-building project of the 1980s had become apparent. The regime required a new basis for promoting its legitimacy, for gaining acceptance, internally and externally, of its authority, and for strengthening its power.

Elite pacting was one option – exchanging power-sharing for a sounder basis for political stability and economic growth. However, a political solution,

involving an accommodation with political leaders from the resistance armies, was viewed as high risk by the CPP leadership. Many in the CPP viewed the resistance armies as a genuine threat, not only to the CPP but to the whole country. The 'return of the Khmer Rouge' was genuinely to be feared, and the international actors who participated in UNTAC had, at least indirectly and diplomatically, supported the NADK throughout the 1980s. For many in the CPP, UNTAC's mandate to create a 'neutral political environment' for elections represented an attempt by Western powers to break down the flimsy floodgates to chaos and genocide, erected in the 1980s at the cost of much bloodshed. The leaders of the CPP had narrowly escaped Pol Pot's purges by fleeing to Vietnam in 1978; for them, their personal safety and the safety of the nation was contingent upon their own continued grip on national security. The cooperation of State of Cambodia leaders in a UN political settlement which included the 'Khmer Rouge', still led by Pol Pot himself, was forced by their lack of other options, in the light of Vietnamese withdrawal and Soviet pressure but was never enthusiastic.

In fact, the CPP designed a solution which drew economic reform into the service of political strategy. The emergence of a free market in land and goods before the initiation of a peace process was initially popular with ordinary farmers; it also quickly permitted the establishment of networks of protection and patronage permitting wealth accumulation by members of the state and military. By these means, the fragile ideological basis of state cohesion of the 1980s could be replaced by a more solid structure of material self-interest. Economic reform was not merely designed to facilitate Western aid and investment but to ensure that both existing domestic and new incoming assets were concentrated in the hands of loyalists.

Achieving this goal required the erection of a regulatory framework that favoured those with power and official/political connections. This has been evident in the land and forestry sectors, in particular. The Land Law of 1992, for example, contributed to widespread expropriation of land through its multiple inadequacies. It failed to clearly distinguish between state and private land, and made no provision for registering state land, prompting officials to claim that state land was used and therefore 'owned' by themselves as private citizens. It

failed to clearly delineate a regime for state compulsory purchase of land, or to establish mechanisms for review of this, allowing land expropriation by state officials.

The Land Law established a labyrinthine process for registering ownership rights, requiring written submissions that were problematic for the almost two-thirds of Cambodians who are functionally illiterate.¹ This involved several layers of government, contributing to the proliferation of corruption. It defined possession as the issue of local authority receipts acknowledging possession, rather than the act of occupancy itself, entailing that ownership rights could be obtained by those who bribed the local authorities to issue receipts, rather than by those who actually occupied the land. It failed to ensure transparency or openness of cadastral records and implemented a 'race' regime in registration, whereby ownership was granted to whoever registered first. This concentration of landholdings permitted regime insiders to establish a new basis for wealth and power that could insulate them from the effects of ongoing political reforms (Williams 1999).

These shortcomings permitted those with political connections, money to pay bribes, or the means to resort to violence to appropriate land by means of corruption or force. Victims of such expropriations had little recourse. The courts were weak, corrupt and intimidated by the powerful. Thousands of complaints were sent to the UN, non-governmental organisations (NGOs), and the National Assembly's committee for receiving complaints, with variable success. Victims of expropriation were often seen demonstrating outside the palace or the National Assembly but these organs were unable or unwilling to provide redress in most cases. In 2002, it was estimated that 200,000 poor Cambodians were victims of ongoing, as-yet-unresolved cases of large-scale land seizures (Cooper 2002). Landlessness has increased in Cambodia since 1989, in part because of expropriation (the cause of landlessness in 13 per cent of cases, according to an Oxfam survey) and in part because of distress sales due to the need to raise money for healthcare, or due to lack of food (Williams 1999). At the same time, off-farm employment has not increased, and natural resources, such as forests and fisheries, which provide alternative resources for the landless, have been privatised with deleterious effects on access for the poor.

While current, donor-led efforts to simplify land registration and reduce corruption associated with it may provide some relief, human rights groups are concerned that to a great extent, these efforts are codifying and legitimising the dispossession of the 1990s (Saray 2003). Meanwhile, some donor representatives in Phnom Penh privately speculate that government resistance to establishing a land tax is due to the concentration of landholdings in the hands of the political elite.

This mode of marketisation, which also extends to the privatisation of other natural resources and state assets, had far-reaching implications for 'turnaround'. Broadly, the processes described facilitated conflict resolution and political change, although in a manner antithetical to the liberalism and democratic inclusiveness envisaged in the 1993 Constitution. Although Cambodia has successfully maintained macroeconomic stability, there has been little inward foreign investment outside the special case of the garment industry, and rates of economic growth remain hostage to the political concerns of vested interests. The benefits of aid projects and of such economic growth that has occurred have remained firmly in the hands of the already-rich and the well-connected.

2.2 Conflict resolution and post-conflict governance

The implementation of the Paris Peace Agreements by UNTAC fell short of what was intended, particularly with regard to actually ending the civil war. The Peace Agreements linked demilitarisation with promotion of electoral democracy. The four armies prosecuting the civil war agreed to cease fire, disarm and demobilise ahead of elections, during which their respective political wings would compete peacefully for the popular mandate. UNTAC would police the ceasefire, ensure the withdrawal of 'foreign forces', implement the elections and oversee government to ensure a level playing field upon which to compete for votes.

In the event, UNTAC was unable to maintain the ceasefire, following the withdrawal of the Party of Democratic Kampuchea (PDK) from the peace process.² UNTAC ploughed on with the election despite a terror campaign by the NADK and they were rewarded by a high voter turnout on polling day. The elections permitted two of the three main resistance parties to enter a coalition government with the CPP. The greater legitimacy of this

government, internally and externally and the attractiveness of the international aid it beckoned, ultimately led to the collapse of the NADK and PDK as political players. The war ended in 1999.

However, the end of the war has not been associated with a demilitarisation of society. The armed forces remain both numerically large and politically influential. Continuing militarisation throughout the 1990s was associated with a continued background noise of human rights abuse, use of violence in the expropriation of resources, widespread ownership of weapons with the associated potential for social and domestic violence, and vulnerability in economic and social life, as well as in political life, on the part of those who lack connections in the armed forces, as opposed to those who have such connections.

The return of the PDK to insurgency prompted UNTAC in 1992 to abandon its mandate to canton, disarm and demobilise troops from the other three armies. These three armies were integrated following the elections to form a new Royal Cambodian Armed Forces (RCAF). Many of the problems that continued to dog Cambodian politics and economics through the 1990s emerged from the nature of the RCAF and the way it evolved over the course of the 1990s, from an unlikely amalgam of partisan groups to a, superficially at least, solid supporter of the CPP.

The RCAF in 1994 numbered 160,000, including 2,000 generals and 10,000 colonels (Shawcross 1994: 90–1). In the early 1990s, it mirrored the development of the civil service and, subsequently, the ranks of political appointments in government, in that it ballooned to accommodate political allies and their networks of followers. Downsizing was resisted not primarily because of the need to continue to prosecute a war against the NADK.³ Indeed, many soldiers listed on the payroll were ‘ghosts’, who had died, deserted or never existed. Overhaul of the military has been resisted for three reasons. First, in the early 1990s, the competition between the rival parties in the coalition government to strengthen their own partisan networks within the military prompted resistance to the downsizing of their own men. Second, in the mid-1990s, as the PDK began to collapse, the military operated as a haven for defecting NADK commanders, accommodated complete with their

troops. These commanders were wooed by rival politicians in Phnom Penh in an effort to tilt the balance of loyalties within the armed forces. It was this contest which provoked a brief return to armed struggle between the CPP and FUNCINPEC – a struggle which the CPP won in the battle in Phnom Penh in July 1997.

Subsequently, a third stage began in which the RCAF solidified as a bastion of CPP loyalty. Between July 1997 and the start of election campaigning in June 1998 40–60 FUNCINPEC military leaders were assassinated, effectively destroying the FUNCINPEC military network. From that time, the RCAF has operated as a fount of CPP power in rural Cambodia, and this offers a further reason for continued reluctance on the part of the CPP-dominated government to downsize.

Rationalisation of the military remains politically difficult for leaders in Phnom Penh because it would alienate generals who, since 1989, have developed extensive business interests based upon control of lucrative resources or transportation routes. Concern to retain or attract the support of military generals has constituted the single most important driving factor of Cambodian politics outside of electoral politics, since 1994. Competition over military allegiances continues to be evident between factions within the CPP, and the opposition Sam Rainsy Party has targeted middle-ranking military officers in its own recruitment strategies. Demonstrable military support is not only the trump card to be played in bargaining over the formation of coalition governments and in the conduct of intra-coalition, or government-opposition relations but is also an electoral issue. One recent survey showed that 24 per cent of the population base their voting decision primarily on concerns to keep the peace, indicating that not merely politicians but also voters seek to propitiate the military to prevent a return to warfare (Asia Foundation 2003: 49).

Because support of the military remains critical to civilian politics, the Phnom Penh government has continually ploughed resources into the military. Defence expenditures reached 50 per cent of the government’s total budget in the mid-1990s, and regularly ate into allocations for basic services such as education and health. Total government expenditure on education, health, rural development and agriculture only exceeded expenditure on defence

and security for the first time in 2002, four years after the war ended, despite dire needs in the service sectors, and the identification of rural development, as early as 1995, as 'the Royal Government's ultimate objective' (RGC 1994: 26). In short, the threat perceptions of politicians required to share power in the aftermath of civil war have prompted political strategies in which the support of various sections of the military loom large as resources of power. This has produced a military that devours international aid and dominates important sectors of the economy – particularly the natural resources sector – and which increasingly appears as the 'tail that wags the dog'.

Initially justified by CPP concerns that the peace process would unleash chaos and renewed 'genocide' by the 'Khmer Rouge', the process by which the military were allowed to accumulate significant economic interests and networks of entrepreneurship has created a situation in which reform is doubly difficult. The military controls many of the most profitable natural resource industries in the country, and acts as a welfare machine for thousands of soldiers. Thus it wields economic and electoral power, beyond its capacity for violence. These power resources are presently mobilised in support of the CPP (Hendrickson 2001). A World Bank-funded project to assist with demobilisation of 30,000 troops, which began in 2001, three years after the war ended, was suspended in 2003 after reports that demobilisation allowances were being collected by 'ghost' soldiers. CPP insiders had long reported privately that plans for donor-assisted demobilisation were viewed within the party and the military primarily as money-making opportunities, which could add to slush funds to keep the alliance between the military and the party solid.

Militarisation has skewed Cambodia's economic development particularly in rural areas.⁴ In the logging industry, for example, there have been reports of the military awarding concessions illegally; hiring out personnel to guard both legal and illegal concessions, including against local villagers attempting to continue with customary use of the forest; demanding and receiving bribes in exchange for permitting the transportation or smuggling of logs; and intimidating non-governmental or governmental actors who attempt to interfere with this trade (Hughes and Conway 2003). The military have performed a similar function with respect to fishing lots and land concessions. This has a number

of effects which are not conducive to 'turnaround'. In terms of governance, it prevents the emergence of rational plans for the use of resources and entails the continued weakness of regulatory institutions of government. With regard to the business environment, it imposes costs for legal operators forced to pay bribes and it creates a climate of insecurity and illegality which discourages reputable investors from investing. Furthermore, it increases the burden on the poor with far-reaching implications for growth in the agricultural sector, and, consequently, human development, as it impedes domestic investment in small-scale enterprise and in improving the productivity of family farms.

Similar dynamics are evident in the civilian state apparatus. This has also been used by the CPP as a power base, and corruption has flourished as a result of political imperatives to protect public servants and cement their political loyalty. The central civil service suffers from similar problems as the military. Numerically, it is bloated, as contending parties resist the downsizing of their own supporters. In terms of efficiency, it functions extremely poorly, primarily because the level of remuneration is insufficient to support an individual or family. Many civil servants remain on the payroll only to benefit from 'insider status' and connections but have stopped going to work in order to pursue secondary occupations in the private sector. Others depend upon the abuse of their position for rent-seeking to generate income. This has not merely reduced the efficiency of the civil service but has actually transformed civil servants into obstacles to economic activity, to be assuaged with a flow of gifts and bribes. Wealthy cliques and networks of corruption have emerged within the bureaucracy, as within the military – a development which furthers the potential for political factionalism within the civil service as state officials look to political leaders to protect their various scams.

That the government has actively supported this mode of development is evident from a number of policy failures in the 1990s. For example, a notorious article in the new 'Civil Servants Law', produced in line with the requirements of the 1993 Constitution, effectively institutionalised impunity for corrupt or abusive actions on the part of state and military officials, by determining that courts wishing to try such officials must gain the permission of the accused's superior before issuing a summons or

making an arrest. Although subsequently repealed in 1998, this article reflected an apparent intention in the 1990s to strengthen the executive at the expense of other arms of government.

Equally, attempts to professionalise the civil service or the judiciary by, for example, raising salaries and reducing the need for bribe-taking, have been continually avoided. Donor-led rationalisation plans have been accepted in principle but resisted in practice, as have plans for legal and judicial reform that could transform the courts from corrupt and inaccessible tools of the government into a meaningful arena for review. Meanwhile, the number of explicitly political posts and sinecures in the government and state have mushroomed, both through the award of hundreds of paid positions of 'prime ministerial adviser', the creation of an appointed Senate in 1998, and the expansion of the number of cabinet posts from 80 to 207 in 2004.

Lack of professionalism in the civil service emerging from this situation, has implications for the government's performance in macroeconomic policy. The Royal Government has been praised for the 'tight budgetary discipline' that has underwritten a stable exchange rate and low inflation throughout the past decade. However, such budgetary discipline is possible because of the non-functioning of the civil service and military as arms of the state and the transformation of them into networks of entrepreneurial interest instead. The loyalty of state and military functionaries is attracted through the provisions of goods that do not appear in the national budget, reducing pressure to raise salaries. Budgetary discipline in a climate of severe dearth also shows the disempowerment of the service ministries – indeed, the lack of any constituencies within the state or society capable of demanding resources from the government. The result is poor health and education services and the continued levying of informal fees on patients and parents. This has far-reaching effects on human development and on the rural economy – the single most common cause of landlessness is the sale of land to pay the high costs of accessing healthcare (Williams 1999).

At the same time, other elements of macroeconomic policy – notably, the attempt to increase revenue flows – have enjoyed only limited success. Schemes to release revenue through

regulated exploitation of forest resources were instituted in the mid-1990s but have been dogged by the tendency to illegality and corruption. Efforts to promote tighter customs regimes and tax collection have enjoyed very limited success – despite pressure from donors, government revenue only managed an increase of 1.7 per cent of gross domestic product (GDP) between 1999 and 2004, rising from 10.2 per cent to 11.9 per cent (IMF 2004).

2.3 Implications for human development

The implications of the above for human development are already clear. The Cambodian government has continually de-prioritised pro-poor policy in favour of policies that preserve the power of vested interests. Services such as health and education have been de-prioritised in government spending, in favour of diversion of resources to the military. The privatisation of land and natural resources has occurred violently, with a lack of transparency, and with little attempt to ensure accessibility to legal process by the poor and illiterate. Ongoing militarisation and the subjection of the judiciary and National Assembly to an overbearing and entrepreneurial executive has entailed that channels for the expression of grievance are few and ineffectual.

So far, the results of economic and political reform for the poor has been dispossession on a grand scale. The poor have been increasingly excluded from the customary use of fisheries and forests, and have been driven from their land. In these circumstances, the ability of poor families to access healthcare and education, to invest in their own means of production, or to advance by any other means beyond bare subsistence has been extremely limited. As a result, although there have been no survey-based national poverty estimates since 1999, the balance of evidence suggests that poverty has declined only slightly, if at all, since 1993, despite more than ten years of high average growth rates.

3 Donor efforts to sponsor turnaround

Donor efforts to sponsor turnaround can be broadly divided into two overlapping phases. The first phase, from the first meeting of the International Committee on the Reconstruction of Cambodia in 1993 to the emergence of the CPP-led government in 1998, focused upon structural adjustment for macroeconomic stability, together with provision of humanitarian assistance and aid for rehabilitation via

externally funded projects. The second phase, from 1998, reflected a concern by donors to tackle the structural problems outlined above, through a focus on reform of governance. Through both phases, donors have been awarded considerable prestige by the level of aid that has flowed to Cambodia but this prestige has not been converted effectively into influence over the actual functioning of the state.

3.1 Donor approaches 1993–8

Western donors entered Cambodia in the early 1990s following ten years of non-recognition and embargo of the SoC government. Deep distrust between international organisations and the SoC was evident during the UN peacekeeping operation and continued for much of the 1990s, arguably until it became plain to most Western diplomats in Phnom Penh that FUNCINPEC – the main political alternative to the CPP and winner of the 1993 elections – was poorly led and unviable as a political movement in the long run.

The first phase of donor engagement, until that realisation struck home, has been criticised on two main grounds: lack of coordination among donors and distrust of the 'existing administrative structures'. During this period, a high proportion of aid was delivered in the form of substitution technical assistance, and projects were implemented via Project Implementation Units staffed by officials taken out of the state, given salary supplements, and set to work essentially for donors, resulting in a lack of national ownership, limited impact in terms of capacity, and reduced pressure on the government to put its own house in order (Mysliwiec 2003).

To a great extent, this focus was the result of donor perceptions that were politically tinged with Cold War propaganda. For example, the presumption that the state itself 'lacked capacity' ignored the experience of the previous decade, in line with the view put forward in Cold War propaganda that the PRK regime had been merely a façade for Vietnamese administration. Equally, donor reluctance to engage with the politicised state apparatus reflected the hope, in the early 1990s, that democratisation would affect the task of state reform. Aside from mandating UNTAC to oversee the 'existing administrative structures' during the lead-up to elections, no strategy was articulated, internationally or locally, for effecting a de-politicisation of the Cambodian state.

Electoral democracy as it has developed in Cambodia has exerted insufficient scrutiny to affect this task. Progressives in both the CPP and FUNCINPEC have been marginalised in favour of those surrounding Hun Sen and Norodom Ranariddh, respectively, who have participated zealously in the politics of slush funds, gift-giving, patronage and rent-seeking. Donors missed the opportunity to engage with the bureaucracy at an early stage in the reform process, when the old order had broken down and the nature of the new was as yet uncertain. Chances to cultivate new attitudes, promote new incentive structures, promote reformers and boost their morale and empower a new code of professional ethics were missed. By the time donors considered reform of the civil service as a first step towards addressing structural problems in the Cambodian economy, the new networks of corruption were institutionalised along with associated attitudes, and the most enthusiastic participants in these networks had been elevated to the highest positions in both party and state, and were capable of acting as influential brakes on reform processes aimed at promoting turnaround.

At the same time, relatively little attention was paid by donors, in the early years, to ensuring the penetration of aid beyond the city. The paucity of infrastructure, continued civil war and unclear lines of authority in rural areas entailed a concentration of aid disbursement in Phnom Penh. Curtis (1998) reports that Phnom Penh, with 10 per cent of the Cambodian population, received nearly one-third of the total external assistance in 1994 and 37 per cent in 1995. Countrywide programmes or activities supported through donor assistance – to a considerable extent staffed and managed from the capital – accounted for 53 per cent of total disbursements in 1994 and only 47 per cent of total disbursements in 1995 (Curtis 1998: 82–3). Over the whole five years of the 'Royal Cambodian Government's First Socio-Economic Development Plan' (1996–2000), allocation of public investment expenditures was highly unequal: 65 per cent went to projects in urban areas, as opposed to 35 per cent to rural areas (UNDP 2001: 7). The bias towards the city reinforced top-down notions of both democratisation and development prevalent among the Cambodian political elite. In 2004, government development planning continues to be based around the unveiling of infrastructure and school-building projects by political leaders.

3.2 Donor approaches after 1998

After 1998, donor approaches to reform altered. The CPP victory in the July 1998 elections prompted donors to reassess and to focus on structural reform. Capitalising on the CPP's concern to win international recognition of its 1998 election victory, donors increased the frequency of Consultative Group meetings, and drafted a Governance Action Plan (GAP), establishing mixed donor-government working groups to tackle key issues. The key issues identified were: legal and judicial reform; improvements in public finance; improvements in governance; anti-corruption; gender equity; demobilisation; and natural resource management. The GAP produced detailed action plans in all these areas, with priorities and evaluatory benchmarks specified. However, in 2004, there has been limited progress towards achieving the goals set out in it (IMF 2004).

There are a number of reasons for this. In certain areas, for example, legal and judicial reform, there is a lack of political will on the part of government to take serious measures to tackle the problems: a member of the Legal and Judicial Reform Working Group in early 2003 privately described the Group as 'dysfunctional'. Continued intervention by the executive in the workings of the judiciary has been evident in 2003 and 2004, including the arbitrary suspension of a judge who failed to toe the party line with respect to the killing of a prominent union leader. Progress on public administration reform has been slow: the functional review of the civil service has run into repeated problems. Demobilisation has been suspended; and in early 2003, the internationally respected official government forestry watchdog, Global Witness, was sacked by the government and replaced by a new agency, widely viewed as insufficiently assertive.

The one area that has seen real progress has been decentralisation, following the commune elections of 2002. In part, decentralisation can be seen as part of a strategy to promote CPP power. For example, the model of commune administration selected – multi-member councils comprising political party representatives elected on the basis of proportional representation and party lists – renders councillors accountable primarily to their party rather than directly to the electorate and ensures a significant political advantage to the largest parties. The commune elections were perhaps the least open of Cambodia's post-UNTAC elections, particularly with

regard to access to the electronic media. Given the CPP's local strength across the territory, which far outstrips any other party, efforts to deconcentrate governmental functions and decentralise power away from the more plural political arena of Phnom Penh arguably increases the advantage of the CPP over its political rivals. However, decentralisation in the form of commune elections, combined with extension of the elected Village and Commune Development Committees associated with the Seila Programme also introduced a new grassroots politics into Cambodia.⁵ This is a politics of immediate needs in the sphere most relevant to subsistence livelihoods. To the extent that villagers invest in the new local politics, an opportunity for a more vital bottom-up reform process opens up.

At national level, however, progress on governance reforms has been slow. A 'Rectangular Strategy' presented by the new government formed in 1994 reiterates commitments in the GAP but recent donor reports by the World Bank and United States Agency for International Development (USAID) note that progress on previous commitments is slow or absent (World Bank 2004a; Calavan *et al.* 2004). These problems and delays reflect the underlying reality of a state and a military that have become increasingly penetrated by clientelist networks of rent-seeking and corruption. These networks, once established, are difficult to break. Having looked to extra-constitutional methods to bolster state and party power, it is now increasingly difficult for any party to move away from these, and plans for rationalisation of the state and of governance remain hostage to these vested interests.

4 Outlook for turnaround

In brief, donor impact on turnaround so far has been limited due to three major reasons. First, the peace process was perceived by the former combatants leading the major parties as a new opportunity to defeat their enemies, rather than a basis for an inclusive elite pact. This has entailed that politicians have continued at the same time to politicise and appease a bloated, entrepreneurial and dangerous military which operates as a barrier to structural reform of civilian politics and of important sectors of the economy.

Second, donor distrust of the state and its capacity for much of the 1990s led to a lack of substantive dialogue with government and a tendency to extract

reformers and put them to work in Project Implementation Units (PIUs) rather than to attempt to enhance their role within the mainstream government structure. As the success of the Seila Programme showed, in many cases levels or offices of government which lacked resources and were desperately seeking to adapt to the rapidly changing situation may have been open to substantive dialogue with donors at this early stage but this opportunity was missed by donors who resolutely pursued non-governmental or parallel channels for disbursing aid, and who viewed the state as monolithic in support of the interests of the centre. The Seila Programme shows that homing in on the different incentive structures of different levels and agencies within the state can be productive in providing the resources and incentives for government officials to initiate reforms.

Third, the focusing of aid in urban areas and the lack of success in penetrating rural Cambodia by donors, opposition political parties and even the newly established local NGOs, for much of the 1990s prevented not only the promotion of reform among peripheral officials who gained least from central government strategies and had most impact on the lives of the poor but also the mobilisation of the rural poor themselves, in a manner that could influence trajectories of change in their favour. Consequently, few pressures have been successfully

placed upon the CPP in a manner that could compel the party to alter its *modus operandi*, and donor initiatives have to a great extent been subverted or finessed to suit party interests.

The outlook for turnaround depends to a great extent on progress in these three areas. In the area of donor–government relations much progress has been made since 1999 in terms of developing more constructive relationships, establishing frameworks for consultation and promoting national ownership of reform programmes. However, in the interconnected areas of civil–military and state–society relations, there are fewer grounds for optimism. Since 2002, government tolerance for civil society activism to promote the voice of the poor has declined, and policing of both political and entrepreneurial activities by the poor has become tougher. Although the military’s share of the government budget has declined to an extent, it continues to absorb large quantities of aid and to dominate the natural resource sector, squeezing out both poor resource users and legitimate businessmen. The challenge for turnaround in Cambodia is to translate improved understanding and verbal agreement in Phnom Penh into a rolling back of militarisation in the countryside, and greater tolerance and respect within government for the economic contribution that can be made by the poor.

Notes

1. Some 62.7 per cent of adult Cambodians are illiterate or semi-literate, according to UNESCO/Ministry of Education, Youth and Sport survey (2000) ‘Literacy Rates Much Lower than Estimated’, *Cambodia Development Review* 4.2 (2000): 1–4.
2. The PDK alleged that UNTAC had failed to ensure the withdrawal of all foreign forces from the country, a claim based upon the view that all ethnic Vietnamese in Cambodia represented ‘foreign forces’ – a definition that UNTAC rejected.
3. Disastrous defeats of government forces in military actions in 1994 suggested that size did not confer advantage on the battlefield.

4. Urban areas were rapidly demilitarised after the 1997 military battle, when the victorious Hun Sen ordered a crackdown on the carrying of weapons and the deployment of troops and bodyguards in urban areas.
5. The Seila Programme was one of the few international aid programmes in the 1990s to focus on rural Cambodia, to work through the state, and to intervene directly at sub-national level, prescribing new relationships between provincial, commune and village planning processes, intended to empower the poor.

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