### Status Index

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**Management Index**

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*scale: 1 (lowest) to 10 (highest)*

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at [http://www.bti-project.org](http://www.bti-project.org)


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Executive Summary

The major tendencies of the last several years continued in 2009 and 2010. The Cambodian People’s Party (CPP) strengthened its grip on Cambodian politics, further eroding the democratization process and stabilizing its de facto one-party rule. Economic growth halted in 2009 due to the global financial crisis and declines in both foreign investment and trade exports. However, the economy has begun to recover, owing to the dynamism of key sectors and targeted investment by the government. Persistent structural deficits including an unequal distribution of wealth, a growing gap between wealthy and poor Cambodians, and corruption prevent sustainable development.

During the period under review, democratic institutions remained weak and in danger of eventually becoming meaningless. Prime Minister Hun Sen’s CPP won the 2009 district, province and city-council elections (with 74.73% of the votes). Since the parliamentary elections of 2008, the CPP has held 90 of 123 seats in the National Assembly; 43 of the 54 Senate seats subject to elections were taken by the CPP in the 2006 elections; and 7,993 of the 11,353 communal council votes were cast for the CPP in the 2007 elections. The CPP now dominates the entire political process, and holds a quasi-monopoly over all important democratic institutions. The opposition, in particular the Sam Rainsy Party (SRP) that placed second in all recent elections, remains subject to attacks by Hun Sen and his elites. Sam Rainsy was sentenced to two years in jail for racial incitement and property destruction after leading a group of protesters to an area of the Cambodian-Vietnamese border that is still a source of dispute between the two countries. As in 2005, Rainsy was stripped of his immunity to prosecution, and his case was eventually tried in October 2009 and again in September 2010. Rainsy was sentenced in absentia to an additional 10 years of jail time on charges of manipulating documents and misinforming the public. If these verdicts are not revoked, Rainsy will not be able to stand for the upcoming national elections in 2012. That would deal a severe blow to the opposition’s electoral chances. An ongoing legal dispute between Hun Sen and former women’s
affairs minister (now SRP politician) Mu Sochua, focusing on charges of defamation, further demonstrates the politicized nature of the judiciary and the lack of independence from government interference.

Several new laws were introduced in 2009 and 2010. Among the most important were the long-awaited NGO law, a reformed penal code, and a draft anti-corruption law. All intended as guarantees of legal security, these laws are formulated so imprecisely that the right to define their application remains firmly in the hands of the executive. One of the most noted developments of 2010 was the trial against former Khmer Rouge leader Kang Kek Iev (“Duch”) who was the first to be convicted by the mixed tribunal. The verdict received a mixed welcome from the national and international press as an important step toward justice and reconciliation, but the sentence of 35 years (19 years after accounting for time already served) was decried by victims as too lenient.

After a slump in garment exports, construction and tourism, economic development is back on track. In 2010, the pace remained slow as a consequence of the global economic crisis (under 5% growth rate), but the Cambodian economy generally showed itself to be in recovery. The government’s monetary policies and a stable currency helped solidify generally positive macroeconomic developments. A few key sectors remain the main drivers of growth, with diversification repeatedly demanded by external experts.

To conclude, the state of Cambodia today has seen a further reversal of the democratization process, continues to be dependent on foreign assistance, has shown a diminished but still considerable trend toward economic growth, and displays massive deficiencies in the rule of law.

History and Characteristics of Transformation

The hopes once raised by Cambodia’s process of democratic transformation have long since been disappointed. The multiparty system has slowly evolved into a de facto one-party state. Political stability and a notable containment of violence have finally been achieved, but the democratic transformation process has stalled. Economic liberalization measures tentatively begun in the mid-1980s were consolidated after 1997 (when the Khmer Rouge were vanquished, and the coup of 5 – 6 July 1997 led to a cut in aid, the introduction of a value-added tax and other reforms), and have resulted in an impressive growth trend in the last decade that continues even after an economic crisis.

Following the 1991 Paris Peace Accords, the United Nations mission to 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 the international observers. This first phase of the political transition (1992 – 1997) was characterized by instability, intense political conflict, pre-electoral violence and the repression of opposition forces. Officially, the first elections were declared free and fair by election observers, and gave reason to hope that a new democratic tradition of
electoral politics had been established. In reality, many voters had been hindered from participating by the remnants of the Khmer Rouge movement and the administrative structure of the CPP, which had not been dismantled by UNTAC. Yet despite these barriers, the party that won the elections was the royalist National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia (Front Uni National pour un Cambodge Indépendant, Neutre, Pacifique, et Coopératif, FUNCINPEC), while the Cambodian People’s Party (CPP) came in second. However, the CPP strong-armed its way into a coalition government under two prime ministers, Prince Norodom Ranariddh (FUNCINPEC) and Hun Sen (CPP), after elements of the CPP attempted to induce three provinces to secede from Cambodia following the election, while offering credible threats of violence. King Sihanouk orchestrated a deal in which there would be no winners and no losers, and the will of the Cambodian people would be subsumed for the purpose of national reconciliation.

Political violence and fights with the Khmer Rouge, which had withdrawn from the election process, ensued. Opposition members and journalists became frequent victims of violent attack. The coalition government was unstable from the beginning. The CPP and FUNCINPEC were deeply divided, and changing factions within the parties further eroded the stability of the coalition. Relations between Ranariddh and Hun Sen declined precipitously. In 1997, Ranariddh was ousted by CPP leader Hun Sen in a bloody military coup. Cambodia’s accession to ASEAN was postponed because of massive international criticism of Cambodian politics.

The second parliamentary election, held in 1998, resulted in another coalition government between CPP and FUNCINPEC. Some stability was achieved after the Khmer Rouge was officially dissolved in 1998, but the elections were again preceded by systematic and widespread political intimidation and violence by the CPP. The Sam Rainsy Party, a new oppositional force led by the eponymous former finance minister, emerged in the 1998 elections in spite of attempts to keep the group from participating equally. With Hun Sen as sole prime minister, the CPP developed into the strongest political force, a trend that continued with the first commune election of 2002 and the next parliamentary election in 2003. Since that time, Hun Sen has taken broad control over the security apparatus, civil service, all TV stations, almost all radio stations, all the major newspapers, the electoral administration and the judiciary. His CPP remains the largest party with a firmly established patronage network.

The democratization process stalled after 1997, and has now been reversed by the noticeably autocratic tendencies of the CPP. Hun Sen has managed to strengthen his hold on Cambodian politics, while the CPP emerged as the dominant party in the most recent parliamentary, Senate and commune elections. The 2006 Senate election, the second commune elections of 2007 and the national elections of 2008 all resulted in landslide wins for the CPP. The 2009 district-level council elections brought about yet another victory for the party CPP. FUNCINPEC has been weakened by internal fighting, and a final split came when Prince Ranariddh was dismissed from the party’s leadership in 2006. In the 2007 and 2008 elections, FUNCINPEC no longer played a significant role. Sam Rainsy and some of his party members were stripped of their parliamentary immunity in 2005. Sam Rainsy subsequently fled the country until being receiving a pardon, after publicly apologizing for the alleged defamation of Hun Sen and Prince Ranariddh. In 2009,
Sam Rainsy again lost his immunity and is now in exile after having been sentenced to 12 years in prison. Left as the only oppositional force, the Sam Rainsy Party has become even more isolated, though it recently joined forces with the Human Rights Party. The CPP under Hun Sen has now established a de facto one-party system, with no serious electoral competitors.

The process of economic liberalization has been under way since before the political transformation, and has accelerated since the late 1990s. In the aftermath of the 1997 financial and economic crisis, Cambodia suffered from a decrease in foreign assistance, but managed to implement important steps in the transition to a market economy. Cambodia has made significant progress in liberalizing its economy, with annual GDP growth rates of more than 10% since 2003 testifying to the economic boom. Growth rates that averaged 9.4% over the last 10 years and double-digit growth rates between 2002 and 2006 demonstrate a macroeconomic stabilization. As a consequence of the global financial crisis, 2009 saw negative growth rates for the first time since the 1990s. However, the economy picked up again and growth rates over 5% are not unlikely in coming years. The most positive development was the successful implementation of reform measures in the fiscal and monetary sector. Nevertheless, important reforms such as improvements in the welfare system and poverty reduction remain to be implemented if the efficiency and sustainability of economic development is to be enhanced. The prospect of such reforms is unlikely without a serious crisis or regime change, however.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The Cambodian state has been stabilized by the CPP’s nearly unchallenged hold on power in recent years. After the disbandment of the last Khmer Rouge fighting group, the state now exerts its monopoly on the use of force over the entire territory. Internal military conflict is unlikely; no political or other forces seriously challenge the state’s monopoly on the use of force. The only exception is the area around Pailin, a former stronghold of the now-dissolved Khmer Rouge movement, where illegal loggers and gem traders have frequently evaded the state’s control. Ongoing border disputes with Thailand in the Dangrek mountain region around the temple of Preah Vihear resulted again in an exchange of shots in April 2009, leading to casualties on both sides. While the conflict remained unresolved by the beginning of 2011, even escalating into what Hun Sen has called “war,” it is unlikely to have any serious impact on the government’s monopoly on the use of force. On the eastern side, complaints of Vietnamese encroachment on Cambodian territory remain, but the authorities have always dismissed these claims. A more recent development that needs to be observed further is the establishment of private (Chinese) economic zones that are basically outside state control.

About 90% of the Cambodian population is of Khmer origin, yet several minorities exist that face some difficulties, including the Khmer Loeu and the Cham. Ethnic Vietnamese that have lived in Cambodia for decades make up another group. Definitions of citizenship are commonly made in reference to the main ethnic group, the Khmer. The constitution grants political rights and civil liberties to every Khmer citizen, so despite recurrent discrimination in practice, the problem of citizenship has widely become politically irrelevant. Current citizenship law has made it difficult for some of the minority population, as well as Cambodians living abroad who are entitled to citizenship, to prove that they are citizens of Cambodia without paying significant bribes. This law, as well as continued use of the anti-Vietnam issue in election campaigns, has led to some level of discrimination against
these and other minority groups, including the Khmer Kampuchea Krom who populate large parts of the Mekong Delta.

The majority of Cambodian citizens are Theravada Buddhists. This is reflected in the constitution, which establishes Buddhism as the state religion. Despite this stipulation, the political process itself is mainly secular, with state and religion forming two distinct areas.

Cambodia’s administrative system remains inefficient in providing public safety and order. Still one of the most corrupt systems in the world, the Cambodian state cannot prevent interference in administrative processes on the part of the military and certain political groups. Furthermore, tax collection has yet to become completely functional. Some administrative structures have been established both on the national and on the district and communal level. Nevertheless, structural deficits and badly qualified personnel continue to hinder administrative efficiency. Particularly in the provinces, but even at the national level, jurisdiction is subject to personal influence rather than legal rules. Overall, the basic infrastructure of the state has not improved.

2 | Political Participation

After the general and Senate elections in previous years, the only elections held during the period under review were the first provincial and district level council elections, which took place in May 2009. These council elections formed part of a decentralization campaign, and voting was open only to commune councilors, who were elected in the 2007 local elections. As expected, the ruling CPP came first, notching up another landslide victory with around 70% of the votes. Representatives of the Sam Rainsy Party, the only serious competitor for power, accused the CPP of vote-buying. Officially, the constitution grants free and fair elections. However, the de facto strengthening of the CPP into the single dominant party, as well as massive discrimination against opposition parties and their members, systematic instances of vote buying, and state control of large parts of the media have rendered the electoral process almost irrelevant.

The rule of the government has been mostly ineffective. While the elected government has the power to govern, neither the prime minister nor his administration has been able to make effective use of this power. Officially, the military and the security apparatus are controlled by civilian institutions, but Hun Sen has access to a small private army that is subject to his command. The rule of the prime minister and the parliament faces no major challenges by veto powers. The executive accomplished some macroeconomic reforms and launched an economic growth process in a politically stable environment. Structural constraints interfere with the governance process. For instance, corruption, the strong influence
of patronage networks, divisions within the ruling CPP, and a general averseness to reforms continue to paralyze the country’s general political and economic development.

The constitution guarantees the right of free assembly. However, a new law – the Law on Peaceful Demonstrations – was introduced late in 2009, and passed without the support of the opposition (the Human Rights and Sam Rainsy parties). Initially welcomed by civil society groups as clarifying the legal status of NGOs, the law in fact restricts the freedom of assembly by limiting the number of protesters at demonstrations to 200 people, and makes it easier to prohibit demonstrations altogether, thus undermining the right of free assembly. Legal advice NGO Licadho issued a paper in December 2010 that criticizes the law as one of the most serious threats to civil society organizations in recent years. Demonstrations against land-grabbing and forced evictions in the capital Phnom Penh have been regularly hindered. Civil society and trade union activities are being curbed by campaigns of intimidation and even killings. In December 2010, a draft version of the law on NGOs and associations that had been announced in 2008 was published. In order to consult with NGOs, the government agreed to put off making a decision on the law until early 2011. The proposed law would compel all of the countries’ more than 2,000 non-governmental associations to register in a complicated procedure. All associations and domestic NGOs would be required to reapply with the government within 180 days of the law’s passage or see their previous registration documents nullified. Should the law be implemented in its current form, the previously relatively unrestricted levels of NGO activity are expected to be newly limited, and Western influence is expected to decline. Small grassroots groups may not be able to fulfill the necessary requirements, and would be dissolved as a result.

Media and press freedom is on the decline. In the Press Freedom Index of 2010, issued by the international NGO Reporters Without Borders, Cambodia was ranked 129th of 178 countries (down from 117th in 2009). The broadcast media, especially television stations, are largely controlled by the ruling CPP. Less than 10% of the population has access to print media, while the rest depends on local broadcasting stations for news and information. Some independent radio stations have thus become the backbone of critical reporting. Furthermore, in 2009 and 2010, defamation and libel cases were brought against several journalists whose critical reports had led to official discomfort. Intimidation and threats against journalists and opposition groups continue. Several human rights organizations have expressed concern over tendencies toward self-censorship, particularly among print media journalists. The freedom of expression, although ostensibly guaranteed by the constitution, is in fact systematically restricted. In a highly politicized case, leading opposition politician Sam Rainsy was stripped of his parliamentary immunity and sentenced in absentia to 12 years in prison for propagating public disinformation in September 2010. Rainsy had published a map on his website that showed alleged...
Vietnamese boarder encroachments. External observers agree that the government deliberately made use of its defamation and disinformation laws to silence Rainsy before the upcoming elections of 2012. A new penal code, replacing the legal provisions established by UNTAC, was introduced in December 2010. The new code has been criticized by human rights groups for containing too many vague formulations and interpretive gaps. While some regulations may be beneficial to the overall freedom of expression, others allow government agencies to press charges against politicians, journalists or other critics for defamation and public insult, with the law’s definitions allowing even institutions to be injured parties.

3 | Rule of Law

The separation of powers between the executive, legislative and judicial branches of Cambodia’s state remains problematic. The government has interfered with various court cases, for instance by forcibly retiring four members of the Supreme Council of Magistracy in June 2009, in violation of the constitution. Moreover, court decisions have more than once been overruled by the government, which has granted pardons to opposition politicians if politically convenient and applied new legal principles in making charges against political adversaries. Parliament has been bypassed in the formulation of laws, particularly after the latest election, which left the opposition with a negligible number of seats in the lower house and the government in control in both the Senate and National Assembly. The Senate has not met its constitutional role as a supervisory body, and the judiciary lacks the independent means to be fully functional. Prime Minister Hun Sen and his government face no constraints in drafting laws and getting them through parliament, and the government faces no serious oversight on the part of the judiciary. Indeed, the opposite is true.

The institution of the judiciary has not established itself as an independent force in Cambodian politics. While reforms to the Law on the Supreme Court of Magistracy and the Law on the Statute of Judges were announced, they were not implemented during the period under review. Judges continue to serve without any formal legal training, and the judiciary continues to serve the interests of the ruling class rather than those of the people. A lack of transparency within legal processes, doubts about the independence of judges and the absence of legal guarantees have allowed a culture of impunity to be maintained. Corruption persists; cash payments are frequently accepted in lieu of conducting proper criminal prosecutions. Even capital offences such as murder are often settled by payments to the victim’s family, thus undermining the judicial process. Courts have little power to act independently of the executive branch of the government, and there are few checks on the judicial system.
Endemic corruption continues to plague the current administration. Many members of the military and civilian officeholders, some of them long-serving members of the bureaucracy, have been known to be involved in land grabs, illegal logging or mining, and other organized criminal activities. The extraction and natural-resources sectors in particular have become home to the systematic bypassing of official channels. Promises to fight systematic corruption are made frequently, but little action has followed. Pressure from external donors and reports from international organizations like Global Witness have as yet failed to have tangible impact. Instead, the release of detailed reports has often resulted in defamation campaigns being launched at critics.

Cambodia has become a party to all important international human rights treaties, and has even signed many of the additional optional protocols. Yet in spite of its official commitment to the protection of all human rights, observers again reported severe civil rights problems during the years under review. Structural impunity for serious human rights violations persists. Cambodia finally signed an optional protocol relating to the prevention of torture and of cruel, inhuman, degrading treatment and punishment; but while torture and lawlessness have been targeted as key reform areas, little progress has in fact been made. Arbitrary arrests, police violence against detainees, and disastrous prison conditions continue. The number of people affected by forcible evictions and land grabs seems to have declined, but the problem itself remains, with indigenous groups particularly at risk. Cambodian human rights watchdogs Adhoc and Licadho have documented several cases that reveal the ongoing practice of forced evictions. Threats and violence against land activists, including attacks on human rights lawyers and journalists who have defended or publicized the stories of land grab victims, continued in 2009 and 2010. According to Adhoc, 235 human rights defenders were charged with a variety of allegations in 2009, a number dramatically higher than that of previous years. Human rights reports indicate that Cambodian authorities and courts not only fail to protect the population against forced evictions, but are actively involved in these unlawful practices and protect the mostly wealthy perpetrators from legal consequences. Systematic violations of women’s and children’s rights persist, including massive incidences of domestic violence, rape and human trafficking for sexual exploitation. A recent Adhoc report states that there has been an increase in cases of human trafficking despite a new legal framework. The constitution grants equal rights to both men and women, but gender discrimination is still a common societal practice. Several population groups, including women and children, disabled people, and religious and ethnic minorities such as the Muslim Cham suffer from inequality and discrimination. During a visit by U.N. Secretary-General Ban Ki-moon, Hun Sen demanded that either the head of the United Nations Office

Prosecution of office abuse

Civil rights
of the High Commissioner of Human Rights in Cambodia be removed, or the entire office be closed. This problem is a recurrent one, but 2010 saw such attempts go further than before.

4 | Stability of Democratic Institutions

The major democratic institutions have not been consolidated. After the elections of 2008, the executive established itself as the only serious power in Cambodian politics. The other democratic institutions do not and cannot serve as balance to the government and prime minister. The prime minister and his cabinet make all key decisions without systematically consulting parliament or the public. The CPP has monopolized all decision-making processes and bypasses formal democratic processes. As a consequence, the judiciary is captured by the executive, and the legislative institutions function as rubber-stamp bodies. For instance, the budgeting process is completely opaque, with the budget itself made available to the public only after it has passed through the legislative process. Hun Sen has further widened and strengthened his network, which consists of family members and associated partners; though this network he holds considerable influence over the executive, but also over parts of the judiciary and legislature. Politicized governance and informal political practices dominate everyday decision-making processes, rendering democratic institutions irrelevant.

Commitment to democratic institutions, particularly after the results of the last general elections, has shown little tendency to improve. With the overwhelming majority of votes cast for the ruling party, the CPP has stabilized its quasi-monopoly over the political process. Prime Minister Hun Sen generally governs by decree and executive order, mostly ignoring the rubber-stamp parliament. With little evident opportunity to overturn CPP rule, a general loss of trust and interest in the functioning of democratic institutions, not only within the National Assembly and the Senate, but also within other segments of the political elite and civil society, seems to be inevitable. Since Hun Sen has managed to neutralize his political competitors – forcing Sam Rainsy to flee the country, for example – and further disempowered parliament and the Supreme Council of the Magistracy, hopes for democratic reform have fallen to a new low.

5 | Political and Social Integration

Even before the most recent national elections, the Cambodian party system had essentially collapsed. The only two competing parties that remain are the Cambodian People’s Party, the dominant power on the national, regional and communal levels, and the Sam Rainsy Party, which is now headless after Sam Rainsy’s flight abroad. The CPP rules alone with a simple majority in the National
Assembly. After the breakdown of CPP’s former coalition partner, theFUNCINPEC party, and the disappointing results for the Human Rights Party and the League of Democracy Party in the last elections, the party system clearly fails to represent the whole variety of societal groups. Parties now are primarily coalitions of personality-oriented election associations that come together to form ad-hoc platforms, but remain unable to cooperate strategically to facilitate long-term power change. With CPP being the unchallenged hegemon, patronage networks have come to serve as a substitute for regular political parties. Within the population, the CPP has the strongest roots of all the Cambodian parties. As CPP members occupy most of the official posts in the national, but also communal administration, police and judiciary, even oppositional activity depends on the actions of the CPP. The return of former FUNCINPEC leader Prince Ranariddh to politics in late 2010 might further deepen the fragmentation of the opposition forces.

The main interest groups active in Cambodian politics are non-governmental organizations and trade unions. A new law, the so-called NGO law, is expected to be introduced in 2011, but no clear road map for the process was published. A first draft was issued in late 2010. However, due to massive criticism, from the national NGO community and from the U.S. government among other sources, the Cambodian government has agreed to consultations with civil society representatives, meaning that amendments to and revisions of the law may become necessary.

While the government has announced that the law will help to sever links between non-governmental groups and organized crime – some evidence of which has became public in recent years – civil society organizations fear further impediments to their work. Depending on the final text of the NGO law, the bureaucratic difficulty of the registration process may ultimately be too much for small organizations, discouraging them from registering. A large number of foreign NGOs have been active in Cambodia since the days of the UNTAC administration, but the new NGO law may also affect them negatively. Despite the presence of a considerable number of trade unions, only a small percentage of these are independent or tied to oppositional political groups. Most unions are pro-government and dependent on favors and protection. While the assassination of union leaders that struck down Chea Vichea and Hy Vuthy between 2004 and 2007 seems to have stopped, violence against union activists is still common. For example, Free Trade Union representative Phao Sak was beaten and seriously injured in September 2010, presumably in order to stop negotiations for local factory workers. No suspects were arrested, and the police expressed open doubts that the attack had a political background. Moreover, official pressure on trade unions remains high. The threat of arrest and prosecution on the basis of propagating “disinformation” or “defamation” is now systematically used to silence union leaders’ critical voices.
Overall levels of support for democratic norms seem to have remained stable. Generally, the prospect of regime change has become unlikely with the further strengthening of the Hun Sen government, and many Cambodians are as a result disillusioned. Now that even the local council elections resulted in a massive victory of Hun Sen’s CPP, democratic change has become even less probable. General voter turnout levels fell between the elections of 1998 and 2008. The latest district and province council elections were held only indirectly, with commune council members the only figures allowed to cast votes. According to a recent poll, almost three-quarters of the eligible voters were unsatisfied with the way democracy works in their country. Parliamentary representation is regarded as less important than representation by village chiefs. Trust in the democratic process at the national level has diminished, but voting itself is generally accepted as an important participatory practice. However, the lack of recent and reliable survey data able to provide comparative data does not allow a numerical qualitative assessment of this criterion to be assigned.

Cambodia is still in the process of rebuilding social cohesion and trust after decades of civil conflict and the corrosive effects of the Khmer Rouge regime. Accordingly, societal relations are characterized by a lack of human resources and a persistent level of mutual distrust. The nontransparent and corrupt nature of the political system has further impeded the development of social capital. Working alongside the many urban and international NGOs, local grassroots groups and associations have specialized in supporting villages and local communes. They are mostly active in the social welfare sector or in health care, particularly in the fight against HIV/AIDS. Small NGOs often support villagers by providing legal aid, health education, or counseling. Buddhist associations have also organized several local projects since the late 1990s. In September 2010, UNDP awarded Buddhist monk Bun Saluth a prize for his engagement in saving the forest in Oddar Meanchey province, in part by giving villagers alternatives to illegal logging. This environmental project is now officially supported by the Cambodian government. While civil society in Cambodia remains rather fragmented, NGO activities have already helped to foster community-building on a local level.

II. Economic Transformation

Level of Socioeconomic Development

In the UNDP’s Human Development Report Cambodia falls into the ranks of country’s with medium human development, albeit at the lowest end. In the 2010 index, it was ranked 124th, a very slight improvement compared to 2005. Its HDI
value is given as 0.49, which is less than the 0.59 given in 2007. Growing disparities in the distribution of wealth and poverty remain among the country’s most salient problems. According to a variety of sources, average annual per capita income has stabilized at about $1,800 (measured in purchasing power parity terms), which makes Cambodia one of the poorest countries in Asia. Furthermore, more than one-third of the population (35% in 2009) lives in poverty (i.e., below the poverty line of $.46 to $.63 per day at 2010 exchange rates), with individuals unable to fulfill their basic needs. Around 90% of this population lives in rural areas. Poverty reduction has been slow, and the rural population in particular has thus far seen little perceptible improvement. Social exclusion evidenced by the prevailing poverty, unequal access to education and persistent gender discrimination. Cambodia ranks 95th of 138 countries in the Human Development Report’s Gender Inequality Index. Discrimination based on ethnicity also exists, but is a relatively minor factor. Throughout the period under review, the Cambodian government did little in the way of reducing social disparities. Poverty levels remain high and income disparity is on the rise, indicated for instance by Cambodia’s Gini coefficient, now at the relatively high level of 0.44 (up from 0.42 in 2004, according to the Human Development Report).

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<td>%</td>
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### Economic Indicators

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<tr>
<td>Government consumption</td>
<td>% of GDP</td>
<td>5.7</td>
<td>5.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Public expnd. on edu.</td>
<td>% of GDP</td>
<td>1.6</td>
<td>1.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Public expnd. on health</td>
<td>% of GDP</td>
<td>5.9</td>
<td>5.7</td>
<td>5.9</td>
</tr>
<tr>
<td>R&amp;D expenditure</td>
<td>% of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>1.1</td>
<td>1.1</td>
<td>1.8</td>
</tr>
</tbody>
</table>


### 7 | Organization of the Market and Competition

Liberalizing the economy is one of the government’s key goals. The process was started in the early 1990s, and with Cambodia’s accession to ASEAN and the WTO, annual growth rates have been among the highest in Asia. Some reforms have strengthened free market competition, but overall, liberalization remains hindered both by formal and informal regulations and processes. A lack of adequate legal procedures and legal security is a continuing problem. The political and economic landscape is dominated by patronage-based networks, in which Hun Sen and his family are also involved. The private sector in Cambodia is dominated largely by informal economy activities, which account for 80% of GDP and close to 90% of overall employment. Much of this informal employment is found in agriculture. Only around 7,000 enterprises are registered, mainly belonging to the garments and tourism sectors. So far, the business registration process has been inefficient and corrupt; in the World Bank’s 2011 Doing Business report, Cambodia dropped from 145th place to 147th (out of 183 countries) mainly due to nontransparent and costly registration procedures.

Currently, Cambodia has no credible anti-monopoly or antitrust statutes. The Cambodian government is still in the process of drafting laws and regulations that will establish the framework for its market economy. A new competition law may be on the way, but is not expected to be finalized until later in 2011. In some sectors, special agencies regulate competition and have created several quasi-monopolies for state-owned businesses. This practice is particularly visible in key sectors such as telecommunications, insurance/reinsurance, and power generation, in which the state still largely holds a monopoly. Quasi-cartels have emerged in several areas, controlling the tourist boat business from Phnom Penh to Siem Reap,
for example; these have undermined competition but remain unregulated. Competition is further impeded by extremely complicated business registration procedures that are subject to corrupt practices.

Cambodia has made noticeable efforts to liberalize its foreign trade. The country has opened itself up to the outside world since the early 1990s, resulting in growing levels of trade liberalization. Its accession to the WTO in 2004 has been conducive to the introduction of several deregulation measures. However, some tariff and non-tariff barriers remain in place. The overall liberalization process has benefited from Cambodia’s ASEAN accession in 1999, the lifting of the U.S. trade embargo in 1992, and the bilateral trade and investment agreement with the United States. As a member of ASEAN, Cambodia also became a member of the ASEAN Free Trade Zone (AFTA). This has already resulted in the reduction of tariffs on imports from other Southeast Asian states. For instance, Cambodia finalized an agreement to cut tariffs on certain items with neighboring Vietnam in late 2010. Vietnam was promised tax-free import on 60 items from Cambodia, granting in return tariff-free export to Cambodia on 13 items. Vietnam’s exports to Cambodia include machinery for agriculture, fertilizer, seafood and petroleum, among others. That country’s imports from Cambodia mainly comprise garment materials and agricultural products such as wood, rubber, cashew nuts, rice and corn. The United States remains Cambodia’s most important trading partner, even though the quantity of garment exports declined massively in 2009.

Cambodia’s banking sector experienced a boom that lasted through the beginning of 2011. The amended Law on Banking and Financial Institutions required that Cambodia’s commercial banks reapply for licenses, which initially reduced the number of banks significantly. As of late 2010, 28 commercial banks were again in operation. As a supplement to commercial banking, five specialized banks and 12 microfinance institutions also offer financial services to the public. However, these numbers are unlikely to remain stable, since Cambodia’s 28 commercial banks were required to triple their reserve holdings from $13 million to $37.5 million by the end of 2010. The National Bank of Cambodia (NBC) had previously lowered the minimum reserve requirement on bank’s foreign currency deposits in order to improve banks’ liquidity. Commercial banks are allowed to engage in a full range of banking activities. One problematic development, however, can be seen in the share of nonperforming loans, particularly after an enormous rise in the quantity of credits and bank loans granted in the private sector from 2009 to 2011. The NBC has primary regulatory authority over the banking sector, but lacks capacity to investigate or monitor complex financial transactions. According to the NBC’s 2010 supervisory report, total deposits in Cambodia grew to $3.3 billion in 2009, a level 32% higher than in 2008.

The capital sector is still developing. The government has announced plans to establish a national stock exchange. The stock market’s opening date was postponed
throughout 2009 and 2010 because of the financial crisis, but as of the time of writing, the launch was said to be scheduled for mid-2011. Several governmental agencies including the Autonomous Zone of Sihanouk Port, Electricité du Cambodge and Telecom Cambodia, as well as various private companies, are expected to be listed in the stock exchange.

8 | Currency and Price Stability

The inflation rate rose and fell dramatically between 2009 and early 2010. The effects of the global financial crisis were tangibly felt in 2008 and 2009, when inflation climbed to double digits, reaching an annualized rate of almost 20% (or 25%, according to other sources, with officials halting the release of information on the issue at one point). However, the rate fell again to -0.7%, stabilizing around 5.3% at the end of 2009. Between January and September 2010, the consumer price index inflation rate was announced to be at an annual rate of 4.21%. Prices for food (especially rice, meat and vegetables) and electricity rose during the period, and gas was up by 7.6%. High gasoline prices also made transportation more expensive. The Asian Development Bank (ADB), the IMF and the World Bank forecast Cambodia’s inflation for the final months of 2010 at between 4% and 5%. Overall, inflation was expected to be an impediment to the recovery of the Cambodian economy in 2010 and 2011.

The macroeconomic risks for the Cambodian economy are still judged as rather low due to its high level of dollarization. This policy has helped to stabilize the riel even in times of rising inflation. Over the last 10 years, the riel-dollar exchange rate has remained relatively stable, fluctuating mostly between 3.9 (in 2000) and 4.05 (in 2011).

Cambodia’s economy remains heavily dependent on donor money from international organizations and several donor states. In 2010, donors approved $1.1 billion in aid for the year, an increase from the $950 million of 2009. The forecast for the next two years, however, was for a decrease in donor money. Foreign aid money accounts for about half of the entire national budget. In 2010, the budget deficit was 5.8% of GDP, less than 2009’s estimated 6.3% of GDP. The budget deficit has been criticized by external donors, as it results from a substantial fiscal shortfall. The Asian Development Bank also expressed concern over the estimated 2010 fiscal deficit of 2010, projected to be 7.4% of GDP (up from 5.9% in 2009). The main source for this shortfall was the government’s expansionary fiscal policies used to address the crisis in 2009, including temporary tax relief for key industries, so the deficit is not overly worrying. The problem of insufficient domestic revenues has not been solved, but the government has promised to introduce stricter tax collection measures. Because of the crisis, state investment in development projects remained low in 2009 and 2010. The external current account deficit (including

Anti-inflation / forex policy

Macrostability
official transfers) is estimated to have grown to $3.5 billion in 2010. Foreign investment dwindled in 2009, but recovered somewhat in 2010. Since total reserves were doubled from 2008 to 2009 (now at $22.8 billion), Cambodia has some level of protection against further crises, giving it some flexibility to address future temporary economic slumps.

9 | Private Property

Problems with land titles continue, even though a law dealing with land ownership was passed by the National Assembly in December 2009. In principle, the Cambodian Constitution and the 2001 Land Law grant rights to everyone residing on unregistered land. The law also establishes the principle of “fair and just compensation” prior to any government “taking” of land for a public interest. Thus, though legislation exists that could be enforced in these situations, these laws are not implemented. Moreover, the new land law of 2009 gives permission to government agencies to seize land if this is deemed in the public interest; land seizures for development projects have now become a common practice, and have left whole communities homeless. The wording of the law does not suggest that the problematic practice of forced evictions will be prevented in the future. Several well-documented cases give evidence to the involvement of officials in the forced eviction of people from their living areas, both in the cities and in rural areas. Generally, private property ownership remains subject to the political will of the administration, even under the new legal framework. Property titles remain expensive and difficult to obtain. Because of the political situation during and after the Khmer Rouge era, most landowners (an estimated 80%) in rural areas do not possess land titles; expropriations, often by wealthier private persons, happen frequently. Forced evictions and land grabs have affected tens of thousands of Cambodians, who are now landless as a result. This handling of private property is a structural problem and is closely related to issues of poverty, thus making land ownership a question of money rather than of legal rights. In 2010, the government dropped out of a consultation project with the World Bank meant to contribute to a solution of this problem.

According to a 2010 World Bank report, the opening and closing of private businesses remain long and rather complicated procedures. However, Cambodia has established a legal framework enabling private companies to operate in the country that does not contain restrictions on the acquisition of industrial land. Privatization and deregulation have been identified as key goals in order to encourage (foreign) entrepreneurial activity in many sectors. While some business sectors have been privatized, several key sectors remain in the hands of state-owned enterprises. Cambodia holds quasi-monopolies over important sectors such as electricity generation (serviced by the government-owned Electricité du Cambodge), power
transmission, ports and insurance/reinsurance. Other important sectors are partly state-owned and partly privatized, including water and telecommunications, allowing some level of competition with private enterprises. As a part of the preparations for a national stock exchange, legislation governing private enterprises was changed: Under the Regulations for the Public Issuance of Equity Securities, passed in early 2010, companies that file an application to offer shares to the public need to have shareholder equity of at least five billion riel ($1.25 million). Other regulations concerning foreign property ownership and the establishment of a National (commercial) Arbitration Center are currently in the process of preparation.

10 | Welfare Regime

Social safety net institutions, including functioning and affordable health care and pension funds, have not been established in Cambodia. In 2009 and 2010, the government invested heavily in stimulating economic growth in order to alleviate the effects of the financial crisis, but did not make parallel investments in social protection. The combination of the economic crisis and typhoons that struck in 2009 exacerbated many preexisting problems. About 800,000 Cambodians live under conditions of hunger, and child malnutrition remains a serious problem, with 37% percent of children under five years of age suffering from chronic malnourishment. Moreover, life expectancies are among Asia’s lowest (an average of 61 years). In the absence of formal social safety nets, the poor in particular have no means of dealing with economic or natural shocks. The poorest segment of the Cambodian population is mainly based in rural areas, where no social safety nets exist. However, such social supports are also lacking in urban areas. The most vulnerable groups are the urban and rural poor, economic migrants and their families, fixed-salary workers, the landless or even land-owning poor, and families affected by chronic illness and disability. In Cambodia, thousands of people live with disabilities, about a fifth of which are children, and many of whom are victims of leftover landmines. For many years, the government has promoted poverty alleviation programs with the support of the international donor community. A National Strategic Development Plan (NSDP) for 2006 – 2010 has started to tackle some high-priority development issues such as access to health care services and education for the very poor. Increasingly, national and international NGOs are involved in health care programs such as the fight against HIV/AIDS, yet still on a limited basis. As a consequence of decades of civil war and Khmer Rouge influence, Cambodia’s health care system remains in the process of rebuilding. The public health care budget, now totaling about 6% of GDP (according to the World Health Organization) is still largely financed by foreign aid money. Several projects sponsored by external donors, including food-for-work and education programs, were initiated in 2009 and 2010. Microfinance has become another pillar in
providing some social security. However, official awareness of the needs of the most destitute has not prevented some blatant human rights abuses targeting marginalized groups of society. In 2010, Cambodian and international human rights organizations reported on a detention camp – officially called the Social Affairs center – where several hundreds of people were interned without trial or official charges and were evidently systematically mistreated or even raped, sometimes even by the police. A prison-like facility in Prey Speu near Phnom Penh, as well as other similar facilities, was used to detain homeless people, beggars, street children, drug addicts and sex workers. Social care institutions run by NGOs have started to offer alternatives to the detention camps, but have not been able to overcome the unlawful practices of detaining unwanted persons. Though this is surely a human rights problem on the one hand, it also points to problems deriving from the lack of state-run welfare institutions on the other.

Access to education, health care and employment in Cambodia depends on gender, wealth and social status. Discrimination against women and children, the disabled, and the poor is common, and there is both a lack of societal awareness of inequalities and segregation and a scarcity of opportunity allowing individuals to overcome these disadvantages. Most disabled people have no regular employment, and rely on begging or menial jobs. About 55% of Cambodian women have not completed primary education (compared to 40% of Cambodian men). Tuition fees, including unofficial payments for learning materials or contributions to teachers’ low salaries, are often too high for the poor, even though the government has increased the budget for education. A huge gender gap also remains in employment policies. Women now account for about 30% of the workforce, and in some sectors they are the majority by far. However, women’s wages are on average one-third lower than those of their male counterparts, and a large percentage of women’s work is unpaid labor. Women are mainly employed in low-income or private sectors, particularly the garment industry, agriculture, or the trade and handicrafts sector, and they are also overrepresented in unpaid family labor. They are often more strongly affected by the effects of poverty than are men, as chronic malnutrition is found more often in the female population. Gender mainstreaming, for instance by improving education access for girls, particularly to secondary and tertiary education, is now among the key goals formulated by the government and the Ministry of Women’s Affairs, and the issue has been integrated into important national development plans. In addition to the administration, several international and Cambodian NGOs and private associations support projects aimed at improving gender equality, and offer programs designed to improve conditions for the disabled and the poor.
11 | Economic Performance

Cambodia experienced a temporary setback in its economic growth in 2009, but recovered in 2010, and will likely continue to do so in 2011. Foreign direct investment wavered in 2009 due to the effects of the global economic crisis (2009: 5.3% of GDP), but recovered again in 2010. Cambodia saw a 60% increase in tax revenues during the period under review (2010: $19.51 million in total; 2009: $12.16 million), mostly from property-related leases and transfers. As the economy recovers, higher tax revenues are again expected for 2011, in part because new taxes were introduced in 2010, on items including luxury vehicles and property. Most external public debt is concessional, and domestic public debt amounts to less than 2% of GDP. Overall economic performance will primarily depend on the performance of the country’s key industries – including agriculture, which is in need of structural reforms. Much hope has been placed in the prospect of offshore oil and gas fields bringing huge revenues, but drilling is not expected to start until 2012. Natural energy reserves thus may become an important factor in the future performance of the Cambodian economy. Officially, the unemployment rate is 3.5%, but real numbers are probably much higher. The GDP growth rate shrunk by two to three percentage points in 2009, but picked up again in 2010, reaching an estimated 5.5% (GDP per capita was $1,913 in 2009). Following years of annual growth rates of up to 10%, the decline in tourist visits, a slowdown in the construction sector, and sharp decreases in garment exports curtailed the rapid GDP growth. Overall, growth has been mainly driven by the garment industry and tourism. Merchandise exports in 2009 dropped 17%, mostly because the garment industry exported fewer goods to the United States, the sector’s primary partner. Tourism receipts slowed to a moderate growth of 2%. A sharp decline in foreign investment (of 27%) furthered the slowdown in economic growth. Other sectors less exposed to global economic trends were also affected, such as small transportation businesses. In 2010, the negative trends halted: Growth in tourism rose to 16% again, with around 2.5 million international tourist visits. The construction sector also recovered in 2010, mainly because of the return of several investors in larger projects, for example from South Korea. Overall, the trend of growth has been reestablished, albeit at the slower pace of a projected 6% for 2011. The difficult economic performance of 2009, however, demonstrated that Cambodia is in need of economic diversification, since its main drivers of growth – garments, tourism, agriculture and construction – are vulnerable to crises.
12 | Sustainability

Awareness of environmental issues is still minimal within Cambodia’s political environment. There has been no systematic investment in environmental policies, and the environmental and ecological consequences of Cambodia’s industrial development are often neglected. Waste production, soil erosion and deforestation are some of the most visible consequences affecting citizens’ lives. Heavy rainfall and rising temperatures are projected to pose severe environmental risks in the future, especially because Cambodia is extremely vulnerable to environmental influences. The agricultural sector has already been affected by floods and the resulting loss of rice production, and food security is at risk if climate change continues. Deforestation is caused primarily by illegal logging, but population growth has also been a factor in the decline in forest cover. The overall rate of total forest loss has accelerated, and between 1990 and 2010 Cambodian forests were diminished by 22%. Fewer than 322,000 hectares of primary forest remain. In total, Cambodia lost 2.5 million hectares of forest between 1990 and 2005. The Cambodian government has taken steps to prevent illegal logging activities by setting up protected areas. However, rapid population growth and the ensuing farming activities cannot be easily regulated, and continue to threaten Cambodia’s forest areas. Soil erosion is a further consequence of deforestation. The pollution of rivers and lakes has left much of the rural population without access to clean water. Owing to a project sponsored by external donors, almost 90% of the capital’s inhabitants are today provided with clean water, however. The Phnom Penh Water Supply Authority has managed to reduce water prices to a more affordable amount, and has expanded its network. However, more than a third of the population in the countryside has no access to clean water, and even fewer have access to adequate sanitation. Health problems often result. A lack of access to clean energy is another environmental factor, since alternative energy sources such as wood, charcoal, car batteries and kerosene, commonly used in rural areas, are detrimental to the environment. While development of energy access may improve the overall environmental situation, systematic protection measures are not yet part of the national political dialogue.

Some achievements have been made in rebuilding the Cambodian education system, which was left completely dysfunctional after the Khmer Rouge years. Key goals of the government’s efforts were the construction of new schools, including private schools that offer better education, and expanding access to secondary and tertiary education. The academic sector still suffers from the legacies of the Khmer Rouge era, however. A whole generation of academics was annihilated. Accordingly, a research and development strategy for Cambodian universities and research institutions remains underdeveloped. While some high-priority areas (such as agriculture, health care, technology and engineering) have been identified, the
lack of sufficiently trained researchers and a scarcity of resources limit the formation of R&D programs. Cambodia’s literacy rate (overall: 77.6%; female: 70.9%) remains significantly lower than the regional average. As part of the Education Sector Support Project (ESSP), co-financed by the World Bank, 247 new lower secondary schools were constructed. The Education Sector Support Scale-Up Action Program (ESSSUAP), under the administration of the World Bank, aims at providing for 650 additional school buildings throughout Cambodia. The education programs, supported by international donors, offer scholarships to allow poor Cambodians to attend primary and secondary schools; they are paid in cash to families that would not otherwise be able to support their children’s education. Among the secondary school scholarship holders, 67% are female; primary school stipends were awarded on an equal basis to boys and girls. Tertiary education is indefensibly accredited by a politically controlled commission known simply to charge a fee for accreditation, leading to quantity but not quality. The 2011 budget contains increased spending for education, one of the prioritized development sectors. Access to education remains an urgent problem, but standards of schooling and overall quality of teaching also need to be significantly improved.
I. Level of Difficulty

Some of Cambodia’s most pressing structural challenges are presented by poor living conditions in rural areas, strong inequality in distribution of wealth and seriously deficient infrastructure. Furthermore, endemic corruption, the unpredictability of legal decisions and a weak civil society continue to have a negative influence on the political process. Indeed, it is often poor governance itself that fuels these structural impediments. The agricultural sector, including rice production and fishery, remains vulnerable to weather conditions. In 2009, Typhoon Ketsana was responsible for massive losses in agricultural products, livestock and fishing, and damaged irrigation infrastructure, roads and bridges. Natural disasters such as monsoonal rains, floods and typhoons are a continual threat to food security and infrastructure development. The overall national prevalence of HIV/AIDS declined from 1.2% in 2003 to 0.5% in 2009, according to Cambodian sources. The epidemic mainly affects sex workers and hypodermic drug users. Some improvements have been made in combating child and maternal mortality (461 per 100,000 live births), but both issues, part of the Millennium Development Goals, remain problematic. The same holds true for malnutrition among children and the rural population. Food security needs to be systematically improved by guaranteeing farmers sufficient access to credit and by reducing the overall poverty level. In the long run, economic diversification strategies will be necessary to ensure stable growth rates. Apart from the garment industry and agriculture, there are no other strategic sectors that can provide large-scale employment opportunities today.

The rebirth of a solidly united civil society, mutual trust and vibrant civic culture is progressing slowly. The extreme societal laceration inflicted by the Khmer Rouge era, its destruction of traditional familial structures and social cohesion, continues to affect societal and political life in Cambodia. A culture of impunity characterizes political reality and makes trust-building a difficult enterprise. Participation in political processes is limited mainly to the village or commune levels. Self-help is a pressing concern for many Cambodians, but broader solidarity hardly achievable. The 4,000 Buddhist pagodas in Cambodia have again become important social centers. Buddhist monks are involved in developmental and social projects, in
protecting the environment, and in caring for HIV/AIDS patients and orphaned children. Buddhist pagodas and village-level community-based organizations again represent an important domain of grassroots-level participation in Cambodian society. They are key stakeholders within civil society activities, and use their high social standing to support community services. Starting with the arrival of the United Nations missions, an international NGO culture developed, mainly dependent on foreign donors. Some of these groups have only limited access to some levels of Cambodian society. Larger human rights and legal-support NGOs such as Licadho and Adhoc or the Documentation Center of Cambodia, which has been active in preparing the Khmer Rouge trials, are well-known both in Cambodia and abroad. Yet, the overall level of civil society formation remains weak.

Cambodian politics are characterized by a remarkable lack of open conflict. The ruling CPP has managed to get rid of almost all its political opponents, systematically suppressing legitimate political conflict. Ethnic or religious cleavages are more or less negligible, since most Cambodians are ethnic Khmers and Theravada Buddhist. The Cambodian government officially recognizes only two indigenous groups, the Cham and the Khmer Loeu, a general term for different groups in the northeast provinces. Khmer Kampuchea Krom, including a leading monk who was kidnapped and forcibly repatriated to Vietnam, are harassed by authorities. Unrecognized minority groups include ethnic Vietnamese, Lao, Chinese and the Montagnard refugees from Vietnam. These minorities are often less privileged in terms of legal status, but have not formed political interest groups that might represent their interests. Minorities continue to demand better representation, but tensions have not risen to the level of significant public conflict.

Society is clearly divided along the lines of wealth and lifestyle, with a small segment of very wealthy and a larger segment of poor Cambodians. Social cleavages have grown, and carry with them the potential for increased polarization. Protests mounted by victims of land grabs occurred in the capital several times in 2009 and 2010. Nevertheless, social cleavages have not led to open political conflict between organized interest groups.

II. Management Performance

14 | Steering Capability

The clear priorities of the CPP administration in 2009 and 2010 were sustaining and accelerating the economic growth process. Improving key sectors including education, health care, infrastructure development and irrigation systems were
stated as central goals for 2011. While some measures have been introduced to improve legal security, no systematic efforts were made to develop democratic institutions. Corruption is continually defined as a priority area, mainly as a concession to pressure from foreign donors, but the government has not systematically acted upon its promises of reform. Many of the promised changes, such as introducing a new penal code or holding the first province-level council elections, were demanded by donor countries and may not have the desired political impact. Major reforms have supported the development toward a market economy, but the democratization process has largely stalled. The difference between stated policy and reality is defined by what authorities are actually willing to do.

Some reform projects – often those externally induced – have shown results, for instance in the education sector. Many others are still waiting for implementation. External donors, particularly the World Bank and several U.N. organizations, have been pressing for stronger anti-corruption measures and for more significant measures to be implemented in the fight against inequality. Many proposed reform measures have not thus far been effective, and are in need of improvement. New legislation concerning land rights and non-governmental organizations has been introduced, but implementation is still largely a matter of short-term government preferences and is not dependent on long-term strategies. Furthermore, the steering capability of the Cambodian government is restricted insofar as foreign aid donors and external experts remain influential, helping to set the political agenda and monitoring implementation progress. This is one of the main reasons why the government committed itself to reforms regarding the rule of law and the market economy. However, the reform process has been very slow or even nonexistent in some areas. The government has not made any major progress in the fight against corruption or in pushing judicial reforms; indeed, it may not be in the ruling elites’ own interest to lose their networks and political influence over the judiciary.

The Cambodian political system lies mainly under the control of the CPP, which has been the dominant political force for decades. Many of today’s elites have been active since the mid-1980s, and have adapted only slowly to changing conditions. Innovative ideas, therefore, rarely come from government and administration members, who are not all familiar with the preconditions for a functioning market economy and have little experience with democratic political institutions. Changes are frequently reactions to reform demands by foreign donors, but are rarely endogenously developed. Some key long-term strategic goals have been identified in cooperation with external experts, and are now being targeted. However, a general rethinking of the political direction seems to be largely dependent on the potential gains available to the ruling elite, and not on the demands of good governance and the rule of law. Opposition by other political forces or civil society actors has been minimized and does not pose any serious challenge to government rule. Since the political institutions possess no capability for monitoring or the
performance of critical assessments, the necessity for policy learning is further reduced. The firmly established hierarchy of political decision-making, coupled with a system that mainly works to the benefit of personal interests, has resulted in little potential for innovation.

15 | Resource Efficiency

During the period under review, the goals of balancing the state budget and reducing debt were given a lesser priority in order to invest in measures aimed at revitalizing economic growth. Accordingly, the budgets of 2009 and 2010 reflected the presence of economic crisis. However, both budgets raised military expenditure, even though investment in other key sectors had been announced as a higher priority. Overall resource efficiency does not measure up to international standards, and the government pays no attention to transparency or accountability. Cambodia’s level of budget transparency is one of the lowest in the region. The administration limits important budget documents such as the draft budget law and the mid-year review to internal circulation. No nontechnical version of the budget is published for public scrutiny. This lack of transparency was subject to severe criticism at the 2010 donor conference, which demanded more accountability from the Cambodian government and said that aid effectiveness would also have to be improved. The bureaucracy remains underdeveloped, as hiring procedures are not transparent or standardized. Adequate training and education for public employees is not guaranteed, and corruption is widespread throughout the administration. The government does not make efficient use of available economic and human resources for its economic and social policies. Decentralization processes have been started, but have been hindered by political interference. The development of local government bodies with legal or financial autonomy is still in its very early stages.

The hold of the CPP and its patronage networks over the military and the often-corrupt bureaucracy has led to weak and politicized institutions. Low levels of transparency, insufficient financing for bureaucratic bodies and a general lack of interagency coordination continue to have detrimental effects on Cambodia’s administration. Existing laws are not fully enforced because the administration lacks mechanisms of response, accountability and transparency. Although some attempts at coordination within existing agencies and institutions have been made, policy incoherence and inefficient service delivery remain obstacles to a more coordinated implementation of political decisions. The lack of long-term planning and corruption in the bureaucracy thus largely prevents efficient policy coordination.

Almost all sectors of the public administration and political system can be characterized as corrupt. Endemic corruption is one of the major problems of the state and administrative culture in Cambodia. The draft anti-corruption law adopted
in March 2010 was not discussed publicly, and was criticized by the opposition for containing many flaws. Among the problematic passages were a lack of measures to protect informants, and the ceding of control over the anti-corruption unit’s budget to a council of ministers suspected of corruption itself. The anti-corruption body will be controlled by the government. Accusations of corruption that fail to be proven could result in the accuser being jailed. However, the United Nations welcomed the draft, and expressed its hope that public discussion on possible alterations and amendments would follow. Reaction was swift, with a warning that the U.N. resident coordinator would be made persona non grata and expelled if more such comments were made. Donors have been pushing for a stronger anti-corruption stance by the Hun Sen administration, which has evidently benefited from bribes and nepotism itself for a long time. The new law might be a first step toward combating corruption, but its success will depend on the government’s will to apply it equally, rather than exclusively to political opponents. The anti-corruption unit made its first arrest in late 2010.

16 | Consensus-Building

Political control is almost completely centralized in the CPP government, which won the last national elections in a landslide victory. Parliament is ruled by the CPP, which holds 90 of the lower house’s 123 seats. The opposition is fragmented, and is a largely disempowered force. No serious veto players exist in this political landscape that could in fact endanger decisions as to future directions. No unity exists in the organization of democratic reforms, and government and opposition forces are pitted against each other in the course of most political questions. However, the major parties, public agencies and other interest groups seem to concur when it comes to the goal of establishing a market economy, even though they differ considerably with regard to the concrete steps.

Continuing the political trends of recent years, the current government and ruling elite have not committed themselves to democratization. Accordingly, the greatest dangers to democracy in Cambodia are not openly anti-democratic veto powers, but rather in the ranks of the government and the CPP. Expanding their rule to the province and district levels, CPP politicians have established a control apparatus that reaches into all important political decision-making bodies. Personalized networks and political alignments have been substituted for elections and democratic competition. Although the divided opposition parties claim to be the only truly pro-democratic force in the country, their real influence on the political process has diminished.
The growing divide between the wealthy elite and the large group of the poor and very poor is the most politically relevant cleavage within Cambodian society. Land grabbing (or providing poor compensation for expropriation of land) continues to threaten Cambodians from various levels of society. Initially, only the poor in rural and urban areas were affected, but land grabbing has now also become a problem for comparatively less poor individuals, for instance in the Boeung Kak Lake area in the center of Phnom Penh.

Political unrest and violent conflict have been extremely rare in recent Cambodian politics, and open conflict due to irreconcilable cleavages is unlikely, as protests even under these heavy economic strains have remained very limited. However, the government has done little to lessen social cleavages between the various social groups, and has been unable to close the gap between rich and poor segments of society. Decreasing inequality and achieving a more equal distribution of wealth would be important steps in sustaining economic growth and maintaining social peace. Other cleavages, such as ethnic or religious divides, have not resulted in organized protests or concerns about potential conflict, and are unlikely to do so in the future.

Civil society members are not systematically involved in the official political process. Raising new issues and lobbying for civil rights are important contributions of NGOs, unions and religious organizations, but these groups are rarely consulted in the course of decision-making. To some extent, politicians have met with civil society groups in order to benefit from their expertise while formulating policy. However, the actual influence of NGOs and other groups has been minimal. Generally, the government ignores civil society actors and implements its policies autonomously. Constraining NGO activities on the basis of the new NGO law is another means of maintaining control over civil society and of averting potential disturbances by international actors. For instance, Hun Sen was violently opposed to meeting with civil society organization representatives at the 14th ASEAN Summit dialogue between ASEAN heads of government and civil society, which took place in Hua Hin in February 2009.

Reconciliation has been one of the most crucial political and social tasks for the Cambodian state following the Khmer Rouge era and the decades of civil conflict. Resistance to dealing with the country’s past blocked the emergence of reconciliatory processes for a long time, but pressure from donor countries ultimately helped to bring about a trial against former leaders of the Khmer Rouge regime. The genocidal regime was in power between April 1975 and early 1979, killing or letting die 1.7 million Cambodians and others. Most of the Khmer Rouge elite remained in Cambodia, unchallenged by the Cambodian government. A culture of impunity is said to have resulted from the refusal to press charges against those Khmer Rouge leaders who remained at large. The CPP government delayed the opening of a tribunal and generally obstructed the process of bringing the
perpetrators to justice. When the Extraordinary Chambers in the Courts of Cambodia for the Prosecution of Crimes Committed During the Period of Democratic Kampuchea (ECCC) started its work in 2007, the process had already faced massive criticism. The tribunal has been criticized for corruption, insufficient capacities and a generally slow procedure. The small number of former Khmer Rouge cadres charged is a further point of controversy. Political interference from the government in deciding how many individuals could be indicted has also been a problem. Threats of renewed civil war were issued. In what has now been judged as a success for the tribunal, the trial against Kang Kek Iev (“Duch”) was the first case to be concluded. In July 2010, Duch was convicted of crimes against humanity, murder and torture, and sentenced to 35 years (reduced to 19 on the basis of time already served) in prison. While the trial of Duch was possibly the beginning of a series of such cases, Hun Sen and the CPP government have not generally supported the tribunal, and have stated their preference for limiting the process to those currently under indictment. Hun Sen in particular has made his reservations clear, demanding infamously in 1998 that Cambodians should “dig a hole and bury the past.”

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As demonstrated by the budgets of 2009, 2010 and 2011, Cambodia remains dependent on foreign aid, both for the national budget and for expert advice. A steady average of around 50% of the budget is financed by the influx of foreign aid. Major donors including the World Bank, the IMF and the European Union have voiced clear demands that the Cambodian administration must meet. Foremost among these are the establishment of a credible stance against endemic corruption and the implementation of judiciary reforms able to improve legal security. With the help of numerous workshops, consultations and expert meetings, the Cambodian government finally drafted an anti-corruption law, which is still up for review. Judiciary reforms have not been tackled systematically. Recently, China has become one of Cambodia’s largest donors, and is now its most important investor. However, Chinese aid is not tied to any conditions concerning democratic or good governance reforms. Overall, only slow progress in the main problem areas has been made, and the general direction of reforms is seldom consistent with the government’s public promises.

As a recipient of both foreign aid and foreign investment, Cambodia has managed to gain the confidence of external donors in recent years. The extreme stability of the political system in particular has been a guarantee that experts and donor organizations will be dealing with a consistent set of political figures. Economic stability and passable growth rates in spite of the crisis of 2009 have earned the Cambodian administration some level of trust from the donor community.
Comparatively low external debt, a stable currency and reasonable inflation rates are mentioned as positive developments. Confidence in the country’s overall economic development remains high, whereas the Cambodian government is seen as a more problematic partner when it comes to reforms in the areas of good governance or democratic accountability. The lack of transparent accounting for the use of funds is one major shortcoming that prevents Cambodia from being regarded as a completely credible partner.

As a member of ASEAN, Cambodia has come to cooperate closely with many of its neighbors. As a signatory to the ASEAN charter, Cambodia has now the obligation to comply with ASEAN decisions and coordinate its policies with some of the charter’s principles. Ongoing tensions with Thailand over the Preah Vihear temple and surrounding area have chilled this particular bilateral relationship, but Cambodia is engaged in several regional development projects with other Southeast Asian states. One is the Greater Mekong Subregion development project, which has brought Cambodia together with Laos, Vietnam, Myanmar and the Chinese region of Yunnan. For several years, Vietnam has demonstrated an interest in investing in Cambodia as well, reacting to the scramble for Cambodia led by China and South Korea. Chinese investments in Cambodia reached a new high in 2009 and 2010. China will continue to exert heavy influence on the Cambodian economy and possibly also on its politics in the long run. Already, Chinese investment areas in Cambodia have become off-limits zones for the national police, and the Cambodian state does not interfere with Chinese firms there. As another member of the ASEAN Plus Three process, South Korea has increased both aid and investment. China and South Korea both invest heavily, mainly in construction and infrastructure projects. Investors from China and other Southeast Asian countries have not made political or market-economic reform demands, making them particularly attractive partners for the Phnom Penh government. The continuing crisis characterizing the Thai-Cambodian relationship has several complex historical and current political reasons. However, one of the factors that play a role is the instrumentalization of the Preah Vihear temple dispute for domestic political reasons.
Strategic Outlook

The main challenges for the years to come include the need to secure macroeconomic stability, diversify potential sources of growth in order to make Cambodia’s economic development more sustainable, and create a more equal and just distribution of wealth among the population. Democratic reforms have now become very unlikely, but a firm commitment to the rule of law and an independent judiciary are strategic goals that should be able to be achieved. Cambodia’s macroeconomic policy management in the last two years has shown mixed results. Growing numbers of underemployed and poor people, including seriously malnourished parts of the population, are a cause for worry. Inequality and socioeconomic gaps have not lessened, and social stability may come to be threatened if a redistribution of wealth cannot be managed. Major social reforms should be long-term goals.

The economic crisis of 2009 hit three of the country’s four key sectors hard. Textile exports, particularly to the United States, fell sharply. Many large, previously planned construction projects could not be continued, and tourism also saw a decline in the number of visits. The garment sector faces growing competition from regional neighbors such as China and Vietnam. So far, the Cambodian economy has not become competitive on a global or even regional scale. The construction sector is sustained by investments from South Korea and China. Forecasts see further growth potential in this sector.

Agriculture was the only sector showing sustained growth in 2009 – 2010. However, since rice harvests and fishing remain dependent on favorable weather conditions, they are an insecure source of economic growth. Investments in a better irrigation infrastructure to cope with heavy monsoonal rains and floods are one the most feasible next steps. About three-quarters of the labor force is involved in agriculture. Food security and access to clean water need to be improved. The problem of landless farmers has become one major source of poverty and malnutrition. Social marginalization and extreme poverty are most serious in rural regions. A comprehensive land reform could represent an important step toward ameliorating these problems. As one important endeavor, accountable and transparent procedures in granting land titles should be achieved. Infrastructure development aimed at connecting rural areas and improving transportation is another urgent task. Since the garments sector is both one of the most important employers and Cambodia’s main supplier of exports, improving working conditions and job security for the (often female) workers in the textile industry is one goal that could help make economic growth more beneficial to larger segments of the population.

The almost unchallenged dominance of the ruling political elite has rendered the role of checks and balances in Cambodian politics nearly irrelevant. Corruption, clientelism and a culture of impunity have undermined democratic institutions. While the Cambodian state now has a very stable political system, this has come at the cost of democratic participation. Civil society organizations and the remaining opposition parties today present no viable alternatives, but
should be supported in order to foster democratic competition. Pressure to create a transparent public administration and a forceful anti-corruption policy on all political levels must be kept up. An independent judiciary could be achieved if government interference with personnel enlistment was halted. Overall, better training for public employees would be another step in this direction.

Among longer-term strategic goals, creating environmental security and sustainable working opportunities for young Cambodians will be vital. Economic growth has been prioritized over guaranteeing the protection of water sources and forests, and the production of garbage has become a major problem that endangers the living conditions of Cambodians both in urban and rural areas. Health risks and food insecurity can be avoided if a systematic environmental policy is enforced. Finally, investing in the education and employment of the young will be an important step toward guaranteeing social security and a stable level of economic growth in the future.