

ESID Working Paper No. 37

The political settlement and economic growth in Cambodia

Tim Kelsall¹ and Heng Seiha²

September, 2014

¹ Freelance consultant, researcher, and teacher, Phnom Penh

Email correspondence: tim.kelsall@gmail.com

² Cambodia Development Resource Institute

Email correspondence: seiha@cdri.org.kh

ISBN: 978-1-908749-37-6

email: esid@manchester.ac.uk

Effective States and Inclusive Development Research Centre (ESID)

School of Environment and Development, The University of Manchester, Oxford Road, Manchester M13
9PL, UK

www.effective-states.org

Abstract

Since 1960 many countries have experienced growth accelerations, but few have maintained growth. An adequate theory of growth must explain both how some countries kick-start growth, and how some maintain it over decades. For us, the key is to be found in the relationship between what we call the political settlement and the environment for business. Some political settlements create the possibility of a transition from disorder to order in the deals environment, and this creates a potential for accelerated growth. Of these, a smaller subset manages to maintain order while also permitting an increased openness of the deals environment, so that new firms can enter, innovate, compete, and structurally transform the economy.

Over the past 40 years, Cambodia has had one of the world's most volatile growth experiences. A prolonged economic collapse between 1970 and 1982 was followed by a gradual but unstable recovery up until 1998, while post-1998 saw another growth acceleration and sustained high growth. While growth collapse can be traced to the failure of Prince Sihanouk's post-independence political settlement, war and the disastrous Khmer Rouge regime, growth acceleration and maintenance has been based on a political settlement which has created a balance between technocrats and rent-seekers within Hun Sen's dominant coalition. Technocrats are given just enough latitude to support growth industries, while rent-seekers are given the political backing to generate profits, a proportion of which are funnelled to the masses through ruling party patronage projects.

Through interviews conducted in four economic sectors, we show that there has been a positive feedback loop between support for competitive export industries, state capacity, and structural transformation. However, there has also been a negative feedback loop from over-reliance on high-rent industries, to insufficiently inclusive growth and political instability. The political settlement that has underpinned growth and stability for the past 15 years is facing a severe challenge.

Keywords: Developing countries, economic growth, inclusive growth, Cambodia, political economy, political settlements, politics

Kelsall, T. and Seiha, H. (2014) The political settlement and economic growth in Cambodia. ESID Working Paper No. 37. Manchester, UK: University of Manchester. Available at www.effective-states.org

This document is an output from a project funded by the UK Aid from the UK Department for International Development (DFID) for the benefit of developing countries. However, the views expressed and information contained in it are not necessarily those of, or endorsed by, DFID, which can accept no responsibility for such views or information or for any reliance placed on them.

1. Introduction

Analysis of global growth data shows that since 1960 many countries have experienced growth accelerations, but only a few have maintained growth. Growth volatility is typical for most developing countries, whereas stable growth has characterised a few developing countries and all the advanced countries. An adequate theory of growth must explain both how countries kick-start growth, *and* how some maintain it over decades. For us, the key is to be found in the relationship between what we call the ‘political settlement’ (ongoing, formal and informal bargains between elites about how power should be organised and exercised) and the environment for business (what we call the ‘deals environment’). Put simply, some political settlements create the possibility of a transition from disorder to order in the deals environment, and this creates a potential for accelerated growth. Of these, a smaller subset manages to maintain order while also permitting an increased openness of the deals environment, so that new firms can enter, innovate, compete and structurally transform the economy from low-skill, low-value production to high-skill, high-value production.

Over the past 40 years, Cambodia has had one of the world’s most volatile growth experiences. A prolonged economic collapse between 1970 and 1982 was followed by a gradual but unstable recovery up until 1998, while post-1998 saw another growth acceleration and rudimentary growth maintenance. The country has gradually progressed from exporting agricultural products, to simple manufactures (garments) and services (tourism), to processed agricultural products (milled rice) and slightly more sophisticated manufactures (electronics and machine components), although these remain at an incipient stage.

Politically, the years of collapse resulted from an unravelling of Prince Sihanouk’s post-independence political settlement, civil war and the disastrous Khmer Rouge communist regime. Recovery under the People’s Republic of Kampuchea was based on a new political settlement, heavily dependent first on Vietnamese support and then – as the State of Cambodia and Kingdom of Cambodia – international aid. Strong growth after 1998 coincided with a consolidation of political power under the Cambodian People’s Party and the final surrender of the Khmer Rouge.

In the 1970s, state capacity collapsed, but over the course of the 1980s it was gradually rebuilt. The price of loyalty to the centre, however, was the granting of prebends and other rent-earning opportunities to state officials and entrepreneurs in what remained at best a semi-ordered environment. This predicament continued into the 1990s, when an externally brokered peace deal and inconclusive elections led to a power-sharing deal between the two main parties and their prime ministers, introducing party-based competition for rents, especially around forestry, into the heart of government. Nevertheless, the 1990s was also a period when some of the foundations for a more open and predictable environment were laid. In 1994 a new investment law was passed and the Council for the Development of Cambodia was created, facilitating the emergence of the garment industry. Post-1998, the environment for business, or the deals environment, appears – with some exceptions – to have become progressively more ordered, while remaining relatively open.

Since 1998 the political settlement in Cambodia has been characterised by a dominant Cambodian People's Party (CPP), with an inner circle of career politicians, technocrats, soldiers and businessmen, presided over by Prime Minister Hun Sen and bound together by an intricate network of family ties, supported by an outer circle of development partners, business associations, foreign governments and the clergy.

It has pursued a mixed growth strategy. On the one hand, technocratic branches of the state have provided just enough support for relatively competitive global industries like tourism and garments to grow, generating foreign exchange, mass employment and significant reductions in poverty.¹ On the other hand, government has offered controversial sweetheart deals to investors in agro-industry and urban real estate, many of which have led to land conflicts and forced evictions. Government has also supported unsolicited infrastructure tenders whose value-for-money is difficult to gauge.

The deals environment has been semi-ordered and fairly open. Although regulatory capacity leaves much to be desired, and the biggest deals tend to go to the politically-connected, political connections are relatively easy to acquire, and in some industries not even necessary, meaning that new entrants can enter the market and compete. The resulting state-business relations have created both positive and negative growth feedback loops. On the positive side, new entrants in the garment industry have lobbied the state for improvements in state capacity that have had positive spillovers for other industries such as electronics and milled rice. On the negative side, cronyistic business relations in high rent sectors such as land and construction lead to a general complacency on the part of government, plus high cost, poor quality infrastructure that constrains broader growth. Additionally, there is a negative feedback loop from state violence and forced evictions to political instability.

For many businessmen, part of the cost of doing business is lavish donations to the ruling party. Until recently, the politico-economic strategy of providing mass employment through garments and tourism and political patronage via rent-seeking CPP businessmen, proved a viable means of combining economic growth with political stability. However, that model currently faces a stiff challenge. In July 2013, the ruling party performed much less well than expected in general elections: the opposition claimed victory, which the CPP denied, and the country entered a political standoff that at time of writing was still unresolved. Apparently the resulting political uncertainty is already hurting growth.

Thus the regime appears to be faced with two options: to shift energies away from rent-seeking and into building more state capacity for more inclusive growth industries and social provisioning, or to concentrate on holding the inner circle together by expanding access to easy rents while increasing political repression. Initial signs are that it will attempt the first strategy, but whether it will be able to succeed in the face of an increasingly active opposition and restive population, remains to be seen.

¹See, for example, National Institute of Statistics (2012).

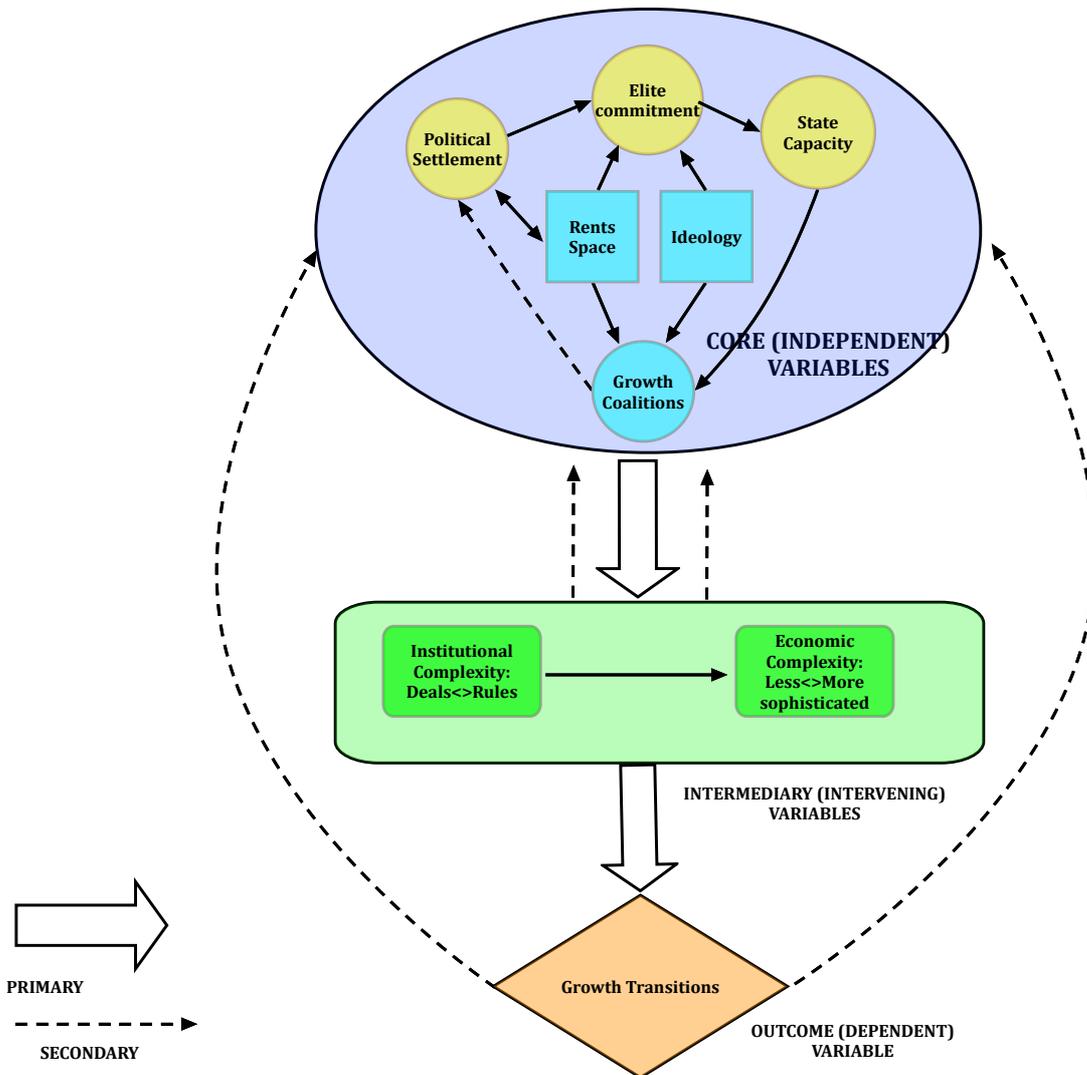
Unfortunately for Cambodia, the political settlement has become more unstable at exactly the same time as more far-sighted investments in state capacity are most needed. It will require tremendous leadership from both government and opposition, external support, and probably a healthy dose of luck, for Cambodia to successfully navigate the journey ahead.

2. Theoretical background

2.1 The problem

Worldwide, many countries have experienced growth accelerations, but few have sustained them. The typical developing country experience is one of growth volatility, with periods of boom followed in quick succession by periods of collapse. ESID is building a theory, based on a review of statistical evidence, secondary literature, and empirical case studies, that attempts to explain not only why some countries experience growth accelerations (booms), but also how a smaller subset actually sustains that growth (Kar et al. 2013; Pritchett and Werker 2012; Sen 2012).

Figure 1: Unified Theory of Growth – key relationships



2.2 The theory in brief

We hypothesise that changes in per capita GDP (outcome variable) are a product of political-economic relations (core variables) that drive changes in institutional and economic complexity (intermediary variables).

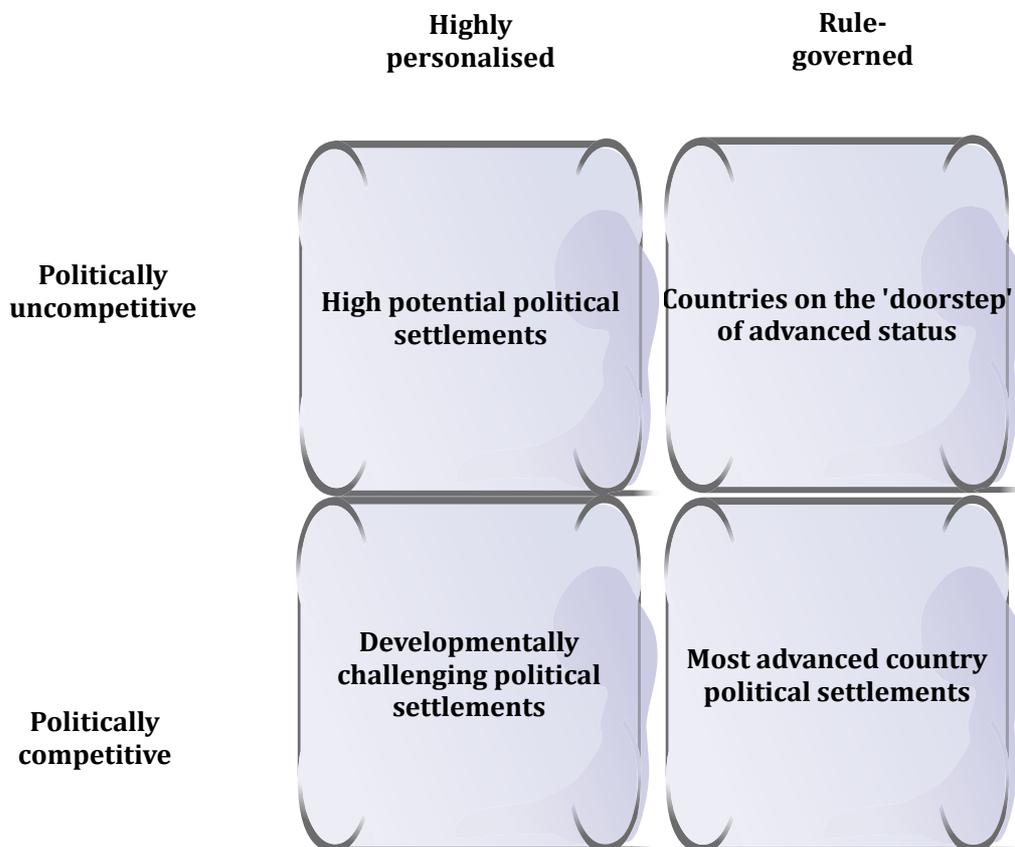
To expand slightly, certain types of political settlement create elite commitment to building state capacity around coalitions of businessmen and officials that promote or stymie growth. These variables are themselves influenced by what we call the 'rents-space', that is, the structure of opportunities in the economy, and by ideology.

The core variables combine to drive changes in institutions (what we call the 'deals environment') that can be either positive or negative for investors, and which consequently impact on economic complexity, in particular on the number and nature of goods and services that a country produces (what we call the 'product space').

As countries move from less to more sophisticated areas of the product space, they produce goods and services that embed more knowledge, command higher value, and provide greater returns to labour, hence increases in per capita income are sustained (Hausmann et al. n.d.; Pritchett and Werker 2012; Sen 2012).

2.3 Unpacking some key variables

Figure 2: Types of political settlement



In recent years the study of institutions and the political settlements that lie behind them has emerged as a promising field for development research. A 'political settlement' has been variously described as an: 'expression of a common understanding, usually forged between elites, about how power is organized and exercised' (DFID 2010, 22); 'an interdependent combination of a structure of power and institutions at the level of a society that is mutually "compatible" and also "sustainable" in terms of economic and political viability' (Khan 2010, 20); or 'the balance or distribution of power between contending social groups and classes, on which any state is based' (Di John and Putzel 2009, 4).

Political settlement analysis has proved useful in explaining how and why some states are able to transition from conflict to political order, and how some of those states subsequently embark on a path of high growth. However, it has been less successful to date in explaining how states maintain growth over long periods, or how they shift from more exclusive to more inclusive forms of growth. Moreover, it has rarely been extended into the field of social provisioning, has tended to suffer from a 'rational-actor' bias, and has been insufficiently mindful of the contribution of external actors. Links between national and local political settlements in most places are also poorly understood (ESID 2012; Hickey 2011; Parks and Cole 2010a; Sen 2012).

Taking these strengths and weaknesses into consideration, ESID has found that state effectiveness and inclusive development may be most usefully studied by the adoption of a *modified* political settlement approach, focused on the balance of power between elites and the effect on political order and capitalism, but buttressed by an appreciation of

'discursive as well as material forms of politics, popular as well as elite actors, transnational as well as national factors and, importantly, [...] located in greater proximity to the relational basis of development policy decision-making and implementation' (ESID 2012; Hickey 2011, 35).

We categorise political settlements according to how politically open or competitive, and how bureaucratically sophisticated, or rule-bound, they are. One important effect of the political settlement is the impact it has on the leadership's time horizon, which can make a big difference to the effectiveness of development policy. Other things being equal, the less competitive a political settlement, the longer the time horizon to which elites are oriented. Another effect is on state capacity. Again, other things being equal, the more bureaucratically sophisticated, the stronger is state capacity for economic and industrial policy.

The length of the time-horizon in which elites work will have a critical impact on the kinds of state capacity they are able to create. Here we move to the level of our intermediary variables, and in particular institutional complexity, where institutions refer to the rules that govern social and economic interactions, including business interactions.

When categorising business environments, conventional studies typically examine the formal rules around matters such as starting a business, and then find out how long it takes to start

a business if the rules are followed.² In reality, the rules environment in most developing countries is weak, and many businesses do not follow the formal rules, but strike deals with agents or officials instead. For this reason, we prefer to talk about the ‘deals environment’. Eventually, as states develop more robust and sophisticated capacity, ‘deals’ are replaced by enforceable ‘rules’ that affect all investors equally, but this may take a long time to transpire (Pritchett and Werker 2012).

We distinguish deals environments according to the degree to which they are ordered, and open.

In our view, disordered deals environments, in which no-one is confident that officials will deliver on their commitments, discourage investment. However, as soon as a deals environment becomes ordered, investment and growth begin. Sophisticated state capacity, a level playing field for business, and the rule of law are unnecessary at this stage. As long as a few investors can be reasonably confident they can make profits, investment will follow. An ordered, even if closed and cronyistic, deals environment may be able to sustain growth for a considerable period. But we believe that for growth to be sustained over the long run, the deals environment must, while maintaining order, also become more open. This is because openness drives economic diversity and competition, which fuels innovation, which leads to countries moving through the product space.

Having a long time horizon does not *guarantee* that the leadership will invest in the right kinds of state capacity building, however. Here, we need to return to our core variables and unpack what we call the ‘rents-space’, or the structure of economic opportunities in the economy. We divide the rents-space into four quadrants, categorising firms according to whether they produce for the domestic economy or for export, and whether they are earning high rents.

We hypothesise that some types of private sector actor will be more likely to push for big improvements in state capacity than others.

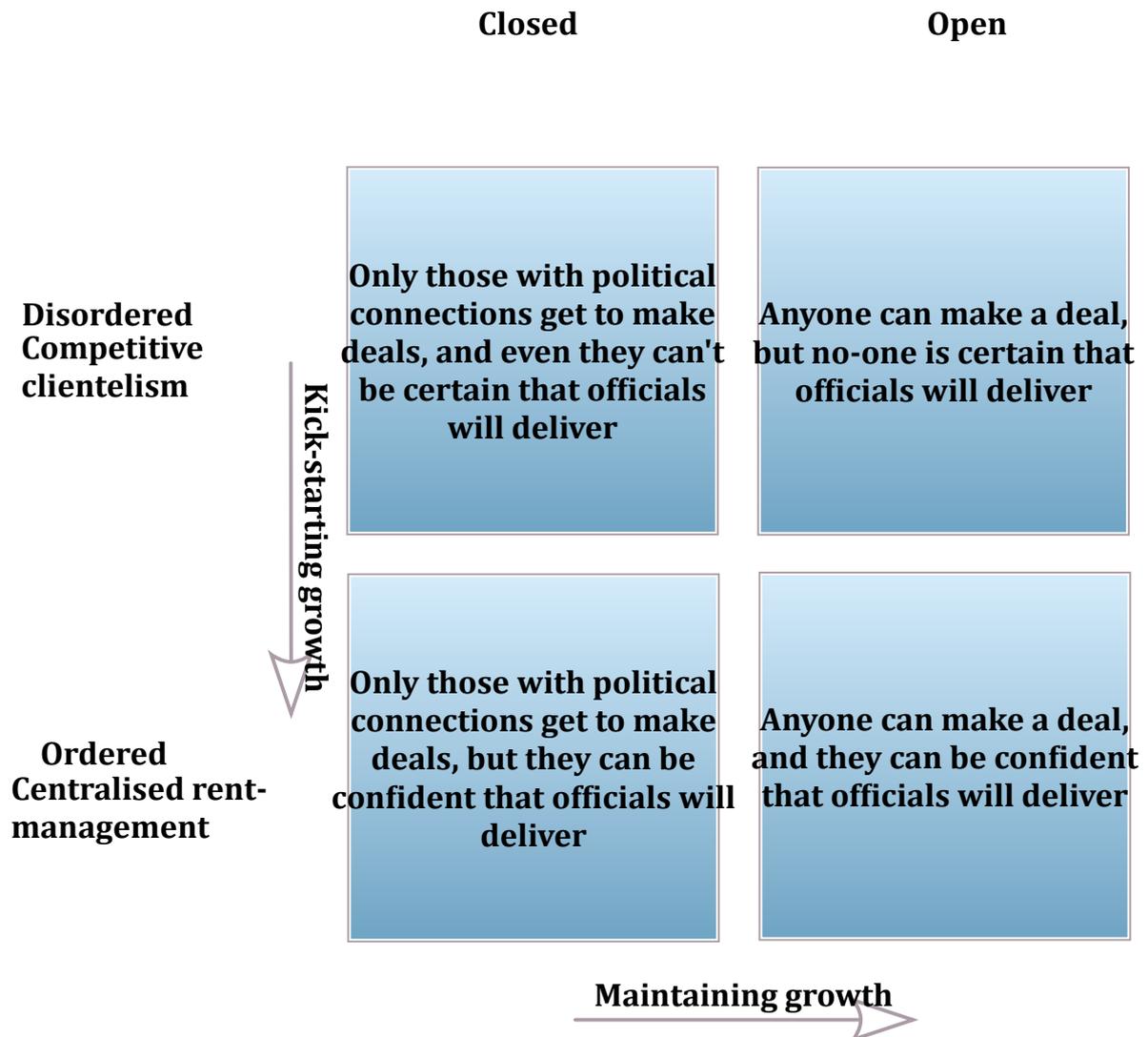
Generally speaking, large firms that operate in monopolistic or semi-monopolistic domestic industries have little incentive to force the state to improve the business environment across the board, and may have much to lose from such improvements.

Large firms with domestic concessions to produce for export may provide slightly more incentive. They may lobby the political elite for reduced red tape and decent infrastructure, but these efforts may be quite narrowly focused.

Medium-sized or large firms that operate in competitive export industries may provide greater incentives. They are also likely to prefer reductions in red tape, good infrastructure (although this may also be cocooned in special economic zones [SEZs]), and possibly an

² See for, example, the World Bank’s ‘Doing Business’ surveys, at www.doingbusiness.org

Figure 3: The deals environment

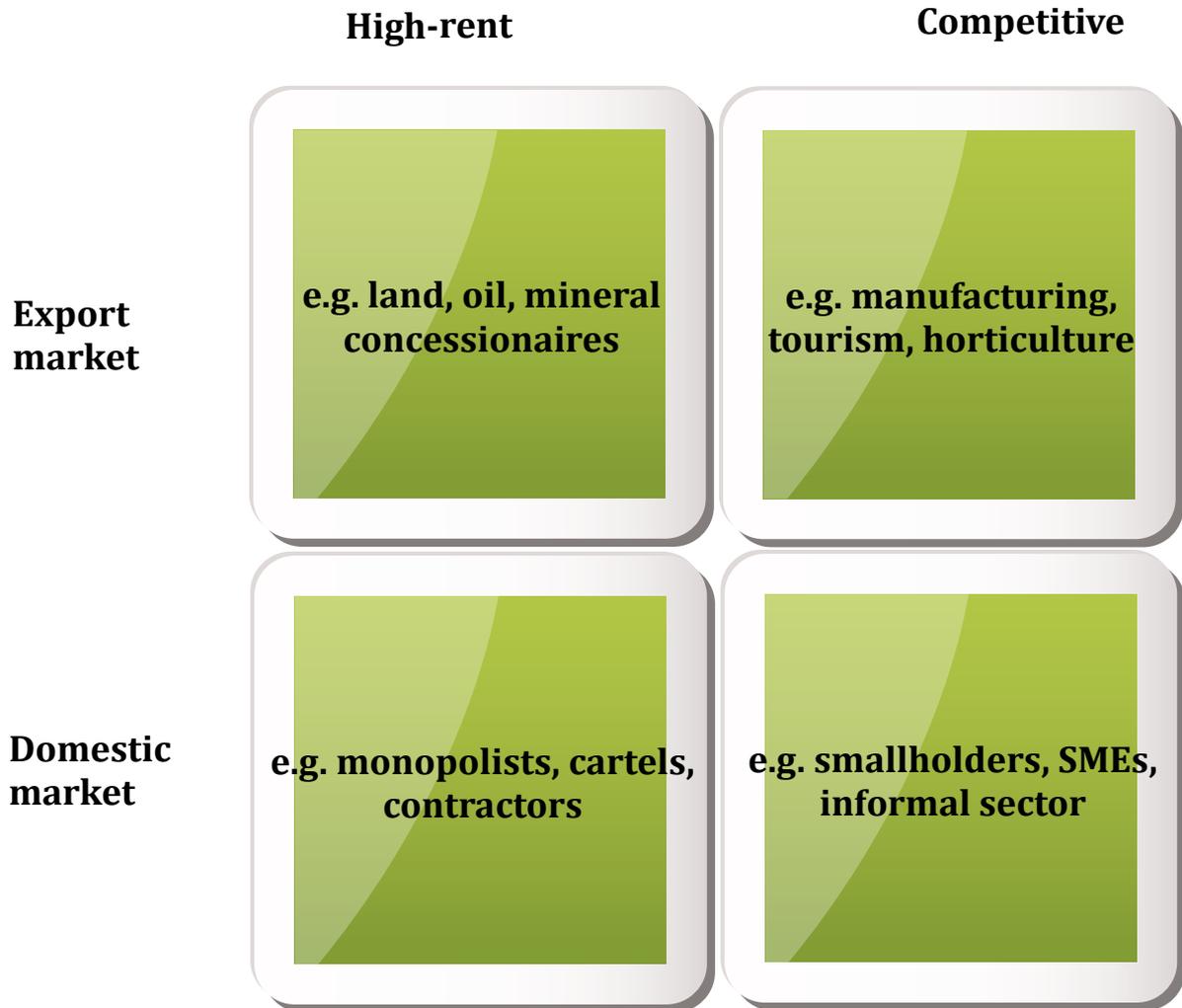


increase in the ability of the state to reduce bottlenecks and coordinate different segments of the supply chain.

Finally, small and medium-sized enterprises, peasant farmers and informal sector businesses that operate in competitive domestic industries are most likely to benefit from across-the-board improvements in infrastructure, education and administration (Pritchett and Werker 2012). Unfortunately, the very general and dispersed nature of these operators often means that it is difficult for them to put collective pressure on the government.

Now, if we combine our understanding of the rents-space with our understanding of the deals environment, we can begin to talk about feedback loops between particular industrial structures and their institutional environments. For example, large companies that get a start in the domestic economy are likely to try and pull the ladder up behind them, formally or informally lobbying the state to close off space for potential competitors. More insidiously, the availability of revenues from high-rent sectors may make the political leadership lazy, and insufficiently committed to building capacity in sectors with greater spillover effects. By contrast, operators in more competitive export sectors are likely to put pressure on the state

Figure 4: Structure of the domestic economy, or 'rents-space'



to help them produce in more efficient and innovative ways. The former case results in an anti-growth coalition, the latter in a pro-growth coalition.

This sketch of the state capabilities typically demanded by different economic sectors suggests that elites who depend for their political survival and concentrate their growth strategies on domestic monopolies, mineral or agricultural concessions are more likely to run into a dead end than elites who concentrate on competitive export industries or small and medium domestic enterprises. This is because the entire economy is likely to experience positive spillovers from the improvements in state capacity that the latter industries demand.

Our final variable is ideology. Interactions between the rents space and the political settlement can be offset, we believe, if the leadership has a pre-existing commitment to laissez-faire economics, resisting pressures to limit entry into particular industries. Alternatively, if for some historical reason the political elite has a commitment to growth, it may pressure large domestic firms to innovate. Finally, it is possible that firms in particular sectors may not conform to type. For example, large foreign concessionaires may be

pressured by their home publics to demand high ideals of transparency and accountability from government, which may lead them to lobby in positive ways.

3. Methodology

This paper is an attempt to apply the ESID theory to the case of Cambodia, the aim being both to test and refine the theory, and to shed some light on Cambodia's future growth prospects.

We proceeded by reviewing a section of the secondary literature on Cambodian history, politics and economy, before conducting four focus groups with researchers, NGO staff and development partners, which mapped the contemporary political settlement. That exercise, married with the ESID framework, provided inspiration for a subsequent schedule of semi-structured in-depth interviews, which explored the relationship between politics, business and growth with 20 government officials, industry experts and industry representatives.

Simultaneously, we conducted interviews with firms representing four sectors of the Cambodian economy, categorised according to whether they were producing for the domestic or export market, and whether they were in high- or low-rent sectors. In all, we spoke to nine firms exporting electronics, garments, or milled rice; four small or medium-sized enterprises; three economic land concessionaires; and three telecoms companies. Interviews varied in length from 45 minutes to more than two hours, with most being about an hour long. We also conducted a focus group with four family rubber planters in Kampong Cham. Most of the interviews were conducted in English, with some in Khmer, Heng translating. Our intention was to provide a rounded picture of firm experiences in each of the four quadrants identified by Pritchett and Werker (2012). This involved interviewing firm owners, managers or industry representatives from two or three industries in each quadrant. For each industry, we tried to do a sufficient number of interviews to reach saturation point. Some industries proved more difficult to research than others, however, and we were only able to interview one or two firms. To arrange interviews we tried two different techniques: 1) writing emails and letters to firms appearing in the press, on the internet, or in association literature; and 2) utilising networks built up over the years by Cambodia Development Resource Institute (CDRI). The latter invariably proved more effective.

At all times efforts were made to cross-check and triangulate data, and readers can be confident that any *general* statement made in this report has the support of at least three different sources. However, on occasions we were provided information that was not corroborated, but which we deem to be of sufficient interest to include anyway. In these instances we have indicated this by using expressions such as, 'one informant told us', etc.

Given the qualitative nature of the research, it is useful to acknowledge potential biases. In this regard, Kelsall is a social scientist with a background in African studies, who has been living pleasantly in Cambodia for the past five years, with a comparatively positive view of the country's political and economic achievements (Kelsall 2013). It is possible that in initial interviews he inadvertently looked for confirmation of his positive impressions, although he would hope this was not the case. However, as he dug deeper into the research, he certainly

found his optimistic outlook challenged. Although still believing that Cambodia is a relative success story, there is no room for complacency.

Heng is a Cambodian social scientist who has been working in the area of democratic decentralisation for more than four years, with an optimistic view on various reforms carried out by the government and economic growth over the last decade. This study gave him an opportunity to prove his positive impressions. When moving deeper into the research, especially after getting to know key sectors contributing to the national economic growth selected in this study, his optimistic view was held back a little bit. However, he still believes that Cambodia, as an interesting lesson learned or model for post-conflict reconstruction countries, might continue moving forward when more effort and attention are devoted, and reforms are genuinely implemented to address challenges to the economy.

Interviews were often difficult to set up, with most firms and many government officials either ignoring our requests or claiming they were too busy to speak to us. It is possible that those who did choose to speak were those who had grievances they wanted to air, while those who chose not to were happier with the business environment. It is also possible, of course, that those who did not want to talk were deeply implicated in some of the more negative aspects of the way business is done in Cambodia and so had things to hide. Or they could have genuinely been too busy. In any case, we do not believe our interviewees represented only one perspective, and feel they had sufficient diversity for us to build plausible and triangulated pictures of state-business relations.

After a little probing, we had the impression that most interviewees were fairly open about topics such as corruption and political-business connections. However, it is possible that some interviewees underreported the extent to which they were personally involved in such matters.

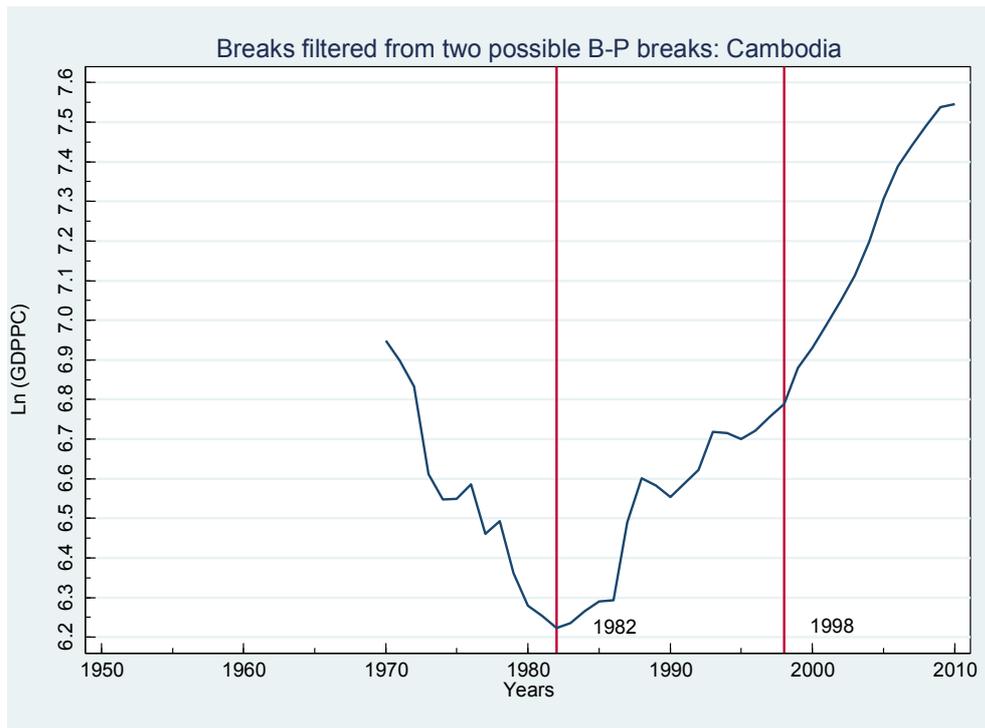
Given the sensitive nature of the topic, most interviews were given in confidence, and for that reason names of informants have been withheld. Each, however, has been assigned a unique code, the key to which appears in the references section of this paper (FG1, FG2, I1, I2, etc.).

4. Overview of growth and structural transformation experience

4.1 Growth

Between 1970 and 2010, Cambodia averaged growth of 2.3 percent per year (a figure which is almost exactly the same as for the UK) (Figure 4). But while the UK's growth has been steady and virtually uninterrupted, Cambodia's has had a high degree of volatility. GDP per capita shrank at a rate of 6.2 percent per year in the 1970s, falling from \$1,041 in 1970 to \$504 in 1982. In 1982 there was a growth acceleration, with per capita income growing at 3.8 percent a year for the next 16 years. Then in 1998 there was another acceleration, per capita income growing now at 6.5 percent a year, taking it to \$1,892 in 2010. Cambodia has experienced an intensity of both collapse and growth that is well above the international average (Kar et al. 2013).

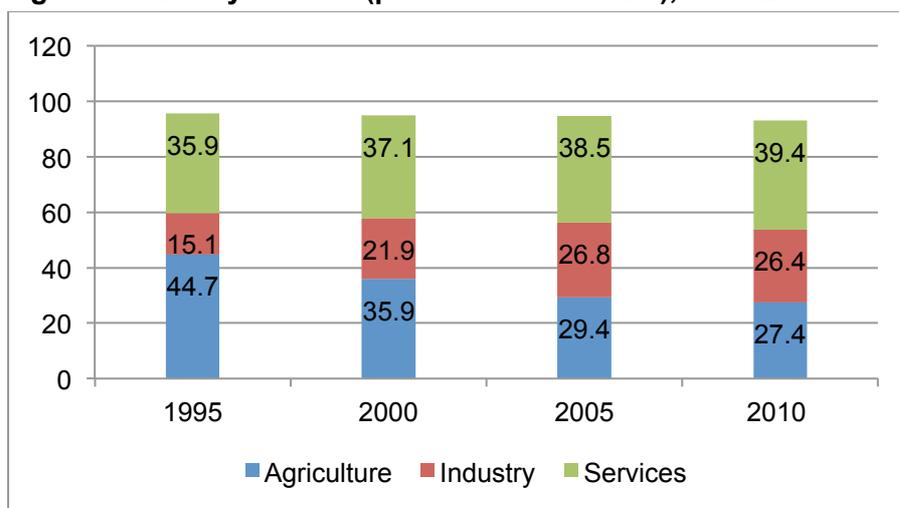
Figure 5: Cambodian growth breaks



4.2 Structural transformation

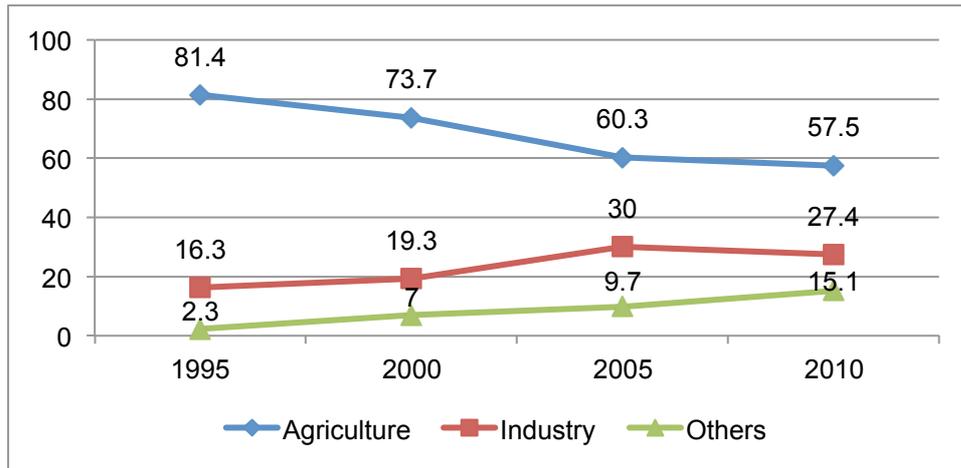
Growth has been accompanied by structural change. Between 1995 and 2010 there was a shift from agriculture to the industrial sector (NIS 2011). In 1995, agriculture accounted for 44.7 percent of total GDP and 81.4 percent of the labour force, while in 2010 its share had fallen to 27.4 percent of GDP and 57.5 percent of the labour force. Industry meanwhile had risen from 15.1 percent of GDP and 16.3 percent of the labour force, to 26.4 percent and 27.4 percent (Figures 6 and 7).

Figure 6: GDP by sectors (percent to total GDP), 1995-2010



Source: National Institute of Statistics 2011.

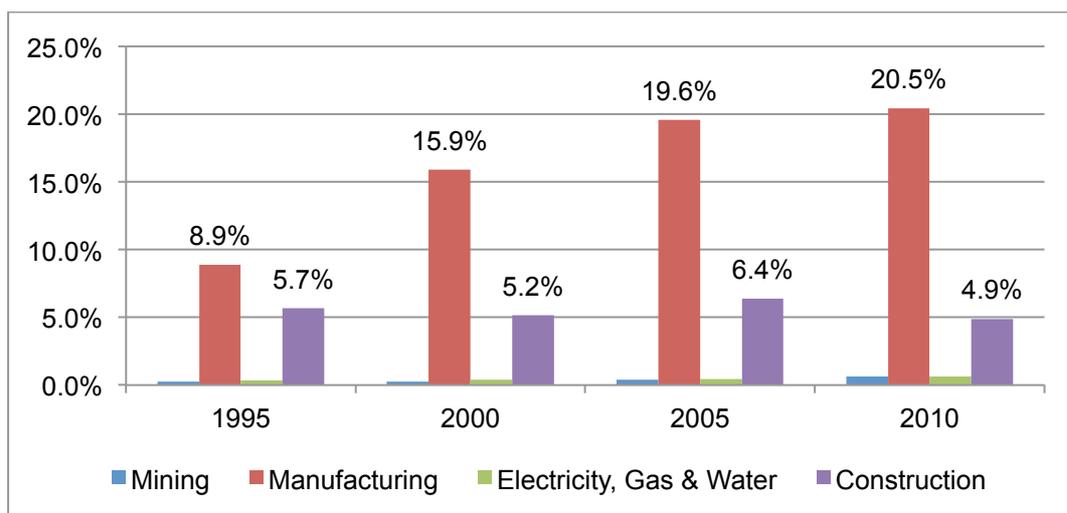
Figure 7: Employment shares by sectors, 1995-2010



Source: Asian Development Bank 2012b.

Within industry, manufacturing has led the way, rising from 8.9 percent to 20.5 percent of GDP, 1995-2010, with construction the next most important sector. Textiles, wearing apparel and footwear have been the most important categories, rising from 15 percent of manufacturing in 1995 to 76 percent in 2010. Services have also increased in importance, rising from 35.9 percent of GDP and 2.3 percent of the labour force in 1995, to 39.4 percent of GDP and 15.1 percent of the labour force in 2010 (NIS 2013 and Figure 7). The growth of the services sector has been primarily attributed to tourism, with a steady increase in the number of tourist arrivals and gross receipts since the 1990s. Tourist arrivals were just 0.22 million in 1995, but by 2010 they were 2.5 million, with gross receipts totalling almost US\$1.8 billion (Ministry of Tourism 2012). There has been growth in telecoms and banking too.

Figure 8: Share of industry in GDP, 1995-2010



Source: Asian Development Bank 2012b.

Despite the decline in its share in GDP, Cambodia's agricultural output has also grown substantially. Paddy is by far the largest crop sub-sector, but cassava has also grown dramatically. Rubber is expected to increase more significantly in coming years as new

investments reach maturity. There is also a growing amount of palm oil and sugar production.

Structural continuity and change is also reflected in the composition of Cambodia's exports. In 1968, tropical agricultural products (mainly rubber), cereal and vegetable oils; cotton, rice, soy and other similar products, accounted for around 75 percent of exports. Twenty years later, these three categories still accounted for 80 percent of exports, although their absolute value had plummeted – from \$71 million, or 0.03 percent of world trade in 1968, to just \$8.46 million, or 0.0003 percent of world trade in 1988 (Hausmann et al. n.d., 129).³

By 1995, the first signs of transformation were visible, with a shift to forestry products and manufactures. By this stage, more than a third of Cambodia's exports were accounted for by wood in the rough, another 20 percent by sawn wood or wood chips, and another 14 percent by natural rubber, with garments a new category comprising around 20 percent of total exports. Since 1995 the garment sector has continued to grow: as Table 2 shows, by 2000, nine of the top ten export products were garment sub-categories. The value of all exports meanwhile increased from \$8.46 million in 1988, to \$4.38 billion in 2008 (Hausmann et al. n.d., 129).⁴

Table I: Production of crops, 1995-2010

Kind of crop	1995	2000	2005	2010
Food crops('000' tons)	3624	4359	6809	11650
Paddy	3448	4026	5986	6549
Maize	55	157	248	773
Cassava	82	148	536	4249
Sweet potato	39	28	39	79
Vegetables	193	196	172	377
Mung bean	20	15	45	72
Industrial crops				
Rubber (ton)	35,427	42,007	29,464	42,466

Source: Asian Development Bank 2012b; Ministry of Agriculture 2011.

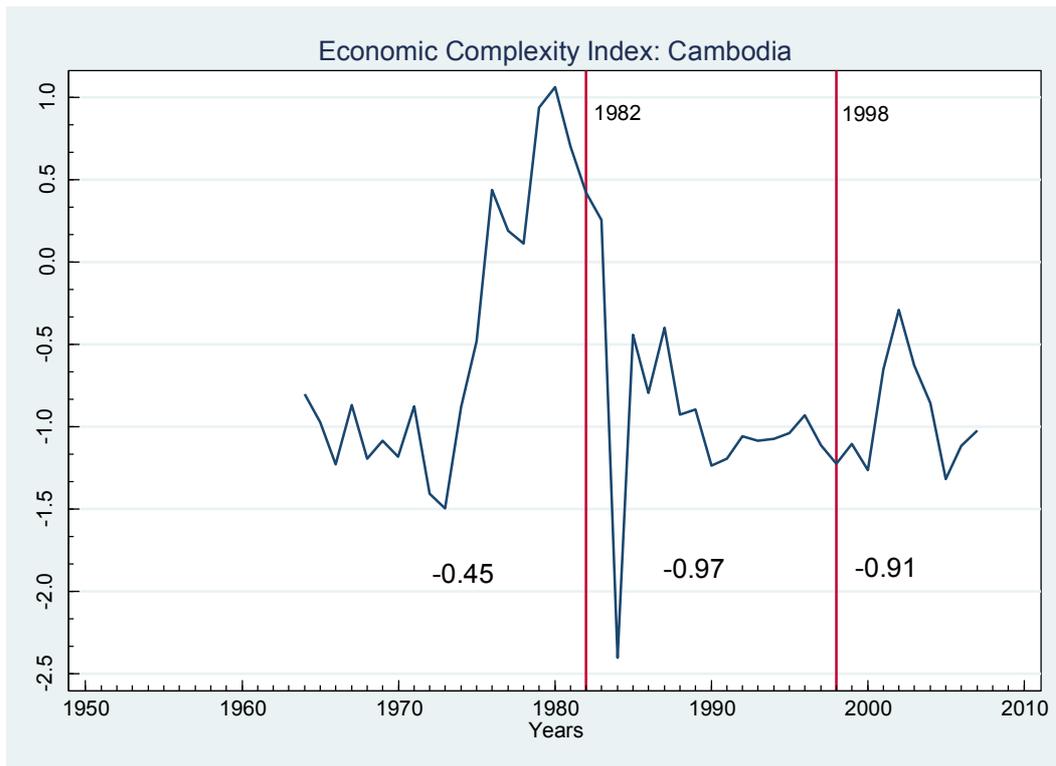
³ NB The Atlas of Economic Complexity (<http://www.atlas.cid.harvard.edu/>) records trade in goods but not services.

⁴ Readers will notice the large value attributed to 'Unused postage, revenue or similar stamps' a wood or wood products category. We have been unable to find any information about this.

Table 2: Top 10 product exports, 1995-2010

Top 10 Product Exports 1995-2010	
1995	Share
Wood in the rough	33.77%
Wood sawn or chipped of a thickness exceeding 6 mm	20.09%
Natural rubber	13.81%
Sweaters, pullovers, sweatshirts, etc	4.26%
T-shirts	3.73%
Cotton raw	2.85%
Womens overcoats, not knit	2.79%
Men's suits, not knit	1.60%
Men's shirts, not knit	1.54%
Active wear, not knit	1.45%
2000	Share
Sweaters, pullovers, sweatshirts, etc	18.77%
Unused postage, revenue or similar stamps	12.69%
Men's suits, not knit	10.80%
Women's suits, not knit	10.57%
Women's suits	4.97%
Men's suits	3.92%
Footwear, with leather body	3.58%
Men's shirts, not knit	2.93%
Women's shirts	2.42%
Women's undergarmnets	2.20%
2005	Share
Sweaters, pullovers, sweatshirts, etc	22.62%
Women's suits, not knit	16.11%
Men's suits, not knit	6.92%
Women's undergarmnets	5.88%
T-shirts	3.76%
Footwear, with leather body	3.75%
Women's shirts	3.25%
Women's suits	2.96%
Men's undergarments	2.32%
Men's shirts	2.32%
2010	Share
Unused postage, revenue or similar stamps	20.87%
Sweaters, pullovers, sweatshirts, etc	13.63%
Women's suits	7.83%
Men's suits	5.14%
Women's suits, not knit	5.12%
Footwear, with leather body	5.10%
T-shirts	4.18%
Women's undergarmnets	4.09%
Men's suits, not knit	3.95%
Women's overcoats	1.83%

Figure 9: Economic complexity of the Cambodian economy



Note: The values are average over the period 1964-1982, 1983-1998 and 1999-2007, respectively.

As of 2008, Cambodia was the 98th most complex economy in the world, 30 places from the bottom (Hausmann et al. n.d., 66). Overall, it showed the 47th biggest increase in economic complexity of the 99 countries for which (1964-2008) data are available. The increase in complexity between 1998 and 2008 was particularly impressive, besting 80 percent of the field (Hausmann et al. n.d., 83).

At the time of writing, Cambodia is experiencing another wave of structural transformation, with the arrival in the country of electronics and light engineering firms, transferring the most labour-intensive aspects of their production from higher-wage China and Thailand. Indeed, external relations with China are an important part of the Cambodian story, with Chinese FDI in 'garment factories, telecommunications, fiber optics, pharmaceuticals, gold mining, agro-industry, and elastic bands', not to mention road, infrastructure and hydro-power projects (Sullivan 2011).

4.3 The 'rents-space'

According to our theoretical framework, firms in Cambodia today can be broadly divided into four types, distinguished by whether they are domestic or export-oriented, and whether they are in sectors typically seen as being competitive or commanding high rents.⁵

⁵ A word of caution must be entered about our categorisations. Because Cambodia receives preferential access to certain global markets, even the electronics, garment and rice-milling industries are earning rents. Conversely, given high operational costs and logistical challenges, the ability to actually reap profits from Economic Land Concessions is by no means assured. Further, some 'high-rent' domestic sectors, for example telecoms, have become so competitive that it is unlikely any rents are being earned at all. Nevertheless, as we shall see, the categorisations remain useful for predicting

The competitive export sector in Cambodia is dominated by garments. There are currently more than 400 firms employing around 500,000 workers. A handful of firms, employing a few thousand workers each, are exporting electronics; and more than 30 firms employing 1-300 people each, are exporting milled rice.⁶ Most of the garment factories are from other East Asian countries, in particular China, most of the rice millers are Cambodian, while the electronics firms are Japanese. Together, they account for the majority of Cambodia's exported goods.

Competitive domestic industry in Cambodia is dominated by small and medium enterprises (SMEs). According to the preliminary results of the 2011 economic census, there are about 505,000 firms employing between one and 100 workers each (NIS 2011). SMEs involved in 'wholesale and retail trade, repair of motor vehicles, and motorcycles sector' comprised the largest proportion of establishments (58 percent), followed by those dealing in the 'manufacturing sector' (14 percent), and 'accommodation and food service activities sector' (14 percent) (NIS 2011). There are also estimated to be around 9 million peasant farmers (Ear 2011).

The high-rent export sector is dominated by agribusiness. According to NGOs, since 2000 Cambodia has granted more than 2 million hectares in Economic Land Concessions (ELCs) to more than 200 firms. Around 28 percent of that area is held by CPP Senators Lao Meng Khin, Mong Reththy and Ly Yong Phat, together with An Marady, another tycoon. The government, meanwhile, puts the figure at 1.2 million hectares granted to 118 agro-industrial firms, including 28 Chinese and 27 Vietnamese companies. NGOs also claim that the government has granted 1.9 million hectares in mineral concessions to Chinese, Australian and local companies. If NGO figures are to be believed, land and mineral concessions, taken together, account for more than 22 percent of the country's surface area (Vrieze and Kuch 2012).⁷ Most of the mineral concessions are not currently in production, but some of the ELCs are beginning to produce rubber, palm oil, sugar and cassava.⁸

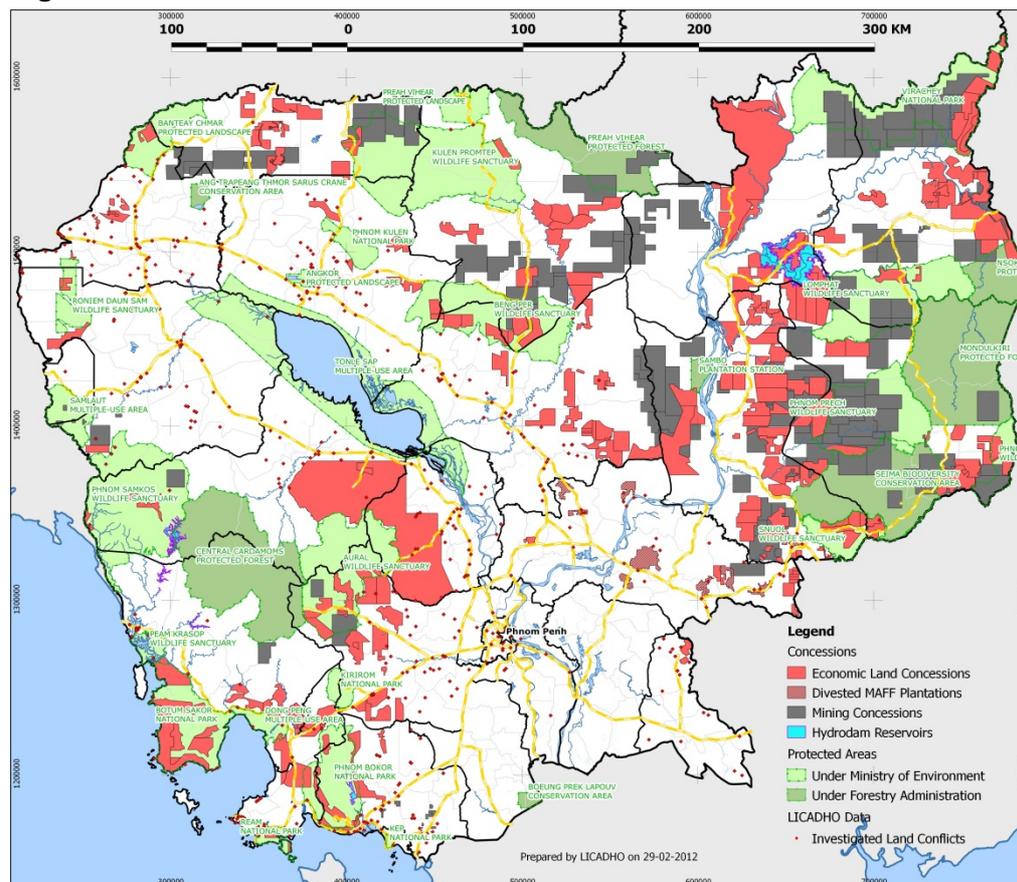
the kinds of relationship investors establish with government, and the consequent impact on the business environment.

⁶ We have been unable to find comprehensive figures for establishments or employment in the milling industry. However, over 80 companies are exporting rice, and a declarative list compiled by the Federation of Cambodian Rice Exporters lists 33 companies with a production capacity. Federation of Cambodian Rice Exporters (2013).

⁷ To put this in context, about 8 percent of the land surface was allocated as concessions in colonial times (Slocomb 2010).

⁸ For case studies of rubber and sugar schemes, see Cock 2011.

Figure 10: Economic and mineral concessions in Cambodia



Source: Licadho.⁹

Monopolistic or semi-monopolistic areas of the domestic economy include electricity and water supply; concessions to manage and operate heritage sites, tourist attractions and casinos; rail transport and domestic air transport. In addition, the government sometimes awards contracts to private companies for major infrastructure projects, such as power, roads, airports, ports and SEZs. There are also a number of multi-million dollar urban development projects either recently completed or underway in Phnom Penh. Other large domestic industries include banking, telecoms, brewing, and petrol supply, all of which are dominated by a few large players, with a smattering of smaller operators. Prominent in most are the biggest Cambodian tycoons or *oknha*,¹⁰ large East Asian foreign companies, or both.

The Royal Group of Companies, for example, established in 1990 by Australian-Cambodian Kith Meng, is the largest and most diversified business conglomerate in the country, with investments in a wide range of industries, including telecommunication and information technology, finance, media and entertainment, hotels and resorts, property development, trading and transportation. Its firms include the mobile phone company MobiTel, internet service providers TeleSURF and Ezecom, Infinity Insurance, ANZ Royal Bank (a partnership

⁹ http://www.licadho-cambodia.org/concession_timelapse/

¹⁰ According to Ear, 'The title of "*oknha*" comes from Cambodia's peerage system and is bestowed by His Majesty the King. It is designated for individuals whose "Contributions [to national reconstruction] values in excess of \$100,000". The title of *oknha* is the preserve of businessmen interested in formalizing their relationship with the state (and by extension the CPP). As of April 2008 there were officially 220 *oknha*, of whom less than ten were women' (Ear, 2011, pp. 70-93).

with Australia New Zealand Banking Group Limited), Cambodian Broadcasting Corporation (consisting of three air television stations), and Hotel Cambodiana. Kith Meng has also been involved in hydro-power projects, and has plans for an airline.¹¹ Sokimex was established in 1990 by Neak Oknha Sok Kong, an ethnic Vietnamese Cambodian. Starting as a company exporting agricultural produce and importing goods, today Sokimex is involved in petroleum importation and retail, infrastructure development and hotel management, including the giant gambling resort on Bokor Mountain; it also operates the ticketing facilities for the ruins at Angkor Wat.¹²The eponymous Mong Reththy Group of Companies,¹³ founded in 1989 by a boyhood friend of Prime Minister Hun Sen, is engaged in import and export, trading, real estate business, agriculture and agro-industrial business. His *oknha* Mong Port, for example, was the first private sea-port in Cambodia, while Samnang Khmeng Wat is one of the country's leading construction companies, closely linked with the Prime Minister's personal infrastructure projects; Mong Reththy also owns an industrial-scale pig farm. Overseas Cambodia Investment Corporation (OCIC), owned by Neak Oknha Pung Kheav Se – also president of Canada Bank Plc – is a well known local developer involved in real estate, construction and development. Its projects include a plan to develop Diamond Island in the Tonle Sap, at a cost of \$300 million;¹⁴ a project to develop a US\$1.6 billion satellite city on Phnom Penh's Chroy Changvar peninsula;¹⁵ and approval for a \$250 million project to develop the land surrounding the Olympic Stadium.¹⁶

5. Political history

To understand this pattern of bust and boom, we need to know something of Cambodia's political history. Home to the great Angkorian Empire from the 10th century, Cambodia entered a period of decline in the 15th century, progressively losing power and territory to its more powerful Thai and Vietnamese neighbours. In 1863 it became a protectorate of France, and the boundaries of modern Cambodia were secured. A degree of economic development followed, and by the end of the colonial era, the country was an important exporter of agricultural commodities, especially rubber (Slocomb 2010).

Cambodia was led to independence by King Norodom Sihanouk in 1953, who became *Prince* Sihanouk upon abdicating the throne in 1955. Initially, his regime was a broad alliance of the Cambodian upper and middle classes and foreign capital, who thrived on rents from economic growth and foreign aid, and incorporated most of the peasantry via patronage ties. On the outside were the small number of peasants who had lost land to emerging capitalist interests, former members of political parties that had been neutralised, and leftist intellectuals. The latter, with the assistance of the North-Vietnamese, formed an armed resistance. Partly to placate these elements, Sihanouk made a shift to the left in

¹¹ Retrieved 31 October 2013 from <http://www.royalgroup.com.kh/>

¹² Retrieved 31 October 2013 from <http://www.sokimex.com.kh/>

¹³ Retrieved 31 October 2013 from <http://www.mongreththy.com/>

¹⁴ Retrieved 31 October 2013 from <http://www.phnompenhpost.com/real-estate/cambodian-cities-future-%E2%80%93-theyre-just-around-corner> <http://serviced-apartment-phnom-penh.com/the-market-in-cambodia/92-satellite-city-koh-pich-diamon-island.html>

¹⁵ Retrieved 31 October 2013 from <http://www.phnompenhpost.com/business/satellite-city-deal-worth-16bn-inked-capital>

¹⁶ Retrieved 31 October 2013 from <http://www.phnompenhpost.com/real-estate/55-storey-skyscraper-be-part-olympic-stadium>

1963, renouncing American aid and nationalising key industries. The regime began to lose the support of some of its former allies, and in the face of increasing economic imbalance, requisitioning, unemployment, landlessness and accelerating conflict in Vietnam, the 'Khmer Rouge' insurgency swelled (Chandler 1991; Slocomb 2010).¹⁷

In 1970 Sihanouk was deposed by a right-wing cabal around General Lon Nol, a move widely supported by Cambodia's middle classes and business community. A return to economic liberalisation and the resumption of American aid soon followed. However, the massive flow of resources was unable to halt the progress of the war. Within a year of taking power, the republican government had lost control of around half of the national territory. Rice exporting areas became battle zones, while enemy strongholds were subjected to a sustained campaign of American bombing. Rubber plantations were damaged and the majority of planters left the country. Infrastructure suffered bombardment, and the main supply routes into and out of the country became ever more perilous (Slocomb 2010).

In 1975 the Republic succumbed to the guerrilla forces of the Khmer Rouge. The new regime of 'Democratic Kampuchea' was essentially a clique of intellectuals that used a mixture of ideology, coercion and terror to maintain control over their party cadres and the wider population. Once in power, they set about implementing an extreme leftist ideology inspired in part by China's Cultural Revolution, the aim being to rid Cambodia of capitalist and imperialist influences and return it to the 'Year Zero'. They planned a structural revolution in agriculture, aiming to produce six to seven tonnes of rice per hectare annually (Cambodia's optimal areas had previously produced only around 2.5 tonnes per hectare). To this end, the capital, Phnom Penh, was evacuated, its inhabitants sent to toil night and day on communal irrigation works and collective farms in the countryside. The effect was disastrous: although the irrigated acreage expanded considerably, rice yields, rather than tripling, halved (Chandler 1991; Slocomb 2010).

On 7 January 1979, Democratic Kampuchea was overthrown by a combination of Khmer Rouge defectors and Vietnamese troops. The new regime was led by the Kampuchean People's Revolutionary Party (KPRP), who called their new state the People's Republic of Kampuchea (PRK). Heavily dependent on Vietnamese support, opposed by the Khmer Rouge and certain former royalists, the first months were chaotic (Slocomb 2010). Our data show the nadir of the economic collapse to be 1982, by which time Cambodia's 1970 GDP per capita of \$1,041 had fallen to \$504. Thereafter the country entered a new economic phase, growing slightly for the first few years and then strongly for the next 16, growth averaging 3.8 percent per annum overall.

Although officially a planned economy, much of this growth originated in the private sector. The PRK was never strong enough to extinguish the market; indeed, it would have perished were it not for the operations of private smugglers and the Chinese business community. One of the principal advocates of market economics was the young Hun Sen, who rapidly rose to be Prime Minister and the PRK's most powerful figure (Gottesman 2004). By 1985,

¹⁷In fact the insurgency, part of which took the form of the Samlaut rebellion, was not solely of the CPK or Khmer Rouge's making (Chandler 1991).

the market economy had been legitimised and key players, including Sok Kong and Mong Reththy, had become influential allies of the regime (Gottesman 2004, 90; Slocomb 2010).

Market exchange was facilitated by a patron-client state that established a modicum of order and predictability, largely by imposing a centralised system over local rent-seeking arrangements. Gottesman describes it thus:

Hun Sen and the rest of the current Cambodian leadership are the beneficiaries of the political and economic system that evolved in the 1980s. Civil servants, whose salaries are still too low to support themselves and their families, are allowed to pocket a percentage of any fines, taxes, fees or bribes that they impose on the citizenry. The rest of the money is handed up, sometimes for state or Party coffers but generally to individual patrons. The result is a power structure made up of vertical – and yet mutually dependent – relationships. Top officials engage in direct corruption when they conclude deals with foreign investors. But the leadership also promotes lower-level corruption by perpetuating a weak salary system and by making nepotistic appointments (Gottesman 2004, 335).

In 1989 Vietnamese troops withdrew and the warring factions in Cambodia signed a peace agreement which, although shortlived, led to a ceasefire, a United Nations peacekeeping force, and a resumption of Western aid. The PRK was renamed the State of Cambodia and then, after a return to constitutional monarchy in 1993, the Kingdom of Cambodia (Slocomb 2010).

Elections were held in 1993, pitting Hun Sen's ruling Cambodian People's Party against FUNCINPEC, a royalist party led by Norodom Ranariddh, Sihanouk's son. FUNCINPEC won a majority in the election, but the CPP refused to relinquish power. The solution was a power-sharing government, with Ranariddh and Hun Sen First and Second Prime Ministers, respectively. This structure was replicated throughout the government, with a FUNCINPEC minister and CPP deputy-minister, or vice versa, in every ministry. A partycentric competition for spoils was thus brought into the heart of the regime, a battle in which the CPP progressively gained the upper hand (Roberts 2001).¹⁸

Throughout the mid-1990s, both Prime Ministers tried to gain advantage in their struggle by wooing Khmer Rouge elements to their side. In 1996, Hun Sen recorded a major advance when he persuaded former KR Foreign Minister Ieng Sary to pledge allegiance to the regime. Ranariddh then began to hatch a plot with remaining Khmer Rouge members, ostensibly to oust Hun Sen. Its revelation triggered an armed confrontation on the streets of Phnom Penh in 1997, in which the CPP prevailed, forcing Norodom into exile and FUNCINPEC to the political margins (Gottesman 2004; Roberts 2001).

¹⁸ Citing Ashley, 'rather than depoliticizing a one-party state (controlled by the CPP), powersharing...created two separate and competing party states operating within every ministry, province, military command and police commissariat. Instead of working with their counterparts from the other party, officials from the prime minister's level down conducted business with their party clients and colleagues. [This has] served to weaken the state by building and reinforcing parallel structures of personal and party authority, operating both within and outside the state' (Roberts 2001).

By winning the subsequent 1998 general election, the CPP consolidated its power.¹⁹ This date marks the inauguration of a weakly bureaucratic, semi-competitive political settlement dominated by a CPP-centred coalition that has changed little over the subsequent 15 years (see Figure 11).²⁰ In the coalition's inner circle are the Prime Minister, his family and key business associates; top military generals; top politicians; and key economic technocrats. In the outer circle are development partners, foreign investors, such as the garment association, pro-CPP trades unions, FUNCINPEC, the King, and assorted other politicians, ministers and civil servants. The Prime Minister is undoubtedly pre-eminent among coalition members, having sidelined his main rivals to the extent that there are no obvious alternatives to him (Heder 2005). That does not mean that he has complete freedom of manoeuvre, however. On several occasions he has proved either unable or unwilling to discipline fellow members whose rampant corruption and natural resource exploitation go against his stated objectives, and arguably the long-term health of his regime.²¹

The coalition has strong patronage ties to CPP leaders, Village Development Committees, pagoda committees, policemen and the Vietnamese community. It also has ties to farmers, workers, lower level civil servants, monks, students and soldiers. However, these groups are effectively swing constituencies. In 1998, 2003 and 2008, enough of them supported the ruling party to deliver CPP election victories (although not without a tough challenge on the first two occasions) (Cock 2011; Heder 2005).

In 2013, however, despite healthy growth and poverty reduction statistics, significant numbers backed the Cambodia National Rescue Party (CNRP), led by Sam Rainsy and Kem Sokha. CNRP was part of a larger challenger coalition comprising pro-opposition trades unions, media, the Teachers' Association and diaspora groups, and with growing links to formerly excluded groups, such as the jobless and landless, some of whom have lost land to government-sponsored Economic Land Concessions (discussed below).²²

The results of the 2013 election were much closer than most observers expected, with the opposition winning 55 seats to the CPP's 68. However, CNRP claimed that in the absence of widespread irregularities, it would have won the poll. It subsequently organised a string of mass demonstrations, refused to join the parliament, and threatened economic strikes and boycotts (Ponniah and Chanrasme 2013). At time of writing, the standoff had not been resolved. Whatever the eventual outcome, the 2013 election signals an evolution or even shift of the political settlement, from one with a fairly secure dominant coalition to a more vulnerable one, facing a very robust external challenge. Two main factors appear to be responsible: a demographic shift that has brought a new generation of voters onto the electoral role, many of them critical of government policies (reasons to be explored below);

¹⁹ It was subsequently admitted both to ASEAN (2000) and the WTO (2004).

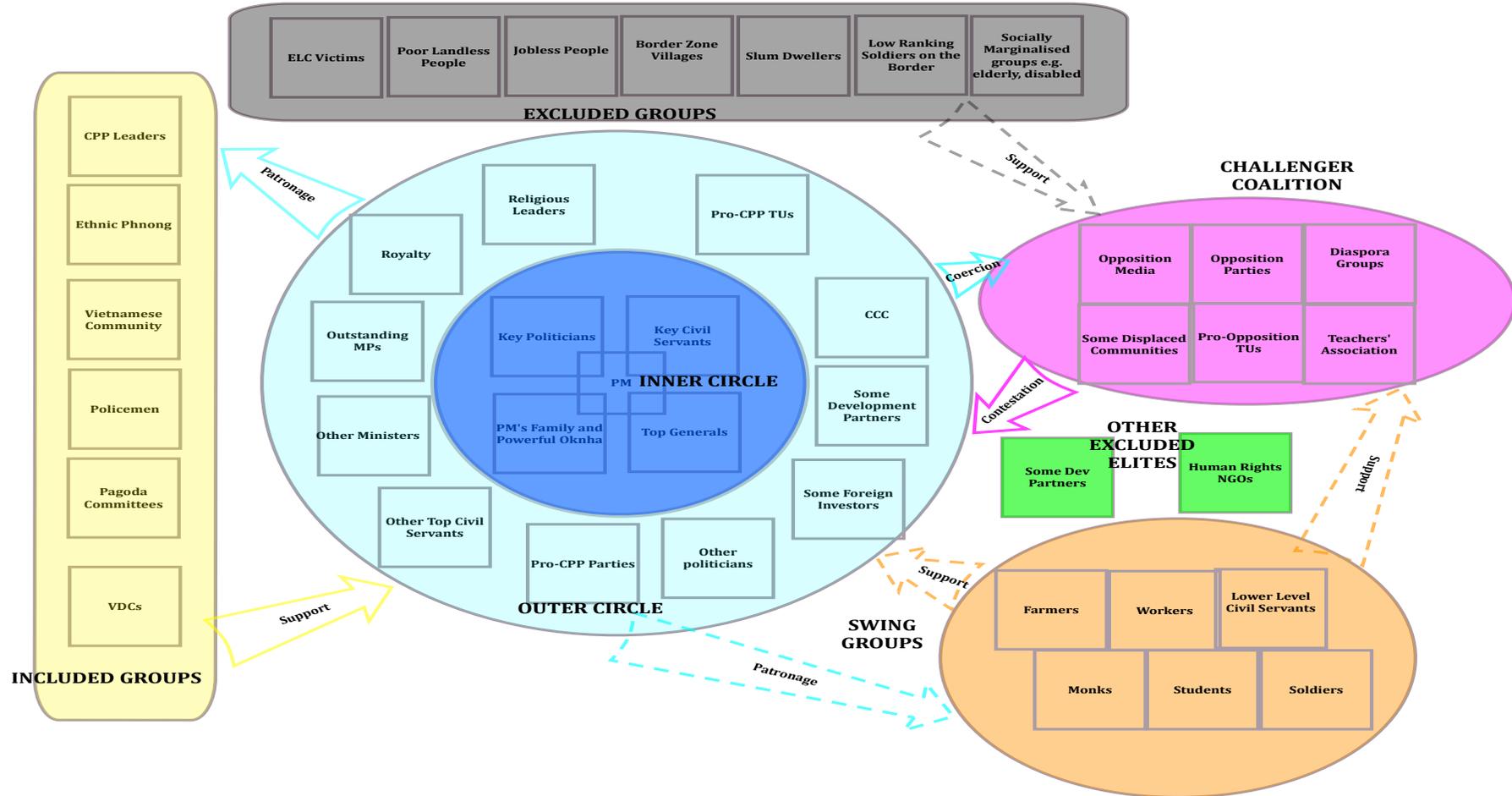
²⁰ Figure 11 is based on four focus groups (FG1-4) conducted in June, July and August 2013, with researchers, NGO representatives, and development partners. The participants were generally well-informed observers of Cambodian politics and development, though they were not themselves members of the dominant coalition. The results should be regarded as indicative not definitive of the really existing situation.

²¹ See also Hughes and Conway 2003; Hughes and Un 2011; Pak 2007; and Un 2005.

²² For the significance of patronage in Cambodian socio-political relations, see, among others, Roberts 2001.

and the challenger coalition's increased organisational power, driven by a successful merger of the two main opposition parties, plus its innovative use of social media.

Figure 11: The political settlement in Cambodia¹



¹ Note that for the framework used here we are indebted to Thomas Parks and William Cole 2010b as well as internal ESID paper.

Key:

INNER CIRCLE **PM** Hun Sen. **Powerful Oknha** e.g. Kith Meng, Ly Yong Phat, Mong Reththy, Sy Kong Triv, Kok An, Sok Kong, Yeay Phu and Lao Meng Khin, Lim Chhiv Ho, Pung Kheav Se. **Hun Sen's Family** Bun Rany, Hun Sen's wife; Hun Manet, deputy commander of PM's bodyguard unit, deputy commander of RCAF infantry; Hun Mana, powerful businesswoman; Hun Manit, RCAF Colonel, Deputy Chief of Cabinet, Deputy Chief of PM's land-titling programme; Hun Many, Head of the CPP Youth Association; Hun Neng, Hun Sen's older brother, former governor of Kampong Cham, and whose daughter was married to General Neth Savoeun, the National Police Chief; Hun To, Hun Sen's nephew. **Key Politicians** Say Chhum, Senate VP, Chair of the CPP Politburo Standing C'ttee; Sok An, Deputy PM, Minister, Member of the Standing C'ttee; Chea Sim, Senate VP, CPP President; Sar Kheng, Deputy PM/Minister of the Interior; Keat Chhon, Deputy PM/Minister of Economy and Finance, VC CPP; Lim Kean Hor, Minister of Water Resources; Tea Banh, Deputy PM and Minister of Defence; Cham Prasidh, Minister of Commerce. **Trusted Key Civil Servants** Aun Porn Moniroth (has a wide-ranging portfolio, incl. Sec of State to Ministry of Economy and Finance); Dr Hang Chuon Naron (Secretary of State Ministry of Finance, Sec Gen SNEC); Dr Chhieng Yanara (Sec Gen CRDB, member of the SNEC); Ho Sethy, Chief of Hun Sen's Cabinet; Prak Sokhon, Secretary of State, Advisor to the PM; Oum Yin Tieng, Senior Minister and the President of the Anti-Corruption Unit; Chea Chantou, Governor of the National Bank; Dith Munthy, Chief of the Supreme Court; You Bunleng, chief of Appeal Court and National co-investigating judge of the Extraordinary Chambers of the Court of Cambodia; Chhiv Keng, Chief of Phnom Penh Municipal Court; All Provincial Governors. **Key Military** General Kun Kim, the RCAF deputy commander and the chairman of Hun Sen's advisors; General PolSaroen, the RCAF commander; General Hing Bun Heang, the commander of Prime Minister Hun Sen's body guards.

OUTER CIRCLE **Outstanding Parliamentarians** Chheang Vun; Cheam Yeap; Khuon Sodary. **Other Ministers** Pich Sophoan, the Secretary of State of the Ministry of Labour and Vocational Training, whose daughter is married to Hun Manet (the oldest son of Hun Sen); Im Chhun Lim, Minister of Land Management, Urban Planning and Construction; Chan Sarun, Minister of Agriculture, Forestry and Fisheries; Khieu Kanharith, Minister of Information. **Influential Development Partners** China, Vietnam, IMF, UNDP, CG, ADB, GIZ, World Bank. **Top Police** General Neth Savoeun, National Police Chief, who was married to Hun Sen's niece. **Religious Leaders** TepVong, Non Nget, Ang Lim Heng. **Royalty** The King, The King's mother. **Influential Foreign Investors** Chinese Companies (no names); Korean Companies (no names). **Cambodia Chamber of Commerce**. **Other Politicians** Heng Samrin. **Pro-CPP Parties** A few FUNCINPEC people; Nhek Bun Chhay, the Secretary General of FUNCINPEC. **Pro-Govt Union Leaders** Som Aun, president of the pro-government National Union Alliance Chamber of Cambodia.

6. Environment for business/deals environment in Cambodia

These political changes have been associated with, and to some extent have created, a shift from disorder to order in Cambodia's deals environment, and even a gradual strengthening of the system of rules.

Between 1955 and 1963, the Cambodian economy grew respectably. Although corruption was a part of everyday life, it seems probable that business deals were conducted with reasonable predictability. After 1963, nationalisations upset long-standing relationships between state and private businessmen, while there is evidence that Sihanouk was finding it increasingly difficult to exert political control (Chandler 1991, 90, 94, 118). Under Lon Nol, disorder intensified, indicated by turbulent parliamentary and non-parliamentary politics, rampant corruption, and trading with the enemy (Chandler 1991, 205, 223, 230). The profits from trafficking in illicit goods, for example, became so important that the most lucrative posts were rotated every few months, creating a 'merry-go-round' of executive positions (Slocomb 2010, 139); the regime's inability to harness aid rents productively undoubtedly contributed to the intensification of conflict and progressive economic decline.

After the Khmer Rouge overthrew Lon Nol, money was banned and economic activity centrally planned. What little external trade existed took a – probably fairly ordered – barter form. But continued collapse is better explained by the regime's fantastical economic policies than by our theoretical framework. According to David Chandler, 'Those at the top commanded, and everyone obeyed' (Chandler 1991, 244). The main problem was not that deals were closed or disordered; it was that they were not allowed

To some extent this remained the case in the early years of the PRK. The government persisted with trying to plan the economy centrally; but it was never very successful, and the black economy began to gain in strength. Whether deals were disordered or ordered is rather difficult to assess. The picture is one of private businessmen and local officials opportunistically exploiting trade routes and natural resources in a process that the centre tolerated, but did not fully control (Gottesman 2004).

The environment for business changed post-1990, with renewed international recognition, foreign aid and openness to the outside world. For the first time, the government made serious attempts to attract international capital and some foreign investment followed. New investors were, however, sometimes confronted by a deals environment that had become disordered thanks to the presence of two political parties competing for ascendancy under the UN-brokered power-sharing deal.

The case of Ariston provides a good example. In what could have been Cambodia's biggest investment deal of the 1990s, Ariston, a Malaysian company, was scheduled to spend \$1.3 bn developing the Sihanoukville port, airport and a power station. In

return, it was to receive a monopoly over the casino sector, which it would use to help repay its investment. However, even after the company had begun making contractual payments to the government, the Casino Control Law failed to materialise. Apparently, the reason was that although the company had the strong backing of the first Prime Minister (FUNCINPEC's Norodom Ranariddh), the CPP already controlled several existing casinos and so opposed the law. Ariston complained about 'bureaucratic chaos', the government failing 'to honour its commitments', and a 'disorganised environment', with problems securing possession of the airport and power plant site, harassment by villagers, and its equipment detained at the port (Fitzgerald 1996; Vittachi 1996).² Its criticisms echoed those of Finance Minister Sam Rainsy, who in 1993 had complained that economic administration was 'confusing and irrational'. Cambodia was a 'jungle economy', in which foreign investors were subjected to 'endless arbitrary contributions to people and institutions not legally entitled' to collect (Burslem 1993; Dodd 1994; Hayes 1993).

Further evidence comes from the forestry sector. As Slocomb notes, 'From very early on in its history, the PRK recognised the development of export industries as a life and death matter for the regime' (Slocomb 2010, 219), and by the late 1980s Cambodia's forests were being heavily exploited (Gottesman 2004; Le Billon 2000; Slocomb 2010). Powerful informal networks linking politicians, businessmen and the armed forces grew up around timber exports to Thailand. This continued under the post-93 power-sharing system, with both prime ministers linked to informal forestry networks. A plethora of other actors also struggled to get its cut, employing 'red-taping, illegal logging, intimidation, kidnapping and murder. In response, foreign logging companies paid protection bribes, bought illegal logs, or created "joint ventures" with local leaders and businessmen'(Le Billon 2000, 800).

After Hun Sen's triumph over Ranariddh, and under pressure from foreign donors, the centre imposed an increased degree of order over this local anarchy (Slocomb 2010). This involved granting timber concessions to large foreign investors and conducting a violent crackdown on illegal operators, including many thousands of rural poor people who had eked out a living in the interstices of the previously anarchic system. The legalisation process, which saw an increased proportion of forestry revenues flowing through the Treasury 'enabled Phnom Penh not only to further its own personal interests but also to consolidate its power at the local level by undermining "unruly clients"' (Le Billon 2000, 801).³

² In 1998, the Ministry of Industry awarded the power project to another investor. In our interviews, one source doubted whether Ariston ever had the capacity to complete its project, and suggested that it was primarily interested in the gambling licence. We were unable to corroborate this, though Ariston CEO Dr Chen Lip Keong's company operates a casino in Phnom Penh to this day.

³ Note that according to Le Billon, 'This seeming anarchy was not chaos, but rather a spontaneous order resulting from the ability of individuals or groups to control and exploit forests and to trade timber' (791). In 1995, an article in the Phnom Penh Post (20 October 1995) described the rubber sector as also 'anarchic', characterised by the cutting of trees, theft of latex, and sales riddled with commission, 'jealously guarded' by state enterprises or

More generally, foreign investors appear to have welcomed the CPP's consolidation of power post-1998. Although the government lacked an overall majority, and still governed in a coalition with FUNCINPEC, the latter was indisputably the junior partner. One investor expressed high hopes that Hun Sen would bring security, 'the number one factor for foreign investment', to the country, while for another: 'In terms of business, not of politics, one prime minister is better than two' (Eckardt 1998).⁴

Power consolidation paved the way for the increased foreign investment that Sam Rainsy had called for back in 1993. Rainsy himself had been sacked as Finance Minister in 1994; however, with the technical assistance of international donors, in particular the World Bank, at least some of the strengthening in state capacity he advocated was continued. The principal effect was the 1994 Law on Investment, which created the Council for the Development of Cambodia, a sole and one-stop service organisation 'responsible for the rehabilitation, development and the oversight of investment activity'. Foreign investors were provided guarantees against nationalisation and price regulation, and permitted to own 100 percent of their businesses. They were also provided with a variety of incentives, including a corporate tax rate of 9 percent, tax exemption for up to eight years, non-taxation of remitted profits, import duty exemption for several types of industry, and permission to bring in foreign management, technical personnel, skilled workers, and spouses (Slocomb 2010).

The law was instrumental in encouraging the first garment manufacturers from Taiwan, Singapore and Hong Kong to open factories in Cambodia. Later, preferential trade agreements with the US, in particular the Most Favoured Nation status in 1996 and the Generalised System of Preferences in 1997, provided a further stimulus. In 1999, the US and Cambodia signed the Bilateral Textile Agreement, which linked preferential market access to labour conditions in Cambodian factories. The sector grew (Slocomb 2010).

The first investors soon established the Garment Manufacturers' Association of Cambodia (GMAC) (I4). Later, a *prakas* issued by the Minister for Commerce instructed every firm in the industry to become a GMAC member.⁵ Then, in 1999, apparently at the initiative of the Prime Minister and with the assistance of the International Finance Corporation (IFC), the government established the Government-Private Sector Forum (G-PSF). This has been supported by a system of industry-specific and cross-cutting working groups, bringing together private-sector representatives and ministerial officials to solve industry problems. Issues unresolved

government departments. It is not quite clear from these descriptions whether the sectors were *disordered* or merely *decentralised*.

⁴ One long-term observer of Cambodia's economy opined that in the mid-1990s FUNCINPEC differed from CPP because they knew the value of Cambodia's assets, and extracted higher bribes accordingly: 'These guys had been in exile, and if they had to go back they knew they didn't want to drive a taxi in Paris: they wanted a villa on the Riviera'. He said that he had also heard that FUNCINPEC was less likely to deliver on the deals it cut than were the CPP, though this was uncorroborated (I15).

⁵ See interview reference I23.

here can be referred to the Prime Minister and the entire Cabinet during the G-PSF's biannual plenary sessions (CAMFEBA n.d.). In 2009, the IFC rated Cambodia's arrangements the most effective of any country they had studied (Youtube 2010).

Another factor making for a more orderly business environment has been ASEAN integration and WTO accession. Cambodia was admitted to ASEAN in 1999, and became a non-compliant member of the WTO in 2004. Since then it has enacted a series of fundamental laws, including on land, banking, bankruptcy and company law. These have progressively pushed the economy in the direction of greater openness (118) (Youtube 2010).⁶

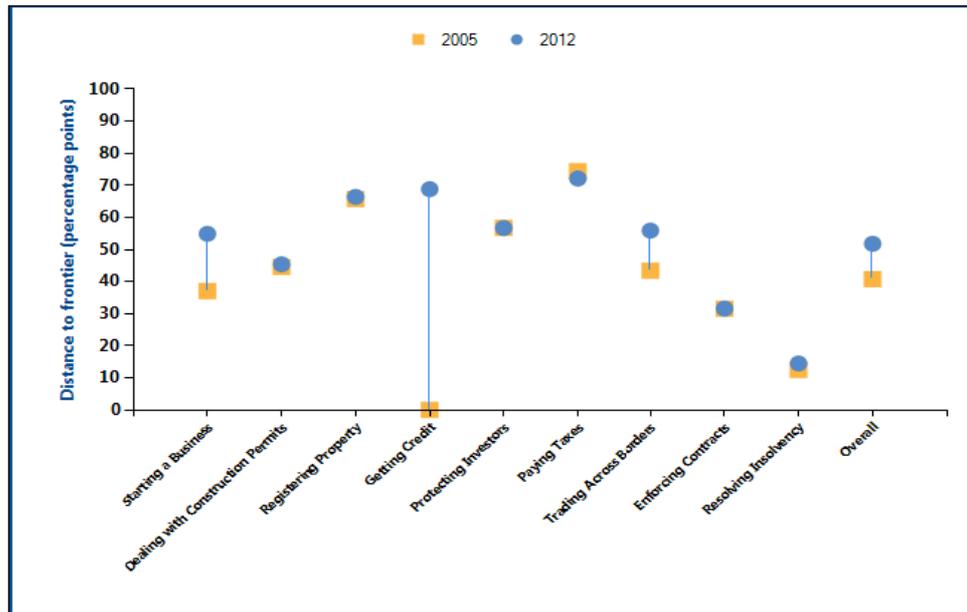
7. Deals environment today

According to the World Bank's Doing Business surveys, corruption and bureaucratic red tape remain the major constraint to business investment in Cambodia, followed by insufficient infrastructure and lack of educated labour (Saing 2012). Some indicators of the business environment have shown little or no progress. For instance, the number of days required to get electricity (183 days), to enforce contracts (401 days) and to resolve insolvency (six years) has remained high and unchanged since the mid-2000s. Moreover, the number of days required for starting a business has been reduced only slightly, from 94 in 2009 to 85 in 2013 (Figure 15). In 2006 Transparency International ranked Cambodia 151 out of a possible 163 countries for corruption (Slocumb 2010, 244); in 2012, it was at 157 out of 174 (Transparency International 2013). Corruption was also identified as the main constraint on doing business in Cambodia by the World Bank's Enterprise Survey (World Bank 2007).

However, our own research paints a slightly different picture. Corruption was not regarded as an insuperable problem by most of our informants, and while most agreed that the playing field for business in Cambodia is not level, they found the deals environment to be at least semi-ordered, and also quite open. Moreover, there is a general trend towards greater order and openness, suggesting that the prospects for sustained growth are good. However, this situation does vary by industry, and, as we will see later, election pressures have the potential to reverse the positive direction of change.

⁶ Interviews with foreign investors, e.g. I15, I24, I34. Interestingly, although we have argued that rule of law is typically weak in developing countries, our Cambodia material suggests that law is not irrelevant. Foreign investors, when thinking about investing, generally prefer a clear schedule of laws, whether or not it is generally enforced. Moreover, once invested, they find the presence of a clear law to be a compass bearing in their negotiations with government officials, providing a kind of order to the deals environment.

Figure 12: How far has Cambodia come in the areas measured by Doing Business?

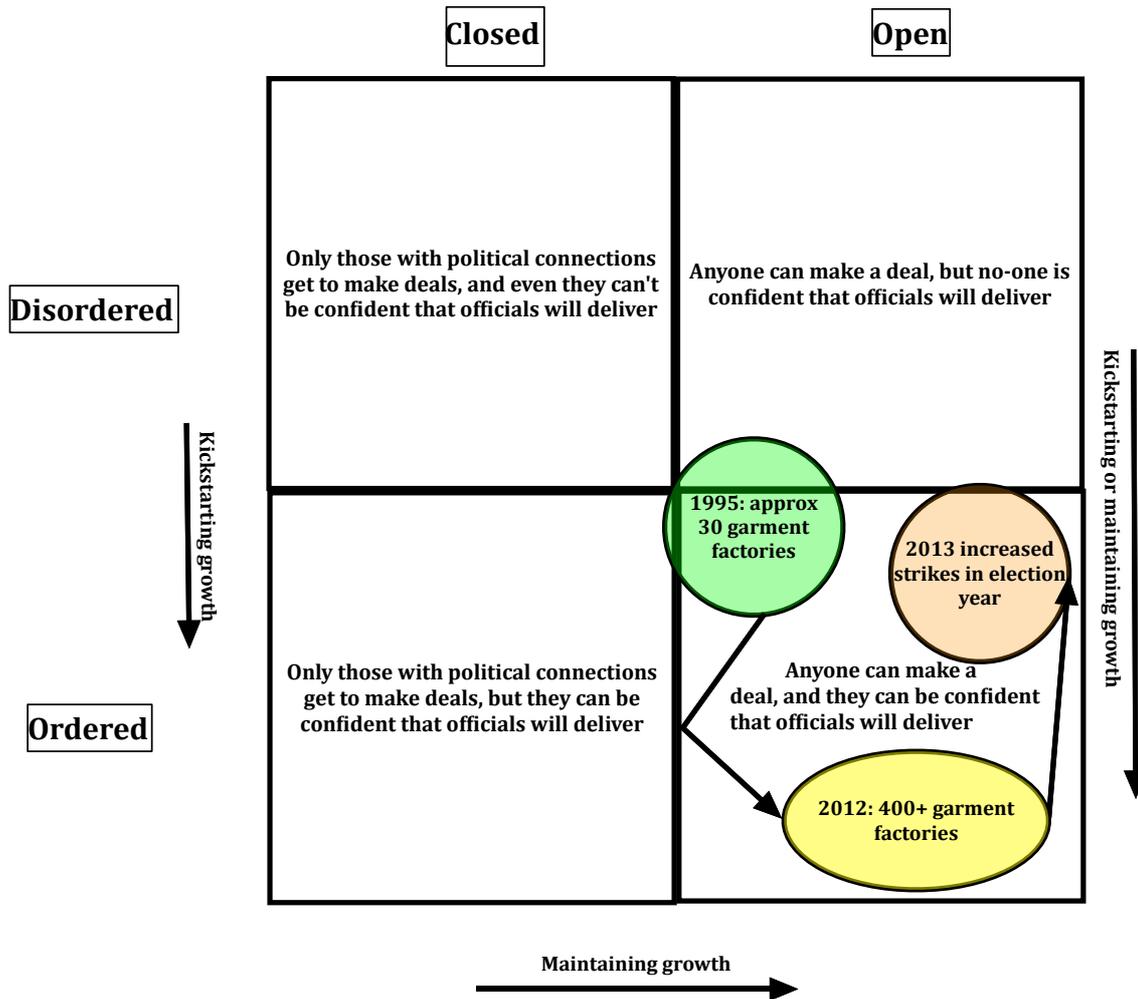


Source: World Bank, *Doing Business*, 2013.

7.1 Competitive export industries

We interviewed industry experts and firms in the garment, electronics and milled rice industries to build a picture of the deals environment in competitive exports. The general impression is of a sector that has from the early days been open, if slightly disordered, but which is becoming progressively more ordered as government gradually builds capacity to respond to investor demands. The situation in the garment industry is better than in others, however, and even here the direction of change is not entirely positive.

Figure 13: Deals environment in competitive exports



7.1.1 Garments

As we saw in the previous section, garment firms first became established in Cambodia in 1994. In 1996, the first 33 investors established an association, the Garment Manufacturer’s Association of Cambodia (GMAC), which has made ample use of the G-PSF and associated working group structure to press government to make pro-industry changes. In particular, the procedures for exporting goods have been progressively simplified, streamlined and made more transparent: the garment industry now has its own single-window export processing facility. Firms know the informal fees that need to be paid, and how much to pay to expedite processing; the level of informal fees has also been reduced. As one informant said to us, ‘What we have in the garment industry currently is extremely efficient, transparent, predictable corruption’, a sentiment that was agreed to by all of our informants.⁷ Firms also make

⁷ To quote an industry representative at length: ‘for businesses we are in a very good position...we’ve moved from real corruption per se [in 2002], where you don’t know how much to pay, you don’t know who to pay to, or what service you’re going to get in return, it’s murky...and over the years we’ve worked on clarifying that, and lowering the amount of money to the extent that today we have a very highly transparent but corrupt system in that

informal payments to the Tax Department and the Ministry of Labour, but the fees are predictable and reasonable. At Customs, previously under-the-table fees have been formalised and publicised (I31, 32, 33).

In addition to formal lobbying through the G-PSF, the Secretary-General will often intercede with government officials at different levels of the administration to resolve problems facing individual firms. GMAC also carries favour with the government in other ways, for example contributing rice or cash to provincial ceremonies. Firms themselves also do quite a bit of this, as well as conducting other forms of informal lobbying, such as entertaining or playing golf with relevant ministers, especially when a political decision that may affect the industry is looming (I4).

The main problem currently facing the garment industry is not corruption, but industrial relations. Cambodia has over 2,000 unions, and in most garment factories multiple unions are operating, some seriously representing their members and others operating more as protection rackets. As one informant said to us, 'The government can't control the unions' (I31), while others complained that the government tended to pressure employers but not unions to comply with the Labour Law (I32). This was particularly evident in 2013, an election year, when unions saw an opportunity to press home their advantage, and there was a large number of strikes (Aun and Dene-Hern 2013). Although employers and unions often disagree on their interpretation of the Labour Law, many of these strikes appear to be illegal, and industry representatives criticised the government for not enforcing the law (I4, 31, 32, 33).⁸

The problem is compounded by the fact that the courts system is unreliable. Consequently, many disputes are referred to a non-governmental body, the Arbitration Council Foundation, established in 2003 with the help of the ILO. The Council is a rules-based, quasi-judicial body, and has been lauded as incorruptible and impartial. In 2012 alone, it helped resolve disputes involving more than 100,000 workers. At the same time, it has been criticised for the length of time it takes to come to decisions, and it cannot resolve all disputes, since its decisions are not legally binding. For years there has been discussion of a specialist labour court for Cambodia, which could if it chose enforce Council decisions, but this has yet to materialise (I5, 31, 32).⁹

The minimum wage in Cambodia is set by the Ministry of Labour, after receiving recommendations from the Labour Advisory Committee, on which employers and

the payments are informal...they don't go through the government...but it's highly transparent. To the private sector we don't really care if it's formal, well, we would like it to be formal because then we get receipts for it, but what we really want is service....as long as we get the service we were promised.... [Now] we can always pay for express, whereas in a really rigid system that might not be available...we are undergoing the process of having the system formalised, and it's a natural, painful process, and we may go backwards before we go forwards, but I think it's necessary, it will take two, three, four, five years' (I4).

⁸ Interviews, August and September 2013.

⁹ See also Worrell and Sen 2013.

workers are represented. It is rare for the latter to agree on this matter, however, and government often imposes a wage. This occurred in 2013 after a prolonged deadlock between the negotiating parties, and is likely to happen again in 2014 (Aun and Dene-Hern 2013). In the face of labour shortages in some factories, the Prime Minister has publicly admonished employers to pay higher wages, while employers have urged government to be mindful of the needs of growth, and not just worker political demands (Vong and Worrell 2013).¹⁰

To some extent, state capacity building around garments has had positive spillovers for other industries. According to one well-placed source, 'We opened the road for many other exporting industries, we cleared the path really, clarifying certain issues... [the government] look[s] to us and says, "OK, this is being done for [the garment] industry and it should apply to other industries". So we are really spearheading a lot of the trade facilitation that is being seen'.¹¹

7.1.2 Electronics

In the past few years, electronics firms have begun investing in Cambodia. Minebea, for example, lured by the country's favourable geographical positioning between Thailand and Vietnam, cheap labour, and favourable investment incentives, is assembling small motors and LED backlights. It has been followed by Sumitomo, Denso, and Hana Electronics (I6, I8). Pioneer firms have received strong encouragement from the Council for the Development of Cambodia (CDC), and benefit from a government-Japanese investor forum held at the CDC several times a year. The Prime Minister has also taken a personal interest in the industry, opening at least one electronics plant. The manufacturer we spoke to claimed to have good personal relations with ministers, with whom he could meet face-to-face to informally discuss industry problems. For example, he was lobbying on all fronts to try to: secure a reduction in the electricity tariff for large users; accelerate processing times for importing components through customs; and reduce the number of signatures required to process exports. For this investor, corruption was not a major problem: although he had received many requests for bribes, he had rejected them all, with no detriment to his business (I16).¹²

7.1.3 Milled rice

Another industry in the garmenting slipstream is rice milling. Rice was an important export crop for Cambodia in the 1960s, but thereafter declined. In 2004, with the help

¹⁰ As we were going to press, Cambodia was in the throes of a general strike in the garment industry, caused by disputes over the minimum wage.

¹¹ Interview, August -2013.

¹² In the recent *Global Competitiveness* report 2012-2013, inadequate infrastructure was ranked as third in 2008, fourth in 2009, sixth in 2010 and 2011 out of the 15 most problematic factors for doing business in Cambodia. In particular, surveys by ADB and the World Bank Ease of Doing Business Index (<http://data.worldbank.org/indicator/IC.BUS.EASE.XQ>) also identified that costly and unreliable electricity remains a main constraint to operating business in Cambodia (Asian Development Bank 2012b). For example, the electrification rate is still one of the lowest in Southeast Asia – only 35 percent of its entire population has access to reliable electricity (ADB 2011).

of the International Trade Center, Cambodia produced a National Export Strategy, which rediscovered rice as a potential growth area. Another study in the late 2000s, this one a value chain analysis, came to the same conclusion. The Supreme National Economic Council (SNEC), which acts as a think-tank or advisory body to the Prime Minister, began to take an interest in the issue, and the PM was enthusiastic (I1, 6, 7, 10, 18).¹³ There followed a series of government–industry consultations, followed in 2010 by the Prime Minister’s ‘Policy Paper on the Promotion of Paddy Production and Rice Exports’. The policy recognised the crucial role of the private sector, the facilitating role of the state, and promised to coordinate actors along the value chain, helping farmers to form associations and use better seeds, improve irrigation, develop certification systems, strengthen logistics, and facilitate access to finance (Guimbert 2010; Royal Government of Cambodia 2010).¹⁴

The policy aimed to put Cambodia among the world’s top rice exporters, setting a target of one million tonnes of processed rice exports by 2015. In 2011 the first Cambodian Rice Forum was staged, and following the G-PSF that year, a new Technical Working Group for rice was created. Spurred on by the policy, many existing rice millers have upgraded their plants and some new investors have entered the industry (Rann 2013). Since then, a number of measures have been taken to assist rice exports, for example, concessions on the importation of machinery, new certificate of origin and phytosanitary documents, and a single window for export facilitation at the CDC. The government has also had some success in concluding deals for Cambodian rice with foreign governments (I1, 6, 7, 10, 26, 29).

The result of all this activity is that exports have risen exponentially, from 12,600 tonnes in 2009, to 207,700 tonnes in 2012; but further dramatic expansions will be required to meet the 2015 target.

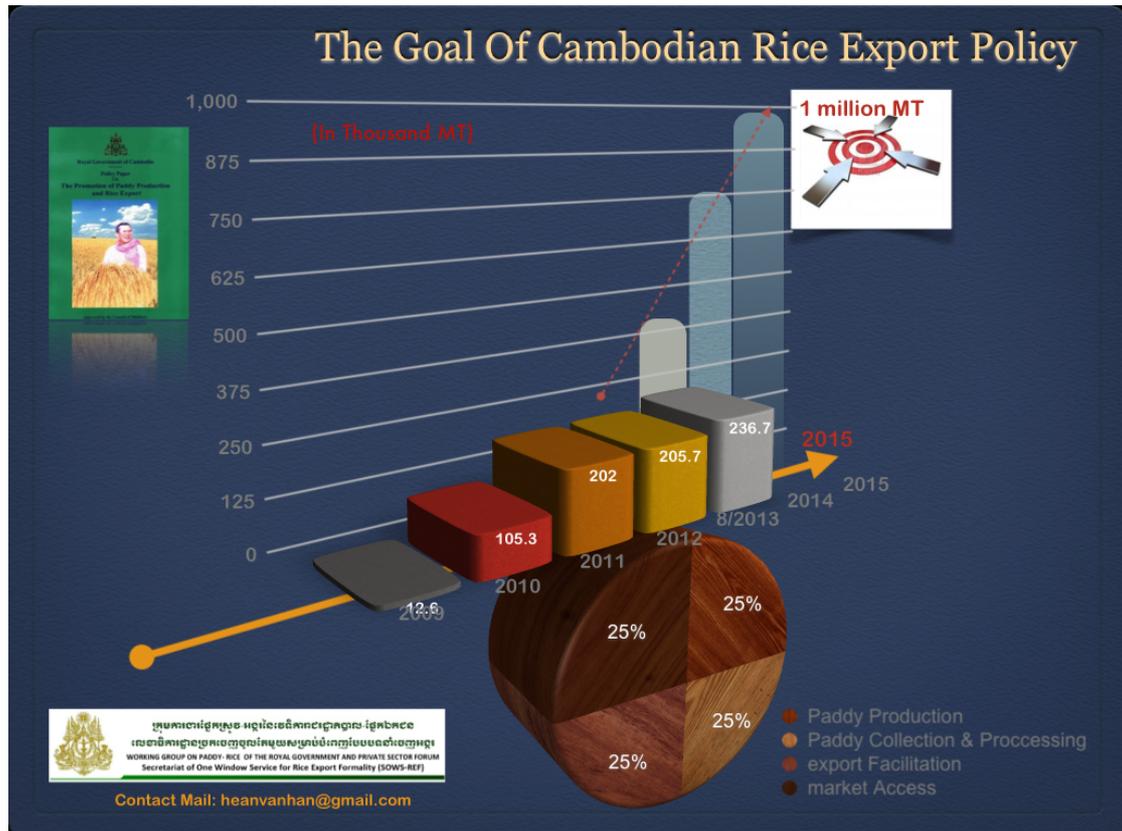
This will involve overcoming additional challenges of quality, marketing, costs and finance. With respect to quality, only some of the rice varieties currently grown in Cambodia are exportable, and farmers wanting to expand production of exportable varieties currently face a shortage of seed. The Ministry of Agriculture Forestry and Fisheries is attempting to alleviate this constraint by promoting ten new strains developed on Cambodian research stations.¹⁵ However, some industry informants were sceptical, arguing that external buyers preferred just one or two well known varieties (I1). We also heard that it is not always profitable to grow the exportable types (I6, 12). The government is also working together with some of the rice associations to forge new market connections and boost the brand recognition of Cambodian rice (samples from Cambodian mills have now won international rice

¹³ Note that we have differing reports about who was the prime mover of the rice policy, with some informants attributing it primarily to the PM, others to individual members of the SNEC, and others to development partners.

¹⁴ For an earlier account of the rice industry, see Ear 2011.

¹⁵ MAFF considers it important to develop its own varieties in order to avoid potential intellectual property disputes with Thailand (I10).

Figure 14: Cambodia rice exports



Source: MAFF.

competitions for two years consecutively) (Reporter 2013). Finance is another issue. Cambodian millers currently lack sufficient finance to purchase what rice there is available, meaning that much still flows out of the country in unprocessed form. A key bottleneck here is the strict, collateral-based lending requirements imposed by the National Bank, which stymies credit to rice millers. The government has attempted to address this by providing a credit scheme through the Rural Development Bank; however, it seems that rather few farmers have availed themselves of this fund, and we also heard allegations that it has been misused by a prominent miller in Battambang (I29, 29, 30). Costs are another issue. Currently, Cambodian rice is competitive in price when it leaves the farm gate, but high transport and electricity costs mean that by the time it leaves the country, it is more expensive than rice from neighbouring Vietnam (I1, 6, 7, 26-29).¹⁶

Cambodia has some of the most expensive electricity in the world, a combined result of its small, high-cost domestic generating capacity, plus fungibility of the imports it receives from Vietnam (I6, 8, 14). Currently it has only one operational railway and freight charges are said to be expensive, even if cheaper than road. Another problem is that rail consignments have to be offloaded and reloaded for customs scanning, which adds to the cost of export (I29). One informant blamed this on a lack of

¹⁶ Interviews September and October 2013.

coordination between government ministries; another suggested that it was deliberate sabotage by truckers (I14). In the face of such price differentials, we were told that at least one big rice miller is importing milled rice from Vietnam, rebagging it and exporting it to Europe under the Everything But Arms initiative (I30).¹⁷

The combination of formal and informal lobbying characteristics of the garment sector also applies to rice. While GMAC is the only significant association in the garmenting industry, there are several in the rice business, with varying degrees of competency and internal democracy. Just one is officially recognised by The Ministry of Commerce, but the others seem keen to retain their identity and independence (I1, 26, 28, 30). Whether or not this is the cause, the government has arguably been slower in responding to industry demands than it has in the case of garments. For example, our informants told us that they had raised their concerns regarding seeds, finance and marketing with the Technical Working Group (TWG), but usually to no avail.¹⁸ For example, we were told that if one wants to plant seed commercially, an informal \$5,000 payment to the Ministry of Agriculture must be made, deterring expansion of quality seed supply (I26, 27, 28, 29). Another source said that the gap between policy and implementation very much depends on the Ministry and the character of the Ministry: 'Some ministries are good, some are not. Much depends on the minister. If the minister is pushing, it is ok; if not, nothing happens. It is not always easy to get a ministry to reform or streamline its procedures' (I1).¹⁹

While garments is a sector dominated by expatriates, the majority of rice millers are Cambodian. As a result, their entwinement in local politics is probably greater. Several of Cambodia's established millers have the title *oknha*, and one told us how he had contributed rice to soldiers on the border, as well as money and rice to the Red Cross (chaired by the Prime Minister's wife): 'We are just businessmen, so the See Footnote 10government is like our father', he said (I29). 'It's a fact of life,' an industry representative claimed: 'All these big businessmen they do that for survival's sake, for political support's sake, for business's sake...This is the game that's being played, let's play by the rules' (I1). Recently, the Prime Minister has encouraged some of the country's biggest tycoons to enter the sector, and some members of the government, including a Deputy Prime Minister, and the former Minister of Agriculture, are also rumoured to be invested. Other millers appear to be less politically connected. In any case, being an *oknha* did not ensure good government service, and all our informants grumbled about unhelpful officials, informal payments, and the gap between policy and implementation (I26-30).

¹⁷ Interviews, September and October 2013. In late 2013 there was an outcry in Cambodia when the EU Trade Commissioner was alleged to have claimed that as much as 30 percent of Cambodian rice had Vietnamese rice mixed with it, a claim millers denied. See ARPEC 2013.

¹⁸ We heard mixed views on the effectiveness of the TWG for rice, and a lack of consensus over how often it met. On balance, it is probably fair to say that it has underperformed.

¹⁹ Another senior technocrat explained to us that he was battling vested interests in the government every day to try and push through reforms (I6).

Thus, although the government has shown sufficient commitment to the rice sector to get exports off the ground, it is not yet clear that there is a convincing enough coalition behind the industry for it to achieve the ambitious growth targets set.

7.1.4 Family rubber

Another competitive agro-export industry with potentially inclusive development effects is small-scale, 'family' rubber production. It currently covers around 120,000 ha of land, employs around 20,000 people, and is responsible for around half the country's rubber exports (I20).

Family producers are assisted by the General Directorate of Rubber, a department within the Ministry of Agriculture, Forestry and Fisheries. The Directorate was established in 1981 and has 132 employees, who, working to a strategic plan for development of the rubber sector, provide advice and technical support to farmers. The Directorate's budget has increased in recent years, with two projects worth approximately 500m riel, (\$125,000); however, this remains a small budget, given the dispersion of producers across 18 provinces, and the magnitude of the challenges they face. The Directorate has no field staff, and when we met representatives in September 2013, they pleaded with us to help them obtain external partners and additional resources (I20).

With the Directorate's help, we spoke to a group of representatives from the Association of Smallholder Rubber Developers in Kampong Cham province, regarded as something of a showcase. The Association was formed with the assistance of Agence Française de Développement in 2007, the aim being to share experiences, provide technical training, facilitate transportation, search for markets and cooperate to protect production. Its members have had some success, currently earning about \$2,000 per hectare for their rubber, which apparently is around \$800 more than they could earn by growing rice (FG5).

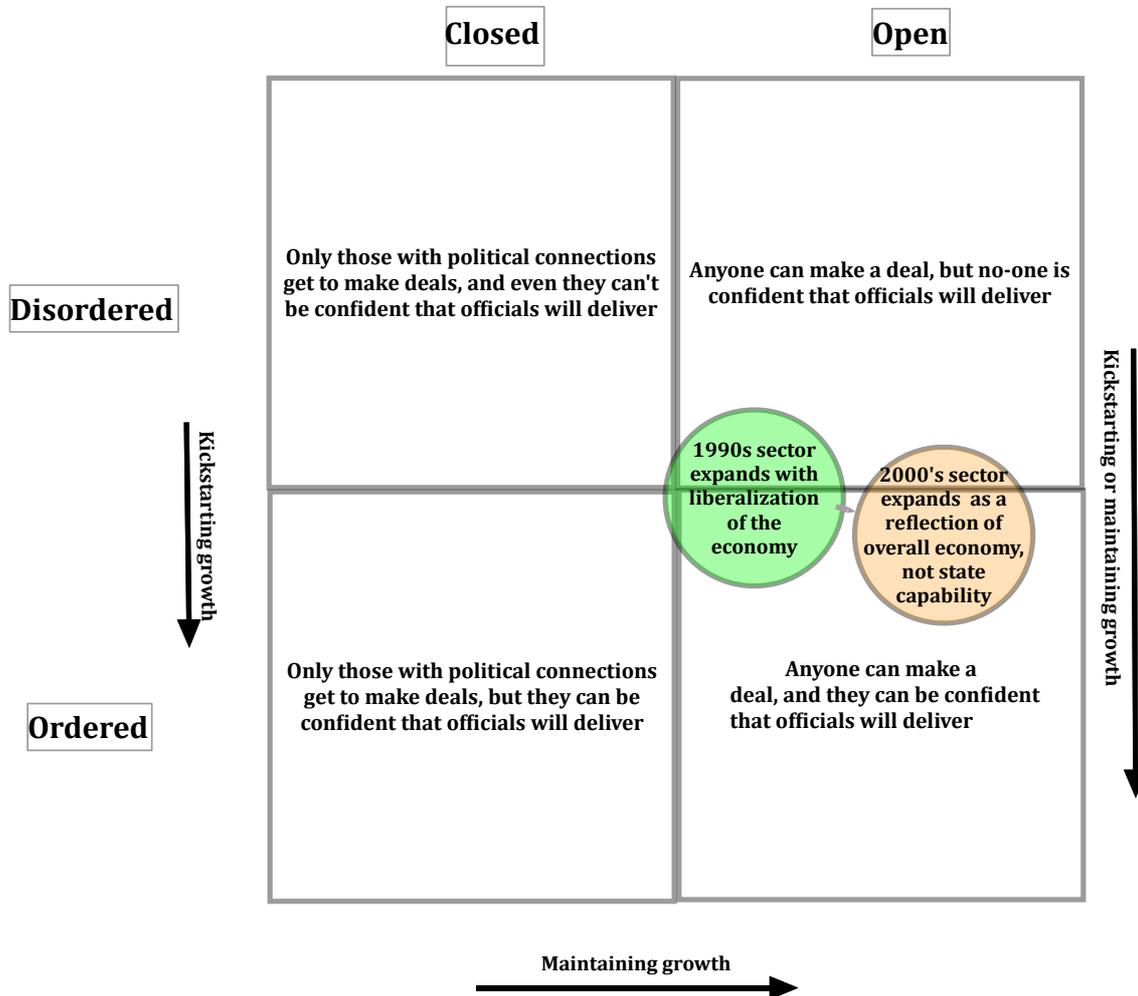
These successes notwithstanding, various obstacles prevent the Association, and by implication the small rubber sector as a whole, from reaching its potential. The association is designed to strengthen the collective bargaining power of farmers, but in practice, farmers remain at the mercy of local processors and traders, whom they suspect of unfairly grading their rubber, giving short weight, and taking excessive margins. When the world price of rubber falls, farmers receive a big drop in the price offered by traders, but when it rises, they receive only a small increase. The farmers also experience some problems upgrading the technical quality of their rubber, and have found that rubber produced using the Directorate's methods receives a lower price from traders. The Association aspires to overcome some of these obstacles by opening a processing facility, but it lacks sufficient finance or technical expertise to do so. It is also hamstrung by the fact that the majority of small planters are not part of their, or any other association (FG5).

Consequently, although the government has shown some interest in providing support for this sector, it has not put enough resources into establishing a truly effective coalition behind it. By contrast, vast tracts of land have been opened for large-scale rubber plantations, often to the detriment of local communities.

7.2 Competitive domestic industry

The environment for business in the competitive domestic sector is best described as semi-ordered and relatively open. Although government regulation and interference is not so onerous as to stop firms from entering the market or conducting their business, government–small business communication channels are not particularly effective, and the government seems to lack the will to make the kinds of investment in state capacity that would help the sector reach its potential.

Figure 15: The deals environment in the SME sector



7.2.1 SMEs

We spoke to a number of successful SME operators in the retail, tourism, construction and internet businesses. Most of our informants were quite young, and had been given a start in business by their parents, especially through education. The main constraints on their businesses included taxes, the high cost of credit,

electricity and human resources. Some also complained of unfair competition, either from foreign or unlicensed businesses; but political interference was not regarded as a major problem. The regulatory environment and the corruption that accompanied it was described as 'a bit confusing' (I37), with most SMEs facing a less transparent and predictable set of arrangements than, for example, the garment industry. However, this was regarded as a nuisance rather than unmanageable. One possible exception concerns wireless bandwidth allocations in the Ministry of Posts and Telecommunications. We heard allegations that the ministry had over-allocated available bandwidth, either because of greed or incompetence, making it difficult for some firms to run their websites (I39).

Currently, SMEs are registered with a variety of government ministries, with no overall body coordinating them. At the Ministry of Industry, Minerals and Energy (MIME), there has for several years been a Small Industry Department, with about 30 employees, but we were told that it lacked political clout. It had had some success setting boundaries and coordinating inspection regimes between ministries, but more ambitious attempts to reduce small business registration costs by introducing a single window have lacked buy-in from other ministries. One informant argued that the problem is that SMEs lack connections to the top political leadership, who prefer to push for large-scale agro-industrial development (I11).

Partly in consequence, SMEs face serious problems accessing finance, building capacity and upgrading production. Most pay 'soft' or estimated taxes. The government is encouraging them to move to the 'real tax regime', but many lack the desire or capacity to do so. They tend to compete on price rather than quality, and incomes remain low. In addition, attempts by MIME to encourage coordination and cooperation between SMEs had not made much headway because of a pervasive lack of trust among SME owners, all of whom are afraid that rivals will 'stab them in the back' (I11, 38).

Some of the small entrepreneurs we spoke to felt that there was no-one they could turn to to resolve problems like this. Others mentioned associations to which they belonged, such as the Young Entrepreneurs' Association, or the Federation of Small and Medium Enterprises (FASMEC). FASMEC co-chairs the SME sub-committee of the Manufacturing and SME Working Group at the G-PSF. This has apparently had some success in relaying SME sector needs to government, although not a lot. One problem is that FASMEC mainly represents larger SMEs, meaning that vast swathes of the sector do not have their voices heard (I11, 17, 139, 140).

7.3 High-rent export industries

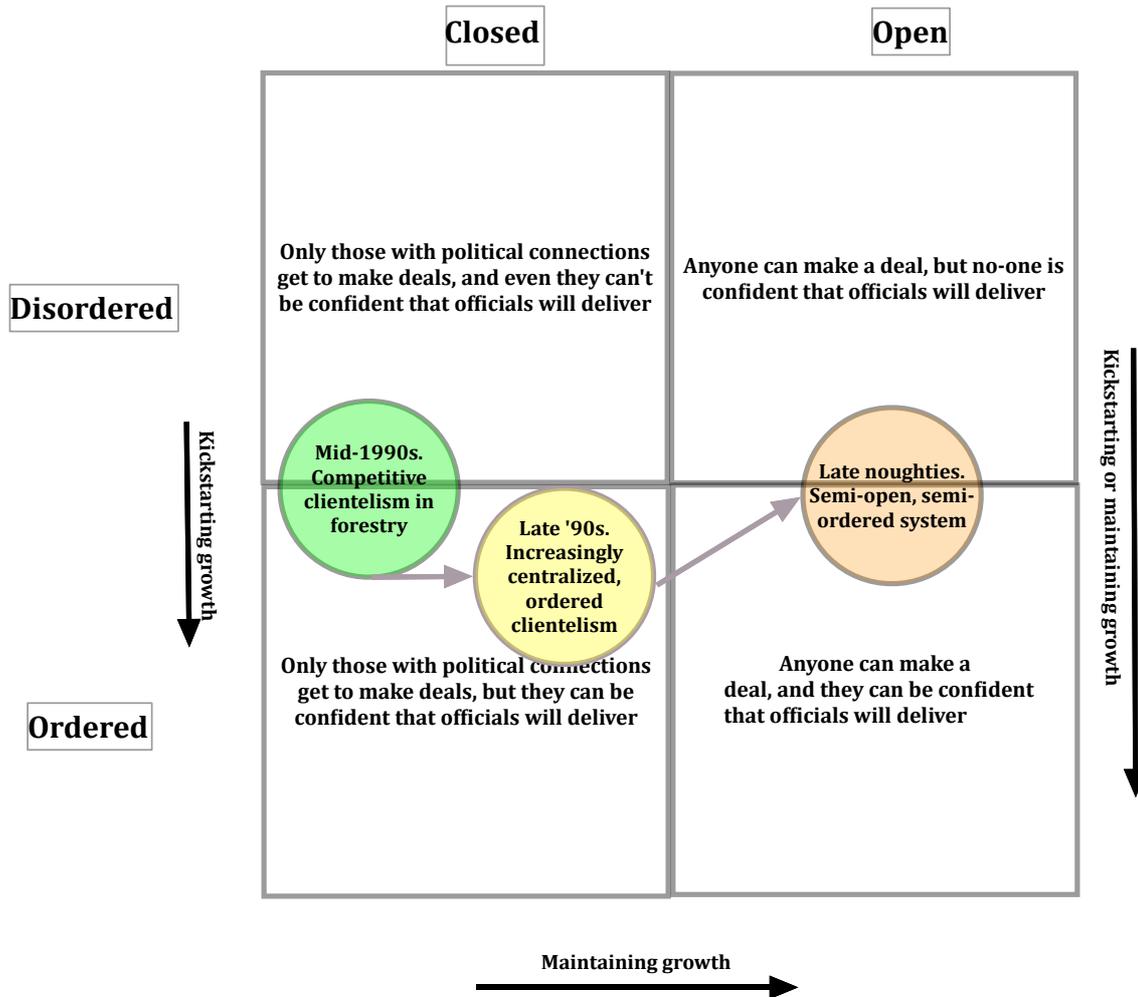
The business environment in the high rent-export sector – at least in the case of large-scale agri-business – is relatively open, semi-ordered, but with an unlevel playing field.

Land is the critical resource, but the legal framework governing it is unclear. Individual rights to land were re-established in Cambodia in the late 1980s, following their abolition by the Khmer Rouge. However, land conflicts immediately became a pressing issue, and a Land Law was hurriedly passed in 1992. Building on customary ideas of ownership, the Law allowed individuals to claim ownership based on possession, but this had the unintended consequence of actually exacerbating land grabbing. In response, and with the support of development partners, the government introduced a new Land Law in 2001, buttressed by a Systematic Land Registration Programme. The Law divides Cambodian land into four categories: private land; state private land; state public land; and communal land (So 2010, 45).

Occupiers of titled private land enjoy ownership rights and must be compensated under law if their land is acquired for development purposes. Occupiers of state private land do not enjoy private ownership rights, although they can apply for these by registering their land. Occupiers of state public land enjoy neither ownership rights nor may they apply for them (although they may be eligible for what the Land Law terms 'Social Land Concessions', and under international laws they are entitled to some form of compensation if evicted). Finally, certain ethnic groups can apply for communal titles, though only a few currently exist.

Since 2001, more than 2 million private titles have been issued, mostly in areas occupied by rice-growing smallholders. However, large swathes of the country, particularly land that is forested, remain untitled. While locals often believe they enjoy rights by virtue of continuous occupation, or else sales witnessed by local officials, in reality their claims lack a legal basis. The problem is exacerbated by the fact that the demarcation between state private and public lands is not always transparent, meaning that it is not clear whether occupants have a right to apply for title. This ambiguity creates both opportunities and problems for large-scale investors, who can acquire long-term leases in the shape of Economic Land Concessions (ELCs).

Figure 16: The deals environment in agribusiness



7.3.1 Agri-business

ELCs are granted by the Ministry of Agriculture, Forestry and Fisheries (MAFF), and must also be approved by the Ministry of the Environment (MoE). They are supposed to be allocated according to the principle of spatial planning, in which the Ministry identifies suitable blocs of land for development, advertises them, and then awards the concession to the best or highest bidder. In practice, the Ministry responds to requests from investors who have already identified blocs of land. A common pattern is for local businessmen to mobilise connections in the Council of Ministers (Cambodia's cabinet), to put pressure on the Ministry to grant them concessions. They then sell it on at high profit, often to foreign investors, sometimes having already logged the land. The whole process tends to be mediated by agents.

Given the confusion over land planning, some blocs have multiple claimants. We spoke to one investor who had lost money because ultimately his agent could not deliver on the deal, a fact he attributed to insufficiently strong political connections (I3). By contrast, another investor, while admitting that agents were 'a big problem', claimed that as long as one was careful and did due diligence, political connections were not necessary. He found dealing with MAFF relatively straightforward, and although his view of the MoE was less favourable, he was in possession of the land nine months after applying for it (I24).

Local relations also have to be managed. According to the same investor, 'You have to work both ends simultaneously and you have to be on the land, developing it, otherwise someone else will occupy it. You can't be an absentee landlord here' (I24). A few have chosen to allow the original occupants to stay on the land, employing or working around them. Others have enlisted the help of local authorities and the courts to evict inhabitants, which has sometimes led to lengthy and/or violent conflicts. Bogus NGOs, which operate sometimes as protection rackets, can be another problem. Our source had also suffered encroachments on his land by a powerful local tycoon, whom he claimed had falsified land documents. Taken together, these problems made the business environment challenging, but not impossible (I24).²⁰

Perhaps the biggest constraints on success are operational, rather than political. Given prevailing human resource constraints in Cambodia, managing a large agribusiness venture is risky. 'Can you execute? That's the real question' (I24). According to CPP lawmaker, Cheam Yeap, ELCs are granted with the aim of alleviating poverty, and their impact is minor compared to the benefits they generate for the whole country: 'Nothing is perfect, so development always has an impact. We acknowledge the economic land concessions for growing rubber and other agribusiness are affecting local people and their environment. The affected people should understand that they should sacrifice for the nation in order to help government in reducing people's poverty' (Vrieze and Kuch 2012, 7). But whether the government has the ability to ensure that ELCs are put to good use is in some doubt. Agriculture and Agro-industry has its own Technical Working Group in the G-PSF, chaired by land magnate Mong Reththy, and one of our sources credited the latter with doing a great deal to smooth the way for agribusiness in Cambodia (I24). Yet aside from making land available and opening up the countryside with road-building projects, it is not clear the government is actually providing much support (I25).²¹

Over the past 12 months the political tide seems to have turned against the high-rent export sector. Since 2001, and in spite of the Prime Minister announcing a war against land grabbing, ELCs have been granted at an ever-accelerating rate. Some

²⁰ Interview, September 2013. Hughes and Un (2011) note that both productive and speculative investment in land, 'reflect a certain level of confidence in Cambodian institutions, either formal or neo-patrimonial'.

²¹ Interviews, August and September 2013.

individuals own hundreds of thousands of hectares, while others have dodged an upper limit of 10,000 hectares by acquiring contiguous blocs (Global Witness 2013; Licadho 2009; Vrieze and Kuch 2012). In the meantime, more than 400,000 people have apparently been involved in land conflicts, and the policy has become an election issue. In May 2012, shortly before commune council elections, the Prime Minister announced a moratorium on economic land concessions (Zsombor and Aun 2012), and in the same month personally launched a land titling initiative, in which student volunteers, assisted by officials from the Ministry of Land, demarcated up to 1.8 million hectares of land in previously untitled areas. Evaluations of the scheme are mixed, but it signalled a newfound seriousness on the part of the Prime Minister about addressing the land issue, a message reiterated post-election, when the moratorium was extended and schemes in the pipeline subjected to review (Human Rights Watch 2013; May 2013; Vong 2013b).²²

7.4 High-rent domestic industries

The business environment in the high-rent domestic sector appears to be semi-ordered and semi-open. However, this general description masks some interesting sub-trends.

7.4.1 Urban real estate

Probably the most important sector here is urban real estate, with Phnom Penh in particular home to several developments worth many hundreds of millions of dollars. Although most of these lack transparency, NGOs claim that land has been acquired at a fraction of its market value, providing an opportunity for large rents to be made. The kinds of legal ambiguity we saw for the ELC sector also apply in urban areas, but as is the case there, this has done little to deter investment projects. For those with political connections, land and project approval appears relatively easy to obtain. It is also probably the case that those without political connections can easily acquire them as long as they have money (I21, 22) (Sahmakum Teang Tnaut 2012).²³

Because most land in the city is already occupied, projects have sometimes been delayed by conflicts, but developers do seem to enjoy the consistent support of state authorities. The most obvious case is Boeung Kak Lake, where more than 4,000 families have lost their homes to the Chinese-backed Shukaku company. Shukaku is associated with the wife of the CPP Senator, Lao Meng Khin, said to be personally close to the Prime Minister's family, as well as being one of the biggest financial contributors to the CPP (So 2010).

Boeung Kak itself is just the tip of the iceberg. NGOs estimate that more than 10 percent of the capital's population has been evicted over the past two decades, with

²² The government, as we have seen, has also granted numerous concessions for mineral exploration and is developing a small oil industry. Although data on these industries are scarce, analysts have predicted that they are likely to cement inequality, elite self-enrichment, and truncated democracy (Un and So. 2009).

²³ Interview, October 2013.

most moved to woefully inadequate relocation sites on the outskirts of the city. Ironically, some of the evictees then transit back to the city to work in low-paid construction projects, most of which take the form of high-end luxury developments, situated sometimes on the city's natural flood protection system. Understandably, there are concerns that Phnom Penh is developing in an unsustainable way (Sahmakum Teang Tnaut 2012).

7.4.2 Infrastructure

Another important area of the domestic high-rent economy is infrastructure projects, many of which suffer from a lack of regulatory oversight and transparency. A case in point are public-private partnerships, of which a great number, some quite large, are being implemented. According to the Asian Development Bank (ADB), 'PPPs are not standardized, and they tend to be issued on a reactive, unsolicited, and negotiated basis, rather than through proactive government preparation and competitive tendering' (Asian Development Bank and Agence Francaise de Developpement 2012, xi). In this context, there are fears that some of the larger hydropower projects, undertaken by partnerships between Chinese companies and local tycoons, have saddled the government with excessive contingent liabilities (Asian Development Bank 2012a). Specialists suspect that procurement practices generally suffer from rigged specifications, limited publicity, collusion, kick-backs, and falsification of key information (Asian Development Bank 2012a).

7.4.3 Mobile telecommunications

The sector we looked at most closely, telecoms, appears by contrast to have transitioned from a fairly ordered but closed environment, to a much more open but disordered environment. Transport and communications make up around 17 percent of GDP generally, and one of the largest mobile phone operators is said to account for around 1 percent of GDP and tax revenue.²⁴ The mobile industry dates from the early 1990s, with Mfone starting in 1993, Hello in 1996 and Mobitel in 1997 (Kierans 2010). These three players dominated the market, described by one source as: 'a kind of cartel, with poor service and high charges', until 2006 (I34). After Cambodia's accession to the WTO, however, the Ministry of Posts and Telecommunications came under pressure to open the industry, and responded by issuing at least eight new licences (I34). By 2009 there were nine mobile operators: Mobitel, Hello Axiata, Mfone, CADCOMMS, Metfone, Smart, Excell, Beeline, and Starcell (Kierans 2010) – a 'ludicrous' number, according to one of our sources, that made Cambodia one of the most crowded markets in the world (I35).²⁵ A price war ensued, and with call charges lower than 1c per minute, plus extremely generous bonuses and offers – that in some cases made calling practically free – suspicions of price-dumping were rife (I35, 36).²⁶ In September 2009, Mobitel, then the biggest operator, threatened

²⁴ Interview, October 2013.

²⁵ Our informants presumed that greed and corruption were at least partly responsible for the issuing of so many licences (I34-36).

²⁶ There were disputes among our informants about whether these prices were regionally out of line (I34-36).

legal action against Beeline, and also began blocking its interconnect (Finch and Nguon 2009).

Three months later the government decided to intervene in the price war by setting a floor price for the industry through Inter-Ministerial *Prakas*²⁷ No. 232. However, new entrants argued that price-floor regulation was contrary to Cambodia's Investment Law and Constitution, as well as regional norms, and the *prakas* was not enforced (I34).²⁸ Fierce competition continued and market consolidation ensued. In 2010 Smart acquired Starcell, then in 2013 Mfone declared insolvency, Hello merged with Smart, and Beeline's shares were fully acquired by a Cambodian tycoon (Phnom Penh Post 2013).

The price war continued until April 2013, when the regulator, without warning, reprimanded Smart and Beeline for violating the *prakas* (Kunmakara 2013). However, after a sustained campaign of behind-closed-doors lobbying and social-media outrage, the government once again rescinded its decision (Reuy and Renzenbrink 2013). Since the biggest operators are said to have links to the inner circle of power, allegations of improper political influence were traded back and forth, with the truth of the matter somewhat difficult to discern (I34-36). What is clear is that some operators, presumably those with deeper pockets, are happier with a fight-to-the-death than others, while all operators (with the possible exception of Metfone²⁹) dislike the uncertainty surrounding the rules of the game, and are investing less than they otherwise would. According to one operator, 'You can't invest if it's impossible to make money' (I36), while for another, the *prakas* decision led to 'an immediate revision of our investment strategy' (I34). The regulator, for its part, has said, 'What we are doing is for [the] people. To be cheaper [is what the government wants]' (Reuy and Renzenbrink 2013).³⁰

Spectrum disputes are another critical issue (I34). Lack of coordination between the Ministry of Information and the Ministry of Posts and Telecommunications has sometimes led to overlapping frequency assignments, which has hindered operators from rolling out wireless broadband services in these frequency bands (Dyer 2010; Kun 2012; Telecompaper 2013). Another issue is spectrum revocation from existing operators in favour of new entrants, without sufficient consultation and compensation. This issue was picked up by several WTO members during Cambodia's Trade Policy Review session in November 2011 (Trade Policy Review Body 2011).

²⁷ A *Prakas* (proclamation) is a ministerial or inter-ministerial decision signed by the relevant Minister(s).

²⁸ The truth of the matter is complex, since a couple of months after issuing *Prakas* 232, the Royal Government issued Notice 145, which permitted ministries to set a floor price.

²⁹ Metfone is owned by the Vietnamese military and there are allegations that its operations are not entirely commercially driven (I35, 36).

³⁰ Note that this position is not without international support: for example, Cambodia's draft National Broadband Policy, prepared with support from the ITU, cites 'a number of studies' that argue against setting floor prices for the mobile industry (Cambodia, Royal Government of 2013).

Differences of opinion over the above issues notwithstanding, all our informants expressed a desire for better and more transparent regulation (I34-36). The sector is primarily under the authority of the Ministry of Posts and Telecommunications, which in September 2012 established an independent regulator, the Telecommunication Regulator of Cambodia (TRC).³¹ However, informants complained that the TRC was neither genuinely neutral nor independent, and that although it was trying, it lacked the technical capacity to regulate the industry effectively: it was a ‘toothless tiger’ (I35) operating in ‘fire-fighting mode’ (I36). The fact that currently there is no Telecoms Law, no e-Commerce Law, no National Frequency Law and Spectrum Plan, no Competition Law, that there is no proper policy on pricing, that rogue practices by some operators go unpunished, and that there is an uneven playing field when it comes to tax payment, were all sources of concern (I34-36).

Although a Telecoms Law has been drafted, it was said to be entirely inappropriate to Cambodia’s needs, and although operators were more optimistic about a forthcoming National Broadband Policy, there were still problems with the consultative process (I34). ‘There is no plan or vision for how the sector will evolve, how to settle disputes between operators, and how to stop predatory behaviour,’ one source argued (I35).³² As of yet, the operators have been unable to form an effective association to lobby government. Although an organisation exists, there has been insufficient trust to make it work. Instead, CEOs often call up the Ministry or the Regulator and arrange a private meeting with officials, who apparently are happy to listen to, if not act on their concerns.

According to the terms of our business environment framework, then, the telecoms industry appears to have moved from a fairly ordered, if rather closed, environment in 1993-2006, to a more open, but also more disordered, environment today, as illustrated in Figure 17 below. Despite what one investor described as the ‘Wild West’ (I36) environment for business, the bigger operators have continued to make investments in infrastructure and innovative products, and the industry has grown.³³ However, the disordered nature of competition has doubtless constrained the nature and level of investment, meaning that the expansion of an industry with many positive externalities has been far from ideal. Industry observers were unanimous in thinking that the current state of affairs is unsustainable.

‘I can’t believe the government hasn’t woken up to the fact that this price war is losing them millions in revenue and in investment,’ said one source (I36). Another, however, thought the industry was at least ‘inching towards’ better regulation, and that with a new minister in office, Cambodia telecoms might at last benefit from a more strategic

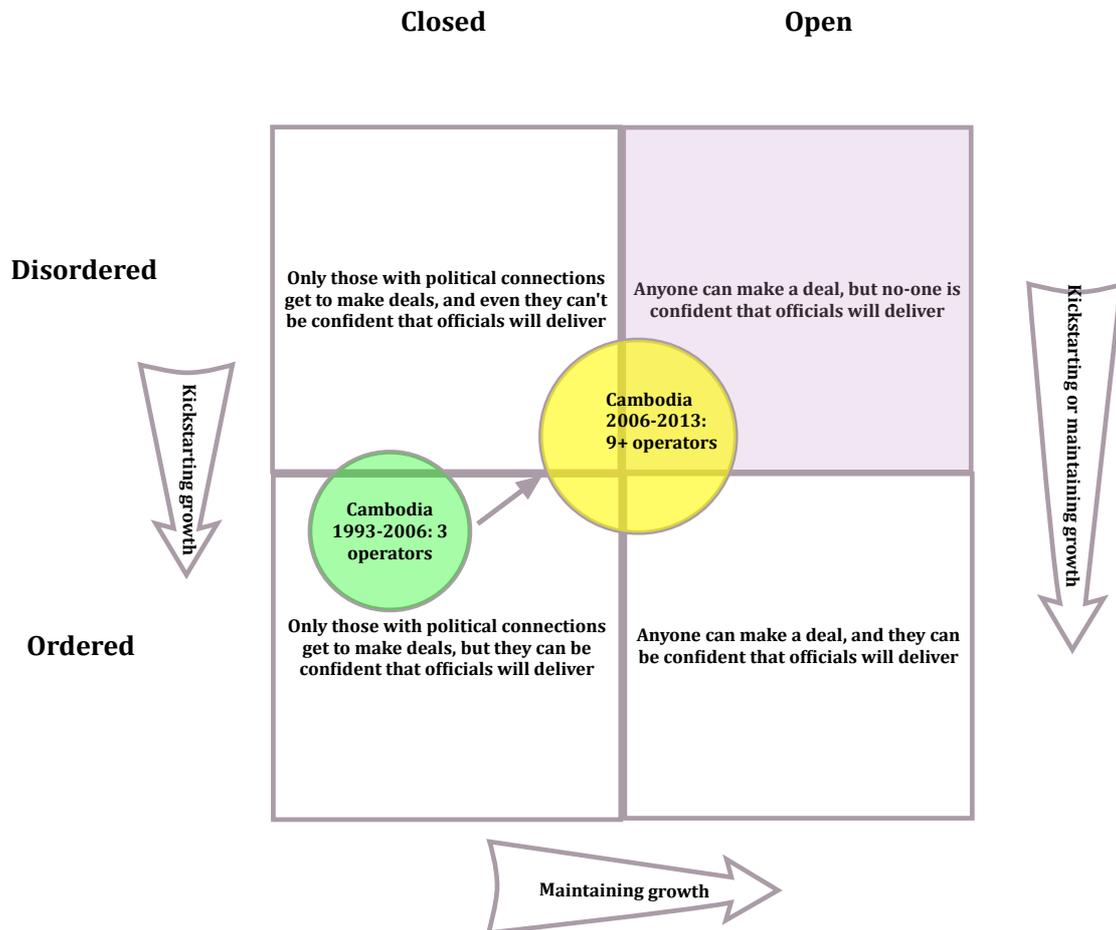
³¹ The TRC was established partly as a result of demands by Japanese officials, who had provided nearly \$30 million in loans for the extension of fibre-optic cable (Reuy, Rann and Becker 2012).

³² Interviews, October 2013.

³³ Interviews, October 2013.

approach (I35).³⁴ Conceivably, the comparative disorder in the telecoms industry can be explained by the relative newness of the sector, together with the technical complexities involved, rather than being a deliberate policy on the part of elites.

Figure 17: Environment for business/'deals environment' in Cambodian telecoms



8. The political dynamics of growth acceleration

The evolving deals environment in Cambodia can be understood as a product of Cambodia's changing political settlement, and in particular the struggle of Hun Sen's regime for survival and dominance. As the Khmer Rouge fled in 1979, the incoming government attempted to restore order. Some order was achieved by force of arms, but in the longer term it involved integrating local-level political settlements into a national architecture. These local settlements often rested on control of natural resources, land, and informal taxation, and they were stable enough for some economic growth to occur. The population was extremely poor, there were shortages

³⁴ In mid-December 2013 the government once more reminded operators about their responsibilities under the *prakas*, and there were reports of operators creating a forum to monitor price developments in the industry. However, after another consumer backlash, the Council of Ministers decided to nullify the law, ostensibly as a prelude to more rational, cost-based regulation. In the meantime, extremely generous bonus offers have re-emerged (Hul 2013, 75).

of everything, and the political leadership, Hun Sen in particular, recognised that if the country was not to succumb to the Khmer Rouge, growth must be encouraged. A class of local businessmen was permitted to operate, and some were soon linked to the regime. Subsequently, they were able to take advantage of state favours in the shape of contracts, concessions, or as first-comers in newly developing industries (Gottesman 2004). One or two of these businessmen allegedly bankrolled Hun Sen's 1997 confrontation with Ranariddh (Thayer 2011).

It was for the same reasons that the regime welcomed the assistance of the international community in the post-1990 period. This led to a particularly heavy involvement of the international financial institutions in policy-making, and a more thoroughgoing implementation of Washington Consensus reforms than elsewhere. Influential members of the inner circle apparently took the view that Cambodia was starting from a very low position, with a very unfavourable international reputation, and that to encourage foreign investment it had to offer as attractive an investment regime as possible. An ideological factor also appears to have been at work: the Prime Minister in particular had long been a champion of the free market. In addition, the more or less total destruction of state industries during the years of turmoil meant that there were few vested interests to oppose such a move. The result was an Investment Law and the CDC, an institution that made Cambodia reasonably attractive to foreign investors (16).

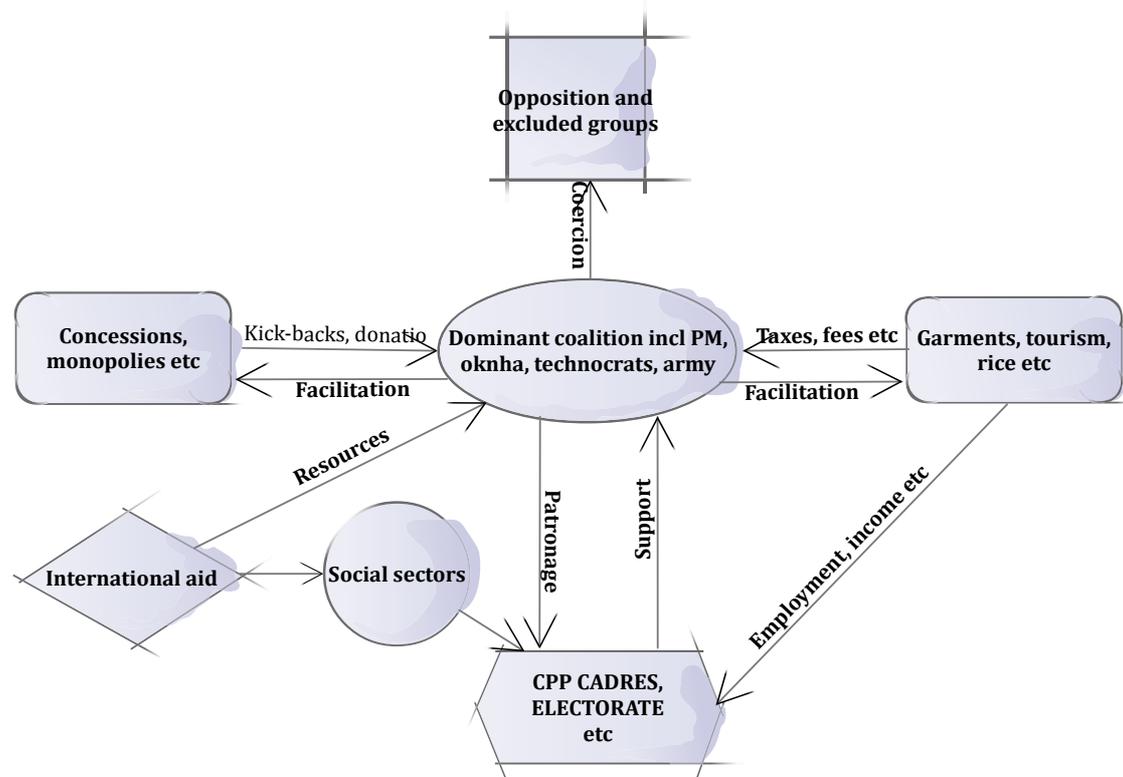
After 1998, when CPP defeated FUNCINPEC in the general election and the Khmer Rouge imploded, growth took off. The peace dividend permitted long-term investments in infrastructure and boosted investor confidence. As we have seen, the presence of only one Prime Minister also seems to have been welcomed by businessmen. But it would be a mistake to think that there was a transition from disorder to order overnight. As late as 1999, the Finance Minister was describing the Kingdom's investment climate as "a casino economy", where investors come quickly and leave quickly' (Phelim 1999). The system of securing political stability by granting prebends to local and national officials meant that Cambodia remained, and to some extent remains, a collection of jealously guarded fiefdoms over which the central state has imperfect control. This situation continues to inhibit state coordination capacities, and with it the creation of an environment for sustained growth.

That being said, we can say with some confidence that the consolidation of CPP power post-1998 provided *sufficient* order in the deals environment for Cambodia to benefit from wider regional and global developments. For example, preferential trade agreements with the US in the 1990s, ASEAN membership in 1999, the growing international market for tourism, and a generous influx of aid, all helped push Cambodia from moderate growth in the 1980s and 1990s, to miracle growth in the noughties. But disentangling and attributing weight to order and the external environment is beyond our current capabilities.

9. Political dynamics of growth maintenance

The consolidation of Hun Sen’s political settlement helped maintain high growth between 1998 and 2013. As we have seen, that settlement involves in essence a balance between rent-seekers and technocrats within the dominant coalition. Rent-seekers are given the political backing to generate profits, a proportion of which are funnelled back to the political elite in cash or in kind, and thence to the masses in the form of CPP-backed patronage projects. Technocrats are given just enough latitude to support growth industries like garments, tourism, electronics and rice, leveraging a system of formal and informal investor channels that provide a positive feedback loop between growth and investments in state capacity.

Figure 18: CPP’s growth and legitimation strategy, 1998-2013



However, there are some interesting nuances to this basic picture. First, although rent-seekers tend to be given the first and best pieces of the economic pie, the entire system remains reasonably open. Three factors – the ideological preferences of the Prime Minister and key technocrats, the opportunities openness provides for officials to harvest more rents, and WTO membership – appear to motivate this. Consequently it is relatively easy for newcomers with money to acquire political connections and, in some cases, it is not always necessary to have political connections at all. New entrants create competition and in some cases fuel growth. Thanks to this openness, there is little evidence of ‘negative feedback loops’, in which established operators pull up the ladder behind them, stymying further growth.

Negative feedback loops do exist, however. First, there is a negative loop from unsolicited tendering and inadequate regulation to inefficient energy and infrastructure, which acts as a constraint on other industries. Second, there is also arguably a negative loop caused by the steady flow of easy rents to the political class, which generates a certain amount of complacency when it comes to building capacity in more inclusive industries.

In support of this, it is difficult to find examples of really impressive growth coalitions in Cambodia. The coalition behind garments, for example, has presided over some impressive growth; but even the garment industry suffers from inadequate regulation of industrial relations. The coalition behind rice has seen rice exports surge, but it is not yet able to solve all the coordination problems that threaten its sustainability.³⁵ Small and medium enterprises, meanwhile, receive little support from government and are more or less left to fend for themselves in a confusing, if not completely hostile, business environment.

One especially worrying development about which we heard was a deterioration in the performance of the G-PSF, which has been a key element in Cambodia's positive growth-capacity feedback loop. In 2010, after applauding the forum's achievements, the IFC pulled out of the scheme, and the Prime Minister entrusted its secretariat to the Cambodian Chamber of Commerce (CCC). The CCC is dominated by some of Cambodia's biggest tycoons and, as one industry expert told us, 'The CCC has a different idea of what lobbying is to the foreign business community' (I15). Cambodian informants also said they had seen performance fall, with the Working Groups and Forum meeting less regularly than usual. In fact, the Forum had not met at all in 2013 (I17, 29). We also heard stories that the Forum had become something akin to theatre, with businesses now afraid to raise problems with the PM for fear of incurring the displeasure of their relevant ministries (I9). For its part, the CCC secretariat, provided with only a shoestring budget by its members – some of whom are among the richest businessmen in Cambodia – blamed the problem on a lack of resources, pleading with us to try and find some donors to help facilitate meetings: 'Give me the money and I'll run the show', said our source (I23).³⁶

In spite of the aforementioned imperfections, from a purely technical point of view, Cambodia is probably doing 'just enough' to facilitate ongoing high growth, with positive feedback loops outweighing negative ones, especially when set in the context of wider regional developments. But growth is not just a technical matter.

³⁵ Ear Sopal (2011) argues persuasively that international actors, in particular the ILO, have been instrumental in solving collective action problems and cementing the growth coalition behind garments, with no equivalent body playing that role in rice.

³⁶ It is also the case that government has been preoccupied with other events, such as the Preah Vihear crisis, chairing ASEAN, and the 2013 election, and has simply not invested as much energy in private sector relations as hitherto. Interview, September 2013. Note that after the initial drafting of this report, the CCC roused itself and conducted a survey of its members on business issues and the G-PSF, promising meetings in 2014.

Cambodia's current growth, although high, is economically, socially and environmentally sub-optimal. In some industries, for example telecoms, an excess of competition stifles optimal investment, while in others, for example agri-business and urban real estate, it fuels speculative land grabbing, environmental destruction, and the displacement of poor people.

As we have seen, Economic and Mineral Land Concessions and large-scale urban developments have generated large economic rents for the political class and connected businessmen, a significant proportion of which have been ploughed back into rural communities in the form of patronage spending. For a long time, it could have been argued that this less palatable side of Cambodia's growth was actually a key pillar of the political settlement and hence the whole system's stability.

But this is no longer the case. Land acquisitions have hurt the livelihoods of a significant number, and also appear to have damaged the image of the government in the eyes of an increasingly youthful and politically motivated electorate. In the 2013 election, the opposition ran on a populist platform that included a \$160 minimum wage, pay increases for teachers and civil servants, a review of economic land concessions, and pensions for the elderly. The election outcome suggests that a significant proportion of the population prefer this to the government's patronage policies. Thus we see another negative feedback loop, from insufficiently inclusive growth to a political backlash that risks upsetting the entire political settlement. Indeed, a high-ranking technocrat confided in us that, 'We knew there was a gap developing, but we didn't think we would need to address it until 2018 – we thought we could get another five years of growth first' (I19).³⁷

The list of state capacity improvements the government will need to make to change the character of growth is long: more rational planning and oversight of the ELC sector; a more inclusive urban development strategy; better industrial relations in the garment industry; better regulation of sectors such as telecoms; better coordination of the supply chain in agriculture and agro-processing; better education policy for an appropriately equipped workforce; and more cost-effective commission of infrastructure projects.

Fortunately, there are encouraging signs that the government recognises the necessity of these changes. Since the election, the Prime Minister has reiterated the moratorium on economic land concessions, given a six-hour address to the Council of Ministers on the subject of reform, and made a cabinet reshuffle that provides some grounds for optimism that failures of the past will be addressed (Vong 2013b). In August the government announced a 40 percent pay rise for civil servants (Vong and Worrell 2013). In November it was announced that the Ministry of Industry, Minerals and Energy will be split in two, forming the Ministry of Mines and Energy

³⁷ Another senior technocrat, however, rejected the idea that economic performance was responsible for the election result, claiming that the living standards of '98 percent' of the population had improved under the last government. Interview, August 2013.

and the Ministry of Industry and Handicrafts (Vong 2013a). Meanwhile, following consultations with industry representatives, notably rice exporters, the new Minister of Commerce announced reductions in the red tape surrounding exports (Hul 2013). There have also been renewed efforts to eradicate corruption in customs, enforce tax collection at border points, and there is a new investment law³⁸ in the pipeline (Hor 2013).

10. Conclusion

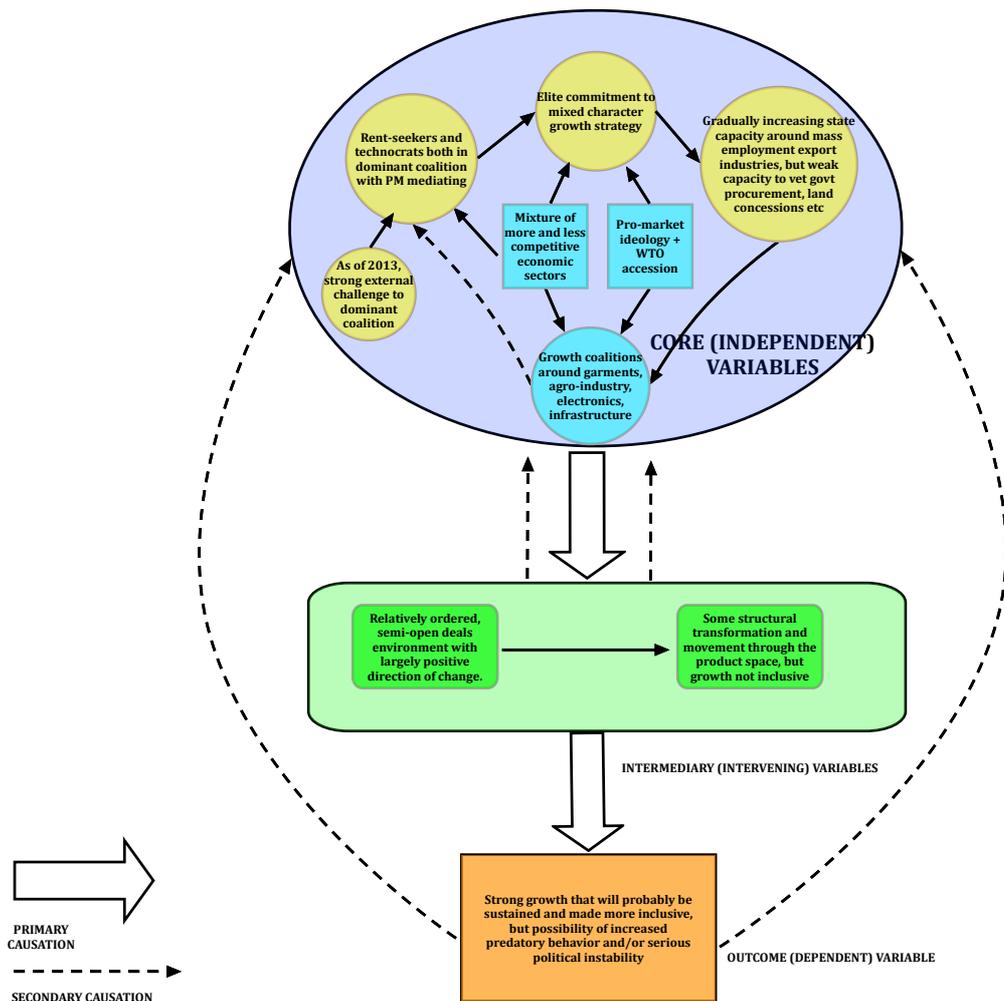
Cambodia's growth experience is somewhat remarkable internationally, being characterised by an extreme collapse, followed by a lengthy and accelerating recovery. The details of this recovery provide support for our hypothesis that growth accelerations are facilitated by long-horizon political settlements that can oversee a shift from disorder to order in the deals environment, and are maintained via a progressive opening of the deals environment, with a positive feedback loop between competitive export industry, ideology, and state capacity.

However, Cambodia's growth experience has had two faces, and its less progressive side provides evidence for the idea that a political elite which depends for its survival on high-rent industries is likely to prove complacent when it comes to building state capacity in more dynamic areas, bringing us to crossroads at which we find ourselves today.

The Cambodia case also points to a number of refinements of our theory. To begin with, as a small country, Cambodia's growth has been heavily influenced by external factors. For example, despite continuing frailties of state capacity and recent industrial relations problems in the garment industry, investors continue to flock to the country, driven by price changes in Thailand and China. Were Cambodia located in landlocked Africa instead of coastal Southeast Asia, the story would be rather different, we suspect. Consequently, the external environment or 'neighbourhood effects' should probably acquire the status of a variable in our model.

³⁸ However, one of our sources was highly critical of the draft investment law, describing it as little better than 'toilet paper'.

Figure 19: Cambodia theory of growth – key relationships



Second, Cambodia highlights the importance of electoral feedback loops. While the state is arguably doing just enough in terms of state–business relations to keep high growth on track, inattention to the character of growth and the changing nature of the electorate has sparked a political backlash. This has come even in the face of quite impressive progress on poverty reduction and the MDGs. Such statistics, it would appear, are inadequate indicators of the mood of the country, shaped by social media and – sometimes unfair – comparisons of Cambodia with its neighbours.

This political feedback is potentially advantageous, however, in the sense that it creates pressure for reforms that would anyway have been necessary to keep growth on track in the medium and long term. Whether that pressure can be managed effectively in the short term is another question. The regime must counteract the worst excesses of rent-seeking, build state capacity in critical areas, while avoiding a lurch into populism. The trick will be to oversee a transformation of the political settlement and its growth strategy, without bringing the whole thing crashing down. Unfortunately, as we went to press, events in Cambodia had taken a worrying turn, amidst sustained protests, an illegal general strike in the garment sector, the shooting of demonstrators in the streets, and a clampdown on freedom of expression. Whether this is a temporary steadying of the ship, the triumph of an anti-reform faction in CPP, or the start of a prolonged period of disorder, remains to be seen.

References

Interview references

Code	Description	Date
FG1	Focus group with social science researchers	June 2013
FG2	Focus group with NGO representatives	July 2013
FG3	Focus group with NGO representatives	July 2013
FG4	Focus group with development partners	August 2013
FG5	Focus group with small rubber planters	September 2013
I1	Interview with rice industry representative	July 2013
I2	Interview with agricultural expert	July 2013
I3	Interview with development expert/land concessionaire	August 2013
I4	Interview with garment industry representative	August 2013
I5	Interview with Arbitration Council Foundation	August 2013
I6	Interview with senior technocrat	August 2013
I7	Interview with government advisor	August 2013
I8	Interview with international development expert	August 2013
I9	Interview with banking sector expert	September 2013
I10	Interview at MAFF	September 2013
I11	Interview at MIME	September 2013
I12	Interview with agricultural sector expert	August 2013
I13	Interview with political analyst	August 2013
I14	Interview with development partner	September 2013
I15	Interview with international business representative	September 2013
I16	Interview with electronics CEO	September 2013
I17	Interview with tourist industry representative	September 2013
I18	Interview with government advisor	September 2013
I19	Interview with senior official	September 2013

I20	Interview at MAFF	September 2013
I21	Interview at rights NGO	October 2013
I22	Interview at housing rights NGO	October 2013
I23	Interview at CCC	November 2013
I24	Interview with land concessionaire	September 2013
I25	Interview with land concessionaire	September 2013
I26	Interview with rice trader	August 2013
I27	Interview with rice miller	August 2013
I28	Interview with rice miller	August 2013
I29	Interview with rice miller	August 2013
I30	Interview with rice miller	August 2013
I31	Interview with garment factory manager	September 2013
I32	Interview with garment factory manager	September 2013
I33	Interview with garment factory manager	September 2013
I34	Interview with telecoms CEO	October 2013
I35	Interview with telecoms CEO	October 2013
I36	Interview with telecoms CEO	October 2013
I37	Interview at SME	August 2013
I38	Interview at SME	August 2013
I39	Interview at SME	August 2013
I40	Interview at SME	August 2013

Published references

- ARPEC (2013). "Cambodia rejects rice contamination claims by EU", 24 December. Available online: <http://cambodiariceexporters.org/en/news/rice-news/1181/.html> (accessed 29 July 2014).
- Asian Development Bank (2012a). *Cambodia: Country Governance Risk Assessment and Risk Management Plan*. Mandaluyong City: Asian Development Bank.
- Asian Development Bank (2012b). *Key Indicators for Asia and Pacific 2012: Cambodia*. <http://www.adb.org/sites/default/files/ki/2012/pdf/CAM.pdf>
- Asian Development Bank (2011). *Country Partnership Strategy*. Cambodia: Asian Development Bank.
- Asian Development Bank and Agence Française de Développement (2012). *Assessment of Public-Private Partnerships in Cambodia: Constraints and Opportunities*. Manila: Asian Development Bank.
- Aun, Pheap and Chen Dene-Hern (2013). "Government to meet over January minimum wage increase", *The Cambodia Daily*, 26 November. Phnom Penh.
- Burslem, Chris (1993). "Rainsy to hike taxes, review concessions", *The Phnom Penh Post*, 16 July. Phnom Penh.
- Cambodia, Royal Government of (2013). "National Broadband Policy, Cambodia. Draft". Phnom Penh.
- CAMFEBA (n.d.). "Government–Private Sector Forum". Cambodian Federation of Employers and Business Associations (CAMFEBA).
- Chandler, David (1991). *The Tragedy of Cambodian History: Politics, War, and Revolution since 1945*. Bangkok: Yale University Press and Silkworm Books.
- Cock, Andrew (2011). "The rise of provincial business in Cambodia", in Caroline Hugues and Kheang Un (eds.), *Cambodia's Economic Transformation* (pp.27-49). Uppsala: Nordic Institute of Asian Studies Press.
- DFID (2010). "Building peaceful states and societies. A DFID practice paper, 2010". London: DFID.
- Di John, J. and J. Putzel (2009). "Political settlements: issues paper". University of Birmingham: Governance and Social Development Resource Centre.
- Dodd, Mark (1994). "Rainsy rails at mafia money laundering", *The Phnom Penh Post*, 11 March. Phnom Penh.
- Dyer, Ellie (2010). "Two licenses voided in frequency controversy", *The Phnom Penh Post*, 29 January. Phnom Penh.
- Ear, Sophal (2011). "Growth in the rice and garments sectors", in Caroline Hughes and Kheang Un (eds.), *Cambodia's Economic Transformation* (pp. 70-93). Uppsala: Nordic Institute of Asian Studies Press.
- Eckardt, James (1998). "Investors bullish on Hun Sen-led gov't", *The Phnom Penh Post*, 21 August. Phnom Penh.
- ESID (2012). "ESID Research Plan, April 2012-March 2013", University of Manchester: Effective States and Inclusive Development Research Centre.
- Federation of Cambodian Rice Exporters (2013), "Cambodian rice – white gold. Export portfolio". Phnom Penh.

- Finch, Steve and Savan Nguon (2009). "Mobitel files lawsuit in row with Beeline", *The Phnom Penh Post*, 24 September Phnom Penh.
- Fitzgerald, Tricia (1996). "Ariston: 'We can no longer be polite'", *The Phnom Penh Post*, 31 May. Phnom Penh.
- Global Witness (2013). *Rubber Barons: How Vietnamese Companies and International Financiers Are Driving a Land Grabbing Crisis in Cambodia and Laos*. Available online: <http://www.globalwitness.org/rubberbarons/> (accessed 29 July 2014). London.
- Gottesman, Evan (2004). *Cambodia after the Khmer Rouge: Inside the Politics of Nation Building*. Chiang-Mai: Silkwork Books.
- Guimbert, Stephane (2010). "Cambodia moves to increase exports of its 'white gold' (rice)", in *East Asia and Pacific on the Rise World Bank blog*. Available online: <http://blogs.worldbank.org/eastasiapacific/cambodia-moves-to-increase-exports-of-its-white-gold-rice> (accessed 29 July 2014). The World Bank.
- Hausmann, Ricardo, Cesar A. Hidalgo, Sebastian Bustos, Michelle Coscia, Sarah Chung, Juan Jimenez, Alexander Simoes and Muhammed A. Yildirim (2013). *The Atlas of Economic Complexity: Mapping Paths to Prosperity*. Cambridge, MA: Harvard/MIT Press.
- Hayes, Kathleen (1993). "Rainsy appeals for foreign investment", *The Phnom Penh Post*, 30 July. Phnom Penh.
- Heder, Steve (2005). "Hun Sen's consolidation: death or beginning of reform?" *Southeast Asian Affairs*: 113-130.
- Hickey, Sam (2011). "Thinking about the politics of development: towards a relational approach. ESID Concept Paper, October. Draft". Manchester: Effective States and Inclusive Development Research Centre.
- Hor, Kimsay (2013). "Investment law change-up", *The Phnom Penh Post*, 28 November. Phnom Penh.
- Hughes, Caroline and Tim Conway (2003). *Understanding Pro-poor Political Change: The Policy Process – Cambodia. Second draft, August 2003*. London: Overseas Development Institute.
- Hughes, Caroline and Kheang Un (2011). "Cambodia's economic transformation: historical and theoretical frameworks", in Caroline Hughes and Kheang Un (eds.), *Cambodia's Economic Transformation* (pp.1-26). Uppsala: Nordic Institute of Asian Studies Press.
- Hul, Reaksmey (2013). "Commerce minister announces new system for exports", *The Cambodia Daily*, 26 November. Phnom Penh.
- Human Rights Watch (2013). "Cambodia: Land titling campaign open to abuse", 12 June, available online: <http://www.hrw.org/news/2013/06/12/cambodia-land-titling-campaign-open-abuse> (accessed 29 July 2014).
- Kar, Sabyasachi, Lant Pritchett, Selim Raihan and Kunal Sen (2013). *The Dynamics of Economic Growth: A Visual Handbook of Growth Rates, Regimes, Transitions and Volatility*. Manchester: Effective States and Inclusive Development, University of Manchester Research Centre.

- Kelsall, Tim (2013). "The Pearl of Asia?" Available online: <http://www.timkelsallphotography.org/misc/the-pearl-of-asia/> (accessed 29 July 2014).
- Khan, Mushtaq (2010). "Political settlements and the governance of growth-enhancing institutions. Draft paper", *Research Paper Series on 'Growth-Enhancing Governance'*. London: SOAS, University of London.
- Kierans, Kim (2010). "Cambodia: A land of opportunity", *Asia's Media Innovators Vol. 2.0*, Chapter 7. Available online: <http://www.kas.de/medien-asien/en/publications/20526/> (accessed 29 July 2014). Konrad-Adenauer-Stiftung Media Programme Asia.
- Kun, Makara (2012). "Ministry to boost telco rules", *The Phnom Penh Post*, 13 February. Phnom Penh.
- Kunmakara, May (2013). "Government tells telcos off", *The Phnom Penh Post*, 8 April. Phnom Penh.
- Le Billon, Philippe (2000). "The political ecology of transition in Cambodia 1989-1999: war, peace, and forest exploitation", *Development and Change* 31: 785-805.
- Licadho (2009). *Land Grabbing and Poverty in Cambodia: The Myth of Development*. Phnom Penh.
- May, Thittara (2013). "Latest ELC plan draws scepticism", *The Phnom Penh Post*, 27 September. Phnom Penh.
- Ministry of Agriculture, Forestry and Fisheries (2011). *Annual Report for Agriculture, Forestry and Fisheries 2010-2011*. Phnom Penh: MAFF.
- Ministry of Tourism (2012). *Tourism Statistics: Annual Report on 2012*. Phnom Penh: Statistics and Information Department.
- National Institute of Statistics (2011). *Statistical Yearbook of Cambodia 2011*. Phnom Penh: Ministry of Planning.
- National Institute of Statistics (2012). *Cambodia Socio-Economic Survey 2012*. Phnom Penh: Ministry of Planning.
- National Institute of Statistics (2013). *Macroeconomic Data* (unpublished report).
- Pak Kimchoeun, Horng Vuthy, Eng Netra, Ann Sovatha, Kim Sedara, Jenny Knowles and David Craig (2007). "Accountability and neo-patrimonialism in Cambodia: a critical literature review" Phnom Penh: Cambodia Development Resource Institute.
- Parks, Thomas and William Cole (2010). "Political settlements: implications for international development policy and practice". The Asia Foundation Occasional Paper No. 2, July 2010. Available online: <http://asiafoundation.org/resources/pdfs/PoliticalSettlementsFINAL.pdf> (accessed 29 July 2014). The Asia Foundation.
- Phelim, Kyne (1999). "Combating 'cowboy operators' of the 'casino economy'", *The Phnom Penh Post*, 10 December. Phnom Penh.
- Phnom Penh Post (2013). "Resurgent mobile deals could hurt margins, analysts say", *Phnom Penh Post*, 2 September. Available online: <http://www.phnompenhpost.com/business/resurgent-mobile-deals-could-hurt-margins-analysts-say> (accessed 2 September 2014).

- Ponniah, Kevin, and Koam Chanrasmeay (2013). "Rainsy threatens general strike", *Phnom Penh Post*, 25 September. Phnom Penh.
- Pritchett, Lant and Eric Werker (2012). "Developing the guts of a GUT (Grand Unified Theory): elite commitment and inclusive growth", ESID Working Paper No. 16. Manchester: Effective States and Inclusive Development Research Centre.
- Rann, Reuy (2013). "Getting into the milled rice game", *The Phnom Penh Post*, 26 July. Phnom Penh.
- Reporter (2013). "Cambodia rice wins world best rice award in Hong Kong", *Southeast Asia Weekly*, 21 November.
- Reuy, Rann and Stuart Alan Becker (2012). "Telecom Ministry launches regulator", *The Phnom Penh Post*, 21 September. Phnom Penh.
- Reuy, Rann and Anne Renzenbrink (2013). "Ministry cancels telco limits", *The Phnom Penh Post*, 7 May. Phnom Penh.
- Roberts, David W. (2001). *Political Transition in Cambodia 1991-99: Power, Elitism and Democracy*. Richmond, UK: Curzon Press.
- Royal Government of Cambodia (2010). "Policy paper on the promotion of paddy production and rice exports". Phnom Penh: Cambodia.
- Sahmakum Teang Tnaut (2012). *A Tale of Two Cities: Review of the Development Paradigm in Phnom Penh*, Phnom Penh: STT.
- Saing, Chan Hang (2012). "Searching for binding constraints on growth using growth diagnostic approach: The case of Cambodia". *Annual Development Review 2011-12*. Phnom Penh: CDRI.
- Sen, Kunal (2012). "The political dynamics of economic growth", ESID Working Paper No. 5. Manchester: Effective States and Inclusive Development Research Centre.
- Slocumb, Margaret (2010). *An Economic History of Cambodia in the Twentieth Century*. Singapore: NUS Press.
- So, Sokbunthoeun (2010). "Land rights in Cambodia: an unfinished reform", *Asia Pacific Issues* 97: 1-8.
- Sullivan, Michael (2011). "China's aid to Cambodia", in Caroline Hughes and Kheang Un (eds.), *Cambodia's Economic Transformation* (pp.50-69). Uppsala: Nordic Institute of Asian Studies Press.
- Telecompaper (2013). "Overlapping licenses hinder Wimax ISPs", 11 January. Available online: <http://www.telecompaper.com/news/overlapping-licences-hinder-wimax-isps--918260> (accessed 29 July 2014).
- Thayer, Nate (2011). "Tycoon says he underwrote Hun Sen Coup". Available online: <http://natethayer.typepad.com/blog/2011/10/tycoon-says-he-financed-hun-sen-coup-1-million-underwrote-cambodian-takeover.html> (accessed 29 July 2014).
- Trade Policy Review Body (2011). "Record of the meeting –Trade policy review – Cambodia". Geneva: World Trade Organization.
- Transparency International (2013). *Corruption Perceptions Index 2012*. Online: <http://www.transparency.org/cpi2012/results> (accessed 29 July 2014).

- Un, Kheang (2005). "Patronage politics and hybrid democracy: political change in Cambodia, 1993-2003". *Asian Perspective* 29(2): 203-230.
- Un, Kheang and Sokbunthoeun So (2009). "Politics of natural resource use in Cambodia", *Asian Affairs*: 123-138.
- Vittachi, Imran (1996). "Ariston balks on \$2m payment till law passed", *The Phnom Penh Post*, 22 March. Phnom Penh.
- Vong, Sokheng (2013a). "CPP lawmakers vote to create new ministries", *The Phnom Penh Post*, 12 November. Phnom Penh.
- Vong, Sokheng (2013b). "PM claims land scheme win", *The Phnom Penh Post*, 29 January. Phnom Penh.
- Vong, Sokheng and Shane Worrell (2013). "Civil servants to see raise", *The Phnom Penh Post*, 8 August. Phnom Penh.
- Vrieze, Paul and Naren Kuch (2012). "Carving up Cambodia", *Cambodia Daily*, 2 October. Phnom Penh.
- World Bank (2007). "Cambodia", in *Enterprise Surveys: What Businesses Experience*. Available online: <http://www.enterprisesurveys.org/data/exploreconomies/2007/cambodia> (accessed 12 August 2013).
- World Bank (2013). *Doing Business – Cambodia*. Available online: <http://www.doingbusiness.org/data/exploreconomies/cambodia/> (accessed 12 August 2013).
- Worrell, Shane, and David Sen. 2013. "A non-binding justice", *The Phnom Penh Post*, 14 May. Phnom Penh.
- Youtube. 2010. "Sok Siphana in conversation with Brett Sciaroni". Accessed September 2013.
- Zsombor, Peter and Pheap Aun. 2012. "32 land concessions approved since moratorium", *The Cambodia Daily*, 18 November. Phnom Penh.

The Effective States and Inclusive Development Research Centre

The Effective States and Inclusive Development Research Centre (ESID) aims to improve the use of governance research evidence in decision-making. Our key focus is on the role of state effectiveness and elite commitment in achieving inclusive development and social justice.

ESID is a partnership of highly reputed research and policy institutes based in Africa, Asia, Europe and North America. The lead institution is the University of Manchester.

The other institutional partners are:

- BRAC Institute of Governance and Development, Dhaka
- Center for Democratic Development, Accra
- Center for International Development, Harvard University, Boston
- Department of Political and Administrative Studies, University of Malawi, Zomba
- Graduate School of Development, Policy & Practice, Cape Town University
- Institute for Economic Growth, Delhi

In addition to its institutional partners, ESID has established a network of leading research collaborators and policy/uptake experts.

email: esid@manchester.ac.uk

Effective States and Inclusive Development Research Centre (ESID)

School of Environment and Development, The University of Manchester, Oxford Road,

Manchester M13 9PL, UK

www.effective-states.org