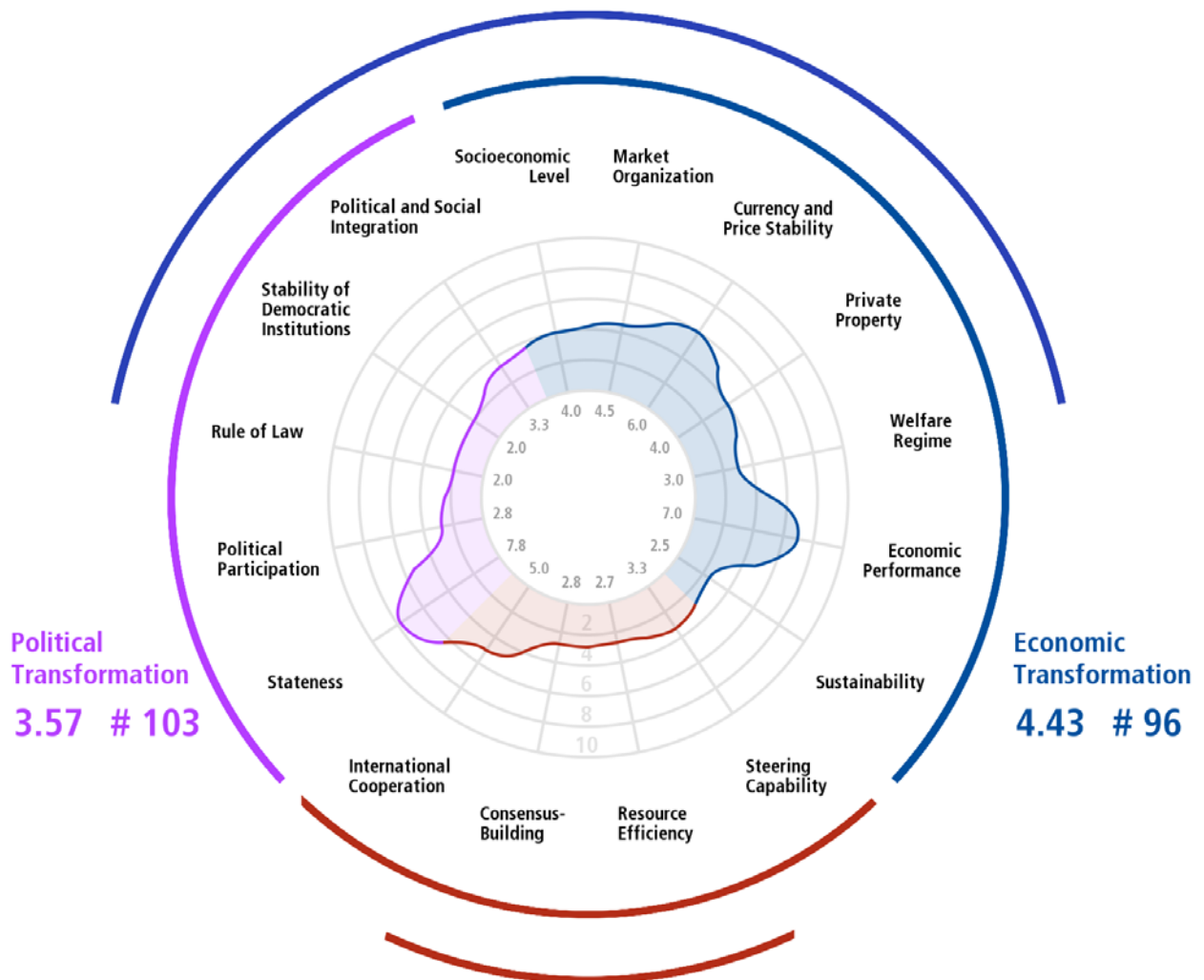


# Cambodia

## Status Index

**4.00 # 103**

on 1-10 scale out of 129



**Political Transformation**  
**3.57 # 103**

**Economic Transformation**  
**4.43 # 96**

## Governance Index

**3.23 # 113**

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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## Key Indicators

Population	M	15.8	HDI	0.563	GDP p.c., PPP \$	3736
Pop. growth <sup>1</sup>	% p.a.	1.6	HDI rank of 188	143	Gini Index	-
Life expectancy	years	68.5	UN Education Index	0.493	Poverty <sup>3</sup>	% -
Urban population	%	20.9	Gender inequality <sup>2</sup>	0.479	Aid per capita \$	43.6

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

Between 2015 and 2017, the government drastically increased repressive measures against critics of the government. The murder of prominent dissident Kem Ley in July 2016 was the most prominent example of numerous efforts widely perceived to be an attempt to frighten political opponents. In reaction to the increasing popularity of the main opposition party Cambodia National Rescue Party (CNRP), its president Sam Rainsy was sentenced in absentia to perennial imprisonment and later de facto exiled by the government. Moreover, his deputy Kem Sokha was forced to live in self-imposed house arrest for half a year in order to avoid detention – despite enjoying parliamentary immunity. At the time of writing, two opposition lawmakers and more than a dozen lower-level CNRP politicians and followers have been imprisoned by the regime, serving jail terms up to twenty years.

Prime Minister Hun Sen seems to be willing to pull out all the stops to remain in power. By succeeding the late Chea Sim as party president in 2015, he strengthened his grip on the ruling Cambodian People's Party (CPP). In addition, several newly adopted laws put the regime in the position to easily take legal action against any unfriendly civil society organization and other (potential) critics. With the exception of increased legal persecution and physical violence against political rivals, the management of the public sector remained largely unchanged. Weak law enforcement, rampant corruption, and red tape are still core characteristics at most administrative levels. International cooperation was shaped by further intensification of political and economic relations to the People's Republic of China. With ongoing lobbying for Chinese interests, mainly in relation to Beijing's territorial claims in the South China Sea, Cambodia's role within the Association of Southeast Nations (ASEAN) is widely unchanged, but without particular strains on bilateral relations with other member states so far.

After generating extensive growth of Gross Domestic Product (GDP) for years, the government reaped the rewards of reclassification to “lower middle-income country” status by the World Bank in 2016. Despite this success and effective poverty reduction in the last two and a half decades,

the overall sustainability of the economic recovery has to be questioned. Whereas the growth has been fueled by over-exploitation of Cambodia's natural resources for many years, the pillars of the economy face more and more challenges. In particular, the rice sector came under increased pressure due to reduced competitiveness compared to neighboring countries. The risks of a real estate bubble in Phnom Penh increased, while growth in tourism declined. Impediments to further industrialization remain considerably high due to the lack of a skilled workforce, high energy costs and grave deficits in logistics. At the very least, the yearly minimum wage increases in the apparel industry have not reduced the attractiveness of Cambodia as a manufacturing base for shoes and textiles.

## History and Characteristics of Transformation

Following the 1991 Paris Peace Accords, the United Nations Transitional Authority in Cambodia (UNTAC) cleared the way for the country's first multiparty national elections. Elections for the National Assembly were held in 1993. Although the royalist National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia (FUNCINPEC) defeated the post-socialist Cambodian People's Party (CPP), the latter party threatened to lead three provinces in secession should the CPP be excluded from government. Finally, the rivals agreed to create a coalition government with two prime ministers Prince Norodom Ranariddh (FUNCINPEC) and Hun Sen (CPP).

The coalition government was unstable from the beginning. In 1997, Ranariddh was ousted by de facto CPP leader Hun Sen in a bloody military coup. Cambodia's accession to ASEAN was postponed following massive international criticism of Cambodian politics and external donors' pressure on the government to allow a return of pluralism.

Parliamentary elections in 1998 resulted in another CPP and FUNCINPEC coalition government. Some stability was achieved after that year's official dissolution of the Khmer Rouge, but the elections were again preceded by systematic and widespread political intimidation and violence by the CPP. The Sam Rainsy Party (SRP), led by the eponymous former finance minister, emerged as a new opposition force despite attempts to keep SRP from equal participation in the vote. With Hun Sen as sole prime minister following the elections, the CPP developed into the country's strongest political force, a trend that continued throughout the 2000s as Hun Sen has taken broad control over the ruling party, security apparatus, civil service, all TV stations, almost all radio stations, major newspapers, electoral administration and the judiciary. His CPP remains the largest party, with a firmly established patronage network.

The 2012 Senate election, the commune elections of 2012 and the national elections of 2008 all resulted in landslide wins for the CPP. FUNCINPEC was weakened by internal fighting; in the latest elections, it won no seats. Sam Rainsy and some of his party members were stripped of parliamentary immunity in 2005 for the alleged defamation of Hun Sen and Prince Ranariddh, subsequently fleeing the country until Rainsy was pardoned after publicly apologizing. In 2009,

Sam Rainsy again lost his immunity and fled to self-imposed exile in France after being sentenced to 12 years in prison. To challenge the ruling party more efficiently, the SRP and the Human Rights Party (HRP) combined their limited forces and formed the new Cambodia National Rescue Party (CNRP) in 2012.

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

After the short-lived rapprochement of Hun Sen and Sam Rainsy, political tensions quickly raised again. Government-initiated repression was mainly aimed at the CNRP, but were also directed at other critics of the regime in general. Since November 2015, Sam Rainsy has lived abroad to avoid imprisonment whereas more than a dozen CNRP activists were put in jail. With the murder of prominent dissident Kem Ley in 2016, the regime once more raised the stakes in its struggle to stay in power in times of declining popularity.

The process of economic liberalization has been underway since before political transformation accelerated in the late 1990s, with significant progress made in recent years. Despite a serious setback due to the effects of the global financial crisis in 2009, annual growth rates have been consistently above 5% since 1991, and have fluctuated around 7% since 2010. During the past five years, the most positive development has been the successful implementation of fiscal and monetary-policy reforms. However, massive social inequalities and the country's large number of people living in poverty pose a serious challenge to the sustainability of economic growth. Significant reforms such as welfare-system improvements and poverty-reduction policies need to be implemented in order to increase the efficiency and sustainability of economic development.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Since the surrender of the last Khmer Rouge resistance forces in 1998, the central state has been exercising legal force over the entirety of Cambodian territory. Endogenous constraints only exist because of general weak law enforcement and arbitrary actions of local authorities especially in northeastern provinces. However, this is not a concrete challenge of the state's monopoly on the use of force. Exogenous limitations result from border disputes with Vietnam and Thailand. Although there have not been any serious efforts of both the Royal Government of Cambodia (RGC) and the Thai junta to settle the dispute about a plot of 4.6 square kilometers at the antique Preah Vihear temple in 2015 and 2016, the situation at the common border remains peaceful. By contrast, Vietnamese influence on Cambodian territory has become more and more obvious. In 2015, a local newspaper reported that the Vietnamese People's Army has quietly assumed control of nearly 40,000 hectares of land in Ratanakkiri Province directly at the common border. (The area was declared as economic land concessions granted to front companies of Corps 15 for 99 years.)

The recurrence of national sentiment in Cambodia is directly connected to the emergence of a new generation. Born in the 1990s, these young Cambodians have only experienced the aftermath of the country's violent past consisting of war, civil war, genocide, and Vietnamese occupation that caused the temporary eradication of the "Khmer Nation." Today, the thirst for national symbols is considerable as the state is hardly able or willing to provide them. Due to the autocratic character of the government, the identification with the nation appears to be much higher than with the state. Admittedly, as being the most homogenous country in Southeast Asia, nation and state are closer connected in Cambodia than in neighboring countries. At the same time, there is no legal discrimination against ethnic minorities and indigenous people in Cambodia.

Traditionally, Khmer identity becomes manifest by separating from Vietnamese influences. Most often, such sentiments exhibit a pure ethnic dimension without any

Question  
Score

Monopoly on the  
use of force

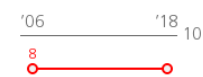
8



1

State identity

8



1

differentiation. This even affects people of Vietnamese origin born in Cambodia, only speak Khmer language, and hold Cambodian citizenship. Today, coexistence between the Khmer and Vietnamese population seems to be only superficially peaceful. In particular, a parliamentary election that results in a win for the opposition CNRP, which fuels hostile sentiments against the “Yvon” (a derogative term used for Vietnamese in general), could result in a violent outburst.

While 95% of Cambodians are Buddhist believers, adherents of the Christian, Muslim and other faiths have the right to exercise their religions freely. Buddhism is Cambodia’s state religion, but beyond this constitutional guarantee there is no impact on freedom of religion. There are no axiomatic restrictions regarding the erection of churches, mosques and other spiritual buildings. Non-Buddhist believers do not run the risk of harassment and religious charity organizations can operate freely in Cambodia. In 2015, however, four Vietnamese construction workers were detained because they had built religious statues on a private plot of land in Siem Reap province without permission. A few months ago, both the National Assembly’s Committee on Education, Sport and Religion and the Ministry for Culture and Fine Arts initiated investigations at Bokor Mountain due to an increased number of Vietnamese who traveled there for worship. Officially, however, concerns over the negative impact on Cambodian culture were cited as the reason for the closure.

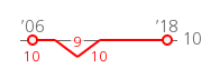
Cambodia’s state administration remains characterized by inefficiency, corruption, and red tape. Following traditional concepts of patronage, the public administration is heavily overstaffed by civil servants chosen on the basis of their loyalty to the ruling CPP, close connections to influential individuals or ability to buy a position. While draft legislation sometimes can take a decade within the executive branch, once adopted laws are seldom fully implemented due to weak law enforcement. Jurisdiction is generally biased towards the executive branch, security forces, and both leading politicians and entrepreneurs. Especially, in rural areas the access to some basic public goods is de facto denied due to the high degree of corruption and despotism. At least, the number of people with access to both water sources (76% of the population in 2015) and sanitation facilities (42%) has continually grown for years. Although efforts in raising taxes have intensified since the last parliamentary elections in 2013, most citizens still do not pay taxes.

## 2 | Political Participation

Cambodian citizens are entitled to elect commune councilors and members of the National Assembly every five years. Every six years, commune councilors and members of parliament vote for the Senate, Cambodia’s first legislative chamber. There is no limitation for political parties running in both commune and parliamentary elections. Parties that do not win a single seat in these two elections

No interference of religious dogmas

10



1

Basic administration

5



1

Free and fair elections

3

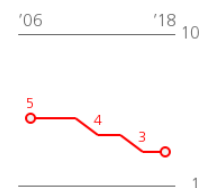
are effectively excluded from Senate elections. In all elections, only parties have passive suffrage, while individuals are not allowed to stand as candidates.

In general terms, the degree of competition in Cambodian elections is very limited. Since the parliamentary elections in 1998, the ruling CPP benefits from numerous structural advantages, in particular due the control of both the National Election Committee (NEC) and electronic media. In 2013, there was serious indication that the voter lists were manipulated in favor of the CPP. Consequently, the CNRP, as leading opposition party, did not accept the results, but agreed to a compromise one year later that included considerable reforms of the election laws. The two laws which were adopted in 2015 include that the NEC comprises four representatives of both the CPP and CNRP along with a ninth, independent member. Although Hang Puthea, a well-respected former director of an election watchdog, was finally not only chosen as neutral member, but also as spokesman, the NEC came under political pressure again in 2016 when its Deputy Secretary-General Ny Chakrya, a former human rights activist, was arrested as part of a general blast against government critics. In addition, Rong Chhun, one of the CNRP's picks for the NEC, could lose his seat due to criminal charges against him. In this case, the National Assembly – where the ruling CPP holds the majority – would elect his successor.

Repression against the CNRP in 2016 and 2017 was heavily expanded by the regime, mainly through judicial persecution. By intimidating CNRP politicians and followers, the regime apparently tries to further limit the degree of competitiveness in upcoming elections. By contrast, in autumn 2016 the NEC organized the regeneration of the voter lists. Within three months, all citizens were called to register anew. Although only 7.8 million people out of 9.6 million eligible voters finally registered, there was no indication for manipulation or other serious shortcomings in the registration process.

2016 saw a visible gain in the significance of powerful veto players. In particular, the Anti-Corruption Unit (ACU) continued emerging as one of the regime's most important pseudo-legal body for persecution of political opponents. The ACU, directed by a close associate of Prime Minister Hun Sen, increasingly suppressed competent authorities, while Cambodia remains one of the most corrupt countries of the world. First, the ACU together with the anti-terrorism police investigated an extramarital relationship of Kem Sokha, deputy president of the CNRP. In September, he was convicted to five months in prison despite enjoying parliamentary immunity. One week before, evidence leaked out that Hun Manith – major general, commander of the military intelligence unit and son of the prime minister – was also involved in efforts compromising the CNRP politician.

This scandal mirrors the general setting of influential veto players who not only undermine democratically elected representatives, but also other government institutions. Mostly, their influence is based on physical force generated by the various security forces. The core of this power is based in Hun Sen's bodyguard





militia that has become infamous for several human rights violations for more than two decades. In November 2015, two CNRP members of parliament were viciously assaulted and gravely injured by a mob in front of the National Assembly. Only three perpetrators, all members of Hun Sen's bodyguard unit, were convicted while the involvement of superior levels was not investigated. After one year in prison, the offenders were not only released, but one offender was promoted to a one-star general and the other two advanced to the rank of colonels.

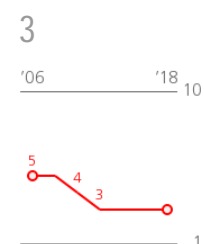
Since the early 1990s, Cambodia has evolved as the country with the most vibrant and diverse civil society in Southeast Asia. Currently, more than 1,000 active non-governmental organizations (NGOs) operate in the kingdom based on the constitutionally granted right of freedom of assembly. However, with the adoption of the Law on Associations and Non-Governmental Organizations (LANGO) in 2015, the government created a new potential tool for taking legal action against disliked NGOs. Inter alia, the law imposes mandatory registration for all domestic and international associations and NGOs and bans any activity by unregistered groups. Once registered, all domestic and international NGOs as well as international associations (but not domestic associations) will be required to operate under a vaguely defined obligation to maintain "political neutrality." Hence, it is possible for the Ministry of Interior to de-register these types of associations and organizations for legitimate criticism of the government or political parties. Moreover, LANGO bans leaders of de-registered associations and NGOs from ever establishing new associations or organizations. According to the new election laws, civil society organizations are not allowed to participate in political activities during election campaigns, such as polling and vote counting.

In 2016, Prime Minister Hun Sen announced the relocation of Freedom Park, a 1.2-hectare plaza in central Phnom Penh that was established in 2010 to contain public demonstrations. The new demonstration zone will be located in the northern outskirts of the capital which, according to Hun Sen, would help beautify the city.

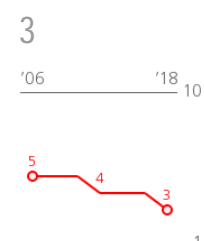
With increasing repression beginning in July 2015, freedom of expression has extensively eroded since then. The murder of Kem Ley, a popular dissident, in July 2016 was widely interpreted as an attempt by the regime to frighten any of its critics. With an expansion of legal persecution, the regime successfully created an overall atmosphere of self-censorship among civil society organizations and opposition politicians. Numerous human rights defenders, and even elected members of parliament, confessed in 2016 that they would not dare to speak out as they had a few months ago. The number of dissidents who seek asylum abroad or left Cambodia to ensure their personal safety has risen considerably.

The electronic media, with the exception of Radio Beehive, remains under full control of the regime or business companies with close relations in leading CPP officials. English-speaking newspapers are still allowed to report freely and without any significant disturbance from the government. However, as their circulation is limited

Association /  
assembly rights



Freedom of  
expression



to urban areas, their impact on freedom of expression as granted in the constitution is rather minor. The governmental news monopoly for the vast majority of Cambodians is only challenged by Facebook, which has become the most important source for unfiltered information especially for young people. With the already adopted Telecommunications Law and the expected Access to Information Law, legal governmental interference in freedom of expression will likely expand in the future.

### 3 | Rule of Law

The executive branch clearly dominates the legislature and the judiciary. Any seat in parliament belongs to the party, and once expelled from membership to the political party, individuals also lose their status as lawmakers. With Prime Minister Hun Sen as president of the ruling party and strong top-down management approaches, CPP members of parliament are responsible to their head and not to voters in a particular constituency. Deputies of the opposition do not enjoy parliamentary immunity de facto and are exposed to encroachment any time. Since 2015, the regime once more increased the general level of repression against CNRP members of parliament. In January 2017, the CPP majority within the National Assembly voted to remove the minority party status of the CNRP in parliament. It also scrapped the formal position of minority leader (formally equal to the prime minister) that was established in 2014 to implement a negotiating mechanism between the two leading parties.

Cambodian courts are not independent, but subordinated to the executive. Hence, there is no judicial control of any governmental action as long as Cambodia's top decision-makers have agreed to legal proceedings. Although the king is entitled to appoint three members to the Constitutional Council, the six other deputies are picked by the CPP. The only government body that is not completely controlled by the regime is the National Election Committee – only four out of nine members represent the ruling party.

Cambodian courts are not independent and generally politically biased towards the ruling party. Most judges and prosecutors are chosen on their loyalty to the CPP (and their ability to buy themselves into office). The courts are systematically misused to take action against government critics. In the past years, at least many convicted have served only a part of their original sentence after receiving a royal pardon. De facto, pardons are only given after negotiations in which the regime demands political concessions.

The judiciary is also assigned to protect the interests of political and economic elites. Contraventions, even after becoming publicly known, are rarely prosecuted. In the Extraordinary Chambers in the Courts of Cambodia (ECCC), established to try the most senior responsible members of the Khmer Rouge, Cambodian court officials successfully prevented Heng Samrin, a former political commissar and army division

Separation of powers

2

'06 '18 10



Independent judiciary

2

'06 '18 10



commander of the Khmer Rouge and currently President of the National Assembly, from giving testimony.

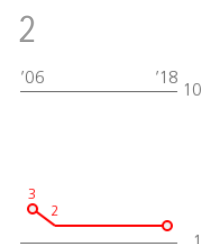
In non-political criminal trials, lawyers face structural discrimination compared to prosecutors. Eyewitnesses' testimonies from members of the security forces are generally regarded as more credible than of ordinary citizens. In non-political civil cases, the high degree of corruption of court officials favors wealthy litigants systematically.

The general abuse of public office for private gain remains a fundamental principle of Cambodia's public administration. As public-sector related salaries are much lower than basic living expenses, misuse of office for private gain appears a necessity for many lower and middle civil servants. Furthermore, most positions and promotions require an unofficial entrance fee, normally a multiple of the official yearly income. In higher positions, government officials continually have to contribute considerable amounts of money to their superiors and party coffers. These conditions directly contribute to a high degree of corruption and bribery in the vast majority of ministries, agencies and local governments. Monitoring and supervisory mechanisms in Cambodia's public administration remain deliberately weak in order to maintain this system of enrichment. In addition, corruption has become an effective tool in safeguarding loyalty in the state apparatus because most civil servants could easily be charged for misdeed. The number of such trials has slightly increased for a couple of years, but sentences are rather short and most convicted delinquents are reintegrated in the civil service after imprisonment.

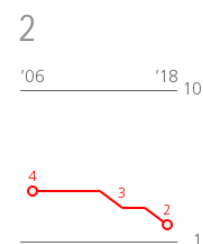
While the constitution guarantees all important civil rights and some universal human right, in practice, civil rights are generally subject to the regime's discretion. In particular, civil rights violations occur whenever political and financial interests are challenged by the opposition, civil society organizations or any citizen. With the violent death of Kem Ley in July 2016, extrajudicial murder as the most drastic form of arbitrary violence has returned to the political arena. Since 2015, the government has been expanding legal persecution of political opponents, virtually always on fabricated allegations. Since August 2015, at least 21 political prisoners including two CNRP lawmakers have been in jail – often simply used as bargaining chips in negotiations by the regime in order to wrest concessions from political opponents. As several times in the past years, opposition leader Sam Rainsy, despite parliamentary immunity, was convicted and sentenced in absentia to long terms in prison in two cases in 2015 and 2016. In September 2016, the government announced penalties for any airline bringing Rainsy on Cambodian territory, effectively exiling Hun Sen's major political opponent in a direct violation of Article 33 of the constitution.

Even apolitical ordinary citizens can become victims of civil rights violations as property rights are not sufficient to protect from land-grabbing or illegal logging, which are widely regarded as significant income sources for the regime. There are no specific implemented measures to protect the most vulnerable groups such as women,

Prosecution of  
office abuse



Civil rights



children, indigenous minorities and socially marginalized people. Persons in police custody are hardly protected against violent treatment.

#### 4 | Stability of Democratic Institutions

Although the constitution stipulates the existence of democratic institutions, Cambodia remains a pure façade democracy with strong authoritarian substance. All (semi-)democratic procedures on national, regional and local levels are in fact subject to the reservation of few top decision-makers. Both the legislature and the judiciary are abused as tools to govern the country by the executive branch. The National Assembly widely fails in enforcing horizontal accountability, not only due to strong control capacities of the ruling party, but also because of an enormous lack of capacity by the only opposition party regarding debating and policy development.

With the reform of the NEC and the regeneration of voter lists, there is little hope that elections can cause a change of the majority in parliament and consequently an alternative RGC. However, it remains very likely that even rigged elections only take place (or are respected by the regime) as long as the CPP emerge as the winner. Therefore, a victory of the CNRP in parliamentary elections in July 2018 will not mean a change in government automatically, questioning the significance of elections considerably.

Whereas democratic institutions are no more than a fig leaf for Hun Sen and his closest associates, several CPP politicians and government officials hold democratic perspectives. Behind closed doors, these progressive individuals sometimes even express their dissatisfaction with the prime minister although they still do not dare speaking out publicly. Consequently, it remains necessary for Hun Sen to maintain his grip on the apparatus and enforce loyalty of his fellow party members. Hence, it is understandable why he became life-time president of the CPP in 2015. By contrast, the CNRP sells itself as truly democratic party, in particular towards the public abroad. However, it still faces difficulties in implementing liberal principles in their own party. If using the current degree of inner party participation and democracy as an indicator, perhaps the CNRP is not the outright democratic alternative to the CPP. Not very different to politics, many civil society organizations are led by rather authoritarian directors, indicating the enduring prevalence of hierarchical patterns in Cambodian society.

#### 5 | Political and Social Integration

Since 2013, a two-party system consisting of the ruling Cambodian People's Party (CPP) and the opposition Cambodia National Rescue Party (CNRP) has been consolidated. The ruling CPP is a post-communist party that came into power in 1979 as the Vietnamese occupied Cambodia. Several senior leaders served as military

Performance of democratic institutions



Commitment to democratic institutions



Party system

3

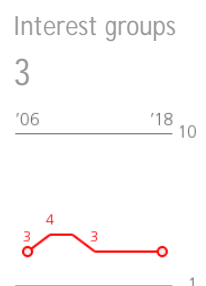
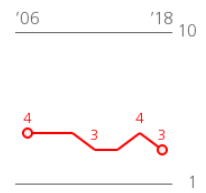
officers and political commissars of the Khmer Rouge who fled to Vietnam ahead of the invasion. Since its renaming in 1989, the CPP's internal structures have remained vastly unchanged, but with a considerable inflation of Politburo's and the Central Committee's members. After the death of its longtime president Chea Sim, Prime Minister Hun Sen became his successor for life. With its unrivaled access to public goods for almost four decades, the CPP has established a pronounced patronage system that is unrivaled by any other party.

The CNRP, currently holding 55 out of 123 seats in the National Assembly, is the only opposition party in parliament. Founded through a merger of the Sam Rainsy Party and Human Rights Party in 2012, the CNRP combines social-democratic, liberal, and nationalist elements. It is much less institutionalized than the CPP and depends completely on its two leaders Sam Rainsy (as president) and Kem Sokha (as vice president). The inner factions are equal to the two former parties with considerable rivalries beneath the two top leaders. Rather unusual for top-down political parties, after two decades as undisputed opposition leader in Cambodia, Sam Rainsy (in his late 60s) has come under increased criticism since 2015. Mainly funded by the Cambodian diaspora in the United States, the CNRP is less clientelistic than the CPP, but has several nepotistic recruited party officials.

Although the CNRP's ability to develop its own policies is very limited, it is widely regarded as a trustworthy alternative to the ruling CPP. With increased repression of the regime (at the time of writing, 18 politicians and followers of the CNRP are imprisoned, serving sentences up to 20 years), public support for the opposition party is less visible than in the post-election period in 2013 and 2014. However, the CNRP could easily defeat Hun Sen and his CPP in genuine free and fair elections. With the party president in exile (and, unlike 2013, with much less likely to receive a royal pardon and return to Cambodia), it is unclear whether there will be negative effects on voter mobilization. Vice versa, it is also likely the thirst for political change among many young Cambodians will result in utmost polarization around parliamentary elections in July – if they take place.

The majority of Cambodian cooperative associations and interest groups are closely connected to the ruling party. Usually, associations dealing with rather apolitical issues and an advocacy approach instead of a lobbying agenda have a higher chance of winning access to government officials. At best, its leaders bring forward arguments for the benefit of their members, but without vigor or scrutinizing final decisions of government officials.

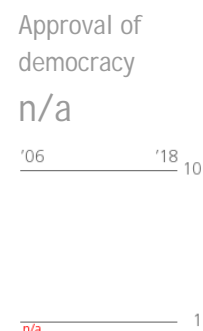
There is no question that the regime wants to prevent any influential independent mass organization that could challenge government policies. Consequently, only very few of the country's roughly 3,000 registered unions are considered independent. Although workers in the apparel industry have largely benefitted from an increased minimum wage in recent years (up 53% between 2014 and 2017), the regime has strived to present this boost as the government's boon and not as a success of engaged



union leaders. By contrast, business groups can exercise more scope in lobbying for their members who are mostly opportunistic CPP members.

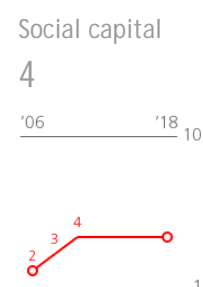
Independent grassroots groups have only limited ability to mediate between society and the political system. Especially in rural areas, groups dealing with controversial issues such as land rights and deforestation are often exposed to threats, harassment and intimidation by local authorities and security forces.

Numerous surveys in the past (National Democratic Institute 1996, Asia Foundation 2003, Markus Karbaum 2007, International Republican Institute 2008, Asian Barometer Surveys 2008 and 2012) regularly indicated an overall approval of democracy and democratic values in Cambodia. For example, according to Karbaum in 2007, 87.1% of 1,200 respondents agreed to the statement “In a democracy it is the duty of all citizens to participate in elections regularly,” while 64.4% approved the statement “In principle, all parties should have the same chance to come into power,” and 63.3% agreed to “A vital democracy is not imaginable without a political opposition.” Similarly, the Asian Barometer Survey detected a majority of people who preferred the statement “Democracy is always preferable to any other kind of government” (2008: 61.2%; 2012: 57.0%) compared to “Under some circumstances, an authoritarian government can be better than a democracy” (2008: 8.3%; 2012: 13.0%). However, as respondents were asked to choose between democracy and economic development, a majority (2008: 58.8%; 2012: 70.0%) stated that economic development is definitely/somewhat more important than democracy. And in 2012, a comparatively high number (39.1%) of respondents approved the statement “The army (military) should come in to govern the country”.



Varying perceptions of democracy are determined by residence, age and level of education. First and foremost, urban people with higher education or access to unfiltered information recognize the grave shortcomings of how democratic principles are implemented. In rural areas, traditional perceptions of distinct hierarchies in society and politics prevail. This includes subordination and is only challenged by personally experienced injustices such as land-grabbing, corruption and general abuse of power. Currently, there is no indication how democracy and traditional hierarchies could be united in a comprehensive synthesis. Therefore, studies and surveys that measure the attitude of Cambodians to democracy and democratic values will likely continue to produce dialectic findings.

According to the third wave of the Asian Barometer Survey, in 2012 88.5% of all respondents agreed to the statement “you must be very careful when dealing with others;” four years ago, the ratio was slightly higher (92.6%). This low degree of trust within the population mirrors the experience of three decades of political violence. The strong cultural imprint of family and kinship orientation, the lack of traditions in social cooperation, and the general attitude of status concurrence with vertical patronage structures are additional impediments for a fast hike of social capital. Though, with its young population (median age is 25 years) the majority of



Cambodians were socialized in much more peaceful times, making an increase of trust and social capital in the future likely. This assumption is echoed by data of the Asian Barometer Survey: while 67.9% of all participants in 2008 confessed that they have no trust or only little trust in other people they interact with, four years later this share dropped to 55.2%.

Although numerous NGOs operate in Cambodia, they have only contributed to an illusion of civil society so far. Voluntarism remains the exception in Cambodian NGOs while most staff regard them as employment opportunities in first instance. Efforts in rooting civil society organizations in society have been insufficient. Hence, many NGOs remain elitist projects. Due to the unchanged financial dependency of virtually all active organizations from western donors, the sustainability of the “third sector” appears transient. As some donors have decided to pull out of Cambodia, pledges have already been reduced slightly; it is likely that this trend will actually accelerate in upcoming years. Therefore, despite the laudable engagement for public interests, the threat to existence for many organizations and the Cambodian civil society in general will occur sooner or later.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Since the 1990s, Cambodia enjoys continuous growth and a successive decline of people who live in poverty. In 2012, according to the World Bank, 21.6% of the population lived on less than \$3.10 a day at 2005 international prices adjusted for purchasing power parity (PPP). At the same time, about eight million inhabitants are called near poor or vulnerable people by the same organization. By contrast, in 2014, Cambodia received 0.555 points, its lowest score in the Human Development Index since 2006. Ranked at 143, the country belongs to a group of states with a low human development. Although the World Bank raised the status of the Cambodian economy from “lower income country” to “lower middle-income country” in July 2016, the overall sustainability in poverty reduction has to be questioned.

Despite a lack of welfare-state policies, Cambodia’s GINI Index score of 30.8 in 2012 is well under the world average of 40.0. This was mainly attributable to Cambodia’s garment industry, which currently employs more than 600,000 workers (90% female), who collectively earn about \$1.6 billion a year. With these salaries, workers support their families who mainly live as peasants in rural areas.

Most farmers are engaged in subsistence-level, low-productivity agriculture. Most farmers harvest only once a year. Together with rice millers, they bear the complete

Question  
Score

Socioeconomic  
barriers

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risk, such as droughts and floods, due to a lack of subsidies and affordable emergency credits offered by the state. Instead, farmers can only access microfinance institutions that offer credits to farmers normally with 2% interest rates – per week. There are increasing numbers of farmers who pledge their land title as security and end up losing their land.

Women are not generally discriminated against, but still face some gender-related challenges. According to a European Union strategy paper, “persistent gender power imbalances, stemming from conservative traditional norms in Cambodia which value women less than men, lead to poverty, illiteracy, gender discrimination, and other obstacles that prevent women from effectively participating in Cambodia’s development.” In the Gender Inequality Index 2015, Cambodia’s ranked last in Southeast Asia, with a score of 0.479.

The Cham and Vietnamese as main ethnic minorities are not structurally excluded from Cambodian society. However, indigenous people called “Khmer Loeu” – many of them are illiterate in Khmer – face enormous challenges in safeguarding their traditional way of living. Usually, village entities shy away from the year long, costly application process for a community land concession and have to accept private titles instead. As the government grants titles for economic land concessions more often in northern and eastern areas where indigenous groups have their livelihood, these groups are extremely affected from the agro-industry and extensive deforestation.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	15449.6	16777.8	18050.0	<b>20016.7</b>
GDP growth	%	7.4	7.1	7.0	<b>6.9</b>
Inflation (CPI)	%	2.9	3.9	1.2	<b>3.0</b>
Unemployment	%	0.3	0.1	0.2	<b>0.3</b>
Foreign direct investment	% of GDP	8.7	10.3	9.4	<b>11.4</b>
Export growth	%	14.0	11.3	7.2	<b>8.6</b>
Import growth	%	15.1	10.1	6.5	<b>8.6</b>
Current account balance	\$ M	-1941.3	-1656.7	-	-
Public debt	% of GDP	35.4	34.1	35.8	<b>36.7</b>
External debt	\$ M	7131.5	7930.3	9327.8	<b>10230.2</b>
Total debt service	\$ M	617.7	660.5	758.6	<b>797.5</b>



Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	-2.7	-1.3	-0.8	-
Tax revenue	% of GDP	11.9	14.6	14.2	-
Government consumption	% of GDP	5.5	5.5	5.4	5.2
Public education spending	% of GDP	2.0	1.9	-	-
Public health spending	% of GDP	1.4	1.3	-	-
R&D expenditure	% of GDP	-	-	0.1	-
Military expenditure	% of GDP	1.6	1.7	2.1	1.8

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

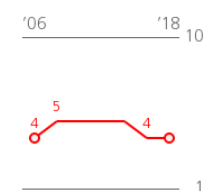
The Cambodian government is generally known for market-friendly policies in economics and finance. This approach comes along with an underdeveloped regulatory framework and weak control capacities of economic operators. In addition, widespread corruption including unofficial fees and bribery among state actors continues to be an effective tool in blocking external stakeholders from winning access to the market, thus enabling the emergence of cartels and oligarchic structures. Cambodia's informal sector is still large given the state's lack of law enforcement and bureaucratic capacities. In the Rule of Law Index 2016, Cambodia is ranked at the bottom (112 out of 113 states) with a low or very low performance in all indicators.

Anti-competitive measures are infrequent. In particular, the government has considerable influence on the minimum wage paid in the apparel industry, set annually. The agriculture sector, by contrast, was the target of a rare interference in the country's market economy by the Cambodian government in 2016. After the value of paddy rice decreased from about \$250 per ton in August to just over \$190 one month later, an emergency grant of \$27 million was approved to subsidize rice millers and stabilize the price they pay for paddy. These short-term loans came with a 7% interest rate and further demands for collateral requirements. The government also urged officials from the ruling CPP and their friends in the private sector to personally purchase and transport as much rice as possible.

Moreover, the final draft of the Agricultural Land Law, likely to be adopted in 2017, will enable the government to heavily interfere in farmers' autonomy. Vaguely framed, it appears to allow the Ministry of Agriculture to repurpose or take any land in Cambodia. Based on an agricultural land use map, it stipulates which crops farmers

Market-based competition

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have to plant. The land could even be seized in case of non-adherence, and fallow ground has to be leased. At the same time, companies and investors are likely beneficiaries from this new law as it may result in additional agro-economic land concessions.

The legal rights of foreign-owned companies are well respected by the Cambodian state. According to the European Chamber of Commerce in Cambodia, there are no legal constraints on establishing a company in Cambodia that is 100% foreign-owned. With the exception of owning land, foreign businesses can engage unrestricted in exactly the same business activities as Cambodian-owned companies. Since 2010, foreigners are also allowed to obtain 100% ownership on apartments and condominium units except the first floor of buildings.

There is no restriction on foreign exchange operations through authorized banks, but it is legally obligated to report to the National Bank of Cambodia when the amount of a transfer equals or exceeds \$10,000.

Cambodia's ranking in the World Bank's Doing Business reports dropped from 128 in 2016 to 131 in 2017 among 190 states. While Cambodia is one of the best-ranked countries in the world in terms of "getting credit" (7th in the world), entrepreneurs face enormous challenges when "starting a business" (180), in "dealing with construction permits" (183), and in "enforcing contracts" (178). In the World Economic Competitiveness rankings, Cambodia improved from 95 in 2014-2015 to 89 in 2016-2017.

Since the early 1990s, major Cambodian enterprises have neither merged nor been involved in friendly or hostile takeovers. At the same time, with their excellent relations to major political decision-makers, some companies were able to establish dominant market positions. In particular, competition in the telecommunications, water supply and electricity sectors is restricted or non-existent.

Judicial norms providing sufficient protection against unfair competitive acts or structures such as cartels, monopolies or unreasonable restraints of business hardly exist in Cambodia. At the time of writing, Cambodia – although working on it since 2005 – still has not adopted a law on competition. So far, several drafts have already been published, the latest in March 2016. The law is designed to protect consumers, to support fair business relationships, to promote the establishment of new businesses, to provide protection against anti-competitive behavior and to promote competitive incentives.

Its major body, the Cambodian Competition Commission, will consist of at least ten members, of those six will be representatives of different Cambodian ministries. The commission will be the main decision-making body, particularly imposing fines and other sanctions to restore competition, remedy competitive harms to persons and deter future violations of the law. An order issued by the commission could be

Anti-monopoly  
policy  
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appealed within thirty days at a Cambodian court. The law is expected to be adopted in 2017, but not coming into effect before 2018.

Being a WTO member since 2004, Cambodia has been highlighting trade facilitation with other countries with several measures for years. Free trade agreements are in effect with all ASEAN member states, China, India, Japan, Republic of Korea, Australia and New Zealand. In February 2016, as the 69th country overall and eighth least-developed country, Cambodia ratified the Trade Facilitation Agreement (TFA). However, TFA will only enter into force when two-thirds of 164 WTO members have formally accepted the agreement.

At the last day of 2015, Cambodia together with Laos, Myanmar, and Vietnam joined the ASEAN Free Trade Area. To fulfill its obligations, Cambodia still has to reduce its non-tariff barriers in trade, mainly in agriculture. However, as intra-regional trade is still low, beyond increased competition among ASEAN member states for foreign direct investments, it is too early to predict any direct consequences for Cambodian trade activities by this scheme.

Cambodia's customs sector is extremely prone to corruptive practices. The General Department of Customs and Excise of Cambodia overrides existing regulations such as import quotas, export limitations and contingency trade barriers on a frequent basis. Officially, while exporters pay up to 10% tax for goods leaving Cambodia, importers are subject to three types of duties and taxes that have to be paid before goods can be released from customs. Whereas exempt goods such as medical and educational materials can be freely imported beyond informal fees, import duties range from 7% for primary products and raw materials to over 15% for capital goods, locally available raw materials, machinery and equipment to 35% for finished products, alcohol, petroleum products, vehicles, precious metals and stones. While all imported goods are subject to a 10% value-added tax, there is also a special tax for certain categories, mostly luxury goods. For new cars, for example, importers pay 140% of the value. Companies that settle in one of Cambodia's 33 special economic zones can benefit from full import duty exemption for raw materials, machines and equipment.

In the 2017 World Bank's Doing Business report, Cambodia was ranked 102 out of 190 economies regarding the ease of trading across borders. Cambodia continues to benefit from the European Union's (EU) Everything but Arms (EBA) scheme, allowing the country to export goods excepting arms and ammunition duty- and quota-free to the EU. Its most important single trade partners are Hong Kong (21.8% of all Cambodian exports in 2014) and the United States (18.7%). Main partners for incoming goods are China (39.3% of all Cambodian imports in 2014), Thailand (10.7%) and Vietnam (8.9%).

Liberalization of  
foreign trade

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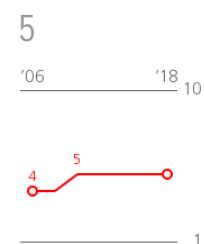
The Cambodian stock market remains small regarding listed companies, trading volume, and a low level of market liquidity. Yet, the bourse is not sufficiently recognized by local companies as an alternative to mobilize capital. At the time of writing, four companies are listed at the Cambodia Stock Exchange (CSX). While Phnom Penh Water Supply Authority (PPWSA) was the first to enter the Cambodian securities market in April 2012, Taiwanese garment manufacturer Grand Twins International joined the bourse in June 2014. In December 2015, CSX welcomed state-owned port operator Phnom Penh Autonomous Port (PPAP), followed by industrial park operator Phnom Penh SEZ in May 2016. In addition, Century 21 Mekong, a real estate firm, aims to list on the Cambodian securities market by the second half of 2017. While Phnom Penh SEZ successfully raised \$8.2 million in its initial public offering, Phnom Penh Autonomous Port raised \$5.2 million last December.

The Cambodian banking system comprises the National Bank of Cambodia and a private sector including 36 commercial banks, 13 specialized banks, 54 microfinance institutions, and a number of NGOs involved in rural credit activities. Altogether, more than 150 finance institutions operate in Cambodia, at least a few are just for money laundering purposes and have no supervision. In 2016's Basel Anti-Money Laundering Index, Cambodia again ranked 6 out of 149 countries worldwide, indicating a very high risk of money laundering and terrorist funding.

Cambodia's banking sector has been experiencing rapid growth for years. In 2014, the loan portfolio of the country's commercial banks grew 30% in 2014 to reach \$9.7 billion and could even swell to \$50 billion, or about 150% of the GDP in 2020. In 2015, Cambodia had the fourth highest ratio of bank capital to assets (15.0%) of all countries within the BTI. By contrast, only 1.6% of all loans are nonperforming loans. Among the officially registered microfinance institutions, the loan portfolio soared 56% during 2014 to surpass the \$2 billion mark. In 2016, the loan portfolio increased to \$3 billion, serving 1.9 million clients in total. In the future, it is expected that the microfinance sector will continue to heavily depend on foreign lenders.

According to ratings agency Standard & Poor, the country's banking sector faces a high risk due to its surge in lending and having too many banks competing in a small economy. In February 2015, it also warned that Cambodia's financial sector was overexposed, while the central bank lacked the capacity to bail out underperforming banks in a crisis. Especially, the threshold rates – \$37.5 million for commercial banks, \$7.5 million for specialized banks, and \$2.5 million for deposit-taking microfinance institutions – have been tripled to limit existing risks. The short-term liquidity risk could further be reduced by a secondary reserve of liquid assets to cover expected short-term cash outflows. The introduction of a liquidity coverage ratio (LCR) would not only slow lending in a potential overheating market, it also would make it more secure.

#### Banking system



## 8 | Currency and Price Stability

After inflation peaked at 25% in 2008, an average annual depletion in monetary value was, with 2.8%, at moderate levels until 2015. According to the World Bank, the consumer price index (CPI) rose 3.0% year-on-year by July 2016 mainly because of rising food prices. Low oil prices, by contrast, caused decreasing prices in other CPI sub-indices such as housing, utilities and transport. For the period from 2016 to 2018, the World Bank expects a slightly higher inflation between 3.2% and 3.5% per annum.

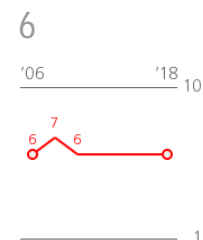
For years, the exchange rate between the Cambodian riel (KHR) and the U.S. dollar fluctuates around KHR 4000 to \$1. The National Bank of Cambodia estimates that 84% of all economic transactions are currently conducted in the U.S. currency, impeding any monetary intervention by the central bank in crisis situations. As most employees still prefer wages in U.S. dollar and imported goods normally are also paid in this currency, companies would face noteworthy difficulties when switching their accounting to the Cambodian riel. Therefore, de-dollarization of the Cambodian economy is likely to be a gradual process in upcoming years.

Although formally independent, the National Bank of Cambodia is in fact subordinate to the government as the governor can easily be dismissed and replaced by a governmental decree. However, formal governmental interventions in the bank's independence, if any, have never been released to the public.

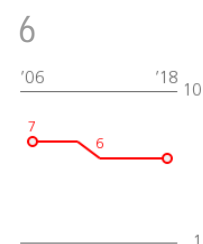
Whereas fiscal consolidation was mirrored by doubled total reserves from \$3.45 billion in 2011 to \$6.88 in 2015, the Cambodian government continues to refrain from deficit reduction. 2017's national budget, reaching almost \$5 billion, consists of \$960 million foreign concessional borrowing. In June 2016, Cambodia's national debt stood at \$5.7 billion, about 31% of GDP. Although the national debt has continuously climbed from \$2.4 billion in 2006, due to high economic growth, the debt-to-GDP ratio has remained around 32%.

Currently, only Moody's has included Cambodia in its credit rating scheme. Being assessed as "speculative and a high credit risk," Cambodia is de-facto cut from international capital markets. Therefore, the country depends on bi- and multilateral lenders. First and foremost, China remains Cambodia's main financier that accounts for 80% of the total outstanding debt. Other important lenders are Japan, France, Korean Republic and the World Bank that, after five years, announced its return to Cambodia in May 2016. Including credits from 1970s and 1980s, Cambodia's total external debt was \$6.8 billion in 2014. Yet, Cambodia was not successful in negotiating with the United States and Russia to cancel the reimbursement for loans given to their preceding regimes.

Anti-inflation /  
forex policy



Macrostability



## 9 | Private Property

Despite a moratorium on land concessions issued by Prime Minister Hun Sen in 2012, conflicts on land ownership remain on the political agenda. According to an international human rights organization in July 2015, over 60,000 additional people have been affected by land-grabbing since the beginning of 2014. Since 2000, it is estimated that more than 800,000 people were subject to land-grabbing in Cambodia. Most often, beneficiaries are national and international licensees that receive economic land concessions (ELCs) and mining concessions although people already live on and cultivate the respective soil legally. Many stakeholders profit from excellent connections to high-ranking politicians, impeding structural reforms in the land management sector significantly.

As of April 2015, 2.1 million hectares were bestowed for ELCs and 2.3 million hectares for mining concessions – a quarter of the country’s ground area. As many mining concessions have not been utilized by their holders yet, numerous new land conflicts might arise especially in the eastern and northern provinces once mining begins. In June 2016, Germany, as the last international partner, terminated its assistance for land management due to the Cambodian government’s lack of transparency and a generally very slow process in granting land titles for individuals.

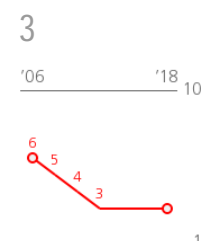
Formally, intellectual property is protected by various laws, particularly the patent law, the copyright law and the trademark law. In fact, however, due to general shortcomings in law enforcement and a lack of independent courts, intellectual property is vastly unprotected in Cambodia.

There have not been restrictions in founding and running private companies in Cambodia since the early 1990s. According to the 2017 Doing Business Report, it takes 99 days on average establishing a new company. In this period, which is one of the longest worldwide, it is possible to operate under the umbrella of another enterprise.

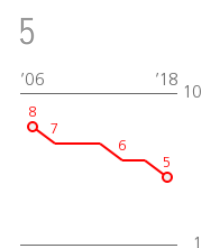
Extensive privatization processes have not taken place for many years. Companies and state-run enterprises only occasionally offer public shares; exemptions are Ministry of Economy and Finance, which holds 80% shares of Phnom Penh Autonomous Port and 85% of Phnom Penh Water Supply Authority. Both companies are listed at the Cambodia Securities Exchange (CSX).

Private companies are exposed to weak law enforcement, reducing the scope of judicial protection potentially. Today, many leading politicians still benefit from the huge privatization wave between 1989 and 1991, conducted in a highly non-transparent way, opening the door for systematic nepotism until recent days. A July 2016 report of international watchdog organization Global Witness revealed that Prime Minister Hun Sen’s family alone has amassed stakes in at least 114 domestic

Property rights



Private enterprise



companies spanning most of Cambodia's key sectors, including major energy, telecoms, mining and trading firms. Most often, companies with such a patron in the background enjoy much more protection than ordinary firms.

## 10 | Welfare Regime

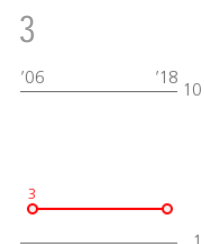
In January 2016, Prime Minister Hun Sen signed a sub-decree effectively granting health insurance to hundreds of thousands of Cambodian workers. It expands the mandate of the National Social Security Fund (NSSF) that, so far, had only provided funds for workers' occupational risks, work injury or occupational disease. The NSSF covers more than 900,000 Cambodian workers, mostly in the apparel industry. Whereas employers have to cover all of the costs for injury insurance, which amounts to 0.8% of a worker's salary every month, medical insurance is to be funded by both employers and employees. However, the exact share has not been determined yet, indicating serious difficulties in implementing the sub-decree.

There are also plans for a new pension scheme starting in 2017 that would finally mean that all components of the NSFF would be implemented at least for a part of the Cambodian workforce. The vast majority of Cambodians, however, will depend on their own families as a social security net, especially when they are unable to work due to poor health or old age. The Cambodian state continues to fall short in providing sufficient health care facilities and remains heavily dependent on foreign donors in building and running hospitals. It also rests on health care services offered by internationally funded NGOs throughout the country. During the last ten years, Cambodia just spent 1.3% of its GDP for health care on average per year.

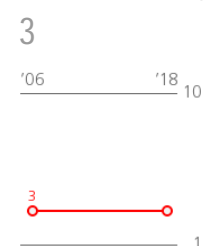
Although article 32 of the Cambodian constitution ensures legal equality for its citizens "regardless of their race, color, sex, language, belief, religion, political tendencies, birth origin, social status, resources and any position," cultural concepts undermine this guarantee. Believing in birth and rebirth, most Buddhists perceive rich or powerful individuals as being rewarded for merits in a previous life. By contrast, poverty means punishment for prior misconduct. Victims of landmines, for example, who lost arms or legs have this stigmatization. In addition, due to strong hierarchic patterns throughout the Cambodian society, social status virtually always plays a crucial role in any interpersonal interaction.

These unflattering preconditions are also intensified by the ruling party's patronage system including political favoritism, nepotism and corruption in all public spheres. Examples are countless. For most public offices, applicants have to contribute enormous entrance fees that only a very few can afford. While parliamentary immunity of CPP deputies is respected, oppositional MPs are exposed to judicial harassment. On local levels, particularly in remote areas, it is already a security risk being an active member of the CNRP. To summarize, instead of equality of opportunity, the right (and rule) of the mighty and wealthy prevails. Especially,

Social safety nets



Equal opportunity



vulnerable groups such as indigenous people and the extremely poor suffer under these conditions.

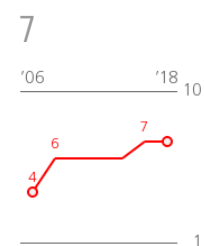
As traditional gender disparities in Cambodian society persist, women are exposed to inferior positions compared to men in the public space. Women are still vastly underrepresented in leadership positions in public offices as many anti-female prejudices prevent them from entering. In the past decades, girls had less opportunity for education than boys, explaining the difference in the adult literacy rate of women (72.3%) compared to men (85.0%). However, as the ratio of female to male enrollment reached 1.0 in primary and 0.9 in secondary education, this gap is likely to diminish step by step in the next years (by contrast, female to male enrollment is just 0.6 in tertiary education). With a continuous rate of 50% of the total workforce for the last twelve years, women are not technically discriminated against regarding employment. However, equal pay for equal work is not ensured in every economic sector.

## 11 | Economic Performance

For more than a decade Cambodia's economy achieved an annual growth of seven or more percent. Reflecting the positive growth dynamic, Cambodia was declared a "lower-middle income" by the World Bank in July 2016. The garment industry, which contributes about 70% of Cambodian exports, expanded at about 10% annual increase in 2016, as in previous years. From 2014 to 2016, GDP rose by more than 21%, and if the annual growth continues at 7%, Cambodia will jump over \$20 billion in 2017 for the first time ever. Similarly, GDP per capita climbed from \$951-\$2,845 in 2012, based on purchasing-power-parity (PPP), to \$1,171- \$3,483 (PPP) in 2015. Although a large portion of the population (about 20%) continue to live near or below the national poverty line, Cambodia has achieved great successes in reducing absolute poverty and wages are increasing, especially in the garment industry.

From 2012 to 2014, tax revenues increased from 11.1% of the GDP to 14.6%. At the same time, the ratio of public spending to GDP remains low (23.7% in 2017). In 2016, garment exports rose by 10.5% in value terms. According to the World Bank, the current account deficit (excluding official transfers) is projected to narrow slightly to 10.2 % of GDP in 2016, compared with 10.6% in 2015. This difference is mainly financed by strong foreign direct investment, projected to reach \$1.7 billion in 2016, or 8.5% of GDP. Rapid gross international reserves accumulation continued, reaching \$6.4 billion by mid-2016. With an alleged 0.4% unemployment rate, Cambodia would have the second smallest portion of people out of work in the world.

Output strength





## 12 | Sustainability

Among citizens and political decision-makers, a general lack of awareness over environmental concerns continues to impede the protection of Cambodia's natural resources. Whereas numerous leading politicians and security-force personnel are involved in the ongoing destruction of Cambodia's natural environment, most citizens feel little responsibility for their immediate surrounding habitats, not to mention the preservation of the environment in general.

Although Article 59 of the constitution stipulates that the state “shall protect the environment and the balance of natural resources,” hardly any other policy is less enforced than environmental protection. Forest loss in Cambodia between 2001 and 2014 accelerated at a faster rate than in any other country in the world, reaching 14.4% in 2014. Between 2001 and 2013, the country lost 1.44 million hectares of forests. By the end of 2016, the final draft of the new environmental code is supposed to be finalized; however, as upper echelons of military and government are involved in systematic deforestation, the code's impact on the environment, if any, is believed to be marginal.

As one of the 43 countries constituting Climate Vulnerable Forum, in November 2016 Cambodia declared that it will come up with low-carbon strategies before 2020 in order to convert its power supply completely to renewable energy. So far, energy demands are mainly met by using fossil fuels for electricity production while electric mobility is vastly underdeveloped. Although endowed with excellent natural conditions, solar energy has led a niche existence so far. Major challenges are insufficient financing and a lack of substations within the grid, currently reducing solar energy generation to isolated industrial applications. Hydropower as the main renewable energy source has drawn criticism because such power plants usually interfere significantly with the ecological equilibrium. In particular, the Lower Sesan 2 dam in north-eastern Cambodia has become the most controversial hydropower project. Experts believe that its construction, which was allegedly 40% complete by mid-2016, will result in a 9.3% drop in fish stocks and endanger more than 50 fish species. In addition, about 5,000 people will be forcibly evicted from nearby villages to make way for the dam's 34,000-hectare reservoir.

The draft budget for 2017 envisages a more than 35% increase in education spending, to \$685 million in total or 3.3% of GDP (2015: 2.4%). According to the Minister of Education, the additional budget should be used for increasing teachers' salaries, higher budgets for schools, school restoration and construction, teacher training and improving school management. Instead of just providing knowledge, teachers should focus on developing new didactic approaches like project-based learning and focusing on the development of “soft skills” such as critical thinking and creativity. However, considering the educational background of most teachers in Cambodia,

Environmental  
policy

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Education policy /  
R&D

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such guidelines could easily overstrain the teaching force that is familiar with the hierarchical frontal instruction system.

In primary (116.4% gross enrollment ratio) and secondary education (45.1%), numerous deficits still need to be tackled. Students who want to pass exams have to participate in extra-school lessons, making failure more likely for students from low-income households that cannot provide compulsory fees. Often, enrollment is often higher than attendance as compulsory schooling is not enforced and children in rural areas have to support their families particularly during rice-sowing and harvesting seasons, up to five months per year. Although more men (85.0%) than women (72.3%) are literate, gender discrimination in education has been decreasing for years.

One major problem of Cambodia's tertiary education system (15.9% gross enrollment ratio) is that a majority of university graduates do not meet the basic requirements of the labor market's expectations. In 2012, World Bank reported that 73% of employers found that university graduates did not have the right skills for the jobs available. Most private universities have been accredited without proper quality management, even tolerating cheating in exams when students bribe their instructors. Yet the Ministry of Education is reluctant to oversee the standards of higher education or close these degree mills mainly because numerous private universities are run by leading politicians. Yet, most state-run universities have not developed internationally respected research profiles due to a lack of effective governmental support. Noteworthy studies in social science, for example, are usually conducted by non-governmental institutions that are heavily funded by foreign donors.

The second challenge in tertiary education is the lack of vocational training for the increasing number of graduates/school-age children who are not eligible to study at a university. Although they have a theoretical perspective to constitute a skilled workforce for Cambodia's ongoing industrialization, there are still no comprehensive programs to qualify welders, assemblers or machinery operators. However, as these policies are not under supervision of the progressive Ministry of Education, but within the portfolio of the Ministry of Labor and Vocational Training, major reform bottlenecks are likely to persist in the future.

## Governance

### I. Level of Difficulty

Since the late 1980s when Cambodia lost the support of the Eastern Block, it became a matter of life and death to safeguard loyalty among government officials and military personal as the Khmer Rouge had not surrendered at that time. This was primarily achieved through the nationwide privatization of public assets of which many protagonists within the regime highly benefitted. In particular, Prime Minister Hun Sen who came into office in 1985 was extremely successful in creating a patronage grid that has been offering immense possibilities for enrichment. During the last three decades, this grid was extended step by step, resulting in a bloated government with about 500 ministers, secretaries of state and undersecretaries of state, a four-digit number of governmental advisors equal to the positions aforementioned, and more than 2,000 generals, the highest number of the world ahead of United States, that comes into second with just 700 generals.

Until today, discipline within the regime is tremendous as the patronage grid still provides wealth and security. This is virtually equal to widespread corruption, plundering of natural resources, and cross-interlocking of political stakeholders with private business companies. It can only be upheld by preventing transparency, neglecting accountability, curtailing freedom of expression, a rubber-stamp assembly as parliament and courts that implement the will of the executive. Moreover, any far-reaching reform according to good governance principles entails the risk of cutting the privilege of followers and therefore damaging discipline within the fealty.

In addition, there are no professional relationships between certain office holders, but highly personalized ties that created during years of war and civil war. Personal loyalty is far more important than developing a professional ethos with a nonpartisan self-image, especially within the security forces. From this perspective, state authority as such does not exist, exposing Cambodia to enormous structural constraints regarding its stateness.

Beyond these political-induced constraints, an overall lack of an educated labor force and severe infrastructural deficiencies – in particular transportation infrastructure, energy supply, and efficient health care facilities – remain major structural difficulties that constrain the political leadership's governance capacity. Limited capabilities in

Structural  
constraints

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disaster management have become obvious with the El Niño phenomenon that began in 2015 and has brought forth a two-year drought that jeopardized the health, food security and finances of millions of people. At least, other burdens such as extreme poverty and HIV infections have been reduced constantly during the last years.

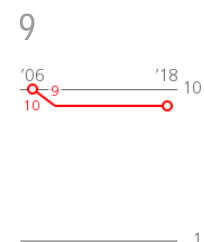
Civil cooperation in formal organizations, informal groups, unions, clubs or association does not possess a long tradition. Culturally determined by strong social hierarchy, the general orientation of most Khmer in pre-colonial times was vertical rather than horizontal. In the second half of the twentieth century, these unfavorable pre-conditions were aggravated by extreme confrontation between diverse political factions, finally leading to a vast politicization of all public spheres. While there was virtually no organization without political alignment until the 1980s, those established in the post-UNTAC period did not result through grass-roots activism, but instead were founded by elites with western backgrounds, mainly former refugees who returned to Cambodia in the 1990s. The consequences of the younger Cambodian history still persist as war and civil war created a general setting of distrust among the population, significantly complicating social cooperation beyond family bonds and citizens from their own village.

Although there are about 1,000 active national non-governmental organizations in today's Cambodia, many do not fit typical characteristics of civil society organizations. In a competitive business-like setting, the vast majority heavily depend on western donor funding without any strategy for becoming structurally independent. By consequence, most often the responsibility towards donors is higher than to target groups. Altogether, Cambodia is exposed to a distortion of civil society with only very few exceptions.

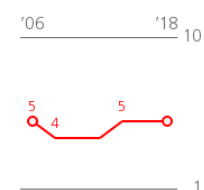
Regarding the socio-economic development of Cambodia, consistent high GDP growth and the possibility of working abroad – in particular, roughly 700,000 to 1,000,000 Khmer citizens work in Thailand – have prevented grave social conflicts to break out for years. Despite its systematic character and negative impact on the livelihood of more than 800,000 Cambodians, land-grabbing has remained as locally isolated cases that have not generated nationwide unrest yet. However, distribution conflicts are likely to increase if plundering of natural resources for one-time, non-recurring gains continues. At least, the government seems to be aware of the long-term consequences of its land management policies. In February 2016, Prime Minister Hun Sen announced that almost half of the more than two million hectares granted for the country's economic land concession handed out to companies for agribusiness projects had been re-appropriated and should be provided to poor, landless families. So far, due to a lack of transparency an assessment of this announcement is not possible.

In the political arena, Prime Minister Hun Sen does not depend on the permanent show of force to maintain his power after sidelining all rivals inside and outside of his ruling CPP. Instead, threats and intimidation legal persecution – based on

Civil society traditions



Conflict intensity



fabricated allegations and show trials – have become the main tool against the opposition and independent civil society organizations for years. However, as the murder of independent political commentator and activist Kem Ley proves, violence still remains a means of last resort in the regime’s efforts to defend its political power. So far, this threat has been regarded as sufficiently credible by the people, causing a high degree of reluctance for outright confrontation with the regime.

Currently, strategies to avoid conflict are hardly in sight. The so-called Culture of Dialogue, a mechanism established in 2014 to ensure negotiation procedures between the two leading parties, was officially terminated unilaterally by the ruling party in January 2017 (it had been considerably violated by the regime several times since 2015 as well). This automatically increases the probability of conflicts around the parliamentary elections on July 29, 2018, when the opposition may win or lament massive fraud. However, conflict could already break out earlier if the government intensifies repression of the CNRP.

## II. Governance Performance

### 14 | Steering Capability

Since the 1990s, the main goal of the CPP has been preventing power-sharing mechanisms and undermining control capacities by state institutions and the public. In the last 25 years, periods dominated by violence, legal persecution of critics and potential rivals, and political détente have alternated. Since 2015, the opposition CNRP has increasingly come into the CPP’s crosshairs as a direct consequence of its increased popularity among the people. This put the regime under more pressure than in the years before. At least, three priorities have become visible: (1) By succeeding late party president Chea Sim, Hun Sen is trying to increase his grip over the CPP; (2) legal persecution of opposition leadership, lawmakers, and followers intends to weaken both the CNRP in particular and democratic competition in general; (3) with numerous policies such as yearly minimum wage increases in the apparel industry and the alleged distribution of almost one million hectare to poor, landless people, the regime struggles to regain popularity among the citizens.

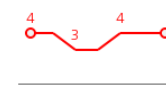
Beyond this superior setting, Cambodia’s political priorities as defined in the National Strategic Development Plan (NSDP) 2014-2018 include four core sectors and twenty subsectors. Main components are the promotion of agriculture, the development of physical infrastructure, private-sector development and employment, and capacity building and human-resource development. As the NSDP is a compilation of non-binding goals rather than a coherent plan, its implementation is difficult to evaluate. In particular, fighting corruption appears to be pure lip service

Question  
Score

Prioritization

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and judicial reforms are not intended to reduce political interference in court decisions.

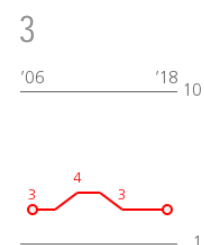
Similarly, the Cambodia Industrial Development Policy 2015-2025, the main guide to promote the country's industrialization, is vaguely formulated beyond its general goals "economic diversification, strengthening competitiveness and promoting productivity." Market-economic structures in principle already exist, but continue to be impaired by influential oligarchs with close ties to ruling elites. Weak law enforcement, caused by corruption and or red tape, puts a general strain on business activities and potentially discourages investors. Policies that could improve general market-economic conditions have to date not made much headway.

The organizational reforms initiated after parliamentary elections in 2013 have not induced a visible change in the implementation of certain policies. Although some competences had been returned from the Council of Ministers to single ministries, there is no significant maceration of centralized decision-making. The newly established Ministry of Public Function has not had any impact on the professionalization of Cambodia's administration. The so-called thirteen ministers attached to the prime minister have remained invisible in policy implementation since their appointment. As the commune level's share of the total state budget remains under 3%, decentralization – an ostensible showcase of many international development organizations – continues to fail on financial matters alone.

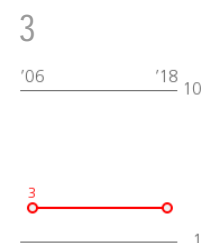
The impact of the latest cabinet reshuffle in April 2016 appears to be limited. Observers agree that former Minister of Commerce Sun Chanthol's shifting to Minister of Public Works and Transportation is an attempt to strengthen governmental efforts in infrastructure development. However, without the direct backing of the prime minister, any large governmental measure runs the risk of insufficient implementation. Nevertheless, even Hun Sen is not a guarantor for successful policy implementation. Although he announced in 2010 that Cambodia will increase its rice exports to one million tons by 2015, the country fell short of its self-imposed target as it exported just 1.08 million tons in 2015 and 2016 combined.

In Cambodia, policy-making and governance are heavily shaped by a combination of socialist top-down approaches and traditional, highly personalized patronage patterns. Separation of public and private spheres remains marginal while notions of conflicts of interests among politicians, civil servants and security forces are generally underdeveloped. Since the establishment of the "State of Cambodia" in 1989, structural patterns in public management have been largely unchanged, despite the formal transition to a liberal democracy a few years later. The Cambodian government has successfully learned to function through distorted incentives, in particular through using funds from international donors to run the country. On the one hand, there is still no perceived need to establish an efficient tax scheme to generate substantial domestic incomes. On the other hand, donors release the

#### Implementation



#### Policy learning



Cambodian government from its responsibility to provide public goods, especially by building and running hospitals.

Regarding the power struggle between the government and the opposition, behavioral patterns of major stakeholders have been steady for years. Whenever it has appeared opportune or necessary, the government has sought the conviction of opposition leader Sam Rainsy in order to sideline him. Three times, the reaction of the president of Cambodia's biggest opposition party has been escape, embellished as self-imposed exile. Although this iterative behavior increases predictability in the continuing contention between Hun Sen and Sam Rainsy, the fundamental problems remain unsolved and could reoccur at any time.

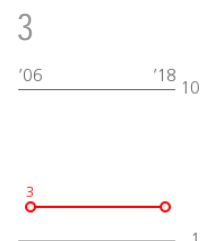
## 15 | Resource Efficiency

For years, human resource management within the state bureaucracy has been executed without professional standards. In recruiting for most public offices, interpersonal relations and loyalty outweigh qualification and skills. Often, applicants have to buy themselves into office with informal fees that are higher than the sum of several annual salaries. This practice extremely favors corruption on most state levels, and many Cambodians are de-facto barred from entering the higher or even middle civil-service ranks. By contrast, these informal rules do not apply for positions that require highly specialized staff, for example technicians and engineers. As they could earn a much higher salary in private enterprises, they even get unofficial allowances from slush funds which have been raised through corrupt practices.

Parliamentary influence on the state budget is reduced to a brief debate and formal approval that appears to be a recommendation rather than binding law. The biggest line item of the 2017 budget is unallotted funds, comprising 16.8% of spending. Cambodia's external debt reached \$ 5,645 billion or 32.1% of GDP in 2015. According to the International Monetary Fund, bilateral debt has been increasing to 70.7% of total external debt while the share of multilateral debt has declined to 29.3%. Along with a general lack of transparency, the state budget is poorly audited, leaving the questioning how annual spending actually is exercised. For the executive branch, a notion of accountability towards the National Assembly or to the public scarcely exists. By contrast, as most Cambodians are still not affected by taxation, accountability is hardly demanded.

Decision-making, especially in major policies, is highly centralized by numerous governmental councils and commissions, often overseen by either the Council of Ministers or the Ministry of Interior. Due to a bloated government, considerable policy overlaps exist, not only creating rivalry among political stakeholders, but also impeding efficiency and responsibility. In this general setting, Cambodia's devolution process appears rather a formal façade, intended only to strengthen the ruling party's grip at the sub-national level. Rural infrastructure projects are not

Efficient use of assets



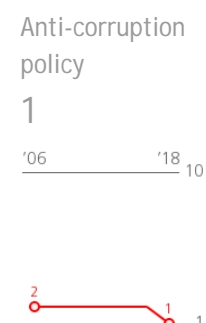
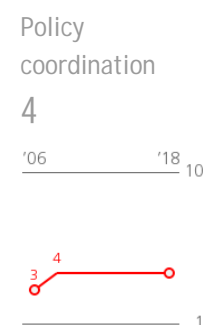
decided by commune, district or provincial councils, but are instead publicly staged as personal gifts from high-ranking politicians or business tycoons. At the same time, the government continues exercising immense power to control or discipline local officials at the expense of their constituents.

Prime Minister Hun Sen's dominant position within the political system is closely connected to his ability in de-fragmenting the state bureaucracy. However, numerous shortcomings within the state apparatus, mainly the lack of capacity among office holders, run contrary to coherent governance approaches induced by Cambodia's top leader and his closest associates. If coordination and trade-offs are needed, stakeholders make use of personal networks instead of building up formal structures within the administration.

Internal conflicts within the regime about influence and rents exist, but remain hardly visible from the outside. Normally, the law of the strongest prevails, for example making it impossible for both ordinary security forces and the government's anti-logging taskforce to prevent or investigate illegal logging activities by Hun Sen's bodyguard unit Brigade 70. The meeting of the CPP's central committee – bloated to more than 500 members – in July 2016 came along with a show of force of the prime minister's bodyguards around the party headquarters, allegedly to discourage fellow party members from criticizing Hun Sen on his action against the opposition.

Grand corruption in Cambodia is closely connected to patronage and becomes visible in different variations such as nepotism, crony capitalism, rent seeking, and even mafia. Within the regime, it has three main functions. First, systematic corruption enriches Hun Sen's followers and is therefore key element for maintaining loyalty among them. Second, when being involved in corrupt practices for years, anybody is vulnerable for legal persecution. Corruption therefore maintains discipline and discourages whistleblowers. Since the establishment of the Anti-Corruption Unit (ACU), its main task has not been fighting corruption, but sanctioning those who do not comply with the regime's unwritten laws. Hun Sen appointed very close associates to run the ACU. Third, corruption indirectly contributes to personal legitimacy of the ruling elites. By accumulating wealth far above what they could ever earn according to Cambodian salaries for civil servants, they are able to "donate" infrastructure projects throughout the country. Today, roughly 30% of Cambodian schools are named after Hun Sen: they have not been established by the state directly but by Hun Sen or other CPP politicians. The prime minister regularly points out that the opposition, by contrast, does not build schools or irrigation systems for farmers and that he would terminate this commitment when people no longer vote for him.

To understand the dimension of grand corruption in Cambodia, the country's sand exports seem to be an excellent example. While Cambodia reported revenues of \$5.5 million for sand shipments to Singapore between 2007 and 2015, the recipients recorded sand imports from Cambodia worth \$752 million for the same period.





Since the parliamentary elections in 2013, many people in Cambodia perceive even worsening trends regarding petty corruption. Informal fees have been increased for most public services. Those who had preferred problem solving by bribing officials are stricken in particular by additional demands. For example, the general department of taxation changed its policies and has started to call for taxpayers' full compliance. In fact, tax bills are widely arbitrary, forcing taxpayers to conduct long-lasting negotiation processes in which they are regularly asked for informal fees.

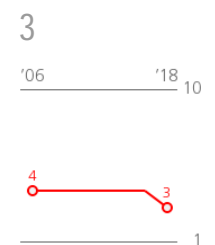
## 16 | Consensus-Building

Given the nature of Cambodia's autocratic regime with limited possibilities for political participation, consensus is less aspired to than purported by its main representatives. Debates over political alternatives hardly take place as the CNRP often boycotts plenary sessions of the National Assembly. As the CNRP, as main opposition party, remains incapable of developing its own policies, differences to the government are seldom visible. Most obvious, there are enormous differences regarding the superior autocratic, corrupt and potentially violent character of the political system and Cambodia's bilateral relations to Vietnam. However, oppositional critic about Cambodian-Vietnamese border issues has not resulted in dialogue to achieve consensus, but in perennial prison terms for two opposition lawmakers.

As GDP growth has been constantly high around 7% per annum for the last years, the market economy principles are widely accepted. Governmental interference as seen in 2016 to boost the rice sector is perceived as necessary by most political actors. There is only limited debate about how GDP growth is generated. Mostly, only the CNRP and few civil society organizations with international financial support point to the lack of sustainability due to the plundering of natural resources. Unions have only very limited capacities in lobbying for higher wages, better working conditions and social welfare institutions. Their fragmentation to 3,000 unions – including yellow unions and government-aligned unions – has impeded corporate representation of Cambodian workers. At the same time, independent or opposition aligned unions are extensively restricted in their activities. At least, the Arbitration Council, a tripartite organization consisting of representatives of the government, employers and employees offers the possibility to resolve collective labor disputes on consensus.

Although the vast majority of Cambodia's political elite has never been orientated to liberal principles, anti-democratic tendencies have grown stronger since mid-2015. Since then, the government exerts extreme pressure on the opposition through legal prosecution of members of parliament, party activists, and both leaders based on charges that lack evidence. While cracking down on the opposition, reform-orientated technocrats within the party and state administration find it more and more difficult

Consensus on goals



Anti-democratic actors

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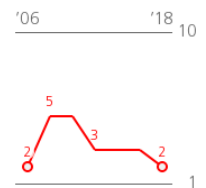
to get the prime minister's backing for any far-reaching initiative. Reform-orientated external actors in the opposition, civil society, unions, and the press are generally exposed to threats and legal persecution. With the murder of Kem Ley, violence returned as a mean in political contention.

Due to a homogenous society regarding ethnicity, language, and religion, cleavages have never been as significant in comparison to other countries in region. The distinction of Cambodians as peasants (called "Old People") and urban Khmer with more education ("New People") by the Khmer Rouge was phony and has not endured after their terrorist reign. Currently, as Cambodia develops unequally across regions, further division between beneficiaries in urban areas and those in neglected remote areas could intensify. However, due to inner migration and rapid urbanization especially in and around Phnom Penh, it is rather unlikely that a sharp urban-rural cleavage will involve in the near future.

Yet, political parties do not clearly represent certain parts of the people based on residence or other characteristics. Although the ruling CPP has been claiming for years that it safeguards peasants' interest, rural areas benefit less from infrastructure programs. In addition, land-grabbing and a government that underestimates grave challenges in the rice sector already have a negative impact on rural livelihoods. And although the opposition has its strongholds in urban areas and among better-educated Cambodians, the CNRP does not exclude farmers' needs from its political agenda.

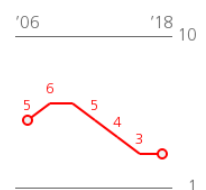
By contrast, a serious conflict could arise from strong anti-Vietnamese sentiments within society. Although the Hun Sen government has been very successful in enabling peaceful coexistence between Cambodians and Vietnamese, this setting is enforced rather than based on the people's will. Instead, many Cambodians perceive Vietnamese – usually, they use the derogative term "Yuong" for them – as scapegoats for several shortcomings in Cambodia. So far, efforts to reduce prejudices not only remain insufficient, but negative sentiments are even fueled by the CNRP. As some senior politicians, security-force generals and leading entrepreneurs are ethnic Vietnamese, this component is already relevant in the general political contest.

The status of civil society organizations is not consistent. Those NGOs with a self-image as social entrepreneurs have become indispensable in delivering services the state actually is supposed to provide, especially in the health care sector. Although they are independent, these NGOs are widely accepted by the government. By contrast, pressure by the government against human rights watchdogs or ecology groups is omnipresent. Often, independent organizations are labeled as "pro opposition" by the regime as an indirect warning. The new election laws significantly restrict freedom for NGOs by announcing penalties on civil society organizations that participate in political activities during election campaigns, potentially restricting the role of civil society in election monitoring. By adopting the new Law on Associations and Non-Governmental Organization in 2015, the government created an efficient



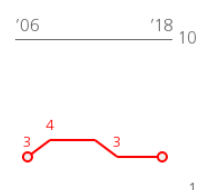
Cleavage /  
conflict  
management

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Civil society  
participation

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tool to curb inopportune NGOs. So far, this tool was used less than repression through criminal prosecution, in particular against human rights defenders of the well-respected NGO ADHOC in 2016.

On the national level, the government allows civil society organizations formally to participate in law drafting processes, sometimes even over years. However, the impact on the laws is limited, not to mention further negative effects caused by weak enforcement of laws. At the grass-roots level, NGOs that aim to empower citizen and raise awareness of their legal rights risk being harassed and intimidated by security officials in some, but not all, parts of Cambodia.

On various occasions, both the ruling CPP and the main opposition party, CNRP, have engaged in manipulation of the history of past injustices (i.e., Khmer Rouge rule and Vietnamese occupation after 1978).

Regarding the crimes committed under the Khmer Rouge reign from April 1975 to January 1979, the Extraordinary Chambers in the Courts of Cambodia (ECCC) have continued the trials against remaining ex-cadres Nuon Chea and Khieu Samphan in two sub-trials. After appealing the first verdict against them, in November 2016 both geriatric men were finally sentenced to life imprisonment by the Supreme Court Chamber. Despite having identified numerous flaws in the Trial Chamber's decision from August 2014, the convictions were upheld. Parallel to the appeal in January 2017, the Trial Chamber finalized proceedings on crimes committed after September 1975.

After the first verdict against them in August 2014, public awareness has been significantly lowered mainly due to complex court procedures and an almost non-existent expectation that reconciliation could be provided by the trials. Government interference is still significant; for example, the defense's request to invite the current President of National Assembly Heng Samrin, a former high-ranking Khmer Rouge officer and in charge of the evacuation of Phnom Penh in 1975, as a witness was rejected by the court several times. Additional cases against other senior Khmer Rouge officials have been pushed heavily by numerous international investigating judges, but were permanently rejected by their Cambodian colleagues.

As of the time of writing, it seems very unlikely that there will be more trials beyond those the United Nations and Cambodian government already agreed upon. Beyond the ECCC, reconciliation regarding the Khmer Rouge terror reign does not take place except a private initiative for a new documentation center. The current government, itself led by numerous former Khmer Rouge officers, is not willing to increase its efforts for collective memory beyond the two major sites Tuol Sleng genocide museum and Choeung Ek execution fields. Indicatively, a memorial stupa that was erected in March 2015 in the Tuol Sleng compound was donated by the German government.

Reconciliation

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Among crimes committed under the authority of the current political leaders, none has been thoroughly or credibly investigated. Particularly, the “K5 Plan,” a line of defense in western Cambodia that was supposed to prevent Khmer Rouge soldiers from infiltrating during civil war, facilitated extensive human rights violations. For its erection between 1985 and 1989, several hundred thousand Cambodians were recruited by force by the Phnom Penh government, and thousands died due to hunger, exhaustion, illness, or were executed after attempting to escape. Until today, there is neither official memory nor reconciliation on this historical incident.

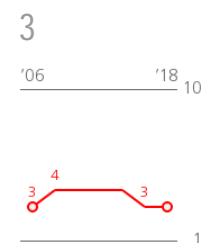
## 17 | International Cooperation

Cambodia’s main roadmap for development is the National Strategic Development Plan (NSDP) 2014-2018. It specifies long-term intentions, but it is not connected to concrete foreign assistance, which is negotiated separately. In recent years, major donor coordination and harmonization institutions – although intended as regular events by the NSDP – have not been convened by the government and it is unlikely that the Cambodia Development Cooperation Forum (CDCF) and the Government Development Partner Coordination Committee (GDCC) will be revitalized eventually. Therefore, the nineteen technical working groups (TWG) remain the only forums for discussing key policy issues in sectors and the related joint monitoring indicators. However, donors represented in these fora often lament the overall performance as the TWG exhibit considerable shortcomings in the general institutional arrangement. To accommodate a rapidly changing development context and shifting aid modalities, major reforms appear to be necessary.

While there is a certain willingness of reform-orientated government officials to learn from international know-how or to adapt external advice, a lack of interministerial coordination and influential veto players often impede reform proposals from becoming draft laws. Rent-seeking motivation remains high, reducing effectively the potential of international development assistance. Usually, international critics of certain policies, malpractice or corruption are reflexively dismissed by the Cambodian government.

In addition to large-scale investments in Cambodian infrastructure projects, the People’s Republic of China has become more and more important in policy assistance. Allegedly, the Cambodian government receives technical support for the implementation of the Law on Cybercrime and Telecommunication, especially regarding internet censorship. Furthermore, the Law on Access to Information, drafted for years and planned to be finalized in 2018, will likely include regulations similar to Chinese laws. Critics argue that both statutes will have a considerable negative impact on freedom of expression, in particular of the media.

Effective use of support



International undertakings by the Cambodian government often remain window-dressing. Due to general shortcomings in law enforcement, the Cambodian government typically cannot implement judicial norms of numerous international declarations and conventions. Moreover, some treaties are deliberately ignored, particularly regarding human rights. In 2016, the Ministry of Foreign Affairs threatened to close the local office of the High Commissioner for Human Rights, which has been operating since 1993, usually under heavy criticism of major political decision-makers. After threats to close the human rights office and week-long negotiations in 2016 about a new memorandum of understanding, both sides finally agreed on a scheme that allows the OHCHR to continue its work in Cambodia for two more years.

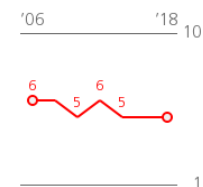
Disagreements with UN institutions also exists regarding procedures at the Khmer Rouge Tribunal. While international actors, especially prosecutors and investigating judges, actively pursue additional cases in the court, Cambodian counterparts have successfully continued to prevent any of these attempts. Given the overall mandate of the tribunal – that is reduced to the former Khmer Rouge’s top leaders – and the advanced age of many former cadres, it is likely that the Cambodian side will finally succeed. However, Cambodia does not principally disagree with UN policies and schemes. Since 2006, the government has dispatched more than 3,000 troops in several peacekeeping missions, including Lebanon, Chad, the Central African Republic, Cyprus, Lebanon, Mali, Sudan, South Sudan and Syria.

Due to its large contributions in development projects and for the Royal Cambodian Armed Forces, the People’s Republic of China remains Cambodia’s most important bilateral partner. Whereas this cooperation is often labeled as “unconditional” by the government, Cambodia often adopts the Chinese standpoint in international relations beyond the one-China-policy. Especially, Cambodia’s relationships with Southeast Asian nations with maritime claims in the South China Sea remain somewhat strained because of the government’s close ties to China. At the 49th ASEAN Foreign Ministers’ Meeting in Vientiane in July 2016, Cambodia, together with Laos, successfully blocked a joint statement regarding the South China Sea, and in return once again provoked resentment among other member states. However, some bilateral discrepancies, especially with the Philippines, have eased as part of a general pragmatic approach of the parties involved.

Beyond this friction, Cambodia cooperates in many different ways with its regional partners. In addition to its membership in ASEAN and related fora, it is part of the Greater Mekong Subregion (GMS), the Mekong River Commission (MRC), and CLMV (Cambodia, Lao PDR, Myanmar, and Vietnam) cooperation meetings. Since the end of 2015, Cambodia belongs to the ASEAN Free Trade Agreement which is widely regarded as main reason for increased pressure regarding its economic competitiveness.

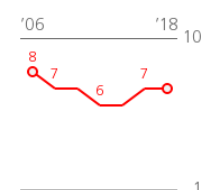
#### Credibility

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#### Regional cooperation

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Whereas the border conflict with Thailand, in particular in the Preah Vihear region, has not flared up again (not least due to amicable relations to the Thai junta), the demarcation of the Cambodian-Vietnamese border remains highly controversial. In a rare moment of transparency in October 2016, Border Affairs Minister Var Kimhong stated that Cambodia was helpless in stopping Vietnam from constructing a so-called white zone (one of several areas that both countries have agreed to stay out of until they agree on the border line) in Ratanakkiri Province. Most often, Cambodia appears to be in a defensive position and exposed to Vietnamese border encroachment.

## Strategic Outlook

For the past two decades, Hun Sen has ruled Cambodia through a façade democracy including a pseudo-political competition in formal elections. However, this arrangement appears to have reached its limits because election victories for the ruling CPP are not natural any more, irrespective of its systematic control of the state apparatus and the electronic media. So far, Hun Sen's attempts to divide CNRP's two leaders, Sam Rainsy and Kem Sokha, have failed. This has increased the probability that the opposition coalition holds together until parliamentary elections in July 2018.

With such a strong challenge to Hun Sen's power, the remaining democratic structures within the political system are heavily endangered. Particularly, a further criminalization of the CNRP could result in its coerced dissolution. Another strategy could be postponing elections for an indefinite period as part of efforts to transform the political system into a formal autocracy. Whether these drastic measures would either be accepted voluntarily or not by the Cambodians, or would be the starting point for massive protests, is not possible to predict at this moment. At least, the last scenario appears more likely due to the younger Cambodian generation's more critical view of the regime and, in comparison to the last two decades, lower levels of fear in society.

To avoid overall destabilization after the next elections, a national unity government consisting of CPP and CNRP could be an interim solution. However, on the one hand, Sam Rainsy strongly opposes such a model; due to his position as party president, he is able to veto such an agreement. On the other hand, the CNRP could quickly go to the dogs in a partnership with the CPP. Furthermore, the emergence of a new opposition party would be unavoidable – with unpredictable consequences for the further role of the CNRP within the political system.

Despite an overall decline of Hun Sen's popularity (in free and fair elections, it would be almost impossible for him to win against a united opposition), complete regime change appears to be the least probable outcome. And were it to occur, overall political stability could quickly erode. The CPP would still have tremendous influence on the state apparatus and security forces and therefore would easily become a powerful veto player, effectively being able blocking the implementation of any reform project. And, the anti-Vietnamese rhetoric of leading CNRP politicians could result in pogroms against the Vietnamese minority in Cambodia at the worst. This could not only result in the deterioration of bilateral relations with the Hanoi government, but destabilize the whole region.

Irrespective of the actual development, the government's self-proclaimed political stability that is supposed to attract foreign direct investments in the Cambodian economy stands on unstable ground. The period of overall uncertainty could easily last long after elections. Therefore, negative effects on economic growth in 2018 and 2019 cannot be ruled out. In addition, the combination of the lack of skilled workers, increasing salaries and high costs for energy and transportation will more strongly affect Cambodia's economy than in the past. Serious setbacks of the country's overall competitiveness are most likely when an ongoing power struggle eclipses much needed reform efforts.