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Commune Councils as Potential Forest Managers

Iben Nathan, Tove Enggrob Boon, Sovatha Ann and Kasper Hansen discuss the important role that commune councils can play to support the livelihoods of forest-dependent rural poor people, while at the same time sustaining valuable forest resources.*

In Cambodia there is an urgent need to support the livelihoods of forest-dependent rural poor people, while at the same time sustaining valuable forest resources. As past management regimes have failed to meet this need, forestry researchers and development practitioners strongly recommend forest management by decentralised units such as community forest groups and commune councils. Based on experience elsewhere with community-based forest management, this article argues that forest management by commune councils in Cambodia is likely to work only if the communities gain access to substantial benefits, and if higher levels of government and/or other external actors play an active and supportive role.



Community-Based Forest Management groups attach importance to maintaining forest resources for future generations.

Introduction

Forests constitute about 58 per cent of Cambodia's total area, corresponding to approximately 10 million hectares, but the forested areas are decreasing and being degraded at an alarming rate (FAO 2005). This is a serious problem because most rural Cambodians depend on access to forest products. Timber and poles are needed for construction of houses, income generation and other purposes. Non-timber forest products, such as firewood, resin and wild

meat, contribute significantly to rural people's livelihoods, particularly in times of crisis (Heov *et al.* 2006).

Past management regimes in Cambodia have failed to halt degradation and ensure that benefits accrue to rural people (IFSR 2004). This has resulted in increased focus on decentralised forest management as a more promising approach, inspired by international experiences with community-based forest management (CBFM), e.g. in Nepal (Hobley 1996) and India (Sundar 2001). It has been

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argued that in Cambodia the only formally recognised model of decentralised forest management is CBFM, but in its present form CBFM cannot be considered full decentralisation since control is not entirely vested within the community forestry groups. These powers are also retained by the Forest Administration (FA) (Hobley and Boscolo 2004).

In recent years, international debate has increasingly focused on integrating natural resource management into local government structures. The basic point of view is that democratisation and natural resource management can be mutually reinforcing through devolution (e.g. Ribot 2004) and that devolution provides a strong institutional basis for community-based natural resource management. At the same time, there is a general awareness that devolution is not always a feasible approach in practice (e.g. Larson 2003).

In Cambodia, this trend is reflected in the much debated proposal by the Independent Forest Sector Review conceptualised as partnership forestry. Partnership forestry is intended to take the form of a commune forest plan, which must be approved by the state. The commune council has the duty to implement the plan, and is entitled to retain all royalties and fees from the natural resource in question (IFSR 2004). The role of commune councils is also crucial in a new USD 60 million Danida-DFID livelihood programme, which will be implemented in Cambodia during 2006–10 (Danida/DFID 2006). This, together with the fact that the decentralising administrative reforms have recently changed the role and increased the importance of commune councils (Rusten *et al.* 2004), increases the probability that the forest-related authority of commune councils will increase in the future.

The aim of this article is to assess the potential role of commune councils as forest managers by looking at some of the main constraints and opportunities these institutions are likely to encounter if they are given greater responsibility for managing forests.

Because the authority of commune councils in forest management presently is relatively insignificant, and the planned future role of commune councils is not very specific, it is not possible to evaluate any particular or envisioned role. Instead, this article draws on recent experience with CBFM and with commune councils as managers of natural resources as described in the literature and by interested persons interviewed during fieldwork.¹

Constraints and Options for Community-Based Forest Management

The constraints and options for CBFM that were identified during fieldwork come from factors that can be roughly divided into two categories: (1) incentives and disincentives for communities to manage forests through community

forest groups and commune councils, and (2) relationships between commune councils and others concerned.

1. Incentives and Disincentives for Communities to Manage Forests

Communities in general express interest in becoming involved with community forestry. There are incentives that can explain this. First, the forests have livelihood and safety net functions, although these are limited because of the low quality of most of the community forest areas (see below). Second, at least some of the CBFM respondents hope for future benefits in timber and poles for construction of houses. Third, and probably more importantly, the communities point to the advantage of establishing a good relationship with an NGO through CBFM. They expect the NGO to support them also in other regards, e.g. by initiating additional economic activities for the community. In one particular case, the community explained that military staff had attempted to take over their community forest. The conflict had resulted in a court case. Assisted by an NGO, the community had gained support from the FA and eventually won the court case. Finally, some of the interviewed CBFM groups report that they have taken on patrolling community forests, mainly because they attach importance to maintaining forest resources for future generations. Thus, awareness about environmental issues in the interviewed communities is high.

A main disincentive for CBFM in Cambodia is that community forestry does not provide the communities involved with any substantial benefits. First, apart from the restriction that community forestry can take place only in production forests (RGC/CFO 2006), there are rules about what quantities or qualities of forest can be managed by communities. Nevertheless, CBFM is, in practice, established mainly in small and degraded forests (McKenney *et al.* 2004).² The community forest group members, especially the poorest, exercise their right to collect NTFPs from community forest, but do not consider these benefits substantial. The members of one of the interviewed community forest groups report that they collect the forest products they need from the more valuable forests surrounding the community forest.

Second, the Community Forestry Sub-Decree establishes a five-year logging moratorium for community forestry groups (RGC 2003). The moratorium comes into force for each group from the date of official registration. This requires official approval of a community forest management plan, which must follow a set of government-sanctioned general guidelines. It can take considerable time to get the approval from the Ministry of Agriculture, Fishery and Forestry (MAFF). The officials interviewed are concerned that the waiting time and the five-year

moratorium will demotivate community forest groups because it prevents them from benefiting from their management efforts.

Third, even future benefit flows are uncertain because there is uncertainty about the rules on tenure rights and benefit sharing. As long as the community forest groups are not formally registered, they are not entitled to forest land belonging to the central government. At present, approximately 50 percent have legal documents, and the rules are still unclear about sharing benefits between the community and the government (Vatanak and Leakhena 2005).

Locally, it is perceived a major problem that people often cannot find time for patrolling the community forest area. One of the CBFM committees, for example, had allocated the forest patrolling task to a group of 15 poor families, who had limited time for this task as they received no salary. In this case, where substantial benefits are lacking, community forestry tends to increase the workload for poor people rather than contributing significantly to their livelihoods.

Turning more specifically to disincentives for commune councils, they rarely prioritise natural resource management in their development plans. Benefits from natural resource management projects are usually not as tangible as from, say, infrastructure projects. The members of the councils prefer results clearly visible to the voters.

2. Constraints and Options in the Relationship between Commune Councils and Others

The important actors in forest management, as seen by the commune councils, include the members of the community itself, potential external users of the forest, higher levels of government, donor organisations and NGOs (see also Hopley 2004).

2.1. Dealing with Powerful and Less Powerful External and Internal Actors

No matter whether a forest is to be managed by CBFM groups or commune councils, there is an urgent need for clear mandates for provincial and national governments, as well as “laws with teeth”, to support local management and enforcement, decrease illegal activities and provide legal rights to rural people (see also Marona *et al.* 2005).

Many CBFM groups encounter serious problems with powerful outsiders—and sometimes insiders. There is usually not much a CBFM group can do if the military or other external actors intrude into the community forest or claim it, or if there is a community forest boundary conflict that cannot be solved through negotiation. The same is true with regard to problems such as land encroachment and illegal logging, whether the offenders are external or internal to the community. The CBFM groups have no authority to arrest offenders or crack down on them in any other way (see also Vatanak and Leakhena 2005).

Compared to CBFM groups, commune councils have an advantage in conflict resolution because they, in collaboration with the police, are allowed to arrest offenders. They have the authority to mediate conflicts between members of the commune, and they are in a strong position to do so because this is one of their traditional tasks. Still, commune councils are weak compared to external actors such as the military, and can rarely stand up against them without support from other strong actors. Nor can the councils resolve conflicts in relation to other villages such as boundary conflicts, as they cannot stand up against very strong local elites and are often not familiar with the law.

Experience from other countries shows that many other aspects of relationships between commune councils and local people are important. Some scholars argue that local communities are often riddled with internal conflicting interests and prone to capture by local elites (e.g. Agrawal and Gibson 1999). Others argue that even perfectly representative and downwardly accountable local authorities may ignore minority interests (Wunder 2001). When it is profitable, collective decision makers are likely to exploit natural resources rather than conserve them, especially if they do not bear the indirect costs of resource degradation. This is the case, for instance, if the benefits to the community as a whole are greater with over-exploitation or when present needs are urgent and the costs of exploitation accrue later (Ribot 2004, Larson 2003).

2.2. Dealing with Higher Levels of Government, Donors and NGOs

In Cambodia, one of the problems in realising decentralisation and its objectives is that officials and local politicians are ill equipped to carry out the necessary tasks (Turner 2002). The commune councils have a very recent history as elected bodies, as the first elections took place only in 2002. Those who were previously village heads could not stand for election. This, among other things, implies that most commune councillors are rather inexperienced. Moreover, the financial capacity of the councils is limited (Rusten *et al.* 2004) and authority over forests and other natural resources belongs explicitly to the province (Oberndorf 2004). Hence, the commune councillors rightly do not consider forest management as one of their main tasks.

In the relationship between commune councils and the province, the present legal framework for local government does not leave the councils much independence. The province has the main authority in relation to forests and other natural resources (Oberndorf 2004). According to theory, this is a problem because efficient and equitable forest management requires a transfer of significant discretionary powers to the commune (e.g. Ribot 2004). If commune councils are going to become increasingly involved with forest management,

there is a need to address the implications of the fact that at present they lack autonomy.

With regard to the relationship between the FA and CBFM groups or commune councils, the FA acknowledges that transferring responsibility for managing a forest to CBFM groups has several advantages, at least when the forest is not valuable. Thus, the community forest groups guard government-owned degraded forest land to ensure regeneration of trees without receiving any salaries or substantial benefits. This spares the understaffed FA from some of its workload without costing it any privileges or money. Moreover, the CBFM groups and commune councils constitute easy forums for the FA to communicate with villagers, e.g. to disseminate information about FA rules and regulations, environmental awareness and control mechanisms. On the other hand, the responding FA staff were clearly not interested in handing over substantial authority to local governments, which is a serious potential constraint on making decentralised forest management work. Hence, there is a need to strengthen the authority of commune councils vis-a-vis higher levels of government, but this requires that councils have the capacity to use this authority.

Donor agencies and NGOs play significant direct and indirect roles in CBFM in Cambodia. CBFM hardly takes place without involving a national or international NGO or donor agency. The donor-supported programme SEILA provides administrative support through provincial and district facilitation teams that integrate natural resources and environment management priorities and concerns into all sectors of the commune and regularly facilitate provincial workshops. At these workshops, representatives from the councils, CBFM groups, the police, the military and others meet to discuss various issues. NGOs involved with CBFM activities often provide support to the communities in different ways, e.g. by supporting CBFM groups in conflicts with powerful external actors. The good news is that NGOs often are present and willing to provide support. The bad news is that if decentralised units become overly dependent on NGO and donor support, the decentralisation approach is not sustainable.

In addition, some respondents pointed out that the management plans required by the new community forestry guidelines are technically too complicated for CBFM groups, as well as for commune councils. This is likely to impede the implementation of CBFM and to decrease the potential empowerment of CBFM groups and commune councils. The risk is that they will become even more dependent on NGO support and technical advice from the FA in dealing with forest management plans and active silviculture. At the same time, the FA also lacks the capacity (staff, skills) to provide technical support to CBFM groups.

Perspectives for Commune Councils as Forest Managers: Discussion and Conclusion

Could commune councils in Cambodia then just take over more responsibility for forest management? The experience with community forest management shows that it is vital that substantial and tangible benefits are gained at the local level, no matter whether it is a CBFM group or a commune council that is the responsible forest management unit. This requires (1) that not only degraded but also valuable forest be transferred to the communities and (2) that the formalities be in place for communities to benefit substantially and tangibly in some way from a sustainable management approach. This could be, for example, through secure rights to harvest and sell timber and other valuable forest products, by improving local value-adding and marketing of forest products, or by paying local people for protecting forests from which they cannot benefit.

Furthermore, it is essential that commune councils be enabled to deal with the various powerful (as well as less powerful) external and internal actors. While this is an important issue, it is also politically sensitive because it basically requires a redistribution of power and resources in favour of commune councils. It may be that massive support to commune councils, e.g. through donor projects will help them increase their capacity to deal with everyday problems. But it is doubtful whether this will really make a difference if there is not at the same time a major focus on central management, as well as the dynamics between central and local levels.

Finally, before completely discarding the role of the FA in decentralised forest management, it should be considered that the relatively weak decentralised forest management units, such as CBFM groups and communes, will need a capable FA system to provide them with technical assistance. They will also need support in overcoming problems such as illegal claims from external intruders and inter-commune conflicts. It would be important not to completely by-pass FA in the development of decentralised forest management as this is likely to pose serious problems to commune councils.

The above constraints and opportunities for decentralised forest management in Cambodia are not exhaustive, because they are based mainly on interviews carried out with a limited scope of respondents during a limited time. Some other aspects, especially the importance of elite capture and national and local power structures, will be addressed in further research on decentralised forest management.

It may be concluded that the decentralised forest management strategy looks promising, and that there are many options for a decentralised forest management system to become more feasible than previous management systems

in terms of sustainable forest management and providing benefits to rural people. At the same time, we would call for more attention to the role of central government in creating an enabling political and legal environment for decentralised forest manager units. More attention should also be paid to improving the relationships between central and local levels. These aspects are at least as important, if not more important, than improving the human, financial and technical capacities of local government.

Endnotes

1. Fieldwork was conducted in four communes in the two provinces of Pursat and Siem Reap in May 2006. It included interviews with community forest committee members, commune councillors, government officials, FAO, SEILA and Danida staff at national and provincial levels and NGO representatives (CONCERN and CFI). The fieldwork was the first step in planned research collaboration between the Cambodian Development Research Institute (CDRI) and Danish Centre for Forest, Landscape and Planning (FLD).
2. Community-protected area management takes place in national parks and is the responsibility of the Ministry of Environment (Oberndorf 2005).

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Conceptualising Accountability: The Cambodian Case

*Horng Vuthy discusses the concept of public sector accountability according to western models and in the context of Cambodian governance practices.**

Government Reform Efforts and Relationship to Accountability

Public sector accountability has moved to the forefront of both the Cambodian government's and the donor community's concerns in recent years, appearing with increasing frequency in government reports, public speeches and donor agendas around good governance, poverty reduction, decentralisation and democratic development. According to theory, accountability is necessary for achieving sustainable services and reducing poverty, and must be embedded in both policy making and implementation. The formulation and implementation of service delivery policies entail both political processes and technical arrangements. The achievement of accountability and the success of pro-poor service provision therefore necessitate practical understandings of technical as well as political processes. Yet, the lack of contextualised understanding of accountability leads to inconsistencies and dubious ownership by the government in formulating and implementing pro-poor service delivery policies. Across all government levels, one finding is consistent: officials mainly interpret accountability based on their work contexts, with little reference, if any, to any documented, standardised meaning of the term (CDRI forthcoming). The need to institute pro-poor accountability mechanisms is even more pronounced in the kind of governance context that exists in Cambodia, which this article describes as *neo-patrimonial* and Brinkerhoff and Goldsmith (2002: 40) define as "a mixed system of government administration, with a rational-legal veneer overlaying a web of personalistic ties characteristic of patrimonial rule".

Understanding accountability requires a balanced analysis that emphasises (a) the relationship between individual actors and (b) the structures and systems which enable and constrain actors and their accountabilities. Agency-focused accountability considers accountability *of whom, to whom* with specific reference *for what*,

* This article is based on the work of CDRI's Accountability Study Project, carried out since mid-2005. For a more detailed discussion of issues raised in this article, see the forthcoming *Critical Literature Review of Accountability and Neo-patrimonialism: Concepts and the Case of Cambodia*. Horng Vuthy is a research associate at CDRI.

which often entails a one-to-one relationship between an individual of lower rank and an individual of higher rank. Yet this essay argues that accountability is more complicated than just two individual actors holding each other responsible for each others' actions. Accountability is also determined by the ways in which the wider governance system (composed of both political and technical activities) affects the behaviour and beliefs of these actors. For example, the belief that administrative problems can be solved much more effectively through personalised connections tends to replicate itself in practice and create a lack of trust in formal bureaucratic functions. In the case of Cambodia, a country with a tradition of patron-client relationships, understanding the ways in which informal negotiations and political networks influence the formal governance structures and relationships is critical for both policy reformers and implementers. In what ways does the existence of the neo-patrimonial system mix formal and informal governance arrangements to affect accountability? This article focuses on this informality by identifying Cambodia's cultural history of patron-client networks and demonstrating how such networks have recently become entangled within a rational-bureaucratic system.

With this approach, the article's aim is two-fold: (i) to increase understanding of accountability and (ii) to assist Cambodian public administrators to enhance their capacity to conceptualise their own role in accountability relationships in government systems and to understand how politics and formal institutions interact to affect public sector accountability.

Cambodian Conceptualisation of Accountability

Although much attention is paid to accountability, several challenges keep rational accountable relationships and systems from forming in Cambodia today. For one, higher level government officials typically have extensive practical knowledge of the challenges associated with Cambodian public sector management, but lack strong conceptual frameworks for systematically analysing and improving them. Second, civil servants and politicians often lack understanding of the distinction between institutional and individual accountability, particularly at the lower levels of government, which can lead to poor public dialogue and sharing of governance principles with citizens as well as poor policy implementation.

Moreover, the term "accountability" is not well operationalised in English and is even more poorly defined when translated into Khmer, since a direct translation does not exist. Accountability is translated as *kanakney-pheap*, a recently invented term¹ which literally translates from the English root words *account* (*kanakney*) and *ability* (*pheap*) to mean *status* or *being*. Put together, the term is understood as status or being of accounts and is most often associated by Cambodian

civil servants with financial accounting. Typically, notions of institutional or individual accountability are neglected, with different groups of public servants holding different interpretations. Both national and sub-national government officials interpret the term through a predominately financial conceptual filter—"transparency, control and compliance", which might be the result of the direct translation of the term as "status of accounts". It might also be due to interactions with donor-based management systems, such as the Seila programme.

Technical Features of Accountability

The technical features of accountability are based on the rational-legal bureaucratic or institutional arrangements that are visible, predictable and formally mandated by rules and regulations (e.g. public health guidelines to improve maternal and child health, criteria for recruitment and promotion) and heavily influenced by liberal governance frameworks and practices promoted by western values and advocated by international aid agencies. For this article, the frameworks range from theoretically evolved traditional public administration, new public management and new institutional economics to more development-focused, donor-driven approaches, such as capable state, decentralisation, political and social accountability, triangle accountability and the horizontal accountability for shared outcomes.²

Each of these frameworks has had a particular influence on Cambodian ways of governing and consequently contributes to the shaping of accountability in governance arrangements. For example, traditional public administration systems (TPA) introduced the ideas of legal-rational bureaucracy in which administrators can be professionally separated from politics (Weber 1965). In terms of accountability, TPA introduced the concepts of "answerability" and "enforcement" (Schedler 1999). The new public management (NPM) framework, on the other hand, focused on "letting managers manage" (Drucker 1954, 1964) by decentralising decision making, enabling managers to choose inputs (albeit within budget constraints) and proceed by whatever means necessary to achieve their objectives (Clark and Newman 1993). The NPM framework views accountability through the lens of principal-agent relationships and considers that accountability is achieved through managerial discretion. Accountability is also influenced by the new institutional economics (NIE) framework. Building on the fundamental neoclassical assumptions of scarcity of resources and the need for competition, NIE incorporates the importance of information, ideas and relevance of "transaction costs", and connects them to production costs and the wider efficiency of markets that promote growth (North 1990). Central to NIE is its special definition of institutions, which are defined to include everyday rules of the game and regulations (especially information) that actors

bring to economic or market exchanges, or transactions (North 1990; World Bank 2002). Efficient institutions reduce transaction costs and promote growth. NIE-styled accountability is based on institutions, markets, information, contracts and choices.

Since the mid-1990s, multilateral and bilateral development agencies have introduced numerous approaches to improve development results in less developed countries. For instance, decentralisation, operating under the principle of "subsidiarity", reasons that functions and the corresponding power and resources to carry out the functions should be assigned to the lowest level of government capable of performing them (Breton et al. 1998). The decentralisation framework seeks to achieve accountability through "bringing government (service providers) closer to people (the beneficiary)", which enables people to actively demand accountability from both their local elected leaders and administrators (Manor 1999: 67). A more recent framework of "triangle accountability" (WB 2004) identifies three important sets of actors: policy makers, frontline service providers and citizens. The triangle accountability approach increases focus on the need to enhance structural integrity, as well as individual performance, to improve institutional accountability. In particular, it views accountability not simply from an *ex post* perspective (after the event), but also from an *ex ante* (before the event) perspective: accountability issues should be relevant before, during and after events take place. Accountable outcomes, according to this framework, are derived from (a) delegation (meaning clear assignments), (b) finance (adequate funding at all levels), (c) performance (of public servants, ministries and other service providers), (d) information about performance and (e) enforceability (WB 2004: 47).

Informal Factors Affecting Accountability

Patron-Client Foundations

Cambodia is a traditional patron-client society, which means that it features a culture founded on social hierarchies built around "instrumental friendship in which an individual of higher social-economic status (patron) uses his influence and resources to provide protection or benefits, or both, for a person of lower status (client) who, for his part, reciprocates by offering general support and assistance, including personal services to [the] patron" (Scott 1977: 92). Some characteristics of patron-client relationships include (a) strong hierarchy and unequal reciprocity, with clients forming an entourage around a powerful patron, (b) wealth accumulation by the patrons through control over major resources, (c) affection-based relationships such as kinship and families, (d) solution seeking based on personalised connection to the patrons and (e) the manifestation of cultural and traditional values as factors influencing the nature of the patron-client relationship itself (Weber 1965, 1978; Scott 1977;

Eisenstadt and Roniger 1984; Neher 1981; Hanks 1975).

The patrimonial features present in Cambodia reflect many of the characteristics described above. The strong hierarchy and unequal reciprocity in Cambodia can be equated to the practice of *ksae* and *khmorng*. *Ksae* literally means “rope” or “string” and refers to the string of clients who rely on the protection and support of their *khmorng*, which means literally “back” or, analogously, “patron”. The traditional social orientation of Cambodians toward seeking a *ksae* and a *khmorng* is similar to an observation that the circumstances that promote patron-client relationships were necessitated by the failure of the state or family networks to provide protection to individuals (Scott 1977). The Cambodian cultural and traditional orientations that reinforce patrimonial allegiance include consensus building and avoidance of direct confrontation with individuals of higher class or power. One striking example is the fact that rural villagers consider favouritism neither unfair nor unjust (Ledgerwood and Vijghen 2002). Cambodian state actors, especially civil servants, are faced with multiple accountabilities to the family as well as to the organisation.

The Modern Neo-patrimonial State

Formal institutions are established to serve the public and follow formally mandated accountability, while informal institutions (e.g. political ideologies, cultural norms and values, traditional patron-client networks) may be biased toward private interests, and so assume a less clearly defined accountability. A neo-patrimonial governance system is a mixed one in which traditional patrimonial rules and practices are overlaid with legal-rational institutions (Brinkerhoff and Goldsmith 2002). The neo-patrimonial attributes (i.e. modified traditional patrimonial characteristics) include (a) highly personalised ways of problem solving, (b) wealth concentration among small numbers of elites, (c) blurred separation of public and private domains and (d) the seeming existence of chronic fiscal crisis (Bratton and van de Walle 1994; van de Walle 2001).

Cambodia’s contemporary governance system features a neo-patrimonial political and institutional environment (Rusten *et al.* 2004) in which informal patronage networks significantly penetrate formal institutions, resulting in complex accountability relationships. One Cambodia-specific neo-patrimonial characteristic concerns the regular use of formal institutions for rent seeking. Hughes (2003: 61) points out that the state “has employed the rationale of economic development to free up resources that could then be used to bolster regime legitimacy through the award of gifts and positions to clients which in turn generate the power and opportunity to extract rent”. The personalisation of solutions to public goods problems is evident when poor rural villagers appeal directly to high-ranking officials for help with land-grabbing issues, rather than go through the formal

bureaucratic institutions of the state. The pervasiveness of neo-patrimonialism extends down to the local level, where bureaucrats are negatively impacted because only very limited (or subsistent) resources trickle down, thanks to unequal reciprocity in the relationship. The resources often are shared only to the extent that they ensure the clients get the most basic resources to maintain their loyalty and basic livelihood.

The above discussion concerning the technical and informal aspects of accountability underscores the complexity of the environment in which public administrators function and reformers must operate. To assist public officials and reformers alike to assess this complex governance system, this article proposes a new definition of accountability that is grounded in both normative assumptions and Cambodian contexts.

Conclusion: Redefining Public Sector Accountability for Cambodia

In order to strengthen public sector accountability in Cambodia, public administrators and reformers need to understand normative technical requirements of accountability and the empirical social and political factors that informally affect accountability. Unbalanced attention to these two factors will likely result in “partial” accountability and limited opportunities for achieving sustainable delivery of essential services. The following proposed contextualised definition of accountability is developed to attain the required balance:

- Accountability is a personal, administrative and political value that is found in all systems of government, in both formal and informal, political and administrative forms.
- It involves both relationships between two actors and the mechanisms, rules, and resources to enable the system to function accountably.
- An accountable system that serves the public interest should be Cambodian owned, and reflect Cambodian values.
- Supported by public participation and political responsiveness, the system should build trust in public institutions by exhibiting administrative neutrality and responsibility, protecting the public good³ and supporting the poor.
- An effective, more accountable system will be structured to provide a clear assignment of roles and responsibilities, adequate and predictable resources, horizontal and vertical coordination, transparency, enforcement of the law and incentives for all to perform well.

To sum up, the success of instituting pro-poor accountability to achieve democratic development in Cambodia depends on identifying relevant models and

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Does Free Trade Promote Prosperity?

*Dr Sok Sina analyses the view that free trade is not a panacea for economic development. Different theoretical approaches are discussed. As Cambodia engages with the globalised world, the process of free trade is moving on. Members of the World Trade Organisation (WTO) will have to compete with each other. Advantages and disadvantages can apply at the same time, and the outcomes depend primarily on the competitive position of each nation.**

Globalisation¹ and concerns about poverty and inequality have become some of the most discussed issues in academia and the media. But there are different views on the effects of globalisation. Anti-globalisation protesters chant that globalisation makes the rich richer and the poor poorer, while the supporters claim globalisation promotes prosperity. Even among economists there are serious differences of opinion on the effects of free trade on an economy. If there is no common view on the relative value of gains from free trade, why then do countries around the globe, even poor countries, decide to enter the WTO? When Cambodia joined the WTO in 2004, it did so like many other developing countries with the hope that the WTO would benefit the export sector, especially garment production. To achieve this goal, the costs of energy, transportation and bureaucracy need to be reduced and worker's productive capacity must be promoted.

This brief article examines how Cambodia can obtain benefits from WTO membership. The first section discusses the classical theory of international trade and the second highlights some counter-arguments. An analysis of the Cambodian situation and some policy recommendations follow.

The Classical Theory of International Trade

According to this theory, trade is a source of prosperity. Absolute and comparative advantages are the two important mechanisms by which international trade can be created. This section examines how the benefits of trade can be achieved through the two mechanisms.

Shortages of goods cause trade

Trade between nations generally takes place when there is a shortage of goods in one country. Trade brings benefits by helping to remove shortages of consumer

and investment goods in the importing country. For developing countries, which do not have the capacity to produce industrial equipment to process agricultural goods, the import of such equipment is very important. Thus, new products can be created. At the same time, the exporting country can reduce its surplus and the gains from exports can be used for other purposes. This can also help to create new products in the exporting country.

Differences in production costs also cause trade

Goods exist in countries participating in trade but the production costs are different. Through trade, welfare in those countries can be increased by reducing production costs. Countries in which production costs are high can replace domestic goods with imported goods produced at lower cost. Therefore, trade enables a country to specialise in its production methods. The improvement in production methods leads not only to reduction in production costs but also to the invention of new products.

Counter-Arguments

The classical theory of international trade, however, has long been criticised. Friedrich List, the German-born economist and one of the most important founders of the theory of tariffs, strongly criticised the arguments of Adam Smith, who appealed for free trade. According to List, trade brings an even distribution of prosperity only if the participating countries are at the same level of development. Otherwise, trade causes winners and losers. The former are generally the richer countries, since their production methods are more developed. The latter are the poorer ones. Correspondingly, trade is not a panacea for development.

Advocates of dependency theory (e.g. Paul Baran 1957) even argue that developing countries should sever their ties with developed countries. According to this theory, deepening integration into the world market can undermine development. The main reason for this is uneven exchange between developed and developing countries. This argument has been supported by Dieter Senghaas (Hein 1996). According to Senghaas, an emerging country needs some form of protectionism to help infant industries survive. He argued that economic development in western Europe was due to protectionism rather than to free trade.

The development strategies of newly industrialised countries (NICs) show a similar path. For example, export promotion and import substitution were the combined strategies that helped South Korea and Taiwan rise to be among the most successful economies of the 20th century. Their success is continuing into the present century. One strategy of protectionism is to permit foreign direct investment only if it does not jeopardise the existence of domestic infant industries. Protection lasts until the infant industry matures and becomes competitive, then

* This article is based on classical theory of international trade, counter-argument and the analysis of the Cambodian situation. Dr Sok Sina is a research associate at CDRI.

is lifted step by step in order to let domestic products compete with foreign products.

The strategy of protectionism assumes strong state intervention in the economy, which is in contrast to the classical theory of international trade and to mainstream monetarists who regard strong intervention by the state as harmful to economic growth. Advocates of the theory of tariffs, however, argue that it is not protectionism per se that is harmful, but a lack of focus of protectionism and a delay in realising the negative effects of protectionism that are harmful.

The Cambodian Situation

The theoretical approaches discussed above suggest that free trade is by no means a guarantor of prosperity. One of the poorest countries in the world, Cambodia was admitted to membership of the WTO in September 2004. Entry into the WTO reflects the commitment of the government to poverty reduction through trade, which is regarded as a key initiative to stimulate employment in all sectors. Although trade volumes have increased dramatically since the formation of the coalition government in 1993, foreign trade has been heavily dependent on just one sector, the garment industry. For example, the export of garment products accounted for 70 per cent of total export volume in 1998–2002.² The garment industry's exports rose from USD20 million in 1995 to almost USD2 billion in 2004.

The growth of the garment industry was due to three crucial factors: (1) the direct investment law, (2) the MFN (most favoured nation) and GSP (generalised system of preferences) benefits provided by the USA and the European Union, and (3) cheap labour. The export industry of Cambodia came to life in the midst of the liberalisation of textile trade, which was regulated by the ATC (Agreement on Textiles and Clothing). Under this agreement, trade in textile products was subject to bilateral agreements. Import quotas and tariffs were set by the importing country. The ATC lasted until the end of 2004. Since then, there have been no quotas for trade in textile products for WTO members; export and import of textile products are not restricted but are subject to normal tariffs. In order to keep the garment industry employed, Cambodia needs WTO membership. That is a plausible argument. Free trade, however, means that domestic products must compete with foreign products on both the world market and the domestic market.

It is almost impossible to calculate the real gains and losses of free trade. But one can analyse the effects of free trade through the consumer effect and the producer effect. These effects can be different. If domestic products are more expensive than imports, the demand for the latter increases. The consumer effect is positive in this case because the consumer consumes more goods at the same cost. But the producer effect is negative as

the demand for domestic goods decreases. A positive consumer effect comes at the cost of production. Thus, an increase in imports can cause a drop in employment. Taking the producer effect into account, the integration of the Cambodian economy into the WTO does not offer a very bright perspective in the short term. It may, however, be positive in the long run. But it is important to recognise that future prospects are strongly determined by the concrete situation in the present as future is the continuum of the present.

The garment industry of Cambodia is very young. By the end of 2004, more than 50 per cent of garment products exported to the US and EU benefited from MFN or GSP. As preferential treatment does not exist any more, the garment industry very much depends on its competitiveness. There are at least three main factors determining the competitive position of an enterprise: price, quality and management skills. With regard to product quality and management skills, the competition on the world market is not very problematic because approximately 80 per cent³ of garment enterprises are foreign owned and most of them have long experience in the business. The key issue is the cost of production. Since China is also a member of the WTO and one of the leading exporters of textiles, Cambodia faces strong competition from that country. The production costs of garments in Cambodia are about 15–20 per cent higher than in China (IMF 2003: 48). Cambodia therefore needs to lower its production costs to remain competitive. In some cases, however, it is impossible to lower production costs. A large proportion of production input consists of imported goods. The costs of those materials can not be reduced domestically because they depend on world market prices. The garment industry monthly minimum wage of USD45 clearly lies under the subsistence level of USD 80. This wage can not be reduced for the sake of lowering production cost. There is, however, an opportunity to reduce costs of domestic inputs.

The costs of energy, transportation and bureaucracy need to be reduced. Energy in Cambodia costs USD0.12–0.16/kWh, four times higher than in Thailand and Vietnam.⁴ The transport of one container to the seaport costs about USD500, 4.1 times more than in Vietnam.⁵ Another major cost the garment industry faces is bureaucracy. The impact of this cost can be described by quoting Van Sou Ieng, the president of the Garment Manufacturers Association: "Again, I repeat, and I'm tired of repeating the same thing: bribery, bureaucracy and corruption are impeding the industry" (*Cambodia Daily*, 13 February 2004, p. 1).

Conclusion

The WTO is not a problem per se for Cambodia. Rather, it poses the challenge of how Cambodia can benefit from

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Economy Watch—External Performance

World Economic Growth

US real GDP increased at an annual rate of 2.6 percent in the second quarter 2006, compared to 5.6 percent growth in the first quarter 2006. The deceleration in second-quarter GDP growth primarily reflected downturns in consumer spending on durable goods, investment in equipment and software and federal government spending.

The real GDP of the Euro zone in the second quarter 2006 grew by 2.4 percent compared to the same period last year and by 0.9 percent compared to the previous quarter. Japanese real GDP grew by 2.2 from a year earlier and by 0.2 percent compared to the previous quarter.

Economic growth in China reached record highs in the second quarter. The annualised growth rate in the second quarter 2006 was 11.3 percent, compare to 10.9 percent growth in the previous quarter. Industry continued to grow at a faster pace than services and agriculture, while investment remained the main driver of this growth. The real GDP of South Korea in the second quarter grew by 5.3 percent from a year earlier, compared with 6.1 percent growth in the previous quarter. The real GDP of Taiwan and Hong Kong in the second quarter 2006 grew by 4.6 percent and 5.2 percent, respectively, compared to the same period last year.

The Malaysian economy grew by 5.9 percent in the year through the second quarter 2006; this compares to an annual rate of 5.5 percent growth in the first quarter. On the production side, a relatively high growth of 8.4 percent from a year earlier was recorded in the manufacturing sector and 6.0 percent growth in the services sector. On the expenditure side, growth of gross fixed capital formation and private consumption expanded by 7.6 percent and 7.3 percent, respectively, from a year earlier. The Singapore economy in the second quarter 2006 grew by 8.0 percent compared to the same period in 2005. Manufacturing grew by 12.2 percent,

while services grew by 6.9 percent. Thai real GDP in the second quarter grew at 4.9 percent, compared to the same period in 2005. Agriculture grew by 5.4 percent, compared to 6.3 percent growth in the first quarter. The non-agricultural sector grew by 4.8 percent from a year earlier, compared to 6.1 percent growth in the previous quarter.

World Inflation and Exchange Rates in International Markets

Energy prices were one of the main factors shaping the evolution of consumer prices in the world's largest economies during the second quarter of 2006. Consumer prices in the US rose at a 4.0 percent in the year to the second quarter mainly caused by higher energy costs. In the Euro zone, inflation was 2.3 percent, above the European Central Bank's ceiling of 2 percent, reflecting increases in energy costs and higher growth in unprocessed food prices. The year-on-year change in Japan's consumer prices was an increase of 0.7 percent, due to the higher cost of energy. In China, South Korea and Singapore, inflation ran at 1.4, 1.2 and 2.3 percent, respectively, in the second quarter.

In the foreign exchange markets, the US dollar continued to depreciate against most major currencies. The dollar bought 114.5 Japanese yen and EUR 0.80, a drop from 116.9 and 0.83, respectively, in the first quarter. Against the South Korean won and Chinese yuan, it exchanged at 949 KRW/USD and 8.01 CNY/USD, falling from 976 and 8.05, respectively, in a quarter earlier. The dollar dropped on speculation that the European Central Bank would raise interest rates at a faster pace than the Federal Reserve and following repeated calls by the US for stronger Asian currencies.

Commodity Prices in World Markets

In the second quarter of 2006, the prices of rice, maize, palm oil, gasoline and crude oil rose, while the price of soybeans went down. The price of white rice, Thai 100% B second grade, in the Bangkok market was USD283.86/tonne, up from USD275.12 in the first quarter. Palm oil sold at USD397.87/tonne, up from USD395.75/tonne in the first quarter, while maize sold at USD99.95/tonne, up from USD95.37/tonne in the first quarter. The price of soybeans in the second quarter went down by 1.9 percent to USD207.02/tonne. The prices of crude oil and gasoline increased considerably from the previous quarter by 12 percent and 36 percent, respectively. Crude oil sold at USD65.03/barrel and gasoline at US 55.89 cents/litre.

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Prepared by *Hing Vutha and
Phim Runsinarith*

Economy Watch—External Performance

Table 1. Real GDP Growth of Selected Trading Partners, 2001–2006 (percentage increase over previous year)

	2001	2002	2003	2004	2005			2006		2005
					Q2	Q3	Q4	Q1	Q2	
Selected ASEAN countries										
Cambodia	6.7	4.8	7	7.7	-	-	-	-	-	13.4
Indonesia	3.8	3.8	4.9	5.1	5.5	5.3	4.9	4.6	5.2	5.6
Malaysia	0.5	5.6	5.4	7	4.4	5.3	5.2	5.5	5.9	5.2
Singapore	-2.3	2.6	1.4	8.5	5.4	7	7.7	10.7	8.0	5.7
Thailand	1.9	6.1	6.9	6	4.6	5.3	4.7	6.0	4.9	4.5
Vietnam	6.0	6.7	7	7.5	-	-	-	-	-	8.4
Selected other Asian countries										
China	7.5	8.1	9.9	9.5	9.5	9.4	9.9	10.9	11.3	9.6
Hong Kong	0.5	5.0	3.2	8.3	7.3	8.2	7.6	8.2	5.2	6.5
South Korea	3.0	6.1	3	4.7	3.3	4.4	5.2	6.1	5.3	4.7
Taiwan	-2.2	4.2	3.1	5.7	-	-	6.0	4.9	4.6	-
Selected industrial countries										
Euro-12	1.4	0.7	0.5	1.8	1.2	1.5	1.8	2.0	2.4	1.5
Japan	0.4	0.4	2.6	3.4	1.4	2.9	4.5	3.0	2.2	2.5
United States	1.2	2.4	3.1	4.4	3.3	4.1	1.1	5.6	2.6	3.0

Sources: Economist, countries' national statistics offices and central banks and ADB's Asia Regional Information Centre

Table 2. Inflation Rate of Selected Trading Partners, 2001–2006 (percentage increase over previous year—period average)

	2001	2002	2003	2004	2005			2006		2005
					Q2	Q3	Q4	Q1	Q2	
Selected ASEAN countries										
Cambodia	-0.6	3.2	1.2	4.0	6.4	4.6	6.6	5.9	4.5	5.8
Indonesia	11.5	13.2	8.3	8.3	10.8	12	17.3	-	23.4	10.5
Malaysia	1.4	1.8	1.1	1.6	3.0	3.4	3.4	3.9	4.1	3.1
Singapore	1.0	-0.4	0.5	1.7	0.1	0.5	1.1	1.1	1.2	0.5
Thailand	1.7	0.6	1.8	2.7	3.7	5.6	6.0	5.7	6.0	4.5
Vietnam	-0.4	3.8	3.2	8.3	8.0	7.5	-	-	-	-
Selected other Asian countries										
China	0.9	-0.7	1.2	3.9	1.7	1.3	1.4	1.2	1.4	1.8
Hong Kong	-1.3	-3.0	-2.6	-0.4	0.8	1.4	1.8	2.0	2.1	1.1
South Korea	4.4	2.7	3.5	3.5	3.0	2.4	2.5	2.4	2.3	2.8
Taiwan	-0.01	-0.2	-0.3	1.6	2.1	-	2.4	-	1.5	-
Selected industrial countries										
Euro-12	2.6	2.2	2.1	2.2	2.1	2.3	2.4	2.3	2.3	2.2
Japan	-0.6	-0.9	-0.3	Nil	-0.1	-0.3	-0.5	0.4	0.7	-0.3
United States	2.8	1.6	2.3	2.7	2.9	3.8	3.7	3.7	4.0	3.4

Sources: International Monetary Fund, Economist and National Institute of Statistics

Table 3. Exchange Rates of Selected Trading Partners against US Dollar, 2001–2006 (period averages)

	2001	2002	2003	2004	2005			2006		2005
					Q2	Q3	Q4	Q1	Q2	
Selected ASEAN countries										
Cambodia (riel)	3,916.3	3,912.1	3,973	4,016.3	4,054.3	4,134.3	4,154.3	4,081.3	4,095.3	4,092.5
Indonesia (rupiah)	10,261	9,311	8,577	8,938	9,550	9,994	9,999	9,175	9,115	9,705
Malaysia (ringgit)	3.80	3.80	3.80	3.80	3.80	3.77	3.78	3.73	3.65	3.79
Singapore (S\$)	1.79	1.79	1.74	1.69	1.66	1.68	1.69	1.63	1.59	1.66
Thailand (baht)	44.4	42.9	41.5	40.2	40.1	41.3	41.02	39.3	38.1	40.2
Vietnam (dong)	14,725	15,280	15,510	-	15,842	15,878	15,907	15,921	-	15,859
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.28	8.28	8.14	8.08	8.05	8.01	8.19
Hong Kong (HK\$)	7.80	7.80	7.78	7.79	7.79	7.77	7.75	7.76	7.76	7.78
South Korea (won)	1,291	1,251	1,192	1,145	1,008	1,029	1,036	976	949	1,024
Taiwan (NT\$)	33.8	34.5	34.4	33.6	31.4	32.3	33.4	32.3	32.2	32.1
Selected industrial countries										
Euro-12 (euro)	1.12	1.06	0.89	0.80	0.79	0.81	0.84	0.83	0.80	0.80
Japan (yen)	121.5	125.4	115.9	108.2	107.4	111.2	117.2	116.9	114.5	110.2

Sources: International Monetary Fund, Economist and National Bank of Cambodia

Table 4. Selected Commodity Prices on World Market, 2001–2006 (period averages)

	2001	2002	2003	2004	2005			2006		2005
					Q2	Q3	Q4	Q1	Q2	
Maize (USNo.2)—USA (\$/tonne)	81.18	89.98	95.42	110.65	87.53	90.61	90.64	95.37	99.95	89.19
Palm oil—north-west Europe (\$/tonne)	259.13	353.91	402.03	427.47	382.48	376.41	391.52	395.75	397.87	381.32
Rubber—Malaysia (\$/tonne)	602.0	768.3	1050	1252.2	-	-	-	-	-	-
Rice (Thai 100% B)—Bangkok (\$/tonne)	160.81	178.59	182.22	221.67	268.20	255.77	259.40	275.12	283.86	262.88
Soybeans (US No.1)—USA (\$/tonne)	163.89	182.58	218.86	262.03	263.66	214.37	210.42	210.96	207.02	224.25
Crude oil—Dubai (\$/barrel)	22.8	23.9	26.8	33.5	47.7	57.27	52.99	57.89	65.03	50.14
Gasoline—US Gulf Coast (cents/litre)	19.5	19.1	23	30.9	39.7	52.37	42.29	41.18	55.89	42.19

Sources: Food and Agriculture Organisation and US Energy Information Administration.
Note: All prices have been converted from US\$/ton to US\$/tonne. 1 ton = 0.907 tonne.

Economy Watch—Domestic Performance

Main Economic Activities

Cambodia experienced strong Gross Domestic Product (GDP) growth in 2005; the real growth rate was 13.4 percent. Although the economy has had robust growth, the relationship of growth, infrastructure and investment to poverty reduction is less evident. In the second quarter of 2006, private investment in Cambodia, and also construction activity, increased, while foreign visitors declined and, at the same time, the trade balance deficit worsened.

Private investment has provided some job growth to Cambodians for several years, particularly in industry (especially garments) and services (hotels). Both industry and services have expanded mainly in Phnom Penh and Siem Reap province, but not in other areas. The expansion of private investment has further linked the rural and urban economy, and as result, urban and rural Cambodia are increasingly interdependent. Rural people migrate to urban areas to find jobs, while the urban economy depends on rural areas for labour and agricultural products, mostly food. In the second quarter of 2006, private investment approvals jumped to USD2337.0 m, more than 10 times the level of the previous quarter. This dramatic growth derived from services sector approvals, which expanded to USD2043.2 m, 34 times the figure for the previous quarter. The services sector is driven by tourism and construction activities. The increase in services sector approvals was led by construction approvals of USD 2017.0 m. In the second quarter, agricultural approvals rose by 71 percent above the previous quarter, to USD216.9 m and industry approvals increased by 92 percent to USD76.9 m, although garment approvals fell by 69 percent to USD9.6 m.

After a decline over several quarters, construction approvals in Phnom Penh increased in the second quarter of 2006. There was a 22 percent increase from the previous quarter to USD 82.2 m. Flat construction approvals increased by 30 percent to USD 51.8 m and other approvals by 42 percent to USD 24.7 m. Villa and house construction approvals in the second quarter went down by 44 percent from the preceding quarter. Since 2000, the highest construction approval level was in the second quarter of 2004. Phnom Penh, the main city in Cambodia, has seen new buildings being built and the old being renovated. Population growth in Phnom Penh has expanded the city; there is new building around the perimeter. The growth of visitor arrivals to Cambodia also is a factor for expanding construction activities, i.e. many superior quality facilities (e.g. many pubs and restaurants along the riverfront) have been constructed. New construction is needed in other places apart from Phnom Penh, as this will help spread the benefits of growth around the country and will help reduce the

number of people in Phnom Penh. The expansion of construction approvals is most likely a result of the recent high economic growth. This expansion also provides more work and more income to people, especially rural people who come as unskilled labour. The growth of construction activities is, therefore, an important aspect of economic development. According to data provided by the National Institute of Statistics (NIS), the number of construction and manufacturing workers in 2005 rose over the previous year by 20 percent (to 234,000 persons) and by 9.5 percent (to 789,000 persons), respectively.

In the second quarter, holiday visitors declined by 27 percent to 292,682, although this was an increase of 21 percent from the same quarter in 2005. Total foreign visitor arrivals declined by 22 percent compared to the preceding quarter to 358,000 persons. Visitor arrivals by land and water decreased by 16 percent to 153,600 and arrivals by air declined 26 percent to 204,400 persons. Of the total visitor arrivals by air, Phnom Penh international airport received 46 percent (94,024) and Siem Reap airport received 54 percent (110,376). Of the total foreign arrivals in the second quarter, holiday visitors were 82 percent, arrivals for business were 7.4 percent (26,692), and the rest were for other purposes. In the second quarter, holiday visitor arrivals usually decrease, while a small increase is expected in the next quarter. The peak period for holiday arrivals in Cambodia is the first quarter (January to March) because weather in the northern hemisphere encourages tourists to visit warmer latitudes.

Cambodia's external trade balance is usually in deficit. In the second quarter, this deficit increased by 40 percent to USD122.4 m, compared with the preceding quarter. Total exports were 84 percent of imports, compared with 87 percent in the previous quarter. Although exports have increased in the second quarter, they continued to be insufficient to offset the rise of imports. Compared to the same quarter of 2005, the external trade deficit declined by 19 percent. In the second quarter 2006, total exports were USD652.5 m, an increase of 8.2 percent from the previous quarter and an increase of 27 percent from the same period of 2005. The major export product, garments, increased by 11 percent to USD632.4 m, of which exports to the USA rose by 8.9 percent to USD438.6 m and to the EU by 29 percent to USD142.2 m. Agricultural exports decreased by 42 percent to USD20.2 m, as fish and other exports fell by 47 percent to USD1.0 m and 69 percent to USD7.0 m, respectively. Rubber and wood exports rose by 26 percent to USD9.8 m and 9.5 percent to USD2.3 m, respectively. The increase in garment exports was the main cause of Cambodia's exports expansion. The increasing garment exports were the result of additional investment in the garment industry in Cambodia in recent years.

Economy Watch—Domestic Performance

Total imports in the second quarter climbed to USD774.9 m, an increase of 12 percent compared to the preceding quarter and 16 percent from the same period in 2005. Of the main imports, gasoline increased by 14 percent compared to the previous quarter to USD12.4 m, while diesel fell by 0.9 percent to USD32.2 m. Construction materials rose by 5.6 percent to USD39.1 m and other imports by 13 percent to USD691.2 m. The increase of construction material imports was the result of an increase in construction activities in this quarter. Imports of gasoline rose due to market demand in addition to the high prices of gasoline (i.e. at around USD 70 a barrel in April to June). In this quarter, the volume of gasoline imports rose by 15 percent to 39,800 tonnes, while diesel imports declined by 0.5 percent to 115,200 tonnes.

Public Finance

The government's budget deficit increased for the second successive quarter, growing by 10 percent to KHR 247.4 bn, compared to the preceding quarter and increasing by 3 times for the same period in 2005. Although total revenues increased significantly in the second quarter, they were only 75 percent of total government expenditure. Current revenue rose by 23 percent, of which tax revenue rose by 15 percent to KHR 558.6 bn. VAT and customs duties led the increase in tax revenue, comprising 27 percent and 35 percent of total tax revenue, respectively. VAT rose by 13 percent to KHR 197.4 bn, customs revenue increased by 12 percent to KHR 151.7 bn, and excise duty collection was up 21 percent to KHR103.0 bn. Direct tax collections also rose, with the profit tax improving by 93 percent to KHR 85.9 bn, while payroll tax collections dropped 7.5 percent to KHR 11.3 bn. There was a 55 percent increase in non-tax revenue in the second quarter. Forest exploitation and posts and telecommunications rose by 40 percent to KHR 0.7 bn and almost three times (to KHR 30.0 bn), respectively. Domestic capital revenue rose by 70 percent compared to the preceding quarter, to KHR 4.6 bn. The increase in domestic capital revenue was made up of "other capital revenue" (there were no privatisation receipts in this period). Although government budget revenue increased in this period, government spending also expanded, so foreign assistance was needed to balance the budget. Foreign financing increased by 68 percent from the preceding quarter to KHR 328.6 bn.

In the second quarter 2006, government expenditure on a cash basis rose 19 percent from the previous quarter, to KHR 978.9 bn, an increase of 37 percent from the same quarter of 2005. There was an increase in education and health spending to KHR 202.3 bn, two and a half times the level of the previous quarter. Defence and

security spending rose by 49 percent to KHR 116.7 bn, while other spending decreased by 21 percent to KHR 304.5 bn. Government spending on health and education increased due to natural disaster relief in response to severe flooding in some provinces. Capital expenditure rose by 27 percent from the previous quarter to KHR 355.4 bn. Current expenditure was sufficiently funded by current revenue. For capital expenditure, the government needed foreign assistance. In the future, Cambodia may be less reliant on foreign assistance because oil revenue is expected to be realised by 2011. The effectiveness of domestic revenue collections within the country is also expected to increase.

Inflation and Foreign Exchange Rates

The consumer price index (CPI) in Phnom Penh rose in the second quarter by 4.5 percent from the same period 2005, compared with an increase of 6.1 percent in the first quarter. There were increases in all the main items in the CPI basket. Food prices and transportation rose by 6.3 percent and 10 percent, respectively, while personal care and effects and medical care rose by 5.8 percent and 0.7 percent, respectively. Although, the growth of main item prices in the CPI basket in the past twelve months to the second quarter was less than the growth in the twelve months to the first quarter, the prices of all the main items in this quarter was higher than in the preceding quarter. This is a problem particularly for the poor, as the prices of basic goods continue to rise.

The exchange rate of the riel depreciated in the second quarter, but was improved compared to fourth quarter 2005. The riel depreciated by 0.3 percent against US dollar in the second quarter, trading at 4,106.6 riels to the US dollar, compared with 4,094.8 in the previous quarter. Against the Thai baht, the riel dropped by 4.3 percent to 108.0 riels per baht. Against the Vietnamese dong, the riel was stable, trading at 25.0 riels per 100 dong, compared with 25.4 in the previous quarter. The trading situation between Cambodia and other countries has caused the domestic currency to depreciate. For example, goods imports from Thailand exceed exports and the riel depreciated against the baht as a result. The continuing depreciation of the riel against the US dollar encourages Cambodians to hold US dollars, rather than their own currency; the currency uncertainty leads to US dollars being more trusted by people.

Monetary Developments

In the second quarter, total liquidity (M2) increased by 5.8 percent to KHR 6044.0 bn, 31 percent more than in the same period last year. Total liquidity represents the assets of the Cambodian monetary system, which comprise net foreign assets (NFA), net government credit, private sector

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credit and other. NFA rose by 4.2 percent to KHR 6,682.0 bn, a 31 percent increase compared to a year earlier. Net government credit has continued to decline since 1998. In the second quarter, net government credit decreased by 10 percent to -KHR831.0 bn, of which government deposits were KHR1105.0 bn, an improvement of 6.9 percent compared with the previous month. Private sector credit rose to KHR2997.0 bn, up 7.8 percent from the previous quarter and 38 percent from a year earlier. The change in NFA, net government credit and private sector credit has driven liquidity higher. In this case, the increase of NFA was offset by 'other', which includes restricted deposits and bank capital and reserves. 'Other' rose by 3.0 percent to KHR2803.3 bn. The increase of private sector credit is offset by a decline in net government credit (i.e. government deposits increased). Therefore, liquidity is being managed by National Bank of Cambodia (NBC) to control inflation, as excess liquidity can lead to inflation. In this second quarter, the assets of the monetary system rose, leading to an increase in liquidity, which consists of cash (KHR), demand deposit, time/saving deposit and US dollar deposit. Domestic currency outside banks increased by 25 percent compared with the same period 2005, to KHR 1,459.0 bn. Riel currency deposits decreased by 0.9 percent from the year before to KHR165.4 bn, and US dollar deposits were USD1076.2 m, a rise of 34 percent from last year. Although, NBC managed liquidity consistently, Cambodia still faces an inflation rate of 4.5 percent in this period due to the higher cost of imports.

Interest rates of US dollar loans have been stable. US dollar loan interest rates per annum were 16.4 percent in this quarter. US dollar deposit rates were also steady at 3.9 percent per annum.

Poverty Situation—Real Daily Earnings of Vulnerable Workers

Real daily earnings of 10 groups of vulnerable workers declined by 9 percent in the period to August 2006, compared to the same period last year. According to survey data in August 2006, the daily earnings of all vulnerable workers continued to decline, except for garment workers and rice field workers, whose earnings increased (see Table 8).

In August 2006, motorcycle taxi drivers' earnings slumped by 28 percent from 9400 riels in the same period of 2005 to 6700 riels. This was the largest decline of any group. Most motorcycle-taxi drivers complained that their earnings declined due to the increase in the number of tuk-tuks and the large gasoline price increases. Motorcycle taxi drivers said that from day to day their earnings were like "water on a lotus leaf" (i.e. unstable); and as a result, they have to spend more time driving to support their families. Ninety percent of respondents

said that their earnings could not support their families because they spend so much on food during the time they work in Phnom Penh. After increasing in May, the daily earnings of cyclo drivers in August declined to 6100 riels, 23 percent less than the 7900 riels of August 2005 and 29 percent less than in May of this year. Their earnings declined due to an increase in the number of drivers, according to 77 percent of cyclo drivers. Moreover, 87 percent of them reported that they could not save to help their families. Since early 2006, the number of tuk-tuks has rapidly increased and are now very common around markets, restaurants, guest houses, hotels and other crowded places. Tuk-tuks are a new technology, and they are more comfortable and safer than motorcycle taxis. As a result, they are pushing motorcycle taxis and particularly cyclos from the top end of the market.

The survey of porters in August revealed that their daily earnings fell by 13 percent compared to the same month in 2005. This was due to the number of porters increasing, according to 83 percent of porters interviewed. Eighty-two percent stated that they spent around 150,000 riels in August, including 110,000 riels on food. Seventy-two percent of porters said that with their earnings they could not save. Eighty-five percent spoke of difficulties they faced in migrating to work in Phnom Penh, such as trouble finding a job (some have no job) and having no place to live. Fifty percent of porters interviewed were aged 18 to 25, and most were migrants from rural areas where their families have limited means for making a living.

Real daily earnings of small vegetable traders declined to 5200 riels, a drop of 12 percent compared to August 2005. Sixty-five percent of small traders come from the provinces (33 percent from Kandal, 12 percent from Prey Veng, 10 percent from Takeo and 10 percent from other provinces). Of the small traders who came from the provinces, mostly from rural areas, 35 percent were landless, 27 percent have under a hectare and 38 percent have one or more than a hectare of land. The survey found that 42 percent of small traders were married, 20 percent widowed and 38 percent single. All of them however, stated that their earnings were used for supporting their families. Forty percent had not attended school, while 50 percent finished primary school, eight percent lower secondary and only two percent high school.

Real daily earnings of skilled construction and unskilled workers fell by eight percent and one percent, respectively, in August compared to the same month last year. The increase in the number of workers was a major reason for their earnings decline. The survey found that married skilled workers earned 13 percent more than single workers, while single unskilled workers earned six percent more than married workers. Most skilled

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construction workers reported that their earnings varied from day to day, and therefore they could not save much. Normally, skilled construction workers spent around 125,000 riels per month, and unskilled worker 120,000 riels. Of the skilled workers, 42 percent reported that their earnings only covered their food expenses, while 50 percent were able to pay for other items, in addition to food (they did not explain further). The remaining eight percent did not respond to this question. Around 80 percent of skilled workers were from rural areas, and 10 percent of them were landless.

Real daily earnings of scavengers were two percent lower than in August 2005. Eighty percent of scavengers indicated that prices of rubbish had decreased in the last three months, while most reported that the number of scavengers had increased. Ninety-five percent of scavengers interviewed depended solely on rubbish collection for their income, but 73 percent stated that their earnings could not support their whole family. In this survey, 30 percent had gone into debt at high interest rates when their family lacked food or faced illness. Generally, they borrowed money from the rubbish middleman and received lower prices to repay the debt.

The survey of garment workers revealed that most factories paid wages in US dollars, although some had paid in riels, especially to temporary workers. According to the survey, in August the monthly wages of garment workers reached USD70, the highest level since the survey started. In riels their daily earnings improved by 6 percent to 9300 riels, up from 8800 riels in August 2005. The survey found that 71 percent of sewing workers and 25 percent of group leaders earned around USD70, while cleaners earned around USD52. However, 90 percent of garment workers interviewed reported that their earnings left just a small amount for sending home to support their families. About 39 percent stated that they could save some money to run a business when they stop working in the factory. Fifty-five percent reported that they had not joined a union and 45 percent had joined. Interestingly, most union members seemed to know the name of the leader rather than the name of their union. Normally, garment workers spent an average of USD33 in August: USD20 for meals, USD5 for accommodation and USD8 for other spending.

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membership. This, in turn, requires a commitment to cost reduction, which can be achieved by increasing the productivity of the labour force and removing (reducing) bureaucratic costs. The productivity of labour, in turn, can be increased by using more capital and strengthening skills. The ability to adopt new technology depends on the educational level of the workers. The input of more capital leads initially to an increase in labour productivity, but can cause unemployment as labour can be replaced by capital (machines). The first priority to increase productivity is, therefore, to reduce costs of energy, transportation and bureaucracy, and to promote worker's capacity building. To achieve this objective, strong state intervention is needed, but state intervention is likely to fail if the reform of the public administration does not progress. The degree to which Cambodia will benefit from WTO membership lies clearly within Cambodia's control and particularly within the control of the government.

Endnotes

1. The term "globalisation" can be understood as the integration of economic, political, cultural and environmental systems. Free trade is a (special) form of economic integration.

2. Average of textile exports to total exports in period 1998–2002.
3. According to data provided by the Cambodian Investment Board for 1999–2002.
4. *Ibid.* p. 48.
5. Van Sou Ieng, president of the Garment Manufacturers Association, cited at <http://www.rfa.org/khmer/> (date 13 February 2004).

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Economy Watch—Indicators

Table 1. Private Investment Projects Approved, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
								Q2	Q3	Q4	Q1	Q2
	Fixed Assets (USD m)											
Agriculture	51.6	63.9	9.8	0.4	40.3	3.7	12.3	4.0	10.4	9.1	126.5	216.9
Industry	650.5	162.6	109.4	105.2	67.7	137.2	189.2	62.1	349.7	82.0	40.1	76.9
. <i>Garment</i>	126.5	67.7	81.5	26.5	27.2	68.1	133.9	23.2	56.5	27.3	30.5	9.6
Services	154.7	222.6	150.1	118.4	145.3	168.4	92.0	30.0	44.1	28.1	60.7	2,043.2
. <i>Hotels and tourism</i>	112.0	171.8	79.8	73.8	47.1	124.1	55.9	0.0	33.6	22.6	0.0	26.2
Total	856.8	449.1	269.2	224.0	253.3	309.3	293.5	96.1	404.2	119.2	227.3	2,337.0
Total	-	-	-	-	-	-	-	-79.8	320.6	-70.5	90.7	928.1
Total	15.0	-47.6	-40.0	-19.5	10.5	31.1	-12.4	-15.2	392.9	628.1	-52.2	2331.2

Including expansion project approvals. Up to June 2006. Source: Cambodian Investment Board

Table 2. Value of Construction Project Approvals in Phnom Penh, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
								Q2	Q3	Q4	Q1	Q2
	USD m											
Villas and houses	21.2	20.0	16.4	15.9	23.4	20.0	30.3	6.6	19.2	5.4	10.1	5.7
Flats	227.3	290.5	174.8	167.8	179.9	91.6	167.6	69.1	41.3	45.1	39.9	51.8
Other	27.0	16.4	14.2	12.6	16.6	87.3	65.6	28.6	16.0	21.3	17.4	24.7
Total	275.5	326.9	205.4	196.3	219.9	198.9	263.5	104.3	76.5	71.8	67.4	82.2
Total	-	-	-	-	-	-	-	-1.6	-26.7	-6.1	-6.2	22.0
Total	6.9	18.7	-37.2	-4.4	12.0	-9.5	32.5	114.8	-1.8	12.0	-36.5	-21.2

Source: Department of Cadastre and Geography of Phnom Penh municipality

Table 3. Exports and Imports, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
								Q2	Q3	Q4	Q1	Q2
	USD m											
Total exports	784.4	941.1	1,056.2	1,268.2	1,453.2	1,708.1	2,108.1	515.0	730.0	644.8	603.2	652.5
Of which: <i>Garment</i>	378.0	554.0	962.1	1,202.2	1,355.8	1,628.4	2,027.0	497.6	709.8	601.0	568.5	632.4
. <i>To U S</i>	74.1	486.0	714.1	840.9	943.4	1,099.8	1,270.9	335.9	489.5	408.1	402.5	438.6
. <i>To EU</i>	-	-	228.1	323.3	356.3	414.7	590.8	106.0	162.5	145.3	110.6	142.2
. <i>To rest of the world</i>	82.0	68.0	19.9	38.0	56.1	113.8	165.3	55.7	57.8	47.5	55.3	51.6
Agriculture	-	-	94.2	66.0	97.3	79.7	81.2	17.3	20.2	43.8	34.7	20.2
. <i>Rubber</i>	-	-	29.6	25.9	29.7	35.1	38.3	6.2	9.8	13.4	7.8	9.8
. <i>Wood</i>	-	-	32.9	22.3	16.0	10.2	11.1	2.9	2.1	2.0	2.1	2.3
. <i>Fish</i>	-	-	5.4	6.0	4.3	2.8	10.6	1.1	0.8	6.6	1.9	1.0
. <i>Other</i>	-	-	26.2	11.8	47.4	31.6	21.3	7.1	7.5	21.9	22.9	7.0
Total imports	1,112.2	1,237.4	1,417.7	1,501.4	1,707.8	1,824.9	2,149.0	666.4	632.3	691.1	690.7	774.9
Of which: <i>Gasoline</i>	-	-	-	-	25.9	33.2	30.2	9.3	9.9	10.7	10.9	12.4
<i>Di esel</i>	-	-	-	-	100.8	109.6	109.4	25.8	24.6	21.1	32.5	32.2
<i>Construction materials</i>	-	-	-	-	12.9	80.8	95.3	37.1	38.7	26.2	37.0	39.1
<i>Other</i>	-	-	-	-	1,568.2	1,601.3	1,914.0	594.2	559.1	633.1	610.3	691.2
Trade balance	-327.8	-296.3	-361.5	-233.2	-254.6	-116.8	-40.9	-151.4	97.7	-46.3	-87.5	-122.4
Total garment exports	-	-	-	-	-	-	-	11.8	42.6	-15.3	-5.4	11.2
Total exports	-	-	-	-	-	-	-	11.2	41.7	-11.7	-6.4	8.2
Total imports	-	-	-	-	-	-	-	28.0	-5.1	9.3	-0.03	12.2
Total garment exports	66.4	47.0	74.0	24.9	12.8	20.1	24.5	3.8	10.3	15.5	27.8	27.1
Total exports	59.0	20.0	12.2	20.1	14.6	17.5	23.4	4.1	9.2	18.3	30.3	26.7
Total imports	1.6	11.3	14.6	5.9	13.7	6.9	17.8	9.9	20.5	26.1	32.6	15.6

Import data include tax-exempt imports. Sources: Department of Trade Preferences Systems, MOC and Customs and Excise Department, MEFF.

Table 4. Foreign Visitor Arrivals in Cambodia, 1998–2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006			
								Q2	Q3	Q4	Q1	Q2
	Thousands of passengers											
By air	186.3	262.9	351.7	408.4	523.0	456.0	626.1	169.8	202.8	251.5	275.4	204.4
By land and water	100.2	104.8	114.7	196.5	263.5	245.0	428.9	124.0	120.4	164.5	181.9	153.6
Total	286.5	367.7	466.4	604.9	786.5	701.1	1,055.0	293.8	323.2	416.0	457.3	358.0
Total	-	-	-	-	-	-	-	-22.8	10.0	28.7	9.9	-21.7
Total	30.9	28.3	26.8	29.7	30.0	-10.9	50.5	51.6	41.8	9.8	20.2	21.2

Source: Ministry of Tourism

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Table 5. National Budget Operations on Cash Basis, 1998–2006 (Billions of riels)

	1998	1999	2000	2001	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1*	Q2
Total revenue	920	1326	1,528	1,530	1,744	1,764	2,126	621.9	624.1	827.9	595.9	731.5
Current revenue	-	-	-	1,521	1,728	1,733	2,107	611.5	609.5	701.6	593.2	726.9
Tax revenue	676	956	1,096	1,096	1,227	1,220	1,577	466.0	436.2	553.8	484.7	558.6
Customs duties	376	432	376	376	424	395	513	129.7	123.7	189.8	135.5	151.7
Non-tax revenue	204	348	424	424	501	513	530	145.5	173.2	147.8	108.5	168.3
Forest exploitation	20	36	28	29	15	7	2	1.5	0.3	0.1	0.5	0.7
Posts & telecommunications	88	108	124	122	123	120	94	32.0	30.9	38.0	11.4	30.0
Capital revenue	36	12	8	9	16	31	19	10.4	14.6	126.3	2.7	4.6
Total expenditure	1,348	1,788	2,332	2,332	2,948	2,757	2,932	713.7	912.4	998.9	820.6	978.9
Capital expenditure	368	624	976	977	1,388	1,171	1,163	315.9	335.4	350.3	278.9	355.4
Current expenditure	980	1,164	1,356	1,355	1,560	1,586	1,769	397.8	577.0	648.6	541.7	623.5
Education and Health	132	280	344	343	454	473	518	92.3	202.1	228.4	80.3	202.3
Defence and Security	448	464	404	405	438	411	423	73.9	116.7	71.4	78.1	116.7
Other ministries	332	412	636	637	668	702	828	231.7	258.2	348.8	383.2	304.5
Overall balance	-428	-462	-804	-802	-1,204	-993	-806	-91.9	-288.3	-171.0	-224.7	-247.4
Foreign financing	268	416	768	766	1,249	886	864	255.7	335.8	269.0	196.0	328.6
Domestic financing	112	60	36	37	-45	106	148	-163.9	-47.5	-97.9	28.6	-81.3

Provisional for 2006 and *Revised. Source: Ministry of Economy and Finance.

Table 6. Consumer Price Index (change), Exchange Rates and Gold Prices (period averages), 1998–2005

	1998	1999	2000	2001*	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1	Q2
Consumer price index (percentage change over previous year)												
Provinces	-	5.8	5.4	-0.1	0.9	4.4	14.4	21.5	14.5	16.6	15.8	12.0
Phnom Penh - All Items	14.8	4.0	-0.8	0.2	3.3	1.1	3.9	6.4	4.6	6.6	6.1	4.5
- Foods	14.1	7.6	-3.4	-2.5	1.8	1.5	6.4	9.8	6.0	10.6	10.6	6.3
- Transportation	15.1	3.5	6.6	-4.2	0.3	4.9	9.7	11.1	11.9	10.2	9.7	10.0
Exchange rates, gold and oil prices (Phnom Penh market rates)												
Riels per US dollar	-	-	3,840.8	3,916.3	3,912.1	3,973.3	4,016.3	4,054.3	4,134.3	4,154.3	4,094.8	4,106.6
Riels per Thai baht	-	-	95.8	88.2	91.1	95.8	99.9	101.3	100.2	101.4	103.5	108.0
Riels per 100 Vietnamese dong	-	-	27.1	26.6	25.6	25.6	25.5	25.3	25.9	26.1	25.4	25.0
Gold prices (US dollars per chi)	40.4	36.0	33.3	32.8	36.8	41.4	46.3	52.5	55.4	57.0	64.2	72.2
Diesel (riels/litre)	883	1,065	1,105	1,329	1,521	1,508	3,442	2,500	2,767	2,921	2,867	3,110
Gasoline (riels/litre)	1,378	1,613	1,760	2,113	2,084	2,150	2,633	3,300	3,633	3,750	3,767	4,000

* Revised. Sources: CDRI, IMF, NIS, Ministry of Planning, Ministry of Economy and Finance

Table 7. Monetary Survey 1998–2006 (end of period)

	1998	1999	2000	2001	2002	2003	2004	2005			2006	
								Q2	Q3	Q4	Q1	Q2
Billions of riels												
Net foreign assets	1,726	2,019	2,589	3,080	3,737	4,027	4,797	5,084	5,391	5,475	6,410	6,682
Net domestic assets	-496	-576	-759	-876	-849	-698	-467	-455	-397	-450	-699	-637
Net claims on government	178	103	3	-75	-119	-128	-209	-343	-404	-421	-755	-831
Credit to private sector	655	763	898	936	1,059	1,337	1,817	2,166	2,386	2,394	2,778	2,997
Total liquidity	1,230	1,443	1,830	2,204	2,888	3,329	4,330	4,629	4,994	5,025	5,711	6,045
Money	543	531	540	609	813	937	1,153	1,215	1,279	1,323	1,449	1,512
Quasi-money	687	912	1,290	1,595	2,075	2,392	3,177	3,414	3,715	3,702	4,262	4,533
Percentage change over previous year												
Total liquidity	15.7	17.3	26.8	20.4	31.0	15.2	30.0	20.4	19.8	16.1	27.0	30.6
Money	41	-2.2	1.7	12.8	33.5	15.3	23.0	16.8	18.6	14.7	20.9	24.4
Quasi-money	1.3	32.7	41.4	23.6	30.0	15.2	32.8	21.7	20.2	16.6	33.6	32.8

Source: National Bank of Cambodia

Table 8. Real Average Daily Earnings of Vulnerable Workers (at constant Nov 2000 prices)

	Daily earnings (riels)								Percentage change over previous year			
	2000				2006				2006			
	Nov	Aug	Nov	Aug	Nov	Aug	Nov	Aug	Feb	May	Aug	
Cyclo drivers	7594	8975	8572	7614	7857	7768	7873	8546	6063	-7.7	11%	-23%
Porters	6233	7044	6676	6895	6000	6473	6519	7375	5238	-6.0	5%	-13%
Small vegetable sellers	5256	6566	6532	6947	5938	8385	6186	6492	5197	-3.3	-24%	-12%
Scavengers	2718	3685	3944	4446	4335	4801	4984	4512	4266	-7.4	-14%	-2%
Waitresses*	2111	4365	4932	4448	4648	3893	4670	4243	4292	4.5	-1%	-8%
Rice-field workers	4198	4304	4177	4139	4009	4224	4127	4541	4137	3.3	19%	3%
Garment workers	6701	8904	9577	9277	8756	8659	9184	7860	9264	-0.3	9%	6%
Motorcycle-taxi drivers	8610	12,184	10,092	9204	9406	9645	8884	8790	6744	-24.5	-23%	-28%
Unskilled construction workers	5399	6453	6558	6382	6069	6691	5974	6407	6028	3.9	-21%	-1%
Skilled construction workers	13,127	12,605	13,111	12,679	10,273	11,253	11,750	9833	9466	-18.2	-20%	-8%

* Waitresses' earnings do not include meals and accommodation provided by shop owners. Surveys on the revenue of waitresses, rice-field workers, garment workers, unskilled workers, motorcycle taxi drivers and construction workers began in February 2000. Source: CDRI

Continued from page 20 **Update ...**

Research Capacity Building project that it has recently initiated in collaboration with the University of Sydney and the Royal University of Phnom Penh. During the six-month inception phase of the project, CDRI and its partners have met with key stakeholders including MOWRAM, MAFF, AFD, and AusAID, to form a consultative committee and develop a work plan for the first year of the five-year project. The purpose of the consultative committee is to help ensure that the research and capacity building activities of the project reflect the needs and interests of institutions concerned with water resource management, particularly irrigation, in Cambodia. The project will start activities in January 2007, beginning with a literature review of irrigation research in Cambodia and a social assessment of the irrigation sector to identify gaps in knowledge and important issues concerning the management and governance of water resources.

In mid-December, CDRI will convene a day-long workshop to present the findings of the Development Analysis Network (DAN) study concerning pro-poor tourism in the Greater Mekong Sub-region. The DAN

receives support from the Rockefeller Foundation and is composed of research institutes from Cambodia, Laos, Thailand, Vietnam and Yunan (China). During this current round of collaborative research, each country has studied a particular case of the impact of tourism on the poor in a selected destination. The Cambodia case study concerns Siem Reap, Laos chose Luang Prabang, Thailand selected a village outside Chiang Mai, Vietnam chose Sapa, and Yunan studied two sites in Xishuanbanna. The primary objective of the study has been to develop national and regional pro-poor policies at a time when tourism is booming across the region. At the workshop, the presentation of each country's case study will be followed by a synthesis report and discussion.

Beginning in January 2007, the Rockefeller Foundation will also support CDRI and regional research institutions to undertake a second phase of regional agricultural marketing research. During the first phase, CDRI and regional partners studied maize, cassava, cashews and soybeans. During the second phase, CDRI and regional collaborators will study livestock and poultry, rice and fruits. The project will take place over two years.

Continued from page 8 **Conceptualising ...**

practices of accountability, which are largely founded upon legal-rational bureaucratic arrangements and popular democracy, and to understand and adapt them to local realities.

Endnotes

1. Our research team has checked Samdech Song Chuon Nat's widely used *Khmer-Khmer Dictionary*, and found that the term does not occur there.
2. The detailed elaboration of each framework is not included given the space limit, but will be available in the forthcoming CDRI *Annual Development Review*.
3. The term *public good* is often used to refer to goods that are *non-excludable* as well as *non-rival*. This means it is not possible to exclude individuals from the good's consumption and that the consumption of the good by one individual does not reduce the amount of the good available for consumption by others (Samuelson, A.P. 1954. *The Pure Theory of Public Expenditure*. Cited in http://en.wikipedia.org/wiki/Public_good).

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CDRI UPDATE

Management

In late October, CDRI executive director Larry Strange met with Prime Minister Samdech Hun Sen to brief him on CDRI's growth and current research priorities, and to invite him to deliver the keynote address at the Cambodia Outlook Conference to be organised by CDRI in partnership with ANZ Royal Bank in March 2007. The prime minister made a strong statement of support, both during the meeting and later to the media, for the independence of CDRI's research and its value to Cambodia's policy makers and others concerned with the nation's development. He also agreed to address the Cambodia Outlook Conference on a date to be determined. The Outlook Conference will be followed by CDRI's annual full board of directors meeting, which will consider research and policy priorities for CDRI arising from the conference.

On 13–14 October, the executive director attended the second East Asian Institutes Forum, hosted by the Korean Institute for Economic Policy, on Jeju island, South Korea, on the theme "East Asian Economic Integration: Progress and Impediments", and presented one of three session trigger papers, with his subject "Development Cooperation for Regional Economic Integration, Prosperity and Community—An East Asian Way Forward?" The forum, which involves the heads of leading research institutes from the ASEAN countries, China, South Korea and Japan, agreed on a collaborative policy research agenda on three themes: east Asian production networks and an east Asian free trade agreement; new directions for financial cooperation in east Asia post-CMI (Chiang Mai Initiative); and a new development cooperation paradigm and initiatives for east Asia. CDRI is already involved in a new collaborative policy research programme on GMS market-oriented integration hosted by the Thailand

Development Research Institute with support from the International Development Resource Centre. Together the two efforts will gradually deepen capacity and research on sub-regional and regional integration in east Asia and its implications for Cambodia.

In October CDRI welcomed the return of former long-time senior researcher Chan Sophal in his new role as senior research manager poverty studies and research networks, following his valuable experience as a member of the World Bank Cambodia office's poverty team. This position is the final research management position to be filled as part of the restructuring of CDRI's research department under the 2006–10 CDRI Strategic Plan.

Research

CDRI will launch the Tonle Sap Participatory Poverty Assessment (PPA) report along with the Asian Development Bank and the National Institute of Statistics during 28–30 November. The events will include a national workshop on the morning of the 28th designed to inform policy makers, civil society organisations, research institutes and Cambodia's development partners about the study's key findings and observations as well as policy and research recommendations. On the morning of the 29th, CDRI will convene a roundtable discussion for practitioners concerned with policy recommendations and research methodologies aimed at reducing poverty. On the morning of the 30th, CDRI will facilitate an informal meeting between the PPA authors and peer reviewers to discuss ways to strengthen the final written report. The findings and policy recommendations will be printed in an English-language report along with a Khmer language summary.

In early December, CDRI will convene an inception workshop to launch the Water Resource Management

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