

DISCUSSION BRIEF/POINTS ON THE POLITICS OF BINDING CONSTRAINTS TO GROWTH IN CAMBODIA

Task: "issues/characteristics of Cambodia's political economy to consider when thinking about alleviating binding constraints to growth and potential future growth trajectories (say in the 10-15 year term)"?

Notwithstanding the binding constraints to growth (still to be determined), the issues / characteristics of Cambodia's political economy are anchored in large part on history, culture, and power. Two important elements are discussed below:

(1) Legacy of the Khmer Rouge (human and social capital destruction)

- Pol Pot and his faction caused 1.7 million deaths (or 25 percent of the population) between 1975-1978
- As has been argued, "Individual rights were not curtailed in favor of the collective, but extinguished altogether. Individual creativity, initiative, and originality were condemned per se. Individual consciousness was systematically demolished." (Short, 2004: 12)¹
- Current regime credits itself with having vanquished the Khmer Rouge threat and brought stability to Cambodia.
- What would become the ruling party was a faction of the Khmer Rouge that defected to Vietnam after relentless purges of the Eastern Zone of Cambodia by the Pol Pot faction.
- Colletta and Cullen (2000)² argue that the Cambodian genocide destroyed social capital, but that social capital of a familial nature endured during the conflict, providing a basic survival-oriented safety net. This further reinforces family-based patron-clientelism.
- Aspects of the political environment such as patronage networks, destruction of social capital after the Khmer Rouge, as well as cultural-religious views of poverty (as Karmic destiny) diminish the political incentive for those in power to pursue policies in favor of shared growth.
- The strong urban basis of Cambodia's recent growth further accentuates this inequality.

(2) Patron-client relations

- The Leninist structure of the governing party and the highly hierarchical cultural traditions of the country make Cambodia particularly susceptible to top-down governance. Interpersonal conflict avoidance is paramount, but this allows tensions to brew and, eventually, explode.
- Corruption, which feeds into patron-clientelism, has a long recorded history. Cambodian folktales from the turn-of-the-century published by the Buddhist Institute tell of a "Judge Rabbit" who took bribes to decide cases.
- Visualizing politics in Cambodia as a pyramid, in which an all-powerful Prime Minister sits at the top has its allure, but the reality is more nuanced. Spheres of influence and domains exist. As a formal structure, the civil service has been described by a senior member of the government as a "pyramid, with an apex and a base but nothing in

¹ Short, Philip. 2004. *Pol Pot: Anatomy of a Nightmare*. Phnom Penh: Henry Holt and Company.

² Colletta, N.J. and M. Cullen. 2000, "The Nexus Between Violent Conflict, Social Capital and Social Cohesion: Case Studies from Cambodia and Rwanda." Social Capital Initiative Working Paper No. 23, Washington, DC: The World Bank.

between. Because of their low salaries, the crucial middle-level people must work outside in order to survive.”³

- The politics of patronage has itself made corruption the *sine qua non* of survival in Cambodia. Technocrats who propose policies that fail to take into account systemic corruption are likely to be disappointed by their outcomes.
- Cambodia’s business environment has been characterized as unpredictable and arbitrary because of crippling levels of corruption. A study of 800 private sector firms throughout the country by the World Bank revealed that 76% of the firms surveyed identify at least some of the laws and regulations affecting them as “unpredictable”.⁴ The report also found that 80% of sampled firms acknowledged having to pay bribes, while 71% of large firms had to make frequent unofficial payments. The report calculated the so-called bribe tax to be 5.2% of total sales revenue.
- As a caveat, the Bank report acknowledges that “Government officials argue that this unofficial payment is likely to include all the costs of intermediaries/facilitators often employed by the private sector to go through regulatory processes.” This in turn raises “the governance issue both within the public and private sectors” and necessitates that both “be addressed simultaneously” (World Bank, 2004d: iv, fn 6). This would seem to present a prisoner’s dilemma for reform. What can help explain this? The loss of human and social capital explored earlier is a major factor.
- Finally, competition is based on patronage networks that require connections (whether through party politics, friendship, birth, or marriage) and informal payments. Tycoons have emerged on the basis of these connections to obtain significant advantages and economic concessions at the expense of consumers and domestic tax revenues. Payment may be flows or stock (equity) or both. As an indicator of government commitment and credibility, domestic revenues as a percentage of GDP—already among the lowest in the world—have stagnated in recent years. The tax payment-service delivery nexus is thus tenuous, if non-existent. Support to the private sector becomes arbitrary—if it increases the potential for informal payments or the value of equity owned—it is liable to enjoy a greater likelihood of success.

Challenges: How can the above issues/characteristics trump technocratic solutions?

While micro risks such as insecure property rights are tackled in Bank land-titling projects, the optimal strategy for the land-grabber would be to obtain all the land possible and then title it, thus using the system for his/her own benefit. Eventual titling is beneficial, but not while the land-grabbing is still in full force. Same thing with corruption, another micro risk: launder money to create legitimate businesses that create an oligarch economy. Once achieved, an anti-corruption law will insulate and protect the formal economy, but leave the informal economy in the shadow of arbitrary action.

³ As quoted on page 365 in Godfrey, Martin, Sophal Chan, Toshiyasu Kato, Piseth Vou Long, Dorina Pon, Saravy Tep, Savora Tia, and Sovannarith So. 2002. “Technical Assistance and Capacity Development in an Aid-dependent Economy: The Experience of Cambodia.” *World Development*, Vol. 30, Issue 3, pp. 355-373, March.

⁴ World Bank. 2004. *Seizing the Global Opportunity: Investment Climate Assessment and Reform Strategy for Cambodia*. Report No. 27925-KH, Washington, DC: World Bank, August 12. Available: <http://siteresources.worldbank.org/INTCAMBODIA/Resources/Global-opportunity.pdf>

This is classic theory of the second best. There can actually be a decrease in efficiency due to the removal of a market imperfection in the presence of multiple failures.

Other Constraints to Growth

- Avoiding Dutch disease, whether with Aid (as a tradable sector) or with natural resources (oil, gas, and mining)
- When speaking of growth, we have to ask, what kind of growth?⁵
 - Unbalanced vs. balanced growth (garment exports & tourism only?)
 - Equitable vs. inequitable growth (however destabilizing or not the inequality is judged to be)
 - Growth with poverty reduction vs. growth with poverty
 - Growth with rule of law vs. growth with rule of man⁶

Ultimately, without addressing these issues, the sustainability of Cambodia's recent impressive growth will be limited.

Some Opportunities Exist

Despite these challenges, opportunities exist. For example, while agriculture has seen some very recent improvements (due to very cooperative weather in 2007, for example), sustainable growth in that sector is vital for the reduction of poverty, which is a rural phenomenon. Agriculture requires irrigation and energy, but to touch energy is dangerous. Gasoline excise taxes represent a significant—if not top—source of revenue. Like social security in America, the issue of gasoline prices can be thought of as the third rail of Cambodian politics because of the number of people it affects (in 2005/06 the most dangerous issue undoubtedly was the border treaty with Vietnam). Irrigation, on the other hand, is not controversial, but the lack of investment there is puzzling, save for the presence of corruption which hinders the ability of investors to realize returns on capital projects of this nature, especially outside of Phnom Penh. Perhaps it is a collective action dilemma? Certainly steering Cambodian agriculture away from rain-fed agriculture will reduce output volatility. Several oligarchs and members of the ruling party have vast amounts of agricultural land—investing in irrigation would make their lands more productive.

Another opportunity is livestock export, thanks to the country's prime geographic location between Thailand and Vietnam.⁷ Livestock has been shown to hold significant, mostly untapped

⁵ The Bank's Country Manager was asked by Kim Natacha of *Economics Today* (19 Feb 2008) "Is economic growth enough to improve people's livelihood?" She answered "The answer is no. It is a necessary condition, but it would be wrong to seek growth to the detriment of its quality. If today, you don't care about the country's environment, and just grab the wealth from mining without paying attention to its environmental and social impacts, tomorrow you may not live in such a beautiful country and there might not be abundant natural resources left for future generations. Tough trade-offs between the level of growth and the quality of growth need to be made. Similarly, growth needs to reduce the large gap between the rich and poor in Cambodia."

⁶ In the same interview she later remarked "What is important to attract investors are three things: peace, political stability and the rule of law. Cambodia now has the first two. But there is still concern about the rule of law. The court system is not functioning well at the moment and while Cambodia has many laws, it is difficult to enforce them. The Country has abundant land, natural resources, labor, and capital. What is missing is certainty for investors that rule of law can provide."

potential for the economy (80,000-150,000 head of cattle exported unofficially prior to 2005) that could be critical to Cambodia's overall prosperity. Its development can be a major contribution to poverty reduction. Total livestock imports for ASEAN were 591,500 head of cattle in 2002, while the rest of Asia accounted for 91,300 and the Middle East took in 527,756. Of this trade, Cambodia's official exports accounted for only 10,600 head. The livestock sub-sector thus has considerable potential if tapped properly, as farming continues to shift from subsistence to commercial agriculture over the next decade. This would likewise depend on how effectively and credibly Cambodia is able to create a Foot and Mouth Disease-free zone within the country, considering that there is significant cross-border trade in cattle with Thailand, Viet Nam and Laos.

Further Readings

Ear, Sophal. 2005. "The Political Economy of Pro-Poor Livestock Policy in Cambodia." *Policy Brief*, Pro-Poor Livestock Policy Initiative, Food and Agriculture Organization of the United Nations, August. Available:
http://www.fao.org/AG/againfo/projects/en/pplpi/docarc/pb_wp26.pdf

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Godfrey, Martin, Sophal Chan, Toshiyasu Kato, Piseth Vou Long, Dorina Pon, Saravy Tep, Savora Tia, and Sovannarith So. 2002. "Technical Assistance and Capacity Development in an Aid-dependent Economy: The Experience of Cambodia." *World Development*, Vol. 30, Issue 3, pp. 355-373, March. (Included)

Hughes, Caroline. 2003. *The Political Economy of Cambodia's Transition, 1991-2001*, New York: Routledge. (1.5 page summary included)

⁷ Ear, Sophal. 2005. "The Political Economy of Pro-Poor Livestock Policy in Cambodia." *Working Paper No. 26*, Pro-Poor Livestock Policy Initiative, Food and Agriculture Organization of the United Nations, August. Available:
<http://www.fao.org/AG/againfo/projects/en/pplpi/docarc/wp26.pdf>