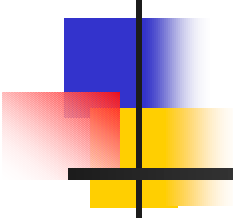


Cambodia and the “Washington Consensus” Redux



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Cambodia and the “Washington Consensus”

- *Crossroads: An Interdisciplinary Journal of Southeast Asian Studies*, 11(2):73-97. Northern Illinois University.
- What has changed? What has stayed the same? Which gets to, what did I know, and when did I know it?
- What is the so-called Washington Consensus?



What Washington Means By Policy Reform*

1. Fiscal Policy (Keep budget deficits small and under control)
2. Public Expenditure Priorities (Focus on health, education, and infrastructure)
3. Tax Policy (Tax broadly, but not too heavily)
4. Privatization of State-Owned Enterprises (Self-explanatory)
5. Interest Rate Policy (Keep them market-determined)
6. Deregulation with Proper Supervision (Get rid of stifling regulation)
7. Foreign Direct Investment (Encourage it)
8. Property Rights (Protect them)
9. Exchange Rate Policy (Float or currency board or sustainable managed-peg)
10. Trade Liberalization (Reduce tariffs and other restrictions)

*John Williamson (1990)



Cambodia's "Twin" Crises

- July 1997 Coup resulted in the suspension of aid and the collapse of the aid-based economy—a recession ensued.
- Asian financial crisis was felt, but impact on Cambodia was limited because of dollarization.
- Foreign direct investment and consumption of Cambodian goods and services was curtailed by neighbors who were hard-hit.
- Separating the effects of the two crises is almost impossible.



But... One Clear Example of the Asian Crisis' Impact

- ASEAN Free Trade Area (AFTA) will be delayed by five years. The original ASEAN member countries: Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand, have until 2008 to reduce tariffs among themselves to under 5%. They have until 2010 to eliminate all tariffs.
- Cambodia, Vietnam, Burma, and Laos have until 2015.



1. Where Does Policy Reform Stand Since the Crises?

- Property rights situation is getting worse with numerous land disputes clogging-up courts since 1999.
- Most Cambodians still cannot prove legal title to property owned.
- Fiscal Policy got very bad, causing the IMF to cancel a budgetary support loan in 1997/8. Official reason: unaccounted forestry revenues...



2. Where Does Policy Reform Stand Since the Crises?

- A 10% Value-Added Tax was implemented in 1999, after more than three years of planning.
- Sokimex, a firm that acquired a monopoly on the importation of petrol, in the privatization frenzy that preceded the 1992 election, won a five year contract to run ticket concessions for Angkor Wat.
- The sweetheart deal they got, giving the government 15% of revenues and \$1 million, had to be changed after the IMF objected.



3. Where Does Policy Reform Stand Since the Crises?

- Foreign Direct Investment, which was booming before the crises, came to an abrupt halt.
- Investment Law is being re-written because it is far too generous, providing for a 9% corporate tax rate with a tax holiday of up to eight years, and the carrying forward of losses up to five years, among other benefits. It was also ripe for corruption.



4. Where Does Policy Reform Stand Since the Crises?

- On the fiscal policy front, demobilization is costing millions to bilateral donors and IFIs. No peace dividend yet in sight.
- The Commune Elections planned for next year are being used as bait for more aid.
- The budget is still not transparent, but at least is done by an IMF employee who sits in the Ministry of Economy and Finance.



5. Where Does Policy Reform Stand Since the Crises?

- Little progress has been made on regulation, as government capacity is low and resources are few.
- Illegal logging remains a club with which donors use to threaten the Government at every Consultative Group meeting.
- The Government knows what donors want to hear. It talks the talk, but does not walk the walk.



Talking the Talk

"We have not taken steps [to combat illegal logging] merely to please anyone outside of Cambodia or to gain reprieve from criticism. Our actions are based on the understanding of the crucial need to preserve the forests for our future generations and to maintain ecological and bio-diversity balance."

--Prime Minister Hun Sen, at the Cambodia Consultative Group Meeting in Tokyo, June 12, 2001.



Original 1997 Conclusion

- Guarded optimism: “The hoped for benefits [of ASEAN membership] will follow if the government grasps the opportunity now to make a concerted effort at instituting Washington Consensus reform[s] before the 1998 elections.”
- Reality:
 - 1998 elections did happen. The twin crises gave international donors more leverage in dictating the terms of that election and the continued “democratization” of Cambodia.
 - However, little progress was made and more problems have arisen. Poverty was last measured at 36% nationwide. Per capita income remains under \$300 per year.



Conclusion: What Phnom Penh Means By Policy Reform

- Prior experience with Cambodia suggests that the government is quite good at making promises it cannot keep. Talk is cheap (for the Minister).
- Continuing on a course of lending to Cambodia without strict conditions will result in more money being wasted.
- Phnom Penh knows how to play international donors, giving them only the bare minimum to buy more time and receive more money.