Asia Country Risk Analysis CAMBODIA

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INTRODUCTION

Cambodia, as it currently stands, does not make for an attractive or viable investment area. Based on a realistic point of view, Cambodia poses many security risks to potential investors based on their current domestic situation. In order to understand why this is so, this risk analysis will outline Cambodia’s internal domestic situation as it comes out of their tumultuous history. In addition to this the risk analysis will identify Cambodia’s bilateral and multilateral relations and explain how these do not provide strong support for investors looking to do business in Cambodia. In conclusion the risk analysis will provide a variety of recommendations—both for Cambodia itself and for outside investors who are willing to risk the dangers and invest in Cambodia.

HISTORY

Cambodia’s history has been long, and recently, violent. This history is summed up within the first two paragraphs of their Constitution’s Preamble. The Constitution was adopted on September 1, 1993 and the Preamble states the following:

We, the People of Cambodia,
Having known a grand civilization of a prosperous, powerful, and glorious nation whose prestige radiates like a diamond,
Having endured sufferings and destructions and having experiences a tragic decline in the course of the two decades…

In Cambodia, the present is always contrasted against the past. Cambodia bases much of its current image on the “prosperous, powerful, and glorious nation” it was once during the Angkorian golden age. However that time is long past and has been supplanted in

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http://www.embassy.org/cambodia/cambodia/constitu.htm
most people’s minds by the more recent “sufferings and destructions” brought powerfully to world attention by the action of the Khmer Rouge from 1970 to the early 1990’s.\textsuperscript{2} Cambodia has been invaded and colonized by the French, the Japanese, and the Vietnamese.\textsuperscript{3} The country has been torn apart by competing internal factions since 1970. It was placed under the protection of the United Nations in 1991; who sponsored a “fair” election process in 1993 in an attempt to stabilize the country.\textsuperscript{4} However, in 1997, Hun Sen enacted a coup to gain control as the Prime Minister\textsuperscript{5} and Pol Pot, the leader of the Khmer Rouge, almost staged a come-back.\textsuperscript{6} With Pol Pot’s death in 1998\textsuperscript{7}, the country settled down and has been relatively peaceful since though they still have a great deal of internal problems and uneasy external relations with their neighbors.

**MAIN POLITICAL PARTIES**

One of the factors affecting the internal harmony of Cambodia and their complete integration into the region is the continued dominance of the Cambodian People’s Party (CPP) led by Hun Sen—the Prime Minister who was installed by the Vietnamese when they took possession of the country in 1978.\textsuperscript{8} There is only one main competing party to Hun Sen’s monopoly and it was founded by the former king, Norodom Sihanouk—the United Front for an Independent, Neutral, Peaceful, and Co-operative Cambodia (FUNCINPEC). They are also known as the Sihanoukists. The third independent party was founded by Sam Rainsy and is named after him—the Sam Rainsy Party (SRP).\textsuperscript{9}

\begin{footnotesize}
\begin{enumerate}
\item Ibid.
\item Ibid.
\item Ibid.
\item Ibid.
\item Wikipedia.
\end{enumerate}
\end{footnotesize}
From the breakdown of votes from the first three free elections held in Cambodia, one can see that the CPP maintains a majority of control over the country.

<table>
<thead>
<tr>
<th>General election results (% of vote)</th>
<th>1993</th>
<th>1998</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPP</td>
<td>38</td>
<td>41</td>
<td>53</td>
</tr>
<tr>
<td>FUNCINPEC</td>
<td>46</td>
<td>32</td>
<td>24</td>
</tr>
<tr>
<td>Others</td>
<td>16</td>
<td>13</td>
<td>n/a</td>
</tr>
<tr>
<td>SRP</td>
<td>n/a</td>
<td>14</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: Press reports.
(c) Economist Intelligence Unit 2004

In general, the FUNCINPEC sides with the CPP. There have been instances where they sided with the SRP in order to oppose the CPP majority, but these have not lasted long.\textsuperscript{10} The CPP, in addition, has not been shown to have much tolerance for differing points of view within the government. When Hun Sen took control of the country in 1997 by ousting his co-prime minister, Prince Norodom Ranariddh—King Sihanouk’s brother—there was a short, but bloody, civil war before Hun Sen consolidated his power\textsuperscript{11}. More recently, Hun Sen has acted against Sam Rainsy—one of his most vocal detractors by getting parliament to strip Rainsy of his immunity from prosecution as a member of the government. Sam Rainsy fled the country due to this in February 2005 and is currently taking refuge in France.\textsuperscript{12}

Sam Rainsy has long been a critic of the Cambodian government which accounts for the vitriolic pursuit of his human liberties—but does not excuse the gross violation of democratic processes and respect for human rights in his case. An example of his fight for human rights can be seen in an open letter he wrote in 1992 before his party had even

\textsuperscript{10} Ibid.
\textsuperscript{11} Ibid.
been formed. In this letter he attacked the rabid corruption within the Cambodian
government as it was practiced by both Sihanouk and Hun Sen.

The rumblings of revolt are heard everywhere. It would be hard to imagine a more
unpopular regime than the one currently installed in Phnom Penh...We have a state
without law, corroded by corruption, which has become totally irresponsible and is
capable of anything. At the head of this system are several boorish individuals with their
families and their clans. They are true brutes who have no sense of the public good or of
the national interest. From the moment that they reign in the country, the consider that
everything belongs to them and that they can do what they wish with all the goods of the
state and nation as if they were spoils of war. Knowing that they’re threatened by the
elections organized under the auspices of the United Nations, and by more competent
people, who will toss them out of their command post, they are selling at clearance prices
all the goods of the state, and are pocketing the sales money for strictly personal ends...\(^9\)

Corruption has long been a refrain for reform in Cambodia and Sam Rainsy expressed it
eloquently back in 1992 in the face of officials’ rampant self-interest just prior to the UN
sponsored elections. And, as can be seen, by Rainsy’s recent flight from the country,
corruption has not significantly improved. This will be a subject that the risk analysis
comes back to with regularity as it is an extremely important factor that should
discourage potential investors.

**Human Factors**

Cambodia’s population has
been steadily rising since the Khmer
Rouge genocides of the 1970’s. The
current population level stands at
approximately 14 million (the chart
is in 1000’s)\(^9\). Ninety percent of the
population is Buddhist and 90% of the population is of Khmer origin and speaks the
Khmer language. There are twenty minority groups which equal 3.83% of the

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\(^14\) Wikipedia. (note: graph is also from Wikipedia)
population. The rest is made up of Vietnamese, Thai, and Chinese peoples predominantly. Cambodia thus has a relatively homogenous population.\textsuperscript{15}

In contrast to surrounding countries, however, Cambodia’s population is rather small. Thailand has approximately 61 million and Vietnam, 77 million.\textsuperscript{16} Cambodia, with its 14 million is sandwiched between countries with larger populations and higher rates of living. The poverty level in Cambodia is very high. In Phnom Penh, the percent under the poverty line is 11.1, directly outside of the city it is 29.9\%, and in rural areas it is 40.1\%.\textsuperscript{17} In 2004, 40 to 50\% of the population lived on $1 \text{ USD} \text{ a day.}\textsuperscript{18} Only 3\% of the population in the rural area has electricity compared to 67\% in Phnom Penh.\textsuperscript{19} Between the years of 1992 and 1997, 2 billion USD was sent in foreign aid to the rural areas but only 13.8\% of that money reached the targeted demographics.\textsuperscript{20} The World Bank noted that the “poor, particularly those among the most disadvantaged groups, lack a public voice and have little access to services and opportunities.”\textsuperscript{21} This is very true and demonstrates the Cambodian struggling attempts at democracy where all citizens have a voice and free speech is practiced. In addition, the corrupt government which pocketed 86.2\% of the foreign aid between 1992 and 1997 displays a flagrant disregard

\textsuperscript{17} Peou, 60.
\textsuperscript{19} Peou, 60.
\textsuperscript{20} Peou, 61.
for improving the internal human condition. Another factor illustrating this is the 69% literacy rate in Cambodia.\textsuperscript{22}

**Economic Factors**

The major exports of Cambodia are: rice, fish, lumber, garments, and rubber\textsuperscript{23} (as can be seen in the chart above). Cambodia is very rich in natural resources, such as lumber, but they continue to be poor as a nation. Forests, one of their most important natural resources, have declined from 70% of land cover to 30% of total land cover.\textsuperscript{24}

The fact that the Cambodians are not protecting this important natural resource, but are instead raping the environment to produce a modicum of national income from exporting it, shows how they are lacking in environmental protection measures as well as a lack of future planning.

\begin{center}
\begin{tabular}{l|cccccc}
\textbf{(US$ m; fob)} & & & & & & \\
\hline
Domestic exports incl others & 997 & 1,283 & 1,462 & 1,638 & 1,960 \\
GSP (mainly garments) & 678 & 1,017 & 1,188 & 1,386 & 1,645 \\
Logs & sawn timber & 138 & 100 & 68 & 38 & 25 \\
Rubber & 49 & 60 & 52 & 63 & 98 \\
Rice & 51 & 15 & 57 & 24 & 90 \\
Fish & 42 & 44 & 42 & 60 & 37 \\
Re-exports & 132 & 118 & 109 & 111 & 117 \\
Total & 1,129 & 1,401 & 1,571 & 1,749 & 2,076 \\
\hline
\end{tabular}
\end{center}

Source: IMF, Cambodia: Statistical Appendix, October 2004. (c) Economist Intelligence Unit 2005

\textsuperscript{22} Economist Intelligence Unit. *Cambodia: Country Profile 2004*. p. 37.

\textsuperscript{23} Wikipedia.

\textsuperscript{24} EIU *Country Profile*, 18.
The top two industries in Cambodia are textiles and tourism. The chart to the left shows how textiles are approximately 75% of Cambodia’s total exports in 2002. When the Multi-Fiber Arrangement (MFA) was announced by the WTO as a measure to be introduced on January 1, 2005, Cambodia became highly desirous of joining the WTO before this date as the MFA would lay down quotas on international trade in textiles and if they had remained outside the WTO, their most favored industry would suffer heavy losses. Cambodia managed to gain entrance into the WTO in September of 2003, thus avoiding the heavy penalties that would have been imposed on their textile exports.25

Tourism, as Cambodia’s second most important industry, relies heavily on the historical ruins of Angkor Wat and the plentiful coastline of beaches as a draw to tourists and investors alike. The risk analysis will examine the investment possibilities of tourism in Angkor Wat in more detail under the section on Cambodia’s multilateral relations with the United Nations—the main source of funding for development and preservation for this monument. However, to give some idea of the importance of tourism in Cambodia, the following chart highlights the profits made in the tourism sector over a period of five years in Cambodia:

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As can be seen, the total visitor arrivals has been increasing—from 2000 to 2004, it more than doubled. In addition, the percentage of the GDP that derives from tourism was 11.4% in 2002. However, to put that in context, the total GDP in 2004 was $1,900 USD.\(^{26}\)

Cambodia holds the 175\(^{th}\) place out of 232 countries in the world for GDP.\(^{27}\) It is not one of the big powers in the world or even in its region. Thus, as the risk analysis begins now to discuss Cambodia’s international relations, it should be kept in mind that the main relation Cambodia has with the outside world is that of a charity. Cambodia’s main relations involve being granted loans and assistantships to develop the country—a process which is far from being complete even though it has been under construction since the early 1990’s when the UN first stepped into the war-torn country. The following chart should be kept in mind as the paper delves into Cambodia’s international relations as an example of the country’s dire straits.

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\(^{27}\) Ibid.
Bilaterial relations—Japan

Diplomatic relations with Japan were opened in 1953. There are a number of Japanese and Cambodia nationals residing in the opposite country: 567 Japanese in Cambodia and 1,925 Cambodians in Japan (as of December 2001). Japan is one of Cambodia’s most important trading partners with exports in 2002 being 9,371 million yen and imports being 8,747 million yen. Also, as seen in the above chart, Japan is the single most important contributor of foreign aid to Cambodia. Between 1992 and 2001 Japan gave to Cambodia in grants a total of 76.2 billion yen, in loans: 4.1 billion yen, and in technical co-operation: 21.0 billion yen.

More recently Japan has undertaken several programs of reform in Cambodia and the Cambodia-Laos-Vietnam region. To provide some examples of this, in 2002 Japan

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29 Ibid.
30 Ibid.
began a railway upgrade project in Cambodia totaling $11.4 million USD in aid.\textsuperscript{31} In February of 2004 Japan instigated a program entitled the “Phnom Penh-Partnership for Urban Poverty Reduction—Phase II”\textsuperscript{32} and in February of 2005 Japan began a program called “Drug Abuse Counseling, Treatment, and Rehabilitation Services”\textsuperscript{33}. And, finally, in November of 2004, Japan began work in conjunction with Cambodia, Laos, and Vietnam on the CLV Development Triangle.\textsuperscript{34}

The railway infrastructure in Cambodia is in a serious state of disrepair. They have a mere total of two railways. One comprises a 385-km line running from Phnom Penh to Poipet on the Thai border, and the other is a 263-km route from Phnom Penh to Sihanoukville on the coast. The latter was upgraded in 1996, but still requires additional work, and the former is urgently in need of an upgrade. In 2002, Japan’s Railway Technical Services did a feasibility survey on the possibility of repairing the Phnom Penh-Sihanoukville railway line. The first stage of the project will concentrate on a 50-km section between Sihanoukville and Kampot and totals a grant of $11.4 million USD in aid from the Japanese government. This is merely one step towards infusing the Cambodian infrastructure with much-needed growth. Other sectors which are desperately in need of work include: roads, education, health, ports, telecommunications, power generation, and airways.\textsuperscript{35}

The two programs developed by Japan in 2004 and 2005 mentioned above are also worth noting as a sample of Japan’s development aid to Cambodia in human

\textsuperscript{31} EIU, \textit{Country Profile}, 20.
\textsuperscript{35} Economist Intelligence Unit. \textit{Cambodia: Country Profile 2004}. pp. 18-20.
resources. The 2004 “Phnom Penh-Partnership for Urban Poverty Reduction—Phase II” is a joint venture between the Government of Japan and the United Nations to extend assistance totaling $1,114,975 USD to Cambodia to “strengthen the competence and dignity of the poor communities in Cambodia by improving their living environment”\textsuperscript{36}. These measures aim to improve the living conditions of the poor in the areas of: water, sanitation, sewerage, solid waste disposal, and income generation.\textsuperscript{37}

The second program begun in 2005, “Drug Abuse Counseling, Treatment, and Rehabilitation Services”, is also a JV of Japan and the UN and grants $1,176,001 USD to be administered by the United Nations Office on Drugs and Crime (UNODC) in Cambodia. The project “aims at focusing on families and communities under the threats of increasing drug addiction as well as rising transmission of HIV/AIDS and other blood-borne diseases through needle-sharing and lack of preventive knowledge.”\textsuperscript{38} Drugs and prostitution are two of the main ills facing Cambodian society at present, so this program developed by Japan is an admirable attempt to defeat the inroads of such destructive societal problems.

The final program of developmental aid that Japan is invested in with Cambodia is the CLV Development Triangle. This joint effort by the four countries involved is aimed at improving infrastructure such as transport and electricity in the region where Cambodia, Laos, and Vietnam share borders. The aim is to accelerate “economic growth, poverty reduction, social and cultural progress in the area of the Triangle.”\textsuperscript{39} It is also

\textsuperscript{37} Ibid.
supposed to “promote multi-faceted relations, mutual understanding, and trust among the CLV” and contribute “to peace, stability, cooperation, and friendship in the Mekong region and the region as a whole.”

Japan’s interest in keeping this region peaceful can be assumed as a preventive measure so as to ensure that the entire Asia Pacific region does not become embroiled in a conflict between any of these three countries. In return for their development aid, Japan is also getting the backing of these three countries in the United Nations. The reciprocal deal for Japan is the support of the three countries of the CLV in their bid for a permanent seat on the Security Council.

In conclusion on Japan, relations between Japan and Cambodia focus mainly on the monetary aid assistance which passes from Japan to Cambodia. In exchange Cambodia trades heavily with Japan and offers political alliance within international organizations. The same could be said for Cambodia’s relations with China.

**BILATERAL RELATIONS—CHINA**

Diplomatic relation channels with China were opened on July 19, 1958. Since that time, China and Cambodia have had much mutual trade and co-operation agreements. In 1996 they signed an Agreement on Trade, Investment, Promotion and Protection and in 2000, an Economic and Trade Co-operation Committee was formed. In 2002 the trade value between the two countries was $0.27 billion USD. China’s primary exports to Cambodia are: textiles, steels, electric devices, metals, machinery, and building supplies; and the primary imports in China are: rubber, plywood, panels, and

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40 Ibid.
41 Ibid.
43 Ibid.
44 Ibid.
In 2004, China was the top investor in Cambodia to the tune of $80.4 million USD. Out of the 19 projects China invested in, 15 of these were in the garment sector totaling $35.10 million USD.

In November of 2002, the Chinese Premier, Zhu Rongii, visited Cambodia and discussed the development of agriculture, human resources, and infrastructural construction as key elements China was interested in. China also at this time, declared overdue Cambodian debts exempt and both King Sihanouk and Prime Minister Hun Sen reaffirmed their support of the One China Policy as regards Taiwan, and also Tibet. As can be inferred from this relationship—China conducts trade and investment with Cambodia in order to have their political support on the definition of China’s borders. Germany, on the other hand, one of Cambodia’s main EU partners, serves as an example of a more self-less bilateral relationship.

**BILATERAL RELATIONS—GERMANY**

Germany and Cambodia had no diplomatic relations for the entire period that Cambodia was under the rule of the Khmer Rouge and the Vietnamese puppet government. Relations between the two countries ceased in 1969 and were not renewed until 1992 after the UN had stepped in to begin their sponsorship of the free elections held in 1993. Germany’s relations with Cambodia are thus relatively untainted by relations with the dictatorships that held sway in Cambodia for two decades—this is a fact not true for America, which will be discussed in the following section.

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45 Ibid.
46 Ibid.
Germany has many beneficial programs in place in Cambodia—dealing with economic sectors as well as cultural ones. For economic relations, some recent examples are from 2002 when Germany formed a bilateral investment protection agreement with Cambodia and a working bureau to encourage German investments in Cambodia. The year 2003 saw the following statistics for Germany in relation to Cambodia: imports: $210 million USD (mainly textiles and shoes), Exports: $8.4 million USD, and Tourists: 25,700. In addition Germany has spent $6.3 million USD since 1997 towards humanitarian de-mining in Cambodia—a necessary activity in a country which has almost the highest number of explosive mines per square foot of any country in the world and where 1 in 384 people are amputee victims. Germany is also working with Cambodia as one of their main bilateral donors to promote democracy, human rights, and women’s rights under the Development of Co-operative Relations. In addition to the preceding rights, they are also attempting to rectify the land management problems left from the Khmer Rouge period in which all titles to private ownership of land were destroyed. Finally, under cultural relations, Germany has a cross-cultural education program that funds exchange students, teachers, and German language instruction in Cambodia. Germany is also a supporter of the ASPARA Conservation Project which works on the redevelopment and preservation of the ruins at Angkor Wat. Germany’s efforts at cultural exchange and economic development in Cambodia are mirrored in their relations with Brunei, also in the Southeast Asian region. It is conceivable that

\[50\] Ibid.
\[51\] Ibid.
\[53\] Auswartiges Amt.
Germany is attempting to gain a foothold of goodwill in the Asian market by their generosity towards these two countries.

**BILATERAL RELATIONS—UNITED STATES OF AMERICA**

Cambodia’s relations with America, unlike Germany’s, are heavily influenced by the periods of genocide and Vietnamese occupation that Cambodia underwent from 1970 to 1991. The US was heavily involved in both of these situations and, to some extent, is actually to blame for both of them.  

Prior to the UN intervention in Cambodia’s government, the US had placed an embargo on Cambodian goods so as to show their displeasure with the state of the government. On January 3, 1992, the US lifted this embargo due to the preparations for a free election and the entrance of democratic processes into the Cambodian system.  

In 1996, the US and Cambodia created a Trade Relations and Intellectual Property Rights Agreement—this was to protect US property rights, of course. In January of 1999, the US formed their first ever trade agreement with Cambodia on textiles.

More recent relations have been tinged with American greed over Cambodia oil exploration and American efforts to prevent terrorist activities in Cambodia. In October of 2004, oil was discovered off the coast of Cambodia in the Gulf of Thailand. The US company Chevron Texaco had gained the rights to any Cambodian oil in 2002. The estimated amount is “about 3 trillion-5 trillion cubic meters of gas, and 400 million cubic meters of oil.”

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barrels of crude oil.” Charlie Jones, a journalist, wrote an editorial published on *Cambodian Online*, stating that America’s discovery of oil in Cambodia coastal waters, presages an American invasion of the territory in order to protect its interests there. The possibility, in his opinion, of the movement of an American soldiers currently stationed in Japan to Cambodia, is not remote. His arguments are compelling as they are based on the expansion of the main Cambodian port in Sihanoukville, commercial waterfront property development (a golf course, a 5-star beach resort, and a new airstrip), the construction of a new US embassy in Phnom Penh guaranteed to be one of the largest and most secure US embassies in the world, and the strategic position of Cambodia at the tip of the shipping channels in the Gulf of Thailand. Cambodia’s lack of ability to deal in terrorist threats—its relatively non-existent naval power excluded it from participating in the “Team Samurai” naval war games—creates a security threat for the region and for the US interests in oil production. Indeed, in 2005 the Bureau of East Asian and Pacific Affairs (EAP) identified counter-terrorism as one of their highest priorities for the region—Cambodia’s part in this endeavor is to increase immigration and border securities so as to decrease the rate of drug and human trafficking and bring the country into line with WTO legal standards.

A final relationship between Cambodia and the US concerns the Cambodia War Crimes Tribunal. Journalist Niko Kyriakou in *Inter Press Service* documented the March 2005 refusal of the US to donate monetary aid for funding the Tribunal. The US excuse

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62 Ibid.
is that they have already donated $7 million USD over the past decade for documentation and research into the crimes committed in Cambodia. Kyriakou makes the valid observation, however, that perhaps the US is trying to avoid their own blame in the Khmer Rouge war crimes as they have been criticized as being indirectly responsible for Pol Pot’s rise to power and for providing CIA support to the Khmer Rouge in the 1980’s to fight the puppet government installed by North Vietnam. Either way, by passing a congressional law banning the US from providing any financial assistance to the Cambodian War Crimes Tribunal fund, the US merely further demonstrates their malign neglect of cooperative and mutually beneficial relations with Asian countries.

**BILATERAL RELATIONS—LAOS, VIETNAM, AND THAILAND**

Laos, Vietnam, and Thailand are all countries that share borders with Cambodia. They thus form a very important relationship with Cambodia. These four countries have many problems based on historical confrontations as well as a burgeoning spate of cooperative partnerships.

Cambodia, Laos, and Vietnam are part of the CLV Development Triangle, as explained above under Cambodia’s bilateral relations with Japan. In addition Cambodia and Laos have been partners since 1996 and on Feb 15, 2004 they held their “8th Meeting of the Cambodia-Laos Joint Commission on Economic, Cultural, Scientific and Technological Cooperation”. This Commission aims to do joint work on security cooperation, economic and technical co-operations, and cultural and social cooperation.

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The most important of these, security co-operations, is involved with border security risks in human and drug trafficking.\textsuperscript{67}

Cambodia’s relationship with Vietnam is a little more fraught with shared history due to the fact that Vietnam invaded Cambodia in 1978 and set up their own government. This conflict exists to this day in the form of the current Prime Minister Hun Sen who is the same PM that Vietnam installed.\textsuperscript{68} Though Vietnam and Cambodia continue to have disputes over borders, offshore islands, and problems with refugees; they are also co-operating on the CLV Development Triangle, the joint building of five hydroelectric dams on the Sekong and Sesan rivers begun in 2004\textsuperscript{69}, and the “Cambodia-Vietnam Joint Commission on Economic, Cultural, Scientific and Technological Cooperation” of which they recently had their seventh annual meeting on February 21-22, 2005.\textsuperscript{70} Additionally on March 28-30, the General Secretary of the Communist Party of Vietnam’s Central Committee paid an official visit to Cambodia and outlined a series of principles for the two nations to follow together in peaceful co-operation. These include:

- respect for each other’s national independence and sovereignty, non-interference in the other’s internal affairs, no use of force or threat to use force, not letting any political or military forces to use their territories to fight against the other country, equal cooperation in the mutual interests, settlement of all problems emerging from the two countries’ relations through peaceful negotiations in the interest of the people of each country and for peace, cooperation and development in Southeast Asia and the world as a whole.\textsuperscript{71}


\textsuperscript{68} Wikipedia

\textsuperscript{69} EIU, \textit{Country Profile}, 20.

\textsuperscript{70} Kingdome of Cambodia, Ministry of Foreign Affairs. “The result of the 7\textsuperscript{th} Meeting between Cambodia-Vietnam Joint Commission.” February 22, 2005. http://mfaic.gov.kh/information/bulletin/2005/feb/february\%20bulletin.htm#the\%20result\%208th\%20meeting\%20cam\%20vietnam\%20jc

They also agreed to increase their official visits and promote friendly relations especially among the youth of the two countries.

As for Thailand, Cambodia’s relations with the country to their northwest, continues to involved unresolved border disputes, trafficking of humans and drugs across borders, and in June 2003 there were anti-Thai riots in Phnom Penh because of a misquotation printed in Cambodian newspapers that was said by a Thai actress about the ownership of the Angkor Wat ruins. However, the anti-Thai sentiment has calmed since 2003 and they currently hold stable relations. Cambodia and Thailand are even pursuing a joint venture to build a better system of bridges linking their two countries together. Thailand has contributed $6.7 million USD to Cambodia for the building of bridges linking Koh Kong in Cambodia with Thailand’s Trat province. Thailand is also promoting tourism to Cambodia.72

Though these three neighboring countries continue to have unresolved issues with Cambodia—primarily in the realm of border disputes—it can be seen that Cambodia is attempting an integration with the adjacent Southeast Asian countries in their region. This kind of bilateral partnership is a supporting sign for Cambodia’s political stability and offers a safer space in which to invest and further develop the country.

MULTILATERAL RELATIONS—ASEAN, APEC, THE WORLD TRADE ORGANIZATION, THE UNITED NATIONS, AND THE WORLD BANK

As stated previously, most of Cambodia’s international relations have to do with monetary aid being given to this under-developed country. Cambodia’s multilateral relations all entail being given large amounts of financial aid. Most of which never seems to reach the sectors it is aimed at helping as corruption is an essential part of

72 EIU, Country Profile.
Cambodian government. The former King, Norodom Sihanouk, once said, “If you need Cambodians to help, please pay them yourselves directly. Please don’t give your money to my administration. You know, in Asia, we cannot avoid corruption.”

The World Bank seems to face the corrupt side of Cambodia quite a bit in their relations as two of the main reforms the World Bank has been trying to push through for years involve the transparency of government and a culture of accountability. In 2005, World Bank investment in Cambodia has actually seen a drop in spending levels because of this failing fight against corruption. Current president of the World Bank, John Wolfensohn stated on February 11, 2005 that, “We have reduced our lending to Cambodia—as a response to the poor performance on governance indicators—but we have not reduced our commitment, nor our efforts to push for the kinds of reform that are needed to bring about a better life for all Cambodians.” A pithy statement revealing the World Bank’s disillusion with their ability to reform the country though they continue to have many active programs in Cambodia, such as: Demobilization and Reintegration Project (helping former soldiers become citizens), Land Management and Administration Project (distributes 20,000 land titles a month), and the Youth in World Bank Cambodia Program (involves a Cambodian youth in analyzing the Bank’s programs

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73 Sesser, 151.
77 Ibid.
in order to revitalize the future population’s leadership skills and recognition of good governance).  

ASEAN’s relations with Cambodia are primarily of a surface quality. Cambodia joined ASEAN in April 1999. Upon gaining admittance they stepped up their bilateral relations within the region and in 2003 received $548 million USD in aid at a donors meeting in Paris. This money was used primarily to prop up and sustain Hun Sen’s new government and political legitimacy. ASEAN also recognizes and approves of Cambodia’s membership in the CLV Development Triangle which was formed somewhat as a grouping of three of the poorest countries in ASEAN so that they could work together to develop economically.

APEC’s role in Cambodia is slight as they do not have much worth economically speaking—though the somewhat recent discovery of oil might change that slightly. In terms of ASEAN countries trade with one another though, it is significantly dwarfed by ASEAN trade with countries outside of Southeast Asia. The following chart to the left from the Economist in 2004 illustrates this phenomenon.

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79 Peou, 62.
Membership in the WTO has not done much to change Cambodia’s trade legalities. Other than becoming a member in 2003 in order to avoid the MFA of 2005, Cambodia’s entrance into this multilateral body was more of a diplomatic success than an economic one.\(^\text{82}\)

Cambodia’s ties to the United Nations, on the other hand, are some of the most important for this developing nation. The Paris Agreement of October 23, 1991 is what gave the UN control over Cambodia’s future. With this agreement it was decided that the UN would hold a sponsored election in 1993 under the auspices of the United Nations Transitional Authority in Cambodia (UNTAC) in order to produce a more democratic regime in Cambodia.\(^\text{83}\) Since that time the UN has expended much monetary aid and solicitous interest in Cambodia. Some of the development agencies that the UN has put into place are models of Sustainable Human Development, the National Program to Rehabilitate and Develop Cambodia (NPRD), the Council for the Development of Cambodia (CDC) in June 1995, a sub-group of the CDC called the Cambodian Rehabilitation and Development Board (CRDB)\(^\text{84}\), and the Cambodian War Crimes Tribunal—an on-going project\(^\text{85}\). The CRDB is one of the most important institutions in Cambodia as it is in charge of: aid coordination and public relations, the management of bilateral aids, multilateral aids, aid from the United Nations Development Programs and other UN specialized Agencies; as well as coordinating NGO’s activities internally.\(^\text{86}\)


\(^{83}\) Peou, 38.

\(^{84}\) Kingdom of Cambodia, website. “External Assistance to Cambodia.” http://www.ocm.gov.kh/c_ia1.htm


Along with these programs that the UN has helped to develop within Cambodia, the UN also works with Cambodia on measures to improve human rights, living conditions for the poverty-stricken, and enforcement of better governing standards. Of course, even with these multilateral agencies attempting to better the welfare of the country, Cambodia’s internal climate continues to pose several severe security risks for potential investors.

**RISK FACTORS AND RECOMMENDATIONS**

A list of the risk factors in Cambodia includes many topics already covered in this analysis, such as: lack of transparency in government, high dependence on the foreign aid of others, a scarcity of legal rights and human rights, nascent civil society, and security risks which include the potential for armed conflict, kidnapping/extortion, organized crime in the urban areas, labor unrest, a large percentage of un-detonated land mines, and drug and sex trafficking. All of these factors are ones which must be addressed before Cambodia can become an open economy that would be unreservedly attractive to investors. Recommendations to Cambodia which should be relentlessly pursued include cutting down on the corruption inherent in government by endeavoring to make it more transparent to the general populace internally as well as the international community externally. One of the main complaints of donors to Cambodia is that the money given seldom reaches its beneficial target. This is a practice which must cease for Cambodia to gain a reputation for honesty in business practices. The current corrupt reputation does nothing to encourage serious business deals and instead leads to more of the sort of drug and human trafficking which should be avoided for Cambodia to progress as a

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87 Wikipedia.
88 EIU, *Country Profile.*
developing nation that aligns itself with the codes of conduct of the multilateral bodies of
which it is a member.

Another area in which Cambodia could strive to improve their investment market
is by diversifying their production sector—a recommendation already promoted by the
Asian Development Bank in September of 2004.\textsuperscript{89} Tourism and textiles are valued
sources of revenue, but in order to compete as a developed/developing nation, Cambodia
is going to have to branch out into new sources of growth. In order to do this they are
going to have to revitalize their infrastructure—transportation, telecommunication, and
human resources. By providing better education, developing civil society groups,
improving access to medical care, legal institutions, and allowing free speech, the human
sector of Cambodian society should prosper. A way must be found to teach better
governance than the corrupt practices which have become common-place. By bettering
the lives of the common citizen, much could be accomplished. Infrastructure in the form
of roads, railways, airways, and internet capabilities should all be heavily invested in by
the Cambodian government as well. In order to further develop the country, the country
is going to have to be accessible to investors.

Finally, in reference to investors, some recommendations should also be kept in
mind before doing business in, or with, Cambodia. Firstly, the risk factors stated above
should be kept in mind. Security risks could have a moderate to high rate of impact on
the potential investor. The under-developed nature of Cambodian legal practices could
make navigation through the complicated procedures of investment dangerous and lack

\textsuperscript{89} Kingdom of Cambodia, CDC/CDRB website. “Pre-CG meeting with the Royal Government of
Cambodia, Friday 10 September 2004, Growth and Private Sector Development: Statement by the Asian
of infrastructure could pose an insurmountable difficulty. Of course, though, there are several arenas that could prove beneficial and profitable to the potential investor. Investing in tourism, particularly around such places as the famous ruins of Angkor Wat or the port of Sihanoukville—which is seeing a slight boom from the discovery of oil off the coast—could be a wise move on an investor’s part. Contributing to the development of infrastructure and civil society in Cambodia would have long-term benefits for the investor—as long as strict attention is paid to whether or not the money is actually being spent where it is directed. Investing in joint ventures, like Japan is doing in the CLV Development Triangle, should pay off in terms of regional camaraderie and development of mutual resources in the triangle area.

**CONCLUSION**

At the beginning of this risk analysis, it was stated that currently Cambodia does not present an attractive or viable investment location. Throughout this analysis it has been attempted to show the many reasons why Cambodia is not prepared to be more than a repository for foreign aid that not infrequently lines the pockets of government figures. However, by following a strict program of giving aid and investment directly to a project or those one is trying to help, investing in Cambodia can be a promising endeavor. Without the investment and good will of other countries, it is likely that Cambodia would flounder in its own morass of instability. Therefore, investment is recommended—as long as it is cautious and enters aware of the difficulties it might encounter in the form of corruption or security threats.
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