



CAMBODIA 2040

INTERNATIONAL RELATIONS AND GOVERNANCE

CAMBODIA 2040

Volume 3

Edited by
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The Organizations

Future Forum

Founded by Ou Virak in late 2015, Future Forum is an independent think tank that focuses on research, analysis, and public policy, representing a dynamic response to an identified “policy gap” in Cambodia.

While there are various civil society actors in Cambodia engaged with a wide variety of issues, Future Forum takes a broader view and adopts a more measured, analytical and considered approach that identifies underlying trends and employs rigorous research, and creative and principled policy recommendations to help shape Cambodia’s policy discourse.

Rather than simply identifying problems, Future Forum adopts a solution-oriented approach, and uses its research to equip key decision-makers with detailed, specific, constructive policy solutions to Cambodia’s issues. Future Forum remains closely connected to youth and grassroots civil society networks such that it can provide local communities with the benefit of policy, analysis and technical assistance.

Konrad Adenauer Stiftung

Freedom, justice and solidarity are the basic principles underlying the work of the Konrad Adenauer Stiftung (KAS). The KAS is a political foundation, closely associated with the Christian Democratic Union of Germany (CDU). As co-founder of the CDU and the first Chancellor of the Federal Republic of Germany, Konrad Adenauer (1876-1967) united Christian-social, conservative and liberal traditions. His name is synonymous with the democratic reconstruction of Germany, the firm alignment of foreign policy with the trans-Atlantic community of values, the vision of a unified Europe and an orientation towards the social market economy. His intellectual heritage continues to serve both as our aim as well as our obligation today. In our European and international cooperation efforts we work for people to be able to live self-determined lives in freedom

and dignity. We make a contribution underpinned by values to helping Germany meet its growing responsibilities throughout the world.

KAS has been working in Cambodia since 1994, striving to support the Cambodian people in fostering dialogue, building networks and enhancing scientific projects. Thereby, the foundation works towards creating an environment conducive to economic and social development. All programs are conceived and implemented in close cooperation with the Cambodian partners on central and sub-national levels.

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Chapter 1 | Introduction

DETH Sok Udom, Bradley J. Murg, OU Virak, Michael Renfrew

Cambodia has experienced drastic changes since the signing of the Paris Peace Accords in 1991. Twenty-five years later, Cambodia is a lower middle-income country with consistently high GDP growth rates and concomitant improvements in human security as measured by the Human Development Index (HDI). The question that Cambodia confronts today is a seemingly simple one, but which is in fact remarkably complex: Whither Cambodia? From energy to industrialization to agriculture, how are the diverse sectors of Cambodian society and the Cambodian economy likely to develop over the next two decades?

As a relatively small country in a region of growing geopolitical and economic importance, how is the kingdom to respond to an assortment of global trends? From the continued rise of China to the effects of climate change to the transition towards a digitalized global economy, Cambodia is set to develop within a rapidly changing global landscape that offers both new challenges and new opportunities.

Set at the intersection of domestic development and global change, will Cambodia in 2040 be a middle-income state with growing prosperity or will it have stagnated at its current, lower middle-income level, or indeed have dropped back to the status of a low-income state? Will the kingdom have adapted to climate change or will it be a victim of its topography? Will a social welfare system be developed to ensure the dignity and security of all of within the kingdom? Where will public administration, rule of law, and governance

stand? Where will Cambodia be within ASEAN and in the broader context of geopolitics?

In order to address these and other important questions - Future Forum has partnered with the Konrad Adenauer Stiftung to produce a series of edited volumes examining a number of different areas of socio-economic development, ranging from fiscal policy to the fourth industrial revolution to healthcare. There are three thematic scopes that the series covers: (i) economic development; (ii) culture and society; and (iii) international relations and governance.

This is the first series of books that brings together a collection of experts, utilizing a single methodological framework, in order to set out the potential scenarios that Cambodia is likely to confront two decades from now. Broadly employing a shared foresighting approach each author examines their particular area of expertise in order to illustrate the potential paths that Cambodia could follow. Additionally, as befits a book about the future of Cambodia, each of the substantive chapters has been developed and written by a Cambodian analyst or through collaboration between Cambodian scholars and foreign partners.

Methodology and Structure

Foresighting is grounded in the view that society is neither predictable nor evolutive. According to this perspective, future developments cannot simply be calculated, totting up sums to yield precise predictions as to outcomes in the long term. However, at the same time, foresighting recognizes that the world is not a chaotic place wherein the analysis of potential future trajectories is ultimately impossible. Rather, in this methodology, the future is best understood as “malleable.” Agency exists but diverse macrosocial variables, institutions, and trends ultimately structure the decisions taken by actors. In this middle ground between perfect prediction and pure chaos, it is possible to capture and analyze processes of change.

Based on a focused and systematic analysis of contemporary trends, across a diverse set of societal and technological sectors, these trends can be

extrapolated into the future. Hence, by following their respective trajectories it is possible to develop probabilistic scenarios as to the paths that societal change can take. A “scenario” is understood in this context as a description of a possible future situation inclusive of the path that leads to that situation. At the same time, scenarios are not developed in a way that presents a full and precise picture of the future; rather these are hypothetical constructs built to highlight certain key factors that will drive future developments. These scenarios can then be used to drive discussions concerning contemporary politics and policies such that actors are able to “clear away the brush” and grapple with the key factors that will most significantly impact the development of a particular topic.

Owing to constraints of space, rather than projecting a series of potential scenarios – each author sets out an ideal and a baseline scenario. Defining a particular set of key factors and then utilizing a funneling method, each chapter analyses its area’s salient factors in order to generate the respective ideal and baseline scenarios.

As a methodology, foresighting has historically had diverse applicability across different fields of research – with some being more amenable to such an approach than others. Rather than “boxing in” analysts, this volume recognizes that diversity and approaches foresighting as a methodological toolbox from which analysts can draw in order to best explore the future development of their particular areas of research. Following the foresighting analysis presented, outputs are specified in the form of a set of policy recommendations. Each chapter follows a broadly shared narrative-based structure:

- 1) **The Ideal Scenario**, describing the plausible ‘best-case’ outcome for the topic at hand, given that the prescribed policy recommendations are undertaken.
- 2) **Scenario Space and Key Factors**, containing an analysis of the topic space as defined by the author.
- 3) **Policy Initiatives to Achieve the Ideal Scenario**. Having defined the topic space and considered the interplay of global trends and local development needs, the author outlines their policy roadmap.

- 4) **Baseline Scenario: Business as Usual in 2040.** The final section presents the hypothetical outcome for the topic if current practice is to remain in motion.

In addition to these four sections, in order to bring these analyses “to life,” each chapter begins with a brief narrative setting out what one day in 2040 for a random Cambodian citizen might look like under the ideal scenario developed.

Beyond its contribution in the policy arena, we visualize this book as having a second and equally important benefit: supporting the training and development of Cambodian scholars. To this end we utilize foresighting as a guide and structure for a diverse set of local, Cambodian experts to examine key policy questions over the long term. It is not intended to be read as a definitive construction of the Cambodian development pathway. Rather, Cambodia 2040 represents a promotion of analytical hypotheses and outcomes, intended to encourage discourse and debate amongst stakeholders from government to aid partners to citizens.

This third volume is unique in comparison to the prior two volumes in the series - questions of both governance and international relations are explored. Thus, in addition to a set of chapters utilizing the foresighting methodology set out previously, it also includes two framing chapters by OU Virak and Ambassador Pou Sothirak, respectively, setting out the megatrends and geopolitical realities under which Cambodian foreign policy and its future international relations will function. The first two volumes of *Cambodia 2040*, exploring economic and social issues, recognized the enormous amount of agency that actors in the kingdom possess to determine the future of questions ranging from public health to fiscal policy - yet also taking into account, with lesser weight than in the international relations chapters this volume, the broader structural and global factors in the development of ideal and baseline scenarios.

As a policy-oriented rather than theory-oriented text designed for an audience ranging from technical experts to government officials to general readers, this volume avoids wading into existing debates in International Relations theory and the explicit adoption of a Realist, Liberal, Constructivist, or Marxist theoretical framework. The unique collection of contributing authors are

representatives of a diversity of theoretical and epistemological approaches, yet are brought together in this volume by a shared utilization of the foresighting approach discussed above.

We recognize that for a relatively small country such as Cambodia, geopolitical factors have historically played a major causal role in the determination of the kingdom's place in its bilateral, regional, and global position. The Cold War and the war in Vietnam essentially destroyed efforts at Cambodia's maintenance of neutrality, ultimately leading to the Khmer Rouge takeover in 1975 and the subsequent genocide. Until the signing of the Paris Peace Accords in 1991, Cambodia remained a key issue for the United States, the Soviet Union, and China in the final decade of the Cold War.

Thus, this volume takes an approach that recognizes (as discussed below) the more significant role played by structural factors such as Sino-American competition; the development of the Association of Southeast Asian Nations (ASEAN); and the place of the U.S. dollar in the global economy. However, recognizing these realities does not entail an elimination of agency on the part of Cambodia - far from it. Rather, this volume seeks to highlight precisely those areas where the kingdom has agency and how that agency can be utilized in order to achieve optimal outcomes to achieve Cambodia's national interests and long-term sustainable development.

The Kingdom in Retrospect: Cambodia in 2000

The new millennium ushered in a period of relative stability in war-torn Cambodia. Less than a year earlier, in March 1999, the last Khmer Rouge commander, Ta Mok, was arrested, thereby effectively ending the guerrilla movement that had posed security threats to Cambodia throughout the 1990s. In April 1999, Cambodia was also admitted as the tenth member of ASEAN after a decades-long delay caused by Cambodia's civil wars, bloody regime changes, and domestic instability.

Thanks to the fragile peace achieved by 2000, the country began to witness signs of modest socio-economic growth. This was evident, for instance, in the rise of official tourist arrival to the kingdom. While 118,183 tourists officially visited

Cambodia in 1993, the number rose to 466,365 by the end of 2000. In 2000, there were already 240 hotels and 292 guest houses operating in Cambodia catering to the rising tourist demands (Sharpley & McGrath, 2017, pp. 90-91). Likewise, urbanization and the expansion of Phnom Penh as the capital city began to accelerate: “The real estate market took off significantly after 1998 and grew at a rapid rate between 2004 and 2008. The price of land in central Phnom Penh increased great between 2004 and 2007, from around US\$250 to over US\$2000 per square meter in some key locations” (Percival, 2017, p. 182). At the time, however, traffic congestion and waste management were presumably not the pressing issues as they are today.

While provision of public general education began almost immediately following the collapse of the Khmer Rouge regime, the establishment of private secondary and higher education institutions only began to mushroom during the early 2000s (the first private university was officially established in 1997), though at the time, quality control and accreditation regulations were scant.

In 2000, only 80,000 persons were estimated to own a mobile phone (CIA World Factbook 2001: Cambodia, 2001); by 2019, mobile subscription has jumped to more than 18.5 million users (when the total population is only approximately 16.5 million). Cambodia also began its e-government initiatives by establishing the National Information Communications Technology Development Authority (NiDA) in 2000, but poor technology infrastructure, low literacy rates, and a high turnover of government IT staff members were the main challenges of such efforts (Richardson, 2017).

According to official statistics, Cambodia’s GDP per capita had increased from \$288 in 2000 to over \$1500 in 2018, making Cambodia one of the best performers in poverty reduction (Ministry of Economy and Finance, 2016) – even if, as Young Sokphea pointed out, “[...] the poverty measurement and calculation remain contested” (Young, 2017).

As the Khmer Rouge threat diminished by the late 1990s, “land disputes became the most high profile source of potential threat to peace and stability. Regular disputes occurred, typically between groups of villagers and well-connected companies or individuals whose identity was difficult to pin down” (Biddulph &

Williams, 2017). Similarly, thanks to weak governance, the country's natural resources have also become collateral damage of Cambodia's embrace of a market economy. Since the early 2000s, the country has continued to witness rapid deforestation, high profile cases of land evictions, mineral extraction, and environmental degradation. Political tension has also continued to simmer throughout the 2000s, culminating in the dissolution of the main opposition party – the Cambodian National Rescue Party (CNRP) in 2017.

Noting these vast changes – both positive and negative, anticipated and unanticipated – experienced in the kingdom over the course of the last twenty years, the future development of Cambodia will be anything but dull.

The Kingdom at Present: Cambodia in 2020

The utility of this project is derived from the observation that a great deal of growth and development has been achieved in the previous twenty years of Cambodian history. The recommendations made within this series are set against the circumstances of Cambodia in 2020; with a view to the exceptional development it may undertake by 2040. Accordingly, it is necessary to provide an overview of Cambodia at this moment in time.

As noted above, the last twenty years of change in the kingdom have seen Cambodia undergo a considerable economic transition towards the lower middle-income status reached in 2015 (WorldBank, 2019). This growth has been primarily driven by large demands in the garments and tourism industries (ODC, 2019). With an average growth rate of 8% between 1998 and 2018, Cambodia is one of the fastest-growing economies in the world (WorldBank, 2019). The latest figures at the time of writing show that Cambodia's international trade reached \$24.9 billion (MEF, 2019). The kingdom's three biggest export markets are the United States, the United Kingdom, and Germany; while its largest import partners are China, Thailand, and Vietnam (WITS, 2019). With ambitions to break into the upper middle-income bracket by 2030, the policy recommendations made in this book seek to support the continued achievement of this goal.

In the international arena, Cambodia has also come a long way. Since becoming a member state in 1999, the kingdom has held ASEAN Chairmanship twice. In

2020, Cambodia is poised to serve as Chair of the 13th ASEAN-EUROPE MEETING (ASEM) Summit in November 2020. More importantly, the country has transformed from being a war-stricken country to an active contributor of international keeping force, having dispatched more than 6000 UN peacekeepers since 2006. At the same time, trans-boundary problems and diplomatic challenges remain. Since the publication of the previous two volumes, Cambodia has encountered a twin set of challenges: i) the partial removal of the EU's *Everything But Arms* (EBA) trade scheme over issues of human rights and democratic backsliding; and ii) the lingering impacts of the Covid-19 pandemic on Cambodia's economy, especially on the garment and tourism sectors. Additionally, there are other distressing signs: people living along the Mekong River have recently experienced natural disasters such as flood and drought as well as the effects of hydro-dams and climate change (Mekong Connect, 2020), while the kingdom's corruption perception index and ease of doing business scores are still among the lowest in the world.

Beyond Cambodia's internal status at this time, several prevalent mega-trends will determine the future of growth and development within the kingdom. Whereas a trend captures a general direction of change over time, a megatrend captures the major forces in societal development that are predicted to affect all areas over a ten-year timeframe (EFP, 2019). At this time, five megatrends have been identified that will shape the development of global society and economy (PWC, 2019): rapid urbanization; climate change and resource scarcity; a multipolar structure of global power; population growth and demographic change; and technological breakthroughs. Each of these megatrends will have a direct impact on the form and function of Cambodian growth and development. At present, the increasing tension on multiple fronts in U.S.-China relations has become a pressing concern for all countries in the region and will certainly shape future geopolitics, global supply chains, multilateral institutional arrangements, and alliance building within the region. The recent sanctions on Chinese companies in Cambodia by the U.S. is a testament to such spillover effects. If not managed properly, Cambodia could once again become a victim of global power rivalry as it had been during the Cold War.

The Kingdom in Future: Cambodia in 2040

Where will Cambodia position itself in a world experiencing a shift in power supremacy? This most important of questions has implications for economic development, representation of the citizenry, and how an uncertain environmental climate will be tackled. For these reasons, and many more, Ambassador **POU Sothirak** uses his chapter, **Great Power Politics**, to examine the ongoing power struggle between the United States of America and China, setting out four scenarios as to the potential future structure of geopolitics and polarity. At the same time, structural factors are not limited to geopolitics. Recognizing the rapid changes occurring across a range of fields, **OU Virak** sets out the macro-level “**megatrends**” that will impact Cambodia in the coming two decades and which need to be incorporated into current policy analysis and future policy making.

Originating in China, the Mekong River snakes its way down through Myanmar, Laos, and Thailand, before entering Cambodia through Stung Treng province. It represents one of Cambodia’s most valuable national resources and is of vital importance to the kingdom’s delicate ecosystem and agricultural sector. It is of equal importance to the aforementioned nations through which the river flows (in addition to downstream Vietnam) and is therefore a source of both geopolitical cooperation and friction. It is at this intersection, and among the Mekong subregion’s alphabet soup of cooperation institutions, that author **PICH Charadine**, explores potential outcomes for Cambodia in her chapter, **The Mekong River and Mekong Subregion Cooperation**.

In the area of foreign policy opportunities at Cambodia’s disposal, an often under considered avenue of **soft power** development is that of **environmental diplomacy**. Noting the kingdom’s uncertain future in the face of climate change, author **CHAN Sam Art** examines the opportunities for progressive environmental policy around reforestation and carbon trading. He asserts that Cambodia is well placed to lead by example and generate a pathway of environmental consciousness for others to follow.

Moving into the topic that has dominated Cambodian headlines since 1991, authors **Brevin Anderson** and **HIM Raksmeay** discuss the future of **foreign aid**

and development assistance in the kingdom. Their chapter explores a future where Cambodia is able to downgrade its dependence on foreign aid and move towards a domestically determined allocation of funding towards development priorities. This has ushered in an era of increased private capital investments, stabilized international relationships, and sustainable economic development.

Cambodia has the distinction of being one of the most dollarized economies in the world, despite the fact that the nation has never officially adopted dollarization. Resulting from a series of shocks to confidence, the kingdom moved away from the national currency, Riel, beginning in the 1970s. The acceptance of the dollar was ultimately enshrined following the establishment of UNTAC to oversee the elections following the Paris Peace Agreement in 1991, where \$1.7bn flooded the economy. In their chapter, **Monetary Policy and Rielization**, authors **Rasheed Griffith** and **LOR Samnang** present a pathway towards de-dollarization and the return to the Riel as Cambodia's standard currency.

Implicitly underpinning the feasibility of the potential futures outlined in the above chapters is the **rule of law**. Authors **Thomas Pearson** and **CHANTY Pisal** use their chapter to explore this mechanism explicitly. Their writing explores the requirements to inspire confidence in investors and citizens alike. In particular, theories of good governance and accountability are examined in countenance to potential pitfalls of corruption and rule by law in contrast to rule of law.

From a **public administration** perspective, the chapter by author **YANN Aoudourm**, offers a discussion of public sector requirements of the Cambodian citizenry as Cambodia continues to be shaped by enhanced economic performance, globalization, and domestic advancements in digital information and technology systems. He explores the importance of digital transformation in the sector and mechanisms for the training, monitoring, and retention of key personnel.

The final chapter of this volume is written by author **MIN Seiha** and examines the future development of the Cambodian **civil service**. Noting the projected demographic changes resulting from economic development, he sets out

options for delivering service that is responsive to the demands of the people, while supporting sustainable economic growth.

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Chapter 2 | Global Megatrends: How Cambodia Should Respond

Mr. OU Virak

Introduction

In this chapter of Cambodia 2040, I aim to provide an overview of the main global megatrends confronting Cambodia – as well as the broader Mekong, Southeast Asia and Asia-Pacific regions – and to outline how it should respond. With the 2020s now underway, and with some analysts starting to cast a wary eye towards 2030, I am looking further down the track to the year 2040, with the goal of establishing a positive vision for Cambodia to aspire to for the middle part of this century.

The thematic issues and trends – and the corresponding policy recommendations I propose – are not necessarily discussed in order of priority; rather I tackle them in a loose thematic order that clusters related issues together. I examine key trends relating to demographics; migrant labor; urbanization; climate, energy and resources; economy, industry, technology and data; trade; terrorism and security; and populism and nationalism. I anticipate that all these trends and issues will affect Cambodia at least to some degree, whether imminently or at some point in the next two decades. As the title suggests, I have my eye on 2040 and the 20-year span to that point.

Demographics

By 2030, the world's population is expected to reach almost 8.5 billion people – one billion more people than in 2015, when it was 7.3 billion. Indeed, by 2040,

it is expected to reach over 9 billion people.¹ Global population predictions have tended to forecast a peak around 2080. However, there have already been a few surprises when it comes to population predictions: in a recent study, the *Lancet* challenged traditional forecasts and revised its prediction down significantly, asserting that an accelerated decline in fertility rates will mean that the global population could peak in 2064 at 9.7 billion and fall to 8.8 billion by the century's end (Gladstone, 2020). In other words, the global population is still rising, but the rate of increase is slowing down considerably more quickly than previously predicted.

How such trends will affect Cambodia remains to be seen. Changes in the total population do not paint the whole picture nor tell much of Cambodia's important story, and we cannot simply claim that all changes are equal. And yet I can identify some clear, emerging demographic trends, upon which I will expand in later sections:

- a. The world is getting significantly older.
- b. There will be a rise in the global middle class.
- c. The population in China is already showing signs of aging and will likely decline sooner than previously thought. This trend will continue until 2040 and even begin accelerating, primarily due to its one-child policy, obsession with growth and rapid urbanization.
- d. India will be the new China: India is predicted to continue to grow and still have one of the world's youngest populations. This could mean a shift of production due to cheaper labor than China; and it will also grow in terms of regional clout. Indeed, by 2040, I expect it to be a much more significant actor in the Asia-Pacific region.
- e. Japan, South Korea, Singapore and Australia are all facing similar demographic challenges. The number of people of working age is shrinking, while the number of pensioners is increasing, as people live longer and have fewer children. These countries' options would be to invest more in machines and to attract able labor. I expect Japan and

¹ PopulationPyramid.net (2020)

South Korea to offer more incentives and to compete for labor from Southeast Asia. The main targets for labor will be the Philippines, Vietnam, Thailand and Cambodia. Vietnam and Cambodia are two countries in the region with the youngest populations in 2020; this dynamic will reap benefits throughout the next 20 years. A similar thing could be said about Australia: Australia will put most of their eggs in the basket of a stronger relationship with Indonesia, including a potential opening up of their country for visa exemption and migration from Indonesia.

- f. Indonesia's population is predicted to grow even higher, with the country increasing in economic importance as a result. They will also play a key security role in the ongoing South China Sea dispute and will become the major nation in ASEAN.
- g. Industry 4.0 (see the Economy, Industry, Technology and Data section below) will also undoubtedly have an impact on demographics. There are challenges to ageing populations in much of the developed world, while middle economies will start to experience similar phenomena at an earlier stage of development. We will see an increasing "brain drain" from countries which fail to protect the quality of life – in other words, liveability, economic well-being, social harmony, a lack of racism, and a respect for freedom and human rights.

Migrant Labor

Migrant labor has long been a key trend for Southeast Asia, encouraged by the disparity between the more developed countries in the region (Thailand, Malaysia and Singapore) and the less developed (Cambodia, Myanmar and Laos). I expect that this trend is not only likely to continue, but to accelerate and evolve in the lead-up to 2040. Since there will be a new shift in the nature of work, I anticipate both international and domestic migration continuing to rise: more people will be moving around more often, albeit this trend has been put on hold during the COVID-19 pandemic. People will become more mobile and there will be a growing pool of digital nomads. This is not new in Cambodia. We have played host to "expats" in the previous 20 years. Some of us will become

expats in other countries within the region. More and more people will call themselves global citizens, looking for convenient, safe and attractive bases for their work and business. In other words, Cambodia is likely to see an increase of foreign nationals from a range of business and professional disciplines, rather than the clichés of the NGO volunteer, English language teacher and “gap year” backpacker.

In addition, we are likely to see at least a continuation of – if not an increase in – the drain of migrant workers from Cambodia into neighboring, more developed countries, in search of better-paid work. If there is no sustainable long-term industry growth inside the country, people will continue to seek jobs elsewhere for generations. The demand for unskilled Cambodian labor will come from our traditional partners: South Korea, Japan, Malaysia and Thailand. Indeed, it is estimated that there are close to – or even more than – one million Cambodian migrant workers in Thailand (Kimseng, 2015), and approximately 8,000 registered female Cambodian workers in Malaysia, of whom 3,000 or so are domestic maids (Borneo Post, 2015). In addition, over the next 20 years, Vietnam could become a manufacturing powerhouse and start to attract Cambodian labor. While migration for work could benefit Cambodia economically in the short-term, it would be the wrong policy to promote in the long-term, since Cambodia would fail to benefit from the industry learning curve, namely that countries that have experienced industrial growth benefit from technological advancement, better bureaucracy and skilled labor. Once they become skilled, they are likely to adopt another country as home, leaving Cambodia with a dearth of a much-needed productive age population and short on tax revenue as a consequence.

It is hoped that, by working through the framework of the Association of Southeast Asian Nations (“ASEAN”), countries such as Cambodia can resolve some of the more egregious issues traditionally affecting vulnerable migrant workers. The formal establishment of the ASEAN Economic Community (“AEC”) in 2015 – and the implementation of the AEC Blueprint 2025 – has not significantly affected the flow of Cambodian migrant workers to wealthier countries such as Malaysia and Thailand, but it has formalized the process, providing legal protection to those vulnerable individuals and communities

(Chandara, 2015). Where the AEC will provide even more security and protection is removing the need for visas and work permits altogether. While it may mean an increased labor and brain drain from poorer to richer countries over the short-term – which will benefit the economies of richer countries, such as Malaysia and Thailand, to the detriment of poorer ASEAN countries, such as Cambodia – the fact is that such movements of people within ASEAN are a reality anyway. Bilateral agreements and the AEC are ways of recognizing that fact and protecting migrant workers' rights. Moreover, I would expect such trends to be reversed over the long-term, as Cambodia develops further, and some skilled Cambodian migrant workers are able to return home.

However, aside from the establishment of the AEC in 2015, Cambodia seems to have made significant progress on a bilateral basis with the two main countries in question: Malaysia and Thailand. On 10 December 2015, Cambodia and Malaysia signed two Memoranda of Understanding (“MoUs”) that outlined the process of recruitment, employment and repatriation of workers and maids, in which recruitment would be managed systematically and workers' rights protected (ibid). Furthermore – also in December 2015 – Cambodian Prime Minister Hun Sen signed another MoU with his Thai counterpart, intended to establish cooperation on labor issues, promote the development of skills, and prevent illegal employment and human trafficking by formalizing an agreement with respect to the employment of workers Ashayagachat and Kamjan, 2015). Such steps are important, since more than 50,000 Cambodian migrant workers were deported from Thailand during the course of 2015 (Soenthrith, 2015), while in 2014 some 225,000 Cambodian workers temporarily fled back across the border following a crackdown on illegal migrants after the 22 May 2014 Thai military coup d'état (Turton, 2015). While such bilateral agreements mean that any migrant workers who fail to register and secure appropriate visas and work permits will be further exposed to arrest or deportation, these actions by both governments indicate that there is sincere political will to ensure protection for migrant workers generally.

As the next decade progresses, I expect Cambodia to prioritize the well-being of migrant workers to a much greater extent than before. For it is important to note that they have been the backbone of Cambodia's economic "miracle" so

far, and I am sure that the political classes understand that they need to do a better job of protecting “the goose that lays the golden eggs”. What is interesting is migrant workers’ growing political clout, a result of being much more exposed to the outside world, thereby enabling them to observe and compare their adopted country with Cambodia – economically, socially and politically. They are also influential within their communities and, in time, we can expect them to organize more effectively. Over the last 20 years, they have been provided with little in the way of political returns and a say in political matters. That will likely change in the near future: the rise of the migrant workers could be a significant political development in Cambodia’s 2040 calculus.

Urbanization

Globally, the trend of urbanization is likely to continue until 2040. Yet, I suspect that we overestimate the degree of urbanization. Once Industry 4.0, including full automation, starts to have a significant impact on jobs and transport, and the economy irrevocably shifts towards a digital and services economy (see the Economy, Industry, Technology and Data section below), I am confident that some countries will experience migration away from urban centers that are low on liveability. For example, for several decades now, cities in the United States (“US”) such as Detroit have decayed into shells of their past industrial glory. Moreover, California has seen significant depopulation over the past decade, as a result of de-urbanization and climate change, and the trend is only likely to continue. Cities of the future will not just be able to rely on having good roads and more houses; art, culture and nature will become more important in an increasingly machine-driven world.

It is important that we consider how these changes will impact Cambodia and what we can do. In order to attract and compete for talents, liveability will become a more important consideration, in addition to other existing priorities such as security, political stability and jobs. Since jobs will become more “mobile”, and countries will be desperate for labor, Cambodia stands a good chance of benefitting, on the condition that (1) we manage our security right, (2) the political situation is stable, (3) we preserve our reputation as a friendly country that respects the rights of everyone, and (4) our cities are safe, green

and accessible, with good sidewalks and bike lanes. The factors that will determine where people will choose to live and pay their taxes over the next 20 years will include ease of travel, recreational activities, and ecotourism sites. In terms of regional travel connectivity, expansion of the current three international airports – namely Phnom Penh, Siem Reap and Sihanoukville should make Cambodia an attractive destination for tourism as well as residency.

While I expect Phnom Penh largely to follow the path taken by other large Southeast Asian cities such as Jakarta, Manila and Bangkok over the last 20 years, there is still time to prioritize smart, green livability over gross expansion and over-development, if the city is to be resilient from rapidly changing and unpredictable circumstances. Sihanoukville has expanded rapidly and now has already experienced significant setbacks: it is mostly empty and unlikely to recover any time soon. We are losing our chance to attract quality tourists that might value the calm waters and fine white beaches.

As a progressive, green, cultural and potentially academic hub within the country, Siem Reap would represent an attractive option as the center of Cambodia's new Industry 4.0 economy. With (as yet) an absence of heavy industry, traffic and high-rises, Siem Reap would be the perfect candidate to act as a counterpoint to the financial and commercial capital that Phnom Penh aspires to become. By promoting its natural beauty, cultural events, architectural character and the ancient heritage of the Angkor temple complex, Siem Reap should now develop high speed internet connections, creative co-working spaces and world class ecotourism and leisure facilities, to attract the academics, digital nomads, entrepreneurs and creative types who could establish Siem Reap not only as a national – but regional – creative, academic and cultural hub. It could look to blend the character and natural beauty of Ubud in Bali, the ancient heritage of Kyoto in Japan, and the high-tech eco-friendly credentials of Singapore. It should resist the bland development of Chiang Mai in Thailand and the tourist saturation of Hoi An in Vietnam. Can we save Siem Reap?

We must ask ourselves how Cambodia can benefit from this revolution and what revolutionary policies Cambodia should adopt to surf the tide of change. One important point is that Cambodia should be “open for business”. In other words, once the coronavirus pandemic has abated or been brought under control with a vaccine, Cambodia should prioritize attracting foreign investment, trade and overseas nationals to contribute to both the financial and knowledge economies. I would argue that business and digital nomad visas should be made more available – at appealing and competitive prices, yet high enough to ensure that the right kind of people are encouraged to make Cambodia their base. Cambodia could tax these foreign nationals at competitive rates to encourage people to come, while establishing an easy and effective way of significantly increasing national tax revenues and therefore social security for Cambodian nationals. I should emphasize that applicable labor laws will serve as sufficient protection for Cambodian workers, whose jobs and labor should be promoted within any such development. Yet Cambodia should look outwards too, in terms of investment, interest and ideas. Once the COVID-19 pandemic abates, Cambodia should set out its stall and declare itself open to business rather than turning its back on the world. I view Phnom Penh and Siem Reap, in their different ways, as the two leading lights.

Climate, Energy and Resources

The accelerating climate crisis is well-documented and needs no introduction on my part. What I am interested in is, first, how it is likely to affect Cambodia over the next two decades and, second, how Cambodia can respond in a way that is realistic, pragmatic, green yet economically productive.

While Cambodia has barely contributed to rising global temperatures, we are one of the world’s most vulnerable countries. One issue is the likely decimation of fish stocks in the Mekong and Tonle Sap river systems resulting from excessive dam building on the Mekong, with China, Thailand and Laos the main offenders, Cambodia and Vietnam the downstream victims. Furthermore, some areas around the coast, the Tonle Sap lake, and the Mekong river, delta and floodplain – including Phnom Penh – might be underwater or severely affected by rising sea and water levels by 2040 if worst fears and projections are realized.

Indeed, given the increased prevalence of flooding in Cambodia, and the Phnom Penh / Kandal region in particular, it seems counter-productive, to say the least, to continue filling in all lakes in the name of development. Lakes such as Boeung Kak and Boeung Trabek were essential drainage basins in times of flooding. At the same time, Phnom Penh could aspire to be a “garden city” and we shouldn’t resist developments around these lakes and natural beauties. While we can’t turn back time, we could plan better for the future, at least from here and now. We should take great efforts to preserve all natural bodies of water, including lakes and rivers. We cannot have a serious impact on the global effects of climate change, but we can certainly do our best to protect ourselves. We need to think smart.

On the other hand, provinces such as Mondulakiri, Ratanakiri, Koh Kong, parts of Kampong Speu and Kampot, and some northern provinces near the Thai border might become more liveable, which would naturally entail significant internal climate migration from the at-risk areas of the country mentioned above. In particular, Mondulakiri, with its cooler climate and high elevation, might be seen as a much safer and more pleasant place to live. It would not be beyond the realms of imagination to see Sen Monorom transform itself into a 21st century equivalent of Dalat in Vietnam, much as the European colonial powers used to establish hill stations (including Dalat) to escape the tropical heat. Indeed, Cambodia has already begun to develop Bokor Hill Station over the last decade or so, though I would recommend more liveable, progressive and green urban settlements in places like Bokor and Sen Monorom, rather than simply establishing resorts full of casinos for foreign nationals to enjoy.

So, how can Cambodia adapt to and become resilient to climate change? Is there any way we can benefit from it, perhaps by investing in and developing green schemes that simultaneously boost the economy? Certainly, Cambodia could begin by researching and investing in green, sustainable energy resources, as it needs to plan for an energy revolution including in transport. We should watch closely developments in solar and wind power, spent nuclear fuel, and hydrogen. In this space, Cambodia is a taker and not a leader. We got to keep our eye on the wide horizon ahead and our policies aim for the future, not the past. Automatic-driven buses that rely on electricity or magnetic power, could

make traditional carbon-reliant modes of transport obsolete in Cambodia. Indeed, it should be noted that the Phnom Penh authorities are currently studying the possibility of building a skytrain in the near future. We could emulate the skytrains of Bangkok, Kuala Lumpur and Singapore, while also striving to overtake them, becoming a beacon of futuristic yet green development over the next 20 years. If self-driving pods and buses could roam around cheaply, could traditional sky trains and infrastructure-heavy modes of transport become stranded assets?

In fact, new energy technology will make many of the current and newly-adopted power generators (think coal-fired power plants and hydroelectric generator dams) obsolete and redundant assets within a few short years – and well before 2040. Indeed, according to a new report by RethinkX (2020), an independent think tank that analyzes and forecasts the speed and scale of technology-driven disruption and its implications across society, the cost of solar, wind and batteries will soon become so cheap that the world will see enormous and dramatic changes in the imminent future. The report states: *"By 2030, electricity systems comprised entirely of solar, wind and batteries (SWB) can provide both the cheapest power available and two to three times more total energy than the existing grid in the continental United States, and most populated regions globally, bankrupting coal, gas and nuclear power companies and slashing consumer costs dramatically."*

As a hedge to these renewable energy proposals, Cambodia could also benefit from carbon emissions trading, if, as I think likely, it becomes a reality over the next 20 years. If, despite investment in clean and renewable energy sources, Cambodia were still to suffer from an energy deficiency, it could purchase the right to emit more carbon emissions from countries in the reverse position. On the flipside, Cambodia could generate income for its economy by investing heavily in renewable energy and then selling its quota of carbon emissions on the international carbon emissions trading markets. In any event, it seems undeniable that Cambodia should preserve as much of its remaining forests as it can, to safeguard against climate change, wildlife and natural habitat destruction, and so on. There is no doubt in my mind that Cambodia should recognize these evident trends, seize the initiative and blaze a trail that will not

only preserve its own environmental and economic security, but also set an example for other carbon-dependent, developing nations to follow. At the very least, Cambodia will be respected as a responsible country and score soft power points.

Economy, Industry, Technology and Data

After the agricultural revolution, kingdoms became empires; land – and resources – became the essential asset, and control of that land became the number one priority. Thus kingdoms and empires fought endless wars over the centuries, as they fought to expand territorial control. Once trade was widespread, colonialism took shape, mostly through “explorers” seeking gold, silver and new land, and many wars were then fought over minerals and oil. Since the first industrial revolution, manpower has remained the most valuable resource. That has led in turn to an increase in the economic clout of the masses and of the burgeoning middle classes, and has made democracy possible. Yet, the flipside is that it also enabled the slave trade and involuntary movements of people.

However, we are now in the midst of another revolution. Technologies are changing rapidly and so are the lives of the 7.8 billion people around the world. The technological revolution that is currently happening – known as “Industry 4.0” – will shape the future of work, education, communications, living and travel. In particular, the world will learn to adapt to new concepts and realities such as artificial intelligence, augmented reality, full automation and the “internet of things”. More importantly, Industry 4.0 will lead to demand for a different commodity: data. Most keen observers already predict that data could be the new oil and the new gold. In other words, it will become the most sought-after resource around which countries will build their economies.

Rather than asking how Cambodia can cope, as we have so often done in past decades and with past revolutions, we should be asking how it can benefit from this development. There may be some pressure or inclination for Cambodia to take a lead from China, blindly following its social credit model whereby citizens are watched constantly like a modern-day version of George Orwell’s *1984*.

Instead, though, I would recommend that Cambodia adopts a different model, which can best enable it to deal with a connected world and play a key role in a global hi-tech community. I cannot envision any viable future for Cambodia – or any country, for that matter – over the next 20 years which does not incorporate a clear and coherent strategy for managing data.

I believe that the future of education will change, and Cambodia could utilize the advantages of technology – and data in particular – to help it catch up with the curve. Education could become cheaper, and Cambodia could leapfrog other countries in the competition for knowledge and learning. Classrooms may never look the same again. Moreover, citizens who can freely think will be the most creative and competitive in this new world, which is why Cambodia would be wise not to follow a “telescreens” model.

Trade

Trade is one of the most important factors that all countries around the world should be considering over the next two decades. In the context of the Asia-Pacific region, ASEAN and Cambodia in particular, I will focus on four key trade organizations or agreements as I look forward to 2040, namely (1) the World Trade Organization (“WTO”), as well as relevant bilateral arrangements that Cambodia has with the US and the European Union (“EU”), (2) the AEC, (3) the Trans-Pacific Partnership (“TPP”) and (4) the Regional Comprehensive Economic Partnership (“RCEP”).

The WTO, EBA and GSP

On a global level, I expect the WTO to retain its importance over the next 20 years, albeit likely wielding reduced political clout due to recent, regional trade agreements. As for bilateral trade agreements that Cambodia retains on a global level – I am expecting that both the “Everything But Arms” (“EBA”) deal with the EU and the “Generalized System of Preferences” (“GSP”) with the US to be removed from Cambodia before 2040, and potentially much sooner than that. Indeed, just this week, eight US lawmakers wrote to Secretary of State Mike Pompeo to call on the outgoing Trump administration to impose targeted sanctions against senior Cambodian officials and look into revoking the

country's trade privileges (Hutt, 2020). Thus far, Cambodia has trodden a relatively cautious path, remaining close to China while trying not to attract too much in the way of negative attention from the US and EU, except of course the removal of 20% of goods from the EBA preferential treatment in August of this year.² I would expect Cambodia to continue down this path, attempting to maintain good relations with all relevant countries, while fundamentally remaining within China's orbit.

The AEC and ASEAN

On a regional level, ASEAN has continued to voice commitment to regional economic integration under the AEC Blueprint 2025 (ASEAN, 2020). In terms of implementation, the AEC was intended to be in place by 31 December 2015,³ yet agreement on trade covering the most contentious goods and services has not yet been reached, and the expectation is that full implementation of the AEC will proceed slowly over a number of years, to be concluded by 2025. I think it is worth taking a brief look at what the AEC entails, as well as what the potential advantages and disadvantages might be for Cambodia over the next 20 years.

The AEC represents an attempt to launch a borderless single market for goods, services, investments, capital and labor, and has the potential to be one of the world's largest economies and markets. According to the Asian Development Bank ("ADB"), if ASEAN (or the AEC) were one economy, it would have been the seventh-largest in the world in 2013, with a combined gross domestic product ("GDP") of US\$2.4 trillion (Groff, 2014); it is projected to be the fourth-largest by 2050 if current growth trends continue (ibid). The emergence of China and India as economic superpowers suggests that economic size bestows significant advantage in accelerating growth and fostering development (ADB, 2014). With over 600 million people, ASEAN's potential market is larger than the EU or North America (Groff, 2014). After China and India, ASEAN has the world's third largest labor force, and it is one that remains relatively young (ibid). Furthermore,

²More information can be found in the EU Bulletin (2020).

³ Noted by ASEAN during the Nay Pyi Daw Declaration, 24th ASEAN Summit, 2014, Nay Pyi Daw, Myanmar.

ASEAN is one of the world's most open economic regions, with total merchandise exports of over US\$1.2 trillion – nearly 54% of total ASEAN GDP and 7% of global exports (ADB, 2014).

ASEAN is, however, taking a more cautious approach to regional economic integration than Europe: there is currently no serious consideration of a single currency or exchange rate mechanism (ADB, 2015). Indeed, the AEC is founded on four basic initiatives: (1) creating a single market and production base; (2) increasing competitiveness; (3) promoting equitable economic development; and (4) further integrating ASEAN with the global economy.⁴ ASEAN's physical infrastructure is critical to the AEC's goal of establishing a single market and production base: cross-border roads, power lines, railways and maritime development will help propel the AEC forward, which will boost existing and new value chains or production networks (ADB, 2015).

However, one challenge to the AEC is bridging the perceived “development divide” between the older and economically more advanced members – Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand, known collectively as the “ASEAN-6”, and the four newer members – Cambodia, Laos, Myanmar and Vietnam, known as the “CLMV” countries (ADB, 2013). Another challenge is negotiating the complex requirements of economic integration, including changes to domestic legislation and, in some cases, constitutional amendments (ADB, 2015), which has delayed the establishment of the AEC. However, the flexibility that characterizes ASEAN cooperation – the “ASEAN way” – may hand member states a convenient pretext for non-compliance (ibid). Currently, due to ASEAN's principles of sovereignty, independence and non-interference, economic integration commitments lack sufficient mechanisms to ensure genuine compliance (ibid). Such principles may soon prove to be directly contradictory and incompatible with the establishment of a viable single market – or even fiscal – economic community.

My most optimistic forecast for the AEC would be that ASEAN nations will agree to move towards a single market, with easily-achievable indicators and targets

⁴ ASEAN, Declaration on the ASEAN Economic Community Blueprint, 2007, Singapore.

established and slowly implemented in the near future, while contentious issues, such as farm subsidies and the thorny issue of non-compliance, are left to one side. In the short-term, that will mean “business as usual”, with a fully-fledged AEC comparable with the EU at least five years away, if not more. In the long-term, however, and well before 2040, I expect to see a fully-formed and thriving AEC.

As for Cambodia, it has been estimated that the AEC will increase Cambodia’s real GDP by 4.4%, its exports by 5.3%, and private investment by 24.8% (Docarmo, 2015). Furthermore, the proposed free movement of labor should offer countless employment, trade and investment opportunities. However, traditionally poor infrastructure and roads, limited electricity supplies, temperamental telecommunications lines, and low standards of education and skills are likely to pose severe practical problems for Cambodia in terms of competing with other ASEAN countries and their populations in high wage industries.

As discussed under “Migrant Workers” above, freedom of movement under the AEC could of course exacerbate the “labor drain” from Cambodia to richer countries with higher wages, such as Thailand and Malaysia; however, the impact will be limited since people are already migrating en masse to these countries (as well as to South Korea and Japan). Yet, such movements of people are not sustainable if Cambodia is to remain a strong and proud nation. I would urge it to focus on the production of growth within the country, and to prioritize investment in the infrastructure mentioned above, rather than relying on remittances sent home by Cambodian migrant workers abroad. As things stand, Cambodia is in danger of remaining a small rural town in a rapidly urbanizing country, the Pursat or Kampong Cham of ASEAN, when it should be a booming Phnom Penh or Siem Reap. In my opinion, it must aspire to be more than a country of old people caring for their grandchildren.

The TPP

Other than the AEC, the most salient and notorious agreement that may affect Cambodia is the TPP, signed on 4 October 2015 by 12 signatory countries: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New

Zealand, Peru, Singapore, the US and Vietnam. The TPP is the most significant trade agreement in history, and its passage represents a momentous development in the integration of economies on each side of the Pacific Ocean (Dezan Shira and Associates, 2015). The TPP's supposed advantages and disadvantages have been widely discussed and debated over recent years, however I think it is useful if I give a brief overview of its merits and flaws.

Supporters of the TPP argue that it will promote free trade, environmental standards, labor rights and intellectual property rights. Moreover, it removes tariffs on goods and services, and sets reciprocal trade quotas (Amadeo, 2020). For example, the TPP removes 18,000 tariffs placed on US exports to other signatory countries, while the US has already removed 80% of such tariffs on foreign imports, thereby leveling the playing field (ibid). It also removes non-tariff blocks to trade and harmonizes regulations and statutes in signatory states (ibid). The TPP is also anticipated to increase exports by US\$305 billion per year by 2025 (ibid). It boosts economic growth generally, creating more jobs and prosperity for the signatory countries, supposedly adding US\$223 billion a year to the income of workers in all the countries (ibid). Finally, all 12 countries agreed to restrict wildlife trafficking and environmental abuses, including unsustainable logging and fishing, with those who fail to comply facing severe trade penalties (ibid).

The TPP's detractors emphasize the fact that it undermines the sovereignty of each individual country, and promotes the interests of multinational corporations over the rights of local communities and individuals. Moreover, most of the gains in income would go to workers making more than US\$88,000 a year, with free trade agreements tending to contribute to income inequality in high-wage countries, by promoting cheaper goods from low-wage countries (ibid). That would be especially true of the TPP, since it protects intellectual property, with the higher-paid owners receiving more of the income gains (ibid).

Furthermore, rather than promoting universal free trade, I would argue that the TPP restricts it by creating a two-tier trading league in the wider Asia-Pacific region, whereby those countries not in the exclusive trading club will be deprived of all sorts of trading incentives and benefits. The TPP actually

excludes the majority of countries in the broader region, including the overwhelming majority of Pacific littoral Latin American states (Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Panama), many Pacific island nations, and many east Asian countries. Needless to say, thus far – and for the foreseeable future – this includes Cambodia.

However, the highest profile country to be excluded is China. The TPP is a US-driven agenda – initiated by President Obama and likely resurrected by the incoming Biden administration – intended to create a strong economic trading zone outside China's orbit, so as to counterbalance China's extraordinary and unprecedented economic and political rise. It also gives the US the perfect excuse to intervene in the ongoing South China Sea dispute, on the grounds of trade interference. Indeed, the TTP was first introduced as part of the Asia-Pacific Economic Cooperation, with a view to creating a stricter, rules-based trading bloc. It later became a means of undermining and provoking China, and of cementing alliances with wavering US allies, such as Vietnam and Malaysia. Since the US has committed its obligations to writing without really conducting a proper, transparent review, I do not expect countries such as Vietnam and Malaysia to uphold the TPP's more stringent trade and labor standards, which indicates to me that the exclusion of countries such as Cambodia clearly results from geopolitical motives on the part of the US. Given the recent election of President-Elect Joe Biden in the US – he recently proclaimed "America is back!" – I predict a re-pivot on the part of the US towards Asia and towards economic confrontation of China, much as occurred under Obama's presidency between 2008-16 (with Biden as Vice-President).

Furthermore, there are four ASEAN countries among the 12 signatories – Brunei Darussalam, Malaysia, Singapore and Vietnam. The other six have either been excluded or have chosen not to sign – in most cases because they are close allies of China. Certainly Cambodia, Laos and Thailand would fall into that category, and Myanmar currently still has a foot in either camp with its split power dynamic of western-backed National League for Democracy ("NLD") parliamentary government and China-backed military which still wields a huge amount of power despite the landslide election victory for the NLD a few days ago (PVM, 2020). It is something of a surprise, however, that neither Indonesia

nor the Philippines – both staunch US allies at the time – were signatories to the TPP.

The TPP therefore poses significant risks to ASEAN unity, solidarity and cohesion, as well as to its internal economic cooperation and integration (Hamanaka, 2014), with the AEC developing as a shadow regional trade grouping with little might to compete with the TPP trading bloc. In other words, Vietnam may well have more economic incentive to trade with Peru or Chile than with its neighbors and fellow AEC members, Cambodia and Laos. Furthermore, with the absence of six ASEAN member states, the TPP will undoubtedly influence the global value chain of some specific industries and sectors. For example, Vietnam and Malaysia are likely to benefit from new electronics supply chains under the TPP, but at a cost to other ASEAN members, such as Cambodia, Laos and Myanmar (Yi-Hung, 2014). These countries are expected to experience slower economic growth or even some losses as a result of the TPP, as US and Japanese companies move their assembly and production lines to TPP members in ASEAN and Latin America (ibid). Moreover, Cambodia, Laos and Myanmar, presently three of the fastest-growing economies in Asia, may miss opportunities to improve their manufacturing productivity and promote sustainable development through participation in global supply chains (Chen, 2015).

So we see, the TPP represents a source of potential friction between China and the US, and, by extension, between certain ASEAN countries. Thus, I consider the TPP to once again be a genuine and visible blip on Cambodia's radar, both for 2040 and even 2025: it is potentially the most disruptive trade agreement and arrangement over the next 20 years, and could have significant repercussions for Cambodia and its people.

The RCEP

However, just in the last few days – on 15 November 2020 – a China-led free trade agreement, the RCEP, was signed in Hanoi, Vietnam, between the ten ASEAN nations, as well as Australia, China, Japan, New Zealand and South Korea. Notably, the RCEP excludes the US and will account for 30% of the world's economy and population (Aljazeera, 2020). I expect the RCEP to be a game-changer, not only providing a welcome boost to ASEAN, the AEC and Asia-Pacific

economies in the aftermath of the COVID-19 pandemic, but also re-aligning the signatory nations into China's sphere of influence, while ensuring the unity of the ten ASEAN nations, which the TPP has threatened to divide. In other words, despite the increased relevance of the TPP and President-Elect Biden's likely re-pivot towards Asia, China has moved pre-emptively with the RCEP and secured a more powerful regional trade bloc. It will most likely work to Cambodia's advantage, though the trick as always will be trying to play the big powers off against each other – becoming a key member of the RCEP and AEC, while also not ruling out accession to the TPP should it be invited in the future.

Terrorism and Security

Terrorism has cast its shadow over the region over recent years, as indeed it has in other parts of the world. The Philippines has faced an Islamist insurgency in its southern island of Mindanao for decades, with periodic kidnappings, murders and bombings perpetrated in the 1990s and 2000s, as well as into the past decade. Meanwhile Indonesia has struggled with Islamist terrorism since the Al Qaeda Bali bombing on 12 October 2002, which killed 202 people. Bali was targeted again on 1 October 2005, when 26 people were killed in bomb blasts at tourist sites. Then, on 17 July 2009, the Islamist terrorist group Jemaah Islamiyah was blamed for bombings of western hotels in the capital Jakarta, which killed eight people. Jakarta had also been targeted on 5 August 2003, when a car bomb killed 12. Most recently, on 14 January 2016, Jakarta was rocked by a series of bomb and gun attacks which killed seven people, for which Daesh/ISIS claimed responsibility.

However, it was the Erawan Shrine bombing on 17 August 2015 in central Bangkok, Thailand – whether driven by local, country-specific grievances or international terrorist movements – that woke the region up to the ominous potential for terrorist attacks in mainland Southeast Asia. Almost as soon as the Erawan Shrine bomb had gone off, various different theories emerged, some more credible than others. Some suggested that it may have been the so-called Red Shirt sympathizers protesting against the authoritarian military junta; others pointed the finger at Islamist terrorists targeting tourists, an easy “soft target”; previous terrorist attacks in southern Thailand had been carried out by

Muslim separatists, so it was not out of the question that the Erawan Shrine bombing represented a significant escalation of that long-running, simmering southern conflict against the Thai state; some even whispered that it might have been initiated by rogue military factions for nebulous and nefarious political motives. Yet it seemed likely – and the official enquiry, however farcical, pointed this way – that Chinese Muslim and/or Turkish/Turkic political activists sympathizing with Thailand’s complicity in the oppression of the Uighur population of Xinjiang (namely its 8 July 2015 unilateral and forcible repatriation to China of 109 Uighur refugees who had fled political persecution in their homeland) who were responsible for the bombing. However, the Thai military junta has resolutely steered the discourse away from the Uighurs, and instead emphasized its disruption of international criminal networks involved in people trafficking.

The perpetrators, motives and strategies behind the Erawan Shrine bombing are still unclear, and may well remain so, given the credibility of the investigation conducted by the Thai authorities five years ago. And yet, it very much acted as a wake-up call to other countries in the region, particularly Thailand’s immediate neighbors, Cambodia and Myanmar. Myanmar has had its own well-documented problems with a myriad of ethnic rebel armed groups fighting for independence or increased autonomy since independence from the United Kingdom (“UK”) in 1948, as well as severe bouts of inter-communal ethnic and religious violence in 2012 and 2013, as well as the particularly egregious persecution of the Muslim Rohingya population of western Myanmar starting in August 2017. Around a million Rohingya people were forced to flee to other countries, principally Bangladesh across Myanmar’s western border, but also Thailand, Malaysia and other parts of Southeast Asia. In October 2013, Traders Hotel in Yangon was hit by a small bomb blast. Although unresolved, it highlighted Myanmar’s vulnerability.

Thankfully, Cambodia has thus far remained unscathed. However, we should take note of the bombs in Yangon and Bangkok, as well as Bali and Jakarta, and acknowledge as a matter of priority that Cambodia remains a very soft target. First, several million tourists a year have traditionally visited places like the Angkor temples in Siem Reap prior to the onset of COVID-19; second, it has a

very weak capacity to prevent or react to any terrorist attacks, in terms of political leadership, training of enforcement agencies, and public preparedness. Cambodia may never be subjected to terrorism, but it cannot afford to be complacent or blasé. In addition, if it were targeted – whether by Uighur, international Islamist or other terrorists – I fear that it would be even less competent at conducting credible investigations than the Thai authorities after the Erawan Shrine bombing.

Furthermore, Cambodia's willingness to do China's bidding in forcibly repatriating Uighurs in the face of international laws on the rights of refugees represents an additional factor in being considered a potential target, if indeed the prevailing theory behind the Erawan Shrine bombing is correct. The reason I mention this is that, in December 2009, the Cambodian government repatriated 20 Uighurs to China despite international objections and the legal status of the Uighur refugees. The threat of terrorism notwithstanding, I maintain that Cambodia must abide by its international legal obligations and human rights principles, and protect the rights of all refugees, regardless of their nationality and ethnicity. Yet, it would also be a strategic choice: by tying its hands to international instruments and universal principles, Cambodia can avoid risking the ire of powerful state and non-state actors.

I would therefore encourage the Cambodian authorities to make sure that they are prepared for such an eventuality over the next decade or two, whether the threat stems from international operators or home-grown political or criminal actors, and it must work with its fellow ASEAN member states at a regional level, in order to (1) assess the risks to the region and each individual country, (2) mitigate those risks, and (3) be responsive to any attacks should they occur. It must play its part in tackling this significant regional threat. Terrorism is an issue on which all ten ASEAN countries can work together in a spirit of solidarity and collaboration, as well as with other regional actors, including China, India, Japan, Australia and the US. Moreover, it is an issue that should unite ASEAN, as well as testing its mettle as a regional bloc. Yet, even without a concerted regional effort to combat terrorism, Cambodia can do more than hope that it will be lucky and avoid any terrorist incidents; it even represents a real opportunity for Cambodia and an issue on which it can lead its ASEAN neighbors and colleagues.

However, all it will take is one incident for everything to change and for a climate of fear to prevail. One only has to look at the attacks in the Middle East, Europe, Africa and the US over the last 20 years to see what effect such incidents can have on governments and the national mindset. Having said that, it is remarkable how Thailand adopted a “business as usual” approach following the Erawan Shrine bomb, while Japan also moved on quickly from the sarin gas attack perpetrated by the doomsday cult “Aum” in the Tokyo subway on 20 March 1995.

It is vital that Cambodia not only takes steps to anticipate and reduce the risk of terrorism in the country, but also eschews the temptation to stifle free speech or political expression – as many Western governments are now doing – in the name of terrorism prevention strategy. In particular, it should avoid enacting the draft Cybercrime Law, which would criminalize all sorts of online expression deemed a risk to the country or public. As I have highlighted above in the Economy, Industry, Technology and Data section, it is essential for Cambodia’s economic and technological progress that its citizens remain free to connect, communicate, collaborate, create and construct.

Populism and Nationalism

Populism and nationalism have been well-documented global trends this past decade. Most notably, Trump’s accession to the White House in January 2017 seemed to herald a new era of populism, which then developed or crystallized in other countries around the world, including the UK, Hungary, Poland, Brazil, Philippines, Russia, Turkey, India and China. Indeed, these last four seem to become almost more nationalistic by the day, and are also major regional and global powers. While Russia and Turkey carve up the Middle East in the wake of declining US power and influence in the region over the course of the Trump presidency, and compete in arenas ranging from Syria to Libya to the the Caucasus, India’s power is growing on the Asian scene; moreover, China goes from strength to strength as a global economic and military powerhouse. It remains to be seen whether the recent election of Biden to the US presidency heralds the decline of populism world-wide or whether it is a temporary blip in the overarching megatrend.

We must also consider whether this trend – particularly the rise of nationalism in China – is something that will have an impact on Cambodia. Certainly, as China becomes more assertive in the region, both militarily and economically, there may be a backlash within Cambodia against serving and promoting China's interests over and above those of Cambodians. We have already seen such problems in Sihanoukville, as well as in Myanmar about a decade ago. Movements or leaders could spring up to push back against Chinese commercial or territorial acquisitions and encroachments, especially if people consider China to be receiving preferential treatment, and if they feel disenfranchised economically, politically and socially.

I would therefore not rule out the rise of Cambodian populism and nationalism if current trends continue for another ten years or so, especially if there is any political instability or any terrorist attack (as highlighted in the Terrorism and Security section above). The Khmer Rouge, while an extreme communist regime that derived its ideology, at least in part, from the Maoists in China, took power by capitalizing on these currents of populism and nationalism in the wake of the devastating US war in Cambodia in the early 1970s. Needless to say, it is something that should be resisted at all costs: rather ironically, it has in fact proven – especially in the cases of the US and the UK – to be directly harmful to national interests. We should also keep a careful eye as always on similar trends in Thailand and Vietnam, though there is nothing at present which suggests to me that Cambodia need be fearful of nationalism on its borders.

Conclusion

As we look ahead to 2040, I would encourage all concerned parties in Cambodia – including government leaders, political parties, members of the National Assembly and Senate, universities and academic institutions, think tanks and research institutes, civil society, communities and individuals – to pay close attention to the global, regional and national trends that I have identified and to consider my recommendations carefully. Above all, we would do well to remember the following:

1. The world's population will now rise at a slower pace. There will be a significant demographic shift away from Europe and America towards Asia and Africa. Also, we will see changes within the Asia-Pacific region: India, Vietnam, Indonesia and Cambodia are countries on the rise; whereas Japan, South Korea and Australia are countries facing declining and aging populations. China may also follow this trend, but has more time to address it.
2. Technology innovations are extremely hard to predict. What we can expect, however, is that they will rise at an exponential rate and that we will need to anticipate increasingly more disruptive technologies.
3. The global shift in the economic, political and security centers of gravity will mean that Cambodia will need to plan better and build a more cohesive society. We will need our citizens to participate democratically in all these aspects, to support the brightest minds among us to think and join in political life without fear of negative repercussions.
4. We must think globally yet act locally. This strategy will become ever more urgent as the new challenges facing us grow in immensity. Domestically, there will be a changing of the guard within the next 20 years; and Cambodia will need to manage the transition to the next generation better than we have done in the past. In other words, the old conflicts from Cambodia's violent past will – and should – play little part in politics or prevent Cambodia from moving forward. We will need to emphasize increased inclusivity now so that the next generation is better equipped to deal with these challenges.

It is vital that we maintain a vibrant, ongoing discussion and debate these critical thematic and policy issues in a proper and healthy democratic forum as we look to the future and to 2040 in particular. I would urge all relevant parties to consider this appeal to be in the best interests of Cambodia, its future and its people and to join me in establishing a positive consensus and vision of a strong, independent and proud Cambodia in 2040.

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Chapter 3 | Geopolitics, Great Power Competition, and Cambodian Foreign Policy

POU Sothirak

Introduction

The post-Cold War global order, grounded in American unipolarity, developed a shared set of institutions and norms that are now in the midst of renegotiation in light of rapid changes in relative power, economic status, power projection capabilities, and domestic political realignments in many of the Western liberal democracies. As the world prepares to confront a change of administration in Washington with Vice President Joe Biden taking office early next year, expectations among scholars and analysts across the globe are extremely diverse concerning the future equilibrium of the global political structure. In East and Southeast Asia, three potential structures need to be considered when analyzing how Cambodia's foreign policy can develop over the next twenty years and how Cambodia can best act within the confines thereof: (i) US unipolarity and a 'status quo ante' return to American hegemony; (ii) Chinese hegemony; and (iii) Sino-American Bipolarity. Each of these presents distinct challenges and opportunities and will ultimately define the choice sets that all states in Southeast Asia, including Cambodia, will have open to them.

Cambodian foreign policy in the next 20 years will be shaped by the developing re-configuration of regional and global political powers, dictated by a relentless competition for influence to secure supremacy. This competition, manifesting

itself via geographic arrangements, can and will undoubtedly impose an unpredictable and insecure future for smaller states. Unless the kingdom maneuvers pragmatically and adheres to the correct balance of power between and among the stronger and more powerful states, Cambodia's future will remain adrift and subject to the mercy of those powers.

While the possibility of a multipolar world is regularly mooted by analysts, this option is not considered here for two reasons. First, there is the yawning gap in military power - which is only likely to widen - between the US and China and all other actors. While the European Union (EU) is and will continue to be a major actor in terms of trade, aid, investment, and the promotion of global norms of human rights, EU member states' unwillingness to invest in significant expansion of military power ultimately undermines the possibility of it acting as an independent pole. Second, there is the case of Russia - which suffers from the opposite problem. While Moscow maintains its significant nuclear arsenal and significant conventional military forces, its economy remains weak and highly resource dependent. With a GDP only slightly larger than that of Australia, it is difficult to see how Russia can achieve its long-standing revisionist goals in light of the size of its economy. Moscow continues to remain primarily a regional force - focused on its "near abroad," and acting globally through the means of asymmetric warfare, depicting its relative weakness.

For Cambodia, regardless of which of the three realities set out below takes hold, each would have highly significant although somewhat differing impacts on the kingdom's future agency and its ability to influence the direction of subregional, regional, and global political outcomes as well as the protection of the kingdom's own national interests. As a relatively small state in terms of geographic size, population, and economy - Cambodia has confronted and will continue to confront a very different foreign policy landscape than that of not just the great powers, but also its own ASEAN partners. Indonesia, Thailand, Vietnam, and the Philippines - due to their sheer size - will face a significantly less demanding, although still extremely challenging path, and maintain much greater room to maneuver than Phnom Penh.

It is important to note here that Cambodia's modern history is one that has been heavily determined by geopolitical competition among foreign powers larger than itself. European competition for hegemony in Southeast Asia resulted in Cambodia becoming a French protectorate in the 1800s. A century later it was the Cold War and US-Soviet competition and the war in Vietnam that ultimately destroyed King Norodom Sihanouk's quest to maintain Cambodian neutrality and sovereignty and resulted in the rise to power of the Khmer Rouge regime and the subsequent genocide that killed over 1.5 million Cambodians. Since the close of the Cold War, Cambodia has experienced a very unique set of historical circumstances: geopolitical stability. The post-Cold War geopolitical equilibrium inclusive of the maintenance of the Bretton Woods Institutions and the institutionalization and expansion of ASEAN has given Cambodia space to develop, climb the ladder of human development, and find its place in the family of Southeast Asian states. Each of the four geopolitical equilibria - even the maintenance of U.S. hegemony in the region - in light of other global trends and diverse developments in national politics will mean that Cambodia will remain vulnerable and will face a very different world than that which has existed since the 1991 Paris Peace Accords.

Returning to the Status Quo Ante: U.S. Hegemony

Over the course of the last four years, President Donald Trump appears to have forsaken the American-led global order - his administration has been widely perceived to have rejected globalization as a positive force, most notably via the US-China trade war and the implementation of protectionist economic policies. At the same time, the US withdrawal from the Paris Climate Accords, an approach to NATO that has raised questions as to the future of that alliance, and a benign neglect approach to the World Trade Organization (WTO) have further heightened concerns as to the future role of the U.S. With these moves, the US is often seen as moving away from its leadership role in the rules-based global order that was once the cornerstone of US policy and a key source of American regional hegemony in Southeast Asia.

The election of Biden in November has many analysts expecting a rapid volte face by Washington in many of these areas and the US returning to the policies

of the Obama administration. Such an approach would certainly strengthen the American position in the Indo-Pacific region, particularly if the Trans-Pacific Partnership were revived - an entity once viewed as essential to countering growing Chinese economic influence.

While recognizing the impacts of the last four years, there is a strong case to be made that American hegemony in the region will continue over the next two decades, at least. In terms of power projection capability, the U.S. Navy is likely to maintain supremacy for the foreseeable future. As former Defense Secretary Mark Esper noted earlier this year, Beijing's own military modernization is not anticipated to be completed until 2035 and by China's own estimates naval supremacy in the Indo-Pacific is unlikely to be achieved until 2049. Responding to that threat, the Department of Defense's announcement of significant new investment in its fleet indicates that despite Chinese expansion in the South China Sea and a highly successful approach to naval modernization - US military superiority could very easily be here to stay.

Moreover, in 2020 we saw the establishment of the new Mekong-US Partnership, replacing the somewhat moribund Lower Mekong Initiative (LMI), promising over \$150 million in new investment in the region. The economic role of the U.S. - an area where China has made its most significant gains - has been further buttressed by the conversion of the Overseas Private Investment Corporation (OPIC) into the new U.S. International Development Finance Corporation, promising significant new overseas investment by American firms.

Finally, despite the deep unpopularity of Mr. Trump, Washington continues to maintain unparalleled soft power owing to the sheer size and influence of its cultural industries (film, music, fashion, high-tech) and its huge higher education sector, which counts over 4,000 colleges and universities and the benefit of English having become the global lingua franca. While it is unlikely that there will be a full return to the status quo ante of American hegemony, a new form of American hegemony and the maintenance of a unipolar global division of power remains a highly feasible scenario. The rapid consolidation of the minilateral Quad grouping of states over the last year - Australia, India, Japan, and the

United States - gives something of a basic outline as to some of the contours of future American unipolarity might look like.

A New Order for Southeast Asia: Chinese Hegemony

China's 40-year rise continues with strategic priorities for the next twenty years including becoming a global power that is able to transform the existing unipolar order into a bipolar or multipolar one; modernization of its military power, doctrines, and activities; bringing Taiwan under direct rule by Beijing; resolution of East China Sea disputes with Japan and South China Sea disputes with various ASEAN states to its own benefit. China has made it clear that it seems to foster "a new order type of international relations."

While military modernization and the establishment of a Chinese naval base in Djibouti together with the rapid construction of new island bases in the South China Sea have depicted China's steady expansion in military power (not to mention its significant investment in space-based defense capabilities), it is in the economic sphere that Beijing has been most successful. While the Belt and Road Initiative (BRI) has encountered significant problems - most notably constant questions over alleged "debt trap diplomacy," lack of adherence to OECD Development Assistance Committee (DAC) best practices, and the Hambantota Port debacle in Sri Lanka - China has rapidly become the largest aid provider and foreigner investor in a many states. The establishment of the Asian Infrastructure Investment Bank (AIIB), despite initial concerns on the part of many states, has generally been a success - and, more importantly, an alternative to existing Western and Japanese-dominated multilateral financial institutions. While it is doubtful that in the next 20 years China will be able to achieve anything resembling Chinese unipolarity, it is important to recognize that Beijing has regularly asserted that it does not seek global hegemony, rather hegemony within East and Southeast Asia.

In Southeast Asia, Beijing has had considerable success - its Lancang-Mekong Cooperation mechanism (LMC) has been viewed positively by the lower Mekong states that have joined. Moreover, it has built close relationships with Cambodia, Laos, and Myanmar through significantly expanded state to state ties;

educational exchange programs; and previously unthinkable levels of infrastructure investment. Its cultural diplomacy has also expanded - through the expansion of Confucius institutes across the region. While China remains far behind the United States in terms of soft power, the decision of millions of Southeast Asian parents to have their children learn Mandarin as well as English is a useful data point as to the expectations of many in the region that Chinese hegemony (at least economically) is a strong possibility.

Bipolarity: Sino-American Competition in Southeast Asia

The final potential scenario - bipolar competition between China and the United States - is one which many have said already characterizes the current state of affairs in Southeast Asia, with ASEAN members being forced to choose sides while attempting to protect themselves from such a choice through policies such as ASEAN Centrality. While Sino-American relations are certainly at their post-Cold War nadir, I do not believe we have reached the point where the increasingly popular phrase “The New Cold War” can be justifiably applied to current circumstances. That being said, present realities are certainly less than ideal and there is a very strong case to be made that even if global bipolarity and a new global Cold War is not likely in the next 20 years (recognizing slowing Chinese growth, challenges in Beijing’s public diplomacy, and questions as to the long term stability of authoritarian regimes in the context of President Xi Jinping’s reforms to the model of single party governance developed by Deng Xiaoping), a prolonged and intensified Sino-American conflict over hegemony in East and Southeast Asia is a very realistic scenario. Perceptions of zero-sum competition between China and the United States at present together with the escalation of tensions over the South China Sea and Taiwan depict the main lines of conflict that we would likely observe. For Southeast Asia, this underscores the vast importance of ASEAN and a realistic discussion of that institution. For Cambodia’s secure future, the kingdom cannot afford to take the U.S. – China rivalry lightly.

The approach deriving from the “ASEAN Way” is more than 50 years old and has been less than effective in recent years - internal review of the ASEAN Charter

and the revitalization of the institution is long overdue. It is perhaps time to reconsider the norms of consensus-based decision making and non-interference as these have limited its ability to manage geopolitical rivalries and security dynamics in the region that are only likely to increase in the context of this scenario. Reform of the ASEAN Regional Forum is also necessary in that it does not have the requisite capacity to enforce a framework of “rules of acceptable behavior.” Finally, the concept of ASEAN Centrality - the declaration of which was an important first step - continues to be under-developed and under-conceptualized and requires much greater clarity if it is to be effective in protecting Southeast Asia in general and Cambodia in particular from the worst impacts of Sino-American hegemonic competition.

Conclusion

Regardless of which of these three structures Cambodia is confronted with, the kingdom’s foreign policy orientation should ultimately be grounded upon two key principles: pragmatism and neutrality in terms of how it develops its relationships with all actors. For a state such as Cambodia, with relatively limited agency, it is essential to avoid placing all of its eggs in one basket, i.e., leaning towards one side or the other. Whatever challenges may arise in the future development of future foreign policy - it is in the national interest of the kingdom to take a mixed approach incorporative of balancing and hedging but not bandwagoning, depending upon the context of particular issues and conflicts.

Cambodia’s place in ASEAN and support for the stronger institutionalization of ASEAN will be essential across any of the three scenarios mentioned above. The maintenance of ‘foreign policy neutrality’ requires Cambodia to commit willingly to ensuring that the country’s approach toward multilateralism is working well to safeguard not only the kingdom’s national interest but also ASEAN’s region-wide interest. Cambodia must reinvigorate itself and develop its existing institutions to manage emerging challenges and ensure that the country’s foreign policy options are in full support of the ASEAN Way towards a form of regionalism and multilateral cooperation that are able to function properly in order to tackle regional issues adequately.

The pursuit of a pragmatic and neutral Cambodian foreign policy is only enhanced by the kingdom's partnership with its fellow ASEAN states. If there is one "absolute" for the kingdom over the next two decades, it will be the importance of embedding itself more deeply and integrating more fully with its neighbors - an approach that some might consider idealist, but also one that provides the greatest protections for Cambodia, the safeguarding of its sovereignty, and the achievement of its national interests.

Chapter 4 | The Mekong River and Mekong Subregion Cooperation

PICH Charadine

Sithivong (សិវិវង្ស) is sitting at his office inside the ASEAN Secretariat building in Jakarta, reviewing various documents ahead of the upcoming “Annual Mekong Plus Summit” to be held at the end of 2040. He has been appointed to undertake the role as Chair of the ASEAN Mekong Basin Development Cooperation (AMBDC) under Cambodia's quota as the first member state to revitalize this mechanism. The mandate for this rotating chair would last for approximately five years in accordance with the alphabetical order of the five Mekong countries. A long-serving diplomat who has had extensive experience in the Mekong affairs for decades, Sithivong is more than competent to steer things forward as regards the inclusiveness of all Mekong subregional mechanisms. During his first year at the office, he pledges to minimize competing interests and maximize collaboration. Anusa (អានុសា) has been a strong advocate for the livelihood of the Mekong but primarily explores the question of hydropower and how it has become increasingly inefficient, both in terms of cost and energy generation. Recognizing these realities, she established a non-profit firm to supply solar power to local households which eventually was scaled up in order to supply a national-scale solar farm, including technical support where needed. Anusa has also received strong support and encouragement personally from Sithivong who has long been a dedicated proponent of the renewables transition. He then helps to introduce and connect “RE for Cambodia” to various stakeholders of the Mekong subregional mechanisms across the region as well, of which some individuals have taken up her approaches and set up similar firms

and other countries begin to engage “RE for Cambodia” to support them setting and/or scaling up the solar farms in their respective countries. Anusa’s firm and Sithivong’s commitment have helped to vivify Cambodia’s vision to become a champion in renewable energy’ to set stage the baseline for proactive diplomacy with all development partners on the Mekong and beyond; and to eventually have the Mekong issues as part of the ASEAN key agenda via AMBDC.

I. Ideal Scenario: The Mekong in 2040

With a major transition to renewable energy, the Mekong, metaphorically speaking, would be put to rest, allowing biodiversity to revitalize itself. The river flow will return to normal, minimizing the risk of drought during the dry season and flooding during the rainy season. The livelihoods of those along the Mekong and millions of others that depend on it would be improved, their living standard would be increased through various means including the advancement of the eco-tourism and hospitality industries.

The new phase of hydropower dam construction strictly complies with best practice in ethical and technical standards: (i) previously constructed dams will have revised the standard agreement in order to comply with the sustainability aspect or the license would be revoked, and (ii) bids for new dam construction will have to strictly abide by the agreed principles and guidelines set forth by the Mekong River Commission and close collaboration with the AMBDC.

Finally, all Mekong sub-regional mechanisms will be under the close coordination of the AMBDC. Fewer competing interests would now be seen, owing to joint projects from various external partners in the recipient countries rather than duplication. Cross-border connectivity will have been widely on the basis of unified agreements and standardized best practices. Loans and grants will be more coordinated and synchronized such that they open up increased opportunities to less developed countries, with the best deals possible.

II. Scenario Space and Key Factors

This scenario space for this chapter is the Greater Mekong Subregion in broad terms, it seeks to provide a picture as to where the subregion as a whole could

be by 2040 in terms of both environmental sustainability and overall regional stability.

Three key factors are recognized here as determining which scenario Cambodia will confront in 2040: (i) Competing subregional cooperation mechanisms; (ii) Cambodia's agency in the context of the Greater Mekong question; and (iii) environmental sustainability. Discussion of the first of these assesses the current circumstances of the existing Mekong mechanisms and the prospects for cooperation toward 2040, contra the mainstream implicitly antagonistic approach. The second key factor examines areas of cooperation that would benefit Cambodia in the long-run and Cambodia's agency therein. The third key factor, sustainability, highlights the question of green development, specifically the role of the energy sector and renewables. This last key factor also brings to the fore the question of Cambodia's role as a potential regional champion or role model aligning with United Nations Sustainable Development Goals (SDGs), while also denoting a less dependency on the Mekong deliberately water-politics should outrageous critical problems arise in the probable future.

The Mekong and the Greater Mekong Subregion: Historical and Contemporary Development

For the past few years, the Mekong has been seen as 'the talk of town' owing to its strategic importance, more so after China launched its new subregional initiative – the Lancang-Mekong Cooperation (LMC) – in 2015, on top of the other 8-existing⁵ Mekong cooperative mechanisms previously established by regional actors as well as by other external partners outside the region with its counterpart of the five Mekong countries namely Cambodia, Laos, Myanmar,

⁵ The actual number of existing Mekong subregional cooperation mechanisms is debatable; some have contended that it may have up to 12 different initiatives. For the consistency of this chapter, 9 frameworks are argued to have been in place which include: (i) US's LMI, now the Mekong-US Partnership, (ii) Japan's MJC, (iii) China's LMC, (iv) South Korea's Mekong-ROK Cooperation, (v) Inter-governmental Mekong River Commission (MRC), (vi) Thailand's ACMECS, (vii) India's Mekong-Ganga Cooperation (MGC), (viii) ADB's Greater Mekong subregion (GMS) Economic Cooperation, and (ix) ASEAN's Mekong Basin Development Cooperation (AMBDC).

Thailand, and Vietnam. In the wake of the establishment of the LMC, notably, there has been a ‘reboot’ in attention in other mechanisms, including the Mekong-US Partnership (a rebranding of the former Lower Mekong Initiative, LMI), Mekong-Japan Cooperation (MJC), Mekong-Republic of Korea Cooperation, and the revitalization of Thailand’s ACMECS (Ayeyawady–Chao Prraya–Mekong Economic Cooperation Strategy).

Attention was paid not only to the sustainability aspect of the Mekong River itself but also, toward the geopolitical strategy, the quest for regional domination, and the dynamics of regional order. LMC is viewed as China’s subregional framework, a part of its Belt and Road Initiative (BRI), and is perceived by many as a mechanism to make more concrete its economic influence in the subregion. Given the astonishing speed of its institutional build-up and evidenced by a remarkable number of projects, part and parcel of the readiness of its Special Fund, LMC is perceived by some to jeopardize the current regional order. In their latest paper, Rabea Brauer and Frederick Kliem (2018) cautioned that China is practicing “coercive water-diplomacy” and that there is an urgent need for the Mekong region to embrace “rule-based institutionalized water cooperation” (Bauer and Kliem 2018).

Originating in the Tibetan Highlands, the Mekong River is approximately 4,350 kilometers in length and is the 12th longest river in the world. Although demarcation varies, this transboundary waterway is commonly divided into two main parts alongside with the national boundaries: the Upper Basin (primarily in China, known as Lancang) and the Lower Basin (Cambodia, Laos, Myanmar, Thailand, and Vietnam). Around 80 percent of the total 60-65 million population of the Lower Mekong Basin are dependent on this river system for nutrition and livelihood. The Tonle Sap lake is the largest lake in Southeast Asia and the most important inland fishery in Cambodia. The Tonle Sap is situated in the central floodplain of the country and is responsible for sustaining fisheries and rice production of the flooded areas around the lake as well as the Mekong Delta below (Open Development Cambodia, 2016). Unfortunately, the Mekong River has been heavily ‘politicized’ for economic reasons (the construction of hydropower dams to generate electricity, for instance) and for geopolitical

ramifications writ large (i.e. great power competition and regional divides, as many skeptics have pointed out).

Cambodia is no exception when it comes to the current dilemmas of the Mekong. In addition, given its exceptionally close relations with China, as leaders of both countries regularly enunciate, Cambodia is even more prone to critique and skepticism as being sidelined with China leading to the erosion of regional unity and ASEAN centrality at large. ASEAN on its own is explicitly 'divided' in relation to hard security issues and often refrains from bringing these to the table during ASEAN meetings. On one hand, there is the South China Sea question involving the maritime Southeast Asia countries (namely the Philippines, Indonesia, Malaysia, and certainly Vietnam) while on the other, there are the five Mekong countries which have encountered significant issues over the governance and future of the Mekong. Given this notable divide, the Mekong aspect has not been considered to be an 'ASEAN issue' yet, but this is also due to the fact that the South China Sea issue has dominated the regional agenda for so long.

The Mekong, hence, is no longer just a river and the Mekong subregion is no longer merely a geographical landmark of five countries; it is becoming more and more strategically central for external partners eager to play a role. As a consequence, the Mekong subregion has become more 'strategic' than ever before. Its strategic connotation, though, should not be allowed to traumatize the region and the countries involved but instead, it is necessary to push forward stronger comprehensive regional connectivity and development sustainability. That being said, the Mekong countries need to be cautious of being trapped by geopolitical risks and their subsequent negative implications. The region will need to be prepared to align itself toward a plausible hedging strategy that would associate with minimal risks possible. This transboundary water source is not just confronting the challenges of ecological and environmental impacts but also the larger geopolitical implications, underscored by the number of the aforementioned subregional initiatives in place. For that reason, an immediate question needs to be asked: whether or not these initiatives aim to cooperate or to compete (or worst yet, to replace one over the others).

Key Factor One: Competing Subregional Institutions

Scholars and regional experts are still debating the ‘actual’ number of the existing Mekong mechanisms, let alone have reached a single conclusion whether the status quo is cooperation or antagonism. As a rising regional and global power, China would logically attempt to propose new initiatives as a means to contribute to regional development and universal prosperity at large, so as every other major power, but also to seek new ways and solutions to the enduring problems.⁶ In contrast, experts suspect a re-creation of a Chinese version of regional rules and institutions, having LMC as the “logical and preferred Mekong governance framework” (Pongsudhirak, 2016).

The LMC, despite being a new-comer, attempts to address the development aspects of the Mekong in five key priority areas: (i) connectivity, (ii) production capacity, (iii) cross-border economic cooperation, (iv) water resources and agriculture, and (v) poverty reduction. With its astonishing pace of institutional development and rapid project implementation, the LMC has created significant doubt and suspicion among the region’s external partners. This is made even more evident when other existing subregional mechanisms have started to revitalize and rejuvenate their respective frameworks as well, so as to pay closer attention to this particular region with their respective Mekong mechanisms on hand and more so, with the growing numbers of other initiatives being put forward. This section will elaborate each of the Mekong mechanisms and aims to seek a different impetus as to how these could be developed more as complementary to one another rather than being seen as rivals.

The **Greater Mekong Subregion (GMS) Economic Cooperation Program** was set up in 1992 with assistance from the Asian Development Bank (ADB). Members comprise all of the five lower Mekong countries plus China, specifically Yunnan Province and Guangxi Zhuang Autonomous Region. The objective is to develop the Mekong subregion through increasing infrastructure connectivity, enhancing cross-border trade into transnational economic corridors, integrating

⁶ Interview conducted with the Chinese counterpart in Beijing (August 2018).

market and value supply chains, and addressing shared social and environmental concerns that would have the impacts on people's well-being. The recent 6th GMS Summit in Vietnam in April 2018 has adopted the Hanoi Action Plan (HAP) 2018-2022, where the Regional Investment Framework (RIF) 2022 was also formulated, identifying 227 pipeline projects with the amount approximate to USD 66 billion. Cambodia will be the next chairman of the 7th GMS Summit in 2021 (GMS, 2018).

The **Mekong River Commission (MRC)** was established in 1995 with members comprising Cambodia, Laos, Thailand, and Vietnam; Myanmar and China are the dialogue partners. In April 2018, Cambodia was the host for the 3rd MRC Summit in Siem Reap under the theme: "Enhancing Joint Efforts and Partnerships towards the Achievement of the Sustainable Development Goals in the Mekong River Basin". Leaders adopted the Basin Development Strategy based on the Integrated Water Resource Management (IWRM) Principle 2016-2020 and MRC Strategic Plan 2016-2020, among other sectoral strategies being approved. The Declaration reaffirmed their commitments on the 1995 Mekong Agreement and placed MRC as the premier inter-governmental body set forth to lead sustainable development on the Mekong River Basin (MRC, 2018).

The **Mekong-Ganga Cooperation (MGC)** was launched in 2000 by India and the five lower Mekong countries, and was the first official development partner of the Mekong subregional cooperation framework. The first Plan of Action to Implement MGC (2016-2018) was adopted to implement various cooperation projects in the areas of tourism, cultural cooperation, education, people-to-people contact, transport and connectivity, ICT, health and agriculture. The MGC framework has succeeded in establishing Entrepreneur Development Centres (EDCs), Center for English Language Trainings (CELTs) and the Vocational Training Centers (VTCs) in various Mekong countries including Cambodia over the past years as well as the annual scholarships offered under the Indian Technical and Economic Cooperation (ITEC) program and through Indian Council for Cultural Relations (ICCR) (MGC, 2016). Recently, in June 2019, the Indian government provided Cambodia a grant for 18 projects worth nearly USD 900,000 to implement the Quick Impact Projects (QIPs) under the MGC framework. The projects also extended, on top of the above, towards women's

empowerment, skills development, rural development, and water resources. One practical achievement that stems from this cooperation is the “Asian Traditional Textile Museum” which was inaugurated in 2014 in Siem Reap (Hin, 2019).

The **Ayeyawady-Chao Phraya – Mekong Economic Cooperation Strategy (ACMECS)** was established in 2003 under Thailand’s initiative, comprised of Cambodia, Laos, Myanmar and Thailand, with Vietnam formally joined later on in 2004, with eight areas of cooperation: (i) trade and investment facilitation, (ii) public health and social welfare development, (iii) human resource development, (iv) industrial and energy cooperation, (v) tourism cooperation, (vi) transport linkage, (vii) agricultural cooperation, and (viii) environment. During the 8th ACMECS Summit in June 2018, Thailand proposed to establish an ACMECS Fund as an “innovative financing mechanism” to address the need for the funding of projects under the ACMECS Master Plan (2019-2023). Cambodia has agreed in principle to the establishment of the ACMECS Fund and ACMECS Infrastructure Fund and Trust. Cambodia has already finalized the List of Prioritized Projects as well as the List of First Batch of Development Partners so as to effectively garner financial support (Sim, 2019b). Cambodia will chair the 9th ACMECS Summit in 2020.

The **Mekong-Japan Cooperation (MJC)** was launched in 2008 by Japan and the five lower Mekong countries. In the ‘MJC New Tokyo Strategy 2015’, four main pillars were put forward: (i) hard efforts – focuses on the development of hard infrastructure and connectivity; (ii) soft efforts – the development of human resources, industrial structures, and the strengthening of soft connectivity, i.e. institutional, economic and people-to-people connectivity; (iii) sustainable development – towards the realization of a Green Mekong; (iv) coordination efforts with various stakeholders. Japan committed around USD 6.8 billion in ODA to the Mekong region for three years (2016-2018). In October 2018 during the 10th Mekong-Japan Summit Meeting in Tokyo, Japan unveiled the ‘Tokyo Strategy 2018 for MJC’ focusing on three pillars namely the vibrant and effective connectivity, people-centered society, and the realization of a Green Mekong. With that, Cambodia has put great emphasis on the importance of the ‘industry connectivity’, together with the utilization of the enhanced hard and soft

connectivity, with the engagement of the private sector. That is to say, the whole Mekong subregion is regarded as an integrated supply and production value chain and that allows different Mekong countries to fully maximize their respective comparative advantages through outsourcing production mechanisms from Japan and with one another (Sim, 2019a).

The **Lower Mekong Initiative (LMI)** was created in 2009 by the US, Cambodia, Laos, Thailand and Vietnam, while Myanmar formally joined later in 2012. LMI has six pillars: (i) environment and water, (ii) energy security, (iii) education, (iv) health, (v) connectivity, and (vi) agriculture and food security. It also focuses on cross-cutting issues, such as women's empowerment and gender equality (LMI, 2016). LMI has transformed itself to become an important platform for policy dialogue and consultation on resource management, sustainable development, and good governance. Two inclusive pillars have been synthesized: (i) the water, energy, food, and environment nexus; and (ii) human development and connectivity (MFA Thailand, 2019). In April 2019, Cambodia and Thailand successfully co-chaired with the US their pillars at the First LMI Policy Dialogue convened in Bangkok, and Cambodia has led the discussion with Washington on strengthening STEM education in the region (Sim, 2019c).

LMI has placed significant effort on capacity building programs ranging from enhancing resilience to cope with extreme weather conditions and to counter its negative effects, to strengthening data collection capacity and promoting water data sharing mechanisms in order to mitigate the risk of natural disasters such as flood and drought. Among others, empowering women entrepreneurship and strengthening STEM educational institutions and student networks across the region are also a main area focus (Heidt, 2016). Marking the tenth anniversary of its establishment, Cambodia has benefited greatly, especially in capacity-building to manage sustainable infrastructures under the LMI framework. In addition, the LMI and Friends of Lower Mekong (FLM) successfully adopted the "Joint Statement to Strengthen Water Data Management and Information Sharing in The Lower Mekong" in August 2018. This initiative has been very beneficial for the lower Mekong countries and the MRC in order to mitigate related risks in relation to climate change and the incurred natural disasters as such.

LMI was upgraded and rebranded as **the Mekong-US Partnership** on September 11, 2020, after over a decade of fruitful collaboration between the lower Mekong countries and the United States as well as to promote the necessary synergies between the recently adopted ASEAN Outlook on the Indo-Pacific (AOIP) and Washington's Indo-Pacific Vision. The Partnership expands the priorities set forth by the LMI into 4 areas of cooperation: (i) economic connectivity; (ii) sustainable water, natural resources management, and environmental conservation and protection; (iii) non-traditional security; and (iv) human resource development (Mekong-U.S. Partnership Joint Statement, 2020).

The **Mekong – Republic of Korea Cooperation** launched in 2011; the Han River Declaration put forward six priority areas with the support of Mekong-ROK Cooperation Fund: (i) infrastructure, (ii) information and communication technology (ICT), (iii) Green Growth, (iv) water resource development, (v) agriculture and rural development, and (vi) human resource development. The New Southern Policy has served as a major boost to this cooperation framework and together with the recent state visit of President Moon Jae-in to Cambodia in March 2019, it has signaled the ROK's strong interest and commitment toward friendship and cooperation to elevate this bilateral as well as multilateral relations.

The **Lancang-Mekong Cooperation (LMC)** was initiated in 2015 by China, the latest to join the club. As previously mentioned, LMC is indeed the most critical and the most strategic Mekong mechanism among all given its astonishing speed of institutional developments and project implementations (Pich, 2019). As the first co-chair since its establishment, Cambodia has served the role of host for the 2nd MLC Leaders' Meeting in Phnom Penh, which formulated the Phnom Penh Declaration and the Five-Year Plan of Action on the Lancang-Mekong Cooperation (2018-2022), moving the mechanism from the 'foundation-laying stage' to an 'expansion stage'. The 4th MLC⁷ Foreign Ministers' Meeting,

⁷ Throughout this chapter, LMC and MLC will be used interchangeably, i.e. if the meeting was held in any of the five Mekong countries, MLC is used. Likewise, if the meetings were held or the documents were signed in China, LMC is used. As a side note, LMC is mainly used therein in accordance to the general awareness unless otherwise stated.

held in Luang Prabang in December 2018, concretized the LMC Economic Development Belt (LMCEDB) framework, prioritizing the production capacity development through cross-border connections into value-added supply chains and production lines across the wider region. Cambodia also proposed to conduct a feasibility study on the establishment of the LMC International Secretariat for a more effective and efficient coordination on the subject matter.

With an allocation of \$300 million from the LMC Special Fund for five years, Cambodia has received 35 projects in total (16 from the first round and 19 for the second) accounting for approximately \$14 million which cover a broad range of issues, 'soft infrastructure' is of particular significance here.

The **ASEAN Mekong Basin Development Cooperation (AMBDC)** was established in 1996 between ASEAN member states, Mekong riparian countries, and China. It has attempted to promote economic partnerships in order to realize the ASEAN Economic Community by 2015. Major achievements were seen in the form of human capital and infrastructure developments in this subregion and beyond. Several subregional and national projects are still pending and in need of further funding support of which the importance of expanding collaboration with development agencies and the private sector has been highly emphasized. The last meeting was held in Brunei Darussalam in August 2013 during the 15th Ministerial Meeting on AMBDC (AMBDC, 1996; ASEAN, n.d.) and has been put off till now; it is time to reactivate AMBDC under Cambodia's leadership.

Despite antagonism in these debates, there is room for cooperation. One should view each of the above mechanisms as complementing one another rather than competing or worse yet seeking to replace or dominate. However, instead of continuing to make pledges on the surface, there needs to be a more practical and plausible impetus such that these mechanisms can be synergized and complement one another when certain aspects or loopholes arise.

Regardless of political motives or a mechanism's structure, the ultimate goal is that each external partner intends to strengthen collaboration so as to enhance development in the Mekong subregion. To jointly support and seek alignment are some of the key aspirations to look into, whereby resources and proposals

need not merely come from a single external partner but others should be welcomed to provide support as it seems fit. To be precise, first of all, there ought to be a pool of resources from different external partners and institutions and the aspiration to develop joint projects for the third countries (i.e. the Mekong counterpart) should be formalized. Secondly, there is a need to develop a concrete coordination mechanism such that all these Mekong mechanisms can be synergized that would benefit the Mekong subregional development at large. With that, Cambodia can play a major role in coordinating this aspect which will be elaborated in the next section below.

Key Factor Two: Cambodian Agency in the Mekong Subregion

Cambodia, as a member of all the Mekong subregional mechanisms, can certainly play an active role in coordinating these mechanisms toward achieving synergy. Despite Cambodia's proposal to have the LMC International Secretariat be established (Hor, 2018), Cambodia should not coordinate the aforementioned mechanism given the political speculation concerning Sino-Cambodia relations. To have the LMC International Secretariat set up in Cambodia would further erode Cambodia's reputation as being inherently tied to China and loosen the kingdom's credibility as one of the major key players in the Mekong. Instead, Cambodia should consider taking a lead in ASEAN's existing platform – the Mekong Basin Development Cooperation (AMBDC), which has often been forgotten and neglected. Nevertheless, this would give Cambodia a unique role and steady effort in relations to the Mekong context. This section elaborates how Cambodia can construct an engaging role and its foreign policy basis in the Mekong subregion toward 2040 based on two policy areas: (i) maintaining a proactive diplomacy platform toward all Mekong mechanisms and prospective future mechanisms and (ii) leading the AMBDC.

On the question of proactive diplomacy, Cambodia has benefited immensely from each Mekong mechanism through different cooperation platforms and different ranges of projects across diverse fields that have been undertaken in the country. Cambodia has also been involved in the people to people connectivity spectrum in the form of field research, scholarship, cultural exchange, youth forum, high-level meetings, sectoral seminar and workshop,

just to name a few. While this positive trend is projected to continue toward 2040 and beyond, a few key elements to strengthen this momentum should be embraced.

First, despite the differences in the level of its engagement, it is still vital for Cambodia to embrace all external partners and their respective subregional mechanisms so as to enhance the visibility of their cooperation efforts in the country. The enthusiasm to welcome different initiatives and mechanisms on board is a highly encouraging sign that needs to be carried forward. Neighborhood diplomacy is essential for regional unity and economic prosperity. Beyond that, there comes a critical juncture when a country is at a crossroad between national interest and regional interest, domestic politics and standardized principle. Regardless, Cambodia should stand firmly to continue its engagement and embrace proactive diplomacy at the forefront. Cambodia may consider utilizing Mekong mechanisms as a means to strengthen and to 'renew' friendship with certain countries where relations have been strained in the past.

Second, with regard to project proposals like that of the LMC framework, there should be a more inclusive dialogue platform whereby all relevant stakeholders are invited to take part and to consult as to what works best for Cambodia in relation to the priority areas in the short and medium terms. Ideally, a dual-track format should be constructed; relevant line ministries and/or departments from Track I need to be fully engaged so as to avoid internal conflict of interest while Track II research institutions, academia, and think tanks should be invited to take part such that fresh and innovative ideas can be incorporated into subsequent policies as well as toward the proposed project implementation within the LMC framework, among others.

Additionally, this Track 1.5 dialogue platform can be utilized to bring emerging new project proposals to other mechanisms rather than having dialogue partners to decide for Cambodia. This inclusive and diverse dialogue platform has not yet been widely executed in Cambodia, leaving a loophole in civic engagements at large, causing resentment among civil society organizations (CSOs) as to impacted issues that the government has failed to address. Civic

engagement is an essential component for successful policy design that the government should highly take into consideration to avoid public shortfalls on top of the 'populist politics' that have sparked criticism and social disturbances in the past.

Third, a combination between the two deliberations above, an annual national-scale workshop should be created, bringing together representatives of all nine Mekong mechanisms plus all relevant and prospective stakeholders to the table to discuss pressing issues and concerns arising from the Mekong. This would also allow room for joint initiatives derived from different stakeholders and external partners to implement joint projects in Cambodia and the subregion as a whole. The subsequent joint project proposals should then be commissioned to specialized CSOs, research institutions, and independent think tanks alike to conduct feasibility studies and impact assessments before reaching the final approval and implementation stage. This would enhance inclusiveness as well as ensuring sustainable development and collective engagement across a broad spectrum.

Cambodia as Coordinator of the ASEAN Mekong Basin Development Cooperation (AMBDC)

Some regional experts look to ASEAN to play a greater role and to become "central" in the Mekong subregion (Ho & Pitakdumrongkit, 2019). ASEAN in part has shown a lack of interest in Mekong affairs which is explicitly seen in the slow progress of the AMBDC, despite its establishment since 1996. The Singapore-Kunming Rail Link initiative, a flagship project of the AMBDC, has made little progress. The major setbacks of AMBDC are due to the lack of financial resources and institutional capacity, but also due to the minimal emphasis on the institution by the maritime states of Southeast Asia that prevents the framework from making substantial progress. While the vast amount of Mekong cooperation mechanisms is obvious, analysts cautioned of a further "geopolitical divide" between mainland Southeast Asia and its maritime counterpart should ASEAN fail to effectively implement its own initiative in its efforts to narrow the intra-ASEAN development gap, particularly under the Initiative for ASEAN Integration (IAI) (Doung, 2018).

Hence, there is an immediate need for ASEAN to collectively work together to concretize its own Mekong mechanism. Acknowledging the loopholes and restraints thus far, a member state has to take the lead and to institutionalize this framework. As such, this is the area where Cambodia can play a constructive and unique role in moving the AMBDC forward.

First, Cambodia needs to concretize the institutional framework in the form of setting up a clear organizational structure for AMBDC, which ideally should connect the Mekong Department within the Ministry of Foreign Affairs of each of the riparian countries; this would facilitate smooth coordination linkages at the initial stage of the institutionalization process. This coordinating body should bring together and collaborate with representatives from the other eight Mekong mechanisms that would then set the stage for prospective working groups and in-depth assessments for relevant issues. AMBDC should also serve as a 'one-stop' center for information-sharing platforms and data-oriented specifics to further facilitate research so as to elevate public awareness and promote transparency.

Second, the establishment of different sectoral joint working groups should be the primary element for prospective research and policy-specific developments on Mekong issues. These joint working groups are necessary for future assessment and feasibility studies before actual projects can be approved and implemented. The report from each working group needs to draw attention to a wide variety of aspects including environmental, social, economic, and even political (e.g. diplomatic working groups). This would enhance inclusivity in the intra-regional context, taking into account the diverse range of issues in order to avoid probable resentment and negative effects on people's livelihoods and sustainable development.

Third, there is a need to develop a clear framework to draw funding and financial sources from all interested stakeholders and external partners. To do so, a concrete set of confidence-building-measures (CBMs) in the form of a substantive dialogue platform and clear Plan of Action (PoA) are needed such that strong and sincere willingness can be accentuated. The ultimate aim is joint/cross-border projects as well as intra-regional development that would

benefit the region as a whole. Taking the example of the Friends of Lower Mekong (FLM), LMI was able to draw development assistance from regional development partners (including Australia, Japan, South Korea, New Zealand, the European Union) as well as international organizations such as ADB and World Bank. This enlargement would not only secure more financial assistance but would also particularly enhance a sense of collaboration and inclusiveness among diverse partners including private multinational corporations, concretized in the context of Public-Private Partnerships (PPPs).

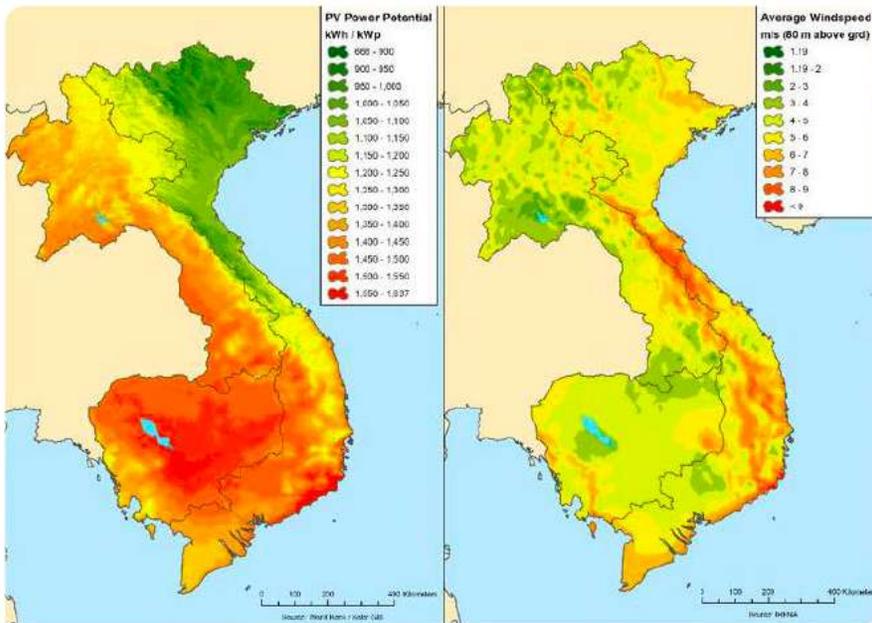
Key Factor Three: Renewable Energy

Cambodia has great potential to become 'self-reliant' on renewable energy, especially solar power. The most recent Cambodia's Master Energy Plan (MEP) was completed in 2016 with assistance from the Japan International Cooperation Agency (JICA), but has yet to include alternative sources of energy. The MEP noted that the planned 2,793MW power generation projects toward 2020 mostly reside within hydropower and to a lesser extent coal plants, natural gas and a small number of small biomass projects; solar and wind power were not mentioned (Eyler & Weatherby, 2019), signifying the lack of credibility and less emphasis to incorporate these in wider national plan for the time being.

The Stimson Center has done a great deal of work on energy composition (its implications and the subsequent impacts) in Cambodia as well as across the wider region. Their latest report (2019) elaborated on alternative potential energy sources that are essential to incorporate in the country's MEP so as to diversify power generation away from hydropower. The report argued that Cambodia is not an 'ideal' geographical location to accommodate large reservoir dams as in Laos and China, not to mention the drastic disadvantages that arise from hydropower development including the reduction of river connectivity and the shrinking of natural resources available in the lower part of Mekong Basin. In addition, water flow is uncertain due to significant seasonal fluctuations, creating a huge challenge for hydropower development in the long-run which would not yield the expected quantity of power generation as planned. During the monsoon season, hydropower dams can run at full capacity (due to the high level of rainfall) and produce excessive amounts of electricity above domestic

demand; however, during the dry season (owing to reduced rainfall and higher demand for electricity given the hot weather conditions), dam productivity to generate power from hydropower dam drops as low as 25 percent, according to the National Strategic Development Plan 2014-2018 of the Royal Government of Cambodia. As such, there is a need to diversify the future energy mix to avoid shortfalls stemming from seasonal change. Given the extreme heat during the dry season (with minimal rainfall which, as noted above, results in the decline of power generation), Cambodia should utilize this natural phenomenon at best, i.e. a major shift to solar power to fully utilize the heat (see Figure 1 below).

Figure 1: Solar Power PV Potential and Average Wind Speed in Cambodia, Vietnam and Laos



Source: Eyler & Weatherby (2019). Letter from the Mekong: Toward a Sustainable Water-Energy-Food Future in Cambodia. p. 36.

Recently, the Director-General of Electricite du Cambodge (EdC), Keo Rattanak pledged to the public that Cambodia will prioritize renewable energy development over hydroelectric power. Cambodia is set to expand its solar energy investment by 12 percent by the end of 2020 and to further increase this by 20 percent over the next three years. A few solar power projects are already

in the pipeline; several new projects have already been approved by the government, while some of the existing projects are set to expand capacity. By 2020, Cambodia will generate 70MW of electricity from solar power; one facility in Svay Rieng province generates around 10MW and another in Kompong Speu will produce around 60MW. Another two newly-approved solar power projects are in Pursat and Kampong Chhnang provinces, with a total capacity of 120MW, to be in operation by the end of 2020 and 2021, respectively (Thou, 2019). In July 2019, the Council of Ministers approved four more investments in solar energy projects in Pursat, Battambang, Banteay Meanchey, and Svay Rieng provinces, with an expected output of 140 megawatts (Niem, 2019). Teak Seng, WWF Cambodia Country Director, also shared similar sentiments that Cambodia would benefit tremendously from shifting toward solar power in that it is “reliable, renewable, plentiful, and eco-friendly” (2019). He emphasized that solar panel prices have dropped almost 80 percent since 2010 and the average time to construct a large solar farm would take one year or less while it would take 5 to 10 years to build a large-scale hydropower dam, making solar an ideal renewable energy solution for Cambodia.

Cambodia is the only country in ASEAN that has yet to set national-level targets for renewable energy (USAID, 2017), despite strong momentum from the government to further promote and develop potential investment in this sector. Part of the reason is that there is no ‘commercial-scale’ solar or wind power in Cambodia to cope up with the technological capability as well as the assurance that their investment would be sustained, given uncertain feasibility and operational contexts (Eyler & Weatherby, 2019). To kick start this prospect, the government should seek collaboration from development partners (such as ADB) on technical assistance and human capacity-building as well as to encourage more foreign investment in the renewable energy sector. In current conditions, it is unlikely that renewable energy is an attractive sector that local investors would be keen to engage with, given the huge start-up cost, high maintenance facility expenses, and uncertain feasibility.

To resolve these challenges, a PPP framework needs to be strongly embraced, starting from the feasibility study stage, to initial stage of investment, to the connection stage to the main national grid, up through the maintenance stage.

The government may also consider subsidizing a small portion of the private investment at the initial stage should potential projects present the possibility of long-term sustainability. While that could be a challenge given the limited budget allocation towards the energy sector, the government could also alter a sound investment-friendly environment of the renewable energy sector so that FDI could flow in this area. While international organizations such as ADB, JICA, USAID, and World Bank could step in to provide technical and human capacity-building support.

III. Baseline Scenario: Competition, Antagonism, and Fragmentation

With the Mekong operating under the business-as-usual dilemma, in 2040 it will face its own destruction. Biodiversity will be diminished, the river flow will continue to worsen, natural disasters will prove to be more severe. In all likelihood, those living directly along the Mekong and other populations that depend on it will be traumatized and their living standards heavily affected; the ecotourism industry would barely survive.

In this business-as-usual scenario, if hydropower dam construction continues as it is without complying with ethical and technical standards, without listening to impacted communities, without taking into account the environmental and society impacts, countries downstream would be the most vulnerable. The MRC will have a limited and toothless political mandate to have a say in their member countries river utilization and management leading to a vicious cycle of even more severe impacts.

The existing Mekong subregional mechanisms would still work under their own frameworks and political interests; the importance of the AMBDC will remain neglected and forgotten. More and more, competing interests will conflict; similar projects and initiatives will steadily be put forward by various external partners with the recipient countries of the Mekong. Finally, cross-border connectivity will remain a key challenge, given the different standards and practices.

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Chapter 5 | Soft Power and Environmental Diplomacy

CHAN Sam Art

Oudom is an ambassador extraordinary and plenipotentiary of the Permanent Mission of the Kingdom of Cambodia to the United Nations. He is known for his persistent and passionate commitment to sustainability and environmental conservation. Having worked closely with tens of thousands of official delegates, Oudom led a tree-planting activity with a view to creating solidarity among diplomats and supporting global reforestation, in commemoration of World Environment Day, on 3 June 2040.

To cope with the formidable challenge of climate change and environmental degradation, Oudom and high-level representatives of various states attend “The Future We Want” summit in order to promote sustainable development. During a five minute speech, Oudom shares Cambodia’s experiences in best practices in terms of reforestation and sustainable logging. Cambodia is a champion of forest management and a leading country in pushing carbon trading through utilizing drone and blockchain technologies as he sets out in his speech. He also mentions that the government has set a goal of creating a clean, healthy and green environment in the kingdom’s schools. At the end of the summit, most developed and least developed countries have voiced support for what Cambodia has done so far on sustainable forest management, further enhancing the country’s soft power.

I. Cambodia's Soft Power in 2040: Ideal Scenario

Climate change is widely agreed to be one of the major questions determining how the next two decades will play out across a myriad of topics. This rapid change is not only a source of worry but also of opportunity. There are clear, identifiable opportunities for Cambodia to increase its soft power through environmental diplomacy – specifically in relation to reforestation and sustainable logging. The primary aspects of Cambodia's ideal scenario in this area include two aspects: (i) the development of Cambodia's soft power through leading by example in environmental diplomacy and (ii) achievement of the goal of 60% forest cover and the institutionalization of fair, transparent, and effective carbon emissions trading.

Leading by example

Over the next 20 years, Cambodia will become a green state by engaging in sustainable policies that set the gold standard for environmental management. As to future prospects, Cambodia will follow an agenda involving predominantly “low politics” topics in the international arena – specifically, climate change as the mainstay of the country's foreign policy agenda. The concept of low political topics is in line with what Kurlantzick (2007) and Sevin (2017) who conceptualized this form of soft power as a form of public diplomacy. As clearly expressed in the work of Professor Joseph S. Nye, Jr., who first coined the concept of “soft power” in *Bound to Lead* published in 1990, soft power “is the ability to get what you want through attraction rather than coercion or payments.” (Nye, 2004). Soft power is integral to this chapter about defining environmental diplomacy. The term “environmental diplomacy” has a broader meaning around negotiations concerned with conflict resolution over natural resources as well as instrumental use of the environment in resolving disputes and building peace (Ali & Valdich, 2016). In other words, environmental diplomacy is the practice of advancing ecological protection by conducting diplomacy concerning environmental issues including conserving natural resources, sustainable operations and effective environmental stewardship.

At present, Cambodia is identified as a global victim of climate change (UNFCCC, 2015). Yet, by 2040, Cambodia will retain a seat at the table with other countries,

aiming to offer the best practices developed in the kingdom regarding reforestation and sustainable logging. These lessons learned can serve as a vital means for Cambodia to enhance its soft power and international perceptions of Cambodia can be reframed: from a killing field to a supporter of low-carbon society.

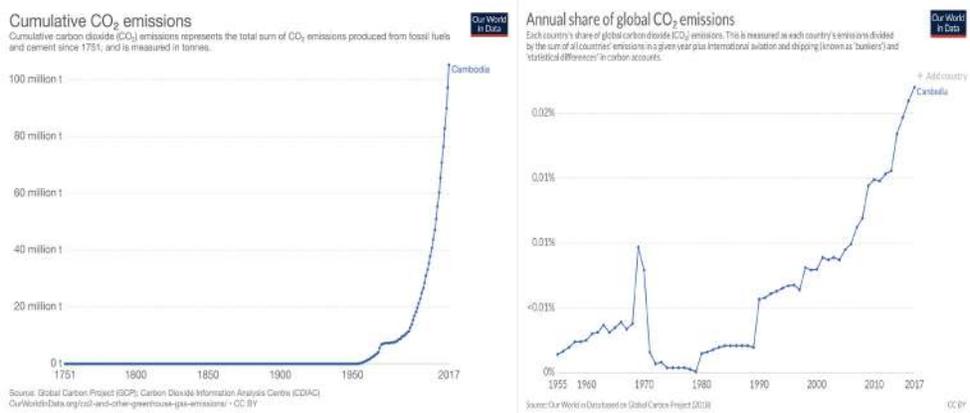
As a result, Cambodia will in 2040 act collectively with other states in diverse global and multilateral settings to achieve a global solution that will take the lead towards sustainable development via environmental politics. Moreover, environmental politics is a robust area for the performance and branding of the country, where the landscape, flora and fauna, and biodiversity are key elements of both the national imagination and international perceptions of the country. This “brand image draws upon the perception that Phnom Penh has unique and valuable lessons to teach the international community about sustainable forest management. Therefore, in 2040, Cambodia would see environmental diplomacy as the core element of its soft power strategy.

Attainment of 60% forest cover and the push for carbon trading

Cambodia would achieve 60 % of forest cover throughout the country over the next two decades. According to Rectangular Strategy Phase IV (2019-2023), in the domain of environmental and biodiversity protection, Cambodian government sets out strategic objectives to ensure environmental sustainability and strengthen the management of protected areas. Over the course of 2040, Cambodia will have adequate experts to conduct an environmental audit and forest assessment through promoting degrees and training pertaining to environmental protection. In addition, forest area will increase –at an average of 60%– in Cambodia with painstaking effort of all relevant stakeholders to promote the National Forest Program. More trees will be planted in deforested areas. In line with the process of planting trees, Cambodia will use high tech initiative in order to support reforestation. In economic sense, forests offer a wide range of opportunities for Cambodia in terms of recreation and ecotourism. By 2040, Cambodia’s attraction as a destination for tourism will be largely based on nature– particularly forests.

More importantly, in 2040, Cambodia would become a carbon neutral country and would push for a fair market for carbon trading. Being a carbon neutral means that Cambodia will take action to reduce greenhouse gas emissions to zero and to offset an equivalent amount of any remaining emissions. As a trend for the future, Phnom Penh would push for fair and transparent carbon trading schemes. To ensure the safety of carbon trading in the transaction cycle, blockchain technology will be used (see section 3).

Cambodia has been called one of the front runners the least developed countries (LDCs), as it has officially committed to pursuing a low-carbon resilient development agenda and thus to addressing mitigation, adaptation and development together and Cambodia has also been a leading LDC country in terms of the number of the Clean Development Mechanism (CDM) projects (Käkönen, Lebel, Karhunmaa, Dany & Try, 2014). The goal of acting as a frontrunner country in efforts to a Green Civilization is clearly stated from the National Strategic Plan on Green Growth (NSPGG) 2013-2030. This strategic plan will enhance national prestige best-known for being a country with a model of green growth in ASEAN and Asia and the Pacific regions (National Strategic Plan on Green Growth, 2013). This is coupled with a strong political willingness to take domestic action on climate change and sustainable forest management. In terms of size of economy or level greenhouse emission, Cambodia does not rank very high. Cambodia's total GHG emissions in 2017 were 105.23 million metric tons of carbon dioxide equivalent (MtCO₂e), totaling 0.02 percent of global CO₂ emissions (Our World in Data, 2019). Cambodia committed in its Intended Nationally Determined Contribution (INDC) to reduce its GHG emissions by 27% by 2030, relative to its 2010 GHG emissions, depending on international support.

Figure 1: Cumulative CO₂ emissions of Cambodia

Source: Global World in Data

II. Scenario Space and Key Factors

Environmental diplomacy in the future will largely depend on six factors:

1. International cooperation on environmental policy, also known as global factors, is highlighting the unwavering commitment of major states for fighting against climate change. Cambodia could achieve an optimistic outlook with regard to environmental diplomacy if the global effort moves in a positive direction.
2. Global tree reforestation will dictate the reforestation programs of Cambodia and how those policies are aligned with global trends.
3. New forms of environmental governance have a spillover effect on forest governance in Cambodia.
4. Laws and regulations are designed primarily to support environmental protection and in parallel with international agreements.
5. Putting best practices of sustainable forestry into practice in the context of Cambodia.
6. The adoption of technology and the transformation of education will widespread across society.

Regarding the aforementioned factors, I would like to reject international cooperation on environmental policy as a key factor due to insufficient climate finance, the withdrawal of the U.S. from the Paris Agreement and the lack of

consensus between developed and least developed countries on environmental action. In nutshell, the engagement of leaders in environmental diplomacy is dubbed as “One Step Forward, Two Steps Back”.

The purpose of this section is to delve deeply into scenario space and key factors that would shape Cambodia’s environmental diplomacy in 2040.

Global Factors

Let me for the sake of clarity declare here that when I say “Global Factors” throughout this essay I am explicitly referring to international cooperation on environmental policy. The global environmental crisis can create incentives for cooperation and collective actions amongst 193 states through multilateral diplomacy. In order to achieve a vision of environmental diplomacy of Cambodia in 2040, proactive international environmental negotiations and positive signs of cooperation between global actors are required.

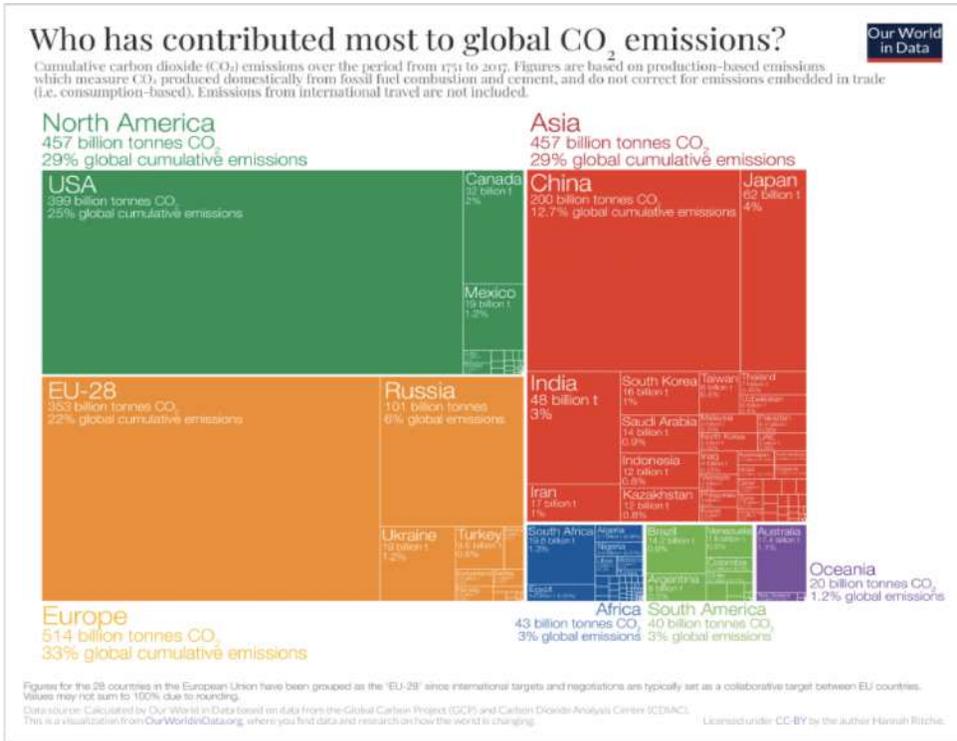
Assuming that in 2040, the global effort will be able to deliver the aggregative climate policy mechanism needed to keep within the 2 degrees target above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 Degree Celsius as committed in the Paris Climate Agreement in 2015. It deserves to say that global actions are taken to have global emissions by 2040 under which 195 countries committed to adhering intended nationally determined contributions (INDC) of each own national plan, setting targets for emission reductions and specifying pathways to meet those targets. Responding to the climate change vision, the major Greenhouse Gases (GHG) emitters, therefore, including the United States, China, the EU must comply with national regulations and international commitment regarding reduction of GHG emissions (see figure 2 below).

The Chinese position in the international climate change negotiations has shifted from a climate free-rider to a climate protector (Wu, 2016; Rauchfleisch & Schäfer, 2018). Furthermore, China has already agreed to undertake nationally determined contributions (NDCs) to mitigate its GHG emissions based on the Paris Agreement that was adopted by all the Parties, including China at COP21 in Paris on December 11, 2015, which will put China and other large developing

countries on equal foot with developed countries to combat climate change in terms of both voluntary GHGs emissions mitigation. In the ensuing years, China's rapid success in curbing its own domestic CO2 emissions deriving from an increase in renewable energy and a reduction in the production and consumption of coal (Engels, 2018). As a result of continued significant Chinese investment in renewable energy including solar, wind, and hydro technologies, China could emerge as one of the champions of climate change mitigation.

However, the US's administration withdrawal from the Paris Agreement might not be as disastrous as it seems. The U.S. cannot actually withdraw by 4 November 2020, four years after the Agreement entered into force, according to Article 28, and in light of an anticipated Biden administration (as of mid-November 2020) it is possible that the U.S. will return to the Agreement. In the aspirational scenario, a new Biden administration could cooperate with other major powers to fight for climate change. Most significantly, the European Union is the first major economy to develop a legally binding mechanism for meeting its obligations under the Paris Agreement and is making a successful transition to a low-emission economy in order to achieve climate neutrality by 2050 (European Commission, 2019). Globally, heads of government have regularly paid attention to climate change, including Cambodia. The growing complex issue of climate change is becoming regional, global and involving multiple stakeholders, thereby requiring multilateral solutions. According to John Kerry, former US Secretary of State, the only solution to climate change is multilateral. He said that: "There is no way any single county will solve it even if it wanted to by itself. All countries coming together that requires foreign engagement and it involves foreign policy" (Climate Diplomacy, 2019). Cambodia needs to engage in collective action with all countries through proactive environmental diplomacy and remain committed to the Paris Agreement. In the ideal scenario, Cambodia will expect to seek a much more enhanced status in environmental diplomacy, supported by reforestation and sustainable logging.

Figure 2: Cumulative carbon dioxide (CO₂) emissions over the period from 1751 to 2017⁸



Source: Our World in Data

⁸ The distribution of cumulative emissions around the world is shown in figure 2 above. The United States has emitted more CO₂ than any other country to date: at around 400 billion tonnes since 1751, it is responsible for 25% of historical emissions. The world's second largest national contributor of CO₂ is China while the 28 countries of the European Union (EU-28) – which are grouped together here as they typically negotiate and set targets on a collaborative basis – is also a large historical contributor at 22%. Many of the large annual emitters today – such as India and Brazil – are not large contributors in a historical context (Ritchie, 2019).

The Global Tree Restoration Potential

The restoration of trees remains among the most cost effective and realistic ways for climate change mitigation (Bastine et al. 2019). Global leaders must pay attention to global-scale forest reforestation. If global leaders act now, this could cut carbon dioxide in the atmosphere by up to 25%, to levels last seen almost a century ago. Bastine et al. 2019 argues that more than half the potential to restore trees can be found in six countries, namely Russia (151 million hectares); USA (103 million); Canada (78 million); Australia (58 million); Brazil (50 million); and China (40 million). Given the importance of reforestation at a global scale, environmental diplomacy can create the conditions for the sustainable use of forests in the long term. For instance, multilateral partnerships can serve as meaningful platforms for reforestation and the sustainable management of existing land.

By 2040, Cambodia, as a small nation, will proactively cooperate, capture and catalyse the agenda of global tree reforestation. For Cambodia, the RGC issued a sub-decree on the use of state land for reforestation, encouraging the participation of communities and the private sector in reforestation. According to Yasmi, Durst, Ul Haq & Broadhead (2017), the Forestry Administration has designated 96,000 ha for the development of plantations, of which 14,000 ha have been planted so far. Cambodian diplomats will therefore have to convey a clear message more convincingly than ever before with regard to the strong commitment of government to environmental benefits for present and future generations. According to Thorhallsson and Bailes (2016) highlight that a small state calls for a positive image in order to be respected and leading in particular policy fields. Therefore, Phnom Penh strongly needs to act as first movers and explicitly operate 'me first' initiatives as a proactive small state not waiting for big power decisions.

Environmental Governance

Environmental governance, by definition, refers to the means by which society shapes and determines goals and priorities pertaining to the management of natural resources (International Union For Conservation of Nature, n.d). Environmental governance involves the rules that govern human behavior in

decision-making processes as well as decision-making on its own, both formal and informal. Appropriate legal frameworks are a prerequisite for good environmental governance at international, regional, national and local level (International Union For Conservation of Nature, n.d).

The degradation of the environment has been recognized as one of the most serious threats, not just for the future of the planet and its natural resources, but also for the survival of humankind. Therefore, the new practices of environmental diplomacy need new modes of environmental governance. According to Bäckstrand., Kahn, Kronsell & Lövbrand (2010) contend that new modes of environmental governance is closely associated with a normative agenda to open up politics and make environmental decision-making more inclusive, transparent, accountable and reflexive, while at the same time effective and performance-oriented. As a part of environmental diplomacy, Cambodia must strongly support and follow the new modes of environmental governance through accelerating governance reform and improving forest good governance . The future of Cambodian soft power will be credible only if soft power signifiers and policies are consistent with environmental governance.

National Factors

The following is a sketch of national factors, including national regulations, sustainable forestry practice and cross-cutting factors.

National Regulations

The Royal Government of Cambodia has taken an action on elaborate law and policy framework to support resource governance over the past twenty years, with many components supportive of sustainable forest management.

Figure 3: Cambodia’s Policy Framework for Resource Governance

Resource Area	Resource Governance Policy
Forestry Policy	<ul style="list-style-type: none"> ● National Forest Policy: 2002 ● Forest Law: 2002

	<ul style="list-style-type: none"> ● Community Forestry Sub- Decree: 2003 ● Guideline for Community Forest: 2006 ● National Forestry Program: 2010 ● National Community Forestry Program: 2011 ● National REDD+Strategy: 2017
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Source: Author's compilation

The government has developed a number of global initiatives like Reducing Emissions from Deforestation and Forest Degradation (REDD+) and payments for ecosystem services (PES) and certification schemes like European Union-Forest Law Enforcement, Governance and Trade (EU FLEGT) for timber from sustainably managed forests. (Yurdi et al. 2017). On top of that, Cambodia is committed to following international conventions and standards such as the United Nations Framework Convention on Climate Change (UNFCCC), the Convention on Biological Diversity (CBD), the United Nations Convention to Combat Desertification (UNCCD), the Ramsar Convention on Wetlands of International Importance, the Convention for the Protection of the World's Cultural and Natural Heritage, the International Labour Organization's (ILO) Convention No. 169, the International Tropical Timber Agreement (ITTA) and the Voluntary Guidelines on Responsible Governance of Tenure of Land, Forest and Fisheries (VGGT) among others (Yasmi, Durst, Ul Haq & Broadhead, 2017). The Government has developed a National Forest Programme 2010–2029 whereby the 10.8 million hectares of forest areas are classified into five land use categories, including protected areas, protected forests, community forests, forests under private concessions and production forests (Ministry of Agriculture, Forestry and Fisheries, 2010). Therefore, Cambodia has most of the laws and systems in place to make this move to achieve ecological diplomacy over the course of 20 years.

Sustainable Forestry Practice

Cambodia, as one of vulnerable countries in terms of forestry, still continues to pursue comprehensive forestry sector reforms designed to combat illegal activities and manage the forest resources for present and future generations.

To do this successfully, Cambodia needs to learn from successful countries in terms of sustainable forest management. In Cambodia, sustainable forest management is a critical component for long-term development and poverty reduction. By applying best practice from successful reforestation countries, Cambodia is able to achieve the goal of sustainability in forest management.

Cambodia could learn the following lessons from the success of each country, including the continuous support from the head of the country, investing in knowledge and involvement from relevant stakeholders. First, Cambodian government should place the importance of forest reforestation as top priority. Once forest reforestation becomes the top priority government project, national finance could be funneled continuously to the program. The case of the ROK suggests that in order for a developing country with low income level to solve forest problems, it requires strong and committed leadership along with efforts to put forest issues in the mainstream. Second, training and education of forestry will pave the way for Cambodia to achieve reforestation and sustainable logging. South Korea and Sweden are cases in point. Cambodia, however, should promote environmental subjects and train forestry experts to meet high standards. Lastly, involving a wide range of stakeholders in both planning and implementing of laws and regulations. By so doing, all relevant actors are able to share inputs and criticize specific provisions in order to improve laws and regulations.

Cross-cutting factors: Technology and Education/Training

The fourth industrial revolution will bring a plethora of technologies in modern forestry in Cambodia. Technology will improve efficiency given the fact that the forest products industry produces more with less population, less waste, less impact on the environment and less raw material input by utilizing technology (Eco-Link, 2002). The National Forest Program of Cambodia calls for the promotion of technology (Ministry of Agriculture, Forests and Fisheries, 2010). From drone technology to blockchain technology will be utilized in 2040 with a view to promoting reforestation.

In 2040, degrees and training in relation to the environment is an attractive employer, given the fact that it provides safe jobs in rural as well as urban

regions. On top of that, the appeal for climate action, climate education also raises awareness of job opportunities in a climate-smart economy. By 2030, sixty-five million jobs could be created in the process of a climate-smart economy (Sargren, Edgar, Beresford & Chevillard, 2019). This transition will produce shifts in job demand across sectors, yet also requires new skills for existing jobs. Over the next few years, robust action will be critical to ensuring that the 1.2 billion young people who will join the labour market in developing economies by 2030 – 3 million of them in Cambodia – will be enabled to contribute to and benefit from the job opportunities of a climate-smart economy (Sargren, Edgar, Beresford & Chevillard, 2019). As future-oriented, firms tend to be more environmentally friendly, those companies are progressively looking for employees who have a profound knowledge of carbon accounting, corporate social responsibility and lean manufacturing techniques (Webley, 2011). Thus, the need for education for sustainable development in universities of applied sciences is expected to increase in Cambodia. The content of the education should be developed so that it offers the starting points for development of forest products and services in line with the new trends. Forest education should be marketed to attract young people to the field. In the future, training in the forest sector should be diversified to respond to the new opportunities.

III. Policy Initiatives to achieve the vision

The road map towards the ideal scenarios in 2040 that Cambodia needs to implement holistic policies pertaining to human capital and environmental regulations.

Ecological training

The first step involves ecological training with environmental diplomats and scientists to ensure sound scientific data underpin international environmental negotiations. Ecological training aims to foster diplomatic efforts in the negotiation and implementation of multilateral environmental agreements and diplomatic practices in this field. Diplomatic training can be conducted both in the country and abroad. For instance, in 2020 the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Environment could send 10 to 20

representatives to join various conferences in Sweden, South Korea and Norway, etc.- perhaps it is a process of learning and then coming back to distill the information. In this sense, Cambodia is able to continuously adopt and learn overtime in response to change in ecological, economic and social drivers. It also promotes engagement and inspires creative efforts from partners. First, legislation, governance, and clear rules are instrumental for forest restoration. Clearly, transparent systems and avoidance of corruption have been key to progressive forestry and forest industry development in Sweden and hence clear rules and good governance have been overriding key factors for successful forest restoration in Sweden (Eriksson et al., 2018). Second, representatives of Cambodia should initiate government-led reforestation policies on the basis of the lessons learned from the Korean government --particularly the National Reforestation Programme of the ROK (Jae et al. 2014). Third, Cambodian delegation must actively engage with Norway given the fact that Norway is a front runner of Reducing Emissions from Deforestation and Forest Degradation (REDD+) and Cambodia is a part of REDD+ (Neumann & Carvalho, 2015; Brewster, 2012).

More importantly, according to Yui and Saner (2007) argue that training should include quality assurance (QA) as an integral part of employees/diplomats to develop competencies which in turn contribute to the organizational performance of their respective Ministry of Foreign Affairs. In addition, diplomatic training needs to apply ISO 10015. ISO 10015 offers easy-to-use guidance on how to organize diplomatic training in an efficient and effective manner. Following the definition, ISO 10015 defines training as a four-step process, namely, Analyse-Plan-Do-Evaluate (Yui and Saner, 2007).

A paradigm shift of environmental education

In terms of education, transformation in learning towards sustainability requires the commitment of faculty and academics. With strong efforts, motivation and innovative ideas, modification in content and methods can occur (Sargren, Edgar, Beresford & Chevillard, 2019). Curriculum reform and its reorientation towards sustainability is a prerequisite for Cambodia to embrace environmental diplomacy. According to Mulder et al (as cited in Leal Filho, Brandli, Kuznetsova

& Maria Finisterra do Paço, 2015) remark that the convergence of both strategies --whole curriculum reform and individual specialised courses have been recommended as beneficial for embedding sustainable development in universities. By 2040, environmental education and education for sustainable development will be included in the mandatory curriculum across the nationwide in Cambodia. Therefore, both high schools and universities in Cambodia will provide a new vision to students in order to gain knowledge, skills and competences related to sustainability, including the development of critical thinking, future envisioning and systematic thinking.

Pedagogically, in order to improve environmental educational outcomes, a two-tiered learning strategy will be developed for incorporation into curriculum and individual specialized courses. First, schools will make online resources on the topic available to students and teachers. These include good practice exchange videos with examples of integration of education for sustainable development in the curriculum. These activities are aimed at providing professional training not only focused on sustainable development concepts and principles but also on appropriate teaching methods and approaches. Second, sustainable learning environments, such as eco-schools or green campuses, allow educators and learners to integrate sustainability principles into their daily practices and facilitate capacity-building and competence development, and value education in a comprehensive manner. With this in mind, teachers should encourage students to do fieldwork.

Embracing the digital technologies

Cambodia needs to embrace innovative ways to increase the forest cover. New technologies have enormous potential to increase tree productivity and reduce costs. Cambodia will use technologies to foster reforestation in two ways. First, to help Cambodia gain reward for reforestation, the innovation of drone technology will pave the way for Phnom Penh to plant one million trees every year, contributing to efforts to address deforestation and promoting sustainable forest management. The new planting system comprises a planting UAV, a mapping unmanned aerial vehicle (UAV), and machine learning software. The method is fully automated and promises to be a form of reforestation that is

much cheaper and faster. Drones can plant up to 35,000 seeds in a day and can be operated in areas that are inconvenient for human trees to reach (Marshall, 2018). Drone technology represents a significant change from current tree-planting techniques, which include planting by manual and delivering dry seeds by air. Hand-planting is slow and costly, whereas spreading dry seeds leads to low uptake rates.

It additionally presents a chance to assist countries meet their environmental obligations (European Commission, 2016). Second, in order to realize a sustainably managed wooded area of 12,700 hectares or 10 million trees in 2040 by using blockchain technology towards reforestation is feasible. This mechanism was already implemented in Paraguay through a group of German entrepreneurs (TreeCoin, n.d). To support reforestation efforts, the Cambodian government needs to adopt the TreeCoin project. TreeCoin project's sustainable reforestation will help Cambodia to meet the country's demand for timber and form a natural habitat that will protect indigenous people for years to come. These technologies have huge implications for all facets of human life and potentially also for forests, forest landscapes and forest-dependent communities

Expanding community forests

In order to achieve reforestation and sustainable logging in 2040, expanding community forests is required. The goal of expanding community forests is to promote sustainable management of forest resources. The Forestry Administration of Cambodia has the purpose of transferring two million hectares of state public forests to communities, a transfer representing approximately 20 percent of the nation's forests (Poffenberger, 2013). Yet, an assessment made in 2002 estimated that up to 8.4 million hectares of Cambodia's forestland could be suitable for community forests (Fichtenau et al. 2002). Over the past decade, community forestry has made great progress in terms of policy and legal endorsements from the government and expanding financing from development agencies. If this trend continues, the area under community forest could expand rapidly (Poffenberger, 2013). Two important determinants of expanding CF's long-term success in Cambodia will be outlined.

First, one source stated that “proving strong community rights to community forests over natural resources because the community may have long term interest in maintaining resources” (personal communication, August 19, 2019). It has been shown that these forests and the carbon they store are better protected over time if indigenous people have full land rights to control forest territories. Second, extending the 15-Year Term for CFs and simplifying the process of applying community forests (Maningo, 2014 & F. Lambrick, personal communication, September 17, 2019). In addition, Lambrick (personal communication, September 17, 2019) argued that:

“In order to improve forest governance by 2040, we need to increase the amount of community forests cover in Cambodia and simplify the process of applying CFs and make it much longer term because at the moment it is short term (15 years). So, we need a much longer period for communities to manage those forests.”

Therefore, the government’s expansion of CF should be implemented in areas of high-value forest such as Prey Long, where communities derive significant subsistence and monetary benefit from the forest through sustainable use.

Regular Environmental Audits

By 2040, ecological audit will become an essential tool in the management and monitoring of environmental and sustainable development programs. By definition, it involves tools and procedures that are used to evaluate any activity which can have environmental impacts (DeSanto, 1999). A team composed of individuals with expertise in forestry, ecology and soil science will provide support to the auditor (EPA Victoria, 2005). The scope of audit includes manufacturing, mining, forest industries, land development, research and development, and any other activity which may affect the environment (DeSanto, 1999). The ecological audit is audited at least once every five years in order to ensure sustainable forest management.

To ensure that ecological audit is properly set up and effectively maintained, systematic approach is needed. There are four stages including checklists, field surveys, standardized questionnaires and observation. The purpose of this

management report/environmental audit report is therefore to make known the findings of the audit regarding the management of forestry resources in the country. More importantly, Lambrick (personal communication, September 17, 2019) said that:

“environmental auditors need able to safety and make the result of auditing transparent and if they find any corruption or any laundering timber or they find that timber is being transported from protected areas, they need to have a power to denounce that but also they need to be protected.”

By so doing, Cambodia will have well-trained environmental auditors and huge volumes of forest data will be generated and collected in the future.

Private Sector Participation

The response to climate change is expected to continue shaping economic growth patterns in most countries and influence decision-making as well as policy-making processes. The private sector will play an important role in at least two ways—in terms of providing finance, and in developing technology to capture, store and reuse of CO₂ (Global Diplomatic Forum, 2019). Therefore, private sector initiatives, new sources of finance for green projects and the financial mechanism will assist the countries to achieve their expected contributions. The private sector can support sustainable economic activity by putting environmental health before profit and monetary gain. Private sector actors must play a critical role in promoting greener economies. Opportunities include developing business models that emphasize legality and transparency (for example, subscribing to FLEGT or similar initiatives); adhering to best management practices including those formalized through certification schemes such as Forest Stewardship Council. Interest in concepts of corporate responsibility, while still relatively undeveloped in the GMS, is increasing; consumers from outside the region can assist by demanding assurances of best practice (WWF, 2013).

In the future, private sectors will play an active role to upgrade ecological diplomacy of Cambodia. At present, Cambodia’s National Forest Program and National REDD+ Strategy demonstrate the importance of private sectors to

ensure sustainable forest management (National Forest Program, 2010 & Ministry of Agriculture, Forestry and Fisheries & Ministry of Environment, 2017). According to Tolisano, J., Nguon, P. & D. Chhun (2016), the involvement of private sectors in sustainable forest management is very low. Therefore, by 2040, harmonized private sectors management of forests will stress on reforestation and sustainable logging. In order to be successful, the private sector should further engage with multi-stakeholder diplomacy like the Alliance of CEO Climate Leaders and Technology Facilitation Mechanism and public-private partnerships (Global Diplomatic Forum, 2019).

For Cambodia, the government released a sub decree on the use of state land for reforestation that encouraged communities and the private sector to take part in reforestation activities. The private sector is encouraged to participate through the Forestry Law and Policy Statement. Similarly, Sub-Decree 26 of 2008 stipulates private sector investment in forest rehabilitation. Particular effort has been made to engage the private sector in these discussions, including the European Chamber of Commerce in Cambodia. However, the government needs to identify potential private sectors for possible collaborative ventures involving sustainable forest-based enterprises.

Legalization of logging and Improvement of Forest Governance

Realizing a desirable future –and avoiding catastrophic outcomes – is plausible for Cambodia if legalization of logging and improvement of forest governance are implemented. Legalization of logging would help minimize illegal logging when it entrusts local people with ownership and control of forest resources and maintains a monitoring role for government agencies –particularly strengthening forest governance. First of all, legalization of logging would pave the way for sustainable logging. Following this, sustainable logging will adopt a clear-cutting method as the preferred logging method. According to Lundmark, Josefsson & Östlund (2017), clear-cutting is used to clean up the forest and to replace such stands with new forest that is more productive and fast growing. For instance, sustainable logging involves only mature trees while leaving the immature ones to continue growing. Therefore, Cambodian government requires every plot for logging to be inspected by an officer from the Forestry

Administration who would then identify the trees allowed for harvesting. In the case of forest plantations in the tropics, a system of 10-year cutting and replanting rotation is commonly practiced (Sasaki et al., 2016)

Second, adopting and implementing effective and strong forest governance is a prerequisite for adopting legal logging. This is in line with what Lambrick said “ If the forest governance is really improving, legalization of logging would be a good idea.”(personal communication, September17, 2019). Cambodia forest national program (2010) also acknowledged the importance of forest governance as the ability of the government to enforce the law, respond to threats and impacts, operationalise forest policies and implement plans based on transparent and accountable systems. Moreover, the Third Asia-Pacific Forest Sector Outlook Study claims that the state of forests and forestry in the Asia-Pacific region in 2030 and 2050 will largely be shaped by the quality of forest governance. With good governance – predicated on mutually supportive and cooperative relationships among government, the private sector and civil society – forests will be better managed; the economic and environmental benefits derived from forests will be shared equitably among stakeholders; and forests will be integral to solutions to challenges such as climate change, hunger and malnutrition, poverty and threatened water supplies (FAO, 2019).

III. Business as Usual: describing the alternative - what if there were no interventions?

The Business as Usual scenario assumes that without the uptake of appropriate intervention, Cambodia environmental diplomacy won't be achieved by 2040. At a global level, if Cambodia stay committed to in its Intended Nationally Determined Contribution (INDC) to reduce its GHG emissions by 27% by 2030 (USAID, 2017), Cambodia won't become a net zero emission country, given the fact that Phnom Penh cannot achieve ecological balance between activities that emit climate pollution and processes that reduce the impact of that pollution to zero or close to zero. Moreover, regarding the global commitment of reforestation, Cambodia in its business-as-usual scenario will continue to plant forests to meet the target, approximately 2,829,322 trees (The Trillion Trees Campaign, n.d). Although Cambodia is assumed to have made considerable

progress in terms of reforestation, the number of trees planted is relatively small compared to other countries in the world (The Trillion Trees Campaign, n.d). Against this backdrop, Cambodia has not yet become a fully-fledged for large-scale biological sequestration --especially through reforestation-- due to the absence of Cambodia in Bonn Challenge and New York Declaration on Forests.⁹

The BAU scenario uses environmental governance to measure the future of Cambodian soft power through forest governance and national regulations. Cambodia has seen only slow improvements in forest governance. Based on the current trend, a failure to improve forest governance may bring dire consequences for Cambodia, including continued forest loss, the further marginalization of forest-dependent communities and conflict. For example, Gritten et al. (2019) argue that forest governance in Cambodia is defined as failing. In this context, the status of forest governance is a main issue driving the fate of Cambodian forests. Efforts to improve forest governance will continue in many countries in the Asia Pacific region in the BAU scenario, including strengthening efforts to combat the illegal trade of timber and wildlife products. Stakeholders will increasingly participate in decision-making and benefit sharing in light of continued domestic and international pressure.

Moreover, policies, rules and regulations aimed at protecting trees under the control of forestry administration and the Ministry of Environment are being implemented in order to ensure sustainable forest management. However, continued unsustainable resource extraction practices - particularly forests - could seriously affect the future of ecological diplomacy of Cambodia. The projection of forest futures in the Asia-Pacific Region indicates that there will be a decline in forest area in Cambodia in 2030 (FAO, 2019). Apart from

⁹ Bonn Challenge, launched in 2011, the aim of which is to restore productivity on 150 million ha of degraded and deforested land by 2020 and on 350 million ha of degraded land by 2030 using landscape approaches. The New York Declaration on Forests (NYDF) is a voluntary and non-binding international declaration to take action to halt global deforestation. It was first endorsed at the United Nations Climate Summit in September 2014.

unsustainable forest management, poor forest governance may undermine the projection of soft power via ecological diplomacy.

Despite a few flaws as mentioned above, the Cambodian government has made an initial commitment to push for better climate and environmental education. Over the next 20 years, the business-as-usual scenario assumes that the rate of students enrolling in education for sustainable development will increase - primarily due to the demands of job opportunities of a climate-smart economy. Lack of awareness as to the promotion of environment-related education would yield far-reaching consequences to the development of ecological diplomacy. On the one hand, a recent backlash against globalization could slow technology transfer in the forest sector in Cambodia. The scaling up of technology in the forest sector is uncertain in Cambodia given the fact that Cambodia has relied on and will continue to depend on developed countries to transfer certain advanced technologies to help reforestation schemes.

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Chapter 6 | Foreign Aid and Development Assistance

Brevin Anderson and HIM Raksmeay

Gary, a USAID specialist with the Feed the Future program, finishes packing up his second-story apartment. The busy sounds of the street market below filter up through the window, and somewhere someone is playing BBC Cambodia, recently launched with an all-Cambodian staff, much too loudly. After spending the last twenty years of his career traveling between Phnom Penh and rural communities around Cambodia, his work was finally done. USAID's food program was shutting down, leaving the work to a new cohort of Cambodian civil servants. There were still a few communities at risk, as he had outlined in his last report, but when the new roads reached them, it was only a matter of time.

As incomes rose and aid slowed, many of Gary's long-time foreign friends at other NGOs had seen their projects wrapped up and ended or transitioned entirely to Cambodian staff. They had been hands-on types, crisscrossing the country to compile reports and check in on the projects that reported to them. They had worked in every field, from healthcare to education to food security. Replacing them in his apartment block was a new group of foreigners. The individuals filling the rooms were businesspeople. More impressive was the huge surge in Cambodians, most with terminal degrees and niche specialties in financial markets, that had driven up his rent in the past five years.

With his last suitcase packed, Gary left the building, just barely making it to the bus stop in time. The electricity-powered bus was part of Phnom Penh's recently

finished carbon-neutral public transportation system, the result of a public-private partnership with Chinese company, and supported by NGOs who advised the project. The advisors, in conjunction with Cambodian counterparts, held a series of lengthy public forums to debate the impact of the system on lower-income quarters of the city. The forums were well-covered by the local blogs and podcasts, and resulted in an equitable consensus with broad public support. As he arrived at the airport and left the bus, Gary took one last look at the city's skyline. It was satisfying he had no more work to do here. He decided he would come back soon, but as a tourist.

I. Ideal Scenario: Foreign Aid in 2040

Efforts in the 2020s and 2030s have addressed, in large part, Cambodia's critical infrastructure requirements and has led the country to continually downgrade its dependence on foreign aid. Fiscal reform in parallel to the general increase in national income has led to the RGC relying principally on domestic taxes for funding (Chean, 2019). As such, it increasingly funds its projects without any reliance on foreign sources. In 2040, foreign aid to Cambodia from all sources reflects its status as an upper-middle-income country (defined by the World Bank as a GNI per capita between US\$4,046 and US\$12,535). In general, foreign aid focused on large scale projects such as poverty reduction and food security have given way to more targeted programs.

OECD measures put net official development assistance (ODA) as falling to 3% of central government expenses for the past five years, comparable to several Eastern European States in 2020. While ODA from all countries has decreased significantly, the most significant change is the decrease in foreign aid from China. Chinese aid, notoriously hard to track and taking on the forms of interest-free loans, grants, concessional loans, as well as more ambiguous financial support in the form of foreign direct investment (FDI) and infrastructure contracts to Chinese state-owned enterprises (SOEs), dramatically fell over the course of the 2030s.

While China is still Cambodia's most important trading partner and provides some aid, Cambodia has significantly reduced its use of Chinese loans and

conditional aid for infrastructure projects. China's aid in practice diverges from the best practices for ODA set forth by the OECD Development Assistance Committee (DAC). While advertised as coming with "no strings attached," in reality Chinese aid often privileged Chinese interests over local ones. It also greased the wheels for other investments, with the promise of aid acting as protection money for Chinese companies. This led to sub-par outcomes, with communities feeling left out of the political process. Some decision-makers, profiting from the new projects, felt less accountable to their constituents. This vicious cycle was recognized by the RGC as creating many social and political pathologies, and was disrupted.

In 2040, this has led to many positive outcomes. Private capital investments have dramatically increased with the reduction of crowding-out effects and the political uncertainty caused by outsized Chinese influence. Rather, the more targeted and limited aid signals stability to investors, who are more willing to embark on public-private partnerships and long-term projects. They are able to engage with Cambodia's special economics zones (SEZs) and expanded ports without fear of politics disrupting business (Sok, 2019).

It also has stabilized the RGC's relationship with China. The negative effects of perceived linkages between Chinese aid and political favors has fallen away, and an even playing field has ensued between the essential trading partners. Chinese firms compete on this level playing field, and can no longer rely on aid to ease mistakes or local disapproval; rather, they must demonstrate their benefit to the Cambodian communities they work in.

Aid and support from other countries has also decreased over time, though gradually. In the 2020s, a new spirit of cooperation meant the EU, under the Everything but Arms scheme, and the US, under the Generalized System of Preferences, maintained preferential trading agreements, and allowed Cambodia to continue its rapid pace of growth until the agreements were phased out in 2030. This lessened the pressure on Cambodia toward Chinese assistance and allowed the RGC to strike harder deals to direct aid money into Cambodian hands and point infrastructure projects under the Belt and Road Initiative (BRI) towards solving more urgent social problems. By separating

politics from aid, the RGC was able to ensure Chinese investment did not significantly disrupt local communities or go against the public interest.

Over time, the mitigating of the most critical issues, like food security, lessened the need for aid and diverted what remained to more targeted issues. With an RGC-established “social protection floor” providing access to basic healthcare, income security, and other public goods for all Cambodian citizens, programs and NGOs that focus on stop-gap measures and relief are increasingly unnecessary (You, 2019). ODA that still flows in this category is extremely targeted, focusing on smaller pockets of poverty in rural areas and more niche challenges that were unevenly addressed as national income and industry grew. Blanket poverty reduction or food security is no longer a large concern, but the programs that do remain are addressed to local disaster relief or recently graduated areas to prevent backsliding.

One area of targeted relief involves extending Cambodia’s technological innovations to the last unreached corners of the agriculture sector (Phu, 2019). These programs help poor farmers overcome the initial investment costs of technology. With the technology in hand, farmers can take advantage of to-the-minute information concerning weather, market and price information, geographical information, and new agricultural techniques. The resulting efficiency gains, in addition to increasing quality of life increase for the farmers, have spillover effects into local communities. While this aid functions by linking farmers into existing Cambodian networks, much of it is motivated by the potential for this increased prosperity to facilitate cross-border trade and cooperation with farmers in surrounding countries.

Cambodia has gradually but surely graduated from its previous aid dependence and shifted to other sources of investment. Most aid has shifted to knowledge and advisory services that build domestic capacity so Cambodia can engage in the global economy on its own terms. These programs aim to assist Cambodia’s explosion of civil society organizations, as well as small and medium enterprises taking advantage of the digital economy.

This shift to civil society support and knowledge transfer is one of the more significant developments in Cambodia’s relationship with foreign aid. Foreign

donors increasingly invest in building human capital and sharing their specialized knowledge with Cambodian experts. This empowers them to further develop institutions to make Cambodia globally competitive. Supported by aid focused on building good governance, these experts and community leaders increasingly aim at tackling inequality and creating accountability mechanisms to ensure human rights are respected and public good provision continues equitably.

Interest by young people and leaders in local communities has prompted international culture organizations to support intercultural exchange opportunities throughout Cambodia, including forums of youths from numerous countries and cultural pride events. 2040 also sees a number of partnerships with organizations promoting the Khmer language and culture internationally, as well as focused campaigns to continue to preserve national monuments and practices for future generations (Kruy, 2019). The RGC's national policy on incorporating the positive elements of other cultures has been met with acclaim from various human rights organizations who have offered continued capacity building and resources via various online platforms.

Other aid programs partner with Cambodian professional organizations to help civically-minded young Cambodian professionals build the skills necessary to analyze government policy, propose solutions, and hold leaders accountable. This has led to a series of independent watchdog organizations that provide free and unbiased information to the public. Through these watchdogs, communities feel heard, and are more willing to engage in local politics. This has the further effect of reassuring international businesses of Cambodia's commitment to the rule of law, transparency, and the diminishing of corruption

With increased accountability and civic organizations has also come a range of new opportunities to continue building Cambodia's green economy and climate resilience, supported not just by aid, but by FDI. Partnerships between the RGC and international organizations aimed at promoting public awareness have informed the majority of Cambodia's population on climate change issues, and created public support for green policies (Oung, 2019). Public transportation is run with clean, renewable technology, funded in part by foreign sources. These

projects aim to make sustainability a norm, to ensure Cambodia does not repeat the mistakes of other industrializing economies, keep its air and water pure, and keep in compliance with international standards. Ambitious but realistic goals, such as renewable energy being 35 percent of national supply, are aided by technology and knowledge transfers from countries interested in cooperation to tackle climate change (Heng & Boyle, 2019).

About a quarter of aid from all sources still goes to infrastructure, including energy, a constant demand in the booming economy. However, unlike in previous decades, these projects are not tied to political concessions, natural resources, particular companies, or particular countries. This infrastructure support proceeds in a much more open process, with various sources and vendors, and is tailored to address the particular needs of the growing middle class. More advanced rail and public transport are the main concerns, though the expansion of Cambodia's ports is always on the table.

II. Scenario Space and Key Factors: Foreign Aid

Scenario Space

Since the signing of the Paris Peace Agreements in 1991, foreign aid has played an important role in Cambodia's development. From 1992 to 2018, Cambodia received official development assistance of more than US\$20 billion (Council for Development for Cambodia, 2018). This aid has, in part, taken Cambodia to where the kingdom is today: a country at peace and with room for growth. From 1994-2015, the country's economy grew at an average rate of 7.6%, making the Kingdom 6th in the world for economic growth (World Bank, 2018). GDP per capita rose from US\$229 in 1993 (Ministry of Economics and Finance, 2016) to US\$1,548 in 2018 (National Strategic Development Plan, 2019). The country's poverty rate declined from 63.3% in 2004 to 13.5% in 2014 (Ministry of Planning, 2016).

Cambodia currently receives significant foreign aid from various sources to fund a variety of projects ranging from infrastructure investment to social services to programs designed to promote the development of civil society. In 2018, some estimates put aid from donors represented between 30% and 40% of the RGC's

budget (US State Department, 2018). The precise percentage is difficult to calculate, however, due in part to the different types of aid Cambodia receives.

Official Development Assistance

The most widely known and internationally approved form of foreign aid is official development assistance, or ODA. ODA is aid that fits a particular definition aimed at ensuring best practices are followed; ODA is defined as “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent.” (OECD, 2019). Importantly, it specifically excludes lending for the purpose of promoting foreign exports to the recipient country. The Development Assistance Committee (DAC) sets the standards for ODA standards and goals, which include “sustained, inclusive and sustainable economic growth, poverty eradication, improvement of living standards in developing countries, and to a future in which no country will depend on aid.” (OECD, 2020). Because of this, ODA is considered the “gold standard” of foreign aid. Since ODA's recent peak in 2012 at 54% of central government expense, Cambodia has seen a steady decline in ODA to 20% in 2018 (World Bank, 2020). This should be seen as a good sign, but a mitigating factor is the influx of non-ODA aid into Cambodia, and its primary source, China. In some cases, a decline in ODA is not due to economic growth or the finding of successful solutions, but the replacement or crowding out of ODA by China's “no strings attached” aid policy - the strings being oversight and accountability (Burgos & Ear, 2010).

Chinese Foreign Aid

Chinese aid does not hold to DAC guidelines, and follows its own internal rules. It also makes little effort at transparency in its foreign aid programs. This means that Chinese aid is not counted as ODA, and is a separate and significant source of aid to Cambodia. China is the single largest donor to Cambodia, with its aid coming in three forms: “grants, interest-free loans and concessional loans managed by the EXIM bank.”(Ky, Lee & Stauermann, 2012). Unfortunately, various organizations provide differing estimates of Chinese aid (compare statements from the Chinese embassy vs the Council for the Development of

Cambodia) (Heng, 2012). Comparing Chinese aid with that of other nations is also complicated because some money goes to sectors excluded by ODA. For example, China is a large contributor to the Cambodia military (Heng, 2012).

Further complicating the matter are the links between Chinese aid and FDI. Chinese aid and investment are not only a strategic pairing of tools, but interact within Cambodia to leverage Chinese interests. Peou (2019) argues that Cambodia's new deals with China "cemented Cambodia's growing dependence on China, not only for economic development but also for political protection and security. In spite of China's well-known claim about giving aid without any strings attached, the new agreements can be viewed as a foreign policy tool that both countries use to accomplish their political ends." Chinese investment uses political links from aid to overcome Cambodia's objectively poor investment market. Chinese aid and loans are "sometimes essential" in securing RGC protection for Chinese investments, particularly SOE projects (O'Neill, 2014). O'Neill also notes that China's history of loan forgiveness makes Chinese loans more preferable and gives China increased leverage.

The political and economic effects of this type of aid can be far reaching, and are explored elsewhere, but suffice it to say that the political nature of Chinese aid, in addition to the kinds of loans it foments, are uniquely unlikely to be the kind of aid that achieves the goal of ODA, that is, to reach a "a future in which no country will depend on aid."

Aid in Lower-Middle Income vs Upper-Middle Income Countries

While a future without aid is the ultimate goal for Cambodia, even with significant economic growth, aid will still be a relevant factor in 2040. Much, if not most, ODA and other types of aid is directed not at lower-income countries (LICs), but at the large group of middle-income countries (MICs). As of 2019, Cambodia is classified by the World Bank as a lower-middle income country (LMIC). By 2040 or sooner Cambodia is likely to become an upper-middle income country (UMIC), a category that includes a broad sweep of countries (defined by the World Bank as those with a GNI per capita between \$4,046 and \$12,535). Relevant to note is that states classified as UMIC's still receive aid under various schemes. However, aid is typically a small portion of government expenditure,

and the aid that remains is focused on specific projects or initiatives. It aims to, for example, consolidate social gains made and prevent backsliding, increase knowledge in technical areas, especially those relating to the international financial system, or reach “pockets” of poverty left behind as most other incomes increase (Glennie, 2011). The future of aid in Cambodia can be examined through several key factors, the status of which will help indicate trends and trajectories. In addition, policies crafted to address deficiencies in these key factor areas should help to lay the groundwork for an ideal foreign aid situation in 2040.

Key Factors

Reliance on non-ODA Aid

As previously noted, reliance on Chinese aid has the potential to sabotage gradual dependence-reduction and cause various other political and social challenges. Shifts away from the relative accountability of ODA, as well as the politically-driven nature of many Chinese projects, has the potential to exacerbate a form of so-called “Dutch disease,” in which “aid crowds out other sectors, becoming a tradable sector financed by “revenues” in the form of aid,” and “state capacity is weakened [because] the best and brightest are neither entrepreneurs nor government policy wonks.”(Ear, 2013). While ODA is not immune to this problem, the political and opaque nature of Chinese aid is uniquely susceptible to it. The degree to which ODA and competitive investment is displaced by Chinese aid and investment linked to it will be a key indicator of an unhealthy relationship to foreign aid.

Human Capital Development

The World Bank’s Human Capital Index for 2020 (pre-Covid-19) sums up Cambodia’s current situation: “A child born in Cambodia today will be 49 percent as productive when she grows up as she could be if she enjoyed complete education and full health” (Emphasis in original) (World Bank, 2020). This metric puts Cambodia below average for its region (but better than the average for LMICs). One notable weakness is in net secondary enrollment for secondary-aged children, with only 38% of children enrolled. The regional average is 72%,

and the LMIC average is 57%. The development of human capital, such as a highly-educated citizenry, is essential for Cambodia to graduate to the kinds of aid UMIC countries receive. Without basic guarantees of social services, food, education, and healthcare, foreign aid is unlikely to shift to the kinds of programs that build globally-competitive technical expertise and support a robust and sustainable civil society. This factor also brings into relief the difference between DAC ODA, which focuses on health, governance, education, and infrastructure, and Chinese aid, which goes primarily to infrastructure and often privileges hiring Chinese workers in its construction. Cambodia's human capital baseline will be an important signal to aid donors and organizations as to where their money will be best spent. The more the RGC can assume the burden of basic social services, the more specialized and focused aid can become.

Sustainable Growth

While aid can undoubtedly do good, countries must exercise caution when partaking. Much criticism, leveled by authors such as William Easterly and Christopher Coyne have highlighted numerous problems in current systems of aid that result in suboptimal or even negative effects despite good intentions.¹⁰ In short, they and similar authors argue traditional aid is inflicted as abstract, top-down planning that fails to take into account local knowledge and conditions. "Ineffective generalists" run broad and overly optimistic projects with serious opportunity costs, and in some cases actual harm (Easterly, 2006). Further, aid is often administered through local leaders and can create opportunities for corruption. Even if corruption does not occur, the costs of monitoring against it can divert talent (both local and international) into compliance roles and away from productive roles. In fact, scholars have suggested Cambodian officials prefer Chinese aid because it requires less administrative work (Sato, Shiga, Kobayashi & Kondoh, 2011). While the work of Coyne and Easterly targets definitionally philanthropic DAC ODA-style aid, their

¹⁰ See William Easterly's *The White Man's Burden* and Christopher Coyne's *Doing Bad by Doing Good*

criticisms apply equally if not more so to Chinese aid. As Cambodia continues to make use of aid in the near future, observers should note to what degree aid programs are eventually phased out or made domestically viable versus remain interminably reliant on foreign funds. The latter will be an indicator of a lack of sustainable growth and an unhealthy relationship with aid.

Economic Freedom/Openness

Economic freedom or openness, broadly defined, refers to the ability of individuals and firms to conduct business and make transactions in the market. Economic freedom strongly correlates to prosperity, and generally reflects healthy and functional domestic institutions. The *Economic Freedom of the World* Annual Report for 2020 measures economic freedom in five primary areas: size of government, legal system and property rights, sound money, freedom to trade internationally, and regulation (Fraser Institute, 2020). While Cambodia has improved overall between 2010 (with a score of 6.96 and 75th in the world) and 2018 (7.28 and 63rd), the gradual reduction of aid will depend on the maintenance of its relative openness. Several entries into the *Cambodia 2040* project directly dialog with the ideal future for these areas of economic freedom in more detail than this chapter will, but there are a few of particular relevance in the context of Cambodia's current relationship with foreign aid.

Research has shown the mixed impacts that foreign aid can have on the health of these factors in a country, particularly in creating opportunities for corruption and allowing governments to maintain their power through aid funding instead of satisfying the demands of their constituents. Observers should attend to potential negative effects of ODA, but particularly Chinese aid and investment, on maintaining strong property rights (business guarantees and protection linked to aid instead of rule of law), the size and quality of governance (loans for projects by Chinese companies, aid-reliance as alternative to serving constituents), and regulation (aid as insurance for Chinese SOEs). As an example, likely reflecting these various events tied to aid and investment, Cambodia's score on the perceived impartiality of public administration under regulation fell from 3.03 in 2010 to 1.37 in 2018. Its score on the legal enforcement of contracts fell from 2.44 in 2010 to 1.82 in 2018.

III. Policy Recommendations

Looking forward to 2040, as foresighting recognizes, it is difficult to predict accurately what the aid landscape is going to look like in Cambodia in light of the sheer number of variables. However, as noted above, foreign aid may continue to have crucial roles for the development of Cambodia in twenty years. The important question one may need to ask is to what extent Cambodia is going to be aid-dependent by then. Undoubtedly, it is the RGC's official policy that the country does not want to stay dependent on aids in the future as indicated in its vision of aspiring to become an upper middle income country by 2030 and a high income country by 2050 (Royal Government of Cambodia, 2018). It is also an ambitious dream of many Cambodians to see the country becoming a prosperous country that is able to stand firmly by its own with pride and dignity in the near foreseeable decades.

Being aid-dependent or not depends largely on what Cambodia itself is going to perform on both internal and external fronts in the next few decades. Below are recommendations suggested for RGC for considerations:

Internal Front

- RGC needs to continue to have a sustained commitment to implementing core national development policies it has set out namely the Rectangular Strategy Phase IV and its 2050 Vision (Royal Government of Cambodia, 2018). To ensure effectiveness of executing these national policies, consistent and rigid monitoring and evaluating mechanisms need to be in place in order for real progress to happen on the ground and for Cambodians to receive the real fruits of development.
- Deep reforms towards capable, effective and efficient governance should continue to be expedited. RGC should be well applauded for setting out various reform programs to reduce corruption and administration inefficiency, especially since 2013 (Royal Government of Cambodia, 2013). These important efforts need to be continuous and persistent to further combat root causes confronting Cambodia's development.

- There is a need for Cambodia to continue to further expedite its endeavors to diversify its economy. RGC has set out various policies to address this matter as enshrined in its Rectangular Strategy Phase IV. However, to do so requires a great deal of patience, resources and continuous efforts committed by RGC. Cambodia has so far found difficulties in moving beyond three narrow-based sectors namely construction, garment and tourism which all heavily rely on foreign capitals. In 2018, Cambodia's domestic saving was only 13% of its GDP (World Bank, 2018). Furthermore, to keep itself attractive to foreign companies, Cambodia has so far not been able to make any laws to prevent capital flights. Therefore, the country's economy is prone to surprised external shocks. To be less aid-dependent in the near future, Cambodia has to diversify its economy to other broad-based sectors such as agriculture and manufacturing.
- Cambodia needs to further improve its business and investment climate to attract rules-based capitals from various legitimate entities, both local and abroad. According to Transparency International, Cambodia is one of the most corrupt countries (Transparency International, 2019). The World Bank said Cambodia's ease of doing business is one of the lowest in the region (World Bank, 2019). If continued and tangible commitment and implementation to reform are not in place, many good ideas and legal capitals of business and investments would be unlikely to come to Cambodia, and the country would continue to depend on foreign aid.
- Cambodia should reinforce efforts to ensure essential public services (i.e. public administration, education, healthcare and social protection) are better delivered to its own people. Placing its own people among top priority is a commendable step taken by RGC as indicated in its top national development policy. Yet, there remains large rooms for improvement to which the government needs to attend to in terms of public service deliveries with due diligence as there are considerable areas in Cambodia that these services are not sufficiently and effectively provided. In some countries, poor public service delivery causes

discontent among the people which has implications on the countries' peace and development.

External Front

- Cambodia should strictly commit and adhere to its constitutional principles with regards to its foreign policy, particularly “neutrality” and “non-alignment” (Constitution of the Kingdom of Cambodia, 1993). RGC has so far made efforts to be in line in this endeavor by claiming that Cambodia is making friends and welcoming cooperation as well as partnership with all countries. With the power rivalry between the US-China has been intensifying, siding with either one of them would risk its relationship with the other. Cambodia has to be careful of not siding with any superpowers. All matters related to the two have to be handled with due diligence and careful considerations to avoid unnecessary diplomatic incidents which would eventually prove costly for Cambodia and the Cambodian people. Otherwise, it would mean Cambodia would need to depend on that particular superpower and definitely would depend on it and its aids which extend to dangerous elements beyond the scope of ODA.
- Cambodia needs to further be proactive and supportive of multilateralism through multilateral institutions such as ASEAN and the UN. Through skillful and mature diplomatic missions and personalities, the country should be bold in initiating various practical projects to win formidable and long term friendship with mutual trust and benefits that go beyond materialistic incentives. These kinds of friendship with as many countries as possible would improve Cambodia's standing on the international stage that would generate tremendous opportunities such as diverse sources of investments and businesses influxing to the country in return.

IV. Foreign Aid in Cambodia in the Baseline Scenario: Business as Usual in 2040

Under the baseline scenario, foreign aid to Cambodia continues funding a wide array of services and organizations, with net official development assistance staying steady at around 20% of central government expenditure. Foreign aid from China also continues to be significant, as well as a source of corruption and popular discontent when projects linked to it disrupting local communities.

A combination of top-down planning and aid-corruption feedback loops means projects aimed at solving infrastructure problems have been much less effective than desired. Many of these infrastructure projects have been driven by Chinese political pressure and the interests of Chinese SOEs, rather than local Cambodian interests. In some cases, this has left local companies locked out from natural resources and retarded firm growth.

In both cities and rural areas, the protection of various business ventures depends on political connections to foreign aid. The uncertainty caused by these actions continues to make investors wary of committing resources. In addition, these projects have required the long-term cooperation of the Cambodian government, and in some cases have left the RGC with the ownership of expensive failures. These distractions have diverted attention and resources away from basic social service provision, continually widening the urban-rural divide. ODA and NGOs attempt to address these issues, but they are piecemeal, and the patchwork of programs has left many Cambodians without a sure social safety net. Civil society groups have attempted to call attention to these failures and establish accountability mechanisms, but with limited connection to and interest from international partners, they have been unable to build large-scale and self-sufficient organizations.

While GDP has grown steadily, increasing inequality has remained a challenge. Most non-Chinese foreign aid is still directed at alleviating rural poverty and providing basic services, while urban projects tend to be captured in favor of elites and proceed without external accountability. While education and human capital has improved, Cambodian industry still remains heavily dependent on foreign experts, which restricts its ability to expand. While some NGOs attempt

to bridge the expertise gap between themselves and international financial systems, too much attention is diverted elsewhere to make any serious impact. Chinese aid continues to be a vehicle for funneling FDI into Cambodia, greasing the wheels for SOE contracts. While most FDI depends on signals of stability and accountability, the close cooperation between Chinese aid and SOEs bucks this trend and acts as a hedge against political risk that firms from other countries do not have. Further, the lack of “strings” attached to Chinese loans, as well as their history of loan forgiveness, have crowded out alternatives and led to China’s increasing dominance as a source of funds. As a consequence of the uncertain investment environment and the continual crowding effect of Chinese projects, foreign investment has not dramatically increased and Cambodia finds itself in a state of dependence. While there is continued interest in Cambodia’s various export industries, the looming presence of China and the lack of stability signals scares investors away from long-term deals, slowing growth and locking Cambodia in a low-level equilibrium trap.

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Chapter 7 | Monetary Policy and Rielization

Rasheed J. Griffith and LOR Samnang

Vichet arrived in Cambodia for the first time in 20 years since migrating to the United States at a young age. It is now 2040 and he is amazed by the rapid and pronounced development of Cambodia since he left. He needs to find a mobile sim card in order to use the internet and make a call to his friend. The cost of a sim card is 20 Riel but he realizes that there is no Riel currency in his pocket. Therefore, he has to exchange from USD to Riel to buy a sim card. He then can use the internet and install Grab in order to go to the hotel. The transportation cost is 40 Riel as it appears on his phone's screen. He realized that he has to exchange all his USD to Khmer Riel for any transaction being made as it seems that business in Cambodia will only accept Riel for the sale of goods and services. Vichet asks the taxi driver to find him the currency exchange service along the way to the hotel where he can exchange his remaining USD currency to Khmer Riel. Stepping into the hotel late at night, he walks to the reception area and pays 150 Riel for three nights. The next morning Vichet calls his friend Kosal to discuss his purpose of coming to Cambodia. They go to Starbucks where it is convenient to talk about Vichet's business plan. Vichet and his friend talk about a potential project that entails an investment of about 800,000 Riel. Recognizing that the kingdom as a whole does its "mental financial math" in Riel, Vichet soon realizes that Rielization is real.

I. Monetary Policy in 2040: Ideal Scenario

As a result of institutional reforms led by the Royal Government of Cambodia (RGC) in the previous two decades, Cambodia has demonstrated a deep structural transformation in its approach to monetary policy. Cambodia achieved its goal of practical internal de-dollarization/Rielization which followed a wide adoption of the domestic currency by the population. Over 90% of commercial bank deposits and practically all circulating currency is denominated in Riel. Cambodians routinely use Riel in their daily transactions without being coerced or compelled.

In the urban centres retail payments are rarely done with physical money. Most of these transactions are done via smartphone e-wallets. With great success the monetary authority issues three versions of Riel: coins, polymer notes, and digital Riel. Cambodians can transfer money from their online bank accounts to their digital wallets as if they were making a cash withdrawal at an ATM.

Cambodians finally shifted to the Riel in droves after the government announced that they would transition the National Bank of Cambodia into an orthodox currency board arrangement (CBA) with the anchor currency as the U.S. Dollar; forgoing the pretence of an independent Central Bank. A currency board has a singular goal: to issue “notes and coins convertible on demand into a foreign anchor currency at a fixed rate of exchange” (Hanke 2002)¹¹. These arrangements are not allotted any discretionary power to manipulate the money supply. This ensured absolute convertibility of the Riel and significantly reduced the risk expectations of the population. Cambodians saw this reform as a serious indication of the government’s commitment to a credible Riel.

As a consequence of this commitment by the government to not interfere in the market mechanism of the currency, Cambodia has seen steadily increasing inflows of foreign direct investment (FDI). The government has been restricted from monetizing budget deficits which promotes the development of rigorous

¹¹ <https://ieagh.org/wp-content/uploads/2014/11/steve-hanke-annals.pdf>

measures to adjust fiscal performance. This included increasing the capacity to effectively fund itself from tax revenue.

Inflation has mirrored the economy of the anchor currency. As Cambodia has adopted an CBA the government no longer required a specific policy for inflation targeting since the majority of inflation is imported.

II. Scenario Space and Key Factors

Monetary policy cannot do what policy makers want to force it to do. Kith Sovannarith, Deputy Director of Banking Supervision of the NBC stated that “[the NBC] cannot directly use rates to increase jobs and investment” because of the high levels of dollarization¹². Central Banks have long advocated for monetary policy to be used as a synthetic tool to fine-tune fiscal ends.

But this myth of fine-tuning merely conceals the reality of blind tinkering. Essentially, policy makers have surreptitiously shifted the burdens of fiscal policy to monetary policy - confounding the two. We can call this policy shift ‘monetary fiscal-ladenness’. But when monetary policy is absolved of its fiscal-ladenness, its true - and sole role - is deceptively elementary: the management of the quantity of money. A stable and predictable money enables market price signals to remain unencumbered and long term financing contracts to retain their reliability.

It is this form of stability that promotes credibility in domestic markets and attracts foreign investment. The fiscal-ladenness of monetary policy obscures which institution is really responsible for developmental goals: the government. Sound monetary policy, then, solely focuses on monetary management. To update a metaphor deployed by Friedman (1968), money is like an operating system on which various software applications (economic activity) functions. Monetary policy is keeping the operating system well functioning and stable. Monetary policy should not be concerned with engineering apps (unemployment rates, capital growth rates, etc.).

¹²<https://www.khmertimeskh.com/14404/cambodia-is-handicapped-by-dollarization/>

In terms of the scenario space under discussion here, there are three key factors that led to this ideal scenario of monetary reform based on a concerted resistance of the fiscal-ladenness of monetary:

1. *Monetary credibility*: the monetary authority which issues the currency would have adopted a strict rule based policy architecture to absolve the risk of currency manipulation.
2. *Maintaining absolute convertibility*: Riels need to be convertible on demand, at any time, and in any amount, into the anchor currency.
3. *Strategic anchor selection*: the anchor currency must have strong international network effects, material capital market depths, and competence governance.

The role of each of these key factors is discussed in detail in the policy recommendations section.

Historical Development of Cambodian Monetary Policy

During the pillaging and torture of the haunting period of 1975-1979 the Khmer Rouge implemented the strictest variation of Communism recorded. Money and private property, in all forms, was banned by the Khmer Rouge. Cambodia is the only nation in modern history to have had its money totally abolished in an attempt to implement “true Communism” (Praso 2001). This did not happen in the Soviet Union; it did not happen in Maoist China; and it did not happen in North Korea. Cambodians saw all of their Riel savings and stored wealth evaporate. And this memory lingers. After the Khmer Rouge regime was ejected from power in 1979, the National Bank of Cambodia (the Central Bank) was re-established in “as a socialist institution designed to collect foreign exchange and pay State liabilities to foreign governments” (Ear 1997). But since the 1980s Cambodia has experienced successive miscarriages of monetary policy.

The Riel was re-introduced in 1980 with lackluster acceptance. Cambodians were asked to forget the economic trauma of the last few years and to trust the currency again. Of course this is easier said than done. Knowing that all of your life savings can disappear overnight is going to be a persistent paralysis in accepting the Riel again. The Central Bank knew the population would not

quickly regain trust in the currency. The NBC was forced to anchor the new Riel in something the population actually trusted. During this post-regime period the population was mostly concerned with the very basics of life. Rice was one asset that everyone knew and wanted. The NBC decided to anchor the new Riel currency with cans of rice. Most people knew the uniform cans of milk that were imported from the Soviet Union. The Central Bank harnessed this familiarity to equate one new Riel to four milk cans worth of rice. (Khou 2012).¹³

To exacerbate the lapse of institutional credibility Cambodia was gutted by periods of high inflation. When the Union of Soviet Socialist Republics (USSR) eventually imploded Cambodia felt the shockwaves (Chandler 2008). Up until 1989 the USSR was Cambodia's largest aid donor and main trading partner (for what little trade was done by Cambodia at the time). And around this same period the Vietnam military began to withdraw from Cambodia leaving the country to finance its own military operations. Military spending was of great importance at this time given that the new government was still justifiably paranoid of a resurgence of the Khmer Rouge. The costs of military spending reached about 30% of the national budget in this period. With these concurrent shocks the government pillaged the Central Bank by monetizing the budget deficit (or in colloquial terms: printing money).

Accordingly, in 1990 the Riel money supply ballooned by 241%. And by 1992, inflation had reached nearly 200% (Im and Dabadie 2007). Yet again Cambodians rapidly lost their Riel savings and stored wealth. At this point Cambodia was allotted international assistance driven by the haphazardly organized and primarily US funded United Nations Transitional Authority in Cambodia (UNTAC): "its mandate was ambiguous, its time was limited, and most of its personnel knew nothing about Cambodia" (Chandler 2008). Nonetheless, with the rapid inflow of aid workers and the need to finance their own operations USD surged through the Cambodian economy. \$2 Billion USD was brought in by the UN missions and other international development institutions.

¹³https://www.nbc.org.kh/download_files/research_papers/english/50367-The-Functionality-of-Monetary-Plurality-in-Cambodia.pdf

Dollarization has been a perennial feature of the Cambodian economy ever since. It is worth emphasizing unlike other scenarios of dollarization, the process occurred in Cambodia while the economy was effectively nonexistent; and noted by Samreth and Okuda (2019). This can account for the depth and persistence of dollarization in the country. From 1998-2018 Cambodia's average annual GDP growth was approximately 7.9% while being highly dollarized (Saing 2020). This suggests that the dollarization of Cambodia could have enabled faster economic growth than what would have been otherwise. But it should be noted outright that dollars are not, and have never been, legal tender in Cambodia. Article 43 of the Law on the Organization and Conduct of the National Bank of Cambodia (1996) states that only Riel coins and notes are legal tender in Cambodia.

According to the official statistics from the NBC in May 2019 foreign currency make up 95% of total bank deposits.¹⁴ The official statistics cannot account for the share of dollars in currency circulation as the NBC does not have a method to capture this information. But the IMF estimates the share of circulating dollars to be 90% as quoted by Hill and Menon (2013).

There is a chorus of experts within the Kingdom and within multilateral agencies including the ADB and IMF that contend that there are generally two problematic consequences of this kind of dollarization: loss of seigniorage and loss of an independent monetary policy. It is claimed that both are necessary for Cambodia to continue steadily along its development path. Ouk Maly, the Vice Governor of the National Bank of Cambodia (NBC) stated in 2018 that dollarization "increases costs and vulnerabilities to the Cambodia economy" as the size of the economy grows. And that dollarization "limits the effectiveness of [Cambodia's] monetary policy."¹⁵

Most recently, the NBC has launched Project Bakong which is essentially an initiative to create, issue, and market a digital clone of Riel. The goal of Project

¹⁴https://www.nbc.org.kh/download_files/publication/eco_mon_sta_eng/Review%20307-May-2019%20-Eng.pdf (p17)

¹⁵ <https://www.khmertimeskh.com/115086/de-dollarisation-needed-for-sustainable-growth-nbc/>

Bakong is to promote the local use of Riel by “providing advantages to transactions in Riel over those in US dollar.¹⁶” It is hoped that Project Bakong will “encourage the use of local currency in the sense that it facilitates the payment of high value transactions instead of using US Dollar.¹⁷” That is, the NBC believes that by having a method to pay for high value assets via your mobile phone it be sufficient to persuade Cambodians to use less USD. This is based on the curious assumption that the fundamental reason for not using Riel is that it is cumbersome. But this assumption is not well justified. The NBC cannot simply digitize the Riel to bypass the core concern of the Riel’s lack of credibility.

Credibility

As long as a Central Bank exists it is dependent on the commitment of the fiscal authorities to adhere to maintaining expenditures within their means. Without such a commitment there is no guarantee that the government will resist the allure of the “printing press” as has been the case in the 1990s.

Monetary credibility cannot be divorced from political credibility and wedded solely to legislative formalities. Even if that was sufficient, Cambodia is ranked 127 out of 128 countries on the World Justice Report Rule of Law Index 2020. Based on this index only Venezuela has a lower empirically recognized effectuality of rule of law.

Many policy makers in Cambodia, and Economists writing about Cambodia, have argued that since there has been an increase in political stability then there should have been an increase in the use of Riel (Im and Dabadie 2007; Menon 2008; Hill and Menon 2014).

But the market unambiguously disagrees. Cambodians simply have no desire to hold Riel in this life or the next. During Pchum Ben (Cambodia’s festival of the dead) many Cambodians will burn offerings at the grave sites of their ancestors

¹⁶ https://bakong.nbc.org.kh/download/NBC_BAKONG_White_Paper.pdf

¹⁷ https://bakong.nbc.org.kh/download/NBC_BAKONG_White_Paper.pdf

¹⁸ <https://worldjusticeproject.org/rule-of-law-index/global/2020/Cambodia/>

so they can use these gifts in the afterlife. These offerings range from foods to cardboard cars. But most importantly they burn fake USD bills so their ancestors can use it to buy goods. They do not burn fake Riel bills because they do not believe the Riels are of good enough value.¹⁹ As Julia Wallace puts it, in Cambodia “even ghosts prefer dollars.”

There is an institutional independence deficit within Cambodia and that is a key factor in considering the credibility of monetary policy. The Law on the Organization and Conduct of the NBC places the management of the NBC directly under a 7 member Board of Directors. But Article 12 requires that a member of the Board needs to be representative of the head of the Royal government. And Article 13 states that the Governor and Deputy Governor can be dismissed by Royal Decree on the recommendation of the Royal Government; effectively at-will of the Prime Minister.²⁰ Our main argument is not that the NBC required reform. But instead that the NBC should be separated from the issuance of the currency.

Convertibility

The fundamental philosophy of convertibility is another key factor in determining the future prospects for monetary policy (i.e the quantity of money in the economy). Convertibility is the ability of a holder of a clone currency to exchange the clone currency for an equivalent amount of the anchor currency. Monetary regimes are typically framed as the dichotomy of floating exchange on one side and fixed exchange on the other with “pegged” used interchangeably for “fixed.” But the conflation of pegged and fixed regimes is a category error that obscures the dissimilarity of these systems. If we instead take the operational targets of monetary regimes as the basis for categorization

¹⁹ https://www.nytimes.com/2016/04/09/world/asia/cambodia-qingming-festival-ghosts-prefer-dollars.html?fbclid=IwAR1xQMKzHnMAn9vdlwg_I9Yylw13xtPf8_OzRyrH9CFpsp20_1RlpNUiiw

²⁰ https://www.nbc.org.kh/download_files/legislation/laws_eng/96061-Law-on-the-Organization-and-Conduct-of-the-National-Bank-of-Cambodia-1996.pdf

we can see that floating and fixed exchange rates are uni-target regimes and a peg is a dual-target regime (Friedman 1972).

In a floating rate regime the Central Bank has a monetary policy but no exchange rate policy. That is, the base money is solely determined domestically by the Central bank and the exchange rate is on autopilot; come what may. In a fixed rate regime the monetary authority has an exchange rate policy but no monetary policy. That is, base money is determined by the net foreign reserves and the monetary policy is on autopilot; come what may.

There is a purgatory in between the two. If a monetary authority tries to target both an exchange rate and a monetary policy there will inevitably be a conflict between the dual targets, leading to balance of payment frictions. This can then devolve into a crisis similar to what occurred between 1997-1998 across Asia.

The NBC currently runs a managed float which, like a peg, targets both an exchange rate and monetary policy. A better policy that ensures long-term convertibility would require the adoption of either a clean float rate or a clean fixed rate. A clean float is exceedingly unwarranted as that would require the National Bank of Cambodia to not interfere in the economy. But as discussed above the NBC purposely wants to muddle in the economy on the basis of the unjustified fiscal-ladenness of monetary policy.

The alternative would be a fixed rate regime. There are two methods of doing this: (i) full dollarization or (ii) a currency board. From a political lens full (official) dollarization may be untenable. But even if it was politically feasible it would still be a second best option to a currency board (Worrell 2003).

Currency Boards

A currency board affords the same benefits as dollarization in addition to some others. Under a currency board arrangement a clone currency (domestic currency) is fully anchored by a foreign currency. For example, Hong Kong has operated a generalized currency board with the USD since 1983. For every Hong Kong Dollar issued there is an equivalent amount of USD held by the Hong Kong

Monetary Authority: ready to redeem the HKD if anyone so desires.²¹ HKD are as good as USD because HKD is a clone of USD. It is as if Hong Kong and the United States were in a currency union using the same currency with a different name.

It should be apparent then that dollarization and currency boards anchored by the dollar afford the same monetary stability benefit - effectively creating a currency union. And like in any currency union there is a single monetary policy throughout. If Cambodia adopted a currency board it would adopt the same monetary policy as the USA automatically through this transitive relationship. But if a currency board affords the same benefit why not just dollarize? There are two main reasons other than political incompatibility.

Firstly, unlike dollarization a currency board is also a fiscal barometer. In a dollarized economy there is no quick market-determined metric to assess the fiscal policies of the government. By retaining a domestic currency we can see on a day to day scale if people are converting out of the domestic currency at higher than usual rates. This is an unambiguous metric which assesses confidence in the fiscal performance of the government.

Secondly, a frequent objection to dollarization is the loss of seigniorage. Menon (2008), then Principal Economist at the Asian Development Bank, went so far as to attempt to argue that "the estimated seigniorage loss alone may well outweigh the benefits [of dollarization] flowing from greater price stability, reduced exchange rate volatility, and other forms of macro policy credibility." This is an incurably inconsistent claim.

In Cambodia, seigniorage is estimated to be \$61 million USD annually according to Kang (2005) which is also quoted by Menon (2008) while GDP in 2008 was around \$10 billion USD. An open economy dependent on trade should not jettison macro policy stability in an attempt to gain a mere additional \$61 million USD annually. It is quite curious as to why Menon (2008) thinks this trade-off is justified.

²¹ <https://www.bis.org/publ/bppdf/bispap73j.pdf>

In 2017 Cambodia's trade-to-GDP ratio was 124.9% making it one of the most trade dependent nations. And if the macro policy loses credibility, leading to negative effects on trading positions and foreign investment the eventual annual loss would likely greatly exceed \$61 million USD.

Moreover, with a currency board the anchor currency reserves are not solely held in cash in a vault. These reserves are split into two categories: short term liquidity and long term liquidity (Hanke 1993). The first category can include cash and instruments with short term maturities on which interest is paid. And then instruments in the second category would carry larger interest payments. Effectively, the currency board would earn money from the anchor reserve instruments which could equal the amount of money lost by foregoing seigniorage. In the current financial environment interest rates are low. But perpetually low interest rates are unlikely and they may rise again even in the near-future.

A further objection levied against a currency board for Cambodia is that it is "too costly" to establish as argued by (Menon 2008). But contrary to that argument, Cambodia has the financial capacity to initiate a currency board. To initiate the currency board Cambodia would only need enough international reserves to cover the monetary base outside banks (i.e. Riel in circulation). The monetary base is valued at \$2.7 USD billion and current international reserves are valued at \$14.5 USD billion.²² The "too costly" objection is baseless.

III. Policy Initiatives Required to Achieve the Ideal Scenario

We propose that the Royal Government of Cambodia should create an orthodox currency board to issue Riel. In so doing the monetary policy situation of the ideal scenario would be realizable through these key factors: The key factors in pursuit of Cambodia's monetary policy reform are:

1. Monetary instrument rule credibility

²² <https://www.ceicdata.com/en/indicator/cambodia/money-supply-m1>

2. Absolute convertibility of the currency
3. Stable market-determined growth rate

Absent any pronounced internationally acknowledged state liberalization within the country there are some limitations on what monetary arrangements can be prescribed. Monetary policy proposals that are best suited for jurisdiction with an advanced level of state-capacity like Norway are not necessarily transferable to Cambodia. But even with this assumption there is a package of policy prescriptions that can be adopted to advance a stable monetary policy and achieve sustainable Rielization. We recommend that the National Bank of Cambodia be exorcised of its ability to issue currency. Then an ultra-orthodox currency board arrangement (or, CBA) should be established. The level of “orthodoxy” is a function of how insulated the board is from the administrative instruments of the government. We propose a CBA which maintains a materially insulated management structure to project the maximum of confidence in the Cambodia population.

The following details should be considered:

1. The CBA should be incorporated in a jurisdiction other than Cambodia. This jurisdiction should have a high ranking on empirically sound indices of both rule of law and transparency. Singapore would be the recommend choice
2. The CBA should be headed by a Board of Directors of five (5) members.
3. The Chairman of the Board should not be a Cambodian citizen.
4. The other members of the board should comprise an American, a Singaporean, and two Cambodians without government positions.
5. All Board members must have sufficient professional expertise.
6. The CBA should be officially a private corporation.

On first blush this reform prescription may seem overly bold and subject to fatal criticism. But we have anticipated four potentially strong criticisms and will refute each in turn.

Firstly, the jurisdiction critique: why incorporate in Singapore if the currency board is to serve Cambodia? If the currency board is incorporated within Cambodia then it would be subject to government pressures both implicit and

explicit. It could be said that the government is not likely to take over or influence the currency board because the government wants to ensure that the currency board maintains credibility. But even the risk of government influence is pervasive enough to convince the population that the currency board will not be credible. Therefore, to maximize credibility the Cambodian currency board must be incorporated outside the juridical reach of the government, as was done historically by other countries (Hanke 1995).

Secondly, the nationality critique: how could such an important national institution be headed by a person of another nationality? This is an effort to retain as much political neutrality as practically possible. After the signing of the Dayton Peace Agreement which ended the war in Bosnia and Herzegovina (B&H) the Central Bank was reincarnated as a currency board. It was decided that a national of New Zealand should become the initial Governor of the newly established B&H currency board. The fractured governments in the jurisdiction agreed that such a move would inculcate credibility by showing there are active measures to insulate the currency board from potential political manipulation (Coats 2007). Therefore, to maximize credibility the Cambodian currency board should be headed by a non-Cambodian.

Third, the nationality critique: why specify other nationalities and limit Cambodians to only two director positions? Is that not prejudice since it implies that Cambodians are not capable of being directors of the currency board? The aim of the board composition is to project credibility to the Cambodian population. As the board is incorporated in Singapore it is logical that one member should be a legal-financial professional from that jurisdiction. An American specifically selected for the purpose would likely be another neutral party. Of course there can be some justification that an American could be replaced with a Japanese or Australian or whichever nationality that is perceived as neutral. Those are plausible options as well. The board is limited to two Cambodians for the simple reason of insulating the board from political pressure and bias. It matters more how the Cambodian population perceives the insulation of the board over whatever semiotic argument of fairness can be levied. Therefore, to maximize credibility the Cambodian currency board

arrangement's board of directors should be limited to only two eminently qualified Cambodians.

Fourth, the private incorporation critique: if an institution is issuing a national currency then how could it be a private corporation? Not only is there historical precedent for private corporations to issue a nation's currency but one of the world's more robust economies still has its national currency issued by private corporations. All of Hong Kong's currency (except coins and the ten dollar note) is issued by three fully private corporations: The Hongkong and Shanghai Banking Corporation Limited, the Standard Chartered Bank (Hong Kong), and the Bank of China (Hong Kong) Limited.²³

What is required is that the banks transfer sufficient USD instruments to the Hong Kong Monetary Authority equivalent to the value of notes they issue. Again this is another measure that insulates the currency board from political manipulation. Therefore, to maximize credibility the Cambodian currency board should be a private corporation with a single transparent goal: issue currency and maintain at least 100% reserves of the anchor currency.

The discussion thus far is to clarify why and how to structure the issuance mechanism to ensure credibility. But another key element is the appropriate section of the anchor currency.

The Anchor Currency

Cambodia's selection of the Khmer Riel anchor currency must be contextualized within an analysis of monetary geopolitics. It may seem like an obvious policy choice to choose the USD as the anchor currency for the Cambodian CBA. But there are decent challengers worth exploring: the Japanese Yen; the Chinese Renminbi (RMB); or a newly invented regional Asian Monetary Unit (AMU). We shall briefly analyze each in turn.

²³https://www.hkma.gov.hk/media/eng/publication-and-research/reference-materials/monetary/Money_in_Hong_Kong_English.pdf

The Yen

Japan has sought to internationalize the Yen since the late 1980s. A significant proportion of Japanese multinational corporations (MNCs) operate in ASEAN countries. This means that these MNCs have to constantly monitor exchange volatility in the course of their general supply chain management. Hayakawa and Kimura (2009) show that trade with East Asia was more significantly affected by exchange rate volatility than other regional trading blocs. From a Japanese perspective, domestic (Japanese) MNCs would be better served with generalized intraregional exchange rate stability. This could be achieved if regional trading partners used Yen and the invoicing currency.

Further, the internal financial stability of ASEAN trading partners concerns Japan as it is vital for Japanese MNCs to operate within stable markets. A large scale financial crisis within a trading partner would have significant negative business effects on the Japanese MNCs according to Kawai (2014).

The Asian financial crisis of 1997 was the materialization of Japan's greatest fear as it related to intra regional financial market stability. It was Japan who most assisted the crisis hit Thailand by providing bilateral aid to help stabilize the financial market. The United States refrained from contributing bilateral aid to Thailand since the US Congress could not justify why they should provide aid to such a distant country. In fact the US only came to the table when the crisis spread to Mexico (Amyx, 2002).

Japan saw this reluctance on the part of the United States and IMF as proof that Japan needed to take the lead to set up a uniquely Asian monetary institution to assist in a time of crisis within Asia. And for good reason. Japan was at a greater risk than the United States and therefore had a deep interest in not only stopping contagion but also preventing it from happening again.

It can be argued that Cambodia would be served well in selecting the Yen as the anchor currency because in a time of crisis it would be easier to attain concessionary financing in Yen from Japan. Unlike the United States, Japan has a vested interest in ensuring that economies of ASEAN countries remain stable.

However, the bulk of Cambodia's trade is not with Japan. And therefore the invoicing currency will not be Yen. Given that Yen is not the invoicing currency of choice this adds unnecessary extra costs when doing cross-border trade if the Yen was the anchor currency.

The Renminbi

Trade volume is one basic criteria for determining the anchor currency. If the majority of Cambodia's trade is conducted with the United States then it would be a clear decision. But China is Cambodia's largest single trading partner. In 2017 Cambodia imported \$5.3 billion from China but only exported \$758 million to China.²⁴ Additionally, China is the single largest source of tourists to Cambodia and the top contributor of foreign investment. Although trade with China is so extensive, according to the NBC only \$70 million worth of yuan was paid by Chinese firms to Cambodian firms in 2017.²⁵ In fact, USD is still the primarily used settlement currency in net trade for Cambodia. This is the case for the vast majority of world trade (Casas et. al. 2017).

It is also true that China has made meaningful strides in internationalizing the RMB in the last two decades and will steadily continue to do so in the next two decades. Progress, however, has been marginal against the dollar. Between 2010 and 2016 the RMB moved from being the 35th most used currency in global payments settlement to the 5th most used. This appears to be a significant jump. But in total volume terms even at 5th place RMB accounts for just 1.88% of global payments while the USD accounts for 43.09% (Park 2016). Similarly, in 2013 RMB became the second most used currency in global trade finance behind the USD. But even in second place at 8.66% of total volume in that market it exceedingly lags the USD which accounts for 81.08% of total global trade finance (Park 2016).

²⁴ <https://www.khmertimeskh.com/544118/forum-sheds-light-on-rising-rmb-usage/>

²⁵ Ibid.

While the RMB may seem like a challenger to the USD in the near future, very little evidence justifies that assertion. On the practical side Cambodians are already familiar with and have accepted USD as 'hard currency'.

The Asian Monetary Unit

But how hard will that currency be in 2040? With the recent policy decisions of the United States Federal Open Market Committee there is justified skepticism on the long term prospects of the USD as the global trade currency, in general, and as the invoicing currency of choice within ASEAN, in particular. As a response to the economic shock caused by the COVID-19 pandemic, the FOMC turned on the flow of new money from a trickle to a deluge. So much so that 40% of the Fed balance sheet was added only in the first half of 2020 alone. This makes the argument of a significant USD crisis and crash not unlikely. If in the year 2000 an Economist said that the US Fed would perform such an operation, he would be ridiculed and laughed out of every university lecture hall. And yet here we are. So looking at the next 20 years it is not heretical to claim that Dollar hegemony would have ended.

This may spur renewed calls for an Asian Monetary Unit (AMU). This would be based on a basket of currencies significantly weighted in favor of the larger economies within the bloc. But this raises several institutional challenges that may be untenable. China and Japan are the largest economies in the bloc and would have to significantly work together to decide on the characteristics and management of the new currency unit. This may be a non-starter political problem as international relations between these two states continue to deteriorate.

Shanghai is trying to position itself as the global financial centre while Tokyo is trying to reposition itself there as well. And the prospect of quality monetary governance cooperation is already strained given that the two countries could not even agree on the path forward on development financing leading China to create the Asian Infrastructure Investment Bank (AIIB) in 2013 in a bid to compete with the Japanese led Asian Development Bank (ADB).

But suppose the new AMU is formed without China or Japan. Is this a path forward or in reality is it the worse of all possible worlds? Let's continue with the assumption that the USD is no longer the currency of choice for cross-border trade within ASEAN and East Asia. Cambodia performs relatively little trade with other ASEAN countries. China is Cambodia's largest trading partner and will likely continue to trend in that direction. Cambodia would have to convince China to invoice its goods in the AMU for it to make sense for Cambodia to use the AMU as its anchor currency. But of course this is practically impossible. In a post-Dollar world Chinese firms will price its goods in RMB. And if the goods are priced in RMB why go through the unnecessary costs of currency conversion, foreign reserve management, and potential balance of payment frictions? It would make sense to just adopt RMB as the anchor currency for khmer riel is this case.

If an AMU is formed without China but with Japan, can that be stable? Although Japan has significant political clout in ASEAN this orientation is also unlikely to be workable. China is the largest trading partner of the majority of ASEAN states. There is very little benefit of adopting a new currency that still needs to be exchanged for RMB. Further, this also requires bets to be made on the growth of Tokyo relative to Shanghai. Given Tokyo's stagnant economy, the financial markets of Shanghai may yet become more attractive. This means that more monetary instruments would be priced in RMB.

Which to choose?

The above discussion is a contemplation of a world without USD hegemony. But based on the current structure of the monetary world it still makes the most sense for Cambodia to adopt the USD as the anchor currency. The dollar market is still the most capital deep, most trusted, and most used. The network effect of the USD is structurally significant and worth treating as a going concern for the time being.

By following the aforementioned policy recommendations we suggest that sustainable Rielization can be realized in Cambodia. Once trust is injected into the Riel and Cambodians see that it is a credible currency with absolute

convertibility then the utilization of the US dollar will fade and eventually become trivial.

IV. Baseline Scenario: Business as Usual in 2040

The institutional arrangement of the National Bank of Cambodia does not inspire confidence. A frequently used slogan in NBC rhetoric is that over the last decade Cambodia's economy has grown while retaining a stable exchange rate as a consequence of the steady hand of the NBC. But in more frank terms, Cambodia has grown while being heavily dollarized. This point has also been raised elsewhere: "the contribution of monetary policy to this [socio-economic improvement] appears unlikely given the limited monetary capacity of the National Bank of Cambodia and the high level of dollarization..." (Saing 2020). It would require a counterfactual judgement to determine what would be the realistic economic position if there was no dollarization.

Retaining the status quo will inevitably lead to a persistent neglect of Riel by the population. Since the early 1990s central bankers have been trying to regain an independent monetary policy in order to accelerate economic growth. Within the The Financial Sector Development Strategies issued by the Royal Government of Cambodia, emphasis has been consistently given to methods of promoting the Riel without force.²⁶ But that changed this year. In May 2020, the NBC announced that it will pass on the costs to commercial banks for exporting small USD notes (\$1, \$2, and \$5). Currently the NBC is the only institution allowed to coordinate the exporting of worn out USD notes to international banking partners to exchange them for newer notes. In effect, the NBC has increased the transaction costs of small USD notes relative to Riel notes.

While there are reasonable arguments for phasing out small USD notes some financial institutions are already preparing for the possibility of the NBC

²⁶https://www.nbc.org.kh/download_files/publication/blueprints_eng/Financial-Sector-Development-Strategy-2016-2025-English.pdf

announcing it will no longer transport \$10 notes.²⁷ This policy should be rightly seen as the beginning of forced de-dollarization. And herein lies the danger.

Perhaps, the main impetus for de-dollarization is the gaining of an independent monetary policy. But with more careful consideration of the status quo an independent monetary policy will likely plunge the economy again into an inflation spiral; as has happened in the past. Not out of malice or incompetence on the part of the NBC but because of fiscal pressure.

Institutionalization of the rule of law remains a very serious challenge, which means that there can be no political credibility to any rule based monetary policy. If there is no rule based monetary policy then discretionary policy would be the default. As discussed above, monetary credibility is inextricably linked to political credibility. The status quo sucks away any hope of actual or perceived monetary credibility of the Riel.

If fundamental de-dollarization is achieved (even if done surreptitiously as in the case of the small notes cost transfer) then there is a material risk of losing out on foreign investment. The currency risk would be too disadvantageous for investors to risk their capital being evaporated by the mismanagement of the domestic currency.

Under current conditions, the kumbaya of monetary independence within Cambodia is merely a kabuki theatre. The risk of currency mismanagement prevents foreign lenders from giving as favorable terms in long term contracts. This would increase borrowing costs and limit the amount of lenders willing to do business with the domestic market. There is little benefit that can arise from following this path.

Moreover, since the Riel will not be seen as unencumbered from political interference, a bet on Riel markets would at the same time be a bet on the avoidance of such interference. At present, large swaths of investment in the kingdom are done despite the kingdom's relatively low scores across multiple metrics of risk, corruption, and rule of law - the currency is explicitly separable.

²⁷<https://www.khmertimeskh.com/50770277/nbc-yet-to-issue-small-banknote-fee/>

But with Riel as the sole currency these two spheres will be conflated. And in this situation there is likely going to be a reduction of investment as a result.

Without dollarization and without monetary credibility it is impossible to defend a stance of supposed monetary independence - even if it was desirable. Accordingly, we are forced to conclude that business as usual policies will lead the Riel to the slaughter bench of history.

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Chapter 8 | Rule of Law

Thomas Pearson and CHANTY Pisal

Sok Sopheap is the owner of a small wholesale company in Phnom Penh, supplying fresh produce as well as imported meats, cheese and wine to restaurants around the city. She started her business out of her house and took advantage of the six-month trial period for small businesses that allowed her to determine if her company would be profitable. Fortunately, her idea proved successful and she is now franchising out to other Cambodian entrepreneurs. When it came time to register her company, she took advantage of the online registration services offered by the Ministry of Commerce. The entire process took less than a week and she was not asked for an unofficial fee at any stage of the process. Sopheap is also confident that if a dispute arises with one of her suppliers or franchisees, she can take her dispute to court or the National Commercial Arbitration Center for resolution without worrying about corruption.

She regularly imports food and wine from different parts of the globe and has never had her shipments held up by a customs official looking for payment under the table. The customs process itself involves only one form, which she completes online for her monthly shipment. In fact, she never needs to interact with a government official in person as all of the regulatory requirements and payments of official fees for ensuring her business is legally compliant may be processed online. Her delivery drivers fan out across the city each day and none of them has ever been asked for a bribe by a police officer. Sopheap plans to acquire some of her produce suppliers in the provinces and knows that she will receive a valid and legally enforceable title to any property that she purchases.

No fears of unjust expropriation cross her mind as she weighs the risks and benefits of acquiring property. Her biggest concern is trying to get the best prices she can on high quality products for her customers.

I. Rule of Law: The Ideal Scenario

The governance landscape that has emerged in Cambodia since the early 2020s is characterized by a public and private commitment to combating corruption through clear and evenly-applied rules that allow citizens and investors alike to live and work with confidence, which is one of the main aims of a legal system. Governance essentially means the rules that people live by in any particular society. When we talk about governance, we usually mean good governance, which results in good, though not perfect, outcomes. Human flourishing is much more likely when the rules are fair and fairly applied to all (Sunde, 2017), which is a good definition of the rule of law.²⁸ That definition leaves us with many questions, but it also provides a useful metric for examining the state of governance in a place like Cambodia, which has transformed itself into one where, in 2040, governance is fair, transparent, evenly applied and efficient.

Cambodia's transformation can also be conceived of as an increase in societal trust (Fukuyama, 1996). Low-trust societies are characterized by concerns about crime and corruption and the opposite is true in high-trust societies (Wike and Holzwart, 2007). Crime and corruption can be thought of as similar behavior in the private (crime) and public (corruption) spheres. They are both designed to gain an unjust advantage for the bad actor, though corruption is arguably worse as it can have much larger negative impacts on levels of trust throughout a society. Largely due to experiences under the Khmer Rouge, Cambodia remained in a low-trust rut for decades (Meas, 1995; Pran, 1997). Just as with the rule of law (Fukuyama, 2010), low-trust and high-trust societies exist on a

²⁸ There are, of course, much more complex definitions and many factors to consider here. See, for example: Francis Fukuyama's 2010 paper: *Transitions to the Rule of Law*. See references section for citation. One of the authors, Tom Pearson, would like to express his gratitude to Dr. Fukuyama for providing insights on the topic of social trust in an interview during the development of this article.

spectrum (Ward, Mamerow and Meyer, 2014) and flow or ebb as people within a society, a firm or a relationship have more or less confidence in the leadership and other participants. By embracing dependability, transparency, fairness and competency, Cambodia's leadership helped to move Cambodia higher on the trust spectrum (Jaffe, 2018), which has resulted in much more trust in state institutions and fostered a higher level of social trust in general, which has in turn led to a flourishing and robust society.

In 2040, Cambodia respects its treaty commitments as meaningful obligations to its own people as well as being a responsible member of the international community. Gone are the days when the leadership in the country taunted donors and paid mere lip service to human rights commitments and democratic governance (Vong and Baliga, 2016). In today's Cambodia, fundamental human rights: social, economic and political are protected by law. Every citizen's right to speak freely, earn a living, associate with whomever they like, criticize the government, own and acquire property and many other fundamental rights and freedoms are freely exercised. Foreign migrant workers, other expatriates and tourists can also rely on legal protection of their rights and freedoms. This respect for human rights does not simply make Cambodia a place where people can live without fear of political predation, but also makes the kingdom a great place to start a business or non-profit, for locals and foreigners alike. Cambodia's tourism sector is thriving as is agriculture, light manufacturing, digital startups and service providers. These positive changes are reflected in the kingdom's move up various rule of law and development rankings. Starting from fairly low positions around 2020 on the Bertelsmann Transformation Index (BTI, 2020), the Corruption Perceptions Index (CPI, 2019), Economic Freedom of the World (EFW, 2020: 50), Freedom in the World (FITW, 2020), the Human Freedom Index (HFI, 2019: 106 - 107), the Rule of Law Index (RLI, 2020) and the World Bank's "Doing Business" (World Bank, 2020) report,²⁹ among others, Cambodia has climbed rapidly to levels reflecting the Royal Government's efforts

²⁹ Despite the "data irregularities" for the 2020 and 2018 Doing Business reports, the Cambodian results for these years are consistent with previous years' reports and likely accurate (see World Bank, 2020, data irregularities statement).

at cleaning up corruption and moving toward liberal democracy and a genuine rule of law.

Commitments made and honored through scores of bilateral and multilateral investment treaties as well as free trade agreements have reduced tariff barriers,³⁰ opening up the world to Cambodia and vice versa, further bolstering investor confidence and encouraging more investment. That confidence has also been strengthened by an honest judiciary that competes for cases with the kingdom's well-developed alternative dispute resolution (ADR) institutions. Delivery of services has been modernized, decentralized and cleaned up, leading to greater trust in state institutions by citizens and economic migrants alike. Those living and working in Cambodia know that they can rely on the bureaucratic process to support the smooth functioning of economic relations. As a result, both locals and foreigners are expanding their businesses and starting new ones. The informal sector is the smallest that it's ever been and there is a feeling of hope throughout the country as the incentives for progress are aligned across all sectors in society.

As Phnom Penh has developed into a regional cultural and business hub, regaining its former luster as the "Pearl of Asia", its importance as the center of formal governance in the kingdom has lessened as official state services and functions are provided electronically or have been strategically decentralized with strong safeguards to the most local level possible, reducing corruption points and making for a much more responsive bureaucracy, where provincial and local officials are much more likely to be able to assess the needs of the citizens within the ambit of their responsibility and more easily muster available

³⁰ Cambodia joined the WTO in 2004 and has signed almost 30 Bilateral Investment Treaties: <https://investmentpolicy.unctad.org/international-investment-agreements/countries/33/cambodia>. Further, Cambodia recently signed its first bilateral Free Trade Agreement with China: <https://www.khmertimeskh.com/50772558/china-cambodia-sign-free-trade-agreement-in-record-time-to-inject-impetus-to-economic-recovery/> is a member of several multilateral FTAs: <https://aric.adb.org/fta-country> and is set to join, along with the other ASEAN members, the world's largest FTA, the Regional Comprehensive Economic Partnership by the end of 2020: <https://phnompenhpost.com/business/cambodia-ready-sign-rcep-trade-agreement>.

resources to meet those needs (Kahkonen and Lanyi, 2001) Though governance and administration in the kingdom remain imperfect, as in every nation to one degree or another, the Royal Government appears to have embraced Adam Smith's formula for a prosperous society: "...peace, easy taxes, and a tolerable administration of justice" (Stewart, 1795).

Recent Reforms: Moving from Corruption to Competitiveness

The specific steps toward reform began with an examination of Cambodia's business environment spurred by threats to government revenue, which had been increasing as tax administration had improved over the years leading up to 2020 (Khmer Times, 2020; Akitoby, 2018). While reforms to tax administration were helpful, once those reforms reached the limit of gathering in most of the collectible tax revenue, donor nations responded by beginning to pull back funding for basic services, expecting the kingdom to pay for such services on its own as it climbed toward middle-income status (Jimeno, 2015; Hutt, 2016). This meant that a larger tax base would be needed to fund government functions.

The RGC hit upon a number of ways to increase total revenues. Realizing that in order to remain competitive, increasing taxes was not an option, they looked for ways to reduce costs while simultaneously increasing revenue. One way to achieve both was to divert the funds that had been going to bribes back into official channels. Every law or regulation is a potential bribery point when there is little oversight in enforcement of rules by government officials, especially when there are hundreds of little-used and vaguely-worded laws on the books. By moving toward efficient electronic systems of administration and at the same time examining the effectiveness and cost of laws and regulations, especially regarding enforcement actions, as well as taking steps to reduce those costs, increase effectiveness and promote trust, Cambodia has transformed channels of corruption into channels of revenue. The final step was to increase trust by tackling the uncertainty that corruption and other forms of poor governance caused.

This campaign of serious legal and governance reform began in the early 2020s and has helped raise the kingdom to an upper middle-income country by assuring citizens and foreign investors alike that their assets and investments

are secure. The result, which is continuing to emerge as reform efforts extend to more areas, has been remarkable. No longer are Cambodians storing significant wealth in easily-transportable gold jewelry.³¹ Instead, more Cambodians and foreigners living in Cambodia are investing in businesses under the six-month startup program, which allows anyone to set up a small to medium-sized enterprise and operate for six months without observing the formalities of registration or any but the most essential regulations relating to health and safety. This policy has resulted in an explosion of new businesses, as it allows innovative ideas to be tested while keeping upfront costs to a minimum. Once the idea proves feasible, the business can register using the kingdom's online registration service in a matter of days, one of the first steps toward providing effective e-governance that continues to pay dividends. As a result of this and other deregulatory efforts, the income gap with more developed countries due to regulatory costs is shrinking (World Bank, 2020).

Cambodia's legal reform efforts have also transformed the judicial system. Beginning with modest steps toward recognizing and enforcing some fair trial rights at the appellate level (CCHR, 2019), the RGC systematically began reforming the judiciary by making mechanisms for the appointment of judges and prosecutors transparent, ensuring adequate salaries for all judicial personnel, insulating the judicial branch from political interference as well as providing an effective and anonymous means of reporting corruption, all of which had been significant issues in the Cambodian judicial system

³¹ Poor people in low-trust societies store wealth in gold jewelry given the ease with which it may be transported and a lack of faith in society's institutions. In high-trust societies, wealth is more likely to be invested in non-mobile capital enterprises as the investor has a relatively high degree of confidence that he or she will receive the profits from the business enterprise without fear of appropriation by the state or other citizens. Evidence of this mindset is everywhere in countries like Cambodia, India, etc., where even the poorest will usually have some gold jewelry, which they and especially their children wear because they can keep an eye on it and leave with it if need be. One of the authors, Tom Pearson, is grateful to Tom G. Palmer of the Atlas Network for mentioning this concept in a talk he gave to the Politikoffee discussion group at the Konrad Adenauer Foundation offices in Phnom Penh in March of 2015: "Achieving the Rule of Law and Economic Equality as a Condition of Social and Economic Development."

(International Bar Association (IBA), 2015). Reform efforts have also restored the Arbitration Council's role in effectively resolving collective labor disputes, which the Trade Union Law had shortsightedly diminished (Sen, 2018).³² The more recent amendments to the Trade Union Law and Law on Associations and Non-Governmental Organizations (LANGO) have reduced the avenues for political interference in labor unions and NGOs as well as demonstrated to the international community that Cambodia's leadership is serious in its dedication to human rights and other democratic values. The RGC had taken baby steps to reform both laws after widespread criticism (Khuon, 2019; Long, 2020). but significant amendments over the last couple of decades have made both laws into instruments of effective governance rather than repression. Traffic police shaking down motorists has become a rare sight in Cambodia (Campbell 2015).

The kingdom has in many areas surpassed many more-developed countries in its efforts to provide lean, efficient services. Recognizing that donor nations and other outside funds were in short supply, the Royal Government began to examine the effectiveness of laws and state institutions with a view towards eliminating duplication and providing key services as cheaply as possible. This led to the closure or combination of several line ministries, the examination of the effectiveness of laws and regulations, the establishment of additional public-private partnerships, the decentralization of state functions and improvement

³² Established by the Labor Law of 1997, the Arbitration Council was set up to resolve collective labor disputes that could not be resolved through negotiation or conciliation. The law required referral of unresolvable collective labor disputes for arbitration. After the Council opened its doors in 2003, it heard and successfully arbitrated hundreds of cases until the passage of the Trade Union Law in 2016, which effectively stripped the Arbitration Council of its previous role in collective disputes precipitating a catastrophic plunge in the number of cases brought before it. More information is available here: <https://www.arbitrationcouncil.org/when-talk-about-labour-dispute-resolution-and-industrial-relations-in-cambodia-it-is-not-possible-without-mentioning-arbitration-council/> It's been heartening to see the RGC recognize the effectiveness of the Council and restore its authority to resolve collective labor disputes, not simply because of its remarkable record of success and party satisfaction, but because it is a traditional dispute resolution mechanism that has been successfully grafted into the formal judicial system, providing flexibility and institutional competition within the formal dispute resolution system.

of services, mirroring successful reform efforts in other ASEAN countries (Freiburg Southeast Asia Study Group, 2011; Eng, Vong and Hort, 2015). These policy changes have allowed Cambodia to grow tremendously while reducing internal and external uneasiness.

II. Scenario Space and the Key Factors for Legal Reform

As noted above, a good definition of the rule of law is a society where formal rules are fair and fairly applied to all. More specifically, the rule of law entails equitable and transparent rulemaking and enforcement of those rules, a respect for individual rights, an absence of widespread corruption, open and fair dispute resolution processes and, generally, an environment in which individuals can know the law and have confidence that everyone within the society is subject to the same rules without exceptions based on a person's political or economic position. A society governed by law is one in which rules are stable and predictable, an environment where individuals can conduct their lives without fear of arbitrary and unjust action by the state (Stanford University, 2016).

The basis for the rule of law in a particular society is honest and transparent legal and regulatory rules and processes. Such rules and processes can be achieved through ensuring that graft is not tolerated in the making or enforcement of rules by effectively monitoring these processes. The key factors for achieving an environment of institutional trust in a society include: clear and efficient regulatory processes for starting and running a business, a secure and honest property titling and conveyance system, an independent and impartial judiciary, enforcement of laws and regulations with justice and equity by courts, police and other officials, effective redress and accountability for wrongful acts by government officials, open and honest courts and other dispute resolution institutions. We will examine these key factors in more detail below.

Rule of Law in the Kingdom: A Brief History

Cambodia's legal history has not served it well. Ruled by a series of autocratic kings during the Angkorian Empire period, law was merely the whims of the king as it was in so many other areas of the globe. Toward the modern era, Cambodia

was invaded repeatedly by Thailand and Vietnam before becoming a French Protectorate in 1863. French governance lasted until Cambodia's independence in 1953. The kingdom worked with and adapted the French statutes from the 50s through the 70s, but they provided a thin veneer of a legal system. The rule of law was an aspirational concept at best and remained so through the early 1970s when the US-backed Lon Nol regime overthrew the monarchy and ousted Prince Sihanouk as the political leader of Cambodia. The Lon Nol regime attempted to set up a US-style republic, but as with their military efforts, the new legal system crumbled as soon as US support was withdrawn in 1975.

This power vacuum allowed the Khmer Rouge (KR), with the support of Sihanouk, who had been duplicitously promised his old position, to take over and install a Maoist regime, which surpassed the brutality of Mao's own regime in China. The KR renamed the nation Democratic Kampuchea and imposed a horrific "system" of governance that was given the label of legal system, but which had more in common with the regimes of Cambodia's emperor-kings in the Angkorean period. The KR consciously encouraged this analogy by calling their organization, to which all of society was subservient: Angkar. Beginning in 1979, the new regime, the People's Republic of Kampuchea established a communist legal system, which had rudimentary laws, courts and procedures. After the departure of the Vietnamese in 1989, Cambodia underwent a transitional independent period for about three years, where laws were very basic and there was not much protection from those holding power. The United Nations Transitional Authority in Cambodia (UNTAC) soon took control in Cambodia and began passing laws and regulations through a body known as the Supreme National Council (Holligan, et al., 2019; Kong, 2012: 5-21).

Post-UNTAC, one commentator observed that Cambodia at this point "lacked any meaningful tradition of the rule of law" (Marks, 1994: 17). After UNTAC, however, a number of countries set themselves to the task of assisting Cambodia with drafting, implementing and interpreting laws and regulations. Civil law nations, such as France, Germany and Japan provided significant rule of law development assistance (Menzel, 2012: 477-493) as did common law nations like Australia, Canada and the US among others (Kong, 2012: 8). Notable among these is Japan, which aided in the drafting of the Civil Code and spent

years training Cambodian judges and prosecutors (Kuong, 2018). These efforts were not without critics (Nicholson and Kuong, 2015), but were a major component of Cambodia's journey toward the rule of law.

Since the late 1990s, when the civil war that had plagued the kingdom from the 1970s on was finally put to rest as the last vestiges of the Khmer Rouge menace devoured itself (Ker, 1998), the kingdom has enjoyed relative peace and political stability. Cambodia's growth strategy during this time focused on continued foreign aid for expenditures such as medical care, education and public health while at the same time providing competitive tax rates (Senase, 2019) and a relatively stable and low-regulation environment for foreign investors, although corruption increased the cost of doing business (Business Tech, 2015). The prospects for successful legal and economic development at this time were bright indeed (Sok, 2008).

The road to reform and prosperity was not a smooth one, however. Despite the efforts at rule of law assistance after UNTAC, the historical and informal system of patronage networks that functioned as a governance system continued to evolve and adapt to new realities (McCarthy and Un, 2015; Petersson, 2015; Strangio, 2014). Though some aversion to international legal norms in countries without a rule of law tradition is due to a distrust of transplanted institutions due to colonial exploitation using legal norms as part of a system of control (Darmawan, 2020), the reality on the ground in Cambodia was more complicated. People within the kingdom had pushed for change for decades and without outside pressure, the remarkable reforms of the last two decades would likely have remained illusory.

Indeed, donor nations had tried for decades to cajole Cambodia into reform by tying donor funds to reform proposals and their implementation. These efforts made genuine headway in limited sectors, but were mostly co-opted into the existing system rather than reflecting a genuine commitment to international legal norms (McCarthy and Un, 2015). A case in point is the Convention Against Corruption, one of the international community's best efforts at putting in place rules and enforcement mechanisms designed to combat a fundamental issue that is endemic in low-trust societies. After UNTAC, Cambodia signed onto many

treaties, regardless of whether the nation had the ability to comply with its terms. Though some treaties are necessary to participate in the international community and global marketplace, like those necessary to join the WTO, the kingdom's membership in many other treaties, like the Convention Against Corruption (CAC), was primarily due to donor or other international pressure (Reuters, 2007).

Cambodia's accession to the CAC was half-hearted at best, as there was very little commitment to eliminating the corruption that propped up the kingdom's elaborate patronage networks, which had characterized the nation's governance structure for much of its history (Petersson, 2015). Most, if not all, nations have a history of corruption and patronage networks if you go back far enough. The difference is that Cambodia's remained in place until nearly the third decade of the 21st Century. Cambodia signed on to the CAC to appease donors and provide reassurance to foreign investors that Cambodia adhered to international legal norms, such as the rule of law and respect for human rights. As nearly any observer of legal reality at that time in Cambodia might have predicted, the CAC did not eliminate corruption. Instead, once the domestic legislation, the Law Against Corruption, was passed to incorporate the terms of the treaty into domestic law, and the Anti-Corruption Unit established, the new law and enforcement institution were used to persecute officials who failed to toe the party line (Hutt, 2019).³³ That is, the existing system of corruption was shored up using the very anti-corruption apparatus and legal rules that the international community pushed the nation to adopt (Strangio, 2014: 151). The CAC was perhaps the most notable example, but there were many other efforts at taking international legal rules and modifying them for other purposes.

³³ One of the authors, Tom Pearson, who moved to Cambodia in 2011 after the law was passed, but prior to its implementation, went to a briefing on the implementation of the Law on Anti-Corruption. Speakers from the international business community were positive that the law's implementation would achieve the intended effects. No one wanted to hear the opinion that the regime might use the new law for purposes other than combating graft.

The governance environment in 2040, which has remarkably emerged over the past two decades from the legal history sketched above, including piecemeal legal reform efforts, which had occurred unevenly since the 90s (Vann, 2016) or, as noted, were used to legitimize authoritarian restrictions (Palatino, 2018), made significant strides in the early 2020s when a number of factors combined to threaten the kingdom's average annual growth rate of eight percent (World Bank, 2019). Those factors included short-term emergencies: a catastrophic drop in tourism due to the novel coronavirus COVID-19 epidemic (Hoekstra and Yon, 2020), partial suspension of the European Union's Everything But Arms Treaty (EBA) due to ongoing human rights violations (European Commission, 2020), which showed that the donor community was finally willing to hold the kingdom accountable and over-reliance on China as a trading and development partner, which makes for a less robust economy and has put strains on the kingdom's other strategic relationships, for example, tensions within ASEAN (Mahbubani and Sng, 2017) as well as longer-term issues: continued pressure by trading partners and multi-nationals to clean up the supply chain and the rise of better governance in competing jurisdictions, meant that corruption, which was already a significant limit to growth, proved completely untenable. These factors raised the specter of destabilization by annihilating the kingdom's record of growth, pushing the rate significantly into negative territory (ADB, 2020), and inspiring the nation's leadership to rethink governance and the legal system.

Cambodia's largest economic sector, tourism, accounting for more than a third of GDP (World Data Atlas, 2020), was directly and devastatingly impacted by the coronavirus (Hoekstra and Yon, 2020). Textiles, another critical component of Cambodia's economic growth at the time, accounting for over 15 percent of GDP and more than half a million jobs (Rastogi, 2018), was severely impacted by the coronavirus (Blomberg and Mech, 2020) as well as by the partial suspension of EBA, which meant that some garments, footwear and travel goods would no longer receive preferential treatment under the EBA, but would be subject to EU customs duties under normal WTO rules (Russell, 2020). Ethical supply chain concerns from companies as well as human and labor rights organizations continued to highlight Cambodia's human rights violations as well (Barrie, 2020). Key members of the international community continued to put pressure on

Cambodia for sustainable reforms, but began backing that pressure with real consequences as the EBA example illustrates (Heng and Var, 2019).

Relying on China, the kingdom's largest foreign donor since 2010 (Zhou, 2019) and the major source of FDI and tourists for the kingdom in the years leading up to 2020 (Nguon and Mao, 2018), became more untenable as China's lightning growth rate began to cool in the years leading up to the pandemic for various reasons (Rapoza, 2019; Pettis, 2019) and the People's Republic continues to face a demographic crisis due to an aging population (Campbell, 2019). China also faced an economic slump due to the Covid-19 pandemic (Crossley and Yao, 2020) and due to multinationals concerned about the optics of supply-chain ethics pulling out of the country (Fink, 2020), further reducing that nation's ability to support Cambodia. Further, sanctions placed on Cambodia by western nations means that Cambodia is less attractive as an investment space since investors won't be able to benefit from the tariff reductions and other preferences that the kingdom enjoyed for more than a decade (Heng and Var, 2019). These economic factors combined with poor governance threatened the kingdom's strong record of economic growth and augured destabilization.

Faced with potential social unrest as the workers most affected by these significant economic impacts began to demand work (Nierhoff, 2020; Kong 2020), the Royal Government of Cambodia (RGC) instituted temporary measures to help keep the affected industries afloat, including providing tax holidays, but also easing regulatory restrictions on imports and exports among other measures (Medina, 2020; Heng, 2020). As the economic situation worsened, the RGC found it necessary to relax or reform additional regulations (Angkor Research/Future Forum Economic Impact and Wage Worker studies, 2020) and, eventually, when combined with the long-term pressures described below, to confront corruption and other forms of poor governance as a limit to growth (International Monetary Fund, 2016).

Up until the early 2020s, Cambodia remained in last place in ASEAN on Transparency International's Corruption Perceptions Index (CPI) and was ranked near the bottom of the global list as one of the most corrupt countries in the world (CPI, 2020) and corruption was deemed to be "rampant" in the kingdom

by other observers as well (GAN Integrity, 2017). The kingdom was slipping further down the World Bank's "Doing Business" list, cementing its reputation as a place where getting things done was increasingly difficult (World Bank, 2020). Meanwhile, Cambodia's neighbors, including Malaysia, Thailand and Vietnam, were moving up that list (World Bank, 2020) and at least slightly improving on their already superior positions on the CPI (CPI). In short, other states in ASEAN continued building on past reforms to their legal and regulatory systems in order to attract more investment (Ruland, 2013). This put competitive pressure for legal reform on the kingdom as foreign investors sought jurisdictions with greater legal and regulatory certainty (Prak, 2020).

Though economic pressure relating to the EBA and coronavirus as well as other long-term factors pushed Cambodia toward a breaking point, the RGC deserves credit for putting the kingdom on a path to reform that has had impressive results. This began with the recognition of corruption as a limit to growth. While some scholars have found that corruption actually aids growth by enabling things to actually get done in a regulatory environment characterized by excess bureaucracy, the long-term effects of such corruption are to reduce institutional trust in society, leading to less investment both domestically and from outside as other jurisdictions with higher levels of trust begin to look more attractive (Kochanova, 2015; VOA, 2012).

The RGC also refocused attention on trade and other relationships with all nations rather than focusing on China alone. Cambodia's leaders recognized that the obvious counter to corruption as a limit to growth was continued growth through the elimination of corruption. This was a long and arduous process, but built upon the precedents with ASEAN and the WTO, by cordoning off certain institutions from the system of patronage, beginning with the Ministries of Education and Health, which already made significant gains. The E-Government initiatives also helped by reducing interactions between the public and officials, which eliminated corruption points in otherwise corrupt institutions. As the process continued, there were fewer and fewer "spaces" for corruption to operate. Because of a strong commitment to eliminating corruption due to international economic and political pressure as well as increased demand from citizens, the RGC slowly wound up the networks of corruption in the kingdom.

Initiatives Toward Good Governance and a Genuine Rule of Law

Two of the most prominent and successful in recent memory are those of Singapore and Peru. Singapore's transformation was largely due to fairly authoritarian measures imposed by its legendary leader Lee Kuan Yew (Lee, 2016) while Peru's more liberal reforms were shepherded through by economist Hernando de Soto and a regime desperate to rid the country of the murderous Shining Path guerillas (de Soto, 1989). In Cambodia, at least prior to the reforms of the 2020s, little impetus existed for improving governance. There was, however, a genuine desire to leave a lasting legacy among the leadership (Wallace, 2017). Once the economic shocks due to the coronavirus pandemic, corruption and the other factors outlined above threatened that legacy, the political leadership of the country began to look for ways to ensure that future Cambodians would look back on their efforts with admiration and gratitude. Reorienting toward honest and transparent government would not merely bring about renewed and sustainable growth, which would improve life for all Cambodians, but it would give the kingdom legitimacy in the eyes of the international community. That change from criticism to praise must also have been appealing. With these goals in mind, the RGC set out on a remarkable campaign of legal reform.

III. Key Initiatives for Effective and Transparent Governance

E-Government

Cambodia is not Estonia, a nation that has achieved remarkable improvements in government through digital governance initiatives (Erlenheim, 2013). However, Cambodia, due to the economic pressures noted above began to explore ways to streamline services and eliminate the diversion of funds through corruption by providing an online business registration procedure that combines the registration processes at the Ministries of Economy & Finance, Commerce, Labor and Interior as well as the General Department of Taxation and the Council for the Development of Cambodia, if applicable, into one online process. This reform meant that the business registration process went from

three or more months to about a week and more than halved the costs (Turton, 2020). This effort, which built on an earlier 2016 effort to make the registration process at the Ministry of Commerce electronic (Campbell and Thomas, 2019: 15), was another way to redirect funds formerly used for corruption into state coffers as it eliminated the need for interactions with officials. This also demonstrated the RGC's commitment to being competitive in the region. Another early e-government effort was a property tax payment app (Sorn, 2020), which also reduced opportunities for corruption and encouraged the kingdom to complete its land-titling efforts, and was eventually expanded to include all tax payments. The move towards e-government was recognized early on as a way to make government services more efficient (Mok, 2020).

Judicial Reform and Dispute Resolution

In the decades leading up to the reforms, the judiciary was one of Cambodia's most corrupt institutions (Seiff, 2015). Previous efforts at providing oversight for the judiciary, popularly known as the "three Laws on the Judiciary" passed in the mid-2010s, were roundly criticized internationally and domestically as providing mechanisms for the executive branch to interfere with the judicial branch under the pretense of law (IBA, 2015; Soy, 2015). By some estimates, up to 90 percent of cases were determined by bribing judges (IBA, 2015: 29). Now, though the odd case of courtroom corruption appears in the local media, most courts are on notice that corruption is actively being prosecuted as a threat to the economic health of the nation (Kochanova, 2015; Gaspar, Muhleisen and Weeks-Brown, 2020). Another long standing issue, informal fees for becoming a lawyer or judge, previously in the thousands of dollars (Voice of America (VOA) Khmer, 2009; IBA, 2015: 7-8; Gagne-Acoulon, 2020). have been eliminated and the Bar Association of the Kingdom of Cambodia as well as the Ministry of Justice work together to monitor transparency in the practice of law and the judiciary.

Alternative dispute resolution (ADR) also provided beneficial pressure during this period of significant reforms. For example, though judges already had the power to recognize negotiated settlements in civil matters and issue a judgment reflecting the settlement (Austermiller, 2012) in practice, courts would not necessarily encourage such settlements, especially if either party had paid a

bribe to influence the outcome. Competitive pressures from ADR bodies offering arbitration and mediation services inside and outside the country began to make judicial corruption less profitable as commercial disputants increasingly sought out private dispute resolution firms. Indeed, the National Commercial Arbitration Center (NCAC) has become a leading ADR service provider since its founding over 30 years ago (Boltenko, 2015). Investors enjoy the flexible rules of commercial arbitration and the fact that binding awards can be enforced in court (Gaillard and Siino, 2019). Those too poor to use such services, or to use the court system before the development of a robust legal aid system, continued to rely on traditional informal mechanisms of negotiation, mediation and arbitration, which have a long history in Cambodia (Kong, 2012) and also serve as competition to the formal judicial system.

Legislative and Regulatory Reform

At the same time, the RGC took steps to build on some of the uneven legal and regulatory reforms that had already taken place since the 1990s (Kong, 2012; Vann, 2016). Among the most important of these reforms were the effort to publish official fees at the various ministries and other agencies (Kang and Kohlbacher, 2016) and a willingness to re-examine laws and regulations that were falling short of providing effective governance.

This willingness to re-examine laws and regulations led to the establishment of a separate review process within the Constitutional Council, which was originally tasked with reviewing the constitutionality of the laws passed by Parliament (Hor, 2012: 59) In addition to the constitutionality of a law, the reform measure granted the power to review the effectiveness of laws and regulations based on their actual impact on the intended problem after being in force for five years. This effort led to the revision or removal of significant bureaucratic hurdles in many areas, especially registration and regulation of legal entities, such that one-window service for all types of legal entities was established at the Ministry of Commerce, Ministry of Foreign Affairs and Ministry of Interior, which are responsible for regulating companies, international NGOs, and local NGOs respectively. In addition, this body was also tasked with reviewing administrative regulations, with the result of elimination of some of the kingdom's most

egregious regulations as well as the reform and regularization of processes by which ministries and other administrative agencies make rules.³⁴

This effort also led to an analysis of duplicative rules and functions within government. The number of line ministries was reduced from 29 to 15. Many of the functions that had once been centralized through the ministries were devolved to the provincial, district or commune levels (Freiburg Southeast Asia Study Group, 2011; Eng, Vong and Hort, 2015). Some central oversight remained, but much of the service provision moved to as local a level as possible, thus allowing those with the most immediate knowledge of the issues to act in the best interest of the citizens within their remit. This also allowed the citizens most affected by a particular government action to provide direct feedback to the decision-maker, who can then adjust policy. That governance-feedback loop has improved the provision of governance and services and encouraged fiscal responsibility as wasteful or unwanted efforts are sunsetted. This sustained policy of decentralization has added elements of a federal system to Cambodia's constitutional order and allowed policy experimentation at the sub-national levels, much like in established federal systems.

³⁴ See, for example, Ministry of Foreign Affairs Notification N. 402 (2011), which prohibited foreign men from marrying Khmer women unless they were under 50 years of age and earned more than \$2,500 per month. This was clearly a violation of the human right to marry whomever you choose and was partially recognized as such when the age requirement was removed. The income requirement remains in place: <https://www.embassyofcambodiadc.org/blog-post/foreign-men-wishing-to-marry-cambodian-women>. Another regulation that had little to no basis in law or reason was the prohibition against selling shisha (flavored tobacco used in hookah pipes) or smoking shisha, National Authority for Combating Drugs Circular No. 001/14 (2014). The regulation blamed all sorts of bad behavior by youths in the kingdom on hookah smoking, but rather than making a reasonable age restriction, the kingdom decided to prohibit scores of businesses from selling shisha, seize products and smoking paraphernalia and “educate” 31 employees or owners of shisha lounges: <https://www.phnompenhpost.com/national/shisha-crackdown-nationwide>.

Property Rights Reform

Another major part of the RGC's effort was a reformed land-titling project. The original land-titling push was strongly criticized by organizational observers (Human Rights Watch, 2013) and scholars (Dwyer, 2015) beginning as it did in an era where patronage and other forms of corruption counted as governance in the kingdom (Strangio, 2014). A reconstituted land-titling project also involved a substantial reform of the laws and practices surrounding the granting of land concessions after a high-profile case involving a foreign rubber company once again highlighted the human rights and environmental abuses being perpetrated by many concessionaires (Lindsay, 2020). The RGC abolished Economic Land Concessions, which had been used as a major avenue for corruption and exploitation. The new land-titling project, patterned after an earlier, successful effort in Peru (De Soto, 1989), but using drones to provide precise GPS measurements and boundaries for real property in the kingdom along with an online, publicly accessible database of property ownership, gave Cambodians, especially vulnerable people and Indigenous groups living in rural areas, legally-recognized, transferable and enforceable deeds to their own property. In addition, Article 44 of the Constitution was amended to permit foreigners to own real estate outright, which eliminated another area of corruption and complex nominee landholding arrangements.³⁵ These reforms made property rights more secure and enforceable by limiting the use of eminent domain or other forms of state taking for the benefit of private investors or government officials (De Soto, 1989)

³⁵ It also made real estate in Cambodia more valuable. As one of the authors, Tom Pearson, noted to his graduate and undergraduate classes at the Royal University of Law & Economics, if you legally prevent a large swath of potential buyers from having the ability to purchase your property, the competition among potential buyers will be less and you will receive a lower price than you might have otherwise. Therefore, your property is less valuable. Imagine proposing to any other business a rule that your customer base will be reduced by a certain percentage.

Police Reform

Prior to the early 2020s, most Cambodian citizens distrusted the police (Global Corruption Barometer, 2017). Given low salaries, many police officers were accustomed to asking for bribes to supplement their incomes on thin or no legal pretence. Mostly, this occurred through shakedowns of motorists (Soth, 2019; VOA, 2012) Though the situation was somewhat different, the Georgian example of police reform provided a useful template for the kingdom. Georgia had also undergone a significant transition in the early 1990s with the fall of the Soviet Union and paid police very low wages as well. In Georgia, the police forces had become so corrupt that bribe paying was a regular feature of driving in the Republic. Those who refused such bribes were often taken to police stations and beaten (Kharitonov, undated).

The reform government of Mikheil Saakashvili in Georgia, which came to power after the Rose Revolution in 2003, made police reform a priority and took drastic measures to ensure it. In stages, the government fired most of the police forces in Georgia and recruited fewer new officers to take their place. They received funding and training assistance from European nations and the US as well as private businesses in Georgia and the state raised the salaries of officers to be competitive, which reduced the need for bribe taking in the first place. In addition, as a brilliant symbolic measure, they set up transparent all-glass police stations, so that anyone could see what was going on inside (Rosenberg, 2013). The reforms worked fairly well, though Saakashvili was eventually forced from power. (Centre for Public Impact, 2016).

Cambodia took similar steps, but looked for ways to replicate the results for less, as Georgia's reforms were quite costly (Kharitonov, undated) and went too far, especially during demonstrations against Saakashvili's regime. In Cambodia, many police officers were dismissed and Singaporean and German police officials were brought in to train the new recruits and retrain those who had been allowed to remain. As in Georgia, legacy officers were pulled off the streets and assigned desk jobs to reduce the opportunities for corruption. The RGC also began, as did Georgia, with a pilot project in the capital city, Phnom Penh, and then rolled reforms out to the rest of the kingdom once that proved successful

(Centre for Public Impact, 2016). The successful experiment with police reform demonstrated the RGC's commitment to reform to both external and internal observers. Without strong backing from the government, this project would have failed (Kakachia and O'Shea, 2012).

Incentivizing Growth and Registration for SMEs

Long heralded as the key to future economic growth in the kingdom (Tan, 2019) and comprising the main source of employment (Ma'aji, Sok & Long, 2020). Most small to medium-sized enterprises (SMEs) in Cambodia were unregistered before 2020 (Hang, 2017). Previous reforms had granted SMEs a tax holiday of three to five years, decentralized the registration process (Phnom Penh Post, 2018) and SMEs with an investment capital of less than \$3,000 USD were not required to register at all due to their small size (Sok, 2016) and remain exempt from taxation even today. These carrot as opposed to stick reforms were successful, but further carrots were needed to spur additional growth in the sector. The RGC, while keeping in place prior reforms, implemented a new rule permitting any business under eight employees, the threshold in the Labour Law for several regulatory requirements,³⁶ to operate as a business or non-profit for six months without going through formal registration procedures. Such an entity would still be required to notify the relevant authority that they intended to open and what the purpose of operations would be. They would also be required to follow a list of essential health and safety regulations, but would be exempt from registration, tax, and most regulatory requirements for a period of six months, after which time if they wished to continue the enterprise, they would be required to register and begin following all of the regulations established for that type of entity. This trial period essentially permitted the bulk of Cambodia's SMEs, most of which operated informally to test whether their businesses could be successful prior to incurring all of the costs. In addition, it provided the RGC with valuable feedback regarding which regulations and registration processes

³⁶ See, for example, Articles 17, 22, 31, 278 and 283 of the Labor Law of 1997. Available at: <http://metheavy.com/File/Media/CAMBODIA%20LABOURLAW.pdf> [Last accessed: 02 September 2020].

were actually essential, which opened up additional avenues for reform. Too, it reduced corruption as proprietors were able to point to their trial period documentation as evidence of legal compliance rather than being open to bribe solicitation at any time as black-market enterprises (Wood, 2004). As a result of these changes and other reforms like online business registration noted above (Turton, 2020), the kingdom has further streamlined the business registration process and this in addition to the tax and regulatory breaks have encouraged most firms operating in the black market to enter the formal sector, which is yet another sign of legitimate governance and increasing social trust in Cambodia.

IV. Baseline Scenario

Had the factors outlined above not aligned and the political will necessary to move Cambodia in a positive direction not emerged, the kingdom would have continued to lean towards a path of unsustainable growth (Kijewski, 2018). Though Cambodia's economic success prior to the reforms of the early 2020s provided a better life for many Cambodians, factors discussed above, like corruption as a limit to growth and the economic shocks of 2020 would have seen that growth slow significantly, threatening to erase the gains of the previous decades. Not to mention that Cambodia's rapid growth in the 90s and first two decades of the 21st Century was due to "catching up" and that rate of growth would have proven unsustainable over time (Sundaram and Popov, 2019).

Similarly, the system of uneven justice with moderate and often temporary reforms (Human Rights Watch, 2019) would have kept the kingdom near the bottom of the good governance rankings, further eroding investment opportunities as investors sought more reliable legal and regulatory environments elsewhere. The international community, already suffering from donor fatigue, would have tired of Cambodia's strategies of playing donors off of each other (Turton, 2016), and treating human rights and international law as chess pieces (UN HRC, 2019) and would have simply pulled out of the country.

In short, to use Sebastian Strangio's apt phrase, the "mirage on the Mekong" would have continued as long as it could have with the result that law would

continue to be used as a shield for poor governance as human rights violations continued apace and donors, including investors and trading partners, shied away from corrupt Cambodia as other jurisdictions proved more attractive. The international community would have abandoned Cambodia and Cambodians themselves would have given up hope for a brighter future as much of the rest of the world passed them by.

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Chapter 9 | Public Administration: Digitalization and Talent

YANN Aoudourm

Vireak is a public servant representing the Tonle Bassac Sangkat in Phnom Penh. He was recruited from the Royal University of Law and Economics following graduation and spent his first two years as an intern in the department of e-citizenry. During this time, he was trained in effective digital response through the ministry's e-administration platform. Today, he begins the next stage of his career as a supervisor in the services department. It will be Vireak's role to analyse domestic and national trends that have the potential to affect the menu of citizen requirements in relation to public administration. This data forms a key component of the Sangkat's "town-hall" meetings, where local residents and public administration representatives provide updates and undertake discussion on potential reforms.

I. Future Public Administration: The Ideal Scenario

In 2040, the public sector requirements of the Cambodian citizenry continue to be shaped by enhanced economic performance, globalization, and domestic advancements in digital information and technology systems. Guided by the strategic goals of governance reform - modernizing public institutions and ensuring the stable roles and functions of public administration (hereafter PA) - the Cambodian government has continued to build progressively on its 2019-2030 National Public Administrative Reform Program (NPAR). The reforms have continued to build incrementally towards delivering a suitable public

administration service for the needs of Cambodia 4.0. The primary goals of PA reform policy by 2040 will be to deliver responsive, effective, efficient, and accountable public service. The system will be rooted in the requirements of a nation with a growing middle-income and increasingly industrialized manufacturing sector. Several features shape the ideal scenario of PA infrastructure by 2040.

Firstly, the motivations behind public administration reform policy will come to be driven by public demand, set within a system of feedback and response. The government PA system will have developed its role towards being a responsive civil society infrastructure, rooted in the constitution. Whilst in 2020, PA is primarily influenced by political party agenda and politicians (Eng & Ear, 2018), by 2040 it will be seen as a responsive platform of service rooted in the needs of the citizenry. Serving the public will be undertaken with cross-party impartiality and underwritten by the guarantees of the Cambodian Constitution and the Universal Declaration of Human Rights (UDHR). Government agencies (see Figures 1 & 2) will remain mechanisms through which the government channels and administers its programs; although the modern development of PA will require a certain degree of civil service delivery through public and private partnership (PPP) to maximize efficiency and effectiveness.

Public accountability denotes public servants acting in the public interest with transparency and openness (Bovens, Schillemans & Goodin, 2014) and a driving principle of PA development by 2040 is captured by this sentiment of 'virtues of service'. The accountability virtue is a desirable quality in public actors (state agencies, politicians, and civil servants) where there are requisite standards of behaviour for good governance (Bovens, 2010; Bovens et al., 2014; Dubnick, 2007). In order to establish the accountability virtue Cambodia will ensure the presence of five key components—transparency, liability, controllability, responsibility, and responsiveness. Additionally, accountability mechanisms will be introduced that ensure institutional arrangements by which a public actor may be held accountable by another actor (Bovens, 2010; Bovens et al., 2014). The establishment of a forum by which public actors can be held accountable, such as parliament, will be key. To this end, in 2040, Cambodia will have

developed the requisite 'check and performance control' procedures to deliver an effective and accountable public administration body.

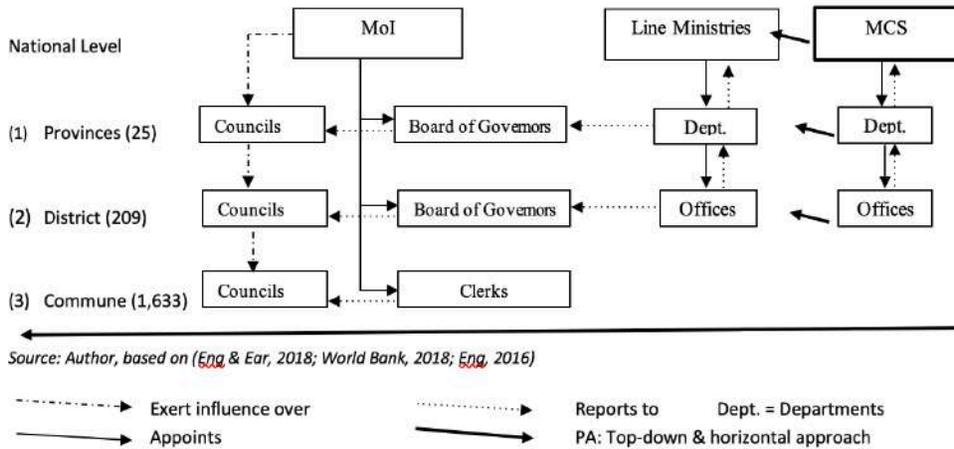
In this era of a 'globalised Cambodia',³⁷ PA in Cambodia has shifted from sectoral approaches to a 'new public governance' model. This is represented by a moving away from stated-directed interventions and personal/group interests (Robinson, 2015; Saxena, 2013; OECE, 2009). Embracing such shifts will have enabled Cambodia to move towards a responsive management style of PA where performance standards, outputs and outcomes, competition, and contestability are key to ensuring quality. It will also allow Cambodia to build an effective and accountable PA system to not only provide better public services, but also to be robust enough to tackle unforeseen local and global exogenous and endogenous influences.

II. Scenario Space and Key Factors for Future Public Administration

Contemporary Cambodia first commenced PA reforms in 1993, when the Kingdom entered the current period of relative national stability and peace (MCS, 2015). The following three decades saw reforms undertaken by committees operating incrementally. The first departure from this approach came in 2013, where an intensification of the reform track occurred; manifested by the establishment of the Ministry of Civil Service (MCS), which employed a vertical (Eng & Ear, 2018; World Bank, 2018; Eng, 2016) and horizontal approach to current PA reform (see Figure 1). Subsequently, MCS has strategically looked at enhancing the quality of public services, human resources management and development, and pay and remuneration over the past five years (MCS, 2015; MCS, 2018). However, PA reforms remain fragmented.

³⁷ Characterised as having a greater degree of economic integration in the global supply chain principally due to the kingdom's industrialized manufacturing sector (see Cambodia 2040 Volume 1 for more details).

Figure 1: Vertical and horizontal approaches to PA reforms at national and sub-national levels



Source: Author, based on (Eng & Ear, 2018; World Bank, 2018; Eng, 2016)

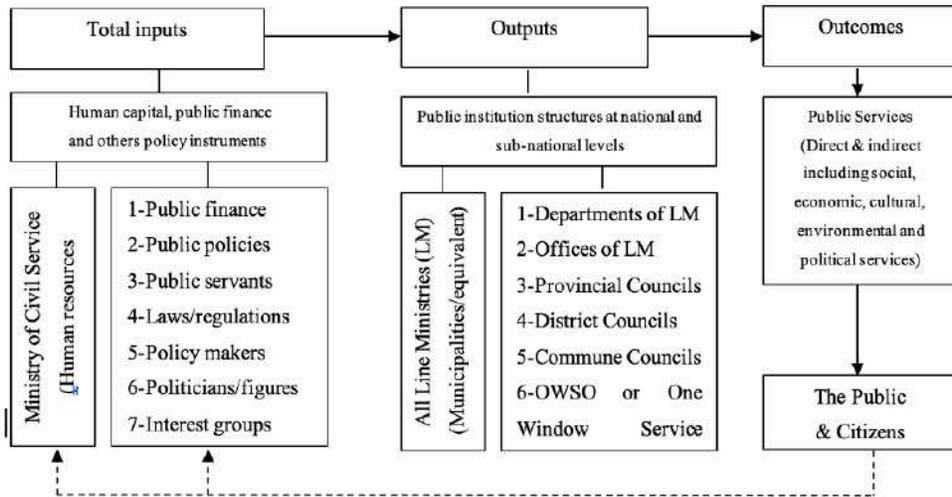
The improvements have been largely seen in legal and strategic frameworks (World Bank, 2018; MCS, 2018). There has been some training conducted for key officials (MCS, 2018), yet its effectiveness remains unknown due to an absence of quantifiable and systematic assessments. A significant development has been seen in the area of payment and remuneration, with MCS embracing technology. For example, officials can receive payment and remunerations, and check transactions through Bank Mode (MCS, 2015; 2018; World Bank, 2018). The current reforms have demonstrated moves in an optimistic direction, with the government showing a certain degree of political will towards reform in the PA space. However, a number of structural and non-structural constraints should be recognized and systematically tackled.

Firstly, the capabilities of public institutions remain inefficient, with management structures, mandates, and services, largely undefined and overlapping (ADB, 2018; MCS, 2015; 2018). For instance, the management structures of only 11 ministries and eight provincial departments had been outlined as of 2018 (World Bank, 2018). Turner (2013) notes that PA suffers from capacity deficits and dysfunctions and is still characterized as being highly centralized.

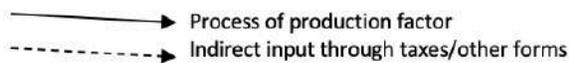
Secondly, reforms have not been satisfactorily financed, with those involved having insufficient technical and professional skills (Turner, 2013; World Bank, 2018; MCS, 2018; 2018a). They have received merely piecemeal support from donors, as they tend to support sectoral and situational approaches, rather than to build the institutional capacity (UNDP, 2015). The reforms also encountered complex and sluggish processes when requesting financial authorization (MCS, 2018).

Given the production factor of public services (see Figure 2), PA in 2040 should be rooted in successful reforms and development across the key factors of public sector institutions, civil servants, services, and systems.

Figure 2: Cambodian production factor for public services



Source: Author



Source: Author

Key Factor 1: Institution: Several components of PA reform have already been introduced, such as defining management structures, roles, responsibilities, mandates, and services for each agency (MCS, 2018; World Bank, 2018). However, compatibility between budget and a feasible workload is key to quality. Moving forward, the PA institution needs to have acquired anticipative

and innovative capabilities in order to tackle complex and unforeseen issues. Institutional strategic and operational plans need to be put in place with comprehensive performance and personnel management frameworks, with budgets audited. The performance of service delivery needs to be regularly, quantifiably, and quantitatively measured by responsive, efficient, effective, and accountable evaluation indicators. Performance-focused service delivery and principles-based management should be part of the rules-based institutional management of PA by 2040. If the PA institutions put in place are robust, users will be able to access social, economic, political, cultural, and environmental services that enhance their well-being and save them time and money. They could also strengthen the relationship between the government and the people, as public trust is fostered, with citizens partners with the government, engaging in policy-making, tapping into new sources of ideas, and making decisions regarding public needs (Josephine, 2019).

Key Factor 2: Civil Servants: By 2040 civil servants will be represented as “e-servants”. An “e-servant” more usually refers to intelligent, programmable systems that support assisted-living technologies; however, in this context it refers to public servants with the ability to deliver e-services. They will be able to electronically use, manage, and transfer data, having acquired a professional understanding of e-service delivery and be client-focused. Flexibility and an anticipative ability to respond to rapid changes and complexities will be expected. In any PA ecosystem, public servants are the key players. They can either facilitate or impede development as they are service providers and coordinate public goods via the internet and information and communications technology ICT (Chou, Chen, & Pu, 2008). In the short term, internal and external arrangements to intensively train government officials in the management and transfer of data, and e-services delivery will be needed. In the long-run, training in ICT and a formal education will be required for prospective government officials for them to acquire the e-capacities needed for the position. The Cambodian ICT Master Plan 2020, referred to as a vision of an “ICTopia Cambodia”, will help empower citizens as progress is made toward the desired future of PA (KOICA, 2014).

Key Factor 3: Services and Systems: In 20 years, those born in the 2000s will be at the fore of society, and they will be more technologically exposed and capable than any previous generation. One prerequisite is to solve the utility function of e-services, which is the sum of providers (institutions and servants), users, and technology subject to an availability of other resources (β). To put it in the form of an equation: $e\text{-services} = [(i + s) + (u + t)]\beta$, where i is for institutions, s for public servants, u for users and t for technology. Owing to the above two ideal factors and a utility function, what can be expected is the digitization of all public services and methods of payment. Digitalizing all services in one-stop services/one-window service offices (OWSO) is one approach. The incorporation of e-applications and e-interactions, and e-machines for giving feedback will need to be available. Establishing e-systems requires transforming the processes and interactions between citizens and the government from conventional approaches (manually done and walk-in) in parallel with current developmental moves. Interactions between government and citizens are expected to shift from walk-in proceedings to those done via email, websites, e-applications and e-initiatives. Those in the private sector and involved in foreign direct investment (FDI), among others, will be able to maximize financial efficiency through the resultant reductions in transportation, administrative, legal, and other costs. E-governance and e-systems will be available to citizens and investors as the government modernizes such processes.

Key Factor 4: Citizens: E-citizens will be those using electronic methods to interact with the government and public e-servants through e-systems to access e-services in the exercising of their rights and duties. People will be able to use e-services across multiple sectors, from public transportation, electricity and water, health care, education, social security, and the legal system, as well as accessing socio-economic services. Citizens will have the ability to participate in national e-polls and elections online, and be able to search for their names in e-polling systems, locate polling stations on online maps, and print voter and information slips, as well as apply for enrolment, modifications, and deletion.

Figure 3: Key Factors for PA 2040

Types of Factors	Key features/characteristics
Institutional factor	Management structures, roles, responsibilities, mandates and services, institutional developmental, strategic, and operational plans with comprehensive performance and personnel management frameworks. Performances timely, quantifiably and qualitatively measured by accountable, responsive, efficient, and effective evaluation indicators.
Servants factor	E-servants, if not AI-servants with e-capacities and professional knowledge of e-services delivery with client-focused mannerism. Flexibility and anticipative ability, accountability, integrity, free-corruption mentality, not politically biased and under the influence of patronage.
Services factor	Digitization of all public services and methods of payment in one-stop-services/ OWSO incorporation of e-applications and e-interactions and e-machines for giving feedback (become e-services with accessibility at <u>any time</u> and anywhere).
Systems factor	Interactions and processes with e-systems, visual and e-communications, interactive digital screens or AI, e-government and e-governance.
Citizens factor	Use electronic methods to interact with the government and public e-servants through e-systems to access e-services and exercise their rights and duties.

Source: Author

III. Policy Initiatives to Achieve the Ideal Scenario

A change in governance and the approach to public services can be attributed to dramatically increasing domestic and global endogenous and exogenous influences (Haque, 2013). Yet, the focus of such shifts and reform efforts should remain on the needs and interests of the citizen (Robinson, 2015). Though approaches to PA will have shifted from the conventional model to the New Public Management (NPM) method, Cambodia will likely remain incremental in its approach without targeted intervention. To achieve the ideal PA scenario for 2040, certain policy initiatives are required. These are considered in detail below.

Policy Initiative 1: Develop a Quantifiable Performance and Management System.

Given the complicated structural and non-structural issues facing PA reform, and its current incremental approach; it is likely that Cambodia will continue working on defining roles, responsibilities, and mandates, while restructuring management structures for national and sub-national administrations and training. These need to be aligned with institutional strategic, developmental,

and operational plans, otherwise they will be inefficient to meet the needs of a 2040 citizenry. Yet, these, with budget, plans, structures, and the capacity of officials, show only half the picture. Policy Initiative 1, by showing ongoing operations and the outcome of public service delivery, will provide the other half. Institutional theory suggests that the development of a performance and management system will increase the capacity of national and sub-national administrations, reveal flaws, show levels of public satisfaction, and strengthen the performance of officials (Vandenabeele, 2007). The rational choice theory of NPM indicates that results of assessments will enable the government to cut or direct resources toward areas of concern, and dissolve and/or suspend roles and institutions that are not needed (Robinson, 2015). NPM theory emphasizes the management of quantifiable output measures and performance targets, rather than policy body (Rose et al., 2015). Overall, Policy Initiative 1 would add value and create possible key solutions to future policies in addressing wider societal needs. It can be considered a micro-tool of the accountability mechanism for holding civil servants answerable to their responsibilities, and of services provision within respective public institutions. These micro-institutional arrangements cure public management ills and help build the value desired within the PA system.

Policy Initiative 2: Digitize All Public Services and Methods of Payment.

In 2040, in line with the increased digitalisation of practices and processes, it is likely that citizens will prefer to use public services in a streamlined, technological, and efficient manner. NPM theory suggests that service providers (the government) need to understand the choices of customers (citizens) (Rose et al., 2015; Robinson, 2015); bringing about a need within the kingdom to digitize public services and methods of payment³⁸. To achieve this, the Cambodian government will look to take advantage of e-governance (the systematization of processes) and e-systems (the systematization of interactions

³⁸ An additional benefit of digitizing public services concerns the ability to ensure public inclusivity. This theme is explored explicitly in Cambodia 2040 Volume 2.

between citizens and government agencies). In addition to the outlined “need-to-do” list, Cambodia needs a “must-do” list of immediate priorities. The Kingdom must first increase the capacity of institutions and officials in parallel with digitizing all public services, while addressing at least the institutional and other factors outlined above. Second, Cambodia must build ICT infrastructure nationwide, and provide full internet coverage to ensure universal access. KOICA (2014) shows that adding to the existing advancement of the telecommunications industry, Cambodia needs to secure national satellite, submarine cable and backbone networks run by a state-owned agency. Research and development in ICT is a must-do item. Third, increasing ITC/digital literacy among officials and the public (see more Policy Initiatives 3 and 5) is another must-do agenda to fulfill these triangular priorities—institutional and official capacity, universal ITC coverage and access, and ITC/digital literacy. It is worthwhile noting that MCS annual reports have consistently shown government employees have low ICT skills (MCS, 2016, 2018, 2018a) and Cambodians’ e-awareness is reported as ‘very low ICT usage’ (KOICA, 2014). Groot & Budding (2008) suggest that Policy Initiative 2 would contribute to decentralization, competitiveness, by increasing efficiency and effectiveness, and accountability in officials’ performance. In addition, e-systems/e-government bring about efficient services and engagement ideals because of increased specialization and reduced complexity and interference, while resources and resistance would be minimized, and engagement per se in accordance with liberal democratic principles (Rose et al., 2015).

Policy Initiative 3: Public E-Servants Approach While Attracting and Keeping Talent.

Almost 30 years since PA reforms began, Cambodia is still facing dysfunctions and capacity deficits (Turner, 2013). Despite merit-based appointments having increased recently in PA at the national level, there is less evidence to support the same approach at the subnational level. The increase in merit-based appointments has been ascribed to newly developed HR guidelines and related mechanisms (MCS, 2018). In NPM, a merit-based system is crucial in increasing the effectiveness of public services (Robinson, 2015). Given changing

socio-economic conditions and technological advancements, Cambodia needs to employ a market-driven, incentives- and e-servants-oriented approach in addition to the increasing merit-based appointments. The market-driven incentives approach to the public sector is a modern policy direction where public benefits are aligned (both monetary and non-monetary) with market-driven or private ones. It aims to appeal to the younger generation and attract the necessary talent to support public services. The e-servants-oriented approach is designed to equip public servants with e-capacities to serve the public in a changing technological world. Utilizing the market-driven incentives approach will need to directly address an increase in pay, for which the burden will fall onto citizens through various tax increases. Yet, the government will need to seriously take into account institutional factor, (see more in Scenario Space and Key Factors) whereby Cambodia will need to align workforce, workload, and finances, while eliminating unnecessary ministries and institutions, and political roles, such as advisors and secretaries and under-secretaries of state.

Policy Initiative 4: Increase Public-Private Partnerships (PPPs)

Public-private partnerships (PPPs) are defined as institutional agreements between government and the private sector. The major aim of PPPs is to improve public sector management, which has increased considerably in recent years in various sectors, mostly transportation, water and sewage, energy, environmental protection, health care and education, and infrastructure (Brinkerhoff & Brinkerhoff, 2011; Wang et al., 2018). The nature of partnerships, Bayliss and Waeyenberge (2018) argue, is to shift management responsibility, and to some extent risk, to the private sector through output specifications. The increasing trend toward PPPs has also been seen in Cambodia, but mostly in just a few areas, notably education, healthcare, and physical and financial infrastructure, with it largely limited in other sectors. While the overall environment for partnerships is positive, especially in the financial sector, the situation in the legal system, corruption, political instability, issues regarding governance and coordination, poor public services, and limited civil servants are constraints (Spoann et al., 2019; ADB, 2012). To realize the ideal scenario for

2040, these barriers need to be removed and the relationship of partnerships normalized. Given the dynamism of Policy Initiatives 1, 2 and 3 (especially with regards the digitalization of methods of payment), increasing PPPs in the financial and investment sectors is a must. ADB (2018) argues that PPPs can improve efficiency in the delivery of public services, gain access to new expertise and technology, and reduce spending on infrastructure (ADB, 2012). Joint agreements need to be made for collective goals, shared accountability, and non-hierarchical and horizontal structures and processes (Brinkerhoff & Brinkerhoff, 2011). In this case, citizens will get public services from the contracted agencies which believe the business-style delivery of public services is responsive and efficient. The government can act as a forum (see more accountability mechanisms in Ideal Scenario 2040) holding all contracted agencies accountable. This would promote effectiveness, governance, efficiency, and innovation (Bayliss & Waeyenberge, 2018).

Policy Initiative 5: Empowering Citizens with E-Services

In early 2000, Cambodia began building institutional infrastructure (e.g. NiDA) and introducing policies to support various e-government projects. The Cambodian ICT Master Plan 2020 was introduced in 2014 to enhance capacities and connectivities, enrich e-services, and empower people (KOICA, 2014). Some efforts brought rewards, while many proved ineffective. In realizing the ideal scenario, both short and long term approaches should be considered. In the short run, Cambodia needs to educate its citizens on access to e-services, and provide training on the processes and interactions provided by the government to increase e-usage, e-participation, and e-consultation through mass media and all other available channels. Engaging with relevant shareholders should be a catalyst for accelerating the realization of the short-term goals. In the long-run, Cambodia needs to invest in digital literacy, which includes the insertion of comprehensive ICT lessons into primary and secondary education. The New Generation Schools (NGS) model educational reform program can be viewed as a success to be rolled out across the country. Cambodia needs to recognize that the economy will be driven by the technological capacities (e-commerce and AI

commerce) of not only the government, but also citizens in using the PA e-services and the global market.

IV. Future Public Administration Under the Baseline Scenario: Business as Usual in 2040

Cambodia resumed PA functions after the fall of the Khmer Rouge regime in 1979; however, operations were limited as full peace, security, and national integration had yet to be achieved. It wasn't until a coalition government was formed in 1993 that Cambodia embarked on a period of national reconciliation and unification (1993-1998). The Executive Commission of Inter-ministerial Technical Committee (COMEX) was then established to implement reform agendas (MCS, 2015) and adopted the Law on Common Statute of Civil Servants (1994) to regulate PA (UNDP, 2011, p.9). Between 1999 and 2003—a period of strengthening the foundations of civil service management—the Council for Administration Reform (CAR) was set up to improve civil service management and streamline government structures.

In the latter mandates (2004-2008; 2008-2012), albeit facing emerging complex public issues, reforms were still incremental and aimed to realize the major objectives of 'Serving people better' and 'Serving people better for the wellbeing of the citizens and the prosperity of the nation' (MCS, 2015). PA reform schemes, since 2013, have been centered on improving the quality of public services, human resources and management, and pay and remuneration.

It is worthwhile to note that PA reform is complicated by the way Cambodian administrations are structured nationally and sub-nationally (see Figure 1). Provincial, district, and commune levels constitute the three tiers of sub-national administrations (SNA) that are administered directly by the Ministry of Interior (MoI). The provincial (1) and district (2) levels are headed by MoI-appointed boards of governors (Eng & Ear, 2018; World Bank, 2018; MoI, 2008). Not only SNA, but also the vertical structures of SNA line ministries have been centralized under MoI (See Figure 1), which means a unified relationship of accountability and authority is required, as broadly rests in the respective central ministries (Eng and Ear, 2018). MCS has employed top-down and horizontal approaches

across all sectors and line ministries. The development of PA (see figure 4) is progressive, but it is incremental in approach.

Figure 4: PA reform development and period

Period	Theme/goals of reform	Reform committee/Unit	Characterization/Features
1993-1998	National reconciliation and unification	Executive Commission of the Inter-ministerial Technical Committee (COMEX)	Redesigning state structures of public administration
1999-2003	Strengthening the foundation of civil services	Council for Administration Reform (CAR)	Streamlining structures and rationalization of the public management
2004-2008	Deepening reform: National program for Administrative Reform (NPAR)	Council for Administration Reform (CAR)	Developing capacities-HR, ICT and delivery and the compensation
2008-2012	Further deepening reform	Council for Administration Reform (CAR)	A vision to transform from administrators to providers
2013-2018	Continuance of further deepening reform for effectiveness	Ministry of Civil Service (MCS)	HR functions- improving the equality of public services and HR development/management
2019-2030	Citizens-centered, clean, smart and strong PA?	Ministry of Civil Service (MCS)	?
2031-2040	?	Ministry of Civil Service (MCS)	?

Source: Author's compilation

In envisioning the PA system in 2040 to be effective, efficient, responsive, and accountable (EERA-PAS), it requires strong institutions, civil servants, services, systems, and citizens factors, with six key policy initiatives in support.

The results of the recent reform (2013-2018) have not yet met the needs of citizens or policy expectation (MCS, 2018; 2018a). Progress has been seen more on paper, with the reality challenged by institutions that are extractive and/or poor (undefined management structures, mandates, and services, as well as overlapping roles and responsibilities) and under-resourced (under-financed and under-skilled officials), institutional resistance, conventional practices of performance management (absence of rigorous assessments). Given these challenges, by 2040 without the comprehensive interventions of the suggested policy initiatives, citizens will still experience poor public services.

The new MCS action plan 2019-2030 suggests PA reform will continue to incrementally strengthen performance, roll out monitoring and evaluation (M&E) and performance management systems (PMS) between 2023 and 2027,

and work on performance accountability in 2027 and 2030 (MCS, 2019). These may mean public institutions are relatively strong by 2040. M&E and PSM may become internal tools in the accountability mechanism holding civil servants answerable in the absence of broad institutional arrangements for other public actors or forums to do so. However, bloated and unnecessary political institutions will unlikely build public trust and draw in participation.

PA systems may not have become e-systems (e-government and e-governance), while civil servants may also not have become e-servants or have developed the accountability virtue. With civil servants without the e-capacities necessary to provide e-services, citizens will not be able to optimize their time and money, still needing to access manual public services in 2040. For the benefit of citizens, it is desired that this normative and probabilistic prediction is inaccurate. The PA systems therefore need to become robust to deliver the 2040 ideal scenario.

In conclusion, borderlessness global exogenous and endogenous influences could weaken Cambodian PA by causing large, unexpected problems, generating different public needs and expectations. In 2040, the delivery of public services is expected to be responsive, effective, efficient, and accountable through public institutions ready for e-servants, e-services, e-systems, and e-citizens. To prepare these key factors for the ideal 2040 scenario, it is recommended that the following policy initiatives are incorporated:

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Chapter 10 | Civil Service: Function and Structure

MIN Seiha

Dara is an official in a district. He was recruited through examination and was trained for one year before being assigned to his current position. He enjoys strong cooperation with his boss and colleagues who have always inspired him and he has been assigned for a specific project with a precise budget. For interaction with citizens, he is responsive to the requests from the people of the district by explaining, verbally and online, various aspects of process and requirements including cost and necessary documents. He charges for services following publicly announced cost and time frame structures. Because his office is equipped with a computer connected with the system of his ministry, he can access various databases and acquire updated information regularly and can resolve complaints about services through due process and best practice procedures. Based on a standardized performance assessment tool, his annual work plan is used to review his work.

I. Future Civil Service: The Ideal Scenario

Cambodia has in place an efficient and effective system of governance, one responsive to the demands of the people while supporting sustainable economic growth, with the Kingdom having become an upper-middle-income country in 2030 and moving toward high-income status by 2050.

Public institutions have been strengthened, and are well organized, functional, and smaller in scale. Demand-driven and analytical in approach, they are

structured to avoid hierarchical and bureaucratic crossover. With the government having pushed for program-based budgeting, public institutions are credible service-delivery mechanisms, with their performance outlined with clearly defined procedures and action plans, with regular evaluations.

With a focus on clear organizational goals and outlined visions, the completion of assignments has been improved, with roles and responsibilities separated. Transparent and open to public scrutiny, the patronage system has been removed, and landing promotions and plum appointments are no longer the major concern for civil servants. Highly respected for their professionalism, public officials are neutral, impartial, and held accountable to ensure their effective performance.

The civil service fills positions based on merit, with expertise and suitability central, as fundamental human resource management has been institutionalized by 2040. Position description serves as the basis for task implementation and performance management. Detailed career development plans have been formulated and appropriate reward systems put in place in the public sector to encourage competition and increase commitment. A code of conduct for civil servants is upheld, as are key principles for maintaining ethical behavior, transparency, and efficiency, while productivity is enhanced through incentivization.

Moreover, results-based public service delivery has been designed following a project-based budgeting system established by the government for some time. Decision making is evidence-based, relying on collected data and information that has been thoroughly analyzed to meet actual needs. Real-time data concentration and exchanges between institutions, and across the public and private sectors, facilitate a systematic approach and ensure a comprehensive basis for planning and implementing policy.

The participation of citizens in public service provision is highly prioritized to ensure strengthened people-centered service delivery, with service-user value increasingly recognized, while a cycle of demand, cooperation, and feedback is in place. Service gaps where the poor are disadvantaged have been bridged, ensuring accessibility is equitable and affordable.

In 2040, the Cambodian civil service system was digitalized, operating within the framework of e-government. There is comprehensive data storage and updates on the civil service, while human resource planning and tracking is well organized. The Ministry of Civil Service acts as a data center fully managing and coordinating the flow, status, capacity building, and performance of public officials. Accurate civil service cross-checking and data exchanges are carried out by a low-cost and time-saving automated system at both the national and sub-national levels.

At the same time, information communication technology (ICT) capacity, regarding both knowledge and infrastructure, has been enhanced throughout the country. The capability of civil servants has been strengthened through training and continuous learning to ensure the necessary completion of tasks and delivery of services. Basic infrastructure at each institution, including hardware and software, is systematically connected for data entry and extraction. There is a strong government-citizen online interface for service delivery and feedback. With the interaction between service users and providers closer and more active, ICT has been an effective tool in connecting the government and the citizen, building greater understanding.

Remuneration for Cambodian civil servants allows for a decent living following the positive trend over many years of civil service salaries increasing through government reforms. Non-financial rewards, including opportunities for capacity building, recognition, and respect, as well as a rewarding working environment, are significant in not only promoting productivity and civil servant contribution, but also an important part of overall public sector personnel retention strategies.

Along with the introduction of strategic human resource management, supporting infrastructure, and incentives, key performance indicators will have by 2040 become crucial for the Cambodian civil service system and standardized. The key foundations of performance management will have been comprehensively formulated, disseminated, and enforced, with similar criteria across public institutions serving as guidelines for task implementation and encouraging greater commitment.

This vision can be realized as long as a number of key policy frameworks are upheld:

- Governance reform remains part of the government's major reforms agenda, in which improving accountability and transparency is prioritized;
- Human resource management, both at the national and sub-national level, is implemented to strengthen the civil service. This includes merit-based recruitment and promotion, and capacity development;
- E-government-related policy frameworks are operationalized to catch up with the digital economy, creating a supportive governance system;
- Necessary factors for performance management are fulfilled to prepare for results-based management. This is a key step toward the vigorous implementation of a programming budget.

II. Scenario Space and Key Factors for Future Civil Service

Reforms of the Cambodian civil service have been implemented over many stages during the past 20 years, with much of the earlier half of this period spent on groundwork, mainly in consolidating the public sector workforce, restructuring, and institutionalization (RGC, 2015a). The second half marks a greater level of improving civil service systems, with broader objectives on strategic human resource management, including capacity development, management improvement, and human resources development, as outlined in the Policy on Human Resources in Public Administration and the Policy on Human Resource Management and Development at Sub-national level in 2013 (RGC, 2013a, RGC, 2013b).

The focus is therefore now on strengthening human resources and the operationalization of good governance in delivering higher quality services (RGC, 2015a; RGC, 2018b; National Committee for Democratic Development (NCDD), 2010). The process of recruiting civil servants has been recently streamlined, with consultation with the Ministry of Civil Service and the Ministry of Economy and Finance a compulsory requirement (RGC, 2015b). Regarding capacity

building, current reforms have seen the introduction of new training methods at the Royal School of Administration and the creation of the National School of Local Administration (NASLA).

The agents of key reforms have from a general strategic policy mandate tackled ingrained practices by making incremental changes within public institutions. At the sub-national level, having moved in a positive direction despite encountering obstacles and inconsistencies in application, the three-year Implementation Plan (IP-3) Phase III (2018-2020) emphasizes the continuous efforts needed for good governance, human resource management, and development, as well as service delivery and local development (NCDD, 2017). The transfer of functions to sub-national administrations, the expansion of the operations of one-window services (OWSO), and the restructuring of offices at the district level for a fully unified administration outlines the enormous work ahead, which will bring both opportunities and unprecedented challenges.

However, merit-based recruitment over particular steps needs further cautious evaluation. Among other significant problems, the lack of a clear human resources development plan is apparent at both the central and sub-national levels (CAR, 2016). With distrust in the promotion process (Eng & Craig, 2009; Eng, 2014) a major issue in the current Cambodian civil service, creating a credible evaluation system to build faith, respect, and motivation is a daunting task.

Figure 1: Number of Civil Servants in 2018

Types	Central Level			Sub-national Level			Total
	Male	Female	Total	Male	Female	Total	
A	18,999	6,786	25,785	22,276	8,878	31,154	56,939
B	4,196	2,943	7,139	36,494	25,632	62,126	69,265
C	2,536	1,606	4,142	37,210	38,416	75,626	79,768
Total	25,731	11,335	37,066	95,980	72,926	168,906	205,972

Source: Key Achievements of Win-Win Policy of the Royal Government of Cambodia in Civil Service (1995-2018) MCS, 2018

Such policy and regulatory adjustments necessitates the reform process to lay down principles and institutionalize procedures for more vigorous governance improvements in response to the public's demands for better services.

Cambodian governance reform is not only intended to respond to the need for better service delivery, but also to support investment and the business environment (RGC, 2018; WB, 2019). While Cambodia has achieved around 7% annual growth, the economic base remains narrow. With market diversification, attracting further investment, the promotion of better quality products, and the building of more infrastructure underway, providing support for the private sector—as Cambodia faces such issues as the European Union (EU) imposing rice tariffs and launching the withdrawal process for its Everything But Arms (EBA) trade preferences—through improvements in governance is recognized as a significant measure. Therefore, even before the launch of the government's 17-point strategy in early April 2019 to stimulate the economy, it can be seen that a more streamlined bureaucratic process for imports and exports had been brought in (Hin, 2019; Sok, 2019).

The Fourth Industrial Revolution, also known as Industry 4.0, highlights the importance of digitalization across development areas, which public authorities, as service providers, will have to remain alert to as it will bring both tremendous opportunities and many challenges. This will require serious contemplation as to policy implications (Schwab, 2016; Stern, Daub, Klier, Wiesigner & Domeyer, 2018). Gaining greater interaction with a large number of service users with highly ordered and standardized processes, improving customer services, and easing the flow of resources are all advantages to be gained from utilizing digital technology. Digital technologies will also provide feasible opportunities ranging from the modernization of public administration and greater connectivity with the public, to the promotion of transparency and accountability (Schwab, 2016). However, a number of issues such as structural changes to the labor market and cybersecurity threats are just a few examples of approaching issues (Stern et al, 2018).

In Cambodia, information communication technology (ICT) has in recent years gained impressive traction and ushered in a catching up with developments. In

early 2019, for example, Cambodia had more mobile phone connections than its population (121%), with 19.7 million subscribers to around 16 million people. The percentage of mobile internet users is also high, at 85.6% of the population (Chea, 2019).

Preparations for ICT regulatory frameworks have been launched initially in the past few years, with it taking time for their full implementation. In addition to a national policy outlining the overall framework for ICT development (RGC, 2016), a series of proposals have been announced. These include the government's plans for a digital economy by 2023 and five key priority initiatives, namely the introduction of digital governance, investment in fundamental infrastructure, human resources development with ICT, the adoption of standards and regulatory frameworks, and the promotion of digital ecology (Fresh News, 2019). There is also the awaited law on e-commerce.

However, the country's readiness for digitalization remains questionable. As a digital economy may take at least 10 years to transition from a transformational period to full-fledged implementation (May, 2019), a number of barriers potentially obstruct commitment and demand further effort. Regarding a digital economy, for example, a lack of investment, limited trust in online transactions, a slow adoption of technology, a small digital ecosystem, and low digital literacy are all typically major concerns (Heng, 2019). Cambodia, therefore, to be on top of regulatory framework and policy strategy, needs investment in infrastructure and the training of human resources in digital knowledge, as well as greater encouragement for entrepreneurship, innovation, and inclusive participation (The Phnom Penh Post, 2018; Chea, 2019; Hor, 2019; Heng, 2019).

Performance management has been one of the challenges tackled in the Cambodian public administrative reforms program (RGC, 2015a; CAR, 2018a). At policy level, as performance management guidelines outline the key elements and processes involved in the undertaking (CAR, 2016), the major components for the foundation of a comprehensive performance system, including annual institutional and operational work plans, and well-described job descriptions, are not yet in place. Currently, these only exist at the management level (RGC,

2015a; RGC, 2015b; CAR, 2016). As such, performance management for civil servants requires the systematic improvement of related duties.

Increases in minimum salary and additional allowances have been encouraging recently. With annual top-ups, the minimum basic salary for civil servants has increased to slightly more than one million riel (\$250) since 2018, in addition to other benefits, such as inclusion in the National Social Security Fund (CAR, 2018a). It is also plausible that, following initiatives between the government and development partners, other results-based allowances and incentives for civil servants have been explored (CAR, 2016).

However, it has been reported that the complementary salary generated from fees differs between public institutions, particularly those that do not charge for their services, drawing concerns of the unequal sharing of benefits among civil servants (WB, 2013).

Figure 2: Minimum Salary of Civil Servant and Military and Police (in Riel)

	2013	2014	2015	2016	2017	2018
Administration, Diplomacy and Technology	344,000	424,000	552,800	7000,500	853,500	1,014,450
Education	402,800	550,000	652,800	800,500	953,500	1,114,450
Health	360,000	550,000	652,800	800,500	953,500	1,114,450
National Police	379,930	460,930	628,270	784,730	937,977	1,098,927
Military	315,590	396,990	582,430	733,730	880,977	1,035,027

Source: NSDP 2020-2023, RGC, 2019

III. Policy Initiatives to Achieve the Ideal Scenario

To ensure regular and sustainable governance capacity development, two institutional components- structure and function - should be considered. The institutional capacity development of a system consisting of a hierarchy of order, relationships, and connections must run alongside the tasks the institution is expected to fulfill. Sustainability in capacity development must be seen as long-lasting advancement supported by functional internal resources coordination and the external favorable conditions of technical and financial flow (Bhagavan & Virgin, 2004).

Strong political decision making and coordination from the institutional leadership level, on top of that, will play a positive role in pushing forward rather than obstructing implementation at the lower levels. As the civil service, although a policy apparatus, should be apolitical, professional and unbiased treatment as a separate and neutral state mechanism is the primary basis for its proper functioning.

Transparency and accountability in the civil service have been mired in concern in public sector employment life. It is basically held that visibility, predictability, and consistency of action is vital in ensuring transparency in public or private institutions (UNDP, 2014). To address issues in civil service management by 2040, the required process of transparency must be adopted with standard operating procedures, systematic and coherent policy, anti-corruption regulations and the appropriate incentives put in place. Recruitment, promotions, appointments, and disciplinary action must be transparent and open, while procedures relating to examinations, corrections, and criteria must also abide by the rules. Stakeholder participation and the introduction of various means of disseminating on-time and accurate information to the public, including with webpages, social media posts, and officials' announcements, are all beneficial in fostering transparency.

Accountability, both vertical and horizontal, should be reinforced in performance, principally in the adherence to answerability, responsiveness, and enforceability. As there is a close correlation between increased monitoring and improved accountability (UNDP, 2014), having position descriptions in place that include guidelines on disciplinary procedures coupled with sufficient resources to incentivize satisfactory performance should be prioritized. The outlining of core principles overseen by monitoring and anti-corruption mechanisms will be necessary to create the Cambodian civil service of the future.

It will also be vital to implement effective systems in relation to the human resources of each institution as they are the focal point of the civil service. The Cambodian civil service has been further pressured regarding mechanisms ensuring a well-trained and reliable workforce (CAR, 2016). However, when Cambodia has the necessary rules and budgets in place, problems in carrying

out tasks will remain if the capacity of the personnel responsible for human resources is limited, with management and communication structures still rigid. From a structural standpoint, the personnel departments of ministries and government institutions face enormous difficulties and merely engage nominally to fulfil certain procedures (CAR, 2016).

To increase effectiveness, the required capacity building via regular training for human resources departments should be streamlined to include technical aspects that enable personnel to gain comprehensive expertise. To minimize management problems, the division of tasks and the sharing of information should be clearly formulated allowing for the number of personnel per department and the complexity of tasks. Interests-related intervention in human resource management should be prevented to create an open environment favorable to equitable treatment.

Mismatching expertise and position occurs at multiple levels of civil service management. A lack of long-term planning with regard to personnel may result in making opaque the needed expertise for a position. When recruitment is numbers-driven and without accurate role descriptions regarding position, strategic responses to filling vacant positions will remain limited (CAR, 2016).

Addressing this should start with clear human resource planning that offers credible projections, including the specific qualifications needed. The selection process should be clearly defined with comprehensive details provided, such as role, responsibilities, and workplace, with an overview of expectations and career path supplied to discourage a culture of intervention and the unfair treatment of personnel. Moreover, clear career development plans should be put in place at all public institutions to outline future prospects and opportunities for promotion.

Planning, clear job descriptions when filling positions, and performance evaluations are the foundations of human resource management in the civil service (OECD, 2005). While there is a long way to go in the creation of coherent position descriptions, the government could start with functional analysis initiated across ministries in the earlier process of functional assignment in the design and development (D&D) framework.

A detailed array of tasks to be handled individually is to be grouped with a certain level of functions and responsibilities within the scope of the role assigned. Concurrently, an evaluation system for promotion is to be streamlined and implemented periodically. The provision on evaluations in the Common Statute for Civil Servants should be strengthened and amended following the introduction of human resource management, the guidelines on performance management system, and the functional assignment on sub-national administration. The evaluation system must be apolitical and impartial to ensure fairness and equality among potential civil servants. Transparency and clear steps in procedure are essential to ensure credibility.

There is a need to create multiple key bases to strengthen the implementation of a code of conduct for civil servants, including decent remuneration, clear, enforceable rules, and strong leadership. An appropriate level of salary and other benefits are crucial to minimize misconduct related to corruption, while clearly outlined rules will standardize performance. Leadership also plays a significant part in strengthening professional and ethical behavior among civil servants, particularly in service delivery.

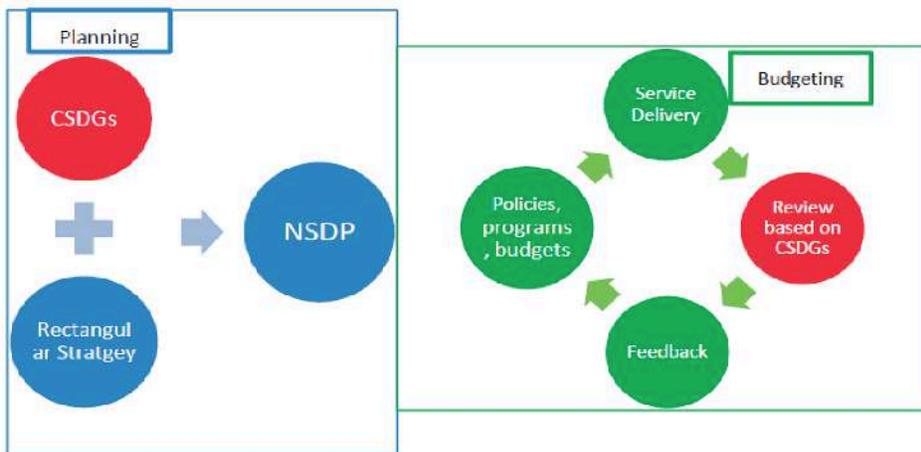
Regarding ICT in 2040, with policy change needed to meet the fast-growing demand for flexible and high-tech services, civil servants must be able to provide services on time with a high level of quality and efficiency. Therefore, there will be the need for a change from an operations-based to a results-based setting, from which multiple methods can be employed toward meeting the desired outcomes.

A shift in service delivery to a results-based model in the future is needed to catch up with the strategic planning and budgeting vision. The Cambodian Sustainable Development Goals (SDGs) 2016-2030 and the Rectangular Strategy will be the major inputs for the National Strategic Development Plan (NSDP), eventually guiding all policies and their implementation. Performance management systems, particularly with program-based budgeting, will be necessitated by the CSDG framework, which covers perceived thresholds.

In the long term, the Cambodian SDGs 2016-2030, set to deliver a number of major services, with specific indicators to be met, are defined by being aligned

to certain policies and will guide delivery processes and expenses (RGC, 2018a). Aligning to this initiative, civil servants will have to play the role of project implementers, whose performance is directed toward achieving results. Consequently, a civil servant's mindset must be transformed from merely fulfilling tasks to achieving them with a high degree of creativity and flexibility, and in a timely manner. The approaches toward service delivery are to be seen strategically, from the planning stage to the end result, and across multiple and broad perspectives.

Figure 3: CSDGs Framework's points of intersection with planning and budgeting



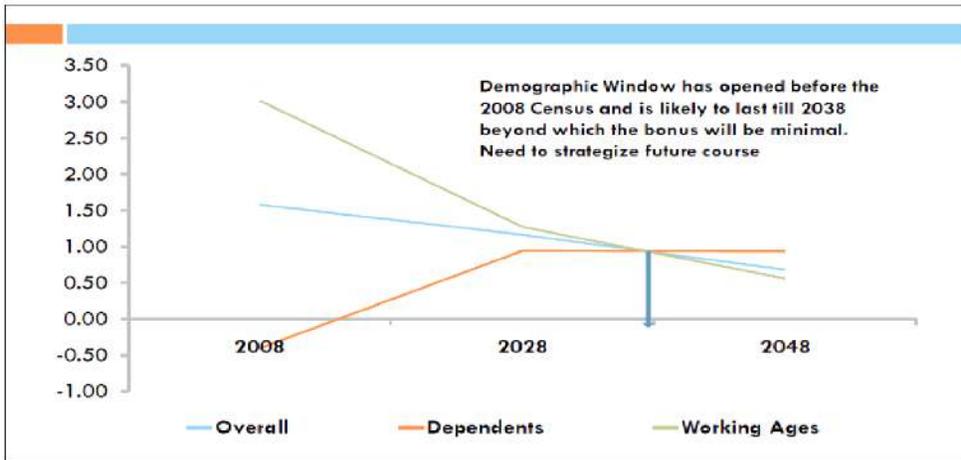
Source: Cambodian Sustainable Development Goals, RGC (2018)

Better service delivery can be promoted through understanding people's demands and their participation in the process. The public voicing their concerns regarding services may encourage greater accountability among service providers; therefore, the direct interaction of people is a factor of enforceability (WB, 2004).

With Cambodia, as the government has frequently highlighted, inclusivity—particularly regarding vulnerable and marginalized groups—in every social, economic, and political activity (RGC, 2018a; RGC, 2019) will be increasingly important as people's calls for improved livelihoods amplify with development. By 2040, a largely youthful population will be demanding high-quality education,

healthcare, services and infrastructure, as well as satisfactory employment opportunities (Ministry of Planning (MoP), 2016).

Figure 4: Analysis of Population Growth Rate 2008-2048



Source: National Population Policy 2016-2030, MoP (2016)

On the economy, Cambodia is expected to strive for a better business environment and more favorable conditions for investment to move from narrow-based growth to a diversified and broad-based economy, driving the Kingdom from lower-middle to upper-middle-income status by 2050 (RGC, 2019). International and regional economic connections, such as the Belt and Road Initiative (BRI), Regional Comprehensive Economic Partnership (RCEP), ASEAN Free Trade Area (AFTA), and ASEAN Economic Community (AEC), also add external pressure that the government will have to respond to appropriately to reap the benefits and to be able to challenge in an increasingly competitive world.

With technology set to bring tremendous advantages, there will also be negative effects in terms of cybersecurity, legal requirements, and personal concerns (Stern et al, 2018). Systematic legal instruments will be necessitated by the fact that this will usher in new ways of operating, including in working, communicating, and doing business, thus demanding procedural management and conflict resolution. The government will likely remain an important actor and facilitator in the digital age (Schwab, 2016; Stern et al, 2018). However, it is

foreseeable that the rate of digitalization in public services will be slower and of less quality than in the private sector, simply because the pace of technological advancements will be too fast for the former to follow (Stern et al, 2018).

This is also the case for Cambodian civil service modernization and service quality improvement, which will have to be improved in the coming digital era (CAR, 2018a). Digital infrastructures and platforms, therefore, should be systematically introduced in public institutions and sustainably operationalized, updated, and maintained. Collective data storage will be beneficial for real-time personnel management, promotion, human resource planning, and development. Aside from building infrastructure, the Cambodian civil service needs strengthened expertise in handling consolidated data systems, with data entry and system management for civil service updates in the future requiring considerable knowledge and commitment to reduce costs, save time, and increase accuracy.

Cybersecurity is an even more pressing regulatory issue for Cambodia, which is still new to digitalization (Fresh News, 2019). Increased accessibility to cutting edge information technology should not be compromised by a risk of cybersecurity issues. In this regard, the government's cybercrime unit will play a significant role in installing, training, safeguarding, and maintaining security measures.

With the internet's prevalence and coverage bridging service providers and users (Schwab, 2016), promoting services through ICT and online applications is one method to improve service delivery in Cambodia (WB, 2017). Government-to-citizen interfaces through the use of applications for a number of service deliveries, ranging from urban services to business support, is gaining popularity, particularly in urban areas where there is extensive internet coverage and infrastructure.

Telecommunication Regulator Cambodia data (TRC) (2019) shows that internet subscription has increased dramatically since 2014, from around half a million to some 13 million in early 2019, with the number of mobile phone users three million higher than the population. Information dissemination and feedback will be broadened, and applying for services online will be routine.

To achieve a better online government-citizen interface by 2040, civil servants will have at least basic internet proficiency, with functional infrastructure in place and people aware of the services available. Civil servants both at the national and sub-national levels must be knowledgeable of service delivery strategies and IT platforms, as well be familiar with apps.

Civil servant remuneration has increased recently, particularly in the two prioritized areas of health and education, thanks to public administration and public financial management reform programs set against a background of strong annual economic growth of around seven percent (RGC, 2018b). While the government has been committed to increasing pay twice per year, with the minimum remuneration in the lowest category rising to slightly more than one million Riel in 2018, compared to increases in the price of everyday commodities, it remains low. The cost of living will keep rising in Cambodia as it steps up to upper-middle-income status by 2030 and reaches the high-income bracket by 2050.

To promote salary reforms, it is expected that as revenue collection strategies to ensure fiscal sustainability are strengthened following public financial management reforms, a number of key principles should be upheld, including salary coverage for all civil servants, concentration on basic pay, and equity for basic pay and additional allowances (WB, 2013).

However, incentivization is not only about money, and therefore increased remuneration is not the only factor in motivating civil servants to work optimally (OECD, 2005; Korm, 2011). Other incentive components that should be taken into consideration are a good working environment, recognition, opportunities for development and promotion, mutual respect, friendliness, and being free of harassment. Self-development and promotion should also be planned fairly and be merit-based. Opportunities for training and development without compromising benefits to inspire better performance will be greatly needed with more young people entering the civil service in the future.

Performance assessment in the Cambodian civil service is still in its infancy. There are currently neither key performance indicators (KPIs) nor position descriptions for individual civil service assessment, with only institutional

performance assessments on service delivery being tested in education and health (CAR, 2016; CAR, 2018b).

To create performance assessments for the civil service, in parallel with creating position descriptions, the Ministry of Civil Service should formulate key performance indicators for individuals. This could start with a top-down approach so certain roles and responsibilities can be easily defined.

IV. Future Civil Service Under the Baseline Scenario: Business as Usual in 2040

In the current government mandate, the inclusive strengthening of institutional capacity has been prioritized, particularly in leadership, functional rationalization, and the promotion of merit-based recruitment, as well as in further laying down the legal background for public sector management (RGC, 2018b). At sub-national administrations, the National Program for Sub-National Democratic Development (NP-SNDD 2010-2019) also set the third key area in establishing a functional human resource management system for the long term (RGC, 2010).

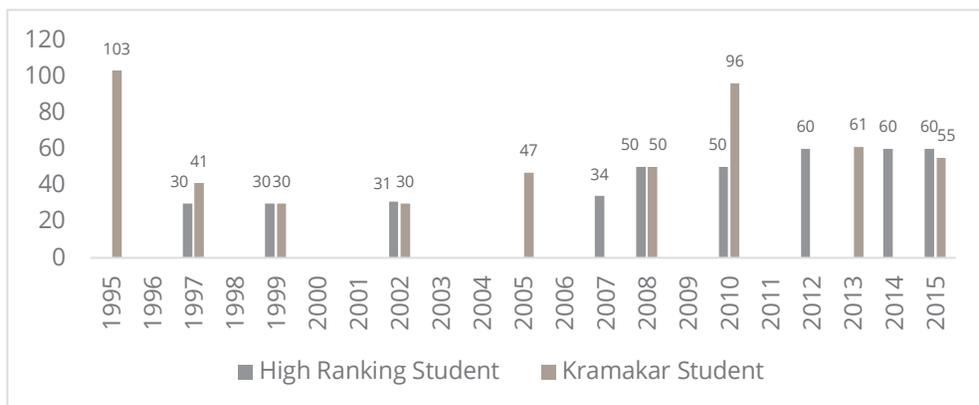
While the Royal Government of Cambodia (RGC) has highlighted the civil service as part of the public administration reforms program adopted for many years, there remain significant challenges, one of which is the civil service governance system itself. Organizational management relating to role and position, redundancy, recruitment, and incentives for civil servants are typically seen as problems, as are a system of accountability, professional competency, gaps between policy and implementation, and law enforcement (CAR, 2016; RGC, 2018b). Job description has been identified as one civil service reform target, but it is yet to be systematically carried out (RGC, 2015; CAR, 2018a). Research carried out by CAR (2016) shows that most public institutions do not have position descriptions for their personnel. This does not include the Ministry of Education, Youth and Sport, and the Ministry of Health, which have started undertaking this in individual, asymmetric ways.

The performance management effort is another crucial issue, but setbacks will continue in the Cambodian civil service in the future unless there are systematic

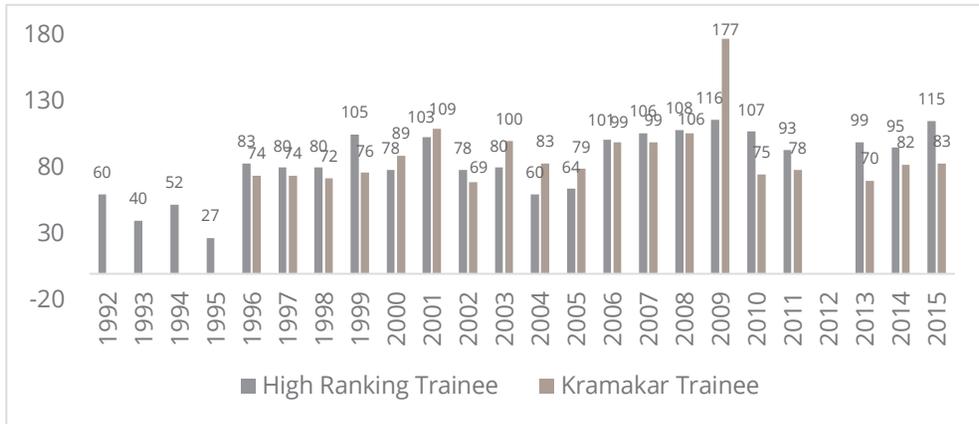
solutions to all related problems (CAR, 2016). There are at least two implications. First, little progress is being made at most public institutions due to other interrelated factors; for example, performance management systems rely on a number of components, such as annual work plans, entity work plans, job descriptions, and satisfactory working conditions and incentives, which still suffer gaps in actual implementation. Second, the attempts at performance management at some institutions have been inconsistent and driven by incentive. With performance assessments conducted as part of projects on partnership and voluntary implementation, assessment tools and incentive systems that increase motivation have been designed by some ministries whose function is revenue collection.

The government has emphasized strategies and policies on human resource development both at the national and sub-national levels, including organizing the roles and responsibilities of civil servants, managing their skills and expertise, and building capacity. Chheang (2019) recommended that the investment in public sector human resources needed to meet the Fourth Industrial Revolution should include developing the necessary knowledge and skills in innovation for systematic thinking, project design and execution. However, institutional capacity and human resources are not fully responsive to the implementation of government policy, while capacity building is still limited (RGC, 2019).

Figure 5: Statistics of Official Student Receiving Initial Training



Source: Statistics of Trainees at RSA, 2018

Figure 6: Statistics of Trainee Receiving Further Training

Source: Statistics of Trainees at RSA, 2018

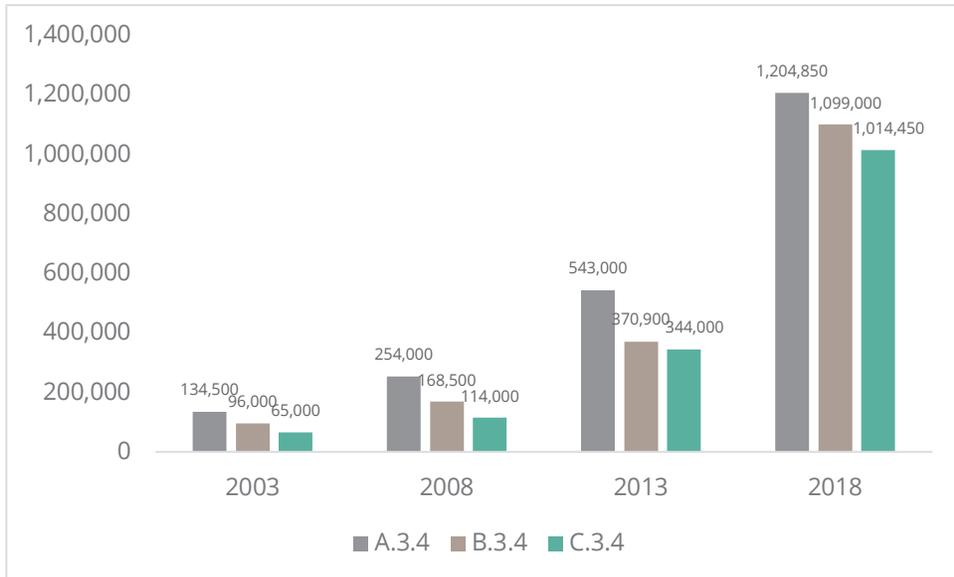
Promoting service delivery through increased accessibility, improved quality, and greater effectiveness is one of the prioritized targets of the government (RGC, 2015; RGC, 2018b). Some progress in administrative reforms has contributed to transparency, including implementing service standards and principles, publicly announced service fees and the One Window Service Mechanism (OWSM). Processing work through automated systems, such as payment through banking systems for certain urban services, and online business applications and registration, has not only reduced time and costs for service delivery, but also played a central role in strengthening transparency between service providers and users. Additionally, public participation to ensure the fulfillment of due process by civil servants is more seriously taken into consideration when it is publicly shared through mass media, particularly Facebook. However, limited ICT knowledge in both service providers and users, especially for service delivery in rural areas, may hamper the interface needed between the two to ensure a smooth connection (RGC, 2018b).

Offering equitable and decent remuneration is one of Cambodia's most progressive recent reforms. With strong economic growth, the government can credibly secure higher salaries in its commitment to close the gap with the private sector. In 2018, the lowest remuneration in all categories rose by more than five times compared to 10 years prior, with increases annually as promised

by the government (MCS, 2018). The introduction of a banking system has also contributed significantly to on-time payment twice a month.

However, improving the payment system to provide performance-based allowances is a challenge to be overcome. Coupled with efforts toward performance management, the current structure should be modified to include an incentives system, which will be added to basic remuneration. The present situation of different practices in public institutions, particularly those that can generate additional income for personnel from their revenue collection functions, could make pay inconsistent and discourage performance in other institutions.

Figure 7: Minimum Salary in Administrative Area (Riel)



Source: Key Achievements of Win-Win Policy 2008-2018, MSC 2018

With the advent of the Fourth Industrial Revolution, the recent adoption of applications for the delivery of a number of urban services encourages a vibrant future for civil service digitalization. Data management and updated payrolls, for example, have benefited from automation and the exchange of data between the Ministry of Civil Service and the Ministry of Economy and Finance (CAR, 2018a). However, a lack of basic infrastructure, particularly in rural areas, is one of the most pressing problems needing to be resolved in the long term, with the

investment of time and money needed (Heng, 2019; Khmer Times, 2019; May, 2019). There also remains a lack of widespread awareness of using the internet for service delivery among both civil servants and the public.

Creating a performance management system is another government commitment following building the basis for administrative reforms. While a number of guidelines regarding the system and the dissemination of functions have been set up for public institutions under the purview of the Ministry of Civil Service (CAR, 2018b; RGC, 2018b; RGC, 2019), a system for service monitoring and evaluation is not yet operational (RGC, 2015). First, as implementation is encouraged on a voluntary basis, and with the assessment cycle requiring real incentivization, institutions with related revenue-collection functions may be better placed to implement an incentives system, with others remaining hesitant. Second, system design is inconsistent, and mostly based on available projects with development partners and their resources.

Conclusion

A fast-changing world demands dedicated action geared toward the vision of a Cambodian public administration capable of fulfilling people's needs through effective service delivery. This necessitates a digitalized civil service, utilizing improved human resource management to attract, train, and retain capable civil servants, who enjoy a favorable working environment, systematic performance assessments, and deserved rewards.

Cambodia will consequently need a pragmatic approach to promoting functional governance in a civil service upholding the principles of transparency and accountability, one utilizing human resource management with clearly defined policies, career roadmaps for civil servants employed in specific tasks, and tools for assessment and reward. While achieving this, keeping pace with technological advancements and developments in ICT will be crucial as the world enters the era of the Fourth Industrial Revolution.

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