

Economic Reform of Cambodia and Korea's Experience

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With the end of a long conflict and ensuing peace, restoration of political stability has been the most difficult challenge in the building of a modern democratic society in Cambodia. However, the country's democratic institutions were only established in the previous decade, and governing institutions are still in their infancy and unstable. Addressing this issue is the foundation of the construction of Cambodia's future. It will, most likely dominate all other aspects of Cambodia's development issues. Despite many constraints, the agricultural sector has considerable potential to raise domestic production sufficiently to mitigate shortages, as well as increase exports. Moreover, beyond agricultural and natural resources, Cambodia also has promising prospects for future private growth in the service and manufacturing sectors, as shown by the proliferation of micro-enterprises, small and medium enterprises (SME), and multinational corporations.

Cambodia's ability to utilize its sources for growth in a sustainable manner and reduce poverty is contingent not only on investment in physical and human capital, but also on the government's ability to pursue challenging

macroeconomic, structural, and government reforms. For these reasons, guiding Cambodia in the correct direction is crucial. In this context, it will be useful to introduce the relevant lessons from Korea's economic development experience to Cambodia as an appropriate paragon for the nation's future economic development. Therefore, it is necessary to provide an overview of the political, social and economic situations of Cambodia, as well as to apply Korea's economic development experiences to Cambodia in various aspects of its society. This study is small in scale, but significant in its efforts to apply the relevant development experiences and resolve economic issues, as well as increase the welfare of Cambodia's citizens.

I . Political Regime

The 1993 Constitution sought the creation of a democratic society in the form of a constitutional monarchy, headed by King Sihanouk, reigning as a symbol of unity for Cambodia, but not governing the nation. Governing was shared by the two largest political parties-Cambodia's People's Party (CPP) and the National United Front for an Independent, Neutral, Peaceful and Co-operative

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Cambodia (FUNCINPEC). The country had two prime ministers serving at the same time; Prince Norodom Rannaridh of FUNCINPEC and Hun Sen of the CPP. Cambodia's drive toward a market economy has been progressing since 1993. The economy grew approximately six percent annually between 1993 and 1997, primarily due to the developing service and industry sectors. At that time, the inflow of foreign private investment and aid accelerated. Continued fighting between the Khmer Rouge and the Royal Cambodian Armed Forces (RCAF) persisted in some regions, primarily in the country's north-west section.

However, when serious political tension emerged within the coalition government of CPP and FUNCINPEC in 1997, it led to an armed conflict within Phnom Penh in July of 1997. This was an example of how the lack of stable institutions and a democratic tradition, along with the reliance on force to resolve political disputes still dominated the thinking of leaders that emerged during the turmoil of the 1970s and 1980s. The first Prime Minister fled the country just before the fighting broke out. A large number of foreign funded projects came to a halt and foreign private investors left Cambodia, feeling the country was too unstable. Consequently, Cambodia's economy recorded near zero growth rates in 1997 and 1998.

A negotiated agreement between the rival political powers to hold Cambodia's second national elections was reached in 1997. Over 40 parties participated in these elections in July 1998. The CPP, FUNCINPEC and the Sam

Rainsy Party (SRP) were able to elect their candidates to the National Assembly. Meanwhile, the death of the KR's top leader, Pol Pot, in early 1998, and defections to the government side by sizable portions of its forces signaled the end of three decades of civil war. The elections resulted in another coalition government between the CPP and FUNCINPEC that was formed in November 1998. This time it was dominated by the CPP and headed by Hun Sen, as the sole Prime Minister.¹

The last significant figure in the leadership of the Khmer Rouge, Ta Mok, who is still in prison today, was captured by the authorities in March 1999. This symbolized the end of an era of brutality, horror, and tragedy that began in March 1970, when an armed conflict broke out between the regime, led by General Lon Nol, and the Khmer Rouge. Since then, a new promise of peace and stability has been accompanied by hope for a better future.

Further progress in the march towards of democracy that began in 1991 with the Paris Peace Accords and the 1993 general elections has culminated by the creation of the new government, with the SRP, headed by Sam Rainsy, who served in the 1993 coalition government as FUNCINPEC's minister of finance, serving as the opposition at the National Assembly. This new government, especially after favorable reports by international election monitors, has restored some of Cambodia's standing in the world, regained the country's United Nations (UN) General Assembly seat, and has recently been

1 Cambodia - Enhancing Governance for Sustainable Development, ADB, April 2000, pp. 9-11.

admitted into the Association of Southeast Asian Nations (ASEAN). The support of the international aid community, in the form of over \$450 million in assistance pledges during the February 1999. Tokyo meeting of the Consultative Group (CG), was in direct response to the policy of structural reforms adopted by the Government to accelerate market-oriented economic development. The Japanese Prime Minister, Keizo Obuchi visited Cambodia the following year to strengthen bilateral cooperation. Since then, many important world and regional leaders, including the Chinese premier, the president of Vietnam and, most recently, the prime minister of India, have visited the kingdom. They have held talks with PM Hun Sen and other top government officials. Economic cooperation and development assistance were high on the agenda during each of these visits.²

II. Social Backgrounds

Poverty

A long lasting consequence of prolonged conflict, which has been hampering development efforts, is that access to social services, educational facilities and opportunities to participate in global economic trends and processes has been severely limited. Extensive areas, until recently, were inaccessible due to security reasons. The government has not invested adequately in health and education services or infrastructure construction because budgets for these costly projects were unavailable while security considerations

dominated planning. Naturally, this hampered overall growth and development. Poverty and its effects, consequently, are felt in Cambodia, particularly in rural areas.

In 1999, the GDP per capita was \$290. Poverty has been steadily and slowly declining since 1993-1994, when it was 39%, particularly in urban areas. The most recent poverty assessment estimates that 36% of the population still lives below the poverty line. In the period between 1993 and 1996, imbalances in growth appeared, favoring the urban areas; with rural areas falling further behind.

This is confirmed by poverty statistics that reveal the poverty rate in rural areas to be 40%, which is four times the Phnom Penh rate. Rural households account for almost 90% of those in poverty. Only 25% of poor citizens hold jobs. A poverty rate as high as 44% is estimated to exist in rural areas where seasonal agricultural work is the only type of employment available. Poverty is lower in households where the provider is employed in sectors such as education, health and telecommunication, or is a government official. The poverty rate in these cases is estimated at 18%. Interestingly, poverty rates are lower in households headed by women (33%) than those headed by men (37%). The disadvantages are both social and economical.

Poverty rates are influenced tremendously by the level of education attainment of the head of the household. This rate is currently estimated at 42%, where the head of the household has no formal education. These two groups (rural and uneducated) account for over

² Cambodia - Enabling a Socioeconomic Renaissance, ADB, July 2000, pp. 1.

80% of the total number of people living below the poverty line. The Gini coefficient was 0.38 in 1993-1994 and 0.42 in 1997, when it was higher in Phnom Penh (0.46) than in rural areas (0.33).

Given its recent violent history, Cambodia has a number of groups that have been disadvantaged as a consequence of what took place in the 1970s and 1980s. These include the internally-displaced individuals and returned refugees, war widows, orphans, child combatants, and disabled veterans. One in every 250 people suffers from a disability, and one in every 384 is an amputee (this is the highest ratio in the world). Members of these groups tend to reside in the slums and squatter camps of Phnom Penh. The number of residents in these areas increased from 80,000 in 1990 to 200,000 in 1997. They are exposed to health risks caused by overcrowding and poor living conditions. Budgets targeted at creating a social safety net, which are controlled by the relevant authority; the Ministry of Social Affairs, Vocational Training, and Youth Rehabilitation (MOSLAV) are limited. Among its responsibilities are disadvantaged groups. Another authority with responsibilities in the social security arena is The Ministry for Women and Veterans Affairs, which is responsible for the welfare of approximately 8,000 widows of veterans. Therefore, most assistance programs for people with disabilities are taken care of by the NGOs. An inadequate number of members of the most disadvantaged groups have actual access to assistance, which is informally distributed and poorly coordinated. Another consequence of this

situation, is that there are at least 600,000 minors, some as young as six, according to an ILO study, that are illegally economically active.³

Governance

Low governing standards, abuse of power and a general atmosphere of lawlessness and impunity deny the average Cambodian basic human rights, equality, economic opportunities and confidence that "doing the right thing" helps in the long run. It is a problem that overshadows attempts of serious reconstruction and development. According to all parties (official and unofficial), this is, perhaps, the one most difficult issue that must be resolved before fundamental economic development in Cambodia can seriously be undertaken with any real prospects for success. The turmoil that the long period of conflict left is manifested in many different ways, one of which is the existence of "mafia-type" organizations that have little respect for law. They are powerful and dominate numerous areas in the informal economy of Cambodia. Their influence on the political and justice systems is extremely corrupt. The justice system itself is not independent; as a result it is easily manipulated by powerful elements in the political and economic sectors. Consequently, it does not have the faith of the people, who do not trust it to impartially dispense justice. There is a feeling that not everyone is equal before the law, which is constantly being reaffirmed by events involving influential people and members of their families or staff. The justice system is

3 Cambodia - Country Assistance Strategy, The World Bank, February 2000, pp. 4-5.

often considered merely another service available to the highest bidder. Other areas exist in which these same powerful groups enjoy "perks" unavailable to the majority of the population, such as access to services and business opportunities. Public servants' incomes are low, as is their productivity, due to the lack of skills, training, motivation and competent leadership. Public administration is, therefore, inefficient. Taxes are not efficiently collected due to corruption, which exists in every level of the civil service. Major portions of national resources, such as forest products, are squandered.

The Supreme Council of State Reform, a government body whose task is to oversee and supervise the reforms of the armed forces, public administration, economic and financial policies, as well as the law and justice system, was created by the present government in 1998. Among their accomplishments are reductions in the civil service payroll by deleting "ghost workers," and drawing blueprints for ambitious plans to computerize it. Plans for downsizing and a review of ministries and their operations in order to raise their level of efficiency were also drawn. Contingency plans for the establishment of a team of elite civil service personnel, whose task is to handle essential projects, are also in the pipeline.

Reforms are also targeting important issues, such as discovering more efficient methods of spending public funds, a cost effective way to pay for social reforms and increasing domestic resource mobilization. The government has

successfully launched a VAT and abolished some exemptions from custom tariffs and taxes. Illegal logging, which was an extremely controversial issue, is now significantly reduced. Rampant throughout the country, however, are violent crimes, such as armed robbery, kidnapping and homicide. A plan has been prepared by the Ministry of Law and Justice to allow the judiciary to become more independent, thus strengthening it and making it more capable to perform its duties. However, it is important to remember that in some cases, the same people employed to carry out reforms are the ones with vested interests in keeping these reforms from becoming effective. Therefore, expectations must not be unrealistically high until an efficient way to link assistance provision with actual progress can be implemented.⁴

Human Capital

Yet another issue Cambodia's government has failed to deal with effectively is the nation's human capital. The education system was decimated in the 1970s, and rebuilding efforts have been inadequate. Reforms are not taking place due to a lack of sufficient resources and the absence of dedicated and motivated public servants who possess the skills and qualifications to successfully plan and implement the necessary reforms. Public expenditure for education in 1999 was 1.3% of the GDP, a figure far below international standards. As a result, the cost of education must be paid by donors, NGOs (46%) and households (27%). The result of these conditions is the lack of basic skills

4 Cambodia - Enabling a Socioeconomic Renaissance, ADB, July 2000, pp. 9-10.

throughout the country, which causes low productivity. As much as a quarter of the entire labor force has no formal education. Particularly noticed is the absence of sufficient technical and administrative personnel in both the public and private sectors. As in other areas, girls do not receive a fair share of the available educational resources, and their proportional numbers decrease with regard to attending secondary and higher educational institutions. There is an ever present danger that this situation will perpetuate itself, thus increasing the gap between men and women.

Some achievements exist regarding the construction of facilities and raising enrollment. However, the beginning was total chaos and destruction. Although conditions have improved, they are still inadequate when compared to other countries in the region. One of the most urgent problems is the lack of qualified teaching staff, particularly for the sciences. Public school teachers in Cambodia have little education, earn sub-subsistence wages, are seldom paid on time and have no access to professional training. Serious issues concerning the infrastructure must be resolved as well, particularly in rural areas, where the existing facilities are inaccessible during the rainy season, and are not suitable to hold a large number of young people for long periods of time. This is due to lack of restrooms, running water and the unavailability of safely prepared and stored nourishment. Enrollment remains low as a result of classroom overcrowding (80 students per class is common) and the lack of sufficient school materials. Poor families, in

many cases, are unable to send their children to school because of the costs involved. These include transportation, materials, and, in particular, unofficial cash payments. Students and their families are exposed to graft and corruption. From an early age, the message students receive is that the way to advance, receive honors and obtain certification is not by working hard, nor by merit. Money must be paid to obtain these—directly to the teacher. In turn, the teacher decides on these issues, regardless of academic achievement. These practices do not prepare Cambodia's youth to life in an open society. Failing to train the next generation of leaders could prohibit the acceleration of the development process, as well as the entrenchment of the values necessary to participate successfully in the modern economies.

Improving Cambodia's educational system must be promptly placed at the top of the nation's priority list in order to make possible reforms in various other areas. In the long run, no serious sustainable reforms in any of the economical and social sectors would take place unless accompanied by substantial improvements in the quality of education and the number of graduates who are tooled to engage in productive lives, and understand the necessity of changing the attitudes currently dominating the civil service, as well as much of the business community. Better education is a pre-condition to a society equipped to make its own decisions on how to best survive, develop, become independent and position itself in a constantly more intertwined global community.⁵

5 Cambodia - Country Assistance Strategy, The World Bank, February 2000, pp. 7-8.

Transport and Communications

Yet another fundamental problem Cambodia is facing is the poor condition, inadequacy and the total lack of physical infrastructure. The existing infrastructure is in a state of disrepair at best, and derelict at worst. This condition is the result of insufficient and at times, non-existing budget allocations to maintain, expand and improve existing facilities. The state of the national infrastructure causes delays, unnecessary hardships, and inflates the cost of services and products.

The state in which the national infrastructure exists has been studied and analyzed several times; therefore, what is required is known to the government and to all other interested parties-international agencies, NGOs and others. Construction and reconstruction projects, as well as maintenance and administration of completed projects, are beyond the government's capacity and resources. Plans to undertake issues such as energy, roads, transportation, water supply and sanitation are being drawn. Several strategies are being considered, which include cooperation with the private sector. Among the details yet to be completed are regulatory control procedures and financing terms. A more imaginative method of launching an infrastructure rebuilding effort would be to initiate bond issues by the Royal Government of Cambodia, promising handsome returns. These returns would be guaranteed by the international donors, a much more politically popular route than spending actual tax payers' money in the

form of cash aid. This guarantee would attract investors, such as multinational conglomerates that possess the capital and skills required. The first (should be "normal" —unable to do so — same for second and third) wave of projects would be managed by those investors, with Cambodian mid and low-level management staff gaining valuable experience for the second and third waves of projects (provincial and local), and all necessary on-going maintenance. If correctly executed, on completion, the Royal Government of Cambodia could begin harvesting the benefits of improved infrastructure as a direct result of the construction projects and the proliferation in business activities, utilizing the opportunities created by the improvement in infrastructure. These higher revenues would, in turn, be used to pay the original investors.⁶

III. Economic Conditions

Cambodia's estimated annual GNP per capita in 2000 was approximately U.S. \$300.00, ranking it among the poorest in the region. Subsistence agriculture dominates the economy, and industry is small and unsophisticated. The move toward a market-oriented economy, with the accompanying reform process, began in 1985. It was launched by allowing private enterprises to operate in certain sectors, discontinuing price control policies and encouraging joint-ventures. Further reforms were implemented in 1989, when the privatization of state enterprises began. In addition, further measures to encourage and

6 Cambodia - Country Assistance Strategy. The World Bank, February 2000, pp. 8-9.

attract foreign investment and trade were implemented, and additional state-controlled businesses were allowed to operate more freely, with out being tightly controlled by the central government.

Among the advantages brought about by these reforms are acceleration in growth, an increase in the volume of trade, entrance of new capital and its benefits into the economy and a higher degree of macroeconomic stability. Attempts were also made to improve the infrastructure of the economy, particularly in the context of its implications concerning social issues. These reforms have been designed to seek improvement of the balance of payments to a sustainable level by means of better revenue mobilization, reductions in the number of tax exemptions issued and a more efficient administration of the revenue collection and enforcement agencies. These measures had a positive effect on the confidence of the overall system by introducing more acceptable levels of accountability and transparency to economic management.⁷

Economic Structure

The dominant sector, producing around 43% of constant-price GDP, is agriculture. Rice production and livestock are the largest contributors, responsible for approximately 65% of the total agricultural production in Cambodia, and over a quarter of the nation's entire GDP. Other notable contributors to agricultural production are forestry and fishery, which account for an additional 5% of the nation's

GDP.

Major non-agricultural contributors to the GDP are industry, which includes manufacturing, utilities, mining, quarrying, construction, and service. The industrial sector grew between 1991 and 1998, (it produced 15% of the GDP), when its share rose to 20%. Most of the sector's growth was attributed to manufacturing, which in 1998 produced 9% of the GDP. Meanwhile, the service sector contributed 37% to the GDP in 1998, with retail and wholesale accounting for 15% to the GDP.

Private consumption in 1999 accounted for 86.4% of the total the success of agricultural enterprises that are heavily influenced by factors beyond the control expenditure of the GDP. In urban areas, private consumption figures generally reflect the level of business confidence. This is particularly apparent in Phnom Penh, where the influence of foreign business is more pronounced, as well as in the port city of Sihanoukville, the entry point of imported goods into the country and the exit point for the nation's exports. Siem Reap, with its world famous "ÁNGKOR VAT" temple complex, is a special case due to the predominance of the tourism industry.

Governmental expenses accounted for only 6.3% of GDP expenditures, thus revealing its weak financial situation. Gross fixed investments have been unstable because they accounted for only 10% in the beginning of the previous decade (in 1999, it increased to 15.8% of GDP). Increased private investment, which hovers around 70% of total investment, can be

⁷ Country Presentation for Cambodia - UN, May 2001, pp. 1.

credited with the export of goods and services, which recently have also increased and gained in importance.⁸

Economic Policy

The challenges involved in governing Cambodia are more complex than the ones involved with the administration of many other countries. This unfortunate situation is a direct result of the country's violent and tragic recent history. This was a history that observed the complete destruction of age-old traditions and social order, the disappearance of a sane economic structure and the physical decimation of professional and managerial classes. KR's reign of terror in the latter half of the 1970s was followed by the inefficient Soviet-style central planning of the 1980s. Many problems with which the current government struggles, such as an underdeveloped economy, an inadequate infrastructure, one of the highest poverty ratios in the world and chronic institutional and administrative inadequacy, have all been left to fester unattended far too long.

In 1985, the Khmer People's Revolutionary Party's Fifth Congress was seen as the historical time frame that moved in the direction of market-oriented economical reforms. Among the measures adopted were openness to foreign direct investment and incentives to encourage trade and allow private sector involvement. Legislation concerning foreign investment was first enacted in 1989, with revisions being introduced in 1994.

The August 1994 version of legislation encouraged investment in export-oriented projects, agro-industry, infrastructure, tourism, energy and mining. There were, however, restrictions on foreign investment in some service sectors, such as accountancy, law, transport, construction and foreign trade.

There have been on-going efforts to improve finances in the public sector and execute monetary policies in a more effective way. However, the government exercises little control over revenue while relying on donations from the international community for nearly 70% of its expenditure. A relic from the era of Soviet-style central planning is the government's reliance on tax receipts from state utilities. Another source of tax revenue is duties collection by the custom service, although the process is extremely inefficient. The most recent revenue-generating measure to be introduced was a value-added tax, which supplemented the tax revenue since 1999.

Since the overwhelming majority of business transactions in Cambodia (private and commercial) are carried out in cash, and to a large extent with the use of the USD, Cambodia's central bank is, to a large degree, unable to use the usual monetary tools to efficiently guide the economy in the desired direction. Attempts to mitigate this condition are being made. Among their achievements are the liberalization process of the domestic interest rates, which has been completed, and gradual reforms of the banking sector.

Some commitments that were undertaken

⁸ Country Profile 2001 - Cambodia, EIU, pp. 17.

by the government reflect an understanding regarding the importance of sustainability of the economical development process within the participation of the international community. This understanding has been the driving force behind initiatives concerning reform policies and practices regarding specific key national resources, acceleration of privatization of state controlled enterprises and the restructuring of some branches of the government; in particular, military and civil services. Another key project is the privatization of the Bank for Foreign Trade, a project in which the IMF is involved.

Foreign trade is more open, which has been manifested by an on-going process of liberalizing import barriers and the complete removal of several non-tariff ones. This process has been especially pronounced since Cambodia's entry to the Association of South-East Asian Nations (ASEAN). Despite these recent efforts, when compared to international standards, Cambodia's tariffs remain high. The government has embarked on a campaign to gain entrance into the World Trade Organization (WTO), an undertaking that involves further liberalization of policies regarding trade and investment, accompanied by a corresponding legislative effort to standardize key areas of the law with the acceptable international practices. These areas consist of copyright, accountancy and other laws governing the conduct of trade and finance.

Among the advantages Cambodia possesses over some of its neighboring countries are the

absence of obstacles by sociologist ideology, and the relative stability of the current administration in Phnom Penh. This allows it to concentrate on the actual mechanics of the development process. The largest obstacle lies within the institutions charged with carrying out reforms, which suffer from lack of qualified technocrats and capable leadership, and are riddled with corruption and incompetence at all levels. These weaknesses have manifested themselves with displays, including waste and inefficient management regarding numerous projects, as well as delays in the completion of others.⁹

IV. Conclusion: Suggestions from Korea's Experience

So far, we've reviewed Cambodia's overall situation and various issues with regards to development of its political system, economy and society as a whole. As a long lasting consequence of prolonged conflict in its political regime, developments in social service, educational facilities, social overhead capital, and economic system have been delayed. The number of residents in the slums and squatter camps increased from 80,000 in 1990 to 200,000 in 1997, public expenditure on education in 1999 was 1.3 percent of GDP, which was far below international standard and in turn will cause low labor productivity. Also the total lack of physical infrastructure, considered as the main barrier to greater economic development, and Cambodia's estimated annual GNP per capita in 2000 of approximately US\$ 300 rankings among

9 Country Profile 2001 - Cambodia, EIU, pp. 18-19.

the poorest in the region, shows the challenges to Cambodia's development.

Although Cambodia possesses many social as well as economical problems, it has promising potentials to rapidly develop as shown by the recent economic and institutional advancements. With the sailing new coalition government between CPP and FUNCINPEC in November 1998, transition to a market-oriented economy is being accelerated. Also international aid — for example, Tokyo meeting of the Consultative Group (CG) — is supporting the policy of structural reforms adopted by the government of Cambodia. In fact, in 2000, stability in macroeconomic conditions and politics was found, which has allowed the government to concentrate on social and economic development processes. Public revenue as a percentage of the GDP in 2000 increased from 11.7% in 1999 to 12%, and public expenditure as a percentage of the GDP in 2000 recorded 17.4% compared to 16.1% in 1999. In addition, realistically, Cambodia is expected to achieve economic growth of about 5-6% in 2001-2002. Therefore, there are mixed feelings of hope and challenge in Cambodia.

In this context, Korea's past experience — as found in Korea's significant development path from its devastated state after the Korean War to its current status - may shed some light on the future of Cambodia. Therefore, we would like to derive some suggestions from Korea's experience in the following section, which can be applied to assist Cambodia in adopting some important, relevant and useful lessons to its development process.

Establishing a Central Economic Planning Body (E.P.B. in Korea's case)

A governmental agency that consists of qualified elite bureaucrats and experts drafted from each of the relevant ministries should be established. This agency's responsibility would be the planning and implementing of economic development policies, and setting public investment priorities. It should also be given the power to set and administer a system of incentives and disincentives that would regulate the private sector's investments in order to bring those in line with the various priorities and policies. Its powers must also include an active role in preparing the government's annual budget, especially the funds directed to social and infrastructure development.

'Riel' ization of the financial and credit markets

Since the government should aim at controlling macroeconomics to ensure its policies are carried out according to its priorities it has set, it must control the financial and credit markets. Therefore, all transactions must be carried out in a medium over which the government has total control; the national currency. Dollar transactions must be banned, and Dollars must be converted to *Riel* before entering the marketplace. That would enable the government to use essential tools such as directing the level of interest rates for savings and loans. The government can then control commercial bank by pushing them to over lend money to companies. This will be financed by allowing the commercial banks to over borrow from the central bank at much lower interest rates. At this stage, the central bank is

controlled by the Ministry of Finance, and is subservient to its policies. The government will also provide loan guarantees, provided that the funds are used in accordance with government policies and priorities.

The support of Small-and Medium-sized Enterprises (SMEs)

To expand credit and support to SMEs, the government can raise the required ratio of SMEs loans out of total bank loans, and specify that non-bank financial institutions should also meet the SMEs lending requirement.

If a firm's investment strategy follows priorities set by the government, it can have access to the bank credit below the market rate of interest (sometimes even below the inflation rate), and in turn, the lending institution can finance its lending by borrowing from the central bank. This will put the government in the driver's seat in directing the economy.

Establishing State-Owned Enterprises

State owned and managed enterprises are important to developing countries suffering from inefficient performance in the financial markets and lacking a skilled labor force and experienced managerial class. The government can develop essential industries and services faster if it owns and directly controls them. Industries and services such as utilities, telecommunications, road construction and maintenance, railways, sea and air port facilities, food processing and distribution are key to speedy development of the economy as a whole. As such, at the 1st stage of development they should be owned and directly managed by the government.

Education and Vocational Training

A country's most important resource at this modern age is the skills of its labor force. No serious economic advancement can be achieved without consistently improving and expanding the scope of these skills. Efforts must include both formal education and on the job and in the workplace vocational training. At the 1st stage of development, emphasis must be put on mass elementary and secondary education aimed at gradually raising the average level of skills the labor force possesses. Legislating for obligatory free public education for all elementary and secondary school pupils will be a step in the right direction. Equally important is promoting and emphasizing vocational and technical training both within the public education system, for high school pupils, and obligating companies to set aside funds to further train employees at government built and run facilities. If a company has more than a certain number of employees, it should then build its own training facilities, and set schedules for employees to attend those facilities during working hours.

Developing Rural Areas and Improving Rural People's Living Standards

A specific plan must be authored regarding the rural areas because the problems existing there and the concerns rural populations have are not always similar to those of urban populations. The government should aim to improve the living standards, incomes and educational attainment and skill levels of the rural people while at the same time developing the infrastructure and economy of rural areas.

New Community Movement is a government-initiated and supported community movement strongly backed by the government agencies at all levels. With government support and assistance, large scale investment projects can be undertaken for the improvement of physical infrastructure and influencing rural people's way of thinking and lifestyle through educational campaigns.

The government will initiate a series of projects aimed at developing a strong dynamic community and promote social and economic development. Regarding social development, the rural populations must be encouraged to adopt the values such as diligence, austerity, thriftiness, and a sense of community in the form of mutual help and cooperation need to be taught to poverty stricken people in rural areas. These values will set the foundations of development and advancement. The Cambodians must acquire self reliance and given the skills and tools to enable them to solve their own problems. These tools include participation in projects aimed to develop sanitary water supply systems, sewage, housing construction and improvements, electricity supply expansion and construction of communication networks, bringing modern information technology in the form of subsidized public access to the Internet.

Regarding economic development, the economic development program should focus on two equally important components; a buildup of the production infrastructure, and an income augmentation program. Projects such as roads construction, irrigation and drainage systems and farm mechanization will lay the foundations to rural economic development. These projects are mostly labor intensive, so they can be

carried out with little outside assistance, and should be undertaken during the agricultural off season when the labor supply is available and the weather conditions are right (December to May in Cambodia). Income augmentation projects can include livestock, cash crops and establishment of small industry and handicraft manufacturing centers. The government can fund these projects by bond issues, overseas borrowing, and by giving private firms investment and tax incentives when investing in government designated priority areas.

The object of government assistance is to enable communities to launch development activities on their own. Government financial and material support is provided for those projects that are beyond the financial capacity of villages.

Government should adopt a different approach for each class of village basic (underdeveloped) village, self-help (developing) village, self-reliant (developed) village), and give greater assistance to higher-level villages. This is intended to create a sense of competition among villages and to stimulate those in the two lower classes to improve their welfare more quickly. Projects that will immediately cause villagers' incomes to rise should be given highest priority. Although environmental improvements directly benefit the villagers and enhance their hopes for the future, such improvement without accompanying income growth may lead to unfulfilled expectations.

Growth of Entrepreneurship

To achieve this, black market and smuggling must be eliminated. This will no doubt take time and will have to be accomplished

gradually. Since the bulk of economic activities are carried out in only a few urban market centers, instead of trying to stop smuggling in remote border areas, the main effort must be made in stopping illegal goods from entering these few centers by blocking the roads into them, and carrying out custom and tax inspections before letting the goods through.

Legislation mandating accounting practices and requiring the use of automatic cash registers for all transactions, stipulating harsh penalties and providing means of enforcement will cut down the black market activities significantly. These enforcement measures can include undercover inspections by inspectors posing as buyers, and inducement for the public to insist on receipts by holding cash lottery draws for envelopes containing receipts. A result of uncompromising enforcement of these measures will be the emergence of honest enterprises that follow the rules and contribute to the overall economic development by providing and creating jobs, and especially by contributing to the budget in the form of taxes.

The road to a developed economy and modern society is long and hard. It is also full of obstacles from which the coward may shy away from. Sacrifices, which require bravery and a

clear vision of the future, have to be made in the short term if the overall long term economic and social goals are to be made possible. However, it is as clear as church bells on a Sunday morning, that delaying departure on this crucial journey is inconceivable. For not addressing these issues today, will only make the process longer and harder in the future. Only the visionless, knowing that the opportunity and means are at his disposal, will place this burden upon the shoulders of future generations. Those projects and measures once taken, will surely improve the lives of the Cambodian, and should be accompanied by information campaigns explaining the reality that makes them unavoidable, their long term benefits and what realistically can be expected.

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Economic Reform of Cambodia and Korea's Experience

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Korea's past experience – as found in Korea's significant development path from its devastated state after the Korean War to its current status – may shed some light on the future of Cambodia. Therefore, we would like to derive some suggestions from Korea's experience in the following section, which can be applied to assist Cambodia in adopting some important, relevant and useful lessons to its

development process. Therefore, Cambodia could be concern establishing a central economic planning body, 'Riel' ization of the financial and credit markets, the support of small-and medium-sized enterprises, establishing state-owned enterprise, education and vocational training, developing rural areas and improving rural people's living standards and growth of entrepreneurship