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The Politics of Economic Development in Cambodia: Making Cakes without Flour?

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The emergence of "authoritarian capitalism"—economic development under authoritarianism—across Asia challenges Western ideas of liberal democracy as the acclaimed pathway to prosperity. Cambodia, which is the focus of this paper, witnessed impressive economic growth and rigorous marketization under the authoritarian rule of former Prime Minister Hun Sen and his Cambodian People's Party (CPP). In this paper we critically assess the effects of Hun Sen's authoritarian capitalism on economic development in Cambodia between 1993 and 2019. In doing so, we use Joe Studwell's study *How Asia Works* (2014), in which the author draws on the historical development trajectories of various East Asian countries to argue that economic development hinges on the implementation of effective government policy in three economic sectors: agriculture, manufacturing, and finance. Using Studwell's framework as a benchmark and drawing on an extensive review of secondary sources, this article examines the impacts of the CPP's development strategy on these three sectors. Ultimately, this article aims to debunk the "strong growth" discourse, arguing that even though the CPP fosters short-term growth, in the long run its patronage-based development agenda merely serves the get-rich-quick purpose of a narrow elite but is not reconcilable with sustainable economic development.

Keywords: Cambodia, economic development, authoritarian capitalism, patronage, political economy, Cambodian People's Party

Introduction

The rise of authoritarian regimes seems to coincide with notable economic growth and prosperity in many Asian countries where the state has advanced and managed economic

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capitalism. In pushing far-reaching deregulatory measures intended to facilitate private sector activities and foreign direct investment (FDI), state actors not only accelerate marketization but also disrupt democratic processes in favor of strong government to legitimize such economic restructuring. This interaction of political authoritarianism and economic capitalism is captured by the concept of authoritarian capitalism (Bloom 2016). In embracing marketization and neoliberal principles whilst harboring authoritarian regimes, the economic rise of Asia challenges Western ideas of liberal democracy as the acclaimed pathway to the prosperity of nations (Einzenberger and Schaffar 2018). Economic development without democracy presents itself as a paradox to advocates of the Washington consensus who insist that democracy and "good governance" are prerequisites for economic development. In Asia many countries seem to develop economically without a functioning democracy, and often despite serious deficiencies in public sector management.

We will zoom in on Cambodia, a Southeast Asian nation that—on the surface—is proof that economic development and political authoritarianism go hand in hand. Having risen from a post-conflict country in disarray in the early 1990s to a successful economy with its eyes firmly fixed on attaining upper middle-income status by 2030 and with pre-pandemic GDP growth consistently around 7 percent since 1994, Cambodia has been celebrated by the World Bank as "a global leader in reducing poverty" (Ly 2016) and was elevated by the Asian Development Bank to the status of "Asia's New Tiger Economy" (ADB 2016). This widely applauded progress occurred under the rule of the Cambodian People's Party (CPP) and its former leader Hun Sen, who rose to power after the ousting of the Khmer Rouge. Widely branded as a neo-patrimonial state (Hughes and Un 2011), Cambodia shares a lack of political reform with its Southeast Asian neighbors. Hun Sen built his rule on a pervasive network of patron-client relationships, the political ramifications of which have been intensely debated by observers of Cambodia (Un 2019). The dismantling of the opposition Cambodia National Rescue Party and the closure of media outlets critical of the government in 2017 are considered the final blows to Cambodia's crumbling democratic institutions (Wright 2017).

Raising the question of the dynamics underlying Cambodia's authoritarian capitalism, this article aims to question the implicit yet persistent assumption that authoritarian patronage-based rule and economic development go hand in hand in the Cambodian context. We turn first to Joe Studwell's study titled *How Asia Works* (2014). Studwell presents a thought-provoking analysis—written for a general audience but based on solid academic knowledge of Asian economies—on the development trajectories of various East Asian countries. In doing so, he argues that ultimately economic development hinges primarily on the implementation of effective government policy in three economic sectors: agriculture, manufacturing, and finance. In contrast to mainstream scholarly work that advocates in-depth, context-specific analyses, his bold three-tiered road map is "good to think with" across regions.

Using Studwell's framework as a heuristic device to guide our investigation into the Cambodian case, this article will debunk the "strong growth" discourse, arguing that even though the CPP fosters short-term growth, in the long run its patronage-based development agenda is not reconcilable with economic development. We ground our analysis in an extensive review of secondary sources—mostly academic, but also from diverse media outlets, NGOs, and international institutions. This review will focus on the 1993–2019 period, from the departure of the United Nations peace-building forces to the outbreak of the Covid-19 pandemic (the economic impact of which requires a separate analysis). As our analysis reveals, Cambodia's much revered economic success is built on a neoliberal path of rigorous marketization that serves the get-rich-quick purpose of a small business-state elite while intensifying disparities in prosperity and amplifying urban-rural inequalities (Brickell and Springer 2017). Authoritarian capitalism in Cambodia is growth without development, boasting distinct extractive or parasitic practices, while widely applied growth indicators such as GDP are nothing but smoke and mirrors hiding some inconvenient truths. We will argue that—as a popular Khmer saying goes—the CPP and their cronies are "making cakes without flour," which implies the "act of obtaining something without effort, often through the exploitation of others" (Milne 2015, 201). Although in the short run, government-business covenants may line the pockets of a small elite through the exploitation of the population and the environment, similar to the practical impossibility of producing cakes without flour, long-run sustainable development in Cambodia cannot be achieved without disciplined and autonomous development policies. Coinciding with the resignation of Hun Sen and the transfer of both the CPP leadership and the office of prime minister to his son Hun Manet in 2023, this paper is also a retrospective of Hun Sen's legacy in light of long-running discourses of economic development.

The structure of this paper is as follows. The next two sections outline the theoretical and analytical concepts underlying this study. Then, the dynamics of Cambodia's patronage system are contextualized against the backdrop of Cambodia's post-conflict development, after which the CPP's development agenda and its effects on agriculture, manufacturing, and finance are elaborated and analyzed in light of Studwell's prescriptions. The epilogue briefly reflects on the consequences of the pandemic crisis as a possible game changer and its implications for Cambodia's political economy post-Hun Sen.

Authoritarian Capitalism and the New Politics of Development

Guiding this paper theoretically is the concept of authoritarian capitalism. Literature on the rise of political authoritarianism all over the world argues that the "authoritarian turn" seems to coincide with the process of economic liberalization spawning hyper-marketization—implying a notable contradiction (Bloom 2016). Commonly defined as "the process by which a national economy becomes more market oriented, profit driven and placed within private hands," the concept of economic liberalization is typically associated with "the right of private property, wage labor, reduced state intervention into the economy and the relatively unregulated buying and selling of goods on the market" (Bloom 2016, 8). The transition leading up to such a system is known as marketization. As modernization theory postulates, economic liberalization is a pre-condition for democratization; and, combined, the two provide an effective counterforce to authoritarianism. The theory projects a pivotal role for the emerging middle classes, who—owing their prosperity to the market economy—would challenge authoritarian rule and act as catalysts for liberal democracy (Gilman 2018).

However, evidence implies that the complementary relationship between economic liberalization and democratization is up for revision. Examples show that more and more national governments—in their pursuit of marketization—resort to measures that undermine the welfare and prosperity of the general population for the purpose of consolidating the wealth and power of the political and corporate elite. Pushing sweeping deregulatory measures to facilitate private sector activities and FDI, such regimes seek to disrupt democratic processes in favor of strong government, giving rise to political authoritarianism (Bloom 2016).

Regimes based on authoritarian principles stay in power by employing a range of formal and informal exploitative practices, among them patron-client relationships. Such relationships are commonly embedded in a spoils system where favors are exchanged as a reward for the support and loyalty of followers (partisanship), friends (cronyism), and relatives (nepotism). This exchange of favors is critical for both patron and client as they exchange disparate goods and services. Patronage arrangements, whilst reciprocal, are based on asymmetrical power relations in favor of the patron on the one hand and the proximity of their interrelation on the other. Beyond purely contractual arrangements, patronage relationships are coated with trust and friendship and sustained by informal sanctioning. Patron-client arrangements conflict with the development of formal authority structures such as bureaucracies, democracy, and the rule of law and give rise to corruption and fraudulent practices (Scott 1972). Such patronage systems typically develop in weak states ruled by strongmen and act as a trailblazer for authoritarian capitalism (Verver and Dahles 2015).

Patronage systems cement the power position of strongmen, who in turn are inclined to provide political stability—the perfect condition for marketization to thrive and ultimately ensure the success of neoliberalism (Demmers *et al.* 2004). From a global perspective, it is in the interest of major international institutions—be they powerful states, multinational corporations, or international development organizations—to encourage measures that put or keep such strongmen in power. Political stability has come to be viewed as a vital element of good governance. Whilst at its inception the modernization narrative was linked to ideas of decolonization, democratization, and human rights, it has shifted more and more to imply processes of neoliberalization: "good governance is currently a hegemonic idea," wrote Peter Bloom (2016, 135). In the 1980s and 1990s, resonating with the modernization narrative, international organizations such as the World Bank and International Monetary Fund (IMF) involved themselves more and more in the domestic affairs of developing economies, demanding "widespread market reforms, including privatization, a competitive labor market and the sharp reduction of public spending" (Bloom 2016, 140). Subsequently, many non-governmental organizations (NGOs), in implementing World Bank and IMF-financed programs—often with the best of intentions—began to interfere in national politics, combining lending with conditionality and eventually prioritizing extensive regulation of the political and public domain (Doornbos 2003). The "new politics of development" (Bloom 2016, 154) advocated by the leading international organizations paradoxically paved the way for the rise of the authoritarian capitalist state.

As oligarchy and the patronage-based regimes of developing nations are often endured in the name of preserving political stability conducive to economic growth, authoritarian rulers are rarely toppled by Western powers. Moreover, as it turned out, the neoliberal reforms under the auspices of the global organizations did not deliver the promised prosperity for all—despite impressive GDP growth—bringing into question the role of marketization as a driver for development and undermining the authority of both these organizations and Western nations at large. Challenging the interference of global organizations in domestic politics gives authoritarian regimes, particularly the strongmen heading them, legitimacy in the eyes of their population at home—strengthening their position even more. The next section will expand the above discussion to address the success and failure of economic development models in the Asian region.

Economic Development in Asia: An Ideal Type

Studwell (2014, xxv), in conducting a historical analysis across different countries in Asia—excluding Cambodia—teases out prerequisites of economic development, concluding that "the development destiny of a nation is in its government's hands." More specifically, he describes a set of government policy interventions in the market—targeting agriculture, manufacturing, and finance—that foster economic development. He argues that where these interventions have been employed most effectively—in Japan, Taiwan, South Korea, and more recently China—they have brought about "the quickest progression from poverty to wealth that the world has seen" (Studwell 2014, xiii). In contrast, countries with governments that failed to sufficiently employ these interventions—Indonesia, Thailand, the Philippines, and Malaysia—have witnessed unsustainable growth. Studwell notes that, at least for a while, it seemed that the neoliberal laissez-faire policies propagated by developed world institutions—notably the World Bank, IMF, and US Treasury—were appropriate also for the developing world. After all, the Southeast Asian countries that had adopted these policies had witnessed rapid growth in the late twentieth century. The 1997 Asian financial crisis, however, left Southeast Asia suffering from currency depreciation, inflation, and reduced growth, while Northeast Asia came out relatively unscathed (see Rasiah *et al.* 2014).

By pointing out this contrast between Northeast and Southeast Asian neoliberalization, Studwell (2014), albeit implicitly, nuances authoritarian capitalism, distinguishing two different models with very different development outcomes. The "developmental state" model that inspires Studwell's prescriptions is characterized by a focus on long-term economic development and a powerful elite of bureaucrats directing development through state support and disciplining of the private sector. Developmental states balance liberalization and protectionism of the economy, "taming domestic and international market forces and harnessing them to national ends" (Öniş 1991, 110). In contrast, in "neo-patrimonial states" patrons use their access to state resources to secure the loyalty of clients, thus benefiting narrow elites around the ruler rather than the broad public interest. On paper, legal-rational entities are in place, but in practice the public-private division is blurred, and particularistic interests and nepotism undermine the autonomous functioning of the state apparatus (Fukuyama 2014). Both the Northeast Asian developmental states and the Southeast Asian neo-patrimonial states are under forms of authoritarian capitalism, but the former have been much more effective in the "catch-up phase" (Studwell 2014, xv) of economic development than the neo-patrimonial states that have characterized much of Southeast Asia (with the notable exception of Singapore). Studwell (2014) thus draws on Northeast Asian development experiences to identify effective policy interventions in agriculture, manufacturing, and finance, which are outlined below.

The first phase in Studwell's threefold development prescription—and arguably the most crucial in initial poverty alleviation (Christiaensen *et al.* 2011)—is the maximization of output from small-scale farming. If rapid economic expansion occurs from a low level of development, agrarian yields tend to stagnate or fall as population growth soars and the majority of the population is employed in agriculture. This is because the demand for farmland increases, implying that landlords make easy money by leasing out land at the highest possible rents. In combination with high interest on loans, tenant farmers' profit margins decrease—and, facing insecurity of future tenure, farmers cannot risk investment in yield-improving measures. Consequently, the output per unit of farmland decreases substantially (Drescher *et al.* 2001). To offset this inherent market failure, which plagues many developing countries, governments should do two things: first, implement reforms to distribute land more equally, so that each household owns a plot of farmland; and, second, arrange support in terms of training, marketing, and the provision of credit, machinery, fertilizers, and seeds. Under such conditions of land security and guidance, households are incentivized to invest their resources in productivity optimization, thereby creating labor-intensive "garden-style cultivation" (Studwell 2014, 49). In contrast to the claims of both neoliberal and Marxist economists, such small-scale household farming proves much more efficient than large-scale agriculture in the initial development stage. Successful examples include China, Japan, South Korea, and Taiwan, which distributed ownership or usage rights for equal parcels of land to the farming population and offered additional government support (see, for example, Zhang and Donaldson 2008). Agriculture is crucial also in light of the next stage of economic development: manufacturing. After all, farmers' surplus increases rural household savings, which help finance industrial investment and raise rural consumption of manufactured goods. Additionally, in the absence of welfare payments, the possibility of returning to the family farm presents a safety net for industrial migrant workers (Christiaensen *et al.* 2011; Yagura 2015).

Following agricultural reform, Studwell argues, economic transition requires infant industry support that is directed specifically toward the export of manufactured goods. Manufacturing plays an important developmental role because, in employing machines, it absorbs the initial lack of skilled human labor, while a surplus in cheap unskilled labor presents a competitive advantage for developing countries that compensates for the low productivity during the start-up phase. Moreover, manufactured goods are easily tradable—more so than services—and trade creates feedback and competition that result in further industrial learning (North 1990, 74–78). The successful examples of Japan and South Korea—and, in fact, most other developed countries (Chang 2003)—show that the government's role becomes to protect and support national infant industries through subsidies, public-private research, high tariffs on imports, and assistance in technology acquisition. However, government protection should go hand in hand with punitive measures, especially for rent-seeking, that is, "the propensity of entrepreneurs to concentrate their efforts on obtaining protection and subsidies (rents) from the state without delivering the technological progress and competitiveness that economic development requires" (Studwell 2014, 61). As Studwell argues, this is most effectively done through "export discipline," which denotes the process of coercing domestic producers to export and making subsequent state support conditional on their ability to sell produce abroad. International sales then provide feedback on performance, effectively allowing governments to "weed out losers" rather than having to embark on the more daunting task of "picking winners" (Studwell 2014, 62; see also Öniş 1991; Booth 1999). It was thus that, for example, Hyundai and Kia emerged from an initial handful of South Korean car manufacturers under the watchful eye of the country's powerful Economic Planning Board.

Studwell's third and final prescription for economic development consists of government interventions in the financial sector to direct the economy's limited funds to their developmentally most efficient use, that is, to agriculture and manufacturing (credit for farmers, subsidies for infant industries, etc.) (see also Chang 1993). It takes time, however, for such investments to pay off, which means that there is a need for "patient capital" that accepts low near-term returns to build a national economy that delivers higher returns in the future. Yet, private investors or banks tend to seek more immediately profitable investments that do not involve a learning process and hence are developmentally futile, such as in real estate speculation, the import of consumer goods, or natural resource exploitation. Worse, entrepreneurs who own banks may squander household savings by investing in other branches of their own business groups (Studwell 2010; 2014). The solution, Studwell (2014, 139) argues, lies in a "short leash" on both domestic and international capital flows. This translates into close control or even the nationalization of banks, which allows governments not only to direct funds for development policy but also to maintain low interest rates on household savings despite high inflation, thereby opening up more funds. It also means limitations on cross-border capital flows to retain domestic capital for development planning and prevent foreign capital from disrupting development. If FDI is not limited, local industry tends to turn into a processing industry for foreign manufacturers, which does not push for technological upgrading to the same extent as the development of an indigenous manufacturing sector does.

To sum up: "A historical review of east Asian economic development shows that the recipe for success has been as simple as one, two, three: household farming, export-oriented manufacturing, and closely controlled finance that supports these two sectors" (Studwell 2014, 223). As we endeavor to examine the extent to which the Cambodian development experience under CPP rule reflects Studwell's prescriptions, we acknowledge that applying these prescriptions as a benchmark is not uncontroversial. Considering that historical conditions—such as colonial legacies (Kim 2009), external threats, or initial levels of human capital—strongly shape development outcomes (Booth 1999), one may question the degree of leverage governments have to effectively duplicate previously successful development policy in another context. Moreover, considering the sacrifices in terms of working conditions and well-being that entire generations had to make in the name of national development, one may also question the desirability of the kind of rapid economic transformation that has occurred in Northeast Asia. Lastly, Studwell's academic credentials have been questioned. While he is certainly an academic (with a PhD from Cambridge Judge Business School), he is also a business journalist and best-selling author writing for a general audience, and as such his approach has been widely criticized for its sweeping generalizations across Asia and its prescriptive approach to economic development (see, for example, Sternberg 2013).

Despite these caveats, we find Studwell's framework rather suitable to assess the Cambodian government's track record in economic development because it is a comprehensive and well-researched review of the economic growth policies pursued in Asia, based on actual historical experiences and focused on the role of state actors. Besides, Hun Sen himself repeatedly expressed his "commitment to transform Cambodia into an upper-middle-income economy by 2030 and a developed country by 2050" (Cambodian Office of the Council of Ministers 2017), which arguably necessitates targeted policy interventions in key economic sectors—such as Studwell recommends. The next section elaborates on the Cambodian context which Studwell's measures would encounter.

Cambodian Development under CPP Rule (1993–2019): Patronage and Pragmatism

After the ousting of the Khmer Rouge in 1979, Hun Sen—a former deputy Khmer Rouge regimental commander who had fled to Vietnam in 1977—swiftly climbed the ranks of power. A member of the politburo of what would be named the Cambodian People's Party, he served as Cambodia's foreign minister in the Vietnamese-occupied government. He became Cambodia's prime minister in 1985, a position he held until his son Hun Manet took over in 2023. He then began serving as the president of the Cambodian Senate. Hun Sen's consolidation of power—he also took on CPP leadership in 1991—arguably hinged on his ability to establish a social hierarchy based on patron-client relationships among interdependent layers of high- and lower-ranking politicians and administrators, foreign and domestic businesspeople, and the rural electorate. Dubbed as an "elite pact," this patronage system is the embodiment of corruption as much as the backbone of peace and stability in present-day Cambodia (Hughes and Un 2011, 8–9).

Patronage is crucial to understanding the CPP's approach to development as well as Cambodian society in general. Patron-client relations have long formed the basis of social life in Cambodia (Milne 2015). Under Hun Sen, there are two major manifestations of patronage: a personalized and a mass patronage system. First, exchanges within the Cambodian elite are organized through a personalized network including CPP top officials, business tycoons, and military generals. This network takes the form of a patron-client pyramid with Hun Sen—as unrivaled "strongman of Cambodia" (Deth and Bultmann 2016, 87)—at the top. In state-business interactions, the patronage-based elite pact is reflected in the honorary title of *oknha* (Verver and Dahles 2015), once bestowed upon those who offered exceptional service to the throne, but since its reintroduction in 1994 awarded to businesspeople who champion substantial financial support for development projects in the name of the CPP. Thus, a number of businesspeople in key positions have been able to develop large and multilayered business groups. The rise of *oknha* is the chief manifestation of the patronage system within the ruling elite (Verver and Dahles 2015). The extremely lucrative deals that are part and parcel of Cambodia's integration into regional and global markets are shared within the impenetrable pact of Cambodia's ruling elite, dubbed as the "*oknha* economy" (Ear 2013, 53).

Second, the CPP elite has created a mass patronage system that arranges exchanges between the state and the general population (Un and So 2011): CPP representatives distribute material inducements in exchange for political support. From the 1990s, in the eyes of rural communities, the legitimacy of the regime at home has relied on Hun Sen's ability to sustain political stability and peace but also to convince Cambodians that they benefit economically from this stability (Un 2011). For the urban middle classes, the current regime provides the fundamentals to pursue their neoliberal dream of affluence (Brickell and Springer 2017, 3). The rural population, on the other hand, is wooed with development projects that—whilst commonly sourced from state coffers, *oknha*, or international donors—seem to emerge directly from the ruling party or Hun Sen's own pocket (Ear 2011). At the same time, however, gift-giving events and Hun Sen's speeches "mobilize a powerful sense of surveillance and menace" (Hughes 2006b, 472), as there is always the threat that CPP patronage will be withdrawn and development projects abandoned should citizens vote for the opposition. In all, through personalized and mass patronage arrangements, Hun Sen has cemented the position of the CPP from the national down to the village level, effectively creating a one-party state while also maintaining an "independent power base which affords him a position above party control, with personalized networks that permeate and supersede state institutions" (Un 2011, 553). As such, the Cambodian polity is often described as "neo-patrimonial" (Hughes and Un 2011).

The peace and stability created under Hun Sen's neo-patrimonial state is of a different caliber than the social order that the architects of the 1991 Paris Peace Accords—marking the official end of the Cambodian-Vietnamese War—had in mind. The peace agreements, implemented by the United Nations Transitional Authority in Cambodia, put in place processes to develop the economy and build civil society, including a political system founded on democratic principles. Cambodia became the recipient of substantial development assistance from a variety of foreign donors—amounting to about US$1 billion as of 2019 (World Bank 2024a) and accounting for up to 28 percent of government expenditure (Johnson 2022). The constant influx of donor money generated an exponential growth in the number of international and local NGOs, from just a few in 1992 to more than five thousand registered organizations in 2019. NGOs play key roles as development agents, employers, and providers of business opportunities for local companies, thereby contributing significantly to the economy and alleviating poverty in Cambodia. This gave rise to a foreign-dominated donor-dependent economy (Ear 2013). Yet, Hun Sen's development agenda was built on pragmatism—basically accepting development aid, donor money, FDI, and trade from institutions and nations around the world but rebuffing the West's making support conditional on his government maintaining proper democratic processes and institutions.

As Cambodia's recent transition to single-party authoritarianism is widely viewed as a collapse of the democratization process (Dahles 2018), the question must be raised as to the impact of this political fiasco: will it put an end to Cambodia's economic rise? So far, as economic analysts expected, the 2017 political instability has had only limited, short-term effects. Immediate ramifications came in the shape of economic sanctions and withdrawal of donor money by Western countries, including a partial ban from the European Union's Everything but Arms (EBA) preferential trade agreement (Dahles 2018). Increasingly relying on China to compensate for the loss of Western donors and markets, the Cambodian government was not impressed by these measures. Nevertheless, Cambodia's economy—despite its notable track record in GDP growth—was not as solid as the country's ruling class wished to believe. For once, it became questionable whether long-term sustainability and prosperity would materialize from China's investments (Heng 2018).

In the remainder of this paper, we will assess the developmental impact of the Cambodian patronage system based on the analytic framework provided by Studwell's study.

The *Oknha* Economy: The Developmental Impact of CPP Rule

In the three subsections below, we assess the impact of CPP policymaking on the development of the Cambodian economy between 1993 and 2019. In doing so, we use secondary sources, including academic literature, reports and data from NGOs and international institutions, and English-language media.[1] We disregard Khmer-language sources due to our inability to read Khmer. Drawing on these sources and in line with Studwell's argument, we will discuss agriculture, manufacturing, and finance.

Agriculture

Cambodia's economy is an exemplary case of Studwell's developmental framework, where the greatest initial economic returns can be achieved through agricultural productivity gains. Some 76 percent of the population is rural, yet agricultural sector production contributed to only 21 percent of national GDP in 2019 (World Bank 2024b). Also, the Cambodian population has more than doubled in size since 1980, and therefore growing resource needs are anticipated to put additional pressure on domestic production in the foreseeable future (Scheidel *et al.* 2013). Accordingly, the government has acknowledged that agriculture and agro-industry can "serve as the dynamic driving force for economic growth and poverty reduction" (RGC 2004, 13). However, with inadequate state support, the productivity of small farms remains low. Rural income growth has resulted from higher rice prices and earnings generated outside the farms rather than productivity gains (World Bank 2015). The government has not only failed to allocate state land toward household farming but has deprived rural communities of arable land by reallocating large areas to domestic and foreign actors. Per the 2001 Land Law, land can be reallocated in the form of economic land concessions (ELCs) to

1) Cambodia used to have two independent English-language newspapers, the *Cambodia Daily* and the *Phnom Penh Post*. In the run-up to the 2018 elections, the *Cambodia Daily* was banned under the pretext of a tax issue. After the elections, the *Phnom Penh Post* was sold by the Australian owner to a Malaysian media firm with purported ties to the CPP. For more on Cambodia's media landscape, see Strangio (2017).

"allow the beneficiaries to clear the land for industrial agricultural exploitation"—including the cultivation of acacia, eucalyptus, palm oil, cassava, sugarcane, corn, rubber, teak, and cashew—for a period of up to 99 years (RGC 2001, 14; see also Padwe 2011). Relatively few Cambodians hold land titles—a legacy of the Khmer Rouge campaign to destroy landownership records—and thus as much as 80 percent of all land in Cambodia is classified as "state land," which can be sold off to corporations or allocated as ELCs. Over 2 million hectares have been designated as ELCs, amounting to as much as 50 percent of Cambodia's arable land (Vrieze and Naren 2012).

The CPP government as well as the World Bank have favored ELCs, under the expectation that these offer surplus production, local employment, and up- and downstream economic opportunities in addition to more state revenue as a result of easier taxation (Diepart 2015). However, these supposed benefits have not materialized. The short-sighted cultivation of rubber and sugarcane monocultures poses the threat of environmental degradation, such as acidification or the deterioration of soil fertility (Xi *et al.* 2015). The actual number of jobs created is limited. Employment opportunities tend to be given to outside workers rather than the local smallholders whose lands have been dispossessed; and in cases where evictees are employed, their wages fail to compensate for the loss of prior household income from that land (Scheidel *et al.* 2013). Also, the substituted large-scale plantations do not lead to the development of substantial local forward linkages or processing, because of intra-company processing and the export of unprocessed crops (World Bank 2015). With regard to tax revenues, the agriculture minister reportedly said that the 173 concessions (or 1.4 million hectares) under his control generated as little as US$5 million in 2015 (Baliga and Vong 2016). While hardly contributing to state coffers, the ELC policy exacerbates the likelihood of financial loss, impoverishment, and loss of cultivable land and livestock holdings among small-scale farmers, as a random survey in 15 villages indicated (Xi *et al.* 2015).

The ELC policy is rooted in the flawed assumption that while smallholders appear merely capable of maintaining self-sufficiency, large-scale industrialized agriculture will enable surplus production. At the same time, however, the push for ELCs can hardly be blamed on a miscalculation by the CPP: the process of ELC allocation and exploitation offers ample opportunity to capture profits for state-business elites (Diepart 2017). ELC holders are local *oknha* with known ties to the CPP as well as foreign—mostly Chinese and Vietnamese—investors (Vrieze and Naren 2012). It is estimated that these beneficiaries pay US$500 in informal fees per hectare of ELC to get approvals from government officials at different levels (Un and So 2011), which is in stark contrast to the US$5–10 annual formal tax (Baliga and Vong 2016). Also, despite the law limiting concessions to a maximum of 10,000 hectares, there are examples of beneficiaries acquiring much more by registering multiple adjacent concessions under the names of family members, and of concessions that are simply much larger, spearheaded by *oknha* and CPP Senator Lao Meng Khin, who holds one of 333,000 hectares (LICADHO 2024). In many cases, land granted is already occupied and cultivated by rural dwellers. Although—per the 2001 Land Law—these people have strong legal claims to ownership of the land if they have been living there for five years (Un and So 2011), they are often driven off their land by force or offered housing on slum-like resettlement sites (Springer 2015). Finally, because the ELC framework allows the clearing of land before developing plantations, it is used to bypass the 2002 logging ban (Diepart 2017). These logging operations, which often proceed beyond the ELC boundaries (Global Witness 2009), are detrimental for rural livelihoods since the exploitation of forests can constitute up to 30–50 percent of aggregate household income in addition to farming (Xi *et al.* 2015).

The "epidemic of dispossession" (Springer 2015, 140) has already displaced hundreds of thousands of households, while many rural Cambodians lack secure land titles and thus risk future displacement (Hughes 2008, 71; Un and So 2011). Land titling processes remain incomplete, and processes of land commodification and marketization uproot local institutions for governing commons such as forest resources (Padwe 2011). In economic terms, as Studwell emphasizes, insecure land rights reduce productivity-enhancing investments by smallholders. Moreover, instead of countering the effects of population-growth-induced land scarcity, ELCs intensify this process (Padwe 2011). Rural landlessness has been rising, and landownership continues to be concentrated in a small fraction of the population—from a nearly egalitarian distribution in 1989 to 64 percent of the total land area being owned by the richest 10 percent (and 20–30 percent by the wealthiest 1 percent) of the population by 2006 (Hughes 2008). The resulting higher cost of farmland makes it less likely for families to be able to afford renting land, or it reduces their profit margin and thus lowers their ability to invest in output-increasing measures. This results in a vicious cycle: ELCs reduce smallholder access to land and, for lack of compensating economic opportunities, decrease household income. Because of food insecurity and high health-care costs, greater poverty leads to frequent distress sales, which further reinforce poverty and landlessness.

While the ELC framework aimed to diversify agriculture, rice paddy fields continue to occupy some 75 percent of cultivated land (World Bank 2015), and thus the rice sector merits attention. Annual yields in Cambodia are the lowest in the East Asian region, although the Tonlé Sap area and Mekong Delta are very fertile and hence there is room for output-increasing measures. Traditionally, Cambodia's rice processing sector comprises many small rice millers that lack the technology, financial capital, and storage facilities to export. Hence, unprocessed surplus paddy is exported to Thailand and

Vietnam, which is a huge loss for the Cambodian economy (Thavat 2011). Cambodia gained an important competitive advantage over its neighbors when, in 2009, the European Union included milled rice in its EBA system of preferential duties. In response, the government pledged to increase paddy production, raise milling to international standards, and seek out export markets (RGC 2010). In addition to the usual symbolic acts—a Cambodia Rice Forum was staged, and a Technical Working Group was set up—there were some tangible accomplishments, including concessions on the import of machinery, new certification, a single window for export facilitation, and the conclusion of deals with foreign governments (Kelsall and Heng 2014). Exports rose sharply as a result of new investments and existing rice millers upgrading their plants. While these efforts were sufficient to get rice exports off the ground, government policy seems to have fallen short in the long run: electricity and logistics costs remain high; training facilities, the provision of seeds, storage facilities, and low-interest loan arrangements remain underdeveloped; and rice millers face unhelpful and rent-seeking officials (Kelsall and Heng 2014). In 2010 the government set an export target of one million tons of processed rice by 2015, but with some 691,000 tons this target was not nearly met even by 2020 (Vireak 2021). Although some rice mills are owned by *oknha*, including one that supplies rice to the army (Becker 2011), relatively few *oknha* seem to invest in the rice sector, both because of fierce competition from neighboring countries and because they typically prefer to invest in businesses that yield instant profit (Ear 2011; Verver and Dahles 2015).

Since the 1990s, and particularly since the prioritization of rice export in 2010, the government has attempted to turn Cambodia's lowland regions—the area around the Tonlé Sap and Mekong Delta—into an "export-oriented industrial paddy zone" (Diepart 2017, 38). To the extent that this has been successful, which it has if we consider paddy rather than milled rice, it has also led—unsurprisingly, considering Studwell's argument—to land concentration. The land squeeze in the lowlands has in turn prompted rural dwellers to migrate to the upland regions (and to Thailand), where they have no land tenure security and fall victim to the many ELCs (Diepart 2017). In all, the CPP government has done the opposite of what Studwell prescribes: support for farmers has been meager; and instead of facilitating equal land distribution to support household farming, land policy is dominated by privatization and the ELC framework, leading to unequal distribution, landlessness, and ineffective large-scale plantations. This reveals the CPP's pseudo-developmentalism: while claiming to generate employment and develop agriculture, in fact the patronage system has laid the foundation for low yields, landlessness, and the continuation of rural poverty.

According to Studwell's "recipe" for successful economic development, land reform and nurturing the agricultural sector must precede moving into the manufacturing sector (for Cambodia, see Baird 2014; Yagura 2015; Chhuor 2017). Clearly, this has not happened in Cambodia. While in most developed countries "land was left without farmers" because of opportunities in urban industries, in Cambodia "farmers are left without land" and hence have no other option but to seek work elsewhere (Scheidel *et al.* 2013, 348). Irrespective of the underlying causes, while in 2000 some 9 percent of Cambodians worked in industry and 73 percent in agriculture, twenty years on the two sectors each account for roughly 30 percent of employment (World Bank 2024c; 2024d). In the next section we consider how this rapid development of the industry sector has unfolded under CPP rule.

Manufacturing

Let us start by considering garment manufacturing, which accounts for some 80 percent of Cambodian exports and has been the focal point of industrialization since the 1990s (Arnold 2021).[2] The garment sector took off around the turn of the millennium when the US and EU granted privileged access for Cambodian goods under the Multi-Fiber Agreement and the EBA agreement, respectively. The exemptions from duties and quotas in the US and EU for garments bearing a "Made in Cambodia" label attracted many garment manufacturers from China, Hong Kong, Taiwan, and South Korea, who acted as subcontractors for international brands, including H&M and Levi's. As of 2018, the garment sector generated employment for up to one million Cambodians, 80 percent of them women (ILO 2018). As such, the sector's importance as a job creator, especially to offset rural poverty and landlessness, can hardly be overstated (Yamagata 2006). Also, most workers enjoy formal employment, a minimum wage (of US$170 in 2018; see ILO 2018), and factory monitoring regimes that were established by an ensemble of representatives from the government, unions, garment manufacturers, and international institutions, culminating in 2001 in the "Better Factories Cambodia" program run by the International Labour Organization, which promoted Cambodian garments as an "ethical niche" (Arnold and Toh 2010, 401). Whether or not the sector has lived up to ethical standards can be debated, especially since it has become highly politicized (Arnold 2021). What is more important for our purpose, however, is the observation that beyond job creation, the benefits for the Cambodian economy remain limited. The garment sector creates few local subcontracting linkages because almost all inputs are imported: Cambodian factories are merely involved in the "cut, make, and trim" (Ear 2011, 79) phase, while fabrics are imported—mostly from China. The sector

2) This includes footwear manufacturing.

generates little revenue as the inputs and finished goods enjoy extensive tax exemptions when traveling through Sihanoukville Port; profits are largely repatriated, as only around 7 percent of factories are Cambodian owned; and most jobs in the sector are low-skilled, while people from the owners' home countries are typically hired for management or expert positions (Arnold and Toh 2010; Ear 2011; Arnold 2021).

Recently, the manufacturing sector has been diversifying beyond garments and footwear. Companies from Europe, China, and especially Japan are gradually moving into Cambodia to set up factories producing bicycles, electronic appliances, furniture, and car parts (World Bank 2017a). To attract such manufacturers, the government has promoted the establishment of Special Economic Zones (SEZs) throughout the country (RGC 2015). Legal and logistical arrangements are provided within these SEZs. Many SEZs are owned by *oknha*, sometimes as joint ventures with foreign companies (Verver and Dahles 2015), and are complete with "one-stop" government services that house representatives of all relevant ministries (RGC 2015; Warr and Menon 2016). The SEZs are effectively designed as economic enclaves that lack many of the deficiencies of the broader economy, such as poor infrastructure, costly regulations, and rent-seeking officials. In 2014, some 68,000 Cambodians were employed in 145 factories across nine SEZs (Warr and Menon 2016). Compared to garments, the more recently established factories in SEZs produce higher-value-added goods that require higher-quality investments and more skilled workers. Therefore, according to the World Bank, Cambodia "appears to be on the verge of climbing up the manufacturing value chains" and may be shifting from nondurable to durable consumer goods and, in time, to capital goods manufacturing according to the "flying geese" model (World Bank 2017a, 18).

However, it appears that the World Bank is overly optimistic here. Following Studwell, moving up one tier—let alone becoming the front goose—is very hard to do if local industry remains dependent on foreign manufacturers (Kasahara 2004). Besides, Cambodia has "lacked a strong government industrial promotion policy" (Yamagata 2006, 1). Partly because of this, the factories occupying the SEZs source almost all their inputs from abroad, while few are involved in research and development: they are "linked to the international economy but not to the domestic economy" (Warr and Menon 2016, 284). Critical observers thus argue that low-skilled manufacturing has failed to serve as a stepping stone to higher-value-added manufacturing: diversification has "failed to materialize," and "opportunities to escape this 'low-income trap' are very limited" (Arnold 2021, 6). In all, Cambodia's role as an export-oriented processing and assembly zone for foreign firms has meant that per capita value added by the manufacturing sector remains among the lowest in the region (Chhuor 2017), while limited prospects have been provided for learning.

Shifting our attention to local industry, a first observation is that few *oknha* are involved in manufacturing. *Oknha* are involved in agro-industry relying on their ELCs (as seen in the previous section) as well as in the construction industry capitalizing on Cambodia's real estate boom. Businesses in these industries, however, do not provide great prospects for technological advancement and learning (Studwell 2014). Overall, *oknha* are hardly incentivized to produce goods with the potential for export beyond cash crops, timber, or minerals. After all, this would require long-term investments, which they are not willing to make as long as their CPP patrons allow them to make short-term profits by way of ELCs, import monopolies, informal tax exemptions, and public contracts (Ear 2011; Verver and Dahles 2015). Without doubt, the CPP elites also stand to gain financially from the short-termism of the *oknha*, and thus they show no sign of encouraging—let alone disciplining—the *oknha* into export-oriented manufacturing.

Meanwhile, Cambodia's small and medium-sized enterprises (SMEs), which due to their flexibility are a potential site for entrepreneurial innovation, industriousness, and diversification, fail to develop (OECD/ERIA 2018). According to 2013 data, 97.6 percent of Cambodian businesses are micro enterprises (fewer than 10 employees), only 2.2 percent are SMEs (10 to 100 employees), and 0.2 percent are large firms (more than 100 employees) (IFC 2019). In the manufacturing sector there are roughly 70,000 micro enterprises, 1,500 SMEs, and 400 large firms (Cambodia, NIS 2015). The Cambodian private sector is thus characterized by a "missing middle" between the many micro enterprises and the elite business conglomerates, indicating that there are considerable obstacles for SMEs and micro enterprises to grow (OECD/ERIA 2018). First, it is excessively costly and time consuming to have to deal with permits, regulations, and taxes (World Bank 2017b). In the Doing Business index 2020, Cambodia is ranked 144th out of 190 countries, attaining especially low scores for starting a business (187th), dealing with construction permits (178th), and enforcing contracts (182nd) (World Bank 2020). As many as 75 different licenses may be required by SMEs, issued by many ministries and many of which cannot be applied for online (OECD/ERIA 2018). On the 2020 corruption perception index of Transparency International, Cambodia is ranked 160th out of 180, and there is ample evidence of rent-seeking across state institutions (Kelsall and Heng 2014). Second, entrepreneurs experience informal competition as a major business constraint (World Bank 2016). In 2017, the government attempted to reduce the number of informal enterprises by offering a two-year tax holiday to SMEs registering voluntarily. Despite initial enthusiasm, however, SMEs were reluctant to take advantage of the incentive because of rumors that registered businesses were still required to pay tax and worries about penalties and back taxes

(IFC 2019).

The government does very little to remove these obstacles as it "does not currently have an SME development strategy in place" (OECD/ERIA 2018, 236). In its Industrial Development Policy 2015–2025 (RGC 2015) the government pays lip service to the SME sector, and already in 2004 an SME subcommittee was established, which subsequently crafted an SME Development Framework focusing on regulations, finance, and support activities for SMEs, but to no avail. The committee has "limited operational autonomy and limited resources" (OECD/ERIA 2018, 236). Research and development are grossly underfunded, and the National Productivity Centre of Cambodia was allotted a budget of merely US$100,000 (OECD/ERIA 2018, 244). Government support for SMEs that aspire to export their products remains limited to soliciting technical assistance from development partners such as the US Agency for International Development or the Japan International Cooperation Agency (OECD/ERIA 2018; Sok *et al.* 2020).

Partly because of insufficient government support in export promotion, SMEs lack the information and knowledge to make use of free trade agreements such as the ASEAN Economic Community (Thangavelu *et al.* 2017). The government claims to foster the integration of SMEs into global value chains by way of the SEZs (RGC 2015), but there have been few concrete government efforts in this direction and there are few linkages between local SMEs and SEZ-based foreign manufacturers, as we saw earlier. Other basic support services for SMEs—such as legal and logistical infrastructure for e-commerce or laboratories for product inspection—remain underdeveloped and under-resourced (OECD/ERIA 2018). Lastly, government expenditure on education was a mere 2.2 percent of GDP in 2017 (World Bank 2024e; see also OECD/ERIA 2018). Moreover, the commercialization of higher education has rendered both public and private institutions dependent on tuition fees, which has meant few resources for research, fostered corruption among teachers, and undermined the relevance of programs: while Business Studies is the most popular program, the private sector needs graduates from science, mathematics, agriculture, and health-related studies (Khieng *et al.* 2015). Thus, Cambodia faces "huge skill deficits even for relatively light-skill-intensive sectors" (Khieng *et al.* 2015, 23).

All in all, the CPP government has failed to implement an effective industrial agenda but instead—as in agriculture—has done the exact opposite of what Studwell proposes: it has established export-oriented processing zones for foreign manufacturers and provided monopolies and other benefits to *oknha* in industries that provide immediate profits but hardly any opportunities for learning and human skills upgrading. Meanwhile, these two hallmarks of CPP-led development—trade liberalization and the *oknha* economy—have curtailed the development of SMEs engaged in manufacturing:

they are hard pressed to profit from access to foreign markets because they lack resources and government support, while in the domestic market they face competition from imported consumer goods, which enter the country with low tariffs due to *oknha*-held import monopolies. In the next section we examine the financial underpinnings of the CPP's development model.

Finance

The CPP government directs insufficient taxpayer money toward developing household farming and infant industry, as has been made clear above. The government's priorities are reflected in ministerial budgets: in 2016–20, expenditure on the military and police forces combined (Ministries of National Defense and Interior) hovered around 25 percent of total expenditure, which was in stark contrast to developmentally relevant ministries such as Agriculture, Forestry, and Fisheries (1.6 percent), Rural Development (1.1 percent), and Industry and Handicraft (0.3 percent) (PIC 2019, 17). Irrespective of its priorities, the government does not have a lot to spend in the first place. Tax revenues have long been small because neither the *oknha* business groups nor SMEs pay much formal tax: the CPP's top officials allow their client *oknha* to evade taxes in return for under-the-table money, while rather than collecting taxes destined for the state coffers, lower-level officials top up their meager salaries by extracting informal payments from small-scale entrepreneurs (Verver 2017). Informal revenue streams and a weak formal tax system go hand in hand in Cambodia, and the resultant budgetary deficits are offset by donor money, especially in social services (Ear 2011; 2013). More recently, and partly due to diminishing donor funding, the government has broadened the revenue base through reforms of the taxation and customs and excise departments, doubling revenue as percentage of GDP from roughly 10 percent in 2009 to 20 percent in 2019 (World Bank 2024f). While this has propped up state coffers, the government's fiscal space (budgetary leverage after fixed expenses) remains limited: with a bloated workforce and a rising minimum wage in the public sector—from US$50 in 2012 to US$250 in 2018—some ministries spend the bulk of their budget on wages (Feridhanusetyawan 2014). In all, rather than being used for development, public expenditure under CPP rule seems to serve as a tool to retain the loyalty of state, police, and army personnel.

State loans for agricultural businesses are channelled via the Agricultural and Rural Development Bank (ARDB), which claims to have disbursed some US$245 million to rice millers, exporters, and other agro-businesses in 2020 (Hin 2021). In that year, the SME Bank was established to cater to non-agricultural businesses and mandated to distribute an initial US$100 million (IFC 2019). Although the establishment of these two state-owned banks is a positive development, there is also cause for concern: the

SME Bank allegedly subjects business owners to cumbersome application procedures and high collateral requirements (Sok *et al.* 2020), while there have been reports of funds misuse at the ARDB (Kelsall and Heng 2014, 36). More fundamentally, in view of an estimated US$7.7 billion difference between supply and demand for SME financing (IFC 2019, 53), the efforts of the ARDB and SME Bank hardly suffice. Beyond these two state-owned banks there have been few government initiatives to create financial space for businesses. The government has not put in place alternative instruments, such as credit guarantee schemes or programs to support export financing (OECD/ERIA 2018), nor has it created financial space for industrial development by lending money abroad, instead emphasizing the importance of maintaining "macroeconomic stability" (Feridhanusetyawan and Ree 2014).

By and large, the government thus surrenders businesses and farmers to private sector financial institutions. For SMEs, loans are hard to acquire due to high interest rates and collateral requirements (OECD/ERIA 2018; IFC 2019). Interest rates on SME loans range from 11 percent to 16 percent, and these loans are typically short term because local financial institutions have limited capacity to offer longer loan terms due to their reliance on short-term deposits (Sok *et al.* 2020). Survey data show that a lack of financial capital is the main impediment to business expansion: while banks point to poor financial records or business plans on the part of would-be borrowers as well as difficulties in enforcing agreements due to the weak judiciary system, at the same time they seem to have few incentives to provide loans to potentially viable manufacturers because they can realize better short-term profits elsewhere (in sectors like real estate and import-export) (IFC 2010). Notably, women entrepreneurs, who represent most business owners and tend to have better saving habits and awareness of their expense obligations, are especially poorly served by banks, also because of negative gender stereotypes (IFC 2019). The result is that as much as 96.3 percent of investment is financed internally by Cambodian businesses and only 2.5 percent by banks, supplier credit, or equity or stock sales (versus 71 percent and 23.2 percent, respectively, in other lower-middle-income countries) (World Bank 2016).

For smallholder farmers, in contrast, credit is readily available through private microfinance institutions (MFIs). However, taking out credit from MFIs presents a threat rather than a solution for cash-strapped rural families (Norman 2011; Green 2020). This is because such credit is collateralized by land titles, which allows MFIs to coerce smallholders who are unable to repay loans into land sales, debt-driven migration, or even child labor (IFC 2015; LICADHO 2019). As a result, rural dwellers become, for example, brick kiln workers catering to the construction frenzy in Phnom Penh, who may aspire to return to their land but often cannot because they are debt bonded (Natarajan *et al.* 2019). While intended as a poverty reduction project—and still perceived that way by the Cambodian government and many Western development agencies (Norman 2011)—microloans have become big business: Cambodia's largest MFIs reportedly made US$130 million profit in 2017. In 2019 some 2.4 million Cambodians together had US$8 billion in outstanding loans, averaging around US$3,370 debt per borrower, which is the highest in the world (LICADHO 2019, 1).

Despite reckless lending by MFI credit officers and a sprawl of licensed and unlicensed MFIs, the National Bank of Cambodia has not put in place meaningful oversight to protect consumers, nor does the court become involved—as stipulated by law—when clients default. Instead, commune chiefs tend to serve as arbiter, which is problematic because they often also receive payments from MFIs to settle debts, while commune councillors—who represent multiple villages—enforce regulation that directly "contributes to household indebtedness by encouraging multiple borrowing, rural out-migration and land repossession" (Green 2020, 1429). The government did impose an 18 percent annual interest rate cap on loans, but MFIs worked around this by requiring up-front fees. Rather than regulating MFIs, in what seemed an attempt to dissociate from the sector, Hun Sen initiated a campaign to inform Cambodians that MFIs were not state run and ordered MFIs to change their logos if these vaguely resembled those of government institutions. In general, high interest rates on loans—be they from MFIs or from rice traders, for example—render rural families highly vulnerable, to such an extent that unexpected costs such as an illness in the family can force people to sell their land (Yagura 2005; LICADHO 2019).

While financial support for farmers and manufacturers is lacking, the CPP government has implemented a very liberal banking regime. Hosting as many as sixty banks—in part due to a low minimum capital requirement of US$75 million—by all accounts Cambodia is overbanked (Mekong Strategic Partners 2020). The banks include foreign institutions—such as Chinese banks financing Chinese-run infrastructural or tourism projects—and local banks such as ANZ Royal, Vattanac, and Canadia that are owned by *oknha* close to Hun Sen. Government and nongovernment data show that banks—including *oknha*-owned ones—extend loans and credit mainly to the trade, construction, and real estate sectors and, to a lesser extent, to manufacturing and agriculture (World Bank 2017b; National Bank of Cambodia 2019; Mekong Strategic Partners 2020; Sok *et al.* 2020, 14). This suggests that the *oknha* seek out not only more immediately profitable sectors but also sectors in which they themselves are active. Indeed, examples abound of *oknha*-owned banks or their subsidiaries investing in other businesses of the same *oknha* (see, for example, Hor 2018).

A similarly liberal regime applies to money flows into and out of the country. When looking at value-added tax (VAT), corporate tax, or excise tax, Cambodia has highly competitive rates in a regional comparative perspective. On top of this, various tax incentives are provided, including tax holidays and exemptions from VAT and import duties (Feridhanusetyawan and Ree 2014; World Bank 2017b). While these excessive tax incentives in general imply a loss of state revenue, tax holidays in particular hamper development because they incentivize foreign corporations to invest in short-term profitable projects rather than stimulating long-term investments (Feridhanusetyawan 2014). Even the World Bank (2019) advised the government to limit tax holidays. Moreover, inviting investment implies that Cambodia has turned into a processing zone for foreign manufacturers, as discussed in the previous section. Lastly, as much as foreign investment flows into Cambodia almost unbridled, so have affluent Cambodians encountered few restraints in siphoning their illicit money out of the country. According to a report by the think tank Global Financial Integrity, some US$14.6 billion was secretly moved offshore between 2004 and 2013 through trade misinvoicing, with the annual amount increasing from US$374 million to nearly US$3.9 billion in that same period (Kar and Spanjers 2015). There is also evidence of Cambodian elites buying real estate abroad or operating shell companies in tax havens, either to hide wealth or as part of an escape plan (Peter 2018).

In sum, Hun Sen's CPP has made few attempts at directing financial resources to developing small-scale agriculture and the domestic manufacturing sector, as Studwell (2014) advises. The government has other spending priorities, most notably developing the armed forces and retaining the loyalty of state officials. As a result, Cambodians who should have been central to development policy are neglected. Small-scale farmers have fallen victim to MFIs, and local manufacturers are hard pressed to acquire credit or loans. Meanwhile, through financial liberalization the CPP has unleashed those who seek short-term profits—foreign investors and *oknha*—thereby inhibiting investments of patient capital in developmentally more relevant activities that allow human skills upgrading and learning.

Discussion and Conclusion

"Thanks to rapid and sustained growth, Cambodia has become one of the world's leaders in poverty reduction and shared prosperity," declared the World Bank (2017b, 12). As this study demonstrates, however, economic growth does not necessarily bring prosperity to many in a sustainable fashion. Instead, our study emphasizes that economic growth and development are two different things. In the Cambodian case, economic growth is elite centered rather than broad based and short-term oriented rather than sustainable. Cambodia's wealth is kept mainly within its ruling class—at great social cost. Long encouraged by Western neoliberal agendas and more recently emboldened by China's support, Hun Sen has used his political power to push for increased marketization to bolster Cambodia's export-driven economic growth. In what Katherine Brickell and Simon Springer (2017, 5) dubbed as the "hostile takeover of the Cambodian economy by Hun Sen's family," the state claimed forested land for logging, granted concessions to extractive industries and enterprises involved in the large-scale production of agricultural commodities, pursued reforms in property relations to free up public assets for sale, and pushed the construction of large-scale infrastructures, including hydroelectric dams—at severe environmental cost. International organizations' advice was followed, resulting in the establishment of SEZs and liberalization of banks (ADB 2001; World Bank 2004), which ironically accelerated the extraction of wealth by the political elite at home.

In terms of Studwell's virtuous circle, where economic development hinges primarily on the implementation of effective policy in three economic sectors—productivity increase from small-scale agriculture, protection of national infant industries, and strict control of national and international money flows—the Cambodian government has been doing exactly the opposite, creating the vicious circle of the neoliberalized *oknha* economy. Agricultural land reform and support for farmers are lacking, while accelerated land clearances and escalating land conflicts have left many farmers without land. Similarly, in the manufacturing sector the CPP government has invited foreign manufacturers while hampering local SMEs, and so industry continues to deliver low-skilled and low-paid jobs with little prospects for learning. Meanwhile, the finance model underlying Cambodia's economy—which hinges on FDI and development aid—does not support robust middle-class development, innovation, and prosperity for all Cambodians. The government fails to allocate financial resources to developing small-scale agriculture and domestic manufacturing. The alternative for a functioning tax system—rounding up development funds from *oknha* and other affluent loyalists—is no alternative at all as such measures amount to mere political symbolism that meets the electoral ends of the CPP and reinforces the pervasive patronage system. It is no substitute for effective developmental investments.

Following Studwell (2014) we have focused on agriculture, manufacturing, and finance, but our argument applies to the services sector as well. In contrast to the Northeast Asian developmental states where a strictly controlled financial sector gave rise to a plethora of highly sophisticated domestic service enterprises—producer services such as insurance companies, IT firms, and accountancy, consultancy, and law firms

(Dahles 2003)—such spin-offs have been largely lacking in Cambodia. Instead, low-value consumer services are flourishing. The epitome of Cambodia's services industry, the largely foreign-owned tourism sector, bears many similarities with the garment sector: it provides mostly low-skilled and low-paid jobs with few opportunities for upward mobility; it is highly vulnerable, as the Covid-19 crisis painfully revealed (Haffner *et al.* 2021); and profits are often repatriated by foreign owners. Moreover, like ELCs, large-scale resort development takes up much land but provides little employment, putting pressure on the growing population (Scheidel *et al.* 2013).

Optimistic discourse about economic development in Cambodia is flawed. Whilst there has been growth and poverty reduction, it is not as impressive as it seems bearing in mind the "ground zero" where Cambodia came from. Considering the administration's poor performance in governance, reports by international organizations typically urge the Cambodian government to engage in "institutional capacity-building" (IFC 2019, 23) and "enhance state effectiveness" (World Bank 2017b, 31). Indeed, the "elite pact" undermines the emergence of necessary development policies and institutions. What these reports fail to recognize, however, is that while poor governance may be cumbersome for most Cambodians, it serves the elite well. As the narrow circle around the Hun family benefits from the short-term exploitation of Cambodia's riches, the kind of autonomous development policies that Studwell proposes would undermine their interests. After all, the elites rely on informal arrangements among themselves as well as the loyalty of lower-level state, police, and army officials, which in turn hinges on officials' ability to top up their meager salaries by extracting informal fees from small-scale entrepreneurs and other Cambodians without political "backing" (Verver 2017). Thus, CPP-sanctioned rent-seeking has "not merely reduced the efficiency of the civil service but has actually transformed civil servants into obstacles to economic activity" (Hughes 2006a, 73).

In the final assessment, the Cambodian elites are "making cakes without flour," and this creates an unsustainable model of economic development. Democracy may not be a precondition for development, as the Northeast Asian developmental states exemplify, but good development policy is long-term oriented with a focus on the national economy rather than merely enriching the elites. Sustainable development cannot be achieved without well-organized and autonomous development policy (Studwell 2014). The final section speculates about the implications of our findings for a post-pandemic economy in a post-Hun Sen future.

Epilogue

The global economic downturn triggered by the pandemic hit Cambodia's economy hard. The Covid-19 outbreak overwhelmed Cambodia's public health system and profoundly affected people's livelihoods, work, businesses, and investments (Haffner *et al.* 2021). Throughout this crisis, the Cambodian government and global financial institutions alike indulged in often overoptimistic scenarios for Cambodia's economic recovery, relying on projections of increasing exports of rice, continuing demand for manufactured goods, and solid foreign exchange reserves (Dahles 2022b). Yet, Cambodia's Post-Covid-19 Economic Recovery Plan 2021–2023, launched in 2021, while identifying agriculture and manufacturing among other sectors as growth-driving sectors, failed to offer any structural changes to persisting land issues and foreign ownership of key industries.

While rice exports suffered setbacks due to supply chain disruptions as a direct result of Covid-19 and unprecedented increases in transport and international freight rates, reliance on this sector for economic growth remains high, due to good harvests, secure demand from Europe and China, and government support for farmers, including various funding and development schemes (Kunmakara 2022). Beyond the rice sector, the government is trying—by way of the Agriculture Services Programme for Innovation, Resilience, and Extension (ASPIRE), in 2022 renamed the Agriculture Services Programme for an Inclusive Rural Economy and Agricultural Trade (ASPIRE-AT)—to increase productivity and diversification in small-scale farming with financial, logistic, and technical support (ASPIRE 2015). However, more effort is needed to advance sustainable and resilient modes of farming. Emerging income diversification practices in rural farming communities, including high-value crop production and garden-style cultivation, make Cambodian farmers less vulnerable to market volatility than large-scale agricultural production and more attuned to the growing international demand for responsibly sourced quality food (Ham *et al.* 2023). Pushing this style of cultivation and keeping the population on the land requires land security and an end to the ongoing land grab.

Expectations are that manufacturing will take a larger share of GDP growth over the next few years as a result of the strong growth in exports of manufactured goods. However, experts also caution that Cambodia's competitive advantage in this sector will evaporate due to rising labor costs, the loss of trade preferences, and rising social and environmental compliance costs (Kunmakara 2022). Consensus is gathering that to sustain growth, Cambodia should diversify its manufacturing sector to reduce its dependence on garment exports and invest in education and training to raise the skill level of the Cambodian workforce (Freedman and Menon 2022; Kunmakara 2022). While economists push for the strengthening of SEZs and industrial parks to encourage agglomeration effects (Freedman and Menon 2022), one should be aware of Cambodia's vulnerability to foreign investors and exploitation by the *oknha* economy. Instead, measures should be implemented to protect domestic industries through subsidies, higher tariffs on imports, and technology acquisition and to encourage start-ups in the new technology sector and advanced producer services to give a boost to the "missing middle" in business. Over the past decade, generational succession has come to affect the Cambodian economy. Particularly in the cities, the younger generation are gifted with better education, more knowledge of information and communications technology, and more global and intercultural connections than their parents, allowing them to establish businesses in upcoming sectors, such as the digital economy and sustainable tourism (Van Merriënboer *et al.* 2023). The Cambodian government has come to offer support and resources to SMEs, particularly to start-ups initiated by young people, such as in its Industrial Development Policy 2015–2025, which prioritizes the development and modernization of SMEs and aspires to link them to global value chains (Dahles and Verver 2023).

As the pandemic crisis evolved, Cambodia witnessed robust growth in both loans and deposits in 2021 (Kunmakara 2022). The National Bank of Cambodia introduced a package of regulatory measures anticipating severe financial impacts springing from the pandemic (Freedman and Menon 2022). Among such measures was a loan restructuring program, enabling banks and microfinance institutions to suspend loan interests and repayments. As applications for new loans kept increasing during the crisis, concerns rose about over-indebtedness, more so as many locally owned banks had substantial stakes in the ailing real estate sector. Financial advisers called for authorities to exercise close control on national and international capital flows and intervene as needed to maintain financial sector stability (Freedman and Menon 2022).

Upon another unsurprising "landslide win" of the CPP in the 2023 general elections, everything was in place for Hun Manet, Hun Sen's eldest son, to step up to the role of prime minister. In this role, he not only faces a revitalized opposition (Haffner 2022) but also has to deal with a faltering economy. At the same time, the transition of power may offer a unique opportunity to break with the fallacies of Hun Sen-style authoritarian capitalism and undertake the long-overdue structural overhaul of those key economic sectors that push socioeconomic development. While it is too early to expect any noticeable change, it is worthwhile to speculate on what the transition may imply for class relations and politics in the near future. On the one hand, the new Cambodian middle classes—with their historical predecessors eliminated under the Khmer Rouge—remain small in size and narrow in composition (Un 2019). Without a sizeable middle class, it is unlikely that an effective push for political change will occur among Cambodia's swelling urban populace any time soon. After all, the political revolts of the 1980s and 1990s in Asian countries as divergent as the Philippines, South Korea, China, Thailand, and Indonesia have been widely understood as challenges to established elites, fueled by the frustrated ambitions of the middle classes to see their rising economic power reflected in their civil rights and political participation (Robinson and Goodman 1996). On the other hand, the CPP should not underestimate the rising discontent with the lack of real economic development as struggling Cambodians see foreign businesspeople, particularly recent arrivals from China, thrive (Dahles 2022a). Impoverishment of Cambodia's rural population undermines—even destroys—the rural base of the Hun family and the CPP and consequently threatens the very fundament on which their power is built. With widespread landlessness and systemic dispossession of the poor, disparities in wealth are once again weighing heavily on Cambodia, and dissatisfaction is brewing among the population, starting to pose a threat to the "elite pact" (see, for example, Deth and Bultmann 2016).

With authoritarian capitalism firmly in place and democratization out of reach for now, what is the second-best course for Cambodia to take? It remains questionable whether a patronage-based governance system would be able to successfully transition to a developmental state model. Some analysts would argue that a "political settlement" (Kelsall and Heng 2014) between technocrats and rent-seekers within the "elite pact" may balance support to genuine growth industries with the quest for profit for CPP patronage projects—an "elite-plus pact," so to speak, that may pass for "good enough governance" (Ear 2011, 71). Nevertheless, to end on a hopeful note, the young generation, of which the new prime minister is an exponent, may have the potential and drive to work toward a more diversified, inclusive, and sustainable economy and a brighter future for all Cambodians.

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