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Thesis

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**Foreign Aid-Corruption Nexus in Cambodia:
Its Consequences on the Propensity of Civil War**

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Contemporary Cambodia is most likely best known for two things—aid dependency and corruption. The thesis initially seeks to examine the nexus between foreign aid and corruption in Cambodia since 1993, the time when a huge influx of foreign aid injected into the country following the withdrawal of UNTAC, then explores if the correlation of the two encourages the propensity of civil war, and ultimately analyzes if the onset of civil war is attainable in the case that the propensity of civil war is feasible. Drawing from the analysis, the thesis concludes that *“Foreign aid, particularly loans, indirectly instigates civil war by partly generating corruption, particularly political corruption, because corruption makes aid ineffective in contributing to economic growth and poverty reduction, while encourages huge economic inequality and chronic poverty, which makes Cambodia more vulnerable and prone to civil war”*. However, the civil war in Cambodia is manifested or not depends on the motivation and initiative to be resisted and the means of financing the resistant group. Given the status quo of Cambodia, it is possible that the prominent opposition groups such as the opposition political parties can initiate the resistant movement; but it seems improbable. Concerning the ways of financing the rebel movement, by applying the Collier and Hoeffler Model of Civil War, although the opportunity of recruiting the members of the rebel group, the given natural geography, and the cohesion of the movement seems merely attainable, the way of financing the rebellion, through three fundamental means—extortion from the primary commodities-natural resources, donation from diaspora, and subvention from hostile governments—is unlikely feasible. If motivation and finance were not achievable, the rebel movement could not even be formed. However, sometimes unpredictable things might happen.

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whose wisdom and encouragement inspire me to study peace,
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Acronyms

ADB	: Asian Development Bank
ASEAN	: Association of Southeast Asian Nations
BABSEA	: Bridges Across Borders Southeast Asia
CDC	: Council for the Development of Cambodia
CG	: Consultative Group
COHRE	: Center on Housing Rights and Evictions
CPP	: Cambodian People Party
CSD	: Center for Social Development
DAC	: Development Assistance Committee
ECCC	: Extraordinary Chambers in the Courts of Cambodia
EIC	: Economic Institute of Cambodia
EU	: European Union
FUNCINPEC	: United National Front for the Independent, Peaceful, and Cooperative Cambodia
ICORC	: International Conference on Rehabilitation of Cambodia
IFI	: International Financial Institutions
IMF	: International Monetary Fund
KPNLF	: Khmer People's National Liberation Front
LDCs	: Least Developed Countries
NGOs	: Non-governmental Organizations
OA	: Official Aid
ODA	: Official Development Assistance
OECD	: Organization for Economic Cooperation and Development
PDK	: Party of the Democratic Kampuchea
PRK	: People's Republic of Kampuchea
UN	: United Nations
UNBRO	: United Nations Border Relief Operation
UNDP	: United Nations Development Program
UNTAC	: United Nations Transitional Authority in Cambodia
US	: United States
USAID	: United States Agency for International Development

CHAPTER I

Introduction

1. Background, Rationale, and Objectives

From the outside world, Cambodia is best known, in both national and world history, for two totally opposite things—*the glorious past of Angkor (12th-15th century)*, the brightest page of Cambodian history, and *the brutally genocidal Khmer Rouge regime (1975-1979)*, the darkest page. It has been true and continues to be true in present-day Cambodia even among the Cambodians themselves, but there are two more things that contemporary Cambodia is also most likely well-known. They are *aid-dependency* and *corruption*.

Cambodia's history has had many notable events. It has survived being trampled by foreigners for centuries. More recently, it was dragged into the Vietnam War and fell into bloody civil war that turned into a vast killing field by the genocidal Khmer Rouge. Then, it fell into the Vietnamese occupation that turned again into an unwinnable war between the Vietnamese troops and the Khmer Rouge. Ultimately, it descended into a so-called peace full existence with the signing of Paris Peace Accords of 23 October 1991. This led to a state of negative peace around 1998 when the Khmer Rouge was finally extinguished.

Cambodia nowadays, though relatively stable, has seen slow economic growth. These conditions are, arguably, the byproducts of the peace agreement and the shift from a centralized planned economy to a more decentralized and open market economy. However, Cambodia depends heavily on foreign aid to survive, and is a nation racked by rampant corruption. Approximately half of Cambodia's national revenue is shared by foreign aid (Ek & Sok, 2008), and Cambodia was ranked 166 out of 180 countries surveyed in 2008-Corruption Perceptions Index of the Transparency International, making it the 14th most corrupt country in the world, and the second most corrupt country in Asia behind Myanmar (Transparency International, 2008). This current condition and unusual political and economic dynamics constitute the focus of this thesis.

The thesis initially seeks to examine the nexus between foreign aid and corruption in Cambodia since 1993, the time when a huge influx of foreign aid injected into the country following the withdrawal of the United Nations Transitional Authority in Cambodia (UNTAC). Drawing from the analysis of the two, the thesis then explores if the correlation of the two encourages the propensity of civil war, and ultimately analyzes if the onset of civil war is attainable in the case that

the propensity of civil war is feasible. Two main questions are asked to answer the abovementioned objectives of the thesis. They are: (1) is there any relationship between foreign aid and corruption in Cambodia? If yes, how can foreign aid impact on corruption and vice versa? And (2) how can the nexus between the two create the conditions for the propensity of civil war in Cambodia? If yes, how can the onset of civil war be attainable?

A reason to focus on the relationship between foreign aid and corruption is simple: foreign aid is supposed to promote development. However, the consequences of poor management of foreign aid might exacerbate the internal dynamics within the country and destabilize it. Is it then possible that foreign aid could contribute to the propensity of civil war? The author contention is this is a real possibility in poor countries emerging from a long period of unstable political and economic conditions.

In this regard, since Cambodia has been ranked one of the most corrupt countries on earth, the concern is corruption might interrupt aid, which is hampering development and causing more troubles. This is a vicious cycle that can reignite a civil war. Oberg & Strom (2008) paraphrased the arguments of a number of authors studying civil war¹ that “Civil conflict destroys physical infrastructure as well as social infrastructure, and it drives off labor, especially skilled workers. Civil conflicts have been and continue to be a major obstacle to economic development in several regions of the world. Moreover, civil conflicts hamper economic growth and development not only in the war-torn country but also in neighboring countries and the surrounding region” (p. 4).

So what are the causes of civil war?

As detailed in Oberg & Strom (2008), there is a massive amount of literature and first hands accounts from numerous authors from across many disciplines on the study of the causes and the onset of civil war. Some researchers place the cause on poverty, some on economic inequality, while the other on natural resources, remittances and so on. Among them, the renowned and most recent study on the causes of civil war is popularly credited to the work of Collier & Hoeffler, the Policy Researchers of the World Bank (Collier & Hoeffler, 2000; Collier & Hoeffler, 2002(a); Collier et al., (2003); Collier, Hoeffler & Sambanis, 2005; Collier, Hoeffler & Rohner, 2006). They have studied quantitatively, by using cross-country study, the issues since the early 2000s, and placed the causes of civil war on the so-called greed and grievance. From that, the theory of civil war has been developed

¹ Since civil war sometimes is confused with other terms such as civil conflict, internal war, or armed conflict, even though they are more or less share common goal, to make it clear, Kalyvas (2006) put it as “*armed combat within the boundaries of a recognized sovereign entity between parties subject to a common authority at the outset of the hostilities*” (p. 17).

as the “Collier & Hoeffler Model of Civil War”. This theory is used to partly test the second part of the second research question in the thesis.

The thesis argues that foreign aid partly promotes corruption, causing more poverty and huge inequality between the rich and the poor, which make Cambodia more prone to civil war; however, the civil war is manifested or not depends on the motivation of the resistant group to form themselves as well as the finance to form and sustain them. The following is the structure of the thesis.

2. Structure of the thesis

The thesis is divided into five chapters. Chapter I constituted the introduction currently being presented. It introduces the problem statement or thesis of this study and the rationale and objectives behind of the study. Subsequently, it also structures the whole study into chapters, and explains the aims and relationships of the chapters.

Chapter II details the research methodology, literature review, and conceptual discussion, to frame the journey and direction of the thesis. The research methodology section explains the design by showing the method of data collection and data analysis. The literature review portion is classified into three main parts—(1) the nexus between foreign aid and corruption, (2) the link between foreign aid, corruption, and conflict or civil war, and (3) the correlation between the three in Cambodia. With regard to the conceptual discussion, it examines the theories and concepts of both foreign aid and corruption, and then proposes the commonly compromised definitions of both terms used in the whole thesis.

Chapter III thoroughly and exclusively focuses on the relationship between foreign aid and corruption in Cambodia. It first provides an overview of the historical context and foreign aid trends in Cambodia since it gained full independence from France, through the occupied Cambodia era as part of a so-called Indochina from 1863 to 1953, all the way to present-day. It is worth our time and attention to focus on this history as it fundamentally helps us understand the general political economy of the country and why and how aid was sent and how it impacted both domestic and international affairs. Second, Chapter III thoroughly analyzes the aid-corruption nexus in Cambodia. At this point, the focus shifts to respond to the first research question. It specifically examines how foreign aid impacts corruption in Cambodia and vice versa. By so doing, the policies of both donors and the Cambodian government in providing and receiving aid respectively, and the contextual factors are deeply analyzed.

Chapter IV, the heart of the thesis, examines if there is any consequence of the aid-corruption nexus on the propensity of future civil war, and then goes deeper to analyze if the onset of civil war is likely attainable in the status quo of Cambodia given the fact that the propensity of civil war is feasible.

Chapter V concludes the thesis by combining the findings from Chapters III through IV, and suggests lessons learned as well as provides policy recommendations to peace-related stakeholders and ends by modestly focusing on how research of this nature is of significance to the larger field of Peace and Conflict Studies.

CHAPTER II

Research Methodology, Literature Review, and Conceptual Discussion

1. Research Methodology

This research is a bibliographical or desk research, and employed qualitative approach. The type of this research methodology is the exploratory case study. Gray (2004) suggests that “The case study method is ideal when a “how” or “why” question is being asked about a contemporary set of events over which the researcher has no control” (p. 124). This research looks specifically at Cambodia as a case study, in which the nexus between foreign aid and corruption is discussed and analyzed if it might encourage the propensity of civil war. Cambodia is chosen because it is one of the most aid-dependent and corrupt countries in the world. It is exploratory research, as Gray (2004) recommended, because it is worth conducted when not enough information is known about the issue. In this regard, this research is going to specifically explore if and how foreign aid impacts corruption and vice versa, and how the two instigate future civil war in Cambodia.

1.1. Data Collection Method

As the research is based on desk reviews of existing literature, the data collected are exclusively counted as secondary sources. Diverse data from different sources are gathered—in effect a triangulation of data sources—that support the validity and reliability of the finding. Data on the general situations of the link between foreign aid and corruption, and their attribution to civil war, as well as those particularly associated with Cambodia, are basically gathered through academic books and scholarly journals. While some important policy research reports related to foreign aid and corruption produced by non-governmental organizations or other institutions are collected, some up-to-date news articles, interviews with relevant stakeholders conducted by established institutions such as 101 East, Radio Free Asia etc., are also collected. In particular, while the study relies heavily on “second hand” information, attempts have been made to gather first hand accounts through the speeches and words of stakeholders such as the Prime Minister of Cambodia, the World Bank Director to Cambodia, Director of the Human Rights Watch, then-Executive Director of the Center for Social Development in Cambodia, the Parliament Member, and other relevant individuals, especially in regard to topic related to foreign aid and corruption. Some of these have been collected from the respectful and reliable sources, online news, and websites.

1.2. Data Analysis Method

The method used for data analysis is content analysis. Content analysis is defined by Holsti (1969) that “any technique for making inferences by objectively and systematically identifying specified characteristics of messages” (p. 14), while it is similarly defined by Krippendorff (2004) that “a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use” (p. 18). Also, Dey (1993) asserts that content analysis is the process of analysis that goes beyond description by breaking data down into small units to deeply understand the characteristics of each element. This is inferential thinking at its best. After collecting and assembling all the relevant sources on the relationship between foreign aid, corruption, and civil war in general, and that in Cambodia in particular, the data are coded by breaking them down into different categories or problems, such as foreign aid, corruption, and civil war, and subcategories, i.e. state’s policies, poverty, economic inequality etc., of the research and then analyze based on content analysis method. Content analysis is used fundamentally to analyze the relevant existing literature, including books, scholarly journals, policy research reports, speeches, interviews, newspapers articles and other relevant sources, on how foreign aid in general contributes to corruption or vice versa in Cambodia. This method is also used to examine if the consequences of aid-corruption nexus influence on the propensity of civil war, and finally to analyze if the onset of civil war is attainable by party employing Collier & Hoeffler Model of Civil War. For content analysis, the data analyzed are based on three phases proposed by Flick (1998): Summarizing content analysis, explicating content analysis, and structuring content analysis.

2. Literature Review

Since the thesis mainly focuses on foreign aid and corruption in Cambodia and whether and how the link of the two perpetuate or instigate future civil war in the country, the literature to be reviewed are divided into three parts: first, the review of the nexus between foreign aid and corruption in general; second, the review of the attribution of conflict to foreign aid and corruption; and last, the review of foreign aid, corruption, and how the correlation of the two may paves the way for the propensity of civil war in Cambodia.

The study on the relationship between foreign aid and corruption is relatively new even though the separate study on the two subjects was believed to date back long time ago. Although there are many studies on foreign aid and corruption separately, there have just been a handful of relevant studies regarding the nexus between the two. Since corruption is one of the components of

governance, there are some studies focusing on the relationship between aid and governance. Knack (2001) examined if there is any relationship between aid and the quality of governance. To him, the quality of governance is defined based on the rule of law, bureaucratic quality, and corruption. He concluded that higher aid level makes aid-receiving countries more dependent and they tend to have low institutional quality such as low accountability, more rent-seeking opportunities and corruption, causing conflict over control of aid funds, and the inefficient reform of policies and institutions. Santiso (2001) argues that aid conditionality is not an appropriate approach to strengthen good governance in aid-recipient countries. Foreign aid being conditional or not is not an effective way to promote good governance, while the most important thing is the framework of the agreed-upon objectives between donors and aid-recipient countries. Brautigam & Knack (2004) studied the effect of large scale aid on governance in Sub-Saharan Africa. They argue that high level of aid can harm the quality of governance. Large scale aid discourages the recipient to improve its governance quality, creates soft budget constraints and generates more rent seeking opportunities. From this point, it can be inferred that aid would increase corrupt activities.

While corruption is detrimental to economic growth, it is very likely that corruption limits the effectiveness of aid. Akramov (2006) examines if the different levels of governance with different categories of aid are important in promoting growth of the recipient countries. He measures governance in terms of democratic quality and institutional quality. He found that the recipient countries with better governance receive more aid than the one without good governance; however, governance of the recipient countries impacts on donor's aid allocation decisions only marginally. Moreover, aid tends to be more efficient in low-governance recipient countries when it is allocated to production and social sectors, whereas aid to economic infrastructure is likely to be more effective in medium and high-governance recipient countries.

All of the above authors found no direct evidence between aid and corruption, but aid and governance and how the last two affect one another, with the result that the recipient countries with bad governance tend to receive less aid, while the ones with good governance tend to receive more aid. None of the above researchers study on why aid is still given when the aid-needed countries are not able to improve its governance, except Santiso (2001), who argues that in order to improve governance of the recipient countries, aid is not just given, but the agreed-upon objectives between donors and recipients have to be taken into account.

There are some direct studies between foreign aid and corruption. World Bank researchers found that foreign aid can induce corruption (Pradhan et al., 2000). Alesina and Weder (1999)

studies whether corrupt governments receive less aid. They found no evidence that corrupt governments receive less aid; however, more corrupt governments receive more aid counted on some measures of corruption. An increase in foreign aid is often accompanied by more rent seeking behaviors and an increase in corruption, not helping reducing corruption at all. Hanlon (2004) also shares quite similar idea with Alesina and Weder (1999) that although donors criticize corruption in the recipient countries, more aid are still provided. He further studies on foreign aid and corruption in Mozambique, and argues that donors may unintentionally promote corruption in the aid-needed countries by, with the reluctant behavior to besmirch the issue of corruption, not raising the issue of corruption up publicly. Furthermore, corruption is the severe wound blocking aid allocation in the right way, and making aid more ineffective (Schudel, 2008). Schudel (2008) argues that aid is given based on the behaviors of both donors and recipients; less corrupt donor governments tend to give more aid to less corrupt recipient governments than to more corrupt governments, whereas there is no clear evidence on if corrupt donor states provide more aid to corrupt recipient states. The last argument of Schudel (2008) can be understood that on the one hand, corrupt donors might provide more aid in corrupt recipients because the first probably see the potentials of investment in recipient countries, and they already experience corruption and know how corruption plays a role in investment, and on the other, corrupt donors might not provide more aid to corrupt recipients as it is due to the fact that the first do not see any potential investments in the latter. The aforementioned researches are useful for this thesis and serve as the guidance to particularly study on the same issues in Cambodia.

There is a little scholarly work examining the connection between foreign aid and conflict or civil war. A few show that foreign aid is likely to increase the risk of civil war (Grossman, 1999, 1992, 1991). With the exception of the discussion on literature on the impact of foreign aid on ongoing conflict or civil war, which is out of the objective of this thesis, it is perceived that when huge amount of aid is flooded into the recipient countries and both the government and rebel groups are kleptocrats, who are ambitiously attempt to control the resources of the country, aid is likely to accelerate the potential of civil war by creating more rent-seeking behavior among political and economic elite, and encouraging the rebel groups to engage in war (Arcand & Chauvet, 2001). Some authors found that foreign aid has no direct impact on the likelihood of civil war (Arcand & Chauvet, 2001; Bussman & Schneider, 2007; Collier & Hoeffler, 2002). Collier and Hoeffler (2002) analyzed if aid and policy have direct impact on the risk of conflict. The finding was that aid and policy have no direct effects on conflict risk, but both indirectly influence the growth rate and the dependence on

primary commodity exports, which directly affect conflict risk. Adding to the argument that foreign aid is likely to increase the risk of civil war, Collier et al., (2003) in the World Bank policy research report “Breaking the conflict trap: Civil war and development policy”, bravely argue that “the key root cause of conflict is the failure of economic development” (p.53).

Furthermore, there are few existing studies on the indirect consequences of corruption on conflict or civil war. Corruption, an old phenomenon of human history and as old as state, has become a major topic for discussion among many scholars in the related fields, especially in the field of economic growth and development retrospectively and presently. Corruption is associated with lower levels of development (Ades & Tella, 1997). It might limit the speed of private investment (Mauro, 1998), which may cause a downturn in an economy; if the economy decreases, many structural problems such as unemployment, poverty and so on, will increase, signaling the future conflict. Significantly, Huntington (1968) and Myrdal (1971) contribute different points of view concerning the impacts of corruption on economic development. The first suggests that corruption might not likely affect economic growth, while the latter claims that corruption is the sturdy obstruction hindering economic development. The consequences of corruption on poverty and income inequality have drawn attentions from some scholars (Gupta, Davoodi & Alonso-Terme, 2002; Gyimah-Brempong, 2002; Barreto, 2001). They found the positive impacts of corruption on poverty and income inequality. Corruption also impairs institutional quality. It weakens the rule of law (Herzfeld & Weiss, 2003), and create more political instability (Mo, 2001). It can be inferred from the arguments of most of the aforementioned authors that corruption is the impediment causing structural problems such as poverty, income inequality and particularly political instability in the state. If a state is unstable, it becomes a failed state, which is a source of many problems, so conflict, or more severely civil war, might be possibly erupted.

Since it is widely acknowledged that corruption is one of the main obstacles of economic growth and good governance, which principally results in poverty and other social grievances, some studies attempt to specifically focus on the interaction between poverty and conflict or civil war. The relationship between corruption and poverty has been examined by Chetwynd, Chetwynd & Spector (2003). They found that corruption itself does not cause poverty, yet they summed up “corruption has direct consequences on economic and governance factors, intermediaries that in turn produce poverty” (p. 3). The finding is confirmed through testing two models—economic model and governance model. In economic model, corruption impacts poverty by first impeding economic growth factors, which impacting poverty, while in governance model, corruption produces poverty

by reducing the quality of governance. As cited in Djankov & Reynal-Querol (2008), German Chancellor Schroder asserted that “Extreme poverty, growing inequality between countries, but also within countries themselves, are great challenges of our times, because they are a breeding ground for instability and conflict. So reducing worldwide poverty is, not least, essential for safeguarding peace and security” (p. 2). Rice, Graff & Lewis (2006) explore if poverty is the precondition for conflict or civil war. According to them, poverty makes nation more vulnerable and prone to civil war because poor countries tend to have large youth bulges, low education levels, and depend on natural resources adding to the lower per capita income. Poverty lowers per capita income, which is the signal of the risk of civil war. Per capita income ensures the stability of state’s overall financial, administrative and military capabilities, which are fundamental for government’s strength; if the government is weak, the rebels might take over the government (Fearon & Laitin, 2003).

The study of single issue of either foreign aid or corruption in Cambodia is contemporarily found in a few policy research reports. Sok & Ek (2008) analyzed the aid effectiveness in Cambodia and found that aid management and coordination is not effective due to some challenges such as the use of program-based approaches, promoting the role of civil society organizations, improving government systems, especially public financial management, and the improving the database on aid delivery and administration. None of the above challenges appear to be directly associated with corruption. Yet, the researchers from the United States Agency International Development (USAID) assessed the corruption status in Cambodia, and concluded that corruption is very pervasive and widespread in the country. Recommended by USAID, many efforts have to be taken into consideration to overcome the structural, political, economic, social, and administrative malfeasance (Calavan, Briquets & Brien, 2004). A report entitled “Perceiving and fighting corruption in Cambodia: A quantitative and qualitative survey in five provinces”, produced by Indochina Research (2007), stressed that corruption pervasively and permanently exists in everyday life of Cambodians, and caused by two main reasons—low salaries of the normal civil servants, and the greed of high officials for power and wealth. The two reports just discussed only the general causes, consequences and tackling ways of corruption in Cambodia, but rather they did not particularly study the corruption on foreign aid, or the link between the two. For the time being, the two reports on corruption in Cambodia can be considered the only existing literature detailing about the corruption discourse in contemporary Cambodia. The two separate studies on foreign aid and corruption provide the overview of the trends of both issues in Cambodia, which shed the light for the study of this thesis.

Concerning literature on foreign aid and corruption in Cambodia, there were no formal existing studies so far on the nexus between the two though Ear (2007) and the Global Witness (2009; 2007) study indirectly the relationship between aid and corruption. Ear (2007) focuses on the political economy of aid and governance in Cambodia. He surveys the quality of governance based on Kaufmann et al.'s six dimensions—voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and, control of corruption. So there is an indirect link between aid and corruption in his study. He analyzes how aid can influence the six dimensions of governance suggested above. With regard to the analysis between aid and corruption, he found that aid might increase corruption. However, the author does not clearly indicate why aid increase corruption in Cambodia since he mostly focuses on the impact of aid on the quality of governance in the country. Supplemented to the report on “Cambodia’s family trees: Illegal logging and the stripping of public assets by Cambodia’s elite” by Global Witness (2007), the most recent study of the Global Witness (2009) entitled “Cambodia country for sale: How Cambodia’ elite has captured the country’s extractive industries” reveals that corruption is a deep wound blocking resources mobilization and allocation, and impairing economic growth and sustainable development of Cambodia. These two reports mainly talk about the state capture done by the most powerful elite in Cambodia, and marginally about how the donors perceive corruption done by those elite, not really mentions the correlation between foreign aid and corruption in the country. That is why, the specific study between foreign aid and corruption in Cambodia is deemed important since no one has exactly studied the issues so far. Particularly, none of the institutions or researchers in the field has directly studied the interaction of foreign aid and corruption in Cambodia and how the two can perpetuate civil war in the future. Thus, this thesis is considered the first step in studying this question, and will result in some findings and resultant recommendations as well as further issues that are in need of critical examination.

3. Conceptual Discussion

3.1. Foreign Aid

The genesis of aid flow from developed to developing countries began after World War II. Originally, aid was bilaterally given to help rebuild the war-devastated countries. During the Cold War, the two super powers—United States (US) and the Soviet Union—utilized aid to help strengthen the military capability of their allies and integrate their political ideologies into their allies’

national and foreign policies. Since the end of the Cold War, the aims of aid have been at promoting economic growth and improving general wellbeing of the developing or poor countries, and aid was shifted from bilateral aid to multilateral aid. The International Financial Institutions (IFIs), such as International Monetary Fund (IMF) and World Bank, have been becoming the leading institutions in channeling aid from donor countries to aid-needed countries. During the 1990s, aid was mainly targeted to advance democratization and political stability in war-torn countries and to encourage free-market economies in former communist countries. Currently, especially since the beginning of 2000, the general purpose of providing aid has been to advance economic growth and support humanitarian needs. Moreover, following the 11 September attack, the US began giving huge amounts of bilateral aid to its allied countries such as Pakistan, Afghanistan and Iraq in its fight against terrorism.

Foreign aid as a subject matter of political economy, development economics, and international relations has been a matter of intense debate for decades. Foreign aid theories are not independent from growth and development theories in the development economics field. Two arguments have been made about foreign aid—pro-aid and anti-aid arguments. The aid protagonists argue that foreign aid is the vital tool for pushing economic growth in developing or underdeveloped countries because it is treated as a kind of capital formation and those countries are unable to generate capital, foreign exchange, and technological knowledge on their own (Pankaj, 2005). Jeffrey Sachs, Joseph Stiglitz, Nicholas Stern are the leading scholars in line with pro-aid argument. They argue that aid contribute to economic growth and good governance by preventing worse performance of the recipient countries (Sachs, 2005; Sachs et al., 2004; Stern, 2002; Stiglitz, 2002). Whereas, the aid antagonists argue that foreign aid does not necessarily improve economic growth and development of those countries since their problems are beyond either savings or foreign exchange constraints, and it is useless without the participation of indigenous efforts (Pankaj, 2005). Milton Friedman, Peter Bauer, and William Easterly provide the most highly visible critiques of anti-aid argument. They asserted that aid has just been wasted since it has broadened government bureaucracies, encouraged bad governments, and supplemented the elite or the most powerful in poor countries (Bauer, 1972; Easterly, 2001; Friedman, 1958). In international relations arena, foreign aid has also been pro and anti. Pro-aid scholars with constructive perspective suggest that foreign aid help promote international peace and prosperity in the world by developing peaceful relationship between donor and recipient countries. On the other hand, anti-aid scholars with realist

view claim that foreign aid is the tool used in foreign policy of donors to spread their political, economic, and diplomatic interests.

Aid can be different in types counted on its purposes. According to Morgenthau (1962), foreign aid is classified into six types—humanitarian foreign aid, subsistence foreign aid, military foreign aid, bribery, prestige foreign aid, and foreign aid for economic development. Humanitarian aid and subsistence aid have similar purpose, helping victims suffered from natural disasters such as floods, famines and so on in the aid-recipient countries, and preventing organized societies from breakdown respectively. Military foreign aid is given to support the allies' security forces during mainly the Cold War. Bribery, served as an integral part of diplomacy, is proffered by a government to another for political advantage by giving a pension to the Foreign Minister or Ambassador of the latter. Prestige aid is naturally similar to military aid. It is given to increase the prestige of the recipient countries both at home and abroad because the nation can enjoy possessing modern warfare, and possibly become a modern military power. Last but not least, foreign aid for economic development, as defined in its title, is to foster economic growth of the aid-needed countries (Morgenthau, 1962). Of these foreign aid types, while humanitarian aid seems to be nonpolitical, all are political since more or less it serves the objectives of the aid-sending countries. Though politically motivated, foreign aid has been given for different purposes depending on foreign policies of the donor countries to reach their political, economic, and diplomatic interests; thus, it will probably have different consequences on development of the recipient countries. For example, economic aid intended to promote economic growth or build infrastructure is likely to have a greater impact on development than military aid, which aims to foster security forces in the recipient countries.

Taking advantage from the six types of aid listed above, and to be understandable, aid can be merely categorized into only two main types—humanitarian aid and development aid. Humanitarian aid is provided for humanitarian purposes, typically in response to humanitarian crises caused by natural disasters. Its primary objective is to save lives of the victims and maintain human dignity in the short term in the case of national emergency. Whereas, development aid can be included all the four types of aid, except humanitarian foreign aid and to a lesser extent bribery, recommended by the above author. It is provided to address the underlying socio-economic factors, such as poverty reduction and livelihood improvement, which might possibly lead to crises or instabilities, in the long term.

Foreign aid can be bilateral or multilateral, with the exclusion of private donors—non-governmental organizations (NGOs) and individuals. Bilateral aid is the aid given from one government directly to another without passing through either third government or other institutions. Multilateral aid is provided by the governments of donor countries to leading international organizations such as the World Bank, IMF, African, Asian, and Inter-American Development Bank, and other United Nations agencies such as the United Nations Development Program (UNDP) and so forth, which are responsible for distributing those aids to developing or underdeveloped countries. Currently, it is estimated that bilateral aid accounts for about 70%, while multilateral aid covers the rest².

The study of foreign aid has drawn attention from scholars since particularly the end of the Second World War; however, there is no consensus among them in defining the definition of foreign aid. A certain amount of ambiguity in the terminology of foreign aid is contained in the existing literature. Some authors include to foreign aid all financial and technical flows, including official grants and loans, from donors to developing and transition countries, while others include only grants and concessional loans.

As far as the debate on foreign aid is concerned, attention should be paid on different types of money being sent from one government to another when discussing about foreign aid. Those are grants, debt forgiveness or debt relief, concessional loans or soft loans, and loans. Grants are considered as money provided without any expectation of returns and could substitute for domestic revenues (Clements, Gupta, Pivovarsky & Tiongson, 2004). Debt forgiveness, as defined by Kharas (2007), is “a flow directly from one branch of government in rich countries to another agency in rich countries—typically from the Treasury to Official Export Credit Agencies” (p. 6). While concessional loans, as a definition provided by the World Bank, are loans typically carry no interest and offer in a longer repayment periods than other forms of financing could provide³, loans are commonly understood by scholars since the early 1960s that they are money carrying the burden of future repayment (Clements, Gupta, Pivovarsky & Tiongson, 2004).

Foreign aid, nonetheless, is defined comprehensively and acceptably in the development community by the *Development Assistance Committee* (DAC) of the leading *Organization for Economic*

² For more details, find at <http://stats.oecd.org/Index.aspx?DataSetCode=TABLE1> Retrieved July 20, 2009.

³ More details, please see the World Bank's website at http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20189587~menuPK:51235940~pagePK:51236175~piPK:437394~theSitePK:73154,00.html#What_is_a_concessional_loan Retrieved July 20, 2009

Cooperation and Development (OECD) in the early 1970s as *official development assistance* (ODA). According to the Factsheet of OECD (2008), ODA is defined as foreign aid flowing from donors to countries on the DAC list⁴ and to multilateral development agencies. It is provided by official agencies, including state and local government, or by their executive agencies, with its main objective of promoting economic development and welfare of recipient countries, and though its characteristic is concessional, it should include grant element at least 25 percent. ODA consists of official grants and highly concessional loans flowing from bilateral or multilateral donors to, and aiming to promote economic growth and welfare of the aid-needed countries. Moreover, while excluded military support, debt forgiveness for military loans, trade credits, and political development programs, ODA includes grants for technical cooperation such as local capacity development, policy advice, and police training. There is another aid called official aid (OA), which is formally differentiated from ODA by the OECD. The OA consists of aid flows that meet eligible conditions included in ODA, but the recipients are countries in transition, mainly from Eastern Europe and Former Soviet Union.

When discussing or talking about foreign aid, people have in mind ODA. Though the standard definition of foreign aid is acceptably referred to ODA, *the definition used in this thesis is that foreign aid includes all the resources, including grants, debt forgiveness or debt relief, concessional loans, and loans, financially and technically allocated from donors either bilateral or multilateral to the recipient countries. The term foreign aid, including humanitarian and development aid, and ODA are used interchangeably in this study.* Furthermore, even though foreign aid can be in private type such as NGOs' funds and individuals, *only bilateral and multilateral aid are taken into consideration for the discussion and analysis in this thesis.*

3.2. Corruption

Corruption, a cancer that gradually destroys a cultural, political and economic fabric of the society, has occurred not just only in developing countries but also in developed ones; however, mostly it is found in developing countries. It is an issue believed to be erupted long time ago, but just globally gained prominent interest for research over the last thirty years. Corruption is as old as the government office. In the past, corruption is heard in Babylon, Rome, The third century BC India, Pre-Reformation Catholic Church, and Spanish Empire; whereas in modern time, it erupts everywhere across the world from simon-pure Sweden to genocidal Cambodia (Palmier, 1983).

⁴ The list can be found at <http://www.oecd.org/dataoecd/62/48/41655745.pdf> Retrieved July 20, 2009

Corruption has been a concern and sources of debate and discussion for ages. As state or some state agents are always involved in corrupt activities and corruption is basically a state-society relationship, Amundsen (1999) suggests two prominent theories on corruption—redistributive corruption and extractive corruption theories. In redistributive corruption, corruption from below, the state is the weaker part in the state-society relationship. The benefits from corrupt activities are drawn by various organized and powerful social and economic individuals or groups in the society rather than the state or ruling elite. To be considered who are the most beneficiaries of this kind of corruption, it depends on the local distribution of forces. It might be powerful ethnic or regional groups, foreign or local corporate interests, or the general population. On the other hand, the loser of the game in this corruption theory is the state and its regulating capacity because when the above-mentioned beneficiaries benefit from the corrupt activities by being able to buy national and public resources cheaply, or gain exceptions, privileges, immunity or impunity through corruption in the form of kickbacks, briberies and so on, the state is gradually destroyed because the state lacks the capacity to extract taxes and render public services. Amundsen (1999) went on by stating that this kind of corruption will mainly hurt the poor since the state is unable to deliver basic public services such as education, health, and other social services and protections to the population.

Another theory, extractive corruption, is the opposite one against redistributive corruption. It is also called corruption from above, where state or ruling elite are the stronger part in the state-society relationship. The state is also the most beneficiary of the corrupt activities. Since the ruling elites are the most powerful force in the society, the state apparatus is utilized as a tool to accumulate resources from the society for their benefits. In this theory, the state is the strongest force in the society, while the ruling elites are the ruling class controlling the powers of the state. According to Amundsen (1999), this theory has a strong link with the notion of authoritarianism because the authoritarian rulers always use their power capabilities to strengthen their powers in predominantly control the state and extract public resources from the nation and the ruled for their advantages. This theory is originated from neo-patrimonialism, the political system where the ruling elite maintains authority through patronage system rather than through law (Amundsen, 1999). In the same manner, the public resources are attained and consumed by the ruling elite, not fairly distributed to the needy public.

Though corruption was put on global agenda for discussion and debate, there is still an ambiguity of its definition. There is fairly a general consensus in the existing literature on the definition of corruption that corruption is the abuse of public office for personal gains either in the

form of individual or faction. Corruption exists from individual to state. Even though corruption appears in different forms—bribery, nepotism, patronage, theft of state’s assets, and so on, and is defined differently, most of the scholars studying corruption refer it to corruption in the state or government. Talking about corruption in the state or government, while some scholars refer it to public corruption (Heffernan & Kleinig, 2004; Neild, 2002), the others refer it to political corruption (Bull & Newell, 2003; Harris, 2003; Heidenheimer & Johnston, 2001; Amundsen, 1999). Among the two, when studied or researched, political corruption was always referred to and relatively gained more interests from both academics and policy makers.

Political corruption is a multifaceted concept with comprehensive definition, which is unsatisfactory in the existing literature. Many scholars have individually attempted to term its unique definition, but to some degree left it unacceptable among the public. Heywood (1994) claims that political corruption can be clearly seen when there is an abuse of trust and controlling attempt of the political arena through undemocratic use of power and influence. Though Harris (2003) admitted that the definition is not yet perfect, more or less he agrees with the definition suggested by Summers (1987) that political corruption is “the use of public position for private advantage or exceptional party profit, and the subversion of the political process for personal ends” (Summers, 1987, p. 14). Political corruption, sometimes called *grand* corruption, occurs at the higher level of government when political decision makers themselves are corrupt by using their political power to sustain their power, status, and wealth (Amundsen, 1999). Political corruption is frequently associated with bureaucratic corruption or so-called *petty* corruption, which happens in the public administration or the implementation ends of politics. In government system, usually *grand* corruption refers to corrupt activities done by senior or high ranking officials, whose responsibility is to make a decision before putting into practice at the administration level, while *petty* corruption means corrupt activities done by lower ranking officials or underpaid officials, who position at the public administration level.

In other words, political or grand corruption and bureaucratic or petty corruption can be called “state capture” and “administrative corruption” respectively. “State capture” relates to taking control of regulatory, judiciary and executive agencies to obtain benefits for those corrupt and involved in the decision making of the state. A research study done by the World Bank (2000) depicts that “state capture” is “the actions of individuals, groups, or firms in both the public and private sectors to influence the formation of laws, regulations, decrees, and other government policies (i.e., the basic rules of the game) to their own advantage by means of the illicit and non-

transparent provision private benefits to public officials” (p. 1). It can be simply understood that political leaders capture the state by designing the framework of reforms that meet their private interests and benefits from the control over key resources of the state. Hanlon (2004) argues that “state capture” is believed to be comparatively higher in countries with kleptocratic political regime, where institutions of the state are captured to serve the private interests of political leaders and their cliques. Moreover, administrative corruption involves the existing laws, rules and regulations and most commonly associates with paying a bribe to obtain licenses or permits from the state, deal with taxes or tax collection, and gain the government contracts. With administrative corruption, the state’s public fund is misused for the civil servants’ own benefits, not rightly directed to the public (World Bank, 2000).

With the above theories on and definitions of corruption provided, it can be said that political corruption or grand corruption is linked with extractive corruption theory, while bureaucratic corruption or petty corruption is associated with redistributive corruption theory. Furthermore, drawing from the aforementioned definitions, corruption is the use of legitimate powers by government officials for illegitimate gains. In this case, it does not necessarily mean that corruption is the abuse of power by the government officials for their personal gains, but can be for the benefits of their families, clans, cliques, factions, groups, or others. Furthermore, corruption does not always involve a bribe, but the abuse of public position for personal ends. As an example provided by Tanzi (1998) that a public official claiming to be sick, rather abuse that time for his/her own vacation, so it is the abuse of public position for personal gains, which is not involved with bribes or money.

Of the above definitions on corruption provided, *the common definition to be used in this study is corruption is the use of legitimate powers by government officials in any or all levels for illegitimate gains, either individually or collectively.* Moreover, to make it clearer, *the types of corruption being discussed in this study are both political corruption, grand corruption or state capture and bureaucratic corruption, petty corruption or administrative corruption. The term political corruption, grand corruption and state capture are used interchangeably, whereas bureaucratic corruption, petty corruption and administrative corruption are also used interchangeably in this thesis.* Also, this study *focuses only on corruption in the government*—corruption practiced in the public sectors or by public individuals or those serving in the government, not in the private sector—corruption committed by private institutions or individuals, who are not working for the government.

Thus, this comprehensive discussion on both theories and definitions of foreign aid and corruption in general is taken for the study of foreign aid and corruption in Cambodia in particular, and the correlation of the two linked with the possibility of civil war outbreak in the future Cambodia will be specifically analyzed following the study and analysis of the two.

CHAPTER III

Foreign Aid and Corruption in Cambodia

This chapter looks exclusively at the relationship between foreign aid and corruption in Cambodia since the signing of Paris Peace Accords and the intervention of the United Nations in the country in 1991, especially the present-day Cambodia, although foreign aid and corruption may exist in the country before the given time period.

First, it would be advisable and helpful to review Cambodia's long and grisly connection with humanitarian and development assistance or foreign aid before we go deeply into the discussion and analysis on the correlation between aid and corruption.

1. The Overview of Historical Context and Foreign Aid Trends in Cambodia

Cambodia has been an aid-dependent country for its survival from war to peace since the late 1960s when the Vietnam War spilled over into the country. It is safe to assert like that because since the aftermath of 1953-Cambodia independence up to the end of the 1960s, Cambodia, called *Sangkum Reastr Niyum* or Popular Socialist Community Movement, depended largely on itself to survive through agricultural cooperatives, state-own enterprises and other development and construction projects. Cambodia, ruled by His Majesty Norodom Sihanouk, declared itself as the island of neutrality and peace, without the involvement with other external affairs, which might perpetuate and fuel conflict in the country. Unfortunately and alternatively, its neutral and peaceful status could not survive long since a coup d' etat against head of state Sihanouk led by General Commander Lon Nol with the backing of the US in its war against communism in the Vietnam War succeeded in 1970. During the early 1970s-Lon Nol regime, Cambodia was engulfed in civil war and basically depended upon aid and supports from the US to fight communist factions. Cambodia was just a proxy government to the US, which supported the country for its policy against the Vietnamese communists during the Vietnam War. Military aid was the main aid provided at the time.

The Khmer Rouge, the resistance faction named by Sihanouk, who fled the country in the late 1960s when the country was in turmoil, took power in 1975. The Khmer Rouge insurgent group grew in strength thanks to the strong support particularly from China financially and militarily. Led by Pol Pot, the Khmer Rouge conducted a reign of terror in the country that brought death to about a quarter of total Cambodian populations. The entire country was turned into brutally atrocious labor camp and a so-called killing field, which was recognized as the darkest page of Cambodian

history. With Maoist ideology-motivated Khmer Rouge, everything, including currency and particularly private properties, was banned, state's institutions were partly or wholly destroyed, and the intellectuals, officials working for the Lon Nol administration, and ethnic groups such as Chinese, Cham, and significantly Vietnamese, were targeted or systematically exterminated. Talking about international aid during the genocidal Khmer Rouge regime, it is believed that adding to the large sponsor of weapons, US\$ 100 million US dollars were provided to the Khmer Rouge by China (Kiernan, 1993).

In 1979, the Khmer Rouge was ousted by Vietnamese troops, whose intervention into Cambodia's affair is questionably uncertain⁵, and the new regime, called People's Republic of Kampuchea (PRK), was quickly installed. With the backing of Vietnam, PRK's administration was begun in the midst of intense warfare between Vietnamese troops and regrouped Khmer Rouge forces⁶, fled to hide in the jungles along the Cambodian-Thai border. During this period, the regime enjoyed little international support. Foreign aid was totally banned from entering the country, except those from the Soviet Union, Vietnam, and other Soviet bloc countries, which are the main supporters of the regime to sustain and spread their communist ideology and power in the region. On the other hand, the Western states, with democratic ideas, along with their Asian allies, particularly China⁷ and the members of Association of Southeast Asian Nations (ASEAN) prohibited aid from supporting the regime because they did not internationally recognize the regime.

Cambodia is a very special case and has attracted the world's attention to see the truly awful aid paradox in this time. Throughout the 1980s, there were two opposite kinds of foreign aid flowing from different directions into Cambodia. On the one hand, the PRK was strongly supported by Vietnam, the Soviet Union and the former Soviet bloc countries. Although the government of PRK was being sponsored, the whole population of the country did not benefit from such aid as the regime is still weak, and aid was intended only for the support of the government. Significantly, the

⁵ Some argue that it is the invasion of Cambodia's sovereignty under international law, while others assert that it is the salvation of the country. Whether such an intervention is legitimate or not, and for further understanding, please refers to Morris, S. J. (1999). *Why Vietnam invaded Cambodia: Political culture and the causes of war*. USA: Stanford University Press.

⁶ The regrouped Khmer Rouge forces, called the Coalition Government of Democratic Kampuchea, were joined by other Cambodian resistance factions such as Funcinpec, the royalists loyal to the King Sihanouk, and the Khmer People's National Liberation Front.

⁷ Why did not China as a communist country support the regime, which was perceived as communist with the support from Soviet Union and Vietnam? The answer is that China was against Vietnam due to the historical conflict between the two, and Soviet Union was the main supporter of Vietnam, so China had to be against Soviet Union too. The other thing is that China was the supporter of the Khmer Rouge, so it still sustained the Khmer Rouge, and whoever did not support the Khmer Rouge, it would definitely be against those.

Khmer Rouge was still recognized by the international community and occupied the seat in the United Nations (UN) as a legitimate government of Cambodia. The US-led international community penalized and isolated the Vietnamese and Soviet-backed regime with more than a decade of sanctions until 1991, leaving its population in fear, hunger and poverty. Mysliwiec (1988) claimed that Cambodia “is the only third world country that is denied United Nations development aid” (p. 73). Aid is a crucial and fundamental factor to ensure that emergent and basic needs of the vulnerable and poor are met; thus it should have been provided to Cambodia at that time. Boua (1993) notes that:

For thirteen years, from 1979 to 1992, Cambodia did not receive UN development aid. The reason is that the government of the State of Cambodia was not recognized by the UN or Western countries, the donors of UN funds, despite the fact that it was this government which ended the suffering and genocide perpetrated by the Khmer Rouge regime [...] 8.5 million Cambodians living under the Hun Sen regime continued to be punished by the world community (p. 273).

On the other hand, the so-called United Nations Border Relief Operation (UNBRO) on the Thai-Cambodian border is believed to provide aid on the border to some of the century’s worst war criminals and hold it back from the stifled and hungry Cambodians living in the country. UNBRO notoriously fed the Khmer Rouge resistance for years in the militarized refugee camps in Cambodia and holding centers in Thailand, unable to complete their humanitarian mission any other way than in the interests of China, the US, Europe, and ASEAN in prolonging an unwinnable war against the Vietnamese-backed regime in Phnom Penh. Strangely enough, despite being influenced to ban aid to Cambodia, the UN still provided development assistance to Vietnam throughout the conflict, perhaps just to keep up the appearance of UN neutrality.

As Phy (2008) asserted, during the 1980s, most of the world followed the US and China in their support of the Khmer Rouge to resist the PRK. It is believed that foreign aid supported by the US and the international community was channeled to the Khmer Rouge through Thailand. For example, the World Food Program delivered US\$12 million worth of food to the Khmer Rouge through Thailand (Kiernan, 1993). From 1979 to 1986, US\$85 million was backed the Khmer Rouge by the US (Kiernan, 1993), whereas from 1979 to 1991, military supports such as arms and munitions were provided to the Khmer Rouge by the European governments led by Britain (Jennar, 2006).

Although the aid paradox deemed attractive, humanitarian aid was believed to be delivered to the needy living in refugee camps along the Cambodian-Thai border though just in a short period

of time. The massive amount of emergency aid was provided to Cambodian refugees upon the demise of the Khmer Rouge regime. The total of US\$644 million in aid was flooded into the country through the UN agencies working on humanitarian reliefs between 1979 and 1981 (Mysliwicz, 1988). From 1979 to 1990, humanitarian aid was also believed to be operated and sent to refugees and displaced persons at the Cambodian-Thai border through NGOs working with the urgent humanitarian and relief issues in Cambodia (Peou & Yamada, 2000). More strangely, UNBRO, who supported the survival of the Khmer Rouge, was the body responsible for providing those humanitarian aids, which are mostly food aid, to refugees and displaced persons (Peou & Yamada, 2000). All in all, it can be concluded that during the leadership of the Vietnamese-backed government, only Cambodian refugees and displaced persons were fed by the UN, but not Cambodians residing in the country.

In 1989, the Vietnamese troops began withdrawing from Cambodia as pressure from the international community heightened and with the fall of the Soviet Union. This was the transitional period of Cambodia moving from war to peace. A regional interest in finding a solution for Cambodian conflict was the byproduct of the signs of rapprochement between Soviet Union and China, alongside with the desire of Thailand to turn battlefields into marketplaces as it was afraid that the conflict in Cambodia might spill over into its territory. Since then, it is satisfactory enough for those strongly denied the Vietnamese-backed regime, and the peace negotiations were held and ultimately the agreement was reached, resulting the signing of the Paris Peace Accords on 23 October 1991 between the four warring parties in Cambodia—the Khmer Rouge or the Party of the Democratic Kampuchea (PDK), the United National Front for an Independent, Peaceful, and Cooperative Cambodia (Royalist Party) (FUNCINPEC), Khmer People's National Liberation Front (KPRLF), and Cambodian People Party (CPP) to end Cambodian brutal conflict.

Subsequently, the UN-sponsored ceasefire was brokered with its largest peacekeeping mission ever in UN history during the time. The United Nations Transitional Authority in Cambodia (UNTAC), the UN peacekeeping mission, with its US\$2 billion budget, helped supervise the ceasefire, the withdrawal of foreign forces, the election, and the emergent social and economic recovery of Cambodia. The new coalition government was created and run by co-Prime Ministers, Prince Norodom Ranariddh from FUNCINPEC and Hun Sen from CPP, as the first and second Prime Minister respectively. As neoliberal economic agenda was embraced in the Paris Agreement, reconstruction and development is believed essential to sustainable peace. As stated in the Article 11 of the Paris Agreement, it is clear that the donor community does not held any responsible for

determining the directions for Cambodia to recover and walk to growth, by placing those responsibilities on the Cambodian people⁸.

Since its UN-facilitated reopening to the international community in 1991, Cambodia has been in some of the severest throes of aid dependency. In 1992, the first ever International Conference on Rehabilitation of Cambodia (ICORC), consisted of bilateral and multilateral donors, was established as a result from the Ministerial Conference on Rehabilitation and Reconstruction of Cambodia hosted by Japan. As a result from this conference, Cambodia was pledged US\$880 million to rebuild and rehabilitate the country. New pledges of US\$119 million were channeled to Cambodia in 1993, and over US\$800 million, which was committed in the second ICORC in Tokyo, were also provided in 1996. The third ICORC was held in March 1995, at which all the participants, with the lead of the World Bank and the host government, agreed to replace ICORC with the new institution called Consultative Group (CG). This shift is to move from Cambodia's rehabilitation phase to development phase as approved upon by the donor community (Peou & Yamada, 2000). Moreover, it is estimated that US\$3.264 billions was pledged for Cambodia from 1992 to 1997 (Peou & Yamada, 2000), comparatively much more than other countries with similar populations and poverty levels, and it made Cambodia more dependent on external assistance, with its expenditures accounted for fifty percent or more. Just from 1992 to 1993 alone, budgetary and balance-of-payments support to Cambodia shot up from US\$1.4 to US\$78 million a year.

Foreign aid provided during the transitional period in Cambodia had almost no conditions. It is obviously claimed by a top advisor at the Council for the Development of Cambodia (CDC) that 1992-95 was a "honeymoon time" for Cambodia and foreign assistance, with donors attaching almost no conditions to their aid, since they "generally understood that any conditions attached to their aid would be futile" (Peou, 2000, p. 270). Donors understood well that the new coalition state was extremely fragile and that it would be counterproductive to push hard on all but a few key issues, but at the same time they showed curiously high amounts respect for Cambodia's newly-minted sovereignty. It is evident by the claim of an American official in 1995 that "U.S. aid to Cambodia has no conditionality. Our involvement in Cambodia is an entirely different ballgame, compared with what we tried to do [before]. We are just building normal diplomatic relations" (Peou, 2000, p. 276). Also, a similar assertion is from a Chinese official that "We have no incentive to interfere in the domestic affairs of Cambodia. We don't care what kind of political system [Cambodia] wants to adopt; it's up [to] the Cambodians to decide" (Peou, 2000, p.277).

⁸ UN Document, A/46/608; S/23177, October 30, 1991, p. 56.

The “honeymoon time” of Cambodia in receiving closed-to-non-conditional foreign aid did not last long as the power sharing between the two prime ministers in ruling the country was in conflict. In July 1997, Norodom Ranariddh was toppled from power by a coup d’etat led by Hun Sen in his greedy attempt to hold power in his own hands. In response to the armed conflict between the two prime ministers, the third CG meeting was cancelled after holding two meetings in 1996 and 1997. International response to the coup is extremely diverse. Why is that? Of course, political interest is always not excluded. Among the supporters of the peace negotiation to reach the agreement signed in Paris in 1991, France and Japan were unhappy, and subsequently and quickly cut their aid following the coup. France’s aid was reduced by closed to fifty percent from 1996 to 1997; the aid from Japan was also severely cut from US\$111 millions in 1996 to US\$60 millions in 1997 (Peou, 2000). On the contrary, and not surprisingly, China and Vietnam still strongly supported the country and sent more aid. China, used to be the main supporter of the Khmer Rouge, turned its policy to back the CPP by legitimizing the coup because it was aware that the new regime would be thankful and grateful to its support by ignoring its past involvement with the Khmer Rouge. Similarly, Vietnam strongly legitimized the coup because it used to support its puppet government led by Hun Sen during the 1980s. Moreover, though a 30-day suspension of aid was imposed due to what a US State Department official stated on July 16 that aid was suspended because of the problem of democracy in Cambodia, not political stability (Hughes, 2003), the US seemed play a middle role because it just marginally increased its multilateral aid, but fully suspended bilateral aid, following the coup with its hesitation to both cutting and increasing aid to the country. This is probably because it was aware of its Khmer Rouge support during the 1980s, and retrospectively its bombardment of the country during the late 1960s and the beginning of 1970s, paving the way, along with the wrong policies of the King Norodom Sihanouk, for the rise of the Khmer Rouge.

Furthermore, the international community reacted strongly against the coup. While Cambodia’s membership into the ASEAN was rejected⁹, Cambodia’s seat at the UN General Assembly left vacant for the 52nd session by the consensus of the UN General Assembly’s Credentials Committee. Moreover, all World Bank’s aid programs were suspended and its representative was removed. Other international organizations such as the ADB, UN agencies, and the European Union (EU) dramatically cut their aid (Peou & Yamada, 2000). It is nicely quoted from the word of Peou & Yamada (2000) that “...aid disbursements rose smartly in 1995, went up slightly in 1996 (0.93 percent), but dropped noticeably in 1997 (by 27.54 percent)...The most

⁹ Cambodia became a member of ASEAN on April 30, 1999.

dramatic decline in aid disbursements came in 1997, and it fell most heavily in the area of budgetary and balance of payments support” (p. 75).

Only after the new national election held in 1998 was aid disbursement resumed. The donor community pressured Hun Sen-controlled government to allow the return of Prince Norodom Ranariddh, who fled the country after the coup against him in 1997, before the 1998 nation-wide election. Ranariddh was allowed home, satisfying the international community, which result in more aid sending to the country. Subsequent to the new coalition government, incorporating FUNCINPEC as junior partner to CPP created in 1998, the nature of international assistance has been transformed. Since then, the purpose of most of the donors focused mainly on “good governance” rather than on the questions of legitimacy and sovereignty of Cambodian government. As Cambodia’s plan for reform submitted to the CG meeting in 2000, the meeting centered its objective on public administration reform. As restated by Hughes (2003), areas to be reformed in the government’s plan are judicial and legal systems, public finance, civil administration, natural resources management, military democratization, and anti-corruption measures. Though actual result has not been clearly revealed, the Cambodian government has been keeping the promise of governance reform, while the donors have been keeping sending aid.

Subsequently, the flow of foreign aid to Cambodia has been gradually sent, and aid has been steadily increased, making Cambodia again aid-dependent country even comparatively more than other aid-dependent countries with the same social, political, and economic situation in the world. Ek & Sok (2008) demonstrated that “Cambodia’s ODA has increased steadily since 2001 and was slightly above the average ODA per capita for all LDCs [least developed countries] from 2003 to 2005...ODA disbursements to Cambodia increased moderately from US\$396 million in 2000 to US\$538 million in 2005. Its aid per capital also rose from US\$31 in 2000 to US\$38 in 2005, which was more than double the average for low income countries of only US\$17 in 2005 ” (p. 6). From 1998 to 2007, the total amount of aid disbursement from all sources to Cambodia accounted for US\$5.5 billion, in which US\$434 million was sent in 1998 and US\$720 million (excluded aid from NGOs) was provided in 2007 (Ek & Sok, 2008). Of the total aid disbursed from 1998 to 2007, about 75% is provided as grants, and the rest is disbursed as loans, and more than half of the total aid went to social, economic, and physical infrastructure sectors (Ek & Sok, 2008). Concerning

foreign loans, and according to Son Chhay, the Cambodian parliament member, Cambodia, by 2008, owes foreign countries US\$2.693 billion, and until now the figure is probably reached US\$3 billion¹⁰.

2. The Political Economy of Foreign Aid and Corruption in Cambodia

Is there any connection between foreign aid and corruption in Cambodia? If there is, how does foreign aid impact on corruption and vice versa since 1991-Paris Peace Accords? Post-conflict Cambodia has been an aid-dependent country from its rehabilitation to development phase. Adding to about UN-sponsored US\$2 billion on organizing election, other US\$5 billion in ODA was provided, and since then a massive amount of aid was continuously disbursed every year to promote economic development and governance in the country, but its effectiveness has unsatisfactorily yielded the opposite outcome compared with the original spirit of the Paris Peace Accords and the original purposes of aid. The main problem to be most likely blamed is corruption.

US Ambassador to Cambodia Carol A. Rodley in 2009 publicly asserted in a “Clean Hands” anti-corruption concert held in Phnom Penh that Cambodia loses up US\$500 million a year due to corruption (Phnom Penh Post, 2009, June 03). Though this public assertion attracted more members of the public to see what really happened in Cambodia, it is angrily denied by the Cambodian government and believed to be “politically motivated and unsubstantiated” (AFP, 2009 June 02). The assertion is likely based on USAID research report on corruption assessment in Cambodia, in which the informants estimated that Cambodia loses annually on corruption between US\$300 and US\$500 million (Calavan, Briquets & Brien, 2004). It is also similar with the outcome of the research study conducted by the Economic Institute of Cambodia (EIC) that annually, due to corruption, US\$400 million is lost in the national revenue (EIC, 2006). The issue of corruption, especially corruption on foreign aid is not new, and has been intensely discussed and debated by particularly the leading international institutions such as the World Bank. Ear (2007) nicely provided two case studies on the misused aid associated with corruption in Cambodia. Case study one on “The Food-for-Work Scheme of the World Food Program” reveals that in 2004, more than US\$2 million of rice aid has been misdirected from Food-for-Work scheme. Whereas, case study two on “The Demobilization Project of the World Bank” reports that in 2003, the World Bank found the Cambodian government guilty of corruption and sought repayment of US\$2.8 million of the US\$6.9

¹⁰ The information is in Khmer and translated by the researcher. It can be found at the website of the Radio Free Asia at <http://www.rfa.org/khmer/interview/cambodia-foreign-debt-08072009055913.html>

million project, and pressured the government to withdraw their aid if the anti-corruption measures are not taking into account.

However, even though the two cases of aid corruption are raised as examples, corruption on foreign aid is believed to be involved with foreign loans rather than with grants since grants do not have to be repaid and are usually monitored by donors in the actual implementation, but rather loans are easier to be manipulated. Son Chhay, a Cambodian parliament member, in an interview with the Radio Free Asia on Cambodia's foreign debts, pointed out that "We have seen that there is corruption on foreign loans because loans and grants are two separate things. Grants do not have to be repaid and sometimes they are monitored by the donors' monitoring teams, such as the grants on the Chroy Changvar bridge construction project, while the loans, which are borrowed and managed by ourselves [the government], are not in good quality of spending"¹¹. Though corruption is reckoned to be rampant and criticized by the donor community, more aid is still disbursed to the impoverished Cambodia. This can be easily shown in here. US\$601 million was pledged by donors to Cambodia in 2007, while US\$689 million was sought by Cambodian government in 2008, and US\$951.5 million was pledged in 2009. In support of such a claim, Ian Porter, the World Bank Country Director for Cambodia, claimed that Cambodia has suffered from weak governance and high levels of corruption (Munthit, 2007, June 20). Why is foreign aid still pledged and disbursed when Cambodia is believed to be corrupt? What lays behind the aid pledging and disbursement?

There are two things that need to be mentioned. With the exception of private donors such as funds from NGOs, those two things are multilateral and bilateral aid. The main multilateral donor agencies in Cambodia are the World Bank, IMF, ADB, EU, and some UN agencies such as UNDP; whereas, bilateral donors, which are classified as DAC member countries and non-DAC countries. While the key DAC members providing aid to Cambodia are Japan, the US, the United Kingdom, Germany, Sweden, Australia, and France, non-DAC member countries are most noticeably China and South Korea. There are different reasons on why both forms of aid are still sent to the widely believed corrupt Cambodia.

With regard to multilateral aid, there are two phases to be mentioned—the 1990s and 2000s. In the 1990s, the multilateral donor agencies turned a blind eye to poor governance and high-level corruption because they just want Cambodia to be stable before everything can be done. The donor

¹¹ The original interview is in Khmer, and the translation is done by the researcher. The original interview can be found at the website of the Radio Free Asia at <http://www.rfa.org/khmer/interview/cambodia-foreign-debt-08072009055913.html>.

community believed that stability can bring good governance, resulting in corruption elimination and economic development. In the 2000s, particularly since the Khmer Rouge guerillas were totally demolished, the election was successfully held, and the coalition government was formed, in 1998, the desire of the international donor community, particularly the World Bank, is to urge the Cambodian government to have anti-corruption laws passed as soon as possible because the process of having it passed has been getting stuck since the time it was originally drafted in 1994. Qimiao Fan, the World Bank Country Manager to Cambodia, spoke publicly during the meeting between the donor community and the Cambodian government in 2008 that “The country [Cambodia] must quickly pass a long-delayed law to fight corruption in order to build confidences among foreign investors...Passing the law will be an important signal, providing investors and development partners with confidence to make more long-term commitment in Cambodia” (Associated Press, 2008, December 5). With this conditionality, aid has thus been continuously sending to Cambodia. It is also thanks to the good tactic of the Cambodian government in keeping the never-ending promise to strengthen good governance and combat corruption by passing the anti-corruption laws with the multilateral donor agencies in every government-donors meeting. It is evident by the assertion publicly made by Prime Minister Hun Sen in the government-donors meeting in 2006 that “A draft of the anti-corruption law [...] is in its final stages of consideration within the government before being sent to the National Assembly” (As quoted in Global Witness, 2009, p. 57).

Aid funds of multilateral aid agencies were allocated by each individual country. If we already know that political and economic interests are always involved in foreign aid as a tool of individual country’s foreign policy, why is not aid allocated or distributed directly from individual donor country to its respective recipient countries? In other words, why is there a shift from bilateral aid to multilateral aid? Or why not only bilateral aid exists permanently without such a shift? Answers to these questions in general can also be applied to Cambodia or any other aid-receiving countries in particular because the purposes of donor countries in sending aid indirectly to their respective recipient countries through multilateral agencies are more or less the same. The only different is the amount of aid funds pledged and their interests on those recipient countries. Milner (2006) discussed the above questions and concluded that one country chooses to distribute its aid through multilateral agencies because it seeks to satisfy or reassure its own population who are taxpayers that their money is being well and rightly spent. Thus, foreign aid allocated to Cambodia through the World Bank, ADB, UN agencies or other multilateral institutions is not really because the Cambodian

government promised to pass the anti-corruption laws, but also because it is influenced by the aforementioned answer.

Concerning the bilateral aid, the reasons on its flow to the deep-rooted corrupt Cambodia is not excluded from the existing studies on aid flow in general. The aid flow from bilateral donors to corrupt recipients was already, by and large, discussed and debated by scholars in the field. As jointly quoted and reasserted in Mende (1973), the purposes of providing bilateral foreign aid are:

The allocation of [official] bilateral assistance...depends on decisions made by the donor countries...These decisions have been influenced by the existence of historical, political, linguistic, monetary and commercial links...Implied between the lines is that one motive present in nearly all aid policies, the one by which their effectiveness is probably judged by the providers of aid, is the endeavor to establish or, where it already exists, to maintain and possibly expand the donor country's international influence (p. 70).

It can be clearly restated that the purpose of disbursing bilateral aid is connected with historical, political, economic and commercial interests of a donor country and also the expansion of the donor country's good image in the international arena. Keep in mind that the above quote is ideal, but one must be aware that "there is no free gift in this world". Though there are a number of bilateral donors, and more or less their purposes are the same, this study primarily discusses and analyzes the main and big bilateral donors both DAC member countries—Japan and the United States—and non-DAC ones—China and South Korea. Japan is the top DAC donor country in Cambodia, with its aid accounted for 25% of the total aid to Cambodia. The total amount of Japanese bilateral aid to Cambodia in the past ten years was US\$550 with the exclusion of its multilateral aid¹². In 2009, of the total amount of US\$951.5 million aid money pledged to Cambodia, US\$112.3 million of Japanese aid was promised (Hesse, 2008, December 24). Japan's aid purposes are linked with historical, political and economic interests. Japan has been providing aid to Cambodia because firstly it wants to erase its wrongdoing during the Second World War and raise its prestige in the international arena; furthermore, it wants Cambodia to recognize its kindness, replacing its short-term colonialism on Cambodia at the end of the Second World War, and also support its intention to become a member of the UN Security Council, as it has been doing with other developing states. Economic interest (discussed more below) is no exception since Japan wishes to expand its market broader to the world and also desires to gain access for its investors to do businesses in its aid-recipient countries like Cambodia.

¹² See "Japan's Assistance Policy for Cambodia" for more details at <http://www.kh.emb-japan.go.jp/economic/cooperation/japc/japc.htm> Retrieved July 27, 2009

In the case of the US, it tried to provide aid to Cambodia due to the fact that it wants to spread its initially democratic ideology in Cambodia as in other countries in the world. Gaining good image and apology for its secret bombing of Cambodia during the Vietnam War and its support the coup d' etat against King Sihanouk led by Lon Nol in 1970 are also incorporated in its aid disbursed to Cambodia. Other US purposes on Cambodia, as Lum (2007) stated, also, are supporting and improving good governance, democracy and human rights, and helping Cambodia combat the threat of terrorism as well as encouraging Cambodia to support its policy and mission in the fight of terrorism since the September 11 attack. Since 2003, as the world and Cambodian citizens might not be aware of, the US was also satisfied with the Cambodian government when the Law on the Establishment of the Extraordinary Chambers in the Court of Cambodia (ECCC), popularly known as the Khmer Rouge Tribunal, between the Cambodian government and the UN was agreed, in which its involvement with Cambodia causing the rise of the Khmer Rouge was excluded in the law¹³. Although the US was aware of its goals in providing aid to Cambodia, it was the only country that suspended bilateral aid to the country when the 1997-fighting erupted in Phnom Penh. The reason behind this is the US was not happy with the coup since its main goal is to promote democracy and human rights in Cambodia. However, ten years later in 2007, US aid was resumed because the diplomatic relations between the two became better. Not surprisingly different from Japan, economic interest is also attached with US aid. Oil and gas are the main natural resources that the US wishes to extract and acquire from any country rich in those resources. The US wishes to invest on oil and gas sector in Cambodia (discussed more below), so it is also happy in providing more aid to the Cambodian government though it tends to publicly assert its goal in giving aid is to promote democracy, human rights and prevent the threat of terrorism in the recipient countries. To reduce China's influence in Southeast Asia as well as in the world in general, and in Cambodia in particular is what the US expects to be achieved from its generosity in disbursing aid¹⁴. To date, the US aid to Cambodia, provided through USAID, accounted for nearly US\$500 million since the 1991-Paris Peace Accords¹⁵.

Similarly, the Republic of Korea (Korea) and particularly China recently have been playing big role as non-DAC members in giving aid to Cambodia. China is the non-DAC big donor in

¹³ The US is one of the members of the UN Security Council, so the decision of the agreement between the UN and Cambodian government in reaching a Khmer Rouge Tribunal Law was partly pressured by the US.

¹⁴ The US is afraid that China will become the new world giant economy relatively rising up above its present status in the world economy.

¹⁵ The reference can be found on website of USAID mission to Cambodia at http://www.usaid.gov/kh/history_usaid_cambodia.htm. Retrieved August 01, 2009

Cambodia. In the total amount of aid US\$951.5 million pledged in 2009, US\$256.7 million Chinese aid was promised, which is considered the top amount of aid pledged by all the donors (Hesse, 2008, December 24). Of the total aid provided, China provides limited grants, but for the past few years it has been the largest provider of loans, mainly for public works, infrastructure, and hydro-power projects (Lum, et al., 2008). China requires all its aid recipient countries to support the “one China” policy, and Cambodia is also no exception despite its considerable economic relationship with Taiwan. China, similar to the US, is satisfied with the Cambodian government as its involvement with and support the Khmer Rouge before, during, and after the Khmer Rouge regime (1975-1979) was not included in the law of the ECCC. Furthermore, despite political interest, Chinese aid is attached with economic and commercial interests. Chinese investors gain access to internal markets and are able to make investments in Cambodia not only because the Cambodian government appreciates Chinese grants and loans, but also due to either bribes and/or money asked to buy licenses for doing business. It is believed that China was granted rights from Cambodia to drill one of the five offshore oil fields in the Cambodian coast, yielding approximately from US\$700 million to US\$1 billion a year (Perlez, 2006, September 18).

Moreover, Korea, the newest donor to Cambodia, has only just recently become quite interested in sending aid to the country. The main reason why Korean aid is pledged and provided is principally related to political, economic and commercial interests, not historical. The diplomatic relationship between Korea and Cambodia has been very friendly since 1998. Korean aid to Cambodia has increased steadily from US\$0.5 million in 1998 to US\$31.4 million in 2007; the total amount of Korean aid accounted for US\$26 million from 1998 to 2002, and US\$94 million from 2003 to 2007 (Ek & Sok, 2008). New economic opportunities in Cambodia have been attracting a number of Korean investments in the areas of construction, transportation, banking, natural resources and energy industries. This is more significantly evident by the recent bilateral agreement between Korea and Cambodia on economic cooperation (Ja, 2009, June 05). More importantly, it is believed that Korean companies were also granted license to explore and drill the emerging oil, gas, and minerals in Cambodia’s offshore, in which bribes were thought to be secretly paid to gain such access (Global Witness, 2009).

As discussed above, despite realizing that the Cambodian government is corrupt and their aid are stolen, donors still pledged and allocated more aid to the country either conditionally or unconditionally. In this concern, another critical question arises. Do donors create or promote corruption in Cambodia?

To answer this question, we have to look at both sides of the game—donors and the Cambodian government—not just only the donors. In this regard, it is vital to analyze if donors alone create or promote corruption in Cambodia, or the Cambodian government itself is corrupt. In general, it can be said that corruption flourishes where the institutions of government are weak, where a government’s policy and regulatory regime provide scope for, or where such institutions as legislature and judiciary are marginalized or corrupted themselves. To analyze why corruption flourishes, we have to look at its causes and the parties involved. The causes of corruption are highly contextual, rooted in Cambodia's social history, bureaucratic traditions, political development, legal development, economic conditions and policies. There are some key-driven factors causing corruption in Cambodia. Those factors are associated with politics, legal, ethics, salary, and economics¹⁶. As far as the parties involved with corruption is concerned, they can be classified as “giver” and “taker”. In the case of the nexus between foreign aid and corruption in Cambodia, the donors are the givers, while the Cambodian government is the taker. Hence, the abovementioned causes of corruption and parties involved with corruption are taken into consideration to answer the question “Do donors create or promote corruption in Cambodia?”. In so doing, the analysis of why and how corruption rampantly flourishes in Cambodia, while donors still keep sending their aid, has to be taken into account.

Though corruption is not new and may exist long time ago in Cambodia, any discussions in its present-day should start from UNTAC period (1992-1993). *UNTAC period is taken to be a starting point for this analysis because it was the first time ever in Cambodian history that the massive amount of foreign aid flooded into the country.* When UNTAC mission was kicked off, a very huge amount of foreign humanitarian aid was flooded into the country as never seen before. Such large amount of money partly caused Cambodia to fall into a trap of corruption because the new coalition government, formed by the nation-wide election held by UNTAC, was not functionally in harmony due to conflict of interest between the co-prime ministers. Therefore, the new coalition government was very dysfunctional which indeed exacerbated corruption within the government. The other cause is because, as Nakaya (2009) argued, the main purpose of aid during the transitional period is for economic liberalization, which only empowers the particular group of elite, who have a privilege to control the state’s assets, and consolidates the economic control of the elite in the incumbent regime.

¹⁶ More detail on the causes as well as the analysis of corruption in Cambodia, see Calavan, M. M., Briquets, S. D., & Brien, J. O. (2004). *Cambodian corruption assessment*. USAID Report.

This made corruption during the transitional period more pervasive. It is reported that UNTAC itself was aware of corruption and found that some pieces of equipment that were or were about to be handed over to the Cambodian government were stolen (Lao, 2006, November 30). Being aware of such a concern, UNTAC released a report on corruption in early 1993, stating that the aid system at all levels is awkward and subject to abuse. As quoted in Peou & Yamada (2000), UNTAC was aware that corruption is the obstacle hindering aid delivery because UNTAC had “examined the problem and proposed a series of reforms in the public sector that aims at simplifying rules and procedures and eliminating the most blatant forms of corruption” (p. 90).

Though corruption was initially noted by UNTAC, aid was continuously pledged because Cambodia was still in a rehabilitation period and cannot survive itself without international assistance. Following the withdrawal of UNTAC in 1993, the problem of corruption remained unresolved. In present-day Cambodia, corruption has been widespread and become part of everyday life of Cambodian people (Calavan, Briquets & Brien, 2004). This is because, on the one hand, the Cambodian government still lacks an efficient mechanism to address the daily planning, screening and coordinating of foreign aid, and the local staff was not capable and sincere enough to manage such work, and on the other, Cambodia is very weak in rule of law, and believed to be a boss-servant society, resulting in culture of impunity, which is peacefully entrenched and existed in the country (discussed in detail below). In this regard, corruption could grow steadily and uninterruptedly. Although local capacity building is on the agenda of the donor community, it is not really successful due to donors’ other purposes and interests in disbursing aid as well as the Cambodian government’s tactics in persuading and satisfying donors.

It can be said that corruption in Cambodia can be both grand and petty or political and bureaucratic. It is political because it is committed by those in the decision making levels, especially the leaders or political and economic elite in Cambodia. It is bureaucratic because it is practiced by those hierarchically in lower levels or administrative levels serving in the government. Even though corruption in Cambodia can be both types, to a larger extent, corruption on foreign aid is principally grand or political corruption or state capture. Theoretically speaking, corruption in Cambodia is a top-down process since the aid money is sent first to the top levels of the government before it is delivered to the lower administrative or practical levels. State looting or rent-seeking behaviors, associated with political corruption, has been becoming the main problem in present-day Cambodia. All state’s assets have been gradually being looted by the Cambodian ruling elite. Cambodia nowadays is in danger as it is undeniably reported by the Global Witness (2009) that:

Cambodia today is a country for sale. Having made their fortunes from logging much of the country's forest resources, Cambodia's elite have diversified their commercial interests to encompass other forms of state assets. These include land, fisheries, tropical islands and beaches, minerals and petroleum. The country is rapidly being parceled up and sold off. Over the past 15 years, 45 percent of the country's land has been purchased by private interests (p. 5).

As far as the donors are concerned with such a state looting activities, the licenses to extract and invest in those resources are mostly granted to those investors coming from the donor countries which have been generously providing aid to the Cambodian government. Sometimes, that aid happens in the form of loan with no strings attached. For instance, in 2006, China offered Cambodia US\$600 million in loans with no string attached, and oil extraction rights was awarded to China at the same time (Backman, 2007, April 26). Sometimes, bribery is believed to be involved, so the investors can competitively grant license easier¹⁷. For example, of the six blocks of oil and gas exploratory areas that Cambodia has just recently discovered, the US energy conglomerate Chevron, the world largest primary resource company, gained access from the Cambodian government to explore Block "A" in 2002¹⁸, with which the Global Witness (2009) believed that Chevron bribed the Cambodian government to secure oil exploration rights. Later on, two other companies—Japanese company Mitsui Oil Exploration Co. Ltd and Korean company GS Galtex Corporation—became interested in joint exploration process and development project with Chevron. Of the total shares in such a joint activity, US company holds 55%, Japanese company holds 30%, and Korean company holds 15% (Global Witness, 2009). Global Witness (2009) went on to stress that "Financial bonuses paid to secure concessions—totaling millions of dollars—do not show up, as far as Global Witness can see, in the 2006 or 2007 revenue reports from the Ministry of Economy and Finance" (p. 5). The World Bank survey showed that bribes were given by the majorities of the companies or investors for such investment projects to public officials, otherwise, no contracts were ever secured (Bayron, 2004)¹⁹. More than half of the firms interviewed in the 2007-World Bank Enterprise Survey raised corruption as the major obstacle to doing business in Cambodia as informal fees or under the table payments have to be paid to get things done²⁰. Moreover, the research report produced by the

¹⁷ The relationship between host state corruption and bribe paying regulations in investor states has been studied by Sima-Eichler (2009). He explores if the level of corruption in host state influences on who invests.

¹⁸ Besides Chevron, the oil exploration rights were competitively gained interest from investors from the US, Australia, China, Indonesia, and South Korea (Marker, 2009, February 06).

¹⁹ It is also noted that besides foreign investors, who are able to bribe, the licenses are also granted to the members of the ruling elite or their relatives or cronies and Cambodian tycoons. See Global Witness (2009) for a long list of exact names of those involved with state's assets looting in Cambodia.

²⁰ For more detail, see <http://www.enterprisesurveys.org>

Economic Institute of Cambodia (EIC) showed that in 2005 an estimated US\$330 million of unofficial fees or bribes was believed to be paid by private sector to public officials (EIC, 2006). This is in line with the argument of Tanzi (1998) that “Investment projects have lent themselves to frequent acts of high-level corruption...Public projects have, at times, been carried out specifically to provide opportunities to some individuals or political groups to get “commissions” from those who are chosen to execute the projects” (p. 568). Millions of dollars used by oil and mining companies as well as other investors as bribes to secure access to these resources and do business appear to be missing from the national accounts, which in turn are believed to go into the pockets of the corrupt ruling elite, their family members, or their cronies²¹.

Adding to corruption linked with foreign aid, more recently, political corruption is highly and seriously associated with the wrong development policies and projects that land concessions have been granted to private investors, resulting in land grabbing/forced evictions done by the wealthy and powerful elite, which in turn causing human rights violations, the increase of landlessness and homelessness, land conflict, and deeper poverty. Bridges Across Borders Southeast Asia (BABSEA) and the Center on Housing Rights and Evictions (COHRE), in their immediate press release in 2009, lamented that:

Evictions and forcible confiscation of land continue to rank as one of Cambodia's most pervasive human rights problems. In Phnom Penh alone, approximately 133,000 residents, or 10% of the city's population of over 1.3 million have been evicted since 1990. While precise nationwide figures are difficult to ascertain, the rate of forced evictions appear to have increased in conjunction with, amongst other things, the granting of concessions over vast tracts of land to private investors. Meanwhile, rural landlessness has skyrocketed from around 13% in 1997 to as high as 25% in 2007. Coupled with the absence of tenure security, rapidly increasing land values have led to rampant land grabbing by powerful and wealthy elites, to the severe detriment of local communities. The pretext of development is used to justify the forced relocation of low-income households to remote and desolate resettlement sites. However, frequently the projects driving this displacement are beset with corruption and unjust practices, perpetuating a development model that favors powerful interests at the expense of deeper poverty and increased hardship for the most vulnerable²².

With respect to bureaucratic corruption, it continued to grow due to the very low salaries of civil servants. The salaries for the low level civil servants were very underpaid during the transitional period, which as Peou & Yamada (2000) raised, not more than US\$20 per month, and just a little bit was increased since then; it is about US\$35 a month currently (Sok, 2007). By calculation, it is

²¹ There are also more budgets believed to be missed from the national revenue since corruption, as Calavan, Briquets & Brien (2004) asserted, happens in every aspect of Cambodia's public life.

²² The press release can be found at <http://www.cohre.org/store/attachments/COHRE-BABSEA%20Media%20Release%201%20Oct%20WB%20IP%20Complaint.pdf>. Retrieved October 03, 2009

approximately a bit over US\$1 a day, making them become poor or even poorer; the situation is worse or even catastrophe when he/she is the only responsible person for feeding the whole family. In order to survive, with the status quo, they have to choose between “morality” and “rice” or popularly and understandably speaking, between “to corrupt” or “not to corrupt”. This salary factor of corruption happens due to the government’s inability to meet social basic needs most likely because the government itself is corrupt and therefore dysfunctional and incapable to meeting such needs.

Why does corruption structurally, systematically and peacefully exist from the top to the bottom levels in Cambodia’s bureaucracy? Weak mechanisms or measures in controlling corruption of the Cambodian government are to blame for sustaining the breath of corruption. It is the consequence of the prolonged-delay in passing the anti-corruption laws, due to a weak state’s system, bad governance, and the prevailing culture of impunity. Again, the anti-corruption laws was initially drafted in 1994, but was delayed passing until now; the criticism on the slow progress being placed on the lack of an updated penal code²³, though it is persistently protested by social activists demanding the law passed as quick as possible. It is evident by the word in the petition crafted by the Coalition of Civil Society Organizations against Corruption that “Without even starting to enact the law, corruption will surely not decrease, and corrupt individuals will continue quietly sucking away the nation’s wealth” (Associated Press, 2008, May 16). Despite the failure to move ahead with the law, year by year, the international donors continue to provide aid. The Cambodian state’s system is fragile, on the one hand, due to the fact that it is extremely politicized, influenced, and manipulated by the Cambodian ruling party, Cambodian People Party (CPP)²⁴. Ok Serei Sopheak, the Coordinator of the Center for Peace and Development, emphasized that “there is no rule of law in Cambodia but a rule of power” (As quoted in Verkoren (2005), p. 296). On the other hand, it is due to the lack of capable and honest people working to improve the quality of the state’s system; it is also undeniably the consequence of the systematic executions and extermination committed by the terror reign of the Khmer Rouge on Cambodian intellectuals and scholars during its rule. The Khmer Rouge left Cambodia with almost no intellectuals and scholars residing in the country, while those, lucky enough to escape, survived the regime and fled to other countries such as the US,

²³ As of September 2008, only 40 of 700 articles of the penal code has been examined by the Council of Ministers (Global Witness, 2009).

²⁴ CPP, with Hun Sen as Prime Minister, has been ruling the country since 1985.

Canada, France, and Australia for a better life. This brain drain may have a multigenerational impact on Cambodia as it strives to rid itself of corruption.

In addition, corruption could grow due to simply inept governance, and as corruption is one of the six dimensions of governance—voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption—suggested by Kaufmann et al., (2006), it is inter-dependent on the other five dimensions. With regard to governance in Cambodia, the above six dimensions of governance recommended by Kaufmann et al., are taken into account. Such a matter was studied by Ear (2007) to see if foreign aid has any effect on it, resulting in the finding that except political stability, which is the byproduct of a peace dividend, and to a lesser degree voice and accountability, the other four including the control of corruption are all weak. In summary, it can be said that the Cambodian governance is weak, which allows corruption to increase. Likewise, corruption makes itself easy to flourish due to the culture of impunity existing in the country. Cambodia is believed to be a boss-servant society, in which nepotism and patron-client relations are very well recognized and unacceptably acceptable. Impunity has become the norm in the country. With the lack of a strong end-enforceable anti-corruption law, fragile state's system, weak governance, and culture of impunity, corruption could grow smoothly, rampantly, structurally, and systematically.

Due to corruption, unaccounted aid and other nation's wealth go into the pockets of the ruling elite or high ranking officials involving in the government decision making who collectively accounted for about a few percent of the total population, leaving the rest of society inaccessible to state's assets and ultimately reinforcing or promoting poverty. Even though the Cambodian government is itself corrupt, the donor community partly promotes corruption in the country. They simply know that there is no transparency and accountability in using their aid, but more aid is still pledged. Leaving their own interests behind, the donors have also denied the presence of rampant corruption in Cambodia due to the fact that pushing the Cambodian government too hard on the passing of the anti-corruption laws and policies and institutional reforms might lead to instability and turmoil in the country, loss of benefits bought through bribery, and even plunge more of the people into poverty, ultimately leaving the whole country at risk. All in all, despite corruption on foreign aid practiced by the Cambodian government to secure its political legitimacy, the government undoubtedly loots the state's assets, such as forests, and very recently and most importantly oil, gas, and minerals, and other natural resources, with their corrupt activities; adding to aid corruption, not only does it gain the money from the national assets they are looting, but also

acquires a vast amount of bribes from foreign investors, who wish to gain licenses and contracts to do business.

Despite a huge influx of foreign aid into the country, Cambodians are still among the world's poorest people. As reanalyzed by Ear (2009) on the 2006-World Bank Poverty Assessment Report on Cambodia, more than one third of the total populations live below the national poverty line on roughly less than US\$0.5 per day, as the national poverty rate increases from 39% to 41.6% from 1994 to 2004, and 82% of Cambodians are still living without fresh water and electricity, and proper irrigation (Norman, 2008, June 13). With less than US\$0.5 per day, it is impossible for one to survive in Cambodia because they not only need to buy food, but also pay for other things such as housing, water, electricity, and other daily expenses. According to UN-Human Development Index 2007, the majority of Cambodians are living in poverty with approximately 78% of the total populations living on less than US\$2 a day (UNDP, 2008). With less than US\$2 a day, which has not kept up with inflation, it seems hard for the Cambodians to survive in present-day Cambodia as the price of everything has gone up due to the trend of globalization and the recent economic crisis, not to blame corruption. Thus, based on the status quo of Cambodia, it can be argued that about 78% of Cambodians are living in poverty, while an estimated 41.6% are living in extreme poverty. Furthermore, Sok (2007) argued that a small number of powerful people in the government are the first who capture abundant natural resources, foreign aid, and foreign direct investment, to become rich, creating a huge gap of economic inequality in all sectors, particularly between the capital city Phnom Penh and the rest of the countries. He nicely wrote:

In the 1980s, everyone lived almost an equal life in terms of assets and income...As a result of the influx of foreign money and people (UN peace-keeping forces, emergency relief, ODA, and FDI), Phnom Penh residents benefitted the most from the sudden opening of the country. The first waves of cash to flow in the country, captured mostly by those with authority, came from the privatization of numerous state buildings and lands. Outsiders soon found interest in Cambodia's large abundant resources, primarily forests, which covered about 70 percent of the country then. Those resources were controlled by a handful of senior government officers under the centralized system. Without the checks and balances system, forests and fishing lots were commercialized in non-transparent contract deals. This appeared to hugely benefit those in power, mostly living in Phnom Penh. Only scores of rural residents seemed to have shared the early cultivation of natural resources. In many cases, rural people continued to live in remoteness due mainly to lack of physical and communication infrastructure (pp.10-11).

Sok (2007) further stressed that one of the main underline causes of economic inequality in Cambodia is corruption:

The impact of corruption on inequality cannot be overlooked...When corruption is rampant and pervasive, the state apparatus cannot be effective in serving everyone equitably...Without a successful war on corruption, the chances for creating an equitable society are almost zero (p. 14).

Foreign aid is blamed for promoting corruption among the elite, making Cambodia fall into the trap of the widening gap between the rich and the poor as the rich becomes richer, while the poor becomes poorer. Seng Theary, then the Executive Director of the Center for Social Development (CSD), interviewed by 101 East on “Foreign aid in Cambodia” on 17 July 2008, strongly emphasized that foreign aid has just created the huge gap between the rich and the poor, by saying that “...international assistance is enabling the rich to be richer”²⁵.

In this regard, it can be argued that foreign aid does not really benefit the Cambodian people precisely due to corruption. However, does corruption alone cause the whole problem? To make it clear enough and more specific, another question has to be asked—what are the exact aims of the total amount of foreign aid despite donor’s own interests and the presence of corruption? As Ek & Sok (2008) specified, about 51.4% of the total amount of foreign aid goes to technical assistance or cooperation rather than spending on actual development projects; only about another half amount, which is according to the actual purpose of aid, aim for development projects. Nonetheless and unfortunately, due to corruption, some amount of 48.6% left are going to the pockets of the ruling elite or those involved particularly with political corruption. Thus, a little left from the total aid disbursed could reach the poor or the vulnerable through actual development projects or plans. It is proved by the assertion of Brad Adams, Asia Director at Human Rights Watch, that “The US\$5 billion in aid plowed into Cambodia in the past decade has yielded little in return for the donors or the Cambodian people” (As quoted in Human Rights Watch, 2007, June 14).

It is safe to say that of the total amount of foreign aid given, little achievement has been accomplished, while leaving Cambodia in poverty, economic inequality, and huge debt; the latter is the burden of the whole population of the country, not undeniably just that of the ruling elite. With the exception of grants, according to Son Chhay, a Cambodian parliamentarian, claimed that if the about-US\$3 billion loans are calculated, each Cambodian owes US\$300 to foreign countries²⁶. Since corrupt activities are practiced by a small group of elite, who absolutely control the state’s legislative,

²⁵ The interview can be found at 101 East’s website at http://www.101east.com/youtube/index.php?page=videos§ion=view&vid_id=100027

²⁶ The original interview is in Khmer, and the translation is done by the researcher. The original interview can be found on the website of the Radio Free Asia at <http://www.rfa.org/khmer/interview/cambodia-foreign-debt-08072009055913.html>

executive, and judicial powers, pervasive corruption remains unresolved. In fact, those, being asked to regulate, seek out, and eliminate corruption, are, in their own ranks, the individuals and groups who are perpetrating these crimes. It then becomes a question of who is guarding the interests of the Cambodian people. By analogy, it is the inmates who are running the asylum.

CHAPTER IV

Foreign aid, Corruption, and the Propensity of Civil War in Cambodia

This chapter seeks to explore and analyze if the nexus between foreign aid and corruption can perpetuate or instigate civil war in Cambodia. Aid is misused due to rampant corruption in Cambodia, and corruption is the barrier obstructing everything from good to bad, worse to catastrophe. By and large, foreign aid is a positive sign, while corruption is a negative one; when they are added together, mathematically speaking, the result must be negative, by comparison. Two nice quotations about how terrible corruption is reveal below:

“...Fighting corruption at all levels is a priority. Corruption is a serious barrier to effective resource mobilization and allocation, and diverts resources away from activities that are vital for poverty eradication and economic and sustainable development.” (p. 54)

As quoted in Global Witness (2009)

“Corruption is one of the greatest challenges of the contemporary world. It undermines good government, fundamentally distorts public policy, leads to the misallocation of resources, harms the private sector and private sector development and particularly hurts the poor”

Transparency International Mission Statement²⁷

1. Foreign Aid and Corruption in Cambodia: Creating Conditions for Civil War?

Having committed to restore, rebuild and rehabilitate Cambodia after the long-brutal conflict and civil war, the international community has been assisting with aid disbursement; however, the aid money impact was limited and obstructed by weak governance and rampant corruption despite little progress has been undeniably achieved.

Cambodia has become addicted to foreign aid, which is the symptom hardly to be cured. Slightly more than half of Cambodia’ national budget derives from foreign aid, which made Cambodia more dependent on aid to breathe despite its good natural resources which are believed to be even more than enough for feeding and sustaining the whole country. This is proved by the assertion of Seng Theary, then the Executive Director of the CSD, that “Aid without reform and strict guidelines puts Cambodia at risk to become a beggar nation, solely reliant forever on foreign

²⁷ Reference of the quote can be found at <http://www.transparency.org.au/mission.php>. Retrieved August 18, 2009

aid and incapable of one day functioning independently”²⁸. Aid dependence is the chronic disease for such a corrupt Cambodia. It is clear that aid dependence can undermine institutional quality, weaken accountability, encourage rent-seeking and corruption, and alleviate pressures to reform inefficient policies and institutions. In this case, it is advisable to analyze if the consequences of the nexus between foreign aid and corruption can perpetuate or instigate future civil war in Cambodia.

Cambodia today has moved from the so-called democracy, initially initiated, assisted, and facilitated by UNTAC, to kleptocracy. What Cambodia has become today is considered to be opposite from the original spirit of the 1991 Paris Peace Accords. It is being systematically stripped of its natural resources and other state’s assets as well as foreign aid by a small group of the ruling elite for their own gains. Such greed and grand corruption done by the ruling elite has dreadfully prepared Cambodia on its journey to the verge of autocratic and authoritarian rule and ultimately collapse.

In this regard, the Cambodian government apparently intends to create an unbridgeable gap between the about a few percent wealthy and the about over ninety percent poor, creating the kind of kleptocratic aristocracy, which might possibly lead Cambodia into the trap of conflict or civil war. It is clear that such sort of regime, retrospectively, led to the American Revolutionary War (1775-83), and the French Revolution (1789-99)²⁹. More recently in Thailand, the coup d’etat toppled down the then-Prime Minister Thaksin Sinawatra in 2006 due to, though there are some other reasons, mainly mass corruption that he committed while he was in power. Particularly, the Cambodian Civil War in the early 1970s was also erupted due to basically widespread corruption in the central government, causing the big gaps between the rich in the capital city and the poor mostly in the provinces. Verkoren (2005) stressed that pervasive corruption was one of the initial causes of Cambodian conflict in the past. Cambodia has already suffered from a harshly nightmare civil war, genocide, and politically internal conflict from the 1970s to the 1990s, in which an estimated three million people were systematically exterminated. With such a cruelly violent page in recent history, it is disconcert to image where further conflict or civil war might lead.

As Arcand & Chauvet (2001) argued, civil war might be erupted if foreign aid is flooded into the country, in which both the government and rebel groups are kleptocrats, who are greedy to attempt to loot and control the state’s assets or invaluable natural resources. This is possible because

²⁸ A quote taken from Sok, K. (2007, June 20). *Aid without reform could make Cambodia a “beggar” nation, activist says*. Voice of America. Retrieved August 18, 2009 from <http://www.voanews.com/Khmer/archive/2007-06/2007-06-20-voa2.cfm?moddate=2007-06-20>

²⁹ For more detail, see Kalyvas, S. N. (2006). *The logic of violence in civil war*. NY: Cambridge University Press.

more aid can create corruption and rent-seeking behaviors among political and economic elite, and encourage the rebellions to engage in war. Moreover, Collier & Hoeffler (2002) argued that foreign aid indirectly influences on growth rate and dependence on the primary commodities exports. As corruption is the obstruction of economic growth, it in turn reduces the growth rate, and makes the nation dependent on primary commodities exports if it is rich of them. As corruption impairs economic growth, and since (Pradhan et al., 2000) claimed that foreign aid induces corruption, it is possibly that foreign aid indirectly reduces growth rate in the presence of corruption. Thus, foreign aid, as interrupted by corruption, could not contribute to economic growth and good governance, which could lead to poverty reduction, but, in turn, make the conditions worse since it accelerates the big gap between a small group of the rich—the ruling elite—and the poor—the majority of the population. Poverty is the prerequisite for conflict or civil war because poor countries tend to have large youth bulges, low education levels, and depend on natural resources adding to the lower per capita income, which in turn makes nation more vulnerable and prone to civil war (Rice, Graff & Lewis, 2006). This argument is positively supported by the arguments of Collier & Hoeffler (2000) and Fearon & Laitin (2003). Collier & Hoeffler (2000) argued that there are low opportunity costs to rebellion in poor societies because unemployed young men will economically benefit from joining the rebel movement, so poverty causes civil war since insurgency or revolution is the money-making business for poor people, while Fearon & Laitin (2003) argued that poverty causes civil war because poor nations are governed by weak states that are incapable to deliver public goods and enforce security.

It can be hypothesized that foreign aid indirectly instigates civil war by maximizing the existing corruption because corruption makes aid ineffective in contributing to economic growth and poverty reduction, while encouraging huge economic inequality and epidemic poverty, which makes the nation more vulnerable and prone to civil war. This hypothesis is confirmed by the Cambodian case, with regard to the aforementioned analysis, because the presence of rampant corruption on particularly foreign aid and state's assets in Cambodia has put the nation into the trap of huge economic inequality and poverty, so it is safe to say that the status quo of Cambodia is more vulnerable and prone to civil war. To be more specific and make the created assumption more valid with Cambodia as a case study, the assumption can be specifically restated *“Foreign aid, particularly loans, indirectly instigates civil war by partly generating corruption, particularly political corruption, because corruption makes aid ineffective in contributing to economic growth and poverty reduction, while encourages huge economic inequality and chronic poverty, which makes Cambodia more vulnerable and prone to civil war”*.

To argumentatively support the last part of the assumption that poverty and economic inequality encourage the rise of civil war, Basic Human Needs Theory, Relative Deprivation Theory, and Marxism Theory can be also taken into account. On the one hand, according to Basic Human Needs Theory, people fight because they want their basic needs to be met; without basic needs, it is unlikely that they can survive, so they have to fight for survival. On the other hand, Relative Deprivation Theory implies that people fight because they want to acquire some standard of living for their lives comparing with those who are living with that standard in the same community or society. These two theories send a signal to Cambodia that the poor might fight against the government to get their basic needs met and reach a certain level standard of living that the small group of people is enjoying. Marxism theory mentions that conflict is class-based, and there are two classes having different aims in life—bourgeoisie or the ruling class, who absolutely control the means of production such as land and factories, and proletariat or the working class, who own only working power and have to work for bourgeoisie to survive, and are exploited by the ruling class. Conflict arises because the proletariat wants higher wage and more benefits, while the bourgeoisie wants to maximize their own benefits or profits. In the case of Cambodia, it can be relatively implied from the theory that the bourgeoisie is the ruling elite and their cronies, who is controlling the state's assets and foreign aid, and maximizing benefits from those, through the means of corruption, on the expense of the people, while the proletariat is the whole population, particularly the poor, who are mostly vulnerable and exploited. Hence, the conflict or civil war between the ruling elite and the people might possibly arise. It is obviously true that one could not be tolerated, but rather rise up to protest or make a revolution or insurgency, when their human basic needs were deprived. It is also in parallel with the argument of MacCulloch (2001) that people tends to favor revolution³⁰ when the economic inequality is high and the per capita income is low³¹.

As the signals of conflict or civil war—poverty and economic inequality—are on the verge, with which Johan Galtung called structural violence, latent violence will possibly turn to manifest

³⁰ More details on revolution can be found on Chapter 12 and 13 of Horowitz, I. L. (1997). *Foundations of political sociology*. New Jersey: Transaction Publishers.

³¹ According to Goodwin (2001), revolution occurs not only due to economic exploitation or inequality, but also political repression and violence. Though Cambodia nowadays falls into the two categories of the causes of revolution—economic exploitation and inequality as discussed and analyzed in the thesis, and political repression through land grabbing/forced eviction and human rights or political activists threatening or repression—proposed by Goodwin (2001), only economic exploitation and inequality is within the analysis of the cause of future revolution or civil war in Cambodia.

violence³², the concern is if it might breed conflict including civil war. It is claimed by Doyle (2001) in his study on challenges to peace-building in Cambodia that “poverty and inequality both undermine peace. These large and growing gaps breed rural discontent and anger against the government”(p. 96). Thus, is the civil war onset in Cambodia possible?

Civil war could not even be thinkable if there is no motivation and initiative to form the resistant group. Given the current situation of Cambodia, the rebel movement can be initiated by the existing opposition groups against the government, i.e. the opposition political parties, who are the popular figures among the people. Why so? It is because they are known by the people, so they could initiate the resistant movement against the government for the sake of the poor and also it is easy for them to inspire and mobilize the poor to join the rebel group. Horowitz (1997) suggests that two major criteria must be met for the success of the mobilization of people. They are “(1) the government cannot satisfy it by reform, and (2) it must generate widespread and active popular support” (p. 285). The opposition groups can use these criteria to justify their initiative of mobilization of people to form the resistant movement against the government. However, so far, as the opposition parties have always used non-violence ways in every protest against the wrong doings of the government, it seems that their motivation and initiative of forming the rebel group might not be attainable.

However, if it is possible, another challenge as how to get the participation from the people, particularly the poor, to join the movement would be faced. With respect to the motivation of the poor, they are too poor or even too weak to think of participating in the movement. First, they do not even know if Cambodia is very dependent on foreign aid and very corrupt and how much each of them owes foreign countries, since the information is, to a lesser extent, never heard on the one hand, and on the other, they, to a larger extent, do not really care about that as they only think about how to earn a living day by day to cover their stomachs. Second, Cambodia is believed to be a violent country since the past, and the people were always the victims of war and conflict; Cambodia has never been in peace although it used to merely enjoy peaceful situation for about a decade during *Sangkum Reastr Niyum* period after it gained full independence from France in 1953. What Cambodians really want is peace, even though just the so-called negative peace; however, in the current situation of Cambodia, they have to decide between “to choose” and “not to choose” the war again. Last but not least, Cambodia is moving from collectivistic to individualistic society in the

³² More details on the conflict triangle proposed by Johan Galtung, see Galtung, J. (1996). *Peace by peaceful means: Peace and conflict, development and civilization*. London: SAGE Publications Ltd.

aftermath of genocidal Khmer Rouge regime. During the regime, as Cambodian people was brainwashed to distrust one another even their families' members, and severely suffered from threatening, starvation, and diseases, and particularly from witnessing the executions and extermination committed by the Khmer Rouge on those who share information and food with others, everyone just tried to survive on their own, and kept their mouth shut. This immensely made them physically, mentally, and psychologically traumatized in contemporary society, and created fear, insecurity, and lack of trust, which further led to avoidance, denial, and irresponsibility. In this regard, they might not collectively join the movement to rise up against the government.

Since Cambodians has harshly suffered from and traumatized by over three decade atrociously bloody civil war and genocide, it is uncertain if Cambodians—both the opposition political parties and the poor—prefer homogeneously internal war again to get rid of current kleptocratic and autocratic regime even though it is relatively stable. This is the dilemma for them. As the status quo of Cambodia is relatively stable, the aforementioned might not make Cambodians think about forming any revolt against the government, but who can guarantee since unpredictable things sometimes happen?

The possibility of the onset of civil war is based not only upon the motivation and initiative to form the resistant movement, but also upon the way of financing them; if there is no finance, how can the rebel group be formed and sustained? Thus, finance is deemed necessary and indispensable for the rebel movement to be born and breathe. It is also stressed by Collier and Hoeffler that it is “greed” rather than “grievance” that civil war could be erupted.

2. Greed versus Grievance Theory on Civil War: How Does the Case of Cambodia Fit?

Greed versus grievance theory on civil war was developed by Collier and Hoeffler, the policy research team of the World Bank, in the early 2000s (Collier & Hoeffler, 2000; Collier & Hoeffler, 2002(a); Collier et al., (2003); Collier, Hoeffler & Sambanis, 2005; Collier, Hoeffler & Rohner, 2006), and is taken into account for the analysis of the possibility of civil war onset in Cambodia. The theory, which is widely acknowledged as Collier-Hoeffler Model of Civil War, was motivated by both political theory and economic theory on civil war. Political theory on civil war traces the root cause of civil war on grievances, while economic theory on civil war focuses the root cause of civil war on greed of the rebellion. Grievance-based causes of civil war are ethnic and religious division, inequality, economic exploitation, political repression and other structural causes; whereas, greed-based cause of civil war is military. Rebellion can be financed through three main means—extortion

of primary commodities exports, diaspora support, and hostile government subvention. According to this civil war model and convincingly argued by Collier and Hoeffler themselves, economic motivations and opportunities (loot-seeking) considered as “greed” are more highly correlated with the propensity of civil war than ethnic or religious division, socio-economic exploitation, or political repression (justice-seeking) considered as “grievance”. Collier and Hoeffler suggest that the “greed” model factors that determine the financial and military viability of a rebellion are more important than “grievance” model factors. In order to create and maintain a rebel organization the rebels have to be paid and military equipment has to be purchased and equipped. This leads to the hypothesis that resource wealth makes rebellion feasible by providing them motivation and opportunity.

Based on the argument of Collier and Hoeffler on Collier-Hoeffler Model of Civil War (Collier, Hoeffler & Sambanis, 2005), the following analysis will focus mainly on the outbreak of civil war counted on opportunities of rebellion rather than objective grounds of grievance because as analyzed earlier, we already know that misused aid or aid corruption in Cambodia creates grievances such as economic inequality or the big gap between the rich, who corrupt foreign aid, and the poor, the victims of foreign aid, which are the driven forces or latent conflict that might be erupted once the opportunity comes. The division of ethnicities and religions, regarded as the main grievance causing civil war, is not for the detailed part of this analysis because, on the one hand, it is not the grievance resulting from aid corruption, and on the other, Cambodia is the country which has no big division of ethnicities and religions, with about 90% of the total population is Khmer, and about the same percentage is practicing Buddhism. Also, since the studies on the outbreak of civil war based on Collier-Hoeffler Model of Civil War are predominantly done with the cross-country studies quantitatively rather than qualitatively, the analysis on the possibility of civil war onset in Cambodia will be done qualitatively. *Therefore, the following analysis on the possibility of civil war onset in Cambodia will be exclusively focused on the opportunities of financing rebellion.*

2.1. Extortion of Primary Commodity-Natural Resources

Cambodia is rich in variety of primary commodity-natural resources such as timber, and more recently oil, gas, and minerals. Timber is considered as lootable resource; however, it has been gradually reduced due to the illegal logging possibly thanks to weak governance, and most importantly corruption, since the demise of the Khmer Rouge regime in 1979. The deforestation rate appeared to be higher since particularly the mid 1990s. The rate just slightly increased from 70,000 to 90,000 ha per year from 1973 to 1993, and much increased, though there is an uncertainty

about the exact rate, from 1993 to 1997 with the rate stood up from 55,000 to 190,000 ha per year (McKenney & Prom, 2002). Timber was the main source of revenue of the Khmer Rouge combatants during the 1980s and particularly 1990s civil war in Cambodia. Nowadays, though timber has been decreasing, it is still considered as one of the primary commodities available for looting to finance the rebellion in the country. The same trend as what the Khmer Rouge did during the civil war with the government in the 1980s and 1990s can be repeatedly done nowadays.

Concerning the recent-discovered oil, gas, and minerals treated as the primary commodities to finance the rebel group, they are unlootable resources. They are under the strict control of the government, and given its nature, are hard to be extracted and looted by unskilled workers or rebels. In this case, though Cambodia now is worth in those resources, the rebel group still cannot loot them to finance themselves for forming the insurgency group against the government; as they are unlootable, the government can benefit from those resources, while the rebel group cannot. This is in line with one of the hypotheses developed by Ross (2003) that “the more unlootable it [natural resource] is, the more likely it is to benefit the government” (p. 55).

As Collier & Hoeffler (2002) argued, civil war onset might not be attainable if the country does not have or is not abundant in primary commodities exports, and though it is rich in those things, it likely does not mean that the propensity of civil war is possible. A very good example was raised by Collier & Hoeffler (2002) that although the US has an abundance of primary commodities exports, the resisting Michigan Militia cannot access to the extortion of those commodities because the US government is well-off in providing an effective defense against that rebel group. This can be implied that the US government’s security forces are effectively strong that can prevent rebel groups from looting the primary commodities exports. To be applied the case in Cambodia, Cambodian government’s security forces, including militaries, polices and so on, are domestically strong³³, and are absolutely and solely in the hand of the government, so the rebel group might not be able to loot the abovementioned primary commodities exports.

2.2. Donation from Diaspora

Donation from Diasporas is another way to finance and sustain the rebellion. Several reasons have been cited on why those in the diaspora could finance the rebel movement. First, those in the diaspora are usually richer than their counterparts in the country of origin; second, diaspora

³³ The word “domestically” is used because the Cambodian government’s security forces are strong only in the country, and more or less they are relatively weak if compared with most of the countries in the world.

organizations can be collectively created among the emigrants thanks to a cultural incentive they are holding; third, the consequences of conflict do not affect them; and last but not least, historical grievances are always in their mind (Collier & Hoeffler, 2002). Concerning the Cambodian diaspora, following the fall of the Khmer Rouge regime in 1979, a large number of refugees fled to Thailand to be displaced to a third country, either the US, France, Australia or Canada. An estimated 600,000 refugees sought refuge in a third country, in which more or less most of French-speaking Cambodian elite were resettled in France, and the majority of Cambodian farmers, military officials and their families were relocated in the US, while a limited numbers of Cambodian refugees were accepted to be resettled in either Australia or Canada (Elyda, 2008). Of the total estimate numbers of refugees, over 100,000 were believed to be resettled in the US, and since then, the number of Cambodian diaspora in the US has grown to close to half a million thanks to a new generation of Cambodians born in the US (Asia Society, 2008).

Cambodian diaspora, especially the first generation, felt undeniably depressing and miserable about their homeland as it was victimized by civil war, genocide, and politically internal conflict. As most of them are residing in the West, their brains are more or less full of democratic ideas, with which they really want to see Cambodia to be fully democratic, not just only apparently democratic as what present-days Cambodia is merely believed to be, but also the real implementation of democracy. At this point, there is possibility of financial support from Cambodian diaspora for rebellion.

To deeply analyze, however, there are two opposite and paradoxical things to be taken into consideration if Cambodian diaspora are willing to finance the rebel organization in the status quo of Cambodia. First, before fleeing home, they used to directly experience the corrupt activities pervasively done by the ruling elite and their cronies during the US-backed Lon Nol regime (1970-1975)³⁴. When the regime was toppled by the Khmer Rouge, all the people including the current diasporas were happy and satisfied with the victory of the Khmer Rouge at the expense of the downfall of the corrupt Lon Nol government as the regime has been changed, without knowing that the new so-called Khmer Rouge regime was even more unbelievably cruel than the previous one. With this experience, and as the current Cambodian government has been repeatedly practicing the same thing—rampant corruption—they might prefer to finance the rebel group's resistance against

³⁴ Due to rampant corruption spreading in the country during Lon Nol regime and the greed together with political hatred and discrimination of the previous ruler—King Norodom Sihanouk and his own assemble cronies, the Khmer Rouge, at the time—the country failed into civil war ever in Cambodian modern history.

the government to change the regime to a better one. On the other hand, if they choose to support the rebellion, the country will fall into civil war again, which is really against their homeland and people-loving consciousness since they already fed up with a long brutal civil war and homogeneously internal conflict in the country, and they do not want to see ordinary people suffer again. They simply wish to see Cambodia in state of peace and prosperity and their fellow Cambodians happy and satisfied with their living conditions. However, given the current situation, i.e., the government is corrupt and capturing foreign aid and state's assets for their own private benefits, while huge economic inequality and other grievances persistently exist in the country, how could the diaspora deal with such a situation? This is the dilemma of the Cambodian diaspora to decide whether they would finance the resistant combatants against the current government³⁵.

2.3. Subvention from Hostile Governments

This is another possible way of financing the rebellion. Collier and Hoeffler (2005) used two proxies to investigate why foreign government decides to support the rebel movement against the incumbent government. The first proxy is that during the Cold War, the great powers tried to sponsor the resistant movements to destabilize the opposing powers or those countries allied to those opposing powers; another proxy is that the trend was reduced when the Cold War ended, but the latter is still in controversial prediction. With the first proxy, it is true in the case of the early 1970s Cambodian civil war. During that time, the resistant movement led by Lon Nol was supported by the US to rule out the King Norodom Sihanouk from power as Sihanouk-led Cambodia allied with North Vietnam, and North Vietnam was the ally of Soviet Union, which was the main rival of the US during the Cold War, so with this reason, the US supported the rebel group to topple down Sihanouk, and with another, it was because the US was in war with North Vietnam to salvage South Vietnam from falling into the so-called communist bloc.

Regarding the last proxy, which can be applied to Cambodian case as well as other country case today, it is controversially if the incentive of foreign government after the Cold War to support the rebel movement was reduced or not is still questionably uncertain. As far as the Cambodian case is concerned, the foreign governments strongly and militarily supporting the current Cambodian government are mainly China and Vietnam, and possibly North Korea, while the rest seems play a

³⁵ In this case, and in order to be clear, further research on the particular issue has to be done both quantitatively and qualitatively to see exactly if they are willing to finance the rebellion to fight against the government counted on the current situation of Cambodia.

middle role—neither support nor opposition. However, to some extent, the West might be opposed to the current government since their goal is to see Cambodia moving toward democracy, in which good governance is compulsory, while the Cambodian government is corrupt and governance is weak, resulting in fake democracy, which is more autocratic and kleptocratic in nature. On the other hand, the willingness of those foreign states to support the rebel movement is still in question because according to the Article 39 of the UN Charter, with which all the sovereign states are to abide, the existence of any threat to peace, breach of the peace, or act of aggression are not encouraged, and would be determined by the Security Council to take action in accordance with Article 41 and 42 to maintain the international peace and security. Thus, if other states support the rebel group in the form of weapons rather than money, it is regarded as a threat to peace, which is against the spirit of the UN Charter. However, the reality always speaks louder than the law, especially when the supporters of the rebel movement are the members of the UN Security Council.

Adding to the sources of revenue of the rebel resistance presented above, however, Collier and Hoeffler (2005) suggest other proxies of opportunities for combatants to form as a group. Those proxies are the expenditure of rebellion on its member recruitment, the given nature of geography, and the cohesion of the rebellion. The members of rebel group have to be recruited to rapidly form the resistant movement. The opportunity of creating the rebel movement depends on three interrelated things—level of per capita income, male secondary school enrollment rate, and economic growth rate. If economic growth rate has been gradually decreased, the labor market was tight resulting in growing unemployment, reducing level of per capita income, and might be leading to the low rate of school enrollment in general. It is estimated that about 80% of Cambodians attend primary school, but only 19% of those attending primary school go on to secondary school (Room to Read, n.d.). This is a very low rate of secondary school enrollment of both sexes, though male rate tends to be higher as the influence from Cambodian tradition that females have to be relatively at or in the home, and thus receive less formal education. The reasons why the secondary school enrollment rates among Cambodians is very low are due primarily to poverty and inaccessibility to education. Due to poverty, most poor families do not send their children to school, but rather keep them home to help work for the daily survival. The other thing is that Cambodian secondary schools tend to be limited in number and are usually a far distance from homes of those living in the provinces. This is particularly so for the remote areas. In this case, the rebel group is able to recruit its members easier if the finances are available because most of those young people are low-educated, poor, and unemployed, as Catalla & Kem (2009) defined that 26% of the total Cambodian

population are young people living in poor households and they tend to receive less education and unemployed, so if funds are provided for them to join the rebel movement, they might be inclined or compelled to join. Not surprisingly, this case already happened in the current Niger-Delta conflict that most of the rebel group's members used to be unemployed and poor, and when they are paid to fight against the corrupt government, they inclined to do so. Concerning the geography, forest or mountainous areas are the heaven for rebel group to hide and grow. Cambodia is not a mountainous country, but there are some parts of the country, particularly in the Northwest, where the Khmer Rouge rebel group used to hide themselves to fight against the central government in the 1980s and 1990s, are still covered by forest though illegal logging has basically happened in the country. Such a geography, which though is not so mountainous like Afghanistan, where civil war and the insurgency against Soviet occupation occurred from 1979 to 2001, is still comfortably a heaven for rebel group to hide and form themselves. Furthermore, group cohesion is also important to keep the unity and sustainability of the rebel movement. About 90% of Cambodians are Khmer, so the rebel group might be able to recruit its members within the same ethnicity, which could make the group coherent and united.

Having analyzed on the possibility of civil war onset in Cambodia, it is fundamentally safe to say that although theoretically the signals of civil war are obviously feasible, empirically the motivation and initiative of forming and the opportunities of financing the rebel movement seems improbable.

CHAPTER V

Conclusion

This thesis has attempted to answer the key critical question: can civil war be a consequence of the aid-corruption nexus in Cambodia? The question is assembled from the two important concerns—(1) is there any relationship between foreign aid and corruption in Cambodia? If yes, how does aid impact on corruption and vice versa? And (2) can the nexus between the two create the conditions for the propensity of civil war in Cambodia? If yes, how can the onset of civil war be attainable? It is concluded from the analysis that: “*Foreign aid, particularly loans, indirectly instigates civil war by partly generating corruption, particularly political corruption, because corruption makes aid ineffective in contributing to economic growth and poverty reduction, while encourages huge economic inequality and chronic poverty, which makes Cambodia more vulnerable and prone to civil war*”. This assumption can be further tested with other country case studies in future investigations.

The political economy of foreign aid and corruption in Cambodia reveals that the two can play a role either independently or dependently. Their role is independent because without aid, corruption still exists, and without corruption, definitely aid is still sent (Cambodia does not fit with the latter). On the other hand, their role is dependent when they appear simultaneously. Corruption in Cambodia exists though without the presence of foreign aid; this is due to many factors, but two common ones are, on the one hand, low salaries of the civil servants, and on the other, the greed of the ruling elite and their cronies in capturing the state’s assets and wealth for their own benefit. The weak mechanism in controlling or measuring corruption is to blame for sustaining the breath of corruption. This is due to the long-delay in passing the anti-corruption laws since it was initially drafted in 1994, fragile state’s system, weak governance, and the culture of impunity.

Even though the underlying causes of corruption appear to be rooted in Cambodian society, corruption could grow faster in the presence of foreign aid. Aid partly promotes corruption in Cambodia similarly to the research conducted by Hanlon (2004) that aid to some extent encourages corruption in Mozambique. Thanks to the never-ending promise of the Prime Minister Hun Sen with the multilateral donors in pushing the speed of enacting the anti-corruption laws that foreign aid is still pledged and disbursed to the deep-rooted corrupt Cambodia. However, while the bilateral donors are aware that the Cambodian government is corrupt, most of their aid is continuously pledged as their political, economic, commercial, and to a lesser extent cultural, interests are attached

with the policy of aid giving. In this respect, the Cambodian government dares to exploit foreign aid for their own gains on the expense of the people.

Given the explicit images of the aid-corruption nexus, post-conflict reconstruction and development of Cambodia yields little or no progress, despite the massive influx of foreign aid assisting the country in its journey toward good governance and development. Corruption is being blamed for the slow journey despite the vehicle with good machine, which is believed to transport Cambodia much faster to reach its destination. As corruption steps in, Cambodia, but the ruling elite and their cronies, are being fed through foreign aid at the expense of its people. Against the spirit of the 1991-Paris Peace Accords, with the assistance from donor community, Cambodia's development outcome brings Cambodia two very different images—the fastest growth of kleptocratically autocratic capitalism versus the slowest process of economic growth and good governance promotion. In turn, it appears to be on the edge of epidemic poverty and huge economic inequality in attribution to corruption and the misuse of aid; apparently the propensity of civil war in Cambodia is indeed around the corner as the signals of conflict—epidemic poverty and gigantic economic inequality—explicitly reveal. However, its manifestation depends on the motivation, initiative, and opportunities of the resistant movement. The motivation and initiative of forming the rebel group drawn from both the opposition political parties and the poor is likely improbable. Though the opportunity of recruiting the members to the rebel group, the given natural geography, and the cohesion of the movement seems merely attainable, the way of financing the rebellion, with reference to the Collier & Hoeffler Model of Civil War, through three fundamental means—extortion from the primary commodities-natural resources, donation from diaspora, and subvention from hostile governments—is most likely not feasible. If financial means are not achievable, then the rebel movement could not even be formed.

Lessons are learned from this study. The most pressing is that the destiny of Cambodia will either fall into internal strife or civil war, as a consequence from the aid-corruption correlation, or will emerge from this situation more stable. From this research, the answer depends upon the willingness of both the Cambodian government and donors and whether they prefer to see the problem of corruption as it exists as well as upon the Cambodian people and whether they prefer to rise up for insurgency or revolution, even though both sides are interdependent.

In order to prevent a civil war in Cambodia, two conditions need to be met before providing more aid. The first condition is institutional conditionality—only when the Cambodian government seriously makes progress in reducing corruption should it then begin to receive aid. This is a painful

prescription to adopt but right now, the opposite is in effect and therefore there is no incentive to do the right thing. However, as the analysis has shown, it is mostly only multilateral donors who put this kind of condition, while the bilateral donors seem to be careless about this due to their diplomatic interests that affixed to their aid; also, giving the status quo ante, i.e. the ruling elite and their own interests, no other way out besides being slow in passing anti-corruption laws, as most of the corrupt people are those within the ruling party, the CPP. If the law was passed and put into action, it would be still useless due to the culture of patron-client relations and impunity deeply rooted in the society, and the law would also be predominantly interfered and manipulated by the CPP. In other words, the law would have no real means of implementation or enforcement due to systemic conflicts of interest.

Usually, the poorest countries, where aid is most needed, are also the most corrupt; Cambodia is not exempt from this basic reality, unfortunately. In this case, a second condition must be applied. The condition is that aid flow should be completely kept out of public channels, and administered, delivered, and monitored by non-government groups unassociated with the ruling and local elite. However, how can this be made possible? In reality, probably not because of anything the Cambodian government will unilaterally adopt, and as like many other countries around the world, it does not really prefer international donors to set development policies and manage development projects for them; but since where there is a will, there is a way out, this might be possible if the ruling elite honestly has the political will in developing the country. Yet, this is maybe far from the reality on the ground. It then becomes a question of who is caring of the destiny of Cambodia. The answer to that question may determine whether Cambodia continues to develop, or slides back into the abyss of despair or conflict.

It is worth notice that the lessons learned by conducting this thesis research should be taken into consideration as a set of hypothetical realities that may or may not come to pass. The real focus is to keep in full view of the mindset of the primary stakeholders who control resources as well as those who desperately need them. Their realities are not the same and the tension between the two can be impacted by the use and misuse of foreign aid. So, in order to prevent future internal conflict or civil war, this thesis in some small way focuses on this reality and provides another framework that is slightly different from the ones that were used as data for this thesis. A number of pieces within the existing literature has stressed that sustainable peace could not be achieved in most of the countries that have survived violent conflict or civil war since they are usually unstable and have a serious chance of falling back into the war again after a short period of relative peace. In response to

this, and to contribute to the growing and never-ending field of Peace and Conflict Studies, this thesis has pointed out one of the issues hindering the sustainable peace process in the world, resulting in the state of affairs presently challenging Cambodia. This study is important for policy makers, international community, and particularly both recipient and donor countries to see the correlation between foreign aid and the high chances of corruption and their subsequent propensity to exacerbate more conflict including civil war. While this may appear to be a common understanding, future research might compare cases where foreign aid led to peaceful transitions versus those like Cambodia where something else is happening. In either case, researchers need to take a more careful look at foreign aid and its impact on the internal dynamics of aid countries and how it can work both ways—to prevent and produce—future conflict. Perhaps the harshest lesson of this thesis rests squarely on the limitations of the peace related industry as it mostly seems to shallowly analyze such conflicts and then focuses work on the after-the-fact peace-building process rather than before-it-happens conflict prevention work. Let this be a lesson to our own internal lesson. Peace-building and conflict prevention mechanisms do not need to be undertaken separately. The time line for conflict is never ending and we need to be looking over the horizon to prevent the next cataclysm from arising.

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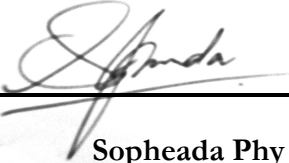
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