Sowing and sewing growth: The political economy of rice and garments in Cambodia

Ear, Sophal

Stanford University

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by

Sophal Ear

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Stanford University

579 Serra Mall @ Galvez, Landau Economics Building, Room 153

Stanford, CA 94305-6015

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Abstract

What explains Cambodia's double digit growth in 2006, 2005, and 2004 of 11%, 13%, and 10%, respectively, despite relatively poor governance (162 out of 179 countries in the 2007 Corruption Perception Index, 151 out of 163 in 2006, 130 out of 158 in 2005 the year in which it was first ranked)? Why do some sectors thrive while others fail under such conditions? This paper undertakes a review of the relevant literature and analyzes the results of detailed semi-structured interviews with at least 50 firms/businessmen, government, and non-government officials to understand the dynamics of governance and growth focused around two types of sectors in Cambodia: 1) Successful sectors such as garments in which the chapter seeks to elucidate how firms have coped, and the "cover" mechanism that has allowed them to thrive in relative terms (e.g., is it connections to the prevailing government insiders?) has been to date; and 2) Less than successful sectors such as rice for which the chapter identifies emerging patterns of engagement among the Cambodian state, foreign investors and indigenous business. Not unlike what happened with garments exports to the US, an arbitrage opportunity is unfolding in rice. The European Union's "Everything But Arms" initiative takes full effect in September 2009 permitting Cambodia, as a least developed country, to export rice to the EU tariff-free. Likewise in garments, the creation of the Garment Manufacturers Association of Cambodia (GMAC) in 1999 enabled manufacturers to interact with a single voice with the State, and to negotiate standard "payments". At the same time, membership in GMAC is required for any garments manufacturer to export legally. Similar patterns have already emerged in the rice sector, where Green Trade, a state-owned enterprise, and the Cambodian National Rice Millers Association, were the only two entities licensed to export shipments of more than 100 tons of rice in 2008.

Keywords: Cambodia, growth, governance, trade policy.

JEL Classification No.: O12, O19, O24, O53.

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1. Introduction

Cambodia has grown rapidly in recent years despite lackluster governance. This paper aims to explain this phenomenon from a political economy perspective by examining the complex relationship between the state (and by extension the ruling Cambodian People's Party or CPP) and the market across two different sectors: garments and rice. One (garments) is vibrant; the other (rice) might be emerging. This paper seeks to answer two questions: What explains Cambodia's double-digit growth despite poor governance? Why do some sectors thrive while others fail under such conditions?

In answering these questions, the paper uses the concept of 'good enough governance' as a basis for analyzing the nature of state-business (and by extension CPP-business) relations in Cambodia. Grindle first explained 'good enough governance' as:

> accepting a more nuanced understanding of the evolution of institutions and government capabilities; being explicit about trade-offs and priorities in a world in which all good things cannot be pursued at once; learning about what's working rather than focusing solely on governance gaps; taking the role of government in poverty alleviation seriously; and grounding action in the contextual realities of each country.[1]

Revisiting the concept three years later, she argued that good enough governance was "not sufficient for guiding practice".[2] Perhaps realizing the increasing detachment between the good governance agenda and reality on the ground, the World Bank published *Governance Under Real-World Conditions* in 2008 to highlight the fact that "difficulties arise when attempts are made to apply what are often excellent technical solutions under real-world conditions"[3] and that

> Human beings, acting either alone or in groups small and large, are not as amenable as are pure numbers. And they cannot be put aside. In other words, in the real world, reforms will not succeed, and they will certainly not be sustained, without the correct alignment of citizens, stakeholders, and voice.[4]

Thus, it is within the context of good enough governance as practiced under real world conditions that two key explanatory factors pertinent to the different growth outcomes observed in the rice and garment sectors are analysed; namely, the nature of businesses operating in the sector and the way their relationship to the government is organized; and the nature of the constraints upon production, including technical or external constraints, emerging directly[5] and indirectly[6] from poor governance.

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[1] Merilee Grindle, "Good Enough Governance: Poverty Reduction and Reform in Developing Countries," *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 17, No. 4, October 2004, 525.
[2] Merilee Grindle, "Good Enough Governance Revisited," *Development Policy Review*, 2007, 25 (5), 554.
[3] Sina Odugbemi and Thomas Jacobson, eds, introduction to *Governance Reform: Citizens, Stakeholders, and Voice* (Washington, DC: The World Bank, 2008), 1.
[4] Ibid.
[5] For instance, informal payments to customs or other parts of government increase the cost of doing business inside Cambodia and when it comes to exports from Cambodia.

State/CPP-Business Relations: The Oknha Economic Context[7]

Since the end of the war, the current political regime in Cambodia has proved successful in providing peace and stability, conceptualised as public order, and a veneer of democracy evidenced by the periodic holding of elections. Despite this, the quality of governance has been perceived externally as poor. Cambodia's ranking in Transparency International's Corruption Perception Index, for example, has dropped from 130 out of 158 in 2005 – the first year it was ranked – to 151 out of 163 in 2006, to 162 out of 179 in 2007. Perceptions of corruption emerge in part from the functioning of intra-elite patronage systems, running both vertically and horizontally, across and within ministries. These patronage systems have prompted continual expansion of the number of positions in government, from one election to the next – creating an entire Senate in 1999, and the largest cabinet in the world, comprising one Prime Minister, seven Deputy Prime Ministers, 15 Senior Ministers, 28 Ministers, 135 Secretaries of State and at least 146 Under-Secretaries of State, in 2003.

This dramatic increase in the number of formal positions in government belies the true nature of political power in Cambodia. Only a few individuals hold it: the rest divide the spoils and are content to subsist on a modicum of influence. Key ministries for governance and growth include the Ministry of Economy and Finance, the Ministry of Commerce, the Ministry of Interior, the Office of the Council of Ministers, and–though a special case because of the guns it holds – the Ministry of National Defense.

Alongside the concentration of personal power in the hands of this narrow group of formal office-holders, in recent years larger numbers of Cambodian businessmen have been establishing connections with the government. Known as '*khnorng'* (literally, 'back' in Khmer and indicating backing from powerful patrons), government officials see such connections as a mechanism for eliciting gifts from businessmen, both for personal enrichment and from which to make party contributions during election periods. The establishment of webs of personal '*khsae'* across the

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[6] For instance the high cost of electricity or high transport costs because of government-granted concessions in petrol import (Sokimex has the country's only oil jetty at Sihanoukville Autonomous Port), poor infrastructure due to corruption, etc., could be improved with better governance. See World Bank *Sustaining Rapid Growth in a Challenging Environment: Cambodia Country Economic Memorandum*, Poverty Reduction and Economic Management Sector Unit, East Asia and Pacific Region (Washington, DC: The World Bank, 2009), available: http://www.worldbank.org/kh/growth and World Bank and IFC, *A Better Investment Climate to Sustain Growth in Cambodia Second Investment Climate Assessment*, Poverty Reduction and Economic Management Sector Unit, East Asia and Pacific Region (Washington, DC: The World Bank, 8 January 2009 Draft for Discussion) for more on this. The latter finds that corruption is still the number one issue facing businesses in Cambodia and that electricity is a growing concern because of its high cost and unreliability.

[7] This section is drawn from Pak Kimchoeun, "Ok Nha and advisors in Cambodia" (unpublished brief dated 11 June 2008) with permission. The Oknha portion is based on an article by Duong Sokha Sokha, « Le prix à payer pour entrer dans la caste des oknhas, » (Ka-Set.info, 14 April 2008). Available: http://ka-set.info

divide between the state and the private sector, has expanded specifically through a web of patronage which operates beyond the bureaucratic elite, and links the business sector with key individuals in the ruling Cambodian People's Party. The logic of such expansion is simple: power and money find a way to meet one another. In contemporary Cambodia, increasingly elaborate systems of honours known as the "Okhna" and "Advisor" systems show the mechanisms by which money and power connect.

The title of "Okhna" comes from Cambodia's peerage system and is bestowed by His Majesty the King. It is designated for individuals whose "Contributions [to national reconstruction] valued in excess of US$100,000".[8] The title of Oknha is the preserve of businessmen interested in formalizing their relationship with the State (and by extension the CPP). As of April 2008 there were offically 220 Oknhas of whom less than ten were women.[9] Unofficially, the number could be significantly larger as some Oknhas obtain their title by directly contacting the Prime Minister without going through the Decorations Department of the Council of Minister. Gold (US$10,000-100,000), Silver (US$5,000-10,000), bronze medals (US$1,000-5,000), and Certificate (US$500-1,000) exist below the title of Oknha.

The appellation of 'advisor'[10] (*tipreuksa*) differs from that of "Oknha". "Advisors" are associated with a particularly powerful office holder, but in a personal rather than an official capacity. The number of advisors attached to the Cambodian government is unknown, but it is believed that the Senate President, Chea Sim, has more than 100, while Prime Minister Hun Sen has more than a thousand. The right to call oneself an 'advisor' to one of these high ranking personages derives from two sources. One is through outright payment via contributions to one of the working groups of the CPP. The other is through one's long term affiliation and/or service to the party. The amount of the contribution varies depending upon one's *khsae*. Knowing the right person could cost as little as US$10,000 to obtain the title; other pathways might cost US$50,000. The degree of power the title of 'advisor' brings also varies. Of the 100 advisors working for the Senate President, only a dozen receive a salary and may not have paid much for their position. These are mainly people who have past achievements for the party (even from the 1980s) and some might just have done some political favors for the party, such as defecting from an opposition party. Even the dozen who are paid may not actually engage in any advising. The Senate President only has two 'real' advisors, persons from whom he really seeks advice on issues such as appointments of people to key positions.

Advisors get to be called Excellency, a title of honor that can be helpful for doing business in Cambodia, though not implying wealth per se as would Oknha. Some advisors will have NGOs on the side, as their "business". Some advisors are sought after as business partners because they can use their political influence to gain access to the corridors of power and build the credibility of their business or organisation. Gaining access is an elaborate and highly ritualized hierarchy mediating dance for external investors, and the reason why advisors (and Oknhas) are highly

[8] Geoffrey P. Oldham and Brett Delahunt, *Cambodian decorations of honor* (Auckland, N.Z.: Milymen Books, 2004), 59.
[9] Duong Sokha, Le prix à payer pour entrer dans la caste des oknhas.
[10] Based on Pak, "Ok Nha and advisors in Cambodia", interviews with a high ranking government officer (6 June 2008).

sought after, since their employment in the service of foreign investors seeking influence becomes necessary. Like Oknhas, advisors might also make substantial gifts to the person to whom they are attached, to improve their relationship with those in power. One way of doing this is by offering company shares to their patrons. Finally, distinction between advisors and Oknhas often blur because an Oknha can also be an advisor to top party leaders such as Neak Oknha Kith Meng, who is an advisor to the Prime Minister (he was an interlocutor in the freeing of imprisoned human rights and labor activists in January 2006).

The relationship between politics and business runs deep in Cambodia. Nine Oknhas combined are MPs and Senators (all CPP), but more importantly, most ministers and many Members of Parliament have financial interests. Indeed a joint venture with a politician who makes no financial investment represents a well-recognised method of parlaying influence into assets. The idea of a conflict of interest does not arise because the separation between public and private is not clear within Cambodian modes of governance. This in turn makes it difficult to enact an anti-corruption law (much less implement one). A minister who receives a monthly consulting payment from a firm he "supervises" has argued that he worked outside business hours. A minister's spouse owning a million dollars worth of shares in a conglomerate registered by her husband's Ministry raises only Opposition eyebrows. An incoming minister who owns a large business that he will supervise as minister argues that no conflict of interest exists if he hands the business over to his spouse. Often, inexplicable wealth is explained by exceptional business acumen (by the spouse).

The proliferation of Okhnas and advisors, and their ever tighter relationship with hierarchies of political power are significant for prospects for growth because they can play a significant role in the economic life of Cambodia, from land ownership to controlling access to the corridors of power. Oknhas are captains of industry, often manipulating their political connections for personal gain, while advisors can become the equivalent of lobbyists who are the ultimate insiders.

Oknhas and advisors are unlikely to invest in sectors that require technical knowledge which they do not have and cannot or are unwilling to obtain from outside Cambodia. Instead, they are more likely to invest in those sectors that enjoy the highest returns with relatively short time horizons because of country risk and capital constraints. This is reflected in the sectors under discussion here: the garment sector does not enjoy an Okhna presence because of its international character—less than 5% of garment factories in Cambodia are domestically owned. Rice is overwhelmingly domestically-owned, and has some active Oknhas—one of whom heads a rice miller's association. However, for official export, rice requires international technical know-how for Sanitary and Phytosanitary (SPS) measures compliance which are meant to ensure that imports do not undermine national health and safety for importing countries.

Constraints on Growth

Ostensibly, the Cambodian government has provided an environment that is not unfriendly to the private sector. Cambodia offers generous tax holidays in comparison to the investment regimes of other countries in the region according to Hing.[11] These holidays take the form of a complete

[11] Hing Thoraxy, "Cambodia Country Report by Dr. Hing Thoraxy," Foreign Direct Investment: Opportunities and Challenges for Cambodia, Laos and Vietnam, Hanoi, 16-17 August 2002

exemption from the 20% corporate tax on profit. The exemption period begins from the first year in which the project becomes profitable (but before the offset of losses).[12] The duration of these holiday periods can be up to nine years.[13] There is also a precedent for extensions of tax holidays. In June 2006, the Council of Ministers extended the corporate tax holiday on garment factories registered before March 14, 2005 by two years.[14]

However, this apparently laissez-faire attitude is to some degree counteracted by two further factors: the informal costs of doing business in Cambodia and the costs imposed by indirect failures of governance, such as poor health services and infrastructure. Indirect failures of governance can in part be explained in terms of historical failures to collect tax, facilitated by the inflow of large amounts of foreign aid to Cambodia. Cambodia's formal tax revenues, in the period between 2002 and 2006 for which data is available, never exceeded 8.2% of GDP. This is an abysmal figure by world standards and on a par with Niger, Tanzania and Togo.[15] During the same period, Thailand bottomed at 15%, while Indonesia and the Philippines never went under 12%. This is also reflected in anemic domestic revenue performance.

Cambodia offers investor-friendly tax holidays that substitute a formal system of taxation for an informal one in which contributions are made from Okhnas and advisors in lieu of formal taxes on businesses. Indeed, were the informal payments (inclusive of corruption) converted to formal payments, revenues as a percentage of GDP would be within international norms, and Cambodia could lessen its aid dependency. Anecdotal evidence suggests that authorities have consistently prioritized contributions from Oknhas, Advisors, and their aspirants[16] over facilitating the payment of taxes to the point of a niche industry being created for the payment of taxes which, for a garment factory, costs approximately $35 per payment.[17] Tax payments, which must be in local currency, are notoriously difficult to make as officials cannot be bothered to count the cash and

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(Phnom Penh: Cambodian Investment Board, Council for the Development of Cambodia, 2002), 5. Available: http://www.imf.org/external/pubs/ft/seminar/2002/fdi/eng/pdf/thoraxy.pdf

[12] http://www.embassyofcambodia.org.nz/investment.htm

[13] Erik Wasson and Kay Kimsong, "Tax Holiday Extended, Bond Market Approved," *The Cambodia Daily*, Saturday-Sunday, June 17-18, 2006.

[14] Ibid.

[15] All revenue and tax figures come from International Monetary Fund staff country reports cited in World Bank and ADB, "Cambodia: Enhancing Service Delivery through Improved Resource Allocation and Institutional Reform. Integrated Fiduciary Assessment and Public Expenditure Review," Report No. 25611 KH (Washington, DC and Manila: World Bank and the Asian Development Bank, September 8, 2003), ix.
Available: http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000090341_20030924104425

[16] As David Craig and Pak Kimchoeun, "The Politics of Party Finance," in Caroline Hughes and Kheang Un, eds, *Cambodia's Economic Transformation* (Copenhagen: NIAS Press, forthcoming) argue, Prime Minister Hun Sen has told a story about a king with three officials looking for ways to collect revenues – and after two of them tried taxing people and failed dismally, the third just went around all the businessmen and asked each one for a gift and raised the money in no time.

[17] Garment Factory Owner (26).

require taxpayers to wait in line for a day.[18] This has led to businesses specializing in facilitating tax payments for a fee, such as a money-changer (17)[19] who processes hundreds of tax payments for businesses and trades $2-3 million per day from a rented storefront. She confided that her business only pays $100 in taxes per month.

Action by government in fostering a functioning tax collection system runs counter to interests in safeguarding informal revenue streams. Aid flows have facilitated this strategy by providing a back-up flow of cash, particularly into the service sector, in line with Feyzioglu et al's (1998)[20] findings which show a negative empirical link in cross-country comparisons between aid flows and tax revenues. The problem with this strategy is that it reduces domestic pressure for accountability.[21] Bribe taxes enable a regime of low tax revenue collection to become sustainable – indeed, they make it less likely that tax reform will occur since doing so would threaten vested interests and also remove an income stream that benefits not only the state but the party.[22]

A study of 800 private sector firms throughout the country by the World Bank[23] revealed that 76% of the firms surveyed identify at least some of the laws and regulations affecting them as "unpredictable". The report also found that 80% of sampled firms acknowledged having to pay bribes, while 71% of large firms had to make frequent unofficial payments. The report calculated the so-called bribe tax to be 5.2% of total sales revenue, although the term was changed to "unofficial payments" throughout the main text before publication.[24] The same report proffered an estimate of $120 million in corruption. Calavan et al. (2004)[25] writing a descriptive report for the United States Agency for International Development estimated between $300-500 million which

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[18] One leading NGO with exceedingly close ties to the government had to appeal directly to the Prime Minister when it too suffered difficulties paying its employees payroll taxes. An official later came in person to the NGO to apologize and it has not since had difficulties making payments, but this is more the exception than the rule.

[19] This paper is based upon research interviews with 58 key informants drawn from government and the private sector. The number in parenthesis is a unique identifier used throughout this paper, a table in the Appendix provides a summary of titles.

[20] T. Feyzioglu, S. Vinaya, and Z. Min, "A Panel Data Analysis of the Fungibility of Foreign Aid," *World Bank Economic Review*, 121, (1998), 29-58.

[21] Paul Collier and David Dollar, "Development effectiveness: what have we learnt?" *The Economic Journal*, vol. 114, issue 496, (2004), F263.

[22] See also Sok Hach, "The Political Economy of Development in Cambodia: How to Untie the Gordian Knot of Poverty?" *Political Economy of Development* (Phnom Penh: Economic Institute of Cambodia, October-December 2005), 3.
Available: http://www.eicambodia.org/downloads/files/ER10_politicaldevelopment.pdf

[23] World Bank, *Cambodia at the Crossroads: Strengthening Accountability to Reduce Poverty*, Report No. 30636-KH, East Asia and the Pacific Region (Washington, DC: World Bank, November 15, 2004).
Available: http://siteresources.worldbank.org/INTCAMBODIA/Resources/1-report.pdf

[24] The find and replace feature missed (perhaps intentionally) one instance on page 110.

[25] M. Calavan, S. Briquets, and J. O'Brien, "Cambodia Corruption Assessment," Prepared for United States Agency for International Development (Phnom Penh: USAID Cambodia and Casals & Associates, May-June, submitted August 19, 2004).

could be as much 12.5%. Given such gloomy realities, one must still wonder how Cambodia managed to grow at double-digit rates in recent years. The unpacking of this mystery through two sectors will help elucidate what works, what may or may not work, and what doesn't work.

Rice and Garments in the Cambodian Context.

Both rice and garments were identified in 2005 in *Cambodia and WTO: A Guide for Business* published by the Ministry of Commerce (MoC) and the Mekong Project Development Facility (MPDF) of the International Finance Corporation as being potential export sectors, although the report was careful to note that "the selection of an industry does not mean that it, more than one not selected, is likely to be successful at exporting."[26] These sectors provide a success story and an emerging story by way of comparison and contrast. The next section of this paper examines the ways in which each sector has managed to establish itself in the challenging governance environment, and the outlook and implications for governance and growth.

The Garment sector: a Cambodian success story?

Two sectors—garments and tourism accounting for around 14% of GDP each—have clearly stood out in the past decade for their tremendous contribution to growth. According to the Economic Institute of Cambodia, the garment sector has added an estimated 2% annually to GDP since 1995, although this is tapering off.[27] The garment sector emerged in response to US trade preferences. In 1998-99, the Clinton administration developed the US-Cambodian Trade Agreement on Textiles and Apparel (1999-2004) which linked market access (increasing quota) to labor standards. Cambodia is the only country where a trade-labor arrangement was agreed to and implemented, securing it a quota for exports to the US.[28] In addition, the Cambodian garment industry benefited from diversification effects, i.e. garment buyers seeking to diversify their sources, and from regional effects, that is, being located in a region which is strongly engaged in textiles and garments.[29]

US trade preferences were made conditional on improving labor standards. Cambodia became the first and so far only country in which International Labour Organization (ILO) monitoring of labor

[26] MoC and MPDF, "Cambodia and the WTO: A Guide for Business" (Phnom Penh: Ministry of Commerce and Mekong Private Sector Development Facility, March 2005), 3. Available: http://www.mpdf.org/images/en/content/E3/Wed-Apr-20-03-16-11-CST-2005.pdf

[27] EIC, *Export Diversification and Value Addition for Human Development: Addressing the Impact of the Agreement on Textile and Clothing Expiration on Cambodia* (Phnom Penh: Economic Institute of Cambodia, June 2007), 12.

[28] So unprecedented was this linkage that a Harvard Business School case study on the US-Cambodia agreement was produced [HBS, "Worker Rights and Global Trade: The U.S.-Cambodia Bilateral Textile Trade Agreement," Case Study 9-703-034 (Cambridge, MA: Harvard Business School Press, Revised 4 November 2004)].

[29] This section is drawn from the contribution of Verena Fritz to World Bank mission's scoping note.

standards was made mandatory.[30] The ILO's *Better Factories Cambodia* program was instituted to "improve working conditions in Cambodia's export garment factories" through "independent monitoring," "finding solutions," and making "suggestions to management, training, advice and information."[31] Monitoring is done twice a year against a 480 point checklist compiled from a variety of sources including the Cambodian Labor Law and a range of buyers' codes of conduct.

Apart from benefiting workers, the Cambodian system appealed to brands embracing ethical approaches to manufacturing and corporate social responsibility. In 2005, garment buyers played a key role in applying pressure on authorities for the release of five activists: a union leader, a radio host, two human rights activists, and a lawyer, all of whom had been imprisoned for exercising their freedom of expression. One of these freed human rights activists created the Human Rights Party not long after his release and won three National Assembly seats in the 2008 election. It baffled senior government officials to see freedom of expression linked to labor and garment buyers, but perception of human rights abuses can impact business.[32]

To date, Cambodia captures only a relatively limited share of the value chain and the value added. Cambodia is only involved at the "Cut, Make, and Trim" phase of the value chain. Almost all inputs for the sector are imported, and the country does not have a textiles industry. More than 95% of garment factories are foreign owned, and a significant part of the profits are repatriated. Direct contributions to the government budget have been limited since the sector enjoys import tax exemptions as well as tax holidays. In June 2006, 180 out of 270 firms then operating (specifically those firms which had applied for licenses before 14 March 2005) became eligible for an additional two years of tax holiday when the Council of Ministers acted to support the industry in light of increasing competition from Vietnam and China.[33]

Nonetheless, the benefits to Cambodia have been substantial in terms of direct and indirect job creation and in terms of boosting overall GDP. Garments account for up to 80% of recorded exports, for 350,000 direct and about the same number of indirect jobs. According to Better Factories,[34] almost three quarters of the garment workforce are employed in large factories of 1,000 or more workers. Of these factories, about 175 are affiliated with a particular brand (with Walmart, Gap, and H&M as major players).[35] The percentage of women workers in these factories

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[30] The ILO monitoring system is currently being rolled out on a voluntary basis to several other countries – Vietnam, Jordan, and Lesotho.

[31] Better Factories Cambodia, "Twentieth Synthesis Report on Working Conditions in Cambodia's Garment Sector," (Phnom Penh: Kingdom Of Cambodia International Labour Organization Better Factories Cambodia, 30 April 2008), 1. Available: http://www.betterfactories.org/content/documents/1/20th%20Synthesis%20Report%20Final%20(EN).pdf

[32] For more on this, see Sophal Ear, "Change and Continuity in Cambodian Human Rights and Freedom of Expression: Learning from Experience," Report for Pact Cambodia Final Draft Revised 26 May 2006. Available: http://csua.berkeley.edu/~sophal/pact/pact.pdf

[33] AP, "Cambodia Gives Garment Cos. Tax Holiday," Associated Press, 16 June 2006.

[34] Better Factories Cambodia, Twentieth Synthesis Report on Working Conditions in Cambodia's Garment Sector, 3.

[35] Labor organization management (28).

is 92.2%.[36] Workers were employed at a legally mandated minimum wage of US$55 a month plus a $6 bonus to offset inflation.

Currently, the sector is under pressure. A significant slowdown of garments exports to the US was recorded for Q4 2007 and Q1 2008, but overall 2008 ended with a 7% increase to US$3.15 billion.[37] A combination of factors weigh on Cambodian competitiveness in garments: productivity is lower than in key competitor countries, while some costs are higher (mainly: informal payments/bribes, transportation, electricity, and costs related to labor disputes), and its key US market is expected to undergo a recession (70+% of garment exports are destined for the US). The high cost and the unreliability of electricity is an issue for factories using the national grid as well as for those using their own diesel generators.

Key constraints facing the sector fall into three groups. External constraints include a slowdown in international demand due to worldwide recession. Internal constraints include those that are directly governance related, such as the high cost of export and facilitation, due to demands from the economic police of the Ministry of Interior for charges related to trucking goods to the port of Sihanoukville; formal and informal charges demanded by customs officials; and charges demanded by CamControl, an arm of the Ministry of Commerce created to monitor the quality of exports and imports under World Trade Organization rules. It is unclear where bribes begin and formal payments end because so much is left to the discretion of individuals who have bid for their government post and form only a small part of an overall pyramid of payments. Other internal constraints include those that are indirectly governance related, such as high labour turnover (partly due to poor public health services); high cost and unreliable electricity supply; and high transport costs. Also included in the category of indirectly governance related constraints is the high number of strikes regarded by many as a symptom of the international regulatory regime, and of the Cambodian government's sponsorship of a range of unions as a means to undermine the independent Free Trade Union Workers of the Kingdom of Cambodia.

The internal governance environment for the garment sector is characterized by sins of omission (call it benign neglect), rather than sins of commission (active obstruction of activities through crippling demands for informal payments). During 1999 to 2004 Cambodia enjoyed preferential access to US markets, and taking advantage of this had two pay-offs for the Cambodian government: 'looking good' at the international level (and in particular in its relations with the US), and the fact that the quota regime offered considerable rents. The garment sector offers insights into Mushtaq Khan's theory of "how patron-client networks … have allowed some types of value enhancing economic transformations and prevented other types".[38] Allowing the garment sector to emerge was therefore a 'win-win' situation for the Cambodian government.

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[36] Better Factories Cambodia, Twentieth Synthesis Report on Working Conditions in Cambodia's Garment Sector, 5.
[37] Chun Sophal and Hor Hab, "Mong Reththy Group aims for one million pigs per year by 2015," *The Phnom Penh Post*, 8 January 2009.
[38] Mushtaq Khan, "The state and economic development: what role, what risks?" An ODI Poverty and Public Policy Group Event, (London: Overseas Development Institute, November 22, 2006), 18.

Even so, how did garments establish itself in the challenging business environment of Cambodia? While some of Cambodia's Okhnas certainly have interests in garments, not one can be named as owning a garment factory. Foreigners have not generally invested in Okhna relations, seeing little benefit from insertion into a patronage-based peerage system that means little to them. One garment factory owner (27) complained "Oknhas have done nothing to help. They have no money, no knowledge." The head of the industry's trade group—the Garment Manufacturers Association of Cambodia (GMAC)—is Van Sou Ieng, a Sino-Khmer who was born in Cambodia, graduated from French university in 1976, and has had a career in Banking and Finance (1979-1983), Stocks and Securities (1980-1986), and Textiles (since 1986).[39] Indeed, while he lists his nationality as "Cambodia"[40], he found himself hard pressed to speak or deliver a speech in Khmer in May 2005 at the launch of the Cambodian Economic Association at which he was a speaker. Such is the foreign character of the garment sector itself, a character that may have helped insulate the industry from capture.[41]

Furthermore, the prevalence of such 'outsiders' in the garment business has also offered greater potential for social capital formation through horizontal associational links when compared to domestically-based sectors, and individual owners in the sector have lobbied collectively for their interests, via GMAC.[42] GMAC was successful in persuading the government to award it an official role in the export of garments. Because of this, garment factories wishing to export must be members of GMAC, awarding the association authority in its dealings with the government. Furthermore, playing this key role in exports awards GMAC a key role as agent for the industry in the collection or negotiation of rents

GMAC emerged as a result of the foreign nature of the sector: key actors within it have fewer pre-existing ties to facilitate individual deals, rendering collective action more attractive. GMAC's own website describes the "symbiotic cooperation between the garment manufacturers and the

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Available: http://www.odi.org.uk/events/states_nov06/ODI%20State%20and%20Development.pdf

[39] Van Sou Ieng, "BIOGRAPHY OF MR. VAN SOU IENG" e-mail from an informant November 9, 2008.

[40] http://www.gmac-cambodia.org/memberpop.asp?memberID=24

[41] One reviewer emphasized the identities of entrepreneurs, including Diaspora, since the garment sector is mainly foreign-owned (although there are unavoidable links to local Cambodians in areas such as land, etc.). Both Western Diaspora and Chinese expatriates play significant roles across different sectors. The garment industry has a very strong Chinese element; ethnic Cambodians will send their children to Chinese-language schools so that they can work in middle management at garment factories doing accounting for example. Moreover, there is a strong Chinese ethnic component to business in Cambodia, and more generally throughout Southeast Asia. Cambodians of Chinese ancestry include virtually the entire Phnom Penh Chamber of Commerce. For example, the modern rice mill operating in Cambodia is from a former Chinese-Cambodian businessman. Cham Prasidh is an ethnic Chinese Cambodian, as is the Minister of MAFF, Chan Sarun. Of course, while the manufacturers of garments are Asian, the "buyers" are Western.

[42] Garment factory owner (27).

Royal Government of Cambodia (RGC) that has stood the test of time until today".[43] The sector is also relatively uniform—most players are of medium size and external and face an international environment that is demanding in terms of quality standards and competitiveness.

Consequently, the garment sector is an example of how Grindle's 'good enough governance' can emerge in Cambodia. Particular features of the sector have allowed demands for improvements in governance that have at least had partial impact. Any such impact may have positive spill-over effects for other sectors. However, as the garment sector is struggling for survival, there is as yet little evidence that it has the potential to be a catalyst for other forms of light manufacturing.[44] The intense involvement of external stakeholders has been important in bringing about this success of employment intensive ('shared') growth—from the US administration's design of trade preferences, to the role of the ILO, to the fact that most investors in the sector are foreign, to various donor projects to help improving the sector's productivity.

The special regime allowed the sector the space to develop its relative competitiveness. Now the sector faces new challenges in terms of rising costs and a declining market. Thus far, the governance improvements which were achieved were largely incremental in nature. It is unclear whether a continued gradual approach to solving some bigger and 'lumpy' governance-related issues—power generation and labor relations—will succeed. Solving these issues will help not just the garment sector to survive and flourish, but remove significant barriers for other sectors—improving Cambodia's overall competitiveness. Given low government effectiveness and coherence to date, it is not clear whether this is feasible.

Rice: An Emerging Export Sector?

In 2006, agriculture's value added as a percentage of GDP was 30.1%, a decreasing share due to continued growth in garments and tourism. However, 80% of Cambodians live in rural areas and depend on agriculture. There is a consensus that the development of agriculture and agro-processing are key for Cambodia's survival in the global economy[45] following the end of the

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[43] http://www.gmac-cambodia.org

[44] In fact, the exports of shoes to major markets declined in value terms between the first trimester 2007 and the equivalent 2008 period by around 15% according MoC, "Estimated Cambodian Export Data Under GSP/MFN Scheme to the Main Markets," Ministry of Commerce, May 2008.

[45] See for example Martin Godfrey, "Youth Employment Policy in Developing and Transition Countries - Prevention as well as Cure," Social Protection Discussion Paper Series No. 0320, Social Protection Unit, Human Development Network, (Washington, DC: The World Bank, October 2003).
Available: http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0320.pdf; World Bank, *Cambodia at the Crossroads*; IMF, "Cambodia: 2004 Article IV Consultation," Country Report No. 04/328, (Washington DC: International Monetary Fund, October 22, 2004).
Available: http://www.imf.org/external/pubs/ft/scr/2004/cr04328.pdf; RGC, "Address by Samdech Hun Sen on the "Rectangular Strategy" for Growth, Employment, Equity and Efficiency: First Cabinet Meeting of the Third Legislature of the National Assembly at the Office of the Council of Ministers," (Phnom Penh: Royal Government of Cambodia, July 16, 2004).

preferential quotas for the export of garments to the United States and the European Union, which had made that industry Cambodia's largest foreign exchange earner. Table X summarizes the importance of agriculture in Cambodia since 2000. 2003 and 2005 were banner years for growth of value added in agriculture.

Table X: Agriculture in Cambodia 2000-2006

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Agriculture, value added (% of GDP)	35.9	34.4	31.2	32.0	29.5	30.8	30.1
Agriculture, value added (annual % growth)	-0.4	3.6	-2.5	10.5	-0.9	15.7	5.5
Agricultural land (% of land area)	27.0	27.7	28.3	28.9	29.6	30.3	27.0
Employment in agriculture (% of total employment)	73.7	70.2	..	..	..	..	..
Rural population (% of total population)	83.1	82.5	82.0	81.4	80.9	80.3	79.7

Source: World Development Indicators Online. The World Bank, Washington, DC. Accessed 11 November 2008. Available for purchase: http://publications.worldbank.org/ecommerce/catalog/product?item_id=631625

While the total cultivation acreage of rice has shrunk marginally, and agriculture itself has been shrinking in terms of value added to GDP (nearly 36% in 2000), it still exceeds both tourism and garments combined. Rice as a share of GDP in agriculture is 22%, but 78% of rural households grow rice.[46] Rice is the most important staple for Cambodians and essential for food security reasons. The story of rice is in many ways the story of shifting from subsistence farming into agro-processing, an area of well-recognized value-addition that Cambodia has yet to tap effectively for a number of reasons, including but not limited to lack of credit, high electricity costs, corruption, and technology issues.

Growing rice is not a highly capital intensive activity when irrigation is available (the use of diesel-powered pumps is otherwise needed), although milling rice requires energy, capital, know-how, and transport. The sector was for many years domestically-oriented, but has

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Available: http://www.car.gov.kh/relatedtopic/rectangular%20strategy.htm; Sciaroni, Bretton, "The State of the Private Sector," Remarks made at the Consultative Group Meeting, December 5-7, 2004.
Available: http://www.cdc-crdb.gov.kh/cdc/7cg_meeting/7cg_document/the_state_private_sector.htm; NGO Forum, "NGO Statement to the 2002 Consultative Group Meeting on Cambodia," Phnom Penh, June 19-21, 2002.
Available: http://www.ngoforum.org.kh/Development/Docs/ngo_2002/ngo_2002.htm

[46] Jehan Arulpagasam; Francesco Goletti; Tamar Manuelyan Atinc; and Vera Songwe, "Trade in Sectors Important to the Poor: Rice in Cambodia and Vietnam and Cashmere in Mongolia" in Kathie Krumm and Homi Kharas, eds, *East Asia Integrates: A Trade Policy Agenda for Shared Growth*, (Washington, DC: World Bank, 2004), 199.
Available: http://lnweb18.worldbank.org/eap/eap.nsf/Attachments/Chapter+9/$File/chapter+9.pdf argue that in Cambodia and Vietnam, "most of the poor earn a living by growing rice, and the rice culture permeates the farming traditions of the region." The title of their chapter underscores the importance of rice in promoting shared growth as Cambodia integrates into the world economy.

increasingly become export-driven because of world prices and surplus production in recent years. During the 1960s, Cambodia was one of the key rice-exporting nations in the world, exporting far more than Vietnam according to data from United States Department of Agriculture, and falling third behind Thailand and the United States in terms of net exports of milled rice.[47] Today, Cambodia is a small official exporter, with Vietnam its primary customer.

Indeed, the RGC announced that it would export 120,000 tons of rice to Guinea at a "friendship" price of $600 per ton.[48] While this is a major discount compared to international prices, it does not take into account that Cambodian rice is 35% broken and is therefore considered low grade compared to long-grain Thai or Vietnamese rice which is less than 5% broken.[49] Regardless, intervening events saw the failure of the agreement for technical reasons—no agreed upon way of paying for the rice and Cambodia's refusal to send rice before payment was received. The same failure to consummate reportedly happened with a rice deal involving Senegal which was announced in April 2008.[50] Notably, a ballyhooed joint venture between publicly-owned Green Trade Corporation (GTC) and Indonesian conglomerate Racharvali said to have the potential to pump $300-500 million dollars to setup rice-processing plants in Cambodia in 2009[51] has since evaporated.

Both Kuwait's and Qatar's Prime Ministers visited Cambodia in 2008 and Prime Minister Hun Sen visited Kuwait in January 2009. Referring to both countries on 6 August 2008, Hun Sen said "Those countries have oil but no rice … I think the Gulf can become our rice market."[52] His announcement came one day after the Kuwaiti Prime Minister's visit in which both countries discussed swapping technical assistance for arable land for cultivation of quality rice for Kuwait.[53] Cambodia is in talks with several Asian (including South Korea and the Philippines) and Middle Eastern (including Kuwait and Qatar) governments to receive as much as $3 billion in agricultural investment in return for millions of hectares in land concessions to be leased for between 70 and 90 years,[54] according to Suos Yara, under-secretary of state responsible for economic co-operation at the Council of Ministers. It is not impossible to imagine that Asian and Middle Eastern investors (sovereign or otherwise) could become the external drivers of good enough governance in Cambodia's agricultural development. During Hun Sen's visit to Kuwait in January 2009, Foreign Minister Hor Namhong reported that the Kuwaiti government signed a Memorandum of

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47 http://www.irri.org/science/ricestat/data/may2008/WRS2008-Table12-USDA.pdf

48 AKP, "Guinea to Import Rice from Cambodia," Agence Khmer de Presse, Phnom Penh, July 3 2008.

49 As a rice miller (36) put it: "For now we can still follow the old system and we can export to Africa. They don't demand much quality."

50 Xinhua, "Cambodia grants sale of 6,000 tons broken rice to Senegal," www.chinaview.cn, April 23, 2008. Available: http://news.xinhuanet.com/english/2008-04/23/content_8036128.htm

51 Ros Soketh and Paul Vireze, "Green Trade Plans Venture With Indonesian Firm," *The Cambodia Daily*, 15 August 2008, pg. 29.

52 As quoted in DPA, "Kuwaitis to return to Cambodia for rice talks—Summary", Deutsche-Presse-Agentur, 6 August 2008.

53 DPA, Kuwaitis to return to Cambodia for rice talks—Summary.

54 Raphael Minder, "Cambodia holds land deal talks," *The Financial Times*, 20 November 2008. Available: http://www.ft.com/cms/s/0/2506f3c6-b72e-11dd-8e01-0000779fd18c.html

Understanding with Cambodia to construct a $350 million hydropower dam and irrigation system in Kompong Thom province. The dam will be built in Kompong Svay district on the Steng Sen River, will produce 40 Megawatts for the surrounding area, and provide irrigation for 130,000 hectares of rice land,[55] all of which could come into service for rice cultivation to Kuwait.[56]

Nine million Cambodians engage in rice production, making collective action difficult if not impossible. The structure of the milling industry is rather opaque. It is known that there are several big rice millers; there used to be many small ones, but recently most of the small millers have gone out of business and do trading of paddy rice to Vietnam for milling. Of the remaining 200-300 rice mills said to exist,[57] there is little evidence that their owners are themselves Oknhas, at least not at any higher rate than entrepreneurs of similar small and medium enterprises. As a Rice Miller (36) lamented "Oknha … do not invest in any long term business, they only invest in business that give them profit tomorrow." Indeed, if immediate profitability is any indicator, only a handful of Oknhas are known to operate in the sector, one of whom, Neak Oknha Men Sarun—who is also a CPP Senator, owns a flour mill which is believed to also include a rice mill and would fit his role as a rice wholesaler who has historically sold to the Cambodian military.[58] One of the leading rice millers is an Oknha, while another heads state-owned GTC. Aside from these, the structure of the industry is described as one of many "small potatoes" and "little guys;" "the ones who grow" are reported to be "foreigners or well-connected domestics".[59] Rice is estimated to enjoy an internal rate of return of around 20%[60] - a respectable rate anywhere else, but in Cambodia, land speculation had, until recently, been far more profitable. One informant reported that there is one big rice mill with both government and Oknha involvement, while another big mill exports aromatic rice—50,000 tons per annum.[61] One bank official interviewed did say that although currently there is not much lending for agro-processing, it is preparing to move into this direction and preparing to lend money for the development of a rice mill with a 50% government guarantee.[62]

It has been reported that there exists a Mafia-like element in the rice sector. One NGO rice expert made inquiries about buying rice to export to another ASEAN country some years ago, and allegedly received a threatening phone call telling him to stop his activities or he and his family would be in danger. The victim believes he knows the politically-connected mastermind behind the threats, as this individual's company exported to the same ASEAN country already and did not want competition. For his own safety, he stopped further inquiries about exports. The important point to note here is that, given the atomized structure of the industry, there are relatively few

[55] Leopard Cambodia Fund, "In the News," Monthly Newsletter Issue 9, January 2009.
[56] Nick Paton Walsh, "Cambodia farm land sold to wealthy nations," Channel4 News, January 29, 2009.
Available: http://www.channel4.com/news/articles/politics/international_politics/cambodia+farm+land+sold+to+wealthy+nations/2914582
[57] Estimates vary, but this figure has been cited by Economic Researcher (20).
[58] http://www.mensarun.com.kh/Aboutmessage.htm
[59] Economic Researcher (20).
[60] Economic Researcher (20).
[61] Agricultural Adviser (30).
[62] Banker (14).

Oknhas in the rice sector. This means that both the large investment and operating capital needed to build a state-of-the-art rice mill and purchase paddy rice in significant quantities may have to come from outside Cambodia, and indeed indications are that French investors have stepped-up with a $20 million rice mill in Udong, while the $350 million Kuwaiti deal is said to involve securing large quantities of rice exports as Cambodia's repayment terms to Kuwait.

As in the garment sector, constraints in the rice sector may be (1) external or purely technical; (2) directly governance related; or (3) indirectly governance related. In the first category, Cambodia's comparatively low yields compared to its neighbours are caused by poor soils, and low extension and research capacity; and low capacity to export due to inability to meet hygiene standards. Granted better governance could improve all these things to a greater or lesser extent. In the second category, a heavy burden of informal payments affect enterprises above a certain size, along with informal charges for exporting via Sihanoukville. In the third category fall problems such as lack of irrigation, high cost of factors of production due to poor infrastructure and the failure to erect systems to help farmers meet export standards. High energy costs represent an important constraint on rice milling, preventing Cambodian millers from competing with their counterparts in Vietnam or Thailand. Consequently, Cambodian farmers export raw paddy; this earns invaluable income for farmers, but robs Cambodia of the ability to add value to the raw commodity.

Like garments, economic rents must invariably be shared with the economic police during the transport of rice within Cambodia; customs officials control the borders so any official or unofficial export must also go through them; line ministries such as Agriculture, Forestry, and Fisheries no doubt play another important role in rent-seeking. As of 26 May 2008 through at least 31 December 2008, when a two month ban was partially lifted on the export of rice, the Ministry of Commerce controlled all exports of rice in excess of 100 tons. A 1.6 million tons export quota was announced, and exports of more than 100 tons had to be approved by the MoC; only two entities were granted permission to export in excess of 100 tons *without* a license, the MoC's public enterprise, GTC and its partner, the National Cambodian Rice Millers Association headed, as it happens, by the director of GTC. Shortly thereafter, Angkor Kasekam Roongroeung (AKR)—a private rice miller that has successfully exported to Europe, obtained a license through its governmental channels which include Ministry of Agriculture, Fisheries, and Forestry Minister Chan Sarun, who is also an owner of AKR.

Having learned from its experience with garments whereby the MoC became a "Governance Focal Monopoly" for the garment industry—at once fostering "dialogue and coordination among public and private elites in which confidence is inextricably created on a basis that is simultaneously interpersonal, process-based and institutionalized",[63] the MoC is acting not just as a gatekeeper, but as seller for rice between Cambodia and the international system. As of this writing, it is unclear whether an export license is still required as informants reported a meeting with Deputy

[63] Nicolas Miesel and Jacques Ould Aoudia, "Is "Good Governance" a Good Development Strategy?" Working Paper 58, Agence Francaise de Developpement (Paris: AFD, January 2008), 38.
Available: http://www.afd.fr/jahia/webdav/site/myjahiasite/users/admirecherche/public/DT/WP_58_GB_pour_mise_en_ligne.pdf

Prime Minister Keat Chhon, who is in charge of the overall economy, in early January is said to have resulted in a decision to remove rice export licensing requirements from the MoC.[64]

International rice prices have increased significantly in the past two years. The very strong increase in rice prices has been a surprise and is a problem as it has also led to speculation and hoarding as well as a ban on exports for India, Vietnam, and Cambodia (since lifted). Expectations are that prices will remain relatively high, although lower than their peak in the spring of 2008. Ultimately, whether Cambodians grasp the day with rice exports will depend largely on the rice millers of the country being able to exploit opportunities. Realistically, the prospects are not particularly encouraging at this stage. Collective action in rice has thus far not produced the results that were evident in garments as early as 1996 when an informal group banded together to create what would become GMAC. Garments benefitted from externally imposed institutions like Better Factories and the Arbitration Council that incentivized buyers' willingness to purchase from Cambodia, initially because of MFA, and later because of WTO membership. While rice has millers' associations that are still fighting for legitimacy, it does not have a certifying entity that could facilitate exports. Awareness of EBA while patchy is not enough to make the leap from domestic to export-quality production.

Moreover, there is disagreement over how much rice is exported as there are no reliable figures currently in existence. Yet it is quite visible—large quantities are shipped on barges to Vietnam and Thailand. Since 2000, the surplus has clearly increased. There is now a major shift in focus underway, also among donor programs, from food security to a more market-focused approach

Outlook and implications for governance and growth

Minister of Commerce Cham Prasidh initiated a Trade Sector-Wide Approach Program (SWAP) to consolidate ongoing trade and trade-related reforms to contribute more significantly to job creation, investment promotion, supply capacity enhancement and thus economic growth. This program, it is intended, will adopt an integrated approach to policy development, capacity building, institutional reform and implementation through improved governance and accountability.[65] Government is said to be taking serious measures to support this initiative. The SWAP also involves the Ministry of Mines, Energy, and Industry and the Ministry of Agriculture, Forestry, and Fisheries. The SWAP as such provides a framework, under which the government will then develop various concrete projects with specific donors. A second SWAP/Program Based Approach is also being prepared on Agriculture and Water, involving 10 Development Partners.

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[64] Given the opacity of how Cambodian policy is made and implemented (see Sophal Ear, "The Political Economy of Pro-Poor Livestock Policy in Cambodia", Pro-Poor Policy Livestock Initiative Working Paper No. 26, (Rome: Food and Agriculture Organization of the United Nations, August 2005), 16.
Available: http://www.fao.org/ag/againfo/projects/en/pplpi/docarc/wp26.pdf some informants dismissed the decision as irrelevant given the nature of ministerial fiefdoms. In other words, it remains to be seen how the decision of an unpublicized meeting would, in fact, be implemented.
[65] Cham Prasidh has also led the Garment sector's evolution and is now involved in trying to bring textile manufacturing. As Labor organization management (28) reported "if anyone can move things forward to the next level, it would be him … he should remain in post after the elections".

Donors and government are also seeking to link-up trade and agriculture efforts. These efforts should start to materialize by the end of 2008. While MAFF does not really have incentives to engage in these activities, it is keen to increase its role on Sanitary and Phytosanitary measures—which would give it gatekeeper (read discretionary) power over rice exports—with some representatives visiting China in 2008.

Currently, the SPS regime is fragmented and competition around it between MAFF and MoC's CamControl is a repeat of what is known to have happened with livestock, where CamControl sought to take charge of SPS over the objections of MAFF.[66] While CamControl is the quality control arm of the MoC, launched for the purpose of WTO-compliance which the MoC championed and for which the MoC is the focal ministry, other line ministries like MAFF do not feel that the MoC has the right to venture into its technical "turf" since the MoC has no technical expertise. More control over the SPS regime invariably means more rent-seeking opportunities for MAFF at the expense of the MoC.

What is apparent is that Cambodia will need to find buyers in order to clear markets.[67] These could be in China, the Philippines, Africa, and India; while EBA makes Europe more attractive, it is less likely to be a key market given that demand for long-grain rice is not strong there. Cambodia's 2-2.5 million ton rice surplus, if this is an accurate estimate, would place Cambodia among the top exporters in the world currently. Several rice informants agreed that the challenge is how to get to large quantities of milled rice at consistent quality.[68]

Like garment buyers, rice buyers will play an important role in stimulating investment as well as signaling what level of certification buyers want, whether it be broken rice (which can be used to make rice flour), organic rice, paddy rice, husked rice, semi-milled rice, etc. This offers interesting parallels to garments: however, the rice sector does not have a certifying/audit mechanism like Better Factories, a dispute resolution mechanism like the Arbitration Council set up to mediate labour relations in garment factories, or strong leadership via an association like GMAC.

Currently, Cambodians exporters who wish to meet SPS for the export of rice can hire the services of a testing laboratory such as Intertek Testing Services (Cambodia) Co Ltd. The difference between Intertek and Better Factories is simple: Better Factories was externally imposed and provides a kind of public good subsidized by donors. Moreover, membership in GMAC is required for export, and membership in GMAC requires compliance with Better Factories. Intertek is merely one of a handful of Inspection, Testing & Evaluation Services firms in Cambodia for which compliance with SPS by exporting Cambodian agricultural firms is not subsidized by any donors and certainly not cost-free. SPS, while required for export, costs each individual firm fees for testing, technical know-how, and a waiting export market with buyers.

[66] See Sophal Ear, The Political Economy of Pro-Poor Livestock Policy in Cambodia.
[67] Agricultural Adviser (30) and Rice miller (46): "Yes, it is a good opportunity that Cambodian rice will be allowed to import into EU without tax. But in the meantime, we should be ready to be strong in seeking partners who can provide fund to purchase rice for export."
[68] Rice buyer (47), Agriculture and Agricultural Adviser (30), and Rice miller (49).

5. Conclusion[69]

Garment and rice are two sectors that could be promising in Cambodia. One is already vibrant (garments) and one might be emerging (rice). Comparing these two sectors has underscored the importance of good enough governance for growth and how governance can improve and support growth in some sectors and not others. This helps explain the paradox of double-digit growth with relatively poor governance.

The garment industry is an example of good enough governance, where the Government (in particular the Ministry of Commerce) and firms (coordinated by GMAC) worked together to create an environment that generated growth. The strategic vision developed by the RGC, with the US Government, helped align expectations for investors. The link to export quotas and the supervision by the ILO helped establish the credibility of these higher expectations. The rents for Government of managing quotas (which ended in 2005 as the Multi-Fiber Agreement was dismantled) increased incentives. Subsequently, the existence of a strong and capable business association, GMAC, helped sustain support to the industry and create a sense of security given GMAC's capacity to get things done with the RGC. This is for instance evidenced in capacity of this hand-in-hand relationship to reduce trade costs, at a time when these costs were still increasing for other industries.

The roles of international drivers, foreign investors, domestic collective action mechanisms, and high stakes seem to have been critical in these achievements. External pressure was instrumental in creating the opportunity for growth in the sector. The Government's response was probably driven by the high stakes, with a very labor-intensive sector (now employing circa 350,000 workers) and significant rents from the quotas. Coordination within Government (which is often challenging given its fragmented nature) was ensured through the dialog monopolized by the Ministry of Commerce and GMAC. Foreign investors helped sustain Government's focus on the sector. GMAC became a pathway to solve collective action problems and maintain the necessary close relationship with the government.

While Okhnas are sometimes captains of industry and at other times Godfathers in a Mafia economy, in garments they never played so much as a cameo role. No doubt the land on which many a garment factory is located is probably owned by an Oknha, the factory itself is not. In rice, there are a few Oknhas of some prominence, but clearly they are outnumbered by hundreds of rice millers who have neither the means nor the inclination to obtain the title of Oknha. These millers are interested in finding the working capital to buy paddy rice for processing and to invest in new milling equipment from Thailand or Vietnam.

Indeed, rice has been limited to small amounts of milled exports, despite much larger unofficial exports of paddy rice. The recent dramatic increase in rice prices might provide the incentives to develop a hand-in-hand relationship between a champion in Government and a domestic industry, possibly – based on lessons from the garment sector – with a role for third-party monitoring and foreign investors. If nothing else, the growing interest from foreign countries in the Middle East

[69] I thank Stephane Guimbert for allowing me to draw from his work, World Bank, *Sustaining Rapid Growth*, for this section.

and Europe in Cambodia's rice sector bodes well for internationalizing the character and technical capacity of rice production in Cambodia.

Appendix: List of Informants

Note: The below titles have been generalized to prevent identification of informants. For example, several informants were heads of trade associations, which would make their identities obvious. Also, government officials do not have their ministries listed for the same reason. The number in parenthesis following that informant's title descriptor throughout the text now appears to the left of the below list and is randomly assigned.

Informants
1. Cambodian Economist
2. Management of International Conglomerate
3. Donor staff
4. Member of Parliament
5. Livestock Expert
6. Entrepreneur and former Secretary of State
7. Travel Agency Owner
8. Head of a Government Department
9. Ambassador
10. Research Advisor, Higher Education (Public)
11. Research Advisor, Higher Education (Public)
12. Civil Servant
13. Ministry of Health Advisor
14. Banker
15. Banker
16. Donor Representative
17. Money-Changer
18. Sihanoukville Port Official
19. Sihanoukville Entrepreneur
20. Economic Researcher(s)
21. Banker
22. Head of a Government Department
23. Management of Domestic Conglomerate
24. Management of Private University
25. Associate Dean at Private University
26. Garment Factory Owner
27. Garment Factory Owner
28. Labor Organization Management

Informants
29. Labor Union Leader
30. Agricultural Adviser
31. Donor representative
32. NGO Economic Program Officer
33. Embassy Official
34. Agricultural Advisor to Minister
35. Agricultural and Livestock Expert
36. Rice Miller
37. Hotel Assistant Sales Manager
38. NGO Livestock Representative
39. NGO rice expert
40. Head of a Government Department
41. Deputy Head of a Government Department
42. Assistant Head of a Government Department
43. Rice Mill Floor Manager
44. Livestock NGO Representative
45. Livestock NGO Representative
46. Rice Miller
47. Rice Buyer
48. Travel Agency Owner
49. Rice Miller
50. Ambassador
51. Head of a Government Department
52. Senior Advisor
53. Adviser
54. Newspaper Editor
55. Veterinarian and Livestock Advisor
56. Post-Conflict Reconstruction Expert
57. Forestry Expert
58. Entrepreneur and CPP Member