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Cambodia's Economic Relations with Thailand and Vietnam

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Abstract:

The paper reviews contemporary Cambodia's economic relations with Thailand and Vietnam. The main proposition is that given the characteristic of Cambodian economy and international economic environment, Cambodia needs to sacrifice her economic sovereignty for economic openness and integration in the region and the world for its survival. Cambodia has become an element in the interdependent international economic system. Such foreign economic policy and philosophy positively impact on Cambodia's economic relations with her neighbors (Thailand and Vietnam). However, economic relationship is still very much vulnerable to the legacies of history, cultural and border issues. In addition, domestic political changes in Cambodia can also divert attention on the bilateral relationships. .

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Cambodia's Economic Relations with Thailand and Vietnam

By Chheang Vannarith

1. Introduction

The new international political economic relations in the last decades have shaped Southeast Asia in many ways. Southeast Asia has become a subject of studies and researches in many parts of the world. However, there is still a gap in the research as most of the studies on Southeast Asian economy so far tend to focus on the original five founding members of ASEAN - Indonesia, Malaysia, Singapore, Thailand, and The Philippines (e.g. Bowie and Unger, 1997; Daquila, 2007; Hill, 2002; Takashi and Abinales, 2005). Indochinese economies has just been studied quite widely after the cold war in tandem with the economic reform in the socialist countries particularly after they became members of the Association of Southeast Asian Nations (ASEAN) in the middle and end of 1990s (e.g. Chin and Guan, 1996; Hughes, 2003; Ljunggren, 1993; Rodan, et al., 2001).

Southeast Asian particularly Indochinese countries have started introducing and implementing liberalization, deregulation and privatization policies in 1980s but not really political liberalization (Wah and Ojendal, 2005: 20). Economic development is considered a top priority and the main driving force in Southeast Asian regional integration. ASEAN leaders have created a roadmap to establish an ASEAN Economic Community in 2015 ahead of the other two pillars of the Community-building project – the Political / Security Community and the Sociocultural community. At the subregional integration level, growth or development triangles among the ASEAN countries have become an important element and model in regional integration. In the Mekong subregion, Thailand is the main factor in pushing economic integration in this region. Such embrace of regional economic integration leads to the argument that: “economics is now in command and ideology is in decline (Neher, 2002:11). Anand Panyarachun, the then Prime Minister of Thailand, made a remark at the fourth meeting of the ASEAN heads of government in Singapore on 27 January 1992 that:

I am convinced that economic linkages and interdependence will be the most important factor binding nations in this region together and will in turn

ensure the maintenance and promotion of regional security and stability in the long run.

2. Background of Cambodian Economy

Cambodian economy had undergone various transformations in relations to the regime changes (Peou, 2000b). As Hughes noted “The Cambodian state has been undergoing a triple transition since the 1980s- from command economy to free market; from war to peace; and from authoritarian rule to democracy.” (Hughes, 2003:1). National economic development was neglected during the war time. Most seriously, the economic system was completely destroyed during the Pol Pot regime. There were no market, no trade, no money and no economic activity at all except mass killings and torture. Cambodia was considered as “year zero” or “ground zero” which everything had to be started from scratch from 1979. Curtis (1990:17) puts it this way “Kampuchea’s resurrection demanded the creation of a normal economic and social life out of an almost complete void” (Cited in Ljunggren, 1993:64). After the collapse of horrendous Khmer Rouge regime in 1979, Cambodia adopted a Vietnamese model of command economy. The government had every aspect of economic activities under its direct control. Both output and price were determined by the state and private property was very limited. Major trading partners were the Soviet Union and Vietnam. The level of development in the Indochinese states was different. Vietnam was a leader in managing economic development in the region.

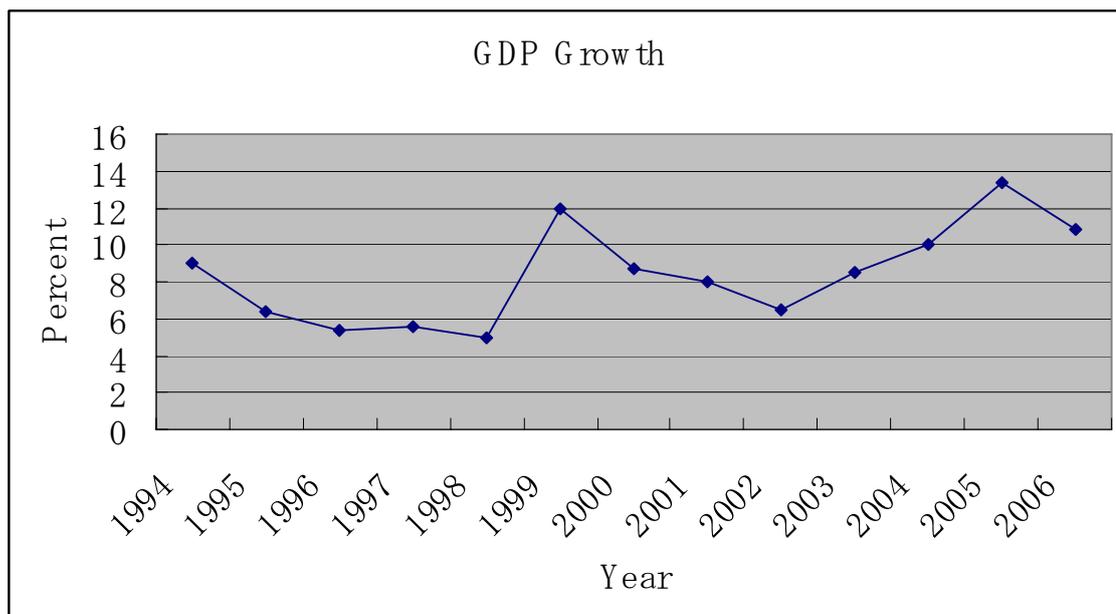
Vietnam, Laos, and Cambodia found themselves at quite different stages of socialist development in 1979, although all of them were extremely poor countries. Vietnam was far ahead in many respects, having advanced further in transforming the relations of production. It was the dominant country economically, militarily, and ideologically. (Ljunggren, 1993:65)

From the mid-1980s onward the external environment was favorable for the economic reform in Indochina. Mikhail Gorbachev kick started perestroika policies in the Soviet Union

in 1985, Vietnam started its second wave of reform (*doi moi*) in 1986, and Thailand adopted a concept of “turning battlefield into market places” in 1988; plus the recognition of the economic inefficiency and dislocation, the then Cambodian government introduced economic reform in late 1986. The economic reform provided a fertile ground for economic liberalization. Private and family businesses started to grow, making economic reconstruction possible within a short time from 1986 to 1990 (Than, 1992:270-1).

The collapse of the socialist bloc resulting in rapidly shrinking financial aid to Cambodia plus the withdrawal of Vietnamese troops from Cambodia in 1989 pushed Cambodian economy into an extremely difficult situation. Military expenditure was doubled by that time, reaching 30 per cent of the national budget. Budget deficit became the most urgent issue for the government. As Vietnamese troops withdrew from Cambodia in 1989 and the collapse of Soviet Union at the end of 1980s, their influence on Cambodian politics and economy had been reduced, paving the way for political economic transforms in Cambodian way (Chanda, 1993: 33-34). The end of the cold war and the peaceful settlement between the warring factions in Cambodia by adopting and implementing the Paris Peace agreement in 1991 made the general election in 1993 possible leading to the establishment of the new government upholding liberal democratic principles and market economy. The new era of Cambodian economy started from then. New economic development plans and strategies were adopted with the strong support from the donor countries and international financial institutions and organizations. For the last decade, Cambodia has enjoyed relatively strong economic growth about 8 percent per year. GDP increases from USD 3 515 millions in 1999 to USD 64 429 millions in 2006 (estimated) and per capita income increases from USD 282 in 1999 to USD 456 in 2006 (estimated). Foreign direct investment (FDI) flows to the country is about USD 250 millions per year (from 2000 to 2006). Poverty rate (the proportion of the population living below the consumption poverty line) has fallen from 47 percent in 1994 to 35 percent in 2004 (World Bank, 2006). But the main issue of Cambodian growth is the widening gap between the rich and poor. Not everyone benefits from the growth and the rural people are left behind (World Bank, 2007).

Figure 1: Cambodian Economic Growth Rate



Source: (World Bank: World Development Indicators)

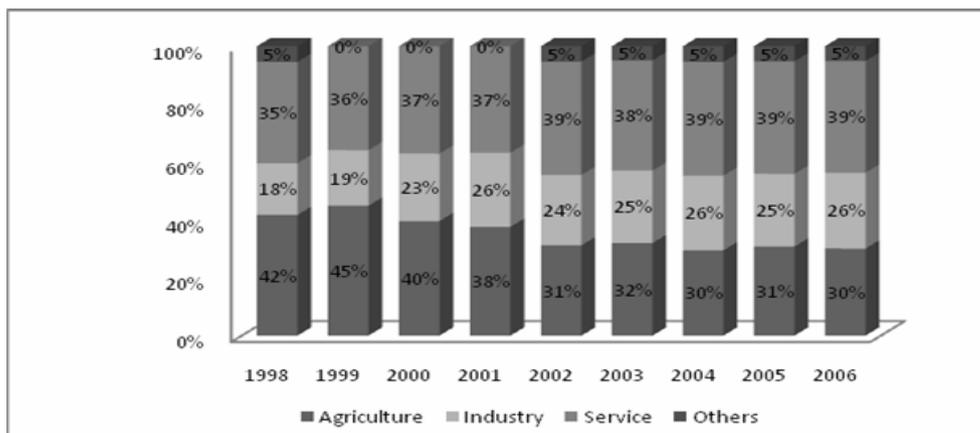
International trade and economic growth has a positive correlation. Total exports increases from 16.8% of GDP in 2000 to 38.3% of GDP in 2006 while total imports increases from 27.4% to 53.1% of GDP. Cambodia is facing with trade deficit of about 10% per year.

% of GDP	2000	2001	2002	2003	2004	2005	2006e
Trade Balance	-10.6%	-8.9%	-12.3%	-6.8%	-11.8%	-13.1%	-14.9%
Total exports	16.8%	25.0%	18.5%	25.4%	25.8%	32.1%	38.3%
Total Imports	27.4%	33.9%	30.8%	32.3%	37.5%	45.3%	53.1%

(World Bank: World Development Indicators)

Cambodian economy is mainly composed of three main sectors: agriculture, service and industry.

Figure 2: Contribution to GDP by sector



Source: National Institute of Statistics (NIS), Ministry of Planning, Cambodia

Agriculture is the backbone of Cambodia's economy since approximately 80% of population are living in rural area and depending solely on this sector. Crops and fishery are the major components, among various other components such as livestock, rubber and forestry, according to their sizable share in the sector. Farmers are still relying on animals and traditional methods of cultivating the crops. They lack of capital to invest in modern farming technology and fertilizer to increase the production. Therefore, government supports, especially on irrigation system, technological development, market information, and capital investment, would be necessary to bring up this sector to full scale of production and sustainability. Additionally, government intervention on certain areas would be indispensable to encourage the production as well as create value added for agricultural products. These can be achieved through government policy to restrict importation of agriculture products from neighboring countries, improve farming technique, provide more capital and encourage local investors to invest in agro-industry.

Service sector has been growing its share in Cambodia GDP since peace and stability has been restored and appropriate policies have been implemented to promote the sector. Tourism is the main driving force of this sector while trade and real estate are the supporting units. Not only is this unit directly contributing to the growing of the sector, but also indirectly affecting on other sub-unit such as hotels and restaurants and other supporting service industry. One of the significant policies implemented in 1997, 'Open Sky Policy' which enabled direct flights from various potential destinations to directly flight to Cambodian most popular tourist destination, Siem Reap, Angkor, had positively impacted on the sector very significantly.

Industrial sector have been restarted again from early 1980s after almost complete destruction by the Khmer Rouge regime. Most of the industries during the 1980s were owned by the state till 1986 when economic reform process started. The industries are mainly small and medium sized ones operated by small private company and family. Currently, garment is the main driving force in industrial sector. The impact of this sector on Cambodian economy is not just apparently on employment opportunity for young female workforce from rural areas; but it does also indirectly affect the lives of many households who are depending significantly on the salary of their children's remittances (Yamagata, 2006).

Cambodian economy has benefited from the increasing regional cooperation and integration happening in the region. The next section will therefore focus on Cambodia and the region in general, and then examine in more details its relations with its two closest politically and economically dynamic neighbors.

3. Cambodia and the region

Cambodia has gone through several political economic changes and upheavals within a short period of time, which posed a severe economic dislocation and destroyed every aspect of the economic resources including basic infrastructure, industrial plants, human resources, and social capital (Than, 1992:269). Throughout these changes, Cambodia has become a playing field for the international interveners (Hughes, 2003:1; Peou, 2000a). Peou posits

that "Although one of the oldest states in Southeast Asia, Cambodia had (perhaps since the 16th century) never been structurally strong or capable of achieving durable political independence". Furthermore, Neher notes that "throughout its modern history, Cambodia has been the target of aggression by its larger neighbors and by Western and communist imperialists" (Neher, 2002:256). In the new era of international relations, Cambodia has no choice but to choose a neutral stand in political relations and liberal stand on economic relations with the region and the world. The dramatic economic liberalization in the late 1990s especially after Cambodia became the last member of ASEAN in 1999 and the first least developed member of the World Trade Organization in 2004 result in "an accelerating degree of dependence on external economic and political dynamics" (Ojendal, 2005:287).

Regionalism provides much more benefits than costs for Cambodia. Cambodia could expand its economic interests and political legitimacy in the region and the world at large. Regionalism leads to regional development through trade and investment. Yamazawa observes that “continuing success of the flying geese pattern of industrial transfer in the future is the key to determining the future success or failure of industrialization in Asean and more generally in the Pacific region” (Yamazawa 1992:1523). Although this philosophy is challenged by the later changes in the regional economic development particularly after the Asian financial crisis in 1997 it is still in the political economic agenda of the countries in the region. Cambodia always hopes that through regional and global integration, it could benefit from and catch up with other more developed countries through trade, investment, and tourism. It thus can be said that regionalism and globalism is Cambodia’s stepping stone towards economic development and modernization. Keat and Aun prove this by stating that:

For Cambodia, economic integration is both an objective and a means to larger aims. As an objective, it is a major “thrust” which requires planning and programming of specific activities and efforts to ensure its success. As a means to larger ends, it serves Cambodia’s main development objectives of achieving a peaceful, fair and equitable society through the acceleration of economic growth and the uplifting of people’s standard of living. (Keat and Aun, 1999:17)

Asean can be compared to a high-speed train. By looking up to this train, Cambodia may have the opportunity to travel at the same high speed as Asean. (Keat and Aun, 1999:19)

4. Cambodia-Vietnam Relations

Trade between Vietnam and Cambodia only mainly commenced in 1979. Prior to 1979, Khmer Rouge regime had been hostile to Vietnam and closed the border and during the Lon Nol regime, the cross border trade between Cambodia and Vietnam was very restricted. From 1979, Cambodia-Vietnam border was completely opened and flow of people and goods had increased remarkably. Cambodia became a gate for the trade between Thailand and Vietnam. The greatest importance of the Vietnam-Cambodia trade lay in this bridge to

Thailand. Most of the products exported to Vietnam from Cambodia are second hand automobiles, pearls, gem stones, Thai jeans, T-shirts, cigarettes, and cosmetic products. Cambodia imported very few products from Vietnam during this time because the Cambodia market was very small. There was no statistical evidence of the amount and profits of the bilateral unofficial trade during this time (Beresfor and Phong, 2000:123-129).

Recent data shows that the two-way trade turnover grows by about 40% annually, trade rose from \$184 million in 2001 to \$940 million in 2006. Cambodia imported from Vietnam about USD 780 millions worth of commodities, mainly including clothes, cable, household plastic products, noodles, electronic spare parts and others, which was an increase of about 244 million U.S. dollars over 2005. Cambodia exported to Vietnam around USD 170 millions worth of products, including rubber, forestry, raw resources for clothes products, tobacco leaves, wooden products and others, which was an increase of about 13 million U.S. dollars over 2005. It is expected that the bilateral trade will increase to USD 2.3 billions by 2010 and USD 7 billions by 2015. Vietnam currently ranks third among Cambodia's trading partners from the Association of Southeast Asian Nations (ASEAN) and sixth among countries establishing economic relations with Cambodia. Viet Nam is now Cambodia's third largest partner, after Thailand and Singapore. Cambodia exports rubber and forest products to Viet Nam.¹ Border-trade between the two countries has risen by 30 per cent annually during the past five years (2002-2007)². In terms of investment, Vietnamese enterprises have so far poured 25 million USD into projects in Cambodia, mostly in the fields of garments and textiles, and construction materials production. By the end of December 2005, Cambodian investors had invested in four projects in Viet Nam with a combined operational capital of 4 million USD. Viet Nam's total investment reached 114 million USD in 2007³. In addition, there are other functional cooperation such as experiences exchange between the two government officials in establishing stock exchange market in Cambodia, energy cooperation at the border areas, and others.

¹ Based on the news sources from the ministry of foreign affairs of Vietnam, www.mofa.gov.vn and People's Daily Online, <http://english.people.com.cn/>

² VietNamNet Bridge, Vietnam-Cambodia trade to reach US\$7 billion by 2015 accessed on June 1, 2008 from <http://english.vietnamnet.vn/biz/2007/05/691769/>

³ Ministry of Foreign Affairs of Vietnam, Viet Nam-Cambodia cooperation thriving, accessed on June 1, 2008 from <http://www.mofa.gov.vn/en/nr040807104143/nr040807105001/ns060706095454/view>

The creation of “Development Triangle” comprising 10 border provinces of Viet Nam, Laos and Cambodia is step forward towards economic integration in the region. The leaders of the three countries showed their commitment in a joint statement that “No stone will be left unturned so as to reach the goal for high and sustainable economic growth”⁴.

Cambodia-Vietnam economic relations are based on good political relations between the two countries. The Cambodian Prime Minister Hun Sen stated that "the bilateral relations between Cambodia and Vietnam can create an environment conducive to trade and employment," and emphasized that both nations are currently working to develop new opportunities in the context of economic exchange⁵.

5. Cambodia-Thailand relations

Thailand is an economic hub in the Mekong region Thailand views good neighborhood is a backbone for sustainable economic development (Kulick & Wilson, 1992:149-161). At the end of the cold war era, the then Thai Prime Minister Chatichai Choochawan (1988-91) tried to transform Indochina from “a battlefield into a market place” and turn Thailand into a regional commercial hub (Battersby, 1999). A Cambodia-Thai trade relation has been improved since the early 1990s. Recent statistics show that in 2002 bilateral trade reached 445 million US dollars and in 2006 it reached 1 billion US Dollars. Both parties have committed to double the trade in three years. The major Thai products exported across the border to Cambodia in 2002 were agro-industrial products, motor cars, motor vehicles and parts, beverages, daily utensils, electrical equipment and parts, etc. The main products that Thailand imported from Cambodia were leather and bovine leather products, steel and products, wood, sawn wood and products, non-electric machinery and parts, fishery products and livestock, etc. There are about 400 Thai investors doing business in Cambodia. Thai investors were keen to invest in hotels, restaurants, banks, tourism and telecommunications in Cambodia. Prior to the Asian financial crisis of 1997, Thai investors put around 11.9 million dollars into the country⁶.

⁴ Ministry of Foreign Affairs of Vietnam, Viet Nam, Laos, Cambodia meet on development triangle, accessed on June 1, 2008 from <http://www.mofa.gov.vn/en/nr040807104143/nr040807105001/ns080218162445>

⁵ Xinhua News, Roundup: Cambodia, Vietnam highlight trade, economic cooperation, accessed on June 1, 2008 from http://english.people.com.cn/200703/01/eng20070301_353355.html

⁶ People's Daily Online, Thai-Cambodian Economic Ties to Suffer Severely from Riots, accessed on June 1, 2008 from http://english.peopledaily.com.cn/200301/31/eng20030131_111021.shtml

Both parties agreed to establish an industrial zone on their common border to promote trade and investment between the two countries. Supachai Panichpak, the Thai Minister of Commerce and World Trade Organization "We agreed on the idea to set up an industrial zone on the border to attract investment, especially for Thai labor-intensive industries, and industries that use raw materials imported from Cambodia. Thailand will get the advantage of being able to use cheap labor and materials, while Cambodia will gain from increases in employment levels"⁷. Framework Agreement on Economic Cooperation between the Kingdom of Cambodia and the Kingdom of Thailand was signed during Thai Prime Minister Thaksin Shinawatra' s visit to Cambodia from 18-19 June 2001 is an important tool to further promote and strengthen their bilateral relations onto a new stage of development in the 21st century.

Regarding the border political economic relations between Cambodia and Thailand, French (2002:429) notes that "while attitudes based on perceived or assumed cultural differences enter into almost any interaction between Thai and Khmers, political and/or economic interests can and often do override these historical cultural distinctions." It refers to the increasing importance of political economic interactions over the issues of different ethnicity and nationality.

Border trade has been promoted by the two countries. To facilitate trade and investment, both countries agreed to expedite one-stop service at border checkpoints and review rules and regulations to facilitate cross-border trade. From the Thai perspective, cross-border trade is to export manufactured Thai goods to Cambodia, extract and import of natural resources from Cambodia particularly those in short supply in Thailand such as timber and gem stones, and buy Cambodian antiquities (French, 2002:450-451). Many Thai investment projects in Casinos tourism along the Cambodian border with Thailand have been increased dramatically to attract Thai gambling tourists. However, only the interest groups having

⁷ Online Asia Time, Southeast Asia: Thai-Cambodian industrial zone planned , accessed on June 1, 2008 from from <http://www.atimes.com/se-asia/BG27Ae03.html>

connection with the government and military on both sides really benefit from this bilateral trade (French, 2002: 427).

There are other joint development projects under the framework of Greater Mekong Subregional integration (GMS) supported by the Asian Development Bank; Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) among Cambodia, Laos, Myanmar, and Thailand; and growth triangle between Cambodia, Laos and Thailand. Such subregional cooperation framework is unique in Southeast Asian regionalism, aiming at creating a win-win situation for all member countries and facilitating deeper economic integration through greater intra-regional trade and investment. In addition, Cambodia and Thailand cooperate in exploiting natural resources such as petroleum in maritime border between the two countries particularly the signing of the Memorandum of Understanding between the Royal Government of Cambodia and the Royal Thai Government regarding the Area of their Overlapping Maritime Claims to the Continental Shelf in June 2001 lays the foundation for new area of cooperation between Cambodia and Thailand relations to the exploitation of petroleum resources in the area of their overlapping maritime claims to continental shelf.

Anti-Thai rioting in Phnom Penh in January 2003

The achievements of good relations between the two countries were strongly disturbed by the anti-Thai riot in Phnom Penh in January 2003. The incident forced researchers and policy makers to reexamine the current bilateral relations. Kraisak Choonhawan, chair of the Senate Foreign Relations Committee, stated "We have had many things to offer to Cambodia ... economic[ally] and cultur[ally]. The problem is that we have never asked how the Cambodians think and feel about that." In addition, the Bangkok Post noted that "As a more developed nation, we enjoy an advantage in pursuing business interests in Cambodia, Laos and Burma. But we have done this so aggressively and so successfully that we appear guilty of economic colonization...Cultural dominance has accompanied this economic infiltration so that Lao and Cambodian youths almost exclusively listen to Thai music, watch Thai movies and seek to emulate the singers and actors they see on Thai television programs"⁸.

⁸ Chayanit Poonyarat and Johanna Son. "Thai-Cambodia crisis shows old hurts", accessed on June 1, 2008 from http://www.atimes.com/atimes/Southeast_Asia/EB04Ae03.html

The façade of economic relations between Cambodia and Thailand falls in a deep historical wound which is difficult to recover in a short period of time. It requires more interaction to build mutual understanding from the top to individuals in the two countries. Cultural exchange especially among the youth is an important tool to construct friendship among the two countries.

6. Conclusion and Further Research

Regionalism has been accepted and promoted widely in Southeast Asia. The state leaders and businessmen emphasize on the benefits from regional integration than costs. Cambodia, Thailand, and Vietnam are working under the framework of ASEAN Charter and policy especially the ASEAN Free Trade Area (AFTA) which was created in 1992. In addition, many initiatives at the subregional level are also being undertaken in various parts such as growth or development triangles among the ASEAN member states and Greater Mekong Sub-region (GMS) and East-West Corridor (WEC). Through these economic interactions, cultural and political relations could follow through.

Cambodian economic development is dependent on political stability and favorable external environment. Although there are some historical constraints disturbing the economic relations between Cambodia and Thailand and Vietnam there is increasingly flows of trade and investment among the countries. Cambodia chooses market economy with openness to the region and the world. Such philosophy positively impacts on the Cambodia's economic relations with Thailand and Vietnam. The concepts of national economic sovereignty are eclipsed by regionalism and globalism. But, the future of Cambodia's economic relations with Thailand and Vietnam depends on domestic political changes in Cambodia.

In order to understand the Cambodia's foreign economic policy towards Thailand and Vietnam, we need to talk and understand the perceptions and philosophy of not only the political leaders but also other stakeholders from the private sector and civil society. Beeson (2003:358) suggests that "If we want to understand who has the power to make effective decisions in Southeast Asian context, we need to focus on authority rather than sovereignty" by which he infers to the important role played by the market and other institutions/actors besides the state in decision making. The next step to do is through in-depth interviews with and analyzes of the contents of their policy statements. In addition, we need to talk to the

private sector (Cambodian businessmen, Thai and Vietnamese investors in Cambodia) to understand their issues in doing businesses in Cambodia. This is another important aspect of looking at the role of the private sector and its influence in economic policy. Some Cambodian businessmen may not prefer to see the presence of Thai and Vietnamese investment/companies in Cambodia due to competition in the market place. However, we do need theories to explain their perceptions. Sorpong Peou, political scientist on Cambodia, argues that “analyses based merely on personality, political intention, and ideological commitment are inadequate” (Peou, 2000a: 409).

Another aspect of looking at Cambodia’s economic relations with Thailand and Vietnam is through migration and tourism vintage point. People movement especially tourism is playing more important role in connecting the three countries. Tourism is another important element in regional integration in Southeast Asia (Peggy et al., 2001). Recent statistics show that Vietnam ranks number 3 (53, 386 tourists) and Thailand ranks number 5 (35, 474 tourists) of the tourist arrivals in Cambodia in the first three months of 2008. Cambodian people seem to express positive attitude towards Vietnamese and Thailand.

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