

ROLE OF LAW AND LEGAL INSTITUTIONS  
IN CAMBODIA ECONOMIC DEVELOPMENT:

"OPPORTUNITIES TO SKIP THE LEARNING CURVE"

SIPHANA SOK

2008

VOL. 2

## **PART II**

### **CHAPTER IV:**

#### **ECONOMIC CONVERGENCE: POST 1991 -2007**



## **Chapter IV:**

### **Economic convergence: Post 1991 -2005**

#### **I. HISTORICAL FACTORS OF GROWTH:**

Far back in history, economic advances in income and population over the past millennium are sustained by three interactive processes: (i) Conquest or settlement of relatively empty areas which had fertile land, new biological resources, or a potential to accommodate transfers of population, crops and livestock; (ii) international trade and capital movements; and (iii) technological and institutional innovation.<sup>286</sup> The growth process was uneven in space as well as time. The rise in life expectation and income has been most rapid in Western Europe, North America, Australasia and Japan. By 1820, this group had forged ahead to an income level twice that in the rest of the world. By 1998, the gap was 7:1. By 2001 between the United States and Africa (the poorest region) the gap was 20:1 and still widening. In the case of Asia, divergence is dominant but not inexorable.

Since the 1950s most Third World countries have been independent for a quarter to a half of a century and the experience of economic development in these countries is varied and rich.<sup>287</sup> It is clear though that there are many paths to development although some no doubt are more circuitous than others.<sup>288</sup> Economic development for Third World countries could be stylized into six strategies, five of which apply to capitalist countries and one to the socialist countries.<sup>289</sup> The strategies can be viewed

---

<sup>286</sup> For a convincing argument on the development of the entire world economy over the past two thousand years see Angus Maddison, above n 9.

<sup>287</sup> While the Post WWII era was the era of "embedded liberalism" for the advanced countries of Europe and the United States, the preoccupation for Third World countries was to cope with the pressures of nationalism and demands for decolonialization. Thus while the embedded liberalism regime, guaranteed by the Bretton Woods system, maintained a balance between openness, democracy, and economic fairness and operated to facilitate domestic politics and shield domestic systems of economic regulation and social protection from global shocks, the Third World countries placed emphasis on state-led growth and relatively closed markets. National movements seized control of states in former colonies and sought to break ties with their respective metropolises that had been built up under colonialism. Finally, there was the Cold War, and the ideological struggle with the Soviet Bloc. See David M. Trubek and Alvaro Santos, 'The New Law and Development', above n 41, 81-82.

<sup>288</sup> Maddison, above n 9, 142, 149, 161, 163.

<sup>289</sup> The six strategies are: (i) the Monetarist strategy, (ii) the Open Economy strategy, (iii) the Industrialization strategy, (iv) the Green Revolution strategy, (v) the Redistributive strategy of

as points along a multi-dimensional spectrum, two of the strategies occupying the extreme ends of the spectrum (monetarism, socialism) and the others intermediate points of particular interest. The countries are scattered along this multi-dimensional spectrum and some adopt positions close to one or another of the six selected points.<sup>290</sup>

The most successful strategy of development as regards resource utilization and the level of income is the open economy which has the virtues of relying on the price mechanism (and hence benefiting from allocative efficiency), of being exposed to international competition (and hence being under continuous pressure to cut costs and improve quality) and of using exports as a leading sector (and in this way being able to ensure adequate aggregate demand). The open economy also has an advantage over some of the other strategies of development in being in a good position to exploit economies of large-scale production and opportunities for intra-industry specialization.<sup>291</sup> Rapid and sustained growth in international trade has long been a hallmark of successful growth and development strategies in East Asia. Some success stories are well known: those of the newly industrializing economies such as Singapore, the Republic of Korea, as well as middle-income economies such as Thailand, Malaysia and the transition economy of China.<sup>292</sup> More recent entrants to world markets who have seen rapid export growth include low-income economies such as Cambodia and Vietnam.<sup>293</sup>

As regards savings, investment and growth, in the short run there is little reason to choose one of the five strategies in preference to another, but in the long run a country with an open economy probably has an advantage. One reason for this is that it will

---

development, and (vi) the Socialist strategies of development. For a detailed analysis see Keith Griffin, *Alternative Strategies for Economic Development* (1999) ch 2.

<sup>290</sup> Ibid.

<sup>291</sup> Ibid 68-95.

<sup>292</sup> For Singapore, see Linda Low and Lim Bee Lum (eds), *Strategies of Singapore's Economic Success* (1997); Goh Keng Swee, *The economics of Modernization* (1995). For China, see Deepak Bhattasali, Shangton Li and Will Martin (eds), *China and the WTO: Accession, Policy Reform, and Poverty Reduction Strategies* (2004); Jonathan Story, *China and the Race to the Market* (2003); Kathie Krumm and Homi Kharas (eds), 'East Asia Integrates', above n 17. For Thailand see Pasuk Phongpaichit and Chris Baker, *Thailand: Economy and Politics* (1995); Yoshihara Kunio, *The Nation and Economic Growth: Korea and Thailand* (1999).

<sup>293</sup> Kathie Krumm and Homi Kharas (eds), 'East Asia Integrates', above n 17.

have less difficulty servicing foreign loans. A second reason is that foreign investors will in principle be able to produce either for the domestic or for the export market and thus they will derive potential benefits from an option that is denied them by countries pursuing a more inward-oriented strategy.<sup>294</sup> Once again, similar advantages are likely to be enjoyed by countries following an industrialization strategy oriented towards exports.<sup>295</sup>

At the end of the other spectrum, recent history has labeled the overall performance of the socialist economic system as the story of a failure. While sometimes the system is credited for having brought an underdeveloped country like Russia out of backwardness, be it at very high material and human costs, the inefficiencies of the model became obvious as early as in the 1950s, triggering a 'treadmill' of reforms. By the middle of the 1970s an open crisis developed and led to final collapse.<sup>296</sup>

Circumscribing these various development strategies, three events in particular have had a significant impact on thinking about strategies for economic development in the last half century.<sup>297</sup> First, a new approach to development problems has emerged - the human development approach - which has attracted much attention in academic circles and among international and national policymakers.<sup>298</sup> Indeed the human development approach has become the intellectual framework for much advice given by the United Nations Development Programme (UNDP) to developing countries. The UNDP has developed a 'human development index' which combines GDP per capita with health and education achievements in a single index to compare national trends. The 'HDI' is available from 1995 to 2003 for Cambodia and most other nations. The index closely shadows targets the government itself endorsed in the Millennium Development Goals (MDGs), so there can be no dispute that this is a reasonable basis for reviewing both economic and social progress. The index has the

---

<sup>294</sup> For a thorough analysis on the effects of Foreign Direct Investment (FDI) on national economies see the annual publication *World Investment Report* series of the United Nations Conference on Trade and Development (UNCTAD).

<sup>295</sup> Griffin, above n 289, 232.

<sup>296</sup> For a thorough analysis of transition economies See Marie Lavigne, *The Economics of Transition: From Socialist Economy to Market Economy* (2nd ed, 1999)

<sup>297</sup> Griffin, above n 289, xv.

<sup>298</sup> Sen, above n 8.

advantage of going beyond the admittedly broad and rough single measure of real GDP per capita growth.<sup>299</sup>

*Second*, following the disintegration of the Soviet bloc in 1989-91 and the decision by almost all of the ex-socialist countries to adopt a market oriented economic system, there has been intense debate about how best to effect a transition from socialism to capitalism.<sup>300</sup> Following the decline of the 1960s statist import-substitution industrialization (ISI) paradigm, a new set of development policy prescriptions emerged from the Washington-based international financial institutions. This approach stressed export-led growth, free markets, privatization, and foreign investment as the keys to growth. To pursue these goals, it was necessary to create all the institutions of a market economy in former command economies and remove restrictions on markets in *dirigiste* economies such as those in many Latin American countries. Within the World Bank development policy models are situated in three different periods. The first period, that of "structural adjustment," goes from 1980 to 1990. The second period, which witnesses the emergence of "governance" runs from 1990 to 1999. The last period, from 1999 onward is one of "comprehensive development." These three periods attest to the changes in thinking about economic development. Broadly speaking, they encompass the rise and fall of neoliberal thinking, or the so-called Washington Consensus, and the subsequent move to an "enlightened" Washington Consensus, mediated by a decade of profound reforms and severe crisis.

*Third*, the spread of liberal economic policies in the developed countries, the creation of more open economies in the developing countries and the integration of the ex-socialist countries into the world economy has accelerated a process of globalization that began shortly after the end of the Second World War. This process of globalization has altered the context in which national development strategies are formulated and raises issues about the distribution of gains and losses associated with closer economic integration. There are a large number of literature on the effects of

<sup>299</sup> See UNDP, *Human Development Report Series*.

<sup>300</sup> See David M. Trubek, 'Rule of Law in Development Assistance: Past, Present, and Future', above n 1, 84; See also Alvaro Santos, 'The World Bank's Uses of the "Rule of Law" Promise in Economic Development', above n 3, 267.

advantage of going beyond the admittedly broad and rough single measure of real GDP per capita growth.<sup>299</sup>

*Second*, following the disintegration of the Soviet bloc in 1989-91 and the decision by almost all of the ex-socialist countries to adopt a market oriented economic system, there has been intense debate about how best to effect a transition from socialism to capitalism.<sup>300</sup> Following the decline of the 1960s statist import-substitution industrialization (ISI) paradigm, a new set of development policy prescriptions emerged from the Washington-based international financial institutions. This approach stressed export-led growth, free markets, privatization, and foreign investment as the keys to growth. To pursue these goals, it was necessary to create all the institutions of a market economy in former command economies and remove restrictions on markets in *dirigiste* economies such as those in many Latin American countries. Within the World Bank development policy models are situated in three different periods. The first period, that of "structural adjustment," goes from 1980 to 1990. The second period, which witnesses the emergence of "governance" runs from 1990 to 1999. The last period, from 1999 onward is one of "comprehensive development." These three periods attest to the changes in thinking about economic development. Broadly speaking, they encompass the rise and fall of neoliberal thinking, or the so-called Washington Consensus, and the subsequent move to an "enlightened" Washington Consensus, mediated by a decade of profound reforms and severe crisis.

*Third*, the spread of liberal economic policies in the developed countries, the creation of more open economies in the developing countries and the integration of the ex-socialist countries into the world economy has accelerated a process of globalization that began shortly after the end of the Second World War. This process of globalization has altered the context in which national development strategies are formulated and raises issues about the distribution of gains and losses associated with closer economic integration. There are a large number of literature on the effects of

<sup>299</sup> See UNDP, *Human Development Report Series*.

<sup>300</sup> See David M. Trubek, 'Rule of Law in Development Assistance: Past, Present, and Future', above n 1, 84; See also Alvaro Santos, 'The World Bank's Uses of the "Rule of Law" Promise in Economic Development', above n 3, 267.

globalization. The following are quite representative of the diverse views: Joseph E. Stiglitz describes the many ways in which the major institutions of globalization have failed the struggling countries they were meant to serve;<sup>301</sup> Jagdish N. Bhagwati provides a precise rebuttal of the most common and pernicious fallacies about globalization;<sup>302</sup> Jan Aart Scholte explains succinctly the causes and consequences of globalization and moves beyond a critique of neoliberalism to identify realizable policy changes;<sup>303</sup> Amy Chua highlights on the tensions of the post-Cold War globalizing world and argues that as global markets open, ethnic conflict worsens and democracy in developing nations can turn ugly and violent. She presciently warns that, far from making the world a better and safer place, democracy and capitalism – at least in the raw, unrestrained form in which they are currently being exported – are intensifying ethnic resentment and global violence, with potentially catastrophic results;<sup>304</sup> Thomas L. Friedman explains how to look at today's globalization system, how the system works and how nation-states, communities, individuals, and the environment interact with the system. Foremost it reveals the conflict or tension between the globalization system and ancient forces of culture, geography, tradition, and community.<sup>305</sup>

## II. RECENT ASIAN EXPERIENCES OF GROWTH

### A. The Role of Policies in Economic Convergence

In recent history, resurgent Asian countries have demonstrated that an important degree of catch-up with their Western counterparts is feasible. In explaining their success, policy choices were pointed out interestingly enough to be the crucial element for achieving high growth rates and leading toward economic convergence.<sup>306</sup>

---

<sup>301</sup> See Joseph E. Stiglitz, *Globalization and its Discontents* (2003).

<sup>302</sup> See Jagdish N. Bhagwati, *In Defense of Globalization* (2004).

<sup>303</sup> See Jan Aart Scholte, *Globalization: a critical introduction* (2002).

<sup>304</sup> See Amy Chua, *World on Fire* (2004).

<sup>305</sup> See Thomas L. Friedman, *The Lexus and the Olive Tree* (2000).

<sup>306</sup> Pistor, K. and Wellons, P.A., above n 70, 264. See also Asian Development Bank (ADB), *Emerging Asia: Changes and Challenges* (1997)