

CAMBODIA'S ECONOMY AND INDUSTRIAL DEVELOPMENT

by

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TRANSLATOR'S INTRODUCTION

The failures of the Sihanouk regime were not readily apparent to many Kampuchians until 1960. By that time, corruption within the administration and nationalized industries was commonplace. High rates of unemployment and inflation in urban areas were complemented by low productivity, food shortages and usury in the countryside. At the same time, in government there was cabinet instability and lack of policy continuity. Nevertheless, teachers, workers, tradesmen, peasants, politicians, journalists and Monks, among others, carried on with daily functions, employing the resources of their professions and traditions either to accommodate to the inevitable injustices or to ask for reforms. Their efforts often met with official indifference or suppression. Prince Sihanouk himself, after superficial attempts at reform, came to view criticism and independent local initiatives in indivisible moral terms--as challenges to his royal authority rather than efforts to cope with adversity. Thus activists of all persuasions suffered the scorn and hostility once reserved for the democratic opposition groups, the underground Pracheachon Association and the stifled Republican movement.¹ Social unrest did not, however, depend on royal will. As economic and social conditions of life in the country worsened, defense of state prerogative led to generalized official surveillance, restriction of contacts with foreigners, censorship of the press, and legal prosecution for real or contrived offenses. Unknown numbers of people lived in fear for their lives. Some fled to the maquis while others "disappeared" altogether. Amidst rumors of widespread assassinations and national economic collapse, those imprisoned within the logic of monarchy still waited for the "established power" to sort out the chaos then reigning. Khieu Samphan, already free of the subject mentality of monarchy, was one of the few observers to provide a clear view of the significance of those eventful years. Unlike the monarchists, he was not at all confident that Kampuchea's post-colonial crisis would come to a good end, especially if the majority of people did not themselves act to affect the outcome.

¹The Pracheachon Association was a veterans group founded in 1955 by socialist resistance fighters associated with the Viet Minh during the independence struggle who wanted to take advantage of Geneva Conference guarantees of their rights to participate in "Cambodia's" national elections. The Association is often erroneously confused with the Communist Party founded clandestinely in 1960, a confusion resulting from uncritical use of (hostile) government documents and inadequate field research on the Khmer left. An important exception is the South-East Asia Treaty Organisation Research Office Background Brief, "Communism and Cambodia," December 31, 1959 (17 pp. mimeographed), which notes the discrepancy between official references to the group as a "Crypto-Communist" Party and the Association's self-definition.

The Republican movement also issued from the anti-colonial resistance. The Kampuchians favoring parliamentary or presidential government were routed by King Sihanouk in the final stages of the resistance war in 1953. In the late 1950s and 1960s, remnants of the movement were nominally led by the exiled Son Ngoc Thanh, whose Khmer Serei force was the American CIA's first clandestine "army" in Indochina, and by Keng Vennsak, once leader of the defunct Democratic Party, the movement's political arm.

Cambodia's Economy and Industrial Development was written in Paris as part of the requirements for a *Doctorat* in economics when Khieu Samphan was 28 years of age.² The author was subject to more than the usual academic constraints in its preparation. Kampuchean students and travellers were under careful official scrutiny especially while they were abroad. Soon after his arrival in Paris in 1955, Samphan had, in fact, lost part of his government scholarship for political reasons. He supplemented his remaining resources by taking part-time work.³ Ubiquitous official subjection and his resistance to it are both manifest in his final dissertation. Although the work is dutifully dedicated to Prince Sihanouk, following national convention in such matters, the text itself contains conspicuously few references to the Prince. Furthermore, those references are only superficially approving. Sihanouk is not honored for his royal character but for a few political positions he had adopted which were worthy of a genuine patriot.

In spite of such exceptional constraints on Samphan's freedom of expression, there is ample evidence to suggest that the analysis he makes in *Cambodia's Economy and Industrial Development* accurately reflects his thinking at the time. Parts of the work appeared in 1959 in *L'Observateur*, the biweekly newspaper he published upon his return to Phnom Penh, and also in a French journal in 1961.⁴ The latter article is notable for the additional, explicit observation that "forces of inertia represented by vested interests" would in the immediate future prevent the more independent and autonomous form of industrially oriented development Samphan believed necessary.⁵ This judgment proved sound. More important, it showed acute awareness of the political significance of his economic analysis at that time. The absence of similar political comment in the original dissertation points to another possible source of restraint, enforced this time by an ideologically divided University jury.⁶ A theoretical and empirical critique of *Cambodia's Economy and Industrial Development* would have to take into account the author's circumspection in the form of unstated and understated political implications. Such a critique will not be attempted here. It seems more important to fix this extraordinary document into the political context to which it belongs, in order to demonstrate that recent historical choices made by Kampuchea's ruling classes were by no means the only ones available to them and that in rejecting and temporizing with the developmental option, the Sihanouk regime made a fundamental political mistake: it left its critics and opponents with only radical alternatives.

²Khieu Samphan, "L'économie du Cambodge et ses problèmes d'industrialisation," Thesis, Paris, 1959. The *Doctorate es Sciences Economiques* is approximately equivalent to the *Licence* in other faculties; both degrees require four years of university preparation.

³This personal background information comes from Samphan's youngest brother Khieu Seng Kim who was interviewed by Steve Heder in Phnom Penh in early 1975. I am very grateful to Steve Heder for notes from these interviews.

⁴See *L'Observateur*, September 22, 1959, p. 3; and Khieu Samphan, "Les problèmes de l'investissement au Cambodge," *Cahiers de l'I.S.E.A.* (Serie F, 16), January 1961, pp. 127-49.

⁵*Ibid.*, p. 148.

⁶Samphan's jury contained well-known left- and right-wing members of the faculty at a time when French intellectuals were seriously divided by circumstances surrounding the Soviet intervention in Eastern Europe and the collapse of the Fourth Republic.

Khieu Samphan's Analysis: A Summary

Cambodia's Economy and Industrial Development begins with a survey of the country's available economic resources in the 1950s. Agriculture is seen to be predominately precapitalist, with most produce consumed by its producers rather than put on a market or exchanged for other goods. The family was the principal unit of production. It had little money to invest in cultivating activities. The level of technology in rural Cambodia was accordingly unsophisticated, relying on hand tools, and draught animal and human sources of energy. Productivity and overall output were also low. Produce above the family's needs was often used to pay rents. The only exception to this pattern was a small-garden or market-farming industry located near Phnom Penh. Even here, Samphan writes, the mode of production in this commercial agriculture was still the family. In his view, the only genuine capitalist activity in the countryside was international in origin and operation. The large rubber plantations in the northeast employed a hired labor force; they were wholly foreign-owned, and all of the rubber latex they produced was exported.

National industry was in worse shape than agriculture. It contributed a comparatively small amount to the country's total national product, only about 8.6 percent if the contribution of handicraft activity is discounted. Even more important, the impact of national handicrafts and of more advanced capitalist forms of industry on the national economy was restricted. Major capitalist firms such as the power companies and distillery and construction businesses were mostly foreign owned, while lesser industries, including the small, family handicraft operations, depended on imported raw materials. Khieu Samphan concludes that lack of development in agriculture and the dependence of industry on foreign centers of supply are causally related. The lack of integration of national agriculture and national industry was a profound structural legacy of imperial penetration and a continuing disadvantageous state of affairs. If the basic structure of the economy could be corrected, Cambodia's national income would more closely approximate its real (higher) potential.

In an important section of the dissertation, Khieu Samphan traces the cause of Cambodia's economic backwardness and vertical disintegration to the nineteenth century penetration of the economy by a more advanced French capitalism. When the French first arrived, the Cambodian economy appeared to be progressing in ways comparable to those of feudal Europe. Handicrafts were of high quality and wide variety. Some goods such as pottery, housewares and carts were already items of exchange in nascent market centers. Production of goods for exchange was possibly advanced to the point of being the major livelihood of a small stratum of artisans rather than simply the secondary activity of peasant cultivators. Colonial intervention in the economy at that point, reversed the trend towards division of labor in the countryside. French consumer goods produced in a more advanced industrial setting enjoying economies of scale were often of better quality and cost less than equivalent products manufactured by hand by individual Khmer or Chinese artisans. With the advent of foreign competition, indigenous silk, cotton, tobacco and foodstuff industries went into decline. Artisans who were unable to compete then had to choose from several alternatives. They could (1) retreat to agriculture to earn their living by producing their own food; (2) produce some of their own food while continuing to produce crafts for an "informal" market, that is for people too poor to purchase foreign goods despite their relative cheapness; or (3) become traders of foreign goods, agents of the competing foreign industry, a choice embodying some of the social and physical freedoms attaching to their previous role as independent producers. Many immigrant

Chinese chose the last route, Khieu Samphan writes, when they might otherwise have comprised the core of the country's national bourgeoisie. The evolution towards more differentiated and specialized forms of production was thus arrested and then reversed. The economy, thus "under"-developed by foreign competition, became increasingly dependent upon imported consumer goods and capital because it had lost the capacity to produce them locally.

The inexorable logic of expanding free trade had a further independent consequence for the national economy. Landowners and royal officials, the principal consumers of foreign imports, now had a market outlet for their rent produce and rent income. Consequently, they sought to extract more produce from peasant producers and to accumulate land. The nature of land possession was gradually altered first by statutory revision and then by natural population increases. In the absence of improvements in rural technology, peasants bore the economic brunt of both changes, becoming increasingly reliant upon landlords and usurers (often one and the same) for both land and credit. The interests, taxes and rents which they paid in cash or in kind, provided landlords and traders with the agricultural produce they desired for export often at the expense of the peasants' consumption.

While many Cambodian peasants owned their own land, the fruits of their labor were in this way systematically taken from them. The most alarming feature of this process was that so little of the extracted wealth was reinvested in agriculture. Some of it was consumed; some was "invested" in speculative commercial activity; some was exported; some was simply hoarded. Consequently, trade did not disrupt the feudal organization of the rural economy as it had in Europe. Some features of feudal life were even strengthened. Without investment in local productive enterprises which would have stimulated agricultural production or created non-agrarian forms of employment, peasants were trapped on the land, more than ever dependent for their survival upon landowners, creditors and the vicissitudes of the monsoon climate.

The peculiar form of industrial growth resulting from absorption of Cambodia's economy into the international capitalist economy during the colonial period did not provide a sufficient number of real employment opportunities for Khmers. Most industries serviced the export economy. Available capital investment went into the construction of roads, bridges, docks, warehouses and housing for officials, indigenous and colonial, who supervised import-export traffic. Private investment, notably that handled by the Bank of Indochina, gravitated into utilities, production of consumer goods such as soft drinks and durable construction firms. These industries depended upon foreign markets for their initial capital equipment, skilled labor and raw materials. Capital investment thus stimulated primarily metropolitan or overseas markets rather than the local colonial one. Because the Cambodian economy had been at a lower stage of development at the time of the initial capitalist penetration and subsequently remained underdeveloped, it was never later able to capture the market for raw materials which it had some capacity to produce. Consequently, most businesses remained affiliated with "international units" even after the country secured its political independence from France. The continuing isolation of this limited and peculiar industrial sector from the stagnating agrarian one was so great, Khieu Samphan writes, that Cambodia's national economy could not be said to cohere except by mediation of the international market.

International integration of the economy, was, however, almost wholly undesirable and would certainly not resolve Cambodia's economic difficulties. In the first instance, it fostered the demise of national handi-

crafts, the blunting of national industry, stagnation in agriculture and the proliferation of commercial, financial and "tertiary" sector activities associated with servicing the society's consumption of imports. In the second instance, international integration would limit industrial growth in the economy to certain levels determined by foreign firms' tolerance of local competition. This would hold down the standards of living of most of the country's unemployed or underemployed labor force. Cambodia's mounting trade deficits, together with the unfavorable terms of trade for export commodities, convinced Khieu Samphan that local malintegration would lead to balance of payment difficulties. These in turn portended increased inflation, devaluation of the national currency and still greater dependence upon trade, foreign aid and foreign capital. Many in the Sihanouk regime favored increased reliance on foreign assistance, but this was far from a solution to the country's balance of payments problems; rather, it was part of the problem. Most forms of foreign assistance served only to intensify economic links with the international market that would always dominate backward economies such as Cambodia's. International integration then ultimately jeopardized the country's recently acquired political independence. Moreover, foreign aid and capital would eventually flee from situations as desperate as Cambodia's to more rapidly developing and expanding economies in the advanced industrial world. Consequently, Cambodia had to make a fundamental choice about the future evolution of its economy and society, and very soon. Continuing on the path of international integration appeared disastrous. A fundamental reorientation of economic life was objectively necessary. Samphan concluded that this required a self-conscious retreat from the international market, more state regulation of the national economy, especially of trade, and state-sponsored strategies for agricultural and industrial growth.

How could this be done? Most Kampuchean who were familiar with international market arrangements and politics recognized the danger inherent in the country's accumulating trade deficits, but they disagreed bitterly when it came to formulating an appropriate government response to the problem. In Part II of *Cambodia's Economy and Industrial Development*, Khieu Samphan proposes a far-reaching program of reform leading to a fundamental reorientation of the country's economic life. Specific attention is paid to ways of accumulating scarce national resources for development, the allocation of these through monetary and fiscal mechanisms, and associated structural reforms that would be required in the city and the countryside.

In assessing ways of accumulating capital for development, Samphan reiterates earlier arguments for the need to rely primarily on national rather than international resources, but here, for the first time, he draws out the policy implications. To the extent that foreign capital was available, inflows were unlikely to come along at appropriate times, in sufficient amounts, and with reasonable terms. Even under the best terms, debt servicing would, in fact, exceed net annual inflows of foreign capital after a short period, *if* such capital should typically fail to stimulate national capital formation and promote the export of earnings as in the past. The only way to amass capital and be assured that sufficient amounts would go into appropriate activities at the right time, Khieu Samphan argues, was to create a state monopoly on trade in all major commodities. This would have to be combined with import controls on consumer goods, especially luxuries, and increased restrictions on the repatriation or export of earnings and savings. Trade, then, was an essential means of accumulation, especially of capital equipment. But trade and foreign relations generally had to be carefully regulated to ensure that short-term advantages such as cheaper consumer goods did not jeopardize the country's long range objectives of enhanced national self-sufficiency, higher rates of productive employment, and greater vertical integration of national

production and marketing. One way of maintaining national leverage in foreign trade, Khieu Samphan points out, was to diversify foreign markets, to include, for example, other developing states and socialist economies among Cambodia's trading partners. At the time Samphan was writing, the Sihanouk regime had only just begun to broaden its diplomatic and economic relations to include socialist and non-francophone African states.

While capital resources were being built up through trade, improved taxation of consumer goods, and some economy measures in the public sector, attention had to be given to the distribution of public and private capital through monetary and fiscal channels. Khieu Samphan looks first at the monetary system, showing how it once served as a means of extensive expropriation of labor capital from peasant producers who were knowingly paid with devalued currency on the one hand, while being obliged to pay new and heavy colonial tax revenues on the other.⁷ Moreover, banking credit and the fiduciary issue continued to be handled in a manner which inhibited balanced growth in the economy, as credit preference was still being given to commercial activities linked to import-export trade and to "tertiary" service industries. A reversal of the imperial status quo required tight supervision of banking activities, especially the exchange and credit operations undertaken by branches of foreign banks located inside the country. This would have to be complemented by more creative use of the national bank issue function. Samphan advocates use of a limited domestic debt for the purpose of channeling investment directly into industry and, over time, drawing investment away from the commercial sector of the economy. State-supported industries would fail in the meantime, however, unless they were provided with sufficient capital equipment, ample supplies of raw materials and a national market. With imports being reduced, the stagnating agricultural sector would have to produce more of the raw materials needed by industry while continuing to produce some surplus for export, so as to pay for imported equipment. At the same time, the rural cultivators' share of national income would have to rise, because peasants were the largest group of potential consumers in the country. These requirements of industry brought out the need and determined the nature of dramatic fiscal reforms in the countryside.

The key to releasing the productive forces of agriculture and to attaining self-sustained industrial growth in Samphan's analysis, lies in elimination of peasant indebtedness. The initial requisite steps to be taken by the state include a moratorium on debts; tax relief for poor peasants, especially those suffering from undernourishment; rent controls and the abolition of usury. Many peasants cultivated land which they believed to be their own property, but this property was, in fact, perpetually "mortgaged." Because rural productivity and income were low, peasants were often obliged to supplement the income from their agrarian activities by seasonal employment in towns so as to hold on to small parcels of land and service their debts. Indebtedness and low income also prevented peasants from opening up available virgin land. They were deterred from taking economic initiatives in this direction by the high cost of relocation, tools and seeds, combined with the constraints of the natural monsoon irrigation system which limited rice production to one crop per annum. After fiscal relief which should immediately improve peasant income and with sympathetic assistance from the state in organizing producer and consumer cooperatives, Samphan believes smallholder-producers would be encouraged and would have the economic means to increase total production above and beyond levels necessary for their own improved consumption. The difficult

⁷The monetary dimension of colonial economic policy in Indochina is overlooked in James C. Scott's insightful *Moral Economy of the Peasant* (New Haven: Yale University Press, 1976).

part of the strategy was ensuring that landlords and traders (cum usurers) did not sabotage state policies by continuing to extract wealth from peasants at a level which jeopardized national industrial growth and, through inflation, nourishment for townspeople. This could only be done, Samphan decides, by use of official coercion.

Landlords would have no immediate economic interest in supporting the proposed government reforms. Thus, the state must force them to comply with rent control policies, and where applicable, with the prohibition of usury. Their efforts to maintain connections with foreign banks, and import-export firms would have to be contravened and circumvented. This would be no small task. Success would depend upon a number of contingent supports. Peasants would have to be mobilized to take advantage of the opportunities which the state was attempting to grant them. Producer and consumer cooperatives, for example, were designed to allow peasant producers and artisans the benefits of a certain amount of division of labor, cheap credit and exchange which bypassed landlords, private wholesale-retail merchants and usurers. The cooperatives would only serve their purpose if peasants actually used them and asserted themselves against con-
 vining landlords and merchants and if there were sufficient state supplies of foodstuffs and consumer goods as well as credit. When these conditions were satisfied, capital hoarded by the wealthy would in time have to be invested in local production, agricultural or otherwise. Even if this investment took the form of "luxury" manufactures to replace the consumer items no longer freely or cheaply imported, this would go some way towards restructuring the neo-colonial export economy. It would provide employment in the national economy. As some income was gradually redistributed from landlords and traders in the direction of primary and secondary producers, the feudal relations of production restraining agrarian growth would be eroded. The long-term economic benefits of this reorientation in rural economy which would lead to new sources of wealth for all were so obvious that Khieu Samphan hopes for the cooperation of landlords and usurers, the country's most likely potential industrialists. The suggestion of a class alliance in the process of industrialization is consistent with the principal thrust of his argument which attaches greater importance to the national struggle of the Khmer people against the international bourgeoisie than it does to class antagonisms within Kampuchea, antagonisms which were perforce not fully developed because of underdevelopment. It is possibly inconsistent with his earlier arguments about the positive reinforcement of feudal-like relations in the countryside as a result of international integration of the economy. Samphan concludes that reforms in agriculture need not go as far as land redistribution, but he does so with apparent hesitation.⁸

In conclusion, Khieu Samphan emphasizes that his proposals would serve only to enhance Cambodia's industrial prospects. He had no illusions about the length of time required and the slender resources of his country for pursuing genuine industrialization. Even with the state in full control of trade, money and banking, fiscal levels and pricing mechanisms (affected

⁸ Among other indications, the text is amended in longhand on this point. It would be impossible to deduce with any degree of accuracy what importance Khieu Samphan attaches to competing theoretical and concrete realities on this point. The position finally adopted is apparently more nationalist than Marxist, but only apparently. It would be interesting to know if at this time he believed the process of underdevelopment to be reversible and whether he judged the material basis of inequality to be still more feudal than capitalist. The suggestion of national(ist) solidarity betrays more capitalist inspired political consciousness in Cambodian life than he appears willing to admit.

through the cooperative half of a dual marketing system) and the government enjoying the active support of the peasantry, Cambodia could not possibly industrialize very rapidly. Its limited natural resource base and small population were determinant factors. Economic considerations aside, success in preparing the way for a more independent and autonomous national economy depended upon political leadership which was "neither bureaucratic nor administrative" but democratic. In the circumstances of its articulation, this remark was probably seen as a more or less urbane criticism of the "incapable" and "dishonest" functionaries who dominated the offices of the Sihanouk regime rather than the statement of revolutionary advocacy it no doubt is.

The Observer Affair

On his return to Phnom Penh in the summer of 1959, Khieu Samphan refused to go through the normal routine of calling on Prince Sihanouk to receive an appointment in government service in recognition of the successful completion of his degree.⁹ Instead he decided to publish a French language biweekly newspaper named *L'Observateur*. In the paper's first editorial, Khieu Samphan explained that the Observer, as its name implied, intended to provide an objective and independent perspective on contemporary national and international affairs. The role and purpose of the paper were, more specifically, cast in the context of Kampuchea's struggle for national democracy, especially as this was already expressed in the twice yearly mass public meetings known as National Congresses and the nation's struggle for neutrality in the cold war.¹⁰ As the weeks and months went by, the extent of this struggle for democracy became increasingly clear. In columns devoted to film reviews, literature and the arts and to social events in low prestige "corners" of Phnom Penh, *L'Observateur* systematically exposed the fantasies and myths associated with foreign or pre-scientific cultures, attacking these as dangerous in an age when people had the capacity to control or direct their own lives. Such incitement to self-directed reflection was only occasionally linked to explicit political action. In an article about a referendum to determine the fate of Provincial Assemblies, *L'Observateur* reminded readers that a decision to discontinue these local parliaments had already been taken nationally, a decision which would take effect unless voters acted in positive defense of their rights to have local assemblies.¹¹

More than anything else, *L'Observateur* brought attention to the condition of individuals and groups who endured low status, poverty or cultural deprivation in the existing princely order and who were, through no fault of their own, a burden on society rather than an asset. Among those singled out for attention were the urban unemployed, the underemployed, alcoholics, bread hawkers and other child laborers "who wore the faces of old people and who were deprived of the joy of youth, period of creativity," and women. Students were also included in this ensemble of latent and repressed social forces. In a moving, autobiographical article, Samphan contrasted the political ideals of freedom, happiness and multi-racial harmony taught in the classroom with the realities of university life in France, where Kampuchean students experienced *Defense de la Sécurité Territoriale* (DST) surveillance, illegal break-in and entry, travel

⁹ Steve Heder's interview with Khieu Seng Kim, loc. cit.

¹⁰ *L'Observateur*, September 22, 1959, pp. 1 and 8.

¹¹ *Ibid.*, October 30, 1959, p. 1.

restrictions and scholarship revocations when they exercised democratic rights to express opposition to colonialism. These undemocratic sanctions required many sacrifices to be made by students who decided to pursue their studies. The resulting solidarity which grew among the victims was quickly seen to be the key to success in all of life's projects. The allegorical significance of this is unmistakable. In converting subjection and deprivation into sources of strength, *L'Observateur* was proudly subversive of monarchal culture. Whenever the Prince employed the language of filial obeisance to the throne or spoke of national interest, *L'Observateur's* counterpoints of self-interest, self-government and social solidarity made their impact.

Frontal attacks on the Prince and his state are not to be found. Indeed, they would have given the Prince the pretext he needed to charge the paper and its staff with treason and to prosecute them in the royal courts. Instead, *L'Observateur* paid regular and ritual attention to the Prince's activities in its news columns and attached the requisite formulas of loyalty and politesse to his person when necessary. *L'Observateur* praised Sihanouk for progressive efforts in combatting illiteracy and corruption, for raising rural standards of living and for diversifying Kampuchea's foreign relations to include socialist countries. Disapproval of the Prince's policies was expressed with studied silence. In some instances, Sihanouk took up the play with zest, returning compliments in kind. Although he regularly denounced Observer as "communist" along with the Khmer language papers *Pracheachon*, *Mittapheap* and *Ekapheap*, he also occasionally singled it out as treating "us with some fairness in recognizing that the progress we have sponsored is without precedent in our history."¹² The Prince soon grew wary of the intellectual interest aroused by the paper, however, and attempted to expose the game: "Their classic technique consists, if you will forgive the image, of kissing me on the cheek while kicking me on the tibia. . . ."¹³

The remark is characteristically disarming. In matters of violence, Prince Sihanouk and other high officials who were jealous of the perquisites of power, regularly handed out more than they received. On October 11, 1959, three weeks after *L'Observateur* began publishing, the editor-in-chief of *Pracheachon* was assassinated. The murder provoked outrage in leader columns of the national press. Observer denounced the resort to violence and threat to civil liberty in the following terms:

That the editor of a legally constituted, government sanctioned newspaper could be struck down like a dog in the street, is to be sure, an example of barbarous conduct without precedent in a Buddhist country such as ours.¹⁴

On July 13, 1960 Khieu Samphan was in turn boldly set upon in the street at 11 a.m., beaten, forcibly disrobed and photographed by a squad of about

¹²"Discours de S.A.R. le Prince Norodom Sihanouk au IX Congrès National le 19 février 1960," *Principaux discours, messages, allocutions, déclarations, conférences de presse et interview de son altesse royale le prince NORODOM SIHANOUK, Année 1960* (Phnom Penh: Edité par le Ministère de l'information, 1961), p. 53. This source will hereafter be cited *Principaux discours* (year). *Pracheachon* ("People" in the sense of "Humanity"), *Mittapheap* ("Fraternity"), *Ekapheap* ("Solidarity") and *L'Observateur* had a combined circulation of about 8,000 to 15,000 copies.

¹³*Réalités Cambodgiennes*, August 12, 1960, p. 8.

¹⁴*L'Observateur*, October 13, 1959, p. 8.

ten men. He did not take this provocation silently as had no doubt been anticipated. After formally reporting the incident to an allegedly fully cognizant and disinterested police, details of the affair were reported on the front page of the next issue of *L'Observateur*.¹⁵ The paper also published letters of support and a formal letter of protest directed to the cabinet. Within two weeks, the incident was hotly debated in the National Assembly where the Minister of National Security, a Sihanouk loyalist, said Samphan had been set upon by about a hundred people who opposed Observer's views on educational reform. This explanation was dismissed by parliamentarians who were concerned about the threat to civil liberties and took the position that the duty of the security services was to keep the streets free of "fascist behaviour" regardless of its political inspiration.¹⁶ Parliamentary questioning of the evasive and conspicuously slow-moving security officials aroused more concern than satisfaction. The "Observer Affair," as the press then dubbed it, simmered on.

On August 2, 1960, Prince Sihanouk ridiculed *L'Observateur's* charges that fascist forces aligned with imperialism were sowing "confusion" in the body politic. He further charged that Sangkum members sympathizing with the "reds" were showing themselves for all to see by defending the cause of "a red newspaper" "with a passion and violence unwarranted by Khieu Samphan's 'strip-tease.'" The Prince added that he supported press freedom but only "within constitutional limits." Acknowledging the violence committed against Samphan's person to have been unlawful, he then proceeded to accuse the "red" newspapers of bad faith, calumny and injustice approaching treason. The purpose of the "red-baiting" appears to have been to divide the ranks of intellectual opposition to the monarchy, for the Prince then proceeded to take up an argument aired in the National Assembly to the effect that aristocratic interests impeded the social and administrative mobility of educated commoners. Sihanouk denied that the aristocracy was a privileged group in the Sangkum era, rhetorically asking his audience to count up the number of Princes in the National Assembly and the cabinet.¹⁷ Within days, state security services secretly detained and interrogated about 30 people. Eighteen of these, including Khieu Samphan and most of the editorial staffs of the so-called "communist" newspapers, were imprisoned.¹⁸

The "Observer Affair" and the following security crackdown coincided with the final elaborate burial ceremonies for the recently deceased King Suramarit and the popular excitement surrounding the Kong Le *coup d'état* in Laos. In fact, the events surrounding the Observer cannot be interpreted in isolation from the succession crisis following the King's death and Sihanouk's persistent apprehensions about the loyalty of his intellectuals. In the weeks between Suramarit's death and cremation, Sihanouk had devised a special position for his mother as "guardian" of the throne and created a new constitutional post for himself as a permanent, neo-monarchal Head of State. The two moves divided the aristocracy and caught the country's democratic intellectuals unprepared. Attacks against "communists"

¹⁵ Ibid., July 15, 1960, p. 8.

¹⁶ A verbatim transcript appears in *L'Observateur*, July 26, 1960, pp. 1, 6-8. An extended news report appears in *Réalités Cambodgiennes*, July 29, 1960, pp. 1 and 6. The most forceful defense of civil liberties was mounted by Deputy Uch Ven.

¹⁷ *Réalités Cambodgiennes*, August 12, 1960, p. 8.

¹⁸ The arrests were made about August 15 but not revealed until August 27. See *ibid.*, August 27, 1960, p. 3.

combined with officially organized demonstrations in support of "monarchy" and "nation" completed the royal ruse. The Prince had stolen the initiative from the only socialists among his critics who might otherwise have had some possibility of mobilizing a combined socialist-republican opposition to his efforts, by using the pages of their newspapers to expose the significance of that summer's events as a step backwards in Kampuchea's democratic development. Judging from their silence during these months, republicans were indeed effectively neutralized by the "red menace" allegations and the orchestrated public demonstrations.

Moreover, the Prince now employed his own press in support of his cause. Concurrent with the shutdown of the opposition press, *Néak Chéat Niyum*, the official newspaper of the Prince's Sangkum organization, published a special enlarged edition containing a detailed critique of *L'Observateur* from the time of its first appearance. Its cultural and social commentaries were singled out as the most unreasonable and treacherous of the paper's offerings. Photographs and tables accompanied the text to suggest that the deprivation and subjection described by *L'Observateur* had no basis in fact. The truth of the situation, as *Néak Chéat Niyum* portrayed it, was that the Sangkum had brought the country unparalleled progress and prosperity.¹⁹ While the Prince indicated that the four proscribed papers would be indicted for treason, the imprisoned journalists were not charged with any crimes. Sihanouk is said to have accused the communists of plotting a *coup d'état* in a speech to the diplomatic corps but no explanation or names were given to the public. Just as quietly, the men were summarily released on September 21; a week later, in a special three day meeting, the Communist Party of Kampuchea was officially founded.²⁰

It took a month for Khieu Samphan to recover his health after his weeks in prison.²¹ With *L'Observateur* banned, he took a teaching job at Kambuboth College, a private school run by his friend Hou Youn. His younger brother described Khieu Samphan's efforts to teach him the material value of things:

¹⁹The editorial and a description of this issue of *Néak Chéat Niyum* appear in *ibid.*, pp. 10, 15-16. *Réalités* can also be considered part of the official press in this instance.

²⁰These events are interpreted differently elsewhere. Some republicans, for example, still hold the view that Sihanouk averted a real coup conspiracy. See *Sihanouk et les communistes* (Sable-sur-Sarthe: Imp. Coconier, 1970), pp. 8-9. An official communist interpretation of these events treats repression of prominent intellectuals as only one indication of the semi-colonial society's dependence on imperialism. These arrests are nonetheless specifically mentioned, giving the impression that they added urgency to the felt need for a Party organization. Preparatory discussions envisaging the creation of a Party had been progress for many months. See *Discours prononcé par le camarade Pol Pot, Secrétaire du comité central du parti communiste du Kampuchéa au meeting commémorant le 17^e anniversaire de la Fondation du Parti Communiste du Kampuchéa et à l'occasion de la proclamation solennelle de l'existence officielle du Parti Communiste du Kampuchéa* (Phnom Penh, September 27, 1977), pp. 16-26.

²¹According to Khieu Seng Kim, Khieu Samphan refused to discuss his treatment in prison though he did say that other prisoners were beaten during interrogation sessions held every night around midnight. The family were not allowed to visit Samphan in prison. Steve Heder's interview with Khieu Seng Kim, *loc. cit.*

One day he took me out to eat. When we got to the market, he told me to order anything I liked. I ordered duck. When I finished eating it, he asked me, "Was it good?" And I said, "Yes, very good." His face darkened and he levelled a finger at me. "You ought to be ashamed sitting here eating such good food when most people who work ten times harder than you have nothing at all."

A few days later, he took me out to eat again, and again he told me I could order whatever I liked. When I hesitated, he said, "How about some Vietnamese spring rolls," and ordered some for me. When I had cleaned my plate, he asked if they were good. They were, of course, but I didn't want to say so. Instead, I said, "No, not so good." At that he quietly exploded, again levelling his finger. "How can you eat so well and not appreciate it? What do you think an ordinary peasant would say about food like this?"²²

Throughout 1961, Prince Sihanouk attempted to persuade Samphan and other progressives to leave their private occupations for public service. Confronted with one trade deficit after another, the Prince made no secret of the fact that he needed the expertise of the younger generation to sort out the country's economic problems and to implement the country's second national development plan.²³ It is not irrelevant to mention that he hoped to secure socialist aid to finance part of the plan. Samphan finally agreed to stand as a Sangkum candidate in the 1962 National Assembly elections. In the absence of an opposition party, all Sangkum candidates were elected.²⁴ The cabinet formed after the election was the youngest in Kampuchean history. Khieu Samphan received the most sensitive post, that of Trade Secretary.

Parliamentary Struggle

Khieu Samphan's views on the economy were well-known by the time he entered the cabinet. It was also apparent that *Cambodia's Economy and Industrial Development* was something of a policy blueprint for the new government. In his investiture speech, Prime Minister Prince Norodom Kantol, presented a strategy for reform similar in appearance to the second half of the dissertation. The government proposed cutting unproductive public expenditure so as to concentrate available resources in industrial expansion, increased electricity production and agricultural reform. Such proposals were a striking departure from the neo-colonial, commercially-oriented norm; Prince Sihanouk was even obliged to inform financial and commercial groups who dominated the National Assembly that he was not putting "the young ones" in power only to embarrass them or to allow the "old guard" back for another chance. The Prince then advised the government to make every effort to find outlets for the private sector because "the

²²Ibid.

²³See, for example, Sihanouk's remarks in "Discours à l'inauguration de l'école modèle de Prasaut (Svay-Rieng), 16 août 1961," *Principaux discours* (1961), p. 226.

²⁴The leaders of the Pracheachon Association had been incarcerated before the election. The group decided against putting up candidates for election and went underground.

future of our regime depends upon it."²⁵ Sihanouk rarely admitted dependence on business, and he did not, in this instance, distinguish the national from the large foreign business sector. The distinction was critical to Khieu Samphan, however, and he intended to translate the difference into public policy.

By late 1962, the Kampuchean economy was possibly already too impoverished to be reformed in the gradual manner recommended by Khieu Samphan in 1959. Nevertheless, the Finance Secretary, Long Boret, tended to downplay the urgency of the situation by laying responsibility upon bad weather, international price rises and low productivity.²⁶ Statistical indications of the nature and extent of the crisis are more frank: In good years or bad, large trade deficits showed the country to be living beyond its means, staple foodgrain production to be stagnant and bank deposits in the process of rapid depletion. The relevant data are summarized in the following table:

Critical Economic Indicators, 1955-1966

Year	Rice Production (thousand tons)	Rice Exports (thousand tons)	Balance of Trade (million riels)	National Bank Deposits (million riels)
1955	1,490	n.a.	- 265	n.a.
1956	1,790	50	- 697	n.a.
1957	1,990	200	- 239	n.a.
1958	2,120	210	- 759	n.a.
1959	2,080	190	- 343	2.613
1960	2,330	320	- 879	2.346
1961	2,380	240	- 1,175	1.892
1962	2,040	140	- 1,681	1.468
1963	2,620	370	- 635	0.895
1964	2,760	490	+ 200	0.667
1965	2,500	490	+ 87	0.714
1966	2,380	170	- 1,532	0.809

Sources: The balance of trade figures are based on Customs and Excise accounts from the National Bank's *Bulletin Mensuel*; these differ slightly from the National Exchange Office accounts published in the *Balances des paiements*. Some of the statistics reported by Khieu Samphan in the document which follows were revised by both agencies at later dates following normal accounting procedures. Deposit account data are from Table 2-3 of R. F. Emery, *The Financial Institutions of Southeast Asia* (London: Praeger Publishers, 1970), p. 67. Rice production and export figures are from Table 12 of R. Prud'homme, *L'économie du Cambodge* (Paris, Presses Universitaire de France, 1969), p. 255. Some annual figures are Prud'homme's informed estimates. Official statistics are unreliable, notably from 1964 onwards.

Moreover, the government came to power at a moment when foreign aid resources were declining, when EEC regulations were starting to affect Kampuchea's trading position with France and when peasants were putting smaller

²⁵*Réalités Cambodgiennes*, October 12, 1962, Editorial, pp. 4 and 6.

²⁶*Réalités Cambodgiennes*, November 23, 1962, p. 6.

and smaller shares of their harvest on the market.²⁷ Having less rice to sell also meant the state earned less foreign exchange and had fewer commercial transactions to tax. On top of everything else, the government faced a liquidity crisis. To meet payrolls, the cabinet ordered immediate cuts of 20 percent on an average in public spending at national, provincial and municipal levels of administration. The country appeared to be at the crossroads envisaged by Khieu Samphan in 1959. More revenue had to be extracted from the economy if current programs and departments were to be retained and if rampant inflation was to be avoided. But because no particular section of the economy was flourishing, efforts to increase tax revenues had to be associated with general improvement in the whole of the economy.

Business was probably suffering most from the effects of the contraction of commerce. The last thing the "private sector" desired at that moment, bearing in mind that it was more financial and commercial than industrial, was a government which limited public expenditure (salaries, essentially) and international trade, the source of most of the urban, salaried society's consumer goods. Any attempt to implement such policies was probably more feared than their intended consequences, the business community being acutely aware of the managerial limitations of the Sihanouk regime, the more so, it is reasonable to assume, because politicians and administrators habitually accepted its bribes. If a declared policy of austerity was not carefully or honestly enforced it would lead the economy into permanent recession or uncontrolled speculation-inflation or a combination of these. The apprehensions of business must have grown in January 1963 when the government announced it would assume a domestic debt of 900 million riels. This was to be carried in addition to a foreign debt of 380 million riels. In concrete terms, this meant printing and issuing more money. In the year then just completed, the total money stock was already 22 percent higher than that in 1961.²⁸

From the Department of Trade, Khieu Samphan said the obvious. Use of a budget deficit to finance public spending rather than productive investment would promote inflation.²⁹ The domestic economy was already characterized by steady price rises, he continued, but the government had no statutory powers with which to intervene in the situation other than repressive ones. As long as this remained the case, the Secretary argued, prices could not be stabilized, the cost of Khmer goods on international markets would rise and normal exchange operations would be affected. This year, he added by way of illustration, there was an exportable rice surplus of 450,000 tons but, because the harvest had also been good in most other rice-producing-exporting countries in Asia and because the price of Khmer rice was comparatively high (due to low productivity as well as commercial speculation), it might be difficult to sell. The Secretary then offered his personal opinion that redressing Kampuchea's economic ills would require austerity measures and complementary reforms within the total economic structure. He had submitted a detailed proposal to this effect to

²⁷ Prince Sihanouk discussed some of the reasons for this in his report on the economy to the National Congress held in December 1961. While rice harvests in 1960 and 1961 are nearly identical, the lower percentage of the crop exported in the second year related to extra costs in cultivation (the area cultivated in 1961 was one-third again more than in 1960) and lower yields per hectare in a bad rice year. See "Discours à l'ouverture du XII^e Congrès National," *Principaux discours* (1961), pp. 364-65.

²⁸ Emery, op. cit., p. 58.

²⁹ *Réalités Cambodgiennes*. February 1, 1963, pp. 6-7.

the cabinet.³⁰ In a possible effort to be reassuring, Samphan added that his proposal would reconcile national and private interests, without indicating how this would be done. With rather more conviction, he concluded, "resolution of our problems mostly depends upon the cooperation and the sense of civic duty of businessmen and industrialists."³¹

Khieu Samphan's remarks were soon overshadowed by publication of the proposed budget for 1963, the first national budget to be presented in "unity," that is, with anticipated revenues and expenditures appearing in the same document.³² The budget contained a proposed deficit equal to that incurred in 1962 (1.76 thousand million riels) representing approximately 30 percent of all expenditures.³³ Several provisions aroused anxiety within the commercial community and among intellectuals opposed in principle to government efforts to regulate prices and consumption. The most controversial measures were imposition of a luxury tax on the sale of imported alcohols (70 to 100 percent), imported cosmetics (50-100 percent), and imported refrigerators, television sets and tinned foods (30-100 percent). In addition, the cost of licenses for the sale of alcohol and tobacco were to go up and new taxes would be levied on luxury residences, housing construction, privately owned motorized passenger vehicles, yachts and pleasure boats.³⁴

The government's effort to restrict consumption of imported luxury goods was immediately attacked by *Phnom Penh Presse*, a new newspaper published by young conservatives and business-oriented deputies in the National Assembly. In a series of lively polemical articles alternately defending unfettered capitalism and attacking specific government policies, the *Presse* argued that government use of discretionary powers in Kampuchea's previously unregulated import-export sector would only promote prevarication, speculation and corruption, all of which positively discouraged production which required an environment of stability and confidence.³⁵ Furthermore, government intervention in the economy discouraged foreign capital investment which was absolutely essential for the country's development.³⁶ The *Presse* also insisted that investment in buildings and other infrastructure was an initial, necessary condition of domestic capital formation and local investment. Such overhead development made the use of capital equipment more efficient and more profitable.³⁷ The position of the private sector as articulated by *Phnom Penh Presse* was thus nothing

³⁰ Prince Sihanouk made approving reference to such a document in a speech in early January. "Ouverture du XIV^e Congrès National au Terrain de Men," *Principaux discours* (1963), p. 8.

³¹ *Réalités Cambodgiennes*, February 1, 1963, p. 7. The Trade Secretary's appeal for austerity and economic reform appears on the same page as advertisements for the Bank of Indochina, Martell cognacs, Phillips electronics and one "absolutely brand new" 1963 Simca Elysée.

³² This is noted in the Editorial, *Phnom Penh Presse*, February 25, 1963.

³³ *Ibid.*, February 18, 1963.

³⁴ *Ibid.*, January 21, 1963.

³⁵ *Ibid.*, February 19, 1963.

³⁶ *Ibid.*, March 4, 1963.

³⁷ *Ibid.*, May 2, 1963.

short of intransigent. Laments about government aid to agriculture and industry to the detriment of commerce, revealed the dependent and small businessman's limited ability to accommodate change even when the impossibility of preserving the status quo was generally recognized. Among those who accepted the necessity of government intervention, including foreign businessmen who were conspicuous for their expression of confidence in the economy at this time, there was concern that large-scale enterprise was not the government's first priority. Attempts by businessmen to cope with the confusion resulting from the proposed and implemented statutes also took the form of offering bribes to the appropriate administrative officials and members of the cabinet. The cabinet was already divided between those who were ambitious to obtain reform and justice and those who would be satisfied with wealth and status. Attempts to bribe Khieu Samphan failed, but made a deep impression.³⁸

Accumulating public tension came rapidly to crisis point. In the course of an official visit to China in February, 1963, Prince Sihanouk sent a memorandum to the government detailing a number of costly projects he desired to have immediate attention. Until then, the Prince had publicly backed his government, especially at the National Congress the previous month where he insisted the government had a free hand in policy-making and, moreover, deserved a motion of confidence.³⁹ Informally, he also let it be known that he felt the cabinet's approach was too "theoretical." In total, the Prince gave the impression of quietly urging the government to get down to work while loudly announcing his intention not to meddle. The China memorandum marked a shift in his attitude. In alternately patronizing and officious tones, Sihanouk requested the government to get on with urban renewal-community development schemes (admitting his initial effort at Anlong Komiet to be a failure) and to send his personal advisor Nhiek Tiouloung to the USSR to secure Russian aid for the construction of one or two hydroelectric dams. Specifically, the Prince recommended construction of low-rent dormitories for university students in Phnom Penh and a small museum; beautification of provincial sites and villages likely to be frequently by foreign tourists; the planning of botanical and orchid gardens near the capital; the resurfacing of an air strip at Pong Tuk in the expectation that visiting statesmen would want to visit the seashore; the conversion of the plywood factory to some other use; a new means of waste disposal near Stung Meanchey (to get rid of the odor from the burning of waste); and the establishment of a national fisheries board. In an addendum, Sihanouk noted "Our young ministers spend too much time studying problems; they must take decisions and act to stop price rises, eliminate middlemen, stop waste. . . ." ⁴⁰ The Prince's recommenda-

³⁸ Donald Lancaster describes Samphan as "the only honest minister Cambodia ever had" repeating a capital city cliché. See "The Decline of Prince Sihanouk's Regime" in *Indochina in Conflict*, ed. J. J. Zasloff and A. E. Goodman (London: Lexington Books, 1972), p. 52. Khieu Samphan told his family after a package of money was delivered to their domicile in his absence: ". . . if you take money from capitalists you have to work for them; if you work for them, then you are a traitor to the people because capitalists are enemies of the people." Steve Heder, Telex to *Time, Inc.* -- New York; Bangkok, April 18, 1975.

³⁹ *Réalités Cambodgiennes*, January 11, 1963, p. 7. The edited text of the Prince's remarks are contained in "Ouverture du XIV^e Congrès National au Terrain de Men," *Principaux discours* (1963), pp. 6-7.

⁴⁰ The memorandum is published in *Réalités Cambodgiennes*, February 15, 1963, pp. 5-6, presumably upon the Prince's instruction. The Editor in Chief was head of the Royal Palace staff at the time. The memorandum does

tions were costly and represented unproductive forms of expenditure which would serve only to increase inflation and hasten price rises. But before the government could point this out and before groups opposing the government's austerity plans could act on the opportunity presented by the Prince's memorandum, the survival of the Sangkum regime itself was called into question by a nationwide school strike.

The trouble began in Siem Reap town.⁴¹ A local policeman widely suspected of smuggling activities, had been harassing lycée students and school children about riding their bicycles on certain paths at night. He beat his own nephew for disobedience. Two days afterwards, a schoolboy was found beaten to death. Students accused the police of brutality and murder, but local authorities defended the officer at the center of the controversy. With this, student meetings were called to organize protest demonstrations. These finally resulted in the sacking of the local police headquarters, the removal and desecration of Prince Sihanouk's portraits from all public buildings, and the brandishing of placards reading "The Sangkum is rotten," "The Sangkum is unjust," and "Down with the Sangkum." When two members of the cabinet, the Provincial Governor, and other officials arrived on the scene to discuss the situation with students based in Siem Reap Lycée, they were forced to march around town by demonstrators who were armed with clubs and stones. Local cyclo (bicycle-cab) drivers were observed to be in support of the student movement. Student appeals for support from other colleges and lycées around the country resulted in more demonstrations in most of the country's urban centers. With the situation manifestly out of control, the cabinet, including Khieu Samphan, resigned *en masse*. Prince Sihanouk sent word from China that he had no intention of giving up his post as Chief of State, a rumor mooted in the press.⁴²

Once back in the country, Prince Sihanouk took personal charge of getting the country's students back to their classrooms and his ministers back to their departments. The imminent state visits of the King of Laos and the Chinese President Liu Shao-Chi, added more urgency to the crisis. At mass meetings in the capital, Sihanouk threatened to disband the Sangkum and the National Assembly, and even to retire from political life if that was what people wanted. While he alternately pleaded, cajoled and intimidated the public with implicit promises of more chaos without him, his loyalists and security services organized demonstrations on his behalf. The particular grievances of the Siem Reap revolt were gradually lodged in a moral dialogue unsusceptible to compromise or mediation. The revolt was attributed to a "left conspiracy" jointly instigated by Son Sen, a Siem Reap socialist who had been suspended from his teaching duties the year before, and Keng Vannsak, former leader of the republican-oriented Democratic Party. That these two men had nothing to do with each other and could not have planned the events in Siem Reap is beside the point: they were both opponents of monarchy. Prince Sihanouk charged that if the

not appear in the Prince's collected works. Since the Prince later attempts to revise this episode in history, the omission is probably deliberate.

⁴¹There are several versions of the events summarized here. These remarks rely on information in the editorial in *Phnom Penh Presse*, June 26, 1963; *Réalités Cambodgiennes*, March 8, 1963, pp. 1-4, and an interview with Nuon Khuon in Phnom Penh on September 10, 1971. Khuon, an historian and journalist, was reared in Siem Reap. He graduated from the lycée a year before these events.

⁴²*Phnom Penh Presse*, February 22, 1963.

Sangkum was so repugnant to people and if the left were so desirous of having everything their way inside the cabinet, then it would best to let the Sangkum die an honorable death and allow the left to form their own "homogeneous" cabinet. Keng Vannsak, Son Sen, Uch Ven, Chau Seng, Hou Yuon, Khieu Samphan and others were each asked to form such a cabinet; each refused. Unrebuffed, the Prince convoked a meeting of "34" leftists at which he offered them every portfolio in the cabinet except the Prime Minister's (reserved for Prince Kantol or Lt.-General Lon Nol) and the Defense Minister's (which was to have gone to Colonel Khlot Bouth). None of those convoked agreed to participate in the cabinet. Indeed, they knew in advance that the list of 34 had been drawn by Lt.-General Lon Nol as an assassination list.⁴³ Prince Sihanouk vetoed Lon Nol's plan, partly in order to maintain the weak left as leverage against his competitors in the aristocracy and in business, and partly out of continuing conviction that the young progressives held the key to sorting out the country's economic mess.⁴⁴

The "Affair of the 34" nonetheless left progressives with little room for maneuver. On critical matters of economic policy, Prince Sihanouk had publicly thrown in his lot with the right. At the same time, the left had been branded as a menace to social stability and monarchical leadership in the wake of the Siem Reap affair. It was thus impossible for reform-minded ministers in the cabinet to call for public cooperation in implementing government austerity measures which would now be seen as contributing to the current crisis rather than resolving it. Knowing the original purpose of the list of 34 names and fearing yet another turn in the royal temper, many of those lacking parliamentary immunity fled from Phnom Penh. Ieng Sary, Salot Sar and Son Sen took to the maquis; others, notably Ok Sakun, went abroad. Concurrently, "security precautions" undertaken by the Army in March and April ostensibly in preparation for Liu Shao-Chi's visit, resulted in the summary arrest and internment of large numbers of people described officially only as "Chinese." With the "security" crackdown, the crisis subsided. The government withdrew its resignation. In reality, it had never been accepted by the Assembly because of the uncertain constitutional significance of the act. Strictly speaking, a new general election was in order, but the prospect of facing an aroused and mobilized electorate in an election campaign was not relished by most deputies. Even without the election, the balance of power in the Assembly and the cabinet shifted dramatically in the weeks of crisis. Progressives were isolated by the flight or disappearance of their allies, the demise of the student movement, and the menacing grasp of the security services. It was also apparently that they would soon be purged from the cabinet.

From mid-May when the government's new finance laws took effect, the prices of foodstuffs (especially meat, butter, and cheese) and luxury goods rose dramatically. Businessmen were observed to be exploiting the change in statutes to make enormous profits on their existing inventories.⁴⁵

⁴³ Interview with Ok Sakun in Paris, January 1972. Ok Sakun was among the 32 who actually attended the convocation. This information greatly influenced the tactical thinking of the left in those weeks. In 1977, it became clear that many of those named were members of the clandestine Communist Party founded in 1960. The Party Secretary had already been assassinated a few months before.

⁴⁴ Interview with Donald Lancaster in Ithaca, N.Y., July 6, 1970. Lancaster said Sihanouk opposed Lon Nol's plan for a total crackdown on "communists" at this time because he wanted people in his government "who understood how China worked."

⁴⁵ *Réalités Cambodgiennes*, June 7, 1963, p. 9.

Prices did not cease rising, however, and the government soon realized the business community was prepared to generate public panic and hunger so as to overturn forcibly the new taxes and tariffs. In a special session, the Assembly considered a freeze on prices, as well as such measures as fixing legislative limits on commercial profits so as to even out inflationary price spirals, and dumping imported, tinned beef on the market. Deputies concluded that the former strategies couldn't be enforced and felt it was too ridiculous and costly to import tinned beef when the country was a net beef exporter.⁴⁶ Motions of confidence were subsequently moved against Hou Yuon, whose community development department was not acting on the Prince's proposals, and against Khieu Samphan whose trade department was held responsible for the price war. In an extraordinary session at which the censured secretaries were not allowed to speak, the motion to censure Khieu Samphan failed by two votes. This was because responsibility for the government's economic policy was not his alone but collective; having averted one move for a new election, the Assembly was very wary of provoking another. The motion against Hou Yuon was carried *nem com*, as his offense was close to *lèse-majesté* and personal. Yuon immediately resigned from the cabinet.⁴⁷ In retaliation for the withholding of beef from the national market, Khieu Samphan used his powers as Trade Secretary to suspend beef exports, cutting off, in theory, business's foreign market outlet.⁴⁸ In reality, however, the smuggling of cattle across the Vietnamese frontier was already big business.⁴⁹ This was but one more example of the general disorganization and administrative weakness of the Sihanouk regime. In such a state, holding office or administrative reform were perhaps equally misleading concepts. Or so Samphan appears to have decided. On July 1, amidst renewed, vigorous attacks upon his department at the mid-year National Congress, he resigned abruptly from the cabinet.⁵⁰

From this time, the general strategy or specific proposals for reform outlined in Part II of *Cambodia's Economy and Industrial Development*, were never advocated or acted upon again. Khieu Samphan devoted himself to constituency work and part-time teaching. Students who approached him for assistance in organizing a national student's union in 1964 were told that he was not able, nor was it appropriate that he should aid them. They were instructed to "do what Lenin advises us in 'What is to be done?'"⁵¹ He provided further evidence of his increasingly radical commitment to national democracy by his decision to stand for re-election to the National Assembly in open defiance of the expressed wishes and active interference of Prince Sihanouk, who, by this time, had Samphan and other progressives under 24-hour surveillance. The 1966 elections occurred in much the same economic crisis conditions as those in 1962. (See the "Table of Critical Economic Indicators" above.) Khieu Samphan, Hou Yuon and Hu Nim were each re-elected with large pluralities. But once again, the Phnom Penh resident

⁴⁶ Ibid., June 21, 1963, p. 3.

⁴⁷ Ibid. The constitutional calculations are revealed in *Réalités Cambodgiennes*, June 28, 1963, p. 3, which also says the motions of censure were "hardly spontaneous"; they were introduced by deputies associated with *Phnom Penh Presse* and business. These deputies also advocated joining the IMF and the International Development Bank at the extraordinary session.

⁴⁸ *Réalités Cambodgiennes*, June 28, 1963, p. 8.

⁴⁹ Ibid.

⁵⁰ Ibid., July 12, 1963, pp. 1-3.

⁵¹ Interview with Tourn Sok Phallar in Phnom Penh, September 15, 1971.

"reds" were held responsible for mass reactions to official heavyhandedness in a time of hardship. This time the incidents occurred in Battambang province where the army had confiscated occupied land for the purpose of resettling Khmer refugees from the war in Viet Nam, and had forced peasants to put scarce rice grains on the market at fixed and uneconomic prices. In radio broadcasts during the resulting peasant revolt in Battambang, Prince Sihanouk talked for the first time of stripping Hou Yuon, Hu Nim and Khieu Samphan of their parliamentary immunity, of bringing them before military tribunals or simply gunning them down.⁵² Past experience demonstrated that he did not always act upon such threats. Equally often, their mere enunciation gave license to others. In certain knowledge or apprehension, Khieu Samphan slipped away from his guards on the evening of April 24, 1967. The following morning, in the bustle of carts, taxi-cars and pedestrians moving in and out of the central market, he escaped to sanctuary in the maquis. Parliamentary struggle by the socialists was over and with its passing went any possibility for reform of Sihanouk's state.

Notes about the Translation

1. For historical authenticity, the colonial term "*Cambodge*" employed by Khieu Samphan throughout the text, is translated "Cambodia."
2. Most measures employed in the translated text are metric or British:
 - 1 hectare (ha.) is equal to 2.47 acres
 - 1 thousand millions (Br.) equals 1 billion (US)
3. Explanatory footnotes inserted by the translator are enclosed in square brackets and enumerated along with the author's footnotes.
4. The "Economic Map of South-East Cambodia" and "Cambodia's Rubber Plantations" have been inserted by the translator for the convenience of readers unfamiliar with the country's economic geography. The Economic Map shows sections of the railway completed in the early 1960s (i.e., just after Khieu Samphan wrote).

⁵²See "Message Radiodiffusé à la Nation (22 avril 1967)" and "Célébrations de l'anniversaire du Parinirvana du Bouddha (23 avril 1967)," *Les Paroles de Samdech Preah Norodom Sihanouk*, April-June, 1967, pp. 174-76 and 183-86.

CAMBODIA'S ECONOMY AND INDUSTRIAL DEVELOPMENT

by

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PREFACE

As its title suggests, this work attempts to examine Cambodia's economy and the problems confronting its industrial development. We are fully aware of the danger inherent in dealing with such a broad topic, especially when enormous obstacles such as the lack of historical documentation and current statistics are united with lack of personal experience and practice. Still, it seemed to us positively essential to make an effort to sort out the connections between the interdependence of various parts of a process affecting every aspect of life as a means of assessing our country's economic prospects. For these reasons, then, we will proceed. Our discussion will, nonetheless, be limited to those characteristics of the process which seem to us fundamental.

This study is divided into two parts. In the first, we shall make a case for the objective necessity of industrial and self-directed development through an examination of Cambodia's current economic structure, the mechanism fostering this structure, and its consequences for continuing economic change. In the second part, we shall treat some specific obstacles to industrial development. We shall make an effort to determine how to undertake structural reform so as to establish a firm basis for industrialization and to specify the requirements of such reform.

I would like to express my profound gratitude to Pierre Fromont and Gaston Leduc, Professors in the Faculty of Law and Economics in Paris, who have treated me with such great thoughtfulness and understanding in addition to offering invaluable advice. I also wish to extend my warm thanks to the officials and friends who assisted me in bringing this modest effort to good end with their documents, personal recollections, and encouragement.

PART I

THE CAMBODIAN ECONOMY

CHAPTER 1

CONTEMPORARY ECONOMIC STRUCTURE

Section I. Essentially Precapitalist Structure

1. Agriculture

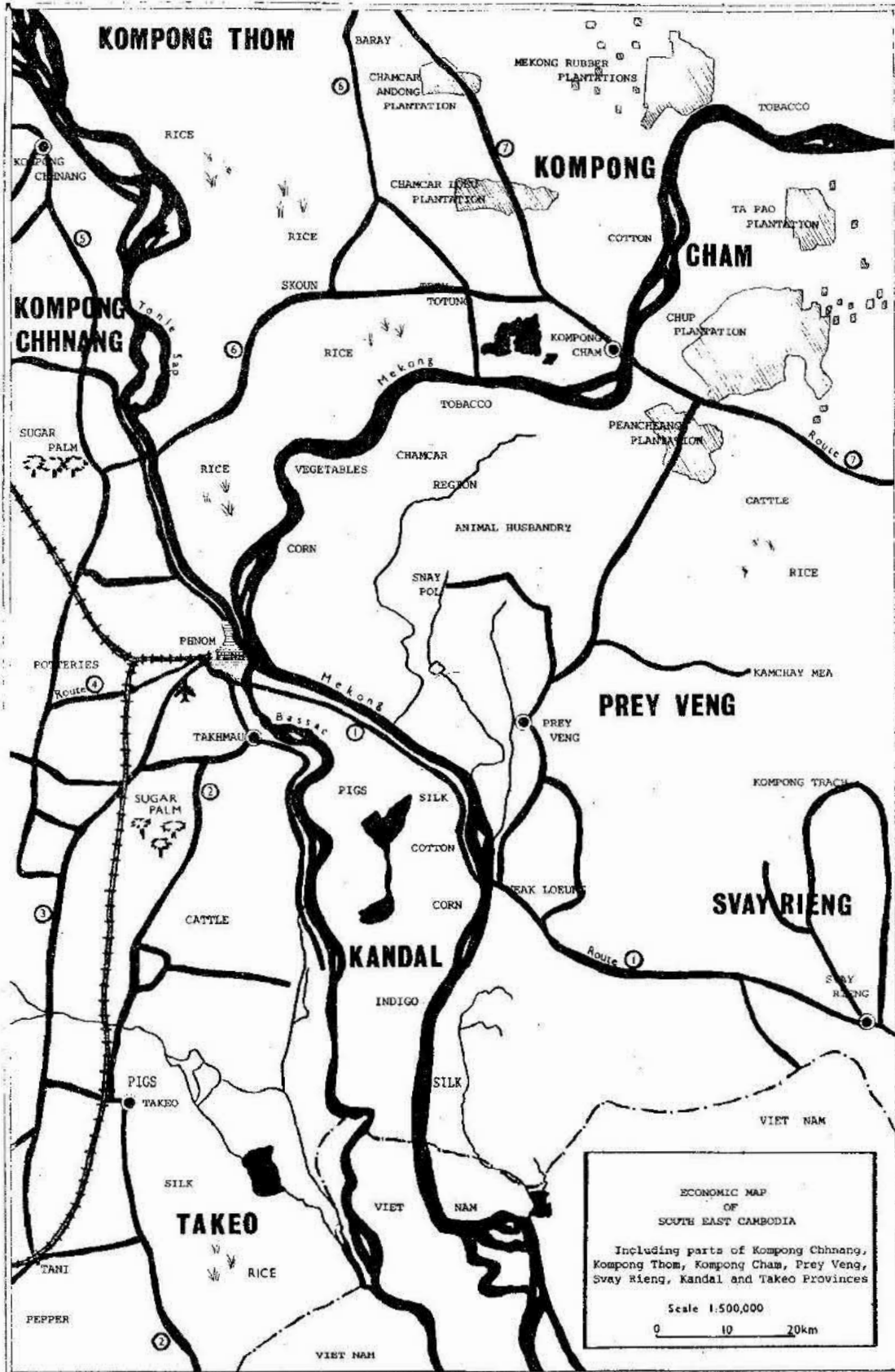
A. A Vast Precapitalist Sector

Approximately five million people live on Cambodia's territory of 182,000 square kilometers. The economically active population numbers about two millions. Around 85 percent of these working people are engaged in agriculture, where their productive potential is limited by the rudimentary means of production: a few draught animals per village; wooden ploughs; the labor power of isolated individuals subject to unruly forces such as drought, flood, disease, etc. Agriculture is still, essentially, the result of family enterprise.

There is an important distinction to be made, however, between the family enterprise devoted to rice cultivation on the interior plains and that devoted to *chamear* cultivation in the riverbank area.¹ Both types of enterprise, to be sure, employ only the labor of the family, i.e., the cultivator, his wife, and their children. This is what makes them family enterprises. In each of the two types, the cost of the instruments of production comes to only one to two percent of total operating costs. Yet small-scale family cultivation of rice paddy is more backward than the small-scale family cultivation of riverbank *chamear*. It continues to resemble the type of family agriculture practiced in medieval Europe in that it is primarily oriented towards immediate consumption, while the small, family *chamear* is, in contrast, largely market oriented, and for this reason it may be regarded as petty merchant enterprise which might develop into genuine capitalist activity (utilization of capital and workers). To date, the riverbank region is the only area where there are people who have become a sort of rural bourgeoisie. But in the absence of local industries, nipped in the bud by competition from foreign imports, the expansion of commercial and capitalist production there is linked to the production of export commodities. Crop selection and production are determined through the years by world price fluctuations for various agricultural products.

The riverbank region covers only about 500,000 hectares surrounding the branches of the "X" made by the intersection of the Mekong-Tonle Sap River and the Bassac River at Phnom Penh [see map, p. 24]. The rather handicapped petty merchant and capitalist mode of production there seems reluctant to move very far away from the river. Around 1,500,000 hectares

¹[*Chamear* means "garden."]



of rice paddy, three-quarters of all land tilled in Cambodia, are worked under a feudal mode of production. The peasant family grows rice mainly for paying off land rents and debts, and the remainder goes toward meeting subsistence need, not for exchange or for monetary gain.

B. Capitalist Sector of Large International Units

There is, nonetheless, an island of capitalist agriculture cutting into this vast "traditional" base, the rubber plantations. In contrast to the small family enterprises discussed above, the rubber plantations are the work of large capitalist firms making rather extensive use of capital and hired labor (about 17,000 workers) [see map, p. 26].

Rubber production in Cambodia is wholly controlled by the following companies:

<u>Company</u>	<u>Area Planted</u>	<u>Production</u>
The Cambodian Company (plantations at Chup, Peancheang, and Krek)	18,000 ha.	12,800 tons
The Indochina Company of Mimot (Kantroy, Chalang, and Prek Chhlong)	5,600 ha.	6,700 tons
The Kratié Plantations Company (Snoul)	3,000 ha.	3,000 tons
Mekong Rubber Company (Prek Kak)	3,480 ha.	2,800 tons
Kg-Thom Rubber Company (Chamcar Andong and Chamcar Loeu)	2,120 ha.	2,200 tons

Each of these companies in turn belongs to a large "international unit." The Cambodia Company belongs to a Franco-Belgian firm *Financière des Caoutchouc*, this being a big "international unit" which also holds rubber plantations in South Viet Nam, Malaya, French Equatorial Africa, and elsewhere. The Mekong Rubber Company belongs to the *Compagnie Générale des Colonies*. The amalgamated plantations at Mimot are owned by the Bank of Indochina.

All 32,000 tons of rubber produced each year are exported.

2. Industry

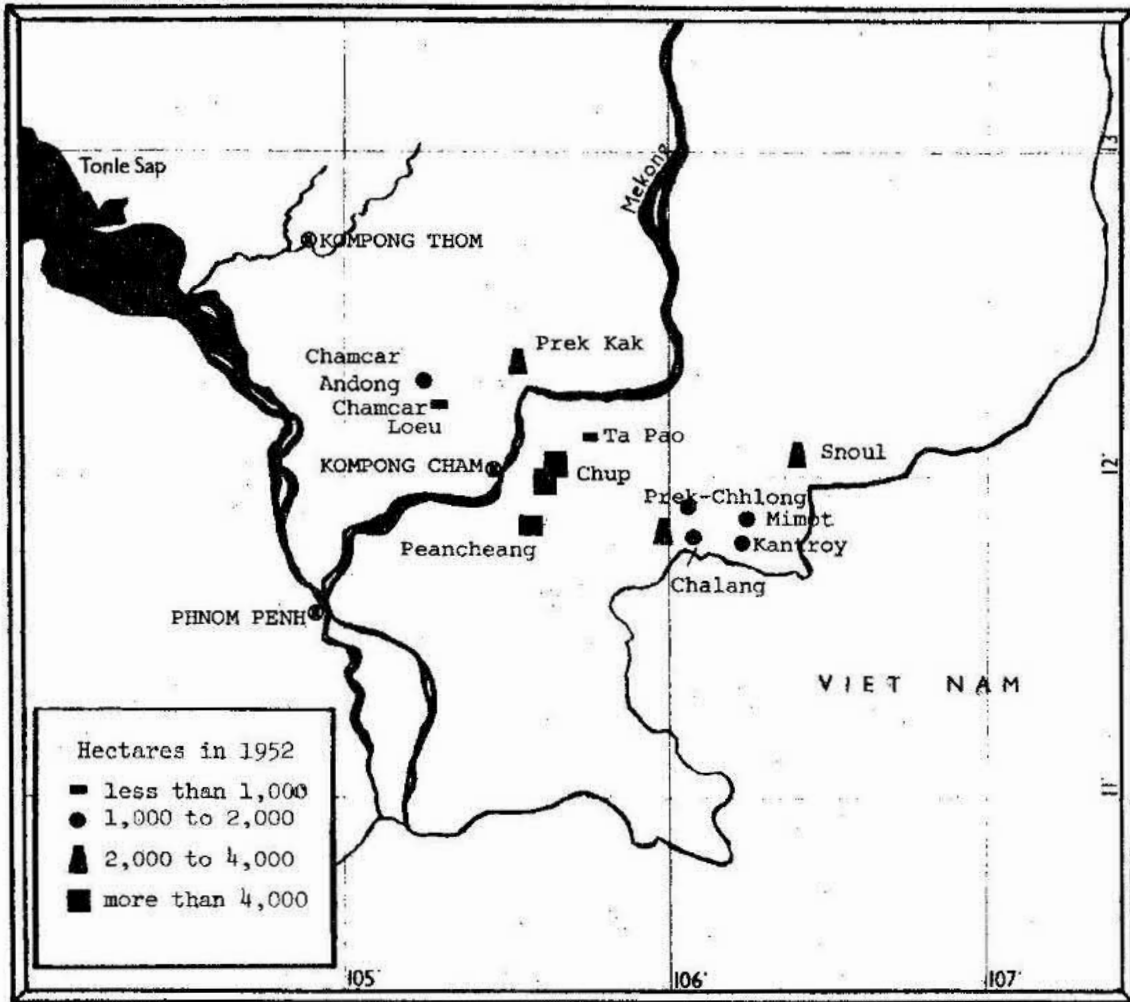
The essential characteristics of Khmer industry may be summarized as follows:

- (1) It is weak and unstable;
- (2) It is part of an ensemble centered abroad rather than part of an integrated national ensemble.

A. Industry Is Weak and Unstable

The weakness of industry is revealed by its small contribution to total national production.

CAMBODIA'S RUBBER PLANTATIONS



Cambodia's statistical yearbook for 1937-1957 attributed 1.2 thousand million riels to industrial production. This includes the "value added" by numerous individual craftsmen spread around the country: family noodle and soya sauce manufacturers, stone masons, jewelry makers, joiners' shops, housewares shops, blanket makers, marble sculptors, leather cutters, makers of wooden shoes, bake shops, etc.

These workshops, employing family labor, as they do, almost exclusively, are more properly classified as handicraft industries in a small merchant and precapitalist economy. They should not be regarded as "capitalist industries." Furthermore, as the handicraft sector is clearly predominant in industry, its gross production could be estimated at 600 million riels, a sum which should be subtracted from the figure above. Industrial production then amounts to approximately 600 million riels, or only 8.6 percent of the GNP (estimated at 7 thousand million riels; see p. 30).

This figure is still only an extremely rough, first estimate and very abstract. A complete table of existing major industries appears in the *Annuaire statistique rétrospectif du Cambodge (1937-1957)*. This table, reproduced in the Appendix as Table 1, gives us a better idea of Cambodia's industrial structure.²

The sugar refineries, cigarette factories, hand-operated sawmills, charcoal factories, kilns, brick and tile works, soap factories, oil distilleries, fish sauce factories, silk weaving shops, potteries, shoe and dye works, and blanket and bedding shops are all workshop-type installations using little fixed capital, rather like those observed in seventeenth and eighteenth century Europe. Similarly, the ricemills, distilleries, mechanized sawmills, icehouses, softdrink factories, power plants, printshops, blacksmiths and foundries, and mechanical repair shops all resemble factories of the seventeenth and eighteenth centuries more than they do "modern" factories.

The water and electricity plants are steam-generating stations of low efficiency. In 1957, the installed power was 11,579 kilowatts, and the power generated was 9,350 kilowatts. Taking advantage of an absolute monopoly situation (both existing companies being owned by the Bank of Indochina), these firms avoided investing large amounts of capital for installing a hydroelectric system or even for improving the existing plant so as to provide electricity at a lower price. They were content with the inefficient generators which promised faster returns on investment, even though they produced electricity that was very expensive. For this reason, only 21.7 million kwh of a total production of 29.5 million kwh were consumed in 1955, while existing national and foreign productive enterprises were simultaneously obliged to acquire their own generating sets to produce the electrical energy they required. The public services and a small stratum of the population consume most of the electricity produced in Cambodia. For most people, electricity is a "luxury."

The blacksmiths' forges and foundries might play an important role in the process of industrialization, but until now they have been restricted to repairing ships and steam engines. We note that among the long-established yards there is a French company which formerly operated out of Haiphong but which relocated in Cambodia in 1955. This is SOKREC.³ The

²[This table is missing from the text and from the copy held by the University of Paris. It is reproduced from the original source.]

³[SOKREC is an acronym for *Société de Constructions, Représentations et Etudes du Cambodge*. It had naval yards in Phnom Penh and Sihanoukville.]

assembly line for two-horsepower Citroen that was set up in late 1957 is only slightly more than a garage selling imported automobiles.

Aside from those already mentioned, Cambodia's major industries are ricemills and rice alcohol distilleries. The production of other consumer goods is left either to small handicraft enterprises or to manufacturing of even less significance that uses only very small amounts of capital (notably tobacco processing and weaving). Due to their extremely low purchasing power, most people smoke hand-rolled cigarettes. Manufactured cigarettes and carbonated drinks are totally beyond the reach of the mass of peasants, who make up about 85 percent of the population. Conditions being as they are in Khmer society, goods such as these must be considered "luxuries." And in the final analysis, rice alcohol distilleries owe their prosperity to systematic poisoning of the population.

This look at the structure of industry allows us to say that it is very fragile. Most workshops and factories resemble those of the early Middle Ages. This structure is, moreover, profoundly unstable, for it is not oriented towards meeting the requirements of the mass of the population nor towards meeting the requirements for development of Khmer society.

B. Industry and Crafts Rely upon a Foreign Center

Apart from the fact that Khmer industries and crafts are weak and unstable, they do not compose an integrated, autonomous, national whole. Each separate component is, rather, part of an ensemble centered abroad. Thus, industrial development is wholly dependent upon outside circumstances over which the Khmer firm has very little control. This is not a situation of interdependence among several autonomous economic ensembles, but one of clear unilateral dependence of components of the Khmer economy upon the ensemble represented by industries from advanced capitalist countries. This dependence is shown by the facts that:

- (1) The principal firms of a capitalist type are directly owned by big international units with foreign headquarters.
- (2) Industry and crafts are totally dependent upon foreign supplies of raw and semiprocessed materials.

Let us examine these two points in turn.

a) The principal firms of a capitalist type directly owned by "big international units" with foreign headquarters

We have already looked at the situation of the rubber plantations. As for industrial activity, the Bank of Indochina is predominant. It once owned both water and electricity companies (*Compagnie des Eaux et Electricité* and *Union Electrique Indochinoise*). The concession rights for these firms have only just run out, and the plants were ceded to the Cambodian government in early 1958. The Bank also controls *Distilleries de l'Indochine*. The founding company had a total monopoly on the industrial production of rice alcohol; it produced 7 million liters (100 percent pure alcohol) of the total Cambodian production of 9,600,000 liters. The second company still holds its market position even though it faces stiff competition from the large American firm "Green Spot."⁴

⁴ [The first company, the *Société Française des Distilleries de l'Indochine*, was set up in 1902. It lost its official monopoly status after 1933, but this "second company" retained market dominance because its plant

That more or less covers all the "modern" capitalist enterprises in Cambodia.

b) Industry and crafts are wholly dependent upon foreign suppliers of raw and semiprocessed materials

Industry (factories and workshops) and handicrafts experience an incomplete economic cycle which excludes any possibility of economic independence. A table showing the import requirements of some major industries appears in the Appendix [Table 2]. Note that breweries and icehouses, for example, import bicarbonate of soda, sodium citrates, phosphoric acid, citric acid, caustic soda, orange concentrate, sarsaparilla essence, African cola essence, essence of laurel, blue and orange coloring, peppermint concentrate, and pins and nails of diverse sizes, not to mention fuels, lubricants, and spare parts. As for local raw material, these "processing" industries process only water from the Mekong.

All the other examples are equally striking. This means local industrial components are more thoroughly integrated into a foreign whole rather than a national whole. Local businesses are welded to industries in advanced capitalist countries and totally ignore the rest of the national economy: the cigarette factories process foreign tobacco, soap factories use foreign copra, and no attention is paid to "indigenous" tobacco and copra. Thus, elements of industrial development issuing from international integration of the economy are usually conceived as extensions of the industries of advanced capitalist countries, while at the same time agriculture vegetates under the weight of a profoundly precapitalist structure.

3. National Income

On the basis of this brief overview, we can say that Cambodia's economy is agricultural and backward. The retarded character of this structure is shown by Cambodia's low national income.

According to the *Annuaire statistique rétrospectif du Cambodge (1937-1957)*, the net national product was 12 thousand million riels in 1956, the equivalent of 120 thousand million francs at current official exchange rates.⁵ This amounts to 24,000 francs per capita.

In our judgment, the figure of 12 thousand million riels is controversial. In fact, the volume of the gross national product is even less. Indeed, the calculation of the national product included the "value added" by administration, defense, commerce, and banking. It seems clear, however, that these branches of activity add no value to the product of society from the perspective of the economy as a whole. They only profit from a transfer of value issuing from other productive activities within society (agriculture, crafts, small industry). And the transfer of produce within society does not in any way enlarge the volume of production secured by the society. The distinction made by the Scottish economist Adam Smith between productive and unproductive work deserves serious consideration here.⁶ Far be it for us to say, for example, that a civil servant or a

and commercial organization were superior to those of local competitors. Green Spot moved into the Cambodian market after the country was financially independent from France in 1955.]

⁵ [In 1959.]

⁶ Adam Smith, *The Wealth of Nations*, Guillaumien French Translation, 1843.

soldier would be useless to society. However, the greater the reduction in numbers of individuals engaged in general social organization, then the larger the number of people who can contribute to production will be, and the faster the nation will acquire wealth.

Moreover, if maintenance costs for a soldier are a necessary expenditure, especially in Cambodia's current circumstances,⁷ such expenditures are nonetheless unproductive. But this matter is being clarified, in our view: the struggle for peace in Southeast Asia and against military pacts is an integral part of our economic development efforts. As for commerce, finally, its "unproductive" character will be apparent once we have studied the mechanism underlying its overdevelopment.

If this distinction between productive activity and unproductive activity is appropriate, a distinction made from a general economic perspective without any pejorative intent, it follows that about 5 thousand million riels entered into account as "value added" by administration, defense, trade, and banking must be subtracted from the figure advanced for national production. The net national product is thus 7 thousand million riels ($12 - 5 = 7$ thousand million riels).

This figure should more closely approximate Khmer economic reality. Income growth is meaningless unless it is matched by material growth. In our view, growth in productive potential is the only valid criterion for evaluating the degree of development in an economy. We are of the opinion that any reasoning couched in purely monetary terms without reference to "material" factors can only cause disappointment.

Section II. The Causes of Economic Backwardness

From a strictly economic point of view, the effect of French intervention in Cambodia from 1836 onwards was to "open up" the country to trade with France. According to the act of January 1892, metropolitan goods entered Indochina without duty, and reciprocally, Indochinese produce imported by the metropole was exempt from duty. As a general rule, and according to conditions in the same act, foreign goods entering Indochina paid the same duty as they would have paid for entry into France. Thus, the customs device precluded entry of merchandise from other capitalist countries but established free trade between France and Indochina, within which Cambodia was dissolved.

The present economic structure of Cambodia issues from this free and unfettered contact between a basically precapitalist Khmer economy and a more advanced French capitalist economy.

When two capitalist countries come into contact (elimination of protective tariffs and import quotas, free transfer of capital and earnings), they are able to play symmetrically active roles as long as they are at about the same level of economic development. The two economies interpenetrate in a gradual way until they form a perfectly integrated whole. Needless to say, this process of reciprocal integration does not come about without conflict or crisis, but at the end of the struggle only small and

⁷ [This refers to events known as the Dap Chuon Affair, an aborted land invasion and conspiracy to overthrow the Sihanouk regime which was exposed in January 1959. Members of SEATO and the Saigon government, who made no secret of their dislike of Sihanouk's foreign policy of neutrality, were deeply implicated in the affair.]

medium-sized businesses, the "marginal" businesses of the two countries, will be eliminated. The big businesses in the two countries will emerge in a stronger position and will profit from a larger "economic space" within which they can deploy capital and labor as they desire.

The process is profoundly different in relations between capitalist and precapitalist economies if relations are established *on the principle of freedom of commerce* of the sort devised in the mid-nineteenth century between France and Cambodia. The confrontation here is unequal. One of the economies concerned is already more advanced and more dynamic, propelled by exchange and search for profit. The other is stationary, living essentially on the principle of immediate gratification of needs and still unaware of exchange and profit. Contact does not break the precapitalist character of the latter, which becomes underdeveloped. In trade between France and Cambodia, Cambodia was unable to play a role comparable to that of France, a developed capitalist country. Only France played an active role, integrating its partner, which was subjected to integration, into a foreign capitalism. In this situation lies the basic cause of Cambodia's present economic backwardness.

From 1955, Cambodia's interactional trade was enlarged to include other advanced capitalist countries, in particular the United States of America. Coming out of two wars, the United States undeniably gained economic dominance in the Western world. It took advantage of payment difficulties experienced by Cambodia as well as by the majority of underdeveloped countries to build up commerce on the old principle of free trade. Indeed, because American economic aid is mostly commercialized aid, it embodies the principle of free trade. It contains, in essence, the mechanism for integrating Khmer economy into the new dominant economy, the mechanism which can only reinforce recapitalist structure in the national economy.

We have been talking about relations premised *on free trade*, and we emphasize this because contact with advanced capitalist economies does not necessarily lead to disequilibrium. Under other conditions which we will attempt to define in the course of this essay, contact is, in contrast, beneficial not only for Cambodia but for both parties.

First of all, let us take a closer look at the mechanism which gave rise to the present structure. In this second section, we will consider:

1. Cambodia's economic structure in the mid-nineteenth century
2. Structural impact of contact with France
 - A. Contact premised on foreign trade
 - a) Ruin and decline of handicrafts
 - b) Reinforcement of precapitalist structure
 - B. Generalization of capitalist networks stimulated by foreign capital
 - a) Private investments
 - b) Public investments
3. American aid and the strengthening of international integration of the economy
 - A. Capital investments
 - B. Commercialized aid

1. Cambodia's Economic Structure in the Mid-Nineteenth Century

A detailed study of Khmer economy prior to its contact with France would give us a better understanding of characteristic aspects of contemporary Cambodian economics. Without such scholarship, we can only attempt to

present a general overview of the principal characteristics of the present structure.

Cambodia's economy in the nineteenth century was still a precapitalist agricultural economy: agriculture was the principal occupation and resource. Court rituals and the organization of the state reflected the centrality of agriculture, as did literature and popular traditions.

This agriculture rested upon agrarian organization resembling the feudal form. The feudal character of rural Khmer life certainly had its nuances, linked perhaps to technical conditions of rice cultivation and most certainly to historical and geographical conditions of the country. On the one hand, there were no large single-owner agricultural domains, only small village enterprises. On the other hand, in a territory already reduced to its present size and composed of a plain generously provided with rivers and navigable waterways as means of easy communication, the still-powerful central monarchy was capable of rapidly abolishing large "fiefs," that is, groups of villages taken over by a prince or a high ranking official. Thus there were no equivalents to the French *châtelain*, the English squire in his manor, or the Chinese potentate in his *ya-men*. Nevertheless, the peasant mass was imprisoned within the village or *srok*⁸ under a feudal form of authority, that of the landowning and official oligarchy of *sêthey*.⁹ Even though the king was, in theory, exclusive master of the soil and its beings, the earth was concentrated in the hands of *sêtheys*, feudal lords and officials even more powerful than ministers, for the capital was, after all, far away with respect to the means of transport at this time.

At the beginning of his reign, the king entrusts management of his property to his people: "The water, earth, forest and mountains in the provinces of the Kingdom cannot be taken by Us. I entrust them to the religious communities, to all people and to all animals in order that they may obtain therein their subsistence with integrity."¹⁰

In reality, the large class of officials and notables whom the king failed to satisfy divided the land for themselves. It was then cultivated by peasants reduced to servitude and slavery. Could it be otherwise when: "The tyrannical influence of mandarins has so deeply penetrated the heart of this country; it is so well inlaid there that the peasant is nothing more than an abstract being."¹¹

Thus, rural Khmer life surely presents a feudal character. Under this feudal shroud, an active handicrafts sector had already emerged. If the use and transformation of the mineral wealth of the land was primarily the work of the king and feudal lords through use of their slaves or *pols* (*pols dek* are employed in iron mining, *pol thmarkeos* in marble works, *pols krom* in saltpeter mines, etc.),¹² free artisans were prominent in silk, cotton,

⁸ [The *srok* is a Khmer administrative unit comparable to an American county or a French canton.]

⁹ [*Sêthey* denotes a member of the ancient commercial class; literally translated, *sêthey* means the "enlightened" or "golden" one.]

¹⁰ Adhemard Leclerc, *Codes Cambodgiens*. "Sainte regle et sacre royal du roi Sauryapearn," p. 42.

¹¹ Paul Collard, *Le Cambodge et les Cambodgiens*.

¹² [*Pol* denotes member of a "corps" or "force" as well as hereditary slave.]

rattan, palm sugar, wood, ivory, and leather crafts. Here is the list drawn up by Pierre Dreyfus in his dissertation, *Le Cambodge Economique*, Paris, 1914:

It must be pointed out that the indigenous population is rather actively engaged in the making of canoes out of *koki*, which exists in abundance in Thpong and west of Samrong-Tong. In particular, boats called *kamrols* are made in the districts of Kampong-Cham and Stung-Treng. Oars are also made in this latter province; these products are sold to Malays, in particular, who go there every year for this reason. . . .

. . . basket and mat weaving is a truly native industry where they use bamboo, rattan and special palm leaves. . . .

Finally, we must mention in this category, the ropes made of chinese nettle and china-grass manufactured in Kampong Cham and in the *residence* of Stung Trang, which are much sought after by sailors and boatmen. . . .

The natives dye their silks with vegetable tints made of gum lacquer, with indigo and with the bark of trees. . . .

The silk industry is centered primarily in Kassamrong and Kassotin in Kampong-Cham province where high quality *sampots* are made for local consumption in the residence of Krat and Kratie. Louea-Em silks (Prey-Veng) received a prize in the 1904 agricultural contest.

The author noted that the silk industry was already in decline as he wrote. One reason for this was the extremely cheap price of silks sold by Chinese from Korat or Oubane¹³ and of French manufactured cottons.

The author continues his enumeration: ". . . the clay soils of Kampong-Chhnang province are used to make bricks and very good quality pottery which is exported to Cochin-china, lower Laos and all of Cambodia. . . ."

He mentions industry linked to fishing, the manufacture of fishing tackle, and boats. "Finally, let us mention an industry which might be surprising coming from such apathetic people as the Cambodians. In the game-rich *residence* of Pursat, the natives are engaged in widespread sales of hides and horns, in making meat preserves, and in preparing venison products. . . ."

The apathy of Cambodians is frequently mooted and loosely attributed to a particular trait of the race. But would it not be more appropriate to seek an explanation for this "apathy" in the economic and social structure of the time, more precisely in this "tyrannical influence" of mandarins and feudal lords which diminished people to nothing more than "abstract beings," to use Paul Collard's nicely turned phrase. Would the Cambodian living under the conditions of feudal society be more apathetic than the French serf in the Middle Ages? It seems not. In this case, it is the economic and social structure which forbade Khmer peasants and artisans from developing their full potential.

It must not be overlooked that Khmer industry in the mid-nineteenth century evolved under conditions in many ways similar to those experienced by French artisans all through the Middle Ages. The essentially "static" subsistence economy had yet to be transformed into a more dynamic mercantile economy. In this respect, Cambodia's economy was lagging behind that of India, where manufactured products were already appearing, and also lagging behind its neighbor, Viet Nam, where artisans had already broken

¹³[As in text. Possibly Ubon.]

away from agriculture and were centered in specialized villages or "village assemblies," where each village as a unit executed all necessary operations in one area of production. But some specialized villages did exist, e.g., silk or cotton weaving villages (Kas Sotin, Kassemrong) and pottery villages (Chzei Bac and other villages in Kampong Cham province). There was a growth of centers of exchange in various *kampong*¹⁴ (at river junctions or along riverbanks). And some products, especially pottery, were already traded widely. All of these examples prove that the social division of labor was already relatively advanced and that a merchant economy had already made progress. Ancient handicrafts were already technically advanced. Here, in addition, is the impression recorded by one of the first French administrators: "And yet, when one sees the wonders of solidity wrought by the Cambodian for his carts so light and elegant, the vital boldness of his pagoda frames, the finish of all the instruments he employs, and the taste with which he makes them, curves them and gracefully sculpts them, the intricacy of the combinations of designs and colours in the weaving of those marvellous silk *sampot*, one cannot avoid accepting the possibility of rapid industrial development by this race. . . ."¹⁵ The author thought that the creation of a school of arts and crafts coupled with instruction in the Khmer language would naturally further such development.

Without underestimating the economic utility of such a school, we believe nevertheless that its effect cannot compensate for the opposing effects of a process of profound structural transformation of the economy, the process ineluctably set into play by contact which had just then been established with France. Industrial development can only be facilitated to the extent to which the precapitalist economy is assisted in involving itself in the process of disrupting feudal society and in fostering national capitalism.

And contact with France did not hasten the blooming of this national capitalism; on the contrary. Contact with France diverted development onto its current semicolonial and semifeudal path by integrating the transitional economy into the international market where the most developed country leads.

We shall now attempt to analyze this mechanism of structural transformation in more detail.

2. The Structural Impact of Contact with France from the Mid-Nineteenth Century

At the time of the Renaissance, the development of capitalism in European countries was a process evolving within a manor economy and passing through two stages:

- 1) Transformation of subsistence economy into simple merchant economy. This step was taken in the course of the Middle Ages when new technological innovations enabling growth in productivity required division of the tasks of tillers and artisans. The artisan gave up agriculture in order to specialize in the production of household goods and farm tools. The cultivator no longer made such goods and tools for himself. Thus, a market for selling and purchasing goods

¹⁴[*Kampong* is Khmer for river town or port. The term is borrowed from Malay.]

¹⁵De Coulgean, French Vice Consul. "Report on Cambodia," *Bulletin économique de l'Indochine*, 1902, p. 420.

emerged along with this first division of labor within the society. It prompted exchange between agricultural and craft sectors, and later within the agrarian and craft sectors themselves.

- 2) Transformation of a simple merchant economy into a capitalist economy. As the social division of labor and the expansion of trade proceeded, competitive relationships emerged among individual producers, each striving to sell at higher prices and to buy more cheaply. This resulted in the strengthening of those who were strong and the ruin of others, which in turn led to the transformation of independent producers into salaried workers and the transformation of a number of small operations into manufacturing enterprises.

Continual competition obliged the first capitalists to modernize their enterprises, to make greater and more intensive use of capital. The decision of one enterprise in one field to bring new equipment into use was enough to force competitors into making comparable investments, lest they be outdistanced. Thus, technology advanced rapidly along with production.

Admittedly, in historical reality things are not so clear cut. First of all, the two processes evolve, in part, simultaneously: the transformation of simple merchant circuits into capitalist circulation accelerates the monetarization of sectors still excluded from the exchange process. Next, the transformation of a simple merchant economy into a capitalist economy is accelerated by external trade: "adventurous" merchants get rich from the sale of spices and foreign goods to big feudal lords; this facilitates the first accumulation of previously hoarded wealth by prosperous merchants, who then become manufacturers. These qualifications should not obscure the essential process, though, and that is the fact that in the beginning there was a division of labor *within* the society and development of *internal* trade.

In precapitalist economies subjected to international integration, the pattern of events is profoundly different.

We will see this in considering the example of Cambodia.

A. Structural Impact of Foreign Trade

a) Decline of Handicrafts

If the beginnings of capitalist development in European countries lay in the investment of indigenous capital and the setting up of light industries which put on the market goods which were previously supplied by artisans, the origin of the underdeveloped economy in Cambodia lies in the penetration of French and foreign industrial goods. French businessmen came to set up shop and flooded the local market with manufactured goods. The relative cheapness of these goods prompted the decline of much of the national craft sector. Silk and cotton weaving almost completely disappeared because of competition from French manufactured rayon and cotton cloth. The decline in silk and cotton weaving also affected family dye works.

Sugar-based industries suffered competition from refineries installed in Viet Nam by the company *Raffineries de l'Indochine*; local rice alcohol distilleries encountered competition from *Distilleries de l'Indochine*. Once imported foodstuffs seized part of the market, artisans who processed agricultural products subsisted only by meeting the needs of a fraction of

the population that was too poor to buy foreign merchandise. Tinware, pottery, basket weaving, and esparto crafts suffered the same fate. A substantial part of their market within the rich and middle strata of the population was cornered by similar substitute products manufactured more cheaply by foreign industry.

Monsieur De Coulgean, whose impressions of Khmer craftsmanship we have already cited was astonished: ". . . and yet individually, the Cambodian is industrious and skilful; he can make anything he needs by way of tools, utensils, clothing and housing. . . ." And a little further on: "Thus, even though the Khmer is a fine potter, an able woodcutter, an admirable boat builder, a tasteful and adroit manual worker, and while he lacks neither courage nor patience, nor even a certain bold entrepreneurial spirit, he has not heretofore understood how to set up anything of industrial significance."¹⁶ Might not the reason for this apparent contradiction lie in the direct and indirect competition of imported goods? In Europe, entrepreneurial zeal emerged only with the birth of capitalism. And, capitalism, effectively protected by tariffs, required a long time to work its way through medieval feudal society.

In Cambodia, the market economy was still in its early stages. It evolved slowly under the mantle of mid-nineteenth century Khmer feudalism. Handicrafts had already attained a high level of technology but had yet to break away from agriculture. The introduction of goods from more highly developed foreign industries could only slow down and prevent the breaking apart of intricate networks of feudal relations of production.

More recently, during World War II and the period of forced autarky, which limited foreign competition, some handicraft industries were able to emerge. These were mainly soap, cotton, blanket, silk, palm sugar, and paper crafts. The papermakers disappeared quickly once paper imports resumed. Other firms were placed in similar jeopardy. In its report of 11 October 1956, the Mining, Industry, and Crafts Administration notes that "more than one industry in our country finds itself in difficult straits because of uncertainty about its future." Referring to the Tan-Y-Sine sugar refinery, which was founded during the period of wartime hardship and which now produces 700 tons of sugar annually, the same report says: "If sugar imports are prohibited, it could produce enough to cover the country's entire need." In point of fact, this refinery incurred a loss of 174,172 riels in 1954 owing to competition from imported sugar (2,086 tons in 1954).

Competition from foreign industry or its commercial "feelers" still continues. National crafts are fading away and dying. Still, we must not conclude that they will soon disappear altogether. The truth of the matter is that only some national crafts succumb. Others subsist by satisfying the needs of the impoverished section of the society whose limited purchasing power denies them access to foreign goods. Still other artisans survive in the wake of large foreign industry and find themselves responsible for service and repair work on goods manufactured abroad. This is the case for all sorts of repair and maintenance men who service such items as radios, automobiles, electrical equipment, etc. Handicrafts and small industries thus become an ancillary sector attached to big foreign industries. This in turn makes them increasingly vulnerable to fluctuations in advanced capitalist economies. From then on, opportunities for development proffered by foreign capitalism depend entirely upon evolution in the international conjuncture.

¹⁶De Coulgean, op. cit.

As long as business is good, artisans receive a share of it, a modest share to be sure, but enough to guarantee a certain level of activity and the acquisition of some new ideas. Part of the crafts sector can even try to enter the ranks of industry by modernizing itself and enlarging its labor force, while at the same time "traditional craftsmen" continue to slide back into secondary occupations.

If, on the contrary, a recession comes along, the "push" towards industry stops; small capitalist industries obliged to reduce their activity will be seen to retrench and will thus tend to rejoin the handicraft sector. This particular kind of "strengthening" of the crafts does not, however, amount to any quantitative expansion of the sector because it is more than offset by the decline and collapse of numerous existing operations.

b) Reinforcement of Precapitalist Structure in the Countryside

The decline of artisans, including some who rather paradoxically owe their survival to the extreme impoverishment of a substantial portion of the population, signals a retreat to subsistence economy. The enfeebled craft sector is no longer capable of breaking away from agriculture and persists only under the heading "secondary activities" of peasants. The movement towards the disintegration of feudal structure is thus arrested.

In advanced capitalist countries, a profound disruption of agrarian structure accompanied the "industrial revolution." In certain countries, notably France, the lordly domain was destroyed by the revolution, which resulted in confiscation and division of feudal properties. The peasant became the exclusive force in agriculture and transformed himself into a capitalist farmer. Feudal landlords in other countries (England, Germany, and Japan), prompted by strong currents of exchange issuing from newly emerging industry, "reorganized" their property, replacing ancient and backward methods of cultivation (share cropping, renting) with capitalist methods of cultivation (capital investment and use of salaried workers) which resulted in a rise in productivity and a reduction in the number of peasants per hectare of cultivated land.

Thus, according to Colin Clark, the rural population in the United States of America rose from 4.97 million workers in 1850 to only 10.5 millions in 1935, while the amount of land under cultivation increased at a much faster rate. In Great Britain, the population employed in agriculture declined from 2.06 millions in 1861 to 886,000 in 1930; in France, from 6.3 millions in 1860-69 to 5.5 millions in 1930. In both of these countries, the area under cultivation can be considered constant during the periods cited. At the same time, agricultural production in these countries, estimated in international units, rose from 298 to 669 for the U.S.A., from 581 to 827 for Great Britain, and from 435 to 500 for France.

In Cambodia, as in other underdeveloped countries, we seem to be observing the opposite phenomenon. Information is lacking on both population movements and land under cultivation, as available annual statistics are in fact only estimates made by central authorities based on public "lists" or on the often inaccurate statements of local authorities. However, as the method of estimation was constant over the years, it is reasonable to assume that the resulting time series might reflect developments in population and land cultivation. Thus, in 1900-1913, the area given over to rice paddies was estimated at 620,000 hectares.¹⁷ Taking into account area

¹⁷H. Brunier, *Essai d'atlas statistique de l'Indochine française*, 1914.

seeded in cotton, corn, tobacco, pepper, etc., which Cambodia was already exporting in large quantities, the total land under cultivation might reasonably be estimated at 650,000 hectares. In 1950-51, the area under cultivation reached 1,320,000 hectares, an increase of 103 percent.¹⁸

What about changes in rural population? Precise statistics being nonexistent, we can make inferences about changes in the agricultural population by looking at the exodus of rural residents from the countryside. In 1900-1913, towns being barely developed, we can estimate that approximately 95 percent of the total population of about 1,500,000 people lived in the countryside:

$$\frac{1,500,000 \times 95}{100} = 1,425,000 \text{ rural residents.}^{19}$$

In 1951, moreover, the number of people living in the countryside rose to about 3,535,000 (87 percent of the population), a figure obtained by subtracting the population of the provincial towns (529,127) from the total population (4,073,967).²⁰ From 1900-1913 to 1950, therefore, the agricultural population increased by 149 percent.

Cultivated Area	Agrarian Population
1913 = 100	1913 = 100
1950 = 203	1950 = 249

The increase in number of cultivators per hectare of land is partially concealed by the availability of easily cultivated land in Cambodia where nature is truly generous. Nevertheless, this tendency is discernible.

Furthermore, every year when work in the rice paddies and other fields ends, a mass of impoverished and ruined small producers regularly come into town in search of work. Dock workers, taxi drivers, coolies for road and bridge construction, water porters, and domestics are recruited from this reservoir of casual labor. The existence of developing industry capable of assuring stable and remunerative employment might have "fixed" this seasonal population "surplus" which shunts back and forth between town and countryside. Life in the countryside is hard for impoverished peasants. And towns proffer only a most mediocre alternative. Most peasants are thus obliged to crowd together on the land, carve up family holdings into infinitely small pieces, put up with high rents and other sorts of medieval exploitation, all of which serves only to strengthen the monopoly position of landlords.

Is it correct to speak of a landlord's monopoly in Cambodia? Are there any big land estates there? The generally accepted view is "no." The rationale for this view stems from the fact that the Cambodian countryside is dotted with small and medium-sized family holdings. But it seems to us that the parcelling of land need not imply the absence of large holdings. In his dissertation "*La paysannerie du Cambodge*,"²¹ Mr. Hou Yuon correctly pointed out that a large property does not consist of a single rice paddy, field, or lot. As of 31 January 1950, he noted that 437,883

¹⁸ *Bulletin de la Banque Nationale du Cambodge*, No. 3, 1955.

¹⁹ Brunier, op. cit.

²⁰ See *Annuaire statistique du Cambodge, 1949-1950-1951*.

²¹ Paris, 1955.

registered property owners had 3,168,920 parcels; excluding the city of Phnom Penh, 3,157,533 parcels were held by 435,744 owners, which equals 7.22 parcels per property owner. Large properties must not be defined in absolute terms but in relation to small-holdings. The study made by Yves Henri in 1929 and 1930 in the five Cambodian provinces which contain more than half of all its rice paddies (Sway-Rieng, Prey-Veng, Kandal, Kampong Cham, and Battambang) shows that owners of very small parcels of land (0 to 1 hectare) are indeed numerous. They make up 12.9 percent of all rice paddy owners in Sway-Rieng, 18.5 percent in Battambang, 28.3 percent in Prey-Veng, 48.6 percent in Kampong Cham, and 64.1 percent in Kandal. They are even more numerous on the river banks: 81.1 percent in Kandal, 88 percent in Kampong Cham. The large number of these smallholds could only enhance the economic position of large estates (10-50 hectares), in spite of their small number. The 1929-30 crash and economic changes after the crash could only have reinforced the disparity.

Historically speaking, if the legal introduction of the concept of private property (decision of Governor Thompson, 28 October 1884) was viewed with indifference and total disinterest on the part of the general population, it did have the effect of favoring the consolidation and composition of large holdings by elements of the old feudal landlords, and by officials and dignitaries on whom most of the work fell; but this seems to have come about only after French settlers and large plantation companies took up enormous land concessions for cultivating rice and for rubber plantations. (On 31 December 1951, European landowners owned 139,759 hectares.)

From all this, it is still not possible to conclude that big property is absolutely predominant in Cambodia. Difficult though it may be, let us try to put the structure of landholding into very tentative perspective. According to the *Annuaire statistique de l'Indochine*, the distribution of rice paddy owners according to size of holding in Cambodia's three principal rice-producing provinces, Battambang, Prey-Veng, and Sway Rieng, was as follows in 1930-31:

Property Category	Number of Owners	Percentage
Less than 1 ha.	25,000	20.9
1 - 5 ha.	72,000	60.3
5 - 10 ha.	18,000	15.0
10 - 50 ha.	4,400	3.7
50 - 100 ha.	100	0.1

In the Cambodian economic and social context, owners of 7 to 10 hectares of paddy need more than family labor in order to farm. In general, they supplement family labor with salaried labor or rent out part of their land. These are already rich peasants by Khmer standards. Owners of 10 to 50 hectares earn most of their income from renting out their land, without cultivating any of it themselves. These, then, are the big landlords. In contrast, a plot of land smaller than 2 hectares would not support an average family of five people. The family is thus obliged to work land belonging to others either as tenants, sharecroppers, or salaried workers. They belong in the category of smallholders. A medium-sized property falls in the range of 2 to 7 hectares. It appears then that the structure of property holding in the whole country is as follows:

Property Category	Percent of Total Landowners	Percent of Total Paddy Fields
Smallholders (less than 2 ha.)	30	20
Middle peasants (2 to 7 ha.)	60	40
Rich peasants and landlords (7 to 50 ha. or more)	10	40

Middle peasants (2 to 7 ha.) are numerically the largest group (60 percent) and seem to be holding on to a major share of the cultivated land (about 40 percent). In this respect, Cambodia differs from its neighbor, Viet Nam. In that country, big landlords own the overwhelming majority of lands, while poor peasants, numerically more important, have only a tiny portion of the cultivated land area. In Cambodia, middle peasants own their own agricultural implements as well as their own work animals. But more often than not, they lack operating capital. They obtain it from village usurers who are also large landowners or traders.²² They are then unable to escape the grasp of these people. Property ownership is no more than the appearance of ownership for a substantial number of middle peasants. Interest rates attaining 200 to 300 percent per annum amount in practice to cheating them out of all their labor product just as if they were working the land of usurers. Belief in such "ownership" alone makes them hold on as best they can under the most difficult circumstances while waiting for "better times." Usurers, landlords, and traders have every interest in perpetuating this belief; they see no need to expropriate land for reasons of insolvency.

The situation is evidently even more serious for sharecropper smallholders who have to pay rent for land in addition to interest on their loans. Rent can reach equally prohibitive levels. In Battambang, for example, rent in the lowland zone is from 25 to 31 *thang*²³ per hectare, for upland paddy fields, from 12 to 21 *thang* per hectare. Elsewhere, one must pay 20 to 25 *thang* for good paddies.²⁴ Since average yield is about 10 quintals²⁵ per hectare, rates of rent vary from 25 to 60 percent of the harvest. Rent in Cambodia is obviously not a capitalist rent levied on the surplus of the average profit of the farmer, but a feudal, precapitalist rent issuing from a monopoly on landholding and the personal dependence of the peasant on the landlord, a dependence most noticeable in the persistence of rent in labor combined with rent in kind and in money, in the practice of voluntary *corvées* (labor days, community husking of paddy and rice polishing), in traditional gift giving, debt service, etc.

From this we can draw two conclusions:

1. The commercialization of agriculture hastened by big foreign monopolies did not come from any radical disruption of the feudal mode of

²²See Moreau, "Les coopératives agricoles en Indochine," op. cit.

²³[The *thang* is a Khmer measure equaling about 22 kilograms or 40 liters of paddy.]

²⁴Moreau, "Les coopératives agricoles en Indochine," op. cit.

²⁵[A quintal is a metric measure equaling 100 kilograms; 10 quintals equal one metric ton.]

production. Initial impetus came from two quarters: first, it resulted from big landlords renting their land in small lots. Before international integration of the economy, landlords consumed their rent product, which was paid in kind. After integration, an opening for the export of the rent product emerged. The big landlords sold produce to export companies or to their intermediaries in order to buy imported merchandise. Rent was increasingly sought in the form of money, to be sure. In this case, the peasants are daily obliged to put more and more merchandise on the market. They then fall into the clutches of all sorts of commercial middlemen, usurers, and other agents of the commercialization of agriculture.

In this way, through rent, usury, and taxation, a paddy surplus has been extracted for export every year, at the cost of peasant consumption.

2. The preservation or strengthening of feudal organization in its most crucial aspects means that economic forces are now embedded in a dense network of backward economic relations. How does this affect the peasant mass? Semiservitude, land rent, and usury hold it in a perpetual state of moral prostration. For this reason, improvement in its economic activities reflecting knowledge and awareness of incentives is made very difficult. As for the landlords, renting and moneylending are the best possible investments for their money. Using fertilizers would bring no more than a 50-60 percent return on their investment in a year. Usury and renting of land are thus more profitable than refurbishing soils, improving irrigation or drainage, or rational use of modern agricultural equipment. Nothing prompts landlords to save or to invest. They use their incomes for the consumption of imported goods.

Thus, there is no one to take the first step towards technical progress. It is easy to see why the Khmer economy is still just as it was at the time of Angkor.

This brings us to the question of foreign investment and why investment, to the extent that it was made, has not been able to contribute to technical progress. This is what we will now try to determine.

B. Generalization of Capitalist Networks after Penetration of Foreign Capital

a) Private Investment

It is difficult to place an exact figure on the total volume of private foreign investment in Cambodia. In 1954, the French High Commissioner's Office estimated the "capital investment of major enterprises in operation as of that date" at about 2,975 million piasters (1954 piasters).

Those figures are subject to all sorts of qualifications with respect to the circumstances in which they were obtained; in 1954, there was great political uncertainty, and firms installed in Indochina could have overestimated the value of their plants in the hope of making a profit from a possible departure. However, to the extent that these investments were made, why were they unable to contribute to the development of capitalism in Cambodia? Because the multiplier effects of investment were destroyed:

- 1) By the export of profits,
- 2) By the transfer of the locus of the accelerator outside of the economy.

Let us examine these phenomena in turn.

1) Export of Profits

In a country where capital resources are barely used, even a moderately more intensive use results in a relatively large increase in production, and subsequently in saving. It should therefore make significant "secondary" investment possible. We are speaking now of the real multiplier effect of productive investment and not of the simple artificial rise in demand emanating from unproductive investment (commerce, administrative, and military expenditures . . .) where artificially created purchasing power is lost in fruitless price increases. In the situation of international integration, however, the multiplier effect even from productive investment is annulled, because profits are not reinvested locally, but exported.

It is difficult for us to speculate on the volume of profits exported each year before 1954, because Cambodia was a part of the Indochina Union. For years after 1954, if earnings leaving via legal channels and recorded in the balance of payments are scrutinized, we observe that 381 million riels (3.81 thousand million francs) were exported in 1957. This sum includes earnings from 1955-56 which could not be transferred until 1957 due to difficulties relating to the liquidation of the quadripartite monetary union and the establishment of a new monetary system. Earnings exported through legal channels therefore were equivalent to about 190 million riels per annum (1.9 thousand million francs). These statistics underestimate the total amount of earnings exported annually, because locally reinvested earnings must be counted twice: first as exported profits, and again as newly imported capital which subsequently generates supplemental profits for export. We will have occasion to return to this point. To continue, let us add that certain value transfers remain hidden by the pricing policies of foreign firms operating in the country. All sorts of manipulations are possible as a result of the extreme concentration of commercial and financial relations with foreign markets. For example, the equivalent of some 300 million riels (3 thousand million francs) transferred from Cambodia overseas, is, in fact, handled by two or three foreign banks inside the country. Exporting and importing thus allows exchange operations on a grand scale. Importers and exporters declare the value of their goods to customs and to the exchange office: these declarations bring exchange operations required for payment into operation. A fraud of 10 percent and, in some cases, even 30-40 percent is impossible to detect; neither customs nor the exchange office is capable of investigating this. Thus, foreign currency is easily acquired by padding the declared price of imported products and by undervaluation of the declared price of exported products. An average fraud of 5 percent on the value of all commercial transactions in 1956 would amount to 210 million riels (2.1 thousand million francs). In reality, much more than this could easily be exported each year.

Earnings exported in this way might well be close to 400 million riels per annum (4 thousand million francs), more than 6 percent of the national income. Figures of this order are considerable. They suggest, contrary to some opinions, that total net saving in the country is at least equal to if not greater than that in developed countries in percentage (though not, of course, in absolute) terms. Without this considerable leakage, the country's development might proceed at a pace at least as rapid as that of European economies.

The effects of the export of earnings on the development of capitalism in Cambodia must be assessed with respect to the total volume of profits made in the country, for profit is the basic source of finance for investments in a capitalist regime. Exported profits are at least 40 percent of gross profits made in the country by foreign and national companies. This activity thus represents a considerable drain on the Khmer economy and curbs its developmental momentum in the extreme.

2) Transfer Abroad of the Accelerator Effect

The accelerator effect can be triggered by demand for capital or intermediary goods, but:

(a) A large percentage of foreign investment is used to purchase capital equipment in the country of origin itself. The accelerator effect induced by this demand is, therefore, transferred abroad; it cannot then contribute to the generalization of capitalist networks inside Cambodia. Paul Bernard illustrates these points well in noting that barely half of the eight thousand million francs of public and private capital theoretically invested in Indochina between the wars was in fact distributed within the country.

On this point, it is true, Cambodia can not delude itself. Even during its industrialization, it will need to import capital goods for a long time, perhaps indefinitely.

The deleterious effects of the transfer of the accelerator effect can be measured in view of the fact that Cambodian industry has experienced only an incomplete cycle of development and must import its spare parts, chemicals, lubricants, fuels, and even materials for processing (see Appendix, Table 2). Importation of these capital goods, spare parts, and intermediary goods amounts to the integral transfer abroad of the locus of the accelerator effect induced by demand for these goods.

(b) To the extent that foreign and national investments channel cash incomes to indigenous laborers, development of market economy should be enhanced. Indeed, that did happen. "Primary" cash incomes generated local demand for foodstuffs or handicrafts that encouraged local producers to become merchants, that is, to produce more and more for "selling." From that "primary" income, it was then possible to create an internal market, a current of autonomous internal exchange.

Whenever income distributed inside the country raises demand for imported goods, and this frequently occurs in a situation of international integration, as foreign goods are relatively cheap, the accelerator effect is shifted abroad. Foreign investment does not then serve as a pole of development; it attracts neither additional foreign investment nor local investment. When foreign profits are locally reinvested, the second flow of capital cannot be attributed to the first. There is only repetition of autonomous flows of foreign investment which lack induced effects; this is why we thought it necessary to count reinvested earnings in two distinct ways: first as re-exported profit, and again as newly imported capital.

Moreover, it is clear that as soon as foreign investment flows stop, so will growth. There is no induced national capital formation capable of taking up the slack. This is what happened in Cambodia.

b) Public Investment

To facilitate the integration of Khmer economy into that of the metropole, a public development program was essential. According to estimates made by the Bank of Indochina, public investments up to 1939 for all of Indochina amounted to 14.162 thousand million francs (1939 francs). These were allocated in the following way:

- 50 percent for railway construction,
- 25 percent for military installations,
- 11 percent for agricultural irrigation,
- 14 percent for the Post Office, maritime ports, public buildings, and roads.

It is difficult to say exactly how much of this investment went to Cambodia. Development work basically consisted of 300 km. of railway; 3,300 km. of roads, including 1,090 km. asphalted and 2,143 km. gravelled roads; basic furnishing for the post office and for Phnom Penh's river port. No seaport was built. Furthermore, no important irrigation projects were undertaken during this period. Cambodia's share of these public investments was probably one-fifth of the total, or about 2.8 thousand million (1939) francs.

To what extent did these investments contribute to the generalization of capitalist circulation in Khmer economy? The coefficient of generalization of capitalist or merchant circulation was reduced by several intervening factors:

1. As in the case of private investments, a large portion of the Indochinese loans was used in the metropole to acquire capital goods.

2. The distribution of local incomes resulting from public investment was considerably reduced by use of "corvée" labor. The incomes of European or indigenous administrators, which comprised a large portion of the monies distributed, were spent on imported goods and did not affect demand for local agricultural products, the only type of demand that might have contributed to the generalization of internal exchange.

3. If Cambodia now no longer pays interest and principle on metropolitan loans in financing public investments, this was not always the case. Thus, of the \$25 million piasters spent between 1900 and 1937 on public works in all of Indochina, the Indochinese budget had to pay 575 millions, partly as a direct local contribution and mainly as arrears and amortization of metropolitan loans. And duties and taxes fell mostly on indigenous peoples. Professor Charles Robequin has said: "Taxation of Europeans was for a long time not very productive." The heavy tax burden falling on indigenous populations discouraged any capitalist inclinations among them (this was especially the case with patents, taxes on commerce, taxes for validating weights and measures, etc.) and threw peasants into the hands of grasping businessmen and moneylenders who were the invaluable collaborators of foreign import-export businesses.

In the final analysis, therefore, public investment had a very limited effect upon the generalization of merchant networks.

4. All of the preceding considerations are nonetheless insufficient explanations of why public investment failed to develop capitalist networks in Cambodia. The principal and permanent reason, in our view, lies in the fact that these investments were made under terms imposed by economic integration into world trade. Leaving aside military and political development, these investments mostly financed an economic infrastructure of railways and roads. In an independent, nonintegrated national economy, roads, railways, bridges, and ports contribute to the expansion of internal exchange between and among villages and towns within the country, and in so doing, they enlarge a national market and facilitate autonomous, national capitalism. In contrast, in the present state of economic integration into advanced capitalist economies (freedom of external trade), investments in infrastructure, regardless of secondary conditions attaching to them, can only facilitate still greater penetration of foreign industrial goods, allowing them to compete in the last corner of the countryside with what remains of national handicrafts, and then facilitate the extraction of Cambodian agricultural produce to satisfy the raw material requirements of these same industries. In a word, investment in infrastructure can only intensify international integration which, as we have already seen, is the root cause of underdevelopment of the Khmer economy.

Examination of the annual railroad statistics shows that 80 percent of the transported tonnage was made up of imported manufactured or agricultural goods (rice) destined for export. Internal exchange among the various Khmer provinces along the rail line represented only 20 percent of the total traffic, at most. These percentages reveal the traditional structure of rail transport. The accounts also give a general sketch of road and river transport in Cambodia which is altogether different from the situation in advanced capitalist countries such as France, for example, where at least 80 percent of the merchandise transported internally is for autonomous internal exchange between several towns or among regions of the country. In Cambodia, each communication channel has essentially two opposing streams of traffic (exportation of agricultural products, importation of manufactured goods and foodstuffs) which converge only by way of capitalist countries.

Under current conditions of international integration, investments made in infrastructure can only favor export-import activities to the exclusion of any autonomous internal exchange. This is also the case, more recently, with American investments in this domain.

In conclusion, we can thus say that the contribution of private foreign capital to the generalization of capitalist circulation is very limited and does not make up for the opposite effects of international integration. Public foreign investments tend to reinforce this integration because they are directed into infrastructure.

At the present time, the effect of American aid is not fundamentally different.

3. American Aid and the Strengthening of International Integration

Of the total \$172,200,000 in United States aid allocated for the years 1955-57, \$112,900,000, or 66 percent of the total, was military aid. This gives the impression that the overall "aid" program is more an extension of the United States "security" program rather than aid for Cambodia's economic development, especially as people know it is with the arms and planes from their "aid" that our two neighbors, who enjoy moreover the active sympathy of the United States, indulge in numerous provocations and incidents on the border.

This military aid, far from solving the country's security problem, embodies potentially grave difficulties. Only one example, which we borrow from the person in charge of the Khmer economy, His Royal Highness the Prince Norodom Sihanouk, need be cited:

"Suppose, in fact, that foreign aid were cut or abruptly reduced by substantial proportions.

"We would then face insurmountable difficulties in meeting our obligations to the personnel of our army and would be threatened by social disorder; nonpayment of salaries, difficulties reintegrating commissioned soldiers into civilian sectors, etc.

"Our budget could not underwrite the cost of the cars, lodgings, and fine food required by officers and soldiers accustomed to 'great comfort.' And this army, transformed into an easy-living caste, would no longer relate to our little people who lead simple and frugal lives.

"As for difficulties with our neighbors, these would nonetheless remain. Our American friends habitually say

to us: 'We can't choose sides between two friends or judge them.'"

It is unnecessary to point out that such a possibility affects the country's freedom of action.

Let us now turn to economic and technical aid. This is therefore limited to \$59,300,000. Where does it go? The following table gives the distribution of allocated funds in thousands of U.S. dollars:²⁶

	<u>US \$</u>	<u>Percentage</u>
Transport	31,853	56
Agriculture & Natural Resources	6,717	12
Education	5,864	11
Hygiene & Purification	3,715	7
Miscellaneous	2,990	5
Public Administration	2,445	4
Industry & Mining	2,206	3
Urban Development & Housing	<u>1,045</u>	<u>2</u>
Total	<u>56,835</u>	<u>100</u>

As we see, infrastructure absorbs the greatest amount (56 percent). In principle, it is good for Cambodia to have ports, roads, and an airport, but we have already seen that infrastructure can not assist development of an autonomous national market crucial to growth of an autonomous Khmer capitalism. It can only enlarge the two opposing patterns of exchange, import and export, thereby facilitating integration of the Khmer economy into a foreign capitalism. Judging from past experience, it seems clear that international integration inevitably results in the stifling of handicrafts and industry and in the strengthening of precapitalist structure in Cambodia.

In assessing the exact nature of commercial aid, it will become apparent that such aid is more likely to expand commercial and investment opportunities by "clearing the way" than it is to contribute to development of autonomous capitalism in Cambodia.

B. Commercialized Aid

Of some \$123 millions in aid already dispersed or allocated since 1954, \$97 millions, 79 percent of the total, were commercial import credits. Commercial aid involves importing and selling merchandise to build up counterpart funds to be used to finance military expenses and economic investments of the sort we have just considered. At most, 30 percent of the registered 57,208,700 imports are raw materials, motor products, and other capital goods. The remaining 70 percent consists of durable and nondurable consumer goods. Some of this merchandise competes directly with local production; this is especially the case with textiles (\$13,160,900 out of \$57,200,000 of reported goods imported, or 23 percent), sugar (\$1,183,400 or 2 percent of all commercial aid), and cereals (\$793,500). Recall that there are approximately 34 sugar refineries in Cambodia, not to mention innumerable family-run distilleries spread across the country. Among these 34, one, that of Mr. Tan-Y-Sine in Phnom Penh, is an industrial plant capable of producing crystallized white sugar. In

²⁶"Summary of Fiscal Years 1955-57," from *L'Aide Américaine au Cambodge*, a pamphlet published by the American Aid Mission in Phnom Penh, p. 11.

1955, it produced 854 tons of refined sugar. The Mining, Industry, and Handicrafts Administration report states that it could meet all of the country's needs. We already know it incurred a loss of 174,172 riels in 1954 due to competition from imported sugar. As for textile goods, there are five underwear factories in Phnom Penh; 200 weavers with more than two looms each, and thirteen mills with electrically powered mechanical looms, five made of iron and the remainder of wood.²⁷ The thirteen mechanized shops alone have a combined capacity of 135,540 m. per 26-day month, but at the moment they operate below capacity. For example, Tan Pa's mill currently produces 15,000 m. per month instead of 35,360 m.; Seng Thai, 20,000 m. instead of 31,200. Under these circumstances, how can anyone talk of encouraging Khmer national industry with American aid?

Other goods imported under the rubric of American aid come in as publicity samples to raise demand for luxury goods and to sustain what Duesenberry and Nurkse call "demonstration effect," that is, the desire of a particular part of Khmer society to imitate the American way of life. As a result of this aid, artificial networks favoring importation of nonessential goods emerge. This is especially the case for automobiles, motors, and accessories (\$3,805,100 or 6.6 percent of total aid), electrical appliances (refrigerators, radios, etc.--\$2,334,200 or close to 4 percent of total aid). All of these durable consumer goods embody future import needs of complementary goods: gasoline, accessories and spare parts, and so forth.

This aid can not fail to affect the orientation of Cambodia's foreign trade. Thus, trade with the U.S. accounted for 11 percent of Cambodia's foreign trade from 1946 to 1954. For 1955-57, Customs and Excise accounts put the U.S. share of Cambodia's foreign trade at 12.35 percent, that is, 7.46 of Cambodia's total imports and 17.24 percent of its exports. But these figures neglect goods of American origin purchased in Hong Kong, Singapore, South Viet Nam, Thailand, and Indonesia (from this last country, petroleum products belonging to Caltex). No less than 21.9 percent of Cambodia's imports come from Hong Kong, 13 percent from South Viet Nam, 5 percent from Indonesia, and 3 percent from Thailand and Formosa. Finally, 15 percent of all Khmer imports come from Japan, America's ally. All together, these countries supply 52.9 percent of Khmer imports. A large percentage of the goods are of American origin or come from subsidiaries of large American firms set up in these countries. If all of these considerations were taken into account, American exports to Cambodia would be at least 40 percent of the total value of all Khmer imports, and not 7.46 percent as it might appear at first glance.

Apart from that, French exports, which made up about 60 percent of the value of Cambodia's imports before 1954, fell to only 20 percent. This represents a net slide away from a pole of domination.

It seems quite clear that American aid, in its current form of commercialized aid, is not the kind which permits economic development; on the contrary. It tends to emphasize integration into the world market dominated by the United States of America, integration which underlies current underdevelopment. Consequently, the small percentage of aid given over to development of agriculture, natural resources, industry, education, hygiene, and urban development would appear to be window dressing for the purpose of easing the process of integration rather than evidence of a genuine desire to aid the economy.

²⁷"Rapport du service des Mines, de l'industrie et de l'artisanat," October 1956, p. 18.

At the end of this first chapter, we can therefore conclude that Cambodia's economy is a backward agricultural one where two different sectors coexist; an atrophied capitalist sector and a predominating precapitalist sector, both, in addition, being integrated into foreign capitalism by means of foreign trade. The pole of "domination" is shifting from France and towards the United States of America. The International Cooperation Administration²⁸ in Phnom Penh, which distributes American aid credits, has become a magnet even more powerful than the Bank of Indochina.

²⁸[The International Cooperation Administration (ICA) was the official U.S. aid agency from 1955 until 1961, when it was reorganized as the Agency for International Development (AID).]

CHAPTER 2

THE IMPACT OF ECONOMIC ACTIVITIES ON DEVELOPMENT

Section I. Reasons for the Trend of Economic Activities

1. Orientation of Foreign Investments

a) The Data

Until 1954, nearly all foreign investment was French. The survey of "capital investments of major firms operating in 1954" made by the French High Commissioner's office shows:

	1954 Piasters	Percentage
<u>"Primary" Sector</u>		
Rubber Plantations	1,680,951,040	56
<u>"Secondary" Sector</u>		
Water and Electricity		
Tobacco Manufacture		
Rice and Alcohol Distillery	726,139,300	24
Breweries and Ice Houses		
<u>"Tertiary" Sector</u>		
Commercial Enterprises		
Transport and Garage	568,197,096	20
Banks, Housing Firms		
Total	2,975,287,436	100

We have already explained why these figures cannot be accepted at face value. What interests us here, however, are the proportions they represent.

For this purpose, the statistics are extremely eloquent. Fifty-six percent of investment goes into production for export (principally rubber); 20 percent to banking, commercial, and transport enterprises associated with import-export trade; and only 24 percent to secondary production which might be labelled "luxury" production. We will return to this point later.

More recent investments are not of the kind to modify this general pattern. In 1955, American companies bought out some of the most important French interests in the export-import and transport sectors. These new investments are, as usual, concentrated either in production of luxury goods or in export-import trade. The icehouses, breweries, and soft-drink firms also enjoy exceptional prosperity. This branch of activity even enticed the American firm "Green Spot," which has already installed plants in Phnom Penh.

The major investments or proposed projects authorized in the import-export sector in 1957 include:

	Capital in Riels
Khmer Chemical Expansion Company and its affiliate, Khmer Pharmaceutical Development Company	5,000,000
"Chakravé li" (Lambretta Assembly)	2,000,000
"Jean Compte" Company, Cambodia (Velo-Solex Assembly)	3,000,000
Khmer Automobile Assembly	2,000,000

All these firms are either financed by foreign capital or by foreign capital with Khmer participation; and all are in fact, only subsidiaries of foreign companies (French or American).

No one should be deceived about the social contribution of some of these firms. For example, the "Khmer Chemical Expansion Company" is not really a chemical industry--far from it. The company only imports chemical and pharmaceutical goods in bulk, packages them in Cambodia, and puts them on the market. Consequently, it is only an import company. Here are several examples of new "international units":

- Bank of Tokyo, Ltd.
- French-Asiatic Insurance
- General Insurance Company
- New Hampshire Fire Insurance Company
- American International Insurance Company, Ltd.

Only one "industry" in the strict sense of the word was established in 1957, the cotton mill financed by the French firm Macko.¹

b) Reasons for This Trend

The reasons for this particular trend are both historical and logical.

Historically, it was only from 1924, between 1924 and 1928 to be more precise, that foreign capital really flowed into Cambodia.

Commercial exchange relations, evolving during the period from 1863 to 1924, had already sufficiently destroyed handicraft industries; and they had simultaneously molded a nearly perfect replica of the original economy, within which the structure of a precapitalist economy was reinforced. Under these circumstances, capital leaving French in search of investment opportunities and quick returns in Indochina would not be used to set up local industry for a nonexistent domestic market. It went instead into production of goods for support.

The years 1924-28 were years of economic prosperity. European and American industries in full growth needed raw materials. Rubber, in particular, attracted a flood of capital from metropolitan areas soon after the war as a result of rising world prices following the 1921 signing of a world accord among producers (Stevenson plan). Logically speaking, such capital could only come from already-powerful financial groups representing both banking interests and metropolitan industrialists. They could

¹ [Acronym for *Manufacture Cotonniere Khmère*.]

not provide Cambodia with industries which threatened to compete with their own.

Moreover, fifty years of international commercial integration of the domestic market led to the formation of a large "rich" class employed in wholesale-retail trade and an increase in the number of personnel in the administration of the protectorate, an increase which was itself a function of the expansion of trade between the "protectorate" and the metropole. Thus, a new market was created as certain kinds of activities proved profitable. These attracted foreign capital. This is how breweries and icehouses came to enjoy exceptional prosperity and continue to do so. The power plants set up by *Cie des Eaux et Electricité* in Phnom Penh and the provinces were primarily linked to expansion of these new "tertiary" sector requirements and not to demands for energy for the industrialization of the country, as might be thought. We have already discussed the nature of these plants and have pointed out that the administration and a thin stratum of the population consume most of the electricity. For most people, electricity is still very much a "luxury" product.

Such are the logical and historical reasons why foreign investments gravitated towards production for export, towards trade and transport activity related to import-export or, finally, towards the sphere servicing "tertiary" needs. These reasons are equally relevant for recent investments. Each of these sectors has been penetrated by national capital, but only in subordinate areas left to it by more powerful foreign capital (cafes, bars, restaurants, intermediary trade and, recently, housing construction).

2. The Trend of National Economic Life

Even within the stationary subsistence system, international integration precipitated monetary networks which were transformed, to a limited extent, it is true, into capitalist circulation. Local saving of a creative form did emerge. But at each stage of integration (the stage of simple commercial exchange as well as foreign capital penetration), new Khmer capital encountered competition from more powerful foreign capital. It is this competition which directs the activities of foreign as well as national companies into production of export merchandise, intermediary trade, or other unproductive activities.

A. Predominance of Export Agriculture

We have already seen that Cambodia's economy remained agrarian and backward. Three-quarters of its cultivated land, mostly rice paddy, are worked under conditions distinguished by the persistence of intricate networks of feudal relations of production.

The 200,000 tons of paddy exported each year (15 percent of production) are "extracted" at the expense of peasant consumption and by means of rent, usury, and commercial practices amounting to theft.

Nevertheless, as the economy was integrated, some monetary exchange networks were created, primarily along river banks.

Internal communication channels, which are rare in Cambodia, coincide with navigable water routes that facilitate and to some extent even stimulate commercial transactions.

Here commercial production is relatively active. The following table shows the export share of the produce of the commercial sector:

Crop	Annual Production (tons)	Annual Export (tons)	Percentage of Crop Exported
Corn	100,000	70,000	70
Soybeans	8,000	4,000	50
Sesame seeds	3,000	2,600	86
Kapok (ginned fibers)	3,000	2,300	76
Pepper (black)	1,000	700	70
Beans	20,000	10,000	50
Tobacco (dried, shredded)	5,000	2,000	40
Peanuts (unshelled)	4,000	90	2

This list encompasses nearly all the major agricultural products issuing from the commercial sector. Many other crops (coconut, banana, and other cultivated shrubs and trees) are found in all the *dey phum* (inhabited land) and supplement subsistence economy.

With the exception of tobacco and peanuts, the only commodities to prompt any real internal exchange, the portion of commercial production given over to export is generally greater than 50 percent. Taking into account the fact that personal consumption remains important, the percentage is even higher still. All of these crops are the fruits of an agriculture still held at the small merchant stage, that is, the produce of isolated peasant families working the land in order to sell, but without employing either capital or salaried labor. Only a part of the corn (principally red corn), soya, and pepper crops come from a capitalist sector. This is the only sector where there are producers who employ capital and labor, but the mode of production remains, in truth, only slightly "capitalistic."

Fishing is simultaneously part of the natural economy and the merchant economy. Of 130,000 tons of fish caught annually, 10,000 tons (7 percent) are exported, the remainder being for personal consumption or for rather extensive internal exchange. Timber extraction can be considered part of the merchant economy. One hundred thousand cubic meters (50 percent) of the 200,000 cubic meters produced annually are exported.

B. Overdevelopment of Intermediary Commerce and Other Unproductive Activities

Apart from commercial agriculture and in the absence of any industrial alternative, local saving which materializes little by little within the developing economy gravitates towards intermediary commerce concerned with distributing foreign manufactures and exporting local agricultural goods, and towards other activities servicing "tertiary" needs: cafes, bars, restaurants, hotels, and the like.

Thus, in Phnom Penh, for example, the value of new, durable construction was put at 318.6 million riels in 1956, including 168.6 millions for villas, and at 492.2 million riels in 1957, including 262.2 millions for villas.² It is highly doubtful that this new construction, which absorbs an increasingly important share of the national product each year (4.5 percent in 1956), is designed to provide inexpensive housing for ordinary people. In fact, this particular growth in "real estate investments" is

²See *Annuaire statistique rétrospectif du Cambodge*, p. 201.

typically linked to expansion of "tertiary" requirements for the housing of foreign "missions," agencies of large international commercial and transport firms and their personnel, certain local compradores and high civil servants, etc.

Commerce alone engrosses 40 percent of the gross national product.

But the best way to grasp the general pattern of the country's economic life is through analysis of the population employed in nonagrarian sectors. In this way, it will be seen that the surplus population issuing from the ruin of handicrafts and from demographic growth, in addition to those who are "returned" to the land, has gone into making up that army of beggars, "people without definite occupation" or simply "without occupation," the unemployed, typical of Cambodia and of every other underdeveloped country.

Another part of this surplus has found an outlet in unproductive sectors. In Cambodia, as in all other underdeveloped countries, "tertiary" activities are very highly developed, ranging from widespread wholesale-retail activity (city tradesmen; village boutique operators; itinerant peddlers; venders of soup, sweets, and other items) to the elaborate extension of every conceivable kind of personal service (from household servants to shoeshine boys, including cart-pullers or pedicab drivers).

Thus in Phnom Penh, for example, the total number of individuals of working age in 1956 was estimated at 130,000. Registered workers numbered 58,041; the remaining nonregistered individuals (about 72,000) are no doubt ruined artisans or peasants now without occupation, or individuals engaged in service occupations (domestics) or menial "tertiary" activities (peddlers; soup, ice cream, or cake venders; shoeshine boys, etc.). The registered workers can be categorized as shown on page 54.

As for the city of Kampong Cham, the total number of individuals of working age is estimated at 35,780; registered workers number 5,760. The remarks made with respect to unregistered workers in Phnom Penh also apply to this city (about 30,000 individuals without specific occupations). Registered workers are here distributed as shown on page 54.

Our classification of workers into productive and unproductive categories is not in any way intended to be pejorative. We have already mentioned why it appears essential to distinguish productive from unproductive work, as economist Adam Smith did.³

A rational ordering of society must therefore strive to restrict unproductive activity for the purpose of employing the maximum number of people in productive activities. If, alas, this continues to be impossible for the moment, it must not allow us to confuse all "useful" or even necessary activities from an individual or social point of view with "productive" activity from the perspective of the economy as a whole; this must not prevent us from making attempts to obtain conditions which bring us closer to the ideal principle. For example, struggling actively for peace in Southeast Asia and the world and for the gradual dissolution of military pacts will permit us to free our military men for productive activities.

Prince Norodom Sihanouk, moreover, has expressed concern on several occasions about the tendency to "officialism" and has attempted to effect a movement of "reconversion" to productive activities. We believe that the fundamental origin of this tendency towards "officialism" lies in

³See *Recherches sur la cause des richesses des nations*.

Working Population in Phnom Penh⁴I. Unproductive Activities

Civil servants and public services	26,500
Traders (estimated at 2.5 people each for 4,570 establishments)	11,400
Cafe, restaurant, and hotel personnel (135 establishments)	1,590
Hairdressers (116 shops with)	603
Pedicabs (5,229 bikes, each employing 1.5 individuals, day and night)	7,840
Porters	1,493
Total for the Sector	49,625 (85.43%)

II. Productive Activities

Weavers (110 firms with 1,172 looms)	1,172
Electricians (24 firms)	50
Workers in sauce, <i>nuoc-mam</i> , and soya plants (14 houses)	140
Soap factories (6)	64
Rice threshing and husking mills (14)	210
Distillery (1)	109
Breweries and ice houses (4 plants)	250
Coppersmith, glassmaking (2)	40
Repair shop (128 firms)	450
Dockyard (1)	76
Hydroelectric plant (1)	155
Royal Railroad (1400 workers of whom 700 are located in Phnom Penh)	700
Total for the Sector	3,416 (14.5%)
Total Registered Workers	58,041 (100%)

Working Population in Kampong Cham⁴I. Unproductive Activities

Civil service and public services	4,000
Tradesmen (2 people per firm for 815 firms)	1,630
Restaurateurs, cafe proprietors (82 firms with)	176
Tailors (20 shops with)	50
Cart-pullers	600
Total for the Sector	5,456 (94.72%)

II. Productive Activities

Productive artisans	56
Workers	258
Total for the Sector	314 (5.28%)
Total Registered Workers	5,760 (100%)

NB: All data from city governors.

⁴[Reproduced as in text. There appear to be errors of omission or reproduction in Part I of the table and in the marginal totals and percentages.]

⁵[Reproduced as in text. Again there appear to be errors in the original data, their manipulation, or in the typing of the text. The subtotal for the unproductive sector is incorrect as presented.]

international integration of the economy. By closing off any opportunity for industrial production and by rendering agricultural production increasingly precarious, international integration ineluctably directs activities towards "officialism" and intermediary commerce.

Moreover, the Chinese are denounced as "parasites incapable of creating wealth and living off the elaborated substance of the peoples' labour."⁶ It seems to us that such a view neglects the sources of primary responsibility for this situation: international integration of the Khmer economy and the competition from foreign merchandise resulting from it. It is generally understood that the Chinese, in fact, played an important economic role in Cambodia even before the French intervention. We believe it is appropriate to make a basic distinction here between the economic role of the Chinese and that assumed by other "foreigners" coming from Europe and later from North America. For the most part, the latter are agents of colonial administration or representatives of big metropolitan interests. More often than not, they have acted in the name of the colonial administration or these "big interests." The businessmen, in particular, have wanted the fruits of their efforts sent back to the metropole in the form of profits, where they would be put into a "pool" of earnings from ventures in the metropole and other colonies. Their interests in Cambodia being only a tiny fraction of the whole of their affairs, their link to the country is therefore weak. These "Europeans" or Americans, therefore, cannot be integrated into Khmer society. This argument does not pertain to the Chinese.

Most overseas Chinese are part of the dispersed Chinese bourgeoisie which fled from the feudal society of ancient China to settle in Cambodia and elsewhere. The goods that they acquire in a country (land, plants) and those that they use to good advantage fix this population in a country permanently, for they have no other interests in China or elsewhere other than family ties, which will weaken as subsequent generations settle in. In some respects, the process is comparable to what happened in North America in the nineteenth century, bearing in mind this difference, however: Khmer society already possessed a rather more solid political and social armature than that possessed by the native American Indians. The Chinese were in some sense therefore the rudiments of the national bourgeoisie whose development would have promoted an autonomous national capitalism. But international integration and the accompanying competition from foreign goods virtually prohibited the Chinese from carrying on with their craft and industrial activity and quite naturally pushed them into the trading and comprador sphere, transforming them into commercial agents for advanced capitalist countries. At the same time, this situation is not the sort which encourages Chinese to lay down roots in Khmer society. Commercial capital can easily be liquidated, basically by selling off stocks. Thus, nothing very substantial would tie them to the country.

Our remarks about overdevelopment of intermediary trade seem equally valid for all tertiary activities. It seems clear to us that it is the international integration of the economy which is ultimately responsible for the overdevelopment of "tertiary" and other unproductive activities. Only the limiting of international integration would allow a genuine re-conversion movement to take effect.

Competition from foreign capitalism directs the country's economic energies into intermediary commerce and other unproductive activities. And this particular trend affects the very pace of national capitalist development.

⁶See Paul Bernard, *Le problème économique Indochinoise*.

Section II. The Impact of the Trend of Economic Activity on Growth

1. The Emphasis on Unproductive and Luxury Production

a) Intermediary Trade and Unproductive Activities

To the extent that commerce stimulates better distribution of a country's available capital resources and permits an increase in the amount of capital directly invested in production by keeping a lesser part in circulation, it enhances productivity and accumulation of industrial and agrarian capital. In this manner, the growth of trade in Europe accompanied industrial development and favored industrial expansion during the nineteenth century. But it played only a secondary role in this period of capitalist growth conforming perfectly to its economic role.

In contrast, in Cambodia the absorption of national capital generated by international integration of wholesale-retail trade was not due to industrial or agricultural development. This state of affairs, noted in all underdeveloped countries, means that capital has not been allowed to participate in production and is reduced to a modest go-between role for foreign commercial monopolies. It is thus "sterilized" just when its use for the creation of industrial or agricultural enterprise would have prompted an autonomous capitalism and accelerated the process of the disintegration of a subsistence economy.

Local commercial capital invested in merchant activity is most certainly profitable for the investor. Like other profits, these will in part be reinvested. One pattern of growth is accordingly introduced into the sector. But unilateral development of commerce without parallel development of industry and agriculture can only occur at the expense of general social development. Returns on commercial capital come only at the expense of primary producers who have yet to reach the stage of capitalism.

As for other "tertiary" activities mentioned in the course of this chapter, these are more aptly characterized as "disguised unemployment." As such, they exert a depressing influence on the labor market as well as on the nature of relations of production. Indeed, this class of the underpaid is also associated with the most backward of relations of production, as shown by the employment of women and children in underpaid work, the persistence of the system of employing a whole family for occasional or seasonal work (which results in lower pay for each person), and the survival of links of personal dependence between employers and workers. We have already looked at aspects of backwardness in rural relations of production.

b) "Luxury" Production

At a time when capital for production of essential consumer commodities and for manufacture of simple capital goods is lacking, it seems self-evident that growth in "luxury" production is a genuine waste of social resources and restrains subsequent development.

2. The Orientation of Activity towards Export Agriculture

If international integration of the economy denies newly created national capital access to industry, this capital can find an expanding outlet in agrarian production for exportation. European and American industrial growth requires consumption of increasing quantities of raw

materials. Moreover, with unemployment created by massive imports from developed countries, salaries drop lower and lower until certain agricultural commodities can be exported, their absolute cost of production having fallen below costs in the most advanced countries. We would emphasize "certain" agricultural commodities because foreign capital, in taking advantage of the low level of salaries, cannot sponsor industrial enterprises in the country that will compete with those in developed, exporting countries. The reality of modern times is that metropolitan saving is concentrated in the hands of big financial and industrial consortiums, and, in the final analysis, those entrepreneurs who export goods for the overseas market are the same businessmen who invest some of their capital in these same markets. Their search near and far for profit discourages them from undertaking any venture which rival enterprises would be naturally inclined to take up.

Thus, only development based on export agriculture would seem theoretically possible. But here again, several factors will increasingly restrain growth, ultimately compromising the country's development.

(1) We have already seen that commercialization of agriculture (notably rice) was accomplished without modifying old economic relations. International integration tends, to the contrary, to strengthen these relations which will eventually limit even the development of agriculture.

(2) In addition, it seems established that primary producing countries suffer the most from international recession, however light. They endure the full brunt of wildly fluctuating prices. The instability of export markets has extremely deleterious effects on the formation of local saving. Variations in export volume are not offset by complementary adjustments in prices for these basic commodities.

(3) The slowing down of demand from developed capitalist countries also tends to retard future development. Indeed, capitalist countries which are said to be "mature" or overdeveloped appear to have reached the point at which the rate of growth ceases to increase and begins to decline. If this turns out to be true, the less rapid pace of their growth would signal less growth in export production in underdeveloped countries.

In any event, if the industries related to certain basic primary materials (e.g., petroleum, bauxite) are in full growth, agrarian production (e.g., foodstuffs, natural rubber) appears irremediably slated for decline. The stage of "agricultural crisis" is emerging even within advanced capitalist countries themselves, especially in the United States, where enormous surpluses are accumulating. By the end of 1954, the federal government's Commodity Credit Corporation held agricultural reserves worth \$4.23 thousand millions. In spite of government measures to reduce the amount of land under cultivation, production of corn, wheat, rice, potatoes, tobacco, and other produce continues to exceed internal needs and export possibilities. This situation cannot help affecting the world market, not only for those commodities directly concerned, but for all agricultural produce. Natural rubber will face serious competition from synthetic rubber.

(4) Without prejudging development in advanced capitalist countries, it is already apparent that the increase in trade of raw materials in recent years, a period of unprecedented expansion, is clearly less than the increase in industrial production itself. From 1948 to 1954, for example, the volume of trade between industrial countries and primary producing countries grew by only 38 percent, while trade among industrial countries grew by 57 percent.

Consequently, development based entirely on export agriculture will most probably result in gradually diminishing returns, and national production must find an internal outlet lest the rhythm of growth be broken. *But in order that this internal outlet may be reconstituted, the country must withdraw from international integration.*

CHAPTER 3

THE FOREIGN ACCOUNT DEFICIT: ITS CAUSES AND CONSEQUENCES FOR THE DEVELOPMENT OF NATIONAL CAPITALISM

1. A Chronic Deficit

The following table shows Cambodia's balance of payments for the years 1955, 1956, and 1957 in millions of riels:

YEAR	1955		1956		1957	
	Receipts	Expend.	Receipts	Expend.	Receipts	Expend.
Goods & Services	1259.13	1918.69	1329.35	2308.36	1803.84	2229.32
Tourism, Scholarships	1.32	31.48	5.59	80.31	?	?
Capital income	16.59	5.01	57.55	1.45	69.76	381
Labor income	0.02	53.37	0.03	87.23		116.79
Other, govt. plans, aid	615.21	322.86	231.39	103.73	?	?
Movement of capital	56.61	25.20		4.86	?	?
BALANCE	418.32		962.44		853.00	

Source: For 1955 and 1956, *Annuaire statistique rétrospectif du Cambodge, June, 1958*. For 1957, information supplied by the National Exchange Office supplemented by statistics from Customs and Excise.

We do not have any figures on the post office, scholarships, tourism and travel, government gifts or aid, or capital movements for 1957. As the post office could only swell the debit side of the balance, the deficit is probably no less than 853 millions. In this way, the deficit adds up over the three years: 418.32 million riels in 1955, 962.44 millions in 1956, and more than 853 millions in 1957. There is no sign of attenuation in 1958. For the first nine months of the year, the commercial balance alone already shows a deficit of 652.2 millions.

Moreover, available figures on the commercial balance reveal that the shift towards deterioration was apparent well before the 1955-58 period:

Value of Exports and Imports
(in millions of riels)

	1951	1952	1953	1954	1955	1956	1957
Exports	1,602	1,778	1,935	2,205	1,400	1,300	1,798
Imports	1,010	1,781	1,490	2,068	1,665	2,000	2,148
Balance	592	-3	445	137	-265	-700	-350

Source: *Annuaire statistique rétrospectif du Cambodge*, op. cit.

Until 1954, Cambodia belonged to a customs union with Viet Nam and Laos. It is thus difficult to determine with precision the value of intra-union trade. Still, the establishment of river posts along Cambodia's frontiers makes an estimate of total commercial traffic possible. As nearly all exports were transported to Saigon by water because of their low value per unit of weight, it is reasonable to assume that the export figures are close to the real volume. The import statistics, in contrast, probably exclude goods coming in by truck. These could be quite important, because the specific value of imported manufactures is higher than that of exported agricultural goods. We can thus conclude that the deterioration in the foreign account is more acute than the table reveals. But the table alone is already clear enough: although the balance of trade is positive in the early 1950s, it steadily declined: 592 millions in 1951, -3 millions in 1952, 445 millions in 1953, 137 millions in 1954, only to become negative after 1955.

If other components of the balance of payments are taken into consideration (such as transport, insurance, and tourism), a negative balance appears beginning in 1951 and even earlier.

Let us note in passing that improvement in the commercial balance in 1957 (the deficit falls from -698 in 1956 to -350 in 1957) cannot be attributed to any sort of automatic mechanism. It results from the San Yun government's unfortunately shortlived attempt to alter the pattern of foreign trade during the second half of 1956 by banning nonessential imports and implementing foreign exchange controls. The following table clearly shows the healthy effects of these "enlightened austerity" measures in the improved balance of trade figures from December 1956 through the first half of 1957 [see page 61].

Ending "enlightened austerity" measures in March 1957 inevitably resulted in reappearance of the deficit and in its deepening during the rest of the year.

Thus, the underlying tendency in the economy is towards constantly deteriorating disequilibrium. Our period of analysis encompasses approximately one complete international cycle (1948-1958). We thus conclude that this disequilibrium is chronic, issuing from profound, faulty structural adjustment. We shall see what is meant by "faulty structural adjustment" in the course of examining the reason for this disequilibrium.

2. The Causes of Disequilibrium in the Foreign Account

A. Secondary Causes

Responsibility for the current disequilibrium is often attributed to the war and the Japanese occupation, and to the Indochina war. In our

Cambodia's Commercial Balance						
July, 1956 - December, 1957						
(in thousands of riels)						
<u>1956:</u>						
	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
Exports	91,335	111,947	107,927	96,247	95,873	169,511
Imports	<u>163,258</u>	<u>150,877</u>	<u>231,439</u>	<u>177,368</u>	<u>160,341</u>	<u>144,693</u>
Balance	-71,923	-38,930	-123,512	-81,121	-64,468	24,818
<u>1957:</u>						
	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April¹</u>	<u>May</u>	<u>June</u>
	145,498	197,854	140,885	92,135	204,759	214,510
	<u>103,311</u>	<u>89,768</u>	<u>123,958</u>	<u>104,880</u>	<u>150,015</u>	<u>198,555</u>
	42,187	108,086	16,927	-12,745	54,744	15,955
<u>1957:</u>						
	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.¹</u>
	147,806	144,835	122,442	155,443	103,688	127,785
	<u>182,445</u>	<u>207,767</u>	<u>214,532</u>	<u>211,867</u>	<u>286,090</u>	<u>163,613</u>
	-34,639	-62,932	-92,090	-56,424	-182,402	-35,828

Source: *Bulletin de la Banque Nationale du Cambodge.*

opinion, this is a bit superficial. We do not deny the grave, perturbing consequences of the considerable damage instigated during the occupation of the country by Japanese imperialism and later during the Indochina war. Important though they were, however, the effects of this destruction on the economy were only secondary, in the sense of being nonfundamental. Indeed, the tendency towards the deterioration in the foreign account appears to have been latent well before the war, since the crash of 1929, to be more exact. In support of this argument, we will examine, in turn, the Indochinese Union's balance of payments for 1937-39 and the circumstances accounting for a trade surplus between 1930 and 1937.

(1) The following table, borrowed from André George,² shows the balance of payments for the Indochinese Union for 1937-1939. We note that the current account already contained a deficit of 30 million piasters. The deficit was held under control only by movements of public and private capital. If the fact that Cambodia was liable for all entries on the debit side of current operations (services and remuneration of capital especially) is taken into consideration, as well as the fact that most capital during this period was attracted to Viet Nam by vast and more easily exploited

¹[Some of the figures in the text for these months were transposed in reproduction. They have been corrected from the original source.]

²André George, "Autonome Economique, Coopération Internationale et changement de structure en Indochine" (thesis, Paris, 1954).

Indochinese Union Balance of Payments
1937 - 1939
(in millions of piasters)

Credit	Piasters	Debit	Piasters
<u>A. Current Operations Account</u>			
(a) Export receipts	300	(a) Import regulations	200
(b) Services: Tourism, transit	30	(b) Services: Remuneration of foreigners Retirements, pensions, transferred savings	30 30
(c) Return on investments	—	(c) Capital remuneration: Arrears on external debt Dividends (private capital)	10 90
Total	330	Total	360
Current Operations Balance	-30		
<u>B. Capital Operations Account</u>			
(a) Private capital: Investments	30		
(b) Public capital: Public loans Metropolitan contribution	20 30		
Total	+80		
<u>C. General Balance</u>			50

mineral riches, it is highly probable that Cambodia's balance of payments would show a deficit from this period.

(2) An examination of Indochina's commercial balance from 1930 to 1937 reveals that a trade surplus was obtained only because of French price supports for Indochinese rice and corn exports.

Indeed, after the crash and during these years, Indochinese exports lost their traditional markets as world prices for agricultural products plummeted. France had to absorb cereal grains which no longer attracted any buyer on the market of other capitalist countries. During this period, France purchased 500,000 tons of rice, 200,000 tons of corn, and 250,000 tons of anthracite at prices well above world rates.

It must be pointed out that such artificial support came at the expense of French peasants, without in the least righting the wrongs suffered by Indochinese peasants, for they were still being crushed under the burden of rents and usury, and they were still selling their harvest at very low prices. The only ones to profit from this exercise were big French export-import businesses in Indochina and in France. It is true that a fraction of the Indochinese population, composed of landlords, import-export compradore auxiliaries, and high civil servants in colonial administration, who were the major consumers of imported goods and whose purchasing power was linked to exporting, also benefited to some extent from this "forced" French consumption of Indochina's surplus. Moreover, this support was

unable to prevent a drop in Indochinese rice and corn exports provoked by the good French wheat harvest of 1935. Rice exports fell from about 700,000 tons in 1934 to 348,000 tons in 1935; corn, from close to 500,000 tons to less than 300,000 tons.

It would appear, therefore, that the trade balance was in latent disequilibrium from 1930 onwards; damage from World War II, the Japanese occupation, and the "Indochina" war only added to it. As for the nature of the latter, we may even suggest that it merely reflects, in most acute form, the growing consciousness of a deeper structural disequilibrium which the population of the three nations in the Indochina peninsula refused to tolerate any longer.

It is therefore necessary to look elsewhere for the cause of disequilibrium in the foreign account.

B. Fundamental Cause of Disequilibrium in the Foreign Account

The fundamental cause of disequilibrium in the country's balance of payments appears perforce related to integration of the economy into the world market of goods and capital. This has the effect of expanding the debit side of the balance while the credit side simultaneously tends to level off. Let us briefly review the mechanism through which international integration prompts this disequilibrating action.

a) Tendency towards Debit Expansion

1. The dynamism of capitalist economies and the growing absolute advantage which is reflected in industrial production means exports of developed capitalist countries will always be ahead of Khmer production, which remains confined within a primarily precapitalist structure. Initiative is the province of foreign entrepreneurs who "open up" a country and who acquire the right to sell and to buy there. The consequence is *the ruin of local crafts and the substitution of imports for handicraft production*, from whence comes the strong "propensity" to import in a country that has become underdeveloped.

This effect tends to be self-sustaining during the international recovery following each periodic recession, the time when the need of developed countries to increase their exporting to underdeveloped countries would seem to be most acute. This need is even stronger at the current stage of overdevelopment reached by most advanced capitalist countries.

2. The local revenues which are enhanced to some extent from international integration are:

(a) Rents: a foreign outlet becomes available for the export of rent paid in kind. Landlords are incited to intensify their exploitation of peasants in order to extract more goods for export.

(b) Incomes of money lenders, who are usually landlords or commercial middlemen: these people take advantage of the deterioration in the material conditions of artisans and peasants, deterioration precipitated by international integration, by loaning money at usurious rates.

(c) Profits of compradores, of importers-exporters: a field of intermediary commercial activity opens up for traffickers of all sorts who rapidly multiply in big commercial centers.

Those receiving these revenues are not "forced" by competition to invest an increasingly large share of their income in order to preserve their position, as capitalist entrepreneurs are. Landlords are effectively protected by their deeds to property. Given the enormous mass of peasants and artisans permanently on the edge of ruin who need to borrow money, usurers have no fear of competition. While small shopkeepers and traders in villages exist in a precarious situation, the importers-exporters are, in fact, protected by their close relations with big foreign commercial and banking monopolies. Because of the growth in their incomes after international integration, *these wealthy strata of society are quite naturally inclined to increase their consumption of imported "luxuries" and to increase the volume of their hoarding*, which requires increased imports of gold or precious stones for which foreign payment must be made.

To obtain an idea of the disequilibrating power represented by the consumer demand emanating from these "rich" strata, here is Paul Bernard's summary of the import structure for Indochina as a whole; it is valid for Cambodia considered in isolation insofar as it can be verified by external trade statistics:

(a) Products imported for "Europeans," landlords, compradores, high civil servants: tinned food, flour, fruit, candies, perfumes, cosmetics, spirits (champagne, cognac, whisky, etc.), glassware, porcelain, silk, electric lamps, automobiles, furniture, raincoats, cigarettes in packets and boxes, cigars, hats, condensed milk, chocolate, fish and shellfish, birds' nests, onions, shallots, fresh and dried vegetables, grapes, starches, fresh and preserved fruits, shark fins, gasoline. . . .

These imports, consumed by less than 10 percent of the total population, make up 49 percent of the value of all imports.

(b) Products consumed by the mass, 90 percent of the population: cotton (raw fiber or woven), petrol, tools, fireworks, incense sticks, candles, household articles, betel nuts, various condiments.

These imports represent 4 percent of all imports.

(c) Products not directly consumed: coal, asphalt, heavy oils, railway rails, wagons, steam rollers, large machinery, construction equipment, steel boats, etc.

In brief, then, the rise in consumption of luxury goods and the rise in hoarding by certain social strata tend considerably to reinforce the "propensity to import."

3. The inexorable consequence of international integration of the economy is the *exportation of earnings*; this represents a very heavy drain on national income and directly affects the balance of payments.

Some might say that in mentioning the export of earnings we have neglected the other side of the balance, i.e., similar receipts which provide appreciable support to the Khmer economy. Capital earnings reached 16.59 million riels in 1955, 55 millions in 1956, and 69.76 millions in 1957. But the counterpart of this must not be overlooked: national saving exported out of the country.

4. Indeed, the *flight of national saving* under pressure of competition from foreign capital is another disequilibrating force.

Moreover, in an economy lacking capital, income garnered annually cannot offset the loss endured by the economy from the export of national

savings, again from the point of view of the development of national capitalism. Indeed, this export of local capital cannot be compared with exportation of capital from "overdeveloped" countries. In these countries, there has been an overdevelopment of "capital" since the end of the nineteenth century, and where "marginal efficiency of capital" or, to be more precise, return on investments, has greatly diminished. The "propensity to save" which might more accurately be called "forced hoarding" is too high.³ Capital export becomes a necessity for the system as a result of its internal development. In Cambodia, as in underdeveloped countries in general, the mechanism which fosters export of saving is "external" in the sense that it is not prompted at any time by development within the system itself. It results from integration of the precapitalist economy into the world market of goods and capital.

We have already seen that competition from foreign goods and capital guides saving into export agriculture, but development of agriculture is in turn limited for reasons which we have also examined. The only outlets then available for accumulated national saving are secondary activities eschewed by foreign capital (rice mills, brick factories, repair shops, etc.), intermediary commercial activities, and finally, flight abroad in search of short-term opportunities or more profitable speculative "investments." Such foreign speculation, it is true, yields profitable returns for investors, but it is nonetheless a considerable loss for the economy as a whole, because local investments could have made an effective long-term contribution to the national economy.

We have just surveyed the major underlying forces which tend to expand the debit side of the country's foreign account. On the credit side of the balance, other forces exert a depressing influence, i.e., the deterioration in terms of trade and the end of foreign capital influx.

b) Levelling off of Credits

1. *Deterioration in the terms of trade.* Before the great crash of 1929, chronic disequilibrium in the foreign account was invariably overcome by adaptation of the economy's structure to the need of the dominant developed economy:

(a) Structural readjustment by redirection of local production. We have seen that international integration of the economy gradually encourages peasants to produce in order to sell. Thus, a certain growth in market economy emerges in production for exportation, particularly along the river banks and in *chamcar* regions. Approximately three-quarters of all cultivated land made up of rice paddies are still worked under feudal conditions, it is true, but rent and usury serve to extract paddy for export.

(b) Structural readjustment effected by foreign investments in search of quick profit. The relatively rapid growth in export activities stimulated by foreign investments (rubber) became an essential source of foreign exchange.

After 1929, the "maturation" of advanced capitalist economies was obvious. We have seen how the agricultural crisis was "artificially" overcome in the 1930-37 period, and the agrarian crisis can only intensify during the present period in advanced capitalist countries. In the United States of America, agricultural surpluses continually accumulate. This

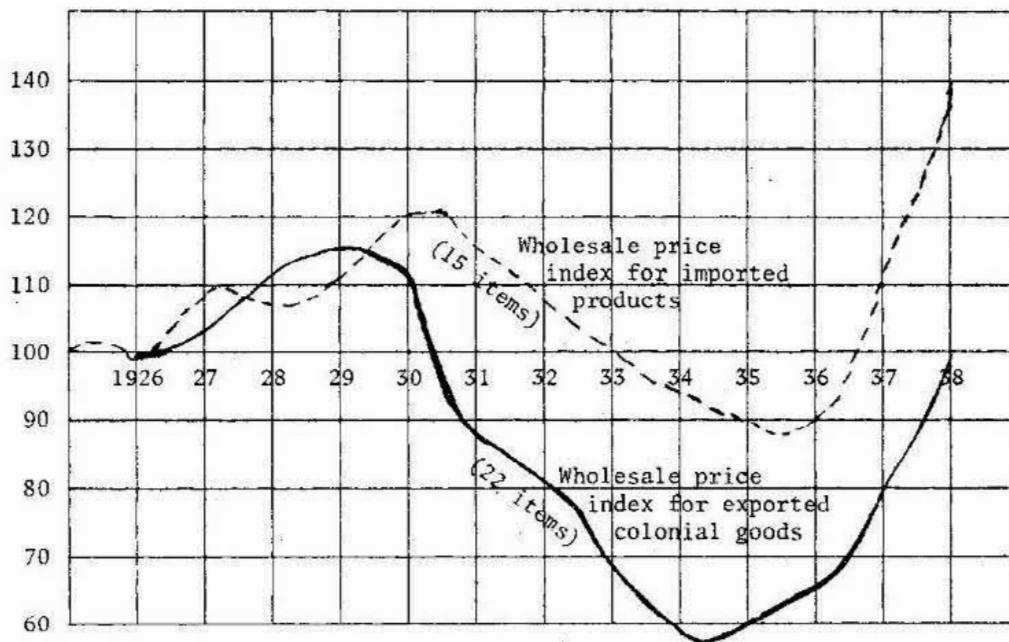
³Samir Amin, "Les effets structurels de l'intégration internationale des économies précapitalistes" (thesis, Paris, 1957).

represents a source of grave and permanent difficulty for Khmer agricultural exports in the "capitalist" market for export commodities.

This situation occasioned the *steady deterioration in the terms of trade*.

Cambodia's exports and imports formerly passed through the port of Saigon, and so a fairly good idea of the extent of this deterioration can be obtained by comparing the movement in wholesale price indexes for imports and exports at Saigon:

Deterioration of Indochina's Terms of Trade



Source: From data in the *Annuaire Statistique de l'Indochine*.

These curves are extremely eloquent. Notice that

- (1) The "scissors" only begins to open in 1930, and
- (2) From that date, it continues to open wider and wider,

which indicates that disequilibrium already existed in a latent form beginning from the time of the "great crash," and it cannot be accounted for in any fundamental sense by damage resulting from the war.

It is hardly necessary to point out the absence of any visible improvement in the terms of trade since 1938 and that deterioration can only intensify as Khmer rubber faces increasingly stiff competition from synthetic rubber, on top of the permanent factors already mentioned.

This constant deterioration in terms of trade is not unrelated to monopolization of import-export commerce. We have already pointed out that companies which sell manufactured goods to the country are for the most part the same ones which buy agricultural produce.

2. Before 1929, from 1920 until 1929 to be more precise, an important influx of foreign capital went into the cultivation of rubber for export. This influx was a major source of foreign exchange. From 1929 on, however, there has been no important influx of foreign capital. In developed countries, awareness of international structural disequilibrium is increasing. International financial milieux are not unaware that "natural" structural readjustment no longer operates as it did in the nineteenth century and correctly conclude that capital can only be invested where its use immediately generates a surplus of foreign exchange capable of paying for the reexportation of earnings. Such a possibility could be a long time in coming to Cambodia.

These are the principal destabilizing forces issuing from integration of the economy into the international market for goods and capital. The only way out of this state of chronic disequilibrium is to withdraw from the entanglements of integration and to engage resolutely in autonomous development. American commercial aid cannot be an appropriate solution for current disequilibrium. It has not prevented increasingly pronounced disequilibrium in recent years. If it temporarily disguises the problem, it also promises more acute instability in the future, because it intensifies international integration.

C. The Consequences of Disequilibrium in the Foreign Account

Chronic deficit in the foreign account is only the reflection of profound structural disequilibrium on the international level; it is not, in other words, the cause of this disequilibrium but its consequence.

This disequilibrium, it is true, is momentarily disguised by American aid. It goes without saying that this growing dependence of Cambodia is a threat to recent national independence. From an economic point of view, if nothing is done to bring an end to this disequilibrium, national exchange and gold reserves will be speedily exhausted. Sooner or later, this will lead to devaluation, official or otherwise; rises in internal prices will follow, while export volume and prices will continue to fall due to inelasticity in international demand. There is a mechanism whereby deficit in the foreign account triggers changes in exchange rates, and through such changes prices and "saving" are affected. Currently, the fragile condition of the foreign account greatly inhibits the formation of saving. People hesitate to save out of fear that savings would only lose their value in the inflation which would follow an eventual devaluation.

CONCLUSION TO PART I

THE NECESSITY OF AUTONOMOUS DEVELOPMENT

The question of Cambodian industrialization would appear above all else to require an initial, fundamental choice between development within the framework of international integration, that is, within the framework of free external trade, or autonomous development.

It appears that international integration imposes strict limits on the economic development of the country. Under these circumstances, electing to continue development within the framework of international integration amounts to accepting the mechanism whereby handicrafts become atrophied and precapitalist structure is strengthened, while economic life is geared, in a one-sided fashion, to export production and hyperactive intermediary trade. Put in other terms, agreeing to international integration means tolerating structural adjustment of the currently underdeveloped country to the requirements of dominant, developed economies. Accepting international integration amounts to accepting the mechanism whereby structural disequilibrium intensifies, a situation which could lead to violent upheaval if it should become intolerable for an increasingly large percentage of the population. Indeed, consciousness of the contradictions embodied in world market integration of the economy already exists.

Self-conscious, autonomous development is therefore objectively necessary. It is now appropriate to assess the prerequisites of such autonomous development more carefully. That is the purpose of the second part of our thesis.

PART II
PROBLEMS OF INDUSTRIALIZATION

CHAPTER 4
PREREQUISITES OF A POLICY OF AUTONOMOUS DEVELOPMENT

Section I. The Necessity of Relying Essentially
on National Resources

1. Foreign Capital Can Contribute to Development
Only under Certain Specific Conditions

In Part I of this essay, we saw that foreign investments did not really contribute to the breaking down of the precapitalist order. There are essentially two reasons for this:

- 1) The locus of the accelerator is shifted abroad by the importing of semiprocessed and consumer goods;
- 2) The multiplier effects of productive investments are removed by the export of profits. We have seen that these exports amount to more than 6 percent of national income and more than 40 percent of all profits made in the country, a considerable drain on the economy.

For these two reasons, there is no autonomous national capital formation capable of replacing foreign capital. Economic development continues to depend largely upon the rate and extent of new foreign investment flows. This development is uneven, as it depends ultimately upon decisions made by big international firms, i.e., independent entities detached from the local environment, working out their strategy from the outside and operating on the basis of their self-interest. Capital may not be forthcoming at the very time when development need is most pressing. Even in the unlikely event of a constant flow of new international investment, amortization and interest paid by the borrowing country will eventually match and then exceed the net annual amount of newly introduced capital after a more or less brief period of time.¹

Cambodia, it seems, has already passed the point of no return. Since the crash, foreign capital has practically ceased coming. The influx of new capital fails to make up for the outflow of earnings. Thus, foreign investments end up being a retarding factor at the same time they assume greater importance for the foreign account.

In future decades, there is no reason to count on the resumption of major new foreign capital flows. Even if it should happen, difficulties

¹See E. Domar, "The Effect of Foreign Investment on the Balance of Payments," *American Economic Review*, December 1950. An overview is given by Ducros, "Les investissements américains à l'étranger et l'équilibre international," *Revue économique*, March 1954.

would be postponed but would not disappear. It is rather more likely that new problems would emerge, especially with respect to foreign payments.

It is true that as long as foreign investment confines itself to production for export, the balance of payments remains in equilibrium by the very play of investment. Indeed, the debit side of the balance will show:

- induced importation of capital goods (C_1) for an initial period;
- imports of consumer goods for workers and management (S), profits exported in the form of foreign currency (P), and repayment of borrowed money capital (C_2) during a second period, that is, from the time a firm begins operating.

In summary, one complete rotation of capital affects the debit side of the balance in this way:

$$\text{Debit} = C_1 + S + P + C_2$$

The credit side will show:

- imported money capital (C_1) for an initial period;
- exportable products comprised of the following: incorporated capital goods (C_2), salaries (S), and profits (P) during a second period.

At the end of a complete rotation,

$$\text{Credit} = C_1 + C_2 + S + P$$

Thus, foreign investment in production for export affects both sides of the balance in the same way.

This would not be the case, however, if foreign investment began producing for the domestic market. In this instance, foreign investment depresses the balance. Indeed, the debit column shows:

$$\text{Debit} = C_1 + S + P + C_2$$

On the credit side, there is only a limited quantity of foreign currency (C_1) representing the amount of imported money capital, while products ($S + P + C_2$) are consumed inside the country. The problem then is to restore equilibrium through substantial growth in agricultural exports so as to pay in real terms for imports induced by local distribution of supplementary salaries, reexportation of profits from foreign investment, and repayment of imported capital. In order to do this, a certain amount of new foreign or national investment must be committed to agricultural production. Without it, some way must be found to obtain a new surplus of exportable agricultural produce (notably the raising of rents and of interest rates, or increasing taxes). Moreover, even if an agricultural surplus were to be had, the country could not be certain of disposing of it, international demand for agricultural produce being highly inelastic. These difficulties, which entail difficulties in paying for the export of earnings, represent one of the serious obstacles to foreign investment in the domestic market, and production for export is up against the declining rate of growth in demand in developed capitalist countries.

If the problem of producing goods for export is serious for underdeveloped countries as a whole, it seems to be even more critical for Cambodia, where export agriculture encounters restrictions greater than usual. Indeed, economic development could not rest upon future expansion of export produce such as rice, corn, or rubber for which international demand already seems highly inelastic.

But let us leave aside the problem of external payments, a secondary issue when all is said and done, in order to consider what steps would need to be taken to allow foreign investment, old or new, to assume its true role as the pole of development. From the preceding discussion, it would appear that measures would be needed to:

- 1) Discourage demand created by income distribution from falling on imports and to direct this demand towards domestic production;
- 2) Limit the volume of reexported profits.

Let us examine these two measures in turn.

a) Discouraging Demand for Imports

In the first instance, the importation of consumer goods shifts the accelerator effect overseas and annuls the multiplier effect of foreign investment. This being the case, import quotas could be used to steer the demand induced by income generated by autonomous foreign investment towards locally produced goods. Domestic demand is then met by small industry and national handicrafts. It could even be met without requiring too much investment by organizing producer and consumer cooperatives, which enhance labor productivity. Moreover, foreign investment, if presumed productive, does contribute to growth in the domestic supply of goods. The increase is direct when the flow of independent foreign investment produces for the national market. It is indirect when it contributes to the credit side of the balance of payments an amount equal to the sum S , the sum of income distributed inside the country.

Everything evolves, then, as if the country were exchanging small industrial goods and handicrafts for foreign exchange, which can be used to purchase the capital goods required for starting new enterprises. This type of investment can be regarded as investment induced by primary foreign investment. This catalytic role could be played by the existing French rubber plantations.

But induced investment, $I = S$, it is clear, cannot be very important, because present conditions of underdevelopment and "hidden" unemployment mean that salaries paid to nationals would be low. An enormous mass of foreign capital investment would be required to enable sufficient salary accumulation capable of being transformed into capital for the development of national capitalism.

b) Limiting the Export of Earnings

The multiplier effects of any foreign investment are annulled by the export of profits. For this reason, attempts are being made to fix limits on the reexportation of profits.

- The corporate earnings tax is fixed at 22 percent.
- The "Development Surcharge" for 1957 is fixed at:
 - 32 percent of those earnings and dividends which rubber plantations seek to transfer;
 - 47 percent of those earnings and dividends which firms whose activities are vital to the economy seek to transfer;
 - 52 percent of those earnings and dividends which other firms recognized as contributing to the economic development of the Kingdom seek to transfer.

All of these measures, if effective, would permit the retention of part of the considerable profits of foreign firms for the purpose of

financing the formation of public saving, which would, in turn, be used for harmonious development of the economy. It must be said, however, that much of the impact of these policies is lost from the outset as a result of certain value transfers which we have already examined, these being readily concealed by pricing policies of subordinate firms, usually agencies or subsidiaries of "big international units."

The problem thus becomes one of finding a way to make measures deemed essential, more effective, ordinary exchange controls being inadequate. In our view, the only solution is a state monopoly of foreign trade in the major export commodities--rubber, rice, and corn.

Production would be left to private initiative. The state would purchase rubber, rice, and corn at prices which would leave a sufficient margin of profit for encouraging producers and export the goods to countries offering the best terms. Each of these measures would effectively discourage fraudulent transfers of earnings and render legal restrictions effective.

Note that if these restrictions were to become effective, they could not fail to force private foreign capital from the country. Rightly or wrongly, the big financial consortia would think of them as removing any incentive to invest in the country.

Can public international grants and loans at low interest then make up for defaulting private capital?

2. Public International Grants or Loans

Foreign aid poses no problem provided it does not involve political or economic subjugation. France currently provides invaluable aid for the country's development. Because it consists of capital goods and genuine technical assistance, this aid seems consistent with the development needs of the Khmer economy. Most of it goes into construction of a deepwater port at Sihanoukville (Kompong Som) which will probably be ready in June 1959, and into equipping Pochintong airport (Phnom Penh). From 1955 through 30 June 1958, French aid totalled 4.04 thousand million francs.

Socialist countries appear inclined to extend unconditional aid on the basis of the "five principles of peaceful coexistence." Thus, Cambodia should shortly receive aid of \$8 million from China. The High Council of Planning and National Development allocated this aid as follows:

Production	\$6,000,000
	(including 5 millions for construction of four factories--cement, paper, textile, and plywood)
Infrastructure	\$400,000
Social development	\$800,000
Administrative development	\$800,000

Soviet aid will be used to construct a 500-bed hospital at an estimated cost of about 400 million riels (4 thousand million francs).

To date, most aid has come from the United States. It is, however, the most controversial form of aid in official as well as public circles. Without going into the political and military combinations that Americans try to devise in distributing loans and grants, it is obvious that their aid is designed to enlarge commercial and private investment possibilities

by "opening the way," hence to perpetuate ancient economic relations for the benefit of the United States, relations which are, to be frank, those of domination.

Nevertheless and in all circumstances, avoiding or mitigating abuses in aid agreements will depend to a considerable degree on officials of the requesting country who are responsible for negotiating them. The Cambodian government enhances its efforts to diversify its sources of foreign aid by means of a peaceful foreign policy and by establishing relations with all countries without discrimination.

3. The Necessity of Relying Essentially on National Resources

Ultimately, it is necessary to rely upon national capacity to accumulate. All sound development must have firm domestic foundations. But how can domestic resources be mobilized to finance development?

Expert economists of the United Nations have envisaged several ways.² For example, they considered the possibility of financing some essential investments, not through the investment of saving, but by using gold and currency hoarded by certain individuals. It is estimated that in Southeast Asia and the Middle East, the hoarding of gold by certain people amounts to 10 percent of national income. This is probably an accurate estimate in Cambodia's case. The problem is finding a way to use these hoarded sums for capital formation. Naturally, such reserves could only serve this purpose once, but if their utilization were spread over five years, they would contribute to capital formation at a rate equal to 2 percent of national income for that period. This is not much, but it is certainly not negligible if the proposed objective can be reached. On this point, however, even the United Nations experts are very pessimistic. The resources are there, but how will they be brought into use? It is not even easy to resort to requisition, because available information about these resources is minimal.

In reality, recirculation of such resources prior to industrialization is unlikely to make a significant contribution to initial capital formation. Holders of such reserves will not be tempted to put their capital into use until industries have demonstrated a capacity to function satisfactorily, thereby creating new opportunities. This was the sequence of events, it appears, in the early stages of Japanese industrialization. The problem remains, then, one of finding the initial capital for launching industrialization.

The high percentage of available foreign exchange held in reserve to back the national currency and bank deposits immobilizes a substantial portion of foreign exchange holdings. But this is objectively necessary in the case of international integration of the economy, if only to counteract incessant fluctuations in the country's balance of payments. Consequently, these reserves cannot be mobilized for financing initial capital formation (see Chapter 5, Subsection 2).

Other policies conceived by United Nations experts for the economic development of insufficiently developed countries envisage the creation, extension, and improvement of organized saving networks.

²U.N., "Méthodes et problèmes de l'industrialisation des pays sous-développés," 1955; U.N., "Mesures à prendre pour le développement des pays insuffisamment développés," 1951.

Postal saving accounts exist everywhere and outnumber any other type of saving institution in Southeast Asia. In 1950-51, there were 381 postal saving accounts in Burma, approximately 200 in Malaya, 9,300 in India, 478 in Indonesia, etc.³ However, United Nations experts are themselves disheartened by the result of these experiences. It was observed that:

- (1) Savings entrusted to major establishments set up for the purpose of capital accumulation are relatively limited and that most voluntary saving is entrusted to commercial banks;
- (2) Net amounts held in postal savings accounts are declining in most countries, and nowhere is savings growth really important. Moreover, the volume of savings certificates sold and net annual increases in sales are very low.

We will take up the first point later when analyzing the banking system. For the time being, let us concentrate on the second observation. What would account for the lack of success of these institutions? Some suspect the low rate of interest given to depositors. Raising interest rates, however, would amount to squandering the mobilized saving through increased costs. It is hard to see what good this would do.

In reality, United Nations experts appear to have underestimated the importance of the milieu for which "methods" or "policies" are being proposed. It seems to us that the problem is first and foremost that of *creating an environment conducive to development*, of finding an *internal dynamic*. In this search, it is important to assess qualitative factors and to make some essential distinctions.

In European capitalist countries, development resulted from a "desire to accumulate and to invest" on the part of entrepreneurs. Such an entrepreneurial class does not, however, exist in most underdeveloped countries. Those holding the largest incomes susceptible to saving spend them on luxury goods, especially imported ones, and on real estate "investments" (in Cambodia, construction of houses and villas; in other countries, acquisition of land), or on tertiary "investments" (trade, usurious money-lending). A portion of these incomes is hoarded. Trends influencing holders of these incomes are themselves intimately tied to the precapitalist structure of the national economy (see Part I). Is it then possible to redirect the economic behavior of these social groups without tampering with the economic structure itself?

4. The Necessity of Extensive Structural Reform

In our view, the steps which need to be taken more closely resemble a social and political program for the destruction of ancient precapitalist economic relationships and the creation of an integrated national capitalist system than a technical program for the mobilization of the means of finance.

Let there be no misunderstanding of our proposition.

We are not proposing to eliminate the classes having the highest incomes. The structural reform which we are proposing does not tend to eliminate the contributive capacity of these groups. Rather, we believe ways can and must be found to bring out their contributive potential by attempting to transform these landlords, retailers, and usurers into a

³U.N., "De la mobilisation des capitaux nationaux dans certains pays d'Asie et de l'Extrême-Orient."

class of industrial or agrarian capitalist entrepreneurs. An effort will thus be made to deter them from unproductive activities and to encourage them to participate in production. In the city, an effort will be made to transfer capital from the hyperactive commercial sector into more directly productive sectors. In the countryside, there will be a struggle for reductions in usury and rents. We have already seen how usury and rents divert revenue from land improvement, irrigation and drainage, or rational utilization of agricultural equipment. Direct struggle for reductions in rents and usury and the prospect of industrialization, for which the state must take initial responsibility, would induce landlords to "reorganize" their property, gradually to replace outmoded techniques of cultivation with capitalist methods involving the use of capital and salaried workers.

To effect such a profound transformation, isolated measures will not suffice. At the beginning, at least, a package of very strict measures appears absolutely essential. And among these, those concerning foreign relations come at the top of the list. Without an appropriate solution to the problem of relations with the outside, we do not believe it is possible to speak cogently of structural reform and self-directed development.

Section II. Foreign Trade Which Facilitates Autonomous Development

With regard to relations with the outside, two closely associated problems must be solved:

- (1) How to control relations with foreign countries;
- (2) How to engage in foreign trade which facilitates industrialization.

Before suggesting a possible solution, we will first consider how these problems arise.

1. The Need to Control External Relations

The first issue before us is whether or not it is possible to engage in structural reform and autonomous development while simultaneously strengthening international integration. This appears to be the essence of advice from United Nations experts. Yet it is precisely this international integration which fostered the present structure and which sustains it. In our opinion, it is impossible to envisage autonomous development without prior restriction of international integration, that is to say, restriction of free trade.

The fact of the matter is that the abstract principle of free trade conceals the actual absence of liberty for national entrepreneurs and the exclusive liberty enjoyed by foreign businesses. Friedrich List had already demonstrated this point.⁴ List rebuked the liberal school basically for reasoning as if the world were composed of isolated individuals producing and exchanging goods in unfettered freedom, for this state of affairs never obtained. In practice, individuals are grouped in nations with whose prosperity they are closely associated. The fact that a nation might prosper does not mean that each of its constituent members enjoys wealth, to be sure. But it is certain that individuals cannot separate their fate from that of the nation to which they belong. If the nation

⁴See J. Marchal, *Cours d'économie politique*, T.1, p. 116. Bouvier, *F. List*, 1938.

declines, they will more or less suffer the consequences. If the nation develops, they might have greater opportunity to improve their lot. *The fundamental fact which economists ought to take into consideration is therefore not the individual, but the nation.*

The nation often displays characteristics differing from those of the individual. It is blessed with longer life. An individual can devote himself to amassing the greatest possible wealth; a nation must subordinate wealth as such, which is momentary, to the capacity to create wealth, the capacity which will benefit consecutive generations of the nation. In opposition to the liberal theory of exchange, List posits the theory of "productive forces." And he is categorical on this point: within a system of free trade, a country cannot industrialize regardless of the resources at its disposal.

List, it is true, specified that not all nations can become what he calls an "agrarian-manufacturing-trading-state" and that, in general, tropical countries have to make the most of their natural agricultural advantage and accept specialization. Free trade is the best means of doing this. In making such a statement, List allies himself with liberal theory in one instance, while criticizing it in another. Free trade will enable tropical countries to benefit from a natural advantage and to benefit still more from technical progress achieved elsewhere in the world. If this were really the case, each technical innovation in industrial countries which entails lowering the costs of production of manufactured goods would amount to a lowering of their prices in relation to prices for agricultural goods. In other words, the terms of exchange would improve in favor of agricultural countries. But this has not in fact happened, either in the case of underdeveloped countries as a whole or in the particular case of Cambodia (see Part I, Chapter 3).

The 1954 GATT agreement on world trade emphasizes the fact that from 1938 to 1952 the exchange of goods between industrial and nonindustrial territories increased only 7.3 percent, while the volume of all world trade increased 16.3 percent. These figures demonstrate that trade among industrialized countries is developing more rapidly than trade between industrialized and nonindustrialized countries. Industrialization of underdeveloped countries would thus appear to be the very condition for expansion of world trade and not simply the prerequisite of agricultural progress within these countries. No country can industrialize, however, within a system of free trade.

It is worth noting that the historical experience of all advanced capitalist countries confirms this need to control external relations.

In the past, during the mercantilist era, industrialization occurred in conjunction with a nearly total ban on imports. And protectionism lasted a long time in liberal capitalist countries. Great Britain, fatherland of free trade, was strongly protectionist at the beginning of the nineteenth century. It banned importation of the then more competitively priced Indian goods. France followed suit. Principles advanced by Friedrich List in *Système national de l'économie politique* guided German industrialization. The United States also prohibited importation of European consumer goods.

More recently, the only periods of serious industrialization in underdeveloped countries arose during periods of world war, a time when forced autarky reduced foreign competition and cut off foreign capital.

The period of isolation was very brief in Cambodia, as the country was quickly absorbed into the Japanese imperial orbit. Imports were not

greatly reduced by the war. In spite of this, some productive enterprises were able to emerge.

The Argentine example is even more striking. There the authorities did not stand aside as victims of the situation, but actively sought to exploit it. A state quasi-monopoly on external trade which extracted commercial profits from landlords, wholesale speculators, and foreign businesses financed industrial progress. Thus, industrial production increased by 80 percent between 1938 and 1951. At the present time, Peronism is faltering because the government attempted to solve the economic difficulties that have issued from a reversal of the situation on the external market after 1949 by inflation and recourse to foreign capital investments, measures which also reinforce land renting, import growth, and decline in domestic investment.

2. Foreign Trade as a "Dynamic Organizing" Element

Regulation of relations with foreign countries is essential. This is a matter of reserving the domestic market for national industries and restricting competition from foreign goods, supervising foreign capital movements and transfers of earnings, and, in general, working the economy out of the entanglements of international integration. But control of foreign relations is not enough. It would be unsatisfactory to exit from international integration only to enable the "natural" mechanism of disintegration of precapitalist structures to come into play. The process would be too slow and too painful for the majority of the population. European countries required the sixteenth, seventeenth, and eighteenth centuries to complete the destruction of ancient precapitalist economic relations and to secure a firm base for capitalist development. Such a pace was permissible because the whole world was at about the same level of development. But to adopt this pace in the twentieth century, when most countries are advancing by leaps and bounds, is tantamount to leaping into bankruptcy. Responsibility for development thus falls upon the government, whose policy orientation must demonstrate conscientious concern with structural reform. External trade must be one of the means whereby the state effects this reform and accelerates development through use of the undeniable advantages of external exchange, and in so doing allows national industry to acquire the material it needs for its rapid expansion.

In this way, importing should enable the national economy to acquire the means of production and raw materials. Nonessential imports should be held to a minimum. By limiting imports of vegetables and fruit, wheat flour, tinned meat and fish, sugar, tinned vegetables and fruits, beer, tobacco, cigarettes, i. e., goods that can be produced immediately in the country, and by reducing imports of wines and aperitifs, spirits, and other alcoholic drinks and liqueurs--equally nonessential items--at least 80 percent of the foreign exchange spent under the heading "Agricultural, Livestock, and Food Products" could be saved. In the same way, reducing imports of cotton, rayon, and other fabrics would save 40 percent of the foreign exchange expenditures falling under the heading "Textiles." The entry for "Metals and Metallic Products" could be reduced by 30 percent by restricting the importation of automobiles, certain "metal products" and "appliances" such as radios, refrigerators, and other luxury goods. In total, 40 percent of the amount spent on imports could be cut immediately in anticipation of eventually being able to produce other goods such as cement, cotton fibers, fish nets, iron for the manufacture of farm implements, certain chemical products, certain rubber products, and some paper, so as to be able to save on imports of these as well.

Reducing imports by 40 percent would serve only to balance the country's foreign account, it is true. But stabilizing the account might

create more favorable conditions for development, and this should not be overlooked. Moreover, an effort might be made to increase exports. To this end, the range of exports might be extended: tropical fruits which the country already possesses in abundance, such as oranges, pineapples, bananas, and others; national handicrafts such as silverwork, straw mats, and wooden, ivory, leather, and bronze objects, and the like. Exchange flows might then be diversified by strengthening trade with all countries. Pursuing this line of thought, trade with highly industrialized countries might be distinguished from that with other underdeveloped countries, themselves on the road to industrialization.

- (1) Cambodia will sell raw materials to industrialized countries and purchase capital goods. On this level, new possibilities are available through expanding trade with socialist countries. Thus, while maintaining traditional outlets in advanced capitalist countries, Cambodia could open up additional outlets for its agricultural commodities and raw materials and improve its terms of trade.
- (2) Cambodia could sell agricultural products (raw materials or foodstuffs) to other underdeveloped countries engaged in the process of industrialization and purchase minerals from them. Generally speaking, underdeveloped countries in the process of industrializing might serve as new outlets for each other. Countries producing minerals might be in need of agricultural or consumer goods which they are unable to produce themselves. Countries producing agricultural goods might require minerals.

As can readily be seen, our view is rather far removed from the theory of comparative advantages. If we were to follow this theory, Cambodia would have to specialize in agriculture. Each nation must specialize in whatever it enjoys the best advantage.

Numerous criticisms of this theory have already been made. Indeed, the problem of balancing the foreign account is rendered abstract as the theory assumes equilibrium exists *a priori*, or to be more exact, assumes homeostasis in the balance. Historical experience is sufficient proof that such an assumption misrepresents reality. Another reproach, more serious than this, is the essentially static nature of the theory. It is based upon comparison of productivity at a given moment in time. It is a valid indicator of what each country should be exchanging at any given moment, but it does not allow for generalization over time. It cannot be assumed that returns from receipts will remain stable in the long term. This would amount to assuming such advantages are "natural." This is only partially correct, as technical developments are capable of overturning "natural" determinants at any time. Technical progress is, however, only possible with economic development as a whole, development which can only come about by dislodging a more dynamic capitalist structure from the pre-capitalist structure, and it is precisely this notion of structure that the theory of comparative advantages ignores; that is the fundamental criticism to be lodged against it.

The problem before us now is to decide what represents the greatest sacrifice for the national economy: renouncing economic development for the purpose of securing immediate advantages issuing from international exchange, or renouncing immediate exchange opportunities for the purposes of economic development while searching for an internal structure capable of contributing more effectively to the development of productive forces on a national level. While it is true that it is more advantageous for a backward country to import industrial goods rather than to produce them at any one point in time, it is equally true that in the long run such a

country could never really improve its industrial overhead while engaging in the speculation envisaged by the theory of comparative advantages.

In a study undertaken by the League of Nations,⁵ it was calculated that underdeveloped countries would have to multiply their importations by sixteen and increase their exports by an equal amount in order to be able to consume \$52 worth of industrial goods per capita, that is, half as much as in industrial countries. Needless to say, such a development is impossible. Even if agricultural countries could ever produce this amount, they could not be certain of being able to sell such a surplus. "It is clear that international trade alone offers no practical possibility of reducing the enormous differentials existing among countries with respect to industrial overhead."⁶

Moreover, an ever increasing number of authors assert that an important increase in productivity, income, and standard of living in general would be achieved if surplus labor from agriculture, where marginal productivity is nil or nearly so (hidden unemployment), could be employed in industrial development.⁷ Nurkse and United Nations experts, it is true, distinguish "overpopulated" underdeveloped countries from "underpopulated" underdeveloped countries. For the latter, the only possible solution remains improvement of export agriculture so as to free needed manpower. In our view, classifying underdeveloped countries as over- or under-populated is artificial and ultimately pushes analysis back to the notion of population density. In reality, relative overpopulation exists wherever pre-capitalist structure dominates agriculture. We have already seen that the Cambodian peasant works only one day out of two. More rational organization of the economy would secure the same level of production with fewer peasants and without much more capital. The important thing, then, is to adjust the principal proportions of the division of labor within the nation without excessive preoccupation with immediate advantages from foreign exchange, or, to be more precise, the foreign exchange allowed under the state's careful direction must be devised to encourage this adjustment.

3. The Nationalization of External Trade in Major Commodities: Rubber, Rice and Corn

Rationally established customs duties can be useful for protecting emerging industries or in any situation where importing is deemed necessary and likely. They were the only means employed by advanced capitalist countries in the course of their industrialization. But if tariffs were effective when industry was not yet well developed in the world, it seems they are less so at the present time. Industry in already-powerful, advanced industrial countries--owned, in addition, by big international units--has the capacity to break tariff barriers (notably by dumping) so as to compete with local industries still reduced to the craft stage.

Would a quota system be more effective? It seems not. Pressure to import comes not only from outside but also from within the country from

⁵ League of Nations, "Industrialisation et commerce extérieur," New York, 1945, pp. 22-23.

⁶ Ibid.

⁷ Nurkse, "Problèmes de la formation du capital dans les pays sous-développés," Oxford, 1953; Lewis H. Bean, "Etude sur les revenus et sur l'économie," Institut National de Recherche Economique, New York, 1946, Tome VIII; U.N.O., "Mesures à prendre pour le développement économique des pays insuffisamment développés."

those with highest incomes. These would be the first to become accomplices in smuggling. Customs services would never be able to stop it.

Moreover, this is not just a matter of controlling the movement of goods, but the movement of capital and earnings as well. Neither customs duties nor quotas would suffice. Exchange controls have proven equally inadequate. The failure of multiple exchange rates, however skillfully devised, is also generally acknowledged. We have already dwelt at some length on the reason for this (see Part I, p. 42).

Alongside the problem of control, another imperative must not be overlooked: a conscious policy for launching the economy out of its backwardness.

Is it really possible to engage in active foreign trade without the state directly assuming responsibility? One can legitimately doubt it. Indeed, we have already seen that the structure of external trade is ordered by the structure of the economy as a whole. And in the final analysis, the task at hand is to transform this structure. External trade, which currently plays a passive role, must be seen as a state instrument for consciously changing this structure. Public authorities must take responsibility for development, because the self-adjusting economic mechanism brought into play by international integration will never create an integrated national economy, and because the increasingly pronounced dualist character of the underdeveloped economy slows down its development.

Each of these arguments militates in favor of the creation of a state monopoly on foreign trade in the major commodities (rubber, rice, and corn), production being left to private initiative. The state will purchase these commodities at prices which give producers a sufficiently large profit margin for incentive, and then the state itself will export the goods. From then on:

- (1) No value transfer could be camouflaged.
- (2) Illicit imports would be cut off at the source, as 80 percent of all foreign exchange would be controlled by the state.
- (3) The state would dispose of foreign exchange in such a way as to alter the import structure. Thus, it could reduce imports of consumer goods so as to increase imports of capital goods for private enterprise and, more important, for the enlargement of a public sector capable of playing a commanding and leading role in the economy. We will see that such a public sector is indispensable for upholding and guiding nascent private industry.
- (4) The government could use earnings from external trade for shoring up the industrial sector: finance for the public sector and investment credits for the private sector. Eighty percent of Cambodia's external exchange (imports and exports) amounts to 2.5 thousand million riels per annum. With a profit of 10 percent, which is certainly much less than that currently made by foreign import-export firms, nationalization would net 1.2 thousand million riels for a first quinquennium. The volume of exports should in theory enlarge in the context of an expansion policy, as should the volume of imports, the prohibition of nonessential imports being largely offset by urgent developmental need for capital goods and industrial raw materials. Profits from external trade are therefore bound to rise over the years of industrialization.

External trade would in this way become an important source of accumulation, even as it facilitated structural reform.

Section III. Cambodia's Industrial Prospects

1. Autonomous Development and International Cooperation

We have commented that the problem of industrialization in Cambodia requires a fundamental choice: autonomous development or development through international integration.

It should be emphasized that the autonomous development which seems objectively necessary to us and which implies state control and direction of foreign trade does not imply autarky. Autarky is inconceivable for a small country such as Cambodia. On the contrary, we have already argued in the course of examining foreign trade that we would hope to profit from a century's accumulation of technical innovation in developed countries, and, as noted in the course of this argument, that foreign trade represents one very important source of accumulation (industrial capital issuing from reinvestment of some commercial capital, profit from public and private enterprises, shift of some land rent from luxury consumption to public and private saving formation, etc.). Simply put, it seems to us that state control over external trade is necessary to ensure that the country can make use of the undeniable advantages of external exchange to permit new industry, public and private, to acquire material quickly for its development.

It is also appropriate to emphasize the necessity for Cambodia and the majority of Southeast Asia's underdeveloped countries to coordinate their industrial efforts. Indeed, most of these countries are small, having an average population of 20 million, with Laos at one extreme (1.5 million) and Indonesia at the other (82 million). The basic shared characteristic, which is smallness of domestic market, might preclude industrialization if this process is conceived as a discrete phenomenon bounded by national frontiers. Modern technology, be it a steel mill, machine assembly line, or textile plant, brings returns only when a certain scale of activity is attained. Under these circumstances, it seems to us that agreements tending to create a measure of *industrial* specialization among countries would offer the industry of each a larger market better adapted to modern productive technology. We use the term industrial specialization because such specialization, which is avowedly based on equality and mutual interest, is far removed from that which fostered the distinction between agrarian countries and industrial countries, or even that which attributes heavy industry to one country and light industry to another.

2. Immediate Possibilities for Industrialization

We will not hide the fact that industrialization will be a long process for Cambodia. The difficulties involved therein emerge of their own accord by examining the requisites of industrialization, as we are attempting to do here. They issue not only from a retarded economic structure, but also from the smallness of Cambodia's domestic market. This latter difficulty means that industrialization of the country depends not only upon the will and the effort of the Khmer nation, but also upon that of other Southeast Asian nations.

Meanwhile, we must defend the country's political and economic independence, independence gravely threatened by constant deterioration in the external account. There is, moreover, the problem of meeting the most urgent needs of the mass of the population. Under the circumstances, it is obvious that major efforts must be concentrated on developing handicrafts and small industry. It is often argued that protecting and

promoting such industries, which have low productivity, amounts to a loss in real income for national consumers, a loss which can be measured by the difference between the new product price and the price that would have been paid had it been made by foreign plants with higher productivity. In our opinion, this view overlooks the fact that even though foreign goods are more competitively priced, they might still be too expensive for the mass of the population due to their precarious purchasing power. Handicrafts and small industry, in contrast, would provide work for this population of "real" or "disguised" unemployed. We would include among the latter the large number of peasants who waste a lot of their time catching crabs and chasing crickets for lack of more remunerative work as well as all who are linked to overdevelopment of the "tertiary" sector, from small itinerant cake venders to shoeshine boys, and including part of the throng of intermediary tradesmen and civil servants. Handicrafts and small industry would offer mediocre employment to this mass of unemployed ("mediocre" by comparison with employment in large modern industry), but employment nonetheless. Moreover, handicrafts and small industries exist all over the country, use most existing raw materials, and can supply some export articles which would allow Cambodia to receive materials and machines essential for development of future large industries.

Then, too, it must not be forgotten that the market enlarges with the ever-expanding volume of money incomes distributed in the course of employing workers in every new industry. And in order to make better use of the nation's resources and to raise the average standard of living in the process, there must be a family assistance and birth support program and an effort to reduce infant mortality. In this way, the national market would enlarge, and the labor pool required by increasingly larger and heavier industry would expand. Finally, as industry develops, the immigration which is now a "burden" for the economy will supply labor and new markets. There will no longer be any reason to fear immigration as people are inclined to do at the moment.

All things considered, there is no justification for concluding that the Cambodian market is permanently fixed in size or that it is impossible to set up modern factories in the country.

CHAPTER 5

THE FINANCIAL SYSTEM IN THE SERVICE OF INDUSTRIALIZATION

Finance, money, and credit are central to the country's effort to industrialize. They can and must serve as levers to establish and guide development of the national economy. In this chapter, we will examine ways in which the banking system and the budget might serve these ends.

Section I. Money and Credit in the Service of Industrialization

1. History of the Current Monetary System

The current system is the product of a long historical evolution. When the French expeditionary corps began its occupation of Cochinchina (South Viet Nam), it secured necessary funds by means of treasury drafts negotiated in Hong Kong or Singapore, where the Mexican piaster was the only local currency.¹ The French treasury, for its part, held some piasters as a result of transactions following the Mexico expedition; it was delighted to get rid of them by sending them to Cochinchina. Thus, the Mexican silver piaster became the monetary unit of Indochina and without any specification of its value. It was not until 1878 that a French piaster with a legal value was minted. The new piaster was pegged at 27.215 grams of 0.900 pure silver.

However, the most important movement in monetary history of the last two centuries began in 1873. This was the fall in the value of silver following discovery of easily exploited deposits. Amidst incessant fluctuations, silver steadily dropped in value from 50¹/₁₆d per standard ounce in London in 1884 to 17²/₃₂d in 1930.² This meant that the price for rice produced by Lao, Vietnamese, and Cambodian peasants, as calculated in bullion, dropped substantially with devaluation of the currency paid to them.

From the moment the decline in white metal began, countries such as Germany, Denmark, Sweden, Norway, and Holland anticipated the inevitable break between gold and silver and took immediate steps to avert catastrophe by replacing the silver standard with a gold standard. Nothing was done in Indochina, even when the Latin Union itself suspended the minting of silver in 1874. The Bank of Indochina, which held a monopoly on money issue after 1875, chose to profit from this monetary instability to amass the capital required for the "*mise en valeur*" of the colony.

There was no reform until 1930. It was, moreover, achieved against the will of the Bank of Indochina, thanks to increasingly strong indigenous public opinion. The system set up by this reform was initially a "gold bullion standard," but in the course of events, it rapidly became a "gold exchange standard." Indeed, the Bank of Indochina had been gradually

¹ André Touzet, *Le régime monétaire indochinois*.

² *Ibid.*, pp. f. II, 20, 42, 48.

forced to convert its bullion assets into franc assets due to the need to back up cash holdings of the Bank of France. The decree of 2 October 1936 stripping the piaster of its free gold parity and fixing its value at 10 francs finally formalized the trend of events.

Indochina's integration into the franc zone was virtually complete at this point except for the fact that the Bank of Indochina, which retained its issue function, still had great autonomy vis-à-vis the Bank of France. In point of fact, other French and foreign banks already regarded the privileged position of the Bank of Indochina, which was their superior among equals, with a slightly jaundiced eye. They wanted the Bank's issue function withdrawn and vested in a "public service" that would use it in the "general interest." "Local" public opinion also favored withdrawal of the issue function from the Bank of Indochina, but rather than vesting it in a unitary "public service" of the colonial administration of Indochina, it favored creating currency boards attached to each of the state governments, boards which would be independent one from the other. In response to this conflicting pressure, a parliamentary act of 25 September 1948 officially withdrew the issue function from the Bank, but it was not until 1951 that this decision was actually implemented. This coincided with a convention finalizing the Pau accords of December 1950, which founded a money issuing institute in Phnom Penh as part of a "quadripartite" system. This new system successfully placated the other French and foreign banks, but not "nationalist" opinion, which was becoming increasingly vocal. For this reason, monetary independence would come to each of the three states of Indochina following the Geneva Accords of July 1954, in agreements concluded in Paris on December 29 of the same year.

2. Characteristics of the Current Banking System

The new banking system superficially resembles the system currently operating in France--a central bank with powers of issue and an exchange office regulating external transactions under authority from the central bank.

We say "superficially," because in reality the system is not completely independent of the power of foreign banks.

A. Foreign Banks Still Control Credit and Money

Statutes governing central bank and commercial bank relations imply that the balance of power in credit management lies with the former. Nothing of the sort exists in Cambodia. Instead, a currency bank disposing of more or less paltry foreign exchange reserves is ranked against branches of large foreign banks.

In advanced capitalist countries, "credit management" is handled by means of a treasury bonds market (open market operation in England) or by means of rediscount rates (Bank of France). It can also be done through a "liquidity margin," whereby the central authority requires commercial banks to hold its credit operations to a certain percentage of its cash deposits.

In Cambodia, a securities market, in general, and a bond market, in particular, cannot be created in view of the very structure of the economy, a precapitalist structure. This means that the central bank is effectively prohibited from operating an open market. The bank can still manipulate rediscount rates and adjust "liquidity margins." It should be realized, however, that foreign commercial banks can and do bypass rediscounting by the issuing bank for the simple reason that they are richer than their

juridical superior. If they have need, nothing forbids them from drawing advances from head offices in France, Japan, Hong Kong, or the U.S., which are repaid when due. More often than not, such advances are arranged by written authorization without any actual displacement of exchange. An adjustment of the ratio of reserves to credit extensions or changes in re-discount rates cannot in any way alter their basic financial policy. That remains, in reality, a matter of their exclusive discretion.

It will be said that the presence of exchange controls in Cambodia does not allow us to be so categorical. Does the current system of "flexible control" prevent foreign commercial banks from calling for capital from their head offices in Paris, Tokyo, or New York to fuel inflationary growth in credit against the wishes of the National Bank? It is highly doubtful. Indeed, "flexible exchange controls" in contrast to "fixed controls" are specifically designed to allow private foreign capital contributions to the country's development. How then can capital entering "for investment" be distinguished from capital that banks import for the purpose of maintaining liquidity?³

The Exchange Office would be too delighted to have some foreign exchange even to consider the possibility of opposing the entry of banking credit. Moreover, when bank accounts once again surpass "needs," and when deposits once again begin to flow in, which would necessarily happen after a more-or-less long period of time (see Subsection B, below), there is nothing to stop these foreign banks from repatriating their capital in real terms in the course of export-import trade. Even an exchange bureau with the best of intentions cannot prevent this, as we have already explained.

Therein lies one of the essential explanations for monetary instability. Foreign banks can unleash inflation at any moment, often in concert with foreign import-export monopolies. They might be inspired by the need for speculation or just simply the desire to effect income transfers in their favor at the expense of "small savers," or yet again by the desire to create difficulties for the central authority to force it to abandon any policy which might threaten their immediate interests. This last motive appears to be more conspicuous as independent development of the country gradually becomes the central preoccupation of the national government.

Let us assume now that the external account has just plunged into serious deficit (accepting that this is not merely idle speculation for the sake of argument). Banks can refuse to grant credits. They might decide to force the central banking authority into making political or economic "concessions." The government could not hold out for long, only as long as its exchange reserves would allow. It might be argued that such a situation will never occur, since reserves backing the riel continue to grow each year; in spite of a marked increase in the money supply, the reserve rate grew from 65 percent on 31 December 1957 to 71 percent on 31 December 1958. By this last date, "gold and exchange" holdings totalled more than 3,366 million riels, an increase of 610 millions over the 31 December 1957 figure. It must not be forgotten, however, that this cover results mostly from American aid, and there are no guarantees that this aid will be forthcoming in a permanent and regular fashion. The experience of these last few years would suggest just the opposite.⁴

³ See the special number of *Revue économique*, "Distribution et contrôle du crédit," 1951.

⁴ [American aid to Cambodia was temporarily suspended in 1955 at the time of the Thai and South Vietnamese economic blockade. In 1958, following a South Vietnamese military foray into Cambodia's northeastern frontier

It is therefore apparent that for all practical purposes the International Cooperation Administration in Phnom Penh and the foreign commercial banks control the monetary destiny of the country. It is rather easy to predict that the role of the ICA will become more and more central as international integration continues. It will, in practice, take up the role just abandoned by the Bank of Indochina.

B. Banking Credit Trends

The 1955 fiscal year report of the National Bank of Cambodia records the following:

Nearly all short-term credits granted by private banks went into the commercial sector, where activity--in contrast to the productive sector--was expanding: 187 millions in January, 325 millions in December. . . .

Not only was volume of medium-term credit very low, but it contracted over the year: 17 million riels in January, 6 millions in December. . . . A profound imbalance existed between commerce and agriculture, and the permanent necessity for agriculture to appeal to extra-banking money market was noted.

The 1956 fiscal year report records:

As in the past, nearly all commercial bank operations involved import-export trade and currency exchange. . . .

Credits to commerce and to a very limited extent, to productive activities (other than agriculture), grew from about 200 million riels at the end of January 1955 to slightly more than 300 millions at the end of December 1956.

This peculiar credit pattern typifies the banking system functioning in Cambodia: most short-term credits go into import-export commerce.

a) Explanation of the Phenomenon

The reasons for this particular credit trend are both subjective and objective.

Subjectively speaking, it must be understood that foreign commercial banks did not establish themselves in a country in order to stimulate the mechanisms of capitalist development. They opened branches for the express purpose of servicing international trading operations.

Moreover, we have already observed that international integration of the economy forced peasants and artisans into ruin. Banks are not concerned with helping these peasants and artisans. They are not supposed to loan money to enterprises on the verge of collapse, but rather to those experiencing growth. The usurer who speeds up bankruptcy and auctions off the belongings of peasants and artisans performs this social function better than the banker who avoids such ill fortune.

These banks, we have said, came to facilitate integration of the economy into international trade. By ruining peasants and artisans, this

region, the Sihanouk government requested U.S. help in restraining the Vietnamese. The U.S. refused to intervene and instructed the Cambodians not to employ American aid-supplied arms against the Vietnamese.]

integration strengthens the precapitalist order, by definition ignorant of the uses of capital and credit. In this manner, an objective reason serves to reinforce subjective thinking.

b) Effects of This Banking Credit Trend

This trend issues in large measure from the concrete structure of the economy. But in turn it contributes in equally large measure to the distortion in the economy: only one sector enjoys the privilege of having a sufficiently elastic money supply for meeting its "needs." Meanwhile, the greatest constraints paralyze capitalist expansion in other sectors.

C. The High Degree of Liquidity in the System

In the course of the years 1955-57, "cash-in-hand" totalled 49 percent of banking assets (monthly average). The liquidity ratio for the same years calculated according to the formula:

$$\frac{\text{Cash and Foreign Holdings}}{\text{Deposits}}$$

is 74.7 percent, which is extremely high.

For comparison, here are data on cash holdings as a percentage of deposits in major advanced capitalist countries:

	<u>1929</u>	<u>1936</u>	<u>1937</u>
Germany	2.4	2.4	2.7
United States	12.7	35.8	35.8
France (deposit banks)	15.1	25.1	22.7
United Kingdom (adherents of London Compensation Board)	12.9	12.9	10.2

The degree of liquidity in Cambodia's foreign banking system would thus appear to be extremely high. Nor is this phenomenon peculiar to Cambodia. The same situation exists in most underdeveloped countries: in Burma, the liquidity ratio oscillates around 60.4 percent for the years 1941-42, and in India around 67.85 percent for the same years.⁵ In recent years, the marked decline in liquidity in these countries might be attributed to partial restriction of international integration and to subsequent industrial progress which has noticeably modified the structure of the economy. In general, this high degree of liquidity grows from the disparity between sources of deposits, which are numerous just the same, and the limited local possibilities for credit advances owing to system inertia.

a) Sources of Deposits

For the most part, deposits appear to come from import-export firms. In addition, deposits by Cambodians and by numerous European individuals amount to a large reserve saving component⁶ or even hoarding. These

⁵See U.N.O., "De la mobilisation des capitaux nationaux dans certains pays d'Asie et d'Extrême-Orient."

⁶[Reserve saving denotes money put aside by consumers for the purpose of future expenditure on consumer goods; it should not be confused with creative saving, which denotes a portion of net income set aside by would-be investors.]

reserves, or part of them, would thus have been out of circulation, and without risk.

Movement in the deposit index is as follows:

<u>31/i/1955</u>	<u>31/xii/1955</u>	<u>31/xii/1956</u>	<u>31/vi/1957</u>	<u>31/xii/1957</u>
100	304	349	391	242

From January 1955 to December 1955, net growth in the volume of accounts would be related to the transfer of Cambodian or resident foreign (business and individual) accounts from agencies and foreign banks in Viet Nam (more precisely in Saigon) to branches of the same banks in Phnom Penh, as required by the dissolution of the "quadripartite" monetary and customs union.

This shift most likely continued throughout 1956 and 1957, but it is also likely that the growth in the indices reflects some growth in deposit volume as a result of the undeniable enrichment of a certain social stratum benefiting from American aid (tradesmen, importers-exporters, traffickers, and part of the high civil service). There is a sharp drop in the index in December 1957. This seems rather closely related to movement in the external account, which, after having shown conspicuous improvement during the first half of the year owing to reforms undertaken by the government during the last half of 1956, reverted to form in July after reform policies were abandoned in February 1957 (see Chapter 4). The abrupt increase in the deficit in November and December brought a noticeable fall in deposits, which as we have seen come mostly from importers and exporters. This fall would thus seem to be temporary, because it is linked primarily to movement in the deficit and not to absolute size of the deficit.

This concurrent movement in the balance of the foreign account and in deposits has tempted some to see therein a justification of the "preference for liquidity." We must, however, emphasize that this correlation can only be observed in the short term. In the long run, deposit volume varies with income growth among depositors, principally import-export firms, "Europeans," and part of the high civil service. This volume is wholly independent of movement in the external account and will always be increasing.

While it is true, then, that disorders in the balance of payments automatically foster movements in deposits and, in general, in monetary holdings, the credit policy of commercial banks can and even must counteract these movements when they exceed the limits denoted by "monetary need." A foreign bank can never lack riels to meet eventual withdrawal demands from Cambodian depositors. If Cambodian importer-exporters come in large numbers to withdraw funds for the purpose of settling an external account through the Exchange Office, or even if they come to request credit from the bank and some of this is desired in the form of foreign exchange, our foreign bank can remit franc, sterling, dollar, or yen currency through its head office in Paris, Hong-Kong, New York, or Tokyo for use there, and make use of the riels later. This is usually handled by written authorization without any actual transfer of currency. It doesn't seem logical, therefore, to explain the "liquidity preference" of foreign banks by citing the need to accommodate fluctuations in deposits. This "preference" could only be justified for local banks (possibly including the National Bank) which lack lines of credit in Europe or in North America.

This pronounced "preference for liquidity" among local banks, as shown by high levels of cash holdings and balances with the Central Bank and in comparison with total credit operations, must be attributed entirely to the disparity in financial clout among local and foreign banks. "Need" hardly justifies the practice of foreign banks. Let us be clear that in spite of

chronic deficit in the balance of payments, foreign banks only rarely solicit credits from their head offices to accommodate any sort of massive run on deposits. In December 1957, the liquidity ration remained high and held at 53.3 percent despite the reduction in deposits. Foreign assets were almost unchanged and reached 15.5 million riels, that is, more than 13 percent of total assets; in normal times, this figure averages about 16 percent of all deposits.

In this manner then, the sources of deposits are important after all. Their investments as they accumulate would have left behind real productive potential that would not have suffered the depreciation which affects the value of money.

Let us make clear that this is not a matter of committing short-term savings to long-term investments (as the Germans and Japanese dared to do) but of making productive investments with savings set aside for the long term by their owners. It is remarkable that foreign banks have not even tried to use funds in the short term to increase liquidity in all local sectors, especially the small industrial sector. There are profound reasons for this inertia.

The explanation lies in the objective realities of the system: industrialization of the country is unprofitable due to foreign competition. Moreover, banks closely tied to big foreign firms do not wish to create competition for them. They restrict their credits to import-export trade almost exclusively, a policy which is revealed by the smallness of advances.

b) Small Volume of Credit Advances

The smallness in the volume of advances is reflected in the ratio:

$$\frac{\text{Loans and Advances}}{\text{Money Supply}}$$

In 1955, the ratio was 11 percent; in 1956, 14.8 percent; in 1957, 20.3 percent.

Money in Circulation (millions of riels)	Loans & Credit in local value (millions of riels)	Percentage
Bills and Demand Deposits:		
31 December 1955	3,000	329
31 December 1956	3,700	541
31 December 1957	4,000	812

Source: *Bulletin de la Banque Nationale du Cambodge*.

There are numerous reasons for this. First, there is one objective reason: local use of this saving is not profitable, as we have pointed out. Second, the foreign industrial and agricultural sector has rather limited use for local currency. Such saving, because it is local, cannot meet its needs, even for day-to-day operations, for these involve external transactions and thus foreign exchange (for the purchase of raw materials, spare parts, packaging, etc.).

3. The Banking System in the Service of Industrialization

Foreign banks have thus failed to function either as banks supplying liquid assets to all sectors of the economy, or, more understandably, as merchant banks financing the country's industrialization.

We might consider whether private initiatives from national banks could be substituted for these defaulting foreign ones.

A. The Odds for Private Initiative

Any private initiative is most certainly doomed to failure under the conditions of international integration. Violent and disorderly fluctuations in the foreign account inevitably force banks lacking lines of credit in Europe or America into preference for liquidity, lest they be unable to meet withdrawal demands prompted by each abrupt deterioration in the foreign deficit. This argument is not merely hypothetical: Cuban experience provides a case in point. In spite of very high liquidity in local banks in 1919, levels even higher than those of 1914, the two local banks failed during the economic crisis of 1920. This was because depositors suddenly withdrew all their money in order to cope with the crisis. Foreign banks survived by appealing to their head offices. Lacking this privilege, the two local banks went bankrupt.

Thus, the preference for liquidity imposed on such local banks by incessant fluctuations in the foreign account greatly restricts the economic latitude of a local bank. It might even be said in Cambodia's case that this "preference" renders the advent of a local bank impossible unless it agrees to serve simply as an affiliate of a foreign financial monopoly, which brings us back full circle to our initial situation with a foreign banking system. Import-export businesses, by the very nature of their activities, are quite naturally inclined to be cool towards genuinely local banks lacking any financial capacity and real international connections; equally naturally they are likely to prefer the foreign banks, the only ones likely to be of any use to them.

Thus, any private initiative is invariably doomed to failure.

B. Components of a Genuine Credit System in the Service of Industrialization

a) Strict Control of Exchange and Autonomous Development

Strict control of exchange would reinforce not only the monetary independence of the country but also the steps taken by the state to assume control of external trade. By strict control, we mean control which disregards short-term gains that might come along from any sort of foreign capital influx, as it is virtually impossible for even the most astute exchange agency to distinguish speculative or banking capital from capital flowing in for productive investment. Moreover, we have already had occasion to explain why private foreign capital is unreliable for financing development. We should make clear that this applies only to private capital. Public capital would not be affected in any way by strict exchange controls because it is in theory transferred through central institutions. Exchange control, on the contrary, would permit the streaming of public capital flows and ensure that they are not coming in to "clear the way" for private capital, as has often been the case until now.

If exchange controls are deemed necessary, their implementation would inevitably cause new problems, which we must now examine.

b) Problems Arising from Exchange Controls

1. With exchange controls, fluctuations in the external account will redound upon the economy.

Under a flexible exchange control system, movement of banking capital evens out, at least in theory, the effects of the disorderly fluctuations in the external account at the country's monetary crossroads. We have already seen how this is done.

From then on, implementation of strict exchange controls, which will free the country's monetary destiny from the power of foreign commercial banks by outlawing nearly all private capital movement (as it is virtually impossible to separate capital entering for investment from capital imported to maintain liquidity), paralyzes the only mechanism capable of adapting the money supply to the needs of the economy. If, then, the external deficit drains the national system of foreign exchange, and if the run on exchange is too heavy, banks might be forced to limit credit to the economy in general and to activities concerned with exportation in particular. Such activities are then in danger of being obliged to contract, a process which will exacerbate the external deficit and fuel the ongoing process of deflation.

This acute sensitivity of the national currency-issuing mechanism to fluctuations in the external account can only be detrimental to the development of capitalism, development which assumes an increasingly irregular pace and is increasingly subject to fits and starts in the foreign account.

It thus appears that we are approaching an impasse. "Relaxing" exchange controls amounts to giving foreign commercial banks discretionary control of the country's monetary well-being, control which they can use against the central authority in case of conflict, or in the normal course of events to favor speculative activities at the expense of productive ones. Adopting strict controls amounts to subjecting monetary fate to dangerous fluctuations in the external account. What is the way out of this impasse?

In fact, the vicious circle grows from material conditions in the system and cannot be broken by exclusively monetary means. The remedy can be found only in balancing the external account itself. As we have already seen, balancing the account is possible only when the country extricates itself from the machinations of international integration and when the state takes control of external commerce as a means of autonomous development. We have also seen that effective (as distinct from platonic) control is achieved once the state has imposed a monopoly on foreign trade of major commodities such as rice, corn, and rubber. It is only when the material problem of balancing external trade is solved that strict control of exchange releases money from its dependence upon big foreign commercial banks. The fundamental truth of the matter is that without economic independence, it is impossible to speak of monetary independence.

2. With exchange controls, gold and exchange reserves will be purchased with real exports.

Under the present system of "flexible" exchange controls, which rather resembles a foreign exchange standard, at least part of the reserves supporting money and credit is obtained by importing banking capital through

foreign banks. From the beginning of strict exchange controls forbidding banking capital movements, the exchange required to support national currency must come from a real surplus of exports over imports so as to preserve the value of the national currency. The system is equivalent to one where backing for circulation is based on gold. This additional cost is undeniably represented by tying up an equivalent volume of saving. The real cost, it is true, is less than it seems to be: backing for the national issue is only partial.

This situation is not unique to Cambodia or even to underdeveloped countries in general. Developed countries also support circulation with gold or foreign exchange reserves, and they must also protect their money from fluctuations in the external account.

A difference in degree nevertheless distinguishes underdeveloped and developed countries. First, the currencies of underdeveloped countries are much more vulnerable than those of industrial countries when it comes to foreign exchange, in the sense that "contingency costs" to the economy are higher in one case than the other. This gap can be reduced only as the developing economy progresses industrially, progress which reduces dependence upon the international conjuncture. Nationalization of external trade followed by concerted efforts to stabilize trade by means of long-term bilateral agreements will greatly reduce these contingency costs.

c) Cost of the Foreign Banking System

With exchange controls, the national economy pays for the reserves backing national currency with real exports. The necessity of effective monetary independence imposes this "cost" on the economy. This brings up the question of whether the service provided by the foreign banking system justifies its cost once rigid exchange controls are introduced.

The paying of interest by national borrowers impoverishes the economy as soon as it leaves national hands, where it might be used to form extra profit for use inside the country either for consumption or for investment, and flows into foreign commercial banks, where it will generate the same income but for export. Each year, foreign banks skim off a fraction of the national wealth for a short-term credit service which could just as well be provided by National Bank use of the issue function. Until now, the very small risk taken by foreign banks has involved placing some foreign exchange at the disposal of the Khmer economy. This amounts to short-term capital movement, movement which is mostly fictive since it is handled by written authorization between Cambodia's foreign banks and their head offices in Paris, Tokyo, or New York. But once there are strict exchange controls, national deposits rather than foreign capital will finance such credit to the economy. The additional funds which are required because deposits are inadequate are obtained by issuing paper and "national" scrip. Even so, interest paid by national producers for the service rendered by the national economy to itself is still exported as part of the profit of banks which are foreign in statute, even though their foreign standing provides no extra surety. If producers are unable to repay loans (in case of a slump, for example), Khmer savers whose savings had been advanced would be no better off than they would if the banks lacking liquidity were Khmer.

It is reasonable to conclude, then, that the foreign banking system is a burden on the national economy and no longer offers any particular safeguard. It no longer vindicates itself, on the contrary. If foreign banks carry on freely disposing of individual and corporate deposits, they might persist in denying credit to national producers so as to loan exclu-

sively to tradesmen and speculators as in the past. This will greatly hinder structural reform efforts and the industrialization of the country.

d) For a Genuine National Credit System

From the above it appears that the following measures are essential:

- Restriction of foreign banking activities and strict control over these activities; and
- Creation of a genuine national credit system that would hold on account most business assets existing in the country and which would provide the major portion of credits to the national economy.

These measures would allow the state to struggle effectively against usury and speculation by depriving speculators of their sources of credit. They would, in addition, give the state control over one of the indispensable tools for effecting needed structural reforms in the city and countryside. Pursuing this line of thought, the general outline of state activities could be:

- a. To undertake the granting of credit to producers;
- b. To move towards lower money prices, thereby favoring the mobilization of capital not previously employed because peasants, artisans, and petty industrialists had no access to it; to encourage purchases of the means of production; to finance and stimulate transfers of capital from speculative commerce into small industry and handicrafts; and
- c. To curb credit to production of nonessentials such as carbonated drinks, perfumes, and alcoholic beverages so as to finance production of more urgently required goods more generously. Above all, this means production responding to consumer needs for rice and cereal grains and for ordinary consumer goods, e.g., fabrics, soaps, and other manufactures. Next in line is production of certain capital goods such as electric energy, cement, plywood, small metallic goods, etc.

There you have, then, some of the measures which we think are essential in the area of credit. What, it may be asked, is the place of foreign banks in this system? Have they no longer any role to play? Is there nothing left for them to do except go away? Such a conclusion is too hasty. Indeed, as deposit banks, their activities would be limited in the extreme. This is unavoidable because the Khmer state must play a role of the first order in industrializing the country and must have effective control of credit. But that does not necessarily mean that foreign banks have no alternative but to leave. Indeed, there will still be a place for foreign banks in the proposed system in every financial operation involving trade between Cambodia and countries in which their respective head offices are located. Cambodia will pay a fair commission for all services effectively provided. Moreover, these services are also rendered in the interests of trade between Cambodia and the countries in which parent banks are based, which is to say, in the interest of all contracting parties.

Section II. The Budget

1. Components of a Rational Fiscal System

A. The Present Fiscal System

The following table shows the evolution of national budget receipts in millions of riels:

	<u>1956</u>	<u>1957^a</u>	<u>1958^a</u>
Inland Revenue ^b	629,000	590,000	746,200
Customs and Excise	960,360	900,000	1,200,000
Produce from Public Domain ^c	44,000	41,000	81,000
Other ^d	<u>350,310</u>	<u>718,000</u>	<u>622,560</u>
Total	<u>1,983,670</u>	<u>2,249,000</u>	<u>2,649,760</u>

a. Estimate.
 b. Principally taxes on income, earnings, and business turnover.
 c. Principally timber and fish products.
 d. Principally miscellaneous receipts; end of fiscal year balance, treasury advance, post office, and national lottery receipts.

Source: *Annuaire statistique rétrospectif du Cambodge.*

Even allowing for price increases, it is easy to see that the budget weighs more heavily upon the public each year. Provincial budgets add still more to the public burden. These rose to 181,503,481 riels in 1956 and to 203,368,310 riels in 1957 (estimates).

In 1956, national and provincial budgets together absorbed about 31 percent of the gross national product, which is a very heavy burden on the economy, especially as about 80 percent of these receipts will eventually support unproductive expenditures (administrative costs). For comparison, we note that budget receipts in the United Kingdom equal 40 percent of the national product; in Australia, 28 percent; in Canada, 31 percent; and in the U.S.A., 25 percent.⁷ If we were using the conception of national product adopted earlier, the portion received by the state would be much higher in the last example, to be sure, but it must not be overlooked that productivity per capita is much lower in Cambodia.

It would be too easy to place responsibility for the expansion of administrative expenditures on the government.

For our part, we are inclined to think that the explanation for this phenomenon, which is noted in all underdeveloped countries, relates to material realities of the economic system. We have already explained why the tendency towards "officialism" and the growth of the tertiary sector in general must have begun with international integration of the economy. By considerably slowing down the growth of industry (foreign competition) and of agriculture (reinforcement of precapitalist relations of production),

⁷U.N., "De la mobilisation des capitaux nationaux dans certain pays d'Asie et de l'Extrême Orient."

international integration quite naturally orients a country's general economic activity into unproductive sectors--wholesale-retail trade and administrative careers. Khmer leaders, it should be said, live in dread of "intellectual unemployment." The problem is to find employment for students who leave school or university every year. Directly productive jobs have been very limited to date. In this respect, we believe it is appropriate to equate the upsurge in administrative personnel to a "disguised unemployment." As with all unemployment, it greatly affects the whole economy and considerably retards its future development by affecting not only the purchasing power of "low incomes" but also those incomes which would be susceptible to "creative saving."

This dragging effect which is built into the budget is all the more serious in view of the fact that the present fiscal system favors intermediary trade at the expense of production. Let us examine this problem more carefully.

The accounts show that on average about 50 percent of the national budget receipts come from customs and excise. Taxes on business turnover netted 268,636,751 riels in 1956 and 235,528,856 riels in 1957. This averages to about 10 percent of the annual general national budget receipts. Thus, to concentrate only on these two important categories, 60 percent of all budget revenues come from indirect taxes.

Merchants, it seems generally agreed, can more or less recover the cost of indirect taxes by slapping them onto prices in the course of price increases.⁸ And inflationary pressure is, so to speak, permanent in Cambodia. Moreover, in order to determine the effect of taxation, the organizational advantage which merchants handling imports have over peasants, artisans, or small traders of local produce must be taken into account. Thus, much of the fiscal burden from indirect taxes falls on peasants, artisans, and small traders, while merchants (importers and wholesalers) only play the role of assistant tax collectors by paying the amount into the public treasury. The fiscal system thus adds its independent effect to that exercised by banking credit, and together they accentuate the distortion in the economic system: the intermediary commercial sector is here again privileged, while other more directly productive sectors are crushed by taxation, all of which serves to slow down the development of capitalism in both industry and agriculture.

Direct taxation, far from correcting this antieconomic orientation of the fiscal system, only accentuates it. This is true for numerous taxes supporting provincial budgets as well as for some of the national budget: tax on paddy, tax on cultivated land, rural property tax, temporary occupancy tax, paddy warehouse and granary tax, river embarkation tax, water and lighting tax, animal tax, automobile, cart, and bicycle taxes, etc. In recent years, much effort has been spent on reorganizing the fiscal system. *Kram*⁹ No. 74 NS, 13 February 1956, which stressed progressive taxation of commissions and salaries by raising the maximum rate from 5 to 40 percent for salaries over 50,000 riels, must be cited in this regard. The relatively recent creation of a tax on industrial and commercial

⁸ See Lanferburger, "Traité d'économie et de législation financière," p. 291. La Ferrière, *Traité élémentaire de science et de législation financières*, p. 273.

⁹ [*Kram* is the Khmer term for law or decree. *Kram* No. 74 NS, 13 February 1956, denotes Law No. 74 in the reign of Norodom Suramarit; *Kram* No. 900 NS, 13 September 1954, denotes Law No. 900 in the reign of Norodom Sihanouk; Sihanouk reigned until 1955.]

earnings (*Kram* No. 900 NS, 13 September 1954) also figures in this effort. Taxation of individual earnings is rather highly progressive. The *Kram* cited fixes a scale which varies from 13 percent for earnings under 20,000 riels up to 62 percent for those over 500,000 riels. Tax on corporate earnings used to be 18 percent, but in 1957 the rate was raised to 22 percent. It appears, however, that all this effort fell far short of its objective. The full burden of taxation continues to fall only on small local firms and does not catch up with import-export businesses and banks or other foreign firms. Indeed, these businesses are able to camouflage a substantial part of their earnings by transferring them abroad, using the mechanism which we have already examined.

B. Conditions Governing Improvement of the Fiscal System

From the preceding, it seems to us that the flaw in the present fiscal system is in large measure linked to concrete economic conditions. Corporate earnings tax, the tax on the industrial and commercial earnings of individuals, and income tax would not serve their purpose without strict control of relations with the exterior, despite the rather high rate for the former and the rather high progressiveness in the latter. Taxes on turnover and patents will always be passed on to small producers (peasants, artisans, small industrialists) and to salaried workers as long as there are no effective price controls. Price controls presume, first, a strict control of money and credit, and, second, the creation of a dual market system where, by virtue of state and cooperative trade, the state can affect prices on the open market. Only reforms in the structure of banking and commerce could effect radical transformation of the current fiscal system, which might then in turn provide the state with the means to stimulate agricultural and industrial production for the purpose of methodically redirecting intermediary commercial efforts into more directly productive sectors, away from production of nonessential goods into production of essentials. As soon as these structural reforms allow price controls, tradesmen can be obliged to add patent fees and turnover levies onto general expenses so that these would become direct taxes. Then and only then could such taxes be seen to insure a positive redirection of industry and commerce. Rates could be lower for industry and higher for commerce, lower for trading in foodstuffs, locally produced goods, and agricultural produce, and higher for trading in luxury goods. In this manner, the fiscal system can be part of a general program of structural reform.

Aside from these general measures, the fiscal system can do with some additional improvements. In particular, taxes and direct duties which fall too heavily on small producers and reduce their incentive--annual taxes on animals, carts and bicycles, the river embarkation tax, etc.--should be eliminated. The resulting fiscal loss could be made up from resources generated by structural reforms effected elsewhere and especially from rigorous cuts in unproductive expenditures.

With nationalization of external trade in major export commodities, customs revenues would no longer be as important as they have been until now. They would not altogether disappear, though, as external trade in other products would be left to private initiative. As with taxes on turnover, customs rates should then be structured for the purpose of favoring imports required by national industries and artisans. Generally speaking, taxes on raw materials and semiprocessed goods essential for local industry could be abolished or reduced and taxes on consumer goods, especially luxury and convenience items, could be raised. The distinction is rather easy to make in an underdeveloped country such as Cambodia, where there is a clear difference between what is consumed by the mass and what is consumed by rich classes.

The income tax system might incorporate certain additional devices of the sort which encourage taxpayers to save and to make investments. Some of these are suggested by experts at the United Nations:

- 1) Life insurance premiums as well as contributions to pension and other funds might be tax exempt;
- 2) Earnings reinvested in industry might be taxed at a lower rate than those distributed or invested in trade;
- 3) Losses incurred in the course of one year might be deducted from future earnings within a fixed maximum period;
- 4) Generous investment allowances might be permitted for fixed capital such as plants and equipment;
- 5) Earnings might be tax-exempt up to a predetermined percentage of invested capital;
- 6) New industrial enterprises might either be tax exempt for a limited number of years or taxed at a lower rate than old industries.

We cannot overemphasize, however, that the state must be mindful that sacrifices made by the nation in this way really do contribute to industrialization, and not only to private interests.

Taxes on agricultural incomes could also be improved. Land rent exhausts possibilities of local saving, on the one hand, and accelerates the process of international integration, on the other. Landlords who would be forbidden to import foreign luxuries would attempt to get around this restriction by dealing with foreign merchants. Failing that, they would then resort to local production of luxury goods, a practice which would introduce a source of distortion into the economy. In this way, then, and along with measures for lowering rents, we believe rent income can be productively mobilized. We are of the view that this will only come about through legal action, especially at the outset, though we do not think it will be necessary for agrarian reform to go as far as land redistribution. Later, when industrialization is underway, landlords who market their harvest will see that industrial development of the country offers new economic opportunities. In the beginning, it seems that the state must take the initiative by using the tax system to shift rents from luxury consumption into public saving. Proportional land taxes will not serve this purpose, however, without adversely affecting small peasants, whose income already hovers at the physiological minimum, and without compromising the already extremely difficult task of industrialization. Progressive land taxes appear more appropriate, because they can be set up in such a way as to affect rent income only. This can be done by working from the base average income per dependent. The rate should be structured in a way which allows the 20 to 30 percent of peasant families currently short of food to be exempt from paying taxes.

Finally, in order to promote increasingly direct popular involvement in the forward movement of productive potential in the countryside, tax exemptions should continue to be granted:

- 1) For newly cleared land and for land improved by irrigation and drainage work done by peasants themselves, for a specified period (two or three years);
- 2) For all secondary occupations: livestock feeding, basket making, family weaving, etc.

Taxes payable in money usually make peasants vulnerable to the greedy machinations of traders and usurers by creating a need for cash at a time when overall rural structure remains fundamentally precapitalist. Thus, rather than encouraging monetarization of the economy, taxes can indirectly strengthen ancient structure. In view of the relatively low commercializa-

tion in agriculture, then, why could taxes not be collected in kind? This provisional form of taxation would be very useful and would be replaced by tax in money only as rapidly as capitalist progress is made in the countryside.

In concluding our study of the fiscal system, we might mention two essential ideas which seem to emerge from it:

- 1) The economic structure for the most part governs the solution to problems of taxation. No fiscal reform is possible without general structural reform.
- 2) In the course of the effort to industrialize, the problem of immediate receipts from taxation must be subordinated as much as possible to the larger economic issue. Not only must taxation not inhibit national production, it must become an effective lever for directing this production and promoting balanced development of the economy.

2. The Role of the Budget Proper

A. A Regime of Strict Economy

Industrialization requires substantial investment funds; these must be obtained by accumulation of the country's own resources. Consequently, economies of the most stringent sort are essential. The state must set an example for others. It should be the first to eliminate all prestige expenditure and to avoid the smallest waste.

The first order of business would be to rank the country's priorities, giving preference to urgent needs and postponing attention to others. Energetic cuts in state expenditure might be accompanied by the transfer of surplus administrative personnel into state enterprises and also by demobilization of part of the army and the creation of reserve forces which could be used in production.

Concurrently, systematic and sustained effort must be made to secure ever increasing productivity in state agencies. Many resources could certainly be saved by simplifying administrative procedures, reducing personnel and eliminating extravagance in public offices.

In addition, people must make an effort to restrict wastage in, for example, construction work. Excessive concern with magnificent exteriors and sumptuous decorations or excessive use of costly goods and materials to the neglect of the principles of utility, efficiency, and beauty--to the extent it is allowed by the larger goal of industrialization--not only raises construction costs considerably but greatly reduces the functional space of the building.

Building costs are only one example among a thousand others serving as a practical illustration of the importance of making economies which give priority to the industrial construction of the country.

In order to ensure universal adherence to this regime of economy, every individual must have the right and the obligation to combat openly any attitudes opposing economy and encouraging waste. As for the enjoyment of waste, no administration or person must be indulgent with itself or with others or replace control and mutual verification with reciprocal indulgence. The movement for making economies must be a national movement.

B. Mobilizing Resources through Deficit Spending: Possibilities and Limitations

Deficit financing could aid the government to secure some existing resources and to put them to appropriate use for enlarging production.

The objectives of deficit spending must, however, be specified. Monies marked for nonproductive ends (military expenditures, for example) add to inflation: they stimulate fruitless and harmful rises in prices. In contrast, deficit spending for productive purposes tends to pay for itself when, after a certain lapse of time, consumer goods become available to absorb the purchasing power created out of nothing.¹⁰

If the printing of money is used to finance projects providing immediate returns, projects such as small irrigation works or small consumer industries, inflation can be forestalled due to the short period of time elapsing before the increase in production occurs. Any underdeveloped economy, and Cambodia's in particular, has substantial reserves of manual labor and unused natural resources for use in agriculture as well as in handicrafts. An injection of purchasing power designed to mobilize these resources to raise production of consumer goods would not be likely to unleash inflation.

Difficulties might emerge as soon as money is injected into the capital-producing sector. In this case, inflation is likely because a more or less long period of time is required for the instruments of production to produce consumer goods. This need not have serious consequences if it remains moderate and relatively brief, and if at the same time the government enforces rigorous price controls using a dual market system and fiscal measures in such a way as to absorb 40-50 percent of the marginal income automatically (highly progressive taxes on income, taxes on luxury goods towards which rising incomes gravitate, etc.).

As these development projects are completed and production grows, an increasing share of the financing could be met by the saving obtained and growing fiscal income, all while reducing the budget deficit. Deficit spending thus stimulates development, for in the final reckoning, there will be roads, waterways, factories, and dams which would never have been built if the principle of a balanced budget had been rigorously observed.

It is important to recall, however, the nature of the budgetary deficit so as to know its limitations. To ensure that the budgetary deficit does not itself prompt inflation, it must be conceived as a device for mobilizing existing resources, hoarded cash and reserve saving of individuals and firms. The limit is therefore the extent of these resources. Beyond that, deficit financing will precipitate inflation and subsequently become a means of unfortunate expropriation from people living on salaries and incomes fixed at the physiological minimum: low-ranking civil servants, employees, and workers.

It is not inappropriate to emphasize the risk involved in resorting to deficit financing of development when credit and money are still controlled by foreign banks. The budget deficit cannot be used for capital formation even partially and temporarily unless the government is capable of controlling or stopping inflation as soon as it emerges and threatens to undermine the industrial effort.

¹⁰ [Khieu Samphan employs the Latin term *ex-nihilo*.]

CHAPTER 6

THE NECESSITY OF STRUCTURAL REFORM

Section I. Structural Reform in the Countryside

The growth of industry could be greatly hampered by the semifeudal structure of the countryside. Peasants obliged to pay all sorts of taxes and duties, on the one hand (see p. 94), and very high land rents, on the other (see pp. 37-41), are, moreover, crushed under the burden of heavy debts at usurious rates of interest. We have observed that most of them cannot afford imported merchandise because of their limited purchasing power. They can be no better a market for new national industry, and so it is in danger of being smothered as soon as it emerges. In addition, usurers and landowners, principal beneficiaries of the highest rural incomes, tend to spend their money on imported luxury goods. When importing is impossible, they resort to local luxury production or to hoarding. Land rent reduction and the elimination of usury, if they took effect, would have two desirable effects on economic growth in general.

First, landowners, knowing that rent is lower and usury outlawed, and that an opportunity for even higher profit is available through industry and agriculture, might be persuaded to transform themselves into agrarian or industrial capitalist entrepreneurs. In this manner, one source of new energy can be generated.

Second, reducing rents and outlawing usury will in themselves raise peasant purchasing power and in the process enlarge the market for new industry. Tax exemptions for the most impoverished peasants will have the same effect.

All of these measures might serve in the short term to raise local consumption, to be sure. Indeed, peasants could immediately consume the product supplement left to them as a result of such policies. Food supplies for cities would then be jeopardized and the expansion of exchange held back. Some means must then be found to raise production in agriculture and animal husbandry rapidly. By increasing production, it is possible to raise peasant income while still supplying cities with food. Indeed, the countryside, in addition to serving as an outlet for industry, must provide industry with growing quantities of primary materials and foodstuffs. Furthermore, it must supply much of the export produce which Cambodia exchanges for capital goods, minerals, and semiprocessed goods to use for its future industry.

We will first examine the struggle for the reduction of rents and the elimination of usury, and then proceed to discuss measures which might serve to increase rural production.

1. The Reduction of Land Rent

The reduction in tenancy rates might vary according to conditions; quality of the land must be considered. Rents should not exceed a clearly defined maximum (35 percent of the harvest, for example).

We suspect that even the most firm governmental decrees will be insufficient for securing rent reductions. Reductions will be obtained only if peasants themselves, encouraged and aided by the government, take action. This is not, moreover, just a matter of reducing rents but of removing vestiges of feudalism and serfdom from the countryside, vestiges which paralyze peasant initiative and enthusiasm for work. It is a matter of overcoming age-old fears. The government must in particular make every effort to support and encourage peasant associations so as to arouse peasants to take action. It might also be useful to give landlords any explanation required to help them appreciate how they fit into the reform. These, it is clear to see, are essentially political measures, not just "techniques," as people too often assume.

2. The Struggle against Usury by Rational Organization of Agrarian Credit

Tax exemptions for poor peasants and rent reduction will eliminate some of the many burdens accounting for peasant indebtedness, but all problems are not so easily resolved. The peasant is still obliged, in particular, to pay off debts accumulated over generations. It will probably be necessary to declare a general moratorium whereby usurious debts contracted by peasants are repaid by a forfeiture payment which must not exceed a certain proportion of the sum borrowed (double, for example), regardless of the duration of the loan.

Along with this measure, and while assuming control over credit and straightening out its finances, the government may find it possible to guarantee cheap, long-term loans to peasants or to their organizations, thereby lessening the danger of usurious mortgages which menace poor peasants.

On this point, it is necessary to emphasize that the agrarian credit organ must avoid becoming an official instrument in the service of usurers, traders, or landlords. This has already been shown to have happened in the case of the *Indochina Cr dit Populaire Agricole*:

This credit organization . . . has the twofold effect of stimulating (in Cochinchina) profound imbalance in land ownership which shows up in the fact that 87.5 percent of all paddy land is held in large and medium-sized holdings, and of diverting credit from the actual cultivator, the smallholder and sharecropper . . . the difficulties of the current borrowing procedure which involves excessive formalities and excessive costs for small loans, serving to isolate peasants from credit benefits.¹

The peasant who urgently needs cash has several reasons for preferring the village usurer to the official agrarian credit agency: first, though his needs are clearly urgent, they represent only a modest sum at any one time. For such small sums, there is no point in travelling hundreds of kilometers from home and incurring all sorts of travelling expenses. Secondly, and more important, he has an age-old fear of officials in offices and of administrative routines. Thus, most often our peasant will go to the village usurer, who will give him the desired loan immediately and without formalities. The peasant has only to hand over his property deed; the usurer can go alone to the bank to borrow on land which is not yet his. In this way and with the peasant's deed to property, he secures

¹Yves Henri, op. cit., pp. 661-62.

bank funds to loan out at interest increased many times over. This is how a credit institution which intends to extend credit to "agriculture," only without distinguishing among the various peasant classes, ends up strengthening and extending the position of usurers, those clandestine bankers who turn it into a permanent mainstay of their moneylending activities. This is why we emphasize that the struggle against usury is political. The national agrarian credit office must become an instrument of a government credit policy. It must not be content to go along with the so-called "natural" evolution of the economy rather than assuming a guiding and directing role.

Along with the effort to multiply and extend rural credit networks, attention must be given to establishing credit cooperatives led and administered by peasants themselves. Their principal responsibilities would be:

- To aid peasants in need,
- To contribute to expansion of mutual aid and cooperation,
- To aid agricultural growth by encouraging production cooperatives,
- To struggle against usurers of any sort.

This once again involves political education of peasants. The effort cannot succeed unless it has the support of the victims of the present situation who are most inclined to stand up for their own interests. It is unnecessary to add that the peasants must be treated with patience and understanding and that determination is required in the struggle. Finally, there is no better way of struggling against usury than to raise peasant income in the course of trying to expand production itself.

3. Encouraging and Developing Production

We suggested that measures designed to relieve pressures on peasants and to raise their income might prompt them to consume more and in the process to retain their produce, which could prove a source of grave difficulties. Indeed, such a situation would mean a reduction in the volume of saleable agricultural produce at the very moment when industry must have foodstuffs and raw materials. It should not be overlooked, moreover, that the local processing of agricultural produce should not be done at the expense of exportation. On the contrary, an effort must be made to come up with new export commodities, as these will gradually be converted into imported capital goods or equipment. Finally, reiterating what we have just said, there is no better way of struggling against usury than to find ways of expanding production.

Growth in production is made relatively easier, to be sure, by positive support from peasants who for the first time see noticeable improvement in their standard of living because of tax exemption measures, the lowering of rents, and the demise of usury. The productive capacity of small plots is, however, very limited. If matters were left there, shortages of labor, draught animals, agricultural implements, seed, and fertilizer, in conjunction with a dispersed style of cultivation and natural hazards, would relegate the peasant to a great state of mediocrity, throwing him again into the grasp of usurers, all of this resulting in the inability to provide industry with primary materials and capital goods (which would be obtained from sales of agricultural exports).

The growth in demand for primary materials and foodstuffs prompted by urbanization, might, it is true, induce landlords to reorganize their holdings in order to adopt more rational methods of cultivation using wage labor and capital, fertilizer, machines, tractors, etc. . . . Thus, new operations of a capitalist type would appear. Their production, a major

share of which is marketed, can help to supply industry with raw materials and foodstuffs. The government ought to encourage this with technical and financial aid. But these large operations of a capitalist type will be nothing more than islands in a mass of small and medium-sized merchant enterprises (two to seven hectares). Their output will thus be insufficient if we want to give industrial growth a big push. Moreover, there is the question of raising the standard of living of the mass of small peasants so as to have an adequate market for new industry.

We have already seen that the limited size of the market in a small country such as Cambodia can preclude any serious effort at industrialization. For these reasons, the government must strive to mobilize the peasant masses for mutual aid, to organize producer and consumer cooperatives, to implement a planned policy of agrarian credit, and, finally, to make peasants gradually accustomed to working cooperatively. The organization of mutual aid teams in which the instruments of production, tools and land, and the produce remain private property, though used collectively, is fully consistent with contemporary Khmer peasant thinking. It is not unusual to see our peasants organizing themselves into teams of several families to help each other with transplanting and harvesting, all while singing well-known songs. The task is to generalize this practice in a systematic way.

Mutual aid might initially be used for specified work, and then be generalized. It might become a permanent state of affairs and provide the basis for production cooperatives in villages where the experience was conclusive. From these points of departure, production cooperatives could spread in centrifugal fashion. This effort at increasingly rational organization of production must be morally, technically, and financially supported by the state. In this way, it is possible to achieve a major increase in production and to free an ever increasing proportion of the labor force which will be used to keep new industries going, using technical means on about the same level as those now available. In this way, the distinction between underdeveloped, underpopulated countries which alone could engage in autonomous development and underdeveloped, overpopulated countries which must continue to accept agricultural specialization after international integration seems to us artificial.

We have noted a tendency towards labor intensification per hectare of land, a tendency partially disguised until now by the existence of easily cultivated land. However, as international integration and the strengthening of semifeudal structure associated with it continues in the countryside, such a trend can only become worse. It is true that there are still 20 million hectares of arable land. Nevertheless, 14,450,000 hectares of inland plain deemed arable but as yet uncultivated still have to be cleared and irrigated before they can be planted. Of 550,000 hectares of uncultivated riverbank and upriver land, about 200,000 hectares are *beng*² or ponds and swampland; this area is surrounded by another 200,000 hectares of argillaceous terrain which drains slowly when flood waters recede and is the first to be inundated by the overflowing of the Mekong or the Tonle Sap. Rainy season cultivation (corn, tobacco, peanuts, etc.) is much more risky here, as crops are sown in the lowest areas, first to be flooded. Thus, this land needs to be protected by dikes and loosened up with harrows.

Individual peasants, pushed down the road to ruin by international integration of the country, are not in a position to open up lands which have never been cultivated. Restricting international integration, reducing rents, outlawing usury, and extending tax exemptions will serve to

² [*Beng* means lake as well as pond.]

arouse the latent potential of the peasantry. Methodical organization of the peasant force, into mutual aid teams and then into cooperatives, will magnify its effectiveness ten times over and make possible the clearing of new land, its irrigation, and its draining. New lands can thus be opened up without upsetting current technology and without absorbing too much capital which could otherwise be employed in the development of industry. From this base, there will be considerable growth in the production:

- of rice to meet growth in peasant consumption, urban needs and export expansion;
- of corn to support an efficient livestock industry in poultry, pigs, etc.;
- of tobacco for tobacco products and the industrial manufacture of nicotines and insecticides;
- of cotton, striving above all for good yields and long fibers through careful seed selection;
- of sugarcane for associated industries;
- of mulberry bushes to revive silk industries struck down by foreign competition;
- of fruit plantations--oranges, mandarin oranges, and other tropical fruits which Cambodia possesses in wide array--for industrial manufacture of preserves and for export.

In 1956, domestic livestock in Cambodia numbered 979,000 head of cattle, 322,000 buffalo, and 407,000 pigs, ignoring poultry. Each year, 350,000 pairs of oxen and buffalo are used for tilling fields and transporting harvests. In addition, timber businesses use thousands of teams of 10 pairs of buffalo. In 1957, 35,000 head of cattle were slaughtered; around 15,000 cattle and buffalo and 31,000 pigs were exported, not counting poultry. There is no doubt that rational organization of animal husbandry, using scientific methods of feeding and inoculation made possible by the organization of cooperatives and the creation of state farms, will give an important boost to the breeding of oxen, buffalo, pigs, and fowl. This is extremely important for enhancing peasant productivity (draught animals), for improving domestic meat consumption, for supplying industry with leather, and, finally, for export.

Timber industries have vast possibilities for development. Indeed, Cambodia has 10 million hectares of fine forestland. The most dense and valuable are located on the Gulf of Siam. Surveys conducted near Ream yielded estimates as high as 400 cubic meters of extractable timber per hectare, with 120 cubic meters being the average for 10,000 hectares surveyed. Dense equatorial forests with an average volume of 120 cubic meters per hectare cover around 1,000,000 hectares. The twin-needle pine forest (Merkuvi pines) is extremely important economically, as much for the value of the products it can supply as for its rapid rate of growth. Studies conducted on a stand of 10,000 hectares show an average growth of 5 cubic meters per hectare per annum over 100 years. Average volume per hectare is 80 cubic meters, and this type of forest covers approximately 50,000 hectares. All these forests can supply fine timber, construction materials, firewood, and special woods (for making matches, railway ties, transport vessels, etc.) for the countryside, towns, and export.

Great Lake³ fisheries employ thousands of people and produce an important share of locally consumed and export foodstuffs. River fishing is also important. Maritime fishing can be expanded. Development on a

³[The "Great Lake" is the Tonle Sap.]

cooperative basis is important because fish paste and dried fish industries could be linked to the expansion of fisheries with a view to vertical integration of Khmer foodpacking industries.

The development of agriculture will not only insure more substantial nourishment for most people but will also build the foundation needed for the expansion of industry and commerce. Its long-term development depends, conversely, on the development of industry, which will make use of its produce in ever increasing quantities.

Section II. Structural Reform in the City

1. State Efforts to Stimulate Production

The limiting of imports of consumer goods and the relative rise in the standard of living of the mass of the population will have the effect of opening up a rather vast internal market for national industry. Nevertheless, the state, in underdeveloped countries in general, and in Cambodia in particular, must play a much more important role in the task of industrialization than it did in European countries. In our view, it should take action:

- 1) To provide technical and financial aid to private enterprise. To utilize existing production to full potential. To give active support to the setting up of new enterprises. Here, the mixed enterprise formula might be very useful.
- 2) To favor and to encourage the large number of individual artisans to form production cooperatives which reduce their costs of production by rational division of labor and by possible use of by-products.
- 3) To establish new state enterprises. It is very likely that this will be necessary. Indeed, the absence of a private entrepreneurial capitalist class in Cambodia means prolonged inelasticity of production. In the final analysis, only state enterprises in different sectors of production can provide the leverage needed for the leading, directing, and protecting role falling upon the state. We shall come back to this when we consider the role of domestic commerce.

In our view, initial efforts must center on the development of light industry which is capable of processing local raw materials, which requires little capital and a relatively simple technology, and which promises quick output, returns on investment, and satisfaction of pressing needs. We believe, regardless, that first priority *must be given to electrification of the country.*

We have observed the situation in which the artisan and small industry, in particular, are placed because of inadequate supplies of reasonably priced electrical energy. Businesses are obliged to buy their own electrical generators. This practice is quite clearly an unsound basis for the development of handicrafts, small industry, and future big national industry. Cambodia's hydroelectric potential must be assessed rapidly. To this end, the correct procedure might first be construction of steam generators, followed by construction of hydroelectric generators according to a long-term schedule (a 12-year plan, for example).

Obviously, given the huge investment required and the long-term returns, this job can only be undertaken by the state. Moreover, this

branch of industry, which commands all others, cannot be left to private enterprise.

The Chemical Industry

Handicraft and small industry are forced to import large quantities of chemical goods. Yet, we have some of the raw materials required for certain medium-sized chemical industries. Let us list some of the possibilities. These only require organizing, as the technology is available:

- Extraction of chloride concentrate from sea water (Kampot), this being the basis of a whole range of other chemical industries;
- Extraction of benzoic acid from the urine of cattle;
- Manufacture of nitrate fertilizers from offal;
- Manufacture of soda by diverse processes.

To date, little attention has been given to mineral resources in the country. Nevertheless, rather important phosphate deposits are known to exist in Battambang; Phnom-Ampéou, Kdong, and Krapeu have important deposits of hard phosphate with P_2O_5 content varying from 15 to 35 percent. Leaving aside Phnom Krapeu, which has never been studied and which may be worth mining, surveys and assays from Ampéou and Kdong confirm deposits of at least 300,000 tons. Moreover, three *phnoms*⁴ at Tukmeas (Kampot) are known to be high in phosphates (Phnom Toch, Phnom Totung, and Phnom Kanlang), some of which are easily extracted from outcroppings at the bottom of the *phnom*. These calcium phosphates were mined before the war and processed in Tonkin. They could be processed in the country to obtain phosphate fertilizers. The fuels required could be imported from North Viet Nam.

Phnom Dek, located 75 kilometers north of Kampong Thom, has large blocklike outcroppings of lodestone and haematite (iron oxide). According to assays, the iron content of these minerals is rather high (60-65 percent); minable deposits were estimated at 10 million tons. The Cambodian government proposes to smelt the ore with small blast furnaces. The necessary fuels would have to be imported. The opening up of these deposits could reduce iron imports now required for the manufacture of farm implements and other small tools.

Cambodia is situated on an ancient marine gulf; it is not inconceivable that its subsoil contains hydrocarbons. To date, no exploration has been undertaken. In any event, it would not be impossible to install a *medium-sized petroleum refinery* in the country to process crude oil, which could be imported from Indonesia. It should be pointed out that in 1958, Cambodia consumed 55 million liters of automobile gasoline, 16 million liters of oil, 15 million liters of gas, 20,000 tons of diesel, 2,500 tons of fuel oil, etc. This consumption is bound to rise considerably.

Construction Industry

Brick and Tile Works: At the present time, production is about 125,000 bricks and 35,000,000 tiles. This is inadequate for the country's needs. Existing installations could be rationalized and modern equipment procured for them:

⁴ [*Phnom* is mountain or hill.]

- Sanders,
- Mixers,
- Molds for tiles (several sizes),
- Molds for bricks (several sizes).

Clay is available locally.

Cement Plants: New plants might be modelled after the one built with Chinese aid.

Lumber Industries:

- Sawmills,
- Plywood and associated industry,
- Railway ties.

Forges and Repair Shops, Foundries: These are of great importance for the country's economy. Aid might be given to them so they would be in a position to manufacture materials essential to other small industries: spare parts, items for boat manufacture, saw blades, rice mills, farm implements, etc.

Bicycle Factories: Bicycles are a very handy and popular means of transport in the city as well as in the country.

Workshops Manufacturing Household Articles: These very numerous but widely dispersed workshops produce utensils for everyday use. In order to cut production costs and to make use of byproducts, it would be practical to group them into cooperatives. This is all the more desirable if it allows them to purchase metallurgical products at a better price and to struggle successfully against middlemen.

Rubber Articles: Tires for bicycles, etc.

Textiles

The cotton industry is very important at the moment and for the future. It has enormous immediate potential. On the one hand, current consumption is large: 3,000 tons of cotton fabric and fiber per annum. On the other, the country is in a position to supply some raw materials. Textile industries do not require enormous amounts of capital and returns on investment are immediate. The following steps could be taken:

- 1) Rationalization of existing mechanical installations while adding needed equipment;
- 2) Organization of the large numbers of family weavers into cooperative weaving and spinning ventures, thus enabling them to enjoy the advantages of division of labor and to be in a position to struggle effectively against speculators handling raw materials or retailing their product;
- 3) Eventually, construction of new state plants. During the first two years, the necessary cotton fibers would be imported. Concurrently, an effort should be made to improve both the quantity and the quality of Khmer cotton production so as to be able to end dependence upon foreign supplies, at least of cotton fibers, after a brief period.

Printing and Dyeing: An ink and dye industry might be developed together. The use of plant dyes and making national methods of color extraction and dyeing known to all could be encouraged.

Silks: This is a sector which is just as important as cottons, with enormous potential. At the moment, the thirteen existing mills with mechanical looms are capable of producing 135,540 tons of silk fabric, but they operate in fits and starts due to erratic market conditions that result from uncontrolled speculation. Possible steps are:

- 1) Rationalization of existing mechanized plant;
- 2) Grouping the some 200 handweavers shops into cooperative manufactures, thereby enabling them to profit from economies of scale and to struggle effectively against speculators in securing supplies of raw materials and in selling their product.

For an initial period of years, raw silk would be imported. But concurrent efforts should be made to revitalize our traditional silkworm cultures and related industries. We might mention, in addition, the weaving of jute, thread, rope, fishnet, and sacks.

Soaps and Fats

Soaps: National soap production is currently 1,350 tons. This is clearly inadequate for the needs of the country. We import soap from Viet Nam and from France. Even so, Khmer soap factories operate below capacity as a result of foreign competition, and raw materials shortages or their high cost on the black market make it necessary to:

- 1) Protect Khmer soaps along with other Khmer industrial products mentioned above and below;
- 2) Improve the quality of Khmer soaps by modernizing existing plants and by increasing their productive capacity;
- 3) Group the many family soapworks into a cooperative venture.

Copra Oil: This is an important ingredient in Khmer soaps. Until now Cambodia has imported copra oil even though coconut groves are a prominent feature of the Cambodian landscapes. Possible steps are:

- 1) Create state cooperatives for extracting copra oil;
- 2) Make the latest methods of extraction known to the public so as to raise the rate of extraction. In this way, soap factories will be assured of having sufficient supplies of copra oil.

Peanut Oil: The existing plant needs to be improved. Individual and family artisans should be organized into cooperatives.

Food Industries

Pastas: Organize the thousands of individual and family producers into producer cooperatives. This will improve both the quantity and quality of their output.

Soya Sauce: The public at large prefers locally produced soya sauces to imported Maggi sauces because they conform more to local taste. Possible steps are:

- 1) Improve the one existing factory. There is a possibility of more rational use of secondary products from peanut oil manufacture;
- 2) Group family operations into cooperatives.

Sugar Palm and Sugar Refinery: Cambodia imports 5,000 tons of sugar annually at a cost of 24,300,000 riels, all while condemning Khmer palm sugar refineries to harmful stagnation. Possible steps are:

- 1) Improve the quality of Khmer sugar. Increase the capacity of existing refineries;
- 2) Group family palm sugar distilleries into cooperatives. The same for family refineries;
- 3) Distribute information about more efficient methods of palm sugar extraction and refining.

Fish Sauce, Paste, and Other Fish Industries:

- 1) Improve the quality of output from existing sauce plants;
- 2) Group family fishpaste manufacturers into cooperatives to avoid the current dispersion of labor. The same applies to fish smoke-houses and drying houses;
- 3) Prohibit the importing of tinned fish to encourage Khmer capitalists to set up fresh water or saltwater packing plants.

Meat Packing and Processing Industry [No details given.]

Industrial Production of Other Khmer Condiments: Preparing condiments for various Khmer dishes in the normal family way is an enormous waste of time and not a negligible obstacle to the liberation of Khmer women.

Tinned Fruits: Cambodia is a tropical country blessed with a wide variety of fruits. This is great potential for export. State or private plants must be set up.

Pharmaceutical Industry: Currently, Cambodia is able to manufacture certain pharmaceutical goods (especially quinine and strychnine) and various intermediate products (e.g., glucose, insecticide) from local medicinal plants. The laboratories required for producing these products do not require enormous capital outlays and returns can be immediate.

Attention should be given to research on and laboratory tests of traditional Khmer pharmacology and to cultivation and use of medicinal plants.

Paper Industry

Cambodia consumes large amounts of newsprint and paper. Consumption will increase rapidly in the future as the educational level of the population rises. Moreover, national industries will need packaging material for their output, sacks for cement, foodstuffs, and so on.

Other Branches of Light Industry

Numerous other branches of light industry could be developed immediately in Cambodia. These are: printing, enamel works, leather and hide works, match manufacturing, articles and equipment used in agriculture, education, science and the fine arts, perfumes, etc.

Development of these small industries represents a permanent source of national accumulation for the development of still more modern enterprises as well as a gradual expansion of the domestic market, since important money incomes will increasingly be distributed. Industrialization is a cumulative process. The view that small countries are unable to industrialize most often issues from an overly static outlook. It is true that creating small enterprises is hardly ever profitable for foreign capital, but this only proves once again the necessity of relying mainly on national resources. This is quite feasible, as the country has numerous sources of accumulation at its disposal: taxing some of the considerable profits of

foreign business, external trade, productive mobilization of part of the land income. Finally, growth in agricultural output, small industry, and handicrafts is an equally important source of national accumulation which permits gradual construction of increasingly "heavy" industries, all while constantly raising the standard of living of the people.

2. Transportation Networks Facilitating Economic Development

The national market would continue to be an agglomeration of units functioning in a more or less "closed economy" without an effort to build transport networks. In most cases, the work can be done through "community projects" using voluntary peasant labor.

Under conditions of international integration, transportation networks do not contribute to growth in domestic exchange. They only channel foreign merchandise into remote corners of the countryside to compete with what remains of national handicraft and to drain agricultural produce from the country for foreign industrial use. With control of foreign trade and the change in its structure following from this, transportation networks will forcibly facilitate domestic exchange between city and countryside, among cities and villages.

3. The Necessity of a Dual Market in Internal Trade

Until now, middleman commerce and other "tertiary" sector activities have enjoyed unilateral growth at the expense of growth in other more directly productive sectors. We have seen how a selective credit policy and a fiscal policy with differential rates, focusing on the one hand on taxes on turnover, industrial and commercial earnings, and patents, and, on the other, on taxes on consumption of a small category of goods (luxury or convenience items) must perforce methodically direct economic activity away from unproductive sectors into productive sectors and away from urgent productive activity into more urgently required production. But these measures would be insufficient in themselves. A planned purchasing and selling policy made possible by instituting state and cooperative commerce must play a decisive role.

Due to the existence of state industry and to reserves of manufactured goods and agricultural products held by the state as a result of taxes-in-kind or long-term purchases from peasants or private industrialists, the government has certain means which will allow it to regulate demand and, consequently, prices. State trading ought to be guided by this general principle: support and sponsor peasant producers or artisans, individually or in cooperatives, and private industrialists, and struggle against speculators who try to buy cheap and sell dear.

To do this, the state must attempt to buy goods at remunerative prices for producers and to market them competitively, thus reducing middleman profits. The state can make long-term purchasing agreements (especially at harvest time) with individual cultivators or cooperatives, purchasing cotton, for example, against a cash advance covering the costs of fertilizer, or an advance in kind such as salt, fabric, grain, etc.

In this way, state trading contributes directly to outmaneuvering speculators and again to the struggle against usury in the countryside. In addition, state commerce not only allows planning of the circulation of goods but also, in the course of events, the planning of their production as well. This comes about, for example, by means of the long-term purchasing agreements concluded between state outlets and agricultural or

craft cooperatives or private firms, etc; the state provides the means of production or the consumer goods required by the cooperative or firm, or even raw materials, in exchange for which the recipients agree to turn their produce over to the state.

We should also note that the producer and consumer cooperatives can be a very important link between the state sector (or production and commerce) and the private sector (mainly production). The state must support their development by giving them priority in the distribution or purchasing of goods, by extending credit to them, by granting them favorable credit terms, etc. In return, cooperative trade has the task of protecting small producers who perceive therein the opportunity for collective buying and selling.

Thus conceived, the new organization of trade, thanks to the existence of a state sector effectively directing and guiding the cooperative and private sector, will contribute to growth in exchange all across the country and facilitate production.

GENERAL CONCLUSIONS

At the end of this modest work, what overall conclusions have we reached?

We believe Cambodia must and can industrialize. It must industrialize, because agricultural specialization premised on international integration places unacceptable limits on overall development of its economy. Moreover, do not people expect that an improvement in their living standards goes along with national independence?

Cambodia can industrialize because it has no vicious circle of poverty which cannot be broken by conscientious human effort. But the responsibility for industrialization must be assumed by the state, whose program must include rigorous control of foreign relations and a well-thought-out effort at structural reform.

Thoughtful development of the economy clearly implies an essentially active leadership of the ensemble of social forces, leadership which can be neither bureaucratic nor administrative. Such leadership must therefore ally itself with a broad democracy and rely on broad support from the mass of the people.

APPENDIX

Table 1. Cambodia's Major Industries¹

Industry	Number of Establishments		
	1951	1954	1957
Rice mills	47	277	765
Distilleries	8	9	12
Palm sugar refineries	22	33	72
Cigarette factories	-	-	3
Mechanized sawmills	8	15	29
Hand-operated sawmills	170	109	234
Match factories	-	-	1
Ice factories	6	14	17
Charcoal plants	335	178	140
Kilns	60	36	16
Electricity plants	17	17	17
Brick and tile plants	208	...	170
Noodle manufacturing	21	36	...
Tanneries	5	...	8
Soap factories	14	...	14
Cooking oil	-	...	16
Fish sauce plants	19	19	27
Soya sauce plants	5	13	16
Syrup plants	4	...	...
Carbonated drink factories	-	...	14
Printers	11	...	15
Paper plants	1	1	...
Glassworks	1	...	...
Silkweaving	2	...	45
Foundries	3	...	...
Mechanical repair garages	16	24	...
Electrical repair shops	5	2	...
Nickelplating	3	2	...
Button manufacturing	1	...	...
Windows, bricks, or cement tiles	2	14	...
Potteries	11	2	...
Candlemakers	10	...	...
Paint factories . . . . .	...	...	...
Shoe manufacturing	16	10	...
Dyeing plants	6	...	...
Stone masons	7	5	...
Jewelry manufacturing	116	345	...
Joiners' shops	20	58	...

¹[Table No. 8-1, *Annuaire Statistique Rétrospectif du Cambodge (1937-1957)* (Phnom Penh: Ministry of Planning, 1958), pp. 67-69. The table actually records the number of establishments for each year from 1951 through 1957, but as Khieu Samphan makes no reference to this in the text, only data for 1951, 1954, and 1957 are presented. The data for 1954 exclude Phnom Penh. In Cambodian accounts, the designation "..." denotes "precise data unknown"; the designation "-" denotes "none."]

Table 1 (continued)

Industry	Number of Establishments		
	1951	1954	1957
Blacksmiths	4	58	58
Nail factories . . . . .	...	...	...
Hardware manufacturing	17	25	...
Blanket manufacturing . . . . .	...	240	...
Cotton fabric factories . . . . .	...	305	...
Marble sculptors	25	...	...
Leather cutters	15	3	...
Wooden shoe factories . . . . .	...	5	...
Bakeries . . . . .	...	...	...

Sources: For 1951, *Annuaire Statistique du Cambodge 1949-1950-1951*; for 1954, *Direction de la Statistique et Administrations Provinciales*; and for 1957, *Service des Mines de l'Industries et de l'Artisanat*.

Table 2. Major Industries and Their Annual Import Needs

Nature of Industry	Raw Materials	
	Local	Imported Annually
I. FACTORIES		
<u>Electrical Plants</u>		
Number: 10 Annual Production: 28,400,000 kwh	None	a) <u>spare parts</u> : motor, metallurgic products (copper, iron, brass), cables, tubing, castings, water meters b) <u>electrical fittings</u> c) <u>chemicals</u> : aluminum sulfate and others d) <u>miscellaneous</u> : insulated, supple, and plain wiring; 107,530 tons of fuel oil and diesel fuel; 100,033 tons of lubricating oil
<u>Ironworks, Foundries</u>		
A. Truong-Hung, Chhong-Fat and La Ly Men	None	a) <u>goods</u> : cast phosphorous 260 t. coke 48 t. silicon 10 t. bronze, brass 135 t. black sheet metal 25 t. emery sand 15 t. magnesium cement 7.5 t. calcium chloride 4 t. vegetable black 6.5 t. lead 3 t. angle bars 12 t. b) <u>parts</u> roller paper 600 units diesel motor 50 units belt strap 1,500 meters c) <u>fuel</u> : fuel oil, diesel oil d) <u>lubricant</u> : oil
B. S.O.K.R.E.C.	None	a) <u>semiprocessed goods</u> : hoop iron 450,000 t. iron sections 1,200 t. rod iron 250 t. black sheet metal 200 t. ordinary sheet metal 100 t. aluminum 5 t. window blinds 120 rolls bent and straight tubing 100 t. b) <u>spare parts</u> c) <u>fuels</u> : fuel oil, diesel oil d) <u>lubricant</u>

Table 2 (continued)

Nature of Industry	Raw Materials	
	Local	Imported Annually
<u>Ice Houses</u>		
Number: 14 (including one producing 60% of total annual production) Annual Production: 15,000 tons of ice	Water	a) <u>semiprocessed goods</u> : ammonia gas, calcium chloride, aluminum sulfate b) <u>accessories</u> c) <u>fuels</u> : fuel oil, diesel d) <u>lubricant</u> : oil, grease
<u>Carbonated Drink Factories</u>		
	Water	a) <u>semiprocessed goods</u> : sodium bicarbonate, sodium citrate, phosphoric acid, citric acid, caustic soda, orange concentrate, various oils: essence of sarsaparilla and African cola, peppermint concentrate, oil of laurel, blue and orange colorings, caramel. . . . b) <u>supplies</u> : hooks, corks, caps, clamps, etching needles of different sizes, pressure gauges d) <u>lubricants</u>
<u>Bicycle Parts Factory</u>		
Number: 1 Production: 36,000 parts	None	a) <u>semiprocessed products</u> : plywood 15 t. steel tubing 15 t. duralumin tubing 15 t. b) <u>parts</u> : bolts and nuts soldering rods pressure gauges c) <u>fuels</u> : fuel oil, diesel oil, oil d) <u>miscellaneous</u> : grease
<u>Alcohol Distilleries</u>		
Number: 2 Production: 8,000,000 liters	Rice Corn Palm molasses	a) yeast b) <u>spare parts</u> c) <u>fuels</u> d) <u>lubricants</u>
<u>Rice Mills</u>		
Number: 33 Production: 305,000 tons of rice and bristle	Paddy	a) <u>parts</u> : conveyer belts and parts, rubber belt clips b) <u>chemical products</u> : emery powder, magnesium cement, magnesium chloride c) <u>fuels</u> : fuel oil, diesel oil d) <u>lubricant</u> : oil

Table 2 (continued)

Nature of Industry	Raw Materials	
	Local	Imported Annually
<u>Husking Mills</u>		
Number: 647 Production: 85,000 tons of rice and bristle	Paddy	Same as for rice mills
<u>Mechanized Sawmills</u>		
Number: 30 Production: 15-20,000 cubic meters	Undressed timber	a) <u>parts</u> : horizontal and vertical saws, buzzsaw, bandsaw; horizontal and swivelling trunk sectioning saws, pendulum and chain saws b) <u>equipment</u> : steam generator, diesel motor, overhead cranes, donkey winches, mechanized cranes c) <u>fuels</u> : fuel oil, diesel oil d) <u>lubricants</u> : oil
<u>Palm Sugar Refinery</u>		
Number: 1 (Tan Y Sine) Production: 700 tons refined sugar	Paddy chaff Palm sugar	a) <u>equipment</u> : spare parts for machines, mixers, crystallizer, pressure gauges b) <u>chemical products</u> : sodium thiosulphate, sulfurous gas c) <u>fuels</u> : fuel oil, diesel oil
<u>Mechanized Textile Plants</u>		
Number: 5 Tan Pa & Son 68 looms Seng Thai 60 looms Tran I 26 looms Chip Tong 24 looms BORYEKY 10 looms Annual Production: 1,173,120 meters	None	a) <u>parts</u> : spare parts for looms and generators b) <u>semiprocessed goods</u> : raw silk (93,850 kg.), glue, tracing paper, jacquard frame, bridging thread, marking string c) <u>fuels</u> : fuel oil, diesel oil d) <u>lubricant</u> : oil, grease
II. LIGHT INDUSTRY		
<u>Mechanized Weaving Ateliers</u>		
Number: 8 having 67 wooden looms Annual Production: 453,360 meters	None	a) <u>semiprocessed goods</u> : 36,350 kg. raw silk
<u>Undershirt Shops</u>		
Number: 5 Production: about 31,600 lots of shirts	None	a) <u>semiprocessed goods</u> : cotton yarns (18,000 kg.) b) <u>chemical goods</u> : lime chloride, caustic soda, colorings c) <u>parts</u> : knitting machine, special needles
<u>Perfume Shops</u>		
Number and Production unknown	Firewood	basic extracts, glassware (flasks), engraved labels, rubber stoppers, odor-free 90% pure alcohol, printed cardboard packages

Table 2 (continued)

Nature of Industry	Raw Materials	
	Local	Imported Annually
<u>Saltworks</u>		Material for refining
<u>Dyeing Works</u>		
Number: 30	<i>Makhloeur</i> ¹	Packets of dye
Production: Unknown	dyes	
<u>Kapok Bale Factories</u>		
Number: 4		Hessian sackcloth, binding ribbons,
Production: 35,000 bales of 100 kg.		fasteners, imported dyes
<u>Nail and Pin Factories</u>	Wood	fuel oil, oil, Thomas flexible flat steel wire (165 t.)
<u>Combs, Buttons and Other Plastic Articles Factory</u>		
Number: 1		polystyrene 100 t.
Production: Unknown		barrette fasteners 300 units
<u>Paper Mill</u>		
Number: 1	Corn husks,	soda 40 t.
Production: 4,800 reams (packing papers, toilet paper, cardboard)	wastepaper, old sacks, kapok fruit husks	calcium chloride 40 t. acetic acid 40 t. chrome alum 50 t.
<u>Glue Factory</u>		
Number: 1	Offal of	calcium carbonate, drying plates
Production: 60 t.	pigs, cattle, firewood, paddy husks	
<u>Hand Sawmills</u>		
Number: 200	Timber	saw blades
Production: Unknown		
<u>Bottle & Flask Factories</u>		
Number: 1	Broken glass,	bits of glass
Production: 625,000 items	bottle fragments, firewood	fireproof clay for firing and molding tubing, ventilators, bellows
<u>Pipe Factory</u>		
Number: 1	Gravel and	a) parts: diesel motor with auxiliary motor, rotary machines for making pipes
Production: 36,000 pipes	sand (4,500 t.)	b) <u>semiprocessed goods</u> :
		cement 500 t.
		rod iron 30 t.

¹[The *makhloeur* is a guttiferous tree from which Khmers extract a base for a rich, black dye.]

Table 2 (continued)

Nature of Industry	Raw Materials	
	Local	Imported Annually
<u>Kilns</u>		
Production: Unknown	Limestone, firewood, fireproof bricks	None
<u>Flagstone Factories</u>		
Number: 5 Production: 150,000 sq. meters of paving stones	Fine and coarse sand	ordinary white cement, colorings <u>Equipment</u> : Press and molds
<u>Tile & Brick Works</u>		
Number: 135 Production: 125,000,000 bricks 35,000,000 tiles	Clay, firewood	<u>Equipment</u> : mixers, tile and brick molds, electric motors
<u>Aluminum Household Goods</u>		
Number: 1 Production: 75,000 articles	Peanut oil	lubricating oil sheet aluminum 50 t. aluminum ingots 5 t. polish 5 t. Bakelite powder 2 t. aluminum rivets 2 t. etc.
<u>Tanning Houses</u>		
Number: 7 Production: 5,500 kg. soles 31,000 pieces leather, 18,300 diverse leather articles	Mangrove bark (62 t.)	quebrache extracts chromium alum 30 t. acid coloring 31.8 t. oil-based coloring 560 kg. sulfuric acid 2 t. hydrochloric acid 12 t. arsenic acid 1,100 kg. lacquer gum 500 kg. etc.
<u>Match Factories</u>		
Number: 1 Production: 8,400,000 boxes of 70 matches	Wood (700 cubic meters)	special matchbox papers 20 t. potassium chlorate 20 t. manganese bioxide 4 t. potassium bichromate 400 kg. lead oxide 400 kg. iron oxide 4 t. red phosphorous 2 t. flowers of sulphur 4 t. combustible material 6 t. feldspar 1 t. mica 1 t. kieselguhr 2 t. magnesium carbonate 1 t. zinc white 500 kg. chalk powder 500 kg. plaster 3 t. lampblack 500 kg.

Table 2 (continued)

Nature of Industry	Raw Materials	
	Local	Imported Annually
		chrome-yellow 300 kg. rhodamin 200 kg. <i>fosine</i> ² 200 kg. auramine 200 kg. malachite-green 200 kg. cellophane 500 kg. glue powder 5 t. paraffin 7 t. antimony sulphate 2 t. lead sesquisulphide 4 t. antimony sulphite 4 t.
<u>Cigarette Factories</u>		
Number: 3 Production: 1,376,800,000 cigarettes, 60,000 packets of tobacco	Local tobacco (556 t.), honey starch, rice flour, wood	foreign tobacco 1,300 t. labels, sulfite papers, aluminum foil, cellophane, cartons, Kraft paper, bisul- fite paper, gummed Kraft bands, glycerin, copper powder <u>Equipment and spare parts:</u> boilers, Ferging insecticide sprayer, humidifier, shredder, cigarette packing, labeling, and cellophane wrapping machines.
<u>Fish Sauce Factories</u>		
Number: 41 Production: 40,000 hectoliters	Fish, vats for marinating	None
<u>Soya Sauce Factories</u>		
Number: 1 (Nam Ea) Production: 6,000 hectoliters = 70% total production	Peanut waste (36 t.) Soya (14 t.)	gluten of wheat 1,000 kg. active carbon 960 kg. hydrochloride 14,400 kg. caustic soda 1,000 kg. 120,000 crown stoppers 120,000 empty bottles
<u>Cooking Oil Factories and Refineries</u>		
Number: 11 Production: 1,380 t.	Peanuts	Machinery
<u>Soap Factories</u>		
Number: 16 Production: 1,350 t. of 50 and 70% pure soap	Beef suet (150 t.) Peanut oil (152 t.)	copra oil 1,000 t. caustic soda 120 t. machinery

Source: Report of the *Service des Mines, de l'Industries et de l'Artisanat*, Phnom Penh, 11 October 1956.

²[Not translated.]

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