

CHAPTER II

THE BACKGROUND OF THAKSIN SHINAWATRA AS A THAILAND PRIME MINISTER AND THE DEVELOPMENT OF CAMBODIA'S ECONOMIC DURING THAKSIN AS AN ECONOMIC ADVISER

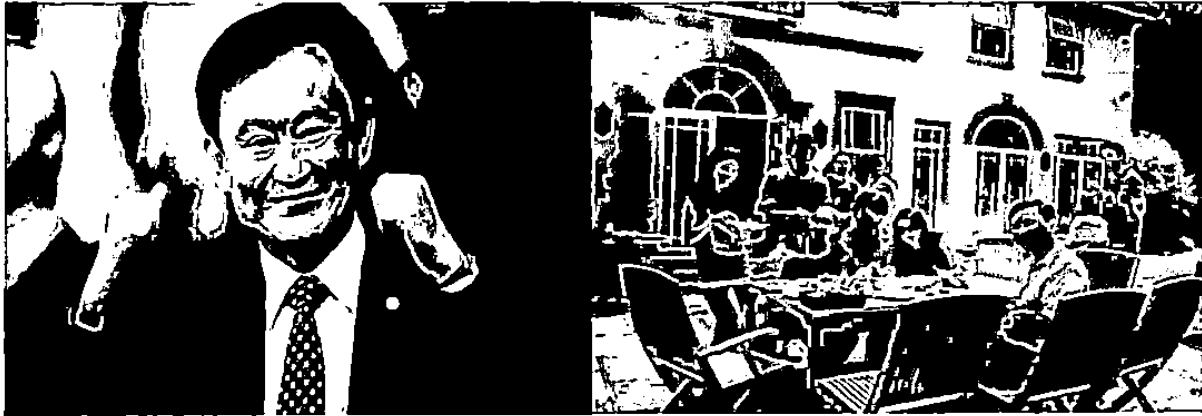
A. Profile of Thaksin Shinawatra

a. Thaksin's Background

Thaksin Shinawatra was born in 1949 in Thai Family from the northern city of Chiang Mai. (Baker & Phongpaichit, 2004). His ancestors started off as tax farmers, later becoming silk traders and producers before diversifying into a range of other business interests. His father was a local politician in Chiang Mai, while his uncle Suraphan was an MP who eventually served as deputy minister of communications. (Pathamanand, 1998) Thaksin began his career in the police force, graduated from the police academy as the top student and earned a doctorate in criminal justice from Sam Houston State University, Texas, in 1979. After marrying Pojaman Damapong, daughter of powerful Deputy Police Chief Samoer Damapong, Thaksin secured exclusive contracts to supply various government agencies including the police. He left the police in 1987 to focus on business interest involving pagers, mobile phones, telephone directories and Thailand's first satellite that would make him one of the leading entrepreneurs in Thailand. But, many of Thaksin's earlier business ventures were not particularly profitable, he got the success when gained his

in 1991, he started his first satellite project in 1991 and

subsequently saw a staggering rise in the share of his company. (Warr, 2005) All his business began with government licenses or concessions.



Picture 2.1: Thaksin Shinawatra and His Family

Thaksin decided to enter politics in his own right. In view of his considerable wealth, he was courted by various political parties in the early 1990s, including the Democrat Party, New Aspiration and Palang Dharma.

Thaksin's first move was to hook up with Palang Dharma Party, which is serving as foreign minister in 1994-1995. Palang Dharma was at this point a middle-ranking party and this party had benefited from Chamlong's image as a populist figure, who opposed corruption and led the the anti-Suchinda protest that had culminated in the violent show-down of May 1992. In effect, it was the best political "brand" in Thailand, a party with a very positive public image, especially in Bangkok. Palang Dharma had been the junior partner in a coalition government led by Chuan Leekpai of the Democrats.

Thaksin's bid to become Prime Minister was based on a new political party, the Thai Rak Thai (Thais Love Thai) Party. The launch of the party coincided with a

... of political parties following the passage of the 1997 constitution

which included a range of liberal reforms. Thaksin's arrival on the scene with his new party seemed initially to chime in with some of the aspirations of the reform movement. According to Article 110 of the 1997 constitution made it illegal for any MP to own a company holding a state concession, Thaksin transferred the bulk of his assets to his wife and children. Thai Rak Thai sought to define itself as a technocratic party, a party led by a successful entrepreneur who wanted to bring the same levels of professionalism to politics as he had brought to his private sector activities. His party claimed a more programmatic set of policies, presenting the electorate with a clear-cut manifesto for change. Thai Rak Thai proved highly successful in promoting its message, which was well received by the media. In the Asian Crisis, the Chuan Administration stood accused of slavish conformity to the demands of the World Bank and IMF, Chuan's critics argued that Thailand had "lost face" in the eyes of the region and the wider world. Thai Rak Thai offered to redeem Thailand's national pride, restoring to the country the image and self-image of a successful and independent nation. In January 6th 2001 elections completely reshaped the political landscape in Thailand. On February 9th 2001, 339 of the 500 MPs in the new lower house voted for Thaksin to become Prime Minister. One factor that contributed to electoral victory was the success of Thai Rak Thai in incorporating a sizeable faction from one of the major parties, the New Aspiration Party. Thus, the old politics of patronage was built into its political base. But, by appointing technocrats and

Thaksin would have to be seen to have injected new blood

into the system. His policies borrowed from Keynesian Theory and appealed to the mass vote.

Table 2.1: Election Results by Party and Region, January 2001

Parties	North	Northeast	South	Centre	Bangkok	Total	Party list	Grand Total
Thai Rak Thai	56	69	1	47	29	200	48	248
Democrat	16	6	48	19	8	97	31	128
Chat Thai	3	11	-	21	-	35	6	41
Chat Phatthana	2	16	-	4	-	22	7	29
New Aspiration	1	19	5	3	-	28	8	36
Seritham	-	14	-	-	-	14	-	14
Ratsadon	-	1	-	1	-	2	-	2
Social Action	-	1	-	-	-	1	-	1
Thin Thai	-	1	-	-	-	1	-	1
Total	76	138	54	95	37	400	100	500

Source: Thailand Parliament Election Commission, 2001.

Although the intellectual dishonesty inherent in his approach repelled many educated urbanities, it proved to be generally successful. In the 2001 election, Thai Rak Thai won 248 seats of the total 500. In the theory the government was a coalition, but in practice Thaksin's power was untrammelled. He was the first Prime Minister in Thai political history to command a nearly absolute majority.

b. Thaksin's business

Thaksin Shinawatra involvement in the telecommunications business can be divided into three major phases, they are, the concessions phase (1988-1997); the post-crisis phase (1997-2000); and a third phase that began with his

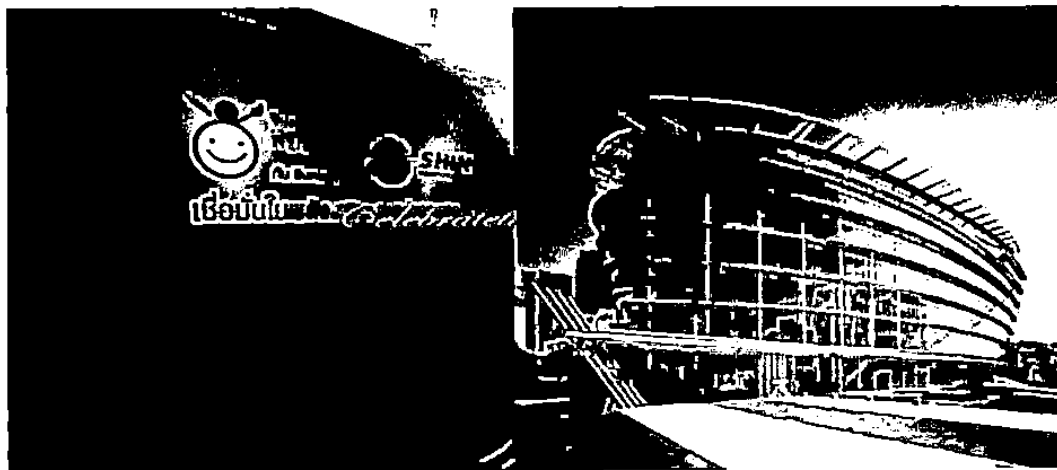
assumption of his premiership in February 2001. In each phase, competition in business was approached differently. During the concession period, Thaksin had to conduct business under highly competitive circumstances and political uncertainties, and with strong reliance on political connections. These conditions were similar to those faced by other telecommunications groups. A major turning point took place at the time of the Asian economic crisis in 1997. The crisis pushed all of Thailand's telecommunication corporations into deficit, with the exception of Thaksin's company, which had smaller debts than any of its rivals. Another turning point was the founding of the Thai Rak Thai Party in July 1998, which started a sequence of events leading to Thaksin's own entry to Government House. Since then, new opportunities in the telecommunications sector have emerged for Thaksin's businesses. Expansion and new investment in both the domestic and regional have brought about new sources of wealth for Thaksin and his family.

He started a business leasing IBM computers in 1981 to government offices. His first clients were Chulalongkorn University and the State Railways. Over the next three years, the business expanded gradually to other government departments and state enterprises. His position improved slowly, and in 1984 he accrued a 19 million baht loss when the government devalued the baht. He was bailed out by the Thai Military Bank. In 1986, he drafted a plan for installing computers in the police information center, and he won the bid to implement his

business plan, and this marked the beginning of his success. In the same year,

he secured his first government telecommunications concession to offer paging service in a joint venture with Pacific Telesis.

Between 1988 and 1991, Thaksin had been transformed from owner of a struggling computer leasing business into a major entrepreneur in government concessions, with a special relationship with Telephone Organization of Thailand (TOT) and the new politicians. The earlier venture into computer leasing had not been vain, as it had given Thaksin the vital experience in dealing with government agencies.



Picture 2.2: Shin Corporation

In 1983, Thaksin built the Shin Corporation, which is a group company that engages into wireless communications business, satellite and international business, media and advertising business, budget airline business and customer finance business through its subsidiaries and associate companies. The Shin Corporation is divided into three major companies, they are:

1. Advanced Info Service or AIS (42.67%): largest mobile operator with over 32.8

mn subscribers.

2. Thaicom or known as Sattel (41,14%); Thaicom satellite with 25 C-band & 14 Ku band transponders IPSTAR broadband satellite in 13 countries.
3. ITV (52,92%); Application and Service.

Table 2.2: Thaksin concession, 1989-1991

Concession	Company	Issuer	Date	Value (million Baht)	Length (years)
Cable TV	IBC	MCOT	March 1989	-	20
Paging	Digital Paging Service	TOT	19 Des 1989	200	15
Datanet	Shinawatra Telecom	TOT	19 Sep 1989	400	10
Card Phone	AIS	TOT	27 March 1990	3000	20
Mobile Phone	AIS	TOT	27 March 1990	3000	20
Phone point	Fonepoint	TOT	30May 1990	965	10
Satellite	Shinawatra Satellite	MCOT	11 Sep 1991	6500	30

Source: Sakkarin, 2000

In 1994, Thaksin upgraded his mobile phone concession to the new digital technology. He ventured out into the region by extending the cable TV service into Laos and Cambodia, and winning mobile phone concessions in Laos, Cambodia, the Philippines, and India. He also moved into another form of concession business under the Communications Ministry. His family and business acquired around 10 percent of the shares in Bangkok Express-Way Consortium Limited, which built and managed Bangkok's freeways. He gradually shed some of the less profitable ventures including

Table 2.3: Thaksin listed companies results in 1992-1998 (baht million)

Companies		1992	1993	1994	1995	1996	1997	1998
Shin	Assets	10,796	18,863	30,398	39,907	45,339	59,900	57,788
	Revenue	6,312	10,439	16,191	21,061	21,231	25,009	28,933
	Profit	512	1,472	2,765	3,296	2,631	-5,644	-1,088
	Market Cap	22,730	60,984	75,953	85,932	42,968	17,454	16,632
AIS	Assets	4,704	8,319	15,527	20,109	21,796	35,238	41,525
	Revenue	1,891	3,662	6,478	10,551	13,315	15,575	17,284
	Profit	445	949	1,545	2,994	3,563	2,523	2,966
	Market Cap	15,500	87,828	81,432	104,364	51,012	54,288	49,608
Satellite	Assets	3,019	6,238	6,591	11,430	14,010	13,513	11,117
	Revenue	-	-	379	1,787	2,098	2,620	4,317
	Profit	-	-	-157	467	241	-4,495	1,835
	Market Cap	-	-	10,238	14,263	10,150	1,400	5,388
IBC	Assets	1,385	1,813	3,460	3,539	2,561	4,156	7,970
	Revenue	1,761	1,956	2,465	3,003	2,022	1,341	2,854
	Profit	16-	124	149	-331	-427	-1,320	-4,485
	Market Cap	4,176	19,512	9,636	3,103	2,884	1,993	12,778

Source: Company Report, 1998

The expanding of Shin Corporation was base in China since 1996, however, the original number of customers was not significant. In 1999, Shin Corp started marketing the new iPSTAR satellite, and this new broadband satellite had the potential and capacity finally to penetrate the Chinese market, which had become the first customer of iPSTAR project in 2003. (Mc Cargo, 2003) Meanwhile Shin Corp

... Clients include public sector bodies

such as the Department of Space (DOS), Department of Telecoms (DOT), Doorshan National TV, Software Technology Park of India (STPI) and a range of private sector customers as well as 30 other TV Channels all over the country. In that time, Shin Corp through SATTEL enjoys the status of being the biggest foreign satellite communications service provider in the Indian Market. In 1998, Shin Corp had access Myanmar's market, and its customers are Myanmar Post and Telecommunication (MPT), and Myanmar Radio and Television (MRTV), both of which are public sector entities. Once Thaksin became prime minister, Shin Corp experienced remarkable growth and a high degree of net profits.

c. Thaksin as Thailand Prime Minister and the development of Thailand's economic under Thaksin

Since Prime Minister Thaksin Shinawatra entered office in January 2001 his vision is to propel Thailand to economic performing predominance in the eyes and recognition of the global community. According to Economic Policy and Strategy (published in August 2004) explains that Thaksin's economic agenda consists of three set, the agenda includes: 1). Balancing past excessive dependence on external demand, 2). Balancing urban-based mass manufacturing and unproductive asset building with structural development in domestic demand, traditional sector (for examples, agriculture, and rural households) as well as enterprises, 3). Improving Thailand's pricing power of its goods and services. In other word, the intention was to

1. Agriculture Sector

In 2006, the farm income from major crops increased by 30.3 per cent year-on-year, accelerating by almost twice, and due to the expansion of major crops which had contracted in the previous year. Major crops production increased by 4.6 per cent supported by favorable climate and an increase in water levels in all major reservoirs, resulting in an abundant supply of major crops such as the production of paddy during the second crop season, rubber, cassava, sugar cane, and oil palm.

Table 2.4: Thailand Economic Performance in Agriculture Sector in 2001-2006

Thai Corps		2001	2002	2003	2004	2005	2006	Total (%)
Paddy		24.87	27.99	29.47	28.54	30.29	29.43	-2.8
Rubber		2.44	2.63	2.86	3.01	2.98	3.07	3.0
Maize		4.42	4.23	4.18	4.22	3.89	3.65	-6.1
Cassava		17.81	19.72	21.44	16.94	22.58	25.29	12.0
Sugarcane		54.35	77.52	67.92	52.24	50.40	62.85	24.7
Mungbean		0.24	0.22	0.18	0.13	0.11	0.11	1.2
Soybean		0.33	0.26	0.23	0.22	0.22	0.22	-0.15
Oil Palm		3.73	4.00	4.90	5.18	5.00	6.24	24.7
Coffee		0.07	0.05	0.06	0.06	0.05	0.06	18.9
World Corps		2001	2002	2003	2004	2005	2006	Total (%)
Grains								
- Production		1,841.6	1,820.2	1,862.3	2,043.4	2,014.0	1,973.2	-2.0
- Trade		229.3	242.4	234.4	244.2	250.3	247.8	-1.0
Rice								
- Production		392.6	391.8	391.8	400.5	416.3	415.3	-0.2
- Trade		22.5	27.2	27.2	29.0	27.7	29.2	5.6
Maize								
- Production		583.4	625.7	625.7	712.3	695.6	692.4	-0.5
- Trade		72.4	79.2	79.2	76.5	82.9	84.0	1.3
Soybean								
- Production		182.8	186.5	186.5	215.7	217.9	228.4	4.8
- Trade		59.3	55.8	55.8	64.5	64.4	69.6	8.1
Rubber								
- Production		7.1	7.5	8.0	8.7	8.9	9.2	3.2
- Trade		7.7	7.6	8.0	8.5	8.9	9.2	2.7

Source: Agricultural Economics World Production, Market and Trade Reports, Foreign Agriculture Service, January 2007

2. Manufacturing Sector

Manufacturing production in 2006 expanded satisfactorily, particularly in electronics and beverage industry. This was in accordance with the National Economic and Social Development Board (NESDB), which reported that the manufacturing sector in 2006 expanded by 6.1 per cent, accelerating from 5.2 per cent mainly from the high growth of office machinery industry (electronics and computers) and beverage industry.

**Table 2.5 Thailand Economic Performance in Manufacturing Sector
Manufacturing Production Index in 2001-2006**

Industry	Years					
	2001	2002	2003	2004	2005	2006
Tile	0.6	-0.4	0.0	3.5	2.2	2.6
Machinery and Equipment	23.3	19.7	32.2	20.9	6.3	5.0
Petroleum Products	2.2	1.9	4.3	8.2	-0.4	2.4
Beverages	13.6	20.0	17.6	5.1	2.9	14.1
Electronic and	-26.8	24.1	23.1	13.2	39.7	23.7
Computers	-2.9	2.8	16.8	-2.9	-0.3	7.7
Office Machinery and Jewelry	3.9	0.0	2.0	2.8	-10.2	-26.9
Construction Materials	9.9	13.4	1.5	9.1	11.3	5.6
Aluminum and Steel products	2.5	24.3	2.1	10.7	-3.6	-3.3
Plastics	-3.0	3.2	3.7	8.9	3.5	0.4
Others	0.7	2.3	13.2	-0.7	4.4	0.3
Total	1.3	8.5	12.3	11.7	9.1	7.4

Source: BOT

3. Tourism Sector

In Tourism Sector in the entire year, the number of foreign tourists totaled

spread of avian flu and the unrest in the three southernmost provinces, the tourism industry still expanded favorably. The contributing factors included various promotion measures initiated by the government and the opening and addition of routes by low-cost airlines. Hotel occupancy rate averaged at 64.0 per cent, and foreign revenue from tourism amounted to 386.1 billion baht, up by 18.9 per cent from the previous year.

Table 2.6: Thailand Economic Performance in Tourism Sector in 2001-2006

Indicator	Year					
	2001	2002	2003	2004	2005	2006
Number of Foreign Tourist	10.6	10.8	10.0	11.7	11.4	13.8
Income From Tourism (billion Baht)	322.9	339.7	323.4	403.6	406.5	506.4
Occupancy Rate (%)	59.6	60.6	57.0	63.5	60.6	63.0
Room Rates (Baht)	1.193	1.194	1.170	1.238	1.287	1.369

Source: Tourism Authority of Thailand and Bank of Thailand, 2007

4. Trade Sectors

Trading sector's activities continued to slow down in 2006 as a result of high levels of inflation and interest rates in the first three quarters, causing an erosion of domestic purchasing power, more conservative spending behavior and lower demand for imports. Trading activities that continued to perform well included shopping mall sales (due to all-year sales promotion), construction-related products, electrical appliances and lightings (a part of these are for the reconstruction in the aftermath of

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radio and television, household appliances, liquid and solid fuels, and cosmetics and perfumes decelerated this year.

Table 2.7: Thailand Economic Performance in Trade Sector 2001-2006

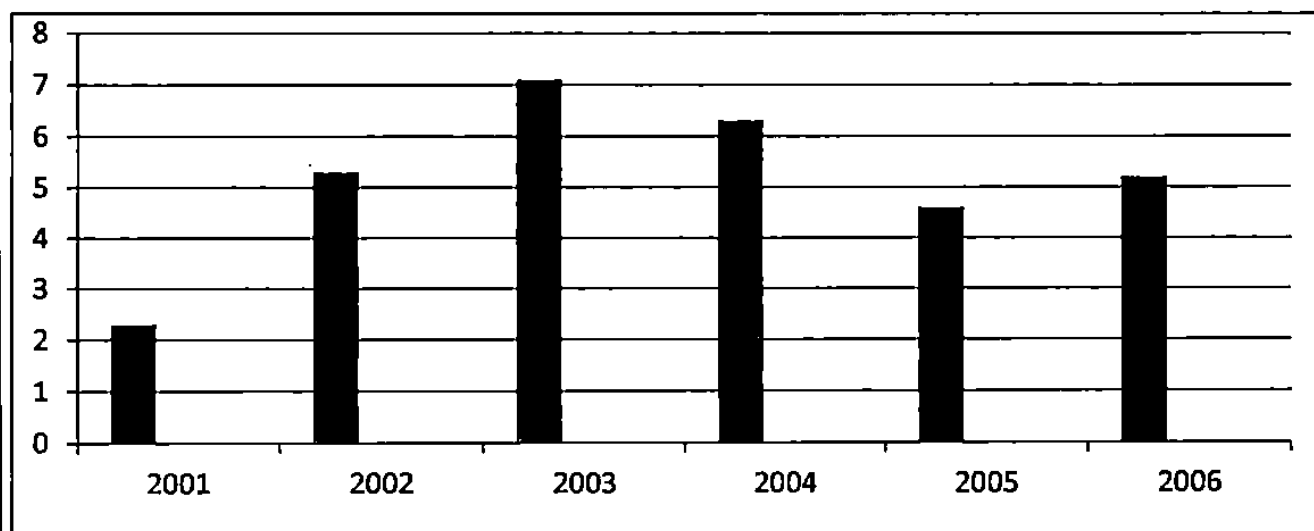
Indicator	Year					
	2001	2002	2003	2004	2005	2006
Retail Trade (Billion Baht)	960.3	202.5	233.0	153.5	133.2	135.8
Wholesale Trade (Billion Baht)	1,687.7	162.1	188.0	136.6	147.0	147.4

Source: Bank of Thailand, 2007

Under Thaksin Shinawatra the economic growth was influenced by some factors such as Agriculture, Manufacturing, Trade, Tourism, and etc. In 2001-2006, the development of those sectors are quite clear and it's became evidence for the good management of Thaksin as Thailand Prime Minister especially in economic sectors.

The Gross Domestic Product (GDP) growth rate provides an aggregated measure of changes in value of the goods and services produced by an economy. The economy of Thailand is an emerging economy which is heavily export-dependent, with exports accounting for more than two thirds of gross domestic product (GDP). Well-developed infrastructure, a free-enterprise economy, and generally pro-

Figures 2.1: Thailand Rates of Growth of Real GDP in 2001-2006



Source: UN/DESA, based on data of the Statistics Division; IMF, *International Financial Statistics*, 2010

From the figure above Thailand's economy continues to improve since 2002, with the growth of 5.2% (see Figure 2.1). The overall improvement of the economy was due to a series of accommodative policies as well as mechanism aimed towards growth as well as stability. The budget deficit for 2002 was 116.6 billion, or rather 2.2 percent of GDP, which was significant decrease from the targeted rate of 3.8 percent of GDP.

In 2003, Thailand economy witnessed a more accelerated growth 7.1 percent, despite the SARS scare and the bird flu crisis. This tremendous growth was due in a large part, to a vast improvement in the production sector (particularly in non-agricultural sectors, such as Industry, Trade, and Construction).

In 2004, service sector showed improvement. Although growth in wholesale

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from the SARS and the bird flu crisis outbreak in 2003.

d. Thaksinomic: Thaksin thoughts toward Thailand economic

Thaksin Shinawatra was one of the most powerful Prime Ministers of Thailand. Undergirded by a set of new policies termed Thaksinomics, great political power, his CEO style of management, and his intention to make Thailand a developed country. Through this policy, Thailand has produced a sustainable foundation for intensive learning capabilities necessary for long-term industrial and technological upgrading of the country.

1. Ideas behind and Main Thrusts of Thaksinomics

Under Thaksin Administration in Thailand, many scientists labeled Thaksin Shinawatra distinctive economic policy as Thaksinomic, which literally means economic of Thaksin. Dual-track policy is the main thrust of this new policy menu. The Thai government tried to enhance international competitiveness of the nation by strengthening the “external” side of the Thai economy, such as, export, foreign direct investment and tourism. At the same time, it attempted to increase the capabilities of domestic and grass-root economies by implementing projects such as the Village Fund (1 million baht to increase local capabilities of each village), a three-year debt moratorium on farmers debts, One-Village-One-Product Project, and the People’s Bank.

The Thaksin government publicly announced the national goal of eradicating

developed county status. Unlike its predecessors that paid most attention to macroeconomic stability, the government focused more on enhancing macro and micro level foundations for international competitiveness. Importantly, it was the first time that the Thai government had formulated serious selective policies addressing specific sectors and clusters.

2. The Impacts of Thaksinomic on Thailand's Economic

The impacts of Thaksinomic in Thailand the Thaksin government has made significant changes in policy paradigms in the government sector. His administration paid considerably more attention to the meso and micro foundations of the country's competitiveness. For the first time, Thailand had explicit vertical industrial policies that were tailored to specific sectors and geographical clusters. These policies pushed existing central and regional government agencies to adjust themselves accordingly.

The following table summarizes the impacts in Table 2.8 below

Table 2.8: Impact of Thaksinomic in Thailand Economic under Thaksin

Level	Aspects	Main Thrust of Government Policies
1: National Objectives	Setting National Objectives	<ul style="list-style-type: none"> - No poverty within 8 years (2 terms) - A First World country in less than 20 years - Innovate nation with wisdom and learning base
2: Strategic Priority Setting	Horizontal priorities	<ul style="list-style-type: none"> - Promotion of creative entrepreneurs, inoperative firms and start-up - Development of technology infrastructure for industrial support - Increase number of researchers, scientist and technologists per capita
	Vertical Priorities	Kitchen of the world, Detroit of Asia, Tropical fashion of Asia, World Graphic Design & Animation center, Tourism Capital of Asia, 19 geographical clusters, One-Village-One-Product Project.
3: Specific policy program	Functional Policies	<ul style="list-style-type: none"> - BOI incentives for development of skills, technology and innovation. - New entrepreneurship supporting schemes
	Vertical Policies	<ul style="list-style-type: none"> - BOI cluster incentives - Regional science parks and incubators
	Coordination and coherence of policy program	<ul style="list-style-type: none"> - Weakly enforced and inconsistent in general - CEO prime minister/CEO Governors
	Implementation policy learning and government capability development	<ul style="list-style-type: none"> - Limited monitoring, evaluation and learning - Performance based budgeting and contractual-based relationship between government agencies

B. The Development of Cambodia's Economic during Thaksin Shinawatra as an Economic Adviser

The appointment of Thaksin Shinawatra as Cambodia's economic adviser considered as a factor to develop Cambodia's economic. Instead of Thaksin has a big investment in Cambodia, Thailand also becomes one of the countries in Asia which made big investment in Cambodia during Thaksin's Administration. After Asian Financial Crisis in 1997, the development of Cambodia economic is growing slowly. Many factors had influenced the economic development, such as unstabilization the financial system in Cambodia, the development of infrastructure still unbalance, and government policy to attract Foreign Investment wasn't running well, therefore, there is no thrust for them to invest in Cambodia.

To begin with, there will be economic improvements when Thaksin gets involved. It is the fact that Thaksin is an expert since he has made a very efficient economic system in Thailand until the country becomes one of the states having strong economy in Asia. He does have the knowledge, and he is willing to share with Cambodia, so solutions to boost economy will be likely to come into existence. More importantly, Thaksin is a billionaire having many economic partners from various countries and he could ask for help from his friend, or even convince them to spend their money operating business in Cambodia. Thus, by having his presence, Cambodia really would possibly stand a chance to have more foreign investments. Thaksin stated very clearly, "I really would help my neighbor (Cambodia)."

Cambodia's Finance Ministry a lecture on reducing poverty and bring about cooperation with investors in other countries (AFP News Agency, 2009)

So, in this chapter, I will explain about the development of Cambodia's economic before and after Thaksin become Economic Adviser and Its Impact for Cambodia's Economic Development. After that, I will make comparison between Pre and Post appointment of Thaksin Shinawatra as Cambodia's economic adviser.

a. Cambodia Economic Development Pre-Thaksin

1. The Historical of Economic Development in Cambodia

The Historical background of Cambodia's economic was divided into 2 timeframes: Firstly, the collapse of socio-economic system since Sihanouk Regime, and Secondly, the transition period from the economic system to the market based economy since the Paris Peace Agreement in 1991.

a. The collapse of Socio-Economic System

Since Cambodia's head of State Shihanouk was removed out of power by a Lon Nol's coup d'etat on March 18th 1970, the monarchy system was officially dissolved and Cambodia turned to be a republic state under the name of Khmer Republic. This turning point can be considered as the collapse of Cambodian Socio-economic system.

In that time, the war was emerged against the government lead by Shihanouk

1970-75, which resulted in a bad damage on economy. As the consequent

economic activity was interrupted, including agriculture. Production and export were substantially reduced and created a shortage of rice, forcing Cambodia who becomes net-export rice into the net-import country rice.

In April 1975, the war ended with the National United Front's entry into Phnom Penh and the fall of Saigon. However, all existing culture and social and economic systems were destroyed for more than three years. Free economic activities were denied, and people were force resettlement to the countryside to work in groups targeted for the rice production. It is estimated that more than one and half million Cambodia people were killed or died from starvation in that regime.

b. Transition to Market-oriented economy

Cambodia had still been an agriculture based economy until 1980. Rice, rubber, timber and fishery and other agriculture products were the main products for exporting and sustaining the whole state's economy. In fact, estimated of labor force was involving in agriculture sector is that over 80%, whereas industrial sector was in a relatively small scale.

After the Paris Peace Agreement in 1991, a long waited peace came to Cambodia after a decade-long of war chaos. This peace contributed to a stability of politics in the country and a smooth transition from socio-economy into the market-oriented economy, simultaneously with the strong support from the new established constitution of the Kingdom of Cambodia. As a result, it can be observed that there

1. The start of transition period (1993)
2. Economic based on foreign aid (1994)
3. Strong foreign investment performance in garment industry (1995)
4. Politic instability and the effect of a Asian Currency Crisis (1997-1998)
5. ASEAN regional integration (1999)

In 1993, as the starting point of transition period, UNTAC settled in Cambodia with the main object of keeping peace. In that time, large number of NGO were established in the aim of cutting poverty in the country. Economic condition can be recognized as the economy depended on foreign aid.

In August 1994, Cambodia enacted its Investment Law and the Government established the Council for the Development of Cambodia for approving foreign investment project. This law resulted in attracting more foreign investment companies, such as Malaysia, Singapore, Taiwan, and China. According to the World Bank, foreign investment in Cambodia has dramatically increased since 1994. It is estimated that approximately 10 folds increase around US\$100 million per year. Cambodia Investment Board, which approves incentives available to domestic and foreign investors as well as investment applications, approved 330 applications, with a registered capital about US\$2.8 billion.

With the market oriented economy, Cambodia enjoyed its high level of economic growth until 1997, but in its year Cambodia faced 2 shocks conflict in

2. Cambodia Macro Economic Outlook

In this section, I will explain about Cambodia economic growth and inflation rate, the exchange rate, and trade performance of Cambodia government in recent years.

Table 2.9: Cambodia Macroeconomic Outlook in 1995-2001

Indicator	Years						
	1995	1996	1997	1998	1999	2000	2001
Inflation, price Index (%)	7.7	7.1	8.6	17.3	4.2	-0.8	0.2
Nominal Ex-Rate (\$)	2526	2713	3452	3770	3770	3905	3895
Real Economic Growth (%)	4.8	6.6	3.6	10.2	6.8	5.5	5.3
Current Account/GDP (%)	-12.3	-16.3	-12.2	-17.2	-14.3	-10.2	-10.5
Budget Revenue/GDP (%)	9	9.1	9.7	8.7	11.2	11.7	12
Budget Expenditure/GDP	16.7	17.4	13.8	14.4	16.4	17.3	18.4
Tax Revenue	7.4	7.8	7.6	6.6	8.7	8.9	8.7

Source: IMF Statistic data, 2005

a. Economic growth and Inflation Rate

Cambodia has succeeded a rapid economic recovery despite Cambodia is in low level of development. Based on IMF statistic data in 2005, the real economic growth was 7.7% in 1995, 7.1% in 1996, and 5.3% in 2001. It is estimated that the rise of productivity especially in rice, the increasing of foreign investment in garment industry, and much amount of aid donated by International Institution are the main factors that sustained this high growth.

Besides, the inflation rate fell sharply from an average 140 percent in 1990 to 1992 to 7.7% in 1995, before rising again to 17.3% in 1998 after the Asian Financial

0.1% in 1999, 4.2% in 1999, and 0.2% in 2001

b. Trade Performance

Since Cambodia was joint of regional trade ASEAN in 1999, the trade between Cambodia and its ASEAN member's countries was remarkably increased. According to IMF Statistic Data in 2005, the ratio of total export to GDP was 23%, grew to 28.7% in 1997, 32% in 1998, and 42% in 2001. But in fact, its imports exceed export, leading to the trade deficit. However, the trade deficit has been decreasing as the trade surplus in garment sector continued to improve.

c. Exchange Rate

In 1993, Cambodia's official currency was traded in the rate of 2700 Riel in a US Dollar. The value of Riel depreciated smoothly to 2700 riel a dollar in 1997, when a sudden fall of exchange rate of the Riel took place. The rate was 3460 Riels a dollar in December 1997, and 4000 riel a dollar in 2003. This sharp and sudden depreciation have been estimated as the cause of:

- The local political chaos provoked in July 1997;
- The Asian currency crisis affected the whole region, including Cambodian economy;
- The rise of local price level can be considered as the factor of the fall in Riel exchange rate.

3. The current Financial System of Cambodia

The Cambodia financial system consists of the National Bank of Cambodia, commercial banks and micro-financial Institutions. The National Bank of Cambodia

is primarily responsible in determining the monetary policy aimed at

maintaining price stability, controlling the money supply, publishing currency notes, and stabilizing the foreign exchange rate. In addition, the NBC is in charge of licensing, de-licensing, and supervision of commercial banks law based on capital requirements.

The financial system in Cambodia was remarkably reformed also influenced by transition-oriented economy, its triggered financial liberalization has been introduced and foreign fund commercial banks were permitted to operate in Cambodia. Therefore, the number of commercial bank was significantly increased to 30 banks in early of 1999. Among those private banks, 5 of them were based on local fund where the rest were on foreign fund. In general, the commercial banks share some common characteristic. Firstly, their total asset is very small in scale with weak management skills. This result in a high a transaction cost, in response to the burden of high fixed cost. Secondly, insufficient information network provides an inefficient of economy. Thirdly, services such as depositing and financing are provided only in the short term and are concentrated only in the city area. And the last, is Microfinance Institution in Cambodia was established in 1993 in the name of ACLEDA. It's operational with more than 130 professional staff members in 12 provincial branches with its domestic money transfer services rose from the equivalent of US\$145.7 million.

The level of Financial Intermediation in Cambodian Banks faced a lot of changes such as liberalizing its interest rate under the proposal of International

freely operate their business in Kingdom. These prompt changes result in a weak in financial system as well as in legal system that subsequently lead to the banking crisis. NBC supervision of the banking system remains rudimentary and weak, and lacks uniform and well-understood accounting standards. Some smaller commercial banks have a weak management base forced to fail in their business while some banks are said to spend more time laundering money than lending it. Finally, the whole banking system was in a worse condition and suffered a heavy loss. This phenomenon discourages banks to lend money to enterprises on one hand, and on the other hand enterprises pay high cost in financing their project.

Table 2.10: The comparison between Cambodia's bank Performance and the other Countries in Asian in 2003

Indicator (in % of GDP)	Vietnam	Cambodia	Laos	China
Total deposits	56.0	14.4	17.2	182.8
Credit to the economy	51.8	8.0	11.1	165.5
Credit to SOEs	17.1	0	4.4	-
Credit to Private Sector	34.7	8.0	6.7	-
Non-Performing Loan	25.9	15.6	30.0	18.4

Source: IMF Statistic Data, 2005

From the table 2.10, comparing to other neighboring countries, Cambodia's financial sector is in rudimentary stage where banks have not performed financial intermediation as widely as many other countries did. The ratio of total deposit to GDP is still in a very low level. It is part of the reason if people lost their thrust and

4. The Development of Cambodia Infrastructure

1. History of Infrastructure Development in Cambodia

The history of infrastructure in Cambodia dates back to the Angkor era. The Angkor Empire boasted a nationwide road network known as the Roads of the King. Modern infrastructure development began under French rule. The port of Phnom Penh was built, and Phnom Penh and Saigon (Ho Chi Minh City) were linked by a liner service. In the 1920s, construction work began for a railway linking Phnom Penh and the Thailand-Cambodia border via Battambang. A waterway linking the port of Phnom Penh and the central railroad station was constructed though it has already been reclaimed. The basic structure of Phnom Penh city was formed during this era.

Infrastructure development continued after independence, and by the time civil war erupted in 1970, Cambodia's infrastructure had already developed to virtually the same level. In the transportation sector, the current trunk road network was already in place. A road that directly connected Phnom Penh with Kompong Som (Sihanoukville) was already completed with the assistance of the United State. During the 1960s, a rail line called the "new line" that linked the two cities was opened. The port of Kompong Som port (the port of Sihanoukville), a large-scale seaport, was constructed and started its operation. Pochentong Airport was constructed in the outskirts of the capital, and Phnom Penh was linked with Paris and Tokyo by Air France. In the telecommunications sector, local telephone line networks

networks were linked to one another via long-distance telephone lines, which were open-wire lines.

A lack of such infrastructure facilities is considered to be a major structural weakness that holds back economic growth and development in Cambodia. It is often said that infrastructure can be considered as the “wheels” of economic growth. Furthermore, infrastructure also helps to spread the benefits of growth, which makes the development process more inclusive. Economic growth brings economic development, but the “inclusiveness” of development is an important issue for policymakers. There is no guarantee that the benefits of economic growth are shared by all, which consequently could have reduced poverty.

While economic growth is a necessary condition for poverty reduction, it is not sufficient. Here, infrastructure plays a dual role is to supports higher economic growth and strengthens the sharing of the benefits of growth. Cambodia generally has less developed infrastructure than its neighboring countries due to the destruction brought during the long civil war and to the lack of maintenance since then. This is a serious obstacle to the socio economic growth of this country as physical infrastructure is important for realizing both sustainable economic growth and poverty reduction. The current case of Infrastructure Development in Cambodia as follows:

- Road

In Cambodia, road transport accounts for an overwhelming share of the total transported volume of passengers (65 %) and freight (70 %). Only about 20 percent

of the roads and highways are covered with asphalt and in passable condition; about 50 percent of the roads are made of crushed stone, gravel, or improved earth; and the remaining 30 percent are unimproved earth or little more than tracks.

- Railways

Cambodia has two rail lines, both originating in Phnom Penh and totaling about 650 kilometers of single railway tracks (i.e., one-meter-gauge track). Between 1929 and 1942, the French built the first line (Northern line), which runs from Phnom Penh to Poipet on the Thailand/Cambodia border via Battambang. Assistance from France, West Germany, and China in the late 1960s, supported the construction of the second line (Southern line), which runs from Phnom Penh to Sihanoukville port.

- Bridge

In Cambodia there are 26 bridges (608m) or 4.4 percent of the bridges are still temporary bridges and will need replacement by permanent bridges. Moreover, 31 permanent bridges (602m) that are narrow (less than 7m wide) will be widened or replaced to satisfy Cambodian standard requirements for bridges.

- Airport

Cambodia has 10 airports, including the Phnom Penh International Airport near Phnom Penh and the largest one, and Siem Reap Airport, the gateway to Angkor Wat. These two major airports serve international flights. Phnom Penh International Airport currently handles nonstop international flights to nine destinations in eight countries/regions and has a 3,000-meter runway. However, the limited facilities make it impossible for large aircraft to land.

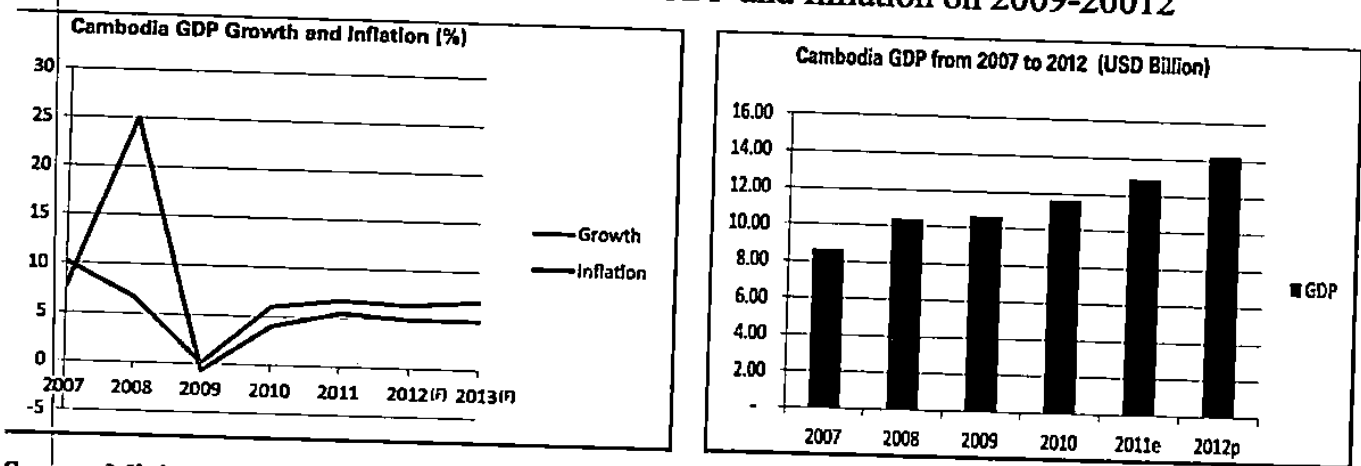
Phnom Penh International Airport is being contracted on a build-operate-transfer (BOT) scheme through a joint enterprise between French and Malaysian corporations

b. Cambodia Economic Development after Thaksin as Economic Adviser

1. Macroeconomic Outlook

Cambodia joined ASEAN in 1999 and WTO in 2004 and has experienced an economic boom over the last fifteen years with average annual growth of 8%. However, it experienced a contraction in 2009 caused by the global crisis. Cambodia's GDP grew by 6% in 2010 and steadily grew to an estimate of 6.8% in 2011. GDP growth is forecasted to be 6.5% and 7% for the year 2012 and 2013 respectively.

Figure 2.2: Cambodia's GDP and Inflation on 2009-2012



Source: Ministry of Economy and Finance, Bulletin of Statistics, 2012

After the appointment Thaksin as Cambodia economic adviser, the inflation was estimated to be 6.2%. This estimation is based on an increase in demand on consumption for economic recovery and the rising of commodity prices in the International market, especially agriculture products. The estimation rate of inflation is reasonable to the...

increase in oil price in 2010 will not be too high due low fuel demand in the period of economic recovery, but the price of agriculture products will be increased a bit higher supported an increase globally in food demand. Approximately, food price index increases by 11%, transport and telecommunication price index increase by 9.1%.

Table 2.11: Cambodia's Economic Indicators in recent years

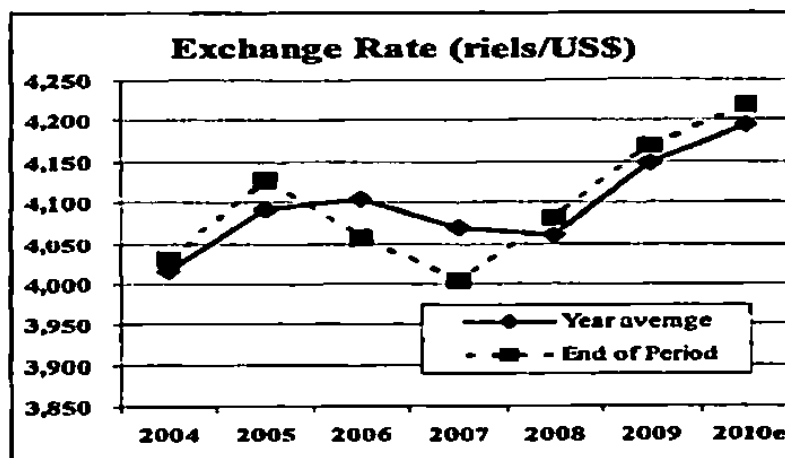
Cambodia Economic Indicators							
Markets	Last	Previous	Average	Unit	Reference	Frequency	
Currency (/cambodia/currency)	4069.00	4050.00	4076.73		2014-08-27	Daily	▬ (cambodia/currency)
GDP							
GDP (/cambodia/gdp)	15.25	14.05	4.23	USD Billion	2013-12-31	Yearly	▬ (cambodia/gdp)
GDP Annual Growth Rate (/cambodia/gdp-growth-annual)	7.20	7.30	7.70	Percent	2013-12-31	Yearly	▬ (cambodia/gdp-growth-annual)
GDP per capita (/cambodia/gdp-per-capita)	709.18	871.00	432.76	USD	2013-12-31	Yearly	▬ (cambodia/gdp-per-capita)
GDP per capita PPP (/cambodia/gdp-per-capita-ppp)	2149.83	2039.91	1341.03	USD	2013-12-31	Yearly	▬ (cambodia/gdp-per-capita-ppp)
Labour							
Unemployment Rate (/cambodia/unemployment-rate)	0.10	0.20	1.31	Percent	2012-12-31	Yearly	▬ (cambodia/unemployment-rate)
Employed Persons (/cambodia/employed-persons)	7706.00	7891.00	7420.00	Thousand	2012-12-31	Yearly	▬ (cambodia/employed-persons)
Population (/cambodia/population)	15.14	14.85	0.43	Million	2013-12-31	Yearly	▬ (cambodia/population)
Prices							
Inflation Rate (/cambodia/inflation-cpi)	4.85	4.55	5.30	Percent	2014-06-15	Monthly	▬ (cambodia/inflation-cpi)
Money							
Interest Rate (/cambodia/interest-rate)	1.42	1.42	3.01	Percent	2014-06-15	Monthly	▬ (cambodia/interest-rate)
Trade							
Balance of Trade (/cambodia/balance-of-trade)	-867.20	-410.90	-510.94	USD Million	2013-12-31	Quarterly	▬ (cambodia/balance-of-trade)
Exports (/cambodia/exports)	1701.00	1828.00	1274.73	USD Million	2013-12-31	Quarterly	▬ (cambodia/exports)
Imports (/cambodia/imports)	2568.20	2242.80	1785.67	USD Million	2013-12-31	Quarterly	▬ (cambodia/imports)
Current Account (/cambodia/current-account)	-499.20	-114.20	-210.59	USD Million	2013-12-31	Quarterly	▬ (cambodia/current-account)
Current Account to GDP (/cambodia/current-account-to-gdp)	-8.50	-8.00	-4.35	Percent	2013-12-31	Yearly	▬ (cambodia/current-account-to-gdp)
Tourist Arrivals (/cambodia/tourist-arrivals)	263797.00	342064.00	339670.00		2013-09-30	Monthly	▬ (cambodia/tourist-arrivals)
Gold Reserves (/cambodia/gold-reserves)	12.44	12.44	12.44	Tonnes	2014-03-31	Quarterly	▬ (cambodia/gold-reserves)
Government							
Government Budget (/cambodia/government-budget)	-5.00	-5.50	-3.71	Percent of GDP	2013-12-31	Yearly	▬ (cambodia/government-budget)
Government Debt to GDP (/cambodia/government-debt-to-gdp)	28.12	28.76	33.32	Percent	2013-12-31	Yearly	▬ (cambodia/government-debt-to-gdp)
Credit Rating (/cambodia/rating)	30.00					Monthly	▬ (cambodia/rating)
Consumer							
Disposable Personal Income (/cambodia/disposable-personal-income)	1014.00	871.00	874.50	ThousandsKHR	2012-12-31	Yearly	▬ (cambodia/disposable-personal-income)
Taxes							
Corporate Tax Rate (/cambodia/corporate-tax-rate)	20.00	20.00	20.00	percent	2014-01-01	Yearly	▬ (cambodia/corporate-tax-rate)
Personal Income Tax Rate (/cambodia/personal-income-tax-rate)	20.00	20.00	20.00	percent	2013-01-01	Yearly	▬ (cambodia/personal-income-tax-rate)
Sales Tax Rate (/cambodia/sales-tax-rate)	10.00		10.00	Percent	2014-01-01	Yearly	▬ (cambodia/sales-tax-rate)

Source: World Bank, 2014

a. Inflation and Exchange Rate

Exchange rate for official rate of Riel against US Dollar on average is 4.145 per US dollar that was stable compared to the previous period. For instance, loans granted by commercial banks rose only 6.50% and loans by private financial institutions

Figure 2.3: Exchange Rate in Cambodia



Source : Yanagita, 2010

b. Foreign Trade

Cambodia's foreign trade declines during the year 2008-2009, especially the decline on export of industrial products and services which make payment balance deficit to be high. Cambodia is potential in driving the export products such as in agriculture sector like products of rice, rubber, corn, cassava, and Industrial sector such as footwear and tobacco. In 2010, the totally estimated export revenue about 4.279 million US dollar increases by 9.5%, and overall import about 6.005 million US dollar increases about 10.2%.

c. Currency situation

Current situation estimated just 19.137 billion riel probably increases by 17.9% against the worth of previous period in which riel currency operation in market rises up by 26.1% and deposited currency goes up by 16.1%. An increase in deposits

in the financial system, the capital will overflow toward

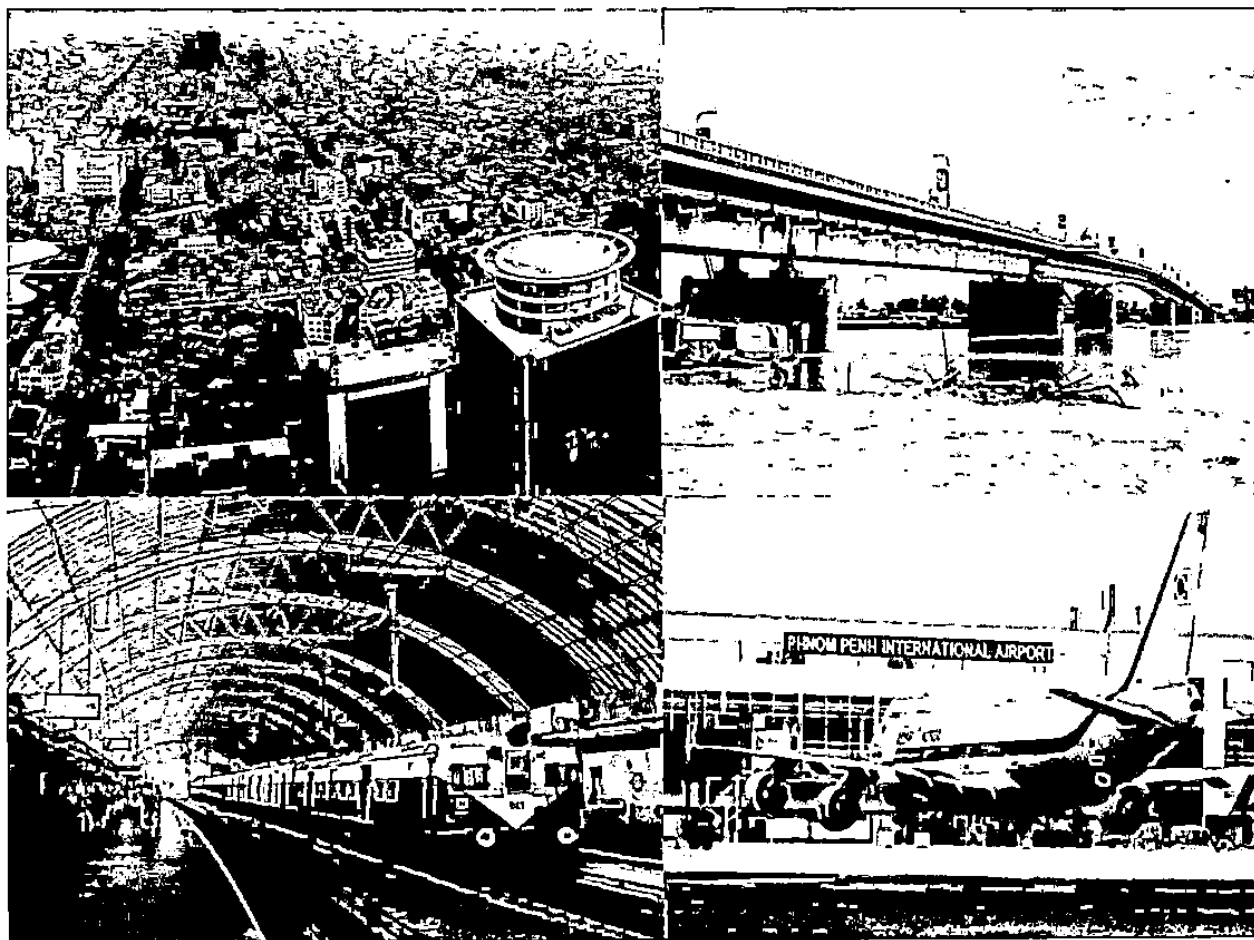
outsiders. The domestic capital demand is large scale, but funding is in reluctance because of being trapped in safely financial policy and the loose cooperation in the field of banking and micro-finance.

2. The development of Cambodia's Infrastructure

Cambodia is in a transitional period between the rehabilitation/reconstruction phase and the development phase. To embark on the development phase, Cambodia is now drafting the second Socioeconomic Development Plan. General policy on infrastructure will be spelled out in this new five-year plan. The state of Cambodia's infrastructure can be summarized as follows:

- In the transport sector, emergency repair works have almost been completed for arterial and major urban highways, and railroads. The minimum levels of international transport and domestic main transport have been established to meet immediate needs.
- The Cambodian government recognizes the need for disaster prevention and national land conservation, especially flood control, though it has taken no measures for this purpose.
- In the telecommunications sector, the regular telephone line networks have been restored and satellite communications and cellular phones have been introduced in Phnom Penh, meeting the immediate needs of the country.

The immediate need for electric power supply in Phnom Penh has been met



Picture 2.4: The Development of Infrastructure in Cambodia

The key infrastructure development in Cambodia:

- Plans were announced for a US\$1bn international airport in Siem Reap province. South Korean construction firm, Incheon International, announced plans to build the new airport according to the Phnom Penh Post.
- Development of Phnom Penh Autonomous Port (PPAP) continued apace with the authority announcing it aimed to fund the second stage of construction by itself if the port proves capable of generating revenues of US\$6mn to US\$10mn per annum during the period of 2012 to 2015.

In September 2010, Mal and Y... economic ministers approved the

Mekong-Japan Economic and Industrial Cooperation Initiative Action Plan.

The plan calls for the development of physical infrastructure, trade facilitation, support for small and medium-sized enterprises and a boost in services and industrial sectors in five Mekong countries - Cambodia, Vietnam, Laos, Thailand and Myanmar. The US\$5.9bn action plan would help in initiating road projects in Cambodia.

C. The Comparison between Cambodia Economic Development Pre and Post Thaksin Becomes Economic Adviser

The appointment of Thaksin Shinawatra as Cambodia economic adviser has resulted toward the development of economic in Cambodia in recent years. Consequently, the competition between Cambodia and the other ASEAN member countries becomes more strictly, despite the civil war that had been emerged in Cambodia during Khmer Rouge Regime. Therefore, to make easily in comparing economic condition, I will explain one by one, and before that, I will explain about the position of Thaksin as Cambodia economic adviser in decision making process.

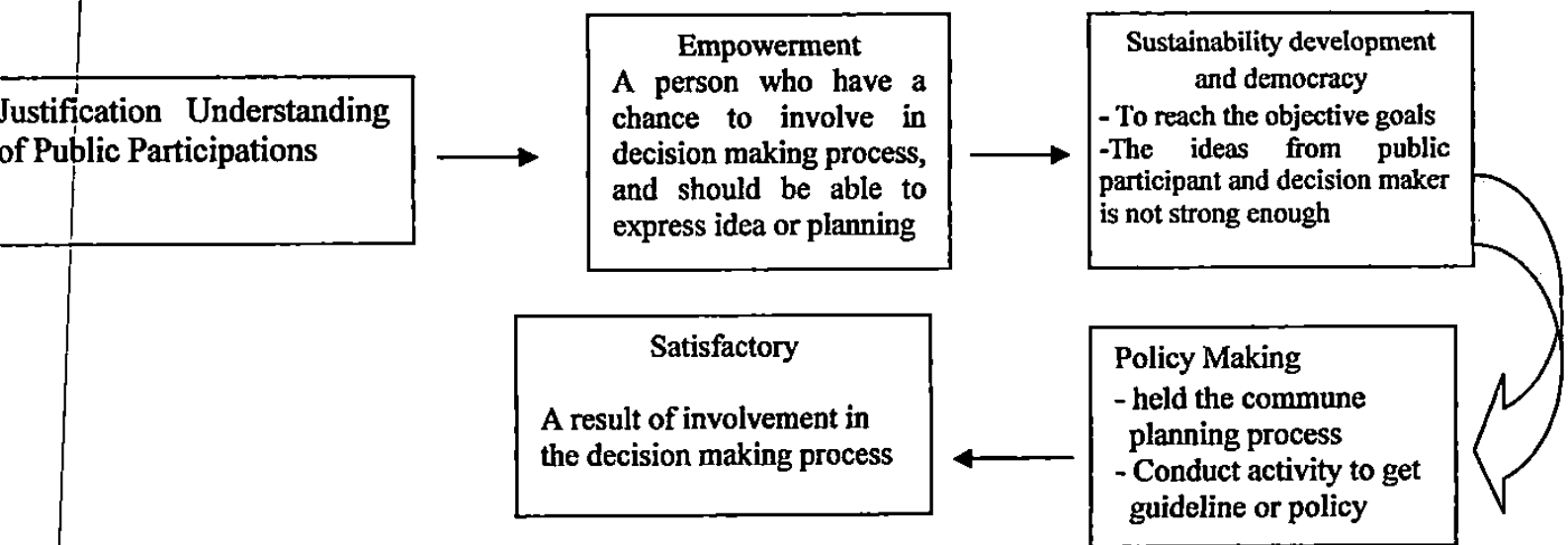
1. The position of Thaksin Shinawatra as Cambodia's economic adviser in decision making process

The appointment of Thaksin Shinawatra as Cambodia economic adviser was brought several advantages for the economic development in Cambodia. To start his role as Cambodia economic adviser, he gave an economic lecture to approximately

150 Cambodian economists and high ranking officials. The lecture was under the

theme "Strategy for Sustainable Growth and Poverty Reduction in the Context of New Economy and Finance in Asia: Policy and Option for Cambodia." Thaksin said that Cambodia's economy has developed well in the last decade, but the country still needs to invest more in infrastructure such as roads, bridges and railroads, and in the sectors of education and vocational training in order to create more job opportunities. The position of Thaksin as Cambodia economic adviser in decision making process in Cambodia will be explained in figure 2.4 below.

Figure 2.4: The position of Thaksin Shinawatra as Cambodia's economic adviser in decision making process



Source: Sakkarin, 2002

From the figure 2.4 above shows that how the process of Thaksin's idea as Cambodia's economic adviser implemented as a policy in Cambodia. Thaksin considered as a government consultant in deciding or implementing economic policy, and the position of Thaksin is just becoming public participant who involve in the

...but not to decide the policy.

The process showed that how Cambodia government held the activity to gain planning or guidelines, in this case, the government of Cambodia held the meeting between Thaksin and Cambodia economists and discussed about what policy should be taken by Cambodia government to face sustainability development and poverty reduction.

Thaksin who become economic adviser or in this case become public participant gave some ideas, and these ideas will be delivered to commune councilor, and if it suitable with the economic condition in Cambodia, these idea will be forwarded to Member of Parliament for further exploration. Then, will be ratified as a national policy

The idea that was elaborated with Thaksin is Cambodia Government should stabilize the financial system in Cambodia and balancing the development of

Table 2.12: The Economic Comparison between Pre and Post Thaksin

Sector	Pre-Thaksin	Post-Thaksin
Real Economic Growth	Economic growth is tends to decline started from 1995 was 7.7%, 1996 was 7.1%, and 5.3% in 2001.	After a difficult crisis period in 1997. Cambodia economic is returning to normal. The GDP is increase 8.5% compared to previous period.
Exchange Rate and Inflation	<ul style="list-style-type: none"> -Exchange rate, in 1997 is about 2700 Riel a dollar, and in the same year exchange rate sudden fall to 3460 Riel a dollar - The inflation rate fell sharply from an average 140 percent in 1990 to 1992 to 7.7% in 1995, before rising again to 17.3% in 1998 after the Asian Financial Crisis, but fell to 4.2% in 1999, and 0.2% in 2001 	<ul style="list-style-type: none"> - Exchange rate for official rate of Riel against US Dollar on average is 4.145 per US dollar that was stable compared to the previous period - The inflation was estimated to be 6.2%, influenced by the increasing of consumption for economic recovery and the rising of commodity prices
Export and Import	There is imbalance income between export and import, export remarkably increased about 23% grew to 27.8% in 1997, 32% in 1998, and 42% in 2001. But import has decreased as the resulted in trade surplus.	In 2010, the totally estimated export revenue about 4.279 million US dollar increases by 9.5%, and overall import about 6.005 million US dollar increases about 10.2%.
Fiscal Performance	<ul style="list-style-type: none"> - Government created Budget Law, a single national budget to control all state revenue and expenditure pass through the ministry finance - Budget revenue is about US\$ 389 million - Budget expenditure is about US\$ 593 million 	<ul style="list-style-type: none"> -Total Revenue 5.990 billion riel (12.6% of GDP), had increased 18.1 (0.8% of GDP) -Total expenditure is 8.499 billion riel (17.9% of GDP), had increased 14.4% of GDP
Foreign Investment	Has dramatically increased since 1994. It is estimated 10 folds increase or about US\$100 million. In 1997, Asian Financial crisis, and local political disorder make the foreign Investment stopped their economic activities, including their fund was dramatically decreased.	<ul style="list-style-type: none"> -Investment capital estimated is US\$2.758 million or 21% of GDP in 2010 increase compared to previous year -Public Investment is about US\$ 802 million had increased 12.8% -Private Investment US\$ 1.955 had increased 14.6% -FDI US\$599 million had increased 16.4%
Infrastructure	<ul style="list-style-type: none"> -Infrastructure development continued after independence, and by the time civil war erupted in 1970, Cambodia's infrastructure had already developed to virtually the same level. - The infrastructure development was still imbalance 	-In the transport sector, emergency repair works have almost been completed for arterial and major urban highways, and railroads.