

# CRS Report for Congress

## Cambodia: Background and U.S. Relations

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Thomas Lum  
Specialist in Asian Affairs  
Foreign Affairs, Defense, and Trade Division



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Committees of Congress

# Cambodia: Background and U.S. Relations

## Summary

Major U.S. goals in Cambodia include promoting good governance, democracy, and human rights, reducing the threat of terrorism, facilitating trade, and bringing Khmer Rouge leaders to justice. In February 2007, the United States government lifted a ten-year ban on aid to the government of Cambodia, signaling the beginning of fuller engagement with the kingdom. Following Prime Minister Hun Sen's unlawful seizure of power in 1997, the United States prohibited many forms of assistance to the Central Government of Cambodia. The U.S. government has also withheld assistance for the Khmer Rouge tribunal, set up to try leaders of the Communist Party of Kampuchea for crimes against humanity, unless standards of judicial independence and fairness are met.

The United States and Cambodia maintain strong ties through aid and trade. Despite foreign aid restrictions, Cambodia is the third largest recipient of United States assistance in Southeast Asia after Indonesia and the Philippines. Most U.S. assistance has been channeled through the many non-governmental organizations that are active in the country. The United States is the largest overseas market for Cambodian goods, mostly textiles and apparel. With the termination of quotas on textiles by WTO member states in 2005, Cambodian exports are threatened by competition from China. Cambodia and other least developed countries (LDCs) are pressing the United States to grant their garment exports preferential treatment.

Cambodia has made some notable progress, with outside help, in controlling the spread of infectious diseases, such as HIV/AIDS and avian flu, holding elections that are at least procedurally democratic, nurturing a civil society, engaging in counterterrorism efforts, and developing its economy. A number of significant problems remain, however. Weak legal and financial institutions, corruption, political uncertainty, and the autocratic tendencies of Prime Minister Hun Sen have discouraged foreign investment and strained U.S.-Cambodian relations.

This report provides historical context, discusses political and economic developments in Cambodia, and raises policy issues regarding U.S.-Cambodian relations. These issues include U.S. foreign assistance to Cambodia, HIV/AIDS, human rights, terrorism, bilateral trade, the Khmer Rouge tribunal, and Cambodia's relations with China. This report will be updated periodically.

## Contents

U.S. Interests .....	1
Policy Debate .....	2
Modern Political History .....	2
Political Developments Since 2002 .....	4
Elections in 2002 and 2003 .....	4
2003 Political Standoff .....	5
Authoritarian Tactics .....	5
CPP Consolidation of Power .....	6
The Economy .....	7
Cambodian Textiles Exports .....	8
U.S.-Cambodian Trade .....	8
Offshore Oil .....	9
Foreign Assistance .....	9
Lifting U.S. Bilateral Aid Restrictions .....	10
Foreign Relations .....	10
Cambodia-China Relations .....	11
Other Policy Issues .....	13
Terrorism .....	13
HIV/AIDS .....	14
Human Trafficking .....	14
Khmer Rouge Tribunal .....	15
Avian Flu .....	15

## List of Figures

Figure 1. Map of Cambodia .....	3
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# Cambodia: Background and U.S. Relations

## U.S. Interests

Major U.S. goals in the Kingdom of Cambodia, a small but strategically important country, include promoting good governance, democracy, and human rights, reducing the threat of terrorism, facilitating trade, and bringing the country's former Khmer Rouge leaders to justice.

In February 2007, the United States government lifted a ten-year ban on direct bilateral aid to Cambodia, signaling a warming of relations, according to some observers. Since 1998, foreign operations appropriations legislation had barred many

forms of assistance to the central government of Cambodia in response to Prime Minister Hun Sen's seizure of power in 1997, sporadic violence against opposition political activists, and the suppression of political rights. The United States has also withheld assistance to the Khmer Rouge tribunal unless standards of judicial independence and fairness are met. Despite these restrictions, Cambodia is the third largest recipient of United States foreign aid in Southeast Asia after Indonesia and the Philippines, much of it channeled through non-governmental organizations (NGOs). In January 2007, the Peace Corps launched programs in Cambodia to teach English and develop sustainable community activities. The United States is the largest overseas market for Cambodian goods, mostly textiles and apparel. Cambodia and other least developed countries (LDCs) are pressing the United States to grant their garment exports preferential treatment. Cambodia has made progress in several areas of U.S. interest, including control of the spread of

### CAMBODIA IN BRIEF

**Population:** 13.9 million

*Growth rate:* 1.7%

**Location:** Borders Thailand, Vietnam, and Laos

**Area:** 181,040 sq. km. (about the size of Missouri)

**Capital:** Phnom Penh

**Government:** Constitutional Monarchy

**Ethnic groups:** Khmer 90%; Vietnamese 5%; Chinese 1%; Other 4% (Chams, Burmese, hill tribes)

**Language:** Khmer (official) 95%; French; English

**Religion:** Theravada Buddhist 95%; Other 5%

**Life Expectancy at Birth:** 61 years

**Literacy:** total 73%

**GDP per capita:** \$2,700 (purchasing power parity, 2006)

**GDP growth:** 7.2% (2006)

**Government:** Constitutional Monarchy (King Norodom Sihamoni)

**Major Political Parties:** Cambodian People's Party (73 seats); FUNCINPEC (26 seats); Sam Rainsy (24 seats)

**Economic system:** market economy since 1989

**Sources:** CIA World Factbook, 2007

infectious diseases, such as HIV/AIDS and avian flu, anti-human trafficking measures, development of a civil society, improved labor practices, counterterrorism efforts, and better fiscal policies. According to some observers, however, growing assistance from the People's Republic of China (PRC) and the possibility of large

revenues from the sale of offshore oil may exacerbate problems of government corruption in Cambodia and weaken the leverage of major aid donors.

## Policy Debate

Some U.S. lawmakers argue that U.S. support for Cambodian development, bilateral trade, and the Khmer Rouge tribunal should remain restricted until Prime Minister Hun Sen and the Cambodian government establish patterns and norms of respect for political freedoms and civil liberties. Other policy experts argue that greater U.S. assistance and involvement in Cambodia, through not only foreign aid but also enhanced trade, diplomacy, and educational and cultural exchange, may help to achieve U.S. goals. Furthermore, some assert, greater U.S. engagement with the kingdom may help to counter PRC economic and political influence in Cambodia.<sup>1</sup>

## Modern Political History

The Kingdom of Cambodia received its independence from France in 1953 under the leadership of the popular king, Norodom Sihanouk. In 1955, Sihanouk abdicated in favor of his father, assuming the post of Prime Minister and head of the ruling party. When his father died in 1960, Sihanouk received the title of Prince. In 1965, Prince Sihanouk broke off diplomatic relations with the United States in response to U.S. and South-Vietnamese military incursions into the kingdom and growing U.S. influence in the Cambodian armed forces. Diplomatic relations were restored in 1969. Beginning in 1969, the United States conducted a four-year, sustained, large scale bombing campaign in Cambodia aimed at North Vietnamese troops in the country. According to some experts, the American bombing helped the Cambodian communists to gain followers and recruit soldiers. In March 1970, the military forces of pro-American General Lon Nol overthrew the government of Prince Sihanouk in a coup. The Prince fled to Beijing and reluctantly formed an alliance with the Cambodian communists against the Lon Nol government. A civil war followed, culminating in the defeat of Lon Nol in April 1975 by the Communist Party of Kampuchea (Khmer Rouge). The Prince returned to Phnom Penh from Beijing only to be placed under house arrest.

During the Khmer Rouge's three-year brutal reign — which included forced depopulation of the cities and the establishment of rural communes — nearly two million out of a population of eight million Cambodians died from execution, torture, overwork, starvation, and disease. In January 1979, an invasion by Vietnamese forces drove the Khmer Rouge from Phnom Penh. Sihanouk sought refuge in China and North Korea. A 13-year civil war ensued, in which Khmer Rouge, Cambodian nationalist (KPNLF), and royalist (ANS) insurgents fought the Vietnamese-backed regime.<sup>2</sup>

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<sup>1</sup> See Statement of Catherine E. Dalpino before the Senate Committee on Foreign Relations, Subcommittee on East Asian and Pacific Affairs, June 7, 2005.

<sup>2</sup> Despite their deep differences, the Khmer Rouge, which received Chinese military support, (continued...)

**Figure 1. Map of Cambodia**

Source: Map Resources. Adapted by CRS. (K.Yancey 7/7/05).

Following the Vietnamese withdrawal from Cambodia in 1989, a United Nations (U.N.)-brokered peace settlement officially ended the war in October 1991 and led to elections for a 120-seat Constituent Assembly in May 1993. Prince Sihanouk returned to Cambodia as king.<sup>3</sup> Although the royalist FUNCINPEC Party (National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia) won a 58-seat plurality, it agreed to form a coalition government with the Cambodian People's Party (CPP), with 51 seats, after the CPP threatened that it would not accept the election. The establishment of the coalition government with Prince Norodom Ranariddh, head of FUNCINPEC, and Hun Sen, head of the CPP, as co-prime ministers brought fragile political stability to Cambodia.<sup>4</sup> The United States Congress passed several of measures supporting non-communist resistance forces and humanitarian assistance in Cambodia and prohibiting direct or indirect assistance for the Khmer Rouge.

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<sup>2</sup> (...continued)

and the KPNLF and ANS, which received U.S. military assistance, formed an alliance in 1982 against the Vietnamese.

<sup>3</sup> On October 7, 2004, King Norodom Sihanouk abdicated the throne due to illness. On October 14, the Cambodian Throne Council selected Prince Norodom Sihamoni to succeed Sihanouk as King. King Norodom Sihamoni officially ascended the throne in a coronation ceremony on October 29, 2004.

<sup>4</sup> From 1985 to 1989, Hun Sen served as Prime Minister of the Vietnam-backed People's Republic of Kampuchea.

In 1997, after rising tensions between the coalition partners, Hun Sen staged an armed takeover of the government. An estimated 80-100 Cambodians, including many FUNCINPEC leaders, were killed, and Prince Ranariddh and other politicians fled Cambodia. In the face of considerable international pressure and the withholding of aid by donors, Hun Sen allowed Ranariddh to return to Cambodia and held new parliamentary elections in July 1998, which the CPP narrowly won. Despite charges of election irregularities and post-election violence, the two parties again agreed to form a coalition government, with Hun Sen as Prime Minister and Prince Ranariddh as President of the National Assembly. The 105<sup>th</sup> Congress cut off bilateral assistance and passed resolutions condemning the March 1997 grenade attack on Sam Rainsy and his supporters (S.Res. 69) and calling for free and fair elections in Cambodia (H.Res. 361).

## Political Developments Since 2002

In the past decade Cambodia has improved its voting institutions, while a vibrant civil society and lively press have developed. However, many problems regarding political, civil, and property rights remain, including restrictions on freedom of assembly, extrajudicial killings, arbitrary arrests, and lack of protection of land ownership. Many human rights abuses are difficult to redress due to a weak judiciary subject to political interference and lack of trained government personnel.<sup>5</sup>

### Elections in 2002 and 2003

In February 2002, Cambodia held its first local (commune) elections. The CPP won a sweeping victory, winning leadership positions in 1,598 of Cambodia's 1,621 communes. FUNCINPEC and the opposition Sam Rainsy Party (SRP) won 10 and 13 of the commune chief positions, respectively, as well as a combined 40% of the seats on the commune councils. Although independent monitors praised election day as peaceful, orderly, and transparent, they stopped short of calling the elections free and fair.

Many observers considered the July 2003 elections to the National Assembly to be an improvement over previous elections, with relatively minor voting irregularities.<sup>6</sup> Compared to the 1998 national elections, the 2003 voting process was more orderly and transparent, with less government interference.<sup>7</sup> Foreign and domestic NGOs reportedly played a crucial role in educating voters. However, many experts also stated that the elections were flawed and that the election process in Cambodia still "needed work" — from reducing pre-election violence, intimidation,

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<sup>5</sup> U.S. Department of State, *Cambodia: Country Reports on Human Rights Practices — 2006* (March 6, 2007).

<sup>6</sup> "Summary of Observations of the U.S. Long Term International Observation Group (LTOG) during the Cambodian National Assembly Election, September 2003." Election monitoring by LTOG was administered by the Asia Foundation and funded by USAID.

<sup>7</sup> Seth Mydans, "Cambodians Get the Hang of Elections," *International Herald Tribune*, July 28, 2003.

and vote buying to providing more balanced media coverage and more candidate debates. The Bush Administration stated that the Cambodian National Election Committee “failed to establish a credible process to resolve election complaints.”<sup>8</sup>

## **2003 Political Standoff**

In the July 2003 elections, the CPP won 73 seats in the 123-seat National Assembly, short of the two-thirds majority needed to lead the country on its own. FUNCINPEC and the SRP, with 26 and 24 seats, respectively, formed an “Alliance of Democrats” and vowed not to work with the CPP unless Hun Sen stepped down. Without agreement on a coalition, the National Assembly did not meet and a new government was not formed. Hun Sen presided over a care-taker government pending the formation of a coalition. One year later, in July 2004, the National Assembly approved a constitutional addendum forcing a vote on a new government, and elected a coalition government with Hun Sen as Prime Minister and Prince Ranariddh as President of the National Assembly, thereby resuming their uneasy partnership. Opposition MPs asserted that the addendum was unconstitutional and boycotted the vote.

## **Authoritarian Tactics**

On February 3, 2005, the National Assembly voted, by a majority of over two-thirds, to revoke the parliamentary immunity from prosecution of opposition leader Sam Rainsy and two SRP Members, Chea Poch and Cheam Channy. The parliament took this action in response to Sam Rainsy’s lawsuits against Hun Sen, for alleged involvement in the 1997 grenade attack against opposition demonstrators, and Prince Ranariddh, based on claims of corruption. Both Hun Sen and Prince Ranariddh filed defamation lawsuits against Sam Rainsy. While Sam Rainsy and Chea Poch fled the country to escape prosecution, Cheam Channy was arrested and charged with “recruiting soldiers for a shadow government.” In August 2005, Cheam Channy was convicted of creating an illegal armed force. In December 2005, Sam Rainsy was convicted in absentia for defamation against government leaders.

The United States government and many observers regarded these actions as politically-motivated and without legal justification. On February 3, 2005, the United States issued a statement strongly condemning the Cambodian National Assembly’s suspension of the parliamentary immunity of the opposition MPs, saying that “these actions come at a time of growing intimidation of opposition voices in Cambodia.”<sup>9</sup> On February 17, 2005, S.Res. 65 was introduced, which would call upon the Government of Cambodia to release Cheam Channy and upon the Cambodian National Assembly to restore the parliamentary immunity of Sam Rainsy, Chea Poch, and Cheam Channy. In late 2005 through January 2006, Hun Sen arrested several prominent Cambodian civil society leaders, including human rights activists, union organizers, a radio station owner, and a member of the royal family,

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<sup>8</sup> “U.S. Government Statement on the Announcement of Cambodian Official Election Results,” U.S. Embassy in Phnom Penh, August 31, 2003.

<sup>9</sup> *States News Service*, February 3, 2005.



for criticizing government policies. The U.S. Senate passed S.Res. 353 on January 25, 2006, calling for the release of political prisoners in Cambodia.

In February 2006, prior to the annual meeting of foreign aid donors to Cambodia, the Hun Sen government pardoned Sam Rainsy, Chea Poch, and Cheam Channy and the National Assembly restored full parliamentary immunity to them. Defamation and other criminal complaints against seven prominent critics of the government were dropped. Chea Poch and Sam Rainsy returned to Cambodia in August 2005 and February 2006, respectively. However, in August 2006, the National Assembly passed a law that would allow a Member of Parliament to be prosecuted for abusing “an individual’s dignity, public order, social customs, or national security,” parliamentary immunity notwithstanding. Some legislators feared that the law could be used to stifle freedom of speech.<sup>10</sup>

## CPP Consolidation of Power

The CPP under Hun Sen has gained strength through elections and through legal and political maneuvers. In addition, the CPP reportedly strongly influences the broadcast media.<sup>11</sup> In February 2006, the National Assembly passed a law allowing a party to form a government and pass bills with a simple rather than two-thirds majority. In March 2006, Prince Ranariddh resigned as President of the National Assembly to protest the change in voting rules and in August 2006, reached out to Sam Rainsy. In October 2006, Hun Sen and FUNCINPEC factions close to the CPP reportedly were the main forces behind the election of Keo Puth Rasmey, Cambodia’s ambassador to Germany, as the new leader of FUNCINPEC and President of the National Assembly. Various observers viewed the move as a means of strengthening the CPP-FUNCINPEC alliance following two years of deteriorating relations, weakening FUNCINPEC, and counter-balancing the Sam Rainsy Party.<sup>12</sup> Some FUNCINPEC leaders had accused Ranariddh of incompetence, corruption, and spending too much time overseas (the Prince teaches law part-time in France). Ranariddh announced that he would form a new political party, named after himself, in order to carry forward FUNCINPEC’s original mission of independence and loyalty to the royal family.<sup>13</sup>

In the local elections held in April 2007, the CPP captured 1,591 of the 1,621 commune governments and 70% of commune council seats. The SRP won in 28 communes while FUNCINPEC won in two localities. Some analysts perceived the outcome as a sign of the strength of the CPP, the decline of FUNCINPEC, and the growth of the SRP. Reported election abuses and irregularities included vote buying,

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<sup>10</sup> Economist Intelligence Unit, *Country Report*, September 2006.

<sup>11</sup> U.S. Department of State, *Cambodia: Country Reports on Human Rights Practices — 2006* (March 6, 2007).

<sup>12</sup> “Cambodia’s Royalists on a Slippery Slope,” *New Straits Times*, October 21, 2006.

<sup>13</sup> Elizabeth Mills, “Ousted Royalist Leader to Create New Political Party in Cambodia,” *Global Insight Daily Analysis*, October 20, 2006.

voter intimidation, and administrative problems that prevented many citizens from voting.<sup>14</sup> The fourth elections for the National Assembly are to be held in July 2008.

## The Economy

Cambodia is categorized as a market economy by the U.S. Department of Commerce and the Department of State and is categorized as “mostly unfree” in the Heritage Foundation 2007 Index of Economic Freedom.<sup>15</sup> The kingdom is one of the poorest countries in Asia, with nearly 80% of its population engaged in subsistence agriculture. A limited human resource base, weak legal and financial institutions, low government capacity, official corruption, political instability, poor infrastructure, and other problems have hampered economic development and discouraged foreign investment.

Cambodia formally joined the WTO on October 13, 2004. As a member of the Association of Southeast Asian Nations (ASEAN) since 1999, the kingdom is committed to participating in the ASEAN Free Trade Area (AFTA).<sup>16</sup> Major export markets are the United States, Hong Kong, Germany, and Canada; chief import sources are Hong Kong, China, France, and Thailand. Principal foreign investors are Malaysia, Taiwan, the United States, China, and South Korea.<sup>17</sup> According to some reports, China became Cambodia’s largest foreign investor in 2005, with \$850 million in cumulative foreign direct investment (FDI) in several sectors, including garment manufacturing, power, construction materials, and agriculture.<sup>18</sup>

The Cambodian economy has grown fairly robustly since 1993, except for the 1997-98 period, when the economy suffered from the effects of Hun Sen’s political coup and the Asian financial crisis. The growth of textile manufacturing and tourism has fueled a surge in growth in recent years. Government budgetary performance and the investment climate also have improved. GDP growth is likely to average around 6.3% in 2006-2007.<sup>19</sup> Oil and gas reserves, discovered in 2005, promise to provide a significant source of future revenue.

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<sup>14</sup> “Cambodia’s Hun Sen Keeps Firm Grip on Power,” *Reuters News*, April 25, 2007; “At Least 100,000 Unable to Vote in Cambodia’s Local Election,” *Xinhua News Agency*, April 11, 2007.

<sup>15</sup> International Trade Administration, United States Department of Commerce, *Country Commercial Guide FY2002: Cambodia*; The Index of Economic Freedom can be found at [<http://www.heritage.org>].

<sup>16</sup> ASEAN member countries are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand, and Vietnam.

<sup>17</sup> CIA, *The World Factbook — Cambodia*, 2007; Department of State, *Background Note: Cambodia*, June 2007.

<sup>18</sup> “China Becomes the Biggest Foreign Investor in Cambodia,” *NewsTrak Daily*, October 9, 2006.

<sup>19</sup> *Asian Development Bank Outlook 2006*.

## Cambodian Textiles Exports

Cambodia's garment industry, with heavy Taiwanese investment, employs nearly 320,000 workers and contributes 80% of the country's export earnings. One-fourth of the population reportedly relies upon the industry for their economic well-being. With the termination of quotas on textiles by WTO member states in 2005, the global market for textile and apparel exports has become more competitive. China, for example, has several competitive advantages compared to Cambodia and many other small textile-producing nations, such as high labor productivity, "vertical integration" — the ability to produce all manufacturing inputs domestically — and a developed industrial and transportation infrastructure. In addition to low labor costs, Cambodia has developed a reputation for relatively good labor practices in its large garment factories, largely because of a U.S.-Cambodia bilateral agreement, enacted in 1999, that rewarded progress in protecting labor rights with increased U.S. import quotas for Cambodian textiles. The International Labor Organization (ILO) has helped with monitoring and promoting good labor practices in the kingdom since 2001. The ILO continues such activities under the program *Better Factories Cambodia* with funding from the United States, France, the Garment Manufacturers' Association in Cambodia, the Cambodian government, and international buyers. It is still unclear whether or not such labor practices alone would help Cambodian garments to remain attractive to foreign buyers despite possible higher production costs. Temporary safeguard measures against textiles and apparel imports from China through 2008 imposed by the United States and the European Union (EU) have helped countries such as Cambodia to maintain export momentum.

## U.S.-Cambodian Trade

In 1996, the Clinton Administration signed a trade agreement with Cambodia, and the 104<sup>th</sup> Congress extended normal trade relations (NTR) status. In 1997, President Clinton designated Cambodia a Least Developed Country (LDC) under the U.S. Generalized System of Preferences (GSP).<sup>20</sup> Cambodian exports to the United States have grown from \$3.7 million worth of goods in 1996 to \$2.18 billion in 2006. The United States is the largest overseas market for Cambodian products, accounting for 63% of total export revenue in 2006. Over 97% of U.S. imports from Cambodia are textiles and apparel. In 2006, U.S. imports of Cambodian apparel increased by 25% over 2005. The United States exported \$74.5 million worth of goods to Cambodia in 2006, including road vehicles, machinery, and textile fibers.<sup>21</sup> Some experts argue that the U.S. textile market provides a "larger source of aid" to Cambodia than any other kind. Cambodia, along with other LDCs, is pressing the U.S. government to grant trade preferences on garment exports similar to those enjoyed by some African and Latin American nations. The Trade Act of 2007 (S. 652), introduced on February 15, 2007, would extend trade preferences to some LDCs, including Cambodia.

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<sup>20</sup> The GSP system is not extended to imports of textiles.

<sup>21</sup> Global Trade Atlas.

In July 2006, the United States and Cambodia signed a bilateral trade and investment framework agreement (TIFA) to promote economic relations. Other TIFA partners in Southeast Asia include Brunei, Indonesia, Malaysia, the Philippines, and Thailand. In August 2006, the United States Trade Representative Office (USTR) signed a TIFA with ASEAN. These agreements are part of the Bush Administration's Enterprise for ASEAN Initiative (EAI), under which the United States and ASEAN countries prepare for eventual free trade agreements (FTAs).

## Offshore Oil

According to some estimates, Cambodia may possess 2 billion barrels of oil and 10 trillion cubic feet of natural gas in the Gulf of Thailand. The discovery of oil during the 1990s has excited many government leaders and Cambodian citizens as a means of lifting the country out of poverty. According to some projections, oil revenues may generate \$1 billion per year by 2010. PRC, U.S. (Chevron), Japanese, and Thai corporations reportedly have obtained exploration rights. French, Singaporean, South Korean, and other Southeast Asian companies are also competing for production sharing contracts. Some Western observers in Phnom Penh believe that China is well-positioned politically to become the largest foreign investor in Cambodia's fledgling petroleum sector. Some analysts have noted potential obstacles to the rapid or full realization of Cambodia's dream of turning oil into economic development. Cambodia and Thailand have unresolved territorial disputes in the Gulf of Thailand covering 27,000 square kilometers.<sup>22</sup> Another problem is the possibility that oil revenues would fall into the hands of corrupt officials or fail to trickle down to a majority of Cambodia's poor.

## Foreign Assistance

Cambodia is the recipient of a relatively large amount of foreign aid from a variety of sources. External funding accounts for over half of the country's government budget. Since 1996, the Consultative Group (CG) for Cambodia, a consortium of international financial organizations and donor countries under the auspices of the World Bank, has met annually to set economic and political reform guidelines for the Cambodian government and to extend aid packages averaging \$500 million per year.<sup>23</sup> The European Union, Japan, Australia, and the United States are the largest providers of official development assistance (ODA) to Cambodia. China provides relatively little development assistance but may be one of the largest sources of external support due to its support for infrastructure, public works, and hydropower projects in the kingdom. In 2007, the CG pledged \$689 million in assistance to Cambodia, including \$91.5 million from China. Some human rights groups criticized the CG for increasing aid despite the Cambodian government's lack

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<sup>22</sup> Ker Munthit, "Cambodia Faces Offshore Oil Discovery," *Associated Press*, November 1, 2006; Sherry Su, "Cambodia Braces for Oil Boom, China May Profit from it," *Dow Jones Newswires*, October 27, 2006.

<sup>23</sup> *Kyodo News*, June 21, 2002.

of progress in fighting corruption.<sup>24</sup> The United States provided \$52.9 million, \$60.2 million, and \$54.9 million in 2004, 2005, and 2006, respectively, for health care, HIV/AIDS programs, basic education, civil society, de-mining,<sup>25</sup> counterterrorism efforts, and other activities. In January 2007, the Peace Corps launched programs in Cambodia to teach English and develop sustainable community activities.

## Lifting U.S. Bilateral Aid Restrictions

In February 2007, the United States government lifted a ten-year ban on direct bilateral aid to Cambodia. For several years, the United States remained the only major donor country that had not resumed bilateral or government-to-government aid to Cambodia. Restrictions on U.S. assistance largely reflected congressional disapproval of Prime Minister Hun Sen's seizure of power in 1997 and concerns about ongoing strong-arm tactics. Since 1998, foreign operations appropriations measures have barred U.S. assistance to the central government of Cambodia and instructed U.S. representatives to international financial institutions to oppose loans to Cambodia, except those that meet basic human needs. U.S. assistance has been permitted only to Cambodian and foreign NGOs and to local governments. Statutory exceptions have allowed for U.S. assistance to the central government of Cambodia for reproductive, maternal, and child health care, preventing and treating HIV/AIDS and other infectious diseases, basic education, combating human trafficking, rule-of-law programs, cultural and historic preservation (the temples of Angkor Wat), counter-narcotics activities, and developing international adoptions procedures. For most of these activities, however, the U.S. government has collaborated with the central government of Cambodia but continued to provide funding only through NGOs.<sup>26</sup>

## Foreign Relations

Although violations of human rights and political freedoms remain serious problems, major developed countries remain engaged in Cambodia and committed to its development. Relations between Cambodia and developed country aid donors, such as Japan, Australia, and France, are described as "cordial" but lacking the official warmth of Cambodia's relations with China. Hun Sen traveled to Australia and Japan in 2006 and 2007, respectively, and signed bilateral agreements on aid

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<sup>24</sup> In 2007, for the first time, China offered aid through the Consultative Group's pledging process, and the CG included PRC aid numbers in its total aid offer. Ker Munthit, "Donor's Pledge \$689 million in Aid for Cambodia," *Associated Press Newswires*, June 20, 2007.

<sup>25</sup> According to the U.S. State Department, Cambodia is among the top five nations for the number of landmine victims (over 800 per year). It is conservatively estimated that at the current rate of demining, it will take 15-20 years to reach a "mine safe" condition.

<sup>26</sup> In August 2005, the Bush Administration lifted a ban on U.S. military assistance to Cambodia, which had been imposed following the 1997 coup, in order to allow for Foreign Military Financing (FMF) for border control and counter-terrorism efforts. See also CRS Report RL31362, *U.S. Foreign Aid to East and South Asia: Selected Recipients*, by Thomas Lum.

programs and investment. Australian and Japanese companies are jointly exploring aluminum mines in eastern Cambodia. Cambodian officials have stated that if the exploration turns out to be successful, Australia could become the kingdom's largest foreign investor.<sup>27</sup> Cambodia and its neighbors (Laos, Thailand, and Vietnam) are becoming increasingly economically integrated while border disputes are being discussed. Hun Sen has maintained close diplomatic and military relations with Vietnam, despite expressions of animosity among many Cambodian people towards Vietnam. In July 2007, a scheduled visit by Hun Sen to India was postponed following the death of former Prime Minister Chandra Shekhar.

## Cambodia-China Relations

China has become a significant economic force in Southeast Asia as a buyer of raw materials, exporter of manufactured goods, and provider of foreign assistance.<sup>28</sup> China has also developed a prominent and friendly diplomatic presence in the region. Trade between Cambodia and China totaled \$732 million in 2006 — roughly one-third of Cambodia-United States trade (\$2.26 billion). However, Cambodia runs a huge trade deficit with China (\$662 million).<sup>29</sup> According to one observer, about 60% of products in Cambodian markets are from China.<sup>30</sup>

In the past decade, Hun Sen has cultivated ties with China, which has become a major source of foreign assistance and investment in Cambodia, including a reported \$800 million in aid and loans in the past two years.<sup>31</sup> On the one hand, some Cambodian and Western observers contend that any aid to Cambodia — whether it be from China or elsewhere — helps lift the country out of poverty and set it on a path toward sustainable development; they hold that China's involvement does not present the United States with a “zero sum game” in Southeast Asia. Furthermore, Chinese companies are often credited for taking on tough aid and investment projects under difficult circumstances. On the other hand, other analysts argue that the lack of conditions on PRC assistance or Cambodian regulations on Chinese investment exacerbates corruption and environmental problems in the kingdom. Some international aid groups criticize PRC assistance for being secretive and oriented towards “trophy projects” rather than development. Some U.S. officials have expressed worry that as PRC economic support increases, the United States and other Western countries may lose leverage in calling upon the Cambodian government to engage in democratic practices and enforce the rule of law. Moreover, although PRC assistance has been a boon to the Cambodian economy, many Cambodians reportedly

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<sup>27</sup> “Australian Investment for Cambodia's Aluminum Mines Reaches 1 billion USD,” *Xinhua News Agency*, October 14, 2006.

<sup>28</sup> See CRS Report RL32688, *China-Southeast Asia Relations*, by Bruce Vaughn and Wayne Morrison.

<sup>29</sup> In 2006, PRC exports to Cambodia by value were nearly 20 times greater than Cambodian exports to China. *Global Trade Atlas*.

<sup>30</sup> Evan Osnos, “China Turns on Charm, Wins Friends,” *Chicago Tribune*, March 20, 2006.

<sup>31</sup> Elizabeth Mills, “Unconditional Aid from China Threatens to Undermine Donor Pressure on Cambodia,” *Global Insight Daily Analysis*, June 7, 2007.

bitterly recall China's support for Pol Pot and resent alleged collusive deals between local officials and PRC aid and investment projects.<sup>32</sup>

Most PRC aid programs and projects in Cambodia involve technical assistance, grants or low-interest loans, and construction of public buildings and infrastructure involving Chinese companies. In return, Cambodia has voiced its support of the "one-China" principle, despite its significant economic relations with Taiwan.<sup>33</sup> PRC-financed and/or built projects in Cambodia include a new Council of Ministers building, two national highways, two bridges, and a dam. In 2006, China loaned \$17 million to Cambodia for its portion of an Internet network connecting countries in the Mekong region.<sup>34</sup> PRC companies have been awarded contracts to build many of these projects.

Since the late 1990s, China has provided military assistance to the kingdom in the form of military barracks, school, hospital, trucks, and ambulances. China reportedly also has provided military and police training and de-mining support. In addition, in October 2006, China pledged assistance for Cambodian army human resource training and the repair of military equipment.<sup>35</sup>

China's assistance to Cambodia has begun to diversify as the PRC has pledged aid for several development, cultural, and regional programs that overlap with U.S. and other Western aid efforts. Japan, Australia, and China reportedly contributed the most toward the cost and equipment for the 2007 local elections. China has promised to provide funding for the restoration of Angkor Wat. The PRC is also involved in Mekong regional efforts to combat transnational crime, including drug and human trafficking.

The ethnic Chinese community in Cambodia reportedly has regained its former economic clout and helped facilitate PRC investment. Roughly 3%-5% of the kingdom's population, or from 350,000 to 700,000 Cambodians, are ethnic Chinese, many of whom are descendants of settlers from southern China going back five centuries while others are part of a tide of recent immigration. Cambodian Chinese suffered under the Khmer Rouge and faced discrimination under the Vietnamese-backed government during the 1980s, but have been allowed to prosper under Hun

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<sup>32</sup> Jane Perlez, "China Competes with West in Aid to its Neighbors," *New York Times*, September 18, 2006.

<sup>33</sup> In 1997, Hun Sen expelled Taiwan's unofficial liaison office in Phnom Penh. Economic relations have continued despite a lack of official contacts.

<sup>34</sup> Part of the Greater Mekong Subregion (GMS) Information Superhighway involving China, Cambodia, Laos, Myanmar (Burma), Thailand, and Vietnam. Established in 1992 with the help of the Asian Development Bank, GMS aims to promote economic development through linkages in trade, investment, infrastructure, telecommunications, and human resources and cooperation on the environment, health, tourism, and labor mobility. In 2006, Viettel, a Vietnamese telecommunications firm, agreed to partner with Cambodia to set up and operate a Voice over Internet Protocol (VoIP) network.

<sup>35</sup> "China to Provide Grant Aid for Cambodian Army," *BBC Monitoring Asia-Pacific*, October 17, 2006.

Sen.<sup>36</sup> There reportedly are 75 schools in Cambodia teaching Chinese language, with 40,000 students, many of whom are ethnic Chinese. The PRC supports many Chinese schools through donations to the Cambodian-Chinese General Assembly. China also provides training for Cambodian Chinese language teachers. Some longtime Cambodian Chinese, however, wary of a Cambodian backlash against growing Chinese immigration and influence in the economy and mindful of the PRC's support of the Khmer Rouge, reportedly feel antagonistic towards China's rising impact.<sup>37</sup>

## Other Policy Issues

### Terrorism

According to U.S. officials, Cambodia has made notable efforts to carry out counterterrorism policies, although potential problems remain. In September 2006, U.S. Ambassador Joseph Mussomeli stated that "Cambodia has made great strides in securing its border and rooting out terrorists that seek to use this country as a base of operations."<sup>38</sup> In 2003, Cambodian officials arrested four men — one Cambodian Muslim, two Thai Muslims, and an Egyptian — for belonging to Jemaah Islamiah (JI), a Southeast Asian Islamic militant group with ties to Al-Qaeda, and plotting to carry out terrorist attacks in Cambodia. The three non-Cambodians were teachers at a Saudi-funded Islamic school that Cambodian authorities subsequently shut down.<sup>39</sup> In 2004, the Cambodian government, in cooperation with the United States, destroyed 233 Soviet surface-to-air missiles to prevent them from falling into the hands of terrorists in Southeast Asia. Weapons reportedly are still plentiful in Cambodia and have been smuggled out to insurgent groups in Sri Lanka and the Philippines.<sup>40</sup> In 2005, Cambodian officials consulted with Australian and British legal experts in the drafting of a new counterterrorism law.

In October 2004, Heraldo Munoz, chairman of the Al Qaeda/Taliban Sanctions Committee of the United Nations, warned that JI could potentially set up operations in Cambodia, with its porous borders and weak government. Cambodia's Muslims, mostly ethnic Cham people who historically practiced a syncretic form of Islam that incorporated Buddhism and other belief systems, make up about 5% of the kingdom's population. They are mostly poor farmers, fishermen, and traders, whose

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<sup>36</sup> About half of the ethnic Chinese population in Cambodia perished under the Pol Pot regime (from an estimated 430,000 in 1975 to 215,000 in 1979). "Dragon Herds the Paper Tigers," *China Economic Review*, September 1, 2006.

<sup>37</sup> "China Donates US\$15,000 to Chinese-Teaching Schools in Cambodia," *China Daily Information Company*, September 27, 2006; Bertil Lintner, "The Third Wave," *Far Eastern Economic Review*, June 24, 1999; Paul Marks, Foreign Area Officer Association, 2000 <[www.faoa.org/journal/camod07.html](http://www.faoa.org/journal/camod07.html)>.

<sup>38</sup> James Morrison, "Embassy Row," *Washington Times*, September 11, 2006.

<sup>39</sup> See CRS Report RL31672, *Terrorism in Southeast Asia*, by Bruce Vaughn, et al.

<sup>40</sup> "Cambodia PM Pledges to Stop the Arms Flow to Sri Lankan Rebels," *Dow Jones Commodities Service*, November 30, 2006.



religious and educational institutions were destroyed by the Khmer Rouge and who reportedly face harassment by Cambodian government authorities. Since the early 1990s, however, assistance from the Middle East, Malaysia, and Indonesia have helped to build new mosques and religious schools and brought conservative strains of Islam. Although the Cham generally are not politically active, some observers fear that impoverished Cham areas may provide safe harbor for terrorists. For example, Hambali, the Indonesian accused of directing the October 2002 bombing in Bali, reportedly took refuge in Cambodia in 2002 and 2003.<sup>41</sup> U.S. assistance to Cambodia includes basic education programs for Cham tribes.

## HIV/AIDS

Cambodia has the highest rate of HIV infection outside sub-Saharan Africa. At the end of 2003, an estimated 123,000 Cambodians were living with HIV. Cambodia's Health Ministry reported that 100,000 Cambodians have died of AIDS and 50,000 children have been orphaned by the disease. However, United Nations Secretary General Kofi Annan stated in 2005 that Cambodia is one of three countries in the world that has "reduced the spread of HIV/AIDS effectively." A concerted effort by the Cambodian government, the United Nations, NGOs, and foreign assistance programs has lowered the HIV prevalence rate from 3.3% in 1999 to 1.9% in 2003. In Cambodia, HIV is most commonly transmitted through sexual contact between sex workers and males, who then pass the virus on to their wives.<sup>42</sup>

## Human Trafficking

In 2003 and 2004, the State Department's Office to Monitor and Combat Trafficking in Persons ranked Cambodia as a Tier 2 country, stating that the country had made "significant efforts" to eliminate trafficking "despite considerable resource constraints."<sup>43</sup> In 2005, however, the State Department downgraded Cambodia to the Tier 3 category, stating that Cambodia was a "source, destination, and transit country for men, women, and children trafficked for the purposes of sexual exploitation and forced labor" and that the government was not making significant efforts to comply with the minimum standards for the elimination of trafficking.<sup>44</sup> The 2006 *Trafficking in Persons Report* upgraded Cambodia to the Tier 2 "Watch List," where it remained in 2007, stating that the kingdom was making significant efforts to comply with the minimum standards.<sup>45</sup>

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<sup>41</sup> Hambali was captured in Thailand in 2003 and is being held by the United States. Verghese Mathews, "Weeding out Terrorist Camps in Cambodia," *Straits Times*, October 27, 2004; Luke Hunt, "Cham Offensive," *Far Eastern Economic Review*, July 29, 2004.

<sup>42</sup> Joint United Nations Programme on AIDS; "Cambodia Vows to Continue Fight Against HIV/AIDS," *Xinhua News Agency*, December 1, 2005.

<sup>43</sup> U.S. Department of State, *Trafficking in Persons Report*, June 2004.

<sup>44</sup> Under the Trafficking Victims Protection Act of 2000, countries in Tier 3 may face U.S. sanctions or withholding of non-humanitarian assistance.

<sup>45</sup> U.S. Department of State, *Trafficking in Persons Report*, June 2007.

## Khmer Rouge Tribunal

No Khmer Rouge leaders have yet been tried for the atrocities or crimes against humanity committed under their rule. Two Khmer Rouge leaders have died and four other prominent former officials are in their late 70s.<sup>46</sup> In 2003, after five years of negotiations, Cambodia and the United Nations agreed upon the framework of an international tribunal for prosecuting former leaders of the Khmer Rouge, expected to number between five and seven persons, under Cambodian law and with a majority of Cambodian judges. Formal proceedings began in 2006 with the delivery of evidence to prosecutors. The trials are expected to last three years at an estimated cost of \$56 million.<sup>47</sup> Some observers, including Amnesty International, have raised doubts about whether such a court could be independent and impartial given the weakness of Cambodia's judicial system.<sup>48</sup> U.S. foreign operations appropriations measures have prohibited U.S. assistance to the tribunal unless the Secretary of State determines and reports to Congress that Cambodia's judiciary is independent and that the tribunal meets internationally-recognized standards of fairness and credibility. Some Cambodian and foreign observers have criticized U.S. policy, arguing that more forthcoming U.S. support would help the court to succeed. The United States has provided nearly \$7 million towards efforts involving the documentation of Khmer Rouge atrocities.

## Avian Flu

Since February 2005, six Cambodians have died from the H5N1 avian flu virus after having come in contact with infected poultry. The most recent fatality was reported in April 2006. A new outbreak among ducks was reported in September 2006 in Kampong Cham province. In October 2006, the United Nations Senior Coordinator on Avian Influenza praised "rapid action" by the Cambodian government and NGOs in combating the spread of the virus.<sup>49</sup> Controlling outbreaks is relatively difficult in Cambodia because poultry farms are small but numerous, farmers are poor and hesitant to destroy their stocks, and the government has limited capacity. United Nations experts estimated that Cambodia needs \$18 million to develop programs to stem the spread of the virus. On October 12, 2005, U.S. Secretary of Health and Human Services Michael Leavitt, on a visit to Southeast

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<sup>46</sup> Pol Pot, former leader of the Khmer Rouge, died in April 1998; military commander Ta Mok (nicknamed "The Butcher") died in 2006.

<sup>47</sup> The largest donor, Japan, pledged \$21 million. See Amy Kazmin, "UN Strikes Deal with Cambodia on Khmer Rouge Trials," *Financial Times*, May 2, 2005; Seth Mydans, "27 Years Later, a Formal Inquiry Begins into Khmer Rouge Atrocities," *New York Times*, August 6, 2006.

<sup>48</sup> The U.N.-Cambodian agreement stipulates, in part: The Trial Chamber shall have three Cambodian and two international judges; the Supreme Court Chamber shall have four Cambodian and three international judges; there shall be one Cambodian and one international investigating judge; and there shall be one Cambodian and one international prosecutor. As a safeguard against Cambodian bias, verdicts require a "super-majority" — a simple majority plus the vote of at least one international judge.

<sup>49</sup> UN Praises Cambodia for Tackling Bird Flu," *Agence France Presse*, October 19, 2006.

Asia, signed a cooperation agreement with Cambodian officials pledging \$1.8 million to help the country guard against the spread of H5N1. Germany and Japan pledged \$3 million and \$1.5 million, respectively, to help Cambodia fight avian flu. Thailand promised \$2.5 million for Mekong regional efforts while the Asian Development Bank put together a \$30 million grant for Vietnam, Cambodia, and Laos to fight bird flu.<sup>50</sup>

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<sup>50</sup> Ek Madra, "Cambodia Needs \$18 Million for Bird Flu Fight — UN," *Reuters Health E-Line*, December 16, 2005; "ADB to Help Vietnam, Cambodia, Laos Fight Bird Flu," *Agence France Presse*, November 28, 2005. See also CRS Report RL33349, *International Efforts to Control the Spread of the Avian Influenza (H5N1) Virus: Affected Countries' Responses*.