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**CAMBODIA-JAPAN RELATIONS**

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## Abstract

In 1999, Japan had resumed loans to Cambodia to support the execution of the *Sihanoukville Port Urgent Rehabilitation Project*. The resumption turned a new page for Japan-Cambodia bilateral aid relations since it took place after 30 years of suspension—or in other word, 20 years after Cambodia built herself from scratch out of the destructive Pol Pot regime. Before loan can be provided, stringent evaluation on the country's *debt service capability* must be conducted. However, Japan's loan resumption to Cambodia occurred in an unlikely situation. Cambodia's economy was plummeting following the July 5-6, 1997 incident, while the country still holds a huge burden of outstanding external debt.

The author argues that this resumption was based more on *political concession* rather than pure technical loan criteria. I will prove this argument by looking on "country criteria" and "project criteria". "Country criteria" evaluates country's financial strength and macroeconomic climate, as well as Cambodia's position in Japan's ODA policy, while "project criteria" will consider the project's relevance to the development of Cambodia, its effect and feasibility. Overall evaluation provides that based on "project criteria", the *Sihanoukville Port Urgent Rehabilitation Project* was considered feasible to implement as the project can generate income based on which the Port Authority of Sihanoukville (PAS) is economically and financially capable to handle the loan burden. However, as for the "country criteria", Cambodia's macroeconomic climate then was not favorable, and Cambodia's outstanding external debts stood at a very discouraging level for the decision to resume loan.

Moreover, despite that Cambodia had managed to process the first yen loan, we could still see reluctant move from Japan in the process of negotiating for the second yen loan—*Sihanoukville Port Urgent Expansion Project*. Although, PAS is capable to handle the loan burden, one has to bear in mind that PAS is merely a sub-borrower. The direct borrower from Japan is the Royal Government of Cambodia (RGC). In this regard, a move by Japan to ask for alternative repayment scheme as to be able to receive repayment directly from PAS signified Japan's doubtful attitude toward RGC's debt service capability. Thus, the yen loan resumption in 1999 would have been unrealistic if Japan abided by its stringent technical criteria. In other word, we can say that loan resumption owed largely to

Japan's political concession.

The move to understand reasons behind this political concession was another motive of this thesis. The author used international relations' analytical lens to organize ideas supporting Japan's political concession. As for the final step, the author seek to understand more comprehensively about Japan-Cambodia bilateral relations by looking at historical aspects starting from the period when Japan started to provide development assistance to Cambodia.

Based on these approaches, there are three main features of this thesis. Firstly, the thesis provides an insight on historical background of the yen loan resumption based on the first-hand documents as well as interviews with various policymakers. Secondly, the thesis provides political and diplomatic analysis on the bilateral aid relations, where previous analysis based mainly on management of development assistance and policy process. Thirdly, it outlines the history of bilateral relations using development assistance as its standard axis. At this part, the author relies heavily on documents in Japanese since documents in English and Khmer are rare for this particular theme. Thus, the author hopes that this paper will provide access window to other researchers who wish to understand and develop researches on Japan-Cambodia bilateral relations into a more active and comprehensive discussion.





## Abbreviation

CGDK	Coalition Government of Democratic Kampuchea
CMDGs	Cambodian Millennium Development Goals
DSR	Debt Service Ratio
EDI	Electrical Data Interchange
EIA	Environmental Impact Assessment
EIRR	Economic Internal Rate of Return
EPA	Economic Partnership Agreement
ESF	Exchange Support Fund
FIRR	Financial Internal Rate of Return
FUNSK	National United Front of Kampuchea
GRUNK	Royal Government of National Union of Kampuchea
ICORC	International Committee on the Reconstruction of Cambodia
IMF	International Monetary Funds
JBAC	Japan Business Association in Cambodia
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
MDRI	Multilateral Debt Relief Initiative
NPRS	National Poverty Reduction Strategy
NSDP	National Strategic Development Plan
ODA	Official Development Assistance
OECF	Oversea Economic Cooperation Funds
PAS	Port Authority of Sihanoukville
PKO	Peace-keeping Operation
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategic Paper
RGC	Royal Government of Cambodia
SEDP	Socio-Economic Development Plan
TEU	Twenty Equivalent Unit
UNTAC	United Nations Transitional Authority in Cambodia
WID	Women in Development

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# Chapter 1: Introduction

## 1.1. Introduction

After the Paris Peace Agreements, October 1991, the long-awaited peace has been expected to return to Cambodia. In 1992 Japan had reopened her embassy and had initiated a conference in Tokyo on the development of Cambodia in order to help rehabilitate and reconstruct the social structure of Cambodia which has been severely damaged by war. The bilateral relations have taken ground again after the lengthy suspension since 1974. Hereafter, despite the political armed clash in July 1997, which has been strongly criticized as an act against democracy, Japan didn't suspend her aid and has continued to cooperate actively with Cambodian development and reconstruction. The accumulation of bilateral grant aid from the Government of Japan from 1992 to 2007 amounted to 145.949billion Yen (approximately US\$ 1,309 million), while the amount of Yen loan totaled at 20.206 billion yen (approximately US\$ 182 million) until the same period of time.<sup>1</sup> According to the report in 2002 Japan occupies 25% of the overall assistance to Cambodia making her the bilateral top donor to the kingdom.<sup>2</sup> Grant aid (including technical cooperation) took the total share until 1999 when yen loan has been resumed—after 30 years of suspension—to support the execution of a project related to Sihanoukville port. If we think that loan is a burden to a poor country like Cambodia, then loan resumption can be considered as a significant change. Cambodia has more than US\$ 2 billions in debts and the government revenue is less than 10% of the total GDP. This means that Cambodian finance bears a lot of restraints. Moreover, the resumption took place just two years after the political armed clash in 1997, during which Cambodian economics faced severe downturn. Despite all these, why yen loan had been approved? How can we explain this significant change? Is it because Cambodian economy has developed and has achieved adequate ability to take this loan burden? Or is it because the Japanese new fiscal policy requires budget reduction and in turn requires stronger sense of

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<sup>1</sup> "Japan's ODA to the Kingdom of Cambodia", As of September 2008, Embassy of Japan in Cambodia, <http://www.kh.emb-japan.go.jp/economic/oda/odalist02.pdf>

<sup>2</sup> "Kanbojia Kuni Betsu Enjo Keikaku" (Japan's Assistance Policy for Cambodia) February 2002, Chapter 3, Sector 3

[http://www.mofa.go.jp/mofaj/gaiko/oda/kunibetsu/enjo/cambodia\\_h.html#3-3](http://www.mofa.go.jp/mofaj/gaiko/oda/kunibetsu/enjo/cambodia_h.html#3-3)

Last accessed, December 18, 2006

ownership from Cambodia? Or is it because the project can generate high economic return, enough to pay this debt? Why was it in the form of loan and not grant?

Bearing these questions in mind, by taking the yen loan resumption as an example, this research aims to discuss about the usage of aid as diplomatic tool and then look on bilateral relations from the point of view of aid. The observations are made in three steps.

First, I argue that this resumption was based more on *political concession* rather than pure technical loan criteria and I will prove this argument by looking on "Country Criteria" and "Project Criteria".

Second, I will seek to understand the purposes behind this political concession by mainly discussed on the usage of ODA as political tools using what I called "*aid-realism*", "*aid-liberalism*" and "*aid-idealism*" as frameworks of analysis.

Third, I will consider on the impacts of this resumption on Japan-Cambodia bilateral relations and characterize this relation by comparing to the previous regimes starting from the time Japanese began aid toward Cambodia, and will, finally, conclude by giving implications concerning bilateral relations.

## 1.2. *Research Objective and Rationale*

As a developing country, Cambodia has an asymmetric power in regard with Japan. However, there are two important reasons that the bilateral relations between the two countries deserve to receive more attention.

Firstly, Japanese diplomacy toward Cambodia is different from the traditional ways mostly done to other Asian countries. Generally, Japan's diplomacy toward Asia is based on the past war responsibility and compensation. Secondly, these relationships are being pursued in a way that goes along well with regard to Japan-U.S. relations. However, these aspects are not prominent in Japan-Cambodia relations. Comparing with the invasion done in China or Korea, Cambodia had suffered few damages during World War II. And within Cambodian historical perception, there isn't any resenting emotion against Japanese either. Moreover, Japan had contributed a great deal to the success of Cambodian peace-building process, and thank to this, from Japan's perspective, Cambodia became the landmark of Japanese *pro-active diplomacy* ever done on international arena since WWII. Thus, these two countries have a very positive image toward each other.

Secondly, Japan-Cambodia bilateral relations have received very few influences from the U.S. Why can I say so? During the heated Cold War in the 60s, with the principle of non-alignment and neutrality, Cambodia had break off relations with the U.S. from 1965 until 1969. Despite this fact, Japan has continued her relations with Cambodia and had responded positively to Cambodian then diplomatic top's agenda by formally recognizing Cambodian territorial integrity in 1968. Again in 1997, after the political armed clashes, while the U.S. had condemned Cambodian government citing undemocratic acts, Japan has continued to recognize Cambodia and has continued her assistance program without changes. These actions prove that Japan-Cambodia bilateral relations do not receive much influence from the U.S.

Beside, the discussions about Japan-Cambodia bilateral relations focus a great deal on peace-building and Peace-keeping Operation (PKO)-related issues. However, there are few weak points in the discussions. Firstly, these arguments are based on common presumption that after the general election organized by United Nations Transitional Authority in Cambodia (UNTAC) in 1993, Cambodia had achieved full peace and became democratic. However, this presumption undermines the fact that even after the general election civil wars and political strife within the government still persisted, and that had led to the July 1997 incident. These arguments also tend to give more weight to how the international communities had brought about peace to Cambodia and underestimate local efforts to bring peace and stability. For instance, despite the fact that *the 1998 integration of Khmer Rouges* through the WIN-WIN policy into the national army has contributed decisively to the peace-building in Cambodia by putting an end to potential armed conflicts and bringing about total integrity of territories—never in Cambodian history—this kind of local effort for peace and stability remains far from academic focus and has yet to attracted any argument. By saying peace and stability, I mean the stability without the potential of any armed conflict and the peace in mind of Cambodian people, who are always afraid of another potential war outbreak. These two elements have been becoming secured only after the 1998 integration. Another point is that peace-building and PKO-related discussions only focus on Cambodian situation before and during PKO and thus cannot explain Japan-Cambodia bilateral relations after the period.

Hence, in order to look more extensively on these bilateral relations, it is more practical to look from the point of view of development assistance. The simple fact that Japan is the top donor to Cambodia since 1992 is enough to give many

implications about the bilateral relations. However, once we consider from this angle, previous literatures offer only discussions about how aid are being managed by focusing on ownership problem<sup>3</sup>, Poverty Reduction Strategic Paper (PRSP) or the ongoing trend such as *aid harmonization*<sup>4</sup>, or looking closely into one particular development sector such as transportation, etc. These literatures, so far, have offered very few references on diplomatic interpretation.

Thus, by looking at Japan-Cambodia bilateral relations with the focus of aid usage as diplomatic tool, this paper aims to go beyond the discussion on development and to provide further compliment to previous discussions mentioned above. The further focus on loan issue, as a new research approach, eventually, will also provide a new perspective concerning Japan-Cambodia bilateral aid, which has been dominated by grant aid.

### 1.3. Literature Review and Conceptual Research Framework

The ideas about aid as diplomatic tool can be divided into three groups, which I named as "*aid-realism*", "*aid-liberalism*" and "*aid-idealism*". I used "aid" as prefix since I merely adapt some part of the original concepts—Realism, Liberalism, and Idealism—used in international politics

#### 1.3.1. Aid-Realism

- David A. Baldwin, *Economic Statecraft*, Princeton University Press, 1985
- Reinhard Drifte, "The Ending of Japan's ODA Loan Programme to China: All's Well that Ends Well?", *Asia-Pacific Review*, Vol. 13, No.1, 2006, pp. 94-117

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<sup>3</sup> Regarding Cambodia's ownership in aid management, see Martin Godfrey, Chan Sophal, and Others, "Technical Assistance and Capacity Development in an Aid-dependent Economy: The Experience of Cambodia", Cambodia Development Resource Institute, *World Development*, Vol. 30, No. 3, 2002, pp. 355-373; Micheal Hubbard, "Aid Management in Cambodia: Breaking Out of a Low Ownership Trap", *Public Administration and Development*, Vol. 25, 2005, pp. 409-414.

<sup>4</sup> For aid harmonization, see Watanabe Keiko & Fusa Maeri, *Kanbojia Unyu Sektor ni Okeru Enjo Kyouchou* (Aid Harmonization in Transportation Sector of Cambodia), Foundation for Advanced Studies on International Development (FASID), 2004 Report of Research on Aid Harmonization.

- Mikio Oishi and Fumitaka Furuoka, "Can Japanese Aid be an Effective Tool of Influence?", *Asian Survey*, Vol. 43, No. 6, 2003, pp. 890-907

The benchmark of aid-realism's argument can be found in Baldwin's *Economic Statecraft*. Baldwin has looked on how economy can be a tool to achieve national goals or strategies through various usages such as the usage of *positive and negative sanction*. In this sense, aid can be used as *carrot and stick* in order to cast political influence to recipient country. The example of negative sanction can be found in Japan's decision in 2005 to suspend loan to China in order to assert her stance following the worsening of bilateral relations (Drifte, 2006). As for positive sanction, Japan had continued her assistance to Myanmar as reward to the latter's political and economic reform in 1989, and to Cambodia following the Cambodian side's promise to put forward general election after the July 1997 armed clashes (Oishi and Furuoka, 2003).

The basic argument of this group is that states concern about power struggle the most and that states use aid to *directly* achieve "*short-term national interests*", which are indicated by political influence, diplomatic leverage or negotiation power of the donor country. In this concept, donor states concern less about their own economic interest and inter-dependence and they focus mainly on how to pursue their power against recipient states in the immediate time span.

### 1.3.2. *Aid-Liberalism*

- Bruce Koopel and Michael Plummer, "Japan's Ascendancy as a Foreign-Aid Power: Asian Perspectives", *Asian Survey*, Vol. XXIX, No. 11, November 1989, pp. 1043-1056
- Robert M. Orr, Jr. "Japanese Foreign Aid: Over a Barrel in the Middle East" In *Japan's Foreign Aid: Power and Policy in a New Era*, Edited by Bruce M. Koppel and Robert M. Orr, Jr., pp. 289-304, Westview Press 1993

This group stresses the importance of inter-dependence. National interest is identified in *long-term and relative gains*. Aid is used strategically to secure natural resources offshore or foster the recipient market. Japanese diplomacy after the Oil Shock in early 1970s is typical example of this trend—using aid as diplomatic tool to secure natural resource allocation from the region (Orr, 1993). Beside, an extract from the Japanese ODA White Book as follow also reflects aid-liberalism's basic concept:

Asia is a traditional priority area for Japan's diplomacy as has been described in ODA Charter. This is especially true with countries in East Asia region, which have close interdependent relations on every field with Japan. The region's development and stability has important meaning for Japan's stability as well as prosperity. So far, Japan has contributed to the region's remarkable development through the support of basic economic infrastructure using ODA, and the stimulation of private investment and trade as active economic linkage. In other word, Japan has contributed to the economic development of the region through the economic cooperation based on effective linkage of ODA with trade and investment.<sup>5</sup>

Koopel and Plummer see Japanese aid usage in Asia as a tool to strengthen economic binding, bolster external trade, foster Japanese market abroad and most of all to increase Japanese leverage against recipient countries by increasing the latter's dependency on aid (Koopel and Plummer, 1989). The result of national interests gained from this sort of aid usage does not show up immediately. Rather it is a sort of future investment in order to achieve long-term national interests.

### 1.3.3. *Aid-Idealism*

- Watanabe Akio, Miura Arifumi, *ODA—nihon ni naniga dekiru ka?*, (“ODA—What Japan can do?”) Chuukoushinsho, 2003
- Denisu T. Yasutomo, “Nihon gaikou to ODA seisaku”, (“Japan's Diplomacy and ODA Policy”), *Kokusai Mondai*, No. 348, 1989, pp. 48
- Dennis T. Yasutomo, “Why Aid? Japan as an “Aid Great Power””, *Pacific Affairs*, Vol. 62, No. 4, (Winter 1989-1990), pp. 490-503
- Inada Ju-ichi, “ODA to Heiwa Kochiku—Sono Gainen, Shudan to Seisaku Apurochi”, (“ODA and Peace-Building: The Concept, Means and Policy Approach”), *Kokusai Mondai*, No. 517, April 2003, pp. 40-62

Different from aid-realism and aid-liberalism, national interest does not come at the first place according to aid-idealism. On the contrary, this group asserts that aid should be used for the sake of recipient countries and that the latter's development or peace should be the ultimate outcomes that aid should bring about. Discussing on how to improve Japanese ODA, Watanabe and Miura argued that, “projects that cannot generate poverty reduction or improvement of the living standard will not serve any diplomatic purposes. The evaluation of ODA should be based on aid

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<sup>5</sup> “Seifu Kaihatsu Enjo (ODA) Hakusho” (ODA White Book), 2005, Part II, Chapter 2, Sector 3



effects on development in recipient countries and this should become the baseline for ODA's improvement." <sup>6</sup>

Aid-idealism also asserts that aid should be used to achieve ideal values, such as democracy or market economy, and that it should be the works of development-oriented humanitarianism or philanthropy. National interest of donor countries would come only after the effective development has been achieved in the recipient states. This national interest can be identified by the donor countries' international prestige and recognition. Denis Yasutomo, one of the typical aid-idealist shared his thought for Japanese aid diplomacy as follows:

"Needless to say non-militarism is the value that Japan need to pursue as her national image, the result of the combination between *pacifism* and *pragmatism*. Pacifism is the goal. By contributing to the third world countries we mean to become a pacifist and internationalist state through the "Pacifist Diplomacy". And pragmatism will decide our means to achieve this goal. That is to use non-militarist state power especially economic and financial resources. This is how aid contributes to Japan expected future." <sup>7</sup>

Yasutomo's arguments symbolize the then-popular discussion on Japanese ambition to become a so-called *internationalist state*. It was during the early 1990s, the time when international society was facing "aid fatigue" phenomenon at the end of Cold War, while Japan was becoming a major donor power.

Lately, evolution of aid-idealism can be seen and this change concerns the idea on how to bind Japan's "peace-building" success experience with the country "economic might". To express differently, the idea concerns about how to bind "peace" with "economic development" in the strategic aid package. This new trend can be found in Inada's argument that has replaced the rather abstract "internationalist state" discussion with a concrete approach of "peace-building" (*heiwa kouchiku*) concept.

Table 1: Basic Description of Conceptual Framework
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<sup>6</sup> Watanabe Akio, Miura Arifumi, *ODA—nihon ni naniga dekiru ka?*, ("ODA—What Japan can do?") Chuukoushinsho, 2003, pp. 156

<sup>7</sup> Denis T. Yasutomo, "Nihon gaikou to ODA seisaku", ("Japan's Diplomacy and ODA Policy"), *Kokusai Mondai*, No. 348, 1989, pp. 48. The same argument can be found in Dennis T. Yasutomo, "Why Aid? Japan as an "Aid Great Power"", *Pacific Affairs*, Vol. 62, No. 4, (Winter 1989-1990), pp. 490-503

Aid-Realism	Power struggle is the most important national interest and that state uses aid to achieve this goal. This concerns the idea of using aid as <i>carrot and stick</i> to <i>directly</i> achieve <i>short term national interests</i> , which are indicated by political influence, diplomatic leverage or negotiation power of the donor country. Economic interest and inter-dependence are not the included in this idea.
Aid-Liberalism	This group stresses the importance of <i>inter-dependence</i> . National interest is identified in <i>long-term</i> and <i>relative gains</i> . Aid is used strategically to secure natural resources or foster the recipient market.
Aid-Idealism	<i>National interest doesn't come at the first place</i> . Aid should serve the interest of recipient country and that development and peace are the final goal. Donors' national interest is just a result after the development or peace in the recipient states, and is identified based on ideal concepts such as democracy, humanitarianism or pacifism.

## 1.4. Structure of the Book

The book is divided into four chapters as follow.

**Chapter 1: Introduction:** This part is initially described the problem statement, research rationale and conceptual frameworks used to approach the issues.

**Chapter 2: Background of Loan Resumption:** This chapter will introduce the background history and policy process until the loan agreement has been signed. Here I will list every possible elements required in the decision-making process through two criteria, "country criteria" and "project criteria". The evaluation of these criteria will eventually explain why *political concession* from the Japanese side was concerned instead of pure technical loan criteria.

**Chapter 3: Analysis on Political Concession:** Using the three conceptual frameworks; aid-realism, aid-liberalism and aid-idealism, here, I will explore the political implications of the loan resumption.

**Chapter 4: Aid and Japan-Cambodia Bilateral Relations:** This chapter attempts to organize the history of bilateral relations from the point of view of aid. It will also decide the historical characteristics of loan resumption by making comparison of the bilateral relations in every Cambodian regime since Japan started giving aid to Cambodia. Despite taking aid as the core comparison tool, this chapter will also seek to understand the environment where aid is being given by observing diplomatic/political relations and economic relations as well.

***Chapter 5: Conclusion and Implications:*** This last chapter will explore how loan resumption affects the bilateral relations taking into account the result of conceptual analysis and historical comparison, and will finally observe implications within the bilateral relations.

## Chapter 2: Background of Loan Resumption

Loan resumption started on September 24, 1999, when the Oversea Economic Cooperation Fund (OECF), former organization of Japan Bank for International Cooperation (JBIC), signed a loan agreement in Phnom Penh for a total amount of up to 4,142 million yen to fund *“Sihanoukville Port Urgent Rehabilitation Project”*. Below, I will mention the background history and the process until loan agreement has been signed and then seek to explain why this significant decision to resume loan after 30 years of suspension involved *political concession* from the Japanese side. As one of the interviewees has mentioned, “If we strictly followed the technical analysis, loan approval would have been difficult.”<sup>8</sup> In order to prove this argument, I will list every possible elements required in the decision-making process and sort them in two criteria, “country criteria” and “project criteria” and evaluate accordingly.

### 2.1. Historical Background until Loan Agreement

#### 2.1.1. Situation before Starting the Project

After the Paris Peace Agreements in October 1991, perceiving that Cambodia's situation was favorable for Japan to re-launch development assistance, Japan had dispatched investigation groups twice, once in December 1991 and another in January 1992, to grasp the real needs of the Cambodian side concerning what the latter would need for her reconstruction/rehabilitation process. As a result, Japan had decided on the principle that “she will focus on humanitarian aid in the immediate time frame, and will consider the medium-term development on agriculture, energies, infrastructure and human resource when Cambodia has strengthened her ability to receive development assistance. The implementation will be based mainly on grant and technical assistance.”<sup>9</sup>

In Cambodia, then, the civil war has just finished and market economy was about to take shape in early 1990s. The urgent needs of infrastructure were decisive for the reconstruction and rehabilitation. Perceiving this, Japan had started the memorable first aid project to Cambodia to reconstruct Chroy Changvar bridge (officially known as Japan-Cambodia Friendship bridge) in 1992, which had cost

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<sup>8</sup> From the interview

<sup>9</sup> “Seifu Kaihatsu Enjo (ODA) Hakusho” (ODA White Book), 1992, pp. 61

2,989 million yen—approximately USD 23.2 million—and finished in February 1994. Later, large scale grant aid projects that cost more than 2 billion yen were given priorities to fund Cambodian infrastructure improvement each year. The importance and emergency to improve Sihanoukville port was not without exception. Japan was fully aware of the problems as has shown in the following OECF press release.

“Concerning the port sector, on the other hand, it is in urgent need of drastic improvement, for it cannot adequately keep up with the increased cargo volumes of recent years and the trend toward increased container shipment use in international cargo shipments. Although two international ports in Cambodia are the Port of Phnom Penh, of which equipment was improved by Japan grant in 1994-95, and the Sihanoukville Port, the role of the Port of Phnom Penh as an international port is limited because ships must pass through the Viet Nam-owned lower course and moreover it is difficult for large vessels to pass since it is a river port. The Sihanoukville Port, on the other hand, is the only port that faces sea and handles virtually all cargo shipped via large container vessels. Urgent improvement of the port is indispensable, for the existing piers and their facilities there are decrepit.”<sup>10</sup>

Giving these pressing needs, and based on request from Cambodian government, Japan International Cooperation Agency (JICA) has sent investigation team to Sihanoukville three times, between March 1996 and March 1997. The investigation team had wrapped up their study result in “Long-Term Development Master Plan by 2015” and “Short-Term Development Feasibility Study by 2005”. Based on these results, originally, Port Authority of Sihanoukville (PAS) requested grant for the First Phase project as it is Cambodian stance to always ask for grant whenever possible. However, “considering the good performance of Cambodia's Ministry of Economics and Finance by 1999 and to improve country's status, Japan had recommended Cambodia to take loan”<sup>11</sup>. After several inspection missions and negotiations, exchange of official notes and loan contract had been made.<sup>12</sup>

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<sup>10</sup> OECF Press Release, September 24, 1999

<sup>11</sup> From the interview

<sup>12</sup> **The Principle of Request:** Basically, Japan considers aid provision only after Cambodia's request. Cambodian government normally lists up all projects in Public Investment Program (PIP), based on which donor countries will choose which fields

The purpose of this loan project was to “construct a new container terminal at Sihanoukville Port. By improving the cargo-handling capacity of the port, the project will contribute to improvement of the country's transport system and play a catalytic role in promoting foreign and domestic investment in the area surrounding the port.”<sup>13</sup> Sun Chanthol, Minister of Public Works and Transport, made the following remark on the project: “This rehabilitated and upgraded infrastructure will provide significant advantages to boost economic development of Cambodia which includes:

1. Port ability to compete with other international ports in the region and the world.
2. Attract potential customers to use this port as transit point for loading and unloading of agro-industrial products and tourism.
3. Accelerate Cambodia's integration into the region and the world economy.
4. Create jobs for our youth and people and provide 1,163 international standard jobs for officials, workers and employees, the majority of whom have been working hard to restore and develop this international port from scratch since 1979.”<sup>14</sup>

The Port has been developed and expanded to be one of the only three international standard container deep seaports in South-East Asia.<sup>15</sup> The Port has been constructed by Penta Ocean and Italian-Thai Joint Venture and supervised by Pacific Consultants International. The construction has two phases. The First Phase of the project, *Sihanoukville Port Urgent Rehabilitation Project* started in April 3, 2002,

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they are intend to assist and in which form—loan or grant. However, in the project-making process, sometimes, requests are being made after Japan give “*Blue Light*” in an indirect way through Japanese ambassador or JICA. Thus, it is not always clear to where the source of project comes from. Projects are normally approved after various lobby activities either from recipient countries or donor countries. (From the interview)

<sup>13</sup> OECF Press Release, September 24, 1999

<sup>14</sup> Remark by H. E. Sun Chanthol, Minister of Public Works and Transport on the occasion of the inauguration ceremony of 240 meter container terminal, groundbreaking ceremony for new 160 quay extension and the port One-Stop Service administrative building of Port Authority of Sihanoukville, May 1, 2005

<sup>15</sup> The other two ports are Kwantan in Malaysia and Lamchabang in Thailand

costed 4,142 million yen, used to construct 240 meters container terminal and finished in 2005, after which the Second Phase, *Sihanoukville Port Urgent Expansion Project*, follows. The project's Second Phase, whose funding was from another loan agreement—signed on November 26, 2004—with the amount up to 4,313 million yen, is under progress. This project is to expand the container terminal 160 meters further to make a 400 meter terminal that will be equipped with two gantry cranes and five transfer cranes. Moreover, the project will also build a new one-stop service building equipped with computers to reduce administrative work from 3 hours to 5-10 minutes and eliminate irregular payments. Port Authority of Sihanoukville (PAS) will cooperate with other relevant authorities to implement EDI (Electrical Data Interchange) in order to further reduce clearing time and increase accuracy for goods and cargos passing through the Port. <sup>16</sup>

### 2.1.2. Present Situation (2006)

After completion of the First Phase, the Port can handle up to 230,000 TEUs <sup>17</sup> per year. If we look at Table 2, we can see that the annual gross throughput does not change much. However, if we look at container throughput, constant growth can be seen and in 2004 it reached 213,916 TEUs, which is very close to the maximum level of 230,000 TEUs. This number clearly proves that without the project, the Port would not be able to keep up with the growing demand of container throughput. Thus we can say that this project is successful and effective. Beside, "in the last five years, average annual revenue of PAS has increased by 11% per year to about USD 24 million; comparatively container throughput increased by 18% per year." <sup>18</sup>

Item	1999	2000	2001	2002	2003	2004
Gross Throughput	1,140,942	1,641,765	1,763,593	1,674,707	1,772,361	1,503,049
Not Include Fuel	884,006	1,340,163	1,401,071	1,352,154	1,454,856	1,242,011
Not Include Fuel & Container	365,883	683,998	709,824	550,408	650,328	308,152
Cargo Containerize	518,123	656,164	691,246	801,746	804,527	933,858
Container Throughput (TEU)	94,860	130,435	145,292	166,638	181,286	213,916

<sup>16</sup> Remark by H. E. Sun Chanthol, May 1, 2005

<sup>17</sup> TEU (Twenty Equivalent Unit) is the counting of cargo volume carried by 20 feet container

<sup>18</sup> From the Remark by H. E. Sun Chanthol, May 1, 2005

Total Revenues (US Dollar)	14,005,715	17,660,608	19,382,056	21,263,031	23,043,870	24,009,164
Source: Port Authority of Sihanoukville, Planning and Statistic Department						

## 2.2. *Why was it a Loan instead of a Grant?*

I have argued that loan resumption is based on Japanese political concession. However, was there any other possible explanation? One may argue that, "the decision to resume loan had nothing to do with political decision. It was based totally on technical criteria providing that the related projects have characteristics that are deemed to be implemented through loan." Now I will consider this possibility by exploring the distinction between loan and grant from the technical point of view.

### 2.2.1. *Definition and Characteristics of Grant and Yen Loan*

Japan provides grant aid mainly to countries that have a relatively low income among the developing countries and regions. Grant aid is primarily channeled to support basic human needs (BHN) (such as medical services, public health, water supply, and rural and agricultural development) and human resources development. In addition, in certain cases, Japan has undertaken infrastructure projects, such as roads, bridges, and telecommunications, using grant aid rather than traditional ODA loans because of deteriorating fiscal circumstances in some developing countries, mainly Least Developed Countries (LLDCs). Grant aid is implemented by the Ministry of Foreign Affairs, with the assistance of the Japan International Cooperation Agency (JICA).<sup>19</sup>

ODA Loans make development funds available to developing countries at low interest rates and with long repayment periods. These loans provide funds to develop and improve the economic and social infrastructure necessary to support self-help efforts and sustainable economic development for developing countries. JBIC's Overseas Economic Cooperation Operations are in charge of the major part of ODA loans.<sup>20</sup> The significance of Japanese ODA loans can be summarized as follows:

#### *Support of self-help efforts:*

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<sup>19</sup> From the website of Japan Bank of International Cooperation, <http://www.jbic.go.jp/japanese/oec/oda/index.php>, Last accessed July 21, 2006

<sup>20</sup> Ibid.



Supporting “self-help efforts” of the developing countries is the pre-condition based on which Japanese ODA is being implemented. This is the main characteristic of Japanese ODA. In order to help developing countries to become economically self-reliant, it is important to convey the message that reckless spending is definitely undesirable. The significance of loans in development assistance lies mainly on this point.

***Providing solution to poverty and environment problems by focusing on economic and social basic infrastructure projects***

The target of yen loans focuses on economic and social basic infrastructure projects. Each country's economy may vary according to economic policy or given conditions. However, for developing countries, lacking of economic and social infrastructure is the main reason hindering economic development. Recently, growing demand of capital for poverty reduction and social development, and increasing needs to tackle issues of global scale have diversifying each country's needs of development, and the functions demanded from development assistance are also diversifying and are getting more and more complex.

***Applicability with large scale projects***

Since loans require repayment from developing countries, we could assist developing countries with large scale projects without costing abundant burden to our (Japanese) people.<sup>21</sup>

In loan criteria, “There are two categories of recipients; “***annual-based countries***” and “***non-annual-based countries***”. The Ministry of Finance, Ministry of Foreign Affairs and Ministry of Economy and Industry of the Government of Japan will decide on this categorization according to diplomatic relations, economic relations and the balance of loan. Cambodia belongs to non-annual-based group and thus loan consideration is not conducted annually but is done irregularly upon requests. And in principle, the Ministry of Finance does not provide any loan when it is not requested.”<sup>22</sup> In the following, I will consider the definition and characteristics of grant and loan as well as their actual usages.

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<sup>21</sup> From the website of Japan Bank of International Cooperation, <http://www.jbic.go.jp/japanese/oec/yenloan/loan/index.php>, Last accessed July 21, 2006

<sup>22</sup> From the interview

### 2.2.2. *Distinct Usages of Grant and Yen Loan*

According to above definitions, loan is given to fund Sihanoukville Port-related projects because of the following reasons. First is the project's profitability. Interviewees have remarked that:

"As the principle of ODA, Japan offers grant aid to projects that are related with Basic Human Needs (BHN). As for big scale infrastructure, such as port project, the port itself will be able to collect usage fee once it has completed new facilities. In general, project from which economic effects are expected or could provide profit to government's finance, or the project that is cash-generating, is more practical or adaptable with loan."<sup>23</sup>

Another reason is that there is annual limit of grant toward every recipient country. For instance, Cambodia receives grant from Japan in average USD 60 million annually. If Cambodia proceeds to fund one single project that would take a large sum from this number, this would slow down other social development projects undergoing each year. Thus, it is more effective for Cambodia to use loan in cash-generating projects and leave grant to social development projects. This will allow Cambodia to expand her development schemes on different fields and to improve development's effectiveness by balancing economic and social development. On the other hand, requesting loan for large scale projects also gives less burden to Japan's ODA budget.

Thus with the profitability of the project and the amount limit of grant, one can say that it is compatible to use loan with the Port-related projects, and that loan approval in 1999 had nothing to do with political decision. However, before 1999, there were several large scale infrastructure projects, some of which are also cash-generating, funded by Japanese grants. Those projects are "***Project for the Rehabilitation and Upgrading of Electricity Supply Facilities in Phnom Penh***" (Phase I in 1993 and Phase II in 1994 combined worth 4,080 million yen) and, "***Project for the Rehabilitation of the Port of Phnom Penh***" (Phase I in 1994 and Phase II in 1995 combined worth 3,039 million yen).<sup>24</sup> Both two projects were implemented using

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<sup>23</sup> From the interview

<sup>24</sup> See "*Seifu Kaihatsu Enjo: Kuni Betsu no Deta Buk*" (ODA: Data Book by Country), 1995 and 1996

grant. Then, why the *Sihanoukville Port Urgent Rehabilitation Project* was funded by loan? Why loan was resumed in 1999? This is to say that technical criteria alone cannot explain all these changes comprehensively.

## 2.3. Criteria for Loan Approval

Above, I have looked at loan criteria based on definition and distinction between loan and grant. Now, I will explore another technical aspect by looking more in-depth on decision-making process—loan's technical consideration before being approved. These criteria—based on JBIC's Operational Guideline<sup>25</sup> and interviews I conducted—I can simplify by dividing into two categories, "country criteria" and "project criteria". Here, I argue that there were not much problems with "project criteria" but there were questions remained for "country criteria", especially with Cambodian debt issues and finances, the points that are so critical to measure the country's *debt service capacity*<sup>26</sup>. Port Authority have secured strong debt service capacity for the institution itself with growing revenue as has shown in Table 2 above, however, loan is not given directly to implementing institution. PAS is merely sub-borrower from the Royal Government of Cambodia. Loan approval in 1999 was just two years after 1997 political armed clash, the event which had put Cambodia under close scrutiny both politically and economically as economics were plunging down to near zero growth. The country's debts to the U.S. during the 70s and to Russia during the 1980s were other major obstacles to Cambodia's debt service capacity. With these issues at stake, one of the interviewees remarked about the approval that, *"it would be rather difficult for loan approval if technical criteria were strictly obeyed."*

### 2.3.1. "Country Criteria"

Three major elements are put into consideration to measure borrowers' debt service capacity: borrower's macro-economic climate, finances and debts. Along with these, borrower country's development policies, Japanese diplomacy, JBIC and JICA's assistance policy<sup>27</sup> are other important elements for consideration.

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<sup>25</sup> See JBIC's website: <http://www.jbic.go.jp/english/oec/guidance/index.php>, Last accessed 2006

<sup>26</sup> Debt service capacity: Ability to meet loan instalments together with interest these are due.

<sup>27</sup> "Japan's Assistance Policy for Cambodia" was released in 2002, and JBIC's "Basic Strategy of Japan's ODA Loan" was released in 2005. These cannot provide direct explanation to the loan resumption in 1999, but these can be the reference to

Below, I will explore Cambodia's macro economic climate and finances, debt issues and Cambodia Position in Japan Aid Strategies.

### *Cambodia's Macro Economic Climate and Finances*

	1994	1995	1996	1997	1998
Real GDP Growth Rate (%)	4.0	7.6	7.0	1.0	0.0
Fiscal Revenue (in % of GDP )	9.6	8.9	9.1	9.7	8.1
Fiscal Expenditure(in % of GDP )	16.5	16.7	16.3	13.9	11.7
Export(million dollar)	234	269	298	404	469
Import(million dollar)	509	673	749	707	775
Balance of payment(in % of GDP)	-13.7	-16.1	-15.5	-11.4	-11.6

Source: OECF, Press Release: September 24, 1999 (Japanese version)

After 1997 political armed clash, Cambodian real GDP growth was next to zero. Tourism—one of the country's most important revenue sources—received the strongest blow, and effected severely on Cambodia's economy. Fiscal revenue stays at a very low level, less than 10% of GDP each year, while the country depends strongly on foreign aid to secure government's expenditure. Concerning country's macro economic climate, one of JBIC's officers observed that;

“Cambodia's debts have accumulated very high up to 60% of GDP. Because of this, pushing forward more loans to Cambodia is not a considerate step to take. Loan itself is a fixed finance and has very low interest. But there are risks at stake for example exchange rate. Cambodia has to earn foreign currencies and draw a portion from country's revenue in order to return loan. However, the country's fiscal revenue is less than 10% of GDP. Revenue from other sources such as textile industry is facing a slow

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Japan's attitude and evaluation criteria since those policy guidelines are normally compiled based on Japan's previous accumulated experiences.

down as Cambodia will meet stronger competition from country like China, when Cambodian quota is abolished upon accession to WTO. Strong dependence on textile has made Cambodia becoming a mono-cultured industry, and other major industry such as tourism is also very dependent on political stability. Cambodia's urgent task is to diversify her economic facets. Thus, Japan has to be cautious when consider loan to Cambodia as not to put serious burdens on Cambodia. These are the reasons why Japan is rather reluctant in loan consideration toward Cambodia comparing to Thailand, Indonesia or Vietnam."<sup>28</sup>

### Debt Issues

Debt issues are serious problem to Cambodian debt service capacity. In January 25, 1995, Paris Club had cutoff debt incurred by Cambodia with the amount of USD248 million.<sup>29</sup> Japan was also among the participating creditors and had omitted the principle owed by Cambodia in 1968—the total of 1,517 million yen<sup>30</sup>. But the *interest* and the *compensation for repayment delay* remained. These, again, have been settled as Japan had given grant in goods to Cambodia so that the latter could sell those goods and repay the remained debts.<sup>31</sup>

The amount rescheduled at Paris Club, however, was small since Cambodia still holds more than USD 2 billion in debts—over 60% of GDP. Bilateral debts have a significant share especially debts owed to the U.S. in the 1970s and to Russia in the 1980s, which accounts for 15% and 80% respectively.<sup>32</sup> This number puts serious burden on Cambodian financial situation.

Table 4: Cambodia External Debt (million US dollar)							
	1998	1999	2000	2001	2002	2003	
Total Outstanding debt in % of GDP	73.5	66.6	67.0	67.2	68.4	70.8	
Total External Debt	2,256	2,315	2,394	2,489	2,735	2,981	

<sup>28</sup> From the interview

<sup>29</sup> Website of Paris Club, Cambodia's column, <http://www.clubdeparis.org/en/index.php>, last accessed December 18, 2006

<sup>30</sup> "Seifu Kaihatsu Enjo: Kuni Betsu no Deta Buk" (ODA: Data Book by Country), 1989, pp. 55

<sup>31</sup> From the interviews

<sup>32</sup> ADB, Mekong Region: Economic Overview 2004, Chapter 6 <http://www.adb.org/Documents/Reports/MREO/2004/chap06.pdf>

Last accessed December 18, 2006

Outstanding						
Multilateral	347	400	471	554	752	963
Bilateral	1,909	1,915	1,923	1,935	1,983	2,019
Source: IMF Country Report No. 04/330, "Cambodia: Statistical Appendix", October 2004						

**\* Debt Service Ratio and Debt Write-Off**

The debt service ratio (DSR) is the ratio of debt service payments made by or due from a country to that country's export earnings. If we look at DSR before yen loan resumption, the rate stayed at 18% in 1998, which was very high. The number reduced to single digit in 2001—10.1% in 2000, 3.8% in 2001—but this doesn't mean Cambodia has less burden. "Debt to the Russian Federation and the US is being renegotiated and is currently not being serviced. As a result, the debt service ratio relative to exports of goods and services at the end of the year 2004 is estimated at only 2.3%. However, relative to government revenues it was 14.8% in 2003, placing Cambodia in the category of debt-stressed countries."<sup>33</sup>

Bright news can also be seen in December 2005. Under the Multilateral Debt Relief Initiative, International Monetary Fund (IMF) provided 100% of debt relief on all debt incurred by Cambodia to the IMF before January 1, 2005 that remains outstanding. This amounts to approximately USD 82 million. Concerning Cambodia's qualification to this debt relief, Mr. John Nelmes, the Resident Representative of IMF in Cambodia remarked that;

"Cambodia has qualified for IMF debt relief because of its overall satisfactory recent macroeconomic performance, progress in poverty reduction and improvements in public expenditure management. Since 1999, Cambodia has enjoyed robust economic expansion, with annual growth rates averaging over 7 percent and inflation being kept under control. During this period, the Royal Government has shown strong commitment to implementing its National Poverty Reduction Strategy, and improving public administration, in particular public expenditure management. Performance in these areas provides assurance that resources made available under the

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<sup>33</sup> ADB, Asian Development Outlook 2005, Cambodia  
<http://www.adb.org/documents/books/ado/2005/cam.asp>, last accessed August, 2007

Multilateral Debt Relief Initiative will be used effectively.”<sup>34</sup>

In order to approve loans, one has to refer to past economic performance and financial situation. Despite growing good performance of macro-economy in Cambodia, as the debt write-off has proved, one have to bear in mind that this good performance was after 1999. Past performance before 1999 was in sharp contrast. In 1996 IMF cancel USD 20 million in loans to Cambodia and made the provision of the additional USD 60 million conditional on further progress in stamping out corruption in the forestry industry.<sup>35</sup>

After 1999, against the dark legacy of Cambodian debt issues, reduction of DSR to single digit in early 2000s and debt write-off by IMF in 2005 seem to have very bright impact. One would want to hope for the best but the fact that debt burdens are severe remains the same. Government is painfully aware of this fact. During the 8<sup>th</sup> Consultative Group meeting (CG<sup>36</sup>), Senior Minister Keat Chhon, Minister of Economy and Finance, expressed acknowledgement to IMF for debt write-off while remarked on significance of debt issues to Cambodia economy and development as follows:

“We are qualified to receive debt relief under MDRI (Multilateral Debt Relief Initiative) of the IMF. It is thanks to these achievements that the IMF has approved the cancellation of the USD 82 million in debt owed by Cambodia. The Royal Government would like to renew the expression of our appreciation to the IMF and would like to reassure that the Royal Government has committed itself to fully use these resources that will become available to target poverty reduction. However, Cambodia is still constrained by the debts from other countries that were incurred before

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<sup>34</sup> IMF's Press Release No. 05/291, December 23, 2005, "IMF to Extend 100 Percent Debt Relief to Cambodia Under the Multilateral Debt Relief Initiative", <http://www.imf.org/external/np/sec/pr/2005/pr05291.htm>, last accessed August, 2007

Press Release No. 05/286, December 21, 2005, " IMF to Extend 100 Percent Debt Relief for 19 Countries Under the Multilateral Debt Relief Initiative" <http://www.imf.org/external/np/sec/pr/2005/pr05286.htm>

<sup>35</sup> South China Morning Post (Hong Kong), November 16, 1996, SECTION: Pg. 12, "Loan cancellation deals confidence a blow" (LEXIS/NEXIS)

<sup>36</sup> Set up in 1993, "International Committee on the Reconstruction of Cambodia" was replaced by Consultative Group Meeting in 1996. The meeting is a platform for Cambodian government and donor countries to discuss about development and assistance. The meeting is held once a year after 2002.

1993. We do recognize these debts in the name of state legacy. But we now face a situation in which, as a conditionality, we must first reach an agreement to settle the arrears on these loans of the pre-1993 era in order to receive approval from the IMF on the Second Poverty Reduction and Growth Facility (PRGF II). I would like to note that the size of the pre-1993 debt will constitute an overwhelmingly large share of our total debt. The service charges of these debts that were incurred by previous regimes will adversely impact on the Cambodian economy for the next 40 years. Cambodia will continue to negotiate and settle these debts regardless of the underlying moral principles and regardless of the consequences of the tragedy Cambodian people have suffered during that era. The Royal Government has no choice but to accept to repay these debts and to minimize the adverse impact on public financial management and the long term development of Cambodia. The prudent management of these debts is very important to achieve Cambodia's Millennium Development Goals.<sup>37</sup>

### *Cambodia Position in Japan's ODA Strategies*

This item considers the importance of recipient position in donor's aid strategies as well as diplomacy. Cambodia is one of the key countries for Japan both in term of ODA and diplomacy. Starting from the late 1990s, ODA's overall budget was decreasing each year. However Japan still secures her position as the biggest donor to Cambodia with the average amount stagnates. A Japanese diplomat remarked as follows:

"We would like to maintain aid at the same levels as in previous years; in general Japan's ODA is decreasing every year but Cambodia is one of the important recipients so Japanese embassy would like to maintain previous amounts."<sup>38</sup>

This proved the significance of Cambodia to Japan aid and diplomatic policy.

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<sup>37</sup> Opening Remarks, Senior Minister Keat Chhon, Minister of Economy And Finance, First Vice Chairman of the Council for The Development of Cambodia, Co Chair of the 8th CG Meeting, Phnom Penh, 2-3 March 2006  
[http://www.cdc-crdb.gov.kh/cdc/8cg\\_meeting/session1/opening\\_remarks\\_keatchhon.htm](http://www.cdc-crdb.gov.kh/cdc/8cg_meeting/session1/opening_remarks_keatchhon.htm)

<sup>38</sup> Agence France Presse, "Phnom Penh Counts on Donors as it Braces for a Tough Economic Year", December 5, 2004 (LEXIS-NEXIS)



Looking from regional aspect, Cambodia also belongs to Japan's aid prioritized regions. Considering historically close relations and economic and political interdependence, Japan perceives East Asian and South-East Asian regions as her most important regions for ODA loans. Japan also sees the importance of development in Mekong region, whose member countries also include Cambodia. Moreover Cambodia is regarded as one of the key countries in JBIC's "Basic Strategy of Japan's ODA Loan".

After reaching the Paris Peace Agreement in 1991, Cambodia saw a political confrontation that led to an armed clash in 1997. Nevertheless, the country is presently stable and maintaining economic growth. It succeeded in joining the WTO in 2004, paving the way for integration in the international economy. We will position the area around Phnom Penh, the country's capital, and Sihanoukville as the growth corridor and provide assistance with emphasis on the infrastructure improvement and policy system reforms to invigorate private economic activities in the region and construction of foundations that contribute to sustained growth of the tourism industry, a source of precious foreign currency income. In so doing, we will place high priority on assistance that reaches wide areas, based on the perspective of the Mekong region development, and strive for assistance in cooperation with Asia Development Bank (ADB) and the World Bank, as well as through broad-based partnership with the private sector, including Japan's technical assistance and grant aids.<sup>39</sup>

Thus, despite being one of the prioritized and strategic countries for Japanese aid policies, Cambodia, due to her debt issues and fragile finance, did not clear all "country criteria". These criteria were even worse before loan approval in 1999 because Cambodia faced a severe economic downturn after July 5-6, 1997 incident. This meant that Japan still bore the risk and that the decision to resume loan depended on Japan's political concession rather than from the pure technical loan criteria.

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<sup>39</sup> "Basic Strategy of Japan's ODA Loan: Mid-term Strategy for Oversea Economic Cooperation Operations", April , 2005, JBIC, pp. 16-19

### 2.3.2. "Project Criteria"

For "Project Criteria", here, I will discuss about "project relevance" and "project effect". "Project relevance" considers necessity of the project and relationship with related projects, relevance with Cambodian development programs, such as Poverty Reduction Strategic Paper (PRSP) or National Poverty Reduction Strategy (NPRS), and relevance with related regional projects. On the other hand, "project effect" mainly considers project feasibility by looking on the economic and financial status of executing agencies. The indicators include Financial Internal Rate of Return (FIRR) and Economic Internal Rate of Return (EIRR), which are purely technical. Besides, environmental and social effects are also put into consideration, but here I only focus on economic/financial elements.

Table 5: Elements for Yen Loan Judgment
1 . Availability of Feasibility Study (Yes/No) 2 . Background and necessity (quantitative and qualitative) →borrower's priorities... 3 . Outline — Project → Inter-relation with borrower's development policies — Required fund → comparison with international standard... — Period of construction — Implementing institutions — Implementing system — Project effect (FIRR, EIRR) — Environmental Impact Assessment (EIA) — Women in Development (WID), and social consideration, etc. — Others relativity → Support from international institutions... 4 . Reservations 5 . Maturity and acceptable level 6 . Schedule 7 . Notes
Source: "Enshakkan purojekuto no shuuekisei sihyou ni kansuru chousa houkokusho", ("Research on Profitability Indicators of Loan Project"), March 1999, Nomura Research Institute, pp. 11

## *Project's Relevance*

"Project's Relevance" firstly considers the inter-connectivity of target project with other projects. Economic stimulus is the main purpose of yen loans. Thus, the stimulated economic effect can only be maximized if the target project has inter-connectivity with other related projects. Other than the two Port-related projects, in order to maximize the economic effect of Sihanoukville Port, other projects, which do not necessarily concern the Port directly, were also put under way. For instance the "*Greater Mekong Telecommunication Backbone Network Project (Cambodia Growth Corridor)*"<sup>40</sup> (signed in March 25, 2005) and "*Sihanoukville Port SEZ Development Project (E/S)*"<sup>41</sup> (signed in March 20, 2006). All these projects aim to enhance investment environment/facilities so that Cambodia

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<sup>40</sup> The central region of Cambodia, which extends from Kampong Cham, the distribution hub of farming products, to the capital Phnom Penh, and further to Sihanoukville Port, the country's only sea port, is the center of Cambodian economic activity and home to 45% of the total population. In this region, which is dubbed the Growth Corridor, the Sihanoukville port facilities are expanding (for which JBIC has provided ODA loans), and plans for an industrial park is underway. With the economy registering a 15% annual growth, mainly on the strength of the manufacturing sector, demand for telecommunications in this region is expected to increase rapidly. Communication among cities in the Growth Corridor relies on microwave networks installed by mobile-phone providers; however, this makes it difficult to exchange a large volume of information in a stable manner. Thus, the underdeveloped telecommunication network is emerging as a major bottleneck for the region to invite and foster industries, including foreign companies. The development of a basic telecommunication network is urgently called for to meet the rapidly growing communication demands and business needs in the Growth Corridor. The purpose of the Project is to increase telecommunication capacity and improve the reliability of communication facilities in the Growth Corridor, which encompasses Sihanoukville, Phnom Penh and Kampong Cham in Cambodia, by laying down a 400 kilometer-long optical cable and installing related facilities and equipment in the region, thereby contributing to the economic and social development of the region. The proceeds of this loan will be applied to the procurement of machinery and equipment necessary for installing an optical cable and other related facilities such as switchboards and access cables, as well as civil works and consulting services. (JBIC, NR/2004-72, March 29, 2005)

<sup>41</sup> Under this project, a special economic zone (SEZ) with an area of about 70 hectares will be developed adjacent to the Sihanoukville Port, the only international seaport in Cambodia and one that was also developed by ODA loans. The proceeds of the loan will be used for engineering services (including detailed design and assistance for the bidding process) prior to infrastructure development such as land grading and roads and power facilities. Proceeds will also be used for technical assistance for institutional aspects of the SEZ program, including the enhancement of administrative capacity, development of the legal and regulatory framework, and support for investment promotion activities. (JBIC, NR/2005-88, March 22, 2006)

can attract more foreign investment and eventually can bolster economic growth.

Table 6: Japanese Loan toward Cambodia							
Date of the Signing of Loan Agreement	Project Name	Executing Agencies	Amount (million yen)	Interest (%)	Period of Redemption	Grace Period	Condition
Oct 06, 1969	Prek Thnot Power and Irrigation Development Project	The Royal Government of Cambodia	787	3.5	19	5	Tied
Feb 01, 1971	Prek Thnot Power and Irrigation Development Project II	The Royal Government of Cambodia	490	3.5	19	5	Tied
Sept 24, 1999	Sihanoukville Port Urgent Rehabilitation Project	Port Authority of Sihanoukville	4142	1.00	30 yr.	10 yr.	General Untied
Nov 26, 2004	Sihanoukville Port Urgent Expansion Project	Port Authority of Sihanoukville	4313	0.9	30 yr.	10 yr.	General Untied
Mar 25, 2005	Greater Mekong Telecommunication Backbone Network Project (Cambodia Growth Corridor)	Ministry of Posts and Telecommunications	3029	0.9	30 yr.	10 yr.	General Untied
Mar 20, 2006	Sihanoukville Port Special Economic Zone Development Project (E/S)	CDC, Port Authority of Sihanoukville	318	0.9	30 yr.	10 yr.	General Untied
Mar 30, 2007	Greater Mekong Power Network Development Project (Cambodia Growth Corridor)	Electricite du Cambodge	2632	0.01	40 yr.	10 yr.	General Untied

Source: Japan Bank for International Cooperation Homepage (last accessed August 2007)

The inter-connectivity of these projects is very important since it will act as major catalyst to synthesize and maximize economic effect of the projects both within the country, Cambodia, and within the region. Within the country, by connecting

Sihanoukville with other economic focal points like Phnom Penh and Kampong Cham—the so-called Growth Corridor—the projects aim to spread the economic effect beyond Sihanoukville and to synthesize growth strength from every major cities. Within the region, for example the Greater Mekong Telecommunication Backbone Network Project is also implemented in Laos in order that every Japanese project in the region can maximize their potential growth strength through inter-connection. This also shows Japanese initiative to bridge regional economic discrepancy in South-East Asia region by improving economic infrastructure of the poorer part like Cambodia and Laos in order to facilitate faster economic integration of the whole region.

“Project’s relevance” also concerns about relation of projects with borrower/recipient’s country development policies. By 2006, Cambodia has had two country development plans. First one is the ADB-led country development plan made for year 2001-2005 called “The Second Socio-Economic Development Plan: SEDP II). Another one is World Bank and IMF-led PRSP called “National Poverty Reduction Strategy” (NPRS) for year 2003-2005. Donor countries and even line ministries often found their opinions divided concerning the positioning of the two plans. But after 2006, the Royal Government of Cambodia has combined those two plans, SEDP III (2006-2010) and NPRS, into a single country development plan called “National Strategic Development Plan” (NSDP) (2006-2010), which was publicly announced in December 2005. This new plan has featured the government “Rectangular Strategies” and Cambodian Millennium Development Goals (CMDGs).<sup>42</sup>

In the newest version of Cambodia development plan—NSDP—has mentioned very little about the Port-related projects, and has not pointed out concrete direction or future strategies of Port development. Below is the extract from NSDP concerning the port development:

“Ports: Almost all bulk imports and exports of the country are handled by two ports: the Sihanoukville deep sea port and Phnom Penh inland river port, the latter capable of receiving ships of only limited tonnage capacity. To handle increased volumes, Sihanoukville is being upgraded and a second stage

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<sup>42</sup> Watanabe Keiko & Fusa Maeri, *Kanbojia Unyu Sektor ni Okeru Enjo Kyouchou* (Aid Harmonization in Transportation Sector of Cambodia), Foundation for Advanced Studies on International Development (FASID), 2004 Report of Research on Aid Harmonization, pp. 13-14

container terminal will be taken up for construction.”<sup>43</sup>

Although concrete action plan concerning the port development was not clearly spelled out in NSDP, the RGC is always fully aware of the importance of physical infrastructure development, and has put this agenda among the “Four Strategies to Accelerate Growth” within the Rectangular Strategy, which was announced by Prime Minister Hun Sen during the first cabinet meeting of the Third Legislature of the National Assembly, on July 16, 2004. This vision is outlined as follows:

### **Rectangle II: Further Rehabilitation and Construction of Physical Infrastructure**

#### Side 1: Further Rehabilitation and Construction of the Transport Network

Transportation networks are the arteries that connect all corners of the Kingdom of Cambodia and thereby transform the country into an integrated economy. The transport networks are instrumental in integrating domestic markets and facilitating Cambodia's integration into the regional and world economies. Moreover, physical infrastructure plays a pivotal role as the “locomotive of economic growth,” significantly contributing to poverty reduction and the alleviation of the people's hardships. Thus, the Royal Government will continue to accord high priority to the rehabilitation and reconstruction of transportation networks, including bridges, roads, railroads, *seaports*, and airports that link all parts of the country and link Cambodia to neighboring countries and the rest of the world. The objective is to create a convenient, comprehensive, safe, effective and price-efficient transport network that facilitates trade, promotes tourism and rural development and ensure Cambodia's economic integration into the region and into the world, while especially serving the interests of national defense. Therefore high priority will be given to the further building of rural roads, coupled with measures on road maintenance to ensure continuing transport services and travel safety. The Royal Government will further its efforts in the rehabilitating and developing railroads and promoting rail transport of bulk and heavy goods. Civil aviation will be further enhanced to ensure the significant contribution civil aviation services to economic growth, especially in boosting tourism.

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<sup>43</sup> *National Strategic Development Plan (2006-2010)*, pp. 51  
<http://www.imf.org/external/pubs/ft/sct/2006/cr06266.pdf>  
last accessed December 18, 2006.

Thus, the project's relevance is fully accorded with Cambodia's country development plan, and moreover it has the inter-connectivity with other projects. This will enable both Japanese and Cambodian government to maximize the economic effect of the project, not just for Cambodia but also for Mekong region as a whole.

**\* Why were there 5 blank years after resumption in 1999?**

Table 6 shows that soon after the resumption, there were five blank years until the next project is undertaken. However, this should not be interpreted as another suspension because Cambodia is classified as "non-annual-based countries" in Japanese policy. This also concerns capability of executing agencies as Japan takes care not to put more than one project to single executing agency. For instance, when "*Sihanoukville Port Urgent Rehabilitation Project*" was about to finish in 2005, loan agreement for "*Sihanoukville Port Urgent Expansion Project*" was signed in 2004 so that the Port would not have double responsibility. This also helped the Port to secure the sequence of projects. Again, before the second phase project finish, the Port has requested loan for "*Sihanoukville Port Special Economic Zone Development Project*" in 2006. On the other hand, Japan would also consider loan provision if other capable executing agency is requesting. The case was true with the "*Greater Mekong Telecommunication Backbone Network Project (Cambodia Growth Corridor)*", executed by Ministry of Posts and Telecommunications, which was approved in 2005, one year after "*Sihanoukville Port Urgent Expansion Project*" was approved. Beside, putting five blank years is maybe needed for both Japan and Cambodia to evaluate how much success this pilot project hold so that both parties can consider whether to proceed for further loans.

### *Project Effect and Feasibility*

This item concerns how to measure project effect using qualitative analysis to know whether the project is feasible or not. In order to do so, *economic analysis* and *financial analysis* are made. The objectives of the economic analysis are to investigate the economic benefits as well as the economic costs that will arise from the project, and to evaluate whether the net benefits of the project exceed those that could be obtained from other investment opportunities in Cambodia. There are various methods to evaluate the feasibility of this type of development project. Here, the Economic Internal Rate of Return (EIRR) based on a cost-benefit analysis is used

to appraise the feasibility of the project. The EIRR is a discount rate which makes the costs and the benefits of the project during the project life equal.<sup>44</sup>

There are various views concerning the critical percentage of EIRR to judge whether a project is feasible or not. The leading view is that the project is feasible if the EIRR exceeds the opportunity cost of capital (OCC). In general, the opportunity cost of capital is considered to range from 8% to 10% according to the degree of development in each country. It is generally considered that a project with an EIRR of more than 10% is economically feasible for infrastructure or social service projects.<sup>45</sup>

The other method of evaluation, financial analysis, focuses on the viability of the project itself and the financial soundness of the port management body (Sihanoukville Port) during the project life. The viability of the project is analyzed using the Discount Cash Flow Method and appraised by the Financial Internal Rate of Return (FIRR). The FIRR is a discount rate that makes the costs and the revenue during the project life equal. The financial soundness of the project is appraised based on its projected financial statements (Profit and Loss Statement, Cash Flow Statement and Balance Sheet). The appraisal is generally made from the viewpoint of profitability, loan repayment capacity and operational efficiency.<sup>46</sup>

The project is considered feasible if EIRR stays above the standard level of 10% for port projects, however, there are variations for FIRR, among which a level below 5% can also be seen.<sup>47</sup> JICA had conducted feasibility study on port development project considering various stages:

1998-2000: The Urgent Improvement Plan (General cargo wharf 400m)

1999-2003: The Short-term Development Plan (Container terminal 240m, gantry crane 2 units)

2004-2006: The Long-term Development Plan (1) (Bulk terminal 150m)

2008-2011: The Long-term Development Plan (2) (Bulk terminal 150m and additional gantry crane 1 unit)

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<sup>44</sup> "The Study on the Master Planning and Feasibility Study of the Sihanoukville Port in the Kingdom of Cambodia", Final Report Vol.3 Feasibility Study, June 1997, Chapter 5, pp. 1 (Japan International Cooperation Agency (JICA), Sihanoukville Port, Ministry of Public Works and Transport)

<sup>45</sup> Ibid., Chapter 5, pp. 12

<sup>46</sup> Ibid., Chapter 6, pp. 1-2

<sup>47</sup> "Enshakkan purojekuto no shuuekisei sihyou ni kansuru chousa houkokusho", ("Research on Profitability Indicators of Loan Project"), March 1999, Nomura Research Institute, pp. 52



2012-2014: The Long-term Development Plan (3) (Expansion of container terminal 160m and additional gantry crane 1 unit)<sup>48</sup>

The result of project evaluation was as follows:

(Economic analysis)

The EIRR of the alternative Long-term Plan fell in the range between 14.0% and 17.8% for various cases. The EIRR for the Short-term Plan results in 15.0%. Even the worst case, where project cost is assumed to increase by 10% and the cargo volume reduces by 10%, the EIRR is 11.0%. Since the project ensures 10% of the EIRR, the Short-term Project is concluded to be economically feasible.

(Financial analysis)

The Short-term Development Plan is concluded to be financially feasible, provided that the initial project cost for the Urgent Improvement Plan is not paid for by Sihanoukville Port. The FIRR for this case is 7.9%. In the case that the initial project cost increases by 10% and revenue decreases by 10%, the FIRR is 2.7%.<sup>49</sup>

Both economic and financial analysis gave positive result for Short-term Plan, which includes the *Sihanoukville Port Urgent Rehabilitation Project*, and proved that executing agency—Port Authority of Sihanoukville (PAS)—was financially capable of handling the loan's burden and that the project was feasible since it could generate profit.

#### **\* Port Authority of Sihanoukville as Sub-borrower**

It is true that PAS is capable of handling loan project and eventually capable for the debt repayment itself. However, direct borrower of JBIC's loan is not PAS but Royal Government of Cambodia whose debt issues and fragile finance, as have shown in "country criteria", remain at risky level. PAS is merely a sub-borrower. And

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<sup>48</sup> "The Study on the Master Planning and Feasibility Study of the Sihanoukville Port in the Kingdom of Cambodia", Final Report Vol.1 Summary, June 1997, pp. 4 (Japan International Cooperation Agency (JICA), Sihanoukville Port, Ministry of Public Works and Transport)

<sup>49</sup> "The Study on the Master Planning and Feasibility Study of the Sihanoukville Port in the Kingdom of Cambodia", Final Report Vol.1 Summary, June 1997, pp. 5 (Japan International Cooperation Agency (JICA), Sihanoukville Port, Ministry of Public Works and Transport)

this raised another concern for Japanese side.

In 2002, during the loan negotiation for the 2<sup>nd</sup> Phase Project, *Sihanoukville Port Urgent Expansion Project*, the JBIC mission proposed two alternatives to make a particular covenant in the loan agreement. First alternative is that PAS would be a borrower for the loan, and the Royal Government of Cambodia (RGC) would be a guarantor on the loan while PAS will make repayments directly to JBIC. Another alternative RGC would be a borrower for the loan and re-lend it to PAS, and the amount repaid by PAS to RGC would be reserved in a special account to be established in the National Treasury in RGC for the repayment to JBIC. However, the Cambodian side stated that neither of the alternatives was acceptable for RGC. As to the former one, the Law of Public Enterprise prohibits PAS to become a direct borrower for the ODA loan, and as to the latter one, Ministry of Economy and Finance must acquire the approval from the Parliament to establish the special account in the National Treasury pursuant to the provisions of Financial Organization Law, which is difficult. The Cambodian side proposed to maintain the repayment scheme adopted under the 1<sup>st</sup> Phase Project, and suggested to prescribe in the Loan Agreement that RGC shall ensure that the amount repaid by PAS to RGC shall be used for repayment for JBIC.<sup>50</sup>

The content of this negotiation shows Japan's doubt on RGC repayment capability providing that RGC still bears heavy debts and has weak finance. Japan wanted to averse these risks by proposing RGC schemes that secure direct repayment from PAS—who is economically and financially capable for repayment—to JBIC. Year 2002 was already three years after the loan resumption and Japan still negotiated on repayment scheme. This implies that Japan was still doubtful and skeptical about her risky decision in 1999.

Projects' inter-relations both locally and regionally, Japan's development strategies for the region, and the project's economic/financial profitability have backed the "project criteria" as sound enough to implement. On the other hand, in "country criteria", debt issues and country's fragile finance remain at concerned level, and thus can be evaluated as minus. Japanese skeptical act during the negotiation in 2002 gives stronger base to the argument that the decision to resume

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<sup>50</sup> *Minute of Discussions on the Urgent Expansion Works of Sihanoukville Port between Japan Bank for International Cooperation and the Royal Government of Cambodia*, Dec. 13, 2002, Phnom Penh Cambodia.

loan in 1999 was beyond mere technical loan criteria. And this is what I called political concession from Japanese side, without which resumption would not be possible. Next chapter, I will seek to interpret those political/diplomatic reasons behind the decision in 1999.

## Chapter 3: Analysis on Political Concession

In the previous chapter, I have proved that the decision to resume loan in 1999 was more than mere technical loan criteria, and that the decision was concerned with political concession from Japanese side. In this chapter, I will seek to understand the reasons behind this political concession by using what I called “*aid-realism*”, “*aid-liberalism*” and “*aid-idealism*” as conceptual framework.

### 3.1. Aid-Realism

This group argues that states concern about power struggle the most and that states use aid to *directly* achieve “*short-term national interests*”, which are indicated by political influence, diplomatic leverage or negotiation power of the donor country. Aid can be used as “*carrot or stick*” or in other word “*positive sanction or negative sanction*” according to donor’s strategy in order to gain leverage against recipient states. In this concept, donor states concern less about their own economic interest and inter-dependence, and they focus mainly on how to pursue their power against recipient states in the immediate time span. Based on this concept, loan resumption can be interpreted in two ways.

***Explanation 1:*** Loan resumption was a positive sanction or reward to Cambodia who had put forward the democratic election in 1998.

Japan resumed loan to Cambodia because the latter had fulfilled the former political request. The explanation is mostly identical to Mikio Oishi and Fumitaka Furuoka’s who argued that Japan had continued her assistance to Myanmar as reward to the latter’s political and economic reform in 1989, and to Cambodia following the Cambodian promise to put forward general election after the July 1997 armed clashes.<sup>51</sup> However, in 1999, Japan had not made any political request to Cambodia as a condition for loan provision. Thus the connection and causality similar to *Explanation 1* cannot be verified.

***Explanation 2:*** The resumption was a mean to deliver political message

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<sup>51</sup> Mikio Oishi and Fumitaka Furuoka, “Can Japanese Aid be an Effective Tool of Influence?”, *Asian Survey*, Vol. 43, No. 6, 2003, pp. 890-907

embedded in loan.

Loan gives less burdens to Japan's finance and at the same time bears the political message of "ownership" and "independence", and by using this Japan can achieve her political interest. Loan can be a burden for Cambodia and Japan might risk having another debt issue with the former, but the opportunity to send the message is considered as political gain in the immediate time span. This explanation can be fully verified in "Basic Strategy of Japan's ODA Loan".

1) Securing Ownership of Developing Countries: Japanese ODA loans are long-term low-interest rate loans. Since the borrowers are obligated to repay the loans, recipient countries may, for instance, adopt stringent procedures for selecting projects that are financed by a Japanese ODA loan. These loans thus have an effect of enhancing the ownership of the recipient countries for the projects. This also ties in with "supporting self-help efforts of developing countries" as promulgated in the ODA Charter.

2) Meeting the Millennium Development Goals

With Japanese ODA loans, funds are repaid by developing countries. Thus, Japan is able to offer assistance efficiently with less financial burden on the Japanese people. This makes it easier to provide large-scale assistance. Assistance can be given to major projects of developing countries that generate larger impact on the economic growth, environmental improvement and social development of developing countries, which are indispensable for achieving MDGs.

3) Ensuring Sustainability (Contribution to Effective and Efficient Investment in Development): The obligation to repay Japanese ODA loans gives an opportunity to the recipient countries to develop an incentive to recover the investment cost as much as possible. This encourages the countries to make efforts to ensure the sustainability of the development projects, and leads to the attainment of the MDGs and their sustenance.

4) A Bridge from Dependence to Independence: Development is a continuous process that accompanies economic and social transformations. Similarly, the pattern of development funds in developing countries should ideally change from one that is dependent on grants to concessional loans and further on to the pattern that is self supported by private sector investment and market funds. In the end, graduation from development

assistance is hoped for. By fulfilling needs for funds that cannot be met with private finance, Japanese ODA loans play a significant role by aiding with such a transition process. Looking back over the history, Japan also received assistance and loans from the international community, including the United States and the World Bank, to rebuild the country after it was ravaged by war.<sup>52</sup>

### **\* *Ownership and Independence***

One of Japan ODA's principles is "request-based", whose purpose is to respect and give weight to the recipient's ownership. The principle asserts that aid should not be imposed one-sidedly according to donor's thought but it should be provided upon request from recipient states based on the latter's own country development policies such as Cambodia's "National Poverty Reduction Strategy" (NPRS). However, it does not imply that every request is being answered since donor countries also have their own priorities. For instance, "Cambodian Ministry of Interior has requested cooperation from Japan Police. However, since Cambodia ranks number four after other three ASEAN countries, according to Japan Police's priority, Cambodian request has yet to be answered."<sup>53</sup>

Ownership is being demanded from every executing agencies even PAS during implementation of port-related projects. Unfortunately, this demand cannot be fulfilled immediately, since these port-related projects require high technical expertise in handling all the process from preparing documents for request to management of actual implementation. This makes advice from consulting agencies becomes indispensable. But this dependency does not imply negative meaning because PAS lacks resources in these regards. On the contrary, by doing so, gradual know-how transferring can also be expected in the future.

After all, realization of ownership and independence depends a lot on both donor and recipient's will. In the foreseeable future, it is hard to demand a full ownership and independence from PAS, but PAS's efforts in doing so while facing growing enormous challenges have to be highly evaluated. An excerpt from an interview below reflects the efforts PAS is making.

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<sup>52</sup> "Basic Strategy of Japan's ODA Loan: Mid-term Strategy for Oversea Economic Cooperation Operations", April , 2005, JBIC, pp. 4-5

<sup>53</sup> From the interview

"It is difficult to forecast what we will do in the future. Now the most important thing is that PAS is bearing a lot of debts—approximately 13 billion yen including the fund for development of Special Economic Zone, which is still in requesting process. SEZ Project does not relate directly with the typical port business but PAS possesses land for development and thus this project is crucial for us. This project will give new business opportunities beyond port-related fields. Moreover, now PAS needs to construct the East Port to use as oil supply base, an urgent need that no one has ever thought of. After the oil reserves has been discovered, Cambodia will need approximately 150 hectares of land for supply base and RGC has ordered every oil-related companies to use Cambodian local logistic base. PAS now possesses only 15 hectares of land. But it is our responsibilities that we have to respond to these unexpected developments and to catch up with all these abrupt changes."<sup>54</sup>

Japan is fully aware of the importance of ownership and independence and the urgency of these matters is reflected in loan resumption despite that both Japan and Cambodia have to face debt risks. Japan also expresses these concerns indirectly to RGC during CG meeting as the following remark by Japanese Embassy shows.

Since Cambodia made a new start as a post-war nation in 1992, Japan has continuously supported Cambodia throughout its transition period from peace settlement, reconstruction, to development. While the *economic and financial situation of our country remains as severe* as last year, recognizing the importance of the development of Cambodia for the Asian regional stability and for rectifying the regional economic gap among ASEAN countries, Japan stands with the Royal Government of Cambodia in a determination to strengthen its support in building resilience in the people of Cambodia.... As a leading donor who has long supported Cambodia's reconstruction and development efforts, allow me to restate that Japan is determined to continue to support Cambodia's efforts for development in the future. Again, Japan's national *budget is extremely tight* and the financial resource she can provide is *not unlimited*. Nevertheless, Japan will work to contribute the assistance for our next fiscal year from April 2006 to

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<sup>54</sup> From the interview

March 2007 targeting the same level of amount as we have provided for this fiscal year.<sup>55</sup>

### 3.2. *Aid-Liberalism*

Aid-liberalism stresses the importance of inter-dependence. National interest is identified in *long-term and relative gains*. Aid is used strategically to secure natural resources offshore or foster the recipient market. Based on these thoughts, loan resumption can be interpreted as below.

***Explanation 3:*** In term of inter-dependence, Japan would gain economic interest in the future by fostering and accelerating Cambodian integration to ASEAN region, which is one of Japan's most important economic partners.

The amount of loan in 1999 was too small to achieve any definite national interest or negotiating powers. With this scale, it is difficult for Japan to expect any economic profit or gains from projects in Cambodia alone either. Rather, Japan is expecting a relative gains spring from synthesized effect of projects in Mekong region as a whole, an effect that would lead to faster integration and economic activation within the region. For aid-liberalism, Japan's purpose is to foster potential market offshore. By contributing to economic prosperity of Mekong sub-region and South-East Asian region, Japan would gain negotiation power against the region in the future. This purpose is fully verified in "Japan's Assistance Policy to Cambodia":

From the viewpoint of raising the overall economic level of ASEAN in the context of globalization, the significance of Japan's assistance to Cambodia should be emphasized. For ASEAN, the greatest constraints in moving forward with its economic integration such as the abolition of tariff barriers prescribed by AFTA are the continued economic gaps existing within the ASEAN region. Cambodia, as a member of ASEAN and weakened by its long period of internal turmoil, is burdened with a large number of development needs and a marked economic handicap. The effects of assistance for the

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<sup>55</sup> The statement by the Government of Japan, For the donor pledge session, On the occasion of Consultative Group Meeting for Cambodia, March 2-3, 2006  
[http://www.cdc-crdb.gov.kh/cdc/8cg\\_meeting/session4/japan\\_statement.htm](http://www.cdc-crdb.gov.kh/cdc/8cg_meeting/session4/japan_statement.htm)  
(Last accessed August 2007)



rehabilitation and development of Cambodia do not stop within the borders of the country alone but also greatly contribute to the development of the Mekong sub-region, which is a priority issue for ASEAN, and for the long-term activation of the ASEAN economy as a whole. This assistance will provide the Japanese economy with benefits as well.<sup>56</sup>

With the same reasons, it is not surprised that loans to Cambodia are often made public in major ASEAN events. For example, loan resumption was decided in February 1999 during the CG Meeting in Tokyo, but loan agreement itself was signed in September after Cambodia's accession to ASEAN in April 1999.<sup>57</sup> "*Sihanoukville Port Urgent Expansion Project*" and "*Greater Mekong Telecommunication Backbone Network Project* (Cambodia Growth Corridor)" are both publicized during ASEAN-related events.

"Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) today signed an ODA loan agreement totaling 4.313 billion yen for the *Sihanoukville Port Urgent Expansion Project* with the Royal Government of Cambodia. The loan had been pledged by Prime Minister Junichiro Koizumi to Cambodian Prime Minister Hun Sen at the ASEAN-Japan Commemorative Summit in December 2003."<sup>58</sup>

"Japan has been increasingly involved in the Greater Mekong Sub-region in consideration of its importance. At the Japan-ASEAN Special Summit in December 2003, the Government of Japan announced an assistance of US\$1.5 billion for the development of the Greater Mekong Sub-region, and

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<sup>56</sup> Japan's Assistance Policy to Cambodia,  
[http://www.mofa.go.jp/mofaj/gaiko/oda/kunibetsu/enjyo/cambodia\\_h.html#3-1](http://www.mofa.go.jp/mofaj/gaiko/oda/kunibetsu/enjyo/cambodia_h.html#3-1)  
(last accessed December 19, 2006)

<sup>57</sup> Excerpt from Prime Minister's homepage, "Prime Minister Obuchi's Activities in February 26": Prime Minister Obuchi met with Prime Minister Hun Sen, who had arrived in Japan since February 23 to attend the Cambodian Consultative Group Meeting organized by World Bank. PM Obuchi expressed Japan's need to strengthen economic assistance in Asia in order to facilitate Japan's economic revival. And PM Hun Sen thanked Japanese Government for deciding to resume loan to Cambodia.

[http://www.kantei.go.jp/jp/obutiphoto/99\\_0216/02262.html](http://www.kantei.go.jp/jp/obutiphoto/99_0216/02262.html)  
(last accessed December 19, 2006)

<sup>58</sup> JBIC News Release 2004-43, November 26, 2004  
<http://www.jbic.go.jp/autocontents/japanese/news/2004/000104/index.htm>  
(Last accessed December 19, 2006)

during the ASEAN + 3 Summit in November 2004, Prime Minister Koizumi expressed to the leaders of Cambodia and Lao PDR an intention to provide ODA loans for the Greater Mekong Sub-region. The signing of the two ODA loan agreements at this occasion was an outgrowth of these developments."<sup>59</sup>

Broadly speaking, giving priorities to East Asian and Southeast Asian regions is already the very act based on aid-liberalism.

The East Asian and Southeast Asian regions not only have historically had close relationship with Japan as neighboring countries but also are in interdependent political and economic relationships with Japan. In recent years, moves are being made toward economic partnership agreements (EPAs), centering on free trade agreements (FTAs). The width and depth of interdependency has thus grown. Amidst such development, Japanese ODA loans support economic expansions of the region and play a significant role in its development. In the coming years, we will provide intellectual cooperation and technical support by actively capitalizing on the experience and knowledge of Japan, and hold policy dialogues with individual developing country, starting with planning and all the way to implementation of development policies, in addition to providing fund assistance so as to effectively implement yen loan projects. By so doing, we will contribute to the realization of sustained growth in the entire region and strengthening of Japan's relationship with the region. With a population of 250 million, the Mekong area within this region holds great potential for development. Emphasis of Japanese ODA loans will be on assistance that has wide area implications to contribute to the reduction of poverty and sustained growth of the Mekong area, and assistance that helps to eliminate economic disparity.<sup>60</sup>

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<sup>59</sup> JBIC News Release 2004-72, March 29, 2005

<http://www.jbic.go.jp/autocontents/japanese/news/2005/000033/index.htm>

(Last accessed December 19, 2006)

<sup>60</sup> "Basic Strategy of Japan's ODA Loan: Mid-term Strategy for Oversea Economic Cooperation Operations", April, 2005, JBIC, pp. 16-17

### 3.3. *Aid-Idealism*

For aid-idealism, national interest doesn't come at the first place. This group thinks that aid should serve the interest of recipient country and donors' national interest is just a result after the development or peace in the recipient states. Here, national interest can be identified based on ideal concepts such as democracy, humanitarianism or pacifism. According to aid-idealism, loan resumption can be interpreted as follows.

***Explanation 4 :*** Loan resumption is seen as a tool to cement the stability roots through economic activation. The act is part of the peace-building process in Cambodia that Japan has participated so far.

This is to explain that Japan puts priority on peace and stability in Cambodia, which are strongly connected with regional stability. Loan resumption is an alternative to strengthen peace and stability's roots in Cambodia through economic activation. By helping build peace in Cambodia, Japan could strengthen her image of "pacifism" and could expect close bilateral relations from counterpart. This is national interest achieved in aid-idealism. This explanation can be verified in "Japan's Assistance Policy for Cambodia".

Japan's assistance to Cambodia, a country that experienced over twenty years of civil war and political unrest since the 1970s and is now earnestly struggling to rebuild itself as a nation, is instrumental in preventing Cambodia from slipping back into political instability. This assistance greatly contributes to peace and stability in Asia, a region of vital importance for Japan's diplomacy. Japan's position has been to actively expand its diplomatic efforts to help lead the international community in support of the restoration of peace in Cambodia. Japan's first dispatch of PKO personnel in 1992 and its positive contributions to the Consultative Group meetings for Cambodia are the examples of Japan's efforts in this regard..... The Government and the people of Cambodia have expressed their appreciation for Japan's assistance and as a result have strongly supported Japan's policies in international venues. On various levels and occasions, close ties of friendship

have taken root between Japan and Cambodia.<sup>61</sup>

Aid-idealism does not concern much about national interest. Thus, loan resumption, according to this group, bears less political/diplomatic purpose and the main reason to this resumption was merely technical since Sihanoukville port, which is an important window to economic activities, was in urgent need to rehabilitate after a long time. Thus the development of the port was important to the development of Cambodia and had little to do with Japan's diplomatic gain or Cambodia's politics. For instance, just two months after the political armed clash, in September 1997 Oversea Economic Cooperation Funds (OECF), the former body to JBIC, organized "ODA Loan Seminar", which was also participated by Cambodian trainees.<sup>62</sup> This fact proved that loan resumption process had little to do with Cambodia's political climate in that period, which had brought about an economic slow down and minus effect to Cambodia's credit in receiving loan. One JBIC official supported this thought as follows:

"It is true that Cambodian economic growth was low after the armed clash. However, the importance of Sihanoukville Port and the urgency of its rehabilitation was enough to push the project forward even immediately after the armed clash. JBIC is not a diplomatic institution and our concern is to consider and evaluate project's validity, whether the project has enough priority, and would bring economic and social development to the country from the professional aspects."<sup>63</sup>

**Explanation 5:** To restore international society's trust toward Cambodia. (from the interview)

After the political armed clash in 1997, Cambodia has lost trust from international community in both political and economic term. However, providing loan implies that Japan recognized Cambodia politically and trusted the latter on her economic management. By doing so, Japan helps Cambodia to retrieve trust from international community, and in the long term could expect close bilateral relations.

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<sup>61</sup> "Japan's Assistance Policy for Cambodia"

[http://www.mofa.go.jp/mofaj/gaiko/oda/kunibetsu/enjyo/cambodia\\_h.html#3-1](http://www.mofa.go.jp/mofaj/gaiko/oda/kunibetsu/enjyo/cambodia_h.html#3-1)  
(last accessed December 19, 2006)

<sup>62</sup> OECF, Press Release: September 08, 1997

<sup>63</sup> From the interview

As have shown in loan criteria, country's debt service capability is crucial for loan provision. Thus without enough debt service capability, Japan would not have provided loan to Cambodia either. According to the interview, it is said that Japan actually had suggested loan to Cambodia in order to promote the latter's status internationally. Loan provision here had exactly a contrast effect to loan cancellation from IMF in 1996 as it had provided Cambodia with a stronger credit on financial arena abroad.

Above, I have explored the reasons behind political concession made in loan resumption by analyzing them from political and diplomatic aspects through three different lens. There are explanations that cannot be verified, however, we clearly could see how dynamic Japanese aid diplomacy is, a diplomacy that could influence domestic politics, a diplomacy that can reach out beyond bilateral relations to regional order through its strategic characteristics.

## Chapter 4: Aid and Japan-Cambodia Bilateral Relations

Japanese and Cambodian governments have decided to take January 9, 1953 as the official day of the establishment of bilateral diplomatic relations of the two countries. This is rather strange because during this period Cambodia was still under the French colony. However, both Japan and Cambodia officially decided to choose this date because this was the date when the French Ambassador wrote a formal letter to the Japanese Foreign Minister Okazaki to inform the latter that the three Indochinese countries—Cambodia, Laos, and Vietnam—have responded positively to Japan's intention to establish diplomatic relations with them, and that the French government is pleased with the establishment of formal relations between Japan and the three countries. Thus, this letter was regarded as the formal expression from the government of Cambodia to establish ties with Japan.<sup>64</sup>

This chapter attempts to organize the history of bilateral relations from the point of view of aid. It will also decide the historical characteristics of loan resumption by making comparison of the bilateral relations in every Cambodian regime since Japan started providing aid to Cambodia.

There is no discussion that being a top donor has a lot of diplomatic implications and it is true that the scale of aid can explain how important the bilateral relations are. For instance, Japan puts Cambodia as one of the prioritized countries since Japan did not cut aid to Cambodia despite drastic aid cut in an effort to reform ODA starting from the late 1990s. However, this assumption is just partly true because aid concerns a lot with political as well as economic environment of both donor and recipient countries. For example, during the 60s, Japan's aid was relatively low, however, this does not imply that the bilateral relations were not significant. In fact, the relations were good considering the scale of trade and diplomatic recognition both states offer toward each other amid heating Cold War. Another example is bilateral relations during the 70s. In this period, Cambodia enjoyed good relations with Japan since both countries were in the same ideological block. However, due to social unrest, aid relations were restricted to the minimum. Thus, the scale of aid

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<sup>64</sup> "Nihon-kanbojia kankei ryaku shi" (Concise History of Japan-Cambodia Relations), Homepage of the Embassy of Japan in Cambodia, <http://www.kh.emb-japan.go.jp/political/nikokukan/history.htm>, last access December 2007

alone cannot always fully explain bilateral relations.

Taking the above-mentioned point into consideration, despite taking aid as the core comparison tool, in this chapter, I will also seek to understand the environment where aid is being given by observing diplomatic/political relations and economic relations as well.

Below I will divide the history of bilateral relations into three main periods, and then will go further to consider about each administration. Those three periods are, "1<sup>st</sup> Period: The Start of Aid and Early Cold War" (1959-1975), "2<sup>nd</sup> Period: The Suspension of Aid" (1975-1992), and "3<sup>rd</sup> Period: Aid Resumption and Present Relations" (1992-Present).

## *4.1. The First Period: The Start of Aid and Early Cold War (1959-1975)*

### *4.1.1. Prince Sihanouk's Administration (1954-1970): Early Aid as Sub-reparation<sup>65</sup>*

There were three particularities in the Japan-Cambodia bilateral relations in these early years. First, different from relations with other Asian countries, Japan-Cambodia bilateral relations were not clouded by WWII legacy because Cambodia renounced her right to claim war reparation and Prime Minister Nobusuke Kishi was warmly welcomed during his official visit to Cambodia. Second, relations were not totally restricted by the U.S.'s influence because Japan recognized Cambodian border and territorial integrity during the time the U.S.-Cambodian bilateral relations were cut off. Third, Japanese economic diplomacy was being pursued in a separate manner from political diplomacy. I will look more in depth on these three particularities as in the following.

#### *Aid Relations*

Japan began aid to Cambodia simultaneously with other Asian countries as post-World War II sub-reparation. However, "in order to celebrate the full independence from France after 90 years of colonization, on November 27, 1954, the then Prince Norodom Sihanouk renounced the right to claim reparation for the

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<sup>65</sup> Sub-reparation refers to aid Japan provided for countries who renounced their rights to demand post-war reparation. Thus sub-reparation has the characteristics both as reparation and economic cooperation.

damages caused by Japanese army during Asia-Pacific War." <sup>66</sup>

After receiving this notice, Japan thanked Cambodia and the two countries had signed "Japan-Cambodia Friendship Treaty" by Prince Sihanouk and Japanese Foreign Minister Shigemitsu Mamoru on December 9, 1955. The treaty aimed to promote economic, financial, technical and cultural cooperation, and also promised economic/technical assistance to Cambodia. Taking the opportunity of official visit by Prime Minister Kishi Nobusuke, on November 21, 1957, both countries exchanged diplomatic notes concerning "Japan-Cambodia Economic and Technical Cooperation Agreement". Later this Agreement was finally signed in Phnom Penh on March 2, 1959 and entered into force on July 6. Based on this agreement, Japan had provided products and services at the amount of 1.5 billion yen (approximately equaled to USD 4.17 million then) as grant (sub-reparation). Grant aid ended on July 5, 1966 but Japan also provided 1.5 billion yen loan for Prek Thnot dam construction in 1968. Total grant and loan was the lowest in South-east Asia -- Laos received 1 billion yen in grant and 5.2 billion yen in loan.<sup>67</sup> Main projects then were Prek Thnot Dam construction project and technical assistance to three sectors, agriculture, animal husbandry and health care.

### *Diplomatic/Political Relations*

In diplomatic aspect, two points deserve to be noticed. Firstly, Japanese diplomacy toward Cambodia is different from the traditional ways mostly done to other Asian countries. Generally, those policies are based on the past war responsibility and reparation. Secondly, unlike traditional relations with other Asian countries, which are normally being pursued in a way that goes along well with regard to Japan-U.S. relations, this aspect was not prominent in Japan-Cambodia relations.

Different from relations with other Asian countries, Japan-Cambodia bilateral relations were not clouded from WWII legacy. Prime Minister Kishi's official visit was warmly welcomed by Cambodia. By reading the "Diplomatic Bluebook 1957", one could easily figure out that out of the countries that Kishi visited in 1957<sup>68</sup>, the

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<sup>66</sup> Nagano Shin-ichiro & Kondo Masaomi, *Nihon no Sengo Baisho: Ajia Keizai Kyoryoku no Shuppatsu (Japan's Post-War Reparation: The Starting Point of Economic Cooperation to Asia)*, Keiso Shobo, 1999, pp. 114-121

<sup>67</sup> Ibid.

<sup>68</sup> Those countries included Vietnam, Cambodia, Laos, Malaysia, Indonesia, Australia, New Zealand, the Philippines and Singapore. The visit lasted nearly three weeks. See "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 32 (1957), pp. 70



welcoming of the Japanese delegation by Cambodian government was the most attentively prepared and enthusiastically decorated.

(After visiting Vietnam) Prime Minister Kishi, provided with two royal Cambodian aircrafts, arrived in Phnom Penh on November 21 as schedule. Prime Minister Kishi's delegation was welcomed by Cambodian government as well as Cambodian people as if the whole country was welcoming the delegation. Both during the arrival and departure, every street in the city were decorated with flags of both countries, arch as well as banners in both languages. Thousands of pupils, citizens, and youth filled the streets and waved small flags in their hands. At the airport, (Cambodian) prime minister, the royal court's officials, government's high ranking officials as well as diplomatic corps gathered to welcome the delegation.<sup>69</sup>

Cambodia's renunciation of rights to post-war reparation was more than expected for Japan who was in desperate need to rehabilitate the country after the war, while at the same time was struggling to restore trust from other Asian nations.

In May 1965, Cambodia cut off her relations with the U.S. while adhering to the principle of non-alignment.<sup>70</sup> Considering the crucial importance of Japan-America Alliance, Japan could turn the relationship with Cambodia cold. And likewise, it is also possible to assume that Cambodia was reluctant to deepen bilateral relations with Japan. For instance, during the 1960s, retrieving her economic strength, Japan had carried out active aid diplomacy in South-East Asia as a mean to foster exporting market and secure offshore natural resources and had initiated "Ministerial-level Meeting on South-East Asia Development" in 1966.<sup>71</sup> However, Cambodia reservedly participated as observer due to her principle of non-alignment.

Despite these restraints, both countries took bold diplomatic step in other serious matter. On September 16, 1968, while U.S.-Cambodian bilateral relations were still cut off, Japan answered positively to Cambodian request by offering recognition to the latter's "Territory Integrity within the Present Border", which was the most

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<sup>69</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 32 (1957), pp. 17

<sup>70</sup> Ibid.

<sup>71</sup> Iokibe Makoto (Ed.), *Sengo Nihon Gaiko Shi (History of Japan's Post-war Diplomacy)*, Yuhikaku Aruma, 2000, pp. 130-134

important diplomatic goal of Cambodia, who was trying to secure her newly achieved independence and security. <sup>72</sup> The U.S. recognized Cambodian border later in April 1969, and as a result, bilateral relations were restored after 3 years of break-off. <sup>73</sup>

In a sense, this bold step taken by Japan proved that Japan-Cambodia bilateral relations were not totally restricted by U.S.'s influence.

### *Economic Relations*

Another important point in the post-war Japanese diplomacy is that one should consider economic and political relations separately. Politically, due to ideological divide, at some point, reluctance to interact actively could be seen from both countries. On the contrary, economic relations were stable. For instance, even during the suspension of U.S.-Cambodian bilateral, Japan-Cambodia trade agreements were being made every year since 1960 to extend duration of the agreement.<sup>74</sup> Based on this agreement, Japan could import products to Cambodia with taxation rate lower than the reverse case. And due to this trade imbalance, sometimes, for instance in 1967, extension was failed. However, bilateral trade enjoyed gradual growth each year as being shown in the following table.<sup>75</sup>

Year \ Item	1966	1967	1968	1969
Total Trade	19.50	22.41	26.83	30.83
Export	12.00	15.34	20.28	23.50
Import	7.49	7.07	6.55	7.33

Source: "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 43-44 (1968-1969)

Aid relations were relatively small but overall relations were stable and warm.

<sup>72</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 43 (1968), pp. 26-27

<sup>73</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 44 (1969), pp. 100

<sup>74</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 40 (1965), pp. 203

<sup>75</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 43 (1968), pp. 27

Overcoming ideological wall, Japan recognized Cambodian border despite the U.S.'s existence and economic relations were being pursued in another different level without any interference from political bias. Based on circumstance then—Cambodia had just gained independence and Japan had just lost war—both countries were perfect match for they were both struggling to gain recognition and normal relations. This mutual benefit was the main reason why positive and stable relations could be built at the first place beyond Cold War restraint.

#### 4.1.2. *Lon Nol's Administration: Cambodia in the Western Bloc (1970-1975)*

##### *Diplomatic/Political Relations*

On March 18, 1970 Sihanouk's administration was toppled by coup d'etat led by General Lon Nol, who had introduced republican government to the country. While stating the will to pursue the policy of non-alignment, this administration had strengthened ties with the U.S. and had strongly supported the latter's military strategies. This showed the strong identity as a western bloc.

Sihanouk, unable to return to the country, created National United Front of Kampuchea (FUNK) in Beijing on 23 March 1970 and had appealed for resistance against Lon Nol's administration. Later, he had joined force with local resistance namely Khieu Samphan and Ieng Sary to form Royal Government of National Union of Kampuchea (GRUNK) in May of the same year.<sup>76</sup>

With Lon Nol's weak government and resistance from Prince Sihanouk's faction, Cambodia had plunged into civil war—a proxy war fought based on ideological divide. "Communist army guerilla had attacked important routes and government strongholds, and had multiplied their terrorist activities inside major cities including Phnom Penh such as attacking Phnom Penh airport in 1971 and bombing government compounds."<sup>77</sup> Domestic stability further deteriorated as the Cold War within the region heated up.

As for diplomatic relations, "the U.S. immediately recognized Lon Nol's government on 20 March 1970—three days after the coup d'état. On April 30, the U.S. started military strategies within Cambodia territory and on August 28 Vice President Spiro T. Agnew visited the country. As a member of the Western bloc,

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<sup>76</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 50 (1975), pp. 82-83

<sup>77</sup> Ibid.

Japan, whose diplomatic principle based on U.S.-Japan military alliance, gave de facto recognition to Lon Nol's administration by continuing diplomatic ties with Cambodia after the Khmer Republic was established."<sup>78</sup>

Japan diplomatic focus in this period was how to prevent Indochinese war from deteriorating and had shown proactive diplomatic actions. For instance, "Japan joined foreign ministers' meeting in Jakarta on 16-17 May 1970 to discuss about emergency situation in Cambodia and had made a joint declaration to pursue to the utmost peaceful means in dealing with conflicts. In this meeting, representatives from the three countries—Japan, Indonesia and Malaysia—decided to visit countries concerned as to push forward for conflict resolutions."<sup>79</sup>

### *Aid Relations*

It is widely known that Lon Nol's administration belonged to Western bloc. It is thus right to assume that inter-relations with Japan would bolster beyond the 60s. However this was not the case as Cambodia was facing severe turmoil domestically and thus aid activities were physically restrained. The Prek Thnot dam construction, using Japanese loan, was halted due to attacks from communist resistance.

There was increase in number of grant compared to that of the 60s, however abundant share was poured into refugee relief instead of development assistance. It is worth to remind that Indochinese war had brought about increase of refugees, and eventually had caused Japan headache since Japan is not a country that is willing to accommodate refugees. Thus Japanese grant aid can be interpreted as a means to prevent this outflow of war refugees.

"Deteriorating war in Cambodia had caused a significant increase of refugees. Considering this unfortunate situation, Japanese Red Cross had provided assistance in goods twice to help refugees through Cambodian Red Cross costing totally USD 3.7 million. Moreover, damaging transportation networks and bad weather had also caused food shortage, and with this reason, Japan had responded to the Cambodian government's request by providing rice—grant aid—several times."<sup>80</sup>

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<sup>78</sup> Imagawa Yukio, *Kanbojia to Nihon (Cambodia and Japan)*, Rengoshuppankan, 2000, pp. 40-41

<sup>79</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 46 (1971), pp. 111

<sup>80</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 46 (1971), pp. 111

Table 8: Japan's Aid to Cambodia during the 1 <sup>st</sup> Period (Unit: Million Yen)		
Loan	Grant	Technical Assistance
1,517	2,638	1,663
1968: The Prek Thnot (Cambodia) Power and Irrigation Development Project	1969: Grant Aid to Support the Prek Thnot (Cambodia) Power and Irrigation Development Project (1,517)	-Trainees 443 p
	1970: 2 River Ferries (100)	-Experts 195 p
	1970: Food Assistance (108)	-Study Teams 98 p
	1972: Food Assistance (246)	-Volunteers 16 p
	1972: Phnom Penh Public Bus (57)	-Machine Donation 474 mil yen
	1972: Refugee Shelter Construction Materials (223)	-Technologies for Projects 5 Projects
	1973: Food Assistance (386)	-Development Study 7 projects

Source: ODA Hakusho (Diplomatic White Book), 1989, pp. 55

Due to internal turmoil and security problems, assistance activities to Cambodia were restricted to technical assistance through the form of acceptance of trainees. Cooperating fields were agriculture, transportation, post and administrative etc. There were 31, 40 and 51 trainees in year 1971, 1972 and 1973 respectively. On the other hand, number of experts dispatched was limited to the minimum.

To support Cambodia's weakening productivity, other forms of economic packages beside ODA were also provided by Japan along with other countries from the Western bloc.

In October 1971, Republican government had adopted flexible exchange system and launched new economic policies to restore the country's economy. Moreover in March 1972, IMF as well as other friendly countries had established Exchange Support Fund (ESF) in order to secure the import of everyday life necessities and the stabilization of the people's livelihood. Japan had contributed USD 5 million in 1972, and USD 7 million in 1973 and 1974 to the Fund.<sup>81</sup>

<sup>81</sup> "Wa ga Gaiko no Kinkyō" (Our Country's Current Diplomatic Situation), Showa 50

Table 9: Contribution to Exchange Stabilization Fund by country (thousand dollars)		
Country	1972	1973
Cambodia	15,000	8,500
U.S.	12,500	17,500
Japan	5,000	7,000
Australia	1,000	1,000
U.K.	520	514
Thailand	250	250
New Zealand	120	120
Malaysia	100	10
Total	34,490	34,894
Source: "Wa ga Gaiko no Kinkyō" ( <i>Our Country's Current Diplomatic Situation</i> ), Showa 49 (1974), pp. 263		

Despite significant assistance, Republican government's vulnerability and growing strength of the anti-government group made the collapse of this government inevitable.

"Amid soaring inflation, by 1974, productivity was reduced due to the war. The government's budget became bankrupt as the country poured the budget into military spending. The estimated number of refugees reached 2 million, which made the problem become even worse. In 1975, anti-government group sealed off the Mekong river, and thus had cut off the government's route of supply. These economic aspects were another stimulus to the collapse of the Republican government."<sup>82</sup>

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(1975), pp. 85

<sup>82</sup> Ibid.

## Economic Relations

In earlier years, Japan and Cambodia managed to extend the period of bilateral trade agreement despite the trade imbalance problem. However, the period witnessed the slow down of bilateral trade.

“Due to Cambodia's deteriorating situation after March 1970's political incident, there was not any Japanese ship calling on Cambodian port. Moreover, as the export insurance had been ceased, the amount of bilateral trade reduced significantly. Japan's export to Cambodia in 1970—by October—was USD 9.37 million and the import was USD 5.625 million, which was equaled to 46% and 10% decrease of export and import respectively compared to the same period in 1969.”<sup>83</sup>

Item \ Year	1969	1970	1971	1972	1973	1974
Total Trade	30,836	16,775	14,070	13,080	12,520	5,850
Export to Cambodia	23,503	10,784	11,840	11,200	10,240	3,400
Import from Cambodia	7,333	5,991	2,230	1,880	2,280	2,450

Source: “*Wa ga Gaiko no Kinkyō*” (*Our Country's Current Diplomatic Situation*), Showa 46 (1971), pp. 481; Showa 47 (1972), pp.123; Showa 49 (1974), pp. 264; Showa 50 (1975), pp. 85

Since the Republican government shared the same ideological ideal with the Western block, Japan-Cambodia bilateral relations were expected to flourish and Japan had, in fact, done a great effort to support this government both politically and economically. Unfortunately, the influence from Vietnam War and Cambodia's civil war had curbed both countries' efforts to nourish bilateral relations. Thus, despite the absence of ideological boundaries, bilateral relations during this period were relatively under-nourished comparing to those under the Prince Sihanouk's administration.

<sup>83</sup> “*Wa ga Gaiko no Kinkyō*” (*Our Country's Current Diplomatic Situation*), Showa 46 (1971), pp. 112

## 4.2. *The Second Period: Aid Interruption Period (1975—1992)*

### 4.2.1. *Pol Pot's Administration (1975 - 1979)*

#### *Diplomatic/Political Relations*

On January 1, 1975, GRUNK had started the overall attack on Phnom Penh and took control over the capital on April 17 of the same year. In January 1976, this new government promulgated a new constitution, which laid out the abolishment of the monarchy, nationalization of major production means, collective labor, etc., all of which were to establish the socialist regime named "Democratic Kampuchea".<sup>84</sup> In April 1976, head of state Prince Sihanouk, together with Penn Nouth's cabinet, accepted resignation, and former deputy prime minister Khieu Samphan became head of state, new face Noun Chea became president of the parliament, and new face Pol Pot became prime minister of the new administration.<sup>85</sup> The administration had imposed excessive labor on its people. At the beginning, only the intellectuals were targets of murder, but gradually massacre spread out all over the country and within 4 years, the regime took away more than one million Cambodian lives including those who were dead due to excess labor and famine.

On diplomatic field, the regime closed its door to any relations except a dozen of communist friends and thus the real situation in Cambodia was beyond reached to the outside world. As for relations with Japan, without any concrete information, on April 19, 1975, soon after the collapse of Lon Nol's administration, Tokyo government had approved recognition of GRUNK and had conveyed this to GRUNK at Beijing. The GRUNK did not response until September 20—five months after the notice from Tokyo. This was a cautious move by GRUNK who was suspicious of Japan that once was pro-American and pro-Lon Nol. Diplomatic relations were restored on August 2, 1976, but Japan did not consider the re-opening of her embassy. Instead, Japan added a concurrent post to her ambassador to China and had him served as

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<sup>84</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 51 (1976), pp. 98

<sup>85</sup> "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 52 (1977), pp.94-95



ambassador to Cambodia as well.<sup>86</sup>

Despite the normalization of relations in 1976, exchange of official visits was almost none. Record showed that Deputy Prime Minister Ieng Sary visited Japan a few times and the then ambassador to China and Cambodia Masaji Sato visited Cambodia only once to present the letter of credence on September 2, 1978. After the visit, officials from the Japan's Ministry of Foreign Affairs were quoted on the newspaper on September 13 as saying that:

"At the present time, Pol Pot's administration is stable. Khmer Rouge's stance toward Vietnam is extremely strict and firm but they are strongly interested in South-East Asia, are pursuing the non-alignment, are expecting friendship with Thailand, and are expecting strongly Japanese economic cooperation." Moreover one of the delegates visited Cambodia expressed impression that, "under the Khmer Rouge, Cambodia is struggling her best to build the country, and the city was so quiet and beautiful that one can never think that this country is in fact fighting a war with Vietnam."<sup>87</sup>

The words such as "cleansing" of intellectuals, Lon Nol's officials and military, and "mass refugees" firstly appeared in "Diplomatic Bluebook 1977"<sup>88</sup>. Being the member of Western bloc, one finds it hard to understand why Japan made such great efforts to normalize relationship with the hermit socialist government and even to project good image of the regime to Japanese public through the media as mentioned above amid reports of "cleansing" and mass killing.

If we look at international situation then, late 70s witnessed the decline of détente and Cold War was again being heated up. To face these abrupt changes, Japan took the so-called "omni-directional peace diplomacy" (*zenhoui heiwa gaikou*), promoted by Prime Minister Fukuda, in order to maintain or save cooperative relations she tried to build during détente period. In South-east Asia, Prime Minister Fukuda used the word "heart-to-heart" to stress the importance and depth of friendship relations. This approach later became known as Fukuda Doctrine. According to Iokibe Makoto, the approach confirmed the following points: 1. Japan

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<sup>86</sup> Imagawa Yukio, *Kanbojia to Nihon (Cambodia and Japan)*, Rengoshuppankan, 2000, pp. 44-45

<sup>87</sup> Ibid., pp. 46-47

<sup>88</sup> See "Wa ga Gaiko no Kinkyō" (*Our Country's Current Diplomatic Situation*), Showa 52 (1977), pp. 94-95

will not become a military power; 2. Relations with South-east Asian countries will be built based on “heart-to-heart relations of mutual trust”, not only of economic and political fields but also of social and cultural; 3. Japan will cooperate actively with ASEAN countries as equal partners in their efforts to link each other and to strengthen community, and will work to build relations of mutual understanding with Indochinese countries, and eventually will contribute to peace and prosperity of the whole region. This approach meant to review previous relations which focused only on economics, and to build a cooperative international order within South-east Asia region after the Vietnam War.<sup>89</sup>

Thus, Japanese approach to bind ties with Democratic Kampuchea could be seen as a part of comprehensive efforts to build the peaceful diplomacy toward all nations in Southeast Asia, especially the Indochinese countries after the end of Vietnam War in the expectation of gaining new friends within the region, and to extend the already-built cooperative relations in the region beyond economic aspects.

### *Economic and Aid Relations*

In this period, trade with Japan was almost nonexistent. After the normalization of bilateral relations, in 1977, there was recovery of small scale import from Japan such as the import of light industry machineries and some raw materials. In that year, Cambodia's import from Japan amounted to USD 3.91 million and export amounted to USD 0.456 million.<sup>90</sup> Aid relations were none.

### *4.2.2. People's Republic of Kampuchea and State of Cambodia (1979 - 1992)*

#### *Diplomatic/Political Relations*

With support from Vietnam, Kampuchean National United Front for National Salvation (FUNSK) toppled the notorious genocide regime of Democratic Kampuchea and established the People's Republic of Kampuchea—Heng Samrin's administration, as being called in Japanese Diplomatic Bluebook. Liberalization from the dark regime of Democratic Kampuchea, who had demolished totally the

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<sup>89</sup> Iokibe Makoto (Ed.), *Sengo Nihon Gaiko Shi (History of Japan's Post-war Diplomacy)*, Yuhikaku Aruma, 2000, pp. 173-174

<sup>90</sup> “*Wa ga Gaiko no Kinkyō*” (*Our Country's Current Diplomatic Situation*), Showa 53 (1978), pp. 80

country's infrastructure as well as her people, equally meant that the new government had to rebuild everything from zero. Cambodia had to depend totally on Vietnam's assistance at the beginning, and the Soviet as well as other socialist countries' assistance came later.

"The government took great pain in the resettlement of people to their hometowns, in resuming schools, hospitals, some factories, post and telecommunication, in forming the civilian army, putting in operation railroads and ports as well as administrative organization. They were totally depended upon Vietnam in every field, military, administrative and economic."<sup>91</sup>

In this regard, what was Japanese reaction toward this new government? Japan considered Vietnamese military intervention as a breach against principles of the international society. Hence, she did not recognize Heng Samrin's administration and instead maintained diplomatic relations with Democratic Kampuchea. Democratic Kampuchea later, in 1982, formed the anti-Vietnamese faction called "Coalition Government of Democratic Kampuchea" with two other groups, Prince Sihanouk's and former Prime Minister Son San's. Like other ASEAN's countries, Japan still maintained the consistency of her policy by supporting the anti-Vietnamese government.

"We consistently felt regrettable in regard with the involvement of foreign troops, and we called for an immediate total withdrawal of the troops. We totally support the ASEAN's stance toward this matter, and we pursue this stance as was proved by our diplomatic efforts during the Japan-ASEAN Foreign Ministers' Meeting. We were also the member countries that proposed the ASEAN's resolutions during the United Nations' General Assembly. Along side with ASEAN countries as well as international public opinion, we proposed Vietnam the withdrawal from Cambodia, and called for effort to prevent the spread of war damage into Thailand."<sup>92</sup>

With growing awareness of the genocide and atrocity conducted by Democratic Kampuchea, some Western bloc countries ceased to recognize the

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<sup>91</sup> "Gaiko Seisho" (*Diplomatic Bluebook*), 1980, pp. 87

<sup>92</sup> "Gaiko Seisho" (*Diplomatic Bluebook*), 1980, pp. 20

regime. For instance, United Kingdom and Australia had pull out their recognition from Democratic Kampuchea on December 1979, and on February 1981 respectively. Nevertheless, Japan committed to support Democratic Kampuchea, and along side with ASEAN countries had further shown diplomatic efforts to secure the seat at the UN for Democratic Kampuchea.

“The government of Democratic Kampuchea had tried their best to secure support through back channels. With our support and ASEAN countries', among others, (eventually), this government continued to secure their seat following the UN's general assembly in October 1980.”<sup>93</sup>

One point of consistency can be drawn from Japanese diplomatic conduct, if we looked at both Japanese recognitions on Lon Nol and Pol Pot's administration. From the examples, we understand that Japan would grant diplomatic recognition to whomever who took *de facto* control of Phnom Penh despite her relations with previous government, or the fact that she did not have clear information of the next government. However, Japan reacted differently toward Heng Samrin's government provided that the latter's control involved Vietnamese military intervention, which was seen internationally as an act of invasion.

Soon Pol Pot was ousted, every Cambodians, needless to say, considered the Vietnamese act as humanitarian intervention or “liberation”.<sup>94</sup> Thus Cambodian felt that they were being forgotten and had to face the severely cold reaction/sanction, from international community. Cambodian's sense of freedom and liberty was punished and ignored by the international community, including Japan, and the sense of isolation loomed amid anxious desire to survive on the ruins of genocide and destruction.

The rationale of Japanese diplomacy then was to stick with ASEAN countries taking firm stance against Vietnam. Despite being rather cold toward Cambodians, who were struggling for survival and recognition, Japan's consistency of diplomacy--always supportive of ASEAN's stance--was to bring about later a memorable “legacy of peace diplomacy” in Japanese post-war history. Japan treated Cambodian issues as crucial to regional peace and security considering the effects the issues might spread into Southeast Asian region.

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<sup>93</sup> “*Gaiko Seisho*” (*Diplomatic Bluebook*), 1981, pp. 90

<sup>94</sup> These days Cambodian perception toward Vietnam's action in 1979 are divided as some consider it as “liberation” and other as “invasion”. Despite the difference, everyone share the same ground that Pol Pot's regime must be abolished.

“Cambodian issues are the closest regional conflict to us. The prolonging of these issues will also prolong the agony of Cambodian people as well as economic reconstruction of Indochina. We perceive the issues as the biggest obstacle to the region's peace and security. (In this regard), we consistently support ASEAN peaceful efforts toward the comprehensive political resolution, and continue political dialogue with Vietnam taking the more flexible stance. Moreover, we reiterate our intention to cooperate in the reconstruction of Indochina during the peace process and after the peace being attained.”<sup>95</sup>

Japan's attention to these issues had gradually developed into a pro-active conduct as Japan had dispatched officials to Phnom Penh for a fact-finding mission in 1990, and later initiated the “Tokyo Conference”, which were bold moves ever taken by Japan to mediate conflicts in her post-war history.

“In 1990, as a move to contribute to the settlement of Cambodian issue, and understanding the importance of grasping the real situation in the country, the Ministry of Foreign Affairs dispatched officials to Phnom Penh for the first time since the establishment of Heng Samrin's administration. This visit marked 12 years since Japanese officials last visited Cambodia. Besides, during the early 1990s, we have made various diplomatic efforts in mediating the issues, for instance we had tried to have political dialogues with China and Vietnam, and had chance to have informal meetings with Western bloc permanent members of the U.N. Security Council.

We hold that in order to attain peace at the earliest period, dialogues between Cambodians themselves are indispensable. For this reason, we cooperated closely with Thailand to put forward dialogue between Prince Sihanouk and Hun Sen, and eventually realized the Tokyo Conference on Cambodian Issues held on June 4 and 5. The realization of Tokyo conference, which was meant to find solution for the Third world country's regional conflict, was the first ever diplomatic effort of this kind in our history since WWII.”<sup>96</sup>

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<sup>95</sup> “*Gaiko Seisho*” (*Diplomatic Bluebook*), 1988, pp. 48

<sup>96</sup> “*Gaiko Seisho*” (*Diplomatic Bluebook*), 1990, pp. 45-46

From Ikeda Tadashi, Imagawa Yukio, and Kono Masaharu's books<sup>97</sup>, one can find details of how Tokyo maneuvering her pro-active diplomacy toward Cambodia from various perspectives that I find it unnecessary for me to re-describe the history. What I would like to add is the implications from this *"pro-active diplomacy"* (sekkyokuteki gaiko).

Japan had contributed significantly in achieving Paris Peace Agreements in 1991, as well as in realizing the UNTAC-supervised<sup>98</sup> general election in 1993, which was the first ever democratic, free and fair election in Cambodia. Japan's diplomatic legacy has helped bringing about the long-awaited peace to Cambodia. It was a great historical present extended by Japan to Cambodian people who suffered from endless civil strife. As for Japan, this success was not merely the proof of her pro-active diplomacy legacy, but it was a major force that had shifted the Japanese "blind pacifism" by offering a fresh new example of how Japan can contribute to peace settlement through both economic and human power.

"When the Gulf Crisis began in August 1990, in order to dispatch the self-defense force to back support the multinational troops in the Persian Gulf, Kaifu Toshiki's administration submitted "United Nations Peace Cooperation Bill" to the Diet. The bill was abolished in the following month. In September 1991, the administration proposed another bill called "United Nations Peace-keeping Operation Cooperation Bill" (PKO Cooperation Bill) to the diet. Miyazawa Kiichi's administration, in June 1992, managed to get the bill adopted amid an unprecedentedly severe and harsh battle on the Diet floor, and thus gave the self-defense force a rightful legitimacy under the constitution to fulfill their mission abroad—to Cambodia—for the first time since the end of World War II. The adoption of PKO Cooperation Law was the turning point not only to the self-defense force's history. In the context of international affairs, the law put an end to the Japan's dependence on "checkbook diplomacy", and pushed her to consider the new way of

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<sup>97</sup> See Imagawa Yukio, *Kanbojia to Nihon (Cambodia and Japan)*, Rengoshuppankan, 2000; Ikeda Tadashi, *Kanbojia Heiwa he no Michi: Shogen, Nihon Gaiko Shiren no 5 Nenkan (Road Toward Cambodia's Peace: Testimony, Five Years of Lessons for Japan's Diplomacy)*, Toshishuppan, 1996; Kono Masaharu, *Wahei Kosaku: Tai-Kanbojia Gaiko no Shougen (Maneuvering Peace: Testimony of Diplomacy toward Cambodia)*, Iwanamishoten, 1999.

<sup>98</sup> UNTAC: United Nations Transitional Authority in Cambodia

proactive "contribution through human resources". This was intended to redefine her new role in international society after the Cold War, and to reflect a new face of Japanese diplomacy. In the context of domestic affairs, the law awoke Japanese public from their "passive pacifism" and gave new perspective on how peace can be approached other than mere ideal but passive pacifism."<sup>99</sup>

Traditionally, Japanese pacifism was marred by unceasing dichotomy discussion of "good" and "evil" once it is concerned with the dispatch of human resources, especially self-defense forces, no matter what the job description would be. The "blind pacifism" went too far to suggest that Japan could only dispatch civilians despite the undeniable dangers those civilians may be exposed to in the countries they are supposed to help. And even though, self-defense force is being dispatched, the group still holds that the force must be limited their combating ability to light arms and self-defense.

*The author finds it erroneous concerning the rationale of dispatching civilians to help stabilize the war torn countries. In those countries, stability and security are the major concerns not only to helper countries but also to citizen of the countries they are helping. The latter would feel warm if they find the presence of foreign forces could help install political stability and safety before the real peace being installed. However, how would the target country's citizens think of if the helper countries in fact were asking protection from them? Of course, civilians and military have their own different functions and merits, but dispatching civilians alone to war torn countries would mean a "life and death burden" to both helper countries and target countries.*

### *Economic and Aid Relations*

Economic relations existed merely with the government of Democratic Kampuchea, and these exchanges were done through the third countries. The scale was extremely small compared to the pre-war period.

"In 1979, through third countries, Japan's export to Cambodia—cars and spare parts—worth USD 745,000, and import—mainly oils and fats from

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<sup>99</sup> Sim Vireak, "Jieitai no hatsu kaigai haken ni kansuru nihon no seisaku kettei katei" (Japan's Policy Process Regarding the First Oversea Deployment of Self-Defense Force), Bachelor degree dissertation, Hitotsubashi University, 2005

animals and plants, and precious stones—amounted to USD 316,000. This level was low compared to 1969 with export and import worth USD 243.50 million and USD 6.55 million respectively."<sup>100</sup>

Formal aid relations were none. But Japan, through international institutions and Thai government, had extended support to assist Cambodian war refugees. As for inter-governmental relations, there were cases that Japan accepted trainees from Cambodia (from the Coalition government of Democratic Kampuchea, not from Phnom Penh's government) but there was not any sign of expansion.

### 4.3. *The Third Period: The Aid Resumption until Present* (1992-2006)

#### 4.3.1. *First Legislature Royal Government (1993 - 1997)*

##### *Diplomatic/Political Relations*

In May 1993, general election was successfully held and in September of the same year the new constitution was adopted opting for the constitutional monarchy as governmental system. With promulgation of the new constitution, the new administration formed itself under the name "The Kingdom of Cambodia" as the then Prince Norodom Sihanouk ascended to the throne. The new constitution adopted "two-prime minister system" as an interim measure for the period of five years and thus Prince Norodom Rannariddh and Hun Sen respectively assumed their post as first and second prime minister.

With growing stability of Cambodia, "on March 25, 1992, Japanese government had formally upgraded her relation with Cambodia to the Embassy level. On May 14, 1992, Ambassador Imagawa had presented the letter of credence to HRH King Norodom Sihanouk. Bilateral relations had been normalized. Counting from April 5, 1975, the normalization took 17 years 1 month and 10 days."<sup>101</sup>

Later on, Japan-Cambodia relations are becoming stable and extensive

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<sup>100</sup> "Gaiko Seisho" (*Diplomatic Bluebook*), 1980, pp. 91

<sup>101</sup> "Nihon-Kanbojia Kankei Ryaku Shi" (*Concise History of Japan-Cambodia Relations*), Homepage of the Embassy of Japan in Cambodia, <http://www.kh.emb-japan.go.jp/topics/history-j.htm>, last access December 2006



exchanges were promoted to strengthen the bilateral relations through every aspect. As the "Tokyo Conference for the Reconstruction of Cambodia", which was held in June 1992, implied, the new and immediate challenges to the bilateral relations were the rehabilitation, reconstruction and development of Cambodia after the lengthy civil war.

"Japan and Cambodia friendship was cemented further through Japan's participation in the United Nations Peacekeeping Operation (PKO) from October 1992. As it was symbolized by the realization of Foreign Minister Haneda's official visit to Cambodia in August 1993, Japan has extended support wholeheartedly to her Asian neighbor Cambodia for the latter's peace and rehabilitation. Firstly, Japan contributed through political and diplomatic cooperation to secure peace through the form of human resource contribution as shown in PKO participation. Secondly, serving as chairman of the "International Committee on the Reconstruction of Cambodia" (ICORC), Japan had brought success to the first meeting of ICORC in Paris. This showed Japan's international leadership on Cambodia's rehabilitation and development. Thirdly, with Japan's initiative on cultural aspect, in October, "Conference on International Cooperation for the Preservation of the Angkor Monuments" was successfully held in Tokyo."<sup>102</sup>

### *Aid Relations*

Japan had suspended bilateral aid to Cambodia since 1974 but from 1992 implementation of grant has concretely resumed. Since aid provision has been suspended for a long time, Japan held that Cambodia's system was not ready for aid provision, and thus, in the beginning, decided to provide technical assistance and accept trainees, and would gradually expand the scale of assistance later. At the same time, in order to have a clear grasp of Cambodia's needs, Japan also dispatched study team. Emergency assistance in the form of humanitarian assistance was implemented, while for the mid- and long-term perspective, grant and technical assistance were extended on the field of infrastructure, agriculture, health and medication, human resource development among others.

In 1993, "Project for the Restoration of Chroy Changwar Bridge (Cambodia-Japan Friendship Bridge) Rehabilitation Project", "Project for the Rehabilitation of National Route 6A" were among the first large scale projects

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<sup>102</sup> "Gaiko Seisho" (*Diplomatic Bluebook*), 1994, pp. 10-11

implemented in Cambodia after the civil strife.

Year	Loan	Grant	Technical Cooperation	Total
1992		6120	751	6871
1993		8427	1013	9440
1994		11821	1105	12926
1995		6419	1486	7905
1996	803 (Debt Reschedule )	7178	2366	10347
1997		4184	2708	6892
Accumulation	803	44149	9429	54381

Source: ODA Hakusho (ODA Whitebook), 1998, pp. 62-63

During the early 1990s, the demand for ideals in Japanese ODA was getting ripe and as a result, in June 1992, the cabinet had approved "ODA Charter", which laid out Japan's assistance ideals, principles and priority areas. Based on the Charter, the basic ideals of ODA<sup>103</sup> are (1) humanitarian consideration; (2) awareness of interdependent relations; (3) environmental protection; and (4) support of self-help efforts. The implementation principles of ODA are (1) concurrence of development and environment protection; (2) avoidance of military usage and spending to support prolongation of international conflicts; (3) full attention on any trends related to military expenditure of the developing countries, development and production of weapon of mass destruction, and import and export of weapons, etc.; (4) full attention on promotion of democratization of the developing countries and integration of market economy, and the situation of basic human rights and freedom protection.<sup>104</sup>

### *Economic Relations*

After normalization of relations, trade with Cambodia also resumed. However, except for the year 1992, where Cambodia witnessed significant import from Japan

<sup>103</sup> This Charter was revised in August 2003, and the new version of ODA Charter can be found in Annex IV.

<sup>104</sup> "Gaiko Seisho" (Diplomatic Bluebook), 1995, pp. 81

as to serve the peace-keeping operation, from 1993 to 1997, average amount of trade was 9 billion yen. This was approximately similar to average amount of aid which stood at 9.5 billion yen. Thus economic exchanges were not very active, comparing to the pre-war period where trade amount exceeded that of aid. This was probably due to Cambodia's infrastructure vulnerability that restricted bilateral economic relations from flourishing to further extent.

Year \ Item	1992	1993	1994	1995	1996	1997
Total trade	29,598	14,676	7,379	7,932	6,855	8,644
Trade balance	-27,210	3,666	-5,577	-6,560	-5,427	-5,566
Export to Japan	1,194	9,171	901	686	714	1,589
Import from Japan	28,404	5,505	6,478	7,246	6,141	7,055

Source: from the homepage of Japan Business Association in Cambodia (JBAC)  
<http://www.jbac.jp/cambodia1.htm> (last access December 2006)

#### 4.3.2. Second Legislature Royal Government (1998-2003) and the Third Legislature Royal Government (2003-Present)

##### *Diplomatic/Political Relations*

When the 1998 election was approaching, tension between both prime ministers increased and the friction deteriorated as both parties challenged to gain better position in contacting the weakening Khmer Rouge organization. As a result, July 5.6 incident broke out with armed clash in the heart of the capital city. Before the incident, "during the G8 summit held in Denver, U.S., in June, 1997, Japanese Prime Minister Ryutaro Hashimoto "expressed concern over the tension in Cambodia, and requested the dispatch of special envoys to the country". French and Japanese government decided to dispatch special envoys to Cambodia and asked for restraints from both prime ministers."<sup>105</sup> Despite initiative taken by Japan and France, this could not prevent the July 5.6 incident.

New Phnom Penh administration led by second Prime Minister Hun Sen was strongly criticized by the international community for the violence broke out. Accession to ASEAN was postponed. Cambodia's UN seat was withheld. Aid

<sup>105</sup> Imagawa Yukio, *Kanbojia to Nihon (Cambodia and Japan)*, Rengoshuppankan, 2000, pp. 222

suspension was another political pressure used against this aid-dependent country.

Japan was among the first countries to recognize the new government without criticizing, although Japan did proposed four conditions before she could continue the assistance.

On July 26, Foreign Minister Ikeda held bilateral talks with his Cambodian counterpart, Ung Huot. Ikeda announced that the Japanese government would recognize Hun Sen's regime and continue to provide aid to Cambodia. At the same time, he made it clear that to enable the Japanese government to continue giving foreign aid, the Cambodian government must meet the following four conditions: (1) it must respect the Paris Agreements; (2) it must maintain the Constitution and political structure; (3) it must guarantee basic human rights and freedoms; and (4) it must carry out a free and fair election in May 1998.<sup>106</sup>

Naturally, Japan's approach was not insulated from criticisms both domestically and internationally. However, Japan stood firm to her decision, and that decision later became one of the major forces that helped put forward the implementation of 1998 first general election held by Cambodians.

"The US asserted that Japan should suspend aid to Cambodia and apply strong pressure against Hun Sen, but Japan did not comply. Like France and Australia, Japan held the view that both Hun Sen and Rannariddh should reflect on their actions, and that the most urgent task was to form political environment, where both parties could participate in 1998 election. This pragmatist stance was to ensure that free and fair general election will be implemented, and Cambodia's peace and stability would be restored."<sup>107</sup>

Japan's political recognition in 1997 after the armed clash was based on her own understanding of Cambodia situation. This decision was completely different from that of the 1975 when Japan recognized Democratic Kampuchea regime despite inadequate information. With Japan's approach to negotiate with Phnom Penh administration using aid as diplomatic leverage, and the latter's concession to

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<sup>106</sup> Mikio Oishi and Fumitaka Furuoka, "Can Japanese Aid be an Effective Tool of Influence?", *Asian Survey*, Vol. 43, No. 6, 2003, pp. 894

<sup>107</sup> Imagawa Yukio, *Kanbojia to Nihon (Cambodia and Japan)*, Rengoshuppankan, 2000, pp. 227

accept the proposal showed that mutual trust between both sides was strong and mature.

In July 1998, with international observers, the first general election ever organized by Cambodian finished with satisfactory performance as foreign observers went on to praise the election as free and fair. The second legislature royal government was formed. As a result, Cambodia also retrieved the withheld UN seat in December 1998. Another good news, still, Cambodia finally was admitted to become the last member of ASEAN in April 1999. These successive events put Cambodia back into international stage.

After the election, another turning point in Cambodian history occurred, the integration of the dissolved Khmer Rouge organization into the united royal armed forces. This event completed the total dissolution of Khmer Rouge political and military organization and paved the way to total peace, stability and sovereign integrity, which have been endlessly pursued for decades.

### *Aid Relations*

Despite the drastic cut of Japan's ODA in the late 1990s, and despite Cambodia's political incident, Japan's aid to Cambodia did not change.<sup>108</sup> Japan's ODA shifted the substance from 'quantity' to 'quality'. "Mid Term ODA Policy" of 1999 was replaced by "New Mid Term ODA Policy" in 2005, which stressed the importance of strategies and accountability. "Country Assistance Policy", which lays out specific action plans and priorities of aid toward particular countries, was compiled one after another. As for Cambodia, "Japan's Assistance Policy for Cambodia" was published in February 2002<sup>109</sup>, describing the country's political, economic and social situations, development plans and policy as well as confronting challenges.

Domestically, Cambodia also witnessed significant changes. After 1998, stability remained sound, and Hun Sen's administration renewed his term after winning another general election in 2003, which gave birth to the third legislature royal government. In the same year, the new government launched a landmark "Rectangular Strategies" that outlined socio-economic development basic

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<sup>108</sup> There are scholars who highly evaluate Japan's growing important role as donor country, and support the ODA's quantity decrease but demand for the improvement of quality and efficiency. See Reinhard Drifte (Author), Yoshida Yasuhiko (trans.), *21 Seiki no Nihon Gaiko: Keizai Taikoku kara X Taikoku he (Japan's Diplomacy in the 21<sup>st</sup> Century: From Economic Superpower to X Superpower)*, Kindaibungeisha, 1998.

<sup>109</sup> See Annex V

guideline, and put “Good Governance” as its most core priority. Based on these strategies, new development plan “National Strategic Development Plan: NSDP (2006-2010)” was launched in December 2005. Another landmark event was that, on 13 October 2004, almost 10 years after it first applied, Cambodia became the second least developed country—after Nepal—to join the World Trade Organization through the full working party negotiation process.<sup>110</sup>

Table 13: Japan's Aid to Cambodia during the Second and Third Legislature Royal Government (Unit: million yen)

Year	Loan	Grant	Technical Cooperation	Total
1998		7823	1850	9673
1999	4142	8603	2331	15076
2000		7914	3061	10975
2001		7683	5032	12715
2002		10305	4780	15085
2003		6249	4458	10707
2004	7342	6693	4082	18117
Accumulation	11484	55270	25594	92348

Source: Author arranged based on ODA White Book, 2002 (pp. 32-33) and 2005 (pp. 29-31)

If we borrow Inada Juichi's expression, we can say that following these changes Cambodia's "Initial Years of Post-War Period" has ended, and that Cambodia has started entering the "Mid- and Long-term Development Process". This implies that from this period, the characteristics of Cambodian development efforts would cease to be "urgent" or "humanitarian". Cambodia could finally focus on mid- and long-term development projects, things that she could not otherwise do in the initial years of post-war period. The resumption of yen loan, as has been explained in this paper, was the very symbolic example of these changes. The following statement

<sup>110</sup> WTO News, "Cambodia raises WTO membership to 148", 13 October 2004, (last access May 2009) [http://www.wto.org/english/news\\_e/news04\\_e/cambodia\\_148members\\_13oct04\\_e.htm](http://www.wto.org/english/news_e/news04_e/cambodia_148members_13oct04_e.htm)

by JICA Cambodia Resident Representative, Chikaraishi Juro, explained very well on the current development situation in Cambodia.

“Urgent rehabilitation has been relieved. Now Cambodia has to do what she could not do so far. Restoring economic and legal system, among other things, which have been destroyed during Pol Pot era, will become the next challenges. And the most important of all is to restore economic foundation that a country needs to function as an independent nation. Infrastructure development continues to be important. Roads, especially those to the countryside, are in severe situation. People cannot bring their cultivated products to the market, or take patients to the hospitals, children cannot go to school, etc., needs for livelihood infrastructure are just so many. Without countrywide infrastructure, people's livelihood cannot operate fully. And eventually, macro-economic development will not function well either. On the other hand, in order to attract foreign investment, Cambodia needs to be well equipped with fundamental infrastructure such as electricity, water supply, telecommunication, and roads, at least in every principle cities.”<sup>111</sup>

### *Economic Relations*

Political stability also reflects very well in economic exchanges between the two nations. Trade volume increases gradually from 1998. In year 2000, Cambodia's export to Japan exceeded that of Japan for the first time since the both countries resumed bilateral relations. And currently, this trend remains to be true. Import from Japan increased slightly compared to the first legislature royal government period.

While both trade and aid increase at the same time, it is interesting to notice that the ratio between trade and aid from 1998 to 2004—the second and third legislature royal government—stagnates at 1:1. Between 1998 and 2004, average annual aid amount, including Yen loan, was 13.1 billion yen, while average annual trade amount was 13.2 billion yen. This ratio is the same with that of the first legislature royal government.

Table 14: Japan's Trade with Cambodia during the Second and Third Legislature Royal Government  
(Unit: million yen)

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<sup>111</sup> From the homepage of JICA Cambodia, <http://www.jica.go.jp/cambodia/interview.html>, last access December 2006

Item \ Year	1998	1999	2000	2001	2003	2004	2005
Total Trade Volume	7947	9649	11229	14139	16651	19420	20262
Trade Balance	-3739	-1791	25	1893	4041	2150	3022
Export to Japan	2104	3929	5627	8016	10346	10785	11642
Import from Japan	5843	5720	5602	6123	6305	8635	8620
Source:							
-From 1998-2001, Data acquired from the homepage of "Japan Business Association in Cambodia" ( <a href="http://www.jbac.jp/cambodia1.htm">http://www.jbac.jp/cambodia1.htm</a> ) (last access December 2006)							
-From 2003-2005, data acquired from "ASEAN-Japan Statistics Pocketbook 2006" (ASEAN-Japan Center)							

Even with political and social stability in place, the size of trade remains similar to the size of aid. Beside, the accumulated amount of investment from 1994 until the first half of 2007 climbed to merely forty-nine million dollars. With these figures, one can possibly say that other than aid, economic relations between the two nations still remain very limited. And this is not well accorded with ODA's Charter which mentions the importance of comprehensive economic cooperation that links ODA with trade and investment.

Country	Amount
Korea	2,406
Malaysia	1,986
China	1,666
EU	697
US	621
Taiwan	591
Thailand	432



Singapore	281
Hong Kong	248
Japan	49
Source: From “Why Investing In Special Economic Zone In Cambodia”, presented by H.E. CHEA VUTHY, Deputy Secretary General, Cambodian Special Economic Zone Board, Council for the Development of Cambodia, Singapore, 05 December 2007 <sup>112</sup>	

Japan-Cambodia bilateral relations have a long history, and one could see that these relations enjoy their best form after the third period—Aid Resumption Period. Major restraints to bolster bilateral relations, namely ideological conflicts, and Cambodia's political instability, have been eliminated. Despite these ever stable bilateral relations, they are rather overly dependent on aid. This is historically well proved as one could see from the Japanese proposal after July 5-6 incident, where aid was used as diplomatic leverage with an effective result. It is interesting to note that during the 1960s, Japan and Cambodia negotiated every year to extend the effect of bilateral trade agreements. Nowadays, Cambodia and Japan meet annually to discuss about the amount of aid as well as its implementation framework. With different historical background, it may be misleading to compare these two periods. However, if we look at the ratio of annual aid and trade average<sup>113</sup>, as well as accumulated amount of investment from Japan, one can possibly say that there is still room for bilateral economic relations to develop further.

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<sup>112</sup> From the homepage of ASEAN-Japan Center, last access May 2009  
[www.asean.or.jp/invest/archive/speech/fy07%20cambodia%20in%20sin/CDC.pdf](http://www.asean.or.jp/invest/archive/speech/fy07%20cambodia%20in%20sin/CDC.pdf)

<sup>113</sup> See Chapter 4, 4.3.2. **Second Legislature Royal Government (1998-2003) and the Third Legislature Royal Government (2003-Present)**, *Economic Relations*

## Chapter 5: Conclusion and Implications

From above discussion, I've observed the reasons behind the loan resumption in 1999 from the point of view of the aid usage as diplomatic leverage. This observation has been done in three steps.

First, I argue that this resumption was based more on *political concession* rather than pure technical loan criteria and I have proved this argument by looking on "country criteria" and "project criteria". Sihanoukville Port projects' inter-relations both locally and regionally, Japan's development strategies for the region and, the project's economic/financial profitability have backed the "project criteria" as sound enough to implement. On the other hand, in "country criteria", debt issues and country's fragile finance remain at concerned level, and thus can be evaluated as minus criteria.

Various calculations proved that financial capability of executing agency, Port Authority of Sihanoukville (PAS), as sound enough to handle loan project and at the same time proved that the project is feasible since it could generate profit. It is true that PAS is capable of handling loan project and the debt repayment itself. However, direct borrower of JBIC's loan is not PAS but Royal Government of Cambodia (RGC) whose debt issues and fragile finance, as have shown in "country criteria", remain at risky level. PAS is merely a sub-borrower. And this raised another concern for Japanese side.

Even after the first loan project--*Sihanoukville Port Urgent Rehabilitation Project*--has been procured, Japan's doubt on Cambodia's repayment ability remained strong. In 2002, during the loan negotiation for the 2<sup>nd</sup> Phase Project, *Sihanoukville Port Urgent Expansion Project*, Japanese side have proposed two alternatives in order to secure repayment from the Cambodian side. First alternative is that PAS would be a borrower for the loan, and the Royal Government of Cambodia (RGC) would be a guarantor on the loan while PAS will make repayments directly to JBIC. Another alternative is that RGC would be a borrower of the loan and re-lend it to PAS, and the amount to be repaid by PAS to RGC shall be reserved in a special account to be established in the National Treasury in RGC for the repayment to JBIC. These proposals were turned down by RGC.

This skeptical move by Japanese side, gives stronger base to the argument that the decision to resume loan in 1999 was beyond mere technical loan criteria. And

this is what I called *political concession* from the Japanese side, without which resumption would not be possible.

As for the reasons behind this political concession, at the second step, I've made observation through three lens, 'Aid Realism', 'Aid Liberalism', and 'Aid Idealism'. From these frameworks of analysis, the following five explanations can be made concerning the loan resumption.

### **Aid-Realism**

*Explanation 1: Loan resumption was a positive sanction or reward to Cambodia who had put forward the democratic election in 1998.*

Japan resumed loan to Cambodia because the latter had fulfilled the former political request. The explanation is mostly identical to Mikio Oishi and Fumitaka Furuoka's who argued that Japan had continued her assistance to Myanmar as reward to the latter's political and economic reform in 1989, and to Cambodia following the Cambodian promise to put forward general election after the July 1997 armed clashes. However, in 1999, Japan had not made any political request to Cambodia as a condition for loan provision. Thus the connection and causality similar to *Explanation 1* cannot be verified.

*Explanation 2: The resumption was a mean to deliver political message embedded in loan.*

Loan gives less burdens to Japan's finance and at the same time bears the political message of "ownership" and "independence", and by using this Japan can achieve her political interest. Loan can be a burden for Cambodia and Japan might risk having another debt issue with the former, but Japan had the political opportunity to convey the message asking for stronger "ownership" and "independence" from Cambodia, who has relied so far on grant aid. This opportunity is considered as political gain for Japan in the immediate time span. This explanation can be fully verified in "Basic Strategy of Japan's ODA Loan".

### **Aid-Liberalism**

*Explanation 3: In term of inter-dependence, Japan would gain economic interest in the future by fostering and accelerating Cambodian integration to ASEAN region, which is one of Japan's most important economic partners.*

The amount of loan in 1999 was too small to achieve any definite national interest or negotiating powers for Japan. With this scale, it is difficult for Japan to expect any

economic profit or gains from projects in Cambodia alone either. Rather, Japan is expecting a relative gains spring from synthesized effect of projects in Mekong region as a whole, an effect that would lead to faster integration and economic activation within the region. For aid-liberalism, Japan's purpose is to foster potential market offshore. By contributing to economic prosperity of Mekong sub-region and South-East Asian region, Japan would gain negotiation power against the region in the future. This explanation can be verified in "Japan's Assistance Policy to Cambodia".

### **Aid-Idealism**

*Explanation 4 : Loan resumption is seen as a tool to cement the stability roots through economic stimulation. The act is part of the peace-building process in Cambodia that Japan has participated so far.*

This is to explain that Japan puts priority on peace and stability in Cambodia, which are strongly connected with regional stability. Loan resumption is an alternative to strengthen peace and stability's roots in Cambodia through economic activation. By helping build peace in Cambodia, Japan could strengthen her image of "pacifism" and could expect close bilateral relations from her counterpart. This is national interest achieved in aid-idealism. This explanation can be verified in "Japan's Assistance Policy for Cambodia".

*Explanation 5: To restore international society's trust toward Cambodia. (from the interview)*

After the political armed clash in 1997, Cambodia has lost credit within the international community in both political and economic term. However, providing loan implies that Japan recognized Cambodia politically and trusted the latter's economic management. By doing so, Japan helps Cambodia to retrieve trust from international community, and in the long term could expect close bonds within bilateral relations.

One can make various explanations to this loan resumption in 1999, however, the decisive changes in bilateral relations from the point of views of aid lay in the characteristics of loan itself.

Firstly, significant change in bilateral aid relation is that, before, Japan's aid to Cambodia focused only on the latter's emergency rehabilitation and

reconstruction. Now, the characters of projects are becoming more strategy-oriented for mid- and long-term development, and their effect is extending beyond Cambodia by reaching out to the ASEAN region and the Mekong sub-region. Loan resumption was an event crystallizing this trend. Since loan can accommodate large projects, this gives Japan and Cambodia larger freedom to strategically design the projects to synthesize their effects with other development projects within ASEAN region and Mekong sub-region. This gives Cambodia the possibility to develop while at the same time integrate herself to the region.

Secondly, the conveyance of political message through the principles of "ownership" and "independence" embedded in loan. The problem of "ownership" and "independence" of the recipient states is not new, but dealing with these principles by introducing loan is a major change, because this was done even with the awareness that loan can be a burden for Cambodia, and that Japan might risk having another debt issue with the former. Thus the political message here has strong impact.

While loan resumption can be an indirect way to ask for stronger independence and ownership from Cambodia, however, it was also a positive sign for Cambodia as Japan was recognizing Cambodia's economic management and her capability in handling debt burden—it took Cambodia 20 years after the country reborn from ash in 1979 to regain this recognition. This is a fact that Cambodia should be proud of as she is moving her credit and prestige in the international communities into the next level. Though Japan was skeptical in approving loans to Cambodia for the initial projects, but time has proved that her bold decision was not wrong. Cambodia was capable of handling loan burden, and Japan has approved loans to Cambodia one after another.

As for the ownership and independence, if Japan is to ask for stronger ownership from Cambodia, the possible step Japan would take in the near future would be to change the aid content extended to Cambodia. For instance, Japan would gradually increase the loan amount, and at the same time maintain or reduce the amount of grant. However, it is unlikely that Japan would reduce the total amount—both grant and loan combined—to Cambodia as it is of Japan's interest to maintain her status as top donor in order to secure diplomatic leverage against Cambodia amid growing stronger competition for influence among Asian emerging donors, namely China and Republic of Korea. Here is where I argue that not only Cambodia, Japan is also aid-dependent as she has no other diplomatic leverage beside aid.

History has showed that after the Paris Peace Agreements, or after the aid resumption period as this paper called it, Japan and Cambodia are embracing ever stable bilateral relations. Still, there is room left for Japan and Cambodia to bolster ties further beyond mere aid frontier. Thus, if Japan desires stronger ownership from Cambodia by changing the content of aid—including possible reduction—Japan needs to develop other alternative diplomatic leverage, which could be in the form of mutual political support in the international arena, the binding of stronger economic ties (namely through promotion of investment and trade), and the promotion of people-to-people exchanges (for example, human resource development as a way to secure pro-Japanese seeds within Cambodian future generation). However, these tasks do not solely belong to Japan. Cambodia also shares responsibility, especially in economic exchanges. Cambodia needs to make sure that she has all it takes, such as soft and hard infrastructure, supportive administrative facilitations and favorable business environment, to accommodate highly demanding and often reluctant Japanese enterprises. Most important of all is that Cambodia needs to provide these facilitations beyond the mere conceptual framework.

After this thesis had been written, many significant changes can be seen in relation with Japan-Cambodia bilateral relations as well as Japan's assistance policy. These changes can be seen in the form of policy shift, institutional reforms, and changes of assistance environment. To put it more concretely, those changes are the integration of JBIC into a single JICA; the Joint Statement on the New Partnership between Japan and Cambodia and the signing of the Agreement between Japan and the Kingdom of Cambodia for the liberalization, Promotion and Protection of Investment in 2007; the new framework of Japan-Mekong Summit launched in 2009; the growing competition from emerging donors such as Republic of Korea and People's Republic of China; the historical shift of power from the "1955 system" of LDP-led politics toward a yet-to-be-defined DPJ-led politics; possible gradual shift of weight from US-Japan Alliance as core axis of Japan's diplomacy toward a rather Asian-oriented policy. These are all inter-related themes that need to integrate into this discussion as to understand more comprehensively and in-depth about Japan-Cambodia bilateral relations. How much effect will these changes have on Japan-Cambodia bilateral relations? What will be the new rationales in maintaining the significance of these bilateral ties amid changes in international political environment? Will Cambodia remains to be one of the prioritized countries for Japan's new administration? What will be the ultimate ideal

form of bilateral relations that the two countries intend to develop? In addition to development assistance, will there be any concrete "sign" of increasing significance of bilateral relations in term of trade and investment? What roles that the bilateral relations can play in the regional as well as global diplomatic arena? What policy approaches should Japan and Cambodia take toward each other in order to maintain the significance of bilateral relations amid the growing strong presence of China and South Korea? How about the presence of the United States within Japan-Cambodia bilateral relations? These are merely the author's brainstorming. Many lists of questions can follow and the needs to consider these questions are prerequisite if one wishes to conduct contemporary debate on Japan-Cambodia bilateral relations. Of course, these topics would also be the author's tasks in the future to come.

Each author generally has their own agenda in developing one's thesis and one always tries to prove this agenda in the course of their writing. As E.H. Carr put it: "It used to be said that facts speak for themselves. This is, of course, untrue. The facts speak only when the historian calls on them: it is he who decides to which facts to give the floor, and in what order or context....In the first place, the facts of history never come to us 'pure', since they do not and cannot exist in a pure form: they are always refracted through the mind of the recorder"<sup>114</sup>. Although academic paper is supposed to be objective and neutral, one cannot totally eliminate subjective explanation based on each author's political motives and causes. The author's position is not an exception. In writing this thesis, the author wishes to develop research and academic debate on the theme, while at the heart of the process is that the author ceaselessly wishes to see the increase of significance of Japan-Cambodia bilateral relations beyond the symbolic diplomatic gestures to the level that both countries' people can feel and understand what is the real meaning of Japan-Cambodia bilateral relations.

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<sup>114</sup> E. H. Carr, *"What is history?"*, 2<sup>nd</sup> Edition, Penguin Book, 1987, pp. 11, pp. 22

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## Annex I: List of Interviewees

<b>Japan</b>	
JICA, Mr. KOIZUMI Yukihiro Country Officer for Cambodia, Southeast Asia Team III, Regional Department I	July 28, 2006
JBIC, Mr. MATSUDA Yosuke Deputy Director, Division 2 (Vietnam, Cambodia & Laos) & Program Division Development Assistance Department II	September 21, 2006
<b>Cambodia</b>	
CDC, Mr. IM Sour Deputy Director, Bilateral Aid Coordination Dept, Japan-Asia Pacific-Oceania	August 11, 2006
JICA Cambodia, Mr. NAKASHIMA Keisuke Assistant Resident Representative	August 15, 2006
JICA Cambodia, Mr. SUGIMOTO Satoshi Assistant Resident Representative (Economy, Agriculture and ODA Loan)	August 15, 2006
Ministry of Economics and Finance, Mr. POR Yutha Chief of Division, Department of Investment and Cooperation Bilateral Cooperation Division	September 13, 2006
Penta-Ocean Co., Mr. YAMAGUCHI Hiroyuki Project Manager, Sihanoukville Port Expansion Project Penta-Ocean Italian-Thai JV	August 23, 2006
Sihanoukville Autonomous Port, H.E. MA Sun Hout Deputy Director General	August 23, 2006

**Annex II: Japan-Cambodia Friendship Agreement  
(Khmer)**

ស្តីសម្រាប់ស្តារមិត្តភាព  
រវាង  
ប្រទេសជប៉ុន និងប្រទេសកម្ពុជា



ប្រទេសនិប្បនន៍និព្វិះពានរាណាចក្រកម្ពុជា ឈោយចម្រើ  
ឲ្យការពាររាជធាននិកនិប្បនន៍និព្វិះពានរាណាចក្រកម្ពុជា ឈោយចម្រើ  
ស្រីសញ្ញាមិត្តភាពមួយ ។

ចំពោះស្រីសញ្ញានេះ រដ្ឋកំរិត បានតែសំរាប់  
អត្តពន្ធត

រដ្ឋាភិបាលប្រទេសនិប្បន :

សក្ខតម ម៉ាម៉ូ ដីតេចិតធី រដ្ឋមន្ត្រីក្រសួងការ

បរទេស

ពានរដ្ឋាភិបាលប្រទេសកម្ពុជា :

សម្រេចព្រះបរមរាជ នរោត្តម សីហនុ រដ្ឋមន្ត្រី

ក្រសួងការបរទេស

អត្តពន្ធតកំរិត គ្រប់ដំណើរបានប្រសើរឡើយ  
ហើយ យល់ពី រំលោភ សន្តិភាពនៃប្រទេសកម្ពុជា ហើយ  
បានស្រាវជ្រាវប្រយោជន៍ រដ្ឋបរទេសកម្ពុជា ចិត្ត ។

មាត្រា ១

ប្រទេសជប៉ុន នឹងប្រទេសកម្ពុជា ទក្សរកម្មនិងសិទ្ធិ  
នៃ មិត្តភាពនិងសន្តិភាព ដ៏រឹងមាំ ហើយស្ម័គ្រស្មើ ។

មាត្រា ២

ទ្រព្យមរតកក្នុងសញ្ញានៃមូលនិធិ គ្រប់គ្រង ទោស ទោសនា ទោសនា  
ភាព, ឯកភាពភាពនិងបុរណភាពប្រទេសរបស់កម្ពុជា សម្រាប់ ។  
ទ្រព្យមរតកក្នុងសញ្ញា ២២ ត្រូវនឹងនឹងលក់ដោយសន្តិវិធី  
ការពារនៃសិទ្ធិដ៏ត្រឹមត្រូវនៃសិទ្ធិរបស់សហគមន៍ក្រៅស្រុក ។

មាត្រា ៣

អ្នកកំណត់ទោសនា ទោសនា ទោសនា ទោសនា ទោសនា ទោសនា  
គឺ មានសិទ្ធិ លើក្នុងប្រទេសរបស់កម្ពុជា ទូទៅ ដោយស្របតាម  
សិទ្ធិ តំណែងរបស់សហគមន៍ ទោសនា ទោសនា ទោសនា ទោសនា  
ប្រទេសសម្រាប់អ្នកកំណត់ទោសនា ទោសនា ទោសនា ទោសនា  
ដើម្បីយល់យល់ដឹងបំផុត ។

មាត្រា ៤

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## **Annex III: Joint Statement on the New Partnership Between Japan and Cambodia**

Prime Minister Hun Sen of the Royal Government of Cambodia paid an official visit to Japan, June 13 through 16, 2007 at the invitation of the Government of Japan. During his visit, Prime Minister Shinzo Abe and Prime Minister Hun Sen held a summit meeting on June 14, 2007, and issued this statement:

1. We reaffirm the strong ties and mutual trust that have been nurtured between Japan and Cambodia through our history of cooperation. Cambodia praises Japan's active role in realizing peace and prosperity around the world. It also expresses its deep gratitude to the government and people of Japan for their substantial contributions to the peace process and the post-conflict reconstruction of Cambodia, including their support for the United Nations Transitional Authority in Cambodia (UNTAC) peace-keeping operations. Japan commends Cambodia for realizing peace, advancing national reconstruction, achieving rapid economic growth, and beginning to play a broader role in the international community. We take pride in our cooperation in the peace building and national reconstruction in Cambodia, which offers a successful model to the world.

2. The partnership between our two countries has entered a new phase. We are determined to further strengthen our bilateral relationship and address regional and global challenges together.

### **Realizing fundamental values**

3. We reaffirm the importance of fundamental values such as freedom, democracy, basic human rights and the rule of law, and welcome Cambodia's steadfast progress toward realizing these values. Elections in Cambodia have come to be conducted in a fairer and freer manner. Japan will continue assistance to strengthen democracy in Cambodia.

4. We welcome the official establishment of the Extraordinary Chambers in the Courts of Cambodia for prosecuting crimes and serious violations of Cambodian and international humanitarian law during the period of Democratic Kampuchea. Cambodia appreciates Japan's contribution to the trials by providing more than 21 million USD and sending a judge to the Supreme Court Chamber. We hope that the trials will proceed promptly and fairly to achieve justice and national reconciliation

in Cambodia.

5. Cambodia appreciates Japan's assistance in drafting the Civil Code and the Civil Procedure Code and will further try to develop its legal system. Japan will continue to assist Cambodia in fields related to the rule of law, which is a prerequisite for sustaining human security in the country.

#### **Enhancing Economic Relations**

6. Cambodia appreciates the important role of Japan's official development assistance in the sustainable development and poverty reduction in Cambodia. Japan highly values Cambodia's efforts for national development under the "Rectangular Strategy" and will continue to assist such efforts. Cambodia is committed to effective and efficient use of the assistance. We welcome the signing of the Notes on the project for Flood Protection and Drainage Improvement in the Municipality of Phnom Penh (Phase II) and the project for Human Resource Development Scholarship.

7. Trade and investment are important for the sustainable economic growth in Cambodia. We welcome the signing of the Agreement between Japan and the Kingdom of Cambodia for the Liberalization, Promotion and Protection of Investment, and hope that Japan's investments in Cambodia will be promoted by this Agreement. Japan will send a business mission composed of both government and private sector representatives to Cambodia. Cambodia will make the utmost efforts to realize a more favorable investment environment including the enhancement of special economic zones.

8. We believe that a more integrated regional economy will contribute to sustainable development in Cambodia. Cambodia highly values Japan's support for the Mekong Region Development, including assistance for the "Development Triangle", and welcomes the Japan-Mekong Region Partnership Program. Japan's assistance related to the "Second East-West Economic Corridor" as well as the "Cambodia Growth Corridor" has been enhancing the regional network. We will expeditiously proceed toward the construction of the Second Mekong Bridge at Neak Loeung as a top priority. Cambodia will effectively use the infrastructure established with Japan's aid by promoting such reforms as harmonization of customs procedures and mutual recognition of vehicles for cross-border transportation.

#### **Promoting Mutual Understanding**

9. Mutual understanding enhanced through people-to-people exchanges is a basis for a close relationship between our two countries. Japan has supported human capacity building in Cambodia by sending experts including Japan Overseas

Cooperation Volunteers (JOCV) and by accepting Cambodian students and trainees. Japan's NGOs implemented humanitarian assistance in Cambodia even before the Paris Peace Agreement of 1991. Based on such experiences, we will have more frequent high-level visits and expand people-to-people exchanges.

10. Japan will aim to invite more than 1,000 Cambodian youths to Japan in the coming five years under various programs including the Japan-East Asia Network of Exchange for Students and Youths (JENESYS) Program. We hope that Cambodian students who study in Japan or learn Japanese will play a more active role in various fields in Cambodia.

11. We believe that an increase in tourists from Japan to Cambodia will enhance mutual understanding and promote Cambodian development. We will cooperate actively to preserve the Angkor Monuments. Japan, as co-chair of the International Coordinating Committee for the Safeguarding and Development of the Historic Site of Angkor, will continue its assistance in the preservation and restoration work. Cambodia will pursue harmonized development in Siem Reap Province by taking into account the impacts of increased tourism.

#### **Addressing regional and global challenges**

12. ASEAN plays an important role in regional cooperation in East Asia. Cambodia appreciates Japan's continued support for ASEAN integration as well as Japan's initiative in the East Asia Summit and other regional cooperation frameworks. We welcome the recent progress in the negotiation of the ASEAN-Japan Comprehensive Economic Partnership Agreement, particularly in that the ASEAN and Japanese Economic Ministers confirmed that ASEAN and Japan mutually accepted the modalities in principle.

13. Regarding the situation on the Korean Peninsula, we fully support the Six Party Talks and swift implementation of the agreement reached at the Six-Party Talks on February 13, 2007, as a first step towards full implementation of the Joint Statement of September 19, 2005, in good faith. We emphasize the importance of steadily implementing United Nations Security Council Resolutions 1695 and 1718. We hope that progress will be made in the talks between Japan and North Korea on bilateral issues. We stress the importance of resolving the abduction issue as early as possible, and will cooperate on this issue. Cambodia will support the next United Nations General Assembly resolution on the situation of human rights in North Korea, and Japan highly appreciates this decision.

14. We will actively work together to realize an early reform of the United Nations Security Council through the expansion of both its permanent and non-permanent

membership. Japan appreciates Cambodia's continuous support for Japan as a permanent member of the United Nations Security Council, which has been repeatedly stated at the UN and other International conferences, as well as during the summit meeting between Cambodia, Lao, Vietnam and Japan, held in Vientiane in 2004. In this regard, Cambodia reiterates its strong support for a broader and more active role of Japan in the International Organizations.

15. Cambodia praises Japan for its initiative in promoting human security by showing leadership in addressing various cross-border issues such as poverty, infectious diseases, environment, peace-building, disarmament, non-proliferation, human trafficking, and illicit narcotic drugs. Japan highly values Cambodia's contribution to promoting world peace by participating in the Sudanese PKO and addressing problems of landmines and small arms in other conflicting countries such as Afghanistan, based on its own experience. It will assist Cambodia's efforts through the recently launched initiative for human resource development in peace-building. We will further strengthen cooperation on these global agenda.

16. We reaffirm the importance of global environment issues, in particular climate change. Cambodia appreciates Japan's recent proposal on climate change "Cool Earth 50", and supports the idea to set a long-term target of cutting global emissions by half from the current level by 2050 as a common goal for the entire world. We will actively cooperate in accordance with the proposal in establishing an effective international framework to address global warming beyond 2012 in which all major emitting countries participate.

Tokyo, June 14, 2007

**Shinzo ABE**

Prime Minister of Japan

**HUN Sen**

Prime Minister of the Royal Government of Cambodia

# **Annex IV: Japan's Official Development Assistance Charter**

## **Revision of Japan's Official Development Assistance Charter**

Japan's Official Development Assistance (ODA) Charter, approved by the Cabinet in 1992, has been the foundation of Japan's aid policy for more than 10 years. The world has changed dramatically since the Charter was first approved, and today there is an urgent need for the international community, including Japan, to address new development challenges such as peace-building. Faced with these new challenges, many developed countries are strengthening their ODA policy, to deal with the serious problems that developing countries face. At the same time, not only governments and international organizations, but many other stakeholders are also assisting developing countries. All stakeholders engaged in development assistance are strengthening their mutual collaboration.

In line with the spirit of the Japanese Constitution, Japan will vigorously address these new challenges to fulfill its responsibilities commensurate with its national strength and its standing in the international community. In this regard, it is important to have public support for ODA. It is essential to effectively implement ODA, fully taking into account the domestic economic and fiscal situation as well as the views of the Japanese people.

Against this background, the Government of Japan has revised the ODA Charter, with the aim of enhancing the strategic value, flexibility, transparency, and efficiency of ODA. The revision also has the aim of encouraging wide public participation and of deepening the understanding of Japan's ODA policies both within Japan and abroad.



# Japan's Official Development Assistance Charter

## I. Philosophy: Objectives, Policies, and Priorities

### 1. Objectives

The objectives of Japan's ODA are to contribute to the peace and development of the international community, and thereby to help ensure Japan's own security and prosperity. Taking advantage of Japan's experience as the first nation in Asia to become a developed country, Japan has utilized its ODA to actively support economic and social infrastructure development, human resource development, and institution building. Consequently, Japan has significantly contributed to the economic and social development of developing countries, especially in East Asia.

Amid the post-Cold War advancement of globalization, the international community presently finds itself in a new environment, grappling with a multiplicity of problems such as the gap between the rich and the poor; ethnic and religious conflicts; armed conflicts; terrorism; suppression of freedom, human rights, and democracy; environmental problems; infectious diseases; and gender issues.

In particular, humanitarian problems, such as extreme poverty, famine, refugee crises, and natural disasters, as well as global issues such as those related to the environment and water, are important issues that need to be addressed in order for the international community as a whole to achieve sustainable development. These problems are cross border issues that present a grave threat to each and every human being.

Furthermore, conflicts and terrorism are occurring more frequently and they are becoming even more serious issues. Preventing conflicts and terrorism, and efforts to build peace, as well as efforts to foster democratization, and to protect human rights and the dignity of individuals have become major issues inherent to the stability and development of the international community.

Japan, as one of the world's leading nations, is determined to make best use of ODA to take the initiative in addressing these issues. Such efforts will in turn benefit Japan itself in a number of ways, including by promoting friendly relations and people-to-people exchanges with other countries, and by strengthening Japan's standing in the international arena.

In addition, as nations deepen their interdependence, Japan, which enjoys the benefits of international trade and is heavily dependent on the outside world for

resources, energy and food, will proactively contribute to the stability and development of developing countries through its ODA. This correlates closely with assuring Japan's security and prosperity and promoting the welfare of its people. In particular, it is essential that Japan make efforts to enhance economic partnership and vitalize exchange with other Asian countries with which it has particularly close relations.

Japan aspires for world peace. Actively promoting the aforementioned efforts with ODA, and manifesting this posture both at home and abroad is the most suitable policy for gaining sympathy and support from the international community for Japan's position. Therefore, Japan's ODA will continue to play an important role in the years to come.

## **2. Basic Policies**

In order to achieve the objectives outlined above, Japan will carry out ODA even more strategically, in accordance with the following basic policies.

### **(1) Supporting self-help efforts of developing countries**

The most important philosophy of Japan's ODA is to support the self-help efforts of developing countries based on good governance, by extending cooperation for their human resource development, institution building including development of legal systems, and economic and social infrastructure building, which constitute the basis for these countries' development. Accordingly, Japan respects the ownership by developing countries, and places priorities on their own development strategies.

In carrying out the above policy, Japan will give priority to assisting developing countries that make active efforts to pursue peace, democratization, and the protection of human rights, as well as structural reform in the economic and social spheres.

### **(2) Perspective of "Human Security"**

In order to address direct threats to individuals such as conflicts, disasters, infectious diseases, it is important not only to consider the global, regional, and national perspectives, but also to consider the perspective of human security, which focuses on individuals. Accordingly, Japan will implement ODA to strengthen the capacity of local communities through human resource development. To ensure that human dignity is maintained at all stages, from the conflict stage to the reconstruction and development stages, Japan will extend assistance for the protection and empowerment of individuals.

### **(3) Assurance of fairness**

In formulating and implementing assistance policies, Japan will take steps to assure fairness. This should be achieved by giving consideration to the condition of the socially vulnerable, and the gap between the rich and the poor as well as the gap among various regions in developing countries. Furthermore, great attention will be paid with respect to factors such as environmental and social impact on developing countries of the implementation of ODA.

In particular, the perspective of gender equality is important. Japan will make further efforts to improve the status of women, giving full consideration to the active participation of women in development, and to ensuring that women reap benefits from development.

### **(4) Utilization of Japan's experience and expertise**

Japan will utilize its own experience in economic and social development as well as in economic cooperation when assisting the development of developing countries, fully taking into account the development policies and assistance needs of developing countries. Japan will also utilize its advanced technologies, expertise, human resource, and institutions.

Implementation of ODA will be coordinated with key Japanese policies to ensure policy coherence, taking into consideration implications for Japan's economy and society.

### **(5) Partnership and collaboration with the international community**

Mainly with the initiative of international organizations, the international community is sharing more common development goals and strategies and various stakeholders are increasingly coordinating their aid activities. Japan will participate in this process, and endeavor to play a leading role. In parallel with such efforts, Japan will pursue collaboration with United Nations organizations, international financial institutions, other donor countries, NGOs, private companies, and other entities. In particular, Japan will enhance collaboration with international organizations that possess expertise and political neutrality, and will endeavor to ensure that Japan's policies are reflected appropriately in the management of those organizations.

In addition, Japan will actively promote South-South cooperation in partnership with more advanced developing countries in Asia and other regions. Japan will also strengthen collaboration with regional cooperation frameworks, and will support

region-wide cooperation that encompasses several countries.

### **3. Priority Issues**

In accordance with the objectives and basic policies set out above, the following are Japan's priority issues.

#### **(1) Poverty reduction**

Poverty reduction is a key development goal shared by the international community, and is also essential for eliminating terrorism and other causes of instability in the world. Therefore, Japan will give high priorities to providing assistance to such sectors as education, health care and welfare, water and sanitation and agriculture, and will support human and social development in the developing countries. At the same time, sustainable economic growth, increase in employment, and improvement in the quality of life are indispensable for realizing poverty reduction and Japan places importance on providing assistance for these issues accordingly.

#### **(2) Sustainable growth**

In order to invigorate developing countries' trade and investment, as well as people-to-people exchanges, and to support sustainable growth, Japan will place importance on providing assistance for the development of the socioeconomic infrastructure -a key factor for economic activity, and also for policy-making, the development of institutions, and human resource development. This will include (i) cooperation in the field of trade and investment including the appropriate protection of intellectual property rights and standardization, (ii) cooperation in the field of information and communications technology (ICT), (iii) the acceptance of exchange students, and (iv) cooperation for research.

In addition, Japan will endeavor to ensure that its ODA, and its trade and investment, which exert a substantial influence on the development of recipient countries, are carried out in close coordination, so that they have the overall effect of promoting growth in developing countries. To that end, Japan will make efforts to enhance coordination between Japan's ODA and other official flows such as trade insurance and import and export finance. At the same time, private-sector economic cooperation will be promoted, making full use of private-sector vitality and funds.

#### **(3) Addressing global issues**

As for global issues such as global warming and other environmental problems, infectious diseases, population, food, energy, natural disasters, terrorism, drugs, and international organized crime, further efforts must be given immediately and in a coordinated manner by the international community. Japan will address these issues through ODA and will play an active role in the creation of international norms.

#### **(4) Peace-building**

In order to prevent conflicts from arising in developing regions, it is important to comprehensively address various factors that cause conflicts. As part of such undertakings, Japan will carry out ODA to achieve poverty reduction and the correction of disparities, as referred to above. In addition to assistance for preventing conflicts and emergency humanitarian assistance in conflict situations, Japan will extend bilateral and multilateral assistance flexibly and continuously for peace-building in accordance with the changing situation, ranging from assistance to expedite the ending of conflicts to assistance for the consolidation of peace and nation-building in post-conflict situations.

For example, ODA will be used for: assistance to facilitate the peace processes; humanitarian and rehabilitation assistance, such as assistance for displaced persons and for the restoration of basic infrastructure; assistance for assuring domestic stability and security, including disarmament, demobilization, and reintegration of ex-combatants (DDR), and the collection and disposal of weapons, including demining; and assistance for reconstruction, including social and economic development and the enhancement of the administrative capabilities of governments.

#### **4. Priority Regions**

In light of the objectives stated above, Asia, a region with close relationship to Japan and which can have a major impact on Japan's stability and prosperity, is a priority region for Japan. However, Japan will strategically prioritize assistance to Asian countries, fully taking into account the diversity of the Asian countries' socioeconomic conditions and changes in their respective assistance needs. In particular, the East Asian region which includes ASEAN is expanding and deepening economic interdependency and has been making efforts to enhance its regional competitiveness by maintaining economic growth and strengthening integration in recent years.

ODA will be utilized to forge stronger relations with this region and to rectify disparities in the region, fully considering such factors as the strengthening of economic partnership with East Asian countries.

Also, Japan will give due consideration to the large population of impoverished people in South Asia. With respect to Central Asia and the Caucasus region, assistance will be provided to promote democratization and transition to market economies. Japan will prioritize its assistance for other regions on the basis of the objectives, basic policies, and priority issues set out in this Charter, giving consideration to the needs for assistance and the state of development in each region.

Africa has a large number of least developed countries, and is affected by conflicts and serious development issues, amid which self-help efforts are being stepped up. Japan will provide assistance for these efforts.

The Middle East is an important region for energy supply and for the peace and stability of the international community, but it has destabilizing factors including the situation of Middle East peace process. Japan will provide assistance towards social stability and the consolidation of peace.

Latin America includes countries that are relatively well developed, but also island nations with fragile economies. Taking into consideration the disparities arising within the region as well as within countries, Japan will extend the necessary cooperation.

With respect to Oceania, assistance will be provided, as there are numerous vulnerable island nations.

## **II. Principle of ODA Implementation**

In line with the philosophy set out above, Japan's ODA will be provided by comprehensively taking into account developing countries' need for assistance, socio-economic conditions, and Japan's bilateral relations with the recipient country, and ODA will be provided in accordance with the principles of the United Nations (especially sovereign equality and non-intervention in domestic matters) as well as the following points:

- (1) Environmental conservation and development should be pursued in tandem.
- (2) Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.

(3) Full attention should be paid to trends in recipient countries' military expenditures, their development and production of weapons of mass destruction and missiles, their export and import of arms, etc., so as to maintain and strengthen international peace and stability, including the prevention of terrorism and the proliferation of weapons of mass destruction, and from the viewpoint that developing countries should place appropriate priorities in the allocation of their resources on their own economic and social development.

(4) Full attention should be paid to efforts for promoting democratization and the introduction of a market-oriented economy, and the situation regarding the protection of basic human rights and freedoms in the recipient country.

### **III. Formulation and Implementation of ODA Policy**

#### **1. System of Formulation and Implementation of ODA Policy**

##### **(1) Coherent formulation of ODA policy**

In order to ensure that the government in its entirety implements ODA efficiently and effectively in a unified and coherent manner pursuant to this Charter, medium-term ODA policies and country assistance programs will be formulated, taking into account the partnership and collaboration with the international community referred to in the Basic Policies and ODA policies will be formulated and implemented in accordance with them. Country assistance programs will be drawn up for major recipient countries, and will set out explicitly the points to which priority is to be given, based on Japan's aid policy, and reflecting the recipient countries' true assistance needs.

In accordance with these medium-term ODA policies and country assistance programs, various methods of assistance—financial cooperation in the form of loans and grants, and technical cooperation—will be linked together effectively so as to take full advantage of the characteristics of each method. At the same time, Japan will be mindful of the balance between hardware type cooperation such as construction and provision of equipment, and software type cooperation such as technical cooperation and institution building. Each method will be reviewed appropriately.

##### **(2) Collaboration among related government ministries and agencies**

In order to ensure that the government as a whole formulates and implements policies in a unified and coherent manner, under the auspices of the Council of Overseas Economic Cooperation-Related Ministers, the Ministry of Foreign Affairs will

play the central coordinating role in strengthening broad collaboration between the ODA-related government ministries and agencies, including by means of personnel exchanges and by utilizing the expertise of those related ministries and agencies. For this purpose, the government ministries and agencies will actively use consultation fora such as the Inter-Ministerial Meeting on ODA.

### **(3) Collaboration between government and implementing agencies**

While making clear the roles of the government and the implementing agencies (the Japan International Cooperation Agency\* and the Japan Bank for International Cooperation) and the apportionment of responsibilities among them, collaboration will be strengthened, including by means of personnel exchanges to ensure an organic linkage between the government and the implementing agencies. In addition, implementing agencies will strengthen their mutual collaboration.

### **(4) Strengthening of policy consultation**

In formulating and implementing assistance policies, it is essential to fully grasp the development policies and assistance needs of developing countries by engaging actively in policy consultation before requests are made by developing countries. At the same time, Japan will set out its assistance policies to the developing countries through dialogue, and the development policies of developing countries and Japan's assistance policy will be reconciled in order to maximize the effect of Japan's aid within those developing countries' development strategies. Furthermore, Japan will support efforts by developing countries to improve their policies and systems, including the ability to formulate and implement assistance projects. Japan will also take into consideration whether such efforts by the developing countries are sufficient in the formulation and implementation of ODA.

### **(5) Strengthening of the functions of field missions in the policy-making process and in implementation**

The functions of field missions (primarily overseas diplomatic missions and offices of implementing agencies) will be strengthened, so that they will be able to play a leading role in the policy-making process and in implementation. In particular, steps will be taken to develop a framework for strengthening the system, including through the use of outside personnel. Japan will also make efforts to make comprehensive and accurate assessments of developing countries' development



policies and assistance needs, primarily at the local level. Japan will comprehensively identify local socioeconomic conditions and other aspects through local interested parties.

#### **(6) Collaboration with aid-related entities**

Collaboration with Japanese NGOs, universities, local governments, economic organizations, labor organizations, and other related stakeholders will be strengthened to facilitate their participation in ODA and to utilize their technologies and expertise. Japan will also seek to collaborate with similar entities overseas, particularly in developing countries. In addition, in the implementation of ODA, appropriate use will be made of the technologies and expertise of Japanese private companies.

## **2. Increasing public participation**

### **(1) Broad participation by Japanese citizens from all walks of life**

The government will take measures to foster participation in assistance activities by Japanese citizens from all walks of life, and to promote these citizens' interaction with developing countries. Such measures will include providing sufficient information, listening to public opinion, soliciting proposals for ODA activities, and extending cooperation to volunteer activities.

### **(2) Human resource development and development research**

The government will make efforts to foster aid personnel with the necessary expertise and to increase the opportunities for aid personnel to be active both within Japan and overseas. In parallel with these efforts, high-quality personnel, such as persons with considerable overseas experience and extensive knowledge, will be widely sought and be encouraged to participate in ODA activities.

In addition, the government will encourage regional studies relating to developing countries and research on development policy, to promote accumulation of Japan's intellectual assets in the development sphere.

### **(3) Development education**

Development education is important for promoting public understanding with respect to international cooperation including ODA, and for fostering people that will be engaged in international cooperation in the future. In this perspective, the government will take measures in schools and on other occasions to carry out more widespread education on development issues, such as the problems that face

developing countries, relations between Japan and developing countries and the role that development assistance should play. Necessary educational materials will be distributed and teachers will be trained.

#### **(4) Information disclosure and public relations**

It is important for information on ODA policy, implementation, and evaluation to be disclosed widely and promptly to ensure the sufficient transparency, and for it to be publicized actively. Therefore, the government will use a variety of means to provide information in easy-to-understand formats, and to create opportunities for Japanese citizens to come into contact with ODA activities that Japan is undertaking.

In addition, the government will make enhanced efforts to disseminate information regarding Japan's ODA to developing countries as well as other donors.

### **3. Matters Essential to Effective Implementation**

#### **(1) Enhancement of evaluation**

The government will carry out consecutive evaluations at all stages, i.e. ex-ante, mid-term, and ex-post, and evaluations at each level, i.e. policy, program, and project. Furthermore, in order to measure, analyze and objectively evaluate the outcome of ODA, third-party evaluations conducted by experts will be enhanced while the government undertakes policy evaluations. The evaluation results will be reflected in subsequent ODA policy-making and efficient and effective implementation.

#### **(2) Ensuring appropriate procedures**

The government will adopt procedures to ensure that full consideration is given to the environmental and social impact of implementation of ODA. The government will make efforts to conduct appropriate and efficient procurement with regard to quality and price. At the same time, while ensuring these aspects, the procedures will be simplified and accelerated.

#### **(3) Prevention of fraud and corruption**

The government will implement appropriate measures to ensure the transparency of the activity-selection and implementation process, and to prevent fraud, corruption, and improper diversion of aid. In addition, the government will make efforts to assure the appropriate use of funds by enhancing auditing, including through the introduction of external audits.

#### **(4) Ensuring the safety of ODA personnel**

Safeguarding the lives and personal safety of ODA personnel is a prerequisite for the implementation of ODA. The government will fully obtain security related information and will take appropriate measures.

#### **IV. Reporting on the Status of Implementation of the Official Development Assistance Charter**

The government will report the status of the implementation of the Official Development Assistance Charter in the "White Paper on Official Development Assistance (ODA)," which is reported annually to the Cabinet.

August 29, 2003

# **Annex V: Japan's Assistance Policy for Cambodia**

February 2002

## **1. Significance of Japan's Assistance to Cambodia**

Japan's assistance to Cambodia, a country that experienced over twenty years of civil war and political unrest since the 1970s and is now earnestly struggling to rebuild itself as a nation, is instrumental in preventing Cambodia from slipping back into political instability. This assistance greatly contributes to peace and stability in Asia, a region of vital importance for Japan's diplomacy.

Japan's position has been to actively expand its diplomatic efforts to help lead the international community in support of the restoration of peace in Cambodia. Japan's first dispatch of PKO personnel in 1992 and its positive contributions to the Consultative Group meetings for Cambodia are the examples of Japan's efforts in this regard.

Moreover, Japanese citizens' keen interest in supporting Cambodia enables many of Japan's NGOs play an active role. The Japanese government recognizes the necessity to further cooperate with these NGOs in order to appropriately respond to the situation.

The Government and the people of Cambodia have expressed their appreciation for Japan's assistance and as a result have strongly supported Japan's policies in international venues. On various levels and occasions, close ties of friendship have taken root between Japan and Cambodia.

From the viewpoint of raising the overall economic level of ASEAN in the context of globalization, the significance of Japan's assistance to Cambodia should be emphasized.

For ASEAN, the greatest constraints in moving forward with its economic integration such as the abolition of tariff barriers prescribed by AFTA are the continued economic gaps existing within the ASEAN region. Cambodia, as a member of ASEAN and weakened by its long period of internal turmoil, is burdened with a large number of development needs and a marked economic handicap. The effects of assistance for the rehabilitation and development of Cambodia do not stop within the borders of the country alone but also greatly contribute to the

development of the Mekong sub-region, which is a priority issue for ASEAN, and for the long-term activation of the ASEAN economy as a whole. This assistance will provide the Japanese economy with benefits as well.

## **2. Accordance with the Principles of Japan's ODA Charter**

The international community concluded that the elections in 1998, for the most part, were free and fair, and the government's current policies pay serious attention to democratization. On top of that, the Cambodian government is promoting the transformation to a market-oriented economy and the reduction of its military expenditure. It can thus be said that, in accordance with the principles of Japan's ODA Charter, the Cambodian government is heading in a desirable direction. However, careful attention is still necessary with respect to the securing of basic human rights.

## **3. Desired Direction of Japan's Assistance**

### **3.1 Japan's Assistance Up to the Present**

Based on policy dialogues with the Cambodian government, Japan's assistance to Cambodia, which is mainly grant aid and technical cooperation, has focused on: (i) development of social and economic infrastructure; (ii) improvement of basic social services like health and medical care; (iii) promotion of agriculture and rural development; and (iv) human resources development. Because of Cambodia's status as a Least Developed Country (LDC) and its past political instability, Japan had not extended any yen loans to Cambodia since 1968. In 1999, however, after about a thirty year interval, Japan decided to extend to Cambodia a loan of up to 4 billion yen for the rehabilitation and renovation of the antiquated and deteriorating Sihanoukville Port. This decision was taken in views of the fact that Sihanoukville Port is Cambodia's only deep-sea port and is considered vital for the country's restoration. This decision took into account the fact that the new government was steadily carrying out various policies for rebuilding the economy and that there was a climate of relative political stability in the country.

Since the 1999 Consultative Group (CG) meeting, Japan has also been making positive contributions in the areas of administrative and fiscal reforms, the demobilization of armed forces, and forest preservation (natural resources management), areas which have been identified as priorities by donor countries and the Cambodian government. Japan has also subsequently assisted Cambodia with social services improvement and good governance.

### **3.2 Share of Japan's Assistance in the Total Assistance to Cambodia**

Devastated by its internal upheavals, Japan has been active in extending assistance for the restoration of Cambodia. Japan's ODA to Cambodia in the past ten years has totaled (on a net disbursement basis) \$720 million (\$170 million through international organizations and \$550 million on a bilateral basis). Japan is the top donor country to Cambodia, accounting for 25 percent of all assistance to Cambodia.

### **3.3 Direction of Japan's Assistance for the Next Five Years**

As mentioned above, Japan has been consistently taking the lead in the international community in assisting Cambodia towards the steady reconstruction of the country. As a result, it is expected that Japan's future assistance to Cambodia's socio-economic development will play, -as it has played until the present-, a key role. This assistance should continue to be carried out in an effective and efficient manner.

Having endeavoured to rehabilitate and rebuild itself, Cambodia is currently making efforts at further promoting its basic socio-economic development and faces a number of difficulties. It is true that Cambodia must make its own efforts to overcome these difficulties, but for its part and in order to continue to take a leading role in the international donor community, Japan should respond appropriately to support such Cambodian efforts. Moreover, Cambodia's pressing needs include human resources development, necessary for making up for the shortfall caused by the civil war, the reconstruction of institutions, the development of basic infrastructure, and so on. It is essential that Japan, while giving due consideration to security and the goal of sustainable development, extend its assistance with a view to achieving sustained economic growth and poverty reduction.

On this basis, Japan's policy is to provide assistance that contributes to Cambodia's sustained economic growth and poverty reduction, keeping it fully in line with the Socio-Economic Development Plan (SEDPII) and Cambodia's Poverty Reduction Strategy Paper (PRSP) through closer consultations with the Cambodian government in policy dialogue and other appropriate occasions.

\*Cambodia's PRSP has already formulated as National Poverty Reduction Strategy Paper (NPRS) in 2002.

### **3.3.1 Continuation of Assistance for Reconstruction Efforts**

It goes without saying that aiming for sustained economic growth and making further efforts for the development of basic socio-economic sectors such as education and vocational training, health care, etc., with particular attention to the poor, are essential for Cambodia to achieve the further development. In order to push forward these endeavours smoothly and effectively, the assistance for Cambodia's efforts to clear away the negative legacies, whose deep scars in the country have not healed so far, is still indispensable.

With this in mind and taking into consideration the vital importance of Japan's assistance to Cambodia, Japan will continue to provide assistance, particularly its grant aid and technical cooperation, for Cambodia's reconstruction efforts from the damage caused by the civil war and the political turmoil.

### **3.3.2 Support Based on Economic Trends**

Although Economic growth is indispensable for the further development of Cambodia, the appropriate assistance in response to economic growth (economic trends, foreign debt situation, etc.) should be considered.

Classified as a Least Developed Country (LDC) , the amount of Cambodia's foreign debt was approximately \$2.26 billion, with a debt-to-GNP ratio of around 73.4 % and a debt-to-export ratio of 194 %. Therefore Cambodia does not belong to the Heavily Indebted Poor Countries (HIPC). The concessionarity of almost all of Cambodia's foreign debt is high, and its debt service ratio (DSR), after agreements on repayment rescheduling, is expected to remain at a stable level, at one to two percent.

However, Cambodia has ruble-denominated debts and has not reached a reschedule agreement with Russia. As a result, it needs to use assistance funds and foreign investment to make up for its current account deficit. With regard to the yen loan project, it is necessary to prudently consider carrying out small-scale infrastructure projects on a trial basis, taking into account the progress of economic reforms and current economic trends. On this basis, it is necessary to carefully deliberate the effective usage of grant aid and technical cooperation.

### **3.3.3 Assistance for the Balanced Development of Urban and Rural Areas**

One of the most important aspects for development that requires serious consideration is to promote a balanced development between urban and rural areas. Because of security concerns, Japan's assistance has been concentrated so

far in the region of Phnom Penh, which has a population of around one million. Other donor countries assistance is also focused on Phnom Penh so that the basic economic and social infrastructure in the capital is being improved, while the gap between the urban and rural areas has been widening. To promote this balanced development, it is important to strengthen support for the rural areas where many poor people live. The expansion of support to the rural areas is particularly needed in sectors such as agriculture and rural development, basic human needs (BHN), and demining, with due consideration of the security situation in each region. It is important to promote close cooperation and unity between the central government and the regional governments by promoting assistance to these regions. Due consideration should also be given to strengthening collaboration with NGOs carrying out activities in rural areas.

#### **3.3.4 Assistance to Rectify Regional Gaps Within ASEAN countries**

Another important consideration for the development of Cambodia is what position Cambodia's development occupies in the context of the whole of ASEAN's economic growth.

Within ASEAN, the economic disparity between the Indochina countries and the rest of the ASEAN countries tends to widen. Therefore, it is important that the assistance for promoting the sustained economic growth of Cambodia be also carried out with the aim of reducing this regional gap. From this point of view, the development of the Mekong subregion, which is beneficial for all the Indochina countries, and the improvement of telecommunications infrastructure to promote IT might be adequately considered. It is also necessary to take steps to improve the institutions related to a market-oriented economy, a legal and judicial system, a financial system and suitable conditions to attract foreign investment, and the efforts for human resources development.

#### **4. Priority Areas; Assistance Policy for Each Specific Issue**

Cambodia's development needs are wide-ranging and considerable. Consequently, it is all the more essential that Japan's assistance should be implemented efficiently and effectively by clarifying important sectors and priorities and respecting Cambodia's traditions and sense of values. Based on the direction of Japan's assistance for the next five years described above, Japan will give priority in its assistance to the four areas stated below. Japan regards sustainable economic growth and poverty reduction as the most important goals, and its assistance will be focused on the improvement of the basic economic infrastructure



damaged by civil war over the long years, the rehabilitation of various weakened institutions and systems and the development of human resources whose shortage is one of Cambodia's more serious problems. In other words, in order to deliver balanced assistance and carefully considering the "hardware" and "software" needs, Japan has carefully considered its allocation of assistance. The four priority areas of Japan's assistance will be:

- (1) the realization of sustainable economic growth and a stable society;
- (2) support for the socially vulnerable;
- (3) measures to respond to global issues; and
- (4) support to rectify disparities among the ASEAN countries.

#### 4.1 Realization of Sustainable Economic Growth and a Stable Society

The most essential factor for Cambodia's development is sustainable economic growth. For this goal to be achieved, social and economic infrastructure needs to be efficiently improved, while various reforms are smoothly carried out and good governance is encouraged. In providing the assistance for this, the promotion of agriculture, which is the main industry of Cambodia, and the rectification of regional gaps must also be taken into account. At the same time this assistance will contribute to solving the poverty issue. Furthermore, in the process of these development efforts, full attention should be paid to the landmine issue.

##### 4.1.1 Assistance for Reform and Good Governance

The promotion of reform such as administrative reform, financial and fiscal reform, the demobilization of the armed forces, natural resources management, and the improvement of social sector, as well as the strengthening of good governance are all essential in order for Cambodia to achieve steady economic growth and to fully function as a state. With this in mind, during then-Prime Minister Keizo Obuchi's visit to Cambodia in January 2000, he affirmed to Prime Minister Hun Sen that Japan would strengthen its technical cooperation including the dispatch of experts, the acceptance of trainees in Japan and other forms of support. Prime Minister Obuchi stated that Japan had been extending support to Cambodia and would extend additional, flexible and prompt assistance, utilizing various applicable cooperation schemes, in order to further assist with the country's reforms. Following this statement and regarding the current reform of Cambodia's legal and judicial system, Japan has been providing assistance for the drafting of a civil code and a civil procedure code and is continuing this assistance for the prompt completion of the drafting of

these codes and their enactment into law. In addition and to complement this, Japan will support the training of legal personnel through various training programs.

#### **4.1.2 Improvement of Social and Economic Infrastructure and Conditions for Economic Progress**

Cambodia continues to strive to strengthen its capacity as a state, while the socio-economic infrastructure that forms the foundation of the country's development still needs to be significantly improved. In order to help Cambodia revitalize its agriculture and its rural areas, activate industrial development, boost tourism and so forth, it will be important for Japan to continue to provide assistance in areas such as the establishment of the Centre for Road Construction and to widen the targets of assistance in the provinces. Japan will also consider providing assistance for the areas of transportation and traffic from a country-wide perspective.

Moreover, as large-scale flooding occurs in the Mekong River regions and results in serious damage to the road and other facilities, due consideration must be given to the improvement of the infrastructure so that it is made more resistant to natural and other disasters. On the other hand, Phnom Penh presents different challenges, as environmental problems are anticipated in response to deteriorating urban problems caused by the rapid activation of economic activities and an increasing population. Therefore, support should be extended for strengthening administrative capability in urban areas. The disparity in existing infrastructure development for power generation, telecommunications, etc. between the capital and the rural areas, is striking, and from the mid- to long-term, Japan will provide technical and financial assistance for policy planning and the training of engineers and technicians.

#### **4.1.3 Agriculture and Rural Development and the Improvement of Agricultural Productivity**

Eighty four percent of the Cambodian people live in the rural areas, and around forty percent of this rural population suffer from impoverished conditions as a result of the destruction of agricultural facilities during the civil war. Therefore cooperation and assistance for agriculture, and rural and regional development is essential for the goal of poverty reduction. Moreover, as the agricultural sector accounts approximately for forty percent of Cambodia's GDP, agricultural and rural development is also indispensable for raising the level of the entire Cambodian economy. Concretely, Japan will positively provide financial and technical

assistance for the provision of irrigation facilities, the improvement of water management systems, the development of water users associations for irrigation, the improvement of agricultural productivity, the diversification of crops, the improvement of infrastructure for agriculture, micro financing, the development of the livestock and fishery industries, and the reinforcement of rural development administration, including the advancement of farmers' organizations.

Furthermore, in order to implement more finely tuned assistance, it is important to cooperate with NGOs operating in rural areas and to provide assistance through grassroots grant aid for the improvement of basic small-scale social-economic rural infrastructure (small-scale irrigation facilities, agricultural roads, etc.).

However, adequate attention still needs to be paid to the security situation in Cambodia, particularly in the implementation of assistance in the rural areas.

#### **4.1.4 Comprehensive Assistance for Landmine Problems**

The existence of landmines is a great impediment to the reconstruction and development of Cambodia, and the problems caused by landmines cannot be neglected when Japan extends the support mentioned above for the improvement of social-economic infrastructure and agricultural and rural development.

Japan has actively been providing assistance for Cambodia's landmine problems, appreciating its ownership and considering Cambodia as a pilot country for Japan's assistance on this problem.

With respect to support for demining activities, Japan will offer support to make these activities easier to be implemented through the development and introduction of more efficient demining technology. This is in addition to the provision of financial assistance to the UNDP Trust Fund and the provision of equipment in the bilateral assistance that Japan has made so far. For landmine victims, in addition to the improvement of health care institutions, Japan will consider a form of cooperation where victims can reintegrate back into society following a period of rehabilitation. Education on landmines and efforts at the community level to solve landmine problems are also important. It is crucial to actively collaborate with and support NGOs deeply involved in the rural areas in carrying out their vital demining activities.

#### **4.2 Support for the Socially Vulnerable**

The most important factor for sustainable economic growth is the improvement of Basic Human Needs (BHN). The improvement of BHN directly provides benefits to

the lives of the poor, and is also important as it provides a social safety net to deal with the social costs brought by economic growth.

Japan has provided assistance for BHN sectors such as education, health and medical care, water and sanitation improvement, and other priority sectors for cooperation. These sectors are very important from the viewpoint of humanitarian concerns and poverty reduction, and the demand for assistance is still very high. Moreover, it is anticipated that the number of the so-called socially vulnerable will increase as Cambodia makes economic progress, and Japan will continue to positively support the foundation of a social safety net for these people.

In the education sector, Japan will continue to provide assistance through grassroots grant aid for the construction of schools, the absolute number of which is still greatly lacking, and technical assistance for improving the quality of teachers' capacity and the administrative capacities of the education authorities. Assistance will particularly focus on improving science and mathematics education, subjects which are vital for economic growth and achieving sustainability.

In the health sector, Japan will continue to actively support the improvement of maternal and child health care and medical technology, as well as supporting countermeasures against infectious diseases, particularly HIV/AIDS, tuberculosis, and complications arising from the contraction of these diseases, and others such as malaria, parasitic diseases and so on. Assistance to the health sector will be implemented under the framework of a Japan-US partnership in identified areas. As the number of health workers is still scarce, Japan will put priority on technical cooperation, while collaborating with NGOs to help improve primary health care services.

### **4.3 Measures to Respond to Global Issues**

Cambodia faces wider the issues that impact not only on Cambodia but also neighbouring countries. These "global issues" are extremely difficult for Cambodia to deal with alone. For example environmental issues related to the preservation of forests and other resources and the illegal drugs issue. It is necessary that assistance to deal with these concerns extended as the problems grows globally.

#### **4.3.1 Environmental Preservation**

Taking steps to achieve sustained economic growth, Cambodia should avoid the destruction of one of its great assets of its rich natural environment. Unfortunately as that is occurring at present and as a measure to promote the sustainable

development, Japan will continue to extend support for environmental preservation. Concretely, Japan will provide assistance for the surveillance and monitoring project that Cambodia is undertaking to monitor illegal logging. Japan will offer assistance with the regeneration of devastated forest resources, the promotion of sustainable forest management and afforestation, the preparation of seedling fields and the promotion of community forestry, etc. Japan will also provide active assistance for the implementation of a forestry vocational training project to develop human resources, the formulation of forest management plans, and the transfer of afforestation technology.

With regard to fisheries resources, the preservation and sound management of the unique fisheries resources in the Tonle Sap Lake have become urgent issues, and Japan is promoting a Master Plan for the preservation of the lake's surrounding environment, giving due consideration to the security situation in those areas. In addition, Japan will dispatch experts to Cambodia to investigate the current situation of fisheries resources and consider means of cooperation for the preservation and appropriate management of those resources and the protection of the country's biodiversity. This assistance will take into account the existing collaboration in this area with the Southeast Asian Fisheries Development Centre (SEAFDEC). Japan will also deliberate the cooperation from a mid- and long-term viewpoint for improving environmental management and transferring the technology of sound environmental management to Cambodia.

#### **4.3.2 Measures against Illegal Drugs**

Located just south of the "Golden Triangle" region of drug production and hampered by inadequate laws and enforcement against drugs, Cambodia also faces the problem of the illicit drug traffic and the smuggling and use of drugs within the country. Neglecting this situation will weaken the effects of measures against the illegal drug traffic taken by other countries in the region, and bring the threat of a serious negative impact on Japan. Recognizing the seriousness of this drug problem, Japan is extending possible assistance in this area, while acting as a co-chair with Australia in the Mini-Dublin Group Meetings.

#### **4.4 Support for the Rectification of Disparities within ASEAN**

Another important aspect for the development of Cambodia is related to the rectification of economic gaps within ASEAN. Economic disparity between the countries in Indochina, including Cambodia, and other ASEAN countries is tending to widen, and to rectify this gap is an important issue for the development of ASEAN

itself. Japan is actively moving forward with assistance to support the efforts made by ASEAN as a whole, and this positive action is significantly contributing to the stability and further development of the region.

In the formation and implementation of this assistance, Japan gives due consideration to the development of the Mekong sub-region, which benefits all of Indochina, and the diffusion of Information Technology (IT) in Cambodia.

#### **4.4.1 Mekong Sub-region Development**

The development of the Mekong sub-region is a vital goal for the economic development of Cambodia and, at the same time, is important for the rectification of the economic disparities among the ASEAN countries and the strengthening of ASEAN integration. Japan is pursuing specific and positive measures to support this development, starting with the improvement of the Second East-West Corridor, including assistance for both "hardware" (infrastructure development) and "software" (development studies, technical cooperation, etc.) aspects. Japan is also providing assistance in the preparation of legal codes and procedures to promote private-sector investment in the region.

#### **4.4.2 Assistance for IT Development**

Information Technology (IT) can bridge the international digital divide and provide developing countries with great opportunities. Japan is fostering comprehensive cooperation including the formulation of long-term development strategies, human resources development for IT, and the development of telecommunications infrastructure. However, due consideration must continue to be given to balancing the economic development of Cambodia as a whole.