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# The Economics of Genocide: Cambodia's Financial Collapse Prior to Year Zero, 1950-1975

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## **Collapse of the French Protectorate** Theoretical and Historical Frameworks

During the twentieth century, Western political scientists postulated that a state reaching modernity would be formidable combatant against the spread of international communism. As Walt Whitman Rostow, National Security Advisor during the Johnson administration and an ardent supporter of the modernization theory, noted, when societies reach maturity, citizens become “aware and anxious to acquire the consumption fruits of a mature economy.” Rostow argued that, since Marxist theory focused on supply rather than demand, consumerism would likely cause Communism “to wither in the age of high mass-consumption.”<sup>1</sup> In the early 1950s, the United States attempted to solidify a political and economic alignment with Cambodia that would not only prevent communist encroachment, but would also help build a state strong enough to repel communism on its own. However, the economic and military aid provided by the United States to help Cambodia build a modern state propelled Cambodia *toward* communism rather than away from it. Although there are many mitigating social, political, and regional dimensions that participated in giving rise to the Khmer Rouge, this paper will focus on how the United States hindered Cambodia’s path to modernity and, in doing so, made Cambodia vulnerable to communist infiltration.

Following the Lisbon Conference in 1952, the United States increased its economic and military aid to the French mission in Indochina from \$300 million to \$800 million, which was to be used to help France with the “reconstruction and expansion” of their domestic economy and the economy of their overseas territories. Granting such a substantial amount of assistance hinged on France’s promise to begin to recognize the “importance of adopting and pursuing economic and financial policies designed to lead [the Indochinese states] to eventual

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<sup>1</sup>W.W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, 2nd edition (Cambridge: Cambridge University Press, 1971), 10, 133.

independence of aid.”<sup>2</sup> Along with indirect economic aid to Indochina, the United States also began pursuing direct economic ties to Indochina without French involvement. By 1953, the United States had conducted roughly \$25 million worth of direct trade with Indochina with the intent of accustoming Indochina to the purchase and use of American products.<sup>3</sup> This was, of course, much to the dismay of French officials who were still adjusting to the loss of exclusive trading rights within their colonies. This pre-independence trade between the United States and Cambodia served as the seedlings of the further economic partnership that would arise as Cambodia solidified its independence.

King Norodom Sihanouk took political control of Cambodia on November 9, 1953 following Cambodia’s independence from the French Protectorate. The National Bank of Cambodia (NBC) was established in December of 1954, and the *riel* took the place of the Indochinese *piaster* as the official currency of Cambodia. King Sihanouk, under the guise of the *Sangkum Reastr Niyum* movement, attempted to implement a mixed-economy enterprise, which put individual capital under the guidance of the state to safeguard against ““privileged capitalists, national or foreign.””<sup>4</sup> However, along with nationalizing various business sectors, Sihanouk had to rely on foreign investors and investments to help industrialize Cambodia. No longer under the protection of the Protectorate, foreign assistance was needed to purchase machinery, raw materials, and building materials for basic modes of industrial production as Cambodia had little own-source revenue. Even with the industries that remained intact following independence, Cambodia had to rely on foreign industrial workers as there were few domestic technicians that

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<sup>2</sup> Douglas C. Dillon to Department of State, 20 March 1953, Tel. 751.5/3–2053, in US State Department, *Foreign Relations of the United States, 1952-1954 Volume VI, Part 2, Western Europe and Canada*, 573: 1305-1308.

<sup>3</sup> Jean-Daniel Gardère, *Money and Sovereignty: An exploration of the economic, political and monetary history of Cambodia* (Phnom Penh: JSRC Printing House, 2010), 251.

<sup>4</sup> Margaret Slocomb, *An Economic History of Cambodia in the Twentieth Century* (Singapore: National University of Singapore Press, 2010), 78.

knew how to operate industrial equipment and machinery.<sup>5</sup> In the 1950s, the United States trained 184 Cambodians in the United States and other countries in government and agricultural practices. Over 400 Cambodians also received on-site training through Cambodian-American agricultural assistance programs.<sup>6</sup> Despite such United States technical support, it was counterintuitive for the *Sangkum*'s ultimate goal of freeing Cambodia from capitalist influences. Such programs, as much as they were needed, only solidified the U.S.-Cambodian economic ties and produced tighter, yet unequal, trade relations.

According to Phlek Chhat, the Director-General of Plan, it was necessary to rely on foreign aid to “achieve rapidly the large-scale works necessary” to industrialize Cambodia. However, the Sihanouk government recognized the dangers of forming alliances with exploitive Western states; thus, Sihanouk attempted to achieve economic neutrality, which according to the *Sangkum*, meant a “balanced adaptation of [capitalism and communism] for the organization of the country.”<sup>7</sup> This meant accepting economic aid from both Western and communist states; this nonalignment posture, however, created difficulties for Sihanouk as the United States did not want Cambodia forming any ties with the East.

## **Cold War Humanitarianism**

### **The Decline of Nonalignment**

Despite the *Sangkum*'s “economic neutrality,” the United States exported over \$36 million worth of goods to Cambodia before 1955 and still hoped its economic assistance programs could provide a solid foundation from which Cambodia could modernize. Through a section of the United States' aid program, organized by the International Cooperation

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<sup>5</sup> Slocumb, *An Economic History of Cambodia in the Twentieth Century*, 70-80.

<sup>6</sup> United States Operations Missions to Cambodia, “U.S. Economic Aid Program to Cambodia, 1955-1969” (Washington DC: Indochina Archive, January 1960), 21-23.

<sup>7</sup> Phlek Chhat, *La Conquête de l'indépendance du Cambodge* (Phnom Penh, Cambodia: Printing House of the Ministry of Information, October 1964), 1-10.

Administration (ICA) in 1954, the United States funded the completion of le Barray Occidental d'Angkor, which provided "irrigation for 20,000 hectares." The United States agreed to "build a dam in Kompong-Cham" that provided irrigation for farming. In Prey-Chhor, 4,000 hectares of irrigation networks were organized and another small irrigation network outside of Kompong-Cham and Kompong-Thom provinces were constructed with the support of United States aid.<sup>8</sup> The United States also helped fund the completion of a 9,000 hectares irrigation channel in Kompong-Cham that had been unfinished since 1944; it was finally finished with United States support in 1957. In a country comprised of a rural population of over 80 percent, the *Sangkum*, in conjunction with the United States, attempted to modernize the peasantry and gain its support through more effective agricultural methods. As Jean Delvert noted, "the politics of water are indispensable."<sup>9</sup> However, such agriculture reforms failed to have the lasting impact that the United States hoped the reforms would have.

Through funding such infrastructure projects, the United States hoped to consummate a monogamous relationship with Cambodia, but the Soviet Union and Communist China severely obfuscated the U.S.-Cambodian relationship. Sihanouk understood the geopolitical implications of "playing both sides." In one instance, in 1957, Sihanouk responded to the United States' unwillingness to allocate more aid with the remark, "'we might go Communist if you stop the aid.'"<sup>10</sup> Consequently, the United States remained eager to supply the aid necessary to persuade Sihanouk against aligning with the East. Also in 1957, the United States began constructing the Khmer-American Friendship Highway from Kompong Som to Phnom Penh at a cost of \$32

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<sup>8</sup> "U.S. Economic Aid Program to Cambodia, 1955-1969", 11; Jean Delvert, *Le Paysan Cambodgien* (Paris: Mouton & Company Publishers, 1961), 354, 654-654.

<sup>9</sup> Delvert, *Le Paysan Cambodgien*, 654, 354.

<sup>10</sup> "Cambodia: Foreign Aid and Freedom," *The Economist* (London, England). May 11, 1957, The Economist Historical Archive: Issue 5933, pg. 508.

million for the 140 miles of roadway.<sup>11</sup> Coincidentally, as the Vietnam War escalated, communist forces used this highway as an extension of the Ho Chi Minh Trail to transport weapons and munitions to North Vietnamese and Viet Cong forces. In the same year, the French began reconstruction on the port of Sihanoukville. However, according to Jean Delvert, the funds used to build the port were actually provided by United States and then funneled through a French economic aid program.<sup>12</sup>

The future Khmer Rouge leader, Khieu Samphan, acknowledged quite presciently, that the “regulation of relations with foreign countries is essential.”<sup>13</sup> He argued that industrialization was possible, but he believed it could not be achieved by the government continuing to allow foreign investors to exploit Cambodia’s economy. In many ways, Samphan was correct in such assertions. The *Sangkum* failed to regulate foreign investment, and Sihanouk’s industrialization programs only produced a harsher environment for the peasantry. According to Samphan, trade with the United States comprised of 12.35 percent of Cambodia’s total trade value in the late 1950s. Yet, he claims, this neglects to factor in trade indirectly originating from the United States. Cambodia’s trade with Hong Kong, South Vietnam, Thailand, and Japan all indirectly pulled Cambodia into a closer alignment with the United States. Samphan also noted that many foreign investments could be traced back to larger United States corporations such as the General Insurance Company, New Hampshire Fire Company, and American International Insurance Company.<sup>14</sup> Such tight economic ties to the United States—whether direct or indirect—contradicted the *Sangkum*’s policy of economy neutrality.

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<sup>11</sup> “U.S. Economic Aid Program to Cambodia, 1955-1969”; “Cambodia: Foreign Aid and Freedom,” *The Economist* (London, England). May 11, 1957, The Economist Historical Archive: Issue 5933, pg. 508.

<sup>12</sup> Delvert, 653.

<sup>13</sup> Khieu Samphan, “Cambodia’s Economy and Industrial Development,” Translated by Laura Summers (Ithaca: Department of Asian Studies of Cornell University, March 1979), 77.

<sup>14</sup> *Ibid.*, 81, 47-50.

The United States made aid appropriation decisions based on whether the aid would enhance or hinder United States interests in Cambodia. Similarly, the majority of Sihanouk's time in office was spent shuffling between allegiances to various superpowers in an attempt to receive aid, protection, or formal recognition from any state willing to grant such requests. In return, however, the superpowers spoke of Cambodia as a second-rate state and caused considerable damage to its domestic stability. Upon returning from his trip to China in 1958, Prince Sihanouk, in an obvious attempt at manipulation, informed United States officials that the Chinese Communists had offered him substantial military and economic aid increases, but he took only an additional \$5.6 million to supplement the existing Chinese aid package of \$22.4 million. Sihanouk claimed that he felt uneasy accepting "such aid from both sides" and that he was happy with the aid packages offered by the United States. Sihanouk, in effect, was being courted by both the East and the West and he used it to his advantage to acquire the maximum amount of aid from all three superpowers.<sup>15</sup>

This occurred again in 1960 when Sihanouk asked the United States to provide Cambodia with eight fighter jets. The United States debated whether to grant the request, but the United States determined if they denied the request, Sihanouk might turn to China for the aircrafts. The United States then angrily discovered that Chou En-lai, the Chinese Premier, had already promised to provide Cambodia with the aircrafts.<sup>16</sup> Such economic and military aid infused foreign revenue into Cambodia, which made Cambodia dependent on such aid. When these foreign aid packages and investments were removed or detrimentally altered, as they often were,

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<sup>15</sup> Eric Kocher to the Assistant Secretary of State for Far Eastern Affairs, 3 September 1958, in US Department of State, *Foreign Relations of the United States, 1958-1960, East Asia-Pacific Region; Cambodia; Laos, Volume XVI*, 81:249-250.

<sup>16</sup> Hugh S. Cumming Jr. to Department of State, 22 June 1960, in *ibid.*, 138:365-367.



it left Cambodia without the national revenue necessary to conduct normal governmental functions.

## **Predation at the International Marketplace**

### **In the Riel We Distrust**

Even more fiscally caustic than Cambodia's relationships with foreign investors were the foreign investments used to fund infrastructure projects that did not create own-source revenue. During the *Sangkum* period, the Independence Monument, the Cambodiana Hotel, and the Olympic National Sports Stadium were constructed and the Bokor Palace was renovated. This created two significant problems. Firstly, it induced financial imbalances when these investments did not create domestic economic growth. Cambodia was not able to produce revenue from a project like the Bokor Palace; thus, when Cambodia could not pay its loans or continue spending without foreign investments, the riel lost value and prices went up. Secondly, and more importantly, such economic hardships became the burden of the peasantry. The elites associated with Sihanouk's government, according to one official working at the Phnom Penh Post Office, had "sumptuous villas, luxury cars and lead an enviable life" despite the economic downturn.<sup>17</sup> Coincidentally, one of those elites, Songksad Kitpanich, made a fortune from the bankruptcy of a private Cambodian bank, which created distrust in the Cambodian economy and destabilized the riel. He then fled to Bangkok where he organized the finances of the Khmer Serei and helped disperse the money to fund Son Ngoc Thanh's operations.<sup>18</sup> Thus, the man who undermined the growth of a Cambodian economy funded by the United States eventually joined an anti-Sihanouk movement also funded by the United States.

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<sup>17</sup> Slocomb, *An Economic History of Cambodia in the Twentieth Century*, 83.

<sup>18</sup> Gardère, *Money and Sovereignty: An Exploration of the Economic, Political and Monetary History of Cambodia*, 291 and Charles Meyer, *Derrière le Sourire Khmer* (Paris: Plon Publishers, 1971), 223-224.

In an effort to aid Cambodia, the United States also engaged in currency exchange practices that encouraged corruption and Cambodian income inequalities. The United States participated in currency triangulation that, in theory, intended to provide the National Bank of Cambodia with domestic currency so that Cambodia could fund its own infrastructure projects. The United States exported goods to France, which the French would pay for with francs. Those francs would then be granted to Cambodia and South Vietnam to import goods from other states within the franc zone. By 1957, over 60 percent of French exports to Indochina were paid for with these triangulated francs.<sup>19</sup> However, this caused several fractures in the Cambodian economy. Currency triangulation helped turn Cambodia into an economy hinged on imports. Cambodia increased its imports from \$47.6 million in 1956 to \$74.9 million in 1958.<sup>20</sup> This substantial rise in imports can be traced back to the United States economic assistance and Washington's triangulation of currency. Cambodia, a state traditionally reliant on self-subsistence farming, had become dependent on foreign imports.

Moreover, the imports were often not used in a financially responsible manner. As Khieu Samphan illustrated, by the 1930s, imports for 90 percent of the population consisted of only 4 percent of the total imports to Indochina. The elites, roughly 10 percent of the Indochinese population, directed 49 percent of the imports towards non-essential items. The composition of imports, as will be detailed later, did not change by the 1960s; the elite still dominated the imports. Thus, by the United States providing aid and triangulated currency, it did little to stimulate economic projects that benefitted Cambodia as a whole; rather it served to solidify the lavish lifestyles of the elites.<sup>21</sup>

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<sup>19</sup> Slocomb, 111.

<sup>20</sup> "U.S. Economic Aid Program to Cambodia, 1955-1969," 16.

<sup>21</sup> Samphan, "Cambodia's Economy and Industrial Development," 64.

The second problem associated with currency triangulation to provide francs and riels for Cambodian development was that there were loopholes for such currency exchanges. Through June 1959, the United States had provided Cambodia with roughly \$140 million for Cambodians to purchase imports from “all the countries of the free world.”<sup>22</sup> However, such aid for import purchases did not always have the intended impact. Foreign traders utilized currency exchanges, which had to be submitted to the *Office National des Changes*, to sell or invest a percentage of the transaction on a parallel market as exporters could opt to transfer about 13 percent of the wholesale value of an export and 75 percent of the profit off an export into a separate exports-incidentals account. Due to discrepancies in international currency valuations, the influx of foreign investors trading within the Cambodian markets, and these legal loopholes in the Cambodian exchange policies, wealthy traders were able to make a substantial profit. Moreover, the exports of certain products, referred to as “*échanges compensés*,” were tied to the imports of other products, which then allowed wealthy traders to make additional profits from the international import and exports markets.<sup>23</sup> By 1963, this parallel market had raised the average rate of currency exchanges to 82 riels per \$1 dollar, rather than the official rate of 35:1. This also created trade incongruities as foreign exporters profited far greater off exports than a Cambodian exporter, who did not have access to this parallel market. Despite the United States attempting to protect currency exchanges and increase the national supply of riels for domestic development, currency triangulation also allowed the domestic and foreign elites to prey on Cambodia’s weak, foreign-driven economy.

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<sup>22</sup> “U.S. Economic Aid Program to Cambodia, 1955-1969,” 20.

<sup>23</sup> Rémy Prud’homme, *L’Économie du Cambodge* (Paris: Presses Universitaires de France, 1969), 125-128.

## Independence Becomes Interdependence

### Dependency through Trade

By the end of the 1950s, rubber was the only Cambodian export that the United States felt was a viable trade commodity in the West. The Communist Bloc began courting the Cambodian government in early 1956, which resulted in trade agreements with Communist China, Czechoslovakia, the Soviet Union, and Poland.<sup>24</sup> Undoubtedly, such bilateral trade agreements with Communist Bloc states worried the United States—despite the fact that such trade agreements were in accordance with Cambodia’s notion of economic neutrality. Cambodia’s neutrality posture, however, did not quell the concerns of United States officials. In a 1952 study prepared by the United States State Department, the United States determined that Southeast Asia contained 90 percent of the world’s natural rubber and Communist acquisition of rubber resources “would enormously increase their war potential.”<sup>25</sup> As a result, the United States not only intended to prevent Communist encroachment into Cambodia, but also to solidify exclusive trading rights with Cambodia in regards to their strategic resources.

Thus, in 1950, 48,000 tons of rubber was produced in Vietnam and Cambodia. By 1952, it was predicted that these two countries would produce 60,000 tons of rubber.<sup>26</sup> In 1954, more exports were going to the United States than France.<sup>27</sup> In 1955, rubber comprised of 45 percent of Cambodia’s total exports; by the end of the 1950s, rubber had reached roughly 55 percent of Cambodia’s total exports, and, in 1960, rubber accounted for nearly 69 percent.<sup>28</sup> Creating own-source revenue was an extremely important facet of Sihanouk’s plan to industrialize Cambodia,

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<sup>24</sup> Floyd L. Whittington to the Assistant Secretary of State for Far Eastern Affairs, 4 April 1958, in US Department of State, *Foreign Relations of the United States, 1958-1960, Volume XVI, East Asia-Pacific Region; Cambodia; Laos*, 70, 229-230.

<sup>25</sup> Staff Study Prepared by an Interdepartmental Committee for the Operations Coordinating Board, 14 December 1955, in US Department of State, *Foreign Relations of the United States, 1955-1957, Volume XXII, Southeast Asia*, 448, 744-754.

<sup>26</sup> “The Problem of Rubber,” *The Economist (London, England)*. May 24, 1952, The Economist Historical Archive: Issue 5674, pg. 532.

<sup>27</sup> Slocumb, 108-109.

<sup>28</sup> Prud’homme, *L’Économie du Cambodge*, 267.

and such a growing market for rubber exports could have been a positive sign for the growth of Cambodia's economy. However, the exportation of rubber failed to help Cambodia effectively modernize.

One of the biggest shortcomings of Cambodia's increased rubber exportation was that not only was rubber tapping merely a commodity market without any really modernizing attributes, the exports also were usually not own-source revenue. For instance, the formerly French owned *La Société Khmère des plantations d'Hévéas* (SKPH) turned over its plantation to the Cambodian government in 1958, which was then supposed to sell shares of SKPH to domestic investors. As generous as this may seem, by the late 1960s, the majority of rubber production was still done by foreign rubber companies that tapped around 50,000 hectares of rubber. This is compared to the roughly 4,500 hectares tapped by Cambodian private investors. Not only did Sihanouk's economic program allow for foreign investors to remain in control of Cambodia's resources, but self-subsistence farmers did not have the assets to buy public shares of these nationalized businesses—only the elite class had any real possibility of acquiring shares to these companies.

Sihanouk's government was also unable to organize adequate tax practices. Private enterprises made up nearly 85 percent of Cambodia's revenue, yet they only contributed to 15 percent of the taxes that were collected.<sup>29</sup> Thus, although the United States was attempting to aid Cambodia in instituting a strong and stable state, Sihanouk's government was unable to implement and enforce policies that could have stabilized its economy. Due to a poor agricultural season in 1955, Cambodia had a budget deficit of \$10 million. Instead of Cambodia beginning to construct positive reforms, such as equal tax policies, the Sihanouk government

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<sup>29</sup> Prud'homme, 92.

simply allowed the deficit to “be offset by US assistance.”<sup>30</sup> Such misallocations of United States aid did not have a devastating impact on the Cambodian economy in the 1950s, but this weak economic foundation became the impetus for Cambodia’s economic paralysis of the 1960s and 1970s.

The more aid Prince Sihanouk asked for, the more he received. By 1963, the United States was providing the salary for a large portion of the Cambodian army, which consisted of 30,000 soldiers. The United States, between 1956 and 1963, provided Cambodia with \$365 million in aid. Yet, there was still cause for concern as Cambodia began to gravitate toward the two Communist orbits of influence. According to an article by *The Economist*, “the Americans called Prince Sihanouk a maniac. The Prince replied by saying that the face of the United States was ‘not noble,’ and that he could not bring himself to hold out his hand to take the American aid which, regrettable, was so necessary for his country.”<sup>31</sup> Thus, in November 1963, Sihanouk publicly denounced the United States’ influence over Cambodia. This allowed China and the Soviet Union the opportunity to consolidate an economic partnership with Cambodia. Consequently, China armed 27,000 Cambodian soldiers in late 1964, armed an additional 10,000 soldiers in early 1965, supplied anti-aircraft weapons, helped fund the construction of the National Olympic Stadium and an international airport in Siem Riep, and provided eleven combat planes to Cambodia.<sup>32</sup>

During this period, the Soviet Union built a Soviet-Khmer Friendship hospital in Phnom Penh, a “superior technical school for 1000 students,” provided 500 million riels in monetary aid,

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<sup>30</sup> National Intelligence Estimate, 16 August 1955, in US Department of State, *Foreign Relations of the United States, 1955-1957, Volume XXI, East Asian Security; Cambodia; Laos*, 217; 474-485.

<sup>31</sup> “Behind Cambodia’s Drums and Dulcimers,” *The Economist (London, England)*, May 5, 1956, The Economist Historical Archive: Issue 5880, pg. 483.

<sup>32</sup> Memorandum of Conversation, 10 April 1961, US Department of State, *Foreign Relations of the United States, 1961-1963, Volume XXIII, Southeast Asia*, 139, 352-360; Cambodia’s Foreign Policy, 1 December 1965, OCI No. 2946/65, in US Department of State, *Foreign Relations of the United States, 1964-1968, Volume XXVII, Mainland Southeast Asia; Regional Affairs*, 163, 361-364.

and supplied Cambodia with four jet fighters including a MIG 15 and a MIG 17.<sup>33</sup> Then, in 1966, Chinese officials asked Sihanouk to allow supplies to be shipped into the port of Sihanoukville. Prince Sihanouk agreed, but recalled, “two thirds for the Viet Cong, one third for yourself. At that rate one sells oneself.”<sup>34</sup> Assuredly, not only did the Chinese and Soviets provide Cambodia with such large allotments of aid to bring him closer to the Chinese and Soviet orbits, but such aid also persuaded him away from the West.

### **Sihanouk’s Eastern Associates**

#### **“Breaking” with the West**

However, despite Sihanouk’s denouncement of the West in November 1963 and his closer ties to the East, the United States still retained an intensive economic partnership with Cambodia after 1963. Sihanouk criticism of the United States was more to gain publicity for Cambodia’s plight and out of fear of anti-government groups such as the Khmer Serei. As Sihanouk described in 1963, Cambodia “will never realize an independent economy” if Cambodia continues to associate with a state “organized around corruption, which as a consequence, creates dependence for our country.”<sup>35</sup> Yet, Sihanouk desired United States’ assistance more than a cessation of the assassination plots against him. Although Cambodian exports to the United States declined from \$9 million in 1963 to \$2.2 million in 1965, this cannot wholly be attributed to Sihanouk cutting off economic relations with the United States as Cambodian exports had steadily declined since 1959. This had more to do with the increased Cambodian dependence on imports and external foreign investment, which both did not create own-source revenue or a base of exportable goods. The United States was still importing at least

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<sup>33</sup> Meyer, *Derrière le Sourire Khmer*, 220.

<sup>34</sup> William Shawcross, *Sideshow: Kissinger, Nixon, and the Destruction of Cambodia*, revised edition (New York: Cooper Square Press, 2002), 64.

<sup>35</sup> Meyer, 218-219.

\$2 million worth of rubber throughout the early 1960s, which the United States even admitted was Cambodia's only viable trade commodity in the West. The Cambodian imports from the United States actually increased in the years after breaking economic ties from \$8.2 million in 1963 to \$26.3 million in 1965.<sup>36</sup> Despite Sihanouk's distaste for the United States' imperial tendencies, such distaste did not significantly hinder trade between these two states.

The increased imports despite "poor" relations with the United States during this period can be partly attributed to elite pressure on Sihanouk to continue trading with the United States. This can be seen in the items that were imported during the 1960s as they were not materials used by the peasantry. The third highest category, in millions of riels, of imports in 1963 was "Distractions, Culture, and Hygiene." It is doubtful that a peasantry, overcome with debt in this period, would have the funds to spend on imports labeled "distractions" or "culture." Moreover, the highest import in 1963 was "Clothing and Apparel." The peasantry may have contributed to the imports for this category, but considering nearly 90 percent of the households in Phnom Penh in 1962 that spent money on these clothing imports, spent between 600-1,200 riels a month on clothing, it is doubtful that the high importation of clothing was due to the spending of the peasantry, who by 1969 still did not make over 2,000 riels per year.<sup>37</sup> Thus, during the period of icy relations between Cambodia and the United States, the influence of the elite class on the government's decision-making process coupled with their taste for Western goods likely contributed to the continuation of trade between these two states.<sup>38</sup>

Yet, despite the continuation of millions of dollars' worth of trade between Cambodia and the United States after 1963, Cambodia did begin to foster closer ties to the two Communist orbits. In 1965, Cambodia was exporting over \$43 million, mainly rice exports, to China. China

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<sup>36</sup> Prud'homme, 263-270.

<sup>37</sup> Meyer, 209; Gardère, 343.

<sup>38</sup> Prud'homme, 260-261.



also exported nearly \$40 million worth of goods to Cambodia that same year.<sup>39</sup> This correlates to U.S.-Cambodian relations because as trade relations and aid allotments increased between Cambodian and the two Communist superpowers, communist military activity increased in Cambodia as well. This brought the United States, which had yet to conduct any significant military operations in Cambodia, closer to conducting such operations. These operations began in 1967 and tragically altered the Cambodian landscape and devastated local economies and communities.

## **The United States Indefinitely Intervenes**

### **Bombs and Border Excursions**

In 1967, the Central Intelligence Agency observed, “South of Attopeu, Route 110 underwent considerable improvement...Route 97 which provides the road connection between Route 110 and Siem Pang, Cambodia was reopened to traffic in early January.”<sup>40</sup> Unbeknownst to Prince Sihanouk at the time, by supporting Communist actions within Cambodia, he effectively helped secure his demise as the United States began to play a more active role in finding a Sihanouk replacement who would not allow such concessions to Communist forces. Also in 1967, top-secret teams of United States soldiers, in operations code-named Operation Salem House, later code-named Daniel Boone Operations, penetrated into Cambodia to seek out Communist sanctuaries. Once the missions commenced, it became clear that Communist forces were utilizing Cambodian territory to a much greater extent than previously imagined. These reconnaissance missions led to the first major bombing run conducted in Cambodia. Operation Breakfast, conducted on March 18, 1969 against Base Area 353, would change the course of the Vietnam War in Cambodia. Over the course of the bombing campaigns, over 2,500,000 tons of

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<sup>39</sup> Ibid., 263-267.

<sup>40</sup> Directorate of Intelligence, *An Evaluation of the Effects of Bombing on Infiltration Into South Vietnam*, 9 March 1967, Washington DC: Central Intelligence Agency, <http://www.vietnam.ttu.edu/virtualarchive/>.

ordnance was dropped over Cambodia; more tons of ordnance was dropped over Cambodia than the entire Allied Forces dropped in all of the Second World War. It is conservatively estimated that between 50,000 and 150,000 Cambodian civilians were killed during the roughly eight years of United States bombing activity.<sup>41</sup>

The United States bombing campaigns brought obvious animosity as a result of civilian deaths, but there were also economic factors due to the bombings that helped fuel anti-U.S. sentiment within Cambodia. As one Cambodian recalled, “the bombings caused damages to the paddy field—the paddy—the rice fields and the bridges.”<sup>42</sup> Moreover, Sao Sarun, a Khmer Rouge cadre, reported that in the Mondulhiri province “there was no market, no exchange of goods, not even in the provincial town. And that applies to the rural areas as well. The main cause was due to the heavy bombardment. The bombardments sometimes took place four or five times per day.”<sup>43</sup> Historically a self-sufficient state in terms of rice production, the intense bombing campaigns severely inhibited the Cambodian population from producing rice. As the number of sorties increased in the early 1970s, there was a distinct decrease in rice production. From 1969 to 1970, rice production (in millions) dropped from 3,814 metric tons to 2,732 metric tons. By 1973, the year the bombings stopped, rice production was down to 762 metric tons. On a similar note, corn production (in millions) in Cambodia dropped from 137 metric tons in 1969 to 73 metric tons in 1972-1973.<sup>44</sup> Moreover, it was unsafe to navigate on 40 percent of the roads and over 1/3 of the bridges in Cambodia had been blown up. After several years of such heavy

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<sup>41</sup> Taylor Owen and Ben Kiernan, “Bombs Over Cambodia,” *The Walrus*, (October 2006): 62-69; William Shawcross, *Sideshow: Kissinger, Nixon, and the Destruction of Cambodia*, revised edition, 24-25, 297.

<sup>42</sup> Extraordinary Chambers in the Courts of Cambodia, “Case File No. 002/19-09-2007-ECCC/TC,” Trial Day 61 (Phnom Penh: ECCC, May 17 2012), 58, <http://www.eccc.gov.kh/en/case/topic/2>.

<sup>43</sup> Extraordinary Chambers in the Courts of Cambodia, “Case File No. 002/19-09-2007-ECCC/TC,” Trial Day 70 (Phnom Penh: ECCC, June 6 2012), 61, <http://www.eccc.gov.kh/en/case/topic/2>.

<sup>44</sup> However, these numbers may be skewed as they may only measure the rice production in the Khmer Republic, which was rapidly shrinking as the Khmer Rouge marched closer to Phnom Penh.

bombing, according to one United States Air Force map, “thousands of square miles of densely populated, fertile areas” were “black from inundation.”<sup>45</sup>

One of the main objectives of Operation Ranch Hand was to establish “a denuded area along Viet-Nam borders (with Cambodia, or Laos, or both) to check Viet Cong infiltration.”<sup>46</sup> This led to many instances of defoliant and herbicide use in Cambodian civilian villages and agricultural fields. In a study conducted by a team of United States scientists, led by Dr. Charles E. Minarik, in 1969, it was determined that 70,000 hectares and about 15,000 hectares of rubber and fruit production areas were damaged due to the use of these chemicals. The majority of the damage was done within the Dar and Prek Chlong plantations. Some of the damage, done to a litany of different plants species, had a “die-back of one to four years of branch growth.”<sup>47</sup> Little regard was given for how the use of these chemicals could affect the viability of Cambodia. Charles Meyer noted, “all of the rubber plantations were methodically ravaged, with no military causality, by the spreading of defoliants and the bombardments.”<sup>48</sup>

The loss of functioning agricultural and industrial areas was not the only aspect of the United States military operations that hindered Cambodia’s solidification of a solid, non-foreign driven economy. The elites allowed the military operations to persist without much opposition as these elites economically relied on the West to provide them with the benefits of Western capitalism. Some Khmer Republic officials made, by some estimates, 25,000 riels per month, bought expensive houses, and “owned two or three cars of which often were Mercedes.”<sup>49</sup>

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<sup>45</sup>“Kampuchea in the Seventies: Report of a Finnish Inquiry Commission” (Helsinki, Finland: Kampuchea Inquiry Commission, 1982), 12; Shawcross, 297.

<sup>46</sup> Paul N. Neilson to the Director of the United States Information Agency, 17 November 1961, in US Department of State, *Foreign Relations of the United States, 1961-1963, Volume I, Vietnam, 1961*, 265, 641-642.

<sup>47</sup> Charles E. Minarik, “Report of Cambodian Rubber Damage” (Frederick, Maryland: Plant Sciences Laboratory, Department of Defense), December 11, 1969.

<sup>48</sup> Meyer, 209.

<sup>49</sup> *Ibid.*, 177-178.

Cambodian officials allowed United States military intervention in part to uphold these extravagant living standards.

The Cambodian government also received compensation for each civilian harmed by the United States bombing campaigns. The United States government paid \$400 per body, \$150 for non-fatal casualties, and \$100 for lesser injuries; by early 1970, one United States official admitted that he had “paid out \$24,850 in such relief.”<sup>50</sup> From the perspective of the elitist Cambodian government, there was little motivation to denounce United States’ intervention. The elites were profiting very nicely off the destabilized economy; the peasantry’s plight was a mere afterthought. Such military operations actually drew popular support to communism rather than repelling it and made Cambodia’s modernization an impossibility. Although the United States hinged its anti-communist policy on the modernization theory, its actions were counterintuitive in this instance.

## **Corruption and Cronyism in the Khmer Republic**

### **The Predatory Elite**

Once Sihanouk was overthrown in 1970, the Lon Nol government quickly aligned itself with the United States. Corruption and cronyism ran rampant during this period in part because of the loose controls set on United States economic assistance. In 1958, the average rural peasant made 1,700 riels per year.<sup>51</sup> Yet, the average yearly wage of all Cambodians workers—including elites and the peasantry—was 3,700 riels in 1963.<sup>52</sup> The wide gap between the rich and the poor is explicitly illustrated by this statistic as despite over 80 percent of the population being comprised of the peasantry, the average yearly income was still much higher than the yearly income of the peasantry. By 1969, the average rural peasant still did not make over 2,000 riels

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<sup>50</sup> Henry Kamm, *Cambodia: Report from a Stricken Land* (New York: Arcade Publishing, 1998), 34.

<sup>51</sup> Delvert, 524.

<sup>52</sup> Prud’homme, 107.

per year while the average civil servant made 5,000 riels a month.<sup>53</sup> Thus, by the early 1970s, the peasantry was in desperate need of humanitarian aid.<sup>54</sup>

However, humanitarian aid was often misappropriated as well. Lon Nol allocated the majority of economic aid to support the lavish lifestyles of his government cohorts. The opportunistic and predatory elite took advantage of the loose controls on foreign aid. By some estimates, roughly half of the \$350 million in U.S. aid provided in 1974 went directly for private gain. When Lon Nol's brother, Lon Non, left Cambodia in 1973, he had made over \$90 million dollars in an inhospitable economic climate.<sup>55</sup> Corruption was not only widespread, but it came at the expense of the peasantry. As the Prime Minister of the Khmer Republic, Long Boret, stated in 1973, “the elite, which consumes a large part of imported merchandise, have suffered rises in the cost of living far less noticeable than the middle and working classes.”<sup>56</sup> Despite economic stagnation, the elite somehow still prospered—an unsettling fact for a starving and landless peasantry.

Moreover, the United States' “Food for Peace” program, PL-480, relied on, under its Title I stipulations, concessions and loans that were then used to generate funds to pay for the expanding military budget.<sup>57</sup> The peasantry, unable to rise above the constant indebtedness that Cambodia's dual economy imposed on them, began to form closer ties to the Khmer Rouge. As H.E. Tal Nay Im, the current director general of the NBC, reported, inflation was unavoidable during this period as the budget deficit was being corrected with currency advances by the NBC. In order for the Lon Nol government to pay its civil servants, the NBC was forced to print more

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<sup>53</sup> Meyer, 209; Gardère, 343.

<sup>54</sup> Gardère, 358.

<sup>55</sup> Gareth Porter and G.C. Hildebrand, *The Politics of Food: Starvation and Agricultural Revolution in Cambodia* (Washington D.C.: Indochina Resource Center, September 1975), 8.

<sup>56</sup> Slocumb, 145.

<sup>57</sup> Gareth Porter and G.C. Hildebrand, *The Politics of Food: Starvation and Agricultural Revolution in Cambodia*, 11.

currency just to keep the government functioning. Thus, the riel and the economy as a whole depended on foreign aid just to stay afloat. Yet, in accepting such massive amounts of foreign assistance, the economy became dollarized, which only benefited the elites. The elites had exclusive access to the United States currency and, as H.E. Tay Nay Im noted, U.S. dollars, or “‘green,’ as it was called, was for the rich and people put it aside for a rainy day.”<sup>58</sup>

The rice production in the Khmer Republic dropped from 2,503,000 metric tons in 1968 to only 762,000 metric tons by the end of 1974.<sup>59</sup> In 1973 alone, the U.S. arranged 30,000 tons of rice to be shipped to Cambodia along with \$30 million in economic monetary aid.<sup>60</sup> As the Thai ambassador noted in 1973, “Cambodia used to export [rice]. Now they import.”<sup>61</sup> Not only had Cambodia become dependent on United States economic assistance, but also due in large part to corruption, foodstuff often did not reach the peasantry. Moreover, when it did reach the starving peasantry, it was often unbearably expensive due to inflation, lack of supply, or unequal currency exchanges. According to the World Health Organization, a kilo of rice cost 300 riels by May of 1974—much too expensive for the peasantry to afford. In other instances, the peasantry did not even have a chance to purchase the rice as the Government of the Khmer Republic (GKR) sold the rice, which at times had been artificially set low to make it affordable, in Thailand or Vietnam to make a handsome profit.<sup>62</sup> There were also reports that the GKR was selling rice to the Chinese and selling United States military supplies and medicines to Cambodian and

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<sup>58</sup> Gardère, 363-364.

<sup>59</sup> “Kampuchea in the Seventies: Report of a Finnish Inquiry Commission,” 12.

<sup>60</sup> Richard Kennedy to the President’s Assistant for National Security Affairs, 6 August 1973, in US Department of State, *Foreign Relations of the United States, 1969-1976, Volume X, Vietnam, January 1973-July 1975*, 98, 394-395.

<sup>61</sup> Memorandum of Conversation, 21 September 1973, in US Department of State, *Foreign Relations of the United States, 1969-1976, Volume E-12, Documents on East and Southeast Asia, 1973-1976*, 5, 1-4.

<sup>62</sup> Porter and G.C. Hildebrand, 2.

Vietnamese communist forces.<sup>63</sup> Such corruption not only undermined the purpose of the aid provided by the United States, but also inhibited Cambodia's ability to stabilize its economy.

### **Year Zero: The End of Modernity**

As the Lon Nol government continued to implode, the United States tried to fortify Cambodia with more aid, but to no avail. There was little possibility of resurrecting the Cambodian economy by 1974 due to rural unrest and because the United States was providing 95 percent of the Khmer Republic's revenue with only 2 percent representing own-source revenue. The Khmer Rouge was too strong; Cambodia's attempt at modernization had failed to resist communism. As the economic situation worsened, all the United States could do was request more aid allocations for Cambodia from Congress. For the 1975 fiscal year, Washington asked for \$750 million dollars in additional aid to be allocated to Cambodia.<sup>64</sup> Jean-Daniel Gardère, quoting Rémy Prud'homme, noted, foreign aid "fills the hole that it digs."<sup>65</sup> On April 17, 1975, the Khmer Rouge captured Phnom Penh. Cambodia's U.S.-backed twenty-year attempt at modernization had failed. The Pol Pot regime quickly undid any hints of modernity by transforming Cambodia into a society without currency, without industry, and without markets. Or, as the Khmer Rouge referred to it as, Cambodia had been reverted to "Year Zero."

Modernity, coupled with mass consumerism, seemed to be a logical antidote to communist infiltration, but states often needed external assistance to modernize effectively. However, in Cambodia's case, a vicious cycle presented itself due to its reliance on foreign assistance: Cambodia's weak economy required United States aid, which then increased government corruption and dependence on such aid, which then only quickened Cambodia's

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<sup>63</sup>Ibid., 3-10.

<sup>64</sup> Jeanne Davis to the President's Deputy Assistant for National Security Affairs, 1 August 1974, in US Department, *Foreign Relations of the United States, 1969-1976, Volume X, Vietnam, January 1973-July 1975*, 132, 534-535.

<sup>65</sup> Gardère, 339-358.

economic decay. The *Sangkum* denounced foreign parasites within the Cambodian economy, but such denouncements meant little. In reality, Cambodia fostered close economic ties to the United States and never untied them. Sihanouk's relationship with the East precipitated a United States mission to find an alternative to his communist sympathies, but backing the Lon Nol government neither repelled communism nor modernized Cambodia's economy. The Lon Nol government did not encourage economic stability—much to the contrary. As a consequence, with the United States heavily bombing Cambodia and funding the extravagant lifestyles of the Lon Nol officials, the economy spiraled into dissolution. The United States' attempt to fortify Indochina against communistic encroachment conflicted with its primary objective of economic stability; modernizing Cambodia became an afterthought. Thus, by 1975, both objectives had failed.



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