

**Opening Address**  
by  
**Samdech Akka Moha Sena Padei Techo HUN SEN, Prime Minister,**  
**Kingdom of Cambodia**

**At the**  
**2010 Cambodia Outlook Conference: A Partnership of CDRI**  
**and ANZ Royal Bank**

***“Returning to a High Growth Economy – Policy Priorities and***  
***Action for Growth and Sustainable Development”***

**17 March 2010, Phnom Penh Hotel**  
**Phnom Penh, Cambodia**

***Excellencies, Ladies and Gentlemen:***

It is my great pleasure today to participate in the opening of the 2010 Cambodia Outlook Conference on ***“Returning to a High Growth Economy – Policy Priorities and Action for Growth and Sustainable Development”***. This is the fourth occasion on which I have had the pleasure of delivering the opening keynote address, and I would like to again congratulate CDRI and ANZ Royal Bank on their initiative in hosting this important annual conference, which each year brings together officials from the Royal Government, the private sector, the research community, civil society and international development partners to consider Cambodia's achievements and the challenges we face, and to seek good approaches we can work on together for the benefit of our nation.

This year's conference is of particular importance because it is the 20<sup>th</sup> anniversary of the Cambodia Development Resource Institute, CDRI, your co-hosts today, and now Cambodia's leading independent development policy research institute, playing a critical role in providing evidence based development research and policy recommendations to government and other stakeholders in Cambodia's development. I am very proud to have been involved in the establishment of CDRI all those years ago, and this morning as I look around I am pleased to see also present Madam Eva Mysliwicz, CDRI's visionary and indefatigable

founding director, and the presence of other distinguished people, who played such important roles in CDRI's genesis.

As Cambodia has grown, developed, and changed over those 20 years, so has CDRI grown, developed and changed, but never losing sight of its mandate - to do independent high quality policy relevant research, but also to train and build the professional and other capacities of Cambodians to make a great intellectual contribution to our nation. On the occasion of CDRI's 20<sup>th</sup> anniversary I would like to extend my warmest congratulations and appreciation to all CDRI Board members, management and staff, past and present, who have each contributed to the success of this unique national institution.

***Excellencies, Ladies and Gentlemen:***

Today's conference and its theme, *Returning to a High Growth Economy – Policy Priorities and Action for Growth and Sustainable Development*, are very relevant in the current context. I remember that, last year in this forum, we considered the impact of the severe global financial crisis and global and regional economic downturn that, while not of Cambodia's own making, had such serious negative impacts on our economy and its growth, on our development, and on the wellbeing of our people, especially the poor and vulnerable. This year, while learning from the many lessons of the crisis, and assessing the effectiveness of our responses, we look forward, to what must now be done to return Cambodia to its former high levels of growth, and to strengthen our achievements in sustainable development and poverty reduction.

Although the world's economy is recovering, we have faced daunting challenges to find new markets beyond the US and European ones and compete for funding in terms of ODA, FDI and other sources to finance our growth and development. The economic structure has changed from an economy that mostly relied on garments and tourism into a more diversifying broad-based economy with improved domestic and regional linkages. Thus the key issue for us now is how to improve our "competitiveness".

Indeed, at the current stage of development, the assistance from our official development partners either in "preferential trade treatment" or "development cooperation financing" remain very crucial to the development of the Cambodian economy, and we are making our best efforts to use those resources effectively and efficiently to create a strong foundation for growth and poverty reduction among our people.

We are also aware that, if we are going to be thoughtless, hasty and lacking of ownership, we cannot rely on “preferential treatment” and such assistance to get rid of poverty. In other words, we can say: ***“nobody gives us money to become rich, if we have no ideas on how to live on our own”***. We must be ambitious and aim high to graduate from a poor country and to become a middle-income and then developed country in a realistic timeframe, with effective and efficient use of all the opportunities and available potential while participating in cooperation and competition with partners in this globalized world.

***Excellencies, Ladies and Gentlemen:***

Let me now start my presentation with a brief recap on the impact of the downturn on Cambodia and our Royal Government’s responses.

After a decade of strong growth with significant poverty reduction, the economy has been impacted by the global financial crisis, affecting key real economic sectors. However, the overall economic performance is not too bad, as recent preliminary estimates suggested GDP growth in 2009 would remain positive, supported by good performance in agriculture and service sectors at 5.4% and 2.3% respectively, offsetting the decline in other sectors such as industry at -9.4% especially the garment sector which dropped by -9%. It should be noted that all the sub sectors of services have shown growth, except the real estate business which declined by -2.5%. The tourism industry was hit by the crisis, with growth slowed down to 1.8% for the hotel and restaurant sub-sector. Investment (FDI) suffered some decline to around USD 500 million in 2009, but it is still significant to support the Cambodian economy. Thus the economy has been impacted not so much through the financial sector (which remains underdeveloped) but through trade and investment.

I wish to reiterate that those key macroeconomic indicators are preliminary and not yet official. Normally, official economic performance figures will be finalized and released for dissemination after June each year. Thus these numbers may change.

Indeed, the impact of the crisis on Cambodians’ livelihoods varies across the population and locations. Only one-fifth of all households have a job in sectors directly affected by the crisis, particularly in garments, construction, and tourism, where the government has taken timely measures to reduce their impact. However, since agriculture and rural economies performed well, we expect that the majority of Cambodian

people, who are making their living in rural agriculture, stand to benefit from this growth and their living conditions will be further improved.

Growth is expected to recover in 2010, at a projected 5% rate. Inflation has declined sharply, mainly due to lower food and fuel prices, while the exchange rate has been kept stable on par with the US dollar. Gross official reserves increased from US\$2.1 billion to US\$2.3 billion covering 4 months of imports. Based on these latest indicators, we can say with confidence that the Royal Government, like others in Asia, has already led the Cambodian economy out of the difficult period of the crisis, while in such difficult circumstances, we managed to strictly maintain financial and macroeconomic stability as well as stability in society and the livelihoods of our Cambodian people.

We are glad to see that our international development partners have maintained their strong commitment to supporting us during these difficult times. The Royal Government has been working closely with them to coordinate their cooperation assistance to implement the stimulus policy package effectively and successfully. We have also been able to significantly increase the development assistance especially from China and Japan in the context of the Greater Mekong Sub-region.

Cambodia has responded to the crisis proactively with moderate fiscal intervention while maintaining monetary stability and support sustainable economic growth. Cambodia is a small and open economy, with capital account liberalization; the Cambodian economy is highly dependent on a sustained international trade expansion and foreign capital inflow. More than 90% of the banking transactions are dollarized. It means that we cannot use interest rate policy to influence the economy. With free capital flow, on the other hand, foreign exchange intervention has been used to stabilize the exchange rate and to increase international reserve position. Policy response coordination, through the Committee for Economic and Financial Policies, is crucial in a dollarized economy, in which fiscal policy also plays a crucial role.

During the high oil and food price crisis in 2008, our Committee for Economic and Financial Policies set up a joint taskforce involving the Ministry of Economy and Finance, the National Bank of Cambodia and key economic ministries to enhance economic surveillance efforts and provide more coordinated policy responses. Reserve requirements were increased from 8% to 16%, while commercial bank's exposure to high-risk sector was capped. After the onset of the Global Financial Crisis, we reduced the reserve requirement to 12%, lifted lending restrictions, and

increased spending to boost domestic demand. In addition, the central bank has made further efforts to improve supervision and regulation by tightening rules and regulations and enhancing onsite supervision. Particular attention has been made to the banks' solvency and liquidity conditions. Further regulatory and supervisory measures will be implemented to strengthen risk management and corporate governance at the banks to strengthen enabling institutions to better anticipate, manage and ultimately withstand adverse economic conditions and market trends.

We faced a daunting challenge on the fiscal front. Cambodia has acted counter-cyclically to boost domestic demand, with increased public expenditure towards improving social safety nets and providing retraining and alternative employment for vulnerable population segments, including those losing jobs in the affected export sectors. We have also established the Fund for Agricultural Development in order to increase agricultural productivity and diversify our growth base. Priorities have also been given to public investment in physical infrastructure and supporting growth in the agricultural sector. Against these backgrounds, the 2009 budget deficit was expected to widen to 6% of GDP, due to the facts that expenditure levels have risen sharply, with large increases in wage and locally financed capital spending, though revenue collection has been broadly strong. In 2010, we aim to maintain the budget deficit quite significantly though cautiously at 5% of GDP, in order to sustain the recovery from the global economic crisis and to strengthen the foundations for growth as well as to fast track our economic diversification efforts.

We have learnt important lessons in going through the crisis, which should be raised for consideration. I wish to highlight some key issues as follow:

(i) Peace, political stability, security and social order, as well as macroeconomic and financial stability are key to high economic success. Cambodia has built a strong record of macroeconomic management, especially the management of public finance and the governance in finance and banking sector. In this context, I wish to sincerely appreciate the steadfast efforts made by the Ministry of Economy and Finance during the difficult time; and also highly appreciate the major contribution by the National Bank of Cambodia.

(ii) Strong performance in agriculture and rural economies has helped us survive the crisis with insignificant damages and it will remain a

potential engine of growth and poverty reduction over the medium to long term;

(iii) Promoting implementation of reform agenda in all sectors especially in public financial management helped strengthen our capacity to deal and respond to the crisis. Going forward, the advancement of all the reforms especially in enhancing regulatory framework and laws enforcement is the urgent priority of our reform agenda;

(iv) Deepening Cambodia's integration and economic linkages in the region and the world has been fundamental to our economic success and should remain an important priority going forward, in particular in East Asia, ASEAN and GMS;

(v) Diversifying products and markets for exports is a MUST if we are to compete in the global markets and to build our economic foundation speedily; and

(vi) Enhancing agricultural productivity & diversifying agricultural production, including the development of irrigation and energy infrastructure, is needed to promote economic growth and diversification.

(vii) Building a comprehensive social safety nets system and programs are important to mitigate the adverse impacts of crisis on people as well as to improve and increase productivity and capacity of our labour force for the next stage of development, employing proactive human resource policy and participation of private sector.

These priorities, I talked earlier, are now reflected in the Royal Government's updated National Strategic Plan 2009-13. The Royal Government will encourage the implementation of those important activities and other key measures to the success in an effective and efficient way.

***Excellencies, Ladies and Gentlemen:***

In pursuing these broad strategies for a return to higher growth, sustainable development and poverty reduction, in partnership with the private sector and our development partners, we must focus on the sectors of our economy that are critical for growth, for economic diversification, for responding to the potential export markets of the dynamic economies and societies of our East Asian region, and other promising global markets. Key measures are to make further efforts in

ensuring political and macroeconomic stability, social stability and orders, as well as to implement key reform programs in order to strengthen Cambodia's competitiveness and to attract quality domestic and foreign investments.

As the programme of today's *2010 Cambodia Outlook Conference* reflects, the most promising and critical sectors for priority policy responses and action by the government and the private sector are agriculture and rural development, tourism, emerging industries such as light manufacturing, and infrastructure and energy generation.

In agriculture, as indicated earlier, we learnt a very important lesson from the economic downturn – that Cambodia's agricultural sector, both current and potential, is one of the great strengths of our economy. It continued to grow at around 5% pr annum over the most difficult of times. With a concerted strategic effort by government, its development partners, the private sector and agricultural producers themselves, we have made notable achievements in improving agricultural productivity, especially in the quality and yield of rice production, and its milling for both domestic consumption and export; in promoting diversification of crops to respond to market needs in our Asian region; in improving rural infrastructure, irrigation, water resource management, transport and access to markets, access to credit and extension services. The Royal Government will make further efforts to strengthen agriculture as an important engine of growth, and that will make a significant contribution to rural economies, poverty reduction and wellbeing of rural communities.

In the tourism sector, we will further encourage and support the private sector to take advantage of recent government initiatives in establishing a national airline, in constructing Sihanoukville airport, and in the diversification of both cultural tourism, beyond the current Angkor sites, and to other tourism nice markets such as beach tourism and eco-tourism. We must also work with all stakeholders including the government institutions, development partners, private sector, farmers, handicraftsmen and all workers to create the 'value chains' that will provide quality service and attraction for domestic and foreign tourists.

In emerging industries, we will explore opportunities to further develop a light manufacturing base in the production of consumer goods such as processed food, paper and packaging, rubber products, bicycles and motor cycles, and the many small accessory items and processed agricultural products for export and domestic consumption. To realize

this, we must learn from the experience of our neighbours on how to better manage and promote investors using special economic zones, especially in strategically placed border areas where the benefits of improved 'hard and soft' infrastructure are now flowing.

In infrastructure and energy generation we will continue, in close cooperation with our development partners, the private sector and local communities, to complete the rebuilding of critical rural infrastructure to achieve better connectivity and logistics, for the movement of both people and goods, within Cambodia and with our neighbours. The Royal Government will give priority to greatly enhancing our energy generation capacity to ensure a reliable affordable energy supply, while at the same time, considering the need to ensure environmental sustainability and manage social impacts.

Going forward, especially in the post crisis context, we also realize that Cambodia needs to take full advantage of its favourable and strategic position in the regional and world geo-economic and geo-political relationships. Cambodia is geo-physically well placed to be a beneficiary of China's economic development, the rapid recovery from the global crisis and economic downturn in Asia, the great potential for growth in the region, and the entrepreneurship of private sector of those countries in the region. The potential for an integrated Greater Mekong Sub-regional production network and market, extending from China, through the GMS countries to the rest of ASEAN, provides compelling opportunities for Cambodia and for all the GMS countries.

***Excellencies, Ladies and Gentlemen:***

Through these priorities and partnerships I believe Cambodia will be able to move forward towards realizing its long term vision of building a Cambodian society with peace, political stability, security and social order, sustainable and equitable development, strict adherence to the principles of democracy and multi-party political system, respect for human right and dignity, socially connected pillars of society with a well educated and culturally advanced population, appropriate standards of living and harmony in society as well as in the family; as all these are clearly defined in the Rectangular Strategy for Growth, Employment, Equality and Efficiency.

Through the Rectangular Strategy, NSDP and other relevant documents the Royal Government has set a vision, policy, strategy, and detailed plan of action to lead the "Cambodian ship" on the path of peace and

democracy toward social progress and prosperity. In the difficult period of this global economic crisis, the Royal Government has shown its maturity and firm capacity in leading the Cambodian society to weather the storm and survive its worse consequences. Indeed, we are grateful to all our partners, either official development partners, or the private sector or civil society, who have provided cooperation and assistance to the Royal Government and Cambodian people in the difficult circumstances. Indeed, the climate has improved but the sky is not clear yet. Thus we are required to take further precautions to ensure that Cambodia remains stable to move forward on a track of a sustainable development and high economic growth toward progress and development.

We have learnt important lessons, in going through the storm of economic and financial crisis, which allow us to make adjustments and improve our efforts. With strong political commitment, in a full spirit of ownership and partnership with all the stakeholders, we will make the best use of our capabilities, opportunities and potential to overcome obstacles, big or small, to realize the national vision and the humble aspiration of our Cambodian people.

In the spirit of optimism and firm determination, may I conclude my opening keynote address here; and I wish the conference a success in exchanging views and dialogue on the future of Cambodia. Once again, I congratulate the organizing partners of the 2010 Cambodia Outlook Conference, ANZ Royal Bank and CDRI, and look forward to receiving good policy recommendations and ideas for action generated by the conference.

Finally, may I again congratulate CDRI on its 20<sup>th</sup> anniversary and wishing it a long and productive life as a unique and highly valued national and international Cambodian think-tank.

Thank you for your attention!