

Remarks by Ambassador Joseph A. Mussomeli  
"Avoiding the Resource Curse: Managing Cambodia's Extractive Industries"  
Panel: From Dependency to Shared Prosperity  
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Excellencies, ladies and gentlemen. Thank you for allowing me to participate on this panel. This session, "From Aid Dependency to Shared Prosperity: Managing Cambodia's Oil and Gas Resources," is certainly timely. Within the next three years, Cambodia's extractive industries -- oil, gas, and various types of mining -- could more than triple the annual revenue received by the Royal Government of Cambodia (RGC). A United Nations Development Program Study stated that future oil revenues alone could provide over three times the country's official development assistance received in 2005.

This should be wonderful news. And indeed, for some countries extractive industries have been an economic savior rescuing poor nations from seemingly intractable poverty. It can also be an economic savior for Cambodia. But that future is not yet certain for Cambodia. We all know from our own lives that many apparent blessings turn out to be curses. In America a year does not go by when you don't read about some lucky person who won millions of dollars in a lottery and then ends up poorer and unhappier than ever before. Sudden wealth is as hard for people to cope with as sudden tragedy. For many countries the wealth acquired through the extraction of resources has been a horrific curse, rendering the population destitute, while a small corrupt elite siphons off revenue that should go to improving the welfare of all the people. Over time this corruption and the increasing disparity between the few "haves" and the many "have nots" inexorably leads to social unrest, political instability, and violent conflict.

How will Cambodia navigate this critical voyage from being an "Aid Dependent Country" to a "Resource Rich" country? Will Cambodia be able to maximize wealth and cast off the social, political, and psychological shackles of the Pol Pot regime? Will Cambodia emerge as a 21<sup>st</sup> Century Asian Dragon, implementing international best practices while pursuing its own path to economic prosperity and political stability? In order for the answer to these questions to be "Yes," Cambodia will need above all else political will. All the planning and training and good intentions will get Cambodia exactly nowhere if your leaders lack the political will to demand that the revenues from these extractive industries be used solely for the improvement of the country. In his open and eloquent speech yesterday, Prime Minister Hun Sen showed his intent to demonstrate just such political will. You must develop a transparent policy framework and establish comprehensive institutional structures that will prevent anyone, no matter how powerful, from misusing these revenues.

Before providing specific policy recommendations, I would like to highlight the pitfalls of the "Resource Curse," into which too many other nations have fallen. Contrary to expectations, discoveries of large reserves of natural resources have not always resulted in economic or social growth, and in some countries the general population is actually worse off after 30 years of oil revenue. The curse begins when government "Deal Makers" do not get the best price for the non-renewable natural resources. These "deal makers" usually use non-transparent processes that focus on short-term wealth at the expense of long-term national development. These "deal makers" also usually have only

a limited technical understanding of the business complexities and arrangements of the extractive industries.

Sometimes governments simply fail to plan for the inevitable revenue shocks associated with the constant ebb and flow of the world oil, gas, and mineral prices. Often governments find themselves remaining dependent on financial institutions who loan funds to cover budget shortfalls, which can lead to excessive debt and inflation.

Most fundamentally, some countries have made the irritatingly human decision to use the resource surpluses to relax fiscal discipline. Like children who never think about the long term consequences of the choices they make, they act as if the revenue will never stop flowing and they need never act responsibly. This ultimately causes a downward economic spiral fueled by increased public consumption at the expense of local production, causing domestic inflation and undermining the economy's productive sectors.

What does this mean for the Cambodian situation? The impact of inflation can lead to higher prices to produce Cambodian agriculture and manufacturing products, thus reducing their competitiveness in the world market. Stated simply, if the extractive industries revenue is not properly managed the Cambodian garment industry that currently employs 334,000 Cambodians who earn \$292 million a year in wages and \$2.6 billion in exports in 2006 could be undermined and ultimately collapse. This is an unattractive scenario that can be avoided. Many within the RGC recognize and have been working to responsibly manage Cambodia's extractive industries.

The world community has gained a good deal of experience over the last several decades on how to manage the risks and realize the rewards of oil, gas, and mineral development. Cambodia has the opportunity to learn from the failures of some countries and build on the successes of other countries.

We would recommend the following policy considerations:

First, we applaud the RGC for considering the Extractive Industries Transparency Initiative (EITI) and we hope that Cambodia will soon become an EITI Implementing Country. This would be a welcome step to demonstrate the RGC's commitment to establishing transparency in the extractive industries contracting system.

Second, the RGC should improve laws and regulations relating to disclosure and oversight of government revenues to ensure extractive industry revenues are openly tracked and allocated to implement the RGC's current Rectangular Strategy.

Third, the RGC should review their revenue management policy. The policy should provide answers to important questions such as "what to spend," "what to save," and "when." What will be the rules by which revenues would flow into the Treasury? Will Cambodia follow the Nordic example and establish savings funds for future generations? If so, what percentage of revenue will be made available for annual expenditures to support the education and health systems, rural infrastructure, preservation of the nation's tropical forests, and other development priorities?

Fourth, the RGC's work to develop a new Petroleum Law should be expedited to ensure an efficient and transparent regulatory framework.

Fifth, the proposed amendment to the Law on Taxation that introduces clear and efficient petroleum industry taxation provisions should be endorsed and forwarded to the National Assembly. In order to implement the revised tax system the Ministry of Economy and Finances' Tax Department will need to be strengthened to include specialists on extractive industry tax administration.

Sixth, the National Assembly should take immediate action to enhance its ability to serve a viable oversight role, including establishment of a permanent Commission that has the specific responsibility for oversight of extractive industry revenue flows.

Seventh, the RGC should expedite the passage and implementation of a Freedom of Information Law, which will codify in law the basic democratic principle that the work of the government should be conducted in a transparent and open manner so that government leaders can be held accountable for their decisions and actions.

Finally, the RGC should pass and implement an Anti-Corruption Law that will establish an independent Anti-Corruption Body that can investigate corrupt practices throughout the government.

In closing, I would offer the observation that after living in Cambodia for a year and a half, I have discovered that there are few things all Cambodians agree on. But there are two things that they all consistently believe, regardless of their age, their political party, or their economic status. First, they all speak with pride about the great Khmer civilization that flourished many centuries ago. And second, they all speak longingly about how only 50 years ago Cambodia was the envy of all of Southeast Asia. How Cambodians were better educated, had better health services, had a more lively and open cultural atmosphere than any of its neighbors.

And I like to think that the revenues that Cambodia will soon obtain from its natural resources will be a "second chance" for Cambodia. A second chance to regain the prestige of its ancient Khmer civilization and a second chance to again be the envy of all its neighbors. And this is an especially auspicious year to begin this "second chance." We all just celebrated the ushering in of the Year of the Golden Pig. My understanding is that the Year of the Pig is particularly auspicious for investment and stability. I can't help but think that in order to ensure stability and to wisely invest in Cambodia's future, all the good traits of the Pig - intelligent, gentle, honest, kind, and hard working -- will be required. Thank you.