



Keynote Address

by

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At the
**Conference on "Cambodia's Investment, Trade and Infrastructure
2007"**

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- *Your Excellencies, Ladies and Gentlemen,*
- *Distinguish National and International Guests!*

It is my great pleasure and honor to joint with *Your Excellencies, Ladies and Gentlemen* this morning to address the conference on **"Cambodia's Investment, Trade and Infrastructure 2007"**.

I would like to highly value this initiative which brings together policy makers, national and international experts as well as private sector for a dialogue on critical economic issues that our country is facing. On behalf of the Royal Government of Cambodia and on my own behalf, I would like to thank **Dataconsult** for its close cooperation with the Cambodia Chamber of Commerce, Ministry of Economy and Finance, Ministry of Commerce, Ministry of Public Works and Transport, Ministry of Industry, Mine and Energy and United Nations Development Programme (UNDP) in organizing this important conference with the support from leading private enterprises.

The conference on **"Cambodia's Investment, Trade and Infrastructure 2007"** is held at the time when Cambodia has achieved

the positive transformations not only in political and security aspects but also in economic and social landscape. The **"Win-Win"** policy that we, ourselves, have adopted without external guidance or persuasion has brought to Cambodia and its people full peace, national unification and territorial integrity at the end of 1998. In the last 9 years, Cambodia and its people have enjoyed peace, political stability and rapid economic growth. The hard-earned peace, political stability, safety, social order and long-lasting safe environment are vital pre requisite to enable Cambodia to realize its social and economic potentials. Indeed, all choices that we have made and development that we have achieved are reflecting opportunities and positive participation from our people in building the foundation for our development in the next decade. Therefore, it is now more than ever before, the right time for us to choose and confront difficult practical steps with determination, carefulness, confidence and commitment.

- Your Excellencies, Ladies and Gentlemen!

During over than the past decade, Cambodia has achieved remarkable macroeconomic stability and economic development in which the average annual economic growth rate reached 8.4% during 1994-2006. During the 1999-2006 period, after the country has had full peace, the average annual economic growth rate rose to 9.6%, and from 2004, the average annual economic growth rate increased to 11.2%. In 2005, the economic growth rate reached its highest at 13.5% and it was maintained at 10.4% in 2006. In 2007, the economic growth rate may reach around 9.5% based on our preliminary estimate. At the same time, the annual inflation rate has been managed at 4.2% between 1994 and 2006. GDP per capita has risen 6% on average from USD247 in 1994 to USD513 in 2006. The international reserves have increased almost 11 folds from USD100 millions in 1994 to over USD1.1 billion in 2006 and have reached over USD 1,5 billion as of September 2007, which means an increase of 32,95%. Indeed, this high growth rate was achieved through the committed and determined implementation of policies and systemic reform programs of the Royal Government of Cambodia aiming at supporting and promoting production activities and market access as well as on the basis of confidence from the private sector on the prospect of Cambodian economy as reflected by the dramatic increase of investment and growth subsequent to the private sector dynamism in production sectors, especially in agriculture, garments, construction and tourism sectors.

As you are all aware, the Royal Government considers the private sector as the engine of economic growth while the Royal Government of Cambodia is the strategist and development manager whose role is to provide favorable investment climate with stability, transparency and predictability for the private sector. Based on this philosophy, the Royal Government of Cambodia launched the ***Dialogue Mechanism between the government and private sector*** in 1999 with two main functions: (1) a forum for consultation with the private sector on government's new initiatives related to private sector development policies. (2) a mechanism to address problems that the private sector is facing in its business operations. This Government Private Sector Forum takes place twice a year under direct leadership of the Prime Minister and this forum is also considered as an plenary and enlarged Cabinet's meeting. To date, this forum has been held 12 times in which the government has solved many problems related to concerns and obstacles to business and investment in Cambodia such as the reimbursement of value-added tax for exported goods, the extension of tax holiday for garment factories, the facilitation on requirement for bank licensing and the extension of accommodation tax's exemption for the tourism industry.

Meanwhile, the government is of the view that sustainable growth in the future will center mainly on the capability of the government to further strengthen the favorable climate for the private sector development. In this sense, the main challenge that Cambodia will face in the next 10 years is the strengthening of good governance at the central and provincial levels in order to ensure its ability to attract more investment and to remain competitive as compared to its neighboring countries, aiming at exploiting the potentials of agriculture, agro-industry, labor-intensive industry, processing industry, manufacturing, services and tourism.

At present, our main endeavor is to gain more access to the huge international market by implementing policy to integrate Cambodian economy into regional and world economy which must be carried out along with the rehabilitation and development of national infrastructures both physical infrastructures such as rehabilitation and development of roads, airports, ports and other infrastructures including water supply, electricity distribution and telecommunication networks in order to strengthen our comparative advantage, and soft infrastructure such as strengthening the

legal framework, institutional capacity and investment and business facilitation through efforts to enhance governance in the management of economic activities, trade and investment.

Regarding the expansion of market access, as a member of the ASEAN, Cambodia has actively participated in all economic and financial initiatives of this association, particularly the initiative to create free trade and investment areas. Moreover, Cambodia is also an important catalytic force behind many regional and sub-regional economic, financial, trade and investment cooperation initiatives, such as the Greater Mekong Subregion Economic Cooperation (GMS), the *Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) between Cambodia, Lao, Myanmar, Thailand, and Vietnam*; as well as the *Development Triangle between Lao, Vietnam and Cambodia*; and the *Cooperation of the Emerald Triangle between Cambodia, Lao and Thailand*. Clearly, these cooperations have provided great opportunities for investment and international trade reforms, through liberalization and decentralization as well as elimination of investment barriers. Furthermore, these international cooperations have pushed the implementation of reforms and the modernization of economic management system and structure as well as improving its competitiveness to meet the regional and international standards. On the international front, Cambodia has gained broad access to the world market including the Generalized System of Preference (GSP), Most Favored Nation (MFN) with major trade partners such as the EU, US, Japan, Canada, Australia etc. Cambodia is making great efforts to fulfill its commitments as well as maximizing gains from its membership in the WTO.

As for the legal framework, the Royal Government has made many encouraging achievements through the adoption by the Parliament and subsequently the enforcement of a number of important laws and regulations including the Law on Commercial Enterprises; Law on the Amendment of the Law on Investment of the Kingdom of Cambodia and related regulations; Law on Amendment of the Law on Taxation; Law on Corporate Accounting, Auditing of Corporate Accounting and Accounting Profession; Law on Government Securities; Civil Law, Law on Civil Procedures; Law on Criminal Procedures; Law on Commercial Arbitration; Law on Customs; Law on Concession; Law on Issuance and Trading of Non-Government Securities; Law on Secured Transactions, and Law on Insolvency. At the same time, the Royal Government is also drafting a

number of laws and regulations such as Draft Law on Trust, Draft Law on Expropriation and Draft Criminal Law. In the other hand, the Anukret No 114 on the Mortgage and Transfer of the Rights over a Long-Term Lease or over an Economic Land Concession, signed on 29 August 2007, has set all principles and requirements for investors to mortgage, guarantee and transfer rights over long-term lease or economic land concession during the period prescribed in the long-term lease contract or land concession contract.

- Your Excellencies, Ladies and Gentlemen!

The Royal Government clearly understands that agriculture is the key sector for strengthening and broadening the base of national economic growth and reducing vulnerability from external instabilities and crisis by taking full advantage of the large economic potential within the country. Without a doubt, this sector will impact positively the Royal Government's efforts to reduce poverty and to raise the people living standard, especially those in rural areas.

The Royal Government's agricultural policy aims to improve the productivity and to diversify the agriculture sector in order to become a leading sector, adding more dynamism to the economic growth and make a substantial contribution to poverty alleviation. In this regard, the Royal Government is determined to allocate more domestic resources to implement agricultural intensification and diversification to ensure the sustainability of growth, job creation, and income generation in rural areas as well as to guarantee food security for all people, to improve nutrition and to increase export. In this sense, switching from an open or extensive development to a deepening or intensive development approach, concretely the enhancement of livelihoods on existing land has become the priority of the Royal Government.

In order to improve agricultural productivity, the Royal Government gives special priority to strengthening services for this sector such as researches and promotion, agricultural market development, distribution of tools, seeds, fertilizers, and rural credit etc. In this context, the special priority is to gear public investments and promote private investments toward the agriculture sector with the view to increase agricultural outputs and to

ensure that Cambodian agricultural products will meet the standards of the international market.

At the same time, the Royal Government, through the economic land concession scheme, provides land to private companies to implement large-scale agricultural and agro-industrial projects. The Royal Government encourages large-scale agriculture and agro-industry investments through economic land concession in order to provide jobs to rural people, and to reduce poverty while linking development to sustainable environment protection.

For the tourism industry, Cambodia fortunately inherited Angkor Wat, the famed cultural heritage, and is endowed with beautiful natural landscapes such as mountains, forests, lakes, beaches and islands. Tourism is growing and contributing significantly to the growth of service sector. As of September this year, tourist arrival was 1.4 millions which went up by 19% comparing to the same period in 2006. We expect tourist arrival to reach 2 millions in 2007. Due to the confidence on the good prospect of future development in Cambodia, investors have constructed more hotels in Phnom Penh, Siem Reap and Sihanoukville as well as in some other provinces. The Royal Government do acknowledge that tourism development relies strongly on infrastructures such as airports, roads, bridges and ports. Therefore, in April 2008, the runway of Kang Keng Airport in Sihanoukville will be extended to 2,800 meters to accommodate Boeing 737. Along this development, some international airlines have increased the frequency of direct flights to Cambodia. Japan Airline (JAL) will begin direct flight from Japan to Cambodia from 20 November this year. At the initial stage, JAL offers three flights per month. In parallel to this progress, some investors have initiated tourism resorts projects along our beaches and islands. At the same time, the Royal Government is also in negotiation process with a foreign company to establish a national airline.

- Your Excellency, Ladies and Gentlemen!

In the recent past, the interests on oil and gas in Cambodia have gradually increased. These interests have been driven by information on the result of offshore exploration in Block A within Cambodia waters in 2004. Since then, Chevron has drilled more than a dozen exploration wells in order to appraise these discoveries and add more datas to the inventory. I am

hopeful that subject to further appraisal and exploration, Cambodia will be able to benefit from this sector in the near future. There has been much speculation about the extent of the petroleum resources of Cambodia. All I can say, is that much of that speculation is highly premature. There have only been twenty-seven exploration wells drilled to date, so the ultimate extent of our overall petroleum resources is very much unknown. So far, the Cambodia National Petroleum Authority (CNPA) has signed contracts with a number of companies to explore oil and gas in 6 other blocks in the Cambodia's gulf.

Indeed, revenues from those resources will enable Cambodia to self finance productive investment in order to reduce poverty and promote economic growth and social development both in medium and long terms by investing in infrastructure development including roads, bridges, irrigation networks, electricity and clean water distribution as well as in education and health.

In addition to oil and gas, geological surveys have proved that Cambodia has significant potentials of other minerals such as iron, bauxite, precious stone, coals, gold, etc. The Ministry of Industry, Mine and Energy has signed contracts with several private companies to explore those reserves. Among those projects, **BHP Billiton** has been permitted to explore bauxite in Mondulhiri over a land area of 1,000 square kilometers. Before reaching the extraction stage, the company will go through 18 months of concept study phase, 2 years of pre-feasibility study and another 2 years for feasibility study. After the completion of the study, the Royal Government and **BHP Billiton** will negotiate the exploitation agreement in order to determine the financial, technical terms and conditions. Indeed, once the project reaches its extraction stage, Cambodia will fully enter into the heavy industry.

Currently, two cement factories have been built and will be soon operational in Kampot province (1) Kampot Cement Project has been built at about 85 percent and planned to operate in January 2008 with a production capacity of 1 million tons per year which can be increased to 2 million tons per year. (2) Thai Boonrong project has been built at about 40 percent with a production capacity of 400 thousands tons per year.

Another part of the heavy industry, there is discussion between investment partners for an oil refinery plant with production capacity of 2.5 millions tons a year in Sihanoukville. In case this project is finalized, the oil refinery plant will be in operation in 2010.

In this context, the policy of the government to promote sustainable development of natural resources opens opportunities for a good development prospect for Cambodia and Cambodians as well as for all development partners, particularly the private sector.

In addition to aforementioned economic diversification, I would like to highlight a new policy of the Royal Government, which is the development of Special Economic Zones (SEZs) through trade facilitations in order to lay production foundation in other regions than Phnom Penh as well as to build economic linkages between urban and rural areas. In this sense, the Royal Government has promoted the establishment of SEZs along Thai and Vietnamese borders, such as in Koh Kong, Poipet, Bavet, Phnom Den and in the outskirts of Phnom Penh and Sihanoukville aiming to attract more investors. In fact, beside the favorable geography, the SEZs will offer an one stop services for export and import. The reduction of documents and inspection requirements to the minimum will benefit companies both in term of time and cost. Moreover, SEZs offer adequate infrastructure such as roads, electricity, clean water, training facilities, banking, postal services and telecommunication etc. Thus, the SEZs will create more bases for growth through the increase in exports and jobs creation for our people.

- Your Excellency, Ladies and Gentlemen!

Although we recognize some weaknesses in the past implementation and the fact that we will face uncountable challenges in the way forward, experiences from our previous successes prove that Cambodia is on the right path. Lessons learned from our weaknesses in the past are essential for us to overcome more obstacles on the path to sustainable development.

In this context, we have the ambition and firm commitment to improve investment climate in Cambodia in order to turn Cambodia into a country with a favorable investment climate. Certainly, long-term economic development requires concerted efforts from all stakeholders including the

government, business community and international development communities.

In closing, I would like to emphasize that the Royal Government is determined and dedicated to strengthen good cooperation with both foreign and domestic investors for the sustainable development of the country and Cambodian people. During the conference, my colleagues will provide more details on the government's efforts to establish a conducive investment climate, to strengthen the role of the private sector as the driving force. I do hope that you will not miss these rare opportunities. Therefore, I wish to invite all of you to join us without delay to shape a better future for Cambodia.

I wish you all, a successful conference and wish Your Excellencies, Ladies and Gentlemen good health, success in your works and happiness in your family.

Thank You!