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Remarks

by

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Prime Minister of the Royal Government of Cambodia

at the

10th Government-Private Sector Forum

Government Palace, 21st June 2006

*Your Excellencies,
Ladies and Gentlemen:*

Today I have the great pleasure and honor to join you all once again, *Your Excellencies, Ladies and Gentlemen*, Members of the Royal Government and Representatives of the private sector as well as all the distinguished national and international guests, at this government-private sector forum!

As in previous meetings, I would like to declare today's forum an broaden plenary cabinet meeting for us all, the government and private sector, to engage in a frank and straightforward discussion on issues and challenges we are facing, in order to work together to address them with the aim to improve investment climate conducive to both domestic and foreign businesses.

*Excellencies,
Ladies and Gentlemen:*

Before we get down to the specific issues that we need to address together, I would like to share some of my views on Cambodia's recent developments in the context of regional and global economic and business communities.

The year 2005 was the second year of the third-term of the Royal Government as well as the second year for the implementation of its political platform, especially the implementation of the Rectangular Strategy for Growth, Employment, Equity and Efficiency to ensure high economic growth with sustainability and equity, which is the most important factor in securing the success of the poverty reduction strategy. At the same time, it was also the year of deeper and comprehensive reforms in all sectors, especially the legal and Judicial Reform, Public Administrative Reform and Public Financial Management Reform, to improve the effectiveness and efficiency in providing public services.

The year 2005 started with a pessimistic prospect, as we had to face the challenge of the phasing out of the quota-system. This indeed lead us to intensify our efforts to transform our fundamental economic structure, by shifting our focus from depending on external sectors, such as garment and tourism industries, to strengthening domestic economic sectors such as promoting and expanding agriculture, agro-industry and services, and especially the construction of irrigation system, improving agricultural productivity and promoting the private sector through small and medium enterprises (SMEs). At the same time, the Royal Government exerted its utmost efforts to implement prudent fiscal and macroeconomic policies, which has brought about an excellent performance. Thus, the real economic growth in 2005 was 13.4 percent compared to the early forecast of only 2-2.5 percent at the beginning of the year. This growth was made possible by 17.3 percent growth in the agricultural sector, in which the rice crop increased by 27 percent, 13.3 percent growth in the industry sector, in which the construction increased by 19.2 percent and garment increased by 12.6 percent, and 9.4 percent growth in the service industry, in which tourism increased by 16 percent. With stable exchange rate, the inflation rate increased by

6 percent, which was higher than forecast due to higher oil prices in the international market.

In the year 2006, according to our prudent forecast, the economic growth in Cambodia will drop to around 5 percent compared to the 6 percent forecasted previously at the beginning of the year due to slower growth in the agriculture sector if it is compared to 2005 (but it is higher compared to 2004). In order to overcome these unfavorable prospects, the Royal Government has continued to actively build the irrigation system in order to reduce the dependency on nature. Other negative factors that can influence Cambodia's economic growth in 2006 would include the possibility of bird flu pandemic and higher oil prices in the international market. At the same time, the industry sector is expected to increase by 11 percent, in which the construction will grow by 20 percent while the garment will grow by 10 percent, and the service sector will grow by 7 percent, in which tourism will increase by 9 percent. The inflation rate will drop to around 5 percent and the exchange rate will be stable around 4,100 Riels per US dollar. However, the medium-term forecast for 2007-2009 shows that the economic base will maintain growth rate around 6 to 7 percent, which is in conformity with the projection in the Rectangular Strategy and National Strategic Development Plan. The foreign reserves will be maintained at around 2.5 to 3 months of import.

Even though the economic growth in 2006 may slow down compared to 2005, it is expected that there will be no strong negative impacts on fiscal situation, especially on the budget implementation, because the variation of GDP from one year to another does not depend significantly on the agricultural sector, which is not an important base for revenue collection, unless there is flood or drought, which requires unplanned additional expenditure.

During this year, the Royal Government will maintain macroeconomic stability, which is the basic and most important factor in achieving the ultimate objective of the Royal Government to reduce the poverty among our people. Moreover, it is the year in which the comprehensive reforms in all sectors will be furthered, especially the

Public Finance Reform, Private Sector Development Reform, Judicial Reform, Land Management, the promotion of agriculture sector, agro-industry and small and medium enterprises aiming at economic diversification through the implementation of a number of the following reform programs:

- a- Continued implementation of prudent and tight macroeconomic policy providing an environment for high and sustainable economic growth with low inflation.
- b- Continued implementation of Public Financial Management Reform Program, especially in achieving the targets of the first platform of a "credible budget" through reducing expenditure procedures, maintaining and sustaining revenue, strengthening cash management in order to improve efficiency in providing services, introducing measures to reduce arrears owed by the government to private suppliers, introducing a new Charter of Accounts and Budget Nomenclature and piloting the implementation of program budgeting, which all represent the bases for moving forward the agenda reform.
- c- Continued structural reforms in order to strengthen favorable environment for private sector development, especially in promoting agriculture sector, agro-industry and small and medium enterprises as well as enhancing trade facilitation through the Single Window mechanism and promoting the participation of private sector in the provision of infrastructure within the framework of the Law on Concession while the government itself has actively built and will build physical infrastructures, especially irrigation system. All these factors require us to strengthen good governance especially in relation to measures related to corruption and reduction of bureaucracy.
- d- Continued implementation of land management reform in order to support agricultural sector by enforcing the compliance with the Land Law, thus transforming this sector into a vibrant base for economic growth and poverty reduction.

- e- Continued strengthening of banking system, insurance and financial sector in order to mobilize capital for financing the projects in the private sector.
- f- Implementing the Legal and Judicial Reform, strengthening the rule of law, developing and strengthening implementation of laws and regulations, all these are necessary for building confidence among investors.
- g- Continued implementation of Public Administrative Reform, especially strengthening the implementation of the Priority Mission Group (PMG), the merit-based payment initiative (MBPI), and the job functional analysis in order to improve work's productivity and efficiency.

In this context, after the 9th Government-Private Sector Forum in October 2005, the Royal Government has decided to create the National Authority for Land Conflict Resolution, to establish the Agricultural Products Export Promotion Committee, to implement the sub-decree on economic land concession, the sub-decree on the establishment and management of special economic zone, the Sub-decree on the trade facilitation under risk management and single administrative document while the law on commercial arbitration has also come into effect. Moreover, the draft laws on government bond have been recently adopted by the Council of Ministers. In the near future, a number of sub-decrees and prakas will come into effect, including the sub-decree on state assets management and allocation, the prakas on the amendment of the prakas on licensing of commercial banks, the prakas on the amendment on the prakas on bank solvency ratio, the prakas on the amendment on the prakas on licensing of specialized rural credit banks, the parkas on the amendment of the parkas on licensing of micro-finance institutions, and prakas on credit operation and participation in banking and financial institutions, while the draft law on leasing will be finalized by the end of this month.

With regard to the financial sector, The "*Blueprint update*" will reflect the advantage of having a built-in flexibility within the reform agenda, which will, in turn, allow the government to make necessary policy adjustments to reflect the progress made, along with the changing conditions. We trust that the "*Blueprint update*" will better serve our actual purposes. In this spirit, I would like to take this opportunity to express my sincere thanks to the ADB for once again having positively responded to our request to develop an Update of Financial Sector Blueprint for 2006-2015.

The significance of the Financial Sector Blueprint has been nationwide recognized and stated in the Royal Government of Cambodia's comprehensive Rectangular Strategy and in the recent National Strategic Development Plan for 2006-2010. The development of the Financial Sector Blueprint for 2006-2015 falls within the overall objectives of the Rectangular Strategy and the National Strategic Development Plan.

Concerning economic diversification, may I seek the attention of development partners and private sector on two important points:

First- Promotion of agricultural products export: As I mentioned earlier, a committee was created on the 23rd May 2006, chaired by H.E. **Chan Sarun**, Minister of Agriculture, Forestry and Fisheries, with members consisting of Excellency Senior Minister, Minister of Commerce, Excellency Minister of Water Resource and Meteorology, Excellency Director General of Rural Development Bank and Excellency Secretary General of the Council for Development of Cambodia. This committee is entrusted to promote the export of agricultural products, and both quantity and quality must meet both international and domestic demands. In performing its work, I do not think the committee will start with bare hands. They can take the recommendations from different research works conducted by different organizations or agencies, such as the World Bank, International Trade Center and Japan Bank for International Cooperation (JBIC). In addition to the promotion of agricultural products, other key stakeholders should consider other aspects such

as transportation, financing, and sanitary and phyto-sanitary requirements.

Second- Backward linkages between special economic zones and domestic economies: At present, the Manhattan Special Economic Zone in Bavet district of Svay Rieng province is in operation. The Royal Government envisages the development of special economic zones to utilize as much as possible domestic resource such as human resource and raw materials. We expect more special economic zones to be established, such as Phnom Penh Special Economic Zone located in Dangkor district of Phnom Penh and Ang Snoul district of Kandal, and others in Phnom Din of Takeo, O Neang of Banteay Mean Chey, and in Koh Kong province and Steung Hav district of Sihanoukville, and the one next to Sihanoukville seaport. Development partner should from now on design capacity building, training and other supporting programs without further delay. Thus, I would like, once again, to thank the Japanese Government for its support to the development of special economic zones. Moreover, I was informed that the World Bank will also cooperate and provide support to the Special Economic Zone Board of Cambodia in capacity building and strategic planning. In February, I have instructed the Cambodian SEZ Board and other concerned ministries/institutions to draft the law on special economic zone for the government regards the sub-decree on the establishment and management of special economic zone as only an interim legal framework. Thus, in order to ensure the trust by special economic zone developers, we need to adopt and implement the Law on the establishment and Management of Special Economic Zone in a very near future. In advance, I would like to express our sincere thanks to our friendly countries in the region for possible arrangement of study tours for our SEZ officials to learn from their experiences in establishing special economic zone and building capacity of their institutions. Realizing the importance and advantages of special economic zones in generating employment and economic diversification, I have decided to lead this work personally assisted by the Cambodian Special Economic Zone Board.

In addition to these two topics, I would like to appeal to the members of the Royal Government, Development Partners and Private Sector to further promote cooperation in trade facilitation, as we have witnessed fruitful results in the past. We have made progress in reducing bureaucracy, time, inspection and unofficial fee that lead to an improvement of Cambodia's competitiveness. Thus, those optimistic assessments would encourage us to further intensify our reform programs.

*Excellencies,
Ladies and Gentlemen:*

On the occasion of this 10th Government-Private Sector Forum, I would like to share my assessment of the outcomes gained so far through this mechanism since its commencement. On the 21st December 1999, we engaged for the first time in a discussion between the government and private sector to solve the challenging and pressing issues. The value of Gross Domestic Product in 1999 was about 3,443 million US dollars and it has increased by 77.41 percent if compared to 6,111 million US dollars of Gross Domestic Product in 2006. The garment's export in 1999 was about 650 million US dollars, and it increased by 233.69 percent to 2,169 million US dollars in 2005. In 1999, there were about 150 garment factories with 85,000 employees, in 2005, 260 factories with 280,000 employees, an increase of 73.33 percent and 229.41 percent respectively. In 1999, Cambodia welcomed 367,743 tourists, with 1,421,000 tourists in 2005, tourist arrivals have increased by 286.41 percent. I recalled all these figures and growth rates as an illustration of the performance and progress of economic development in Cambodia over the last 6 years. I would like to dedicate these achievements to the efforts of all ministries and institutions, development partners, investors in all sectors, employers and employees. All of these achievements are the results of the joint efforts from all of us. Under my initiative, we established this consultation mechanism, with seven sector working groups, and a steering committee for private sector development and its three sub-committees. In 1999, we did not have the Land Law, Law on Banking and Financial Institutions, Law on Commercial Enterprises, Law on

Accounting and Auditing of Enterprises, Law on Commercial Arbitration and a number of other laws which have now come into effect. Moreover, we have amended the Law on Investment and the Law on Taxation of the Kingdom of Cambodia. Though the Council of Ministers or the Parliament have not adopted yet a number of draft laws including the Law on Leasing, Law on Tourism, Bankruptcy Law, Law on Government Bonds or the Law on Concession, Customs Law as well as a number of other laws relating to business, the Royal Government has always received supports and recommendations from development partners and private sector in drafting all these draft laws. At the same time, the SME development framework and a number of sub-decrees have been also prepared in consultation with the partners.

Taking this opportunity, I would like to express my profound thanks to our development partners and the private sector for their contributions. Few years ago, Cambodia has gone through a major event, whereby Cambodia became a member of the World Trade Organization in 2003. This event has opened the doors to Cambodian products of the world market as well as has required Cambodia to fulfill a number of obligations in order to reap maximum benefits from this membership. While we are participating in the global economy, we will face fierce competition from other economies. In the context of this tough competition, I highly appreciate the contribution of development partners and private sectors. The cooperation has been made possible only by our mutual understanding of the common interest since the first to this tenth forum. The three dialogue partners have built and increased their mutual trust, which is an important factor to allow one party to receive recommendations from another party for the sake of their common interest and shared benefits.

Looking forward, the Royal Government shall have the courage to continue reforms in a number of sectors, such as public financial management, land sector, legal and judicial sector, financing, trade facilitation and economic diversification. In the way ahead, the Royal Government would welcome strategic policy inputs for long-term development from development partners, especially from the private

sector through this consultative mechanism or/ and other mechanisms, including the cooperation with the Supreme National Economic Council, my think tank, within the framework of the Cambodia Economic Forum or as deemed necessary.

*Excellencies,
Ladies and Gentlemen:*

Before concluding, I highly appreciate the spirit of high responsibility demonstrated by the Senior Ministers and Ministers, co-chairs of the 7 Working Groups, by the members of the Royal Government in the Working Groups as well as by the Secretary General of the Forum, I would like also to express my profound and sincere thanks to the development partners and the private sector's Co-chairs and representatives for their contribution both in financial and intellectual terms that have secured the success of the Government-Private Sector Forum from its inception to date. In the same token, I would like to express my thanks to the International Financial Cooperation (IFC) and for its support of the Australian Government for coordinating the private sector discussions and disseminating information among different working groups.

For the high economic growth in the past 6 years, on behalf of the Government and People of Cambodia, I would like to thank all investors for their decision to invest in this country and their trust on the Royal Government's policy. At the same time, I would like to appreciate and thank all ministries/institutions and provincial and municipal authorities for their efforts in implementing the Royal Government's policies and orders effectively.

Finally, I highly appreciate the efforts of all workers in all sectors of the economy, especially the garment sector, which has greatly contributed to the economic development of our country.

As well as I am concerned, I will welcome all recommendations and constructive criticisms from all stakeholders and will spare no time and efforts in addressing their challenges and concerns.

Thank you for your attention!