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CAMBODIA

Keat Chhon, Governor

It is a great pleasure and honor for me to represent the Royal Government of Cambodia at the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) and to address this distinguished gathering. May I, on behalf of Cambodia's delegation, thank our host, the Government of India, and especially the people of Hyderabad for the warm hospitality extended to us during our stay in this beautiful and culturally rich city. I would like also to express our sincere gratitude to the Management and staff of ADB for the excellent arrangements made for this meeting. May I take this opportunity to warmly welcome Armenia and Brunei Darussalam as new members of ADB.

This Annual Meeting takes place as Asia continues to emerge as a strong engine of global economic growth and prosperity. The regional economic outlook for the foreseeable future is expected to remain robust, which provides a real opportunity for the region to meet the Millennium Development Goals (MDGs), including halving poverty by 2015. At the same time, the region faces the risk of rising oil prices and global payment imbalances that may lead to sharp adjustments in exchange and interest rates, which would undermine the growth momentum crucial to poverty reduction efforts in the region. The Asian economies must therefore be vigilant and pursue sound macroeconomic policies and continued structural reforms to sustain growth and cope with any possible economic shocks. I believe that ADB will be able to help member countries to respond to these challenges.

We agree with President Kuroda that Asia today stands at a defining moment. Asia's time has come. Asia is living in a new era of development given its current role and weight in the global economy, and there is real potential for the region to achieve a higher level of development effectiveness. This dynamism suggests that ADB as the regional development bank must also change to respond to this regional transformation. We therefore reiterate our strong support for the President's vision and commitment to the economic and social progress of developing member countries and a region free of poverty by making ADB more relevant and responsive.

Let me take this opportunity to congratulate ADB for its achievement and the progress made in 2005 and express our support for the Bank's internal reforms, focusing on results, the result-based country strategies and programs, the human resources strategy, the private sector development strategy, the second medium-term strategy (MTS II), the regional cooperation and integration strategy (RCI), and the realignment of regional departments.

We firmly support the Bank's medium-term strategy II (MTS II) and its regional cooperation and integration initiative. These are central to sustaining economic growth and reducing poverty in the Asia and Pacific region. In this context, we would like to see ADB pay more



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attention to the poorer countries in the region. Realignment of regional departments is another means to further strengthen regional cooperation and integration. In this connection, we greatly appreciate ADB's catalytic and leadership role in the Greater Mekong Subregion and its facilitation of cooperation under the Association of Southeast Asian (ASEAN) and ASEAN+3 frameworks.

We congratulate ADB for reviewing various reforms under the innovation and efficiency initiative. We also support ADB's adoption of the carbon market initiative to manage energy security and climate change under the clean development mechanism. We welcome ADB's doubling of its financing for the water sector, which is vital to growth, poverty reduction, and environmental sustainability.

The introduction of grant financing under the eighth replenishment of the Asian Development Fund (ADF IX) has improved the debt situation of the poorer and post-conflict countries. We think the ADF IX mid-term review should be broadly conducted and should accommodate the views of the recipients. For performance-based allocations, we are of the view that the system should take into account countries' historical backgrounds and specific circumstances so that it can act as an incentive for change for the better performance.

The newly approved public communications policy of ADB helps improve governance in both developing member countries (DMCs) and ADB. However, political will alone is not enough. It has to be supported by additional financing for reform programs conducted by DMCs.

Let me now turn to developments in Cambodia. Our Royal Government's Rectangular Strategy for Growth, Employment, Equity and Efficiency provides a clear view and direction for our long-term development. Governance is at the heart of this strategy; without improved governance, growth and development cannot be sustained.

The Royal Government of Cambodia understands that reform is a vital issue and that day-to-day work is needed to improve, strengthen, and expand our capacity to keep up with social, economic, technological, and political developments in the country, the region, and the world. We would like to re-emphasize that implementing reforms requires not only political will, but also considerable human and financial resources. The cultural and political context has to be taken into account.

During 1994–2004, poverty in Cambodia fell by 10% to 15%. Based on the recent Cambodia Socio-Economic Survey (CSES), poverty declined from around 47% in 1994 to 35% in 2004. Per capita household consumption rose 32% in real terms. These achievements have resulted from peace and from reforms in the Triangle Strategy in 1998 and the Rectangular Strategy in 2004.

In 2005, Cambodia's economic growth was 9.8%, driven by an expanding tourism sector, garment exports, construction, and investment in irrigation schemes, resulting in a rebound in agriculture. The annual inflation rate, represented by the consumer price index, rose to 6.7% in 2005. The Cambodian riel depreciated marginally to 4,117 riels per US dollar by the end of 2005 (from 4,035 riels at the end of 2004). Foreign reserves represented 3 months of imports. Prudent fiscal and monetary policies contributed to the stability of the exchange rate.

Total Cambodia exports increased by 8.9% to around \$2.7 billion compared with a 2004 performance of nearly \$2.5 billion, equivalent to a growth rate of 22.1%. Total imports in 2005 grew by 15%, a slowdown from the 24.7% increase recorded in 2004. The number of tourists visiting Cambodia reached 1.4 million, an increase of 35%. In 2005, the main construction areas in Phnom Penh and Siem Reap, Angkor, increased by 35%.

The macroeconomic outlook in the medium term appears stable, because of the expansion in tourism, continued growth in garment exports, and offshore oil and gas exploration. Economic growth for 2006-2010 will be within the range of 6% to 6.5% per annum. Growth in 2006 is expected to be around 6.5%, driven by all sectors, but heavy reliance is placed on industry, led by textile exports, and the service sector, led by tourism. Inflation is expected to remain below 5%.

To improve the outlook for future economic growth, which we believe is the prerequisite to poverty reduction, the Government has taken steps to diversify the economy, with a stronger focus on agriculture (including irrigation), better governance and stronger government capacity, improvements to the trade and investment climate, reorienting capital outlays toward development of rural areas, and promoting agro-industry and small and medium-sized enterprises. In all these efforts, economic integration and international cooperation continue to be the main pillars supporting economic growth.

In conclusion I would like to express once again our deep appreciation to the Board, Management and staff of the Bank for their hard work and impressive achievements in responding to the needs and challenges of the region and individual member countries, and especially for the support and assistance in the rehabilitation and development in Cambodia. We look forward to continued strong partnership with ADB.