

CAMBODIA

AUN PORN MONIROTH, Head of Delegation

It is a great honor for me to represent the Royal Government of Cambodia at this 41st Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) and to address this distinguished gathering. I express our deep thanks to the Government of Spain and the people of Madrid for the warm hospitality extended to us while staying in this beautiful city. I would also like to express our sincere gratitude to ADB's management and staff for the excellent arrangements made for this meeting.

Let me join the previous speakers in offering our condolences to the Government and people of Spain for the loss of their former President, Excellency Leopoldo Calvo-Sotelo. Our sympathy also goes to the people of Myanmar for the tremendous losses and suffering caused by the recent cyclone.

ADB is now 41 years old and we must take great satisfaction and pride in its cooperation with the governments and people of Asia and the Pacific over four decades. In this period, the region has seen unparalleled progress, although many challenges remain to be overcome. The region has continued to show impressive growth in 2007 and 2008, but at the same time is facing increasing downturn risks due to the global financial turmoil, a sharp economic slowdown in the US, and rising oil and food prices. This could undermine the growth momentum crucial to meeting the Millennium Development Goals (MDGs) and wipe out the progress gained over the last couple of years. Asian economies must be vigilant and continue to pursue sound macroeconomic policies and structural reforms to sustain growth to cope with these new challenges. It is vital now that ADB responds quickly to the needs of the member countries to address these difficulties.

Let me congratulate President Kuroda for the successful ninth replenishment of the Asian Development Fund (ADF X). We commend his and his colleagues' tireless efforts and dedication to concluding this process of resource mobilization and for the outstanding result, which will offer encouragement to countries in Asia and the Pacific as they strive to achieve the MDGs. I would also like to take this opportunity to thank the ADF donor countries for their generous contribution to ADF X and for their commitment to development and poverty reduction in Asia and the Pacific region.

We are pleased to note that, after one year of consultation, ADB has listened to the voices of the low-income countries. As a result, the vision of an Asia and Pacific region free of poverty remains in its long-term strategic framework 2008–2020 (Strategy 2020). We applaud the three strategic directions of ADB under Strategy 2020 and its five key drivers of change. However, we urge ADB to be flexible enough in its operations to ensure the responsiveness and sensitivity to the specific needs of the member countries. We welcome the expansion of the private sector

operations of ADB and its portfolio increase of up to 50% of ADB total lending in developing member countries (DMCs), but urge that this should not be at the cost of financing for public sector projects.

Moreover, I would like to stress the importance of the agriculture sector. Regrettably, this is not a priority sector in Strategy 2020. Given the recent development in the rise in global food prices, ADB must attend to the need for interventions in agriculture and food security in the region.

In this spirit, we urge ADB to work out, as soon as possible, a well prioritized and well sequenced action plan for Strategy 2020 implementation in consultation with all stakeholders. We are of the view that there may be a need for mid-term evaluation of Strategy 2020 to allow for corrections and amendments within the implementation period.

We are very encouraged by the recent adoption of ADB's results framework. The institutional transformation of ADB is necessary to ensure a system and competencies are in place to effectively manage the implementation of Strategy 2020.

Cambodia strongly supports ADB's role in promoting and facilitating regional cooperation and integration. We greatly appreciate the catalyst and leadership role ADB has been playing in the Greater Mekong Subregion (GMS) which has resulted in trust building; a cooperative and peaceful environment; and high rates of growth in trade, tourism, and investment. It is quite evident that the countries of the GMS benefit from the cooperation programs and are committed to further integration as was reiterated in the recent third GMS Summit in Vientiane, Lao People's Democratic Republic. Moreover, Cambodia greatly appreciates ADB's facilitating role and support under the Association of Southeast Asian Nations (ASEAN) and ASEAN+3 frameworks.

Let me turn to developments in Cambodia. Our Government is fully committed to and is vigorously implementing its Rectangular Strategy, based on which the country has formulated the national strategic development plan for 2006-2010. Promoting economic growth, generating employment, promoting social equality, and strengthening public sector capacity remains the cornerstone of the Government's strategy. Our Government seeks to promote economic growth through agriculture and rural development, rehabilitation and construction of physical infrastructure, private sector development, and capacity building and human resources development. Good governance is at the heart of the strategy.

For the last decade, annual average GDP growth has reached 9.7%. High economic growth and the Government's sound policies have led to an accelerated reduction in poverty from 47% in 1994 to about 35% in 2004. The pace of poverty reduction is expected to be even faster for 2005–2007 because of the higher rate of growth in agriculture. In 2007, Cambodia succeeded in maintaining stable macroeconomic conditions, with the growth rate maintained at a high level of 10.1%, after climbing to an all time record of 13.3% in 2005, and 10.8% in 2006.

Domestic credit rose by 76% while M2 increased by 62.9% in 2007. The key objectives of monetary policy were maintaining price stability and bolstering international reserves. As a result, average inflation was contained to an estimated 5.8%. The exchange rate was broadly stable. Gross international reserves increased by 47% to US\$1.6 billion, sufficient for 3 months of imports in 2007.

Fiscal policy continued to be prudent in 2007. While the current budget surplus increased to 3.6% of GDP, the overall budget deficit declined to 2% of GDP, reflecting ongoing budget consolidation. Domestic revenue increased by 24.6% and reached 12.1% of GDP. Total expenditure increased by 17.4% and reached 14.1% of GDP. Current expenditure accounted for 8.5% of GDP and capital expenditure accounted for about 5.6% of GDP.

The current account deficit grew to 1.8% of GDP in 2007, up from 1% of GDP in 2006. Excluding official transfers, the current account deficit decreased from 7.2% of GDP to 6.6%.

In 2007, exports increased by 14.7%, and garment exports by 12.7%. Imports also increased by 18.1% compared with last year. The influx of private capital in the form of foreign direct investment rose from US\$475 million in 2006 to US\$713 million in 2007, an increase of 50%. The increase in investments reflects confidence in political and macroeconomic stability in Cambodia. In 2007, approximately 2 million tourists visited Cambodia.

The robust performance in 2007 underscores the increasing resilience of the Cambodia economy and shows the underlying strength of its economic fundamentals. This indicates that economic growth in the medium term can be maintained at 7-8% per annum. The main policy thrusts would include diversification of the economy by encouraging investments in new manufacturing activities and mineral resources; supporting agriculture and agri-business; and developing physical, social and economic infrastructure, particularly the expansion of new tourism sites, which will have major multiplier effects on the rest of the economy. However, this will depend on how we are going to cope with the new challenges Cambodia is facing: the sharp slowdown in the US economy, the rise in oil and food prices, and the continuing weak dollar. We are currently taking measures to address these challenges and are convinced that we will be able to overcome them.

In conclusion, may I express once again our deep appreciation to ADB's Board, Management and staff for their sterling efforts in responding to the challenges of the region and meeting the needs of the individual member countries. We are thankful to ADB for providing support and assistance to the development of Cambodia and look forward to continued strong partnership between us.