THE STATE OF THE PRIVATE SECTOR

Remarks made at the Consultative Group Meeting
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by
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Your Royal Highness, Your Excellencies, Senior Minister, Distinguished Members of the Consultative Group Meeting,

First, I would like to thank the Royal Government for its invitation to rejoin the Consultative Group process. In particular, I would like to thank Senior Minister Keat Chhon, for accommodating a full complement of representatives from the private sector. At this critical point in Cambodia's development history, it is imperative that all stakeholders, including those from the private sector, are included in the process.

In line with other stakeholders, we think it is time to take stock of what accomplishments have been achieved, but also the failings of the last decade. I make the latter comment not in criticism but in a constructive sense. If we do not analyze what has gone wrong in addition to what has been accomplished, we cannot make corrective measures.

I also make my comments without assigning blame to any party. I think that there is enough blame for the failures to go around. As the World Bank representative said recently, we are all in this together. And no one is without some fault.

Let us first identify the success that has been recently achieved for the Cambodian economy. First and foremost, there is the garment sector. On the eve of the end of the multi-fibre agreement, we hear positive news from the garment industry. Reports from the U.S. indicates a continued interest in Cambodian exports. Some factories are actually expanding production. Although it is still the case that the future is difficult to predict, the early signs give us hope for the survival of the garment industry, a sector of the economy critical for employment of thousands of poor people and a major source of revenues to the government.

Congratulations are in order for the Royal Government, the World Bank, and the Garment Manufacturers Association of Cambodia. The Royal Government originally implemented the labor law which is largely credited with the competitive advantage held today by Cambodia. GMAC has successfully promoted Cambodia as a niche market for products not hampered by a bad image of sweat shops. And the World Bank strongly supported trade facilitation. The World Bank, working with the Royal Government and GMAC, has made progress in increasing the efficiency and lowering the cost of exporting from Cambodia.

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[1] Bretton G. Sciaroni, a lawyer, is Chairman of the International Business Club, Chairman of the American Cambodian Business Council, and Co-Chairman of the Working Group on Law, Tax, and Good Governance. The remarks made are his own and not on behalf of any group.

However, the ultimate verdict has still not been made concerning this issue. First, the international garment scene is being transformed. This transformation will affect Cambodia. Many of the smaller garment factories are expected to close. It is an open question as to how many of the surviving factories, the larger ones that are part of multinational companies, will be able to employ the excess workers from the closed factories.

In addition, it must be kept in mind that the progress in adhering to high labor standards by industry must be met by commensurate restraint and responsible action by the labor unions. This is not always the case.

Also, the reforms in trade facilitation need to be continued and deepened. Our competitive advantage, we are warned, is only a temporary advantage. So how can we deepen the value of trade facilitation? It is by creating other products for export. Today, garments dominate exports, representing 80-85% of the total. Sooner or later, the garment industry will decrease in importance. What can take its place?

One obvious answer is agricultural products. Ten years ago, if one was to ask what the future of the Cambodian economy was, you would not have heard the word garments. You would have been told that tourism and agriculture were the future. But while tourism has experienced robust growth, agriculture has largely languished. Part of the reason is the high cost of transportation.

Agriculture could and should be the sector that ultimately replaces the garment industry as the principle export. Before the war, we were an exporter of agricultural products. Today, the emphasis on trade facilitation should help the agricultural sector, as the high cost of transportation has been one of the factors holding back Cambodian agriculture. But much else needs to be done. We need to improve both the quality and quantity of crops produced. For many crops, we are not competitive today. And I understand that a number of donors are now focused on the agricultural sector as an area of emphasis, which is all to the good.

But more needs to be done. Ultimately, in order for Cambodia to realize its potential in agriculture, we need to have food processing plants. This will add value to the agricultural produce that Cambodia can provide, and reap better rewards for Cambodia's economy. But the recent history of investment in light industry is not encouraging. In order to enhance the prospects for agro-business, we need to get other fundamentals right.

Getting the fundamentals right is critical to the development of the country. In his speech at the Royal Government-Private Sector Forum last August, the Prime Minister stated that Foreign Direct Investment (FDI) was equally important as Official Development Assistance (ODA) for the development of the country. But while

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[2] Address by Samdech Hun Sen, 7th Royal Government — Private Sector Forum (20 August 2004) p. 2

Cambodia has been successful over the years in procuring the latter, we have been less and less successful in attracting FDI.

The virtues of having FDI should go without saying. Access to capital, transfer of technological and management skills, experience in international linkages and knowledge of international business practices — all of these can be provided to Cambodia with the arrival of FDI.

But among the deterrents to FDI are high operating costs. Take for example power costs in Cambodia. The World Bank report issued this year states that "Where electricity is available, firms and individual consumers face some to the highest energy costs in the world." An estimated US$200 million has been spent on the power sector in the last decade, but there is no progress in reducing the cost of power. And despite a national energy plan, there does not appear to be any relief in sight.

Lower power costs would help everyone. It would help attract FDI, help local businesses, and improve the lives of the common citizen. Yet little progress has been made.

There are other fundamental elements that need to be improved in order to attract FDI. Improvements through legal and regulatory reform, the rule of law, and anticorruption measures all are important to attracting FDI. In this regard, one of the most important events of the last several years was Cambodia's accession to the World Trade Organization. The Royal Government and the Ministry of Commerce is to be congratulated for its prodigious efforts to join WTO. Since his original unveiling of the Pro-Poor Trade Strategy at the 2001 Tokyo CG, H.E. Cham Prasidh has led the way for reforms such as trade facilitation and WTO Accession.

Among the most important aspects of WTO is the fact that a number of laws must be implemented in short order and will help private sector development in Cambodia. The passage of new laws is no small matter. For example, the financial sector in Cambodia has been greatly improved in recent years Through a series of laws and regulations.

However, it must be kept in mind that words are meaningless unless they are supported by actions. Even at this time, reforms in the way that business is done here, promoted by the international community and the Royal Government alike, are routinely ignored in practice. This is one thing that must change if real progress is to be achieved.

The challenge is to find the way forward. The private sector desperately needs some success stories. We need a positive story to tell to potential investors, that business can be done in Cambodia.

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[3] The World Bank, "Cambodia: Seizing the Global Opportunity," (August 2004) P. 26.

Last week, the IMF country representative issued a discouraging projection about Cambodia's economic growth for next year. But this kind of projection is not set in stone. It is only a projection based on the current situation. But we have an ability to write the future. With more effective action on the part of the international community and the Royal Government alike, we can achieve higher rates of growth. If it is permitted, the private sector can be the engine for growth, providing jobs for the people, raising standards or living, creating capital and wealth in Cambodia. We can implement the vision of the Prime Minister, as outlined in his "Rectangular Strategy." But we need your help to achieve these ends.

Thank you for your attention.