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The U.S. delegation welcomes the opportunity to comment on Cambodia's current challenges and future prospects. Significant changes have taken place in Cambodia during the past year. A new government is in place and a new monarch has assumed the throne. On the economic front, Cambodia's accession to the World Trade Organization (WTO) was a landmark event that will help facilitate its full integration into the global economy. Cambodia now stands at a crossroads; it must decide which path it will take. The United States, along with other donors, wants to see Cambodia take concrete actions to promote good governance and fight corruption. Absent this, further economic development and poverty reduction cannot be achieved.

To this end, the U.S. welcomes the Royal Government of Cambodia's Rectangular Strategy and its emphasis on the principles of ***Good Governance***.

The implementation of good governance best sums up the challenges that the Cambodian government and the donor community will have to address in the coming years. The US delegation has identified four distinct elements of good governance. They are: the courts, corruption, civil society, and competition.

First, courts*:* A strong market economy requires a comprehensive and transparent legal framework. Potential investors, both foreign and domestic, need assurance that the legal system is fair and just; that courts understand fully the workings of commerce; that judges appreciate the importance of contractual agreements; and that legal decisions once rendered are credibly and transparently enforced under the law. Today, no one can claim that these conditions exist in Cambodia. The lack of investment in Cambodia is evidence of this fact.

Judicial reform is an enormous challenge. However, there is simply no substitute for a fair, credible and transparent legal system. Cambodia has made progress in determining what judicial reforms are necessary. But the focus now must be on legislating and effectively implementing these reforms. The U.S. believes that the WTO-related legal reforms, in particular the creation of a Commercial Court, hold the key to facilitating the establishment of the rule of law and the creation of a legal framework and institutions that foster economic growth and the well-being of Cambodia's citizens. It is imperative that Cambodia fully implements its WTO commitments.

Second, corruption*:* Everyone - the government, civil society and the donor community — speaks out against corruption. King Sihamoni, in his very first address to the nation, highlighted his concerns about corruption. However, there comes a time when talk must be followed up with action. That time is now. No discussion of commercial

opportunities in Cambodia can take place without focusing on the problem of rampant corruption and its debilitating effects on governance and economic growth. The government must implement effective measures to prevent and fight corruption and ensure transparency. An important step would to accede to, ratify and implement the UN Convention Against Corruption. Efforts to combat corruption in the region also need to be nurtured and supported. A key factor for successfully addressing corruption is deterrence, or more specifically the enforcement of sanctions that are sufficient to deter potential perpetrators of corrupt practices. If the political will does not exist to make the costs associated with corruption untenable, it will be an enduring problem.

Third, civil society: A political system that is made up of "rulers" and the "ruled" is not going to be able to adapt to the challenges of the modern world. Successful political systems are inclusive, employing representatives of civil society to ensure good governance and the accountability of government officials. In Cambodia, civil society refers to the extensive network of relationships and activities being undertaken by non-governmental organizations. These NGOs are committed to and involved in the political, economic and social life of Cambodia and have been a critical factor in the progress that has been achieved. However, civil society must extend beyond NGOs. It must include other institutions such as a free press, business associations, community organizations and religious groups. These elements of civil society must be free to develop relationships that enable them to communicate frankly with government officials and the constituencies they represent. This dynamic cannot exist without the rule of law.

Fourth, competition: Competition is an essential feature of a market economy. Cambodia's accession to the WTO provides it with an opportunity to strengthen its competitive position in the global economy. Cambodia's rights and obligations as a WTO member will be an effective basis to fostering a commercial environment that is attractive to both foreign and domestic investors. In a competitive global economy, "standing still" guarantees failure. Other countries are moving aggressively to improve their investment climate — Cambodia must do the same. Investment conferences, such as the Private Sector Forum may help to some degree. But tangible actions are needed to reassure investors that Cambodia is a reliable business partner.

Synthesis: The importance of the courts, corruption, civil society, and competition to economic growth and the alleviation of poverty should be abundantly clear. This CG meeting will focus on two critical concerns—good governance and eliminating poverty. We believe these two objective are linked more closely now than ever before. Poverty alleviation lies at the very core of U.S. assistance programs in Cambodia. For Cambodians to benefit fully from our assistance efforts, the government must take steps to enforce its laws and combat corruption. We rely heavily on civil society to help implement our assistance programs, and look forward to the day when Cambodia reaches the full development of its economic potential and the development of free markets supplants the need for international donors. However, without visible progress in the "Four C's," it is difficult to imagine how this objective and poverty alleviation will be achieved. It is also difficult to envision donors accepting a situation in which contributions to Cambodia's well-being do not produce any long-term benefits

because of the government's inability or unwillingness to foster good governance by dressing the ''Four Cs.''

Finally, let me briefly touch on a fifth "C word" that is appropriately a topic for discussion at this Consultative Group meeting, namely the issue of coordination among donors and with Cambodian counterparts. The consensus reached among working groups on major sector goals and targets represents an important step forward. Our own experience places substantial emphasis on the importance of civil society and the power of the private sector in reaching those goals and achieving those targets. Above all, the focus can now be placed on where it truly belongs—on implementation.

This is an important CG meeting; Cambodia is at a crossroads, Good governance offers the way forward. The coming months will be telling. We expect to see tangible, credible and transparent movement that goes beyond policy pronouncements. The United States is ready to support Cambodia in this endeavor, provided Cambodia is ready to address these challenges.