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Address

by

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At the
5th Asia Economic Forum: "Challenges and Opportunities
In the Face of Global Economic and Financial Crisis"

Raffles Hotel Le Royal, April 6th 2009

Excellencies, Ladies and Gentlemen,

It is my great pleasure and honor to address this **5th Asia Economic Forum: "Challenges and Opportunities in the Face of Global Economic and Financial Crisis"**.

Taking this opportunity, I would like to warmly thank the **University of Cambodia and the International Foundation for Arts and Cultures of Tokyo** for initiating to organize this annual event to invite national and international leaders from governmental institutions and private sector, research institutes, civil society, and development partners in order to exchange perspectives on economic, financial and development issues in Asia in the context that the whole world is being hit hard by the financial crisis, especially in the time we are taking

measures to mitigate the impact and searching for appropriate and effective responses.

We are all aware that the current economic and financial crisis marks the first global crisis of the era of globalization. The root causes of the crisis were more than the **failure of market regulation** and the supervision of the financial institutions. Many financial institutions turned to high risk financial practices and adopted the strategy of bypassing this regulation.

What started as a series of financial market events in America has weakened the whole world's economies. The collapse of real estate markets, the breakdown in the major financial markets, the loss of trust and confidence, the collapse of **U.S Wall Street**, and company closures all played a part in causing the financial crisis.

The ripple effect has spread beyond credit, mortgages, failures in companies, leading to the unemployment and world recession. The crises in real estate, banking, and credit in the US is having a global effect beyond American financial markets, and causing economic imbalances around the world.

Economists believe that Asia could be decoupled from the crisis as Asia's economy would be sustained by high economic growth of China and India, even though the U.S. and Europe will be in crisis. On the contrary, Asia was immediately hit by the bankruptcy of **Lehman Brothers** in September 2008 causing a high level of risk aversion that resulted in a sudden stop of capital inflows. The high volatility of international capital flows has been a powerful factor in the crisis contagion. The crisis then caused sharp decline in international trade which has been a major channel of transmission for East Asia's economy, whose exports to America and Europe amounted to 12% of the GDP.

Although the developing countries of Asia have been well-prepared to cope with the current crisis, the decline of foreign investment and the increase in the cost of international capital have severely affecting many of Asia's developing economies. Some of Asia's developing countries have found themselves difficult to borrow from international

community, which might reduce the ability to finance development programs and efforts to achieve the Millennium Development Goals (MDGs) although they are able to pay back. Several Asian countries have seen their exports declining by 10% to 20%. As a result, contraction of international trade is not just a channel of crisis transmission but also a factor in bringing down the production. In this regard, international trade is not only a vector of contagion but an accelerator of the crisis.

Moreover, the global economic and financial turmoil has spread and jeopardized the well-beings of Asia. The financial crisis clearly shows the imbalance of rich and poor states and in this context Asia must be smart and innovative in dealing with the challenges facing us. Everyone must do their part including public and private sectors to seize the opportunities to help stabilize and secure Asia's rise in the 21st century. There are many awaiting challenges and opportunities, which might happen at once.

Excellencies, Ladies and Gentlemen,

When will this economic and financial crisis last? If the economic and financial crisis continue what will happen to our Millennium Development Goals? Will we have a global depression or collapse of the world's market?

I think these are pertinent questions that leaders must consider. However, looking at what has happened globally, we see that we cannot just rely only on market forces, but we need government intervention to control market forces. We cannot rely on a system simply based on market forces and confidence to grab the opportunities.

In this context, we must collaborate closely to tackle the current crisis which can pose a significant challenge for global integration. In particular, national responses to the crisis can lead to protectionism, economic and financial fragmentation. Moreover, since the start of the crisis, many countries have raised customs tariffs to protect their domestic production.

Along with this, many developing countries which adopted export-led growth strategies and liberalized their capital accounts; found that they were suffering from the effects of a reduction of aggregate demand of nations of export destination. These economies are thus suffering from falling exports, falling commodity prices, and declining domestic demand although they have done nothing wrong on their own.

Therefore, emerging economies and developing countries are now suffering from the same vicious circle that is affecting the developing nations, meaning: their weakening economies are inter-acting with weaknesses in their financial systems. Unfortunately, the repercussion of the current economic crisis is not simply on the economy but also on political implications for the development.

Therefore, the credibility and reliability of the existing financial system must be reviewed. Since the crisis originated in the United States, the country which is one of the major authors of financial market deregulation, the United States investment banking model as well as reliance upon the corrective powers of the financial market have been discredited. For that reason, many developing are calling for the creation of a new and more universal kind of international banking and financial system.

Along with that, at the 14th ASEAN Summit, leaders of ASEAN countries agreed on strengthening cooperation with the International Financial Institutions through utilizing their resources and expertise to cope with the current crisis. Moreover, ASEAN leaders also called for an urgent and bold reform of the international financial system by paying attention to voices and interests of the emerging and developing countries. All leaders are expected to share ASEAN's views and working closely with other major economies to address the current global economic and financial crisis. At the global level, ASEAN leaders agreed to work with the G-20, particularly on the reform of institutions and international financial markets.

In this connection, I am pleased to note that during the summit on April 2nd 2009 the G-20 were committed to providing the capital flow to the emerging and developing countries, in which the G-20 agreed to

increase considerable capital allocation to the international financial institutions in order that they have capital in hand for comprehensive coordination works in coping with the global economic and financial crisis. Practically, the G-20 agreed to provide the budget of USD 850 billion through International Monetary Fund and multi-lateral development bank in order to sustain growth in the emerging and developing countries.

Excellencies, Ladies and Gentlemen,

We must be aware that these approaches only fix the financial crisis. How can we solve the economic crisis which includes unemployment, food crises, health crises, and environmental crisis that affects us all?

Therefore, the global economic and financial crisis is a test for the world's ability to challenge with the economic downturn, which may affect the economic, environmental, social and political stability. We must work together and be universally responsible to spearhead Asia in time of unfavourable period. We must act together with common purpose to develop long-term policies that create long-term opportunities for our people. It is for sure that this severe global economic and financial crisis can affect and have pressure on the Least Developed Countries, which may lead to the cancellation of commitment in achieving the Millennium Development Goals (MDGs) in time that the loss of jobs and incomes increased as well as the shortage of fund to finance education, health and other social safety nets projects.

Cambodia has been approaching the crisis by two different angles – to address the financial and economic vulnerabilities while dealing with the social impacts on employment and income simultaneously. In this regard, Cambodia is committed to ensuring macro-economic stability through the implementation of financial policy to stimulate growth, soft monetary policy and promoting the most active implementation of systematic reform programs, aiming at improving the local business and investment climate in order to win the confidence and attract local and international investments. At the same time, we have employed the existing and newly created social safety nets programs to channel

funding to fuel consumption as well as helping the poor and affected people.

Before ending, I would like to stress that Cambodia is currently enjoying full peace, political stability more than ever since the end of 1960s. The universal election in 2008 was regarded by the national and international opinions as free, fair, transparent and just, with the results reflecting the will of strong support from the people. Almost a decade of economic growth has been moving well with the average growth of 9.4%. Cambodia still continues to gain support from bilateral and multi-lateral international development partners, especially for the year 2009, during the **Cambodia Development Cooperation Forum (CDCF)**, the Royal Government attracted the Official Development Assistance of approximately USD 1 billion.

Therefore, a recent report by the **Economic Intelligence Unit (EIU)** which rated Cambodia as a country at very high risk due to the global economic crisis is 'incredible' and contradictory. It is comprehensively seen that Cambodia is far from being destabilized by the global economic crisis albeit the garment industry is being affected due to the decline of export markets. Practically, many sectors of our economy and investment projects are still on-going while our banking system as well as public and private sectors are still being operated as normal.

The challenges ahead are unpredictable, but I am fully confident that Cambodia will overcome the crisis and get back to its normal business – implementing our poverty reduction policy as stipulated in the **Rectangular Strategy-Phase II**, by increasing investment in infrastructure, vocational training in the rural community, as well as education and health.

In conclusion, I would like to wish the Forum a great success with fruitful and excellent results, which will significantly contribute to the fight against the impact stemming from the global economic and financial crisis in our region.

Thank you!