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Statement by the Hon. **KEAT CHHON**,
Governor of the Bank for **CAMBODIA**,
at the Joint Annual Discussion

STATEMENT OF

MR. KEAT CHHON

Sr. Minister in charge of Rehabilitation and Development

Minister of Economy and Finance

Royal Government of Cambodia

and

Governor of Cambodia to the World Bank

At the Annual Meeting of IMF and World Bank

Washington DC, 6-8 October 1998

Mr. Wolfensohn, President of the World Bank

Mr. Camdessus, Managing Director of the IMF

My fellow Governors on IMF and World Bank

Ladies and Gentlemen

1. I send to you all warm greetings from Cambodia. I regret that I am unable to be present and participate in this historic session due to pressing preoccupations in the country. My colleague from the National Bank, Mr. Chea Chanto would be attending the meeting. However, through this statement, I wish to share with you some important information about Cambodia and also my thoughts on some subjects of immediate concern to all of us.

2. The most important landmark event in Cambodia was the general elections held on 26 July this year. This was the first time in nearly four decades that such elections have been organized by Cambodians themselves under our own constitution to choose their representatives and government leaders for the next five years. This was indeed a unique and mammoth event. The entire process was ably handled by an independent and totally neutral body set up for this purpose, the National Election Committee. I am glad to report to you, and as you no doubt have heard and followed, the massive preparations for the elections took place in an orderly, fully transparent and efficient manner with remarkable speed and success in a very short period of time. These included: voter registration and verification; computerization of voter lists containing over 5.4 million voters; setting up over 11,000 polling stations; training a large number of personnel to conduct the elections; distribution of polling materials to all corners of the country using many novel and appropriate means of communications like bullock-carts boats, elephants, besides aircraft and automobiles; setting up a media center to provide full access to all information to the media; organizing the logistical support and security for over 300 international and 20,000 national observers.

3. In all 39 political parties registered for the elections. They had full and unfettered freedom for campaigning all over the country. In spite of the very divisive and disruptive nature of all such elections, especially in the context of the conflict-ridden past of Cambodia, the pre-election and campaign periods were inordinately and exceptionally peaceful, even the normal crime levels registering significantly lower levels. Indeed, for

over 6 months preceding the elections, Cambodia witnessed a calm and stability not known for a long time in recent history.

4. The elections were held in a most peaceful atmosphere commented upon in glowing terms by all international and national observers; over 90% of the electorate cast their votes, an unprecedented turn out, itself a testimony to the freedom of expression and confidence in the secrecy of the process. The subsequent counting of votes was done in an open and transparent manner. These led to the international and national observers groups unequivocally declaring that the elections were held in a "free and fair manner" and that the results "credibly" reflected the will of the Cambodian people. Even a long term critic of Cambodia was overwhelmed by what he saw and observed that a "miracle on the Mekong" had taken place!

5. But, alas, after the elections were held in such a peaceful and orderly manner, the two main opposition parties which together could not gain a majority of seats in the 122 member National Assembly, started protesting with fabricated and far-fetched complaints about non-existent fraud and irregularities. Instead of following legally established procedures for pressing their complaints, they also started street based demonstrations and agitations in some parts of the capital city, Phnom Penh, adding each day to their list of imaginary complaints and raising the level of fiery rhetoric. When these led to the capital city witnessing the brink of anarchy and racist attacks on innocent people, the government had to intervene to stop the demonstrations. Interestingly, the head of the Joint International Observers Group declared recently that the NEC could have looked into the opposition complaints in a more transparent manner, but noted that such inquiries would not have resulted in any different conclusions.

6. After the demonstrations were put down, the opposition heeded the advice of the King and agreed to negotiations for the future of the country. Now the new members of the National Assembly have been sworn in and serious negotiations are under way for the formation of a new government. Meanwhile, the previous government continues as a care-taker government.

7. On behalf of the Royal Government of Cambodia, and indeed on behalf of all Cambodians, I would like to take this opportunity to thank all the countries and organizations which gave us immense financial and technical assistance as well as moral support in conducting these unprecedented general elections in the country and in being open-minded and fair in assessing the processes and results in a neutral manner.

8. I have taken considerable space in mentioning these details since the elections were the most important watershed in Cambodia's progress towards peace and reconciliation; it is also necessary to set right the many distorted views parlayed on various sections of the media. With the elections, Cambodia has taken a bold and decisive step in its long journey towards democratization of its polity, from bullets to ballots and away from the long drawn conflicts of the past.

9. I would now like to turn to the economic situation in the country. As is well known and recorded, we had taken very important, determined and strategic measures to re-orient our economic systems to be led by private-driven growth based on market

openness. We also revamped our budget systems and procedures and deliberately withstood pressures for bank-financing. We set in place institutions and systems to actively and aggressively promote private investment and to divest the state gradually of the production and distribution work it was doing earlier. We were assisted significantly by large and generous external assistance, both financial and technical. All these factors, led to notable positive results. For three years in succession, 1994-96, the economy registered impressive growth of about 7% per year; inflation was contained at single digit level; the national currency enjoyed stability vis-à-vis US\$ under clear market conditions of trading; and our per capita income doubled from \$130 in 1990 to \$ 292 in 1996 in spite of about 3% population growth per year.

10. However, in 1997, while we were poised for a further growth of nearly 7%, we were subjected to the combined effects of two coincidentally concurrent shocks in July 1997; one was the internal instability imposed on us of which I had spoken in the last annual meeting; the other was the financial cataclysm enveloping the entire South East Asia like an uncontrolled forest fire, and now becoming contagious to other parts of the world. Still, in 1997, our growth was positive at 2%, inflation was kept at one digit and our currency did not depreciate as deeply as other nearby currencies. We managed not only not resort to bank financing of our budget but indeed also to show a small surplus on the current side of the budget for the first time in decades! Driven by a growing export oriented garment manufacturing industry we also added to our net foreign reserves. Otherwise during this period, our tourism revenues declined significantly, actual private investment slowed down, and employment generation was sluggish.

11. In 1998, the prospects were bright in the beginning but the effects of the regional crisis are beginning to take their toll. We do not expect a very healthy growth this year although our decline will be far less than being felt by neighboring countries. With the conduct of the elections in July this year and the expected formation of the new government soon, the internal factors responsible for our economic woes have all but disappeared and investor confidence is increasing. But, we are not and cannot remain immune from the regional crisis sweeping thorough our entire neighborhood.

12. I would like to take this opportunity to commend and congratulate the IMF and the World Bank in rushing with massive funds and technical assistance to the rescue of the countries in East Asia which were affected by the financial cataclysm beginning last year. It is clear to everyone now that this cataclysm is still to fully bottom out, although there are already incipient signs of stabilization and possible recovery in some countries. Cambodia has only been indirectly affected by the cataclysm and will continue to adjust itself.

13. The regional crisis has given us an unique opportunity to re-examine the core, contours and contents of the established development paradigm. Already, important voices have been raised that the relevance of some of our assumptions and standard remedial measures for such crisis need to re-examined and that new institutional mechanisms should be devised to better regulate capricious short term capital flows which destabilize economies to the detriment of the people at large who are the target of all our developmental efforts. I would like to add my voice to these calls for radical rethinking of development priorities and mechanisms. Past theories and strategies have

helped us a great deal but progress poses new problems and challenges calling for new or redesigned tools. The globalized economy needs global thinking and responses. However in doing so we have to take into consideration the fact that we are living the real world of diversity. My sense is that the free market capitalism is not just an economic system. It is also conditioned by perceptions and cultural values that shape the forms of competition and of conducting business as well as emphasizes the legitimacy of profit and the values of freedom. These matters are not universally shared. Countries over the world have organized their economic systems around different values and politics.

14. Therefore, I would also ask that the World Bank which is fast transforming itself into an institution for "Knowledge for Development" should take the lead in this debate and organize think groups. As we step into the new uncharted century in the next less than 15 months, we do undoubtedly need a fresh road map for development, with clearer markers, signposts, and pointers that take into account all differences and specificities of all countries and regions. Fresh and innovative thinking and ideas, branching away from past notions, are imminently necessary. Established international institutions should be prepared for metamorphoses for an orderly world in the 21st century. Let us all ask the World Bank to do an in-depth study on this matter. Let us decide now to make this subject our centerpiece of discussions next year.

15. Both the IMF and the World Bank have been of great assistance to Cambodia in the past few years. Sadly, IMF withdrew its program of assistance and, in our view in somewhat of an inordinate rush, even closed down its field presence in Cambodia last year. But, we have continued to receive full support and assistance from the World Bank including an able field representation. With the formation of the new government in Cambodia in the coming weeks, we look forward to the IMF returning to help us and to the World Bank enhancing and increasing its continuing support. I would urge and plead, through this august assembly to the leadership and staff of the two institutions, that they consider Cambodia as being in its infant stage of growth in economic terms and they provide nurture and nourishment, not adult doses of inhibiting and sometimes infeasible conditions.

16. Last but not least, I would like to congratulate Mr. Wolfensohn for his bold and clear call last year for better public governance in all countries and for his transparent efforts to remove suspicion of wrongdoing on the part of his own staff. I have brought to the Bank's attention some cases where we witnessed lack of transparency on the part of the Bank staff and will continue to do so.

17. In conclusion, let me once again thank the international institutions and bilateral partners of Cambodia for their continued support and assistance in our efforts to ameliorate the social and economic lives of our people. I do look forward to substantive debate in the coming months over reshaping our instruments for international economic cooperation for the 21st century based on valuable lessons arising from the crisis seen in East Asia and elsewhere in the past year.

Thank you ☐☐