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Keynote address
of
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Senior Minister - Minister of Commerce
Royal Government of Cambodia

**“Global Financial Crisis, Export-Led Growth and Aid-for-Trade:
Focus on the ASEAN Experience”**

Regional Meeting on Aid for Trade for Asia and the Pacific
May 28 - 29, 2009
Siemreap, Cambodia

*Honorable Ministers,
His Excellency Pascal LAMY, Director General of the World Trade Organization,
His Excellency Haruhiko KURODA, President of the Asian Development Bank,
Her Excellency Patricia FRANCIS, Executive Director of the International Trade Center,
Excellencies Ambassadors,
Honorable Heads of Agencies,
Distinguished Guests,
Ladies and Gentlemen,*

Good Afternoon,

It is a great pleasure and honor for me, on behalf of my government, and the Cambodian people to welcome you all to Siemreap, Cambodia, in the vicinity of one of the 7 Wonders of the Ancient World. I would like to thank the Co-Organizers, namely the WTO and the ADB, for having chosen Cambodia as the host country for this important gathering. I would also like to give my high appreciation to all participants who have taken their time off from their busy schedule to participate in this regional meeting.

It is now nearly two years since we gathered in Manila for the **First Asia-Pacific Regional Review of the Aid for Trade Initiative**. In Manila, we focused on identifying trade related needs and requirements that would guide funding and partnerships with the private sector. This first Aid for Trade Regional Review for Asia and the Pacific set forth priorities for Aid for Trade:

- The need for outward oriented trade and investment policy incorporating public-private partnerships;
- The need for greater regional cooperation, infrastructure, trade facilitation and trade finance;
- The recognition of the diverse regional trade agenda and needs;
- The Country leadership driving relevance in the delivery of Aid for Trade in the region;
- The strong desire for greater regional cooperation, coordination and coherence.

Today, we meet to assess progress in relation to the benchmarks agreed at the abovesaid First Global Review of the Aid for Trade initiative, and to identify what is required to move from commitment to action in the implementation of the Aid for Trade initiative across the region. This meeting shall also offer us a unique opportunity to share knowledge from our own experiences and explore further regional cooperation.

We welcome the timeliness of this meeting, given the challenges emerging from the current global economic, especially the contraction in trade and investment which already impacts on the export-driven economies in ASEAN.

Today, the Aid for Trade Initiative constitutes one of the few positive development-related outcomes of the Doha Round. Aid for trade has achieved increased attention particularly since the Ministerial Declaration of the Sixth WTO Ministerial Conference made explicit reference to the need for aid to countries to increase their capacity to implement WTO agreements as well as to build their supply-side responses so that they can facilitate trade and benefit from enhanced market access.

In Cambodia, the effects of the global crisis are expected to slow down economic growth, which had averaged 11% in 2004-2007. Key exports sectors such as garments start contracting as a result of lower demand in the US. Growth in tourist arrivals has dropped reflecting the recession in Europe, as well as a much weaker South Korean Won against the dollar. As a result of the financial crisis, investments are expected to contract and trade finance could face constraints to support the needs of our exporters.

This situation will aggravate if protectionism increases as a result of economic nationalism, thus we welcome the enhanced monitoring process adopted by the WTO in this regard. Not less important is to scale up the efforts to successfully conclude the negotiations of the Doha Development Round, especially the operationalization of commitments vis-à-vis LDCs such as **duty-free quota-free market access** or the **LDCs modalities for trade in services**.

Despite the variety of country circumstances, several concerns emerged consistently from almost all analysts.

- *First, the concern that exports will slow.* Export volume are expected to drop markedly in several developing countries, or, in many cases already have begun to decline, due to slow growth or recession in the US and some European countries. The WTO expects world trade to fall 3 percent this year that would be the first annual drop in trade volumes since 1982 and the steepest for 80 years. Declining revenue from tourism is also a key concern, and the crisis is likely to exacerbate this trend. The crisis will also impact on the price of exports – the private sector is concerned about the falling prices of many export items, i.e. coffee, cotton, cocoa, tea, rubber, and garments. Smaller producers are concerned that price competition will intensify, as large producers such as China increase exports to other developing country markets.
- *Second, the concern that remittances will decline,* particularly from workers and the diaspora in recession-affected rich countries.
- *Third, the concern that foreign direct investment will decline,* both portfolio and direct foreign investment as investors shy away from markets that are perceived to be riskier. Many planned investments are already postponed or cancelled.
- *Fourth, the concern that exchange rate will fall as a result of sudden withdrawal of foreign capital from several developing countries.* Companies and governments with substantial foreign-currency denominated debts may contract or even collapse as a result.

- *Fifth, the concern that interest rates will rise.* As foreign investors have withdrawn, risk premiums and interest rates have risen for developing countries on global capital markets.
- *Sixth, the concern that aid will decline.* Many countries expect that aid from rich countries will decline as governments reassess their priorities. Last but probably not the least, there are serious concerns the global crisis could lead to "backdoor protectionism" as some countries spend trillions of dollars to shore up their economies and troubled banks. The crisis has also amplified fears that countries could try to save jobs at home by erecting protectionist barriers, unwinding globalization and risking a repeat of the 1930s Great Depression.

Speaking of a cure for economic nationalism, WTO DG Pascal Lamy is strongly advocating the swift conclusion of the Doha round as the best insurance policy against a spiral of protectionism and tit-for-tat retaliatory tariff action. He said that a global agreement to free up trade would be a "global stimulus that could help jump-start our economies" amid the worldwide economic slump. I concur with his views, though I have started to witness many governments going public against protectionism while secretly taking protectionist measures to support their local business. LDCs like Cambodia will be the first to suffer from this unfair practice as we do not have the financial means to adopt a big stimulus package to save our local economy as they were doing for theirs.

As important as aid and debt relief may be for moving LDCs' development process forward, they can neither be as effective nor as dependable as trade for the building of a sustained partnership of equality and mutual new century. In that context, I support the WTO Director General to reconvene WTO members to finalize the negotiation process as soon as possible.

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Distinguished Guests and Participants,
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The global crisis should not only be understood as a **risk** but also as an **opportunity** to work together addressing the global challenges. As developed and developing countries lay the ground for recovery, continued development of trade and investment have to be part of the solution. Developing countries need to further advance in setting up the legal and institutional frameworks that will make this possible. In many developing countries, though, the required resources come in the form of development assistance. And this is where aid for trade comes in. **Aid for Trade** has to be responsive to the current situation and help developing countries move from making trade possible to making trade happen to support recovery. It is now more important than ever that **Development Partners** reinforce their support to the Aid for Trade (AFT) agenda in the long run, fulfilling commitments and ensuring predictable flows of aid.

Cambodia is well positioned to grasp these emerging opportunities. From an early stage, the Royal Government of Cambodia realized that for trade to have an impact on poverty reduction it had to be an integral part of the country's development strategy. The review of the **Diagnostic Trade Integration Study**, under the Integrated Framework (IF), leading to the **2007 Cambodia Trade Development Strategy** ensured that it reflected Government priorities. Moving from strategy to action, we identified two critical aspects: the need of an integrated approach to **policy development, capacity building, and institutional reform**, as well as the importance of improved **governance, alignment, harmonization, and accountability** for the implementation. In 2007, we addressed this through the

establishment of a trade sector-wide approach (**Trade SWAp**). The SWAp, which we continue to develop, is overseen by the Sub-Steering Committee on Trade Development and Trade-Related Investment under the leadership of the Ministry of Commerce. By using a structured approach, the Trade SWAp reduces the duplication of efforts between development partners and allows the government to maintain a clear view of progress across a broad range of activities and thereby, improving the **effectiveness of aid**.

In making the Cambodia Trade Strategy possible, the Integrated Framework and Development Partners facilitation have played a catalytic role. We expect the Enhanced IF to play the same role in supporting timely and effective implementation of the strategy, through the provision of new and much needed resources to build the institutional capacity that will be in charge of this process. We welcome Ms Dorothy Tembo as the Executive Director. The establishment of the Executive Secretariat and the new Trust Fund Manager are important steps in setting up the Enhanced IF. At the same time, our EIF Tier 1 proposal is ready for submission to the EIF Secretariat for consideration.

For Cambodia, the Aid for Trade has proved effective in raising trade capacity leading to a successful WTO Accession, initiation of the Customs reform through the implementation of ASYCUDA, as well as advancing in export development. Regionally, Trade infrastructure projects, such as the ADB Phnom Penh to Ho Chi Minh Highway Project, and GMS Programs have contributed to reduce customs and procedures bottlenecks and augment cross-border trade, providing important lessons on trade development and facilitation.

Despite the promising gains made by Cambodia in the trade front, challenges still abound. These challenges not only arise from the need to further build the institutional capacity to lead the trade development process, but also from the need to eliminate barriers such as insufficient cost competitiveness, difficulties meeting quality, quantity and deadlines required, weak infrastructure and high transaction cost.

Trade finance is another element that Cambodia has to address in order to better support its producers to be more competitive and move up the value chain. Just this week, with the support of UNDP and ITC, we have organized in Phnom Penh an international workshop to further explore how to contribute to the diversification of the export base through access to finance, including the creation of a trade finance institution with a development mandate like for example an EXIM Bank.

Looking at the future, we recognize the importance of **monitoring** and **evaluation** of the Aid for Trade initiative. In this sense, Cambodia has already embarked in the development of a **national database** of Trade-Related Technical Assistance and Capacity Building to support the management and monitoring of Aid for Trade. The objective is to further develop this tool to enable it to track progress towards results and provide key management information for the implementation of our strategy. Nationally-driven M&E systems that build upon existing frameworks can go beyond the monitoring of resources and trade-related indicators, and measure the contribution of trade to development, poverty alleviation and human development.

Regional cooperation will continue to be a priority in our agenda. We will continue to share lessons from our own experience and to learn from others, as we have already done with Laos and Nepal.

We know that the leadership of the Royal Government of Cambodia, the facilitation from Development Partners and the resources of Aid for Trade will enable Cambodia to tackle these issues in a meaningful way that will further contribute to the global recovery.

We hope this high-level meeting will further serve to voice the key concerns of the ASEAN region in the light of the July 2009 Global Review on Aid for Trade in Geneva.

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Let me conclude by thanking WTO and ADB for organizing this important meeting. I would like to encourage all delegates to contribute in the discussion and share valuable experiences to develop a unified stand for future cooperation to overcome many challenges ahead. I wish you all a very pleasant stay in Siemreap.

I now declare the "Regional Meeting on Aid for Trade for Asia and the Pacific" open.

Thank You

