Remarks for the Dinner Talk with Stakeholders

Tuesday, October 14, 2003
Le Royal Hotel

Excellencies, Ambassadors, Colleagues, and Friends,

Good evening and thank you for such a warm welcome. It is great to be back here with you in Phnom Penh. And I certainly am looking forward to spending the rest of the week here.

This is an important time in Cambodia. Cambodia became the first developing country to enter the World Trade Organization last month in Cancun. This marks an important step in both global and regional integration and provides a powerful incentive for reform to fully benefit from WTO membership. Since I was here last, Cambodia has also hosted a series of ASEAN meetings, including the leaders' summit where the China-ASEAN Free Trade Agreements were completed.

The country also launched its first National Poverty Reduction Strategy (NPRS) in March, which is an important step towards achieving the Millennium Development Goals, including reducing the number of people living in poverty and reducing maternal and infant mortality. And this week, Phnom Penh will host the second six-nation Regional Conference on Poverty Reduction Strategies, co-sponsored by ADB, UNDP, IMF, and the World Bank.

This is also an important time for the World Bank in Cambodia. For the first time, we are working together with two other development organizations, the ADB and DFID, to jointly prepare our strategies to assist the country. Because we all found ourselves on the same preparation timetable, we decided to work together, particularly since we are all using the NPRS as the basis for our support. This is challenging work for all 3 institutions – harmonizing our strategies, jointly consulting with stakeholders in the country, and sharing ideas and challenging each other in ways that we have never done before. I hope what happens here in Cambodia will be a model for the way development institutions work in other countries. And I have every confidence that the outcome of this exercise will achieve our joint goal of helping to produce better development results for the people of Cambodia.

I'd like to take a little time to share with you the findings of our latest East Asia Regional Update, which we will be releasing Thursday morning.

The outlook for the region, of course, has major implications for Cambodia. It confirms that East Asia and the Pacific, with China as the huge locomotive, is the fastest growing region in the world. For all the existing problems with insufficient infrastructure, governance, weak judiciaries, environmental issues and financial sectors, the region has shown remarkable resilience six years after the financial crisis, less than three years after the collapse of the IT boom, and barely a matter of months after the Bali bombing and SARS. East Asia is well and truly back in business, and showing astonishing ability to adapt to change and ride out shocks. We expect it to register close to 6 percent growth in 2004, up from 5.0 percent in 2003.

While the SARS crisis caused a sharp dip in East Asian growth in the second quarter of 2003 -- regional GDP growth fell to a year-on-year pace of about 3 percent from close to 6 percent in the first quarter -- on balance its impact seems to have been more modest than we had feared. Information on how quickly the regional economy recovered in the third quarter is mixed, but the quick passing of SARS – at least for the time being – has been accompanied by a sharp rebound in tourist arrivals and retail sales. Far from concerns about too little growth, China is in the midst of a powerful investment boom that has policy makers looking for ways to cool the pace of expansion. On the other hand, export growth in the majority of countries has slowed over the course of the year and in the middle income countries of South East Asia, this slowdown accelerated into the third quarter.

Forming a firm view about the near-term outlook is tricky in the face of these conflicting signals, but, on balance, we think the prospects for a stronger cyclical recovery in East Asia are now good. Recovery in the developed world is picking up, led by stronger growth in the US and Japan, which, combined with strong growth in China, should also propel an upturn in world trade growth. The long depressed world high-tech industry seems to be moving forward, if in fits and starts. And China seems set to emerge as an even more important global production base for high-tech multinationals, and the center of production networks drawing on inputs from around the region. Equity and high-yield debt markets have mounted a strong advance around the world, leading to reviving portfolio flows to developing countries and especially strong rallies in emerging market stock and debt markets, including in East Asia.

Household consumer spending has been an important driver of growth in several of the middle-income South East Asian economies in the last two years, and more recently investment spending has also been rising in Thailand and, to some extent in Indonesia. Partly as a result of restructuring efforts in the wake of the regional financial crisis, the profitability and the health of the balance sheets of banks and corporations have improved in several of the post-crisis countries, creating favorable conditions for a continued strengthening of investment.

Let me mention, in this context, a few major trends that I see as helping to shape our operating environment right now.

First, we have returned to a period of **stable, predictable policy-making**, with prudent macro-economic management. This is a critical determinant of investor confidence, business confidence and consumer confidence. At the domestic level, many countries are in a reasonably sound macroeconomic position, allowing flexibility for more stimulative policies, should these be needed. With most countries having run current account surpluses since the 1997-98 financial crisis, foreign reserves have swelled enormously, reaching over $850 billion in total by mid-year among the main economies (other than Japan). The net foreign debt of several countries has fallen dramatically as a result.

The significance of this trend of stability and growth is that, if continued, it provides the ideal underpinning for investments, job creation and poverty reduction – which in turn, support stability and growth as more people move into the ranks of the middle class. East

Asia is early in a virtuous cycle, and barring the unexpected, we should see sustained growth and poverty alleviation in this region in the years immediately ahead. The huge potential this offers is one reason why we are continuously reminding governments in the region of the need to press ahead with restructuring and reforms, even now when the memories of the crisis are fading in the glow of recovery.

A second big trend is the rise of regionalism, and the push by East Asian leaders and businesses to work more closely, to create a closer internal market. We saw this evident at the Bali Summit of ASEAN, where the leaders agreed to push for an ASEAN Economic Community by 2020, which would rest on 3 pillars of a Security Community, an Economic Community, and a Socio-cultural Community -- and to allow a so-called 2+x approach to liberalization, where the fastest reformers would not be held back by the slowest. In some ways, the leaders made a breakthrough in their meeting, and it was particularly significant that the summit saw accords for more open trade advanced with India, Japan, and, of course, China. But in another sense, the leaders were just recognizing the changed reality of the world they are governing. Businesses are trading more within the region as obstacles to investment, movement of goods and location of production facilities and labor are diminishing. China is taking an increased volume of imports. This trend will only accelerate in the years ahead, and there is already talk of beating the deadlines for free trade agreements set by the leaders, apart from the "early harvest" opportunities envisaged by China. For us all, this poses a major challenge. We have to deal locally but think regionally, even globally. We need to understand the domestic pressures, but also see the bigger picture, and understand that unless ASEAN moves to provide a more open, and streamlined regional business platform, it will lose out to regions that do.

Third, **China. China** is both a cause of this recovery and a beneficiary from it. It is also a cause of the accelerated integration and a beneficiary of it, too. On balance, the continued rise of China is looking like the best thing that could have happened in the region. China continues to provide an engine of demand for other East Asian economies. Exports from other East Asian economies to China have continued to rise at very rapid rates similar to those seen in 2002. In the first quarter of 2003, for example, exports to China were rising at a 50-60 percent rate year-on-year for the Philippines, Singapore, and Thailand, around 70 percent for Indonesia and 100 percent for Malaysia. Indeed such is the force of demand and import growth in China at present, that it is now running large and growing trade deficits with most other East Asian countries. As a result, China's overall trade surplus is falling this year, a fact which should put into perspective the current discussion of China's exchange rate. Indeed it seems quite possible that China's overall trade balance with the world could slip into deficit in a relatively short time, given continued strong demand growth and the ongoing liberalization of China's trade regime through its accession to the WTO. In the near term, in fact, the financial pressure for an appreciation of China's exchange rate does not appear to be coming from the trade account, but rather from capital inflows.

The growing gap between rich and poor, within countries and between countries, is the next trend we must all watch and try our best to reverse. We cannot build sustainable development in an unbalanced world, where over the next 25 years, 50 million people will be added to the population of the rich countries, and one and a half billion will be added to the poor countries. Many will experience poverty, unemployment, and disillusion with what they see as an inequitable global system. A growing number will leave their home countries to work. Migration will become a critical issue. There is further imbalance between what rich countries spend on development assistance -- $56 billion a year – compared with the $300 billion they spend on agricultural subsidies and $600 billion on defense. Developing countries themselves spend $200 billion on defense – more than what they spend on education. Countries will find their stability threatened by those who are not part of the economy, those whose lives are not improving. And regional organizations know the truth of this, too. That is one reason why you see such efforts within ASEAN to support the so-called CLMV group, to stimulate more regional integration, to keep the 10 countries 10, and not 6+4.

Civil society, information and communication combine to form a fifth big trend. In the years since the crisis, the region has seen authority and communications become much more widely spread, much more accessible to the ordinary people. Today, we can only guess how many non-government organizations there are in the Philippines or Indonesia. We see newspapers running stories and uncovering news for which they would have faced jail or closure in the mid-1990s. And we have seen the amazing proliferation of information via the internet. I can now get access to more information, more quickly, and from more sources, at an internet kiosk in Phnom Penh than I could a decade ago in Washington DC, which was then the information capital of the world. The reality is that ordinary people today can communicate more quickly, with more people via email, chat rooms, news groups, SMS messaging and websites, than ever before. They can find out more than ever before. This poses us with an interesting question: what is the potential role of this spread of power and information in improving people's lives? How can we, as people who care about the well-being of our fellow people, support these trends in ways that will give the poor better opportunities, encourage investments, and stimulate inter-country cooperation?

For our part, we are doing what we can, directly and indirectly. We have decentralized our staff, and now about half are working in the countries we work with. In the past year and a half, we have increased the number of Cambodian staff at our office here from 2 to 10, which has dramatically changed the way we work. We are engaging in new ways in Cambodia with a range of audiences. Television viewers tuned in live to the last IFC-supported Private Sector Forum, televised in Khmer, to hear the private sector discussing the challenges of doing business in Cambodia directly with the Prime Minister. The World Bank is talking more with senators, parliamentarians, civil society, media, the private sector, students, academics, local government officials, and people in rural areas, and is releasing more information, more quickly, to more people around the country.

Our staff have put together a sort of "Information Fair" tonight outside of this room to share some of the things we are doing. **The new Cambodia – World Bank brochure**, which we have just published, and which we share with you for the first time tonight, gives a terrific overview of our programs and projects and serves as a basic primer on what we are all about. It is written in a way that is very accessible to the average reader.

Another product that we have just released is our first **Cambodia Environment Monitor.** Natural resources and the environment are critical to the livelihoods of rural Cambodians. This Monitor, which is one of a series that we are doing throughout the region, gives an overview of the state of the environment in Cambodia, providing policy makers and others a better understanding of the state of this important resource in a way that no one has done until now.

Another thing we have available here tonight is a new set of booklets on our safeguard policies to help improve the understanding of the elements of an environmental impact assessment or how to deal with the rights of indigenous peoples affected by development projects.

The truly wonderful thing, I think, about all of these products is that they are all being produced locally in Khmer, which to me makes all of the difference.

Finally, tonight I have the privilege of officially launching our new Khmer-language website, which puts all of this information together in one place, including all of these documents, plus our monthly newsletters, all of our project information documents, as well as Khmer versions of the summaries of our most recent World Development Reports. We hope that this new site will help people both better understand what it is that we do – as well as to improve their own ability to contribute to Cambodia's development.

We see this website as an online Public Information Center and as a companion to the Public Information Center at our office here in Phnom Penh, where students, civil servants, civil society organizations, and journalists come for free ideas and information, both from our books and reports as well as our online internet terminals.

This is, of course, just the beginning, and we will continue to invest in information sharing and transparency as part of our assistance to support Cambodia's National Poverty Reduction Strategy (the NPRS). We welcome your ideas, by the way, on ways to make development information more useful, meaningful, and accessible.

Transparency, we have learned, is critical to our effectiveness, which is why we are moving so steadily in that direction. We are not where we want to be, but we are getting there. Transparency helps stakeholders understand their options, helps them make informed decisions, and demystifies the role of the World Bank. It builds understanding and trust, and helps people tell us when they think we've got it wrong. And we need to be clear and honest tonight. We have got a number of things wrong here in the past. But I believe we have learned a number of lessons from our mistakes.

The partnerships with the ADB and DFID reflect one such lesson. We have learned that when we go it alone, in any sector, we won't succeed on behalf of the Cambodian people. However much we may believe a project or a series of reforms deserve attention, unless we can work with government, other donors, civil society, and other potential partners, history suggests we won't realize the results we aim for. We have to achieve better results – all of

us know that – for the people in whose country we are guests, the people who must repay the loans we make. Partnerships, based on shared values, trust, and respect, will greatly increase all our impact.
Another major lesson bridges these two issues of transparency and partnership, and it is a lesson learned by us all in our work in many countries, including Cambodia. Corruption can be a serious impediment to development, and getting basic aspects of governance right is a huge step forward for the people of the country. We have all seen what can happen when what they call in Indonesia "KKN" – corruption, collusion and nepotism – are defining characteristics of a judiciary, a public service, even a parliament or administration. It erodes confidence of investors, and they take their money elsewhere. It erodes confidence in government, and citizens lose faith in their leaders. It undercuts the potential impact of well-intentioned development programs, and turns potentially good loans into onerous debt. There has been some of that here, as we all know. We need, as a group, working with the Government and the people of the country, to shine the light on such practices and not be ashamed to do so. Only by being willing to confront this issue and work together to set it right will we live up to the expectations of the people of this country, and be able to achieve real, lasting development. This won't all change in a week, or a year, and we can't do much if we don't work together and if the Government doesn't lead. But history will judge us for our results, not our words. The challenge is before us.

I have tried to lay out for you a sense of how I see the region, beyond the numbers, and to give you an idea of the direction the World Bank is taking to increase our effectiveness in Cambodia.

As we look at these broad, powerful trends reshaping the region, I think we can all be confident of one thing. In Asia, change is a way of life. Managing it, turning it to advantage, and ensuring that the poor and vulnerable benefit equally – these are the challenges for us all in the exciting months and years ahead.

Thank you.