

Ajith Nivard Cabraal: Standards, codes and rules – friend or foe of poor nations?

Presentation by Mr Ajith Nivard Cabraal, Governor of the Central Bank of Sri Lanka, at the luncheon of the Commonwealth Finance Ministers' Meeting, Colombo, 12 September 2006.

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Your Excellencies, Honourable Ministers, Distinguished Delegates, Ladies and Gentlemen,

On behalf of the Central Bank of Sri Lanka, it is my great pleasure to welcome all of you to Sri Lanka and to host this Luncheon today. I hope all of you had a pleasant journey and have been able to settle down well in our city so as to be ready to face the rigours of the tight programme that is ahead of you over the next few days. I am also delighted that I have the opportunity to speak to you this afternoon, knowing that it has provided me the platform to share some thoughts with a very diverse group that constitutes the Commonwealth.

As we all know, the family of Commonwealth countries is a truly global, multi-ethnic, multi-religious, multi-cultural, multi-national collection of vastly differing economies, societies and political ideologies. It may also be not inappropriate to state that the Commonwealth is enriched greatly by this diversity. At the same time, we have to be mindful that the countries within this group are at various stages of economic development, ranging from poor developing nations with annual per capita incomes of about US Dollars 160 to very wealthy industrialized nations with per capita incomes of about US Dollars 36,000. Hence, although we may, in general, say that we derive our strength through diversity, we still have to take serious note that the great disparity in living standards is an issue that needs to be uppermost in our minds if we are to move forward in harmony and brotherhood. In that context, I think it is very appropriate that, this year, the Commonwealth Finance Ministers have decided to focus on several dimensions and options that impact on this issue, which is borne out of the fact that they have selected "**Agenda for growth and livelihood**", as this year's theme for the meeting.

Your Excellencies, Distinguished Delegates,

In order to critically examine the issue of wealth disparity in perspective, let us take our minds back to the Commonwealth Heads of Government meeting in Singapore in the year 1971. At that meeting, the declaration of Commonwealth Principles was adopted. These Principles acknowledged that wide disparities in wealth existed between different sections of mankind. The Heads of Government also acknowledged that such disparities were too great to be tolerated and that such disparities would create world tension. Accordingly, the Commonwealth resolved to work towards the progressive reduction of these disparities. The same declaration undertook to steer the group's efforts to overcome poverty, ignorance and disease, as well as to raise standards of life and achieve a more equitable international society.

20 years later, in 1991, the Harare Declaration was issued. This declaration conceded that many Commonwealth countries were still poor and that they faced acute problems, including excessive population growth, continuation of poverty, debt burdens and environmental degradation. At the same time, it was acknowledged that while disparities among members appeared to have worsened, some favourable results were also being achieved. For example, despite the widening economic gap, many nations had been able to establish better democratic processes, good administrative frameworks, more independent judiciaries, keener respect for human, fundamental and labour rights, and several other social successes. Those were of course significant achievements, and we should all be proud that we have been able to create such conditions in our countries.

Notwithstanding those gains as noted in 1991, and the many subsequent successes, we may still have to admit that our collective efforts to address one of the fundamental Principles of the Singapore Declaration, namely, that of addressing the issue of income disparity, has been, by and large, unsuccessful. Today, 35 years after the Singapore Declaration, it is actually becoming even more acute, and consequently, we need to respond to that widening gap appropriately, urgently.

Your Excellencies, Distinguished Guests,

As we all know, countries that are affluent today were not affluent at some point in time in their history. However, they have reached an affluent status today through their various actions and initiatives. Obviously therefore, as in the case of any successful outcome, we could learn from those case

studies. In fact, we in Sri Lanka felt that we should do so professionally and objectively. We began by examining the economic and political environments in which many of the highly successful countries operated. We studied the external and internal conditions that prevailed during the early days of growth of those countries. We also attempted to analyze the factors which enabled those countries to break the shackles and reach a stable platform from where they launched themselves to the next level of development.

In that exercise, one of our key findings was that, in the journey to reach developed and industrialized country status, many of those countries had immense space and flexibility to grow in an uninhibited environment. Further, when the present day rich countries were growing, (from per capita income of US dollars 1,000 to US dollars 10,000), they faced very few obstacles in the movement of capital and labour. They did not have to be overly concerned about human or labour rights. They were free to impose trade quotas and grant very visible and obvious subsidies to their local entrepreneurs and farmers. They were not subjected to stringent global standards for copyrights. They were not desperately worried about safeguarding the ozone layer or the environment. They did not have to make too much of a fuss about money laundering. They did not spend expensive professional time and money on compliance tests. They did not have to deal with 24 x 7 media reports. The list goes on. Some even had ready access to the natural and human resources of other countries, which they ruled.

But today, many low-income countries, despite their potential to grow are functioning in an "international environment" that is "controlling" almost all economic activities. Accordingly, they are seriously constrained by these stringent benchmarks, however wonderful they may be, which from a rapid development point of view, poses serious and continuous challenges. For example, at a time when these countries are desperately attempting to break free from the poverty trap, the allocation of resources to them by way of aid inflows by wealthy nations have been reducing. In fact, the net official resource inflows to developing countries were negative in 2005 and projected to remain negative in the next few years as well. In the meantime, although the Commonwealth group supported the Doha Declaration of WTO and were moving towards the direction of freest possible flow of multilateral trade on terms fair and equitable to all, while taking account of the special requirements of developing countries, the current multilateral trade negotiations have not been moving in the right direction. Hence, it is clear that not only are the present day poor nations struggling in the emerging, highly complex and controlled economic environment, they are also facing reduced resource transfers, and not being accorded special treatment they should be afforded in order to propel them out of poverty. Some may however argue that the tremendous benefits of globalization has levelled the playing field and that advantages are available to any and all who care to access, and it is just unfortunate if some persons are unable to take advantage of these conditions.

Nevertheless, I believe we are all aware that weaker communities have lesser chances of access and that situation leads to widening even further, the ever-widening gap. Therefore, it is timely and appropriate that this forum addresses the need to impress upon the more wealthy nations to increase aid flows, open out greater trading opportunities, and move towards higher investment and resource build-up in the lower income countries.

Lest I be misunderstood, let me add that, not for a moment am I suggesting that the progressive steps the world and the international community have taken over the past few decades in developing new standards and norms are in any way, inappropriate or unwelcome. Those initiatives were certainly necessary and have been beneficial for the overall advancement of society. But, we must, at the same time, collectively address the ever growing constraints arising out of the inflexibilities and restrictions imposed in the transfer of capital, wealth, skills, knowledge and the imposition of new standards, which may consciously or unconsciously act as subtle barriers to poverty alleviation.

Your Excellencies, Honorable Ministers, Distinguished Guests,

In order for all of us to appreciate the fact that what I am saying is not something new, let me now quote a Principle as set out in the Singapore Declaration, and affirmed in Harare.

*"Our aim is to achieve the freest possible flow of international trade on terms **fair and equitable to all**, taking into account the special requirements of the developing countries, and to encourage the flow of adequate resources, including governmental and private resources, to the developing countries, bearing in mind the importance of doing this in **true spirit of partnership**, and of establishing for this purpose in the developing countries, conditions which are conducive to sustained investment and growth".*

While this Principle enunciates a very laudable and noble philosophy the unfortunate reality may be that the plethora of what we may call “worthy restrictions”, (albeit they may be for the greater good of mankind), may be actually but unwittingly assisting to keep the same developing countries in a tighter trap of poverty. The powerful message that emerges from this situation is clear. The present low-income countries, when they have to struggle in this unsympathetic environment, need more understanding; greater allocations for funding and investment; increased direct aid flows; and tangible support and direct concessions to recognize satisfactory “compliance”.

At this stage, I would like to acknowledge a step in the right direction that has been followed by some advanced countries through certain targeted schemes, such as the GSP+ scheme, which provides some welcome relief to low-income countries. Unfortunately however, even such concessions are often coupled with stringent criteria such as Rules of Origin which again adds to the ever growing list of “do’s and don’ts”, which list must be quite a nightmare for those who have to keep track of these! Of course all this has served to create a new breed of corporate executives titled, “Compliance Officers” (CO’s), who may at this rate, soon end up becoming even more important than CEO’s!!

Your Excellencies, Honorable Ministers, Distinguished Guests,

The Principle in relation to addressing income and wealth disparity **among** nations is equally applicable to societies **within** nations as well. Towards that end, I am pleased to announce to this distinguished audience that Sri Lanka has already developed a comprehensive policy framework “Mahinda Chintana”, based on the election manifesto submitted by President Mahinda Rajapaksa at the last Presidential Elections which addresses this issue comprehensively. This policy framework provides a sustainable development strategy designed to address growth and livelihood issues, while covering the income – disparity issue that prevails in our own country. As per the “Mahinda Chintana” development strategy, every endeavour is to be made to tap domestic resources for investment. At the same time, the Government clearly realizes that it is imperative to encourage large scale investment flows into the country to make a significant impact in the acceleration of the growth process. It is now an accepted norm that large infrastructure projects such as highways, railways, airports, ports and power projects not only add to the stock of investment in a country, but are also considered a better recipe for poverty alleviation rather than income support and subsidies.

A large number of such investment opportunities now exists in Sri Lanka and no doubt in many other Commonwealth countries as well. In that context, we need to use the opportunities provided by events such as today’s meeting to establish bi-lateral relationships leading to the promotion of investments. While Governments attempt to achieve consensus for multi-lateral facilities and agreements, it may also be time for individuals to seriously consider B2B investment opportunities.

Your Excellencies, Distinguished Guests, I am confident that the delegates present at this Forum will actively, seriously and diligently explore possible ways and means of promoting interactive growth that would generate livelihoods and reduce poverty in our respective countries. If we all do that successfully, we could look back and proclaim that we did our bit to fulfill the lofty outcomes as envisaged in the 1971 Singapore Declaration.

Thank you.