Address
by
Hon. Rohitha Bogollagama, M.P.,
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at the
Multi Stakeholder Workshop
on
Debt, Finance and Emerging issues in Financial Integration.

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Speech by Hon. Rohitha Bogollagama, Minister of Foreign Affairs at the Multi-Stakeholder Workshop on Debt, Finance and Emerging Issues in Financial Integration - Marlborough House, London - 6th March '07

Rt. Hon Stephen Timms
Chief Secretary to the Treasury

Mr. Jose Anthonio Ocampo
Under Secretary-General
UN Department for Economic and Social Affairs

Mr. Ransford Smith
Deputy Secretary General
Commonwealth Secretariat

Dr. Mohan Kaul
Director – General
Commonwealth Business Council

Distinguished Delegates
Ladies & Gentlemen

It is an honour to be at Marlborough House to address this important workshop with a large gathering of experts, and also to share the plenary session with Rt. Hon. Stephen Timms. I regard him with much respect, having been acquainted with him in the recent past during my official visits to London. It is again a priviledge for me, as in my present capacity as the Minister of

Foreign Affairs, this is the first official engagement I am attending in London. I thank my good friend Dr. Mohan Kaul for providing that opportunity to kick off this official tour from the historic Marlborough House.

I wish to share with you some of my thoughts on the theme of this workshop which is of significant relevance to developing countries like Sri Lanka. In my political career I have always held responsibilities involving the promotion of trade, investment and economic co-operation. As you are aware a number of reviews at various levels have been undertaken on the implementation of the Moneterrey Consensus. If I may draw your attention to the anticipated increase in investment flows to the developing countries following the Moneterrey Consensus on Mobilising International Resources for Development, having been associated with this sector for well over two decades, I regret to state the result has fallen far short from that which was envisaged. Perhaps China and India may be the exceptions.

The Moneterrey Consensus has recognised that private international capital growth, particularly foreign direct investment, together with international financial stability, are vital requisites for national and international development efforts. It also had identified the imperative to create necessary domestic and international conditions to facilitate direct investment flows conducive to achieving national development priorities of the developing countries.

Another requirement highlighted in the Moneterrey Consensus was to achieve a transparent, stable and predictable investment climate with proper contract enforcement and respect for property rights, sound macro economic policy and institutions that allow businesses both domestic and international to operate efficiently and profitably with maximum development impact.

Ladies and Gentlemen, the international economic environment and trends have changed since the Moneterrey Consensus in 2002. I was persuing the speech made by Chancellor Gordon Brown at the Confederation of Indian Industry meeting in Bangalore during his recent visit to India. According to him 500 Indian companies now operate in the UK with almost 50 Indian companies listed in the London Stock Exchange, making India now the third largest investor in the UK. I wish to mention that with the implementation of the Indo-Lanka Free Trade Agreement, India has now emerged as one of the major investors in Sri Lanka. Underpinning all these emerging trends prove the fact that the world is undergoing an extensive transformation in the shift in economic power which cannot be under estimated.

As you are aware Sri Lanka has been embroiled in a conflict associated with terrorism. I was in London in January this year at the invitation of Wilton Park to speak on the theme “Investing in Peace”. During the deliberations most of the delegates who were present were somewhat puzzled to understand how Sri Lanka has achieved significant development despite the on-going conflict. As you are aware many conflict affected countries have been poor performers. My intention here is not to justify the existence of conflict, but to highlight that if you put your macro economic fundamentals in place, both internal and external shocks will not negatively impact on the development of a country, if such conditions are properly managed.

Sri Lanka commenced its economic liberalization process in the late 70's and created conditions for the development of a vibrant private sector. I personally believe that Sri Lanka's resilience to negative aspects in economic activity and development is due to the energies of the private sector. Investments led by the private sector have played a leading role in the development of the country especially the south, and it is hoped that it will contribute to the upliftment of the conflict affected areas also when proper conditions prevail. The Government is making every effort to attract both foreign and local capital into the conflict affected areas. The slow down in economic activity in these areas can only be overcome by making available some protection in the form of an insurance cover for such private investment.

In this context, I am of the view that the World Bank through its Multi-lateral Investment Guarantee Agency (MIGA) should explore the possibility of introducing new and innovative schemes for attracting investments to conflict affected areas. This can be facilitated by establishing links with local insurance companies. Development of the north and east of Sri Lanka offers an alternative path to the civilians which are otherwise marred by violence and destruction. Therefore, even under challenging circumstances the pursuit for development should not be abandoned. Development should be looked at as a sine qua non for peace and stability. This is an issue I wish to flag for further study by the workshop and suggest solutions, to address the issue of attracting both local and foreign investments to conflict affected areas. This may be an interesting subject for the next review on the Moneterrey Consensus scheduled for 2008 in Qatar.

Mr. Chairman with your permission may I refer briefly to Sri Lanka's infrastructure development plan, which will wet the appetite of potential investors and spur investment to the country.

- 12 new special economic zones are proposed and with one in the East of Sri Lanka - I am very keen on that in Trincomalee. This location is famous, among others, for its largest natural harbour in the world. During my last visit to London I had occasion to discussion with InfraCo, a multilateral agency for providing assistance for the development of infrastructure in developing countries. It was gratifying to note that they are positively considering our proposal for funding the Trinco Economic Zone project.
- Colombo Southern Port Development

- Oil Exploration in the Mannar Basin, off the North Western Coast of Sri Lanka. Of the 8 blocks identified the Government has already allocated two blocks for India and China. I understand that British Petroleum is also interested in making a bid.
- 300 megawatt Power Plant in North Western Sri Lanka
- Construction of a new Sea Port and Oil Tanks Farm in Hambantota, south of Sri Lanka
- Oil Refinery in Hambantota.
- Second International Airport at Weerawila.
- A net work of highways connecting major cities.

Ladies and Gentlemen, although FDI flows to the country have remained low, it has played a key role in diversifying the manufacturing base, modernising the country's infrastructure, introducing new technology and increase in market access at the global level. It has also played a significant role in the Sri Lanka's privatisation programme. The year 2006 witnessed positive FDI growth trends despite the situation in the north and east of the country. Total foreign investment during the year reached a record figure of US$600 million and the main sectors that had attracted investments were telecommunication, software development, BPO/KPO enterprises followed by textile and apparel sectors.

Ladies and Gentlemen, the enhanced HIPC initiative launched in Cologne in 1996 was aimed at making a substantial contribution to the fight against poverty. Further steps are needed to enable those countries that have benefited from debt relief to consolidate their gains. As I mentioned earlier one of the most important areas of interventions is facilitation of attracting foreign direct investment. The developed international community should support the developing countries to create a favourable environment and expand market access for foreign investment by enhancing technical assistance for capacity building and directing financial leverage towards development programmes aimed at improving capital and infrastructure in these countries.

While referring to external debt Ladies & Gentlemen the Monterrey Consensus has emphasised the need for the IMF and the World Bank to take into account any fundamental changes in countries caused by natural catastrophies, adverse terms of trade or **conflicts** when making policy recommendations including debt relief. Considering Sri Lanka having sustained extensive damage to human life, property, infrastructure and resources due to the tsunami disaster while confronted with a similar threat from terrorism, I wish to urge this workshop to analyse country case studies on debt relief disbursements and draw conclusions carefully for the Moneterrey Consensus review in Qatar. In fact countries which are grappling with scourge of terrorism, should be rewarded with more concessions on debt relief in recognition of their contribution to the global alliance on the fight against terrorism.

Mr. Chairman, in conclusion may I now share my views with you on issues relating to financial integration. With the apparent success reported in economic and financial integration in Europe other regional groupings also have shown interest in following this path. While some regional groupings achieved substantial progress towards trade and economic co-operation others are struggling to achieve some progress triggered by the sluggish momentum of the multi lateral trade negotiations. As common with many other regions, my region also suffers from two financial obstacles to development. First the scarcity of capital, which limits prospects for economic growth and undermines real wages and living standards. Second is of course the highly unstable domestic financial systems. You are no doubt very familiar with the highly expensive episodes of financial crises in the South East Asian region. Weak and fragile financial structures can put the lives in Asia at risk, where 60% of the world population lives.

Dr. Mahathir Mohammed, the father of Modern Malaysia, at one of the APEC Business Summits in Kuala Lumpur has said that (quote) "Currency speculation and the rapid flow of investment capital in and out of countries may be compatible with globalization. But we have seen how much harm they can do to the economies of the developing countries. When we see these things, we must be prepared to take corrective measures to reverse the process" (unquote)

With the exception of the financial crisis of 1998 Asia has been the fastest growing region of the world for several decades. According to the Asian Development Bank (ADB), the emerging trends indicate that economic integration is likely to happen in a number of regions and sub regions in the Asia and Pacific. Given the different levels of development regional integration process will not follow an even path. The ADBs regional integration and its related strategy of July 2006, comprises four pillars namely (1) regional and sub regional economic co-operation programme on cross border infrastructure (2) Trade and Investment co-operation and Integration (3) Monetary and Financial Co-operation and Integration and (4) Co-operation in Regional Public Goods. I am confident that the second pillar i.e. Trade and Investment co-operation, will provide the key to economic and financial integration in the region in the years ahead.

Financial integration often relates to a reduction of policy barriers for international capital mobility and also on international trade in financial services. Securing an enhanced ability to access the world supply of savings is a key objective of financial integration and this is where the intervention of multilateral financial institutions is required in re-directing such capital to the developing countries. With regard to financial integration I believe that your deliberations would provide useful inputs for the Moneterrey Consensus Review in Qatar on the structure of financial institutions, public sector reforms, transparency in financial sectos with appropriate policy responses.

I personally believe that financial integration is complementary to trade liberalization and regional integration.

I wish your deliberation all success and thank you for your indulgence of time.