

Prime Minister's speech at the 38th meeting of the Board of Governors of the Asian Clearing Union

Let me begin by extending to you, on behalf of the Government and the people of Sri Lanka, a very warm welcome to this 38th meeting of the Board of Directors of the Asian Clearing Union. I am happy to welcome you in Colombo at this meeting, as Sri Lanka is a founder member of the ACU and Sri Lanka is hosting the ACU meeting for the fifth time.

As nations that are living in the same region, the challenges and problems faced by us are similar. Collectively we have a huge human resource base which is an enormous strength. However we have a long way to go where the level of our per capita incomes is concerned. We have yet to eradicate poverty from our midst. We must think of how we can increase our per capita incomes from the levels of today to the levels enjoyed by some of the developed economies in Asia. Those who are today holding responsible positions in the central banks, reserve banks and monetary authorities in our region, together with their counterparts in the government, have the ability to make that change.

The main way of doing this is to increase our economic growth. The Sri Lankan economy recorded a real growth of six percent in the year 2008 in the midst of unprecedented and unfavorable challenges, domestically and globally. This is a commendable achievement. This is the fourth consecutive year that Sri Lanka had been able to maintain growth of 6 % or more. We had to face several other challenges apart from global food and energy crisis. The intensification of the global financial crisis towards the end of the year, affected the external sector and subsequently the overall economy. However, the right policies of the government at the right time facilitated to cushion the adverse impact of the global financial crisis. This was evident in containing the high inflation which peaked at 28 percent in June 2008 but declined to around 3 per cent in May, 2009. This was a result of the Central Bank's tight monetary policy and falling commodity prices. The rate of unemployment continued its declining trend and reached the lowest rate in 2008.

Sri Lanka can certainly be proud of her human development indicators-the country has achieved higher levels in literacy, life expectancy, infant mortality and also in poverty alleviation. The population below poverty line was reduced to 15 per cent in 2008. Despite the extensive social protection programmes the growth imbalance is still prominent between the urban and rural areas. Therefore, the government's economic policy is centered more on developing a regionally balanced economy addressing the economic and social disparities across all parts of the

country. With the liberation of Northern and Eastern Provinces, the government now faces huge challenge of developing basic infrastructure facilities to restore the livelihood of the people in those two provinces.

Despite the global economic situation, Sri Lanka is poised to enter a more promising, yet economically challenging era. This is a unique position which we feel will help the economy grow a bit faster. This is because we believe that the country's economic growth will be driven more by domestic factors notwithstanding the affects of global economy. With the end of three decade long conflict, revival of economic activities along with the reconstruction and development of areas liberated, higher arrivals of tourists and higher investments will help expand domestic production. Certain developments are already becoming visible. The stock market has soared, foreign funds have flocked to government securities, the depreciating trend of the exchange rate has changed, depletion of external reserves has ceased, investors sentiment has improved, movements of people have increased, to mention a few. Above all, with the evolving peaceful atmosphere the people are now ready to take up any challenge towards the speedy development of the country. The impact of reintegration of Northern and Eastern Provinces, which were not part of the mainstream economy for few decades, will provide the opportunity to access the enormous amount of untapped resources. The continuation of the implementation of major infrastructure development projects also supports the growing economy.

We know the other countries in the region have also performed well. Today we are all affected by the global recession. Nevertheless, Asia has become the engine of the growth of the world economy and our region is a part of this resurgence. This growth must have a multiplier effect in our region. We have a rich and varied experience in development which we must pool together to create a model of inclusive and sustainable regional development. The success and prosperity of each one of us provides opportunities to the others to promote their own success and prosperity. This mutuality of interests is the central driving force of regional cooperation everywhere. One of the main objectives of establishing the ACU was to promote monetary cooperation among banking systems and contribute to the expansion of trade and economic activities among member countries. The ultimate objective of monetary cooperation and regional integration is to expand intra regional trade and thereby increase the economic growth of member countries. However, we have not been able to make a significant contribution towards the expansion of intra regional trade in the past, due to structural problems, lack of financial support and cumbersome operational rules and practices. The low degree of export diversification and lack of financial resources to assist weaker members may have affected the ability of the ACU to promote intra regional trade and to emerge as a strong regional economic force. Factors such as political tensions between member countries, limited production capacity, relatively low quality of goods, and competition from the goods

manufactured in developed countries and problems in transportation and communication may have also affected the increase of intra regional trade. However, our region has a large market and there is the potential to increase the intra regional trade. Therefore, the time has now come for us to take necessary policy and procedural measures to overcome the barriers and develop trade among our countries, which will benefit all of us.

While increasing intra regional trade, we should also try to find new markets to trade our goods. This will directly fuel the increase of economic growth in our countries. It will be easier for us to find new markets as a region, rather than trying to approach new markets for our products as individual countries.

The SWAP facility introduced in 1989 for the ACU has been successfully operated. However, it appears to be inadequate to cater to the present day needs. There may be a need for a 'Reserve Fund' which could be utilized for extending credit not only for trading purposes, but also to coordinate adjustment and industrial policies. This would provide a boost for production and trade, and also help deal with temporary balance of payment problems of member countries. In today's context, with the global financial crisis, this kind of arrangement has been found to be most useful in resolving financial issues as a region.

You are meeting in Colombo at a very momentous time in post colonial Sri Lanka. You would have observed that there is jubilation and a celebratory mood in the country. It is almost a month now since our valiant Armed forces brought the entire country under one flag after defeating one of the most ruthless and extremely brutal terrorist outfits in the world. The Tigers, as they were commonly known, spurned all attempts by successive governments to negotiate peace and remained intransigent even when outside powers tried to facilitate negotiations. They were not prepared to give up their pipe dream of carving out a separate entity called Eelam in this small country which is simply not viable. Compromise and reconciliation are unknown words in their vocabulary. They have kept many thousands of innocent and hapless people under tyrannical rule for almost three decades and in penury, while the leaders led a comfortable life. We are grateful to countries represented in this forum for providing us support in defeating this ruthless terrorist organization that had brought misery to the people, especially to our Tamil brethren.

There would have been some collateral damage in the last stages in our attempt to liberate the country from the terrorists as they were holding many thousands of civilians in bondage as human shields. Our forces took all steps to minimize the loss of innocent lives and rescue the civilians held prisoner by the terrorists. It was perhaps one of the largest humanitarian rescue efforts ever recorded. However some sinister forces tried to pillory and crucify small Sri Lanka on the specious grounds of human rights violations when they themselves are actively engaged in the worst kind of

human rights violations and brutal activities in other parts of our region in the name of fighting elusive terrorists. We are grateful to many Asian, African and Latin American countries in helping us to expose these double standards and hypocrisy and defeat these sinister moves to throw mud at our valiant forces and civilian leaders who helped to remove the biggest barrier to development of our country.

We are now on the threshold of a new beginning and a new era when the entire country is united under a democratically elected government. As mentioned earlier our government is now actively engaged in rehabilitating the displaced persons and economically bring those areas to same levels as in the rest of the country. We will also very soon restore democracy in the areas which were under the tyranny of the terrorists.

The recent events have convinced us more than ever of the need to promote South/South cooperation to defeat the neo- colonialist forces. I believe that there is need to promote greater regional and South/South cooperation in future.

In this context I sincerely hope that you would, in your proceedings, take very meaningful decisions to further promote regional trade and development. I would like to wish all central bank Governors and the delegates attending this meeting a pleasant, comfortable and happy stay with us. Let me wish the ACU all success in today's deliberations and its future endeavors.