

THE NINTH COMMONWEALTH LECTURE 2006

The Future Role of the Commonwealth: A Bridge Between an Emerging Three-Speed World.

By

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Your Excellencies, my Lords, ladies and gentlemen:

You do not know what a trauma it is to be introduced by a New Zealander, even within the context of a Commonwealth Lecture. I have to say it is a first tonight, and I want to thank you Don for leaving out all the things that you might otherwise have said in the presence of this distinguished audience. I was very happy to be invited to present some remarks to you this evening, particularly when I saw the distinguished list of prior speakers, starting with Amartya Sen and going through to President Obasanjo, I am delighted and thrilled that in nearly all cases I can count the speakers as friends. I did not call them to find out what they said, but I decided, that instead, I would give you some personal reflections on both the Commonwealth and on what I see as the key issues that the Commonwealth and the world is facing today.

These are included in the suggested title, which is the issue of the three speed world. I have come to appreciate and recognise this fundamental issue facing the global economy, in my ten years at the World Bank.

Before that, I would like to tell you about a memorable experience earlier in my life, to try and demonstrate both my interest in the Commonwealth and my knowledge of it. I related this anecdote to President Obasanjo, in Nigeria, earlier.

In the formative stages of my career, I was working for an American company. I decided that in the year following the creation of the state of Nigeria, I would go there to show loyal Commonwealth preference and make some investments on behalf of my company. When I went there, I visited the Nigerian Parliament House. I was amazed to see the Speaker in a full-bottomed wig, and the ceremonial dress of the clerk of the House, as though they had just arrived from Westminster. I was so taken by this ceremony that I took out a little camera from my pocket, not dissimilar from this one, and decided that I would chronicle it. And, take home to my shortly-to-be wife Elaine, who's sitting here, to document some interesting bits of my travels, and how Commonwealth traditions influenced Nigeria.

As I was taking the picture, a policeman came up to me and requested me to step outside. Of course, I immediately thought that the Speaker wanted to see me, and that I was going to have the sort of recognition that I thought in my twenties I deserved. When I stepped outside, and I heard some people call out: "Spy! Spy! Spy!" So, I exclaimed to the policemen, "My goodness, what are they talking about?" He replied, "Well it's you, sir!" Then I realized that there were some basic Commonwealth traditions, one

of which was that you cannot take photographs inside a parliamentary assembly.

The rest of the story gets a little bit difficult for me. It would have been much worse, except that I was having dinner that night with the Chief Justice, Sir Louis Mbanefo. Why I was dining with Sir Mbanefo I cannot recollect now. But I asked the inspector when we got to the police station and I was about to be locked up, whether I would be allowed to make a phone call. As I knew that was permitted under Commonwealth law. He let me make the call to Sir Louis. When Sir Louis heard me on the line he said, "Oh I'm looking forward to seeing you tonight at dinner," I said, "Well, so am I sir, but I have a bit of a problem." He asked, "What's that?" And I replied, "I'm in jail!" So, I just want you to know that I have understood the far-reaching consequences of Commonwealth laws and traditions.

Coming here actually is a bit of an accident. I would have preferred to be in Paris. But I am here, to talk about the Commonwealth, and get over these past events of my life and trust that you will not have me arrested after this speech! The three speed world is probably the place to start, because the Commonwealth is part of that world. The fundamental shifts that are occurring in this world - on our planet today - are quite different from the period in which I and many of you were raised in professional terms.

That period, which I think one would describe as the last 50 or so years.

The main issues were all about post World War II development of major European countries, including those in the G8 today, plus Japan. On one side was the fast development of Western Europe and Japan, and on the other side, the developing world, which was slow to advance and not fully integrated with the global economy. We are familiar with the following statistic, which is a consequence of that differing development rate: 5/6ths of the world population produced 20% of the global GDP, and 1/6th of global population produced 80% of world GDP. Put plainly, the G8 and countries and the other OECD member states accounted for \$32 trillion of the \$40 trillion of global GDP, – i.e. 80% of world GDP was from the richest countries; these states account of just a little under 20% of the total world population. The rest generated around \$8 trillion worth GDP; that rest was more than 80% of humanity.

When I came to the bank some ten years ago, this was the sort of wisdom that people had in looking at the way the world was functioning. A fast growing, rich, developed world and a poor, slow advancing world – a two speed world. There were a number of overtones to this of course, with conflicts going on in different parts of the world, the intervention of various forms of commodity excesses or lack of excesses, and the oil crisis among others.

There was a sort of difference in that two-speed world as we saw it, particularly in the case presented by much of Africa, with its 40-odd countries lagging others in development. Africa stands out again today, as

we came to the question of the Millennium Development Goals, and the gloomy forecasts for its MDG achievements. Most of its population lives in extreme poverty, under \$2 a day. There is the issue of HIV/AIDS. And there were 20 or 30 episodes of civil conflict and war – crises of state failure and governance unparalleled in other regions of the globe. Add to this the fact that the rich were getting richer and the poorer becoming more impoverished, due to corruption and unjustified excesses of the ruling elite there and the African development picture becomes worse.

Global inequality was also rising and developing countries were having a pretty tough time. In this context, my job at the World Bank was facing the issue of how can we make our world a more equal one. In recent times I think we've come to understand that that world – of two tiers and vast disparities – is not going to be the description of the world in the next 25 or 50 years.

The world of six billion people will become a world of nine billion people. The population growth in the rich world, which has roughly a billion people, might be 100 million. The rest, nearly 2.9 billion people, will be born in the developing world.. The share of global GDP for the developing world goes from 20% to 40% By 2050, we will have a world where we will have not \$40 trillion but \$140 trillion, of global GDP. The developing world will have grown seven to eight times, from the \$8 trillion GDP production it accounts for today, to of the order of \$56-\$60 trillion. The developed world will grow around 2.5 times. These trends predict a dramatic change – in terms of

population and resource distribution; a tectonic change in the global economy.

This dynamic, ladies and gentlemen, is upon us. The forecasts may have a 5% error either way, but there is surely going to be a vastly different world in the future. Future presidents of the World Bank, future leaders of the Commonwealth, future economists and social scientists will be thinking about qualitatively different issues and trends in that world. That emerging world will be divided into three distinct but interconnected spheres of varying levels of wealth and development – “a three speed world” – creating new development opportunities but also added risks and responsibilities.

Within that world, there is another interesting development, which is that four of those countries will be among the top ten global economies. These are the BRIC countries: Brazil, Russia, India and China. India and China today have 2.3 billion people. These two countries are set to grow at exponential rates. Within 20-25 years, China will have an economy larger than the United States, in real terms. This is the sort of dynamic which we all have to come to terms with, because it is a hugely different dynamic than certainly the dynamic that I grew up in. Yet, it is not hugely different from any of the younger faces in the audience, who are no doubt looking at this and trying to make some sense of it as we move forward.

This is the framework that you have as you look at a three-speed world – one of tremendous changes, dynamism and growth potential. But the last

tier of this world – the third speed world – looks increasingly as if it will not progress. There people may continue to live in abject poverty and extreme deprivation. Too many of these people live in the Commonwealth today. The projections for sub-Saharan Africa, which comprises a number of Commonwealth member states, are that 70% of the population or thereabouts lives on less than \$2 a day. That is likely to be the same in 20 years' time! Within countries like India today you have 20% of the richest population earn 46.1% of total national income, while the poorest 20% earn a meagre 8% of this income. These statistics show that despite tremendous growth potential and development gains, we still have a two-speed world, in the three-speed world, and particularly within some of the countries, India and China particularly we may have all three worlds in simultaneously.

Certainly in India the concerns of Manmohan Singh and Jim Abraham and Montek Ahluwalia, are: how can you bring about some form of equitable development in a country of a billion people? Within a country which in terms of its general statistics, is moving forward at a rate of more than 7% annually, how do you deal with this persistent issue of poverty? So you have a three-speed world in terms of the rich, the so-called BRIC countries plus other emerging market economies, and those countries that are left out. Even within those dynamically growing economies of the second tier, there is tremendous inequality and poverty. How does all this effect the Commonwealth?

The Commonwealth is representative of the world at large; it is roughly a third of the planet in population terms. It comprises 53 countries. A lot of these countries share the same pressures that the globe does, not surprisingly, albeit with some accentuation. 60% of people living HIV/AIDS live in the Commonwealth. The second thing is that, as we look at Africa, clearly the issue in Africa is one that affects us in the Commonwealth as well, because of the high representation of countries that are members of the Commonwealth. The statistics tell the same story for Commonwealth African members as they do of others.

What interested me significantly is that the Commonwealth accounts for maybe 15% of the global GDP. The richest countries who make up part of the six or seven trillion which is the Commonwealth GDP, the richest countries, which are of course Australia, Canada, New Zealand, Singapore and the United Kingdom, have 72%. The next level, the so-called countries that are more like the BRIC countries, which in addition to India include Malaysia, Nigeria and South Africa, they've got 1.3 trillion. But they have 65% of the people. And then you have the 500-odd million that are left, who have according to the statistics which I have, 6.7% of the GDP. So again, you have a three-speed world in the Commonwealth. You have the rich, which are very small in number, you have the second tier, the newly emerging markets like the BRIC countries: Brazil, Russia, India, China, and then you have the rest, and the interesting thing of course is that the rich countries populations will grow by barely 20 million in the next twenty years. The middle level countries, which include India, Nigeria, Malaysia and

South Africa will grow by nearly 400 million people in the same time. The Commonwealth's poorest countries will grow from 550 million to nearly 815 million by 2020.

By the year 2050 they will more than double. So the 500-odd million will be a billion. So the poorest are growing, the richest are staying relatively stable, and the middle are somewhere in the middle. These statistics really underline the challenges that we're going to face in this world, because it's always been true that in the poorest countries you have very high birth rates, and it continues today, and it is affecting our Commonwealth in a way that is presenting us with I think hugely and significant challenges.

India has a GDP today of around \$870 billion. By 2020 It will grow by four times to \$3 trillion in GDP. In the same time the UK will grow by twice. Australia I am embarrassed to say will only grow 50%, and many of the other countries will hardly grow at all. So the issue for us in the Commonwealth is the issue that we're finding in the world in general, which is how do you cope with this three-speed world, not just as a matter of economic logic, but in order to allow us to have some stability in the world for our children and our grandchildren. Because unless there is some equity in growth, history shows that you're unlikely to have stability, and particularly in a world today which is linked in terms of knowledge, and in terms of transport and in terms of information.

How is it that we can have stability in a world that does not address the

questions of equity and social justice? Equity and social justice have of course been at the core of the Commonwealth. The Commonwealth can address the sort of problems that I have been describing today, and indeed, what I've always thought about the work of the Commonwealth, is that in terms of addressing the generic problems that I spoke of, of this next 50 years, of the changing world, of the issues of respect, of the issues of wars, of the issues of AIDS, we have within the Commonwealth a set of values and a set of history and a language, that gives us a fantastic start in terms of addressing these questions. Even the Francophonie is less united than is the Commonwealth. And it does seem to me that at a time when these problems are certain to be on the agenda, that what we really do need to do is to look at those values, that history and that experience and that trust, which exists, between Commonwealth leaders, to try and look at these issues head on.

As I understand it at the meetings that were held in Malta recently, the leaders got away from their staffs, and they were able to be united on the basis of common background, common history and trust, and they spent many hours together seeking to address these questions. And as we look forward, that there is a huge opportunity for us to recognise what is certain to be coming down the track in terms of poverty and in terms of economic differences and social differences, and address those issues head on with a common base of background, and a common base of trust.

I haven't practiced law for a long time but I did study it once and did

practice, and we would look at British systems and we would look at other Commonwealth systems to try and get insights into decisions that might be taken. The issue of governance is the first thing that you look at when you're coming to these questions, and the issue of governance in the countries of which we're speaking has a common heritage. The issue of legal and judicial systems which have a common heritage in the Commonwealth. The issue of precedence in terms of the legal and judicial systems have a common heritage.

Concerning the issues of finance, I used to meet with the Commonwealth finance ministers before the World Bank leaders, because the Commonwealth would take a position on a number of issues. The Commonwealth has really tremendous strengths that could be drawn on. In education, in health, and in research – these are all things that the Commonwealth could address with one other huge advantage.

It's not dealing with six billion people, it's dealing with two billion people. Two billion is already a lot to deal with, but one billion of that is India. And three other countries, Nigeria, Pakistan and Bangladesh, each have more than 100 million people. But what we really need to do is to try and see how we can benefit from both the experience and the knowledge that exists inside the Commonwealth, built on a basis of trust and a common heritage. The common heritage of course that is modulated by national impact, but nonetheless a common heritage in terms of many of the basic values. And there are many, many things that I, I started to jot down from some notes

that I had, that we could do that is not just providing large amounts of money.

On the issues of business, in Canada it takes you two days to form a business. I was astonished to find that in Sierra Leone it takes you 835 days to form a business, and I could give you the statistics in between but they're not attractive. The issue of investment, in terms of encouraging people to come into the Commonwealth – you don't just invest in the country, you have what's known as the Commonwealth effect, which has been reported on by The Commonwealth Secretariat. There are linkages in the Commonwealth, and they are profound. But from my reading and observation, they're also now being severely tested, because whereas once there was a system of Commonwealth preferences, today those Commonwealth preferences are less than effective. There's a sort of friendship, there's a sort of desire to reach out, there's a common base on which you can discuss a negotiation, but in terms of the strength that was there, I think it is being evidenced now as we come in the Commonwealth to look at the issues of small states, but when it gets much above that, competition is a pretty important element in decision-making, and the same is true in foreign direct investment.

The amounts of money that have gone to the Commonwealth countries, again, rich countries: 150 billion. Emerging countries:, 21 billion, and the poorest countries, 5 billion. And much of this investment in the poorest of countries is not from the richest countries but from other developing

countries. This is my three-speed framework once again, there will be many opportunities to address what is needed in terms, or what we need to do in order to address these issues. And there are things which you can deal with again without money. How you deal with the issues of trade. Just in efficiency of trade, not money for trade. In Africa it takes 47.5 days to get an export out of a country. East Asia, 24 days, EU and NAFTA, 13 days.

The Commonwealth's member countries will continue to need assistance to develop the necessary skill base and to identify and exploit opportunities for trade and enterprise development in a range of economic sectors at the national, regional and international levels, in order to achieve poverty eradication and pro-poor development.

Commonwealth countries should use their similarities and work with each other to ensure faster trading deadlines, reducing administrative tax and custom hurdles. Some of these can be implemented with new shipping technology, while others must simply take hard work and effort by individual countries and governments.

You do not need billions of dollars to address that question. You need know-how and you need focus to try and address that question. And the same is true of many other things that are elements in the move towards empowerment of people in developing countries. The issues of education. The issues of health.

Four areas that the Commonwealth Secretariat has worked on recently,

are the promotion of duty free and quota free access for LDCs. Aid for trade. A fund for adjustment of the smaller countries. And then the question of aid and how we deal with it. I came away from these recent days of reading, thinking why is it that the momentum that one could have in the Commonwealth, seems to have languished? Why is it that Commonwealth Secretariat's budget for 15 years has been cut? Why is it that with this backdrop that exists, and which creates mutual advantage, it's not a gift, to create a market to which one has special access and special opportunities. Why is it that we're not addressing these issues?

So I turned as I guess you would also, if you were looking to give a lecture to such a distinguished group, I looked at the Commonwealth Secretariat's strategic plan. It's a plan from 2004 to 2007 and is a fantastic programme. I don't want to take too long but I just want to tell you the issues that are raised. The issue of peace and democracy. Essential. Democracy and consensus-building, and you can all get this report, by the way.

The rule of law, and how you extend it, and I know you're doing great work on the rule of law. The issue of human rights. The issue of pro poor growth in international trade. The encouragement of investment. How to deal with the debt issue? How to undertake public sector development?

Hugely important in the sort of thing we're talking about, particularly as we see a movement of people, another factor, hugely important, from rural

areas to urban areas when we will not have the capacity that is going to be needed. The issue of environmental degradation. The issue of small states failing. The question of education and in particular universal primary education. Health and HIV/AIDS. How we encourage young people. Gender equality and equity. Capacity building in institutional development. I read these to you not just to prove to you that this is an encyclopaedic lecture, but these are all the things that you have to deal with if you're trying to bring about equitable development. There is no mystery. These are the subjects that you need to address. The monetary costs are not billions of dollars. But the rewards are profound. They are enormous.

Yet we are not as the Commonwealth, giving adequate attention to the obvious things that can be done, based on a common heritage, based on trust, based on a system that actually works to keep people together at the head of state and the finance level, and many other levels in terms of education and trade and ministerial needs, and yet we're denying it, it seems, the financial push and the emotional push to try and make the problems of the three-speed world much less important in the Commonwealth than they will be in the general world.

I did not get paid by the Commonwealth to try and make an appeal for funds tonight, but it just strikes me as being crazy that with the history of the Commonwealth as we know it, and with all the things that unite the Commonwealth, we could not find a way to raise the budgets, at least, and that we could not take this head on now, because the one thing I'm sure of

is it's going to be a lot more difficult, 10, 15, and 20 years from now, than it will be today.

Well thank you for letting me come to this great university. I'm sure it was one of the many that I applied to and got refused years ago, so I appreciate now coming here and being welcomed by you, and you being so attentive during the lecture. Thank you very much.