

Reviving the Lankan economy

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It gives me great pleasure, to be present at this annual session of the Sri Lanka Economic Association (SLEA) for two reasons. One is my over two decade long involvement with SLEA and the other is my interest in the issues of economic development of our country as a reader and a teacher in economics apart from being involved in politics at the national level. I must hasten to add that the views that will be expressed by me at this forum will be mostly in the capacity as one from among you, a member of your profession and not as a Minister of the Government.

I have been asked to deliver this key-note address on "Reviving the Economy of Sri Lanka". Questions of reviving the economy began stalking our minds when the economy plunged to a negative GDP growth rate of -1.5% in 2001. We have already overcome this setback. The economy has already bounced back. By end of 2002, the economy recorded a GDP growth of 4 per cent. For some, this is an outcome, which needed no deliberate action. It is not so.

The bold initiatives of the Government and the understanding shown by the people and their continued willingness to bear up hardships, given the predicament that Sri Lankan economy was placed in, contributed to this quick recovery. In particular several deliberate measures taken by the Government can be mentioned.

Hostilities

The cessation of hostilities of a two decade conflict, tight control of Government finance and abstention by the Government from filling vacancies in the state sector despite demands to do so and for wage and salary increases and other relief, and strong commitment of the Government to move forward with policy reforms were some factors that led to strengthening of the macro economic fundamentals, a fair acceleration in growth in almost all sectors, boosting of investor confidence and finally to record a GDP growth rate of 4 per cent for 2002.

The issue at hand, I believe, is not such a simple one of recording an improvement from a negative or low rate of GDP growth. It is much more complex though not ambiguous. The fundamental issue indeed is how we could install for ourselves an economic development process with a package of winning economic strategies that would ensure to all segments of peoples of this country a decent present and a decent future, which they justifiably deserve, but denied for a long time, through eradication of poverty and unemployment and by increasing income levels.

For the past fifty-five years, our efforts seem to have fallen far short. The countries in East Asia, which were far behind us, have overtaken us by leaps and bounds. In fact after independence, Sri Lanka was much stronger financially and had substantial resources of her own to finance development whilst Japan had to depend on external loans. Yet Japan succeeded and Sri Lanka was stranded.

The development strategy to be pursued in the ensuing years is presented in 'The Future: Regaining Sri Lanka' (RSL). It aims at 8-10 per cent economic growth and to push up the per capita income to US\$ 2,000, which is at present, hovering around US\$ 872. Poverty reduction, which receives greater accent in this strategy, is expected to benefit the poor - nearly 40 per cent of our population. Policy reforms necessary in areas of fiscal management, finance,

trade and investment and labour for revitalising the private sector have been identified. It is expected to create 2.0 million jobs. This has already received the support of the donors. An unprecedented amount of foreign assistance is awaiting formal commitment.

The most critical of the exogenous factors identified as determining the level of success of RSL is the resolution of the North-East conflict early and a non-reversal again to warring. There is no disagreement with the significance of this factor. It would reduce the budgetary pressures, further boost the investor-confidence, help fortifying the current revival process and enhance the performance of all sectors of the economy and in particular ensure return of the whole of North-East to make a better contribution to the growth and development process.

North-East conflict however was a phenomenon of the past two decades. We had almost three and a half decades of governance before that, relatively much more peaceful and well conducive to economic development.

Development

But economic development did take place as desired. Economic problems worsened and boomeranged in the form of insurrections in the south and a two-decade war in the North-East. Sri Lanka's failure at that time may partly be attributed to external shocks. But the other countries too, faced similar setbacks such as the Oil Shock of 1973.

They were capable of emerging and progressing fast whilst Sri Lanka lost its way. What then actually were the factors that pulled us down? Wasn't Sri Lanka beleaguered and beset by wars of obsolete ideologies? Do those not still linger and create obstacles? The point I want to make is that whilst peace is of paramount importance and indeed a must, that per se is unlikely to ensure development. Since February 2002, Sri Lanka had a relatively calm environment. In terms of development even where adequate funds were available things moved very slowly. Other than peace, there were other factors, primarily internal, that inhibited development in the so-called no-war times and such inhibitive factors do pose threats even now.

The future development would therefore depend on all concerned taking cognisance of these factors and act responsibly. Let me from now onwards deal with some of these factors that may seriously impede our proposed efforts unless we manage them judiciously.

Obstacles

Inefficiency of the administrative machinery of the Government is one of such serious obstacles. This, no doubt reveals a serious lacuna of the Human Resource Development Policies hitherto followed. The power struggles, lack of management orientation, low motivation levels, and lethargy of the civil service, with is the implementation arm proper, have at present seriously weakened the machinery of the Government. Just to cite one example.

One of our problems often complained of, is the inefficiency in the implementation and the under-utilisation of foreign aid. Central Bank of Sri Lanka Annual Report 2002 (CBAR/2) also confirms this fact when it states (page 56) that 'despite the continued liberalisation of the external sector and the eligibility for concessionary donor assistance, foreign investment inflows to Sri Lanka have remained low... Delays and inefficiencies in implementation were the major reasons for under-utilisation of foreign aid.'

Hasn't the inefficiency of the bureaucracy provided a justification for the LTTE's temporary moving out of the peace talks and demand for an Interim Administration? Sri Lanka is now being assured of an



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unprecedented package of aid to implement RSL. Will we be able to use it timely and for the benefit of our people?

Corruption and waste is another serious threat that we should guard against. Inefficiencies of the bureaucracy, in most significant approvals and disbursements, are not often causeless. It originates from an insidious base of corruption. Its penetrative tentacles are invisible and extend beyond local stage. The cronies associated with it are well organised and follow development aid and assistance.

Personalities

They consist of personalities of different sorts. Their grooming in social graces and their professionalism are so deceptive that the innocent would not realise until trapped. It must be a welcome exercise if some scholar were to research how much Sri Lanka has lost both from the development assistance and from our own resources owing to the bureaucratic inefficiencies, corruption and waste. I am certain it would bring some stunning revelations.

Therefore, in my view, an urgent need for a serious overhauling of the Government administrative machinery is needed to improve its effectiveness, to transform it from an administrative culture to a managerial culture, to free it from corruption and to providing a speedier, accountable and quality service. Our success may critically depend on it.

The role of the Government should be also sensibly understood. It is now settled that the Government should primarily be a facilitator and a regulator by spearheading necessary reforms, and contributing as an efficient implementer of policies and programs and directing investments mainly to address market failures (Infrastructure: Development of roads, ports and research, etc.) and public welfare. The Government should not be in business such as running Buhari Hotels or make similar commercial investments.

Commercial

Withdrawal of the Government from commercial activities does not mean, that it has a lesser role to play than in the past. Increasing attention to social justice and the need to protect the less privileged has bestowed upon the Government not only a role of a trustee but a role of a strategic leadership with people's mandate in the case of democracy.

Economic development being in essence an issue of strategic management, it is the Government and no other, that could engage from an overall perspective in a continuous surveillance of emerging trends in the economic environment, geopolitical posture conducive to the country, identify country's lead sectors for growth, formulate competitive strategies consonant with its resources and manage the implementation of such strategies to move the country on a selected path of progress to achieve its vision. It is only the government that can effectively negotiate on Government to

Government basis for the benefit of their own private sector.

The predominant role played by the Ministry of Internal Trade and Industry (MITI) in East Asian countries in the development process is classic evidence. "Globalisation today is not working. It is not working for many of the world's poor. It is not working for much of the environment. It is not working for the stability of the global economy." This quotation is from the Economist, Joseph Stiglitz', Nobel Prize winning book "Globalisation and its Discontents".

Anti-globalisation

We would not have had to worry if this statement had been made by an anti-globalisation protagonist. Mr. Stiglitz is the former Chief Economist at the World Bank and former Chairman of President Clinton's Council of Advisors. Given his background we cannot take this comment lightly. The point is the future scenario in which many a country such as ours will have to charter will be one of uncertainty. The impact of globalisation led by technology, and ICT is exceptionally difficult to decipher. And it is too complex to be left to the market forces alone to determine. Advocacy is not for a style of a government of the bygone socialist era, obsolescence of which type has been proved beyond doubt. Sri Lanka too has had experience of governments of that type under which inefficient state monopolies were created and a few crony entrepreneurs were allowed to grown under State patronage.

The latter was the so-called socialists, much-professed private sector promotion. We are well aware that neither said State monopolies nor the crony entrepreneurs assisted by those who were in power were able to operate in a competitive environment. Without State patronage, they had no existence. Therefore the advocacy is for a government, which will be proactive, strategically sensitive to the development process. Frequent policy shifts at macro level as well as at sectoral level have been one of the major constraints to achieving continued and faster rate of growth.

Policies

The economic policies since 1956 drastically changed with the change of governments. From market friendly, private sector led policies to so-called socialist policies where measures were taken to restrict the private sector existence and growth. Even from 1994 to 2000, despite market friendly bravados the signals were inimical to creating confidence in the private sector.

The very collapse of the stock market operations since February 1994 (All Share Price Index 1375) to December 2001 (ASPI - 385) and the decline in actually realised foreign direct investments illustrate this point. These shifts from time to time had serious consequences in terms of economic costs, both short-term and long-term.

The opportunity to nurture and build a robust private sector that could lead the development of the country was lost. Wars of ideologies and the so-called socialist experiments made the entrepreneurship a disqualification. For them it was an instrument of exploitation. State monopolies were created at the expense of the people. The people had to bear the cost of running these inefficient giants by way of taxes. They were made to believe and do still believe they own them - duped in a false sense of ownership. As a result we have been left with a state sector difficult to dismantle.

Productivity considerations are of least concern to them. Wrong work ethics were planted and perpetuated. Even the management of fiscal policies were tampered with to suit political designs.

It is in this background that the present Government enacted the

Fiscal Management (Responsibility) Act imposing on itself certain restrictions to be complied with mandatorily so that public finance management will be improved by design. Given the structure of the present the power balance in the legislature and the executive, one cannot completely rule out that situations culminating in policy shifts in the future. Even if a complete shift may not occur, instances hampering the smooth implementation of the policies must be expected.

Competence of our private sector is another area of concern. We want the private sector to be the engine of growth. What is the structure of our private sector? What is its competence profile? How risk-taking are they? How competitive? How visionary and managerial are they? No doubt, there are a few large corporates, which may be visionary and managerially adroit.

Yet that is only a few. We need quite a number. It is such groups, which can lead the process of development. That is how it happened in Korea, Hongkong, Taiwan, and Thailand or even in Malaysia. In these countries the government played a key role in nurturing the private sector. Our private sector, which consists of small businessmen and entrepreneurs needs to be carefully groomed. They are a group weak both managerially and financially.

Professionalism

Their professionalism is yet to grow. The effective partnership between our professionals and the entrepreneurs is yet to be forged. The professionals yet remain aloof from the domains of actual commercial enterprise. Most private sector businesses, whether large or small, are not run by professionals. They look for short cuts and quick fixes.

The Rs. 700 million worth of printing of textbooks in my Ministry, owing to the pressure justified on the basis of supporting local entrepreneurship, was tendered to local printers. Most of them were not capable. They did not have financial capacity they pretended to have. Quality was poor. Delivery was not made on time. The Ministry finally had to take blame from parents and others.

That can however be tolerated. But who will pay for not giving what was due to millions of children and the waste of time and resources owing to the non-availability of the textbooks on time. Stories being unfolded with regard to the supply of computers, drums, sports goods and many other things are no different. Our private sectors' 'formative' character is the result of policies unfriendly towards the private sector, the scrupulous behaviour of the financial intermediaries in purveying credit and the failure of extension services. One area that should be strengthened in this background is Human Resource Development as recognised and strategised in RSL.

Financial

My effort above was to explain that even if financial assistance and investment flows were to adequately forth come, there would be, apart from the dawn of peace, which is also a must, other factors that must necessarily be taken note of for careful management to be successful in our development effort.

I have identified that these other factors consist of the slowness of the government administrative machinery arising from the lack of managerial character in certain sections of the public service, corruption and waste, sudden policy shifts and the quality of our private sector. These can seriously constrain as in the past our progress in the future.

The management of these constraints alone is not a simple task. I have already dealt with in some detail what the role of the government should be in the development and governance process. I wish to

reiterate that more than ever the role of the government is becoming predominant and an absolute must in terms of initiative, positioning of the country in the path of development and monitoring the process of economic development and social progress.

It is the government, which is bestowed with a mandate by the people. It has to see whilst promoting the process of development, equity and social justice is upheld in the society. It has a duty by all the people in the country. In the matter of granting investment concessions, it should not favour only those who are closely associated with the power sources of the government.

Those should be granted to anyone deserving. Market may be relied upon to the extent that it provides a superior allocation of resources. It is however a fact indisputable, that markets in our environment are not perfect, consumer sovereignty is yet to emerge.

Price adjustments

Automatic price adjustments do not take place; decisions are not made on the basis of marginal private profit and utility calculations. This is why even Keynes prescribed a role for the government on a more theoretical basis. The development processes in the East Asian countries also amply illustrate that the role of government was a primary factor, which promoted their development. Even in Taiwan where the market forces were heavily depended upon. The Government may not have to make investments by itself, but it has to ensure that all matters of developments are surveilled and managed by it, and only what is desirable is allowed to take place and contribute.

This thinking is not exclusive to developing countries. A new social democratic agenda that is discussed by Anthony Giddens in his "Third Way" shows that even the Western democracies need to identify a more positive role for the government in view of the emerging complex global environment.

Most common factor in the constraints that are identified above is the failure of our human resources. Our allegiance to obsolete ideologies, political factionalism, lack of strategic approach to managing economic development, inefficiency of bureaucracy and its corrupt and wasteful behaviour, all point to the need to transform quickly our human resources on the side of the Government.

Private sector

On the other side i.e. the private sector and our professionals, seem needing to upgrade their professionalism and to overcome their inability to perform. This again is a human resource issue. This underscores the need to put the entire country on a strategy of Human Resource Development, which the RSL has duly recognised.

This will be one of the major tasks that the Government will have to incorporate into its role.

In order to be successful the Government must recognise the role of the civil society in the area of 'Public Audit'. The civil society, by its public audit will be able to provide superior checks and balances to guide the process of development. It is one way in which corruption and waste could be minimised if not eliminated; efficiency of the administrative machinery could be enhanced and the quality of the private sector could be improved.

A well informed civil society of the details of strategies, policies and programs, the rationales of policies and programs, benefit to be expected, when and the risks, they could ensure a positive leverage in improving the efficiency of any arm of the Government or for that matter of the private sector. The success of our development effort would depend to the extent of our civil society being structured to play this role.