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Economic management and good governance

Address by Cubby Wijetunga, Chairman of the Industrial Association of Sri Lanka at the Annual General Meeting on July 13, 2000

The sense of occasion today is heightened by the fact that this is the first Annual General Meeting of many to come in a brand new millennium. Civilisation stands with two millennia behind it and a vast unchartered future ahead. But our country's entry into this new age has been less than auspicious.

It was forced to bring with it the baggage of tension and uncertainty accumulated over the years through an all consuming ethnic conflict in the North East: a war which like a cancer eats into the heart of an ailing nation.

Political stability, along with basic macro-economic fundamentals are vital ingredients for industry and free enterprise to thrive. To undermine and upset such stability: to create even a hint of doubt as to its existence is to overturn the very foundation on which capitalism and free enterprise are built. Let us for a moment consider the consequences of war. Economists estimate that if not for the armed conflict, Sri Lanka, bolstered by higher private investment, accelerated foreign direct investment and higher public investment, would have elevated itself from low to middle income nation status as early as 1994. Such is the cost of war. Such is the futility of the Sri Lanka predicament.

But the ramifications of war are not restricted to economics alone. The sacrifice by Sri Lanka of its sons and daughters, flesh and blood, the suffering and the misery can never be quantified. Neither can it be compensated. So let me begin my address with a heartfelt plea to the dominant players in our bi-partisan political system to continue their commitment and resolve to end the ongoing conflict.

I do so not only on behalf of the members of our Association but on behalf of all Sri Lankans. For until that day dawns, and until we can put this over 17-year crisis behind us, our nation cannot and will not come of age. For if not, this war, like a raging fire, will engulf our resources, our energies and ultimately the future.

But it is not all bad news that I bring today.

Industrial policy

On a more positive note, the government must be commended for its policy of promoting private sector led export-oriented industrial growth. The rationale for doing so are several fold and include expanding, diversifying and upgrading the domestic industrial base, creating new employment opportunities, enhancing efficient management of physical and manpower resources and the promotion of regional industrialisation. The Government has also continued its policy of offering a wide range of incentives to both local and foreign investors with a view to attracting investment, enhancing productivity and improving competitiveness.

The National Productivity Decade Program launched in 1997 and the fiscal incentive scheme for the introduction of advanced technology introduced in 1996 helped increase productivity in the industrial sector and reduce the unit cost of production. In a highly competitive world where productivity determines competitiveness, such policy, combined with relatively low interest rates, helped mitigate the otherwise adverse spillover effects of the recent Asian Financial Debacle.

Incentives to the industrial sector

In a bid to diversify both industrial and export bases and to minimise dependence on limited sectors, selected industries including electronics, ceramics, rubber, engineering and jewellery were declared as 'thrust industries'. The plethora of special incentives bestowed on new enterprises which set up operations in designated zones, invest Rs. 50 million, create 50 new employment opportunities and export over 90 per cent of their output, are formidable and include a 10 year tax holiday with other lucrative BOI incentives and concessions.

In a country where security expenditure absorbs as much as 5 per cent of GDP, it is perhaps natural that infrastructure development takes a back seat in our order of national priorities. However, the Government has recognised that deficiencies in commercial and social infrastructure facilities, which serve as major impediments to industrial development cannot be ignored for much longer: because infrastructure is the lubricant that keeps the wheel of industry turning. And if the state sector is powerless to effect that development, then who better to take on that responsibility than the private sector. Because it is not so much as to who does the job that counts but that, the job gets done. In keeping with that philosophy, the government has encouraged and actively solicited private sector involvement in developing infrastructure facilities such as power generation, telecommunications, port development, highways, industrial parks and industrial townships.

Thus, I earnestly request the private sector to pursue their endeavours and efforts to make a collective and concerted contribution to National Development.

Human resources

Of all a nation's resources, the most important is its human capital. Therefore, to overcome the deficiency of skilled labour in priority industries the Government has established a 'Skills Development Fund', which encourages employers themselves to conduct job entry training, upgrading and re-training of their employees in order to continuously improve their skills. Tax holidays and other incentives have also been granted with a view to encouraging private sector involvement in setting up training facilities in sectors such as gems and jewellery, electronics, computer software and garments. Such measures are laudable in that they strive to narrow the gap between industry needs and the availability of pertinent expertise.

The rate of unemployment has continued its decline during the period under review and reflects growth in both the private and public sectors. Tentative estimates indicate that the economy created 85,000-90,000 new employment opportunities last year. However, the prevalence of high unemployment among our youth continues to be a cause for grave concern.

Real GDP

And what is the story told by macro-economic indicators? Well, Gross Domestic Product or GDP recorded a growth of 4.3 per cent in real terms. Although GDP growth was admittedly lower than our long-run annual growth rate of around 5 per cent, it can be considered satisfactory, in the light of the difficult circumstances, caused by our internal strife. However, we should strive, by any manner or means to reach a growth rate of, say 6 per cent - 8 per cent per annum.

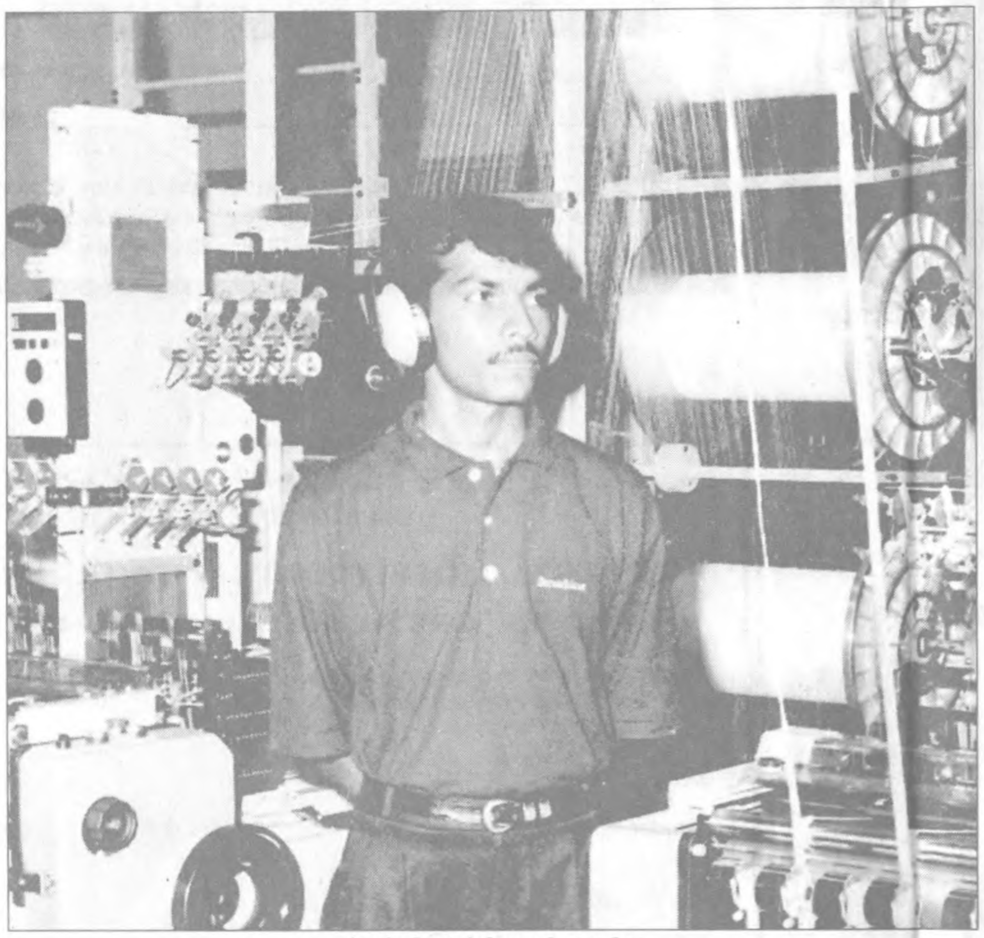
The acceleration in quarterly growth rates experienced by all major sectors has ensured that this momentum has continued into the year 2000, particularly in industrial and trading activities. Improved performance in the manufacturing (export and domestic market) as well as services sectors, resulting from the wider use of telecommunications and information technology, have been major contributory factors in supporting GDP growth rates.

Fiscal matters

Similarly the picture painted by fiscal management is bright. Despite the constraints of the ongoing conflict in the North and the East, the fiscal performance of the country has improved significantly. On the expenditure side, it is noteworthy that the growth of current expenditure has been contained below the growth of nominal GDP and moreover its ratio to GDP has been on a steady decline since 1995.

On the revenue side, import tariffs were further rationalised with the maximum rate for non-agricultural products being reduced. Fiscal incentives were also granted to improve capital and debt markets and to develop technology and training in various skills. Steps are also under way to further improve the transparency in fiscal operations. The Government debt securities market was made more market-oriented by placing greater reliance on marketable Treasury Bonds and extending the maturity structure of debt instruments up to 6 years.

In accordance with its role, within Sri Lankan industry, the Association, through its sub committee comprising key players in the industrial sector, submitted recommendations to Government on the year 2000 budget. The Association looks forward to a cordial relationship with the Government of Sri Lanka in facilitating an economic environment in which industry can flourish.



An industrial goods trader

Devaluation of the rupee

The recent devaluation of the Rupee against the Dollar, brings with it mixed blessings. Export oriented industry and enterprise will be the principal beneficiary of the readjustment with comparatively lower prices on world markets and enhanced Rupee earnings from foreign revenue. However, the coin has a flip side. Industries that rely on imported inputs for the domestic market, are faced with higher production costs, resulting in reduced margins.

In the context of the recent devaluation and rising inflation, it was perhaps inevitable that interest rates would bear the brunt of that pressure. For the business community, higher costs of investment and trading capital serve as a cause for concern. For the Government the increased burden of servicing public debt and rising fiscal deficits do not bode well.

Indo Sri Lanka Free Trade Agreement

In my address at our AGM last year, I shared with you a hope: a wish that the Indo Sri Lanka Free Trade Agreement would materialize as an agent for making our regional economy more vibrant. The Indo Sri Lanka Free Trade Agreement is now reality and bodes well for the bilateral trade relations between our neighbouring countries. It marks a fresh beginning: an era of unprecedented cooperation between our nations, industries and people. It brings with it vast potential for a mutually beneficial relationship.

As Globalization gathers momentum and as Asia rises from the depths of Financial Crisis, the importance of Good Governance comes increasingly into focus

The recent Asian experience was a warning that capital will not hesitate to flow away from those companies and countries, which do not demonstrate strong accountability, disclosure and transparency in their decision-making. That capital will favour those companies that practice good Corporate Governance is a fact of life.

It is believed that accepted Good Governance will improve individual company results, shareholder value and capital markets, and in attracting foreign investment.

In this regard, the efforts of the Ceylon Chamber of Commerce, together with USAID and the Technology Initiative for the Private Sector (TIPS), in taking the lead to propagate Good Governance practices among the private sector are indeed of value.