

# ACCELERATED ECONOMIC GROWTH THROUGH EMPOWERMENT OF PEOPLE

The Pathfinder Foundation conducted its Dialogue or Sanvada series in Colombo in December, 2009 on the theme 'How to Accelerate Economic Growth through Empowerment of People'.

The Sanvada, attended by economists, policy makers, analysts, media-persons, and the members of the public, was led by a panel of experts consisting of W.A. Wijewardena (WAW), Dr. Anura Ekanayaka (AE), Dr. Lalithasiri Gunaruwan (LG), Manjula de Silva (MS) and Charitha Ratwatte (CR).

## The Challenge before the Nation

At the outset, WAW who chaired the session placed the issue before the audience by highlighting that Sri Lanka, in its post independence period, has been a slow growing developing country which managed to record an average economic growth of less than five percent per annum, coupled with a double digit inflation of 11 percent in the recent three decades. He said that the five percent economic growth is a growth which the country can attain without extra effort and, if the country is to improve the living standards of its people, it should aspire to raise the growth rate to 9 to 10 percent per annum year after year in the next two decades or so. Any economic prosperity to be attained will have to be 'an inclusive growth' encompassing all the citizens of the country. In this respect, it is necessary to empower all the people economically, politically and socially so as to ensure a sustainable growth with no growth - impeding social tensions among different sub groups of people of the country. He said that this is the challenge before policy makers, politicians and the responsible civic groups of the country.

## How to Face the Challenge?

To facilitate the Sanvada, CR then presented the salient recommendations in a policy paper that had been prepared by a group of experts for the Pathfinder Foundation under the title 'A People - Empowerment Programme for Accelerated Economic Growth'. The paper had examined 12 issues relating to the real sector development in Sri Lanka.

## ISSUE 1 - Difficulty in Doing Business in Sri Lanka

CR noted that a business friendly environment should prevail in the country to enable people to get empowered as entrepreneurs or partners of business. However, instead of making 'doing - business' easier, the country has made the entrepreneurship more difficult in the recent past as has been revealed in the Global Index - Doing Business 2010 Sri Lanka. In this index, Sri Lanka's position has deteriorated by 8 notches from the 97th most difficult country to do business in 2009 to 105th most difficult country to do so in 2010. CR noted that Sri Lanka has in fact made getting construction permits more difficult by raising fees and it has fettered mainly the small businessmen. A case in point was that 22 different approvals needed in a construction project will take an estimated 212 days to complete at a whopping cost of 15 times the average income of a person! Hence, the policy paper had recommended that all issues relating to the difficulty in doing business in Sri Lanka should be studied as a matter of priority and action should be taken to sort out the issues within a given time frame, in any case, not longer than six months.

## ISSUE 2 - Obstacles Created by Exchange Controls

The Policy Paper had noted that exchange controls which had been introduced in Sri Lanka during the World War II as a temporary measure had unfortunately become a permanent law of the country after independence. It had identified that exchange controls had a place when the countries had fixed exchange rate systems and failed to adopt proper macroeconomic policies to maintain internal price stability and the external value of their currencies.

In the modern world where exchange rates are flexible and all the countries aspire to maintain internal price stability, exchange controls do not have a place.

Exchange controls have fettered the local entrepreneurs to move out and get integrated to the global economy on the one hand and foreigners to bring in their capital to the country to fill the ever -

enlarging domestic savings – investment gap, a real impediment for maintaining a high economic growth, on the other. Further, the criminality attached to the exchange control violations has facilitated authorities to use the laws indiscriminately to subdue their political and personal opponents from time to time.

Hence the Policy Paper had recommended that the economic liberalisation programme which Sri Lanka had started in 1978 should be completed as fast as possible and the current exchange control legislation should be replaced by an exchange management legislation thereby removing the criminality embodied in the current act.

### ISSUE 3 – The Need for Removing the Anomaly between BOI and non – BOI Enterprises

According to CR, the Policy Paper had very correctly identified the important role which BOI had to play in the country in late 1970s. At that time, the challenge was the need for attracting more foreign investments to fill the large savings – investment gap and raise output, employment and nation's economic well – being. Hence, a dual incentive structure favouring BOI enterprises as against non – BOI enterprises was introduced. But, today, such a dual incentive structure is not needed since all enterprises have to compete with each other and become economic powerhouses to create employment and wealth.

Hence, the Policy Paper had recommended that the current favourable treatment afforded to BOI enterprises as against non – BOI enterprises should be removed within a pre – announced time frame.

### ISSUE 4 – The Provision of Quality Education for All

The Policy Paper had identified that Sri Lanka had the competitive advantage of becoming a leading knowledge producer through its high educational levels, provided it will adopt a system of education subject to competition from both local private educational institutions and foreign higher educational institutions. In this respect, the advancements and successes attained by countries like Nepal and Bangladesh in the recent

past should serve as an eye – opener for Sri Lanka.

Accordingly, while noting the deficiencies that are existent in both the school education system and the tertiary education system in Sri Lanka, the paper had made a series of recommendations to uplift its quality to enable the country to emerge as a major knowledge producer in the world.

These recommendations included the introduction of professional management to both the school system and the university system, continuous training of both teachers and lecturers, an introduction of skills and merit based career advancement system, the establishment of a fee levying private school system with proper supervision by the educational authorities, linking of country's universities to foreign universities of repute and the establishment of a standing policy making body to assess the educational system and make suitable recommendations.

### ISSUE 5 – Improving Human Capital through ICT and English Literacy

The leadership in the future world will depend on both the acquisition of ICT and foreign language literacy by a country. As for the foreign language requirement, Sri Lanka could easily acquire literacy in English on account of its long historical relationship with England.

The policy paper had therefore, recommended that Sri Lanka should adopt a conscious policy to educate its citizens in both ICT and English literacy as a strategy for empowering people and attain sustainable economic growth. While providing ICT training to both private and public sector employees, advanced methods of learning English as a working language should be used by the country to take a quantum leap in learning the language.

### ISSUE 6 – The Supply of Reliable and Sustainable Energy

The Policy Paper had recognised the importance of electricity for running economic outfits and consuming a wide variety of

electricity driven consumer durables. Since the demand for electricity rises phenomenally with the increase of income and output, it is necessary to ensure safe, reliable and affordable supply of electricity to the nation. It had been noted that, to attain an economic growth rate of 8 – 10% per annum, the supply of electricity had to be increased every year by about 10%.

Since the track record of the state owned state monopoly, namely, Ceylon Electricity Board, has been far from satisfactory, the Policy Paper had recommended that the government should introduce new electricity supply projects by getting the private sector's participation in them. It had been recommended that these entities could be run as private – public partnerships.

### ISSUE 7 – Empowering both Employers and Workers

The Policy Paper had identified the need for establishing a flexible labour market in order to promote employment and raise productivity of economic entities. While it is necessary to protect the workers from unfair and indiscriminate treatment by employers, it is equally important to protect the employers from unjust treatment by workers. This could be done by building a cordial work atmosphere between the two warring parties and helping both categories to understand and appreciate the important role played by each toward the other.

The Policy Paper had therefore recommended that the labour laws should be amended in order to give a fair treatment to both employers and workers.

### ISSUE 8 – Salvaging Sri Lanka's Agriculture

Though Sri Lanka had been engaged in agriculture for thousands of years, its land limitation and unwillingness of the youth to choose agriculture as a vocation have hindered its development beyond a certain limit. This has made it necessary for the successive governments to provide massive subsidies to agriculture.

A salutary development presently experienced

in the country is the wide diversification of the economy making the services sector the most important sector. This development will help in part to shift the unproductive excess labour from the agriculture sector. It will also help the country to mechanise agriculture in order to solve the problem of labour shortage prevalent especially in the North Central Province and Eastern Province. This development has to be used to raise productivity in the agriculture sector so that those who are engaged in agriculture will get an adequate remuneration to remain employed in the sector.

The policy paper, specifically in relation to the problems faced by paddy farmers, had recommended that a forward and futures market system should be introduced in order to help farmers to discover future prices and protect them from unexpected price fluctuations. In addition, it had recommended mechanising the agriculture, using high yielding varieties, promoting agribusiness and linking the domestic non – paddy agriculture to the export markets.

## ISSUE 9 – Changing the Industrial Base

Sri Lanka has transformed itself from an agrarian economy to a low industry based economy during the last few decades. Yet, its industry has a heavy concentration on garments and apparels making Sri Lanka vulnerable to unanticipated external shocks. Hence, it is necessary to diversify the industrial base into high tech industries as has been done in countries like Singapore, South Korea, Taiwan and Hong Kong a few decades ago and is being done presently in Malaysia, India, China and Thailand.

This requires the government to follow a conscious industrial policy to attract the global high tech giants to the country so as to acquire the needed technology in the initial period.

The Policy Paper had identified certain prerequisites for making this programme a success. They were the continuation with a consistent policy package, avoiding sudden policy reversals, maintaining law and order and rule of law, prudential macroeconomic and monetary policy by an independent central bank and the expression of a single voice by all the leaders of the government for a foreign investment driven economic growth.

The paper had, therefore, recommended that

Sri Lanka should have a plan to move into a high tech industry base by 2020.

## ISSUE 10 – Harnessing the full potential of Tourism

Tourism is a sector which Sri Lanka should harness to its full potential in order to empower the people, create wealth and generate employment. The Policy Paper had identified that with the ending of the civil war, the atmosphere now has become most salutary for the development of the tourism sector of the country.

It had, therefore, recommended to prepare a tourism master plan with a target for raising the number of tourists visiting Sri Lanka to 2 million by 2015, develop the Eastern and the North Western regions for tourism, have a second international airport between Batticaloa and Trincomalee, link Sri Lanka's tourists with those visiting Maldives and have ferry and cruise ship services to provide transport and variety to tourists.

## ISSUE 11 – The Development of the Services Sector and Integration into the Global Economy

Sri Lanka with no substantial natural resources will have to depend on its educated man power to create wealth in the future. In this sense, the services sector provides a good opportunity to use the human capital base to produce services for the global economy as is being done by Singapore and India at present. In this ICT led world, services can effectively shift from one country to another and still provide competitive and economical services to the rest of the world.

The Paper had identified ICT based business process outsourcing (BPO), knowledge process outsourcing (KPO), moving into the entertainment industry, and education and health services as potential service sector products which Sri Lanka could provide to the rest of the world.

## ISSUE 12 – The Development of the North and the East

With the ending of the war, the country has now got the responsibility to develop the social and economic infrastructure that had completely been destroyed in the affected provinces, namely, the Northern and Eastern Provinces, on a priority basis. Since the government is constrained by financial problems, the paper had recommended enlisting the private sector's and donors' participation in the development process.

After the Policy Paper was presented by CR, each panellist took time to identify the problems faced by the country in implementing the policy package given in the paper.

AE, while agreeing with the policy recommendations, highlighted the need for developing a flexible labour market, developing the educational system on modern lines and raising the country's agricultural productivity through high yielding varieties. LG emphasised on the need for shedding counterproductive public sector practices and rules that inhibit the implementation of any reform package. He specifically referred to the old rules and practices prevailing in the Sri Lanka Government Railways. MS took the audience through all the recommendations in the Policy Paper and warned that some of the recommendations such as the abolition of the anomaly between the BOI and non – BOI enterprises should be done after a careful evaluation since it would give a wrong signal to potential future investors.

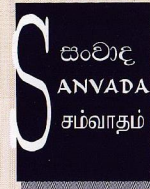
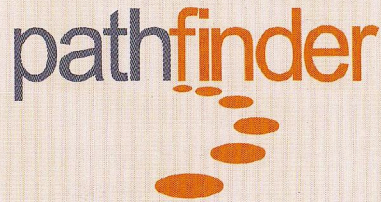
The audience was very active in the discussion. Many raised the issues relating to Sri Lanka's fisheries sector, the problems faced by the small and medium scale industries and the land title problems in the newly liberated Northern and Eastern Provinces.

The full report can be found in the website of the Pathfinder Foundation:

[www.sanvada.org](http://www.sanvada.org)

This Policy Brief is based on the analytical presentations made by a panel of experts who participated at a Public Sanvada organized by the Pathfinder Foundation.

The Panelists were: W A Wijewardena, Dr. Anura Ekanayake, Dr. Lalithasiri Gunaruwan, Manjula De Silva and Charith Ratwatte.



'POLICY BRIEF 19'

**PATHFINDER FOUNDATION**

Telephone No : 2596281

Facsimile No : 2595894

E-mail : [info@pathfinderfoundation.org](mailto:info@pathfinderfoundation.org)

website : [www.sanvada.org](http://www.sanvada.org), [www.pathfinderfoundation.org](http://www.pathfinderfoundation.org)

Editorial Assistance Ms. Ameera Arooz, Project Manager