

THE DEVELOPMENT OF SRI LANKA AS A COMMERCIAL AND FINANCIAL HUB

HISTORICAL NOSTALGIA

Sri Lanka has been a leading commercial hub in the past due to her location in a strategic point on the main naval route from East to West and history is abundant with episodes of the ancient kings' harnessing this advantage to the maximum. The country was an important trading centre in the ancient silk route; its golden era reigned by the Parakramabahu the Great (1153-86) was characterised by a vibrant commercial hub in the country frequented by traders from all over the world. Subsequently, Arabic traders used the country for entrepot trading with India, Persia, Egypt and Europe. This paved the way for Europeans, first the Portuguese, then the Dutch and finally, the British, to use it for trading activities. Hence, it was noted that the country was blessed with historical roots to become a viable and sustainable commercial and financial hub once again provided correct type of policies are adopted.

THE CURRENT INTEREST

It has been declared by the current government that it is planning to set up five hubs in Sri Lanka as its growth strategy. These five hubs are in naval, aviation, commercial, energy and knowledge areas. The main policy document of the government which was presented as the Election Manifesto of the incumbent President, Mahinda Chinthana, A Vision for the Future, has outlined the proposal pertaining to these hubs without giving

details of same. In this document, the section relating to the commercial hub has laid down its main components as follows: ***"I have overcome the first challenge of making Sri Lanka a commercial hub by improving the physical infrastructure and by upgrading the human resources. As a result of our efforts, our stock market and foreign investments have steadily improved. We need to support this momentum to higher levels. Through such efforts, I am hoping to establish Sri Lanka as one of Asia's foremost commercial centres in the fields of commercial services, international banking and international investments"***.

Thus, the plan of the government is to establish Sri Lanka as a commercial hub and, within it, providing some segments of the services offered by a finance hub. However, it should be noted that all hubs are complementary to each other and therefore, they all should be started simultaneously.

The Hub Status

A hub is simply a centre from which services of different kinds are provided to clients located beyond its perimeters. In a domestic hub as is being done by Colombo at present, such services are provided to the citizens in the regions; in an international hub, as is being proposed by the government, the same services are provided to people of other countries. Hence, an international hub enables a country to expand its *catchment area* beyond its

national boundaries thereby enlisting a larger clientele for business. It helps a country to use the already installed capital and human infrastructure to the maximum, utilise unused resources, raise revenue and create additional wealth for the nation.

As history has shown, the establishment of an international hub will enable a country to supplement its other development initiatives, sustain economic growth and eventually generate prosperity for people.

Prerequisites of a Hub

There are certain prerequisites which have to be put in place for any international hub to function successfully. They are the provision of –

1. first grade physical infrastructure facilities;
2. a modern digital infrastructure;
3. a talented and skilled workforce;
4. a business friendly regulatory and legal system;
5. beneficial macroeconomic (fiscal, monetary and exchange rate) policies.

It was noted that Sri Lanka's present status in respect of each of these prerequisites is much to be desired.

Sri Lanka's Challenge

There are two challenges which Sri Lanka has to overcome when setting up of a viable and sustainable commercial and financial hub

in the country. First, it has to compete with the already existing and developed hubs such as Singapore, Hong Kong, Dubai and Mumbai. In addition, there are newcomers who aspire to become vibrant commercial hubs in the future: Shanghai in China, Incheon in South Korea and Kozhikode in South India.

Second, commercial and financial activities are benefited by the continuous innovations made in information and communication technology (ICT) and business practices. Sri Lanka should therefore be alert to these changes and be ready to take action to catch up with them promptly.

Work yet to be Done

It was pointed out that Sri Lanka should give the highest priority for improving all the required conditions for the country to become a commercial and financial hub of importance.

Physical Infrastructure

The country should invest heavily in developing its infrastructure so that first grade port, airport, road building and internal transportation facilities are available for use by the new commercial and financial hub.

Digital and ICT facilities

It is necessary to upgrade the country's ICT infrastructure and the knowledge base to match the global trends and requirements. It was pointed out that Sri Lanka's internet downloading speeds are one of the lowest at 1.18 mega

bytes per second (mb/s) compared with 31.7 mb/s in South Korea and 17.4 mb/s in Japan. The requirement is to have adequate broadband, server, back up and safeguard facilities and effective disaster recovery systems.

Human Capital Developments

The knowledge base, talent and skills pool and the flexible attitudes of the work force are important factors for operating an efficient commercial and financial hub in any country. The workers should have ability to communicate in English (presently known as Globish) to offer the best services to the clients. The public service should be capable and competent. A system of meritocracy should be developed in order to ensure the supply of quality workers for service at hubs.

An Independent Legal System

The legal system should be capable of adjudicating cases and resolving disputes objectively without interference from the executive. Property rights of the market participants should be protected for any market to function effectively. This could be guaranteed only by having a legal system which is independent and knowledgeable of the operation of a free market system.

Law and Order Situation and the Observation of Rule of Law

For markets to function effectively, law and order should be maintained and rule of law under which everyone is subject to

same legal system should be observed

Facilitating Regulatory Systems

Regulatory system in the country should be a facilitating one rather than an impediment to private enterprise.

Fiscal Prudence

The government should follow a prudent fiscal policy package under which the country's scarce resources are utilised for the best advantage of people. Accordingly, it is necessary to bring down the current fiscal deficit progressively and thereby reduce the public debt overhang by bringing down the debt GDP ratio to manageable levels. The most important requirement in fiscal prudence is the avoidance of both inflationary financing and pre-empting the resources available to the private sector by the government.

Independent Monetary Management

The central bank should conduct its monetary policy independent of the government and for that purpose, it was pointed out that the Central Bank should be an independent organisation. The market participants should feel that the Central Bank, through its independent monetary management, will protect both the domestic and external values of the currency.

Productivity Improvement

Recommendation has been made that the government should focus more on Total Factor Productivity

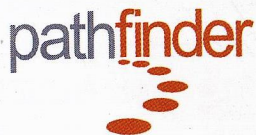
to maintain the competitive edge of the country's business and industry. Between 2004 and 2009, of the average annual growth of 6.1 percent, the growth of the labour force has accounted for 0.5 percent and productivity growth the balance 5.6 percent. Though a third of the labour force is employed in agriculture, its contribution of GDP in 2009 has been only 12.6 percent. Accordingly, the productivity in agriculture has been the lowest while that of financial services has been the highest. Hence, to win the battle of com-

petitiveness, the country has to improve its productivity levels by improving the competitiveness of assets (infrastructure, finance, technology and people) and processes (quality, speed, customization and services). It will help the country to attain world competitiveness by increasing market share, profits, growth and duration.

A Long Way to Go

It was pointed out that Sri Lanka should resort to continuous and proactive long term planning with

regard to the establishment of a commercial and financial hub in the country. For this purpose, it was recommended that a high powered implementation agency which is ever alert on global developments should be appointed. In addition, action should be taken to improve the country's ICT base, talent and skills pool and the regulatory system. Above all, the most important requirement is to foster a business friendly culture in the country.



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