Dr P B Jayasundera: Emerging Sri Lanka



With Sri Lanka aiming to achieve USD 4,000 per capita income by 2016, the financial and economic institutions of the country have shifted to top gear. The Ministry of Economic Development has been newly instated to drive economic growth while being the coordinating body between the various sectors. Dr P B Jayasundera is the Secretary to the Ministry of Finance and Planning, Secretary to the Treasury and Secretary to the Ministry of Economic Development; three powerful institutions that determine the direction of the Sri Lankan economy. Dr Jayasundera spoke to Business Today about the progress of the country in terms of economic performance, investment and strategies as Sri Lanka forges ahead to emerge as the Wonder of Asia where all citizens will have equal opportunities and quality of life.

By Udeshi Amarasinghe

Photography by Menaka Aravinda

In November 2009, in your interview with Business Today, you stated that the graduation of Sri Lanka to a solid middle-income country is unstoppable. Eight months down the line what has been the progress and is Sri Lanka heading in the right direction?

Since our interview in November last year, the economic performance of the country has been extremely encouraging. We have witnessed, two consecutive quarters of growth of around seven percent based on the performance of the first six months of this year, the projections have also been revised upwards as against the earlier projection of around six percent growth for 2010. Considering its performance so far we are quite confident that our economy will produce over seven percent growth this year.

The first six months record has been spectacular. The economy has become stable, prices have stabilised, inflation has declined to below five percent which is a great achievement. The monetary policy has produced good results; interest rates have declined and the exchange rate has remained stable. In fact the exchange rate has begun to appreciate and there is pressure for the exchange rate to become stronger.

The export sector has recovered and the tourism industry has been buoyant. Hotel occupancy is high and travel related activities such as aviation, tour operation, banking and finance related services and trade have bounced back. Hotel rates have gradually increased. In fact, the World Bank Vice President who visited Sri Lanka recently told me that the hotel charges reflect strong recovery in that sector. She was very impressed with the recovery of the country and mentioned at the discussions with the President that Sri Lanka is definitely way ahead of South Asia and is a remarkably strong and buoyant economy.

Post conflict development is also unique. In November last year, we were basically talking about IDP resettlement and associated issues. Today it is no longer a topic among us. Other than the residual activities, almost all the IDPs have been resettled and the de-mining activities have progressed well. The North has been normalised and resettlement has begun. The weather has been very favourable and it has been a strong incentive for agriculture, both for the plantation as well as for non-plantation agriculture. The agricultural sector will score very high growth, partly because of the new areas coming under cultivation, and partly because of the good commodity prices as well as favourable policy strategies adopted by the Government towards agricultural development.

The business community is showing enormous interest whether it be IT, tourism and leisure, manufacturing, construction, agriculture and apparel sectors to name a few. They have made their commitments to invest. I am certain that the initial surge will come from the domestic investors who have already done their investment planning. Very large flagship investment announcements are also expected shortly.

On the external side, we are predicting a four billion dollar remittance income this year which will further strengthen the Sri Lankan economy. It is also a reflection of the confidence in the country's economy and finance. Furthermore the infrastructure is getting into place. Therefore, when I stated that our journey towards a middle-income country is unstoppable, it is because our country was well positioned for a take off after the conflict ended successfully and several unfortunate failures have been corrected.

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Sri Lanka is heading in the right direction. Inflation is at a moderate level, after 30 years. Growth is moving in the upward direction, interest rates and exchange rates remain stable. Pressures on the budget are well contained and macro economic condition continues to improve. So the direction is definitely right.

Infrastructure wise what has been the progress?

Well, this is an area the Government can claim strong achievement. In fact, the World Bank Vice President who is in charge of the South Asian region, said that except in Sri Lanka, all other South Asian countries have long hours of power cuts. Our President explained to her that for the last five years there have not been any power cuts, besides that, access to electricity has been increased to almost 80 percent of the population.

People complain that electricity is expensive and roads are not good enough to accommodate rising traffic. That is true but it also means that the capacity is getting filled rapidly. Our core investments that are in electricity, irrigation, roads, ports and drinking water are targeted to address this increasing demand capacity for expansion. Public investments during the past five years have begun to pay dividends and the economy lurches forward very rapidly.

Our donor base has increased very rapidly; we have a very large commitment from India unlike in the past. India has committed almost 850 million dollars, twenty-year credit at a very low interest rate to rebuild the Northern Railway infrastructure, one from Medawachchiya to Thalaimannar, the other from Omanthai to Pallai and technical and financial assistance to Sri Lanka Railway to upgrade its remaining infrastructure shortcomings. India has also invested in the Matara – Colombo Railway line. There is an equally larger commitment to complete the Sampur Power Plant as a joint venture. Thus Indian Overseas Development Assistance to Sri Lanka has come to a level that has never been achieved in the history of Sri Lanka – India relationship.

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Similarly, China has made very large investment commitments for building power plants, ports, roads and several other development projects. In addition to power plants and ports in the South, reconstruction of highways in the North is undertaken

with Chinese assistance to the line of 500 million dollars. Then Japan, being our leading donor, has strengthened their support. Upper Kothmale Power Plant, a section of the Southern Express way and Colombo ring road are funded by Japan. ADB has increased its portfolio to over 500 million dollars this year with about six projects consisting of roads, transmission projects and water supply schemes. These are no longer small, welfare oriented projects but investments in development of infrastructure. The Government just concluded 200 million dollars framework agreement with Korea and we are optimistic it will increase further. The US Assistant Secretary of State who visited Sri Lanka expressed confidence in economic cooperation with Sri Lanka. Kuwait and Saudi funds have been committed for large out flows. We have discussed with several other countries such as Australia, Britain, Germany and UN Agencies for increased development corporation. The World Bank portfolio is now also being reviewed to increase its relevance to Sri Lanka's post conflict situation. The country is looking at International Bank for Reconstruction and Development (IBRD) credit, not International Development Association (IDA) credit. IDA is a credit window that a country looks at when it is poor. Now the Government is looking at IBRD where long term funds at competitive rates are available for investments. Similarly, the markets are favourable. The Government of Sri Lanka is looking at a billion dollar bond issue to convert all the short-term bonds to more long-term bonds and give further stability into our financial system.

Can you elaborate on the strategies adopted to win the economic war?

The economic war was also declared at the time the President declared the war against terrorism. That is why the President initiated infrastructure development almost at the time he took office. Gama Neguma, rural development initiative was launched well before the Government pushed for a war. But, now since the war on terrorism which was the preoccupation of everyone till May 2009 is over, the economic war has become much more focused and every stakeholder and decision maker has focused time for it.

Fundamentally, even during the first phase of the economic war, which was a silent operation as everybody was talking only about the conflict, the Government managed to raise per capita income from USD 1,000 to about USD 2,000 and lay the foundation to become an emerging middle-income economy. His Excellency the President has now declared that the economy must move towards USD 4,000 per capita income range, which implies that the economy must grow well in excess of

eight percent instead of six percent, which Sri Lanka maintained during the last five years.

Now, to move towards such high growth as articulated in the medium-term road map the Government has formulated a strategy in which investment is targeted to raise from the current level of 25 percent of GDP to 33 – 35 percent. Thus we require a ten percent increase in investment over next several years.

The Government will maintain public investment at around six to seven percent of GDP and the balance 27 – 28 percent of GDP must come from the private sector. Out of this FDI may move up from the current level of two percent to four to five percent of GDP and the balance will be from the domestic private sector which of course includes investment of retained profits by existing foreign investors in the country as well. The private sector of course can make such large increases, partly because the post conflict peace environment is very favourable towards them and they also enjoy a massive peace dividend. There are no war risks and transaction costs due to transport restrictions and several other conflict associated costs are no longer there. Interest rates have come down from 25-30 percent range to around 12-16 percent range. Thus there are massive savings. Infrastructure facilities are expanding. For the first time since 1977, the exchange rate movements have reached some stability. Therefore, the private sector can work in a predictable environment now than before.

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The available investment opportunities are unique. No one will invest when their businesses are not expanding or underperforming. Take for example the tourism sector, hotels are full and as such hotel owners are looking for extra capacity creation. Firstly, the hoteliers will of course raise the prices and get the maximum out of the existing capacity and then gradually build. The required additional room capacity is around 40,000. This means that scope for investments is high, a) by expanding the existing capacity b) by converting some of the old buildings and properties that could be used immediately as hotels, and then go for longer term

large resort development and upmarket tourist facilities and infrastructure. This is one area that we are looking at. Kuchchaveli, Passikudah and Kalpitiya resort development have been given very high priority too.

The priority of the Government to put agriculture and livestock as a major investment activity to address food security, cost of living and at the same time, to capitalise the economy of local investors and entrepreneurs will likely show results almost immediately. The Government is looking forward to providing openings in agriculture and livestock on nuclear farm based investments to increase production of fruits and vegetables.

Urban development has become an attractive proposition. Urban development can make a difference during the early phases of growth. Today, everyone is looking at Colombo, Kandy, Galle and Jaffna and several other townships for property development such as urban townships, market places, shopping complexes and hospitals; thus all these investments are yet another priority. In fact the Government is promoting a ten billion rupees debenture issue for UDA to begin the preparation of Colombo Urban Development that will encourage private investments.

There are new areas of interest based on the advantages of our country. For example IT BPO, which was not an industry that many Sri Lankans spoke of several years ago, is another area where investment will take place in the next few years. We have found that Sri Lanka can target over a billion dollars in the IT BPO export industry.

Then, the textile and apparel industry; despite all the global challenges they have gone through they have put forward a medium-term investment strategy in which they are targeting to take this industry to a four billion dollar export industry with high quality, upmarket activities. Then, we also see value added expansion in tea, rubber and plantation based industrial and agricultural processing activities. Livestock and fisheries have also become very attractive. In that context, a wide range of investment opportunities are coming up. Alternative energy is becoming a very attractive proposition for Sri Lanka. Paddy agriculture as well as fruits and vegetables have become such a lucrative investment for many people. We have already invited interested domestic investors to submit their proposals for approval.

Thus Sri Lanka can expect large-scale investments across various sectors in the next few years.

Now, there is also a plan to attract large foreign investments to Sri Lanka. Currently, foreign investment amounts to about two percent of GDP. We feel that over a five to seven year medium-term horizon, Foreign Direct Investment will increase to about four to five percent of GDP. That means, doubling the current level of investment and such inflows will support Sri Lanka's growth prospects. The equity market has shown this promising outlook and several IPO's that are being lined up will make our stock market a vehicle of investment.

All in all, the Sri Lankan post conflict regime is ready to fight the economic war. The country has a very conducive environment to win this war too. Everyone is positive because the business opportunities are very promising. Globally, Sri Lanka is being placed in a much advantageous position than several years ago. Almost all travel advisories issued by various countries giving travel warnings have been removed.

Sri Lanka has managed its domestic problem better, because Sri Lanka increasingly relies on home-grown solutions for its internal issues. During the last five years the Defence Minister who is the President, Defence Secretary and the Security Forces have shown that you do not have to rely on others for security. They have successfully eliminated terrorism from this country. Similarly, the Government and the private sector are both looking at Sri Lankan solutions to generate growth, because no outsider will come and give us economic solutions to ease the cost of living or generate employment or become an emerging economy. The Government will have to bring down inflation, create employment opportunities and provide equal opportunities to every citizen in the country to get the maximum benefit from economic development.

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Infrastructure development has connected the people and everyone can move

around and seek employment. Sri Lanka is also an integrated global economic partner as over one million Sri Lankans are working overseas. They are not only remitting four billion dollar earnings to our economy, but also contributing experiences from many countries around the world to our success.

As I have explained to you so far, the Government is in the process of mobilising the bureaucracy, the private sector, trade unions, foreign investors and the donor community to fight the economic war and win it for economic prosperity. The Government has requested all line ministries to clearly identify areas where the private sector could explore investment opportunities. The Cabinet has appointed a ministerial committee headed by Hon. Sarath Amunugama to address investment related problems. Customs, Port, BOI, Tax Authority, Trade Ministry and several other line ministries are looking at systems and procedures that will reduce the transaction time in import and export trade as well as in other areas. All these things will be very powerful instruments in fighting the economic war. Just like the war against terror in the North demanded fighter jets, powerful ships and very heavy fighting equipment, the economic war will also demand many resources and committed people. All those are now being put in place and the strategies are quite strong to make it a winnable war by 2013/14. I am sure Sri Lanka will be a notable winner in the economic war as well.

What can you tell us about the fiscal framework that will support this growth?

The Government is looking at a five percent budget deficit to be realised over the medium-term to support this growth. Five percent budget deficit is quite manageable considering our domestic savings and foreign assistance. Then, our revenue account is designed to generate about two percent surplus. So that public investment in the range of six to seven percent of GDP need not be compromised. You will no doubt realise this fiscal strategy is not at the cost of economic growth as it is designed to protect investment.

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This fiscal framework will support growth, stability, low inflation and at the same time lower debt. Nowadays everyone is talking about debt, globally it has opened the eyes of the world leaders because advanced countries are confronted with very large budget deficits. The question is, what is the sustainable level of debt? Economies of Japan, European countries and America all have high debt. Sri Lanka has brought its debt down to around 80 percent from around 104 percent in 2002. There is a credible reduction despite Sri Lanka having had to go through a very difficult time; the 30 year war, the unfavourable global economy and very high oil prices. Of course all these have changed now in our favour.

Now, since Sri Lanka can move towards seven to eight percent growth, that itself will be a contributory factor to bring down public debt. We have projected to bring down public debt well below 70 percent of GDP in the next six years. The macro environment is quite favourable, opportunities for private sector are being expanded, Government revenue in relation to GDP is projected to increase to 17 percent to lower fiscal burden. This will release more funds to the economy and the private sector will have these recourses in their hands which they did not enjoy before.

The establishment of the new Ministry of Economic Development was also with the intention of aggressively addressing the various aspects of the Sri Lankan economy. As the Secretary to this Ministry, can you explain to us the role and functions of this Ministry?

The newly formed Ministry of Economic Development headed by Minister Basil Rajapaksa has a wide range of activities to cover. The Board of Investment, Tourism, Wildlife, Zoological and Botanical Gardens, some regional development initiatives and agencies such as the Southern Development Authority and Udarata Development Authority and Samurdhi Authority come under the purview of this Ministry.

Over 40 foreign funded development projects ranging from de-mining activities to resettlement assistance to infrastructure development activities come under the purview of this Ministry. Thus the Ministry of Economic Development is quite unique. This Ministry is to integrate development related activities because the Government recognises that development including foreign investment must have

the necessary links to regional and rural development as well and make it a much more meaningful inclusive growth process. Investment and tourism working in isolation makes no sense unless such agencies work with the rest of the economy.

Actually, the Ministry's responsibilities entail working with the private sector, because if you take our rural economy, it is essentially a private sector one, even though they may be small. Many think that the private sector means only the corporate world; our entire rural agriculture is private. There are no Government owned farms, they are entirely private. Then initiatives like Gama Neguma, Maga Neguma, community water supply activities are good public-private partnership arrangements. The community and the Government work together sharing their resources and risks in building rural concrete roads, water supply schemes and other such activities to create new livelihoods. This is a paradigm shift in rural development and poverty alleviation strategy. These rural based development initiatives will be expanded rapidly.

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One of the key tasks of the Ministry is coordination; interfacing with several areas as villages should be empowered by providing all the required services and it needs to be well coordinated. Electricity, water supply irrigation schemes, primary schools, health facilities, community support, culture, art, music, women and children, all these activities are undertaken by several ministries. Thus the Ministry of Economic Development essentially plays an interfacing role because unless you coordinate these activities, development can happen in isolation and as a result wasteful programmes can take place with no meaningful results.

Thus the Ministry of Economic Development is filling a much felt gap by promoting proper coordination. However the Ministry is not going to do this by itself, it will be interfacing all these activities with all relevant ministries, agencies, government agents and divisional secretaries and of course with the local political institutions and the community.

Another key responsibility is to encourage foreign investment, tourism and related activities. In this context, the role of this Ministry is to essentially transform Sri Lanka to a middle-income country while keeping the rural economy alive. Thus, this Ministry will be interfacing with the private sector and public sector, to create an enabling environment for everyone whether they are rural or urban, rich or poor, private or public, domestic or foreign, to work together and promote development. Agencies such as the BOI and Tourism Authority will be made dynamic service providers in the corporate world as well as SMEs. I have seen much more synergies in putting all these areas together and energising them for a common target.

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What mechanisms have been put in place to increase the efficiency and productivity of the institutions that come under the purview of this Ministry and what is their new strategic direction?

During the very first week, Minister Basil Rajapaksa as the head of the Ministry of Economic Development had discussions with senior officials in Government. On their advice an organisational structure was formulated. The Ministry functions directly under the overall guidance and the direction of the Minister who is supported by three Deputy Ministers. They have been assigned specific tasks and geographically defined areas for supervision and coordination. Then the Ministry Secretary is assisted by four Additional Secretaries for administration and finance, rural economy, regional development and then investment and tourism. Three Additional Secretary positions have already been filled and we are looking for the fourth who will basically coordinate the private sector investment and tourism.

Director Generals have been appointed for specific subjects and functions under each Additional Secretary depending on the subject. Each agency liaises with the respective Director General. Thus I feel it is a relatively efficient structure. Each agency is being looked at organisationally as well as in terms of human resources and required management skills and leadership. Their corporate and strategic plans are being finalised. Various projects are being re-looked at and project management teams are restructured. It is an evolving process, but I am quite optimistic the

Ministry will be fully functional with the efficiency required to fulfil our objectives and particularly, the task you expect us to win, that is the economic war.

The aim of Sri Lanka is to become the Wonder of Asia. How are we going to achieve this?

Well, Sri Lanka is a middle-income country. The vision of the Government is to make the transition faster to an emerging economy. The President has already declared a 4,000 dollar per capita income target by 2016. This is the destiny we are looking at.

As far as His Excellency's vision is concerned it is not purely about achieving a per capita income target, but ensuring that every household in Sri Lanka will have a decent house with basic sanitary facilities, access to water, access to electricity, access to telecommunication and technology.

Every house must have access to roads. That is why the Government is constructing national, provincial and rural roads as a priority public investment, so that it becomes a networking exercise. Unless people are well connected to the development process, they will be lagging behind. The idea is that every person will be given business and growth opportunities. Then quality education and access to health are also priorities. Development will also be environmentally friendly. "Mahinda Chinthana – Vision for the Future" is talking about development where the environment is not sacrificed for growth.

Thus the President's vision is for Sri Lanka to be a middle-income country with a 4,000 dollar per capita income with all these conditions being fulfilled. The economy will not reflect excessive regional disparities, income disparities and more particularly disparities in opportunities. It will be an economy that will provide equality in opportunities. Of course each person is different and they may utilise these opportunities differently. To that extent different people will earn different levels of income but opportunities will be made available to every household and citizen of this country. That is the vision of the Emerging Wonder of Asia.

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water, have access to electricity, access to telecommunication and technology.

The investment framework that the Government is promoting accommodates domestic entrepreneurs as well as foreign investors. We are looking for quality foreign investors who bring foreign capital and not those who come here and raise money from our banks. There have been instances in the past where foreign investors have obtained BOI approval and raised loans not even from private banks but from Bank of Ceylon and People's Bank. This is not foreign investment. We are looking at our domestic entrepreneurs who can not only use their own corporate savings, borrowed capital from the domestic market, raising funds from the equity markets, but also those who can go abroad and raise money for investment. This will put home based private sector in a pivotal position in economic development.

The Government is also creating an environment which will safeguard the domestic private sector and the domestic economy from global vulnerabilities. The continuous expansion in infrastructure to cater to a modern competitive economy is also a vital component and an already initiated infrastructure development programme called "Randora" will continue to be the Government priority in the next ten years. Of course we expect private sector investment in this area too.

International trade is another area that the President is focusing on, as expanding our trade network is important for high growth. We have seen that the reliance on one or two markets can result in the country's economy becoming vulnerable. It is not only the export industry that becomes vulnerable but the entire economy. Similarly the country cannot rely only on a few commodities for exports either. Relying on imports for essential consumption like food, energy is also dangerous. Therefore, the President considers it vital that Sri Lanka diversifies its exports not only in terms of products, but also in terms of destinations. Thus we have been told to target several destinations and diversify export and import trade exploring enormous potential and prospects in the global economy, but at the same time being watchful of several risks and vulnerabilities associated in global trade. His Excellency keeps reminding us that development means that at least those risks and vulnerabilities are contained satisfactorily so that in a situation of crisis, people will not suffer. So this is our risk weighted approach to development in a globalised economic framework.

Sri Lanka needs to develop its presence in the international market for its products in order for the economy to fully take off; our exports are mostly primary goods. We need to develop our value addition capabilities, thus what is being done in this regard?

The emphasis has been to shift Sri Lanka from a raw primary exporting country to a value added high quality product exporter. That is very well articulated in the medium-term road map, when the Finance Minister presented the 2010 Budget speech to the Parliament.

Tea is still continued to be exported in bulk form. Almost 85 percent of tea is exported in bulk form. This needs to be reduced. A number of Sri Lankan manufacturers have moved on to value added form and also branded products. They have reached all emerging markets. We have success stories in value added tea now. Based on their experience tea can be a three billion dollar industry. Cinnamon and spices have shown enormous potential to become manufactured exports. Rubber has also gone into value added form, but still Sri Lanka is exporting about 100 – 150 million dollars worth of raw rubber. Through tax and other instruments such as incentives to promote branding and value addition, this will be discouraged and rubber as well as cinnamon can be billion dollar export industries. All manufacturers will be encouraged to move up to value added products. Similarly, gem and jewellery can move on the ladder. The apparel sector, which is a unique industry, has now increased their domestic value addition to almost 50 percent. By promoting a logistics hub in Sri Lanka it can now move into a four billion dollar export industry. The Government proposes to encourage further improvement in domestic value addition in the apparel sector. Several new products and services such as IT/BPO and clinical research will be largely domestic value creations.

The Government in its development strategy focuses on the development of five key hubs in Sri Lanka. How does this relate to the value addition of products and services that you mentioned?

Well, this requires a long explanation. The Government has identified five key sectors to be developed as hubs in Sri Lanka in its strategy to become the Wonder of Asia. One is shipping and ports, and we have a huge transshipment port, that will basically bring all port and shipping related business to the country. It need not be

that everything is manufactured here, but given transshipment port facilities, bunkering maintenance and ship building and all such port and shipping related facilities, will also be value addition in our domestic economy.

Similarly, for the aviation hub there is a policy strategy now being worked out. The national carrier is being recognised as the centerpiece in the aviation hub concept where it will be given a privileged position by all aviation related institutions in Sri Lanka, whether it is tourism, airport and aviation, catering, petroleum, insurance or banking. Thus, the hub will basically be promoted with the national flag carrier. Our airport will be made attractive to other airlines through the development of aviation facilities and two domestic destinations, Jaffna and Hambantota will be connected to international travel schedule.

The President considers it is vital that Sri Lanka diversifies its exports not only in terms of products, but also in terms of destinations. So we have been told to target several destinations and diversify export and import trade exploring enormous potential and prospects in the global economy.

Nowadays businessmen do not wait till ships arrive. For commercial quantities for supermarkets, medium term shops and up-markets, it is not the quantity but the quality that is desired. Therefore small quantities of high-quality products are shifting through courier services. Consequently facilities are required as these activities are shifting from shipping to aviation.

Then the aviation skills and aviation catering activities are required since the number of airlines stopping in Sri Lanka is gradually increasing. These airlines need to be serviced, and those services need to be integrated.

The creation of a shipping and aviation hub will also mean an increase in commercial activities. These include shopping facilities, buying and selling activities and branded products coming into the country. That is why some of those products, international branded products, like mobile phones, wrist watches, cameras, spectacles and computers have been made duty free and subjected to less than ten percent all inclusive taxes to make all these products available here, even in the street shops. New shops will emerge. Previously, instead of coming to Sri Lanka people were looking at other shopping centres for those products. Now we want everyone to look at Sri Lanka to shop for those items.

Many of these activities will gradually shift towards the commercial hub concept. Our idea is also to protect products that are grown in Sri Lanka. For instance we definitely do not want to make rice duty free. Similarly with maize. Sri Lanka will be self sufficient in maize production probably by next year. We also do not want to make milk powder duty free, because our idea is to at least to increase the local milk production to 50 – 60 percent in the medium term. Several other agricultural products are imported and total value is well in excess of 500 million dollars. There are good import competing sectors in our economy. Therefore farmers must shift towards that direction. Alternately we are not manufacturers of sophisticated equipment such as wrist watches, mobile phones and other equipments, but our people as well as visiting tourists must find these products and services here in our domestic markets. Thus around the commercial hub concept many activities such as banking, finance, insurance and leasing will happen as international trade will be the anchor in development.

Then, the Government is also focusing on developing Sri Lanka as an energy hub. Though we are still in the early stages, Sri Lanka is looking at oil exploration. This will make this a petroleum economy. At least gas, and petroleum products will be exploited and the energy based activities will take place in Sri Lanka. In addition, Sri Lanka is also promoting renewable energy sources in a big way. Several years ago the windmill was not a topic that anybody talked about because the cost was very high. But now, inquiries are coming for large windmill plants. Cost has drastically come down as investors now know the technology. Funds are available as markets have developed. Certain areas in Mannar are being identified for windmill zones. We also have fairly lucrative hydro electricity sources as well. As I mentioned earlier, in terms of our environmental concerns, we may have fuel only as a standby. Even that will be clean fuel for electricity generation. So, the country is shifting in a different direction. These activities are incrementally taking place in this country now.

Then, above all, Sri Lanka is going to be a knowledge hub. Even now, Sri Lankan doctors, accountants, lawyers, computer scientists, IT people, technicians, engineers and architects, all can be a pool of global resources that are available here. Unlike in the past now people are increasingly moving to high skilled jobs. Almost all in Korea are in skilled category, and their earning capacity is over 100,000 rupees a month. Similarly our people employed in emerging economies in

Asia, are basically in the skilled category. Now, in the West, skills such as nursing are in high demand. The composition of overseas employment, which is currently a little over one million, will shift from unskilled to skilled and professional categories. The Government's desire is to see international hospitals, international resource centres, clinical trials and related activities, higher education establishments, IT centres are promoting a knowledge based economy here.

Sri Lanka is going to be a knowledge hub. The Government is promoting a knowledge based economy.

Right now many Sri Lankans go abroad for medical treatment. Not that we do not have quality doctors. It is simply because hospitals with sophisticated equipment and other related infrastructure still need improvements. So we need to promote them. Then, not only our people but also foreigners will come to use such facilities. That is a value addition and good import substitution strategy.

Take countries like Hong Kong, Singapore or even Australia, where they are attracting foreign skills. Here in Sri Lanka we have these skills. Look at our medical profession, we have over 1,200 consultants of international class. All they need is more facilities, not just buildings, but the state of art technology based facilities. As we all know medicine and engineering are technology driven professions. Free education and health can have good value only if we make them as integrated global services available in our country.

Therefore value addition is not only tea being packeted here but also our doctors adding to their services an enormous value here so that outsiders will come to Sri Lanka to receive treatment. Similarly, we all know that a large number of students from Sri Lanka are going abroad for their studies like medicine, business and other areas. Imagine if these students get a chance to stay here, and pursue their higher studies, the amount of resources that we will save. It can also attract earnings from foreign students coming here to spend on education.

That is the transformation we need to create. The knowledge economy and the value addition processes are very much integrated. The ports are being built to promote not only trade ship-building, repairs and maintenance activities but also

many services that can be provided only by a skilled labour force. If Sri Lanka starts an internationally attractive aviation maintenance centre, aircrafts will come here and we can provide many services to them. Value addition in our economy is central to this whole growth process. That is how eight to ten percent growth will happen.

What is the role of the Government as the enabler of this growth?

The word ‘enabler’ is explicitly used by the President when he guided us through in formulating development policies. According to him the role of the Government is to enable every person in the country to do something productive. So actions of the Government must enable people to live in a secure environment, to have access to quality education, health and infrastructure.

As I mentioned before the Government expects the private sector to invest five times of public investment to make the total investment of 35 percent of GDP over the medium-term. Unless the Government becomes the enabler and creates the enabling environment, required volume of investment cannot be generated. For each person that is employed in the Government, there are four employees in the private sector. Thus each Government job and the amount that the Government spends on such jobs must create four fold employment opportunities in the private sector. That is the role that is being assigned to the Government.

What about the private sector, they need to take a more active role in the economy?

The private sector has shown unique progress. They have on their own expanded investments in tourism, hotel industry and construction. Some have asked for land for agriculture, livestock and similar investments. Then the apparel industry has come up with their industrial revival programme. SME sector is looking at restructuring their activities in the context of emerging opportunities in the post conflict environment.

Before the end of October, I can assure you that quite a large number of big transactions will take place soon. These transactions are fairly decisive ones that can alter the landscape. The preliminary stage is

always invisible, there is excitement only when decisions are made and activities take place.

Then foreign investment inquiries are huge. We are looking at some of these proposals; Minister Basil Rajapaksa met with several clusters – the apparel, tourism and blue chip investors in the country to explore their interest in investment. Three major tourist resort developments are opened for private investments. Proposals from the domestic investors interested in agriculture, livestock, fruits and vegetables will be invited shortly. These activities can make a big difference within a year in the field of agriculture. We have also had very constructive dialogue with the IT BPO sectors to understand their plans for investments. Their responses are very encouraging.

Can you elaborate on the progress of the private sector?

I must say the private sector is showing a big interest. Before the end of October, I can assure you that quite a large number of big transactions will take place. These transactions are fairly decisive ones that can alter the landscape.

The preliminary stage is always invisible in the sense people do not talk. There is excitement only when decisions are made and activities take place. One good example is no one spoke of the Colombo South Breakwater project at the time we negotiated the loan, with ADB and signed the loan agreement. People were saying that the Government was raising loans and debt. But today everybody talks about a six kilometre breakwater because it is visible. In fact if you go to the World Trade Centre, Bank of Ceylon or Central Bank then you can really see the progress and the changing landscape. They have now completed two and a half kilometres of the breakwater. Same is true for Hambantota Port. The whole economy has changed. We are basically finishing a brand new port infrastructure and creating new space for growth.

The private sector on its own has done well; many IPOs have taken place since November. Private Sector is going to the market and tapping resources and restructuring. Foreign investment is there…We cannot expect large-scale investment from the private sector soon after the end of the conflict. They too have to plan and they need to make their commercial decisions.

The private sector on its own has done well; many IPOs have taken place since November. Private Sector is going to the market and tapping resources and restructuring. Foreign investment is there. Many people thought that foreigners are not interested in our equity market but that is not the case. Though certain problematic investments moved out due to the global crisis, foreign investment is coming back into our equity market. Our debt instruments are becoming popular, foreign entities are investing in our securities showing that investment horizons have widened.

We cannot expect large-scale investment from the private sector soon after the end of the conflict. They too have to plan and they need to make their commercial decisions. Right now interest has been expressed by fairly credible private sector in tourism, urban development and in other areas such as in agriculture, cashew plantations, banana cultivation, livestock activities and in fruits and vegetable cultivation. The Government has made a decision that this type of investment should be made exclusively by domestic companies who can basically meet our domestic markets.

The BOI is being restructured. They have been told that they must concentrate on FDIs. It should not be an alternate place for Customs or Inland Revenue but concentrate on a few focused areas and handle investment.

Public and Private Partnership (PPP) is one way of engaging the private sector in the economy. What are your thoughts on that?

Yes, we have already engaged in such partnerships, the best example is the Colombo South Port. It is a world-class private public partnership taking part in this part of the region. Public investment is 450 million dollars of which 300 million dollars is raised from the ADB. We may need an extra amount of 75 million dollars to finish all the work. We may approach the ADB or the Government of Korea for supplementary facilities. The Ports Authority has also invested about 100 million dollars. That is how the public investment has been met. Then the private participation has been addressed by calling worldwide tenders for proposals to select a terminal operator. Now we are in the process of negotiations which will be concluded shortly. This will be an investment of about 500 million dollars.

Of course Sri Lanka is not India or China, where there are so many openings to private-public partnership. Whereever possible if the private sector comes up with a good proposal the Government is ready to look into it. If you look at India they can talk about 50 airports, but we cannot, the maximum we may have is two airports.

We do not have many commercial road projects either. Our major National Expressway is already under construction; the phase from the airport to Peliyagoda has begun. This road should be ready by end of 2011 or early 2012. Then from Wattala, Kerawalapitiya, Kadawatha, Kaduwela and Kottawa a connection is also under construction. The sections from Kottawa to Galle is nearing completion that is the Southern Expressway. For the road from Galle to Matara we have already mobilized funds. Once this expressway is completed by 2012, at least urban traffic will bypass Colombo. By then Colombo will be an expanded city. Once the Colombo South Port is completed, land reclamation will also begin. New townships will provide scope for PPP based infrastructure projects.

With more investment bound to come into the country, is the BOI ready?

The BOI is being restructured. They have been told that they must concentrate on FDIs. It should not be an alternate place for Customs or Inland Revenue but concentrate on a few focused areas and handle investment. Right now that is not the case. Investors go to the BOI simply to get tax relief. That is not investment promotion. The BOI needs to target very high profile investors and address all investor problems by interfacing with all the relevant Government agencies and stakeholders.

The BOI needs to become more efficient. Once approval is granted they should ensure that investment is realised. Right now they give approval but they do not follow up. Therefore we have told them very clearly that they should focus on all the approvals that they have given so far and see how we can realise such investments immediately. They need to identify genuine investments only.

Economic growth must be higher and associated activities must be visible to feel it. Further it must also be a wide spread growth among all sectors. It must be seen in agriculture, in industry, in services and in our day-to-day lives…You must see projects everywhere; houses being built, shops

coming up, and roads being built.

The BOI needs to be oriented to become investor responsive, one-stop centre. The Minister has given this message to the BOI and the officials need to reformulate themselves to decide how they should work and make it happen. The BOI should stop investors going from pillar to post, it is the BOI which should go to all these places to resolve investor problems and ensure that no approval is granted unless they can get off the ground. That is the role of the BOI. I am sure competent officers in the BOI will take this task forward.

What is being done to attract FDIs to the country? If we look at the investments right now, are we meeting the requirement and on the right track?

Well, in my assessment, though we encourage foreign investment, the initial jump will happen from domestic investors who already have done investment planning. In the hotel sector this has already happened. BOI as well as many of line ministries have received quite a number of investment proposals from investors. They are being evaluated and good proposals will be accepted. A Cabinet appointed official committee headed by the Secretary to the Prime Minister will provide relevant guidelines in handling such proposals.

FDIs and private investors are not looking for ad hoc tax concessions. The biggest constraint for investors is the availability of land and the associated procedure we follow to alienate land. Therefore all these procedures are being re-examined.

The tax regime in this country is very ad hoc and is not investment friendly. Banks are subjected to very heavy taxes of 65 – 70 percent. Some manufactures are subject to 40 percent tax. Then there are companies that are tax-free forever. Even after the tax holiday has expired, some companies get extensions from the BOI. The President has appointed a Taxation Commission which is expected to come up with their recommendations by end of August. Based on that together with other ideas, the Government will be proposing a new tax regime, which will be attractive to investment, conducive to generate revenue and be predictable.

What can you tell us about the status of our international reserves?

Well our international reserves have reached near six billion dollars. We have not seen any pressures on the international reserves or exchange rate for some time. Remittances are very high and exports have picked up, tourism is buoyant, exports of services have shown large increases. The IMF has released the second and third tranches of almost 450 million dollars.

Not only did the IMF endorse the Government's economic strategy but also extended the standby facility to give the relevant buffer for Sri Lanka during the post conflict recovery phase. Therefore stability is assured. The Country does not need standby assistance but a safety net in the backdrop of the global economic uncertainty which can provide a comfort margin.

Most economic indicators are very encouraging. In any IMF programme the most critical indicator is inflation. As you know for seven consecutive months inflation has dropped on a year to year basis. It is four and a half percent now. Low inflation will allow interests rates to settle to a more reasonable level in the near future.

The real economy has recovered from a low growth of two percent in the first half of the 2009 to over seven percent now. It is a remarkable recovery. The construction industry is on the rise and the tourism industry is also doing well. Foreign investments are better. Of course funds coming into the country means a pressure on the exchange rate to appreciate. Government does not want that to happen very rapidly because of exports. In fact if the Central Bank does not intervene the dollar may drop further. If you go to any emerging economy like China, India or Vietnam the exchange rates are appreciating. So our economy needs to look for a strong productivity drive in all spheres of activities.

The Sri Lankan economy achieved a growth rate of 7.1 percent during the first quarter of this year. However the people of this country are yet to feel that growth. For a country to feel its growth, the rate should be more than ten percent. Would you agree to that? If so how will Sri Lanka achieve such a growth rate?

Yes. Economic growth must be higher and associated activities must be visible to feel it. Further it must also be a wide spread growth among all sectors. It must be seen in agriculture, in industry, in services and in our day-to-day lives. When you travel you must see projects everywhere; houses are being built, shops are coming up, and roads are being built. In fact in any emerging nation, you see construction and destruction at a speed and that is what goes into the economic growth. I would say that if Sri Lanka can maintain over six percent growth, the visibility in growth would be clear. Right now certain sectors of our economy are growing well over ten percent. Certain areas must be growing even at 12 percent but that is not enough as certain areas are lagging behind. That is why I say it should be wide spread. Consider, India and China. Globally everybody is talking about it. I think Sri Lanka is there now. Sri Lanka in fact had a four and a half percent growth for two decades. During the last five years Sri Lanka maintained a six percent growth. Sri Lankans did not feel this six percent growth probably for several reasons. One is the conflict, when people were not worried about growth, but more about their survival. That is one.

Second, prices were rising. Growth was taking place, but world oil prices went up. We as officials were struggling to handle this problem. The Treasury experienced the need for large price increases. When the Treasury made such recommendations others were showing the hardship people will have to go through. Then the President asked for other options available. There were no easy options. Despite the concerns and fears of politics of many, the President decided to increase fuel price by 30 rupees per litre, which was a very bold decision. As you know the flour subsidy played politics in this country from the time of Independence until 2005, but the President thought otherwise. Norochcholai and Upper Kothmale power projects were stalled because of politics. The President decided to go ahead. Therefore, these were bold decisions involved in this growth process. Such decisions cannot be made unless you have a vision and at the same time the skill to manage the processes. His Excellency the President provided that to us. That is leadership. Thus if such decisions are taken, growth happens. Naturally people did not feel growth when cost of living was high but they had expectations that Sri Lanka will make a turn for the better.

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The third aspect is the collapse of the global economy. Our exporters and everyone had to suffer. Fourthly, the country did not have any infrastructure. Till 2005, power cuts were announced everyday, roads and ports were not there to meet our rising demand. Investors were not sure whether to invest or not. So growth was not part of our life before 2005. Of course one must not forget that there has been an adverse publicity campaign against Sri Lanka too.

Now that the conflict is over inflation is no longer a topic of conversation, even politically prices are tolerable. Although the cost of living is high, it is not rising at a rate that people get annoyed. Therefore, if Sri Lanka generates a growth of six percent plus in the present context I am sure people will begin to talk about it more positively.

On top of that there is political stability which was missing for some time. Earlier we were not sure whether the Government could even get the budget through in Parliament, because the Government did not have the majority. That is how in the last several years, this country was managed. We had a ‘wait and see’ approach for each legislation, each amendment and each budget. Now there is confidence – a confidence in our mind as officials, and confidence in the private sector, as investors, there is a Government with a two third majority and a President with a six-year term and confidence is in place. Those are the factors required for growth. It is not that high investment generates high growth but there is much more to it. In that sense, many variables such as political and macro economic stability, then infrastructure falling in line, secured environment are all essential requirements for growth which are all in place. Not only will growth be in the eight to ten percent range, it will be visible, and it will be something that each one of us will feel in one way or another.

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And, finally in your assessment how long will it be before Sri Lanka becomes the Wonder of Asia?

Well, this is a quite exhaustive interview. It is almost four hours. Just let me conclude and give you a very brief response. By 2013/14, Sri Lanka will have its first Expressway connecting two Airports. One at Katunayake and the other at Mattala (South). By that time, two large international Ports – one at Colombo and the other at Hambantota will be operational. A9 Highway and KKS and Kataragama railway connections will be completed and at least four new resorts will add a new dimension to tourism. The Remittance Economy driven by Sri Lankan skills and professionals will reach eight billion dollars. Stronger rural economy, food security and clean energy economy will surface by 2013/14. All these will begin to show emergence of a new economy in Asia – that will be Sri Lanka. So let’s work harder. It is not that far.







