Sri Lanka Economic Summit 2007: Â€˜Spreading The Wings Of Developmentâ€™

The Sri Lanka Economic Summit 2007 that concluded recently was organized in partnership with the Board of Investment and the Ceylon Chamber of Commerce (CCC) under the guidance of the CCC Convention Committee, Co-Chairman, Prof. Lakshman Watawala. This years summit allowed key policy makers of the country to join top business leaders to interact on the basis of a structured program, in presenting Sri Lanka as a destination for foreign investment and provide a wonderful networking experience where participants were challenged to look at current and future issues affecting their respective industry as well as global business.

Day-1: Inauguration

Guest of Honour: Sarath Amunugama, Minister of Enterprise Development and Investment Promotion
As His Excellency the President Mahinda Rajapaksa noted in the speech that was delivered by the Secretary to the President, Lalith Weeratunga, in spite of various challenges, the economy has registered strong growth. Our goals now are two fold. Firstly, we need to achieve a macro economic grow rate of around 9%. Secondly, we

need to ensure that the rapid economic growth rate we now see in the Western province is spread to the outlying regions as well. Currently, the GDP of the Western province is growing at 11 to 12 % annually, on a par with the fastest growth rates in India or China. As a result of the decline of the unemployment rate in the Western province, some industries are already facing labour shortages. One of the demands of the industrial sector to the BOI is to ensure that is has access to proper manpower. You may be surprised to find that there are labourers from China in some of the construction sites in the Western province.

“Most of the developed economies are strongest in the services sector. The question is how do we go on from here. There are very positive factors. The world economy is on a growth spurt. It is the Chinese and the Indian economies that have powered global growth during the last five years and projected to do so in the next decade.

“Sri Lanka needs to benefit from the growth of these economies. For example, the current edition of Newsweek magazine makes an interesting observation. The Indian middle class, which is currently 50 mn will expand to 500 mn by 2012. India, in fact, is slated to overtake China as the fastest growing economy in the world. Now add to this, the expansion of the middle class in Pakistan, Bangladesh and China, and you can fathom the opportunities in the Asian region. Sri Lanka is perfectly positioned to benefit from this growth.

“Sri Lanka and India are the best of friends. We have always had a warm and cordial relationship. Both history and geography demand that we remain the best of friends. And I can recall the words of our first Executive President who said that we in Sri Lanka are lovers of India and followers of its greatest son, Lord Buddha. As India leads the growth charge, we will do our best to complement that growth. We are fortunate to have a free trade agreement not only with India but also with Pakistan.

“We are now in the process of negotiating a free trade arrangement in the South Asian region. So the advantages are tremendous. Our hub status will be a crucial factor in the next ten years. We may be an island of only 20 mn people, but we are just 20 miles from the fastest growing market in the world. A market which will expand exponentially in the next ten years. If this is not a glorious opportunity, I don’t know what is. Already, cutting edge businessmen are leveraging Sri Lanka’s hub status. We have had a large number of inquiries on manufacturing and exporting out of Sri Lanka.

“Sri Lanka is not just about free trade agreements. We have been internationally recognised for our high labour standards. Sri Lanka is the only country in the region to be granted the GSP Plus status by the European Union. The EU concessions were granted not on political grounds but because of our ethical labour practices. Wherever in the world you go, you can be confident and proud that Sri Lankan business people are model employers. Also, Sri Lankan workers are model employees. Today if you look at an analysis of labour, Sri Lanka will be commended for its best practices by both the government and the industry.

“For over 60 years, Sri Lanka has invested a large part of its budget on social services such as education and healthcare. This is why we have done very well on the UN’s Millennium Development Goals. In fact, in some areas we are even ahead of many Western countries in the achievement of Millennium Development Goals. Nobel Prize winning Indian economist Amartya Sen has hailed Sri Lanka’s investment in education and healthcare as the greatest investment in the Asian region in the last 50-60 years. In India, the state of Kerala too has made similar social investments. We are also proud of our programmes to benefits for the poor.

“Today, western countries are tying to export the Millennium Development Goals to the Third World. The World Bank and the IMF should note that since independence, we have been pioneers in achieving these goals. This is the background from which employers and employees should propel the country’s development. Lalith Weeratunga and I have led initiatives to introduce new technology, science and modern languages to our educational system. All these huge investments have been our social welfare sector which has led to many advantages. We also have disadvantages, however. This is why we are currently increasing the investments in physical infrastructure such as roads, ports, airports, the railways, power and water. The Western province has shown how rapidly Sri Lanka can grow when there is strong infrastructure. This is why we are investing significantly in developing the infrastructure in the regions so they too can attract quality investments.

“For Over 60 Years, Sri Lanka Has Invested A Large Part Of Its Budget On Social

Services Such As Education And Healthcare.

“We are aware that foreign governments and businessmen are concerned about the security situation in the country. That is something we cannot sweep under the carpet. Let me address the issues. The first point I want to make is that Sri Lanka is the only country is the world where every citizen, even those in areas which are not under the control of the government, are given free food rations, free education and free health. We have a Government Agent who came in his bicycle to the frontier to attend review meetings. We are the only country in the world in a combat situation, where every single citizen irrespective of race, community or creed is granted key benefits.

“And they must all be proud to be citizens of Sri Lanka, whichever side of the curtain they may be located. The Government makes every effort to ensure that the food is delivered on time, coming teachers are present and punctual, that textbooks are available for studies. I don’t think there is a single country facing a terrorism menace that ensures the important needs of all citizens are met. I want to tell you that even the Kilinochchi Hospital was built with government funds. So don’t give the impression to the global community that this is some bitter and racist country. Nothing would be further from the truth.

“There are also misconceptions about our constitution. Under the 13th amendment, we have granted the same powers of devolution to regions as India has under its constitution. Having played a significant role in drafting the 13th amendment, I can assure you that ours is a carbon copy of Indian model. Unfortunately, either these facts are not known to the diplomatic community in Sri Lanka or they make no effort to communicate the facts. Now we are in the process of examining whether additional powers can be devolved as the Government is committed to resolving the ethnic problem peacefully.

“As His Excellency noted in his message, the Government of Sri Lanka is fully committed to a negotiated settlement. Whatever the newspapers may say, whatever individuals may say, there is no other way. That is the view of the government. So you should not have any fears, that war will ever be a substitute for peace. These are the realities and please make sure you communicate them to your stakeholders. And we need to use investments as an enabler to address economic disparities which have often been the root cause for the feeling of marginalisation in the country.

“I am glad that meetings such as this give you an opportunity to not only make a contribution to framing the country’s development policies but also to observe firsthand the situation in the island. Now the organisers of this meeting who have done such a wonderful job should ensure that this becomes an annual event. Other countries have flower shows and this can be our power show. So please make this an annual event and let me offer my special thanks to the attendees from overseas. If you have any questions, please feel free to ask me. This is a free country. We do not impose our views on others; we only want you to make up your own mind. Let us make a commitment to work together to benefit all Sri Lankans and may this summit be an annual event that serves our development goals,” Minister Amunugama concluded.

Branding Sri Lanka for the Global Market
Arun Nanda, Chairman/Managing Director, Rediffusion DY & R
Why do we need a nation brand? After all we are in the era of globalization. An era of standardization. Of a flatter world. Where consumer expectations, manufacturing processes and work philosophies are all becoming country agnostic. Haven’t brands today diminished their story of origin and acquired strong values that transcend countries and cultures? So why bother about branding Sri Lanka? Why not instead focus our efforts on infrastructure, stability and setting an economic climate.

There’s a simple reason for this. Swiss precision still sells watches. Italian style still sells leather. Japanese reliability still sells cars. Nations may merge in terms of economic processes but cultures remain as strong as ever. And a national identity is more strongly rooted in its culture than in anything else. A strong brand Sri Lanka will not just provide the obvious benefits of investment and tourism but will also act as a powerful endorser for your exports. It will positively affect the respect you command in international forums. It can even catalyze renewed positive patriotism in the people. The need for brand Sri Lanka is thus apparent.

While the regular stuff like tourism campaigns and airline campaigns do play an important role in branding a country, a truly powerful nation brand would be a lot more holistic in nature. It would emanate from a cultural truth. And incidentally the cultural truth is not derived from the geography of the country.

We all know we have great beaches. But white sand is not exclusive to Sri Lanka.

Cultural truth is found in the people of a country. Because the people of every nation have a nuance; a texture that is absolutely unique to them. So when a national brand is founded on a real insight into the zeitgeist of a country, it tends to be powerful, consistent and enduring.

Mercedes and BMW did not derive from and build the German engineering brand out of thin air. For centuries, the Germans built a culture of skill and craftsmanship due to the dominance of craft guilds.

The Italian penchant for style and indulgence comes from a deeply rooted cultural celebration of “la dolce vita” – the good life.

Japanese reliability has been built on a culture of a frighteningly dedicated work ethic.

So when we set out to build brand Sri Lanka, our core values need to be based on essential, immutable truths about our people and our culture. These core values can then be translated into the six components of the national brand. They would also help specific brands from Sri Lanka take world stage. After all, in a sense, when people buy Apple, they are buying into the core American values of freedom and innovation.

So what could the core values of Sri Lanka be? What defines the people of this country? For me, they are a unique combination of what I call beach culture and mountain culture.

I define beach culture as easy talent. Blessed with nature’s gifts. Always cheerful. And tremendously gifted and talented. With a simple, optimistic view of life.

“The Italian Penchant For Style And Indulgence Comes From A Deeply Rooted Cultural Celebration Of “La Dolce Vita” – The Good Life.”

While I define mountain culture as dour hard work where purpose conquers nature. Where teamwork is essential to survival and success. Where painstaking effort is the table-stake. And the outlook on life is fundamentally pragmatic.

Sri Lanka, as defined by its people and culture could be a great combination of talents and gifts on one hand and hard work and meticulousness on the other. Let’s call this “gifted commitment” for now. I believe that this could be the core of Sri Lanka.

I can then see “gifted commitment” being translated into all the aspects of the national brand. Tea is a key export of your country. Can it be positioned as a combination of natural subtlety as well as rigor in selection? Can jewellry be about talented craftsmanship as well as meticulous precision? The same applies for the other aspects – governance, culture whatever. Your tourism could be based on exactly this core. The easy, languid, cheerful, simple beauty of your beaches combined with a vibrant, efficient, value-based shopping experience. And the same goes for the work force – gifted yet committed.

You may disagree with the core that I have defined. But the point I am trying to make is that it is necessary to agree on one core. Some core. Which is based on truths about your people and culture. And to be true to this core in all your expressions. Because that is how brands are built. Be they soft drinks or nations.

It is absolutely essential that the expectation we create out of brand Sri Lanka is met and exceeded by the experience of visiting Sri Lanka. (In fact that is the key reason, that it is imperative that your core is based on a cultural truth). So all external facing initiatives must be matched by internal motivation. One of the ways of doing this is to create a national icon. That brands the country. And is true to the core.

I would define the core of USA as “freedom of thought” (statue of liberty). The core of Dubai as “world-class achievement” (Burj al-arab). Singapore as “exotically international” (whatever the lion fountain is called). England as “heritage” (big ben). China as “scale” (great wall). And so on.

These icons play a great role. In defining a country. In symbolizing the core and values of the country. As well as acting as a unifier and focus for the people of the country. Perhaps it is time Sri Lanka builds one.

What about the current negative perceptions of the country. However much, we talk about gifts and commitment and beaches and shopping, world media will still continue to highlight the safety issues. And that is not merely a perception issue. The scale of the concern might be a misperception but there is truth in the safety concerns. There are ways to overcome or work through negative perceptions (or the negative realities).

One way is to restrict the market for selling brand Sri Lanka. Do not target the world. Perhaps start with South Asia. Countries which have safety issues of their own and are thus more balanced in their perspective of violence. Who understand that violence can be localized. We could start the brand creation in these countries and then slowly spread out.

A second way is to counter-reference the issue. Ireland, for instance, was plagued by the negative perceptions created by the IRA. The reality however was that the bulk of the trouble was in and around Belfast. The Ireland government made a massive investment and created huge incentives thereby creating a silicon valley in other parts of the country. In an attempt to counter-reference their negative brand image.

A third approach could be experiential. Host a major sports event that brings in a natural influx of tourists and journalists. Let their experience be your media. So that the international coverage and their word-of-mouth would help combat the negative brand values.

Any of these approaches could work. They could all be tried in parallel. The point I am trying to make is that the current negative perceptions cannot be wished away. They have to be tackled, negated, counter-pointed, counter-referenced or counter-weighed. Else they will become a mill-stone in our brand building efforts.

Day-2
Session 1: "Achieving Double Digit Growth"

How Great Companies Achieve It
Alan Rosling, Executive Director, TATA Sons
I've been given the impossible task of saying in 20 minutes how great companies achieve double digit growth.

If I knew the answer to that I wouldn't be here, I'd be out there making lots of money for myself so take the remarks as tentative suggestions and no more than that. If you look at the Fortune 100 list which lists the largest companies and some of them may be excellent, 50 years ago of the Top 100 companies, 83 of them are no longer in the Top 100 today. So a fallout of 83% has been seen over 50 years. Of course some companies are still there. GE, Exxon, CitiBank, but 83% of the world's companies in 1955 are no longer in that list. So a degree of humility is required when you talk about what an excellent company is and how they achieve it.

What are the excellent companies? Again one list comes from Fortune, which is their most admired companies list. As an Indian resident and supporter I would suggest that it is a bit US centric. There are a few other international companies such as Toyota and BMW but it tends to be US centred. But I think most of us would agree that companies such as GE, Proctor and Gamble, J&J and Microsoft would be on anyone's list of excellent companies. This list is produced by Fortune based on perception. They go out and ask people what they think. Its not simply financial results!

But financial results matter in excellence. They relate to performance and if you look at the list that Fortune produced you will see that over the long-term, the great companies have performed well.

There are in these companies some sustained performance ability, which is better than the average in the industry and better than the economies in which these companies reside. We at TATA use a business model that was inspired by a model from the US. We applied this to our companies and called it the TATA Business Quality Model.

Business results of course matter. We are in business to make money. We measure ourselves by financial returns, sales, profits and capital. In TATA we do this not to make money but to give the return to our shareholders, to use that money for development work in the community. But before the trust gets that money we need to make it. So business results matter and you get business results through very rigorous processing.

So the starting point of all this is 3 things:

1. Leadership. Articulation by the people at the top of where you want to go. You remember Alice asked where she should go and the mad hatter said where you want to go depends on where you want to get to. Leadership matters as does defining what your objective is.

2. Strategy. This should be not just on a piece of paper but inside the hearts and minds of the people.

3. Focus on the market and customer. Serving and providing them with surprising offers and quality at a price which surprises them.

Put all that together and you'll end up with superior business results.

Talking about our own experiences in the TATA group, I personally do not think we can claim to be an 'across the board in excellence' company or group. But our performance has been quite good. Over the last 15 years since we began liberalisation policies, our top line compound growth rate has been 15% and the bottom line 20%.

But probably more important for us is that the pace of our change is increasing. During the 90’s our growth rate was about 13% compound and over the last year it has been 26% compound. This year it should be even greater because of a small acquisition in the UK in the beginning of April.

Long term excellent companies need to innovate. And I would suggest that the TATA Group is just beginning to show signs of innovation. We have a new range of budget hotels in India in which you can stay for US$20 but with TV and broadband internet access. Looking at three companies in the Group:

TATA Consultancy Services (TCS) invented the software business in India in 1969. Today it’s the 11th largest IT business in the world in terms of revenue, but more in terms of profit and employment of people. 89,000 people in TCS and 3000 people join us net every month. We created what’s called the India offshore model but now we’re moving away from it. So one of the key things I want to leave with you is that excellent companies not only have to be innovative and clear on strategy and keep changing. We’re no longer a company that writes software in India to sell to the US. We’re far more complicated than that. We have 5000 TCS’ in Latin America but only ten in India.

During The 90’S Our Growth Rate Was About 13% Compound And Over The Last Year It Has Been 26% Compound.

TATA Steel was always a fine company and for almost 100 years TATA Steel was one company, in one state, in one country. In five years they moved from that to the fifth largest steel company in the world. In the 90’s they received the accolade becoming the lowest cost steel company in the world. So this is a journey of enormous speed and excitement.

While TATA Motors has grown exponentially, the number of people employed have gone down. At the same time we have two new motor plants coming up in India. In 2008 TATA Motors will launch a passenger car priced at Indian Rs100,000. That’s about US$2300.

One of the things any diversified group needs to do is continually change its portfolio. In the 10 years that I've lived and worked in India our portfolio has been refreshed. We've entered and reclaimed passenger cars, telecom, direct-to-home television, contract research and insurance.

Looking forward there are two things we think we need to do. One is internationalisation. This year we will have more than 50% of our revenue from outside India. That's a huge transformation from five years ago where we had only 20% from outside India.

The second is to invest domestically in high growth sectors, particularly for the emerging lower-middle class where the real consumption in India is. But we can keep to that only if we innovate and invest in technology and that's probably our most difficult challenge.

So great companies are the ones that continue to reinvent themselves. Because if they don't they'll be among the 83% of companies that are no longer great.

Macro Economic Development Framework for the Next Ten Years

Dr P B Jayasundara, Secretary to the Treasury Ministry of Finance & Development

The macroeconomic development framework, also called a Ten-Year Horizon, is not a known public document. We have placed it before Parliament, presented it to our development partners as well as shared ideas with all stakeholders in the country. This development framework has been formulated after taking stock of what has happened in this country over the past 30 years. We have taken a close view of what has happened in regards to where we are, particularly in the concept of global shock. We have had many shocks in our country, with the cost of terrorism, the absence of infrastructure, skills and development, problems of lagging regions, problems of multi-community culture, lack of ownership and the consensus on key policies despite the 30 years of long experience in deregulation and the very limited fiscal space for the Government itself to take the lead. Emerging debt management challenges are among the key harsh realities that we face.

The Ten Year Horizon has been formulated having recognized these critical components and we are in the medium term. We’re not talking of a 10-12% growth regime and are also not talking of a growth regime below 6%. We are talking of a realistic 7-8% growth over the medium term, leading to an economy of a more sustainable high regime, along with bringing the investment to over 30% of GDP. We plan to do this by raising public investment from 5-7% over the medium term to promote private investment as well public-private partnerships, which are a key component in the development plan, as well as foreign direct investment. We plan to cross a billion dollar investment benchmark over a period of time. We are looking at the Government itself to create an additional 2-3% of public investment, with prudent debt management and a Government revenue strategy that will allow us to facilitate public investment.

The financial sector is equally important, having achieved many successful records. The regulatory framework in the banking, financial, insurance and other sectors are being strengthened. A new focus has been taken to encourage banking and financial institutions to increase their portfolios to medium and long term lending and for their regulatory responsibilities to be further strengthened, to foster competition and encourage them to divert more funds to develop production sectors and the rural sector. A much more liberal trade regime in the country has been consolidated, with the objective being to move towards well-diversified products as well as markets for an improved economy. Competitive domestic production and mutually beneficial bilateral trade and investment treaties also factor in.

In that context, regional integration through key trade agreements such as the Indo-Sri Lanka, Sri Lanka-Pakistan, South Asian free trade agreements as well as European markets with GSP+ for trade and investment expansions have been given new commission.

We have a critical component for tier and employment sectors. We no longer consider this country as one that can be promoted on exploiting a low wage category of labour growth. This country will have to position itself as a knowledge economy; with employment and skills development being given new emphasis to promote vocational and training institutes, in order to implement accelerated skill development programmes, enabling us to be more productive in wealth creation. Creating dialogue with the trade unions, employers and the public sectors to improve labour relations is also a focus for us.

Infrastructure, which has been neglected for 30 years, is the defined focus of the ten-year horizon. The infrastructure input is a key component – with the Colombo-Katunayake Expressway, which will commence by September 2007, after the signing of the agreement at the end of six months, Outer Circular Expressway, which we will finalize this year and begin work by December, Four-lane Southern Expressway, which we have accelerated and sought assistance to convert into four lanes instead of two lanes, the Northern Expressway to which we have requested assistance from the World Bank to promote peace and development being of importance. The Asian Development Bank (ADB) and World Bank funded Inland road network projects, with US$ 450 million already tied up. Work on the 900MW Norochcholai Coal Power Plant and the Kerawalapitiya Power Projects have also commenced.

We are conducting a public-public partnership, between the Government of India and Sri Lanka for the Trincomalee Coal Power Plant. We have started to promote the Weerawila international airport, as well as the commencement of work on the Hambantota port. Work on the Colombo South port, probably the country's largest public-private partnership, has also commenced, along with the Galle port, which will start this year. The Trincomalee Investment and Tourist Zone is something that we plan to promote this year. The Kalpitiya Tourist Zone has been identified for large private investment. The development of highways and townships on the tsunami affected coastal belt is now in progress. The Moragahakanda development project, the major irrigation scheme and water supply project are critical large investment projects, which will change the landmark in the country in the next three to four years.

We have grown fairly decently in 2006, in the range of 7.4-7.7%. We are planning to raise this to 9.1% by 2012 and to 10.6% by 2016 and place the country on a more sustainable growth, which is probably the focus of this seminar, to place the country on double-digit growth. We expect that growth to come from three to four key sectors, creating heavy linkages between the agriculture, the industry and service sectors. We have not forgotten about bringing the fiscal situation under control. We have a policy framework to bring the budget deficit below 5% and public debts below 80%. We have recognized important elements in terms of debt reduction, with the key components being high growth, low budget deficit through high revenue growth, debt management, exports of goods and services and the promotion of inward remittances. “What matters is right planning, as we don’t want to articulate policies in an unrealistic academic context. Policies must take into account harsh realities.”

Our performance thus far is an eye opener for all of us. Among the challenges we confronted are the high oil prices. In 2006, we paid on average US$ 58 a barrel, which cost us over US$ 2 billion for importation of oil to meet the country’s requirement. That was a critical challenge that this nation managed during 2006. We have had a high number of terrorist incidents in this country, with there being an escalation of terror in the past 18 months. We have had natural disasters such as floods and earth slips, which are also costly to the economy. We have also got our industries to transit to a post Multi Fibre Agreement era, having to adjust to new environments. As a result of this, we are seeing a widening trade deficit and have seen pressure on foreign assets and exchange rates. We have also seen our private sector, as well as the Government sector expanded their reliance on bank credit for financing activities, such as construction and development activities, on a three year sustained path both the Government and the private sector have expanded their credit by borrowing from the banking sector.

We responded to this by taking on a major challenge with the petroleum subsidy. The Government had the courage to phase it out. We spent Rs 26 million in 2005 to subsidize petroleum products in this country. We eliminated that subsidy in June 2006, and confined the subsidy for half a year. That was a positive impact on the country. In addition to the petroleum subsidy removal, the large credit expansion, and several challenges the country has faced in 2006, we have also faced high inflation, which was approximately 20% by December of last year.

The Government again gave priority to managing inflation. The Central Bank of Sri Lanka increased interest rates by 2-3 percentage points through revision in policy rate as well as open market operations. The Government removed the petroleum subsidy and limited the fertilizer subsidy to smallholder agriculture to keep the budget within manageable limits. The cost of living adjustment was subject to a tax so the expenses were not beyond a certain limit, expenditure control and intensified revenue collection and tax adjustment on essential goods and petroleum products were also in place. An improved public security system to minimize debt relief from 30% to 10% was also a focus.

The economy sustained its growth in GDP where we exceeded 7% growth in 2006. The pattern was after the tsunami setback, with the economy on a high and sustained growth in 2004, 2005 and 2006. This is comparable to what India and China are focusing on, with 8-9% and 10% respectively, if you make provisions for perfect population growth in those countries, whereas Sri Lanka has a much more decent level of population growth.

The external debt in relation to GDP has continued to decline and we have made good progress there. The public as well as private investment has continued to move up, exceeding 28% of GDP and hopefully we will reach 30% of GDP by this year. For the first time, Foreign Direct Investment (FDI) has doubled from the levels we have seen for 20 years, at around US$400mn. That was achieved through privatization, whereas here, we achieved growth without it, from direct foreign investment coming in through more rigorous activities in the country.

When we look at exports, Sri Lanka maintained in US$ terms, sustained growth in exports, with it reaching almost US$ 7000 million which is a favourable improvement compared to 2004 and 2005. The most important among all of these achievements is the reversal in the deteriorating trend in public finance. During our Chairman’s term as the Finance Minister, the focus was on good tariffs and a downward trend in Government revenue. In 2004, we arrested the declining trend, along with 2005 and 2006; we have reached over 17% GDP revenue and are targeting 20% revenue over the next two to three years. These have been achieved by institutional capacity building, skill enhancement and training, improved tax administration and strong policy environment, which has helped to consolidate government revenue.

The trend in country’s unemployment is consistent with what is happening in exports and national income. Unemployment has fallen below 6%. The market on a daily basis makes different signals, but as a whole, during the last three years, capital market and the market capitalization itself improved remarkably. The Colombo Stock Exchange now transacts and has companies with market capitalization at over 30% of GDP.

Lets look at other important factors that showcase the resilience of the economy such as the balance of payment in the foreign exchange earning structure. Our biggest foreign exchange earner is apparel with US$ 3 billion, remittances last year reached US$ 2.3 billion, which gave us protection for oil shocks. In fact, this year, we are targeting US$ 3 billion and we are optimistic that we will exceed US$ 2.7 billion without any effort, with the Central Bank pursuing that strategy to reach US$ 3 billion remittance.

We have other industries that are raking in US$ 2.3 billion in industrial export earnings. Our service economy is growing with US$ 1 billion services provided, tea industry should not take pride because it is still low with US$ 881 million. It should be US$ 1 million export industry but it is still under that. Other agricultural products generate US$ 412 million with tourism still a US$ 400 million business. The country has much more diversified foreign exchange earning structure. If we look at the foreign exchange payment, the biggest foreign exchange tender in this country is for intermediate goods, which is a good thing. The country is bringing in various intermediate goods, which excludes wheat grain, fertilizer, and petroleum – the commodities that are required for the country’s production activities to move up to US$ 2.4 billion. We are importing petroleum products at this level, until the Norochcholai Coal Power Plant is completed. Textile and clothing is basically in the domestic apparel industry, with the backward linkages now taking place at a big scale, these will get linked with local activities as well. Other investment goods, Machinery and equipment reflect our diversity.

In the final analysis, what matters is how we manage money. We should not go beyond what the national economy can sustain. With a 7-8% growth and a durable level of inflation, money supply should not go beyond 16%. We have managed to move in that direction over the last three years.

The per capita income witnessed accelerated growth. Ultimately, all these goods and services are produced to improve and develop the income of the people. We are proud that Sri Lanka is now reaching US$ 1500 per capita income. In the last three years, we have managed to sustain per capita income growth. There is an ongoing improved labour relation, with the number of strikes being less than half within the last two to three year period because of the consultation process and worker relationship that has been built.

New challenges and opportunities are equally important. What matters is right planning, as we don't want to articulate policies in an unrealistic academic context. Policies must take into account harsh realities. One is we have to work behind interest rate regimes, that was the trade off policy makers have to make in terms of dealing with inflation. The interest rate regime has enabled us to arrest inflation together with the various improvements that the country has seen. We have seen inflation moderation that has enabled the Government to bring the interest rate down towards the end of the year. Tourism is a challenge, operating at 20-30% capacity and we need to reposition how that industry would operate in an environment such as ours. We have oil and energy costs that are high and the conservation of alternative usages are inadequate. We should not plan our development strategy based on oil prices coming down to US$ 50-60 a barrel. We need a strategy for conservation and alternative usage of oil as there is a high cost for oil imports in excess of US$ 2 billion imports in foreign exchange.

Having looked at the harsh realities, the trend and the economic results of the first five months, we are optimistic that this country can achieve a sustainable growth path.

Role of the Private Sector
Mahen Dayananda, Chairman, Ceylon Chamber of Commerce
GDP growth commencing from 5.4 % in 2004 has moved on strongly to 6.0% in 2005 and last year we achieved a remarkable 7.4%. I use the word remarkable considerable we have had security issues, we have had an oil shock and had to deal with various natural disasters.

So in that background, 7.4% is indeed commendable. Our GDP was over Rs 2,800 bn by the end of last year. Of this, the agriculture sector contributed around 17%, industry 27% and the services sector approximately 56%. Here again I would like to highlight the importance of the growing services sector.

We are moving gradually but seriously into a service economy. This is not to take away from our traditional agriculture and our industrial sector, but it is a fact of life that we are moving into a service sector. Our GDP growth was around 5.5 – 10 % until recently and as I have already mentioned. Last year we achieved 7.4%. Interestingly, the government development plan hopes to increase the growth rate gradually to a double digit level by 2016. I will also attempt to address the Public-Private Partnerships that are required in achieving this objective.

According to estimates made by the Central Bank, per capita GDP of the Western province is almost double than that of the national average. In 2005, the Western province per capita income was US$ 2,142 against the overall average of a mere US$ 1,197. Looking at the per capita income of most of the other provinces it is not a pretty picture. It ranges between US$ 634 and US$ 940. This needs to be addressed.

A further objective of the government's development plan is to reduce the inequities particularly at provincial level.

If we look at the projected GDP growth covering the period 2007 to 2016, we see how the government's 10 year development framework projects to take the growth rate to a level of double digits in the next decade. It is expected to rise to 8% in 2008 and we expect to move on to 8.7% in 2011 and then into double digits in year 2016. We are looking at 10.6%. The growth in the agriculture sector is projected to move up to 5% in 5 years from an average of just over 2% in the past 5 years.

Looking at private and public investment, both actual and projected, covering the period 1990 to 2016, the government estimates that investment should gradually rise by 36.5% of GDP by 2016 from the figure of 26.5% as applicable to 2005. Towards this end, the public sector investment will be increased from the current level of 6.5% to over 8%.

The export figures as you can see from Thailand and Malaysia show the reason behind the high growth rate achieved by these NIP's. Against this background, Sri Lanka needs to target a much higher export growth rate if we are to achieve double digit growth and sustain it.

We must also realize that we cannot compete with China and India for mass market products simply because we do not have a large domestic market. We are talking of a population of 20 million people. Therefore we need to focus on quality and value added products targeted at small niche markets. Niche marketing is what we need to do.

Clearly we need to increase exports. Most exports are still traded on the basis of bulk with low value addition. Tourism is another example. We need to move very quickly into niche tourism.

I have done a simple task which shows the average return of four different categories of hotels. We have the five star beach hotel, with a yield of US$ 1800 per day. Moving into adventure tourism which is a recent phenomenon, immediately the yield increases to US$120 – 150 per day. Then we have another niche, wellness and spa tourism, with returns of US$ 150 to 200 per day and finally in the category of boutique hotels we are looking at US$ 400 to 500 a day. This is where we need to be and not in the old-fashioned sun and sand tourism that many of us are used to.

Also we need to increment. Incrementation is the key.
• We need to increase investment.
• Improve productivity through the medium of exposed, diversification, greater value addition, and improved resource efficient.
• The businesses in the Western province should establish linkages with those of other provinces in sourcing raw materials and semi finished products.

This is key. This is what the summit is all about, ‘Spreading the Wings of Development.’
• If we look at the support that we as a private sector require from government we see that:
• We need a clear strategy for the revolution of the ethnic conflict.
• We then move on to infrastructure development. This is the key to move into double-digit growth.
• Followed on by Human Resource Development. This has played an increasingly important role in the context of modern business. It was neglected ten years ago

but is increasingly assuming critical importance. Of course we need an efficient and pro-business public sector and good governance.

• We also need to improve technology and research and development is a very important component in achieving our target. This is something we need to build on. We have merely skimmed the surface in Sri Lanka but we need to address issues of technology and R&D in a very corporate manner.

In conclusion I wish to assure each and every one of you that the private sector will work very closely, in partnership, with the government to achieve the targets that have been set very clearly in the ten year plan. We have been given the opportunity of working in close consultation with the medium of the national council for economic development chaired by Dr PB Jayasundara with a number of sectors and we will continue in our efforts to forge a true partnership.

Asian Experience

Dr Richard Vokes, Country Director, Asian Developmentâ€¯Bank

Sri Lanka is not alone in striving for double-digit growth. In this region India has also been pushing for double-digit growth and there are many countries that would like to achieve this.

“Good Macro Economic Policies Are More Than Just About Ensuring Stability And Avoiding Crises, However Those Are Indeed Critical.”

What is so special about double-digit growth?

For most countries given the current population growth rates and this includes Sri Lanka, 10% real growth would enable countries to more than double their per capita GDP in less than a decade.

It is also a figure that indicates probably a sustainable maximum for emerging countries.

Sadly if we look at the evidence from Asia, it is not easy to achieve double-digit growth. But what is growth for and why is it important?

It is important in the fight against poverty. It helps directly to reduce poverty and generate additional wealth and resources with which to fight poverty. In this fight against poverty the quality of growth is as important as the rate of growth.

If we look at Asia's experience, Asia is in the midst of a social and economic transformation unrivalled in history. In terms of double-digit growth, what we then called the newly industrialized economies achieved close to this in the 1970's but only China had sustained growth rates of over 10% or more over an extended period.

The 'Washington Consensus', is growth really that simple?
The answer is 'no.' We have seen somewhat mixed results from structural reforms in different parts of the world although the majority has been from Latin America when compared to Asia.

Work is showing that there are other factors, institutional elements, government elements and the importance of human development.

The outward vs. inward looking development strategy
There is a debate on the fact that the fast growing economies have all followed a more outward oriented development strategy. Their economies have been open to trade and investment and increasingly they continue to creatively look to the world market.

This is certainly something we now see happening in South Asia, which had previously lagged in that respect.

In the 1980s there were concerns that the scope for other countries to follow in the footsteps of the new industrializing economies of East Asia would be limited.

This has not been the case. Indeed globalization has provided a huge new stimulus to world trade and investment including most recently in the service sector.

FDI has played a key role in this whole process of growth and globalization. Many studies have shown that global investment is important not just for the flow of capital but also for technology, embodied knowledge and access to markets, for example through branding.

There are also genuine concerns about increased migration and in many ways a priority for governments is to try and provide productive jobs domestically but nonetheless overseas jobs and remittances can definitely improve household income and contribute to the flow of knowledge and ideas while also boosting foreign exchange earnings.

Sound Macro Economic policies

The economies that have sustained high growth have benefited from good macro economic policies and again one can argue these two anyway go together. When you are experiencing strong growth, it is easier to also implement sound macro economic policies and it is easier to generate increased revenue when your economy is growing.

Good macro economic policies are more than just about ensuring stability and avoiding crises, however those are indeed critical. It can help support growth and try to maximize the revenue to GDP ratio and help keep the current expenditure under control.

Investment

All of the countries have relatively high savings and investment rates with private investment being the key engine, but public investment is also critical. Investment in infrastructure is again a key part of the growth equation. Transport and power are key sectors and we have seen these areas under constraint in the Philippines, India and in Sri Lanka.

So it is important to invest in generation capacity and to keep ahead of the curve when it comes to investment. There are also new areas that are open for investment not only transport but also mobile and fibre optic connectivity etc.
“Good macro economic policies are more than just about ensuring stability and avoiding crises, however those are indeed critical.”

Public Vs. Private Provision

Although not a defining characteristic, historically there has been an increasing involvement of the private sector and a range of Public Private Partnership (PPP) arrangements in the provision of infrastructure. Especially in the sectors of power, roads and transport. Overcoming the existing infrastructure deficit in Asia as well as meeting the demands of growing economies will require a huge investment and in this regard it is important that governments encourage private sector participation to the maximum extent.

The Role of the state Relative to the Role of the market.

The experience of Asia’s fast growing economies has been seen by many as evidence of the superiority of the free market.

Certainly this rapid growth took place at a time when there was the need for a strong state to lead structural changes and overcome market failures.

If we were to look at the experience of the People’s Republic of China and Vietnam they acquired the immense potential of unleashing market forces. It was only after the reforms of 1978 in China and the mid 1980s in Vietnam that they experienced growth.

Also in more market-oriented economies such as Korea, Malaysia and Singapore, the state has and continues to play a key role.

Any intervention needs to be market friendly, have sound macro economic policies, investment in infrastructure, proper taxation and a legal framework that ensures competition.

Governments need to be aware of what they can and cannot do. Most production activities and provision of commercial services should be left to the private sector but of course properly regulated. What is required is an effective and constructive, partnership and dialogue between the public and private sector; the current emphasis on PPP is a bold step in this regard.

Governance has only come to the fore in the recent past and today we look at it in terms of predictability, transparency and accountability and again I would stress these as being all important elements in trying to ensure the better your governance, the better your legal system and the better the quality and efficiency of investment in the economy.

There is no doubt that part of Asia's high growth model has come at the cost of the environment, so nations including Sri Lanka need to learn how to bring market forces into the environment. The need to try and cost the environment appropriately is again one of the key challenges as we face rapid and sustainable growth.

DAY-2
Session 2:

"Trade and Investment -Unleashing the Potential"
Session Chairperson's Address
GL Peiris, Minister of Export Development and International Trade
I thought it would be appropriate to speak to you about the overall approach and a few of the challenges the Ministry of Export Development and International Trade faces in unleashing the full potential that is undoubtedly available in our country.

The purpose of our ministry
is twofold. First and obviously we are endeavouring to enhance the total quantum of exports out of Sri Lanka so that we shall increase our earnings. Export, without question constitutes the lifeline, the throbbing heart of the economy of Sri Lanka today and by exports I do not mean just physical commodities.

Secondly and more importantly, we are doing our best to ensure that the benefits accrued to us by enhancing the exports of Sri Lanka percolate down to the grassroots level. That there is a trickle down and that becomes the instrument for lifting economic conditions through the length and breadth of the land. Sri Lanka is today a middle income country. Our per capita income is US$1350. But we do have a problem of disparity with regard to the distribution of income within the island. And one of the ways of addressing that problem is to ensure that the benefits we derive from our exports are available and equitable to all parts of the country, particularly to those regions which are relatively underdeveloped.

With India we are negotiating what is described as an ‘economic partnership’ which in my mind is a logical extension of the FTA. What we have been able to achieve in the framework of the FTA in the state of physical goods is now sought to be extended to an equally vibrant field. Services, banking, insurance, accountancy as a profession are some examples.

A few months ago in our review of the free trade agreement with Pakistan we were able to prevail upon the government of Pakistan to revise the negative or sensitive issues. And one of the principal achievements on that occasion was the success that we achieved in persuading the government of Pakistan to remove the upper threshold of the total quantum on betel leaves that we export to Pakistan. That’s one of our major exports to Pakistan. They are at the moment negotiating the extension of the GSP+ agreement of which we have had the advantage between 2005 and 2008 and we are now negotiating the extension of this agreement from 2008 to 2011. This agreement is particularly vital in respect of the apparel sector, which is one of Sri Lanka’s major exports.

I think the key to progress is value addition. To unleash the undisputed potential of this country you need a very sharp focus on value addition. Gone are the days when we can simply export raw materials out of this country.

Value addition is also related to the vital objective of employment. As you add value you need to employ more, especially young people and that highlights the crucial importance of trade. That should be an essential component of a strategy that aims at unleashing the country’s potential with respect to exports.

The other consideration would be the backward linkages. There’s huge potential in this country for fruits, vegetables, cut flowers, aquarium fish, spices etc. There is a great necessity to ensure the producer derives the maximum benefit of his efforts.

We need to work very closely with business chambers and business leaders in this country and I think that is very important.

We have also to ensure that what is being done outside the country can be done equally well within the country. We also have to find new markets.

These are some thoughts as we respond to the daunting challenges of our time but we have to be ready to face those challenges with fortitude and courage in ourselves. Our private sector companies are robust and we need to support them. They need an enabling environment. It is not for us to lay down policies. We need to find out in a spirit of spontaneity what are the requirements and priorities of the business sector and the Government has to play an ancillary role to enable the private sector and the community at large to realise the full potential.

Why Invest In Sri Lanka?
Dhammika Perera Chairman/Director General, Board of Investment of Sri Lanka
Investment is best described as a trigger of economic development. It has a domino effect that encompasses employment, new business and transfers technology and managerial know-how.

It serves to strengthen economic growth and accelerate national development. In order to attract new and greater investment the nation has to motivate investors with an inviting environment.

Over the last three to four decades, private investment has played a significant role in enhancing economic development in both East and South East Asia. At an early stage people in these two regions recognized the importance of private investment and they designed their industrial policies to complement these priorities. As a result these two regions hold a large share of FDI.

It is interesting to note that from 1980 to 2004 out of the $2 Trillion invested in developing nations, these two regions received more than 50%. I firmly believe that now our turn has come.

Our economy is on a bull run as indicated this year. Sustained growth will no doubt allow us to achieve economic takeoff.

The positive outlook across the various sectors and economic indicators, speak well of the things to come.

To achieve economic double-digit growth we need the commitment of all including the public and private sectors and most importantly the citizens of Sri Lanka to uphold productivity, excellence and unity in workmanship which are the building blocks for this goal.

Those in the garment and textile industry need to look beyond the conventional industries especially those that are widely affected by adverse publicity and local and global challenges.

Service outsourcing and high tech manufacturing are becoming the features of new world economic restructuring that I believe will provide significant opportunities for economic development.

Our focus needs to centre around manufacturing and service provision by leveraging on the skilled labour we have demonstrated in garments and I am confident we can demonstrate this through many other forms of specialized manufacturing.

I would like to call upon all the stakeholders of the country's economy to change their mindsets. Let us all be positive, move out of our comfort zones and focus on the actions that are necessary to spread the wings of development in Sri Lanka.

Potential for Trade and Investment through FTAs
Dr Saman Kelegama, Executive Director, Institute of Policy Studies
The Indo-Sri Lanka agreement came into effect in March 2000 and the Pakistan-Sri Lanka agreement came into effect in June 2005. In March 2003 Sri Lanka had duty

free access to the Indian market.

In June 2008 under the Pakistan-Sri Lanka FTA, Sri Lanka will have duty free access to the Pakistan market. Likewise in March 2008, India will also have duty free access to Sri Lanka and in June 2010 Pakistan will follow suit.

Both agreements are very similar but in the Indo-Sri Lanka FTA, most of the tariffs are handled at a four digit level especially when it comes to the rules of origin and with regard to the Pakistan-Sri Lanka FTA, most tariffs are handled at the six digit level.

Under both agreements tea and garments exports are under quota and there are lower concessions for items like textiles under the Indo-Sri Lanka agreement and ceramics under the Pakistan – Sri Lanka FTA

How do these bilateral FTAs increase Sri Lanka's Competitiveness?
India, Sri Lanka and Pakistan are all fast growing economies in fact if we were to rank India in terms of world output it is anywhere between 10 – 12 and if we were to rank Pakistan it would be within the range of 41 – 43.

We have access to a large and growing population and also preferential market access via our duty free agreements to the Indian and Pakistani markets. If ever there are tariffs applicable those tariffs are coming down and of course this market access is dependent on the rules of origin.

And how can we exploit these FTAs?
Sri Lanka has a lower tariff regime than both India and Pakistan because we started liberalization much earlier than these two nations and in addition to this under the BOI status industries are eligible for duty free import facilities.

So if a particular industry wants to get raw materials and inputs at a very low duty rate that industry could convert those raw materials into value added products and export them to India and Pakistan under duty free status. This is one of the main advantages of these two FTAs.

The other route in order to obtain a competitive advantage is the nature of India and Pakistan trade, for example Pakistan does not offer investment status to many items from India, Sri Lanka can act as a conduit to promote Indo-Pakistani trade.

There is currently a large amount of informal trade between India and Pakistan and the conduits are Dubai and Singapore. The role of these two conduits can be taken over by Sri Lanka, an Indian investor can come and invest here, fulfil rules of origin make use of the Pakistan-Sri Lanka FTA and export to Pakistan and vice versa.

Sri Lanka exports to India in 1999 were 1% of our overall exports, and this was 9% by 2005. Our overall imports saw 8.9% come from India in 1999 and this was 17% by 2005.

The import to export ratio that was 10.5:1 in 1999 and it reduced to 2.6: 1 in 2005, in favour of Sri Lanka. At the time the Indo-Sri Lanka FTA came into operation the number of products we exported were 505 and this was 1062 by 2005, more than double. Today India stands only behind the USA and Europe in terms of export volume.

Investment follows trade and this is clearly seen by analyzing the 2004/5/6 averages. India is more or less the third largest investor in Sri Lanka and in fact more than 50% of Indian investment within the SAARC region is located in Sri Lanka.

If you were to look at Sri Lanka’s overall exports following liberalization in 1977, the following five years were heavily dominated by ready made garments and it is the same case with the FTAs and as such diversification will take place in due time.

Tea, rubber, coconut and fruit dominated exports under the Pakistan FTA and accounted for around 90% of our exports to Pakistan.

One area that remains unutilized is readymade garments, where we have exported 3 million pieces to India at zero duty without rules of origin and restriction on ports. Although this has yet to be gazetted by the government of India, this is an area ripe for exploitation.

Similarly 3 million pieces can also be exported to Pakistan with 35% preference, rich pickings especially for the ready made garment industry.

Another advantage of these FTAs is that we can import cheaper raw materials and machinery from both India and Pakistan. Import cheaper consumer goods that are not produced in Sri Lanka, such as textiles, pharmaceuticals and fruits all at a very cheap prices.

The growing IT sector in India has also to be exploited. These FTAs pave the way for the formation of a comprehensive economic partnership agreement for which already 7 – 8 rounds of negotiations have taken place.

New Opportunities to enter the EU Market
Roshan Lymon, Head of Politics & Trade, Delegation of the European Commission to Sri Lanka

The EU accounts for 19% of world trade and 17.5% of trade in goods and 26% of trade in services. The EU also spearheads up to €152 billion worth of FDI across the world and the EU also plays host to around €69 billion of FDI.

The EU is also the second largest importer and the worlds largest exporter by total volumes of exports. The EU exports to the SAARC is €21 billion with EU imports from the SAARC region worth €27.8 billion. The EU’s share of world trade is around 30% of GDP.

EU Trade with Sri Lanka

In 2005 total exports to the EU around €1.6 billion of which the textile sector contributed to almost half. Sri Lankan companies should make use of EU statistics to gauge how best they could enter the EU markets and also to track competitor progress and identify potential areas of profitability. Sri Lankan businesses must also keep abreast of technical and regulatory requirements and research to this end is mandatory.

The GSP+ system is a special privilege that has been granted to Sri Lanka, the only country in South Asia to benefit from this. Sri Lanka can source products from SAARC countries and process them in Sri Lanka under the GSP+ system. Sri Lanka can also import raw materials from the EU and export items back to the EU at a 0% rate of duty.

The EU is not interested in price but on quality and this suits Sri Lanka very much as we are a small exporter and we thus cannot really address a mass market, looking at price. But Sri Lanka has consistently been offering up quality garment products, so Sri Lanka should continue to look at quality niche markets rather than trying to cater to mass markets.

There has to be also recognition for the sector and this can be obtained by having critical mass. When it comes to branding a lot of work has been done and could be done. Sri Lanka is known for its tea and fair labour practices, one of the reasons why we were bestowed with the GSP+. We should use these associations in a positive manner in order to drive our branding message.

Sri Lanka should also analyze import statistics of the newer EU members in order to capitalize on such developments. I was surprised to see that Bangladesh engages in a lot of garment trade with the Netherlands, perhaps a previously little known fact.

What are the opportunities provided by the EU for increasing trade?

• GSP+ – By reducing duty garment companies are able to almost double their profits and also the GSP+ system can be used to attract investors into Sri Lanka who would want to export into the EU and thus benefit from the GSP+ system.

• New Rules of origin currently under discussion but upon completion would make new sectors more competitive and attract new investments.

• The expansion of the EU is a major incentive for Sri Lanka businesses to engage in trade with the 27 trading nations that form the current EU.

We are working with the Department of Commerce to increase the government's capacity in trade negotiations to help us negotiate better at the WTO etc. We are also supporting the activities of the intellectual property office in addition to offering sector specific support currently to the garment and gem and jewellry sectors.

Our Asia Invest programme is also benefiting the business community Asia Invest is a financing programme that provides groups of companies with European know how and technology and also the opportunity for a one to one business match making service – where business leaders can meet complementary EU business leaders and establish long term partnerships.

The EU Delegation is also actively supporting the efforts of the Chamber of Commerce, sectoral associations and promotional bodies and we also hope to identify three – four sectors and then provide them with adequate support in productivity, marketing and finance.

98% of products exported to the EU are eligible for GSP+ benefits but due to the lack of knowledge about the system and its benefits a large number of businesses are trading in an uncompetitive manner.

Session 3:
"Pubilc- Private Partnerships for Infrastructure Development"

Session Chairperson's Address
Dr Naoko Ishii, Country Director, The World Bank
The theme of the conference – spreading the wings of development – is a vital one for the country at this critical juncture. The government has tabled its 10 year development framework and has aimed at accelerating growth of 8-10 % for a

sustained period. This is a very ambitious target but not unachievable, but it requires determined commitment from both public and private sectors. One fundamental driver to achieve this goal is to increase investment, particularly in infrastructure. This makes the building of Public Private Partnerships (PPPs) in infrastructure a vital necessity for Sri Lanka.

There is no doubt that Sri Lanka has an infrastructure deficit. Power shortages, and bottlenecks on the road network are clear evidence of this. The infrastructure problems we see particularly affect small and medium-sized enterprises and their ability to flourish and generate jobs. But it's not just businesses that suffer from poor infrastructure. Households have to spend time and resources coping with deficient water and power supply. Much of the burden of coping with poor services falls on the poor. Power and water utilities are in poor financial health. Scarce public resources that could have been used to extend services to remote areas and to the poor are instead wasted propping up these utilities. The governments 10 year development framework squarely addresses the issues the poor has been facing. It has drawn our attention to the growing inequality in the lagging regions. Poverty assessment clearly shows the rural poor also suffer from the lack of infrastructure, in particular, the connectivity to the markets. As such, infrastructure development through PPP is not only for big business or urban development, but it could also serve the poor in rural areas.

Public-private partnerships in infrastructure can play a role in meeting these deficits in infrastructure. Well-structured PPPs will bring in investment into well-run facilities and enterprises that provide quality services to consumers. But poorly-designed PPPs can be costly to consumers, the government and private investors. Fortunately, there is a lot of experience that Sri Lanka can draw on in structuring and expanding its PPP program, and building on the successes achieved to date.

There are three areas I'd like to focus on in introducing this session:
• First, the role that PPPs are likely to play in meeting Sri Lanka's infrastructure needs, based on knowledge gathered from other country experiences;
• Second, the capacities and frameworks that need to be put into place to ensure PPPs are well structured; and
• Third governance and public perceptions of PPP programs, in particular the transparency of the award process for PPPs, and how unsolicited proposals can have

an impact.

In South Asia, investment in private infrastructure projects did not initially surge as rapidly as in the Latin America or East Asia. This was because policy reforms were slower and key sectors, such as transport, were at first only partially opened up to private investment. However, in recent years, South Asia has shown an increase in investment commitments in infrastructure projects with private participation. Whereas from 1995-2000 South Asia attracted only 5% of total investment in private infrastructure projects, since 2001 its share has more than doubled to 11%.

Most of the increase in investments were in the telecommunications sector. The South Asia Region successfully introduced competition in this sector, which resulted in new entrants and a rapidly expanding telecommunications markets.

In addition there are also some encouraging developments in other sectors, particularly in transport.

This is generally more difficult in the energy and water sectors, because these sectors for political economy reason often are plagued by inefficient operations, subsidies and distorted pricing to begin with. For this reason, South Asia lags behind the rest of the world in introducing private participation, especially in the water and sanitation sectors.

Even if the potential for expanding PPPs are there, it is important to realize that a country will only be able to establish robust and sustainable PPPs if the government puts in place the right framework and capacities for the identification, procurement and oversight of PPPs.

The right framework and the needed technical capacities are naturally specific to each country. But I nevertheless believe that Sri Lanka can benefit both from an analysis of what has worked elsewhere as well as looking back at its own experience of the Bill, which played a catalytic role in earlier PPPs.

PPPs can be controversial, although how controversial depends a lot on the sector and the nature of the project. Generally, there is a lot more controversy about the private sector being involved in, for example, water distribution, than ports.

However, even in areas that have broad public support, controversy can arise if there are concerns about the transparency of the process of project award and developer selection.

An issue that often results in controversy is approval of unsolicited proposals. Unsolicited proposals are PPP projects that are not on the Government's priority list, which a private company brings to the Government.

Most Governments use competitive procedures for the award of PPPs and regard unsolicited proposals as the exception, not the norm. And because of their controversy, in situation when countries consider unsolicited proposals, its even more important that robust systems are put in place to ensure that the project is scrutinized in detail, that costs and benefits of the project are properly assessed, and that it fits the public interest.

In closing, let me emphasize that while PPPs can play an important role in securing private sector financing and expertise for much needed public infrastructure. However, it is not a panacea, and careful planning, an adequate policy framework, and sufficient technical capacity are necessary conditions for establishing successful PPPs.

Unleashing the Potential of Ports
Upul Jayatissa, Operations Manager, Sri Lanka Ports Authority
Over the years the Sri Lanka Port has changed and developed its infrastructure and superstructure facilities to accommodate changing shipping and trade demands in Sri Lanka and in the Indian subcontinent. The Sri Lankan Government has identified the importance of the port sector and has given high priority to develop the port's capacity, in the government's accelerated development ride.

There will also be many future business development activities in the port sector through Public – Private Partnerships.

There are five ports under the Sri Lanka Ports Authority in operation, with Colombo being the main port. Colombo is also the only port that handles containers and has become a transhipment hub in the Indian Subcontinent. We also have the Galle regional port with a limited capacity, handling bulk and break bulk; Trincomalee, one of the biggest natural harbours, handling limited bulk and break bulk cargo and Point Pedro and Kankasanthurai. There are two port projects we are embarking on, the Hambantota Port Development Project and the Oluvil Port project.

Over the years the Colombo Port especially has developed infrastructure facilities to accommodate container traffic and is at present building port facilities to accommodate bigger ships.

Last year the country handled 3 million TEUs out of which 75% was transhipment and 25% local. This is ranked 29th in the World Port ranking for containers. We work 24 hours a day, 365 days a year and since we have attracted almost all major shipping lines and have direct shipping opportunities, there are increased opportunities for Sri Lankan importers, exporters and investors to do their shipping.

Container ships are getting bigger and bigger and the mega ships that are in the order book will definitely trade in the Far East. We can’t accommodate those mega ships at present and there are constraints in the current harbour, so we can’t do much expansion. So we have to go in for a new port expansion plan in the Colombo South harbour to accommodate mega ships.

The biggest constraint that we have in the container business is capacity, because the current capacity is 3.7 million TEUs for these three terminals and with short term improvements we can increase it up to 4.5million TEUs. However with additional equipment and further improvements in the existing terminals we will reach the 4.5 million TEU capacity in 2010.

The ships are growing so there is a need to go for a mega port at the Colombo South harbour.

The ports, especially Hambantota have the opportunity to handle industrial cargo, cement, fertilizer, flour and even offshore bunkering facilities, and there are opportunities to even handle vehicles.

Trincomalee has a lot of potential to be expanded. There are seven zones identified which we want to promote as locations for industrial projects.

The opportunities available for businesses through Public-Private Partnerships are many. The Colombo South harbour is the latest and a good successful example is the South Asia Gateway Terminal where the Ports Authority has been working with a consortium since 1999.

In conclusion, the Sri Lanka economy, importers, exporters, manufacturers and investors will benefit as long as Colombo remains a container hub and develops into a mega hub to serve the region. The port sector has been earmarked by the government for accelerated investment and development. Future port projects will create capacity, build investor confidence, create investment and business opportunities and can be developed and worked through Public-Private Partnerships.

Capacity Development in the Power Sector
Tissa Herath, Additional Secretary – Technical, Ministry of Power & Energy
Our current maximum demand for power is 1900 MW. Compared to international levels this is not so much but for us this is fairly large amount and we expect to generate about 10,000 million units of energy this year. If we look at 10 years down the line, the growth scenario forecast by us indicates that demand would double to over 4000 MW and the energy will also double.

So we have to develop this infrastructure to almost double what we have and this requires a huge investment. The demand growth we have experienced is of an

average of 8%.
This may go up over the next few years depending on how the country goes forward.

Our per capita electricity consumption is 365 units and has grown steadily from levels of around 200 units a few years ago.

The economic growth of the country is very closely related to the development of the power and energy sector. Thus the growth in GDP is closely linked to the growth in electricity consumption.

So it is essential to have infrastructure growing in a healthy manner. The government’s policy of having GDP growth of 8% has to go hand in hand with the development of this sector. This is true all over the world.

At present 77% of households have access to electricity but the distribution varies from district to district with Colombo having almost 100% and other rural districts sometimes only catering to 30% of the resident population.

We have to keep in mind that Colombo is not Sri Lanka and we have to take a holistic view of this as a majority of the population is outside Colombo.

Our aim as a ministry is to have 86% access to electricity by 2010 and 95% by 2016. Due to the rural aspect of the country it is an impossibility for the national grid to service all areas and thus alternatives such as solar power must come into consideration.

How do we get power?
Hydro, thermal and other non-conventional forms of renewable energy are the various forms of power available. If you were to look at the power situation in 1995, 94% of energy came from hydro sources with around 6% coming from thermal sources.

This was good news for us given the low operating cost of hydropower although initial investment is high. By 2006 the scenario hadâ€¯changed with thermal sources generating 61% and hydro sources providing 39%. We moved from hydro into thermal technologies and this will be the same in the future. Almost all of our hydro resources are facing deterioration.

The cost of oil-based generation is very expensive, given the high prices of oil. Thus our policy is to go for other low cost technologies such as coal. We hope to reduce our dependence on oil and develop coal-based generation in the east and south coast.

The Private Sector

The private sector is a very strong partner with many mini hydro and thermal projects in operation. As the system grows, the power stations have to come and also the transmission system has to grow and to deliver this power we have to strengthen the network. This is also for reliability of supply and security.

So any investment must be both in generation and transmission and the reliability of distribution has to increase, as there are a lot of complaints.

We have to invest around US$ 10 Million over the next ten years, this is the scale of investment we require, to meet our targets. The government alone cannot bear this and thus we have to go for private sector participation.

Today we generate close to 30 million units a day with 60% coming from the CEB and 40% from the private sector.

The sector is growing, we need investment and we hope the private sector will come forward to join with us and develop this sector via Public Private Partnerships and other initiatives.

Structuring Infrastructure Projects

Jeetendra Marcelline, Head, Investments Sri Lanka and Maldives, IFC-World Bank Group

Public-Private Partnerships (PPP) are something not always seen as privatization or the state selling the family jewels.

What it essentially comes down to is a collaboration between the private sector and the public sector and these two large structures of society have realized there are certain things they can and cannot do and some things that are advantageous and some which are not.

In the sale of assets what is critical again is that you do not just sell the assets and go away because you cannot forget the consumer. You have to ensure that you have a very strong regulatory framework and that the best deal is given to all concerned and not just the person who manages or holds that asset.

There are management contracts, leasing contracts and technical agreements and all of these are examples of collaboration with the public sector. I want to break it down into something very simple. If you were to look at structuring a PPP, you are looking at a very contractual structure and this is the key. Thus you could make or lose money or you can abandon a project if you do not address the planning stage correctly.

In South Asia there hasn’t been the boom and bust that has been experienced in East Asia and Latin America during the 90s. The increase in investment levels have been very marked and in equity investment. India has led the way with China a close second followed by Brazil.

You can see that equity or private sector involvement has been a salient feature of private infrastructure projects in the region. We must also remind ourselves that in the Sri Lankan or Asian context the private sector can take the role of the public sector in totality.

Public investment will always be the majority, as in the case with Sri Lanka, but private investment has a gap to bridge as we heard earlier about the financing gap and the plans of the Mahinda Chinthana and we all realize no one state can solely fund an initiative of this nature.

Why has private investment played a key role?
There are efficiency gains that we see – This is not to say that the public sector cannot be as efficient as the private sector.

When we sit down and start a project we need to discuss what are the risks? And how do we meet them? How do we protect each party against them and take time on that?

Non-completion is probably the most critical pre-completion risk for the entire project and there are a number of parties and stakeholders who have suffered.

The most affected party in a non-completion scenario would ultimately be the end user of the product or service, usually the state, because let us say that if you do not complete a power project on time and you decide to move from hydro to thermal, the cost of your whole operation will go up and you can't cover the cost because you can't pass it down to the consumer either.

Interest rates today, especially in emerging markets, like Sri Lanka, where you do not have huge financial debt, can fluctuate and also when the stock markets are not as deep or mature. If the project is delayed or not properly financed, you may be subject to fluctuations that may ultimately eat into your returns and cash flow and the sponsors will end up financing the banks and lenders instead of having a return for the effort they have put in.

It is also important to understand that if you are attracting foreign currency and investment, the foreign currency risk is critical and it is something that most investors and financiers in emerging markets who are coming from overseas are very concerned about.

So then you have to think about the overall macro picture which again the state and the country has to think about managing as effectively as possible.

On the inside of the project, one would try to limit the foreign currency borrowings as much possible, try and hedge the foreign currency risk if possible and that again depends on the sophistication of the financial markets both domestic and regionally.

Today you can obtain insurance against certain political risks but the success of the project depends on the country framework, is very subjective and the pricing can also vary. It is critical to get a good assumption and basis of how and what we are ultimately doing.

Another critical factor is equipment failure. Primarily equipment failure has to be among the highest manufacturers' liability and you would find that when you get into these contracts the manufacturer tries to shave off that risk by being specific as to what areas they would cover.

So the principle if you are a sponsor, financier or lender to this project is to understand what the insurance will cover, what the manufacturer will cover and how do you allocate the resources among them.

Fast Tracking Implementation
Siddhartha Das, Consultant, Ernst and Young, India
I have a hypothesis that public private partnership's (PPP) can be fast-tracked if the PPP can commence within the existing institutional framework with the best process mitigating the policies – both the regulatory and institutional. The advantages of competitively bid PPP in infrastructure has been well documented.

The requirement of funding for infrastructure in fast developing countries of South Asia is immense.

Superior project development is a potent objective of the government as augmentation of funds. With PPPs, structuring of infrastructure projects is more rigorous compared to those executed by the government. Financial closure, project commencement and completion schedules are built into contracts with penal clauses for non-adherence. Measurable parameters for project quality and maintenance are documented in agreements and deviations are also penalized.

Sri Lanka’s GDP index is far superior to any other country in South Asia. Life expectancy and education matches that of the developed world. The linkages between human development and the ease of doing business are strong. However the PPP’s in Sri Lanka is lower than any other country in the South Asian region in the period of 2000 – 2005.

The government of Sri Lanka has been able to notify institutional arrangements as well as the approval process for PPP’s in the country. The Bureau of Infrastructure Investment (BII) of the BOI is to function as the promoting, facilitating and coordinating agency for servicing relevant line ministries.

There are many key issues in PPP’s with it being debated extensively from various forums and specific project modalities are subjected to another round of discussions. The issue, however, is that there is a vast experience of PPP’s in the subcontinent and worldwide. The experience could be adopted and adapted to a specific country perspective.

In terms of the project structure, in the case of complex transactions, there is a sector specific policy that is formulated. The issues that follow are to be decided and documented prior to the commencement of a transaction.

In order to define sector objectives of disinvestment that typically stems from a law or a disinvestment policy, an institutional arrangement for approval of a bid document as well as evaluation and the approval bids is necessary. Outlining without detailing the process is the key to specify the philosophy so that specific issue could be used to determine that.

Sri Lanka has a functional institutional arrangement for PPPs. Creating a necessary regulatory framework or a robust dispute redressal mechanism is important. In operational terms, the objective is to identify, structure through pre feasibility reports and transaction advisors, determining the PPP structure, managing the bid process as well as approving the selection of a preferred bidder. The key objective of the mechanism is to create and manage the viability gap requirement of projects that have economic benefits but are financially unviable.

Speaking on the viability gap finance, if the cash flow from the project after O&M and other charges do not suffice for servicing the capital investment, there could be a requirement for providing some upfront assistance to make the project financially or commercially viable, if economically viable for the state.

The key to making PPPs acceptable is to create an environment where PPPs are a way of attracting private money into public projects and not putting public resources into private projects. Secondly, the proposal should be made to the PPP cell of the Department of Economic Affairs. The project needs to be implemented, with developed, financed, constructed, maintained and operated for a project term, which is a concession period via the private sector company.

The private sector company has to be selected by either the Government or the statutory entity through a transparent and competitive bidding process. This means that the project needs to be identified by the state and then bid out. It should also provide service against a predetermined tariff or user charge.

“Quick Wins Are An Important Part Of The Process As PPP Transactions Are Iterative, Requiring Extensive Investor Interaction That Can Only Come About When Managing A Transaction.”

It is critical to appreciate that an ideal arrangement is not a prerequisite for PPPs in a state. On the contrary, working within an existing framework at the outset may be more conducive as opposed to a bigger alteration in the framework. In any case the given framework has to be typically evolutionary and competence based, rewarding those that have competence on the subject as opposed to implanting a process.

Quick wins are an important part of the process as PPP transactions are iterative, requiring extensive investor interaction that can only come about when managing a transaction.

Secondly, there is already a wide body of experience on PPPs in the world as well as the region, which includes extensive international and regional experience of drafting and executing. This is an agreement on the part of E&Y across all sectors. Drawing on our experience, a perfect institutional arrangement is not a prerequisite or an absolute requirement. Sharpening the existing framework and moulding to achieve desired goals can sometimes be a superior strategy.

Thirdly, there is a tangible gain among stakeholders from governments, investors and advisors when there is a successful transaction. This has a positive multiplier, and is a key driving force for commencing PPP transactions as investor participation dissipates in the absence of inaction over time. For investors the transaction is the action and they trust reputed advisors in order to ensure that the process is transparent and competitive. There are competitive pressures on investors whenever a deal is won by competition, not only spuring existing players, with other players looking at country opportunities keenly.

The most rigorous learning of the PPP transaction process is from managing a transaction process, being a fine training ground for the government. Successful transactions are the culmination of a process, which includes a referendum on institutional arrangement. The robust diagnostic processes, with the areas that require sharpening are fleshed out during the transaction process.

Using the regional and international network of E&Y to conduct investor conferences and meeting to generate quality interest among investors, finalizing bidding parameters in consultation with the government after incorporating views of investors in conferences, as well as preparing relevant project documents in consultation with decision makers are also included. In addition to this, there is the marketing of projects to prospective bidders and the bid process management leading to selection of the preferred bidder for each project and negotiating with bidders and the execution of relevant definitive agreements.

In conclusion, E&Y is the leading transaction advisor in the region, having an extensive experience with regional investors on many sectors. There is a robust knowledge base of cross-sectoral transactions. Critically E&Y has enough experience in the region to take a view on the specific transaction that meet the criteria of achieving financial closure quickly, while attracting strong investor interest for the transaction.

Expanding the Road Network

M B S Fernando, Chairman, Road Development Authority
We have in Sri Lanka about 100,000 km of road, which comprise of 4095 km of A class roads and 7,605km of B class roads. This is altogether about 11,000 km of what we call the national highway, which the road development authority is in charge of. That is about 10% of the local road network in the country.

We find another 15,500 km of provision road, which the provision council is in charge of and another 54,000 km under the Pradeshiya Sabha. We also have about 6 or 7 km, which belongs to the various organizations. Only 10% of the road network is called national highways.

Very few kilometres of this large network of roads are in good condition. If you take the entire road network by the traffic volume we only have about 600 km of road that we can call high traffic roads with more than 10,000 vehicles per day using them. 6% of the roads are carrying more than 10,000 vehicles per day and 5% of the roads carry very low traffic.

We have only about 200 km of road that have dual carriageway, which is a road that is separated by a central median. A very small percentage of our roads, less than 2% of the roads can be considered as high mobility roads. The network speed is about 20km/hr.

Take the condition of the road. Take the national highway of this only 10% of the road is in a fairly good condition. The rest of the 90% is in a very poor condition. Take the national route, the 100,000 km, we only have about 2% of the route in good condition. While 98% is in poor condition. If you look the vehicle population, we have about 2 1/2 million vehicles in Sri Lanka. All the pollution is created by these cars and vans.

There is also a direct relationship between poverty and transport. It has been established that in the rural areas there is no investment by the private sector due to two main reasons, one is electricity and the second is transport. Rural roads are not in a satisfactory condition in order to attract investors. Even if you provide all the land and everything, the roads are in such a bad mess that the attraction is minimised.

You also see that the economic growth, although we are now reaching about 7.4% of the GDP, the economic growth in the rural areas is very poor.

More than 50% of the GDP is in the Western Province. In the Uva province it is 4%. All other regions and provinces other than the western province is less than 10%. So there is this disparity and all the investment is concentrated in the western province. The good roads are also in the western province and 50% of the large amount of cars are also in the western province. As a result the problems like congestion and pollution are concentrated in the western province.

Urban traffic congestion is another problem. We do not have traffic congestion in Moneragala or Anuradhapura or other places. But it takes one hour to come from Moratuwa to Colombo.

There are many reasons for there being a high cost of construction for roads. Road alignment on difficult terrain, to avoid acquisition of buildings, delays in the acquiring of land along with public protests and the delay in the payment of compensation are among these.

Session 4: “Enhancing Competitiveness through Productivity”

Session Chairperson’s Address

Lalith Weeratunga, Secretary to the President
It is a subject that I have come to like over a period of time because competitiveness helps to achieve goals while productivity makes ones life more tidier. Productivity is the very basis to competitiveness.

I believe the competitiveness of a nation is what is uppermost in our minds today. At a time when the country is not doing very well we need to focus on where we can bring our country to a level that we can be proud of. There are many instruments used and over a period of time these have changed. Firstly they had what is called the growth competitiveness index. Later this changed to the global competitiveness index. We also had what is called the national competitive advantage. The World Economic Forum is the organization which prepared the global competitiveness report.

The index provides a holistic overview of factors that are critical to drive in productivity and competitiveness and groups them into 9 pillars which is how the global competitiveness index is calculated or compiled. Then we look at institutions, particularly public institutions because we deliver public goods, services and licensing.

Infrastructure. Here again the public sector has to play a huge role. Governments are generally responsible for public goods such as roads, and how well are they constructed or how transparently are they made.

The state of the macro economy. What are your fiscal policies? Are they conducive to businesses or are they stifling investors?

Health and Primary Education. Here, when you look at the human development index, we are the 93rd country out of 171 countries but we have a long way to go. However we are generally happy about our health care systems and happy about our primary education as we have almost 100% enrollings.

Higher education and training. That will produce scientists, technologists and people who can do R&D.

Market Efficiency. Technological readiness which is the availability of the internet and how fast can you access it.

Business sophistication and innovation. That is to what extent are we innovative in our products and in our processes. But let me tell you that none of these factors alone can ensure competitiveness. That is where we need to concentrate on and ensure that we have holistic development. All these things have to be looked at as one group although they are grouped into different pillars.

Productivity is the result of three separate components; efficiency of technology, efficiency of labour and effectiveness of management. It is absolutely an attitude of mind, whether one wants to be productive or not. It is the people that add value to a work process by their skills so therefore we are concerned how well we are in our skills.

Team spirit. Something I strongly believe in.

Efficiency. Are you using methods which will give you output very quickly without wasting time?

Pride in work – to be proud of what you do. It is the dignity in labour that we are talking about.

Customer orientation. Whether you are in the public service or in the private sector, aided by machines and systems.

Some of you may know that there is a national productivity policy. One of the greatest challenges faced by both the government and private sector organizations in Sri Lanka is to raise productivity of their resource utilization. How well are we using our resources? Whether it is human or otherwise. The challenge is obtaining ever increasing results from labour. We always talk about getting more work out of people. How? Do you want to force them or motivate them? We have seen specific examples, such as the garment sector where high level of motivation has been used.

Knowledge of your workers and knowledge of what you're doing. Service workers – materials and supplies. Are you getting each of them at a time that's right, at the best price and in the highest quality and the capital resources?

Proactive Management.
This is the initiative that Sri Lanka can take to improve productivity. Broadly given as quality, establishment of a whole economic framework, which includes reducing the budget deficit. We need to encourage more saving and investment, improve labour market credibility and invest in developing the workforce. We also need to encourage productivity at the enterprise level, encourage and facilitate the growth of new businesses.

We need to change the public attitudes to encourage the culture of quality and productivity. Institutions that are in the government need to be 100% transparent, to be seen as organisations that add value and make use of the resources that the government collects from the people in the form of taxes.

Leveraging on Productivity for the Decade Ahead

Sunil G Wijesinghe, Chairman/Managing Director, Dankotuwa Porcelain
Why Productivity?
The standard of living is determined by per capita GDP. High levels of GDP can be obtained through higher inputs of labour, capital and higher productivity. It is however the portion that comes out of higher productivity that will give us a much better standard of living and it is productivity that will make you more competitive in the global market.

Today Sri Lankan labour is not only expensive but scarce, so organizations must therefore examine their sources of competitiveness and governments must assist and direct the economy in order to move to the next level of development.

In the investment driven economy, you will need more investment, need to cater to different markets, need human resources with developed skills and a definite improvement of productivity all around.

Until we are able to shift to the investment driven phase, the short-term strategy should be to improve productivity of the enterprise.

Productivity has to be understood in terms of technical and non-technical means as productivity is usually misunderstood even by the CEOs of big companies, labour unions and even journalists and this was creating a lot of confusion. Therefore it is important to note that productivity is not merely about producing ore output and getting people to work harder and longer,The first time I went to Japan this was drilled into me in 1980. Never be satisfied they said, always be constantly dissatisfied otherwise you will never improve.

Productivity can be measured across a multiple combination of inputs.

If you have modern plant and equipment obviously you will have high productivity but this is a very expensive method of improving productivity or you can utilize an industrial engineering process by balancing your workloads etc or by individual and group Kaizen to achieve small improvements.

Kaizen is making little/small changes on a continuous basis at a very low cost thus improving the current way of working. Whereas, innovation is a radical change which leads to an occasional increase.

If you have innovation without Kaizen you will always come down and start up again. The Japanese believe in Kaizen and the Americans in innovation, but if you can combine the two you will get a much better benefit.

A productive individual will make productive enterprises and productive enterprises, will make a productive nation. So we have to start with individuals and this is the biggest problem we have,

What happens when we have low productivity in a country?
It leads to high prices, sluggish sales, low utilization of plant capacity, low profits and wages, low capital and low morale.

Improving Public Sector Efficiency

Upali Marasinghe – Director, National Productivity Secretariat

Sri Lanka’s entire productivity campaigns are based on its two productivity quality documents. The National Productivity Secretariat (NPS) is the focal point of the Government in disseminating the productivity message to Sri Lanka as a nation.

Eight initiatives have been mentioned in this document. There are foreign issues, which must be implemented on a macro level and another four should be introduced on a micro level. The NPS is responsible for implementing the latter part, i.e. the micro level issues.

Out of the four initiatives mentioned the main focus is to maintain the productivity and quality culture. At the secretariat our activities have been divided into four areas: Private sector productivity improvement, public sector productivity improvement, and improvement in school sectors and community sectors.

In the private sector we have conducted many programs. Not just 5S but also Quality Circles and Six Sigma.

We conducted several special programmes last year with the assistance of the Asian Productivity Organisation called the Demonstration Company Project. We selected eight companies, six from the private sector and two from the government sector and we developed both types of companies. Now a nine month period has been completed and that consultant left for Japan.

At community levels we have conducted many programmes, especially under the Mahinda Chintanaya program. We conducted 5S projects in 2005 and now this year we have selected 400 villages in which to conduct our programs.

Our main event for the year is the Productivity Awards. Last year over 600 participants participated. This year we have received over 5000 applications and we definitely hope that at least 3000 applicants will participate in this event.

We conducted some special projects in the Uva, Central and Sabaragamuwa provinces with the provincial councils. In addition we have implemented many TV and radio programmes and also in magazines, DVDs, posters and booklets.

We have discovered something to do to increase productivity but it is a long journey. The NPS is the government’s focal point so we were able to create a small culture in schools, public sector organisations and private sector organisations. So now we are the process of improving this and disseminating this message to the nation.

Education and Skills Development: Adapting to the Future
Dr T A Piyasiri, Director General, Tertiary and Vocational Education Commission

Our education sector has three distinct areas. We have the general education which covers school education, we have higher education which covers the university education and we have technical and vocational education.

When we look at our education system in Sri Lanka, we have the primary grades from grade 1 to 5 at the end of which we have the grade five scholarship examination. Then the lower secondary from grade 6 to 11 after which we have the GCE O’ Level examination. Then the upper secondary, the GCE A’ Level examination and on completion of that there is admittance to the university where they will have higher education. The numbers going to higher education from the numbers that have been enrolled at the primary is 5%. The students exit at different points to technical and vocational education at the lower secondary after the O’ Level and A’ Level examination.

If we look at the improving quality of education we see that at the grass roots level technology subjects have been introduced. In the lower secondary, new three vocational subjects will be introduced. The English language, computing skills and more soft skills will be coming. So there is a transformation happening in the school sector.

Look at the university sector. We have 15 universities as well as the open university. The enrolment in 2005 was 14,500 and in 2006 16,500. The output rate is 10,000 students that graduate per year. This is the magnitude of the university sector in Sri Lanka. There is severe competition to get into the universities. And those who fail to get in look for other higher education like foreign degrees conducted in Sri Lanka, or they go abroad or get into the vocational and technical education.

The higher education strategy spelt out in the ten year development plan include these and one of the key features in it is the development of the university sector which will mainly be able to offer degree courses in areas were there can be employment. That is the introduction of these new programs to meet the economic demand of human resources and if you look at the last few years there have been many courses offered by the university system especially from the technology and service sectors.

The technical and vocational education and training sector in Sri Lanka has several state networks or institutions. We also have institutions operated by non-governmental organisations. They are more prominent in the Central, Eastern and Northern part of the country. Then we have private institutions operated by many private individuals or companies and give a good contribution and we have a good rapport with these companies. The total enrolment is about 100,000 per year in this sector. Very much more when compared to the university sector.

When we look at our personnel in the Sri Lankan work force, of about 7.5 million out of the employed population, we see only 15.3% are formally trained. The balance are either informally trained or not trained. The unemployed population is 28.2% but are trained mostly in areas were there is no employment. So we have the task of bringing the people and training them. At the same time we are focusing our education and training in areas where there is employment.

Succeeding in a Dynamic World
Franklyn Amerasinghe, Director, Emsolve Consultant

As human beings we tend to always say that the problem is outside and not within myself. So I would like you to take what I say in that spirit and look at what we could do in improving productivity as well as enhancing competitiveness.

The key issues are the lack of awareness on rights and obligations as well as the transparency of employers. Some of the problems that we have in our workplaces are due solely to the fact that employees do not know when they come in to the establishment what is expected of them and what their rights are. We found that companies which had a very focused induction programme and handbooks for employees, did very well. They were able to retain their people, able to pick good people because at the initial stage the employees knew what was expected of them. Also the transparency of employers is a huge problem in Sri Lanka. We don’t like to talk about what’s going on as we feel that is something that concerns higher management. We talk to people lower down when there is a problem. This is something that we keep hearing from not only workers but also from their leaders. When things are going well no one tells us so but when things are bad, then we hear about it.

The second issue that we saw was the trade unions versus management and vice versa. We always look at trade unions as a threat, but we also came across examples where companies were happily co-existing with trade unions and trade unions co-existing with the management. This was because the management had found a way in which they could use the trade union as a clearing-house for information, to get messages across to employees. There was a need in the first place to build a relationship with the trade union. There are so many instances where companies have been able to do this.

We also found that companies, whether they had trade unions or not, were developing mechanisms for consultation. It is a rule among the BOI companies that you have to have these mechanisms. Some companies have benefited by this, others have these for show, to tell the BOI that we have these mechanisms in place. In companies that have these mechanisms alongside trade unions, they have found that the trade unions themselves have seen the benefits of this system existing in workplaces. Using this mechanism can solve day-to-day issues. You need to have commitment to make this mechanism work.

This is an issue that does not need to be labelled but it is very important that we accept that management is not about power but about responsibility. We found that in companies that were performing well, the management was always very concerned about how responsible it is, as well as its responsibility in its use of power. We don't say 'do this because it is our instruction,' but we explain to the people why it is necessary and act in a responsible manner.

In most organizations, you don't really have a proper HR development strategy. Companies that are doing well have a lot of space for development of their personnel. They encourage learning and encourage them not only with monetary support but in other ways as well. One of the companies that participated in our study, was an excellent example because we could see that an employee could join at the bottom and go up by your own effort and initiative but always supported by the employer who had a clear cut scheme for development.

Cultural traits and access to the leader is a very important thing. You need to have access to the top people in the company if you are going to encourage people to collaborate with you and be cooperative. Knowledge is of no use, if there is no support from higher management for change. I have in my paper referred to people who attend seminars and workshops and come back frustrated because there is no support from the higher management.

Inspiring leaders are a need. We need people who can inspire people lower down, who can be looked at by people who are committed to a productive work place.

Day-3
Plenary Session 1:

Development of the Agricultural Sector
Hemakumara Nanayakkara, Minister of Agriculture
The agricultural sector is the cornerstone of Sri Lanka's economy with more than 70% of the population living in rural areas depending on agriculture for their livelihood.

Currently this sector contributes about 18% of the GDP and 30% of the employment. The agricultural productivity has remained relatively stable, except for rice which has reached near self-sufficiency in recent years. This explains at least in part why poverty is proving to be persistent at levels of 25-30% of the population, with a large majority of the poor living in the rural areas. The agricultural sector was also not geared to absorb the rural unemployed as the other sectors of the economy. It is necessary to reverse these trends and improve the agricultural sector to meet the aspirations of the people, particularly that of the farming community.

The agricultural sector will continue to play an important role in the application of strategies targeted towards a planned socio-economic development. Rapid growth of the agricultural sector particularly domestic food production, floriculture and export crop sectors is essential to achieve self-reliance at national level, ensure food security and to bring about equity in the distribution of income and wealth for alleviating poverty.

At present, agriculture plays an important role in the economic and social life of the country, as it serves as a direct and indirect source of livelihood for a considerable segment of the population. However, the performance of the domestic agricultural sector is not impressive as the growth is sluggish. Although there is a drive for commercialisation of agriculture, a majority of the farmers are still at subsistence level. Rural poverty is still very prevalent in the agricultural sector where 46% if farmers earn less than US$ 2 per day which show that they are living below the poverty line. Also, there is a high percentage of unemployment in the rural sector as the youth are leaving agriculture for non-farm sector employment.

There are tremendous opportunities for the successful establishment of a vibrant and potentially profitable agro-processing sector. This will however require stronger, more meaningful linkages between the farming community, the agro-processing sector, Government and financial institutions. Of course, private sector companies would also play a critical role in the marketing of products from the agro-processing sector.

Finally, let me refer to the need for meaningful state intervention in agricultural marketing to stabilize the supply and prices. This should be done through the least Government intrusion, encouraging the private sector to invest in agricultural marketing, and improve the competitiveness in agricultural marketing. The state activities should not harm the improvement of the competitiveness and private sector participation. Therefore I strongly welcome the establishment of a state authority for food grains to facilitate supply management and price management through regulation of infrastructure facilities for agricultural marketing, monitoring market information, promotion of forward marketing.

Industrial Growth and Competitiveness
Kumara Welgama, Minister of Industrial Development

At this session on industrial growth and competitiveness, as the Minister of Industrial Development, I would like to focus on the importance of competitiveness in the industry sector. Although national competitiveness is hard to define, it is understood as a nation’s ability to compete in the international market, while at the same time providing a rising standard of living for its people. Policy makers, intellectuals and the business community have a significant role to play in national competitiveness.

When comparing the developments in the global scenario, the World Trade Organization (WTO) and the other international agreements to which Sri Lanka is a party, require products to conform to a variety of standards especially focused on environment, quality and social welfare aspects.

Apart from that Sri Lanka has got certain concessions through the Indo-Lanka Free Trade Agreement, Sri Lanka-Pakistan FTA and more fully under the Generalize System of Preferences + scheme (GSP+) where Sri Lanka has been identified for duty or concessional duty access to the European market. In order to obtain these concessions, the stipulated requirements have to be fulfilled and the product has to be in line with global products.

It should be noted that the World Bank and USAID compiled the first publication on Sri Lanka's competitiveness on the basis of an extensive research conducted by JE Austin Associates, which was followed by another study on benchmarking by USAID. The competitiveness initiative of USAID, which formed industry clusters, was established subsequently. Industry clusters enable reprehensive of business and the Government to work together for a common cause.

At the request of the Government and leading industries, USAID has funded The Competitiveness Initiative (TCI) – a programme offering direct assistance to eight industry clusters and initiating a strong public-private sector dialogue. TCI concentrated on eight clusters namely Tea, Jewellery, IT, Coir, Rubber, Tourism, Ceramic and Spices. My Ministry adopted a similar cluster approach consisting of 16 clusters. The sectoral divisions of the Ministry too were formulated on those lines. Therefore, I should state that the Ministry's line of thinking was heavily influenced by the competitiveness initiative and we strive hard to achieve competitiveness in all industrial sectors.

I feel the work on industry competitiveness in SAARC region should be enhanced and more exchange of views countries should be encouraged. It could act as a benchmark too among the regional countries.

Impact of GSP+ on trade, with special reference to the Apparel Sector
Julian Wilson, Ambassador, European Union

We at the EU always enjoyed trade relations with Sri Lanka and when you look at the overall level of imports and exports we are your largest trading partner.

We have increased this steadily over the last 20 years and now count on 28% on your exports. We use a policy of trading systematically through the developing world. We call that our generalised system of preferences. We have a special envelope within that called the GSP+. What that is, is a unique programme, which basically takes 7000 products and says these all have been entered under GSP+ and enter the European Union duty free.

Sri Lanka is the only country in Asia to benefit from this. In fact there are a very few countries that get this gold card status. That relevant tool, in my view, is unutilized in Sri Lanka. We can explore with you how to improve the utilization of this.

The rate of growth of EU exports from Sri Lanka has accelerated to the largest growth of any export sector since 2005 and it is clear that it is related to the granting of GSP+.

When we see in this region that most manufacturing is moving to China, I was interested to discover that one chap in China came here largely to use GSP+.

Looking now to the specific of whether you are using the GSP+ and whether you can use it more. A study shows that 98% of you country's exports can qualify for GSP+.

We are talking about all the majors, the processed foods, tobacco, rubber and garments. However when we look at the utilization of that concession where all the eligible exports are listed, only 40% are right now using GSP+ as an entry into the Union. This low utilization rate is partly due to the fact that some garment manufacturers find it hard to cope with what is termed the 'double conversion requirement.'

That means you have to turn yarn into fabric and fabric into garment. That is a difficult element for the GSP+ regime. However, many companies aren't aware that their products are eligible for GSP+.

The bottom line is anything you can use is likely to be in the 98%. For those garment manufacturers who are finding that difficult, remember that we treat SAARC as one economic region.

You can’t import your fabric from China, but you can import it anywhere from the SAARC country. We would then use the garment resulting, as being Sri Lankan origin. So you get straight into the Union.

That maybe a little technical battle but its terribly important for people trying to understand how they can use this. It does mean you have to go and explore new sources but obviously you can actually succeed in utilizing the GSP+ by finding fabric suppliers from South Asia.

To move on in this we will also be reviewing GSP+ and there is a possibility these rules will be relaxed with regard to the rules of origin issues.

The investment is not significant to be actually able to access GSP+, whether for garments or whether for other sectors.

Lets talk about what that specifically means. I know that garment sector very well and in there we are basically giving you a 10% to 12% profit margin on your competitors like those from China.

This is why that guy is plugging into here from China. The next thing I look at are other areas. Just in time processed food, that’s 16%, tobacco, that’s 70%, rubber goods and plastics, these are around 10% – 15%. That’s a margin that can be very interesting for you.

I would like to give you a little bit of experience from Pakistan. Pakistan enjoys similar trading sessions though they were of temporary nature unlike GSP+ that is given while you remain compliant with international agreement.

Another scheme, and this is a temporary one, but it showed very interestingly the effect and we did a study on this and in short it was 200,000 jobs and 400 mn dollars of revenue from our economy profit in addition to the base trade with the European Union.

Now that was just powerful when you come to look at the case in Sri Lanka on where you could be if we were to move it along. I spoke to a number of garment manufactures here and they said that it was GSP+ that has kept them alive over the last period. This is not only the internal problems of the country but the overall one of China that is sucking in all of the manufacturing capacity from your pastures.

I end with three challenges, the garment manufacturers not yet using GSP+, have a look at the SAARC sources of fabric and come and talk to us. Remember you are using 40% of what you could be using. Explore new export opportunities on the back of GSP+ which can give you 10-20% more profit.

Lastly a specific request for the challenge thrown down on me today. Food processing, fabric and rubber sectors, you can exploit those immediately and receive a price advantage.

Importance Of Investment And Trade In Sri Lanka
Robert O Blake, Ambassador, USA Embassy in Sri Lanka
The US is one of Sri Lanka’s top two trading partners and Sri Lanka’s largest export market and we are seeking ways to build on that record. Specifically the office of the US trade representative that meets regularly with their Sri Lankan counterparts to find ways to reduce barriers in trade and investment.

We have eight different clusters to improve competitiveness and the evidence is there for all to see, how much progress has been made in each sector and we are proud of the very small role we have been able to play in that area.

US investment and trade plays a very important role in enhancing Sri Lanka’s economic development. US investment also increases wages and creates opportunities for local labourers to advance.

US companies frequently offer amongst the highest salaries to both managers and line workers. Prominent US companies such as Citigroup and Chevron have demonstrated their long-term commitment to the hiring and development of global talent, with a history of hiring straight into the CEO level.

US investment has brought to Sri Lanka, cutting edge technology that makes the economy globally competitive.

US investors also tend to be good citizens in their host communities. For US companies corporate social responsibility is not just a marketing exercise, it is at the core of corporate values. Which industry is Sri Lanka’s next great hope, as wages rise in Sri Lanka and your economy becomes knowledge based and service oriented? I think one of the most promising sectors for growth is information technology along with IT enabled business process outsourcing. “Peace is critical for growing a solid economy. As long as Sri Lanka remains torn by conflict, it is losing out to other countries as an investment destination.”

IT firms such as Virtusa are already using a new business model, rather than going for mass numbers of employees Sri Lanka IT companies have developed globally competitive software packages.

There is scope for much more growth in this sector but Sri Lanka’s IT leaders report that they are constrained by choice of supply of qualified employees. The demand for creative, English speaking well-educated individuals is already larger than the supply and the shortage is worsening.

Staffing the nation’s IT sector will be one of Sri Lanka’s most important challenges over the coming decade. Sri Lanka must first transform its tertiary or university educational system or it will lose out on the tremendous opportunities in IT and related sectors.

In this increasingly knowledge based economy of the 21st century, Sri Lanka's knowledge and training will also drive your economy. It is the capacity to develop that knowledge and training that is constrained. Approximately 85% of your youth who qualify for university admission are not admitted, because the university system lacks capacity.

One way to address this problem is to welcome partnerships from American and other universities overseas. I realize that the context of private or semi private university education is controversial. Some argue that private education would create a double standard as they would charge higher tuition fees and thereby attract the best professors from public sector universities, whilst students with fewer financial resources would be faced to attend less attractive public sector institutions.

Our experience has shown that competition can raise the level of both public and private sector schools and private universities go to great lengths to provide financial aid to students with lesser needs.

Many of you would have benefited from an overseas education and to make this form of opportunity more widely available to everyone in Sri Lanka, I recommend a simple solution. Allow foreign universities to set up here both on their own or by partnering with local institutions. I can assure you that US universities would be welcome and productive investors.

Peace is critical for growing a solid economy. As long as Sri Lanka remains torn by conflict, it is losing out to other countries as an investment destination and as long as the conflict persists you must recognize that investors who do come will require higher returns on their investments.

Sri Lanka has the potential to match the growth rate that countries like India and China are now experiencing and also there is the potential to attract significantly more US investment. To do so however will require a negotiated settlement of your conflict, a sustained increase in your tertiary education capacity and a concerted effort to raise the level of Sri Lanka's investment environment relative to other competitors. Such changes will provide a secure and bright future for Sri Lankans and make Sri Lanka a magnet for US and other investors.

Plenary Session 2:
Positioning Sri Lanka as a Financial Hub
Ajith Nivard Cabraal, Governor, Central Bank of Sri Lanka
History tells us that many countries have had the vision of becoming financial hubs. Perhaps such visions have been spurred by the success of a few countries who have been able to establish themselves as international financial centers, or as financial hubs, as such centers are popularly known.

However, we also know that only a few countries who made such attempts were able to make their dreams come true. Many others did not make it. The second category, as we all know, includes Sri Lanka too.

It is therefore appropriate for us to examine, at the outset, where we went wrong and reflect on how we could realign our strategies, policies and behaviour towards positioning Sri Lanka as a financial hub in the future.

What is a financial hub?
First, let us consider as to what a financial hub really is: An International Finance Centre (IFC), or a Financial Hub is a place where a wide range of financial activities take place with the active presence of strong international financial institutions and where there is an international market focus. Such a Centre would, most certainly, boast of a well-developed integrated financial system.

It would posses diverse financial offerings and products in the money and capital markets, insurance, mortgage finance and pension schemes. It would be supported by an efficient infrastructure for payment and transfer of funds and capital within the entire globe. It would have a well-developed credit system. It would facilitate the management of private investments in order to minimize potential tax and other liabilities. It would guarantee statutory asset protection, allowing for an international jurisdiction, distinct from that of the hub’s residence. It would allow for the protection of income and assets from political, fiscal and legal risks and maximize the protection granted under statutory confidentiality provisions. It would lead to effective administration of assets, also termed Estate Planning.

What makes a financial hub?

According to current thought, there seems to be two possible paths leading to an IFC: One, through the organic growth of the IFC, and two, through the deliberate engineering of the IFC to expand at a pre-determined and rapid growth rate. The engineered growth approach envisages significant investments by the host country to upgrade and maintain its IFC infrastructure at international levels.

For example, Singapore was transformed from a swampy fishing and trading town into a regional banking, port and technology hub within just 30 years!
What are the pre-requisites for a financial hub?

Whether propelled by organic growth or through deliberate engineering, financial hubs possess certain characteristics. These include natural advantages such as geographical location, as well as several other socio-political and economic conditions, that are essentially man-made.

The strategic location is certainly a factor that helps a city or country to position itself as a financial hub. Almost all popular financial hubs are located within time zones that overlap with major markets and the economies that they serve.

Further, financial hubs are normally located close to main sea routes, with easy access by air and sea to major international markets. Most of the financial hubs are also popular as tourist destinations with well-developed hospitality industries, and therefore being attractive places to conduct business meetings and conferences. It is also important for the financial hub to be politically, economically and socially stable, so that it can provide a favourable environment to conduct business; business with pleasure is certainly a preferred option worldwide!

A highly developed legal framework that provides certainty and effectiveness is another major pre-requisite for the development of a financial hub. At the same time, regulatory frameworks have to be up-to-date and transparent, and should be applied fairly, consistently and in accordance with international standards of best practice.

A financial hub definitely should have excellent support services. Banking, trust, investment, accounting, custodial, and legal services of the country serving as the financial hub need to be of the highest international standard, as these services are essential to support international business. In almost all successfully established financial hubs, we observe that these services are well supplemented by local management, financial, IT, marketing, and other corporate service skills, as well. It is certainly not a coincidence that every popular financial hub could boast of a large skilled labour pool of well educated people who are committed to professionalism, with a high motivation to develop and perform.

Where does Sri Lanka stand?
I have listed out the key ingredients to becoming a financial hub in order to set the stage for the most relevant and important question: Are we, or can we be positioned to become a financial hub?

With regard to the location, it is certainly a 'yes.' Sri Lanka is very strategically located, as a gateway to the Indian subcontinent and in close proximity to a highly important, major sea route. Incidentally, it was this strategic location, that helped our country to be regarded as the trading hub connecting Arabia, Africa, Rome, China and Far East in the ancient past. Next, our time zone is also near perfect, if we target to serve Asia, especially India and the Gulf. The FTAs with India and Pakistan are also significant plus factors.

At the same time, we have a very beautiful country with numerous attractions. With careful investment and positioning, accelerated tourism opportunities generated out of India, China and the Middle East could be a key draw towards supporting a hub status.

Political stability wise, we have room for improvement and so too in relation to our commitment to maintaining integrity and reputation of business activity which may need more attention. There is also sufficient space to improve the speed at which justice is delivered in our country, although we do observe many improvements in the recent past. “The key change that may then follow would perhaps be this renewal of thinking, a re-kindling of the Sri Lankan spirit and an inner ‘can do’ attitude being developed amongst ourselves.”

Why couldn’t Sri Lanka become a financial hub?
As would be seen from this quick analysis of the Sri Lankan story, we possessed and even now possess a lot of the advantages and strengths needed to evolve as a financial hub. But, unfortunately, we regularly missed the opportunities; we didn’t play to our strengths; we developed far too many weaknesses. As a result of our apathy, shortsightedness, lack of focus and lack of will, inability to think ‘big,’ we allowed less resourceful cities like Singapore, Mumbai, Hong Kong and Dubai to rapidly overtake us, stretch their leads and position themselves as popular financial hubs in the region.

That then leads us to the next few questions: Have we missed the bus permanently? Will we never make it? Can we, even at this late stage, catch up? If we want to catch up, what must we do?

What will make Sri Lanka a financial hub?
Here, we have to realistically understand that, in spite of the huge advantage of our strategic location, it will not be feasible for us to develop our country on an organic path if we are to position ourselves in the short to medium term, or even within a time span of about 2-3 decades. That would suggest to us that the organic path is therefore not an attractive option. If so, the engineered growth model presents itself as the more logical approach for Sri Lanka to follow, if we are to become a financial hub in the medium to long term.

“The Key Change That May Then Follow Would Perhaps Be This Renewal Of Thinking, A Re-Kindling Of The Sri Lankan Spirit And An Inner ‘Can Do’ Attitude Being Developed Amongst Ourselves.”

In that context, what should we do now? Obviously we have to take a critical look at the current ground situation. What do we see?
We see that the Government, instead of only focusing on short-term benefits, is also diligently pursuing a Ten Year Development Horizon Framework for which the political leadership, including the President, has made a strong commitment to

implement.

The key change that may then follow would perhaps be this renewal of thinking, a re-kindling of the Sri Lankan spirit and an inner ‘can do’ attitude being developed amongst ourselves. In that endeavour, we must learn to look at issues from a long term focus: not a ‘yesterday and today only-mentality;’ take bold approaches: Have confidence in ourselves: Overcome the ‘someone-else syndrome,’ where very often, many of us watch and criticize while expecting others to do.

Can we do it?

In so doing, let us once again ask ourselves the question: Can we do it? Some would, I am sure, say ‘yes, we can.’ But I am also sure that several others would say: ‘we can’t’ and perhaps quite sincerely, set out many reasons as to why we can’t. They may say: ‘we have a terrorist problem, or an ethnic conflict, or a political problem, or a human capital problem or some other problem and therefore, we can’t.’ In my view, we had consistently used, perhaps unintentionally, the terrorist problem as the convenient scapegoat when explaining as to why we were not able to achieve many targets. Some persons, including even a few international agencies, have been strongly suggesting to us that we won’t be able to achieve much due to various reasons. Unfortunately, some of us sometimes believe these nay sayers, get discouraged and get into a shell.

But, let us remind ourselves that we were able to record a GDP growth of 7.4% last year notwithstanding the severe terrorist and oil shocks. That is a tribute to you, the private sector. You have done it against the odds. You can keep it going.

As a further test, let us frankly ask ourselves: Has it been the terrorist problem or the perceived high defense spending that prevented us from becoming a financial hub? What are the facts? Singapore and Bahrain each spend 4.8% of their GDP on defense, while we spend 3.8% only. Many countries with terrorist problems as well as political problems have been able to grow fast notwithstanding such difficulties.

If we have to think of developing Sri Lanka as a financial hub in the near future, we all have to think positively and take our respective responsibilities very seriously.

We have to rapidly improve our productivity. We have to work harder and smarter. At the same time, the government has to invest in infrastructure projects and continue in its efforts to ensure national security. The government also has the tough tasks of maintaining economic momentum, searching for and delivering a political solution to the vexed devolution of power issue and defeating terrorism.

At the same time, the private sector too has a massive responsibility in the economic development effort. You in the private sector can do a lot to project and maintain a positive image of the country internationally. You can actively participate in the large-scale infrastructure projects where the government is searching for Public Private Partnerships. You can give a true meaning to the phrase: Private Sector Lead Development.

If all of us, as a family, take on our respective responsibilities with a passion and enthusiasm, the day will surely dawn where our dream of becoming an IFC will be a reality!

Strategy for Development of Tourism
Milinda Moragoda, Minister of Tourism
Sri Lanka has always been historically potential unrealized.

When it comes to tourism, the role of the government is limited. Clearly we have to have the right policies, provide a secure, safe environment but beyond that what we can do is facilitate.

The private sector has risen to the challenge despite having to face more and more challenges in the country.

In Sri Lanka we have a product to sell, we have the beaches, the culture, the natural beauty and most of all we have the people, one of the greatest things that we can market, a service orientated HR base.

Safety of the visitor is key. Given the international messages being beamed across the world it is natural that there would be safety concerns.

What we are trying to do is make the international community and the market realize that safety of the visitors coming to Sri Lanka, is the number one priority. Under this initiative we have taken many steps in order to ensure that instead of misleading the tourists we take direct and specific action to keep them informed and updated.

Harassment of tourists is another concern and in this regard we have upgraded the quality of the tourist police and we have looked at how we educate the public that harassment is bad for business and we have sought to impress upon all institutions in the country, that physical security is the number one priority.

We have also been asking ourselves some very critical questions such as how can we improve our product offering and infrastructure. When we look at product development there is one area in which we have a long way to go and this is the use of technology.

Tourism is one sector that technology is being used at a very advanced level. A recently conducted survey revealed that over 80% of tourists visiting the Asian region obtains information via the internet. Today we do not have information to this extent in Sri Lanka.

Another area that we are looking into is local tourism that is often the foundation on which you build for international tourists. Sometimes the infrastructure and facilities that you put together for the local tourist market may be applied to the international market in due course.

New markets are also of interest to us given that respectively the UK and India form our highest tourism arrivals. We are making a special effort in the Indian market in order to attract the MICE sector.

We are also looking closely at China where we see great potential in the medium term. We plan to set up direct representation there before the end of this year. This however does not mean we will lessen our efforts into traditional markets.

Tourism is clearly a sector for the future of Sri Lanka and whether we make a success or failure of it is very much in our hands and stability and lasting peace are pre requisites to making tourism a success.

We have a responsibility to try and build a foundation for the day this industry will really take off. Until then we cannot just sit and wait because half a million 'tourists' is not frankly 'tourism.'

Telecom Policy in Sri Lanka
Rauff Hakeem, Minister of Posts & Telecommunications

The provision of world-class telecommunication infrastructure is the key to rapid economic and social development and the Government of Sri Lanka recognizes this factor. It is critical not only for the development of information technology and IT enabled services industries but also the widespread communication on the entire economy of the country.

It has also anticipated that going forward, a significant portion of GDP of the country both directly and indirectly would be contributed by this sector. Therefore it is of vital importance to the national economy, that there be a comprehensive and forward looking telecommunications policy which creates an enabling framework for development of this industry.

Access to telecommunication is of utmost importance for achievement of the country's social and economic goals. Therefore availability of affordable and effective communication for citizens is at the core of the vision and goals of the national telecom policy.

There have been far reaching developments in the recent past in the telecom, IT, electronic and media industries worldwide. Convergence of both markets and technologies is a reality that is forcing realignment of the industry, at one level telephone and broadcasting are entering each other's markets. While at another level technology is learning the difference between varied conduit systems such as wireline and wireless.

Separate licenses have been issued in our country for a fifth mobile, ISP, satellite and cable TV operators each with a separate industry structure, terms of entry and varying requirements to create infrastructure, however this convergence allows operators to use their facilities to deliver some service reserved for other operators necessitating a relook into the existing policy framework.

We are today witnessing phenomenal growth in the telecom industry, both globally and locally. The impact at home has been truly astonishing, with the telecom industry expected to grow by about 50% this year.

The core telecom objective of this country has been geared towards facilitating the provision of a core level and effective choices of communication options. While this has been the main focus and rightly so, the telecom policy in Sri Lanka has also been focusing on promoting the establishment and development of IT infrastructure, with a particular focus on the convergence between IT, telecommunications and the media.

I believe that the policy goal of the provision of telecommunication services to a wider cross section has largely been successful. The penetration levels are seeing exponential growth. Therefore we can take comfort from the fact that much has been achieved and resolved in terms of penetration.

I believe that we should also focus our attention to the following areas; achieving efficiency and transparency in spectrum management, providing an impetuous to build manufacturing and IT capability, develop the human resources for this industry and encouraging R&D interests.

With the provision of new technologies and the growing demand for telecommunication services the demand for spectrum has increased manifold and it is therefore essential that spectrum be utilized efficiently, economically, rationally and in an optimum manner.

Thus there is a need to review spectrum allocation in a planned manner so that required frequency gaps are available to service providers.

We should be satisfied in the knowledge that much has been achieved and that some of our operators are on par with global players. Another reason for joy is the limitless opportunities afforded by this industry to bridge the digital divide and be a true leveler and up lifter of the common market.

How Sri Lanka can Benefit from India's Growth and Development
Alok Prasad, High Commissioner, Indian High Commission for Sri Lanka
Sri Lanka has a lot to gain from the new growth momentum in India. The growth is accelerating. The GDP numbers for the last financial year just came in and surprised everyone, even the government, as it is at 9.4%. A few years ago, the question that used to be asked was 'Can India make it?' and a few years later the question became 'Can India sustain it?' The question now is can India notch it up to the next level? With these kinds of numbers, India can become a trillion dollar economy this year. That question has been answered.

Closely connected with this generation is the one articulated by the leaders of the SAARC countries in the recently concluded SAARC summit in New Delhi. The focus of their deliberations was the issue of connectivity. Connectivity in the typical sense was in terms of roads, transport links, pipelines, and telecommunication works but connectivity also in the realm of ideas equals to people complex and the growth of knowledge and information. We have today a situation in the region with a shared vision for the future and with the growth SAARC countries are experiencing, perhaps the instrument for realizing that shared vision.

It is in this larger complex that we need to look at the specific issue, of how Sri Lanka can benefit from India's growth. In many ways, we have a very good base to start from.

Many of our telecom agents are already participating in Sri Lanka or planning operations soon. A natural collarary of this would be the entire ICT sector. In recent years, we like to claim ICT as a uniquely Indian success story. We are in touch with some of the IT makers in India who have shown considerable interest in Sri Lanka. We are now working to address issues that they have pointed out such as the setting up an ICT park in Sri Lanka.

The growth processing in India has run over a middle class of approximately 300 million people. Through the FTA, which offers over 4000 items at zero duty, India has a preferential market for Sri Lanka. Sri Lankan exports to India have increased over ten times in the last 7 years, resulting in narrowing the trade gap. Sri Lanka's export market for us is still narrow. And there is a large untapped potential for which the manufacturing centre in Sri Lanka can suitably gear up.

With Sri Lanka's natural resources and the growing consumer requirements in India, there is a natural fit for a whole range of value added products from the Sri Lankan agricultural sector to find market niches in India.

What are we doing next to institutionally support what will be a dynamic process of interaction between our industries? The biggest facilitator would be what we have as a comprehensive economic partnership agreement, which is currently under discussion between the countries.

While the FTA was the stepping-stone and it has already shown measurable benefits. We have to sustain and build on this momentum and take the two economies beyond trading goods towards greater integration, and in part renewed interest and synergy to back economic interaction. How would it work? What would it look like? The negative list of both sides would be conclusively shorter by the mutual recognition of standards so that goods can flow easily across the waters.

Tariff and non-tariff barriers would come down even further, with the intention of eliminating duty on as wide a range of products as possible. Custom procedures would be simplified, investments facilitated and a modern double taxation agreement would be welcome. It is a very ambitious undertaking which we hope to conclude by the end of this year and would transform the economic relations between India and Sri Lanka. So while we have this vision and the great possibilities ahead, it is only fair to say that its good potential would be realised when peace returns to Sri Lanka. Peace is not only critical to sectors such as tourism but for basic essential elements to generate business confidence. It is well recognized that there are obstacles for full attainment of Sri Lanka of her goals of peace, prosperity and equitable development of her people. India can be divorced neither from Sri Lanka's strife nor from her sovereignty. We stand with Sri Lanka as she endeavours to find a fair, just and equitable solution.

Opportunities for British Trade and Investment in Sri Lanka
Dominick Chilcott High Commissioner – British High Commission in Sri Lanka

The modem British economy is still a very big economy. According to the World Bank, it is the fifth largest in the world, with a gross domestic product of nearly US$2,200 billion. But it is no longer the global industrial powerhouse it was. Times have changed. Indeed, some economists describe Britain as having a post-industrial economy and the fashionable way to describe the British economy now is to call it a knowledge-based economy.

What do we mean by a knowledge-based economy? Briefly, it is one where having the right knowledge or information is the key element in economic success. It was Peter Drucker, the Austrian who became an American academic, who popularised the use of the term. In his book, The Effective Executive, he said the difference between the manual worker and the knowledge worker was that the manual worker works with his hands and produces 'stuff.' A knowledge worker works with his head and produces ideas, knowledge, and information.

The British economy still produces quite a lot of stuff. But increasingly its success is based on having ideas, knowledge and information.

This transformation is a response to a number of factors. Clearly globalization has meant that goods produced in Britain have to compete with those produced elsewhere. Since salaries are generally a lot higher in Britain than in, for example, the developing world, inevitably, this has forced manufacturing out of the UK.

Indeed, these sorts of forces led to much of Britain’s garment industry relocating to Sri Lanka.

Another important aspect that is shaping the modern UK economy is connectivity of information, the way companies and individuals around the world are more and more linked up via the internet. Global competition and global connectivity means, in theory, you can run your business from anywhere in the world, developing your goods and services at a distance, buying, marketing and selling your products and delivering them – allover electronic networks.

Where you locate that sort of business HQ depends not on the cheapness of the local labour force but on other factors such as how skilled and knowledgeable the local workforce is, how good the information and communication links are to the rest of the world, what the local tax regime is like, and how stable and business-friendly is the government.

When one lists those sorts of factors, it becomes increasingly obvious why the British knowledge-based economy should be doing so well. We have a highly skilled workforce, particularly strong in certain sectors. We have first rate communication links and connectivity. So the question about opportunities for Britain to trade and invest in Sri Lanka can be turned around and answered in another way. Our own people may present the best opportunity. Sri Lankans who have made Britain their home, and those who otherwise have a foot in both camps, as it were, may have both the knowledge of our two markets and the personal motivation to exploit opportunities for business success. And by so doing, they will have the satisfaction of reinforcing the bonds between the country of their parents and grandparents and the country they and their families now live in.

If that is the case, I think the founders of the Ceylon Chamber of Commerce, who had themselves emigrated to a far off land to seek their fortunes, would strongly approve.