

Sri Lanka Economic Summit 2009

Dawning Of A New Eraâ€¦

Opportunities And Challenges



With the ending of the three-decade old war and the prospects of peace and development emerging to the forefront, hopes are high for the future of Sri Lanka. Eminent personalities from overseas joined hands with Senior Government Officials, Public Representatives and Private Sector Leaders to discuss the global economic environment and the emerging prospects for the country.

Prof Lakshman Watawala, Chairman, Economic Summit Steering Committee

The Ceylon Chamber of Commerce organised the first annual conference in 2000 and it has progressively advanced to become the foremost business summit in Sri Lanka. In 2006, this annual conference was transformed into Sri Lanka Economic Summit, which is similar to the other regional and global summits. This year it is the 10th anniversary of the Economic Summit and the Summit brings together the political and business leaders, the public sector, international lending agencies, foreign investors, private sector and the media.

The theme of this summit was “Dawning of a new era...Opportunities and Challenges” and this topic was selected after taking note of the economic, social and financial challenges that have taken place both globally and locally. For Sri Lanka, a new era has dawned after the end of the War that has ravaged the country for three decades and paving the way to go forward.

The air is full of hope and optimism as the people of Sri Lanka prepare to face new challenges in the future.

Jayampathi Bandaranayake, Chairman, The Ceylon Chamber of Commerce

This is a wonderful opportunity for investors to understand the investment climate and for the policy framers and the implementers of the need to enhance Sri Lanka’s position as an investment destination. The Chamber of Commerce represents over 525 companies, 20 business councils of many countries of the world and 41 trade associations. The Chamber has maintained strong links with our traditional business partners, the European Union, the UK, the USA and Japan. There is now a growing trend of business relationships with India and Pakistan with the sub continent as Malaysia and China and other South East Asian countries, Russia, Africa and the Middle Eastern Region as well as Central and South American states.

With the scourge of terrorism behind us, the Government has now identified nation building as the next big challenge of this country. There is now a real opportunity for the global community given its genuine concerns to improve the people displaced in the North and East.

In inviting the keynote speaker, the unanimous choice of the Chamber of Commerce and the business community of the country was a representative of the government of Japan that stood by Sri Lanka in its good times and in difficult times. The name of Yasushi Akashi was obvious, given his intimate knowledge of Sri Lanka over the past several years. This will open up new vistas of opportunities for both countries; taking advantage of the complementary strengths and needs we would now wish to see. As the President stated in a recent speech, it is time for action and the Government can no longer hold the excuse of terrorism not to act. The business community too has an important role to play as a matter of urgency in building capacity in the impoverished areas to progress further business linkages across the

country.

Ratnasiri Wickramanayake, Prime Minister of the Democratic Socialist Republic of Sri Lanka

Despite the global economic situation, Sri Lanka is poised to enter a more promising era. This is because we believe that the country's economic growth will be driven more by domestic factors notwithstanding the effects of global economy. With the end of this three decades long conflict, revival of economic activities along with the reconstruction and development of liberated areas, higher arrivals of tourists and higher investments will help expand domestic production. Certain developments are already becoming visible. The stock market has soared, foreign funds have flocked to government securities, the depreciating trend of the exchange rate has changed, depletion of external reserves has ceased, investor sentiment has improved, movements of the people have increased, to mention a few. Above all, with the evolving peaceful atmosphere, the people are now ready to take up any challenge towards the speedy development of the country. The impact of reintegration of Northern and Eastern Provinces, which were not part of the mainstream economy for sometime, will provide the opportunity to access the enormous amount of untapped resources. Major infrastructure development projects also support the growing economy.

We know that the other countries in the region have also performed well. Asia has become the engine of growth of the world economy and our region is a part of this resurgence. This growth must have a multiplier effect in our region. We have a rich and varied experience in development which we must pool together to create a model of inclusive and sustainable regional development. This mutuality of interests is the central driving force of the regional cooperation everywhere.

Yasushi Akashi, Representative of the Government of Japan

I cannot think of a more appropriate subject to be discussed in Sri Lanka at this time than the theme of this summit, namely, "Dawning of a new era...opportunities and challenges". In the last two decades and a half, this country had to endure a very violent conflict, which resulted over the years, in tens of thousands of civilians being victims including numerous women and children as well as a great number of untimely deaths of many young officers and soldiers.

Three weeks after the end of the conflict in May 2009, I visited an enormous village containing hastily built camps with many tents at Manik farm in Vavuniya accommodating an enormous crowd of internally displaced persons. A huge effort was mobilised by the Government and co-ordinated very ably by Basil Rajapaksa to cope with the most complex task of providing food, water, shelter, medicine and other essential services on a urgent basis with the help of the UN and other International Organisations and NGOs. Looking at these huge humanitarian programmes which arose from the military conflict from another perspective, however I believe that Sri Lanka is now faced with a unique and a non recurrent opportunity to build a truly united country.

Allow me to refer to a recent article published by a retired Indian General and perceptive commentator, V R Raghavan. He describes the former LTTE leader Prabhakaran with great insight, 'in one instance over a quiet chat with Velupillai Prabhakaran, I asked him of his vision for a settlement with the Sri Lankan state. His face imperturbable and his pupils fixing me in an unblinking stare he answered in polite Tamil that a settlement was out of the question and that Eelam was not a negotiable idea. It seems clear to me that due to the lack of political vision and imagination only the part of one man and his failed leadership, the tragic fate and the suffering of such a large number of people in the North as well as in the East earlier became unavoidable.

I can testify that the ultimate responsibility for war and peace, in any conflict is you must trust in the leadership of the parties. Mediators and facilitators can only offer some needed assistance and encouragement.

On the occasion of the 60th anniversary of the establishment of the UN in the year 2005, a world summit was held in New York, which reiterated universality of Human Rights, more specifically the responsibility to protect innocent civilians in wars and other emergencies. Among the Asian countries however, there is still smouldering debate on the relationship between national sovereignty and the non-interference principle of the UN charter on the one hand and the responsibility of all governments to protect their peoples and their inherent Human Rights on the other. For policy makers it is not easy to strike a judicious balance between the adherence to universal concepts and values and the concrete decisions which are taken on the basis of infinite circumstances. It is hoped that a more open minded and a sincere

dialogue will take place within people holding different points of view, with equal passion. In doing so, it is important for us to avoid the extremes of naïve cosmopolitanism and excessive nationalism. I am glad to state that Japan has always been one of the privileged and steadfast friends of Sri Lanka.

At the time of the San Francisco Peace conference with Japan, her most distinguished Sri Lankan statesman who later became the President, J R Jayawardene referred to the spirit of magnanimity in Buddhist philosophy and called for exempting the vanquished Japan from reparation payments. Grateful Japan never forgot this noble gesture and responded to it with gratitude and friendship towards this country and has remained its leading donor country.

This is why we try on every occasion to contribute our due share to promoting development and prosperity in Sri Lanka and work with its government towards sustainable peace. This is also why Japan wishes to be a reliable partner at this time of great humanitarian need in the North, rushing needed supplies and cash to ameliorate the lives of IDPs and to enable their early resettlement in their permanent homes. Japan wants to offer some assistance for effective removal of landmines, obviously, one of the prerequisites for safe resettlement.

In the medium to long term, Japan would like to offer assistance for the improvement of basic infrastructure in this country in such areas as electricity and water, roadways, public transport and administration as well as buildings, schools and hospitals. We would also like to be helpful in vocational training for agriculture and fisheries and the environment; a new, urgent necessity. I hasten to add that in these fields the opportunities should exist not only for official development assistance on a government to government basis but increasing for active investment activities by private enterprises. In this regard, it is ardently hoped that existing administrative red tapes and other procedural impediments be removed expeditiously in the course of freer trade and more capital flows into this country.

With the foundation of peace and justice at hand at long last, Sri Lanka shows immense potential for economic development. Fortunately, it has numerous possibilities and advantages. Its social indicators are amongst the top in Asia with a high literacy rate, a high sanitary standard and an enviable spread of the English

language, a high quality of its labour force, a world's top harbour: Trincomalee, many sightseeing resources and easy access to the hills in their market and the Free Trade Agreements already concluded with India and Pakistan to name just a few.

It should be eminent that a brilliant and a most rewarding chapter is just opening before us for a quantum jump in the great revival and reinvigoration of Sri Lankan economy. I am firmly convinced that the members of the international community including Japan, will have the privilege of actively participating in this exciting process. Let us pledge to work together.

G L Peiris, Minister of Export Development & International Trade

The Government of Sri Lanka particularly appreciates two comments that Yasushi Akashi made.

The first was, that this is a “non-recurrent” opportunity. We are acutely conscious of that. In the history of a nation and in the history of a family an individual, a community, there comes from time to time, maybe once in several generations a moment which has to be grasped with both hands. It will not recur, it will not offer itself again, if you let it slip through your fingers you will never have the opportunity of utilising that chance for the advantage of your nation. I think we are on the threshold of such an opportunity.

The other comment which we particularly appreciate was the observation that Yasushi Akashi, that when it comes to Human Rights, democracy, progress, security, there are no universal norms or panaceas. Contextual factors are of overriding importance. The culture of a nation, its historical antecedents, its cultural mores, its historical and economic and social institutions all have a decisive role to play in determining pragmatic approaches to problems that the country is faced with.

The spirit of resilience and flexibility, the rejection of judgemental postures and the realisation that there is more than one path to the summit of a mountain; those appear to be irreducible values in arriving at viable solutions to the kinds of

problems that the Government and the people of Sri Lanka are grappling with at the present time.

About three weeks ago, when I was in your capital, the Trade and Commerce Minister of Japan Mr Nikai took the initiative in summoning Japanese companies and then he told those companies “now you have the opportunity of going into Sri Lanka and engaging in your commercial activities without any restriction, without any apprehension in your minds. The largest of Japanese companies such as Mitsui attended that meeting and the prevailing atmosphere was one of undiminished enthusiasm and eagerness. That same spirit we encountered in other countries that I visited in the last few weeks.

In the US, Dr Susan Rice, the ambassador of the US to the UN and the ambassador of President Barack Obama told me that she was looking at Sri Lanka with great interest that the US trade representative is coming to Sri Lanka on October 12 to engage in discussions with us of practical ways of expanding the trade and investment agreements which we have with the UK and the USA and which are already very active particularly in the Eastern Province in Sri Lanka with a commitment of more than US\$15 million committed to a variety of sectors particularly to skills development in that part of the country. Similarly in the UK, in the near future there will be concrete decisions made about the ways in which trade can be improved between the UK and Sri Lanka.

We are also acutely conscious of the challenges. To my mind, the basic challenge is the need to adopt to the many facets of a problem which we have to contend within Sri Lanka today. First and foremost, looking at the priorities, there are the humanitarian needs which have to be addressed to the matter of priority with regard to the large number of people who have been displaced by the decades of conflict. At the moment we have to deal with as many as 280,000 such people. Government today has to provide more than one million meals a day. People will be able to pick up the threads and to resume their livelihood with dignity and this requires the economic resuscitation of those parts of the country with a particular focus of job creation and employment generation. There is huge potential in that part of the country, in terms of the thousands of acres that are being opened up that are being cultivated with vegetables. Similarly, there is exploitation of water in Trincomalee and Mannar for the purpose of fisheries. There is unparalleled potential of the eastern beaches from the perspective of tourism, there are many opportunities available for small and medium industries. We also believe that there

is a close link between political progress and economic content because the kinds of political innovations which we believe can be implemented only in an atmosphere that is pervaded by well being and contentment rather than adversity, deprivation and bitterness.

The Government attaches the highest possible priority, to the revival of the democratic process. When we look at the situation in the North and East now, first, there is an atmosphere of tranquillity that prevails in the island after 20 years. Secondly, political stability without which there cannot be economic progress.

Yasushi Akashi also referred to the trade agreement and the Free Trade Agreement with India was entered into in 1998 and it came into force in 2000 and it resulted in a four-fold increase in volumes of trade between the two countries. We had Japanese, Malaysian and Korean companies investing in Sri Lanka complying with the criteria relating to the rules of origin and value addition. And this means that they have access to the entire markets in the subcontinent of India without payment of tariffs and duty. That is an enormous competitive advantage with Sri Lanka to be seen as a domestic market of 19 million but rather as a point of entry into the sub continent of India as a whole.

We also emphasise the factor of social equity. Finally we have other advantages such as the Board of Investments, which as statutory authority to exempt investors from several factors such as exchange control, Inland Revenue and customs. We have democracy, we have legal banking and administrative systems and now we have to make use of all these in order to secure a future of rapid economic progress.

Dato' Dr K Govindan, Deputy Director General of the Economic Planning Unit (EPU) of Malaysia

There is much anticipation that the post peace era would bring about abundant investment and business opportunities here.

Forty years ago, the highest GDP and per capita in Asia was in a country called Ceylon. This country at that time was well known for many things, for one it was a

tourist paradise and I recollect they used to say that Ceylon had a fantastic civil service, strong command of English and a good education set up. But sad to say that despite the early start, Sri Lanka, over the years has been having so many set backs. It's not just the social disturbances, but also the tsunami, the all price shocks, the commodity price shocks and I think this country has been stopped in its track sbecause of this.

Despite all these setbacks you have a 5% growth rate in all these years. The literacy rate is 95%, probably better than us and then you have a poverty rate of 23%. It's quite astounding that you have achieved all these. It is actually a lesson on how developing countries can take care of health care despite not growing 8,9,or 10%.

Now we have a post peace period, and who am I to tell what Sri Lanka should do? All I am going to do is pick up some of our own reform packages and look at the key features including Singapore that could probably be helpful to Sri Lanka.

Dr Mahathir or Lee Kuan Yew, they always looked at the long term, and they always insisted it is not this government or the next group which is going to rule. It's for the nation. This is where they very successfully got the opposition and the NGOs on line to say that "look, what I am doing is for this country. No use too much politicking, throwing slogans around. These actually deter us. We need to focus on national development." That is the kind of philosophy that our leaders had.

The second one we did was, for many years we put the private sector on a pedestal. Of course it took us many years to impress the civil servants that it is these guys who are creating wealth for the country. These guys pay us taxes and it is with these taxes that we are able to pay your salaries from. Initially we were not allowed to speak to the private sector. That was the kind of division and schism we had with the private sector.

Now we are actually working closely and together with the private sector and we ask them what else can we do to help you. The biggest problem the private sector faces is a complex nightmare of rules and regulations and the inordinate time it takes to get something approved.

Some countries take years and there is the discretion of the civil servants and something else called corruption. Thirdly, we also develop a strong and a capable civil service. If you go to Singapore and Malaysia, that is one feature that I see and this is where you can't bash and badger the public service. When you say that the civil service is not operating, it has to be on a balanced mode, look at some of the facilities that they have and their remuneration. And we always question that if a guy is running a Hitachi firm, he has a Mercedes Benz and many other perks, why isn't the head of finance given due recognition? Why is a head of the department not commensurate with a private sector guy?

At the same time you must have performance indicators. We just completed an exercise to make KPIs (Key Performance Indicators) compulsory for the public sector and the public service members have to be informed that the Prime Minister himself is going to be evaluated every six months, but those are structural reforms that are going to take some time and now we are facing a crisis and we need to find a mechanism to provide stability and some kind of assurance to foreigners and local businessmen that things are actually settling down. But our own experience is that the normal government machinery cannot operate as business as usual. The ministries have to come up with papers now or suggestions quickly.

So we have actually schemed a way of cutting delays and creating a very high power economic council headed by the Prime Minister and selectively chosen ministers.

To make sure that things moved quickly, papers are prepared in two to three days and it does not matter if it is a three-page feature. Usually government documents are very thick. But these are just three pages, very executive and these are the decisions to be made and to have the press waiting outside and you'll go and announce "today I've decided to reduce the interest rate to 2%". You don't talk to anybody else. That's the kind of power this council had and my humble opinion is you can't depend on the usual government machinery during a crisis.

At the same time it may be useful to set up a small committee of private sector people and top government servants and what is called a reform package for the business environment and this can also include measures to free up space. It is

possible to privatise a lot of areas, and it may not be appropriate to blame the tool when we did not handle it properly. Privatisation can be a good tool when it is done judiciously and when it is done carefully and our experience is that there are many cases where they have gone wrong because of improper handling. There are also cases where it can do well if you do it properly. Privatisation can be a good tool for the private sector including the international people to move into.

Lastly, I personally believe that the future of this country lies in services. Of course you can talk about manufacturing and employment creation is going to be the number one issue here and we may need to strengthen manufacturing, agriculture downstream.

You can actually be the hub for this region. If you fly three to six hours you got billions of guys around you and you are small and compact, you can do a lot to become the hub of this region. Your history is 2,500 years old, you got tourist places. I am quite shocked that the tourist inflow is 200,000 a year. 20 million visit Malaysia for the very little things that we have. You have twenty times more things here than in Malaysia and it just goes to show the potential that this country has in terms of tourism.

On that note, look at the city of Colombo, if you are going to be a centre for this region or a hub or a gateway, focus on Colombo first.

This city needs sprucing, but if you want to attract foreign investors, I think you have to focus on making this place a very liveable place. And we learn that in the future we want to attract good guys and retain them.

Lastly, it is not going to be easy, especially with this global downturn and nobody knows what is going to happen. It took us many years to come back to normalcy and I think that if you can get the country galvanised with the private sector and the international community, I think this country has great potential. I would like to assure you that you have many great friends including Malaysia and we'll be happy to do our bit to develop this nation to its full potential. Lastly let me end with a positive note, I think for this country you can actually be the strong hub for this

region for South Asia and I am not saying this just to please, we've seen Singapore develop from nothing and they are the hub in South East Asia, in that sense Sri Lanka can be the hub of South Asia.

Surviving the Downturn and Venturing into a New Era

**Dr Sarath Amunugama - Minister of Public Administration & Home Affairs
Deputy Minister of Finance and Planning**

Sitting in the Ministry of Finance, you are called upon to formulate policies, and take decisions which have an immediate, radical implication, therefore, you have to sift and choose to look at what is practical.

Firstly we are discussing this subject at a juncture in our history when two important factors are almost in opposition to each other, one is the global downturn and its implications for the Sri Lankan economy. We can debate as to the gravity of the consequences but the fact remains that there will be consequences. That is one reality that we have to take into consideration if we are engaged in this discussion.

Secondly, after 30 years, we have eliminated organised terrorism in this country and we have also done that in exemplary fashion so that even a newspaper like the Washington Post would say, "if someone wants to know how to defeat terrorism, let them take their lesson from Sri Lanka". Sri Lanka must attract the attention because we have defeated terrorism, just when America was forced out of a country.

During the inaugural keynote address Yasushi Akashi used this platform to say that in his long experience he has never seen a country which has bounced back in treating IDPs as Sri Lanka has done. I think that is a very significant historic statement. He is probably one of the most qualified men in this whole world to utter those words. On one side we have that situation and on the other we have the global downturn. How we manage the next few years will be the crucial factor regarding whether we are going to reach this 10% growth target or not. That's an economic, political, social and a global issue and we cannot get away from that.

It is in this context that we must look at the investment programme of Sri Lanka, whether we get the domestic savings through borrowings, through FDIs or any other category it comes from, we must have a certain quantum of investment. It is very difficult for a small country like Sri Lanka to totally finance its required investment for growth of 10% GDP entirely from domestic sources. That will create a lot of distress on the private sector, on business and there is a whole range of activities. We are not China or India. In the Chinese model, as they were transiting from a total state controlled economy to a more market oriented economy, starting with the time of Deng Xiaoping, very largely, perhaps 95% of their investment in their wonderful infrastructure on roads, dams, airports etc were done through savings generated through the public enterprises. So a large part of their early surplus through the government exchequer was so that they could finance infrastructure projects.

The private enterprises must make a contribution to the national economy which could be invested for the development of the country. There is no way we can go on like this unless we are very tough with these corporations and recoup some part of the investment. We also have to decide how to maximise the investments by taxpayers. We have made huge investments in health, social welfare.

Prof Amartya Sen has rightly pointed out that without the vote and without democracy the poor man will never have a chance. In India as in Sri Lanka, if you don't clean up your patch, media will write about it. But you can't do that in totalitarian countries.

We firmly believe that we must try to make good use of the investments made in education, in health, in social welfare, in rural growth and in agriculture where we have made huge investments. But we are not getting the best out of it. The treasury knows that when we are preparing the budget, we must put at least one million more than last year in education and healthcare because, otherwise the opposition would say that we have cut. If we have spent so much of money on education, and if we are not getting any return out of that, what is the value of that investment that we have made?

We don't get a dividend and what is the dividend that the country gets from over

seventy years of investment in education, healthcare and poor relief. It's very little. Every citizen in Sri Lanka must ask, what is the dividend for all the money that has gone in to these.

Instead of asking for more taxes, we should ask for more performance, what is the point of throwing good tax after bad? The only return in economic terms of our education system is the one million people who are working abroad, and that also people who are dropouts from the education system. The dropouts of the Sri Lankan education system are doing a greater service to Sri Lanka than all those who have gone through and benefitted from the education system. Today one million people who could not get the benefits of this huge investment are sending US\$ 3 billion a year and keeping our economy afloat.

We have to grow fast and completely reform our education system. Without that, all these talk is nonsense. Because the first thing any government must do as any sensible person, as any parent, should think that I have invested so much and I should get the benefits.

Our assets are what we have invested in social welfare and a large number of companies and enterprises which have drawn so much of public funds. If you look at NLDB, there is a physical waste of farms which are today small scrub lands. There are thousands of acres which are just ignored by everybody. If we had not privatised the tea estates, the same thing would have happened to the tea estates as well. What we have to do is get real, to avoid the downturn and achieve the 10% growth rate, we have to get real or get out.

Financial Crisis – Challenges for the Banking and Financial Sector

Ajith Nivard Cabraal, Governor, Central Bank of Sri Lanka

Last year I spoke about managing inflation, interest rates and the exchange rates because at that time those were the areas that were in turmoil. A year later, with inflation at 1%, interest rates at 8.5% and treasury bill rates at 11% those issues are not considered as important as they were last year. The exchange rate is also reasonably stable to business. There are many macro-economic fundamentals and variables which economic planners and economic managers have to balance. It is

easy to look at one particular aspect and think that it should be at this particular level and we must all work towards that particular goal only. But sometimes we do not understand or appreciate that when you make a change in one of the variables that it will have an impact on another variable as well. So the policy challenge for us in drafting and implementing policies is to ensure that all these variables are at some reasonable level.

At the same time we should ensure that there is economic growth, there is poverty alleviation and it is not that much of an issue, but we still have 15% of our population under the poverty line, employment generation and we have been able to reach the lowest ever unemployment level in our country at a high point of (2% last year) but maintaining that is a challenge and we have to do that.

I remember at the time the Mahinda Chinthana was developed, when food security was spoken of, many people said why do you want to have food security because you can buy the food from anywhere. Comparative advantage is the way to go. But we stuck to that and when the food crisis came last year we were able to meet that challenge because we had been prepared for that well before the food crisis hit us. Some of these crises you can't manage at the time that it hits you unless you are prepared for it. We were able to face it in such a way that many people did not even realise that there was a crisis in the world.

Very often, people do not realise the impact that the government debt can have. It was at 105% five years ago. Whether it has been brought down to 81% of GDP and reducing even in the times of major crisis is because we keep a constant tab on all those factors.

With regard to regional development, at one time 51% of the overall GDP contribution of this country came from the western province. You got the figures of the provincial GDPs last week and you would be happy to know that it has dropped down to 48%, slight change no doubt. But still it is a change in the right direction.

We did not have flyovers, nothing fancy but we need to have those, to show that we have a lot of infrastructure. I see the south Colombo harbour work continue, it is a

fantastic site. So these are new projects that are being implemented today.

We faced the highest ever world food prices, we faced the unprecedented increase in the world fuel prices, \$147 for a barrel. We faced it and none of you all really felt it in a way that was going to cripple your business because somebody else took the shock.

We have got a growth of 6% that we can talk about and we will be announcing our new figures. We are revising our growth figures and we are estimating it to be 3.5% to 4.5 % up from the 2.5% that we had in April.

You would have seen that inflation coming down and the per capita income has risen to more than US\$2000 per head which makes us a medium income country and we have been able to maintain investment levels, fiscal deficit with all the difficulties has been contained at a level that is minus 7% last year.

I think that the world has begun to realise that market forces by themselves cannot be delivering stability. Otherwise today Citi Bank could not have been there. If the head reserve of the US government had not intervened, many of the banks that are today progressing in the developed world would not have been in function today unless there were interventions.

We have intervened at the right time at the right amount. Today, the money is coming in and if we had not intervened, it would not have been a palatable exchange rate.

Maintaining the stable financial system will help us to attract new investments. One thing that happened to Sri Lanka is that this global recession did not impact Sri Lankans as much as it did others. The IMF has projected economic figures for other countries such as EU, USA, Japan all of which are negative growths. So in that scenario, Sri Lanka's growth has been not too bad. It is just a slight reduction from the 6% that we had last year. It is an excellent thing that the US government and the EU central banks in those countries and all intervened to ensure stability of the

system by making those interventions. So it has happened and the cost of that will be something like 4 trillion dollars. It is a large number, but yet it has been the price to pay for stability. As I said earlier, only when you do not have stability that you learn from it and you have to pay for it and because you have to ensure stability that certain costs have to be incurred.

In Sri Lanka, we have been able to ensure overall stability by taking certain steps well before stability struck. I remember in February, 2007 we brought in new provisioning requirements as far as the banks are concerned. But at that time it was not received too well. We wanted a 1% provision for all good loans as well. Many banks at the bankers meeting also were rather sceptical, but we did see a certain build-up of an asset bubble that was checked in time and that has been useful to us in terms of stability is concerned. Then when monies came in, during the first eight months of last year, we did not allow the rupee to appreciate and we built up an additional buffer within the Central Bank which will be used at the time that the crisis struck. When the crisis struck, we had enough dollars with us in order to deliver it to the market so that the market stability remains.

Where there was a situation of instability, we stepped in, in a very quick time. It is not always easy to do that. We did that with the registered Finance Companies Act. If they have the support and the commitment of the Government and in all these instances the President himself has been very keen to ensure stability. This crisis gave us an opportunity, so understanding risk management is important. We would like to concentrate on that and if each one of the components of a system are strengthened in risk management, it will strengthen the entire system. That is important. We want you to strengthen corporate governance. We have been advocating that for a long time and we brought in laws and we brought in mandatory corporate governance requirements and fortunately we had the support that we expected of the chamber.

Today, we realise how important it is to have good corporate governance practices and this lesson can be one that we can all be proud of and we have worked for and we must support that. Do not have directors who are above 70 years if they are in deposit taking institutions. There are good young leaders, we have many of them here. Let them come in and let them also take stake in these companies and drive these companies forward. Strengthening capital, sometimes you have to let go of

ownership to let go of capital and that is something that we need to let go of as well.

Sri Lankans are sometimes not too eager to part with ownership, but if you want capital and you do not risk your entire capital, you have to be concerned about releasing some part of the ownership adding capital to yourself. You should have your liquidity management done in the right way and then you will be on top of the situation. So I am urging to take special care about your liquidity management. We would be embarking on a consolidated action by the Central Bank, and several groups together where we will be sharing some information together in a certain manner so that we can ensure that system stability is maintained under any circumstances. So we would be implementing a few more initiatives.

We have gone through one of the most difficult periods in the history of our nation. 27,000 young people in our country, sacrificed their lives to give us the opportunity. It is a huge price that some have paid for it. I think we should pay tribute to them, by ensuring that the future generations of our country will be able to really benefit from that sacrifice by making it prosperous, by making it more equitable and by making it something that we all can be proud of.

Agriculture, Dairy, Fisheries and Tourism Sector Opportunities for the Private Sector

B R L Fernando, Non Executive Chairman, CIC

From a Sri Lankan viewpoint 34% of our population are involved in agriculture. 80% are rural based and agriculture is very close to their hearts but only 15% of our GDP comes from agriculture. Therefore, the percentage of GDP of the rural population is much lower than the town percentages. If you look at Sri Lankan agriculture, we need to look at the major crop: paddy.

We do not have sufficient production to feed all of our people. We produce about 3.4 million tonnes of paddy, we import extensive amounts of good quality grain and most of our production is only suitable for local consumption; we cannot export most of the rice that we produce. Our cost of production, is higher than the rest of the world, however our productivity is also quite good because it is the highest in this region. Looking at the opportunities for the private sector, in the area of rice

cultivation, for value addition, there is opportunity for cultivation of quality rice varieties and getting more nutritious varieties of rice to the consumer.

I would take the overall ambience of agriculture and look at the possible areas in which we can interact. Firstly agriculture can be divided into two parts, in terms of income generation: what is cultivated and what is added value. The added value component in this country is extremely low. It is in our interest to see what is that we can generate out of agriculture in Sri Lanka.

In CIC we got involved in a number of areas of agriculture – we got involved in the cultivation of paddy, dairy development and human development. These are the three topics that have been given to us. We got involved in agro tourism at a very limited level. We are involved in the paddy sector and as I mentioned before we can achieve. Overall we need to look at what are the inputs that go in the paddy sector and into the agricultural sector. Sri Lanka has about 1.7 million hectares for agriculture and 1.3 million hectares of marginal land, which is all the land available. One of the speakers said that a large amount of land is uncultivated. Most of the land that is uncultivated are largely state held lands. There may be many private lands as well but it was advocated that pressure should be applied to those who own land, which were not cultivated. The greater incentive would be to encourage people to cultivate the land rather than threatening them with the takeover of land. The takeover of land has not given us the necessary results in the agricultural sector. We need to look at the land availability in the Eastern province and how we get those into productive use and the opportunities that are available for the people who need to cultivate.

I will briefly elaborate on profitability in the paddy sector so that you can discern whether it is worth-while to get into the paddy sector or not, even though we are near self-sufficiency in paddy.

From CIC viewpoint, our cost of production of paddy comes to about Rs 27 per kilo and that includes about Rs 7 to 8 in terms of fertiliser because we do not get subsidised fertiliser. The farming community has a cost of production, which is about Rs 8 less than us, but our Rs 27 includes a management fee because the management hierarchy that is needed to run these farms is also charged into this production. The current selling price of paddy is around Rs 30. Therefore there is

opportunity in the paddy sector because there is the potential to get your cost down slightly if you manage great extends of land and get the productivity right. From the point of view of what we have got in terms of price it's an attractive market and the land is available. Some of the best lands in the country are in the Eastern province and some of the best farmers in the country are also there. Therefore it is an area where we can mobilise and get paddy farming going.

Crops where there is potential for value addition, which are available in bulk and paddy is one of those crops. Another crop that we can look at is corn. Value addition can be put to corn because of animal feeds. Additionally crops such as tea, rubber and coconut were managed by CIC traditionally. When you look at agriculture – land is one thing we need to manage and the environment is the other aspect that we need to manage. Opportunities are there to look at environmental management and also to manage water.

To manage the fertility of the land, which does not mean that you are going to put fertiliser but managing the soil using organic matter. The provision of organic matter gives an opportunity for the dairy industry. The dairy industry has great potential in the Eastern province because of the land that is available and the dairy industry in addition to producing the milk will also produce the necessary organic matter. Our cost of production of milk is running at Rs 27 to 28 per litre and the milk is marketed for around Rs 40 per litre. The problem in the dairy industry is low productivity of the animals in this country. We get 3 to 4 litres from an animal. But if you look again in my company's experience we have a large herd of buffaloes in Higurakgoda and those animals generate about 8 to 9 litres per animal because they are well managed. This is equivalent to 16 to 17 litres of normal cow's milk because the fat content and the protein content are much higher. Therefore the opportunity is there for improving milk production and getting a reasonable margin out of the milk production. The opportunity for agriculture in Sri Lanka is driven by markets, the ability to produce goods that may have a exportable surplus, it is in this area that the R&D part of the Department of Agriculture and our own R&D part come into play. We have developed rice varieties, which we have now started to export to Australia and recently Europe, which gives a realisation far in excess of what the local market gives. The shortcomings that we have in pushing for agricultural development are perhaps something to do with the price controls. I think those price controls need to be reviewed. The poultry industry has also been

affected by price controls. Therefore we have opportunities for agricultural development in growing rice and corn, because we are a water surplus country. We are able to utilise the extra water that we have in producing some of these things but we need to remember the amount of water to produce 1Kg of rice is about 4 tonnes. In terms of milk production and again beef production, it is about 8 tonnes of water for a 1Kg of beef. Those are things that we need to keep in mind when we are going into agricultural production.

So the opportunities that are available to us in producing for local markets as well as the export markets are very much there. The land is available. There is a lot of land available under the control of the Government and the Government is willing to enter into joint ventures to develop those lands. CIC entered in a joint venture to do dairy because there is a large extent of land. These are things that we need to look at.

North East Accelerated Socio and Economic Development

Minister of Enterprise Development and Investment Promotion Anura Priyadarshana Yapa

Sri Lanka needs to develop a culture of innovation. It is my strong belief that we will succeed in bringing about this culture, we will be able to achieve a competitive edge and face the challenges ahead. Why does Sri Lanka need to open, it will help to address the challenges ahead through the effective assimilation of new techniques. If we do succeed then we are confident that the sky is the limit.

As investment is a source that can truly change Sri Lanka's economic landscape, it can make our economy viable once again and we will be on par with the rest. At this juncture Sri Lanka needs more than ever to adopt an innovative approach because we are at a major cross roads in our history. What we now need to do is to win peace. In this regard the Government of Sri Lanka's approach is a multi layered one, which has political and economic dimensions. We consider ourselves as the victors over terrorism. We now need to achieve economic and social victories with the same courage. As this distinguished audience are probably aware, the approach that we have adopted is guided by principles with pragmatism.

The Government has therefore developed a two-stage economic development and a plan that will create greater opportunities for economic development. On the economic front, our policies and guiding principles would be to sustain economic growth. To achieve that objective, the injection of foreign direct investment in to our economy will play a paramount role.

Some of the measures the Government will take is to address the problem of disparities in the North and East building. This is a comprehensive platform for investments and opportunities in the newly liberated areas. It is based on a two tiered programme in order to achieve both short term and long term results. In the shorter term a 180 day plan will be implemented in the perspective of addressing the economic needs of the population. In the longer term the Government will be implementing a two-year programme that will focus on long term sustainable development. Now the 180 day programme will emphasise on developing traditional spheres of economic activity, that had suffered during the period of conflict. Naturally in this plan, agriculture and agri industries that have traditionally been activities in these targeted areas will play an important part. We also give a lot of prominence to fishing and related activities such as freezing and boat building. This also will be accorded importance and encouragement.

Tourism emerges as one of the major sectors in this plan. As you are well aware, it is a major foreign exchange provider in the East, which had suffered neglect and damage in the last three decades of conflict. Investors, who are interested in rebuilding tourism in the East, have already approached us. This would include new hotel projects along the coastline. An important aspect of conflict resolution is to create economic opportunities for skill development. I am pleased to inform you that the BOI is currently actively promoting training in the sectors of IT and innovative fields, such training centres are likely to be popular. One thing that I would like to emphasise in this summit is that the world is becoming a global village. Sri Lanka does not only exist within the shores of this island. It exists also in the hearts and minds of the Sri Lankans overseas. The end of the terrorist activities in the area has created a stable environment for investment. This has opened new possibilities in investments in the North and the East for the relatives overseas.

The Government has formulated a two-tier programme integrating the North and the East, and the rest of the country, investment will come from overseas and the

rest of the country will play an important part in this respect. I am therefore confident in the long term we will be able to bring it up to operational status of some of the damaged factories in the conflict areas. They will play a key role in restarting the economy in the North and East. It is important to forget the divide.

The BOI has 25 years of experience of valuing and managing export processing zones with 12 zones across the country. We will also be giving a number of new special processing zones in the North and the East, the locations of these industrial zones will be Trincomalee, Killinochchi and Batticaloa. There will be facilities built on area of about 350 acres. We have also developed the special tailoring regime of incentives for the North and East as their problems are very specific. Under this very progressive and innovative scheme we offer incentives to three to 15 years. It is important that development is brought and is affected by investment. All this will ultimately depend on good coordination between the Government department and the private sector and the investors both local and foreign can play an important part in the development of these regions.

2020 Vision for Sri Lanka – Parliamentarians’ Point of View

Milinda Moragoda, Minister of Justice

All of us when we enter parliament enter with a great sense of idealism, but finally the system traps all of us. I feel that this is an interesting time to review whether we have the right system. Because we’re coming out of some thirty years of darkness. And when you come out into the light from darkness immediately the glare hits your eyes. You can’t really figure out what way you should be going. And that’s where we are at the moment.

Hopefully that should be part of our discussion: unity. Because I feel partisan politics is what has destroyed this country. Today, not only are we divided on party lines, we are divided on ethnic lines, we are divided on caste lines, we are divided on class lines, so our society has completely got divided. My dream and my hope is that unity is what we should be talking about.

The parliamentary system promotes this kind of division and I feel, this winner takes it all politics that we have, zero-some politics for those of you who look at it that

way, is what has really destroyed us.
We have to change that system.

If you look at the politics, then our system is a very confused system. It was initially modelled on the British system, then subsequently we took portions of the French system, but we don't really have the full French system here either because the French system the executive and the legislature are much more separated than it is here, and we have created a system which is quite unique, it is our own, but I think it forces division, as opposed to coming together. In the British system – yes, the opposition is there, the government is there, the opposition has a duty to oppose. Because that is the duty of the opposition.

So I really feel that we should seek something different. Whereas yes, we go in for elections, we fight it out, but when we come in, that we are forced in some way to cooperate and work together to solve problems. Now what that system is, I have no right answer to, but I feel that unless we achieve that its going to be very difficult to move forward.

So, from darkness we come into light, we have this glare, we have a lot of hope. Because if we again go into the old culture, fighting each other, trying to see who gets which piece of the cake, I don't think it will work. So that frame is what I would like to set by I don't want to go beyond that.

For thirty years, we have had this incubus hanging over us, we are now looking to a future, but the future is in our hands. Talking of youth, I'm always inspired by speaking to people in their twenties, early twenties and maybe late teens. Recently I was invited to the Gamini Dissanayake Foundation event held in Nuwara Eliya and there I had the chance to interact with some of their graduates all in their early twenties. I was really inspired by them. These were people from those areas who had done a one year course, learnt English, done IT. They were not talking of politics, they were not talking of trying to grab this or grab that – they were talking of the future of this country, what their hopes were, what their expectations were. The new generation really has hope.

But as we move on, maybe we become more and more cynical. I think I may be at the boundary – I still hope I have some idealism left, but maybe I might also turn cynical. My hope is that, my colleagues, before we turn cynical let us see whether we can work together. It can be done in parliament. Maybe if the young parliamentarians can sit together – not get into conspiracies, if we can agree on certain things, we can probably agree on much more.

We need to set up some kind of inter-party arrangement, because then there's not enough cross party dialogue, there's always suspicion. So let's try to change that culture.